



The Ratnakar Bank Limited

Rating History

Instrument	Amount Outstanding (Rs. crore)	Maturity Date	Rating Outstanding	Previous Ratings
			July 2011	
Certificate of Deposit	375		[ICRA]A1+	

Rating of [ICRA]A1+ has been assigned to Rs. 375 crore Certificate of Deposits Programme of The Ratnakar Bank Limited[†]. The rating is supported by the bank's long track record of over 65 years in Maharashtra and North Karnataka, experienced senior management team that has joined the bank over the last one year, strong regulatory capitalisation level of 56.4% as on 31-Mar-11 aided by capital infusion in Q4FY11, comfortable liquidity profile with positive mismatches in short term buckets, healthy CASA ratio of 35% as on 31-Mar-11, stable asset quality, and healthy Net Interest Margins (NIMs). The rating also factors in the relatively small size of operation with asset base of around Rs. 3200 crore as on 31-Mar-11, geographical concentration of operations, with more than 60% of advances in Maharashtra and the decline in FY11 profitability on account of high one-time expenses. ICRA derives comfort from the change in management of the bank with several experienced banking professionals joining at senior management positions, and the change in shareholding pattern following the rights issue in Q4FY11. The ability of the new management in scaling up the business volumes in a fiercely competitive environment while managing the associated risks will be a key rating sensitivity.

In FY11, advances registered a strong growth of 60% from Rs. 1170 crore to ~Rs. 1900 crore, with most of the growth happening in the last quarter of FY11. In the first nine months of FY11, the new management took stock of the present condition of the bank and decided to implement new policies and systems that were required to continue the growth momentum, resulting in a muted growth of 10% over Mar-10 levels. ICRA has also noted a shift in the nature of advances; In FY10, almost 30% of the advances portfolio pertained to bill discounting/Letter of credit. In FY11, the new management focussed on increasing the share of term loans and other advances. Consequently, the share of bill discounting /LC has come down to ~20% of the total advances as on Mar-11.

The growth in overall deposits has been lower as compared to that in advances, resulting in increase in Credit to Deposit ratio from 74% in FY10 to 93% in FY11. CASA deposits of the bank decreased marginally from 36.1% in FY10 to 34.5% in FY11 with slower growth in low cost deposits. Given the growth targets of the bank, the CASA ratio is expected to further drop over the next 12-18 months and the management expectation of maintaining the CASA above 30% would be a challenge.

The asset quality of the bank has remained stable over the past few years and has shown improvement in FY11, with the fresh NPA generation rate dropping to 0.42% in FY11 as compared to 1.86% in FY10. Further, during FY11, the bank increased focus on recoveries which resulted in significant collections from overdue accounts. Hence, the Gross and Net NPA ratio improved to 1.12% and 0.36% respectively as of 31-Mar-11, much lower than Mar-10 numbers of 2.33% and 0.97% respectively. The restructured advances of the bank continue to be low at 0.63% of total advances as on 31 March 2011, with no advances restructured during FY10 & FY11.

RBL posted a healthy growth of 61% in Net Interest Income in FY11 to Rs. 95 crore, on the back of strong credit growth. While the average yield on advances got compressed by 100 bps in FY11, RBL managed to improve its NIMs from 3.67% in FY10 to 4.62%^{*} in FY11 on account of lower interest

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

^{*} As per bank's calculations; computed as Net interest income divided by Average interest earning assets based on weekly balances



expense. The yield on advances of the bank has remained low on account of higher share of LC/bill discounting. Going forward, with the change in portfolio mix, and the hikes in the base rate (currently at 9%), the yields are expected to improve. Net Interest Margin (NIM) of the bank has remained healthy in excess of 3% for the last 5 years on the back of low leverage and modest deposit costs.

Fee based income of the bank has formed 0.2%-0.3% of the average total assets for the last five financial years. The bank is a corporate agent of Kotak Life and Bajaj Allianz General Insurance and it will also start distributing Mutual Funds from July 2011 onwards, providing stability to the fee income. The 'Miscellaneous income' of the bank increased from 0.39% in FY10 to 0.52% in FY11, mainly on account of recovery from written off loans and higher processing fees.

In FY11, the operating expenses of the bank increased from 2.04% to 3.56% on account of higher employee expenses driven by higher pension & gratuity cost, and addition to the workforce. The employee expenses for the bank have increased from 1.2% in FY10 to 2.7% in FY11. While the pension cost with respect to retired employees (Rs. 12.44 crore) has been expensed in FY11 in accordance with RBI guidelines, the bank has decided to amortise the pension cost pertaining to current employees (Rs. 20 crore) over three years, instead of five years as permitted by RBI. Further, the bank has charged entire cost due to gratuity limit enhancement, amounting to Rs. 1.71 crore, in FY11 itself instead of five years as permitted by RBI.

In FY11, RBL reported negative credit provisions as focus on recoveries lead to write-back of provisions. Overall, provisions continue to be low and have come down from 0.26% for FY10 to 0.01% for FY11. On account of significant one-time expenses relating to the second pension option, enhancement in gratuity limit, payment of wage revision related arrears, addition to the employee base etc. causing higher employee expenses, the core operating profits of the bank shrunk to 0.74% in FY11, as compared to 1.72% in FY10. Driven by lower operating profits, slightly offset by lower provisions, the net profitability of the bank reduced to 0.46% of average total assets for FY11 as compared to 1.01% for FY10. While the one-time pension expenses with respect to retired employees has impacted profitability in FY11, accelerated provisions with respect to current employees, will have a positive impact on the future profitability indicators.

