

# **BSE-SME**

## **COMPANY RESEARCH REPORT**

# **BCB FINANCE LTD.**

November 27, 2012



---

## DISCLOSURES AND DISCLAIMER

### DISCLOSURES

- Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest that can bias the research on the company.
- This report has been sponsored by The Stock Exchange Investors' Protection Fund, Bombay Stock Exchange Ltd.

### DISCLAIMER

This report is prepared by CARE Research, a division of Credit Analysis & REsearch Limited [CARE]. CARE Research has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain or from sources considered reliable. However, neither the accuracy nor completeness of information contained in this report is guaranteed. Opinions expressed herein are our current opinions as on the date of this report.

This report should not be construed as recommendation from CARE or CARE Research to buy, sell or hold a security or any advice or any solicitation, whatsoever. It is also not a comment on the suitability of the investment to the reader. The subscriber/user assumes the entire risk of any use made of this report or data herein. CARE Research is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report. CARE specifically states that it or any of its divisions or employees have no financial liabilities whatsoever to the subscribers/users of this report. This report is for the information of the intended recipients only and no part of this report may be published or reproduced in any form or manner without prior written permission of CARE Research. This report is for personal information only of the authorised recipient in India only and this report or part of it should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person, especially outside India or published or copied for any purpose.

Published by Credit Analysis & Research Ltd., 4<sup>th</sup> Floor Godrej Coliseum, Off Eastern Express Highway, Somaiya Hospital Road, Sion East, Mumbai – 400 022.

Published on behalf of The Stock Exchange Investors' Protection Fund

**Bombay Stock Exchange Ltd.**

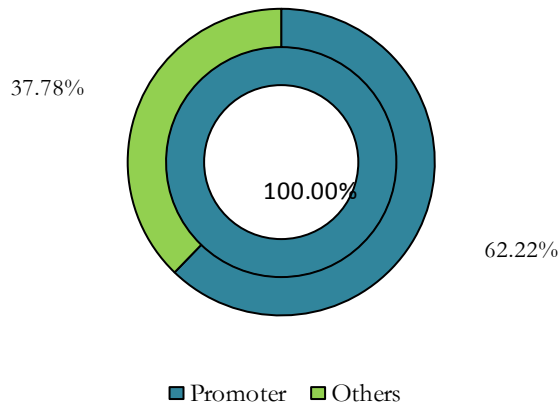
P J Towers, Dalal Street, Mumbai – 400 001. Tel: 22721233/34 Website: [www.bseindia.com](http://www.bseindia.com)



**ISSUE DETAILS**

Issue price	Rs. per share	25.00
Face value	Rs. per share	10.00
No. of shares offered	No. in lakhs	35.40
Total no. of shares (post issue)	No. in lakhs	115.03
Issue size	Rs. crores	8.85
Pre-issue net-worth	Rs. crores	11.04
Post-issue net-worth	Rs. crores	19.89

Source: Draft Red Herring Prospectus (DRHP)

**SHAREHOLDING PATTERN**

# Inner ring represent pre-issue shareholding pattern, outer ring represents post-issue shareholding pattern.

Source: DRHP

**FINANCIAL SNAPSHOT**

(Rs. lakhs)	FY08	FY09	FY10	FY11	FY12
Total income	11.4	1.0	1.5	1.5	2.4
Operating profit	9.2	(0.3)	0.3	0.3	0.8
Adjusted PAT	6.6	(0.3)	0.2	0.2	0.6
Adjusted EPS* (Rs.)	8.3	(0.4)	0.3	0.3	0.5
Dividend, incl. tax	-	-	-	-	-
P/BV (times)	2.0	1.9	1.9	1.8	1.4

Source: DRHP and CARE Research; Valuation ratios calculated @ IPO price of Rs.25 per share. EPS has been adjusted for bonus shares

