Bandhan Bank Limited

October 06, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Unsecured Subordinated Non-convertible Debenture (NCD)	**160 (Rs. One Hundred and Sixty crore only)**	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating assigned to Bandhan Bank Ltd (BBL) continues to derive comfort from the experienced promoter group and patronage of strong domestic and foreign investors, mobilization of substantial deposits base within a short period of commencement of banking operation leading to reduction in borrowing cost, increasing scale of banking operation, growing micro loan portfolio, robust capitalization, legacy of established credit operations and strong operational network in the non-urban areas through the activities of Bandhan Financial Services Ltd. (BFSL; the business of which has been transferred to BBL) which occupied the leadership position in the MFI sector, inheritance of seasoned portfolio and efficient risk management practices of BFSL leading to comfortable asset quality parameters. The rating also factors in the comfortable financial risk profile with improvement in return ratios in FY17 (refers to the period April 1 to March 31).

The rating is, however, constrained by BBL's recent foray into newer area of general banking business which is characterized by intense competition, geographical concentration of micro advance portfolio in West Bengal and moderate concentration in deposit base.

The ability of the bank to successfully scale up its operations, gradually diversifying its product mix, continuously build low cost deposit base thus increasing competitiveness, maintain profitability and asset quality would remain the key rating sensitivities.

Detailed description of Key Rating Drivers

Key Rating Strengths

Experienced promoter group along with patronage of strong domestic and foreign investors

BBL has been promoted by BFSL which was promoted by Mr. Chandra Shekhar Ghosh (MD & CEO of BBL). Mr. Ghosh has an aggregate experience of over two decades in micro-financing activity. Moreover, the shareholders of BBL also comprises of reputed investors like SIDBI, International Finance Corporation (IFC - the private equity arm of World Bank) and GIC (a sovereign wealth fund of Singapore).

Increasing operational presence

BBL commenced its operations on Aug.23, 2015 with a branch network of around 501 branches across India. The number of branches increased to 844 in August 2017. Further, the operational structure comprised of 2433 micro banking centres and 282 ATMs on a pan India basis as on March 31, 2017.

Mobilization of substantial deposit base, leading to decline in interest rate charged

Post conversion into a bank, BBL gained access to low cost funding sources. During the year FY17, BBL had mobilized substantial amount of deposits which stood at Rs.23,229 crore as on March 31, 2017 (increased from Rs.12,089 crore as on March 31, 2016). Further, the low cost CASA deposits stood at Rs.6,837 crore as on March 31, 2017. As on June 30, 2017, the deposits mobilized by BBL stood at around Rs.22,439 crore. Mobilisation of such deposits enabled BBL to reduce its cost of borrowing and also pass on the benefit to its customers thereby increasing its competitiveness. Apart from such deposits, BBL's other funding sources includes inter bank borrowings, capital market instruments, Inter Bank Participation Certificates (IBPC) and certificate of deposits.

Robust capitalization

Overall Capital Adequacy Ratio (CAR) of the bank stood comfortable at 26.36% as on March 31, 2017 as against 29.01% as on March 31, 2016 vis-à-vis the regulatory requirement of 13%. Such healthy capitalization reflects the support from the existing institutional investors of the company and provides sufficient headroom for the company to pursue growth in a highly competitive industry. Moreover, the liquidity profile of the bank is 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 months) vis-à-vis the longer tenure of funding profile also provides liquidity comfort. Access to securitisation market is also likely to support the liquidity profile of the company as a major part of the portfolio qualifies for priority sector lending.

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

Inheritance of established credit operations of BFSL which occupied the dominant position in the MFI sector

The underlying business of BBL has been transferred from BFSL as per the agreement entered into by both the entities. BFSL which had been operational for over a decade, occupied a dominant position in the microfinance sector in terms of outstanding loan portfolio (including off-book), which has witnessed continuous growth and reached Rs.9524 crore as on Mar.31, 2015. Despite such considerable size of advances, BFSL's stringent risk management practice ensured negligible slippages wherein the collection efficiency stood well above 99% as on Mar.31, 2015. Moreover, the gross NPA of BFSL stood negligible. Accordingly, inheritance of considerable seasoned portfolio along with the necessary risk management infrastructure of BFSL to maintain negligible slippages provides BBL with strong business fundamentals.

