



Bandhan Financial Services Private Limited

Instrument	Amount (in Rs crore)	Rating Action
		Jan-14
Non Convertible Debentures	100	[ICRA]A (stable) assigned

ICRA has assigned [ICRA]A (pronounced ICRA A) rating with a stable outlook to the Rs 100 crore Non Convertible Debenture Programme of Bandhan Financial Services Private Limited (BFSPL).[†]

The rating factors in BFSPL's good track record of microfinance operations, its ability to grow its portfolio (managed portfolio size of Rs 4562 crore as on Sep-13) while keeping asset quality indicators under control (30+ delinquencies at 0.2% as on Sep-13). The rating also factors in BFSPL's good profitability indicators (ROE[‡] of 25.1% during H1FY14) supported by low operating costs (BFSPL's operating expenses at 4.0% for H1FY14 were lowest among peer MFIs) and low credit provisions (0.2% in H12013-14), its diversified funding profile at competitive costs (150-200 bps lower than peer MFIs), experienced management team, strong investor profile and good loan monitoring and collection mechanisms. Though BFSPL is present in 19 states, its portfolio remains concentrated in Eastern India (comprising ~80% of the loan portfolio as on Sep-13). ICRA has noted company's efforts to diversify its portfolio geographically.

ICRA has taken note of limited proportion of fee based income resulting in lack of diversity in earnings (which is partly due to structural issues as MFIs can undertake limited fee based activities) and BFSPL's dependence on wholesale funding sources-even though within institutional funding space BFSPL has a diversified funding base with banking relationships across over 30 public, private and foreign banks. The rating also remains constrained on account of monoline nature of operations, risks associated with the unsecured lending business, political risks, and operational risks arising out of intensive cash handling nature of MFI business. ICRA takes note of steps taken by BFSPL such as insurance and extensive audit to mitigate such risks. Further, establishment of credit information bureau and disciplined lending post the introduction of norms for MFIs by RBI are likely to mitigate some of risks associated with unsecured lending.

BFSPL's key management personnel comprise of professionals with significant experience in financial sector. The top management has been significantly strengthened at BFSPL over the last 2-3 years, across majority of the departments at BFSPL. As regards board composition, apart from the promoter (BFSPL's Chairman and Managing Director; who has over 3 decades of experience in microfinance field), the board comprises of 6 independent directors with diverse backgrounds and 3 nominee directors from International Finance Corporation (IFC), IDBI Bank and SIDBI.

BFSPL has been able to maintain its asset quality indicators with 30+ days past due delinquencies at 0.2% as on September 30 2013 supported by its good loan origination and monitoring systems. While BFSPL's portfolio is spread across 19 states, high portfolio growth and 49% of the portfolio being concentrated in West Bengal (as on Sep-13) exposes the company to asset quality related risks and ability of the company to maintain the asset quality indicators going forward will remain a key rating sensitivity.

BFSPL follows a model of decentralized Internal Audit function; every branch being audited quarterly (branches in West Bengal are audited once every 4 months). BFSPL uses in-house risk rating system of branches to assess the level of standardization of processes followed and compliance with the head office directives. BFSPL invests adequately in skill enhancement of employees; and ensures that field level employee gets a 4-6 days of dedicated training annually. As regards branch expansion strategy, BFSPL intends to add branches at a moderate pace with a focus on consolidating the performance of existing branches (BFSPL opens branches in a particular year, stabilizes for next 1-2 year, and again expands); commensurate with the increase in credit growth.

[†] "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



BFSPL's 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. These banks provide term loan to BFSPL at (median rates of) Base rate + 150-200 bps (12.5%-13%) with tenure ranging from 3-4 years. As for BFSPL's capitalisation profile, it was adequate (gearing of 4.2 times as on September 2013) supported by good internal accruals (ROE of 25% in H12013-14) and equity infusion in the past, despite significant increase in scale of operations over the last few years (3 year CAGR of 38% in managed assets during FY10-13). Going forward as well ICRA expects the company to maintain leveraging within 5 times. As for liquidity, it is likely to remain comfortable given the short term nature of assets compared to liabilities. Almost entire assets are funded by term loans from banks of maturity 3-4 years while the average tenure of the loans is in around 18 months. The company's weekly collection for loans disbursed also ensures continuous cash flows, and supports the liquidity profile.

BFSPL charges an interest rate of 22.90% (lowest among peer MFIs) on its major microfinance loan products (Suchana – entry level loan with ticket size upto Rs. 15,000 and Sristhi- with ticket size ranging from Rs. 16,000– Rs. 50,000); which together form over 97% of the total loan portfolio of BFSPL. Additionally, BFSPL also provides certain loans pertaining to health& sanitation and Education at an interest rate of 12% with a social objective and to create branding and awareness amongst average MFI borrower community in its area of operations. With the cost of funds being ~12%, BFSPL was able to report interest spreads of 10.5% and NIMs of 10.3% during H1FY14. Operating expenses of the company have remained lowest among peer MFIs (4% in H12013-14) supported by low branch expenses, de-centralised business model followed by the company and the head office staff accounting for less than 1% of the total employee base. Despite low interest rate charged across the microfinance loans, significantly high operating efficiency and low credit costs has enabled BFSPL report good profitability indicators, with PAT/ ATA and Return on Net Worth of 4.4% and 25.1% respectively in H1FY14 (4.3% and 26.1% respectively in FY13) . Going forward as well, ICRA expects BFSPL's high operating efficiency, low credit costs owing to adequate internal controls would enable it maintain good profitability indicators going forward.

About the Company

Bandhan Financial Services Pvt Ltd (BFSPL) 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. As on Sep-13, the shareholders of BFSPL were Financial Inclusion Trust (FIT): 45.9%, North East Financial Inclusion Trust (NEFIT): 10.3%, IFC: 10.9%, SIDBI :9.6% and Promoters and Associates: 23.7%. FIT and NEFIT are trusts formed in FY09 with corpus donations from Bandhan Konnagar. The beneficiaries of these trusts are public and trustees are industry professionals.

BFSPL's lending methodology involves formation of a group comprising of 10 to 20 poor women from the same area, following a group based individual lending model, wherein a treasurer, a cashier and a secretary are elected (on rotation basis) from within the group.

BFSPL is the largest MFI of India operating through a network of 1864 branches, spread over 19 states and has a managed advances base of Rs 4,562 crore as on Sep-13. Its corporate and registered office is in Kolkata, West Bengal. BFSPL reported a profit after tax (PAT) of Rs 208.54 crore in FY2012-13 on total managed asset base of Rs 5703 crore as on Mar-13, as compared to PAT of Rs 188.12 crore in FY2011-12 on total managed asset base of Rs 4926 crore as on Mar-12. Further, BFSPL reported PAT of Rs. 120.38 cr on total managed asset base of Rs. 5532 crore in H1FY14. BFSPL had a capital adequacy of 21.1% and Gross NPAs of 0.1% as on Mar-13.

BFSPL has also undertaken adequate Corporate Social Responsibility (CSR) initiatives; whereby 5% of its profits or Rs. 2 crore (whichever is higher) is donated to the society Bandhan Konnagar for implementing social activities.



Shareholding Pattern as of Sep 30, 2013

	Sep-13
Promoters & Associates	23.7%
SIDBI	9.6%
Financial Inclusion Trust	45.4%
North East Financial Inclusion Trust	10.3%
International Finance Corporation- IFC	10.9%
Total	100.0%

Source: BFSPL

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