



## Bank of Rajasthan Limited

### Rating History

Instrument	Amount Outstanding (Rs. Million)	Maturity Date	Rating Outstanding	Previous Ratings	
			September 2008	June 2007	April 2007
Rs 500 million Upper Tier II Bonds	To be placed		LBBB+	LBBB+	
Rs 620 million Upper Tier II Bonds	620	August 2021	LBBB+	LBBB+	LBBB+
Rs 500 million Lower Tier II Bonds	To be placed		LA-		
Rs 700 million Lower Tier II Bonds	700	April 2015	LA-	LA-	LA-
Rs 500 million Lower Tier II Bonds	500	January 2017	LA-	LA-	LA-
Rs. 500 million Certificate of Deposits Programme		One year from date of placement	A1	A1	A1

ICRA has assigned LA- (pronounced L A minus) rating, indicating adequate credit quality, to the Rs. 0.50 billion Lower Tier II bonds programme of The Bank of Rajasthan Limited (BoR). ICRA has reaffirmed LBBB+ (pronounced L triple B plus) rating to the Rs. 1.12 billion Upper Tier II Bonds Programme of BoR indicating moderate credit quality. ICRA has also reaffirmed LA- rating to the existing Rs.1.20 billion Tier II bonds programme of BoR. The one notch lower rating assigned to the upper tier II bonds reflect the specific features of these instruments where in the debt servicing is additionally linked to the meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms for hybrid debt capital instruments need regulatory approvals from Reserve Bank of India for debt capital instruments (including principal repayments) in case the bank were to report a loss and are not liable to service the debt in case the bank breaches the minimum regulatory capitalisation norms. ICRA has also reaffirmed the A1 (pronounced A one) rating to the Rs.

0.50 billion Certificates of Deposit Programme of BoR. This is the highest-credit-quality rating assigned by ICRA and the instruments rated in this category carry the lowest credit risk in the short term.

The ratings take into account BoR's strong franchise in the state of Rajasthan with around 55% of its deposit base coming from Rajasthan, its lower cost of deposits vis-a-vis peers, diversified exposure across various industries, improving asset quality indicators and adequate capitalization. However the rating is constrained by relatively small asset base of the bank and low credit to deposit ratio. Further, the rating also factors in BoR's regionally concentrated business and modest fee income profile.

BoR exhibited a growth of 30% in its net advances to Rs 74.34 billion as on March 31, 2008 from Rs 57.04 billion as on March 31, 2007. Owing to the systemic rise in interest rates during the year, BoR's yield on advances increased to 9.61% in FY 2007-08 from 9.09% in FY 2006-07.

While BoR's industry exposure is quite diversified, it runs a geographic concentration risk with Rajasthan State accounting for approximately one third of the credit portfolio. On account of BoR's concerted efforts to avoid fresh slippages and more efficient recovery processes, its asset quality indicators have been improving over past few years with gross NPAs and net NPAs declining in absolute terms, despite growth in the asset portfolio. As on March 31, 2008, BoR's gross NPA and net NPA percentages stood at 1.68% and 0.42% respectively as compared with 2.08% and 0.24% respectively as on March 31, 2007. Although, Gross NPA generation rate has risen to 0.88% in FY 2007-08 from 0.69% in FY 2006-07, it still remains comfortable when compared to its peers and its solvency indicator viz. Net NPA to Net worth also remained comfortable at 5.84% as on March 31, 2008.

BoR's funding profile is comfortable with deposits accounting for almost 90% of the funding requirement. However, its credit to deposit ratio



has been low at around 54%. BoR's deposit base grew by 28.05% during FY 2007-08 and stood at Rs 138.49 billion as on March 31, 2008. With low cost (current account and saving account) deposits accounting for 29.59% of the total deposits, BoR's average cost of deposit remained comfortable at 5.74%, despite a 147 bps rise during FY 2007-08. During the same period, BoR added 21 new branches to increase its branch network to 463 as on March 31, 2008, however it remains primarily concentrated in the Rajasthan region. Diversification to other geographies, to mitigate concentration risk, while continuing existing relationships with corporate clients would be crucial for increasing the proportion of its low cost deposit base.

BoR's investment portfolio grew by 30% to Rs 47.29 billion as on March 31, 2008. While credit risk on investment portfolio is low with high proportion of Government Securities and approved securities (71% of investment portfolio), interest rate risk is also mitigated to an extent on account of increasing proportion of Held-to-Maturity portfolio (64% of investment portfolio as on June 30, 2008) and low modified duration (1.01 as on June 30, 2008) on its Available-for-Sale portfolio. BoR's liquidity profile is comfortable with a favourable asset-liability mismatch over the short term. Further, BoR's excess SLR and other liquid investments provide additional comfort to its short term liquidity profile.

