Bandhan Bank Limited

July 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Unsecured Subordinated Non- Convertible Debenture	**160 (Rs. One Hundred and Sixty Crore only)**	**CARE AA-; Stable (Double A minus; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating assigned to Bandhan Bank Ltd (BBL) continues to draw strength from the experienced promoter, increasing operational presence, mobilization of substantial deposits base with high proportion of retail deposits, robust capitalization profile, strong liquidity profile, healthy return indicators and legacy of established credit operations in micro-finance with strong operational network in the non-urban areas. The ratings also take note of the reduction in promoter holding to 40% as per regulatory requirements.

The rating is, however, constrained by the dominance of micro-advances in the lending portfolio and geographical concentration of operations, though reduced post amalgamation of Gruh Finance Ltd (GFL). Micro advances remained high at about 67% of advances as on March 31, 2021 (64% as on March 31, 2020) exposing the bank to the inherent risks in the micro finance industry including unsecured lending, event-based risks, socio-political intervention and operational risks related to cash-based transaction along with marginal profile of borrowers. The bank continues to have geographical concentration in eastern and north-eastern India at about 55% of its branch presence.

BBL reported a growth of about 21% in its loan portfolio as on March 31, 2021 as compared to March 31, 2020 which was mainly driven by growth in micro-advances. However, asset quality has witnessed sharp deterioration in FY21 (refers to the period April 1 to March 31) due to the impact of Covid-19 on the income profile of borrowers and socio-political issues in some of the states, especially Assam and West Bengal, where BBL has significant presence. Gross Non-performing Assets (NPA) and Net NPA increased to 6.81% and 3.51% respectively as on March 31, 2021 as compared to 1.48% and 0.58% respectively as on March 31, 2020. With higher provisioning/write-offs, credit cost increased to 3.78% in FY21 from 1.88% in FY20. Nevertheless, the profitability and capitalisation has remained healthy.

The rating also takes note of the operational challenges being faced on account of the pandemic and continued pressure on asset quality for which the bank has already created significant provisions. With the gradual receding of the second wave of the pandemic, collection efficiency is expected to improve after witnessing a dip in April and May 2021. Furthermore, the government of Assam is in the process of finalising relief measures for stressed borrowers including loan waiver. This should result in recovery of overdues to an extent.

Rating Sensitivities

Positive factors *- Factors that could lead to positive rating action/upgrade*

- Reduction in concentration of micro finance loan book below 30% on a sustained basis.
- Further improvement in geographical diversification
- GNPA below 1% on a sustained basis

Negative Factors *- Factors that could lead to negative rating action/downgrade*

- Significant weakening of asset quality on a sustained basis
- Deterioration in capital ratios with the Tier I capital ratio below 15%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter

BBL was promoted by BFSL which presently holds 39.99% stake in BBL through a Non-Operative Financial Holding Company (NOFHC) named Bandhan Financial Holdings Ltd (BFHL).

BFSL was promoted by Mr. Chandra Shekhar Ghosh (MD & CEO of BBL) who has an aggregate experience of over two decades in micro-financing activity which forms a major part of business for the bank. Moreover, the shareholders of BBL comprises of reputed investors like HDFC Limited (post-merger of GFL), Nomura India Investment Fund, Life Insurance Corporation of India and GIC through its group company Caladium Investment PTE Limited.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Increasing operational presence

BBL commenced its operations on August 23, 2015 with a network of around 501 branches across India. The operational presence has been increasing over the years and the branch network further increased from 1018 as on March 31, 2020 to 1,107 as on March 31, 2021. The operations of BBL are also supported by around 3541 Doorstep services (DSCs) including Gruh centres, which facilitate the microfinance operations of BBL. Including the branches, DSCs and Gruh centres, BBL had 5,310 banking outlets as on March 31, 2021.
Presently the bank has presence in 34 out of 36 states and union territories in India.

Substantial deposit base with increasing retail deposits

The total deposit base of BBL increased from Rs.57,082 crore as on March 31, 2020 to Rs 77,972 crore as on March 31, 2021 with significant increase in saving deposits (increased from Rs. 17,727 crore as on March 31, 2020 to Rs. 29,260 crore as on March 31, 2020) followed by increase in term deposits (increased from Rs. 36,054 as on March 31, 2020 to Rs.44,145 crore as on Mar 31, 2021).
The proportion of savings and demand deposit is around 43.39% as on March 31, 2021 (36.84% as on March 31, 2020). Retail deposits constitute 79% of total deposits as on March 31, 2021. Net Credit to deposit ratio had come down from 116.73 as on March 31, 2020 to 104.67 as on March 31, 2021 as a result of higher deposits and lower credit growth which is similar to the industry trend.

Robust capitalization

With accretion of profits, overall CAR and Tier I CAR of the bank remained healthy at 23.47% and 22.48% as on March 31, 2021, respectively and significantly above the regulatory requirement. Healthy capitalization provides significant headroom for the bank to pursue growth in a highly competitive industry.

Comfortable return indicators

Interest income increased by around 15% Y-o-Y with increase in loan portfolio by 21% in FY21. With major growth in portfolio in the second half of the year and impact of interest reversal in Q4FY21, the full impact of the growth was not visible in the interest income. Decline in cost of funds as a result of increase in low-cost CASA deposits has given some support to the NIM on a Y-o-Y basis.
The operating expenses (opex)/Average total assets reduced from 3.28% in FY20 to 2.73% in FY21. The credit cost increased from 1.88% in FY20 to 3.78% mainly due to the provision created on account of COVID 19 and write-offs made during the year. Accordingly, ROTA also decreased from 4.08% in FY20 to 2.13% in FY21. However, the profitability indicators remain comfortable. The bank reported a PAT of Rs.2205 crore in FY21 as against a PAT of Rs.3024 crore in FY20.

