

Brief Rationale
CRAF downgrades the rating assigned to the Fixed Deposit Programme of BanyanTree Bank Limited to CARE MAU D

Instrument	Amount	Ratings	Remarks
Fixed Deposit Programme	USD 150 Million (equivalent to Mur 5.9 billion)	CARE MAU D	Downgraded from CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]

Rating Rationale

The rating assigned to the Fixed Deposit Programme of BanyanTree Bank Limited (“BTB”) was downgraded to ‘CARE MAU D’ due to significant losses incurred by BTB in its bond portfolio, leading to erosion of capital and appointment of an administrator/conservator by Bank of Mauritius (BoM) to assess the risks linked to the size of BTB’s investment portfolio (Bonds).

CRAF understands that as per The Banking ACT 2004, the administrator/conservator may suspend, in whole or in part, the repayment or withdrawal of deposits of the financial institution, which effectively means there is restriction in withdrawal of deposits by the deposit holders. Accordingly, the rating has been revised to ‘CARE MAU D’.

BTB’s investment in International Bond portfolio increased significantly from Mur 1,902 million as on June 30, 2019 (Financials considered by CRAF during its Annual Review in November 2019) and Mur 1,846 million as on Sept 30, 2019 (as per published Unaudited Accounts in BTB’s website) to Mur 4,793 million as on February 29, 2020. The borrowings (loan against Bonds) has also increased significantly from Mur 740 million as on June 30, 2019 and Mur 851 million as on Sept 30, 2019 to Mur 2,595 million as on February 29, 2020.

CRAF was neither aware of any such BTB’s plans to invest significantly in International Bonds, against borrowings from Banks, nor was it possible to anticipate any such rapid growth in investment in Bonds during the Annual Surveillance (conducted in November 2019), given the steady decline in BTB’s investment in International Bond portfolio during last 3 years.

Since, BTB’s financial information, post September 2019, was not available in the public domain, CRAF could not assess the rapid build-up of investment book and consequent adverse liquidity and borrowing position of the company on a real time basis.

Update since last review: -

- As at September 30, 2019, BanyanTree Bank’s investment in International Bonds was Mur 1,846 million and advances (loans to customers) was Mur 1,505 million, on an amount of deposits of Mur 2,448 million and borrowings of Mur 851 million. BTB recorded a Profit after tax of Mur 15 Million in 9MFY19 (Jan-Sept 2019) vis-a-vis Mur 38 Million in H1FY19 (Jan-June 2019).
- As on February 28, 2020 BTB’s Bond portfolio increased significantly to USD 128.3 million (Mur 4,793 million), against borrowings of USD 69.4 million (Mur 2,595 million). Leverage was availed from international lenders and secured by the bond portfolio held with them.

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3. Due to the international financial crisis triggered by Covid-19 pandemic, international Bond market experienced exceptional trading conditions in March 2020, which resulted in very substantial Mark to Market losses on much of BTB's Bond portfolio, which in turn led to margin calls from leverage providers.
4. To meet the exceptional trading conditions in March 2020, BTB sold its securities at depressed values, crystallizing Mur 346.9 million of losses during March 2020. In addition, Mark to Market losses as at 27th March 2020 stood at Mur 332.1 million, resulting in huge Year to Date Comprehensive Losses and a negative capital position.
5. On April 3, 2020, with the fall in the liquidity position and valuation of investments, Bank of Mauritius (BoM) has appointed Mr. Mushtaq Oosman, ex-partner of PwC, as administrator of BTB for preserving the bank's assets and monitoring its operations in detail.
6. It is important to also note that any black swan event including a pandemic is not factored in the ratings given to entities.

BACKGROUND

BanyanTree Bank ("BTB") is promoted by Mr. Sanjiv Singhal who is also the promoter & Managing Director of India based Banyan Tree Capital Advisors. Indo-Mauritian business persons and global strategic investors are also shareholders in BTB. 12.23% shareholding is with Sanjiv Singhal & his daughter (through a Singapore company – Neemtree Advisors), 10% is with Mauritian entities (groups / individuals), 10% with employee trust and rest with individuals predominantly from the financial services sector.

BTB was incorporated in Mauritius on 11th June 2012 and received its banking license from the Bank of Mauritius (BoM) on 6th September 2012. Commercial operations effectively started in 2013. While in the initial years, BTB was focusing on raising funds and investing in short term/medium term bonds of Indian & foreign banks, however since CY16 the bank is steadily trying to reduce investment in corporate bonds and focus on lending to corporates in Mauritius, the United Kingdom, the Middle East and Asia.

Disclaimer

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CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure I

Rating Symbols Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.

A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.