

For Your Better Tomorrow



Bandhan Bank (IPO)

"The individual investor should act consistently as an investor and not as a speculator." - Ben Graham.

Date – 15th March, 2018

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General Info

Offer Price Band	Rs 370- Rs 375
Face Value	Rs 10
Issue Size (In cr)	Rs 4473 cr
Issue Open	15th Mar-19th Mar
Min Bid	40 Shares

Offer

The bank is coming out with an IPO to collect around Rs 4413 crore at the lower price band of Rs 370 per share (face value Rs 10 per share) and Rs 4473 crore at the upper band of Rs 375 per share, consisting of a fresh issue of equity shares (Rs 3614 crore to Rs 3662 crore) aggregating to 9.77-crore equity shares and offer for sale of equity shares (Rs 800 crore to Rs 811 crore) aggregating to 2.16-crore equity shares.

The offer for sale includes sale of equity share of up to 14,050,780 equity shares by IFC and up to 7,565,804 equity shares by IFC FIG.

Objective of the Issue

The Issue comprises of a Fresh Issue and an Offer for Sale.

Fresh Issue

The object of the fresh issue is to augment Bank's Tier-I capital base to meet Bank's future capital requirements.

Offer for Sale

The Selling Shareholders will be entitled to the respective portion of the proceeds of the Offer for Sale.

Promoters

The Promoters of the Bank are BFHL, BFSL, FIT and NEFIT.

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BFSL was accorded in-principle approval by the RBI on April 9, 2014 for setting up a bank in the private sector. The promoter of BFHL is BFSL.

FIT and NEFIT is an irrevocable charitable trust.

Company Overview

Incorporated in 2014, Bandhan Bank Limited is Kolkata, West Bengal based commercial bank focused on micro banking and general banking services. Bandhan Bank has a license to provide banking services pan-India across customer segments. Bank offer 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.

Chandra Shekhar Ghosh is founder of the company and MD and CEO of Bandhan bank. Sunil Samdani is the Chief Financial Officer, Biswajit Das is the Chief Risk Officer of Nand Kumar Singh is the Head- Banking Operations and Customer Services and Rahul Johri is the Head- Retail Banking of the bank.

Network

Network of 2,546 doorstep service centers (DSCs) and 9.47 million micro loan customers; the bank has strong very hold in microfinance. Bandhan bank has 864 bank branches and 386 ATMs serving over 1.87 million general banking customers. Banks distribution network is strong in East and Northeast India, with West Bengal, Assam and Bihar.

Bandhan Bank Strength

1. Serving Under-banked and under penetrated Market.
2. Consistently growth in Quality Asset and Liability Franchisee.
3. Low cost distribution network.
4. Focus on micro lending while expanding further into other retail and SME lending.

Investment Arguments

1. The net interest margins (NIMs) of the bank was strong at 9.86%.
2. Return on equity (RoE) of 25.55%.
3. Return on assets (RoA) of 4.07%.
4. The gross NPAs stood at 1.67% and the net NPAs at 0.80% at end December 2017.
5. Its gross loan book has grown from and Rs 7768.79 crore as on 23 August 2015 to Rs 15578.44 crore end March 2016 to Rs 24364.39 crore end of December 2017.
6. Customers have increased from 6.77 million to 11.99 million.
7. Deposits base have jumped to Rs 25293.96 crore with CASA ratio of 33.2% and retail deposits ratio of 85.1% end December 2017.
8. Distribution network is relatively low cost, which in particular is a result of "hub and spoke" model of using DSCs and associated bank branches, as well as focus on tech initiatives.

Weakness

1. Limited operating history.
2. Most of the business is concentrated in East and North East India.
3. The micro finance loan portfolio of the bank is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, the bank may be unable to collect the unpaid balance.

Valuation and Outlook

Bandhan Bank's EPS for 9M of FY2018 on post-issue equity works out to Rs 10.7. At the price band of Rs 370 to Rs 375, P/E works out to 34.6 to 35.0 times for 9m EPS.

Post-issue book value of Bandhan Bank works out to Rs 75.6 at the issue price of 370 and Rs 76.0 at the issue price of Rs 375. P/BV works out to 4.9X and P/Adj BV is at 5.0X at the upper price band.

Thus we recommend our investors to "SUBSCRIBE" the issue from medium to long term perspective.

Financial

(Fig in Cr)	Mar-16	Mar-17	9M FY18
Interest Earned	1581.36	3908.71	3451.7
Interest Expended	648.53	1505.21	1282.87
Net Interest Income	932.84	2403.5	2168.83
Other Income	149.89	411.41	502.81
Net Total Income	1082.73	2814.91	2671.64
Operating Expenses	615.92	1022.01	945.34
Operating Profits	466.81	1792.91	1726.3
Provisions & Contingencies	53.3	88.44	265.13
Profit Before Tax	413.51	1704.47	1461.18
Provision for Tax	138.26	592.52	503.48
Net Profit	275.25	1111.95	957.7
EPS*(Rs)	2.3	9.3	10.7

Bank began operations on 23 August 2015 and figures for FY2016 include micro banking and general banking operations only for the period from 23 August 2015 to 31 March 2016, and accordingly, FY 2016 financial statements are not comparable with FY2017 financial statements.

Peer Comparison

Name	FV	Total income (in Rs cr)	Basic EPS (Rs)	P/E	P/B	RoNW (%)	Net Asset Value (Rs)
Bandhan Bank	10	4320	10.15	36.94	5	25.01%	40.6
Peers							
Axis Bank	2	57597	16.54	35.88	2.52	7.04%	235.41
HDFC Bank	2	86149	59.95	33.47	5.6	16.65%	358.21
IndusInd Bank	10	18577	48.06	36.5	5.09	13.90%	344.91
ICICI Bank	2	113398	17.51	20.16	1.96	10.84%	179.63
IDFC Bank	10	9597	3	18.75	1.3	7.24%	43.18
Kotak Mahindra Bk	5	33984	26.89	41.27	5.31	12.86%	209.09
RBL Bank	10	4469	12.61	40.03	4.37	10.29%	115.57
YES Bank	10	20643	79.12	4.48	0.73	15.15%	482.81
AU Small Finance Bk	10	1446	11.73	56	9.39	38.33%	69.92

	RoA (%)	RoE (%)	NIMs (%)	Yield on advances (%)	Cost to income (%)	Cost of funds (%)
HDFC Bank	1.9	17.9	4.2	10.2	43.4	5.5
ICICI Bank	1.3	10.3	2.9	8.8	35.8	5.3
Axis Bank	0.7	6.8	3.2	9.3	40.9	5.4
Kotak Mahindra Bk	1.7	13.2	4	10.5	46.7	5.7
Yes Bank	1.8	18.6	3	10.6	41.4	6.5
Indusind Bank	1.8	15.1	3.8	11.4	46.7	6.3
IDFC Bank	1.1	7.2	2.2	10.7	42.1	8.9
Bandhan Bank	4.5	28.5	10.4	21.5	36.3	7.9

Safe Harbor Statement

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