

## BANDHAN FINANCIAL SERVICES PVT. LIMITED

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Bank Facilities	1,000.0	CARE A+ (Single A Plus)	Revised from CARE A (Single A)
<b>Total</b>	<b>1,000.0</b>		

### Rating Rationale

The revision in rating of Bandhan Financial Services Pvt. Ltd (BFSPL) takes into account continuous growth in scale of operations coupled with comfortable asset quality, reduction in geographical concentration risk of BFSPL's portfolio and relatively comfortable disbursement level in H1FY14 (refers to the period April 1 to September 30).

Furthermore, the rating continues to derive strength from the experienced promoters, leadership position of the company in the MFI sector, strong operational set-up and governance framework coupled with strong IT infrastructure, diversified funding profile, satisfactory capitalization level and stable financial risk profile.

The rating is, however, constrained by fact that BFSPL's portfolio continues to be concentrated in West Bengal, competition from other players and regulatory risks and political risks inherent in the industry.

The access to funding, evolving regulatory environment, ability to maintain profitability and asset quality and improve upon its capitalisation level are the key rating sensitivities.

### Background

BFSPL is the current name of erstwhile 'Ganga Niryat Pvt Ltd' (GNPL) – a registered NBFC set up in 1995. The current promoters of BFSPL took over the NBFC in May 2006 and started micro-financing activity in the north-eastern states of India from June 2006. In April 2007, GNPL was rechristened as BFSPL. In April 2009, the micro-financing activity of a related entity of the group – 'Bandhan Konnagar' (Bandhan) was transferred to BFSPL. Bandhan, a society registered under the West Bengal Societies Registration Act, was set up in 2001 and was working both as an NGO and MFI prior to the transfer of MFI activity to BFSPL. The company has been converted into a NBFC-MFI in September 2013.

BFSPL is, currently, engaged in the business of lending to individual women borrowers under 'Group based individual lending' model and is operating in rural & urban areas throughout India. The main thrust of the company is to work with women who are in socially & economically disadvantaged position, for their social upliftment & economic emancipation. BFSPL provides loans to the individual members of groups for undertaking various income generating activities. While these loans are given without collateral, the co-borrower / member pressure acts as risk mitigant. The loans are repaid on a weekly, fortnightly or monthly basis (at the choice of the borrowers).

As on September 30, 2013, BFSPL is operating in 218 districts spanning across 19 states & UTs of India. Operations of BFSPL are managed through its network of 1,864 branches and it has 48.04 lakh borrowers with total outstanding portfolio of Rs.4,456.6 crore as on September 30, 2013.

### Credit Risk Assessment

#### Experienced promoter

Shri Chandra Shekhar Ghosh, founder of BFSPL has an aggregate experience of over two decades in micro-financing activity. Shri Ghosh (CMD) has been largely responsible for the success of BFSPL and continues to be the main driving force behind the organisation. Shri Ghosh is a Senior Ashoka Fellow and on the board of /member of numerous MFI associations like MFIN – India, Sa-Dhan, AMFI – WB, FICCI, CII, etc.

#### Strong operational set-up & governance framework

BFSPL has strong operational set-up & governance framework backed by a professional management team & experienced BoD comprising 10 members out of which eight are independent directors. BFSPL has a well defined organisation structure with a 4-

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

tier reporting hierarchy whereby it has branch managers, Regional Managers (handling 5-6 branches each), Divisional Manager (supervises 6-7 regions each) and Deputy General Managers. The company has formed various sub committees like risk management committee, ALM committee, audit committee, ombudsman committee, nomination committee, etc for effective monitoring of the day-to-day operations of the company. Moreover, BFSPL also has a vigilance team, as the cash mode of operations requires higher degree of transparency. BFSPL's audit team comprises more than 100 staff members and is headed by the General Manager Risk and Internal Audit who reports directly to the audit subcommittee.

### Continuous growth in scale of operations over the past few years

BFSPL is the largest MFI in India in terms of outstanding loan portfolio of Rs.4,456.6 crore as on September 30, 2013. Over the years, the company has increased its reach and penetration throughout the country at a rapid pace. Consequently, the number of borrowers & loan portfolio have increased manifold. The growth in operation over the last three years is enumerated as under:

As on	Mar.31, 2011	Mar.31, 2012	Mar.31, 2013	Sept.30, 2013
States & Union territories	18	18	18	19
Districts	179	168	205	218
Branches	1,553	1,553	1,803	1,864
Groups	1,75,875	1,81,140	2,23,417	2,45,500
Borrowers	32,54,913	36,17,641	44,33,885	48,04,053
Staff strength	8,813	9,548	11,450	12,397
Disbursements during the year (Rs. cr)	4,986.1	6,254.8	5,778.7	3,518.2
Loan portfolio (Rs. cr) – incl. off book expos.	2,507.3	3,730.2	4,420.9	4,456.6

### Comfortable asset quality backed by high collection efficiency

Despite the fact that the company has forayed into newer geographical territories over the past few years, it has managed to keep its collection efficiency well above 99% over the last three years. Further, the average collection efficiency continued to be satisfactory at 99.80% for the past six months period ended September 30, 2013. Consequently, BFSPL has managed to continuously maintain a healthy asset quality over the last three years backed by steady collection efficiency & monitoring mechanism. The same is reflected through very low Gross NPA level as on the last three account closing dates despite higher increase in asset size. As on March 31, 2013, gross NPA improved to 0.14% as against to 0.15% as on March 31, 2012 and was highly comfortable given the scenario of the industry BFSPL operates in. Portfolio at risk greater than 30 days (PAR>30 days) also stood very low at 0.22% as on September 30, 2013 (as against 0.20% as of March 31, 2013 and 0.19% as on March 31, 2012).

