Rating Rationale
Banyan Tree Bank Limited

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 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. The growth has been at a steady & cautious pace and it has received the backing of some large investors. 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 for tenures mainly ranging between 1-2 years. The long-term lending and expansion strategies and introduction of new products are expected to give results in future.
Total assets stood at MUR 4.2 Bn on December 2017 and MUR 3.4 Bn on June 2018 (MUR 5.9 Bn on December 2016).

Mr. Sanjiv Singhal, the promoter, has spent 15 years in banking (firstly with Citibank and later with SCB). He holds an MBA from Wharton Business School (USA), an MA with distinction from the University of Essex, UK and a BA with honours from Delhi University.

The Bank operates from its corporate office in Ebene Cybercity (Mauritius) with 20 employees. The Bank has opened a customer lounge in Port Louis (Mauritius) and a representative office in Dubai (11 employees) in September 2018.

CREDIT RISK ASSESSMENT

Experienced Promoters and Management

The promoters and management have experience in the financial & banking sector. The presence of local shareholder (Terra Maurice group) and Mr. Marcel Posthuma provides stability to the profile of the bank and help attract domestic and international deposits.

BTB is managed by a team of experienced banking and financial sector professionals having worked in different segments and geographies (including India and Mauritius). The origination and initial appraisal of loan portfolio is done by management. The operative model for BTB is focused fully towards wholesale banking and private banking while retail banking operations are very limited.

In CY16, there was major change in the senior management team of the Bank with change in CEO and COO. Mr Sanjit Chowdhry joined as CEO in August 2016. Mr. Rahul Bajpai joined as COO in May 2016. In FY17, BTB recruited Mr. Bert Scheen as the Head of Client Coverage. Mr. Scheen has more than 10 years of banking experience with Rabo Bank and has enabled BTB to raise deposits from local and international market. In February 2018, there was again a change in the CEO, with resignation of Mr. Sanjit Chowdhry.
Mr. Robert Green (who has joined BTB's Board in CY16) has joined as CEO in 2018. Mr. Green has over 40 years of experience in the international banking sector split equally between Bank of Boston and Standard Chartered Bank. He is a seasoned risk professional with core expertise in corporate credit risk management particularly in South Asia and South East Asia. Mr. Green's previous banking role was Chief Risk Officer, Private Banking & Wealth Management, Standard Chartered Bank, Singapore. The team size is moderate and there are plans to scale up given the growth in operations.

BTB also has highly experienced and reputed Board of Directors that provides strong oversight. Non-Executive Chairman of the Board is Mr. Jagdish Capoor. He has, in the past, worked as the Deputy Governor of the Reserve Bank of India, Chairman of HDFC Bank, Bombay Stock Exchange, Deposit Insurance and Credit Guarantee Corporation of India, Unit Trust of India and as a Director on the boards of several commercial banks. Mr. Rakesh Bhutoria is also an Independent Director on the Board. He leads the commercial banking vertical for IDFC Bank and has in-depth experience in building businesses across India and Middle East. Previously, he was with Standard Chartered Bank as a Managing Director in its Regional Corporate Finance Unit at DIFC, Dubai.

Moderate scale of operations

BTB is one of the smallest banks in Mauritius. But its 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, the bank is steadily trying to reduce investment in Corporate Bonds and focus on lending to Corporates in U.K., Dubai and Mauritius for a longer tenure. However, in CY16 and CY17, there has been contraction in the bond portfolio primarily due to withdrawal of deposits.
BTB is continuously increasing its business through focus on lending to Corporates, fund managers and individuals based out of Mauritius, London and Dubai.

Improvement in capital adequacy and gearing

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). As per Basel III guidelines, banks in Mauritius are required to maintain a minimum CAR of 10.625% for FY17, 11.25% for FY18, 11.875% for FY19 and 12.5% for FY20. BTB has computed its CAR on 31 December 2017 in compliance with the requirements of the regulatory guidelines on Basel III as well as the macro-prudential measures introduced by BOM, effective July 2014.
Tier II capital of MUR 73 million was raised in May 2017 as a subordinated loan for 10 years from an individual. BOM has also allowed BTB to consider the same for CAR calculation.

