Bandhan Bank Limited

October 04, 2018

Summary of Rated Instrument:

Instrument*	Rated Amount (Rs. crore)	Rating Outstanding
Subordinated Tier II NCD	160.00	[ICRA]AA(Stable); Outstanding
Term Loans from Banks	80.00	[ICRA]AA(Stable); Outstanding
Certificate of Deposit	1,500.00	[ICRA] A1+; Outstanding
Total	1,740.00	

*Instrument details are provided in Annexure-1

Material Event

The Reserve Bank of India (RBI) has communicated to Bandhan Bank Limited (BBL) that the bank was unable to reduce the stake of Non Operative Financial Holding Company - NOFHC (Bandhan Financial Holdings Limited – BFHL) to 40% as per the RBI's New Bank Licensing Guidelines. In continuation to this, RBI has withdrawn the general permission to open new branches and the bank has to seek prior approval from RBI to open new branches. Further, the RBI also freeze the remuneration of the bank's Managing Director & Chief Executive Officer - MD & CEO (Mr. Chandra Shekhar Ghosh) at the existing level, till further notice.

ICRA has outstanding long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 160-crore subordinated Tier-II non-convertible debenture programme and its Rs. 80-crore term loans of BBL. ICRA has also outstanding short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,500-crore certificates of deposit programme of BBL. The outlook on the long-term ratings is Stable.

Impact of the Material Event

Regulatory update on stake reduction, mode of stake dilution remains to be seen: The NOFHC holds 82.28% stake in BBL as on June 30, 2018, which declined from 89.76% as on December 31, 2017 post its initial public offer during March 2018. However, the bank was unable to pare down the stake of NOFHC to 40% within three years from the commencement of its business (August 23, 2015) as required by the RBI's New Bank Licensing Guidelines. Further, the management has also highlighted that as per the capital market regulator's (The Securities and Exchange Board of India - SEBI) guidelines for equity listing, the promoters of any company have a lock-in period of one year from the listing date and hence constraining the BFHL to dilute its shareholding before March 2019. Also, as per the licensing conditions, the NOFHC can enter non-banking businesses in the financial services domain such as asset management, insurance among others after three years of the commencement of business and hence NOFHC can also commence other businesses now. Given the stake dilution by BFHL in BBL can be done through various modes such as a) Acquisition of another entity by the bank itself, or b) stake sale by BFHL to fund acquisition of another entity; the mode of stake dilution remains a monitorable and subject to compliance with all the regulators including SEBI.

Impact on business growth: The bank reported strong growth in gross advances (including Inter-Bank Participation Certificate - IBPCs and assignments) of 52.4% on YoY basis to Rs. 32,590 crore and 62.9% on YoY basis to Rs. 30,533 crore in net advances (excluding IBPCs and assignments) as on June 30, 2018. As on June 30, 2018, the bank operated with 937 branches and 2,764 doorstep service centers (DSCs)[1] compared to 501 branches and 2,022 DSCs as on August 23, 2015. As per its business plan, the bank was planning to operate with 1,000 branches by FY2019 and BBL's average customer per branch is around 3,000 compared to around 20,000-25,000 customers per branch for an established bank, therefore implying significant growth potential through existing branch network. For BBL, DSCs serves as critical channel to support the asset growth, whereas the branches serve as a critical channel to mobilise liabilities; hence both DSCs and branch expansions are critical to support the overall growth of the bank. In ICRA's view, given the potential to scale up the business for the next couple of quarters with the current franchise, the impact in near term may be limited, however over medium term, it may constrain the bank's ability to achieve geographical diversification of its assets and liabilities.

Strong capitalisation profile: As per the RBI guidelines, the bank was required to maintain a minimum CRAR of 13.0% for a three-year period from the date of commencement of business. Post that, the bank will be required to maintain CRAR of 11.50% as on March 31, 2019 as applicable under the Basel III regulations. As against regulatory requirements, BBL has strong capitalisation profile with Tier 1 and CRAR of 31.43% and 32.61% respectively as on June 30, 2018. Management has indicated that the CRAR of ~16-18% shall remain comfortable for bank, and hence the bank has capital cushion to pursue an inorganic route, however the scale of acquisition and impact on capital ratio, if any will remain monitorable.

The long-term and short-term ratings remain unchanged at the earlier rating of [ICRA]AA(Stable) and [ICRA]A1+ respectively as the bank's operations is unlikely to be impacted in near future. The ratings take into account bank's ability to maintain stable credit profile driven by its comfortable asset quality and strong internal capital generation to support growth while maintaining strong capitalisation levels.

