Rating Rationale
Banyan Tree Bank Limited

Ratings

Facility/Instrument	Amount	Rating	Remarks
Fixed Deposit Programme	USD 150 Mn (equivalent MUR 5.25 Bn)	**CARE MAU A-** (Single A minus)***	**Reaffirmed****

Rating does not take into account 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.

***Outlook assigned in line with policy of CRAF: Negative*

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, strong asset quality, increase in low cost CASA deposit and improved capital adequacy. The rating is, however, constrained by concentration of investment in few entities, volatility of profit due to market and currency risk, small size of the bank in the banking sector of Mauritius with limited performance history 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 loans & advances portfolio and maintaining capital adequacy are key rating sensitivities.
The rating outlook is negative and may be revised with improvement in profitability and diversification in loan portfolio.

BACKGROUND

Banyan Tree 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. About 32% shareholding is with Mr. Sanjiv Singhal & his daughter (through a Singapore company – Neemtree Advisors), 28% 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 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 CY14 (CY refers to period from January to December) & CY15, BTB was focusing on raising funds 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 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 5.9 Bn (approx USD 180 Mn) as on December 2016 and MUR 5.1 Bn (approx USD 151 Mn) as on June 2017.

Sanjiv Singhal has spent 14 years in banking sector (firstly with Citibank and later with Standard Chartered Bank). He holds a 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 in Mauritius. The Bank has opened a branch in Port Louis, Mauritius and a representative office in the Dubai International Financial Centre (DIFC).

CREDIT RISK ASSESSMENT

Experienced Promoters and Management

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 towards wholesale banking and private banking while retail banking operations are expected to be limited. The presence of local shareholders provides stability to the profile of the bank and help attract domestic deposits.

In CY16, there was major change in the senior management team of the bank with change in CEO and COO. Mr Sanjit Chowdhry has joined as CEO in August 2016. He has over 24 years of experience (over 21 years in the banking sector). Prior to joining BTB, he was Head of Wholesale Risk at RBL Bank in India. Before that he was associated with Barclays Bank, Standard Chartered Bank and ANZ Grindlays Bank in India. Mr. Rahul Bajpai joined as COO in May 2016. Post joining of Mr. Sanjit Chowdhry, the team has remained same. 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. Capoor is currently on the Board of Indian Hotels Company Limited (a Tata Enterprise) amongst others. Mr. Robert Green, with over 38 years of international banking experience split equally between Bank of Boston and Standard Chartered Bank, has joined the Board in CY16. He is a seasoned risk professional.

Strong asset quality but concentrated among few entities

Investments portfolio (62% of total assets as on December 31, 2016 and 57% as on June 30, 2016 vis-à-vis 84% in December 31, 2015) is primarily in international bonds. Majority of the portfolio is investment grade on international scale and mainly invested into bonds / debentures of banks. Within bank bonds, a significant proportion is towards Indian banks. However, the bond portfolio is invested in securities of less than 20 entities in December 2016 and June 2017 leading to concentration risk.

This investment portfolio has a leveraged strategy using funding from international banks thereby providing a profitable spread. From a credit risk perspective, the investments are low risk if held to maturity. This portfolio is part of the BTB's strategy to initially operate with low credit risk and is expected to reduce further over the next 2 years as it builds its loan book. BTB has already reduced the same from 84% in December 2015 to 57% as on June 30, 2017.

Loans & advances portfolio (13% of total assets as on December 31, 2016 and 20% as on June 30, 2016 vis-à-vis 6% in December 2015) is being built gradually by BTB. The portfolio has seen limited seasoning and is diversified into Mauritius, India, Singapore, U.A.E. (Dubai), U.K., and Thailand. Around 57% of the loan is in financial sector, 23% of the loan is in manufacturing sector, 14% in Trading sector and balance 4% in the construction sector. Going forward BTB also proposes to build trade finance portfolio in Mauritius (backed by credit insurance). While BTB's portfolio strategy is to remain sector or geography agnostic, given the targeted product segments of wholesale lending, the loan ticket size and its promoter / management experience, it is expected to have a larger portfolio distribution towards the mid-sized corporate based out of India, Mauritius, UK and the Middle East. The asset quality of this portfolio will be one of the key rating sensitivity.