Gearing of the bank has also improved from 10.60x as on December 2016 to 7.14x as on December 2017 and 5.69x as on June 2018.

Resource profile and Liquidity position

BTB's CASA has increased from 18.2% in Dec 16 to 23.3% in Dec17. Deposits from retail and institutional customers made up of 80% of total liabilities as on Dec.17, (64% for Dec.16). There was a decline in total deposits from MUR 3.5 billion in CY16 to MUR 3.0 billion in CY17 and MUR 2.4 billion in June 2018 (H1FY18), primarily due to withdrawal of deposits by SFL Trust and Mutual Aid.
Despite such withdrawals, BTB is consistently raising deposit from private companies and Govt bodies (USD 75 million in August 2018). Deposits face moderate concentration risk as 47% is from top 4 investors. Rate of interest on deposit varies from 1-3%.

As on / for the period ending (Mur Million)	Dec-16	Dec-17	June 18
Deposits	3,453	2,988	2,371
Borrowings	1,940	642	418
Subordinated debt	-	74	74
Total Deposits & Borrowings	**5,393**	**3,704**	**2,863**
Tangible Net worth	**509**	**519**	**503**
Overall gearing	**10.60**	**7.14**	**5.69**
CASA	**18.2**	**23.3**	

Most BTB deposits are in MUR and USD, however all widely traded currencies are accepted. Since most of the assets are in USD, MUR and other non-USD deposits are hedged by taking derivatives to convert MUR to USD liabilities. Balance sheet asset/liability positions are fully hedged with the exception of an INR. 45 million (USD 0.76 million) investment.

BTB's borrowings are from J. Safra Sarasin Ltd, a Swiss Bank from which BTB has an uncommitted credit facility. The borrowings are secured against BTB's investment securities.

In FY17, BTB has entered into a credit facility agreement with Banque Internationale à Luxembourg S.A. and Global Prime Bank, whereby BTB can borrow funds against its bond portfolio. These loans formed around 17% of total liabilities for BTB as on Dec17 (36% in Dec16). The positions are hedged as assets are matched with the liabilities for both maturity and currency. Rate of interest on USD loans is 2-2.5%.

Moderate asset quality

BTB has been rebalancing its total investments portfolio by growing its loans Book (MUR 421 million in FY15 to MUR 1,111 million in FY17) and reducing its Corporate Bonds investments over the past 3 years.

Particulars	Dec. 31, 2016 MUR million	% of portfolio	30-Dec-17 MUR million	% of portfolio	30-June-18 MUR million	% of portfolio
Investment in Corporate Bonds	3,151	71%	1,913	53%	1,171	41%
Investment in T-Bills	-	0%	100	3%	100	3%
Loan & Receivables from customers	751	17%	1,111	31%	1,118	39%
Equity Shares & CCD (BLA Power)	19	1%	26	1%	26	1%
NCD - Ess Kay Auto Finance	16	0.4%	-	0%	-	
Investment in Kotak Advantage Banking Fixed Fund & Alpen (in USD)	478	11%	490	13%	478	16%
Total	**4,424**	100%	**3,640**	100%	**2,866**	100
Cash & cash equivalents	**1,314**		**375**		**339**	
Total Assets	**5,927**		**4,235**		**3,205**	

