

Bandhan Bank Limited

January 08, 2019

Summary of Rated Instrument:

Instrument*	Rated Amount (Rs. crore)	Rating Outstanding
Subordinated Tier II NCD	160.00	[ICRA]AA &; placed on rating watch with developing implications
Term Loans from Banks	80.00	[ICRA]AA &; placed on rating watch with developing implications
Certificate of Deposit	1,500.00	[ICRA] A1+; Outstanding
Total	1,740.00	

*Instrument details are provided in Annexure-1

Material Event

The board of directors of Bandhan Bank Limited (BBL) in their meeting on January 7, 2019 has approved a scheme of amalgamation(scheme) of GRUH Finance Limited (GRUH) – Rated [ICRA]AAA@¹ / MAAA @ / [ICRA]A1+ into and with BBL. The scheme is subject to various regulatory approval including Reserve Bank of India (RBI). The appointed date of the scheme shall be January 1, 2019, or any other date mutually agreed between two companies with which the scheme shall be operative. As per the share exchange ratio for this amalgamation, shareholders of GRUH would receive 568 shares of Bandhan for every 1000 shares held by them.

Impact of the Material Event

Positive for reducing the promoter (BFHL) stake in BBL as per regulatory requirement, mode of further stake dilution remains to be seen: The Non-Operative Financial Holding Company - NOFHC (Bandhan Financial Holdings Limited – BFHL), which is the promoter of BBL held 82.28% stake in BBL as on September 30, 2018. With fresh issuance of BBL shares to shareholders of GRUH as per the scheme, BFHL's stake expected to decline to ~61% upon completion of the proposed amalgamation. However, this will still be higher than regulatory requirement to pare down the stake of BFHL to 40% within three years from the commencement of its business (August 23, 2015) as required by the RBI's New Bank Licensing Guidelines. HDFC Limited (rated [ICRA]AAA(stable)/MAAAA (Stable)/[ICRA]A1+), which is the promoter of GRUH and currently holds 57.8% in GRUH, would hold ~15% stake in the combined entity and GRUH would cease to exist as independent entity.

Also, as per the licensing conditions, the NOFHC can enter non-banking businesses in the financial services domain such as asset management, insurance among others after three years of the commencement of business and hence NOFHC can also commence other businesses now. Given the stake dilution by BFHL in BBL can be done through various modes such as a) Acquisition of another entity by the bank itself, or b) stake sale by BFHL to fund acquisition of another entity; the mode of stake dilution remains a monitorable and subject to compliance with all the regulators including the Securities and Exchange Board of India - SEBI.

Diversification to improve for BBL in terms of assets and geographical presence: Though BBL has pan- India presence across 34 states and Union territories, however a major share of its loans and advances are characterized by micro-finance loans at 86.8% of total portfolio (on book + off book) as on September 30, 2018. With around 65% of the branches located in Eastern and North Eastern India, majority of the micro loans were concentrated towards this part of

¹ @ Rating watch with negative implications

the country for BBL. GRUH, on the other hand has presence in 11 states and 1 union territory, most of which are located in the Western part of India. Furthermore, affordable housing loans account for majority of the GRUH's advances. Hence the merged entity is expected to have a better geographical diversification of its advances and branch network.

Capitalisation profile to remain strong for merged entity: As per the RBI guidelines, the bank was required to maintain a minimum CRAR of 13.0% for a three-year period from the date of commencement of business. Post that, the bank will be required to maintain CRAR of 10.875% (including capital conservation buffer of 1.875%) as on March 31, 2019 as applicable under the Basel III regulations. As against regulatory requirements, BBL has strong capitalisation profile with Tier 1 and CRAR of 31.51% and 32.58% respectively as on September 30, 2018. The capital ratios of GRUH remained relatively lower with CRAR of 18.20% as on September 30, 2018. As per ICRA's estimates, the capital ratios will continue to remain strong upon merger with Tier 1 and CRAR remaining upwards of 29% with gearing of 4.3 time as on September 30, 2018 for the merged entity, thereby providing sufficient headroom for growth for merged entity. BBL's management has indicated that the CRAR of ~16-18% shall remain comfortable for bank, and hence the bank has capital cushion to pursue an inorganic route, however the scale of future acquisitions and impact on capital ratio, if any will remain monitorable

The ratings continue to factor in BBL's ability to maintain stable credit profile driven by its comfortable asset quality and strong internal capital generation to support growth while maintaining strong capitalisation levels. In ICRA's view, the proposed amalgamation is positive for BBL in terms of asset diversification while maintaining strong capitalisation and a positive step towards reducing promoter shareholding as per regulatory requirements. ICRA will continue to monitor the developments closely and take appropriate rating action once there is more clarity on the proposed business plans of the combined entity post the transaction is concluded.

