



Bandhan Financial Services Private Limited

ICRA has upgraded the rating assigned to the Purchaser Payouts under a transaction backed by micro loan pool receivables originated by Bandhan Financial Services Private Limited (Bandhan)[†]. The rating upgrade reflects the good collection performance on the underlying pool so far, and enhanced credit enhancement cover for the rated instrument over the balance tenure.

The summary of the rating action taken by ICRA is given below.

Table 1: Summary of rating actions

Sl.	Issue Name	Instrument description	Initial Amount (Rs. Cr) [†]	Amount O/s after Aug-12 Payout (Rs. Cr)	Rating action
1	Bandhan Microfinance Loan Pool D.A. Mar-12 [Mar-12 DA]	Purchaser Payouts	500.00	223.74	Revised from [ICRA]A+(SO) to [ICRA]AA(SO)

! indicates the rating is conditional pending receipt of the transaction documents

In the case of the aforementioned transaction, the selected pool comprised of unsecured micro loans (less than or equal to Rs. 50,000 each), with moderate initial tenure of contracts (24 months), moderate to high average initial seasoning and no overdue. Moreover, the pools comprised of Group Loans[†] only.

In the case of this transaction, the entire pool of selected contracts was directly assigned to a single Purchaser. The underlying borrowers pay their installments on a weekly/monthly basis and the payment is made to the investors on a monthly basis. The promised cashflow schedule for the Purchaser on a month-on-month basis comprises of principal amortisation (equivalent to 86.96% of the principal amortising in the underlying pool in the past month) and interest at a pre-determined yield. The balance excess cashflow - excess of collections from the loan pool over the promised Purchaser Payouts - are paid to the Purchaser by way of accelerated principal amortisation. Any payment to the Originator will be made only after all the Purchaser Payouts are fully paid.

A brief performance summary for the pool is given below.

Table 2: Performance Summary

	Mar-12 D.A.
Number of months post securitisation	5
Pool Amortisation	43.55%
Amortisation : Purchaser Payouts	55.25%
Cumulative Collection Efficiency [‡]	100%
Loss-cum-0+ dpd (% of initial pool principal) [§]	0.00%
Cumulative Cash Collateral Utilisation	0.00%
<i>Credit Enhancement (as % of balance pool principal)</i>	
Excess Interest Spread **	9.25%
Principal Subordination ^{††}	31.07%
Aggregate Cash Collateral	22.59%

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

^{*} 100 lakh = 1 crore = 10 million

[†] Given to borrowers who are organised in groups of at least 10, where each group member is responsible for repayment by the other group members. These loans are given for income-generating purpose only.

[‡] Cumulative collections / (Cumulative billings + opening overdue at the time of securitization) There are no opening overdue in the pool.

[§] POS on contracts aged 0+ dpd / POS on the pool at the time of securitisation

^{**} (Pool Cashflows – Cashflows to Senior Investor – Junior Investor principal – Originator's residual share) / Pool Principal outstanding

^{††} (Pool principal outstanding – Senior investor principal outstanding) / Pool principal outstanding



As can be seen from the table above, the cumulative collection efficiency for the above-mentioned transaction has been 100% with negligible delinquency. As a result, no cash collateral or any other form of credit enhancement has been utilised in this transaction till date to make the scheduled purchaser payouts. The credit enhancement available in the transaction is sufficient to support the revised rating level.

While the performance of the underlying pool has been good, the relatively weak credit profile of the borrower segment with a greater vulnerability to external shocks, and the unsecured nature of the loans do pose a relatively high potential credit risk in the transaction and uncertainty regarding sustenance of the performance in the future. Further, the operations-intensive nature of the micro lending activity makes the servicing role very critical. In this regard, ICRA will continue to monitor the performance of this transaction. Any further rating action on the pool will be based on the performance of the pool, the availability of credit enhancement and the credit profile of the Servicer.

About the Originator

Bandhan, a non-deposit taking NBFC is a microfinance institution head quartered in West Bengal. Established in 2001, the company provides credit to economically backward women primarily in the rural areas and also to an extent in the urban and semi-urban areas through a group lending mechanism for building productive assets. As of July 2012, Bandhan had operations in 16 states and 2 Union Territories with a network of 1,666 branches. It has a portfolio of Rs. 3,484.6 crore as on July 2012. The group loan product continues to form the major part i.e. more than 99% of Bandhan's portfolio, while other loan products constitute a small share in the overall portfolio of Bandhan.

In FY2012, Bandhan reported net profit of Rs. 188 crore on assets of Rs. 4, 276 crore, vis-à-vis a net profit of Rs. 118 crore on the assets of Rs. 3,143 as on March 2011. The regulatory capital adequacy was reported to be 22.6% (Tier I: 21.6%) as of March 2012 as against that of 22.0% (Tier I: 21.4%) as of March 2011. The 0+ delinquency level for overall the portfolio of Bandhan was 0.21% as on July 2012. While the credit quality has been good in the past, the borrower segment being people from below poverty line, without adequate credit history or collateral does pose a high potential credit risk in the transaction. Further, the operations-intensive nature of the business makes the servicing role very critical.

September 2012



The key financial indicators of Bandhan are placed in Table 3 below.

Table 3: Key Financial Indicators

<i>Amounts in Rs. crore</i>	Mar-12 (Unaudited)	Mar-11 (Audited)	Mar-10 (Audited)
Equity Capital	97	86	76
Net Worth (Reported)	700	377	199
Net HP, Loan & Lease Receivables (Net of Advances Received)	3, 079	2,106	1,196
Total Assets	4, 276	2,742	1,908
Total Income	788	521	274
Net Interest Income (Net of BO Costs & Profits from Securitisation)	476	310	161
PBT (reported)	289	178	114
PAT (reported)	188	118	74
Yield on Average Earning Assets (%)	26.1%	25.8%	33.0%
Cost of Average Interest Bearing Funds (%)	10.7%	12.3%	12.1%
Gross Interest Spread (%)	9.4%	7.1%	9.6%
Operating Expenses /Average total Assets (%)	5.2%	5.7%	5.9%
Provisions & Write offs / Average Total Assets (%)	1.1%	0.6%	0.0%
Cost to Income Ratio (%)	36.0%	41.0%	36.3%
PBT (excluding extraordinary items) / Average Total Assets	8.2%	7.6%	10.3%
PAT (excluding extraordinary items) / Average Total Assets (%)	5.4%	5.1%	6.7%
Return on Average Net Worth (%)	34.9%	40.8%	63.7%
Dividend/PAT (reported) (%)	0.0%	0.0%	0.0%
Dividend Rate (%)	0.0%	0.0%	0.0%
Total Debt/Net Worth (reported)(times)	4.82	4.93	6.74
Capital / Risk Assets (%)	22.6%	22.0%	19.2%
Tier I Capital / Risk Assets	21.6%	21.4%	19.2%
Gross NPAs / Gross Hire Purchase & Loan Receivables	0.15%	0.68%	0.06%
Net NPAs / Net Hire Purchase & Loan Receivables	0.04%	0.51%	0.02%

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