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Case Study Management Rejig in RBL Bank

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ABSTRACT

This case study discusses the management rejig in RBL Bank and its impact on the bank and its stakeholders such as shareholders, depositors, and staff. It includes the analysis of balance sheets, income statements, and cash flows to study the financial position of the bank. Financial position is found to be sufficiently stable and the Reserve Bank of India (RBI) is also supporting with the statement about the financial stability of the bank. Credit rating agencies will monitor things and may revise its rating. Although the share price tanked around 18 percent, many brokerage houses upgraded their recommendation on RBL Bank.

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Introduction

RBL Bank is a private-sector bank in India. In December 2021, the bank underwent a management rejig after a series of issues. The management rejigs included the appointment of an additional director by RBI and an interim manager by the bank itself. On account of this leadership chaos, stock price tanked around 18 percent and leads to an uncertainty in the market. Although, the bank assured investors that things will be stable soon. This case study discusses the impact of this management rejig on the company and its stakeholders.

About Banking Sector

There are 12 public, 22 private, and 46 foreign banks. During FY 16-FY21, bank deposits grew at a CAGR of 12.38 percent. According to the Reserve Bank of India, the Indian banking sector is well-regulated and capitalized. The economic and financial conditions are very good in the country. High net Interest and low NPA level will ensure healthy business fundamentals. In recent times, the Indian banking industry witnessed a transformation in the banking system such as small finance banks and IMPS services. Government privatizes two public sector banks and with consolidation reduced public sector banks to eight. The Indian banking sector is moving towards rapid growth as a growing business would need credit from banks (IBEF, 2021).

About RBL Bank

RBL Bank is headquartered in Mumbai. It provides services namely commercial banking, corporate banking, business banking, retail assets, and financial market operations. Its services spread over 10 million customers through a network of

445 branches across India (RBL, 2021). In 2010, Bank started a new journey under a new management team when Vishwavir Ahuja joined the bank as managing director of the bank. In 2010, Bank Raised Rs. 4000 crores from investors. In 2018, the bank launched a personal credit line app through Money Tap. As of 2021, RBL Bank has 7816 employees and 435 branches across India. To provide education, the bank ran a financial literacy program named as Saksham.

Financial Position of the RBL Bank

As on December 2021, the bank had a liquidity coverage ratio of 153 percent as against the regulatory requirement of 100 percent and had a capital adequacy ratio of around 16 percent. RBI assured shareholders regarding the financial position of the bank. Table 1 reveals that equity shareholders' capital, reserves, surplus, deposits, and investments are continuously increasing and borrowing are continuously decreasing which are positive signs for the bank. Table 2 reveals that Bank has increased Non- Performing Assets (NPA) in the Years 2020 and 2021 which is an upcoming threat for the bank while interest earned and operating profit are continuously increasing and net profit is also improved in 2021 from year 2020. Table 3 reveals that RBL Bank has rising net cash flow and cash from operating activity which is a very good sign.

Share Price Trend

Chart 1 reveals that during the management rejig in RBL Bank, the share price tanked around 18 percent, but after a few days, it started to recover. Now many brokers upgraded the recommendation or target price on RBL Bank (Money Control, 2021b).

Table 1: Balance Sheet Variables

Variable	03/2021	03/2020	03/2019	03/2018	03/2017
Equity Shareholder's Capital	598.02	508.7	426.71	419.67	375.2
Reserves and Surplus	12063.69	10073.36	7119.7	6264.3	3960.37
Deposits	73,121.27	57812.22	58394.42	43902	34588.09
Borrowings	11225.89	17006.73	11832.07	9261.44	7979.76
Investments	23230.42	18149.74	16840.36	15447.5	13481.71
Fixed Assets	466.48	469.76	402.48	334	258.71

Source: Money Control (2021a).

Table 2: Income Statement Variables

Variable	03/2021	03/2020	03/2019	03/2018	03/2017
Interest Earned	8561	8778	6302	4561	3713
Operating profit	3113	2746	1938	1341	920
Net Profit	529	500	861	639	446
Gross NPA	2601	2136	754	566	1668

Source: Money Control (2021a).

