

## ISSUE DETAIL :

Type	100% Book Building
Issue Size	Rs. 4473.02 Crore
Offer Price	*Rs (370 - 375 ) / Share
Min App Size	40 Shares
Issue Open	15-Mar-18
Issue Close	19-Mar-18
Shares Offer	119.2 Cr.
Face Value	Rs 10
Lead Mgrs	Axis Bank Ltd, Goldman Sachs (India) Securities Private Ltd, J.P. Morgan India Private Ltd, JM Financial Consultants Private Ltd
Listing	BSE, NSE
Registrar	Karvy Computershare Private Ltd
Market Cap (Post Issue)	44730.2

## No of shares ( Post & Pre Issue)

Noof Shares(Pre Issue)	10951,41,034
Offer for Sale	216,16,584
Fresh Issue made	976,63,910
No of Shares(Post Issue)	11928,04,944

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## RECOMMENDATION :

The bank has shown tremendous growth in Assets and Profits over the last few years. Its total Advances currently stands at Rs 19300Cr at the end of H1FY18. The company enjoys lowest cost to income ratio in the Industry and is well managed around~ 35.4%. The company is being offered slightly higher valuations at 4.9 times FY18E P/B.We recommend SUBSCRIBE for Long term

## COMPANY OVERVIEW:

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.

The strength lies in microfinance, including a network of 2,022 doorstep service centres ("DSCs") and 6.77 million micro loan customers that BFSI transferred to us, which we have grown to 2,633 DSCs and 9.86 million micro loan customers as of Dec 31, 2017. Company has grown to 887 bank branches and 430 ATMs, together serving over 2.13 million general banking customers. The distribution network is particularly strong in East and Northeast India, with West Bengal, Assam and Bihar.

Bank has built a strong base of current account and savings account deposits, which together stood at Rs 84,01.8 Cr as of Dec 31, 2017, a CASA ratio of 33.22%. The retail-to-total deposit ratio stood at 85.07%.

## Company Strength

- ✓ Bandhan Bank is commercial bank focused on serving underbanked and underpenetrated markets in India . The historical strength lies in microfinance, with group beginning operations in 2001 as an NGO providing microfinance services to socially and economically disadvantaged women in rural West Bengal. Bank focus on underbanked and underpenetrated markets allows to meet certain regulatory requirements
- ✓ Bank micro loan business has consistently grown a quality asset base. Bank has grown to offer a broad and diversified range of asset and liability products to customers, while maintaining strong asset quality. Bank has consistent Track Record of Growing a Quality Asset and Liability Franchise
- ✓ Bandhan Bank has consistent financial results for shareholders and are currently in a robust financial position, Bank will enable to grow business quickly. Net interest margin for the nine months ended Dec 31, 2017 was 9.86% . Return on assets and return on equity were 4.07% and 25.55% in FY 16 & FY17 .

## Microfinance Industry Outlook :

The microfinance industry has seen tremendous growth over the past five years, growing at a 45% CAGR . Now, with over 45 million end clients with a loan outstanding of over Rs 1 lakh crore across the private JLG (Joint Liability Group) and the public SHG (Self Help Group) programmes, employing over 120,000 people across 10000 branches in 28 states of India . CRISIL Research expects the MFI loan portfolio growth to be at around 16-18% annually in the next two years, much lower compared with the past four years, as rural areas in well-penetrated states mature and the focus of some top players converting into SFBs shifts towards selling other banking products

## OBJECTS OF ISSUE:

### Particular

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

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

## COMPETITIVE RISKS

- ✓ Bank incorporated on Dec 23, 2014 and began operations on August 23, 2015 when Bandhan Financial Services Limited ultimate parent company, transferred its entire microfinance business to ,comprising 6.77 million customers and Rs 77,68.79 Cr. of advances. limited operating history as a bank, there is limited historical financial and operating information available to help prospective investors to evaluate past performance as an entity with combined general banking and micro banking businesses. The future results may not meet or exceed past performance.
- ✓ A substantial number of Bandhan bank branches and DSCs and a significant portion of its deposits and advances are located in East and Northeast India and in particular the States of West Bengal, Bihar and Assam, or from customers from these areas. Due to such concentration, the success and profitability of the overall operations may be disproportionately exposed to regional factors which include, among others increased competition as more players enter these geographies, general economic conditions and other developments including political unrest, floods and other natural calamities.

