

Bandhan Bank –Steps Into A New Era Of Modern Banking

***Dr.SuptiKotal,**

Associate Professor,
MaharajaSris Chandra College;
20,Ramkanto Bose Street,
Kolkata-700003,
Mobile:09088729834

Email: profsuptik.sardar@gmail.com,

***Shreya Basu,**

Guest Lecturer, ,
MaharajaSris Chandra College;
20,Ramkanto Bose Street,
Kolkata-700003,
mobile 09051227267,

E-mail: shreyabasu143@gmail.com

***SwarupSaha,**

Guest Lecturer,
Swarup Saha,7 /2 Ramnath Biswas Lane
(near Dena Bank,Sealdah Branch)
Kolkata-700009,WestBengal.
Mobile : 0 9038206632,

E-mail: ss.swarup24@gmail.com, :

ABSTRACT:

Since the last fourteen years, Bandhan Bank has been working in the field of micro credit successfully. This year, from 24th August, 2015 onwards, this bank would serve both for micro finance and commercial banking. At the beginning, it started with 501 branches across 24 states and 1.43 crore accounts. Bandhan Bank's key challenge over the next few months would be to mobilise deposits of the public to micro, small and medium enterprises (MSMEs). Its objective is to make good to one and all. This case study is based on secondary data. Indeed, there are challenges as many more banks of different kinds and sizes will come up in next few years and state-run banks are likely to change their approach to business. The Bandhan model may encourage other banks to extend their turf and embrace financial inclusion in a meaningful way.

Key words: Microfinance, commercial banking, Micro, small and medium enterprises (MSMEs).

INTRODUCTION

After India embraced economic liberalization following a severe balance of payment crisis, the Reserve Bank of India (RBI) opened the doors for a set of new banks in January 1993. It received 113 applications, many from large industrial houses. Noted economist bureaucrat Sharad Marathe, the first chairman of the erstwhile Industrial Development Bank of India, reviewed the applications and nine new banks were set up and one cooperative bank was allowed to convert itself into a commercial Bank. Not everyone has survived. For instance, Times Bank Ltd was merged with HDFC Bank Ltd, Global Trust Bank Ltd was forced to merge with Oriental Bank of Commerce and Bank of Punjab Ltd was acquired by Centurion Bank Ltd to form Centurion Bank of Punjab Ltd, which in turn was taken over by HDFC Bank.

In January 2001, RBI issued guidelines for the second set of new banks. A committee headed by former RBI governor I.G. Patel scrutinized the applications. Two licences were issued, including the conversion of a non-banking financial company (NBFC) into a bank-Kotak Mahindra Bank Ltd.

In the past, RBI's stated objective behind giving licences had been to introduce competition in the banking sector, largely dominated by state-owned banks. This time, its objective is to bring about greater financial inclusion in a nation where only 35% of adults have access to formal banking services, according to a 2012 World Bank working paper.

After little more than a decade, a new private bank is born in India Bandhan Bank Ltd. This is the first bank to come up in eastern India after Independence. A new bank is always welcome as a large slice of India's 1.2 billion populations does not have access to formal banking services. Theoretically,

the scenario changed after the launch of the Pradhan Mantra Jan – DhanYogana in August 2014(Bandyopadhyay, 2015).

Bandhan:

The east and the northeast are the most under- banked regions in India. Out of around 126000 bank branches, the east accounts for 16%, and the northeast only 2.6%. Bandhan was set up as a microfinance institution in 2001 in West Bengal, the fourth largest state in India by population. With its largest branch network, Bandhan has accounts for 5.62% of bank branches, 6.22% of deposits, 4.67% of credit and for every Rs.100 the banks mobilize in this state, Rs.58 is given as loans(Bandyopadhyay,2015).

Bandhan Bank Ltd:

It looks like Bandhan will strive to change how banking is done in India. It is starting with a 6.7 million borrower base, catered to through 2022 doorstep service centres across 35000 villages in 22 states, and will continue to give small loans. Many of its 500 bank branches will raise deposits to support the credit portfolio, but more importantly, it will raise deposits from small savers who are often being taken for a ride by the so-called shadow banks (Bandyopadhyay, 2015). Therefore, now this bank's activities are divided by micro credit and commercial banking. The first sector will act as before, i.e. by giving loans to the poor people up to rupees one lakh without any mortgage. Whereas, other sector will collect money in the form of savings deposits and fixed deposits and will also offer car loans, home loans like other commercial banks.