BTB has investment in Kotak Mahindra fund (Kotak Advantage Banking Fixed Income fund) and is already at a profit of more than MUR 30 million in this portfolio as on June 30, 2017 (as per statement submitted by BTB.)

In CY16, BTB has witnessed delinquency in an aggregate outstanding exposure of MUR 1.77 million as on December 31, 2016 and the same has gone into administration. BTB has made a provision of MUR 1.77 million in P/L account in CY16. This apart BTB has no NPA or delinquent asset in its 4-year history, which compares well with industry avg. of Non-performing loans to total gross loans of 7.8% as on December 2016[1]. However, the same also needs to be seen in the context of its limited track record of operations.

Moderate capital adequacy

Capital adequacy was 13.03% as on December 2016 and it comprises entirely of Tier I capital. It is above Regulatory CAR of 10%, the minimum required by the Bank of Mauritius (BOM) till December 2016. From January 2017, Regulatory CAR has been increased to 10.65% by BOM. CAR was 12.75% as on June 30, 2017, without considering Tier II capital of MUR 73 million raised by BTB in May 2017. Deloitte has given an Independent Assurance Report to the Board of Directors of Banyan Tree Bank Limited, wherein the Auditor has stated that they have examined the terms & conditions of the Subordinated Loan Agreement and nothing has come to their attention that causes them to believe that the terms and conditions of the Subordinated Loan Agreement do not meet the criteria set out in the "Guidelines on Scope of Application of BASEL II and Eligible Capital" for inclusion in Tier II Capital. The same is subject to Bank of Mauritius approvals.

Volatility in profitability in FY16 & H1FY17

Total assets contracted by 10% during December 2015 to December 2016 due to the management's policy to reduce its exposure during Brexit and US election in order to mitigate the risk of getting affected by adverse currency movement. Post Brexit & US elections, the management has opted a cautious approach in lending and is more comfortable in holding cash. Cash and cash equivalents are 22% of the assets on December 2016 vis-à-vis 6% in December 2015.

During CY16, BTB posted dip in profit because of lower net interest income, higher personal & administrative expense and notional loss on movement in currency (MUR 10 million). Personnel & other expenses increased from MUR 80 million in CY15 to MUR 116 million in CY16 mainly due to commencement of operations in representative office in Dubai. Profitability dipped in CY16 leading to fall in ROTA from 2.61% in CY15 to 0.53% in YE-DEC16 and is expected to be volatile due to exposure to market risks.

In 6 months ended June 2017, BTB achieved net interest income of MUR 59 Million and a loss of MUR 14.6 million (due to notional loss of MUR 17.6 million). However, BTB also has a

[1] Monetary Policy and Financial Stability Report – May 2017 – Bank of Mauritius

notional gain of MUR 25 million on its AFS portfolio. On considering the same, BTB has achieved a profit of MUR 10.4 million.
The operation needs to be scale up profitably over a longer period.

Moderate scale of operations – concentration in deposits & assets

Despite the rapid growth in CY15 and consolidation in CY16, the scale of operations for BTB remains moderate leading to concentration risks in both assets and liabilities.
BTB has limited retail operations. However, CASA increased from 6% in December 2015 to 18.2% in December 2016 and 20.5% in June 2017. Deposits from retail customers, institutional investors and HNIs stood at 64% of total liabilities as on December 2016 (47% in December 2015). Deposits face moderate concentration risk as they are from around 50 investors. This includes large corporates, parastatal bodies and individual. However ALM is comfortable and the bank maintains good liquidity. Moreover, the Mauritius banking sector has excess liquidity. Performance on this parameter remains a rating constraint and will be monitored.

Deposits are mainly in MUR and USD. Since most of the assets are in USD (94%), MUR deposits (21% of total liabilities) are hedged by taking derivatives to convert MUR to USD liabilities. However positions are not fully hedged and BTB is exposed to some currency fluctuation risk.

Borrowings are from well reputed large financial institution's that provide facilities to BTB. 75% of the portfolio is financed by the lenders and 25% is funded by BTB (allowing 3x leverage). These loans formed around 36% of total liabilities for BTB as on December 2016 (53% in December 2015).

