



Bandhan Bank Limited

Instrument	Amount	Rating
Subordinated Debt Programme	Rs. 160 crore	[ICRA]AA- (Stable) assigned
Non Convertible Debenture Programme	Rs. 100 crore	[ICRA]AA- (Stable) assigned*
Non Convertible Debenture Programme	Rs. 60 crore	[ICRA]AA- (Stable) assigned
Long Tem – Bank Term Loans (proposed)	Rs. 80 crore	[ICRA]AA- (Stable) assigned
Certificate of Deposits	Rs. 500 crore	[ICRA]A1+ assigned

ICRA has withdrawn [ICRA]A+ rating with stable outlook on the Rs. 100 crore[†] Non Convertible Debenture (NCD) Programme of Bandhan Financial Services Limited (BFSL).[‡] BFSL's NCD of Rs. 100 crore has been transferred to Bandhan Bank Limited (Bandhan) following transfer of business.

ICRA has assigned rating of [ICRA]AA- to the Rs. 160 crore subordinated debt programme, non-convertible debenture programme aggregating to Rs. 160 crore, and Rs. 80 crs. proposed bank term loans of Bandhan Bank Limited (Bandhan).² The outlook on the long term rating is Stable. All the debenture programmes of Bandhan were transferred from BFSL, following transfer of business, and hence are issued and listed. Of these NCDs, Rs. 100 crore was earlier rated by ICRA. ICRA has also assigned [ICRA] A1+ (pronounced ICRA A one plus) rating to the Rs. 500 crore Certificate of Deposit programme of Bandhan.²

The ratings factor in the medium to long term structural benefits that accrue to Bandhan by virtue of its conversion from NBFC–MFI to a full service commercial bank in terms of access to more granular funding sources leading to better liquidity profile, healthy levels of deposit mobilisation within three months of commencing banking operations, notwithstanding low level of core deposits currently, ability to offer enhanced product offerings in the form of various fund based as well non fund services, and the benefit of stronger regulatory and supervisory monitoring framework. ICRA also notes the healthy capital position of the bank (networth at Rs. 2,587 crs. as on September 2015 and networth/ managed advances in excess of 20%), and support from the existing institutional investors. Strong capitalization is a credit positive especially when profitability of Bandhan could remain moderate in the transition phase. Bandhan is likely to have a unique advantage as significant proportion of its advances book (transfer of business from BFSL) qualifies for priority sector lending. Ability to build stable and low cost deposit base to support lending book as well as reserve requirement while maintaining the profitability and asset quality across new credit segments in a sustained manner would be key rating sensitivities.

Bandhan has bolstered its senior management team by recruiting experienced bankers for various key functions and by setting up its core banking systems in line with regulatory requirements. Recruiting and retaining core employees in light of 21 new banking licences (11 payment banks 10 small finance banks) would be critical for the performance of Bandhan as well as other incumbent banks. Notwithstanding the execution challenges in operating as a full scale commercial bank, Bandhan's experience in operating as NBFC and depth in its current management provides comfort.

The rating factors in BFSL's ability to grow its portfolio (portfolio of Rs 9,524 crore as on March 31, 2015 with a 56% growth in 2014-15 while keeping asset quality indicators under control (30 + delinquencies of 0.07% as on March 31, 2015), and maintaining good profitability indicators (ROE[§] of 31.75% during FY15) supported by low operating costs (BFSL's operating expenses^{**} at 3.7% for FY15 lowest among peer MFIs). However, going forward Bandhan bank's return ratios are likely to be depressed due to negative carry of reserve requirements (CRR/ SLR) and increase in operating

* earlier rated by ICRA as part of borrowings for Bandhan Financial Services Limited

† 100 lakh = 1 crore = 10 million

‡ For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

§ Return on Equity – Profit After Tax/ Average Net Worth

** Operating expenses relative to Average Managed Advances



expenditure on account of new branches, training and recruitment of manpower and costs related to upgradation of infrastructure. ICRA also notes the lack of track record across new credit segments and other products which the bank would diversify into, although the diversification is expected to be gradual with primary focus on the MFI business. The rating continues to factor in Bandhan's track record (the MFI operations of BFSL transferred to Bandhan Bank) in the MFI operations, experienced management team, strong investor profile, and good loan monitoring and collection mechanisms. Near term focus on MFI business and operational risks arising out of cash handling nature of MFI business continue to be the credit negatives. Though access to credit bureaus is a positive, however, with the increase in regulatory maximum permissible ticket size from Rs 50,000 earlier to Rs 1 lakh, MFI lending would require careful assessment of the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to portfolio credit quality. Though MFI operations for Bandhan are present in 22 states, its portfolio remains concentrated in Eastern India (comprising ~85% of the loan portfolio as on March 31, 2015).