Design of the case study:

9088729834 This case study has two folded objectives:

1. To establish the development and success of Bandhan as a microfinance institution in long run.
2. To establish the justification of taking the challenge in the competitive market of banking at present as Bandhan Bank Ltd.

Scope:

This study has opened the door to analyse the financial results of Bandhan Bank Ltd to the depositor or investor, research persons, general peoples in future with great expectations. Thus, this study covers extensive research work in future in the field of Indian banking sector and economy.

Limitations:

This case study is looking forward to the uncertain future. As a commercial Bank Bandhan Bank Ltd has just started their work so it's too early to say about the commercial future prospect at present. Moreover, to establish itself as a top-ranked bank, Bandhan Bank Ltd has to be registered in the stock exchange and issue shares in the market in near future.

Research Methodology:

The study was planned to be carried out with the help of secondary data for the purpose to understand the growth rate of Bandhan as microfinance institution and the prospect of Bandhan Bank Ltd as private Bank.

.Data Collection:

The Present study is mainly based on secondary data. The required data were collected from the reports, articles, journals, documents, newspapers, printed literatures, certain websites and other on-line data bases etc.

Interpretation of Data and Discussion:

Data depicted in Table-1 shows the snap shot of MFI's (Micro finance Institutions) Profile on September 2012 as follows:

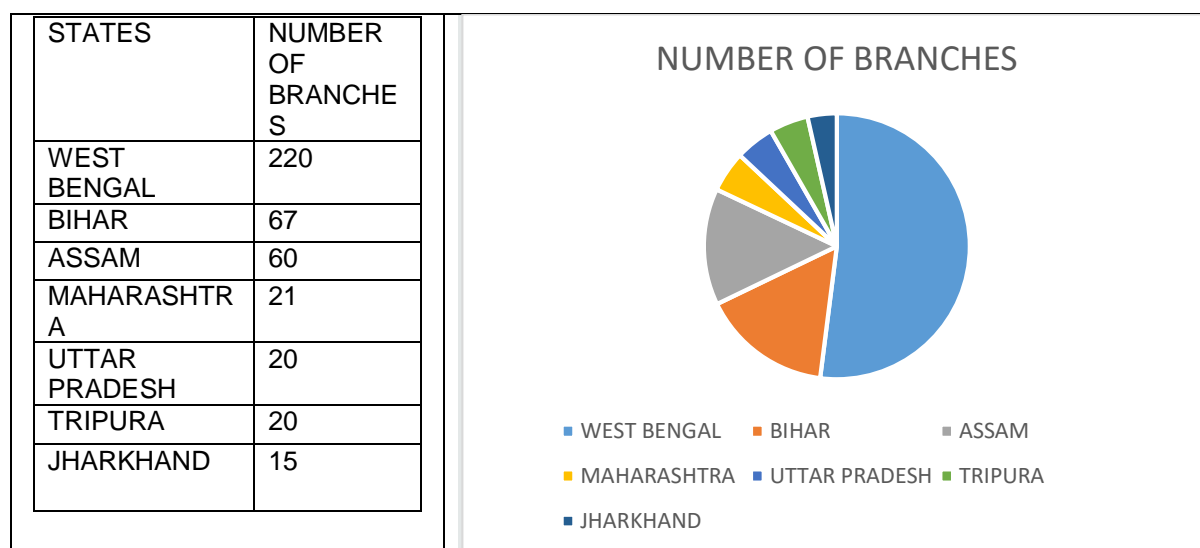
Table-1: MFI's Profile- September 2012

Name of the MFI	Bandhan Financial Services Pvt Ltd (BFSP)
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr. Chandra Sekhar Ghosh
Year of incorporation	2001
Year of starting microfinance	2002
Branches	1699(September, 2012)
Operational area	18 states across India
Total number of staff involved in microfinance	10691(September, 2012)
Visit of the Assessment Team	December, 2012

Source: M2i Consulting, Micro finance Management and Investment Advisory, December, 2012
 Bandhan said it is starting operations with 1.43 crore accounts, a loan book of around Rs 10,500 crore and 19,500 employees. To begin with, it has got 501 branches, 2022 service centres and 50 ATMs across 24 states. It plans to have 632 branches and 250 ATMs in 27 states by the end of fiscal year 2016, the bank said after Finance Minister ArunJaitley inaugurated its operations here at the Science City Auditorium in Kolkata, at a function attended by regulators, policymakers and luminaries from the financial sector and corporate India. The bank said that over 71 per cent of the branches will be in rural India, including at least 35 per cent in unbanked rural pockets.

