



## The Bank of Rajasthan Limited

### Rating History

Instrument	Amount Outstanding (Rs. Million)	Maturity Date	Rating Outstanding	Previous Ratings	
			Aug-09	May-09	Sept-08
Rs 620 million Upper Tier II Bonds	611	August 2021	LBBB+ (Negative)	LBBB+ (Negative)	LBBB+
Rs 500 million Lower Tier II Bonds	500	June 2019	LA- (Negative)	LA- (Negative)	
Rs 500 million Lower Tier II Bonds	438	January 2019	LA- (Negative)	LA- (Negative)	LA-
Rs 700 million Lower Tier II Bonds	700	April 2015	LA- (Negative)	LA- (Negative)	LA-
Rs 500 million Lower Tier II Bonds	480	January 2017	LA- (Negative)	LA- (Negative)	LA-
Rs. 500 million Certificate of Deposits Programme		One year from date of placement	A1	A1	A1

ICRA has reaffirmed the LA- (pronounced L A minus) rating, indicating adequate credit quality with negative outlook to the Rs. 2.20 billion Tier II bonds programme of The Bank of Rajasthan Limited (BoR). ICRA has also reaffirmed LBBB+ (pronounced L triple B plus) rating, indicating moderate credit quality† with negative outlook to the Rs. 0.62 billion Upper 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

† For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

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 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 and diversified exposure across various industries. The ratings are constrained by relatively small asset base of the bank, deteriorating asset quality indicators. Further, the ratings also factor in BoR's regionally concentrated business and modest fee income profile. The negative outlook on the long term ratings of BoR has been maintained due to the deterioration in the quality of BoR's advances portfolio which had reported higher than expected restructuring, the adverse pressure exerted on the profitability in Q4FY09

& Q1FY10 and moderate capitalisation.

BoR exhibited a marginal growth of 5% in its net advances to Rs 77.81 billion as on March 31, 2009 from Rs 74.34 billion as on March 31, 2008. Owing to the systemic rise in interest rates during the year, BoR's yield on advances increased to 12.06% in FY08-09 from 9.61% in FY07-08. 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. During FY08-09, on account of lower recovery/write-offs (Rs. 0.30 billion in FY09 compared to Rs. 0.45 billion in FY08) and also due to one large account turning into NPA during the year, the Gross and Net NPA percentages increased to 2.04% and 0.73% as on Mar-09 compared to 1.68% and 0.42% as on Mar-08 respectively. Gross NPA generation rate though has remaining stable at 0.87%, may rise in the medium given that BoR has restructured a significant 7% of the total standard advances. Restructuring was



primarily led by the textile and commercial real estate sector. Key rating sensitivities would be the ability of the bank to mobilise equity capital and control its asset quality in the medium to long term given the huge amount of restructuring done by the bank. BoR's solvency indicator viz. Net NPA to Net worth remained comfortable at 8.86% as on March 31, 2009.

BoR's funding profile is comfortable with deposits accounting for almost 90% of the funding requirement. BoR's deposit base grew by modest 9.66% during FY08-09 and stood at Rs 151.87 billion as on March 31, 2009. With low cost (current account and saving account) deposits accounting for 27.41% of the total deposits, BoR's cost of average deposits remained comfortable at 6.67%, despite a 93 bps rise during FY08-09. BoR's branch network continued to remain 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 41% to Rs 68.09 billion as on March 31, 2009. While credit risk on investment portfolio is low with high proportion of Government Securities and approved securities (69% of investment portfolio), interest rate risk is also mitigated to an extent on account of low modified duration (0.34 as on Mar-09 while 0.47 as on June 30, 2009) 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 net profit after tax in FY08-09 primarily supported by the treasury income of Rs. 0.36 billion. Despite slower growth in advances at 5%, net

interest income increased by 25% during the year compared to negative growth in the previous year primarily due to rise in BPLR during FY09. Rise in NIMs can also be attributed to the fact that the total assets of bank grew at a moderate growth rate of 9% compared to 27% last year. While BoR's non-interest income profile remained modest at 0.81% of the average total assets in FY08-09 primarily supported by treasury profits booked during the year, its operating expense remained under control and stood at 1.96% during the year. Accordingly, in FY08-09, BoR's operating profit<sup>‡</sup> grew by moderate 13.13%. Benefit of higher treasury gains of Rs. 0.36 billion, was offset by higher provisioning requirement primarily on account of fraud case of ~Rs. 0.10 billion reported in the Delhi branch of the bank which was fully provided for by the bank. Accordingly, BoR's profit after tax grew by marginal 2.19% to Rs 1.18 billion. With stable profitability and rise in asset base, the return on assets<sup>§</sup> ratio also declined and stood at 0.73% in FY08-09 (0.84% in FY07-08), while its return on net worth<sup>\*\*</sup> also declined to 18.30% from 21.76% during the same period.

