

## IPO NOTE

### Subscribe for Long Term

13th March 2018

#### Issue Details

Price Band (Rs)	370 – 375
Face Value(Rs)	10
Issue Size(Rs)	4473 Cr
Issue Type	Book Building
Minimum lot	40 Shares
Issue Opens	March 15, 2018
Issue Closes	March 19, 2018
Listing on	BSE, NSE

#### Indicative Timeline

On or before	
Finalization of Basis of Allotment	March 22, 2018
Unblocking of Funds	March 23, 2018
Credit of shares to Demat Account	March 26, 2018
Listing on exchange	March 27, 2018

#### Other Detail

Book Running Lead Managers	JM Financials Institutional Securities Ltd, Kotak Mahindra Capital Company Limited, Axis Capital Limited, Goldman Sachs (India) Securities Private Limited, J.P. Morgan India Private Limited
Registrar	Karvy Computershare Private Limited

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## Bandhan Bank Limited

### Company Background

Incorporated in 2014, Bandhan Bank Limited (BBL) is a Kolkata based commercial bank focused on micro financing and general banking services. Bandhan Bank has a pan-India license to provide banking services across customer segments. BBL offers a variety of asset and liability products and services designed for micro banking and general banking as well as other banking products and services to generate non-interest income.

BBL was incorporated as a wholly-owned subsidiary of Bandhan Financial Holdings Limited (BFHL) and owns the privilege to be the first bank set up in Eastern India post Independence. BFHL is owned by Bandhan Financial Services Limited (BFSL), which is the largest micro finance organization in India. Its other investors include International Finance Corporation (IFC), Small Industries Development Bank of India (SIDBI), and Caladium Investment Pte. Ltd. Mr. Chandra Shekhar Ghosh is the founder, MD and CEO of BFSL.

### Issue Details

IPO offers 11.92Cr shares of face value Rs.10 each amounting to Rs.4,473Cr on the upper price band of Rs.375, which is 10% of post issue paid up capital. Out of the total shares, 9.76Cr shares will be fresh issue and 2.16Cr shares are under offer for sale by IFC (1.40Cr shares) and IFC FIG (0.76Cr shares). Funds of ~ Rs.3,660Cr raised through fresh issue will be utilized to augment Bank's Tier-I capital base to meet future capital requirements. Issue for anchor investors will be on March 14, 2018.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.370)	Upper Band (Rs.375)
QIB	50%	5,96,40,247	2,206	2,236
Non-Institutional	15%	1,78,92,074	662	671
Retail	35%	4,17,48,173	1,545	1,566
<b>Total</b>		<b>11,92,80,494</b>	<b>4,413</b>	<b>4,473</b>

*Source: Company RHP, ACMIIL*

### Outlook and Valuations

Bandhan Bank is the largest micro-finance company in the country with a strong foothold in Eastern and Western India. Moving ahead, they are planning to expand across the country with focus on tier I and tier II cities. Their unique business model and healthy customer retention place them well to compete with other private banks. At the upper price band of Rs. 375, the asking price is at a PBV of 7.17x taking FY18E BV of Rs.52.27, which makes it fully priced, compared to listed peers. Hence, we recommend to **SUBSCRIBE the issue from a long-term perspective.**

### Business Overview

BBL began its operations as micro financier serving underbanked and underpenetrated regions of West Bengal. As an NGO core focus was to reach the interiors to support and uplift socially and economically disadvantaged women in rural areas. After receiving the banking license, BBL offer a variety of asset and liability products and services designed for micro banking and general banking. Asset products consist of retail loans including a substantial portfolio of micro loans, SME loans and small enterprise loans. As of December

31, 2017, 96.49% of Gross Advances were in priority sector lending compliant with the Reserve Bank of India's PSL requirements.