Table 3: Cash Flowss

Variable	03/2021	03/2020	03/2019	03/2018	03/2017
Operating Activities	7631	-5172	78	-2556	3433
Investing Activities	-174	-222	-201	-165	-142
Financing Activities	-4206	7697	2566	2994	-1656
Net Cash Flow	3250	2302	2443	272	1635

Source: Money Control (2021a).

Credit Rating Agencies Opinion

Credit rating agencies CARE and ICRA put the assigned rating under review. Considering the long track record of operations, and financial stability, these rating agencies gave stable ratings.

Future Outlook on RBL Bank

The credit card business of RBL Bank is continuously growing. RBL bank credit card spending competes with SBI cards and HDFC cards. In Financial terms, RBL Bank has a very positive position but the bank has to take care of Non- Performing Assets (NPA) in the upcoming year. Financial position would give confidence in

investors and December quarter results would be a key factor in boosting investor's confidence in the bank.

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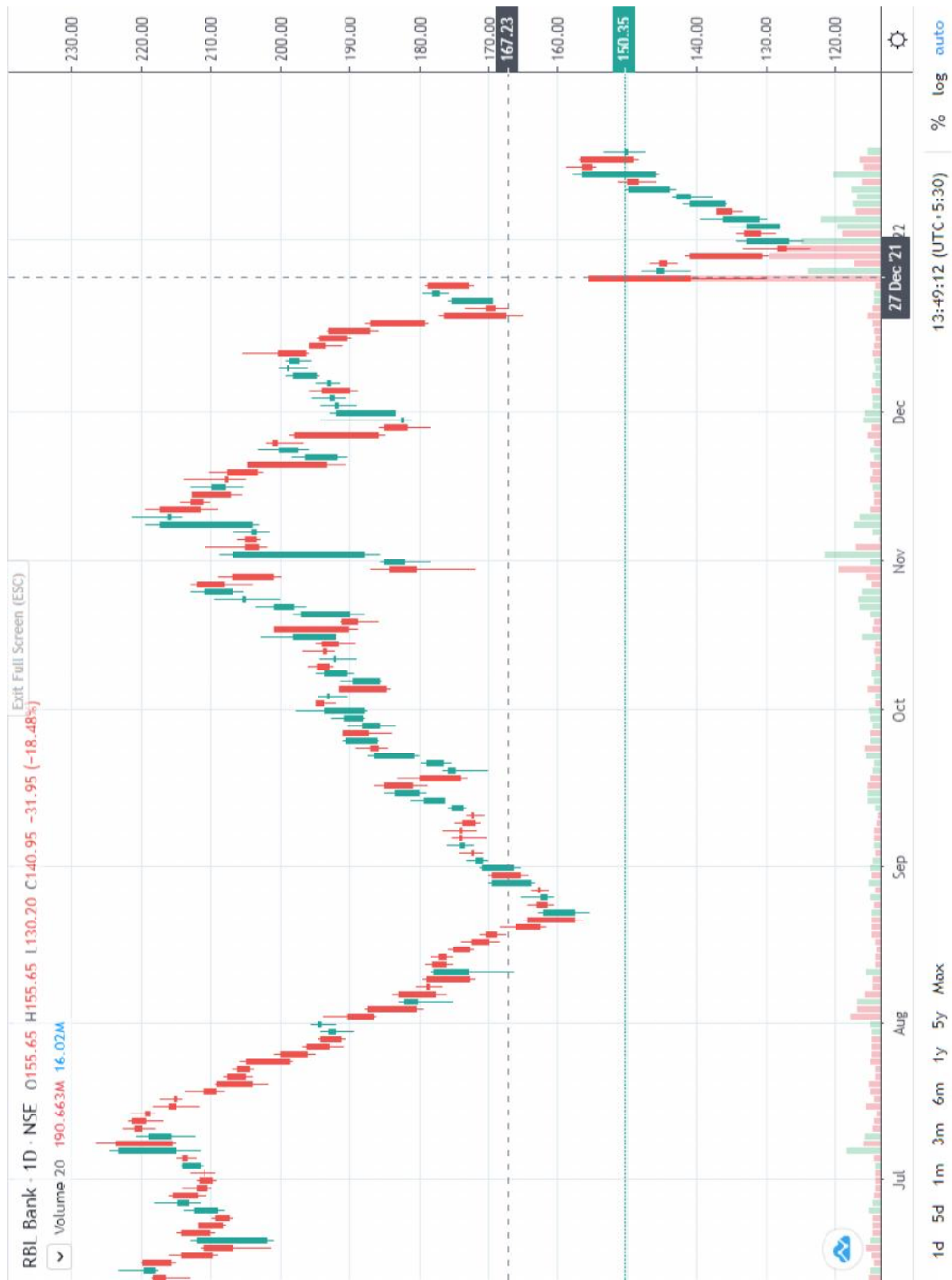