State/ Union Territory	Branches	DSCs	Total Advances
East India	54.00%	52.00%	58.00%
Northeast India	11.00%	17.00%	23.00%
East and Northeast India Total	65.00%	69.00%	81.00%

- ✓ Bandhan bank operate within the micro banking and general banking segments. A significant portion of operations remain extending microloans to customers, as of Dec 31, 2017, 87.56% of net advances consists of microloans. Bank performance could therefore suffer as a result of the disproportionate impact that negative events affecting micro banking segment have on business overall . Microcredit lending has its own unique risks and, as a result, Bank may experience increased levels of nonperforming loans and related provisions and write-offs that negatively impact results of operations.
- ✓ The management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, collection and remedial management and an overall architecture for managing credit risk in business. Provisions for NPAs are created by a charge to profit and loss account . Any incorrect estimation of risks may result in provisions not being adequate to cover any further increase in the amount of NPAs . An increase in portfolio of non-performing assets may materially and adversely affect business and results of operations.

	March 31,		December 31,	
Gross NPA to Gross Advances	2016	2017	2016	2017
	0.15%	0.51%	0.48%	1.67%

Peer Comparison:

Loan & Deposits Figure

Fiscal Year 2017	Loans outstanding ( Rs Bn )	Advances growth	Deposits (Rs bn)	Deposit growth	CASA ratio (%)
HDFC BANK	5,545.70	19.40%	6,436.40	17.80%	48
ICICI BANK	4,642.30	6.70%	4,900.40	16.30%	50.4
Axis Bank	3,730.70	10.10%	4,143.80	15.80%	51.4
Kotak Bank	1,360.80	14.70%	1,574.30	13.50%	44
Yes Bank	1,322.60	34.70%	1,428.70	27.90%	36.3
Indusind Bank	1,130.80	27.90%	1,265.70	36.10%	36.9
IDFC Bank	494.00	8.90%	402.10	389.20%	5.2
Bandhan Bank	168.400	35.40%	232.30	92.20%	29.4

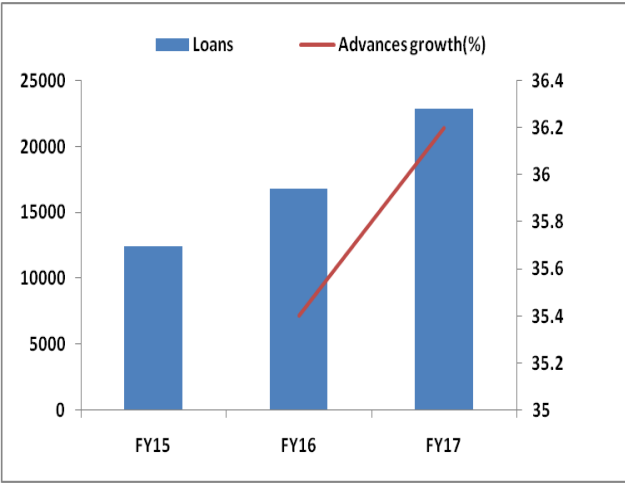
Ratio analysis

Fiscal Year 2017	ROE (%)	ROA (%)	NIM ( % )	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 Bank	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

Regionwise Advance break up

Region	Loan Portfolio ( Cr. )
Central	21,229.36
Eastern	1,41,863.97
Northern	8,796.11
Northeastern	55,219.62
Southern	3,514.74
Western	13,020.09
Gross Advances	2,43,643.89

Loan Book Trend



## Financials Snap Shot

Restated Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
Interest/discount on advance	1,092	1,420	1,701	1,690
Income on investments	101	221	207	224
Interest on balances with Reserve Bank of India	20	35	44	111
Others	85	141	139	249
<b>Total Interest Income</b>	<b>1,298</b>	<b>1,816</b>	<b>2,092</b>	<b>2,273</b>
Interest on deposits	216	577	714	789
Interest on Reserve Bank of India	241	103	56	29
Others	50	29	26	18
<b>Total Interest expended</b>	<b>506</b>	<b>709</b>	<b>796</b>	<b>836</b>
<b>Net Interest Income</b>	<b>792</b>	<b>1,107</b>	<b>1,296</b>	<b>1,437</b>
Other Income	136	197	215	345
<b>Total Income</b>	<b>928</b>	<b>1,304</b>	<b>1,511</b>	<b>1,782</b>
Operating Expenses	523	452	570	630
<b>Pre Provisioning Profit</b>	<b>405</b>	<b>852</b>	<b>941</b>	<b>1,152</b>
Provisions and Contingencie	48	46	42	143
<b>Profit Before Tax</b>	<b>357</b>	<b>806</b>	<b>898</b>	<b>1,009</b>
Tax	116	284	309	352
<b>Profit after tax</b>	<b>241</b>	<b>522</b>	<b>590</b>	<b>658</b>