Bank's liability products consist of savings accounts, current accounts and a variety of fixed deposit accounts. They have built a strong base of current account and savings account deposits, which together stood at Rs.84,018.45 million as of December 31, 2017, with a CASA ratio of 33.22%. CASA ratio provides a stable source of low-cost funding to bank allowing them to provide cost-effective loans to customers. Moreover, as of December 31, 2017, retail-to-total deposit ratio stood at 85.07%.

BBL also offers other banking products and services such as debit cards, internet banking, mobile banking, EDC-POS terminals, online bill payment services and the distribution of third-party general insurance products and mutual fund products. Taking the benefit of excess PSL portfolio over the RBI's requirement, they issue and sell PSL certificates to other banks which provide an additional stream of non-interest income.

## Investment Rationale

### Unique Business model

BBL operates on hub and spoke model which makes its business model unique compared to its peer banks. This business model was evolved in the beginning when they began operations as a microfinancer. Currently under the system, 3-4 Doorstep Service Centres (DSC) are linked with a Bank branch located near the customers, which help in providing personalised door step services to customers. Such infrastructure makes it low cost establishment and also aid in maintaining healthy customer relationship. For microfinance segment they practice various measures like weekly client meetings, regular client visits to keep a check on borrowers. Employees are usually locally hired and trained well to have a strong understanding of the local areas in which they will work. Cost to income ratio of the bank is comparatively low and was 35.4% for 9MFY18.

### Strong Network

BBL has a strong presence in Eastern and North Eastern India covering West Bengal, Assam and Bihar with 887 bank branches and 430 ATMS. For the micro finance segment, they have a network of 2,633 doorstep service centres (DSCs) with total work force of 27,176 employees. BBL has around 12 million customers, with 9.86 million micro loan customers and 2.13 million general banking customers. On an average they open 15,000 new accounts every day. Moving ahead they plan to expand their presence in other parts of the country.

### Focus on banking segment with expansion of gold loan and affordable housing loan

Moving further BBL is focused to expand their retail banking systems which is just 22% of total advances. They seek to build strong retail banking operations just like their microfinance segment with increasing branches and hiring & training employees. Leveraging skill and expertise of past, retail segment will also be refined, cost efficient and wide spread in untapped regions of country. In near future, they find ample opportunities in gold loan and affordable housing-based loan, loan against property and loan against two wheelers accounts. They will continue to focus on micro-lending, while looking to grow its retail and SME lending portfolios, while boosting the share of non-interest income by increasing third-party offerings.

### Adopting advanced technology

BBL is developing its digital platform to serve better to its customers and compete with peers. Technology plays a vital role in banking space and BBL is continually investing to enhance its digital and technology platform as a means of driving enhanced customer satisfaction and retention. They already have set up internet banking facilities, mobile banking app, online and mobile payment modes for cashless payments, e-commerce payments through Verified by Visa and RuPay Pay Secure, and other online payment and other services. They are also implementing online investment options allowing customers to invest in mutual funds and buy shares in initial public offerings, as well as further online payment systems such as the Unified Payment Interface, the Bharat QR Code and the Aadhaar Enabled Payment System, in addition to online KYC and other services. Advanced Technology will reduce operating costs, risk and errors, increasing efficiencies.

### Financials

For FY17, BBL reported a total revenue of Rs.43,201mn, up 150% YoY and net profits rose 304% YoY to Rs.11,120mn YoY. For 9MFY18, total revenue was Rs.39,545mn with net profit of Rs.9577mn. Deposits and gross advances stood at Rs.25,293 mn and Rs.24,364mn, respectively, as of 31 December 2017. Micro credit is 88% of total advances whereas loans to micro and small enterprises make up 12% total advances. Only 6% of deposits come from micro loan customers, while the rest are from banking customers, which are the new customers acquired since 2015. The net interest margin stands at 9.46%, CASA at 33.2% and cost-to-income at 35.4%. Over a period of time bank plans to expand its branches across the country with their hub & spoke model maintaining the cost efficiency and business transparency.

## Risk and Concern

**Geographical Concentration:** BBL is mostly concentrated in Northern and Eastern India and has less exposure to other regions, which is a growth constraint for the company.