Continued growth in micro advances with gradual diversification into general banking

BBL had total outstanding portfolio (including managed portfolio) of Rs.23,518 crore as on March 31, 2017 as against Rs.15,570 crore as on March 31, 2016. Out of such outstanding portfolio, the gross micro loan portfolio of BBL increased and stood at Rs.21,387 crore (Rs.14616 crore as on March 31, 2016) and comprised of 90% of the total outstanding gross advance portfolio as on March 31, 2017.

Moreover, BBL is gradually diversifying its advance portfolio by developing its general banking business by offering new products. Advances under such general banking stood at Rs.2157 crore as on March 31, 2017. However, lack of expertise in newer credit areas might impact the growth momentum of the general banking vertical of BBL.

Comfortable financial risk profile with improvement in return ratios in FY17

The profitability indicators of BBL improved significantly wherein the ROTA and RONW for FY17 was 4.45% and 28.58% respectively as against ROTA of 2.82% (annualised) and RONW of 15.31% (annualised) for FY16 which was on account of increase in scale of operations and relatively lower increase in operating expenses. However, with access to low cost of funding and diversification in low yield products, BBL's lending rates reduced which led to reduction in NIM to 8.72% in FY17 as against 9.37% (annualised) in FY16. Overall gearing deteriorated to 5.46x as on March 31, 2017 as against 4.54x in FY16 on account of higher deposits from customers.

Comfortable asset quality

The asset quality of BBL as on March 31, 2017 remained comfortable. 88.31% of the outstanding on-book advances of Rs.16,839 crore as on March 31, 2017 were secured by tangible assets and only 11.69% were unsecured vis-à-vis unsecured advances of 73.71% as on March 31, 2016. The stringent credit appraisal and loan monitoring process as imbibed from the operational discipline of BFSL has enabled BBL to report low delinquencies. Further, the bank did not have any restructured accounts as on March 31, 2017. The Gross NPA ratio of BBL as on March 31, 2017 stood at 0.51% vis-à-vis 0.15% as on March 31, 2016. As on June 30, 2017, the Gross NPA Ratio and the Net NPA Ratio stood at 0.82% and 0.49% respectively. The increase in NPA was on account of agri loan waiver in few states. Further the performance of asset quality in newer segment wherein the bank has low experience remains to be seen.

Key Rating Weaknesses

High geographical concentration with West Bengal contributing majority of business

The inheritance of the micro advance portfolio by BBL from BFSL is primarily concentrated in West Bengal. Out of AUM of BBL amounting to Rs.23518 as on Mar.31, 2017, advances amounting to Rs.10466.41 crore pertained to West Bengal alone. Accordingly, 45% of the gross advances of BBL as on Mar.31, 2017 originated from West Bengal thus reflecting geographical concentration of advances. Further, 347 out of 844 branches are in West Bengal alone. The deposit base of BBL was moderately concentrated as on Mar.31, 2017 with top 20 depositors contributing to about 21% of deposits.

Intense competitive pressure

Despite inheritance of established micro finance business of BFSL which occupied a dominant leadership position in the MFI sector, the operations of BBL are expected to face intense competition in the light of RBI granting new banking licenses 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 have a major share of the market.

However, gradual reduction of interest rates by BBL on the back of its low cost of funding and gradual increase of market presence in urban and semi urban areas is expected to enable BBL to tackle such competitive pressure.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios- Financial sector

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 & UTs of India. BFSL was 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. 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.

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total operating income	1,731.3	4,320.1
PAT	275.2	1,112.0
Interest coverage (times)	1.77	2.24
Total Assets	19,756.5	30,236.1
Net NPA (%)	0.08	0.36
ROTA (%)	2.82^	4.45

^ Annualised

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Debt-Subordinate Debt	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA- (10-Nov-16)	1)CARE A+ (16-Nov-15)	-
2.	Debt-Subordinate Debt	LT	160.00	CARE AA-; Stable	-	1)CARE AA- (10-Nov-16)	1)CARE A (16-Nov-15)	-
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-Nov-16)	1)CARE A+ (16-Nov-15)	-

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