ICRA

February 21, 2017

Bandhan Bank Ltd.

Instrument	Amount (in Rs. crore)	Rating
Subordinated Tier II NCD	160.00	[ICRA]AA- (Stable); Reaffirmed
Senior Secured NCD	100.00	
Term Loans from Banks	80.00	
Certificate of Deposit	500.00	[ICRA] A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed its long-term rating of [ICRA]AA- (pronounced ICRA double A minus) to the Rs. 160 crore[1] subordinated Tier-II non-convertible debenture programme, Rs. 100 crore senior secured NCD programme and Rs. 80 crore term loans of Bandhan Bank Limited (BBL). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 500 crore certificates of deposit programme of BBL. The outlook on the long term ratings is 'Stable'.

Rationale

The ratings reaffirmation factors in strong growth, without any dilution in its asset quality (30+ delinquencies of 0.66% as on January 6, 2017 as against 0.62% as on September 30, 2016). BBL reported a healthy profitability with RoNW of 27.09%[2] during H1FY2017. The bank's capital adequacy also remains strong (CRAR of 29.01% as on March 31, 2016). ICRA takes note of the high level of deposits mobilised by the bank within a short period of operations; deposits accounted for ~90% of BBL's total interest bearing funds as on September 30, 2016. The share of CASA has also remained healthy, at 17% of total deposits as on September 30, 2016 and 26% as on December 31, 2016. The ratings continue to be supported by the bank's experienced management team, strong investor profile, and good loan monitoring and collection mechanisms.

While the loan portfolio of the bank is fairly diversified in terms of top exposures, however it remains geographically concentrated with ~73% of the loan portfolio as on September 30, 2016 being concentrated in the three states, i.e. West Bengal, Bihar and Assam thereby exposing to event risks apart from the economic conditions in these geographies. By virtue of its exposure to small microfinance loans (~94% of portfolio as on September 2016), a significant portion of the bank's advances are largely uncollateralized The bank also has a high level of deposit concentration, both geographically and on its top 20 depositors, which is a key constraining factor. While the bank's operating expenses (operating expenses/ATA of 3.84%[3] for H1FY2017) are higher than banking sector averages, they compare favourably with microfinance sector benchmarks. Given its recent transition to banking operations, BBL's other products are gradually picking up.

---

[1] 100 lakh = 1 crore = 10 million
[2] Annualised
[3] Annualised

Key Rating Drivers

Strengths

- Strong investor and promoter profile; promoters have a long track record in microfinance, which accounts for a major portion of the loan portfolio
- Established loan origination, portfolio tracking, and audit systems
- Stable asset quality indicators with 30+ delinquencies of 0.62% as on September 30, 2016
- Healthy deposit mobilisation resulting in lower borrowing cost
- Significant portion of the portfolio qualifying for priority sector lending
- Strong capital adequacy coupled with healthy profitability expected to support annual portfolio growth of 40% over the next three years

Challenges

- Limited product offerings and track record across new credit segments; ability to diversify product portfolio yet to be demonstrated
- While the Bank is geographically diversifying in all States and UTs, the meaningful contribution of the newer geography needs to be seen
- Ability to maintain asset quality indicators while growing its portfolio into new credit segments

Description of key rating drivers highlighted above:

BBL's loan portfolio mainly includes microfinance loans (~94% of loan book as on September 30, 2016). While the bank also offers a number of other loan products (including personal loans, home loans, loans against property, two-wheeler, gold loans, MSME, SME and agriculture loans), they accounted for only around 6% of the portfolio. Going forward as well, BBL's primary focus would continue to be on microfinance.

Though the bank has gradually diversified its operations from 22 states as on March 31, 2015 to 31 states and union territories as on September 30, 2016, its portfolio remains highly concentrated in eastern India with ~73% of the loan book concentrated in West Bengal, Bihar and Assam as on September 30, 2016.

BBL has an experienced senior management team. BBL is associated with all the four credit bureaus (CB), that is Highmark, CIBIL, Experian and Equifax. A CB check is mandatory before considering a loan, which mitigates the risk of loan origination. Despite its conversion into a bank, BBL continues to follows its established practices of joint group lending, group meetings and weekly collections for its MFI portfolio. This helps the bank in closely tracking the existing portfolio. Post it conversion into a bank, all the microfinance borrowers have become banking customers and disbursements and collections are now routed through saving accounts of customers. As a result, the bank maintained good level of collections post the demonetisation of Rs. 500 and Rs. 1000 notes as reflected in the 30+ dpd of 0.66% as on January 6, 2017. Notwithstanding the good level of collections, demonetisation poses challenges related to slowdown in economic activity in the near term. Further, the marginal profile of borrowers and the adverse impact of demonetisation on their income levels have impacted the demand for fresh credit as well as collections. This is reflected in slowdown in monthly disbursements and increase in delinquencies in lower buckets. However, Management is confident of the credit growth and collection going to pre-demonetisation level by March 2017.