**BACKGROUND AND BUSINESS OVERVIEW**

BCB Finance was originally incorporated on November 25, 2005, as a private limited company. The company was subsequently converted into a public limited company, and consequently, the name was changed to BCB Finance Limited vide fresh certificate of incorporation dated June 06, 2011. BCB Finance operates as a Non Deposit taking Non-systemically Important Non-Banking Finance Company (NBFC-NDNSI) engaged primarily in the business of advancing loans and investing/trading in securities. BCB Finance provides its shareholders with the opportunity to participate in a diverse portfolio of investments and gain access to a defined investment process and the investment experience of the management team. The company is the NBFC arm promoted by the Bagri Family in order to carry out their financing and investment activities and in order to bring in the benefits of synergies from their brokerage and other businesses

**IPO OBJECTIVE**

	Rs. Crore
Augment capital base and provide fund requirements	7.50
Issue-related expenses	0.70
General corporate expenses	0.65

Source: DRHP

**INDUSTRY OUTLOOK**

The activities of non-banking financial companies (NBFCs) in India have undergone qualitative changes over the years through functional specialization. The role of NBFCs as effective financial intermediaries has been well recognized as they have inherent ability to take quicker decisions, assume greater risks, and customize their services and charges more according to the needs of the clients. While these features, as compared to the banks, have contributed to the proliferation of NBFCs, their flexible structures allow them to unbundle services provided by banks and market the components on a competitive basis. The distinction between banks and non-banks has been gradually getting blurred since both the segments of the financial system engage themselves in many similar types of activities. At present, NBFCs in India have become prominent in a wide range of activities like hire-purchase finance, equipment lease finance, loans, investments etc. The importance of NBFCs in delivering credit to the unorganized sector and to small borrowers at the local level in response to local requirements is well recognized. The rising importance of this segment calls for increased regulatory attention and focused supervisory scrutiny in the interests of financial stability and depositor protection.

## BACKGROUND

BCB Finance was originally incorporated on November 25, 2005, as a private limited company. The company was subsequently converted into a public limited company, and consequently, the name was changed to BCB Finance Limited vide fresh certificate of incorporation dated June 06, 2011.

BCB Finance operates as a Non Deposit taking Non-systemically Important Non-Banking Finance Company (NBFC-NDNSI) engaged primarily in the business of advancing loans and investing/trading in securities.

### Key milestones of the company

Year	Milestone
2005	Incorporation as “BCB Finance Pvt. Ltd.”
2006	Received RBI License to carry NBFC Activities (Non Deposit Taking Non Systemic)
2008	Total asset base crosses the Rs.10 crore mark.
2011	Conversion of the Company into a Public Limited Company

*Source: DRHP*

## BUSINESS OVERVIEW

BCB Finance is a NBFC registered with RBI to carry on NBFC Activities under Section 451A of the Reserve Bank of India Act, 1934. The company operates as a Non Deposit taking Non-systemically Important Non-Banking Finance Company (NBFC-NDNSI) engaged primarily in the business of advancing loans and investing/trading in securities.

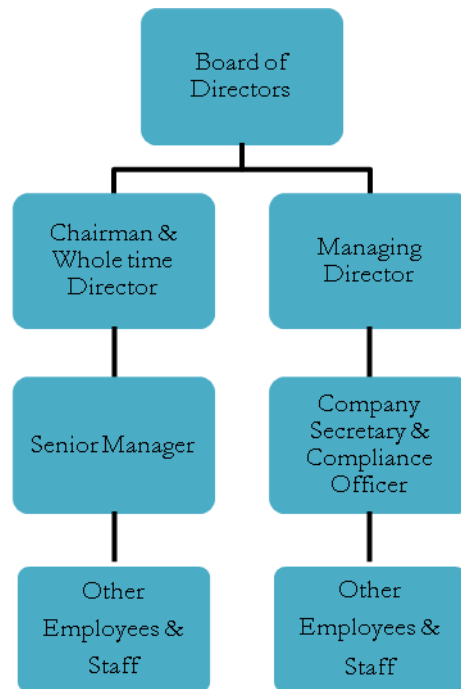
BCB Finance provides its shareholders with the opportunity to participate in a diverse portfolio of investments and gain access to a defined investment process and the investment experience of the management team. The company is the NBFC arm promoted by the Bagri Family in order to carry out their financing and investment activities and in order to bring in the benefits of synergies from their brokerage and other businesses.

