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Case Study on Performance of IPO of Ratnakar Bank Limited (RBL)

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ABSTRACT

Ratnakar Bank, with registered office in Kolhapur, is one of the fastest growing scheduled commercial banks. It is continuously expanding its presence across India through a growing network of branches and ATM. RBL offers specialized services under five categories i.e. corporate and institutional banking, commercial banking, retail banking, agri and development banking and financial markets. But there USP is micro finance especially rural areas. It has network of 197 branches and 362 ATMs across 16 Indian states. It launched India Startup Club in January, 2016, a unique offering for entrepreneurship community.

Keywords: *Bank, corporate, institutional banking*

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INTRODUCTION

RBL Bank issued Initial Public Offering. It was subscribed 70 times more. The issue has been stellar responses from non-institutional investors, who have bid for 198 times the quotas limit. Qualified Institutional Buyers subscribed 85times and Retail Investors 5.31 times.

In 2015-16, RBL Bank reported a revenue of Rs.3, 234.85 crore, up from Rs.2, 356.49 crore a year ago, and a profit of Rs.296.8 crore, up from Rs.208.45 crore a year ago. The bank's income grew at an annual rate of 50% compounded over the last 5 years. Its return on equity has also doubled in the past five years, according to data made available in the issue documents.

The bank last week fetched Rs.364 crores by issuing shares to 28 anchor investors at upper end of price bank Rs.225. The IPO generated demand worth Rs.59000 crores among the highest in recent times.
Kotak Mahindra Capital Co. Ltd, Citigroup Global Markets India Pvt. Ltd, Axis Capital Ltd, Morgan Stanley India, HDFC Bank Ltd, ICICI Securities Ltd, IIFL Holdings Ltd, IDFC Securities Ltd and SBI Capital Markets Ltd managed the share sale.

The three-day issue drew memberships that were 69.57 times the issue estimate – barring the stay assignment – enlisting the most astounding general membership among IPOs of private area banks.

RBL Bank became the country's first private sector bank to go public in more than a decade. The last private sector bank to launch an IPO in India was Yes Bank Ltd, which raised Rs.315 crore in July 2005. In 2010, state-owned Punjab and Sind Bank Ltd managed to raise Rs.480 crore through its IPO. DCB Bank Ltd.'s IPO in October 2006 was subscribed 35 times, while Yes Bank Ltd.'s IPO in June 2005 was subscribed 29.13 times, according to data by Capitaline, a corporate data provider.

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Banking sector is facing growth challenges. Despite that RBL Bank has been able to demonstrate growth without compromising on asset quality. As per economics times report published recently on 23rd August,2016 the Net interest income of the lender grew to Rs.819.21crore in FY 16 from Rs.186.79 crore in FY12 which represents a 44.71 growth CAGR in 4 years period. In Bank loan book Net Interest Income and net Profit grew at a compounded growth rate of 40-50 percent. It was able to sustain growth momentum in FY 16 as well.

Analyst noted that the bank had stayed away from stressed sector such as steel, power and infrastructure, which has helped it maintain its asset quality at better level compared with peers.

The success of IPO of RBL Bank marked the investor's faith in Banks Management and its execution track record. Bank will get Rs.830 crore from IPO, which it will use to augment its tier I capital to help fuel future growth.

There are two types of queries as given below:

(1) Analyses the success of RBL Bank IPO.
(2) Investors acknowledge banking as being critical to the economy and having secular growth prospects. Analyses the statement with help of case study.

Analyses the Success of RBL Bank IPO

There are number of reasons on investor's faith on Ratnakar Bank IPO despite the fact that most of domestic banks (PSUs and Private) are trapped in non-performing assets, PA. These are mentioned below:

(1) Management: The bank has transformed under new management. It was happened in year 2010.The new management changed the architecture of bank by taking various measures. These are introduction of ESOP Programme to motivate employees, brought in high quality, long term institutional capital for growth, improvement in operational modus and started using digital advantages and completely avoided high leverage sectors and long-term project financing sectors for giving advances and focused on working capital loans with regard to corporate advances.
(2) Risk Management System: Bank kept eye on Non-Performing Assets and got success in restricting Gross NPA below 1 percent in last four years. It has improved performance of bank.
(3) Focus on small ticket: Bank has put the entire right ingredient in place like quality people; processes, technology and leadership. Bank focus on small tickets. Bank focus on mass banking. 60% branches comprise semi urban and rural. It helped in reaching in mass.
(4) Focus on specialized Category: Bank has five specialized category – Large Corporation, small and medium enterprises, agriculture, retail customers and development banking and financial institutions. It helped in addressing better customer services. It created a space in the mind of customer.
(5) Merger of Royal Bank of Scotland: RBL took over Royal Bank of Scotland operations in year 2014, gave financial jump and respectability. Bank used expertise of employees of Royal Bank of Scotland in credit card segment which was launched after merger of RBS.
(6) Modern Banking: RBL bank comes to the market as modern private bank with offering of digital banking services through phone internet mobile. The bank also has micro payment and branchless banking solutions. It also employs business correspondent network to expand the customer reach beyond its services areas.

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These all together was reason for IPO success. But change of Management in Year 2010 was turning point and more of credit goes to the vision and willingness of Board of Directors. Now Kolhapur based bank has established positioning in the mind of customers.

Investors Acknowledge Banking as Being Critical to the Economy and Having Secular Growth Prospects: Analyses the Statement with Help of Case Study

Banking is playing vital role in Indian socio-economic arena. We have strong believed in our banking system. It is an important constituent of Indian Financial System. The prominent functions of our banks are mentioned below:

(1) They help in mobilizing saving. The main aim of this function is to create capital for further economic development.
(2) They finance the industrial sector and also help in developing capital market of our country.
(3) They promote entrepreneurship by underwriting shares of new and existing companies.
(4) They create demand for consumer goods by providing loans to consumers for purchase of house, vehicle, durable goods etc. They influence on standard of living.

We have banking based financial system. Our people are showing high confidence in banking activities. We still prefer FD in place of trading in market based economy. That is why investors were attracted towards Ratnakar Bank IPO.

CONCLUSION

This case study is based on secondary data appeared in different newspapers and website during IPO, Pre IPO and Post-IPO of Ratnakar Bank. An Initial Public Offering, or IPO, is the first sale of stock by a company to the public. A company can raise money by issuing either debt or equity. It' often the only way for the company to get enough cash to fund a massive expansion. For the owners, it' finally time to cash in on all their hard work. They usually award themselves a significant percentage of the stock. They stand to make millions the day it goes public. This case study is based on secondary data appeared in different newspapers and website during IPO, Pre IPO and Post IPO of Ratnakar Bank.

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