



Bandhan Financial Services Private Limited (Bandhan)

Bandhan Microfinance Loan Pool D. A. Mar-12

A conditional rating of [ICRA]A+(SO)[†] has been assigned to the Purchaser payouts backed by microfinance loan receivables pool, originated by Bandhan Financial Services Private Limited (Bandhan).

Table 1: Rating Summary

Description	Principal (Rs. Crore [*])	Payout Maturity	Rating
Purchaser Payouts	500.00	March 2014	[ICRA]A+(SO) [!]
Originator's Residual Share	75.00		Unrated
Total	575.00		

! indicates that the rating is conditional

The conditional rating is subject to the fulfillment of all conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction and Bandhan furnishing to ICRA an independent legal opinion on the transaction from the transaction legal counsel. The conditional rating is based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of cash collateral of 12.75% of the pool principal, principal subordination of 13.04%, subordination of the Excess Interest Spread (EIS) in the structure, and the integrity of the legal structure.

The selected pool consists of unsecured microfinance loans (less than or equal to Rs. 50,000 each), and is characterised by medium initial tenure of contracts (24 months), moderately high seasoning of 15.46 weeks and no overdue on the selected loans as of date. The current pool comprises of Group Loans[†] only. According to the transaction structure, the entire pool of selected contracts will be directly assigned to a single Purchaser. The Purchaser will have a senior right to the extent of 86.96% of the pool value while the Originator will have a subordinated residual share of 13.04%, which the Purchaser will hold for the benefit of the Originator. The yield to the Purchaser is fixed at a rate less than the pool yield. Though the pool would be receiving cashflows on a weekly basis, payouts to the Purchaser would be made on a monthly basis. The balance monthly excess cashflow— excess of collections from the loan pool over the scheduled Purchaser payouts—will be used to accelerate the principal amortisation of the Purchaser. Additional support for meeting the Purchaser payouts is through the availability of cash collateral to the extent of 12.75% of the total pool principal.

Based on the analysis of the past performance of Bandhan's micro loan portfolio and the expected future performance of the selected pool of loans, ICRA believes that the credit support provided has been adequately sized to cover the credit / liquidity risk in the transaction. While the RBI has clarified its stance on the sector, bank funding to the sector continues to be slow. The operations-intensive nature of the MFI lending business, together with the continuing uncertainty regarding the collection performance of the underlying pool--given the slowdown in incremental loan disbursements to the borrower segment--constrain the rating of the Purchaser Payouts in this transaction.

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

[†] 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 10 to 20, where the group creates a peer pressure on other members for repayment of loan; however loan taken by any one borrower is guaranteed by two other group members. These loans are given for income-generating purpose only.



mechanism for building productive assets. As of December 2011, Bandhan had operations in 16 states and 2 Union Territories with a network of 1,553 branches. It has a portfolio of Rs. 3,176.9 crore as on December 2011. The group loan product continues to form the major part i.e. about 99.6% of the portfolio of Bandhan's portfolio, while four other loan products constitute a small share in the overall portfolio of Bandhan.

For the 9-month period ended December 2011, Bandhan reported net profit of Rs. 152 crore on assets of Rs. 3,448 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 22.18% (Tier I: 21.67%) as of December 2011 as against that of 17.91% (Tier I: 17.43%) as of March 2011. The 0+ delinquency level for overall the portfolio of Bandhan was 0.94% as on 31 December 2011. 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.

The key financial indicators of Bandhan are placed in Table 2 below.

Table 2: Key Financial Indicators

Amounts in Rs. crore	Dec-11 (Unaudited)	Mar-11 (Audited)	Mar-10 (Audited)
Equity Capital	97	86	76
Net Worth (Reported)	664	377	199
Net HP, Loan & Lease Receivables (Net of Advances Received)	3,177	2,106	1,196
Total Assets	3,448	2,742	1,908
Total Income	539	521	274
Net Interest Income (Net of BO Costs & Profits from Securitisation)	331	310	161
Profit Before Tax (reported)	231	178	114
Profit After Tax (reported)	152	118	74
Yield on average loans (%)	23.4%	25.8%	33.0%
Cost of Average Interest Bearing Funds (%)	11.3%	12.3%	12.1%
Gross Interest Spread (%)	9.4%	7.1%	9.6%
Operating Expenses / Average Total Assets (%)	4.7%	5.7%	5.9%
Provisions & Write offs / Average Total Assets (%)	0.6%	0.6%	0.0%
Operating Cost to Net Income Ratio (%)	30.8%	41.0%	36.3%
Cost (incl. tax expenses) to Net Income Ratio (%)	53.2%	59.5%	58.6%
PBT (excluding extraordinary items) / Average Total Assets	9.9%	7.7%	10.3%
PAT (excluding extraordinary items) / Average Total Assets (%)	6.5%	5.1%	6.7%
Return on Average Net Worth (%)	38.9%	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)	3.80	4.93	6.74
Capital / Risk Assets (%)	22.2%	22.0%	19.2%



Tier I Capital / Risk Assets	21.7%	21.4%	19.2%
Capital in relation to Managed Assets (%)	21.7%	17.4%	14.9%
Gross NPA%	0.52%	0.68%	0.06%
Net NPA%	0.19%	0.51%	0.02%

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