Limited performance history

BTB has been profitable since the second year of operations. While it is expected that the performance of BTB is going to remain positive, the actual performance needs to be observed over a longer period of time with the new management in place. Specifically since the portfolio mix is moving towards more conventional loan & advances, low seasoning of that portfolio is a key rating constraint. Overall business parameters like profitability, capital and liquidity need to be observed over longer business cycles.

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. Duration is low to moderate at around 2.5 years. 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.

Prospects

The banking sector in Mauritius must 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 23 licensed banks (including 2 private banks). Also, there are more foreign banks (13) than domestic banks (10) in Mauritius. 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 with also a focus on private banking 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-14**	**Dec-15**	**Dec-16**	**Jun-17**
	12M	**12M**	**12M**	**6M**
		(Audited)		
Interest Income	137.4	258.0	250.0	101.7
Non-Interest Income	108.8	80.9	67.3	15.0
Total Income	246.2	338.9	317.3	116.6
Interest Expenses	66.9	117.5	131.9	42.7
Net Interest Income	70.5	140.5	118.1	59.0
Operating Expenses (Incl. Depreciation)	63.4	84.9	150.8	82.5
Provisions (excl tax)	-	4.2	2.2	5.9
PBT	116.0	132.3	32.4	(14.6)
PAT	113.6	127.9	33.2	(14.6)
Other comprehensive income	(0.5)	(40.0)	9.3	25.0
Total Comprehensive PAT	113.1	87.9	42.5	10.4
Deposits	1,588.2	2,869.0	3,453.4	3,074.0
Other borrowed funds	1,164.9	3,269.3	1,940.3	1,439.9
Total Deposits & Borrowings	2,753.2	6,138.3	5,393.7	4,513.9
Tangible Net worth	378.2	466.1	508.6	519.1
Cash & Cash Equivalents	554.6	373.8	1,313.8	842.8
Advances	43.7	416.5	744.4	1,041.2
Investments	2,298.1	5,561.9	3,673.4	2,974.4
Total Assets	3,166.1	6,616.2	5,927.5	5,124.3
Key Ratios (%)				
Interest Income/Avg. Interest Earning Assets (a)	8.04	5.63	4.40	2.22
Interest Expenses / Avg. Interest Bearing Liabilities (b)	4.42	2.64	2.29	0.98
Interest Spread (a-b)	3.62	2.99	2.11	1.24
Net Interest Margin (NIM)	3.81	2.87	1.88	1.19
Operational Expenses / Avg. Total Assets	3.42	1.74	2.40	1.67
Cost to Income Ratio (%)	35.3	38.4	81.34	111.68
Operational Expenses / Total Income (%)	25.7	25.1	47.52	70.78
Non Interest Income / Total Income (%)	44.2	23.9	21.20	12.82
ROTA	6.13	2.61	0.53	(0.29)
RONW	35.84	30.29	6.82	(2.79)
ROTA (including other comprehensive income)	6.11	1.80	0.68	0.21

Particulars	Dec-14	Dec-15	Dec-16	Jun-17
	12M	12M	12M	6M
	(Audited)			
RONW (including other comprehensive income)	35.67	20.82	8.72	2.03
Overall Gearing (times)	7.28	13.17	10.60	8.70
Capital Adequacy Ratio	14.14	10.62	13.03%	12.75%
Tier I Capital Adequacy Ratio	14.14	10.62	12.91%	12.71%
Credit/Deposit ratio (times)	0.85	0.97	0.82	0.89
CASA Proportion (%)	0.69	6.29	18.21	20.46
Gross NPA to Gross Advances (%)	-	-	0.24%	0.17%
Net NPA to Net Advances (%)	-	-	-	-
Net NPA to Tangible Net worth (%)	-	-	-	-

- Gearing was on the higher side as on Dec 31, 2016. However, the bank strategically reduced its debt portfolio, prior to Brexit and US election accordingly gearing was 10.60x as on Dec 31, 2016 and 8.70x as n June 30, 2017.
- Tier II capital of MUR 73 million, raised in May 2017, has not been considered as part of equity as on June 30, 2017 since the same is subject to Bank of Mauritius approvals.
- BTB has booked a notional MTM loss of MUR 10 million and MUR 17.6 million in Dec 2016 and June 2017 due to appreciation of MUR vis-à-vis USD, since the BTBs asset and equity portfolio is primarily denominated in USD.