Key Rating Weaknesses

Significant deterioration in asset quality in FY21

The asset quality of BBL significantly deteriorated with GNPA rising sharply to 6.81% as on March 31, 2021 as compared to 1.48% as on March 31, 2020 due to stress in retail segment because of the impact of Covid 19 and also due to additional stress in micro finance portfolio in Assam and West Bengal due to various socio-political issues. The 90+ dpd microfinance portfolio was at 14.2% in Assam and 10.2% in West Bengal as on March 31, 2021.
Despite of carrying significant additional provisions, provision coverage ratio has come down from 60.78% as on March 31, 2020 to 50.31% as on March 31, 2021 due to sharp rise in NPAs. Around 77% of the total NPAs is from the microfinance portfolio i.e., around Rs 4,452 crore. Out of the same around Rs.332 crore is under ECLGS scheme. However, there is no restructured portfolio in micro lending.
With the gradual receding of the second wave of the pandemic, collection efficiency is expected to improve after witnessing a dip in April and May 2021. Furthermore, the government of Assam is in the process of finalising relief measures for stressed borrowers including loan waiver. This should result in recovery of overdues to an extent in Assam.

Concentration of micro-advances in portfolio and geographical concentration

The proportion of micro-advances continues to remain high at 67% as on March 31, 2021 (64% as on March 31, 2020) which exposing BBL to risks inherent in the micro-finance business including event risk, unsecured nature of lending, marginal profile of borrowers, socio-political risk and risk related to cash-based transactions. Further reduction in micro loan portfolio with higher penetration of general banking business of BBL and successful expansion of housing finance portfolio is a key rating sensitivity.
Further, West Bengal and Assam contributed about 57% of microfinance business in as on March 31, 2021 (61% of as on Mar 31, 2020) and the concentration continues to remain high.

Intense competitive pressure

Despite inheritance of established micro finance business of BFSL which occupied the leadership position in the MFI sector, the operations of BBL is expected to face intense competition in the light of RBI granting new banking licenses comprising of payment banks and small finance banks for deepening financial inclusion objectives of the regulator. Further, in the retail lending sector, BBL has to establish its track record and appeal to newer urban customers amidst intense competition from established public sector and private sector banks which already has a major share of the market. BBL's ability to gain from merger of GFL also remains to be seen.

Liquidity: Strong

The structural liquidity statement of BBL indicates positive cumulative mismatches across all time buckets. The liquidity profile of the bank is strong and supported by the high capitalization levels apart from maintaining the regulatory CRR and SLR levels. Further, the lower tenure of advances financed (majority of micro loan has a tenure of 12-24 months) vis-à-vis the longer tenure of funding profile also provides liquidity comfort.

Access to IBPC market is also likely to support the liquidity profile of the bank, since a large part of the portfolio of BBL (around 88% of gross advances as on March 31, 2021), qualifies for priority sector lending requirements. Excess SLR investments as on March 31, 2021 were Rs 10,329 crore crore and Liquidity Coverage Ratio was around 120.33%.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Financial Sector
Bank – CARE's Rating Methodology for Banks

About the Company

BBL was incorporated on Dec.23, 2014, promoted by BFSL as its step-down subsidiary. BFSL was a NBFC-MFI which was engaged in the business of lending to individual women borrowers under 'Group based individual lending' model and operated across 22 states & Union Territories of India. BFSL was granted approval by Reserve Bank of India (RBI) on April 2, 2014 to set up a bank under 'Guidelines on Licensing of New Banks in the Private Sector'. Subsequently, on June 17, 2015, RBI granted the license to BBL to carry out the banking business in India. BBL formally commenced its banking operations on Aug.23, 2015 with 501 branches on a pan India basis. In line with the terms of Business Transfer Agreement (BTA) dated Feb.11, 2015 entered between BFSL and BBL, the entire assets/liabilities of BFSL were transferred to BBL.

BBL was listed in March 2018 through an IPO and Rs. 3662 crore was infused in the bank.

The merger of GFL with the bank was completed in October 2019 after receipt of all required regulatory approvals with effective date of October 17, 2019 and appointed date of January 1, 2019. GFL was a Housing Finance Company with gross loan portfolio (net of provision) of Rs.17,288 crore as on March 31, 2019 concentrated mainly in West and Central India with HDFC Limited being the single largest shareholder (57.86%). GFL operated primarily in the rural and semi urban areas of Gujarat and Maharashtra.

As on March 31, 2021, the combined AUM of GFL and BBL was Rs.87,043 crore (Rs.71,846 crore as on March 31, 2020) spread across 34 states & UTs through 5,310 branches (includes branches, DSCs & GFL centres) & 487 ATMs.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	12,435	14,633
PAT	3,024	2,205
Interest coverage (times) (before provision)	2.19	2.38
Total Assets	91,718	1,14,993
Net NPA (%)	0.58	3.51
ROTA (%)	4.08	2.13

A: Audited

CARE has made analytical adjustments while calculating the ratios.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure 2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debt-Subordinate Debt	INE545U08019	September 02, 2014	14.536	September 02, 2021	160.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debt-Subordinate Debt	LT	160.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jul-20)	1)CARE AA-; Stable (06-Jan-20)	1)CARE AA- (CWD) (08-Jan-19) 2)CARE AA-; Stable (10-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debt-Subordinate Debt	Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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