Table -2 No of Branches of Bandhan bank in different states in India

Fig-1 Graphical Representation of No. of Branches of Bandhan Bank in different states in India.



Source: mpsfindia.com

Fig-1 Source-www.mapsfindia.com

The Kolkata-headquartered bank has two divisions - micro banking and general banking - and will offer complete retail financial solutions, including a variety of savings and loan products.

Table 3.shows the data on the aging schedule of the loan portfolio from the financial year 2009 to2011

Table-3 Aging Schedule of the loan folio (on book) (Rs. Crore)

As on 31 st March	2009	2010	2011
Total loan outstanding that are	Value of portfolio	Value of portfolio	Value of portfolio
On time	149.17	1192.78	2088.59
Late (at least one payment)			
1-30 days	0.01	0.35	3.67
31-90days	0.02	0.58	5.30
91-180 days	0.02	0.65	4.55
181-365days	0.03	0.35	2.36
1 year or more	0.10	0.34	2.03
Total portfolio	149.35	1195.05	2106.50

Source: Care Ratings, Credit Analysis & Research Ltd, Annexure 3; December 19, 2011

Thus from the above Table -3 it is clear that with its efficient network of communication Bandhan micro credit institution had a negligible amount of late payment outstanding i.e., NPA(Non Performing Asset) in respect to it's on time collection, where the public sector banks are piling up it enormously year after year(Bandyopadhyay,2012). Moreover, from the Care Rating report on December, 19, 2011

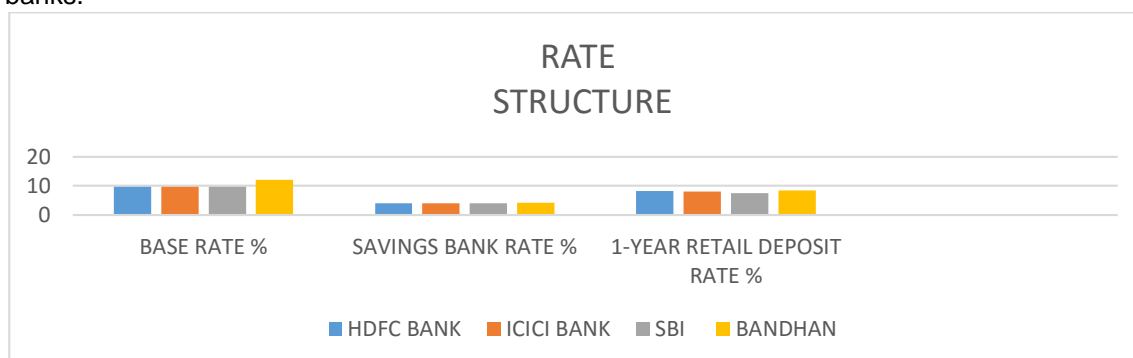
we came to know that there was a comfortable asset quality with gross NPA of less than 1% in Bandhan Micro Finance Institution.

India has majority of its area under the rural sector. But the banking sector is mainly concentrated on Urban and Metropolitan sector whereas there is a vast opportunity to tap into the rural sector further more. There is a huge scope for further development of banking industry in the rural sector. Hence Bandhan took a very good decision by mainly focussing on the rural sector (Table-4) Table-4.The Banking map of India,

PARTICULARS	HDFC BANK	ICICI BANK	SBI	BANDHAN
Total employees	76286	67857	222033	19500
No of branches	4014	3753	16059	501
No of ATMs	11766	11315	43515	50
Base Rate (%)	9.7	9.7	9.7	12
Savings bank rate (%)	4	4	4	4.25
1 year retail deposit rate (%)	8.2	8	7.5	8.5

Source: www.mapsofindia.com

In Fig-2 The rate structure of bandhan bank is compared with the other three commercial banks sch as HDFC Bank,ICICI Bank ,and SBI bank as follows; Fig-2 Rate structure of four different commercial banks.



