

Brief Rationale

CRAF downgrades the rating assigned to the Fixed Deposit Programme of Banyan Tree Bank Limited from CARE MAU A- to CARE MAU BBB+

Ratings

Facility/Instrument	Amount	Ratings*	Remarks*
Fixed Deposit Programme	USD 150 Million (equivalent to Mur 5.4 billion)	CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]	Downgrade from CARE MAU A-; Negative [Single A minus; Outlook Negative]

**Please note that the rating does not consider the impact of any capital controls that may be imposed by the government authorities in Mauritius that may restrict access/convertibility/use of foreign currency. The explanatory notes regarding the rating symbols of CARE Ratings (Africa) Private Limited ("CRAF") are attached as Annexure I*

Rating Rationale

The rating factors in the experienced promoters and management team, moderate asset quality, increase in low cost CASA deposit and improved capital adequacy and gearing.

The rating is, however, constrained by moderate scale of operations with deposit & asset concentration risk, slower than anticipated scale up of operations during the last 3 years, significant withdrawal of deposits during last 2 years leading to contraction of the bond investment portfolio, continuous decline in profitability during last 2 years, volatility of profit due to market and currency risk, small size of the bank in the banking sector of Mauritius and potential volatility due to market related risks.

Ability to scale up operations profitably, ability to improve profitability and maintain asset quality in fresh disbursements, diversification in loan portfolio and market risks on assets are key rating sensitivities.

The rating outlook is stable and may be revised with improvement in profitability, further diversification in loan portfolio and growth in deposits.

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. 15.7% 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 is one of the smallest banks in Mauritius. It was incorporated in Mauritius on 11th June 2012 and received its banking license from the Bank of Mauritius (BoM) on 6th Sept. 2012. Commercial operations effectively started in 2013. The growth has been at a steady & cautious pace and it has received the backing of some of the large investors. While in CY14 & CY15, BTB was focusing on raising fund and investing in short term/medium term Bonds of Indian & foreign banks, however with induction of new management in CY16, the bank is steadily trying to reduce investment in Corporate Bonds and focus on lending to Corporates in in Mauritius, the United Kingdom, the Middle East and Asia for tenures mainly ranging between 1-2 years. However, in CY16 and CY17, there has been contraction in the lending portfolio primarily due to withdrawal of deposits.

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BTB's assets have reduced from Mur 5.9 billion in December 2016 to Mur 3.2 billion in June 2018, since the company is selling its Investment in Corporate Bonds to meet the withdrawal of deposits and also reduce its debt.

In FY17 (January-December), BTB posted a loss of MUR 41 million (profit of MUR 33 million in FY16) due to lower non-interest income and notional loss on movement in currency (MUR 36 million) and higher provisioning.

Provisions on financial assets of MUR 16 million was recognized in FY17 and Mur 10 million in H1FY18 in line with adaptation of IFRS 9 leading to provisioning of loans and advances (as per BOM Guidelines) and also additional provisioning in Corporate Bond book (which BTB was not providing till FY16). BTB has booked a notional MTM loss of MUR 36 million in Dec 2017 due to appreciation of MUR vis-à-vis USD, since the BTBs equity and reserves are largely denominated in USD at historical cost, while its functional and reporting currency is MUR.

In 6 months ended June 2018, BTB achieved net interest income of MUR 114 Million and a loss of MUR 16 million.

Capital Adequacy Ratio ("CAR") was 17.37% as of December 2017 and 20.31% as of June 2018 (including Tier II capital of Mur 73 million). It is well above Regulatory CAR of 10.65% - the minimum required by the Bank of Mauritius (BOM) till December 2017. From January 2018, Regulatory CAR has been increased to 11.25% by BOM.

BTB's Interest income/Avg. interest earning assets and NIM improved in FY17, reflecting BTB's strategy of increasing its loan book.

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In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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