Chart 1: Share Price Trend of RBL Bank (Money Control, 2021b)

Appendix Teaching Notes

Synopsis

RBL Bank is a private sector bank in India. The bank faced management rejig in December 2021 and on account of this, share price declined. This case study discusses the impact of management rejig on RBL bank. This case provides information such as balance sheet, income statement and cash flows to analyze financial performance of the bank. Further, this case study helps to understand the opinion of credit rating agencies and share price trend. In nutshell, it helps students to understand future outlook of the bank.

The Target Learning Group

This case has been written for the postgraduate students of management as a part of curriculum of financial statement analysis.

The Teaching Objectives and Key Issues

The case is designed to achieve following objectives:

1. To analyze the impact of this leadership chaos on investors.
2. To forecast the stock market trend in near future for the bank.
3. To analyze the financial position of the bank.
4. To study the credit rating agency's opinion towards the bank after this management rejig.

Key Issues

- Income statement analysis
- Balance sheet analysis
- Cash flow analysis

The Teaching Strategy

The case should be distributed to the students in the classroom and allow them time of 4 days to study the case. Then in the class, all the students should be given time of 5 minutes for discussion with the following question:

1. What is the purpose of financial performance analysis of the bank?

2. Who are the interested parties for financial performance of the bank?
3. What are the various tools which can be used to analyze the financial performance of the bank?

After this discussion, students are allowed to solve the case study and submit their answers to the faculty for evaluation.

Questions for Discussion

The case has designed the following questions for discussion:

1. Should investors be worried because of this leadership chaos?
2. How would the stock market react in near future? Comment.
3. Critically analyze the financial position of the bank.
4. Should credit rating agencies change their assigned ratings after this management rejig?

Analysis of Data

This case has only one question which includes numeric data for analysis.

Analyze the financial position of the bank.

To analyze the financial position of the bank assessment of income statement, balance sheet and cashflow are performed.

Balance sheet is a financial statement which tells assets, liabilities and shareholder's equity of a company. Balance sheet of RBL bank reveals that equity shareholder's capital, reserves and surplus, deposits and investments, number of branches, number of employees are continuously increasing and borrowing are continuously decreasing which are positive signs for the bank. NPA of bank is increasing which is a sign of concern.

Income statement is a financial statement that tells the income and expenditure of the company. Income statement of RBL bank reveals that Bank has increased Non-Performing Assets (NPA) in Year 2020 and 2021 which is an upcoming threat for the bank while interest earned and operating profit are continuously increasing and net profit is also improved in 2021 from year 2020.

