

Privileged & Confidential  
**Rating Rationale**  
**Banyan Tree Bank Limited**

**Ratings**

Facilities	Amount	Ratings	Remarks
Fixed Deposit Programme	USD 150 Million (equivalent to MUR 5.4 Billion) (Enhanced from USD 100 Million)	<b>CARE MAU A-**</b> <b>(Single A minus)*</b>	<b>Reaffirmed**</b>

*\*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 recent change in 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, strong asset quality, rising scale of operations, business growth and profitability of the bank in CY2015 and H1CY16. The rating is, however, constrained by continuous change in management team during last one year, moderate capital adequacy, concentration of investment in few entities, low CASA deposit, small size of the bank in the banking sector of Mauritius due to relatively limited performance history and potential volatility due to market related risks. Ability to scale up operations profitably, improvement in resource profile & capital adequacy, diversification in asset quality of loans portfolio and market risks on assets are key rating sensitivities.

The rating outlook is negative and may be revised with improvement in CAR and diversification in loan portfolio.

**BACKGROUND**

Banyan Tree Bank (BTB) is promoted by 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. 32.2% shareholding is with Sanjiv Singhal (through a Singapore company – Neemtree Advisors) and his daughter, 20% is with Mauritian entities (groups / individuals), 10% with employee trust and rest with individuals.

BTB was incorporated in Mauritius on 11<sup>th</sup> June 2012 and received its banking license from the Bank of Mauritius (BoM) on 6<sup>th</sup> Sept. 2012. Commercial operations effectively started in 2013.

Sanjiv Singhal has spent 14 years in banking sector (firstly with Citibank and later with SCB). 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 branch in Dubai.

**CARE Ratings (Africa) Private Limited**

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**CREDIT RISK ASSESSMENT****Strong promoter capabilities with continuous change in management team**

BTB is managed by a team of experienced banking and financial sector professionals having worked in different segments and geographies (including India and Mauritius). BTB also leverages the capabilities of the promoter group, including Banyan Tree Finance Pvt. Ltd., which is an India based fund manager. The origination and initial appraisal of loan portfolio is done by management or through promoter group ecosystem. The operative model for BTB is focused towards wholesale banking and retail banking operations are expected to be limited.

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 also 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.

During last one year, there has been 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 20 years of experience in the banking sector. Prior to joining BTB, he was Head of wholesale risk at RBL. Before that he was associated with Barclays Bank and Standard Chartered Bank in India. Mr. Rahul Bajpai has joined as COO in May 2016. With the long term objective of building capacity, the senior management team put in place has the capability of handling larger scale of business even though the current scale of operations is moderate.

**Strong asset quality but concentrated among few entities**

BTB has nil NPA in its 3 years' history, which compares well with industry Gross NPA of 8.9% as on July 2016<sup>1</sup>. However, the same also needs to be seen in the context of its limited track record of operations.

Investments portfolio (85% of total assets as on December 31, 2015 and 75% as on June 30, 2016) 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 17 entities in Dec 2015 and 18 entities in June 2016 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 over the next 2 years as it builds its loan book.

Loans & advances portfolio (7% of total investment and loans & advances as on December 31, 2015 and 12% as on June 30, 2016) is being built gradually by BTB. The exposures are global and currently most of the entities are either in India or are based out of India. While BTB's

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<sup>1</sup> Monetary Policy and Financial Stability Report – July 2016 – Bank of Mauritius

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 and Mauritius. The asset quality of this portfolio will be one of the key rating sensitivity.

#### Moderate capital adequacy

CAR dipped to 10.62% as on December 31, 2015 (14.14% as on December 31, 2014) comprising entirely of Tier I capital. This was barely above the minimum CAR requirement of 10% stipulated by the BoM. However, the same has improved to 11.92% as on September 30, 2016. BTB is in the process of raising Tier II capital to improve its CAR.

#### Increase in growth with profitability

Total assets more than doubled to MUR 6.62 Bn as on Dec 2015 as against MUR 3.2 Bn as on Dec 2014. BTB reported a net profit in 2015 (Jan – Dec) of MUR 127.9 Mn (MUR 113.6 million in CY14). During YE-DEC15, BTB posted 12% growth in profits on account of higher net interest income, gain due to favourable movement in currency and profits booked on Available For Sale (AFS) bond portfolio. In 6 months ended June 2016, BTB reported a net interest income of MUR 35 Million. Overall the profitability is moderate with ROTA at 2.61% for YE-DEC15. The performance indicates ability to scale up the operations profitably; however, this needs to be observed over a longer period.