The previous detailed rating rationale is available on the following link: [Click here](#) and [here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of the issuer

About the company:

Bandhan Bank Limited: 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 100% of equity in BFHL. The shareholders of BFSL are Financial Inclusion Trust (FIT): 32.91%, Caladium Investment Pte Ltd.: 16.7%, International Finance Corporation: 13.59%, IFC FIG Investment Company: 2.85%, Bandhan Employee Welfare Trust: 14.61%, SIDBI: 8.13%, North East Financial Inclusion Trust (NEFIT): 7.82%, and individuals: 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: 82.28%, International Finance Corporation: 1.77%, IFC FIG Investment Company: 0.95%, Caladium Investment Pte Ltd.: 4.58%, Mutual Fund: 2.84%, FPIs: 5.45%, SIDBI: 0.29% and Mr. Chandra Shekhar Ghosh: 0.12% and

Others: 1.72% as on September 30, 2018. BBL follows the 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 a rotational basis from within.

BBL operates through a network of 3,948 branches and DSCs, spread across 34 states and Union Territories. BBL's portfolio stood at Rs. 31,730 crore as on September 30, 2018 reporting 64.0% growth on a YoY basis as on September 30, 2018. Its asset quality indicators remained comfortable with gross NPA of 1.29% as on September 30, 2018. BBL charges an interest rate with reference to MCLR on its microfinance loan products.

GRUH Finance Limited (GRUH) is an established housing finance company with a loan portfolio of Rs. 16,663 crore as on September 30, 2018 (15,568 crore as on March 31, 2018 and Rs. 13,244 crore as on March 31, 2017). HDFC Limited had stake of 57.9% as on September 30, 2018. The company's corporate office is located in Ahmedabad, Gujarat and it had a distribution network of 194 retail offices across 11 states and 1 union territory as on September 30, 2018.

Key financial indicators (audited) BBL - standalone

	FY2017	FY2018	Q1 FY2019 [^]	Q2 FY2019 [^]
Net Interest Income	2,403	3,032	1,037	1,077
Profit Before tax	1,704	2,056	740	750
Profit After tax	1,112	1,346	482	488
Net Advances	16,839	29,713	30,533	31,730
Total Assets	30,236	44,310	43,526	45,604
%CET 1	24.77%	30.30%	31.43%	31.51%
%Tier 1	24.77%	30.30%	31.43%	31.51%
% CRAR	26.36%	31.48%	32.61%	32.58%
%Net Interest Margin / Average Total Assets	9.62%	8.14%	9.45%	9.67%
%Net Profit / Average Total Assets	4.45%	3.61%	4.39%	4.38%
%Return on Net Worth	25.01%	14.34%	20.02%	19.44%
% Gross NPAs	0.51%	1.25%	1.26%	1.29%
% Net NPAs	0.36%	0.58%	0.64%	0.69%
% Provision Coverage incl. Technical Write-offs	29.09%	53.66%	49.98%	46.69%
% Net NPA/ Net Worth	1.38%	1.84%	1.97%	2.16%

Amounts in Rs. crore

[^]The data for Q1FY2019 and Q2FY2019 are unaudited

All ratios are as per ICRA's calculation

Source: Bandhan Bank; ICRA research

Key Financial Indicators (Audited) – GRUH Finance Limited (standalone)

	FY2017	FY2018	Q1 FY2019	Q2 FY2019
Net interest income	595	743	175	174
Profit before tax	442	562	156	146
Profit after tax	297	363	115	105
Net advances	13,244	15,568	15,857	16,663
Total assets	13,586	15,971	16,269	18,374
% Tier 1	16.82%	17.68%	17.26%	NA
% CRAR	18.32%	18.90%	18.45%	18.20%
Gearing	10.80	10.17	10.22	9.93
% Net Profit/Average Total Assets	2.37%	2.45%	2.85%	2.44%
% Return on Average Net Worth	30.45%	29.08%	32.96%	27.48%
% Gross NPAs	0.31%	0.45%	0.86%	0.88%
% Net NPAs	0.00%	0.00%	0.23%	0.11%
Net NPA/Net Worth	0.00%	0.00%	2.6%	1.1%

Source: GRUH; ICRA research; Amount is Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				January 2019	October 2018	April 2018	February 2018	February 2017	December 2016	December 2015	
1 Subordinated Tier II NCD	Long Term	160.00	160.00	[ICRA]AA &	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
2 Senior Secured NCD	Long Term	60.00	Nil	-	-	-	-	-	Withdrawn	[ICRA]AA-; (Stable)	
3 Senior Secured NCD	Long Term	100.00	Nil	-	-	-	Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
4 Term Loans from Banks*	Long Term	80.00	-	[ICRA]AA &	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
5 Certificate of Deposit	Short Term	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*Note: The rating is yet to be allocated
& Under Rating Watch with Developing Implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE545U08019	Subordinated Tier II NCD	02-Sep-14	14.536%	02-Sep-21	160.00	[ICRA]AA &
NA	Term Loans from Banks*	NA	NA	NA	80.00	[ICRA]AA &
NA	Certificate of Deposit	NA	NA	7-365 days	1,500.00	[ICRA]A1+

*Note: The rating is yet to be allocated
Source: Bandhan Bank; ICRA research

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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.

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