By virtue of sizeable share of loan portfolio from microfinance borrowers, the bank has a unique advantage as a significant proportion of its advances book qualifies for priority sector lending (PSL) as compared to regulatory requirements. By assigning a part of its advances through Inter Bank Participation Certificates (IBPC) to other banks for meeting their PSL targets, BBL can generate additional income. The bank's ability to diversify its asset base and control delinquencies while achieving growth will be key positives from raring perspective.

Following its conversion into a bank, BBL has successfully mobilsed a large quantum of deposits. Its deposit base increased from Rs. 12,088 crore as on March 31, 2016 to Rs 17,880 crore as on September 30, 2016 and is estimated to have further increased to ~Rs 20,000 crore as on December 31, 2016. The bank's deposits accounted for over 90% of its total interest bearing funds as on December 31, 2016. The bank's low cost CASA deposits also increased from Rs 2,600 crore as on March 31, 2016 to an estimated Rs 5,200 crore as on December 31, 2016. The CASA share stood at 26% as on December 31, 2016. Consequently, BBL's cost of average interest bearing funds declined from ~11% in FY2015 to 7.63% in H1FY2017. This enabled the bank to lower its lending rates, resulting in the yield on advances declining from ~22% in FY2015 to ~19% in H1FY2017. While the deposit mobilisation has been healthy, the deposits are concentrated with 58% being sourced from West Bengal and Maharashtra, and share of top 20 depositors at 28% as on September 30, 2016. With the high growth targeted over the next few years, the bank's ability to mobilise deposits at low rates while achieving granularity will be critical for maintaining a competitive cost of funds.

The bank's capital adequacy remains comfortable with CRAR of 29.01% as on March 31, 2016, as against the Basel III requirement of 9.625% as on March 31, 2016 and 11.5% as on March 31, 2019. Within the overall capital, Tier I capital also remained strong at ~26.7% as on March 31, 2016 as against the regulatory requirement of 7.625% as on March 31, 2016 and 9.5% as on March 31, 2019. With expected portfolio growth of ~40% p.a. for next three years, ICRA expects the bank to meet capital adequacy levels without any further requirement of capital infusion; given its existing capitalisation levels and healthy profitability levels.

Analytical approach
For arriving at the ratings, ICRA has taken a standalone view of Bandhan Bank Limited.

Links to applicable Criteria
http://www.icra.in/Files/Articles/Bank%20Rating%20Methodology_Feb2016.pdf

Bank Profile
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 99.85% of equity in BFHL. The shareholders of BFSL are Financial Inclusion Trust (FIT): 32.9 %, Caladium Investment Pte Ltd.: 16.7%, International Finance Corporation: 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 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: 89.9%, International Finance Corporation: 3.2%, Caladium Investment Pte Ltd.: 5.0%, IFC FIG Investment Company: 1.7%, SIDBI: 0.3% and individuals (including promoters). BBL's follows group based individual lending model for microfinance, forming groups of 10 to 20 women in close proximity; a group elects its own treasurer, cashier and secretary on rotation basis from within.

BBL operates through a network of 3,015 branches, spread across 31 states and union territories. BBL's portfolio stood at Rs. 17,914 crore as on September 30, 2016 reporting an annualised 44% growth during H1FY2017. Its asset quality indicators remained healthy with gross NPA of 0.28% as on September 30, 2016. BBL charges an interest rate with reference to MCLR on its microfinance loan products.

Recent Results
BBL reported a profit after tax of Rs. 522.44 crore in H1 FY 2017 on total asset base of Rs. 24,472 crore (excluding assigned and securitised portfolio).

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Rating history of last three years

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount Rs. crore	FY2017		FY2016	FY2015
				February 2017	December 2016	December 2015	November 2014
1	Subordinated Tier II NCD	Long term	160.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Senior Secured NCD	Long term	Nil (Earlier 60.00)	-	Withdrawn	[ICRA]AA- (Stable)	-
3	Senior Secured NCD	Long term	100.00	[ICRA]AA- (Stable)	[ICRA]AA- Stable	[ICRA]AA- (Stable)	[ICRA] A+ Stable
4	Term Loans from Banks	Long term	80.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
5	Certificate of Deposit	Short term	500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: ICRA

Annexure-1

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue Rs. crore	Current Rating and Outlook
Subordinated Tier II NCD^	-	-	-	160.00	[ICRA]AA- (stable)
Senior Secured NCD (ISIN: INE545U07011)	21.04.2016 (Originally issued by Bandhan Financial Services Ltd in 18.09.2014)	13.75%	March 20, 2020	100.00	[ICRA]AA- (stable)
Term Loans from Banks^	-	-	-	80.00	[ICRA]AA- (stable)
Certificate of Deposit	-	-	7-365 days	500.00	[ICRA]A1+

^ *Yet to be placed. The bank has not borrowed against the rated instruments*

Source: Bank, ICRA

Name and Contact Details of the Rating Analyst(s):

Karthik Srinivasan
(Tel: +91 22 6114 3444)
karthiks@icraindia.com

Pritam Karmakar
(Tel. No. +91 33 7150 1189)
Pritam.karmakar@icraindia.com

Anil Gupta
(Tel. No. +0124 4545 314)
Anilg@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
(Tel. No. +91 080 43326401)
jayantac@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 ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	