#### Moderate scale of operations – concentration in deposits & assets

Despite the rapid growth, the scale of operations for BTB remains moderate leading to concentration risks in both assets and liabilities.

BTB has limited retail operations and CASA proportion is negligible (6.29% as on Dec 2015). Therefore, its deposit base is predominantly from institutions. Due to this and the small scale of operations it is exposed to the risk of concentration in deposits. BTB is actively planning to diversify its deposit base with HNIs (high net-worth individuals). Performance on this parameter remains a rating constraint and will be monitored. Borrowings are from a 175 year old Swiss Bank - J. Safra Sarasin Ltd. that provide facilities to BTB.

Deposits are mainly in MUR and USD. Since 97% of the assets and 83% of the liabilities are in USD as on Dec 31, 2015, MUR deposits 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.

ALM profile is comfortable with no cumulative negative mismatches in any bucket upto 1 year (as on September 30, 2016). Liquidity is supported by investment portfolio in bonds.

#### 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

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over a longer period of time with the new management in place. Specifically since the portfolio mix is expected to move 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 has to be seen in the overall context of the economy. Mauritius is growing as an international finance center 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 than domestic banks - 15 (21 full commercial banks) in Mauritius. Given this market structure, the business models in Mauritius or any other finance center 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 & capital adequacy, diversification in asset quality of loans portfolio and market risks on assets are key rating sensitivities.

**FINANCIALS**

(MUR Mn)

<b>As on / for the period ending</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>June-16</b>
	<b>12M</b>	<b>12M</b>	<b>12M</b>	<b>6M</b>
Interest Income	16.4	137.4	258.0	144.2
Non Interest Income	6.9	108.8	80.9	27.2
Total Income	23.3	246.2	338.9	171.4
Interest Expenses	3.4	66.9	117.5	69.9
Net Interest Income	13.0	70.5	140.5	74.3
Operating Expenses (Incl. Depreciation)	28.5	63.4	89.1	66.4
PBT	(8.7)	116.0	132.3	1.0
PAT	(7.8)	113.6	127.9	35.1
Other comprehensive income	-	(0.5)	(40.0)	33.5
Total Comprehensive PAT	(7.8)	113.1	87.9	55.7
Deposits	274.5	1,588.2	2,869.0	2,843.5
Other borrowed funds	-	1,164.9	3,269.3	1,399.0
Total Deposits & Borrowings	274.5	2,753.2	6,138.3	4,242.5
Tangible Net worth	255.7	378.1	466.1	521.8
Cash & Cash Equivalents	65.4	554.6	373.8	464.2
Loans & Advances	1.2	43.7	416.5	541.9
Investments	442.7	2,298.1	5,561.9	3,580.0
Total Assets	537.6	3,166.1	6,616.2	4,776.2
<b>Key Ratios (%)</b>				
Interest Income/Avg. Interest Earning Assets (a)	3.47	8.04	5.63	5.20
Interest Expenses / Avg. Interest Bearing Liabilities (b)	2.49	4.42	2.64	2.69
Interest Spread (a-b)	0.98	3.62	2.99	2.51
Net Interest Margin (NIM)	3.31	3.81	2.87	2.61
Operational Expenses / Avg. Total Assets	7.29	3.42	1.82	2.33
Cost to Income Ratio (%)	143.6	35.3	40.3	65.5
Operational Expenses / Total Income (%)	122.6	25.7	26.3	38.8
Non Interest Income / Total Income (%)	29.7	44.2	23.9	15.9
ROTA	(1.99)	6.13	2.61	1.18
RONW	(5.01)	29.02	30.30	14.26
Overall Gearing (times)	1.07	7.28	13.17	8.13
Capital Adequacy Ratio	62.74	14.14	10.62	11.92*
Tier I Capital Adequacy Ratio	62.74	14.14	10.62	11.92*
Credit/Deposit ratio (times)	1.62	0.85	0.97	0.97
CASA Proportion (%)	12.64	0.69	6.29	6.94
Gross NPA to Gross Advances (%)	-	-	-	-
Net NPA to Net Advances (%)	-	-	-	-
Net NPA to Tangible Net worth (%)	-	-	-	-

\*As on Sept 30, 2016

- Gearing was on the higher side as on Dec 31, 2015. However, the bank strategically reduced its debt portfolio, prior to Brexit and accordingly gearing was 8.13x as on June 30, 2016. The same has remained at similar levels as on Sept 30, 2016.

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