



Date	January 09, 2019	Publication	The Economic Times	Pg No.	09
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Analysts, however, say that if the business continues to remain profitable, then the merger could provide benefits for Bandhan Bank in the long term

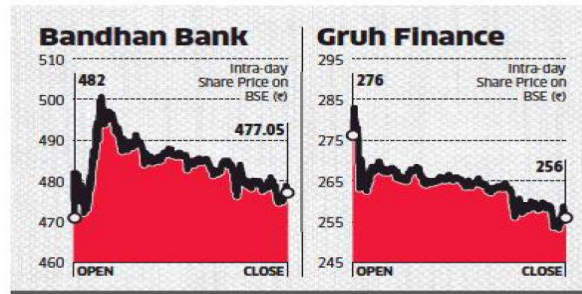
Gruh Finance Deal Expensive for Bandhan Bank: Brokerages

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Mumbai: Analysts believe Bandhan Bank has made an expensive deal in the acquisition of Gruh Finance. Bandhan Bank announced acquisition of Gruh Finance in a share swap deal on Monday. The swap ratio is 568 shares in Bandhan Bank for every 1,000 shares held in Gruh Finance. Shares of Gruh Finance ended down 16.4% at ₹256 while shares of Bandhan Bank ended down 4.8% at ₹477.05 on Tuesday. Here's what brokerages said about the merger:

AMBIT CAPITAL

Ambit has maintained a sell rating on Bandhan Bank with a target price of ₹280. The merger will help Bandhan decrease promoter stake and reduce concentration in Eastern India and microfinance but the punchy



valuations of Gruh Finance make the acquisition 15% book value per share-dilutive and 11% EPS-dilutive for Bandhan based on FY18 reported financials, said Ambit.

ICICIDIRECT

Though the merger is short-term negative (for Bandhan)

due to high dilution, it will be positive from a longer-term perspective on a core business basis. One can gradually accumulate from a two to three-year perspective. Robust growth, better than banking margins and low cost to income still continue to remain strong attributes of the bank, the retail broke-

rage said. ICICIdirect has a buy rating on Bandhan Bank with a target price of ₹575.

PHILLIPCAPITAL

The acquisition is expensive for Bandhan Bank and it does not fully resolve promoter stake dilution concern. The merger ratio is EPS and Book value dilutive for Bandhan Bank by 6.5% and 12%, respectively. Geographically, it is like the east meeting west as Bandhan is dominant in east India and Gruh is dominant in western India. The acquisition to be pricey in short term but if the scale up of this business continues to remain profitable then it can provide benefits in the long term, the brokerage said. The acquisition will help Bandhan Bank diversify its product basket and de-risk portfolio by addition of secured loan product, said Phillip Capital.

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CLSA

The merger will help HDFC, which has a 58% stake of Gruh, to avoid a conflict of interest as both are in mortgage financing, and provides clarity on capitalisation for Gruh. For Bandhan and Gruh the upside is from cross-leveraging their platforms and scope to improve the funding mix for Gruh but return on equity will be diluted by the SLR and CRR needs along with limited opex synergy. The merger should help Bandhan to reduce the promoter shareholding from 82% to 61%, but it is still higher than the RBI's requirement of 40% which was due in late 2018, said CLSA.

MACQUARIE

The firm has maintained the



neutral rating on Bandhan Bank with a target price of Rs 540. Bandhan Bank's shareholders are currently paying around 4.5 times FY20 earnings for its independent growth story and could be rightfully concerned that if the merger is approved they will be paying for a business valued at 13 times, said Macquarie. The deal will result in a 26% dilution for shareholders of Bandhan Bank, it said. Minority shareholders get short-changed with a significant dilution, said Macquarie.