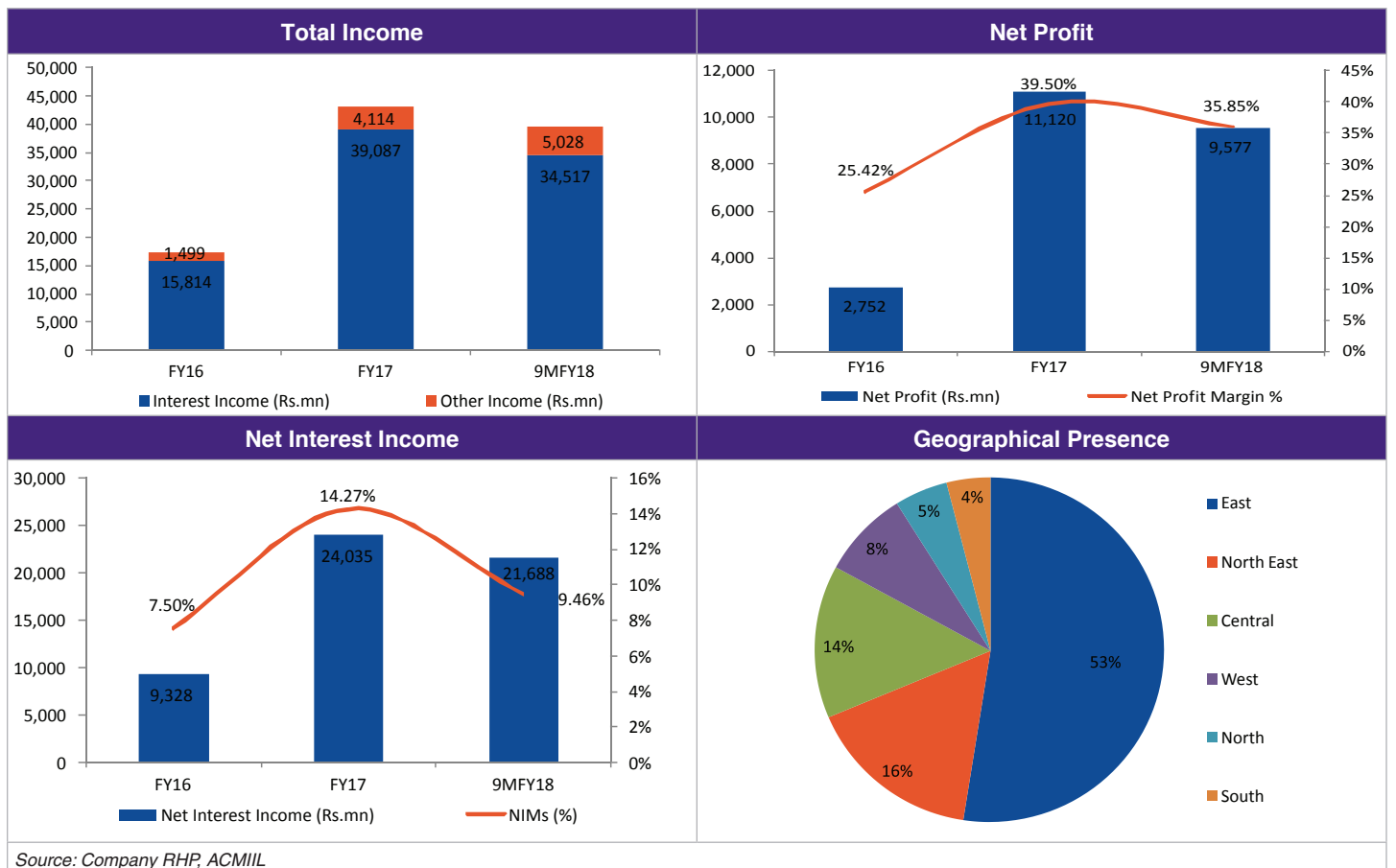
**Income Source:** BBL derives a substantial portion of interest income from advances that are due within one year, and a significant reduction in these short-term advances may result in a corresponding decrease in their income.