BoR has been maintaining a regulatory capital adequacy in the range of 11% - 12% over the last few years with a balanced mix of Tier I and Tier II capital. During the year, the bank raised subordinated Debt to the tune of Rs. 0.44 billion but due to higher capital charge (CAR as per Basel I as on March 31, 2009 stood at 12%) on account of compliance with Basel II, capital adequacy of the bank have come down to 11.50% (Tier I – 6.19%) as on March 31, 2009 as compared to 11.87% (Tier I – 6.10%) as on March 31, 2008. In View of the likely expansion of loan assets, the bank proposes to

<sup>‡</sup> Net Profit Before Tax and Provisions

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

<sup>\*\*</sup> Profit After Tax / Networth as on March 31, 2009

augment its capital base for maintaining a healthy capital adequacy ratio by raising both Tier I and Tier II Capital. The promoters have been diluting their equity stake in BoR as per the RBI requirement. During FY08-09, promoters have diluted their stake to 30.54% as on Jun-09 from 37.47% as on Mar-08. Going forward, the promoters plan to dilute their stake to around 20% by Mar-10 either by private placement of their stake and / or by issue of fresh equity by BoR.

### Bank Profile

Bank of Rajasthan with an asset size of Rs. 168.22 billion (as on March 31, 2009) 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 (30.54% as on June 30, 2009) ownership of the bank is with Tayal family. As on March 31, 2009 BOR had a network of 463 branches with 63% of these branches being located in the state of Rajasthan. Traditionally, the business of Tayal Family has been in Textile and Real Estate.

During FY08-09, BoR reported a net profit of Rs 1.18 billion on a total income of Rs 15.07 billion as compared to Rs 1.15 billion and Rs 11.76 billion respectively in FY07-08. Return on Average Assets stood at 0.73%. The Gross NPA% and Net NPA% weakened to 2.04% and 0.73% respectively as on March 31, 2009. CRAR stood at 11.50% as on March 31, 2009 as compared to 11.87% as on March 31, 2008.

### Recent Results

During Q1FY10, BoR's operating profit increased by 89% over Q4FY09 on account of lower operating expenses and high amount of treasury income reported by the bank in Q1FY10. However, on a Y-o-Y basis, the operating profits have declined by 19% due to lower operating income posted by the bank



in Q1FY10. Further, with a provision of Rs 0.10 billion on Non-Performing Assets (NPAs), BoR reported a net profit of Rs 0.17 billion in Q1FY10 as compared to Rs 0.03 billion in Q4FY09. BoR's Gross NPA% though

declined marginally to 2.13% as on Jun-09 compared to 2.04% as on Mar-09, the Net NPA% improved marginally to 0.69% from 0.73% during the same period due to higher

amount of provisioning made on the NPAs in Q1FY10.

August 2009

### Key Financial Indicators

	Mar-09	Mar-08	Mar-07
Total Assets	168.22	153.93	120.75
Deposits	151.87	138.49	108.16
Advances	77.81	74.34	57.04
Equity Capital	1.61	1.34	1.08
Net Worth	6.43	5.30	4.26
Total Income	15.07	11.76	8.82
Net Profit	1.18	1.15	1.11
Net Interest Margins	2.34%	2.20%	2.80%
Core Fee based Income/Average Total Assets	0.29%	0.38%	0.47%
Operating Expenses/ Average Total Assets	1.96%	1.96%	2.29%
Operating Profits/ Average Total Assets	0.98%	1.13%	1.38%
Profit After Tax / Average Total Assets	0.73%	0.84%	1.01%
Net Non-Performing Assets (NPA)/Loans (%)	0.73%	0.42%	0.24%
Capital/Risk Assets (%)	11.50%	11.87%	11.32%
Total Deposits/Total Liabilities (%)	90.28%	89.97%	89.57%
Loans/Deposits (%)	51.23%	53.68%	52.74%
Investment/Deposits (%)	44.83%	34.15%	33.66%
Savings Deposits/Total Deposits (%)	17.70%	17.90%	19.07%
Term Deposits/Total Deposits (%)	72.59%	70.41%	68.16%

Note: Amounts in Rs. billion

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