Table 1: Balance Sheet (Mar 17 - Mar 21)

Balance Sheet of RBL Bank (in Rs. Cr.)	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
	12 mths	12 mths	12 mths	12 mths	12 mths
Equities and Liabilities					
Shareholder's Funds					
Equity Share Capital	598.02	508.7	426.71	419.67	375.2
Total Share Capital	598.02	508.7	426.71	419.67	375.2
Revaluation Reserve	0.87	0.89	0.91	0.94	0.97
Reserves and Surplus	12,063.69	10,073.36	7,119.70	6,263.36	3,959.41
Total Reserves and Surplus	12,064.56	10,074.25	7,120.61	6,264.30	3,960.37
Total Shareholders Funds	12,662.58	10,582.95	7,547.32	6,683.97	4,335.58
Deposits	73,121.27	57,812.22	58,394.42	43,902.26	34,588.09
Borrowings	11,225.89	17,006.73	11,832.07	9,261.44	7,979.76
Other Liabilities and Provisions	3,640.87	3,575.87	2,585.02	2,003.08	1,771.35
Total Capital And Liabilities	1,00,650.61	88,977.77	80,358.82	61,850.76	48,674.77
Assets					
Cash and Balances with Reserve Bank of India	6,704.70	6,415.08	4,839.52	2,589.33	2,947.93
Balances with Banks Money at Call and Short Notice	6,719.51	2,442.10	1,762.59	1,695.11	1,245.72
Investments	23,230.42	18,149.74	16,840.36	15,447.50	13,481.71
Advances	58,622.51	58,019.05	54,308.24	40,267.84	29,449.04
Fixed Assets	466.48	469.76	402.48	334	258.71
Other Assets	4,907.00	3,482.04	2,205.62	1,516.97	1,291.67
Total Assets	1,00,650.61	88,977.77	80,358.82	61,850.76	48,674.77
Other Additional Information					
Number of Branches	435	386	324	265	239
Number of Employees	7,816.00	7,221.00	5,843.00	5,330.00	4,902.00
Capital Adequacy Ratios (%)	17.5	16	13	15	14
Key Performance Indicators					
Tier 1 (%)	16.64	15	12	14	11
Tier 2 (%)	0.86	1	1	2	2
Assets Quality					
Gross NPA	2,601.53	2,136.52	754.62	566.73	356.84
Gross NPA (%)	4	4	1	1	1
Net NPA	1,241.35	1,189.37	372.74	312.56	189.94
Net NPA (%)	2.12	2.05	1	1	1
Net NPA To Advances (%)	2	2	1	1	1
Contingent Liabilities, Commitments					
Bills for Collection	2,760.72	2,387.38	2,308.94	1,418.19	822.71
Contingent Liabilities	59,088.26	73,653.79	61,302.59	51,395.93	41,904.46

Source: Money Control.

Table 2: Income Statement (Mar 17 - Mar 21)

Annual	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Interest Earned	8,561	8,778	6,302	4,561	3,713
Other Income	2,048	1,918	1,440	1,068	755
Total Income	10,609	10,696	7,743	5,630	4,468
Total Expenditure	7,496	7,950	5,804	4,288	3,548
Operating Profit	3,113	2,746	1,938	1,341	920
Provisions & Contingencies	2,401	1,998	640	367	238
PBT	712	747	1,297	973	681
Tax	182	247	436	334	235
Net Profit	529	500	861	639	446
Gross NPA	2,601	2,136	754	566	1,668
Gross NPA (%)	4	4	1	1	1
Net NPA	1,241	1,189	372	312	1,899
Net NPA (%)	2.12	2.05	1	1	1

Source: Money Control.

Table 3: Cash flows (Mar 17-Mar 21)

Variable	21-March	20-March	19-March	18-March	17-March
Operating Activities	7631	-5172	78	-2556	3433
Investing Activities	-174	-222	-201	-165	-142
Financing Activities	-4206	7697	2566	2994	-1656
Net Cash Flow	3250	2302	2443	272	1635

Source: Money Control.

Cash flows tells the movement of money in and out of a business. RBL Bank has rising net cash flow and cash from operating activity which is a very good sign.

Background Reading

Students may refer these websites of RBL bank and money control to take supplementary material for study and can see update in the RBL bank in near future.

Experience of the Case

This case is useful for those who want to get an insight into the financial performance of the RBL bank such as investors, students and faculty members. This case focused on income statement analysis, balance sheet analysis, cashflow analysis, trend of share price of RBL bank and opinion of credit rating agencies.