BCB Finance operates out of its office located in Mumbai.

## MANAGEMENT STRUCTURE

As on February 11, 2012, the company had three employees.

### Organization structure



Source: DRHP

## CORPORATE GOVERNANCE

BCB Finance has a Five-member Board, and more than half of the Board comprises Independent Directors. The company also has three sub-committees under the Board, i.e. Audit Committee, Shareholders' Grievances Committee and Remuneration Committee. All the three committees are headed by the Independent Directors, as per the listing guidelines of the exchange.

### Board of Directors

Person	Age	Qualification	Role
Mr Bharat Bagri	62	M.Com.	Chairman & Whole Time Director
Mr Uttam Bagri	36	B.Com, PGDM (IIM-A)	Managing Director
Mr Haresh Sanghvi	58	B.Com, M.Com, LL.B., FCS	Independent Director
Mr Kalpesh Ranka	32		Independent Director
Mr Suresh Ahiya	88	Matriculate	Independent Director

Source: DRHP and CARE Research

There are no contingent liabilities or litigations against the company however there are litigations against its promoters/promoter group or directors.

## IPO DETAILS

### Size

The issue comprises an offer for sale of 35.4 lakh equity shares of face value of Rs.10 each at a fixed price of Rs.25 per share. This would constitute 30.78% of the post-issue paid-up capital.

### Terms

The offer comprises 35.4 lakh equity shares of face value of Rs.10 each to be issued at a price of Rs.25 per share, of which 6.4 lakh equity shares are reserved for market makers of the issue and remaining 29 lakh equity shares, i.e. the net issue would be available for subscription by public. The net issue would constitute 25.21% of the post-issue equity share capital.

The issue is being made through fixed-price process, and at least 50% of the net issue to public would be available to allocation on proportionate basis to retail individual applicants.

The trading lot for the issue has been fixed at 4,000 equity shares.

### Objective

The main objects of the issue are as follows:

Particulars	Rs. crore
Augment capital base and provide fund requirements for increasing operational scale with respect to NBFC activities	7.50
Issue-related expenses	0.70
General corporate expenses	0.65

Source: DRHP

### Means of Finance

Particulars	Rs. crore
IPO	8.85

Source: DRHP

As per the DRHP, the fund requirements and the intended use of the proceeds of this issue have been estimated internally by the company's management and have not been appraised by any bank or financial institution.

## GROWTH DRIVERS

- Synergies with group companies to increase the opportunity to deploy funds and earn higher returns as the group has interest in both capital market and financial services.
- Leveraging long-term client relationship to grow loan portfolio.
- Rising High Networth Individuals in India.
- Maturing of Indian capital market and markets becoming deeper.

## RISK AND CONCERNS

- The company has the risk of default and non-payment by borrowers and other counterparties which may lead to write-offs and/or provisions which could adversely affect profitability and asset quality.
- The company is largely dependent on its major clients, 82% and 58% of revenues in FY10 (refers to the period April 01, 2009 to March 31, 2010) and FY11 respectively, resulting in concentration risk.
- Changes made by RBI in the regulations governing NBFC could have an adverse effect on the business.
- The business is vulnerable to interest rate risk which affects net interest income.
- The company operates in a highly fragmented market and intense competition from existing and new entities could adversely affect revenues and profitability.