BoR continues to post stable profits in FY 2007-08 on account of higher scale of operations and improving asset quality indicators. However, Net Interest Margin came under pressure, following hardening in the interest rates, and stood at 2.20% in FY 2007-08 as compared to 2.80% in FY 2006-07. Consequently, the net interest income registered a negative growth of 1.69% despite a higher growth of 30% in its credit portfolio during FY 2007-08. While BoR's non-interest income profile remained modest at 1.01% of the average total assets in FY 2007-08, its operating expense remained under control and improved to 1.96% during the year (2.29% in the previous year). Accordingly, in FY 2007-08 BoR's operating profit<sup>1</sup> grew marginally by 2.55%. Benefit of lower credit provisioning of Rs 5.5 million (Rs 322 million in FY 2006-07), was offset by lower treasury income. Accordingly, BoR's profit after tax grew by only 4.19% to Rs 1.15 billion. BoR's return on average total assets<sup>2</sup> also declined and stood at 0.84% in FY 2007-08 (1.01% in FY 2006-07), while its return on net worth<sup>3</sup> also declined to 21.76% from 25.94% during the same period.

BoR's capital adequacy remained comfortable at 11.87% as on March 31, 2008 (11.32% as on March 31, 2007) with a balanced mix of Tier I

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<sup>1</sup> Net Profit Before Tax, Provisions and Treasury income

<sup>2</sup> Profit After Tax/ Average Total Assets

<sup>3</sup> Profit After Tax / Networth as on March 31, 2008

and Tier II capital. While BoR was not able to raise equity capital in FY 2007-08, it re-valued a large part of its immovable properties during the same period. Consequently, the capital adequacy showed an upward movement despite strong growth in Risk Weighted Assets. In View of the likely expansion of loan assets, the bank proposes to augment its capital base for maintaining a healthy capital adequacy ratio by raising both Tier I and Tier II Capital. BoR has diluted promoters' stake to 37.47% as on June 30, 2008 from 44.16% as on March 31, 2007. It plans to further dilute promoters' stake to 10% by March 2009 by issuing fresh equity and by private placement of promoters' stake.

#### **Bank Profile**

Bank of Rajasthan, with an asset size of Rs. 153.98 billion (as on March 31, 2008) is an old private sector bank incorporated as a Joint Stock Bank under the Mewar Companies Act in 1943 with its registered office at Udaipur (Rajasthan). The majority (37.47% as on June 30, 2008) ownership of the bank is with Tayal family. As on March 31, 2008 BOR had a network of 463 branches, 65% of these branches were located in the state of Rajasthan.

During FY 2007-08, BoR reported a net profit of Rs 1.15 billion on a total income of Rs 11.76 billion as compared to Rs 1.11 billion and Rs 8.82 billion respectively in FY 2006-07. Return on Assets stood at 0.84%. The Gross NPA% and Net NPA% improved to 1.68% and 0.42% respectively as on March 31, 2008.



Capital Adequacy Ratio also improved to 11.87% as on March 31, 2008 (12.26% as on June 30, 2008) as compared to 11.32% as on March 31, 2007.

#### Recent Results

During Q1 FY 2008-09, BoR's operating profit increased by 17%

over Q4 FY 2007-08 on account of rising yield on advances. Further, with a provision of Rs 0.05 billion on account of depreciation on its investment portfolio, BoR reported a net profit of Rs 0.31 billion in Q1 FY 2008-09 as compared to Rs 0.18 billion in Q4 FY 2007-08. BoR's Gross NPA% and Net NPA% also

improved to 1.65% and 0.42% respectively as on June 30, 2008.

September 2008

### Key Financial Indicators

	Mar-08	Mar-07	Mar-06
Total Assets	153.93	120.75	98.28
Deposits	138.49	108.16	88.91
Advances	74.34	57.04	40.65
Equity Capital	1.34	1.08	1.08
Net Worth	5.30	4.26	3.41
Total Income	11.76	8.82	6.01
Net Profit	1.15	1.11	0.15
Net Interest Margins	2.20%	2.80%	2.34%
Core Fee based Income/Avg. Total Assets	0.38%	0.47%	0.45%
Operating Expenses/Avg. Total Assets	1.96%	2.29%	2.69%
Operating Profits/Avg. Total Assets	1.13%	1.38%	0.47%
Profit after Tax / Average Total Assets	0.84%	1.01%	0.16%
Net Non-Performing Assets (NPA)/Loans (%)	0.42%	0.24%	0.99%
Capital/Risk Assets (%)	11.87%	11.32%	10.60%
Total Deposits/Total Liabilities (%)	89.97%	89.12%	90.43%
Loans/Deposits (%)	53.68%	52.74%	45.72%
Investment/Deposits (%)	34.15%	33.66%	28.87%
Savings Deposits/Total Deposits (%)	17.90%	19.07%	20.93%
Term Deposits/Total Deposits (%)	70.41%	68.16%	63.33%

Note: Amounts in Rs. billion

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