

AMFI-WB

Meeting with Shri Chandra Shekhar Ghosh, MD, Bandhan Bank & a Round Table Discussion on Equity Market for the MFIs

Date: 30.7.2016, Time: 5.00 P.M, Venue: Bandhan Bank, H.O. at Salt lake



Name of the Participants:

Sl No.	Name	Organization	Designation
1	Mr. Chandra Shekhar Ghosh	Bandhan Bank	MD
2	Mr. Ganesh Ch. Modak	SMGBK	Secretary
3	Mr. Prabindu Kr. Biswas	Barasat Sampark	Secretary
4	Mr. KJuldip Maity	VF SPL	MD & CEO
5	Mr. Subrata Ghosh	Seba Rahara	Secretary
6	Mr. Pranab Rakshit	Sarala Development	CEO & Director
7	Mr. Bishwajit Das	Belghoria Janakalyan Samity	CEO
8	Mr. Kartick Biswas	Uttrayan Financial Services	MD
9	Mr. Animesh Naiya	DCBS	Secretary
10	Mr. Indrajit Gupta	Jagaran Microfin	Chairman
11	Mr. Saibal Mitra	ASA India	Head Finance
12	Mr. Abhijit Ghosh	Bandhan Bank	Head F & A
13	Ms. Arpta Sen	Bandhan Bank	Head, Investor Relation
14	Mr. Asit Kr. Mitra	AMFI-WB	Coordinator
15	Mr. Susen Dutta	AMFI-WB	Prog. Assistant

At first participant introduce himself at this round table discussion. Mr. C.S. Ghosh, MD, Bandhan Bank introduce his team in the forum.

Mr. Ghosh stated:

- Why equity is needed? What precaution need to be taken to take equity.
 - How in a best way we can take equity and for that we need to take precaution.



Ms. Arpita stated and presented in PPT:

About the reason for equity-

- To scale up
- To build stakeholder confidence
- To maintain leveraging
- To maintain Capital Adequacy Ratio
- Mr. Ghosh suggested that to scale up the organization capital is needed. Capital needed because in NBFC 15% capital Adequacy Ratio have to be maintain. If we want to maintain 15% CAR and we won't raise equity, then the

interest charge will be high. If someone want to maintain the 15% CAR from his profit, it might be very difficult to maintain and the scale up also be reduced.

- Bank feel confidence to lending if the capital is high, banks also look towards to investor background, capability of investor it is also a big factor. He added equity not only the amount, the background of the equity holder also very important. It is also very important from where the equity is being taken, is it from the same kind of group/investor or it is diversified?

Mr. Arpita presented the PPT and stated:

- About the initial apprehension, that why need equity, how much needed, when we need it, what reason behind it?
- Some pre- conceived notions, worries and question.
 - Worry of private equity players
 - Hold on to the organization's mission
 - Whether the organization will be able to get desired valuation
 - Great concern about push & huge return
 - Building competence of the team

Ms. Arpita stated about the type of Equity Financing for Private companies

Source of funding (Institutional Investor)

- Angel Investor
- Venture Capital Firms
- Private Equity
- Corporates Investors

She define about all type of investor like Angel Investor, Venture capital, Private Equity

Angel Investor:

1) An angel Investor is an affluent individual who provides capital for a business start-up. A small but increasing number of angel investor organize themselves into angel group or angel network to share research and pool their capital.

2) Angel investments bear extremely high risk and thus require a very high return on investment, sometimes 10 or more their original investment within 5 Years



Venture Capital: 1) Investment in start-ups with high growth opportunities. 2) They bring capital, technical and managerial expertise. 3) actively involved in the management of the company 4) Exit strategy, IPO or sale, usually after 3-7 years

Private Equity: 1) Investment partnership with a structure similar to venture capital.

2) Growth capital refers to equity investment, most often minority investment in more mature companies that are looking for capital to expand or restructure operation, enter new markets or finance, a major acquisition without a change of control of the business.