The capital adequacy of the bank has remained strong over the past few years and it got further boosted by capital infusion of Rs. 703 crore via the 10th rights issue in Q4FY11. As a result, the capital adequacy ratio of the bank stood at 56.41% (Tier I: 55.9%) as of 31-Mar-11. Currently, RBL has no tier II bonds; the last tranche of Tier II bonds was redeemed in Sep-10.

The bank's liquidity position remains comfortable with positive mismatches in the short term buckets. The majority of advances of the bank have short to medium term; together with strong CASA base helps the bank to maintain a good ALM profile. The bank also has increased its inter-bank counterparty lines which would help the bank to manage short term liquidity mismatches.

Brief Background

Established in 1943, RBL is a Kolhapur based small sized old private sector bank. It was granted the status of scheduled commercial bank in 1959. The business of RBL is primarily concentrated in Maharashtra, and North Karnataka. As on March 31, 2011, RBL had 100 branches and 19 ATMs. The asset base of the bank stood at Rs. 3,230 crore at the end of FY11, a growth of 55% over FY10. In FY11, the bank reported total income of Rs. 208 crore and a net profit of Rs. 12 crore. The gross and net NPA of the bank stood at 1.12% and 0.36% respectively as on March 31, 2011 (2.33% and 0.97% respectively as on March 31, 2010). The bank reported a regulatory capital adequacy ratio at 56.4%, with Tier I capital being 55.9% as on March 31, 2011.

July 2011



Key Financial Indicators

	Mar-11	Mar-10	Mar-09
Total Assets	3,229	2,085	1,706
Deposits	2,042	1,585	1,307
Advances	1,905	1,170	801
Equity Capital	215	105	105
Net Worth	1,084	352	340
Total Income	208	157	154
Net Profit	12	19	31
Net Interest Margins (% of Avg. Total Assets)	3.58%	3.11%	3.99%
Core Fee based Income/Avg. Total Assets	0.19%	0.26%	0.30%
Operating Expenses/Avg. Total Assets	3.56% [‡]	2.12%	2.81%
Operating Profits/Avg. Total Assets	0.74%	1.72%	2.47%
Profit After Tax / Avg. Total Assets	0.46%	1.01%	1.92%
Net Non-Performing Assets (NPA)/Loans (%)	0.36%	0.97%	0.68%
Capital/Risk Assets (%)	56.41%	34.07%	42.30%
Total Deposits/Total Liabilities (%)	63.25%	76.04%	76.63%
Loans/Deposits (%)	93.29%	73.84%	61.29%
Investment/Deposits (%)	46.85%	43.34%	50.49%
Savings Deposits/Total Deposits (%)	17.16%	18.62%	16.62%
Term Deposits/Total Deposits (%)	65.46%	63.88%	66.53%

Note: 1. Amounts in Rs. Crore

2. Average total assets have been calculated as average of financial year-ending balances.

[‡] Including one-time expenses on second pension option, enhancement in gratuity limit, wage revision related arrears etc. Excluding these one-time expenses, the ratio would have been at 2.25%.

For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan, (Tel No. +91-22-30470028)

karthiks@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91-22-30470005)

shivakumar@icraindia.com

© Copyright, 2011, ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax: +91-124-4545350

Mumbai**Mr. L. Shivakumar**Mobile: **91-22-30470005/9821086490**Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion, Appasaheb Marathe Marg,
Prabhadevi, Mumbai - 400 025

Ph : +91-22-2433 1046/ 1053/ 1062/ 1074/ 1086/ 1087

Fax : +91-22-2433 1390

Kolkata**Ms. Anuradha Ray**Mobile: **91-33-22813158/9831086462**Email: anuradha@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna, 234/ 3A, A.J.C. Bose
Road, Kolkata-700020.

Tel: +91-33-2287 6617/ 8839/ 2280 0008

Fax: +91-33-2287 0728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.comEmail: **Mr. K. Ravichandran**Mobile: **91-44-45964301/ 9940008808**Email: ravichandran@icraindia.com

5th Floor, Karumuttu Centre, 498 Anna Salai, Nandanam,
Chennai-600035.

Tel: +91-44-2433 3293/ 94, 2434 0043/ 9659/ 8080, 2433

0724, Fax:91-44-24343663

Bangalore**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

2 nd Floor. ,Vayudhoot Chambers, Trinity Circle, 15-16
M.G.Road, Bangalore-560001.

Tel:91-80-25597401/ 4049 Fax:91-80-25594065

Ahmedabad**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,

Ahmedabad- 380006

Tel: +91-79-26585494, 26582008,26585049, 26584924

TeleFax:+91-79- 2648 4924

Pune**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills
Road, Shivajinagar,Pune-411 020

Tel : (91 20) 2556 1194 -96; Fax : (91 20) 2556 1231

Hyderabad**Mr. M.S.K. Aditya**Mobile: **9963253777**Email: adityamsk@icraindia.com

301, CONCOURSE, 3rd Floor, No. 7-1-58, Ameerpet,
Hyderabad 500 016.

Tel: +91-40-2373 5061 /7251 Fax: +91-40- 2373 5152