

RBL Bank Ltd — 07 Oct 2024 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	Reaffirmed (Tier II Bonds: AA- , CD: A1+)
Outlook	Stable (Current) vs Stable (Previous)
Key Drivers of Change	<ul style="list-style-type: none"> • Steady Credit Growth: Gross advances grew 19.62% in FY24 to ₹6,704 Cr, led by 30% growth in retail segments. • Profitability Recovery: ROTA improved to 0.92% in FY24 (vs 0.80% in FY23) despite high credit costs (1.40%). • Capital Cushion: Comfortable CET-I of 13.85% (June 2024), though down from 15.25% in FY23, supported by legacy raises. • Strategic Shift: Aggressive pivot toward secured retail (Housing, LAP, Wheels) to dilute unsecured risk.
Rated Instruments	<ul style="list-style-type: none"> • Tier II Bonds: ₹800 Cr
Key Observations	<p>Strengths:</p> <ol style="list-style-type: none"> 1. Retail Dominance: Retail book now 62% of total advances (₹3,756 Cr approx). 2. Management Quality: Stabilized leadership under R Subramaniakumar (MD/CEO). 3. Liquidity: Strong LCR at 137% and excess SLR of ₹12,612 Cr. <p>Risks:</p> <ol style="list-style-type: none"> 4. Unsecured Overhang: 41% of total loans are unsecured (Credit Cards/MFI); Q1FY25 GNPA ticked up to 2.69%. 5. Operating Efficiency: High Cost-to-Income ratio of 66.6% (FY24) remains a primary drag. 6. CASA Erosion: CASA ratio dropped to 32.6% (June 2024) from 35.23% (March 2024).
Investor Impact	<ul style="list-style-type: none"> • Growth: Bank targeting ~20% loan growth, likely outpacing industry averages. • Margins: Higher cost of funds (6.6%) and shift to lower-yield secured loans may cap NIM expansion. • Dilution Risk: High. Management explicitly plans an Equity Capital Raise within 12 months, likely causing near-term EPS dilution. • Credit Costs: Estimated to stay elevated at ~2% due to conservative contingency buffering (100 bps on cards/MFI).
Agency / Cross Analysis	<p>Same Agency: CARE maintained ratings despite a slight dip in CAR (16.92% → 15.56%) and CASA ratio. The focus has shifted from "Survival" to "Operational Improvement."</p> <p>Conclusion: Improvement. The rating ignores the marginal Q1FY25 asset quality slippage, banking instead on the improved ROTA trajectory and the planned transition to a more balanced, secured-loan-heavy balance sheet.</p>
Final Inference	<p>Real improvement but mid-stage. The reaffirmation signals confidence in the bank's shift away from high-risk unsecured lending. However, for equity investors, the imminent capital dilution and high cost-to-income ratio (66%+) suggest that the path to a 1.25%+ ROTA is still 18–24 months away.</p>