The increase in loans and advances is due to new business from Dubai and BTB's associate company in UK who direct all their clients' bridge finance needs to BTB. The aforementioned loans are typically high yield short term in nature (15-18 months) and are backed by prime properties (located in prime London). Loans & advances portfolio has seen limited seasoning and is diversified into Mauritius (17%), India (8%), Singapore (9%), U.A.E (19%), U.K (6%), Switzerland (4%), BVI (6%), Isle of Man (9%), Nigeria (5%), Cambodia (10%) and Saudi Arabia (7%). Around 33% of the loan is in financial sector, 25% of the loan is in manufacturing sector, 10% in Real Estate and the balance 32% for personal loans. Going forward trade finance portfolio will be built in Mauritius (that will be backed by credit insurance). BTB has also increased its Personal loans (MUR 338 million in FY17) compared to previous years (MUR 1.5 million in FY16). However, Corporates still dominate the Loans and Advances portfolio, accounting for 69% in FY17 (98% in FY16).

BTB also has investment in 2 funds: Kotak Opportunities Fund and Alpen Asset Advisors Fund.

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. Investments in Corporate Bonds that was 45% of total assets as on December 2017 are in securities with investment grade ratings on an international scale.
In CY16, 2 of BTB's Mauritius based client with an aggregate outstanding exposure of MUR 1.77 million as on Dec 31, 2016 defaulted in payment of principle and interest for more than

90 days and went into administration. BTB has made a provision of MUR 1.77 million in P/L account in FY16. This apart BTB has no NPA or delinquent asset in its 6-year history.

BTB has USD 2.3 million investment in BILT Bonds. BILT is facing operational difficulties and consequently they have deferred coupon payment as per the agreed terms of bond issue. The bond issue is a perpetual and is not in default as BILT has the right to indefinitely defer coupon payments. BTB does not accrue the interest income on BILT Bonds in its P/L and has taken a charge of USD 0.29 million.

Satisfactory Liquidity

In October 2017, BOM has introduced a revised Guidelines on Liquidity Coverage Ratio ("LCR"), whereby all banks are required to calculate and submit LCR by end of month. BTB's LCR, (MUR & USD), stood at 1,382% on 30th June 2018 (calculated based on MUR/USD exchange rate of 34.7). Such a high LCR is mainly derived from BTB's liquid investment portfolio which consists of Corporate Bonds, investment in Kotak Advantage Banking Fixed Fund & Alpen Fund and T-Bills issued by BOM. BTB has been able fund deposit outflows without difficulty through liquidation of bond positions.

BTB has a positive cumulative liquidity gap both in short and long term. BTB also has credit lines with J. Safra Sarasin Ltd. and Banque Internationale à Luxembourg (the oldest Luxembourgish private bank) which can be utilised when there is need for additional liquidity.

Market related risks

Risks including currency risk, market risk and country risks are likely to lead to volatility in the business performance.
Market risk on the bond portfolio is actively managed. Investments are predominantly in the AFS bucket. There is also concentration towards India and a change in country risk profile will affect the performance.
Currency risk is also actively managed within the regulatory limits. The regulations imposed by the BOM that limit the overall foreign exchange exposure to 15% of Tier I capital and a single currency exposure to 10% of Tier I capital where exposure is defined as net open position in that currency (sum of net forward position and net spot position).
Presence of these risks, along with mark to market requirements under IFRS and translation gains / losses are likely to lead to volatility in profits.

Volatility in profitability in FY17 & H1FY18

All banks in Mauritius are affected by currency risk and face volatility in reported profits as liabilities are raised both in USD and MUR. Also, many banks have exposures outside of Mauritius (Africa / Asia) which add to the currency risk. There are also mark-to-market changes due to IFRS that are visible in financials.

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.

This mismatch produces notional MTM's gains and losses only; in fact the USD denominated equity and reserves provide a natural hedge given the preponderance of USD assets in BTB's balance sheet.