## FUTURE STRATEGY AND EXPANSION PLANS

As per the DRHP, BCB Finance plans to:

- Make investment in accordance with investment process which will aim to invest in a diversified portfolio of securities (quoted and unquoted) of companies which are expected to give superior returns.
- Expand its loan portfolio to target high net worth individuals with impeccable credit track record to whom the company may advance funds both secured/ unsecured based on the risk profile.
- The company also seeks opportunities in the niche segment of IPO funding with further deepening and maturity of the capital markets.

**Management speak:** “BCB Finance operates as a Non Deposit taking Non-systemically Important Non Banking Finance Company (NBFC-NDNSI) engaged primarily in the business of advancing loans and investing/trading in securities. Our company provides its shareholders with the opportunity to participate in a diverse portfolio of investments and gain access to a defined investment process and the investment experience of the management team. Our company is the NBFC Arm promoted by the Bagri Family in order to carry out their financing and investment activities and in order to bring in the benefits of synergies from their brokerage and other businesses.”

## INDUSTRY OUTLOOK

### Indian Capital Markets

In the recent years, the capital markets have also undergone substantial reforms in regulation and supervision. There are 23 recognized Stock Exchanges in India, including the Over-the-Counter Exchange of India (“OTCEI”) for small and new companies and the NSE, which was set-up as a model exchange to provide nation-wide services to investors. In 2003, the National Commodity and Derivative Exchange (“NCDEX”), an online Multi-Commodity Exchange (“MCX”) for trading of various commodities was also established. The primary segment of the capital markets in India has been witnessing a surge in activities driven by the strong fundamentals of the Indian economy, a buoyant secondary market, and revival of structural reforms by the government and an investor-friendly framework provided by SEBI. In addition, sustained growth of the corporate sector and its increasing capital requirements have resulted in a record level of capital raising from the primary equity market in the present year.

### NBFC

The activities of non-banking financial companies (NBFCs) in India have undergone qualitative changes over the years through functional specialization. The role of NBFCs as effective financial intermediaries has been well recognized as they have inherent ability to take quicker decisions, assume greater risks, and customize their services and charges more according to the needs of the clients.

While these features, as compared to the banks, have contributed to the proliferation of NBFCs, their flexible structures allow them to unbundle services provided by banks and market the components on a competitive basis. The distinction between banks and non-banks has been gradually getting blurred since both the segments of the financial system engage themselves in many similar types of activities. At present, NBFCs in India have become prominent in a wide range of activities like hire-purchase finance, equipment lease finance, loans, investments etc.

The importance of NBFCs in delivering credit to the unorganized sector and to small borrowers at the local level in response to local requirements is well recognized. The rising importance of this segment calls for increased regulatory attention and focused supervisory scrutiny in the interests of financial stability and depositor protection.

### Overall growth drivers are:

- Accelerated growth in the Indian economy.
- Tailor-made services to clients.
- Maturing of Indian capital market and markets becoming deeper.



---

**FINANCIAL ANALYSIS**

- In FY12, BCB Finance reported revenue from operations of Rs.2.4 crore.
- Employee cost forms the largest portion of cost for BCB Finance. In FY12, employee cost as a percentage of revenue from operations was at 39.7%.
- The company reported PAT margins of 25.2% in FY12.
- The company has a debt of Rs.1.02 crore on its book in FY12.
- The company has not paid dividend since the last five years.

**FINANCIAL STATISTICS**
**Income statement**

(Rs. crore)	2008	2009	2010	2011	2012
Total income	11.40	0.98	1.54	1.47	2.43
Interest expended	0.73	0.55	0.08	0.23	0.28
Operating profit	9.16	-0.31	0.28	0.29	0.83
Depreciation	0.02	0.00	0.01	0.03	0.01
PBT	9.14	-0.31	0.27	0.26	0.82
Ordinary PAT	6.63	-0.31	0.22	0.23	0.61
Adjusted PAT	6.63	-0.32	0.22	0.23	0.61
<b>Adjusted EPS* (Rs.)</b>	<b>8.3</b>	<b>-</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>
Dividend, including tax	-	-	-	-	-

