

# Business India

THE MAGAZINE OF THE CORPORATE WORLD

April 14-27, 2014

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## End of the Road?

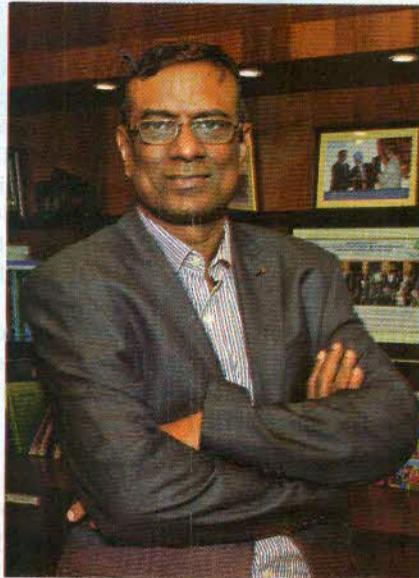
Sun Pharma gobbles up Ranbaxy as it transforms from a specialty generics player to claim a place among the top 10 global generic drugs companies

# Building a bankable bond

**Started from zero, the microfinance company has won the banking licence on sheer ability**

Since 2 April, the day the RBI announced the banking licence, Chandra Shekhar Ghosh's phone, founder & chairman, Bandhan Microfinance Services, Kolkata, has not stopped ringing. Calls are pouring in with good wishes and compliments. He was flooded with flower bouquets for the next few days, "Many of such wishes are from those banks that rejected my application to open an account with them, when I was struggling to form my company. So, they are really special for me," says Ghosh. While his company has been awarded a banking licence by the RBI, the hopes of several big corporates in the industry, who had been lobbying for the coveted honour, have been quashed.

Bandhan Financial Services and IDFC, an integrated infrastructure financing company, have emerged winners among a list of 25 hopefuls, with the RBI giving the two NBFCs in-principle nod for a bank licence this month. The RBI had received 27 applications in July 2013, though subsequently Tata Sons and the Videocon group withdrew, leaving 25 contenders in the fray. The Anil Ambani group, Aditya Birla group, Bajaj Finance, Muthoot Finance,



Ghosh: set to have the last laugh

Religare Enterprises, Shriram Capital, Srei Infrastructure and Magma Finance were the strong private sector participants.

Bandhan is the first microfinance company in the country to get a banking licence. After independence, this would be the first bank to be set up in the eastern India. "Bandhan has a strong pan-India footprint and focusses on promoting financial

inclusion, while reaching out to the bottom of the pyramid segment," says Alok Prasad, CEO, Micro Finance Institution Network (MFIN). "They also have top rated investors like SIDBI and IFC on board. All these factors, coupled with good governance, helped them win the banking licence."

The RBI says it has assessed the quantitative and qualitative aspects of the applicants, including their financial statements, 10-year track record of running businesses, proposed business model for the bank and demonstrated capabilities for running a bank, plan for expanding inclusion, and culture of compliance and integrity. "We were confident of winning the licence, because our focus was always on the financial inclusion of the marginalised people," Ghosh says proudly, sitting at his sprawling eighth floor office at Sector V, Salt Lake, Kolkata.

## What made the man

Ghosh, 53, was born in a middle class family in Agartala, Tripura, where his father ran a sweet shop to support the family. Ghosh had a tough childhood. His mornings began helping his father at the shop before going to school. After completing his schooling in Agartala, Ghosh moved to Bangladesh to his uncle, who helped him for higher studies. He got his masters degree in statistics

## Banking on our customers

Chandrashekar Ghosh has built Bandhan with passion and made it big. Excerpts from an interview

### Is it satisfying to achieve a banking licence?

This honour is for our work and integrity. This achievement is due to our 13,000 workforce. They are the backbone of the company. And our customers who have demonstrated faith in us.

### In spite of being a younger

organisation, you have been awarded a banking licence whereas larger and older companies failed to qualify.

The key factors for deciding the licence was financial inclusion of the people in unbanked areas. Bandhan has 5.5 million customers, all women. Our current loan book is ₹6,000 crore whereas less than

1 per cent is bad loans. I doubt that anybody else in the fray had such a profile and that made us ahead of others.