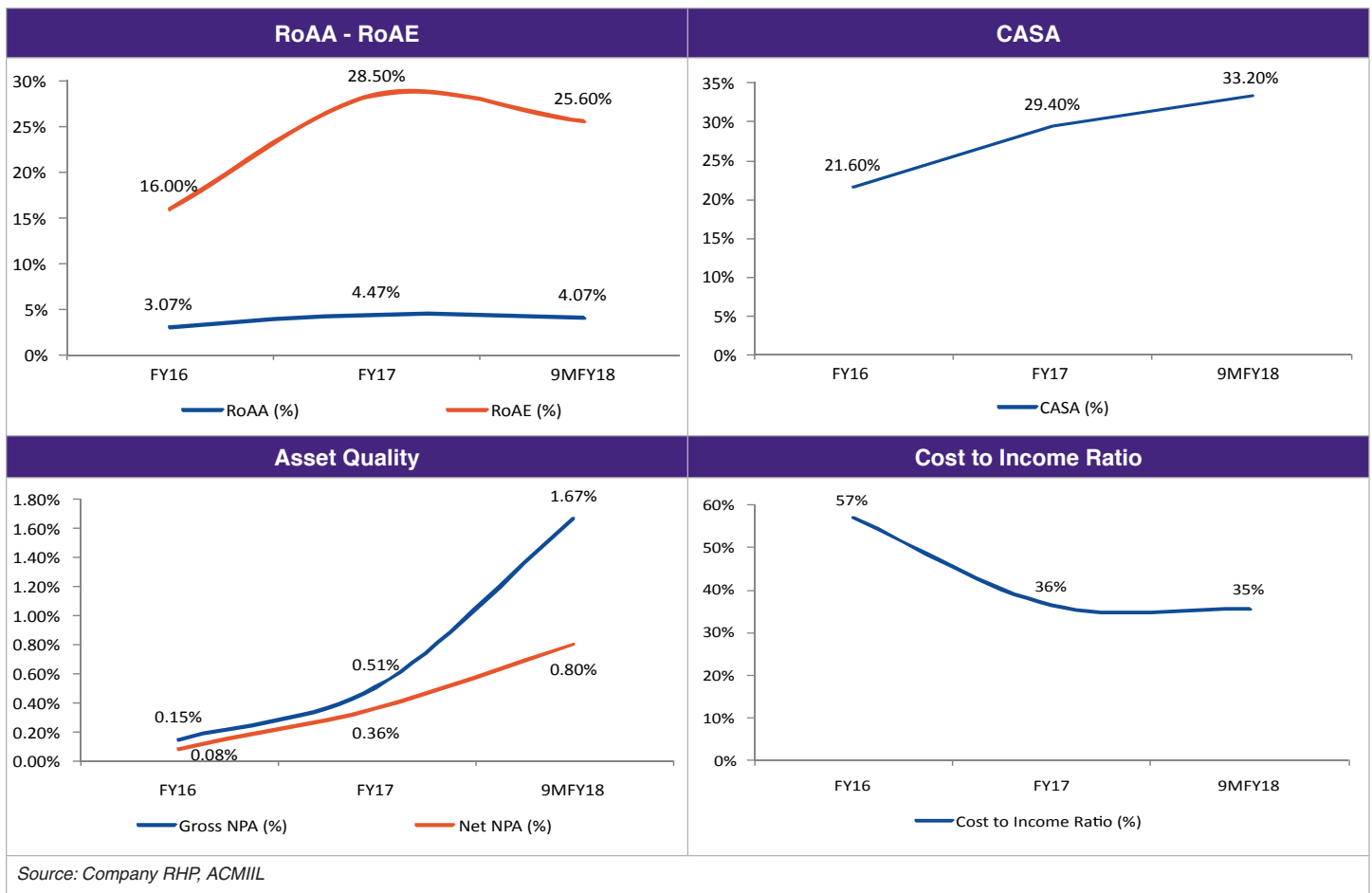
## Peer Comparison

Particulars	Face Value (Rs)	Basic EPS (Rs)	P/E (x)	P/B (x)	RoNW (%)
Bandhan Bank	10	10.15	36.93	9.23	25.01
RBL Bank	10	12.60	36.98	4.46	10.3
AU Small Finance Bank	10	27.97	20.81	8.35	38.33
Equitas Holdings	10	4.79	29.44	2.15	7.14
Ujjivan Financial Services	10	17.76	19.14	2.34	11.83
Bajaj Finance	2	34.00	34.35	9.98	19.12
Gruh Finance	2	8.15	67.61	16.61	26.64
Axis Bank	2	15.4	33.18	2.18	7.01
Indusind Bank	10	48.06	35.98	5.12	14.14
ICICI Bank	2	17.51	17.02	1.66	10.03
IDFC Bank	10	3.00	16.33	1.13	6.94
Kotak Mahindra Bank	5	30.50	36	5.38	12.83
Yes Bank	2	79.12	3.88	3.2	15.15

Note: Data as on 31st March 2017

Source: Company RHP, ACMIIL





## Financials

### Profit & Loss statement

Particulars (Rs.mn)	FY15	FY16	FY17	9MFY18
Interest Income	0	15,814	39,087	34,517
Less: Interest Expense	0	6,485	15,052	12,829
<b>Net Interest Income</b>		<b>9,328</b>	<b>24,035</b>	<b>21,688</b>
<b>NIMs</b>		<b>7.50%</b>	<b>14.27%</b>	<b>9.46%</b>
Other Income	80	1,499	4,114	5,028
<b>Net Income</b>	<b>80</b>	<b>10,827</b>	<b>28,149</b>	<b>26,716</b>
Operating Expenses	56	6,159	10,220	9,453
Provisions & Contingencies	0	533	884	2,651
<b>Profit before tax</b>	<b>23</b>	<b>4,135</b>	<b>17,045</b>	<b>14,612</b>
<b>Tax Expenses</b>				
