

Press Statement

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Ladies and Gentlemen good evening to all of you and once again thank you very much for coming here at such short notice.





Today marks an eventful day. The Board of Directors of Bandhan Bank and Gruh Finance Limited at their respective meetings held today approved the merger of Gruh Finance and Bandhan Bank.

The proposed transaction would be subject to shareholder, regulatory and other approvals as may be applicable.

We believe that there are strong synergies between the two financial entities. What excites us in particular, is that this merger will create one of India's **largest lending platforms** for rural and semi-urban financial products and services.

What distinguishes this merger from others in the banking and financial services sector, is that this is a combination of two strong financial entities, each of whom is a prominent player in its chosen product segment and who will now have the opportunity to leverage off each other's strengths. This will be the largest merger ever in India of 2 unaffiliated financial services entities.

As far as Gruh is concerned:

-  It is the pioneer of affordable housing in India;
-  It is a AAA rated deposit taking housing finance company;
-  On a 5-year CAGR basis, Gruh's loan book growth is 23% and profit after tax growth is 20%;
-  Asset quality has been Gruh's key strength. Gross non-performing loans have consistently been under 1% and as at 31st March 2018 have been fully provided for.

- Much of Gruh's stellar performance is attributed to the leadership of its Managing Director, Mr. Sudhin Choksey and his entire team.

Naturally, given Gruh's successful business model, investors have accorded a significant premium to its valuation compared to its peers.

The strengths of Bandhan Bank are well known, especially in the way it has been able to quickly build up a strong current and savings deposits base which stands at par with some of the best Indian banks.

Both Gruh and Bandhan Bank have consistently reported strong financial performance whether measured in terms of the high return on equity, the low cost to income ratio or the low non-performing loans.

- Both Bandhan and Gruh have niche, customer centric business models;
- Both have deep penetration in their key geographies. Gruh has a strong presence in the west, while Bandhan has a deep penetration in the east and north-eastern regions of the country;
- Also both institutions are driven by the vision of financial inclusion.

The two institutions complement each other. Bandhan Bank has experience in unsecured lending - particularly micro finance, while Gruh has decades of experience in asset based lending.

Let me highlight some of the key issues that the board of directors of Gruh considered.

- The proposed merger would enable Gruh to replicate its deep penetration in new geographies where Bandhan Bank has a strong distribution network. This could not have been possible for Gruh as a standalone entity.
- Secondly, the challenges of raising resources at competitive rates to fund the housing finance business gets abated with access to low cost current and savings accounts of the bank.

- Thirdly, there are very few instances in the Indian financial system where opportunities of consolidation of two strong financial entities arise. It was thus clearly in Gruh's interest to seize this opportunity.

Now for HDFC, being the largest shareholder, there were some further considerations.

First was the natural affinity for the company as HDFC was one of the promoters of Gruh in 1986. In fact Gruh was the vision of our late Founder Chairman, Shri H. T. Parekh.

In evaluating this merger proposal HDFC, as the parent company, had to take a more dispassionate stance in the interest of all stakeholders of Gruh.

When we assessed the way forward for the company, we came to the conclusion that no other alternative would give Gruh the ability to scale up operations better than the platform that Bandhan Bank was offering.

Further, HDFC itself is increasing its own footprint in affordable housing loans.

- For instance, in the first half of the current financial year, 37% of HDFC's home loan approvals in volume terms and 18% in value terms have been to customers from the Economically Weaker Section and Low Income Groups.

- As a parent company, HDFC would prefer to avoid any potential conflict of interest within its own group companies which could arise if in the future, there were to be significant market and customer segment overlap.

Bandhan Bank is well capitalised and is growing rapidly, but most importantly, we do believe there is compatibility in terms of the work culture and ethos. Core values, customer centricity, business ethics and a common mission towards social responsibility are overriding factors for this merger.

As you would appreciate, many aspects of the detailed merger and integration contours will evolve in due course. To reiterate:



- The companies are contemplating a merger under the scheme of amalgamation under the Companies Act and hence there will be no open offer.
- The due diligence has been completed and the independent valuation reports and fairness opinions have been accepted by the boards of the concerned companies.
- Subject to approval from regulators, shareholders and all other approvals as are necessary, the Share Exchange Ratio accepted by the boards of Bandhan Bank and Gruh, is as follows:
 - 568 equity shares of face value of Rs. 10 each of Bandhan Bank Ltd would be issued for every 1000 equity shares of face value of Rs. 2 each of GRUH Finance Ltd.
- The Share Exchange Ratio implies a 2.05% premium to the shareholders of Gruh based on the volume weighted average prices of Bandhan and Gruh over the 26 week period ended last Friday i.e. January 4th.

To conclude, any potential consolidation has to ultimately be driven by the objective of whether it is value accretive for all stakeholders. In our view all entities involved in this transaction will gain on this account.

We may have challenges ahead, but we look forward with optimism and stand committed to contribute meaningfully towards India's financial inclusion agenda.

Thank you.