Restated Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
<b>Capital &amp; Liabilities</b>				
Capital	1,095	1,095	1,095	1,095
Reserves & Surplus	2239	2762	3351	4009
Deposits	12089	17881	23229	25442
Borrowings	3052	1830	1029	806
Other liabilities and provisor	1,282	904	1,532	1,051
<b>Total</b>	<b>19,757</b>	<b>24,472</b>	<b>30,236</b>	<b>32,403</b>
<b>Assets</b>				
Cash and balances with Res	810	1,864	6,012	2,501
Balance with Banks and Mo	2,363	452	1,353	2,819
<b>Investments</b>	<b>3,758.03</b>	<b>5,296.27</b>	<b>5,516.49</b>	<b>7,174</b>
Advances	12,437.5	16,456.2	16,839.1	19,342
<i>Fixed Assets</i>	<i>237</i>	<i>221</i>	<i>252</i>	<i>235</i>
Other Assets	150	183	264	333
<b>Total</b>	<b>19,757</b>	<b>24,472</b>	<b>30,236</b>	<b>32,403</b>

Key Ratios			
Y/E March	FY15	FY16	FY17
EPS	2.02	4.39	4.95
Book Value Per share	28.02	32.41	37.37
<b>Valuation(x)</b>			
P/E ( Upper Band )	182.89	84.28	74.69
P/E ( Lower Band )	185.36	85.42	75.70
Price / Book Value	13.38	11.57	10.04
RoE	7.2%	13.5%	13.3%
<b>Capital adequacy (%)</b>			
Common Equity Tier 1 (%)		26.85	23.53
Tier 1 capital ratio (%)		26.85	23.53
Tier 2 capital ratio (%)		1.82	1.32
<b>CRAR (%)</b>		28.67	24.85

Restated Cash Flow Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	H1FY18
Net Profit before tax	356.95	806.22	898.25	1,009.25
<b>Adjustments for:</b>				
Depreciation and amortization	31.23	27.98	38.88	40.31
Provision on Standard Assets	43.73	33.12	(0.71)	31.66
Provision for non - performing	4.13	12.89	41.25	105.41
Interest income on fixed depos	(0.12)	(0.01)	(0.01)	(0.75)
Provision for depreciation in va	-	-	1.89	5.51
Loss on Sale of Fixed Assets	-	0.33	(0.03)	-
<b>Operating Profit before WC</b>	<b>435.92</b>	<b>880.52</b>	<b>979.52</b>	<b>1,191.39</b>
Increase in Advances	(4,517.23)	(4,030.48)	(422.46)	(2,609.94)
Increase in Other Assets	149.65	(17.46)	(63.33)	(52.86)
Decrease/(Increase) in Invest	(280)	548	280	(645)
Increase in Deposit	10,866.85	5,792.03	5,347.88	2,213.51
Increase/(Decrease) in Other C	623.86	(480.68)	652.27	(582.51)
<b>Cash generated from operati</b>	<b>7,278.87</b>	<b>2,692.31</b>	<b>6,774.36</b>	<b>(485.31)</b>
Direct Taxes Paid	226.31	229.32	352.15	296.18
<b>Net Cash Operating Activitie</b>	<b>7,053</b>	<b>2,463</b>	<b>6,422</b>	<b>(781)</b>
<b>Cash flow from Investing Ac</b>	<b>1,003.39</b>	<b>2,098.32</b>	<b>(572.58)</b>	<b>(1,140.30)</b>
<b>Cash flow from Financing Ar</b>	<b>(5,015.02)</b>	<b>(1,222.10)</b>	<b>(800.61)</b>	<b>(223.12)</b>
<b>Net Cash and Cash Equivale</b>	<b>3,040.94</b>	<b>3,339.21</b>	<b>5,049.02</b>	<b>(2,144.90)</b>
<b>Cash and Cash Equivalents :</b>	<b>2,139.00</b>	<b>3,173.15</b>	<b>2,315.71</b>	<b>7,364.73</b>
<b>Cash and Cash Equivalents :</b>	<b>5,179.94</b>	<b>6,512.36</b>	<b>7,364.73</b>	<b>5,219.83</b>

# Narnolia

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