\* Calculated based on Ordinary PAT on Current Face Value of Rs.10/- per share, EPS has been adjusted for bonus shares

**Balance sheet**

(Rs. crore)	2008	2009	2010	2011	2012
Tangible net worth	9.8	10.5	10.7	11.0	20.1
Debt	6.1	0.0	3.7	2.8	1.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total capital employed</b>	<b>15.9</b>	<b>10.5</b>	<b>14.4</b>	<b>13.7</b>	<b>21.1</b>
Net fixed assets (incl. refundable security deposits)	0.0	0.0	0.1	0.1	0.0
Investments	0.0	1.5	1.6	1.2	1.0
<i>Inventory</i>	<i>0.3</i>	<i>1.0</i>	<i>4.0</i>	<i>4.0</i>	<i>7.0</i>
<i>Receivables</i>	<i>3.3</i>	<i>4.0</i>	<i>2.9</i>	<i>2.1</i>	<i>8.3</i>
<i>Cash and cash equivalents</i>	<i>15.3</i>	<i>7.1</i>	<i>5.9</i>	<i>6.4</i>	<i>6.0</i>
Current assets, loans and advances	18.9	12.0	12.8	12.5	21.3
Less: Current liabilities and provisions	3.1	3.1	0.1	0.1	1.2
<b>Total assets</b>	<b>15.9</b>	<b>10.5</b>	<b>14.4</b>	<b>13.7</b>	<b>21.1</b>

**Ratios analysis**

	2009	2010	2011	2012
Growth in net operating income	-91.4%	57.1%	-4.5%	65.3%
Growth in operating profit	NM	NM	3.6%	20.0%
Growth in PAT	NM	NM	4.5%	166.0%
Growth in EPS	NM	NM	4.5%	84.1%
PAT margin	NM	14.3%	15.6%	25.2%
Return on capital employed (RoCE)	NM	1.8%	1.6%	3.5%
Return on equity (RoE)	NM	2.1%	2.1%	3.9%
Price/Book value(P/BV) (times)	1.9	1.9	1.8	1.4

Source: DRHP and CARE Research; Valuation ratios are calculated @ IPO price of Rs.25 per share.

NM: Non Meaningful

---

## NOTES

---

## ABOUT CARE

Credit Analysis & REsearch Ltd. (CARE) is a full-service rating company that offers a wide range of rating and grading services across sectors. CARE has an unparalleled depth of expertise. CARE Ratings methodologies are in line with the best international practices.

### **CARE Research**

CARE Research is an independent research division of CARE Ratings, a full-service rating company. CARE Research is involved in preparing detailed industry research reports with 5-year demand and 2-year profitability outlook on the industry besides providing comprehensive trend analysis and the current state of the industry. CARE Research offers reports on various industries which are updated on a monthly/quarterly basis. Subscribers can access CARE Research reports online. CARE Research also offers research that is customized to client requirements. Customized Research involves business analysis and position in the market, financial analysis and market sizing etc.

### **CREDIT ANALYSIS & RESEARCH LTD**

#### **HEAD OFFICE:**

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**KOLKATA:** 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 07

Tel: +91-33-4018 1600/1602/1621

**CHENNAI:** Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

Tel: +91-44-2849 7812/2849 0811

**AHMEDABAD:** 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015

Tel: +91-79-40265656

**NEW DELHI:** 3<sup>rd</sup> Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001

Tel: +91-11-2331 8701/2371 6199

**BENGALURU:** Unit No. 8, I floor, Commander's Place, No. 6, Raja Ram Mohan Roy Road, (Opp. P F Office), Richmond Circle, Bangalore - 560 025. Tel: +91-80-22117140

**HYDERABAD :** 401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029.

Tel: +91-40-40102030

**PUNE :** 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 016.

Tel: +91-20-40009000

**JAIPUR :** 304, Pashupati Akshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park, Jaipur – 302016.

Tel: +91- -0141-4020213/14