Maintaining long term commitment of senior management towards Bandhan, successful diversification of the product mix, systems and processes as a bank and to maintain profitability indicators and improve diversity in earnings would be the key rating sensitivities.

Bandhan charges an interest rate of 21% on its major microfinance loan products. The interest rates are expected to steadily decline as the company is able to build up its retail deposit base and reduce its cost of borrowings. During FY15, with the cost of funds being ~12%, BFSL was able to report NIMs of 10%. Going forward, yields for Bandhan are likely to get diluted owing to investments to be made in CRR /SLR and change in product mix. Further, operating expenses⁴ of the bank are likely to increase from the present low levels of (3.7% in FY15) owing to the investments being made by the bank in recruitment of human resources as well as upgradation of infrastructure which could lead to dilution in Bandhan's profitability indicators. Despite this, ICRA expects Bandhan to report ROE of around 10-12% during the next two years, which could improve further as the bank's retail deposit franchise develops. Bandhan's capital in relation to risk weighted assets (32.92% as on Sep-15) is expected to improve and remain comfortable over the short to medium term on account of large equity infusion during H1FY16^{††}, adequate internal generation and moderate growth of around 25-30%.

Currently, Bandhan has a diversified lender profile with relationships with over 30 private, public and foreign banks, however it is primarily dependent on banks for meeting its funding requirements with limited borrowing from debt market instruments. The current bank borrowings are expected to run down significantly by FY17. Bandhan's funding requirements has increased by 20-25% to maintain the same level of portfolio owing to CRR and SLR requirements, part of which has been met through the fresh equity raised by Bandhan during the current year. During the three month period – August 23, 2015 to Nov 2015, Bandhan has been able to raise Rs. 3,856 crores (~18% as CASA) as deposits, supporting the overall liquidity profile. Apart from deposits, Bandhan is expected to rely on refinancing lines from SIDBI/ NABARD, capital market instruments, certificate of deposits and inter-bank borrowings. Currently, Bandhan's liquidity is comfortable given the short term nature of assets compared to liabilities. Going forward, the liquidity position for Bandhan is expected to continue to remain comfortable and also supported by Bandhan's ability to raise funds through the securitisation route (since almost entire asset portfolio of Bandhan qualifies for priority sector requirements).

About the Company

BFSL (erstwhile Bandhan Financial Services Pvt. Ltd.; BFSPL) was the largest MFI in India and the first one to get an in principal banking license in April 2014. Along with transfer of BFSL's business, Bandhan Bank commenced operations from August 23, 2015.

BFSL was established as a society named Bandhan Konnagar (microfinance activities commenced in 2002). In May-06, it acquired NBFC Ganga Niryat Pvt Ltd (incorporated in 1995) and rechristened it BFSPL. BFSPL was converted to NBFC-MFI in Sep-13 and converted into a Public Limited Company during December 2014 and renamed BFSL.

^{††} Equity of Rs. 482 crs. is expected to be infused by existing investors soon



Bandhan Bank Limited (Bandhan) was incorporated on December 23, 2014 as a wholly-owned subsidiary of Bandhan Financial Holdings Limited (BFHL). BFSL holds 99.85% of shares of BFHL. The shareholders of BFSL are Financial Inclusion Trust (FIT): 32.9 %, Caladium Investment Pte Ltd. (a GIC managed Co.): 16.7%, IFC: 16.4%, Bandhan Employee Welfare Trust: 14.6%, SIDBI: 8.1%, North East Financial Inclusion Trust (NEFIT): 7.8%, and individuals (including promoters): 3.4%. FIT and NEFIT are trusts formed in FY09 with corpus donations from Bandhan Konnagar. The beneficiaries of these trusts are public, and the trustees are industry professionals.

Bandhan Bank operates through 573 branches (as on November 15, 2015) spread over 23 states. The bank also operates through an additional 2022 customer service points (erstwhile MFI branches of BFSL, transferred to Bandhan). BFSL had a managed advances base of Rs 9,524 crore as on Mar-15. Bandhan's corporate and registered office is in Kolkata, West Bengal. BFSL reported a profit after tax (PAT) of Rs. 438.57 crore in FY2015 on total asset base of Rs. 10,502 crore (excluding assigned/ securitised portfolio) as on Mar-15, as compared to PAT of Rs. 283.46 crore in FY2014 on total asset base of Rs. 6,796 crore (excluding assigned/ securitised portfolio) as on Mar-14. For H1FY16 (operations for the period Aug 23 – Sep 30, 2015), Bandhan Bank reported PAT (provisional) of Rs. 35 crore on an advances of Rs. 7,924 crs. (excluding off BS book). As on September 30, 2015, the bank reported capital adequacy was 32.92%, while its Gross NPA was 0.1% and Net NPA was 0.05%.

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