Current tax	26	1,695	6,252	5,414
Deferred tax	-9	-313	-327	-379
Total Tax Expenses	17	1,383	5,925	5,035
<b>Net Profit</b>	<b>6</b>	<b>2,752</b>	<b>11,120</b>	<b>9,577</b>
<b>Net Profit Margin %</b>	<b>7.24%</b>	<b>25.42%</b>	<b>39.50%</b>	<b>35.85%</b>
Number of Shares	501	1,095	1,095	1,095
<b>Earnings per Share</b>	<b>0.01</b>	<b>2.51</b>	<b>10.15</b>	<b>8.75</b>

Source: Company RHP, ACMIIL

## Balance sheet

Particulars (Rs.mn)	FY15	FY16	FY17	9MFY18
<b>Capital &amp; Liabilities</b>				
Capital	5,010	10,951	10,951	10,951
Reserves & Surplus	6	22,394	33,513	43,090
Deposits	0	1,20,887	2,32,287	2,52,940
Borrowings	0	30,516	10,289	13,307
Other liabilities and provisions	253	12,816	15,320	11,905
<b>Total Capital &amp; Liabilities</b>	<b>5,269</b>	<b>1,97,565</b>	<b>3,02,361</b>	<b>3,32,193</b>
<b>Assets</b>				
Cash and balances with Reserve Bank of India	0.1	8,103	60,121	12,587
Balance with Banks and Money at call and short notice	4,013	23,631	13,529	11,332
Investments	0	37,580	55,165	72,912
Advances	0	1,24,375	1,68,391	2,29,307
Fixed Assets	1,086	2,372	2,518	2,330
Other Assets	170	1,503	2,637	3,725
<b>Total Assets</b>	<b>5,269</b>	<b>1,97,565</b>	<b>3,02,361</b>	<b>3,32,193</b>

Source: Company RHP, ACMIL

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