The previous detailed rating rationale is available on the following link: Click here

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA Rating Methodology for Banks

About the company:

The erstwhile Bandhan Financial Services Pvt. Ltd. (BFSL) was the largest NBFC-MFI in India and the first entity to receive an in-principle universal banking licence from the Reserve Bank of India. Following the transfer of BFSL's business to the bank, Bandhan Bank Limited (BBL) commenced operations in August 2015.

BBL was incorporated in December 2014 as a wholly-owned subsidiary of Bandhan Financial Holdings Limited (BFHL). BFSL holds 100% of equity in BFHL. The shareholders of BFSL are Financial Inclusion Trust (FIT): 32.91%, Caladium Investment Pte Ltd.: 16.7%, International Finance Corporation: 13.59%, IFC FIG Investment Company: 2.85%, Bandhan Employee Welfare Trust: 14.61%, SIDBI: 8.13%, North East Financial Inclusion Trust (NEFIT): 7.82%, and individuals: 3.4%. FIT and NEFIT are trusts formed in FY2009 with corpus donations from Bandhan Konnagar, the NGO whose microfinance portfolio was transferred to BFSL. The beneficiaries of these trusts are public, and the trustees are industry professionals.

BBL is headquartered in Kolkata and has two divisions – general banking and microfinance lending. The shareholders of BBL include BFHL: 82.28%, International Finance Corporation: 1.77%, IFC FIG Investment Company: 0.95%, Caladium Investment Pte Ltd.: 4.58%, Mutual Fund: 3.17%, FPIs: 5.17%, SIDBI: 0.29% and Mr. Chandra Shekhar Ghosh: 0.12% and Others: 1.67% as on June 30, 2018. BBL follows the group-based individual lending model for microfinance, forming

[1] As on September 28, 2018, the branch count and DSC count has further increased to 938 and 3,006 respectively.

groups of 10 to 20 women in close proximity. A group elects its own treasurer, cashier and secretary on a rotational basis from within.

BBL operates through a network of 3,701 branches and DSCs, spread across 34 states and Union Territories. BBL's portfolio stood at Rs. 30,533 crore as on June 30, 2018 reporting 62.9% growth on a YoY basis as on June 30, 2018. Its asset quality indicators remained comfortable with gross NPA of 1.26% as on June 30, 2018. BBL charges an interest rate with reference to MCLR on its microfinance loan products.

Key financial indicators (audited) - standalone

	FY2017	FY2018	Q1FY2018^	Q1FY2019^
Net Interest Income	2,403	3,032	743	1,037
Profit Before tax	1,704	2,056	501	740
Profit After tax	1,112	1,346	327	482
Net Advances	16,839	29,713	18,743	30,533
Total Assets	30,236	44,310	29,439	43,526
%CET 1	24.77%	30.30%	24.57%	31.43%
%Tier 1	24.77%	30.30%	24.57%	31.43%
% CRAR	26.36%	31.48%	26.12%	32.61%
%Net Interest Margin / Average Total Assets	9.62%	8.14%	9.97%	9.45%
%Net Profit / Average Total Assets	4.45%	3.61%	4.38%	4.39%
%Return on Net Worth	25.01%	14.34%	28.34%	20.02%
% Gross NPAs	0.51%	1.25%	0.93%	1.26%
% Net NPAs	0.36%	0.58%	0.56%	0.64%
% Provision Coverage incl. Technical Write-offs	29.09%	53.66%	39.80%	49.98%
% Net NPA/ Net Worth	1.38%	1.84%	2.21%	1.97%

Amounts in Rs. crore
^The data for Q1FY2019 and Q1FY2018 are unaudited
All ratios are as per ICRA's calculation
Source: Bandhan Bank; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					October 2018	April 2018	January 2018	February 2017	December 2016	December 2015
1	Subordinated Tier II NCD	Long Term	160.00	160.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Senior Secured NCD	Long Term	60.00	Nil	-	-	-	-	Withdrawn	[ICRA]AA-; (Stable)
3	Senior Secured NCD	Long Term	100.00	Nil	-	-	Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Term Loans from Banks*	Long Term	80.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
5	Certificate of Deposit	Short Term	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Note: The rating is yet to be allocated

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE545U08019	Subordinated Tier II NCD	02-Sep-14	14.536%	02-Sep-21	160.00	[ICRA]AA (Stable)
NA	Term Loans from Banks*	NA	NA	NA	80.00	[ICRA]AA (Stable)
NA	Certificate of Deposit	NA	NA	7-365 days	1,500.00	[ICRA]A1+

*Note: The rating is yet to be allocated
Source: Bandhan Bank; ICRA research

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999