November 16, 2015

CARE ASSIGNS 'CARE A+/ CARE A' RATINGS TO VARIOUS INSTRUMENTS/BANK FACILITIES OF BANDHAN BANK LTD.

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	1000.0 (Rs. One thousand crore)*	**CARE A+ (Single A Plus)**	**Assigned**
Instruments			
Unsecured Subordinated Tier II NCD	160.0*	**CARE A (Single A)**	**Assigned**
Secured NCD Issue	60.0*	**CARE A+ (Single A plus)**	**Assigned**

***Aforementioned rated facilities of BBL have been transferred to the company from Bandhan Financial Services Ltd.(BFSL) pursuant to the Business Transfer Agreement whereby the entire assets/liabilities of BFSL stands transferred to BBL. Accordingly, the outstanding ratings for such facilities/instruments of BFSL (rated CARE A+/CARE A) stands withdrawn.*

Rating Rationale

The aforesaid ratings derive strength from the experienced promoter group and patronage of strong domestic and foreign investors, successful commencement of banking operations, legacy of established credit operations and strong operational network in the non-urban areas through the activities of BFSL which occupied the leadership position in the MFI sector, inheritance of seasoned portfolio of large unsecured micro advances and efficient risk management practice of BFSL, access to diversified and relatively economical funding options along with robust capitalization and liquidity levels.

The rating is, however, constrained by BBL's foray into newer area of general banking business which is characterized by intense competition, impact on the near term profitability arising on account of staffing, regulatory compliance and infrastructure requirement along with concentration of micro advance portfolio in West Bengal.

The ability of the bank to successfully transform into a commercial bank and gradually scale up its operations would remain the key rating sensitivities.

Background

BBL was incorporated on Dec.23, 2014 and is a step down subsidiary of BFSL. 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 & UTs of India. BFSL was one of the two entities to be granted "in-principle" 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' issued by RBI. BFSL was given 18 months to comply with the requirements under the guidelines issued and fulfill such other conditions as may be stipulated by the RBI. Subsequently, on June 17, 2015, RBI granted the license to BBL to carry out the banking business in India. Accordingly, BBL formally commenced its operations on Aug.23, 2015 whereby, in line with the terms with Business Transfer Agreement (BTA) dated Feb.11, 2015 entered between BFSL and BBL, the entire assets/liabilities of BFSL had been transferred to BBL. The board of BBL comprises ten members and is headed by Mr.Ashok Kumar Lahiri (Chairman-former Chief Economic Advisor to the Government of India), while the operations of BBL would be headed by Mr. Chandra Sekhar Ghosh (MD & CEO-founder of BFSL).

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

BBL initiated its operations with a networth base of Rs.2575.7 crore (vis-à-vis the regulatory capital requirement of Rs.500.0 crore) and recorded overall CAR of 40.96% as on Aug.23, 2015. BBL is operating with 523 branches and 114 ATM outlets across the country and has already raised deposits of around Rs.1200.0 crore till Sep.30, 2015 with low cost Current Account Savings Account (CASA) being 27% of such total deposits raised.

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Mr. V. K. Chopra who is an Independent Director on the board of Bandhan Financial Services Ltd. is one of CARE's Rating Committee Members. To comply with the regulations the member has not participated in the rating process and in the rating committee meeting.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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CIN - L67190MH1993PLC071691