**You chose SIDBI (Small Industries Development Bank of India) as an investor over more lucrative private equity investments.**

We sold a 10 per cent stake to SIDBI for ₹50 crore. Private equity funds were offering better valuations. But we decided to sell a stake to SIDBI only because of their focus and commitment to microfinance institutions.

from Dhaka University in 1985. The same year he lost his father and, as the eldest son of the family, he had to shoulder the responsibilities of the family. He joined BRAC, the world's largest developmental NGO in Bangladesh, with over 100,000 employees, in 1985.

Later, he returned to India and worked for several NGOs here too. His work with the NGOs exposed him to a greater need to organise money lending systems, to save poor people from exploitation by unscrupulous local money lenders, who charged 100-200 per cent interest on even small loans. Ghosh felt he should get into this field and act as a link between the banks and the poor people.

So, in 2000, he quit from Village Welfare Society, where his monthly salary was ₹5,000. "My family did not approve of my decision to leave the job, but I was determined and started Bandhan (which means bonding) as an NGO in 2001, with a borrowed capital of ₹2 lakh and three employees from Bagnan in Howrah district. It was a tough call. I had two paths in front of me – succeed or commit suicide," recalls Ghosh. Today, the company has 13,000 members working in it. It is also the largest microfinance company in the country, spread across 22 states and Union territories and has over 2,000 branches.

In the beginning, things were not easy going for Ghosh. There were two challenges: creating trust among poor people; and raising funds from banks to provide small loans. "No bank would give me a loan," says



*Bandhan connects with people in unbanked areas*

Ghosh. When he was desperately knocking on the doors of banks for funds, Small Industries Development of India (SIDBI), a government-owned institution established in 1990 to fund micro, small and medium enterprises, agreed to fund Bandhan. "Birj Mohan, who was then the executive director of SIDBI, showed confidence in me and granted me a loan of ₹20 lakh in 2002. That was the turning point of my life. He gave me the start," says Ghosh.

Bandhan became an NBFC in 2006-07. Ghosh did not look back thereafter and scripted his own success story. Later, International Finance Corporation (IFC) and SIDBI became investors and picked up equity in Bandhan. Today, it gets funds from 33 banks and financial institutions for the micro lending.

Bandhan has been engaged to address the dual objective of poverty alleviation and women empowerment for the last 13 years, basically coming to the aid of people who did

not have access to or were denied assistance by the present banking system. Its mission was to reduce socio-economic inequalities substantially and create employment by targeting low-income households in a cost-effective manner. It helps in the crucial field of education, health, unemployment and sustainable livelihood. It has got a strong base of 300,000 women self-help groups in the country and has a client base of 5.5 million.

"Every year we include 800,000 people under the microfinance scheme. Our lending amounts vary from ₹1,000 to ₹50,000. The current loan book is ₹6,000 crore and growing," says Arpita Sen, assistant general manager, institutional finance, Bandhan. The company offers various types of loans – Suchana, Shristi, Samridhi, Suraksha, Susiksha and Fisheries, to cater to the various needs of the people.

Bandhan operates largely in the eastern and north-eastern parts of the country, where the demand for

**The United Bank of India has floundered partly because of its large exposure to the under-developed eastern region. Do you see an opportunity here?**

Mainstream banks have failed to reach out to rural customers where the need for banking is higher. They have not found a workforce in rural villages. We will be able to fill that gap. We have a strong rural base in the eastern region. The opportunities are enormous. The east always has a high number of small savings depositors. We will offer products that suit the needs of the people.

**How much will the licence reduce your borrowing costs by?**

Our current lending interest is 22.9 per cent. As a bank, we will accept deposits from our customer base. Other sources of funding will also open. Our cost of funds will go down significantly and we will pass this on to our customers. But right now it is difficult to give a percentage.

**How many bank branches do you expect to launch in the first year?**

It is too early to put a number and we are working on it. Our spread will be closer to our customers.

**Will the bank become a saviour for rural people from the clutch of unauthorised money depositing firms that promise high returns?**

People have faith in Bandhan. Once our bank is operational, people in the villages will be able to see the difference, and that will help clean the system of evil, financial schemes.

**Banking unions are against private banks. Any comment?**

One has to look at the greater interest of inclusion of marginalised people. ♦

