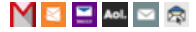


MENU

We have been serving the bottom of the pyramid and we would continue to do so: Bandhan's Ghosh



Bandhan's strength

- Bandhan fits into RBI's objective of financial inclusion as it has been serving the poor
- It has 2016 branches. Of these, more than 70% are in rural and unbanked areas
- Loan outstanding at present is of ₹6,200 crore and it currently enjoys a repayment rate of 99%.
- The regulatory capital requirement to start a bank was ₹500 crore and Bandhan's network is ₹1,100 crore
- Bandhan maintains about 21% capital adequacy ratio against the requirement of 13%



Bappaditya Chatterjee

While the several deposit-taking companies are under the scanner of the Serious Fraud Investigation Office and the apex court has come down hard on Subrata Roy's Sahara, Saradha and several others, the Reserve Bank of India (RBI) has given banking licence to a company, which has been dealing with poorest of the poor for over a decade. India largest microfinance company, Bandhan, has so far offered credit to the poor and been completely dependent on banks for the procurement of funds. But now Bandhan's responsibility will increase as it will deal with depositor's money and that too, of the poor. Bandhan's Chairman and Managing Director, Chandra Shekhar Ghosh, plans to continue with what he has been doing. He has not yet quite wrapped up his model of banking business but he told BE, "Indian banks serve the top of the pyramid but we will serve the bottom of the pyramid. Our focus will be on the unbanked and under-banked areas."

Bandhan's average loan size is about Rs. 10,000. It is set to increase its average loan size and also expand the existing customer base that needs small size loans. Bandhan has about 22% share of the microfinance market and serves 55 lakh customers spread over 22 states with a network of 2016 branches. He told BE, "Serving at the bottom of the pyramid, we found there is a huge number of people who are out of the formal banking sector. Our present operation serves less than 5% of the total need." Microfinance Institutions Network (MFNI) estimated that more than 450 million people are not covered by the formal banking system in India.

RBI selected Bandhan and IDFC for granting of new banking licences from among 25 applicants, which included some of the country's top corporate houses like Reliance, Aditya Birla group and L&T Finance. People associated with microfinance sector in India and former bankers anticipated that RBI perhaps has chosen the safe hands of Chandra Shekhar Ghosh for serving poor but the path ahead is tough and challenging. Ghosh is confident to overcome the challenge. He told BE, "The banking licence given by RBI is recognition to the sector and also to the model of financial inclusion, which we are following religiously."

In 2001, when Ghosh started a microcredit operation with three staff members including himself, he had an idea of the potentiality of the market. He parked about Rs. 2 lakh as capital to start the operation. Banks do not have a firm belief in the poor's ability to pay back loans. Thus, the poor have little or no access to the formal sector and no alternative but to take loans from local money lenders at high interest rates with no transparency in such dealings. With this high interest rate, the poor cannot plan any business, Ghosh said. Subsequently, Bandhan stepped into the microfinance sector and found the poor to be disciplined when it came to repaying loans and using the credit for productive purposes. Bandhan's loan outstanding at present is of Rs. 6,200 crore and it currently enjoys a repayment rate of 99%.

In fact, as per the RBI's guidelines, the existing Bandhan Financial Pvt. Ltd. will be the investment company, which invests in a non-operating holding company. This holding company will invest in the bank and all the customers will be served through the bank. Bandhan right now is well placed as per the capital adequacy requirement as it maintains about 21% capital adequacy ratio but a bank requires about 13%. "There was no immediate need for capital. The regulatory capital requirement to start a bank was Rs. 500 crore and our network is Rs. 1,100 crore," said Ghosh.

However, Ghosh expects that he will be able to further bring down the interest rate charged to his borrowers once he starts taking deposits from customers. The company at present borrows money from commercial banks at 12.5-13% and lends it at maximum 22.9%. Ghosh has been advocating for lower interest rate obtained through operational efficiency and building capacity. "We had started background works for banking operation much before the RBI gave an approval of in-principle banking licence. We have been focusing on continuous training of employees and leadership developments to improve operational efficiency," Bandhan already has a hands-on experience to build up a personal relationship with customers before sanctioning credit and ensuring its repayment. "Mobilisation of deposits will be the additional one," said Ghosh.

The company is set to appoint consultants for facilitating its transformation into a bank as it is discussing with various consultancy firms like KPMG, McKinsey, Ernst & Young, BCG, and so on. The MFNI is also going to hire IT consultants for putting in place all the necessary infrastructure required for running a bank.



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