Operating expenses rose 18% in FY17 from the previous year, mainly as result of full year expenses for the Dubai representative office which was established in 2016. This, combined with non-interest income, resulted in cost to income ratio increasing to 92% in FY17 from 76% in FY16. In recent years, a majority of the non-interest income was attributed to gains on sale of Available-for-Sale ("AFS") instruments (MUR 43.6 million in FY15 and MUR 57.2 million in FY16). In FY17, however, BTB experienced a loss on sale of AFS instruments amounting to MUR 2.1 million due to depreciation of USD vis-a-vis Mur on account of adverse market-moving geopolitical events, dragging down its non-interest income. However fair value gains on AFS investments contributed a below the line contribution of MUR 51.2 million as at 31/12/17.

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

Prospects

The banking sector in Mauritius has to be seen in the overall context of the economy. Mauritius is growing as an international finance centre and that is the key driver that determines the nature of its banking system. There are 21 licensed banks of which 8 are domestic banks in Mauritius that are not subsidiaries or branches of foreign banks. Given this market structure, the business models in Mauritius or any other finance centre would be more heterogeneous than the traditional inward-looking banking structures focused on domestic markets.

BTB has a wholesale banking model which is different from the traditional banking models. It has grown rapidly and the growth rate is expected to continue given that it has a low base of operations and that the assets it is looking at are not constrained by local geography. Overall the bank's ability to scale up operations profitably, improvement in resource profile, maintain liquidity & capital adequacy, diversification in asset quality of loans portfolio and market risks on assets are key rating sensitivities

Financials

MUR Million

Particulars	Dec-15	Dec-16	Dec-17	Jun-18
	12M	12M	12M	6M
Interest Income	258	250	221	114
Non-Interest Income	66	67	22	5
Total Income	324	317	243	119
Interest Expenses	117	132	91	44
Net Interest Income	141	118	130	70

Particulars	Dec-15	Dec-16	Dec-17	Jun-18
Operating Expenses (Incl. Depreciation)	85	140	141	83
Provisions on financial assets	4	2	16	11
Net foreign exchange gain (losses)	15	(10)	(36)	17
Net PBT	132	32	(40)	(2)
PAT	128	33	(41)	(16)
Other comprehensive income	(40)	9	51	-
Total Comprehensive PAT	88	43	10	(16)
Deposits	2,869	3,453	2,988	2,371
Borrowings	3,269	1,940	643	418
Subordinated debt	-	-	74	74
Total Deposits & Borrowings	6,138	5,394	3,705	2,863
Tangible Net worth	466	509	519	503
Cash & Cash Equivalents	374	1,314	375	339
Advances	417	744	1,100	1,118
Investments	5,562	3,673	2,527	1,821
Total Assets	6,616	5,928	4,235	3,412
Key Ratios (%)				
Interest Income/Avg. Interest Earning Assets (a)	6.20	4.76	5.45	
Interest Expenses / Avg. Interest Bearing Liabilities (b)	2.64	2.29	2.00	
Interest Spread (a-b)	3.56	2.47	3.45	
Net Interest Margin (NIM)	2.87	1.88	2.56	1.84
Operational Expenses / Avg. Total Assets	1.74	2.24	2.77	2.16
Cost to Income Ratio (%)	41.11	75.76	92.35	109.89
Operational Expenses / Total Income (%)	26.21	44.26	57.79	69.31
Non-Interest Income / Total Income (%)	20.40	21.20	9.15	3.97
Credit Cost [Prov. & Write-off / Avg. Total Assets] (%)	0.01	0.00	0.02	0.01
ROTA	2.61	0.53	(0.81)	(0.41)
RONW	30.29	6.82	(7.96)	(3.10)
Overall Gearing (times)	13.17	10.60	7.14	5.69
Capital Adequacy Ratio	10.62	10.62	17.37	20.31
Tier I Capital Adequacy Ratio	10.62	10.62	17.37	
Credit/Deposit ratio (times)	0.92	0.73	0.82	
CASA Proportion (%)	6.29	5.22	23.26	
Gross NPA to Gross Advances (%)	-	-	-	-
Net NPA to Net Advances (%)	-	-	-	-
Net NPA to Tangible Net worth (%)	-	-	-	-

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