Mr. Chandra Shekhar Ghosh stated that Institutional Equity investor they are not disturbing any more after taking the equity rather private equity investor they easily take equity but they makes many complication after taking the equity. Mr. Ghosh makes understand all participants about Institutional & Private Equity and distinguish between Institutional & private investor. Honorable MD of Bandhan Bank made an exclusion of both Institutional and Private Equity investor

Institutional Investor	Private Investor
Strategic	Faster
Long term	Higher Valuation
Creates Values	Higher Return
Less Interruption in day to day management	More professional approach
More transparent	Very tactful

Ms. Arpita Sen stated the participants by showing the PPT about the types of offerings by the equity investor:

- **Primary offering-** New shares available in a public offering that raise new capital
- **Secondary offering-** Shares sold by existing shareholders in an equity offerings

Ms. Arpita Sen make understand everyone about the advantages and disadvantages of going public. She stated about the IPO and its process of selling stock to the public for the first time. She stated about the advantages and disadvantages which are as follows:

<i>Advantages</i>	<i>Disadvantages</i>
Greater liquidity	The equity holders become more widely dispersed
Private equity investor get ability to diversify	This makes it difficult to monitor management
Better access to capital / Public companies typically have access to much larger amounts of capital through the public market	The firm must satisfy all of the requirement of public companies



Mr. C.S. Ghosh stated that that investor always try to assure their fixed return when he invest in any organization. Everyone need to be very careful during the agreement signing with the equity investor. It better for all that as much time it will take to final the deal with the investor. Mr. Ghosh suggested everyone not to be hurried in any situation to close the deal. As much any organization can linger the process, the investor will not show interest.

Mr. Ghosh stated that before taking the equity, everyone must have to recruit legal firm for legal assistance. Only legal firm can understand

the whole process very properly. He added that investor always want to make the deal with so many hidden clauses. So everyone have to be alert. The term & condition of doing any equity investment, only legal person can handle easily.

MD of Bandhan Bank stated that not to trust on any equity arranger. Because they earn money and take commission from both side. Equity investor is the permanent customer of the arranger, therefore the arranger always want to make money from equity taker. He mentioned that there is two type of Equity Infusion strategy. Like any one want to take equity every year and few want for once.

Mr. C.S. Ghosh stated that amount selection before taking the equity is very much crucial. Before taking the amount from the investor, business goal need to be fix. He remind again that recruitment of legal firm is very important. Reputed legal firm can easily save the organization from any type of discrepancies.

Mr. Chandra Shekhar Ghosh stated it is not god to work with 2-3 reputed investor. It is better to share details with large number investor. The message about the organization will flow to all the investor, and it is an advantage. It also helps the organization to bargain with all.

Ms. Arpita Sen stated that if the information memorandum can be made very attractive, it helps automatically to get the investor. She stated that arranger will help to make information memorandum, and it is nearly about 34-35 pages.

Ms. Sen stated that it will be better to share the information after sign the MBA. So information in terms of trend analysis, performance analysis, ratio, and projection everything has to be there. The information helps the institution to grow up.

Ms. Abhijit stated about the financial & legal due diligence. He stated that we should take only those legal firm who have made financial & legal due diligence. If anyone made the due diligence earlier, then the time would be taken short. In case of any institution does not make due diligence previously then the investor will appoint a firm for due diligence from their end. So it will better to get ready due diligence previously.



Ms Arpita stated about the term sheet which have been given by the investor, and it need a final negotiation, because on the basis of the term sheet two type of document have to make. These are: 1) Share subscription agreement 2) Shareholder's agreement.

Ms Arpita stated about step by step process, which are as follows:

- Preparation of strategic business plan
- Analysis of equity requirement from the SBP
- Discussion of the same at the Board of necessary suggestion and final approval



- Selection of right arranger (if need be)
- Develop an internal team, those who operationally & financially sound, to work exclusively on this
- Keep the recent financial report readily available.
- Prepare a god presentation & information memorandum (IM) to be made to potential investor
- Collect market information, including investor details
- Prepare set of document viz. financials, trend analysis, performance analysis, projection

and ratio analysis

- Post non- disclosure agreement (NDA) , information sharing
- Road show- meeting potentials investor

- Prepare documents for due diligence, Financial & legal
- Organize site visit
- Start negotiation



- Obtain valuation from the investor
- Final negotiation on term sheet
- Board approval
- Execution of documents, like SSA, SHA- after necessary legal vetting
- Increase in authorized capital
- Final infusion & allotment

Ms. Arpita also stated about the challenges, she stated that choosing the right arranger & right investor is a very big challenge. She mentioned about the other challenges like to build a competent team and convincing the stakeholders. She mentioned about Negotiating on term sheet and final valuation as per expectation. She added few major point of negotiation and disagreements, which remains the valuation. He suggested few valuation tips for the participants which are:

- Prepare your valuation by appointing value but never quote first
- Always let the investor speak first.