### Continuous reduction of concentration of portfolio in West Bengal; albeit it continues to be high

Currently, BFSPL is operating in 218 districts spread across 19 states & Union Territories of India. Despite higher penetration in the newer market territories, BFSPL continues to draw majority of its business from West Bengal. However, the same has reduced constantly over the past few years. Overall exposure level in West Bengal was 49.04% of the total outstanding loan portfolio as on September 30, 2013 as against 53.25% as on March 31, 2013 and 57.71% as on March 31, 2012.

### Strong IT infrastructure in line with growing scale of operation

BFSPL has a strong IT infrastructure in place, which has been evolving along with the growth in operations. BFSPL has achieved computerization in 100% of branches and all branches have also shifted from excel-based manual system to in-house developed software – MFSOL. At present the software is in offline mode and not web based. BFSPL is expecting to make its IT system web based in the medium term. All types of reports including overdue report and demand collection report at branch level can be generated within a short span of time.

### Comfortable liquidity profile

Liquidity position of BFSPL, as on March 31, 2013, has been comfortable with positive mismatches in all the short term buckets. This is mainly due to majority of the loan products of BFSPL having weekly collection mechanism with the tenor of loan given being one year as against major liabilities being term loans availed (tenure of 1-3 years).

### Moderately Diversified funding profile

BFSPL's resource profile continues to be diversified. As on September 30, 2013, BFSPL had an outstanding loan of Rs.4,194.7 crore from over 30 public sector/private banks and financial institutions. Apart from loans from banks & FI, BFSPL has been utilising the assignment route (Rs.326.7 crore of book value of portfolio loans assigned in FY13) to raise resources thereby moderating the impact of fresh borrowings & fresh lending on gearing and capital adequacy ratios. This apart, the company has also raised funds through issuance of NCDs (Rs.28.0 crore) in the past. Moreover, BFSPL has been successful in raising equity from domestic as well as foreign financial institutions in the recent past.

### Stable financial risk profile

With the gradual increase in operation level, the overall disbursements level for the company has followed an increasing trend over the last few years. BFSPL made disbursements of Rs. 5,778.6 in FY13 as against Rs.6,254.8 crore in FY12. The relatively lower disbursement in FY13 is pursuant to RBI guidelines on NBFC-MFI as per which tenure for loans exceeding Rs.15,000 is required to be 24 months. Consequently, now the borrowers availing loans of higher amount are restricting it within Rs.15,000 to keep the tenure of 12 months, thereby reducing the ticket size. Further, the existing borrowers availing loans exceeding Rs.15,000 are not eligible for fresh loans as per the RBI guidelines during a period of 24 months from the date of disbursement of earlier loans. Disbursement level stood at Rs.3,518.16 crore as on September 30, 2013.

However, despite lower disbursements in H1FY13, the company managed to increase in loan portfolio by about 32% in FY13. Interest expenses increased notably on account of steep rise in cost of borrowing coupled with higher level of borrowings.

Significant increase in cost of borrowing coupled with higher operating expenses (on account of the geographical expansion strategy followed by the company) led to decline in profitability in FY13. Interest coverage (before prov. & write offs) however, remained comfortable during the even period.

### Satisfactory capitalization level

BFSPL reported regulatory CAR of 21.81% as on March 31, 2013 (22.63% as on Mar.31, 2012) as against regulatory requirement of 15%. Moreover, with higher amount of assignment/securitization over the years, the company was able maintain its CAR at comfortable level. Further, the adjusted CAR (considering off balance sheet assigned/secured portfolio as on book) remains comfortable as on the last two account dates. The overall gearing of the company remained at, more or less, the same level of 4.91 as on March 31, 2013 as against 4.88 times as on Mar.31, 2012 in view of accretion of higher level of profit to reserve and was comfortable given the nature of industry the company is operating in.

### Prospects

Going forward, as the company focuses on geographical expansion, ability of the company to maintain its operating costs and asset quality is likely to be crucial. Further, enactment of the MFI Bill 2012 shall also be crucial for reducing the regulatory uncertainty in the MFI sector.

### Financial Results

(Rs. crore)

Y.E/As on March 31	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Interest income	427.1	680.4	782.3
Total income	521.0	788.2	937.3
Provision & write offs	13.6	37.5	20.9
Depreciation	17.4	36.6	11.3
Interest expenses	196.6	278.6	424.6
Profit Before Tax (PBT)	178	288.9	309.0
PAT – after deferred tax	117.6	188.1	208.5
Gross cash accrual (GCA)	131.8	215.1	215.8
Equity share capital	86.3	96.9	96.9
Tangible networth	376.4	689.9	885.3
Total debt	1,847.6	3,364.9	4,354.4

Y.E/As on March 31	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
<b>Key Ratios</b>			
PAT margin - after deferred tax (%)	22.58	23.87	22.25
Interest income/ Average interest earning assets (%)	25.84	26.21	21.81
Interest expenses/ Average borrowed funds (%)	12.34	10.69	11.00
Interest spread (%)	13.5	15.52	10.81
Net Interest Margin (%)	13.95	15.48	9.97
Operating Expenses (before prov. & w/off) / Avg. CE (%)	6.13	4.37	3.58
RONW (%)	39.55	33.48	25.97
ROCE (%)	19.92	18.09	15.79
Cost of capital (%)	10.45	8.88	9.14
ROTA (%)	5.06	5.99	4.33
Overall gearing (times)	4.91	4.88	4.92
Gross NPA (%)	0.67	0.15	0.14
Net NPA (%)	0.51	0.04	0.03
Interest coverage - before provision & write off (times)	2.06	2.17	1.75
Tier I CAR (%)	21.4	21.65	21.13
Overall CAR (%)	21.99	22.63	21.81

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(This follows our rationale for entity published on 03 January 2014)

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