Source: www. Business- standard.com.

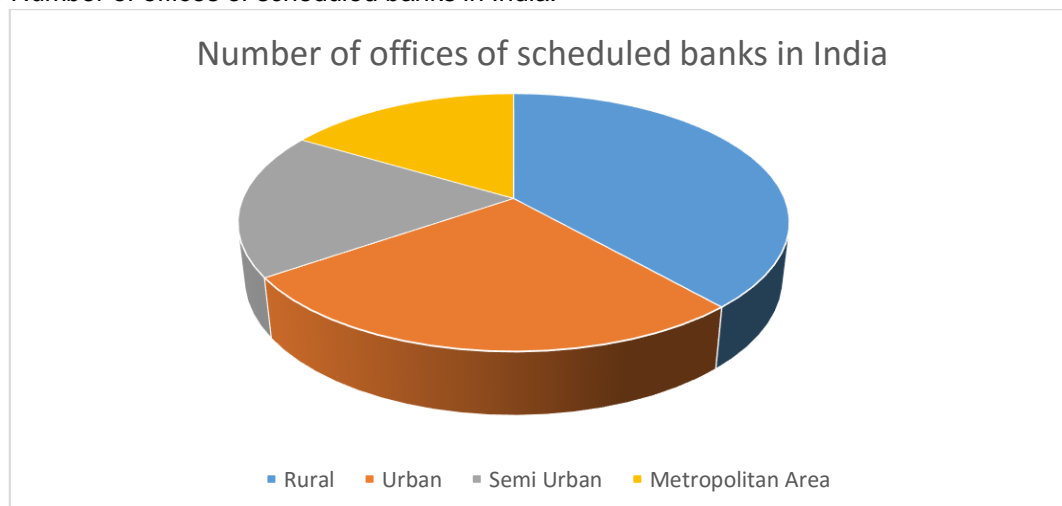
Table -5 shows the data relating to the number of offices of Scheduled Banks in India

Table-5.Number of offices of Scheduled Banks in India

TYPES	NUMBER OF OFFICES OF SCHEDULED BANKS IN INDIA
Rural	45177
Semi-Urban	31442
Urban	21448
Metropolitan	19213

Source" business standard.com

Fig-3 Number of offices of scheduled banks in India.



Source: www. business-standard.com

Bandhan Bank commenced operations with the simultaneous launch of 501 branches, a loan book of Rs 10,500 crore and savings accounts totalling 1.43 million. Within a few hours of the formal inauguration, the bank had garnered deposits of Rs 80 crore and 60,000 new accounts. Of the new branches, 18 will be open all seven days a week. On borrowing, it has set a high base rate of nearly 12 per cent, against a cost of funds of nearly 12.5 per cent. Its borrowing from banks is about Rs 9,000 crore, which it expects to repay in the next two to three years.

The bank is depending on aggressive deposit mobilisation to bring down the cost of funds over the next one year. In the next few months, the plan is to be aggressive in taking deposits, while going slow in lending. Thus, even as its lending rates are high, the bank is offering competitive deposit rates. Savings interest rates have been fixed at 4.25 per cent for deposits below Rs 1 lakh and five per cent for above Rs 1 lakh. For term deposits, the maximum interest rate, between three to five years of maturity, has been fixed at 8.5 per cent, with an additional 0.5 per cent for senior citizens

The capital base is Rs 2,570 crore, against the regulatory requirement of Rs 500 crore. It is in the process of getting another Rs 482 crore from the multilateral International Finance Corporation and from the Singapore government-backed GIC. This will bolster its base to Rs 3,052 crore, translating to a credit risk-weighted asset ratio of 44.54 per cent, one of the highest in the sector. By the end of this financial year, the plan is to have 632 branches and 250 ATMs in 27 states. At present, it has about 50 ATMs. Bandhan says its corporate banking plans are on hold. "Corporate banking is a different kind of skill, which we are yet to develop. We will continue to focus on rural and semi-urban areas, particularly SMEs (small and medium enterprises)," said Ghosh.

The integration of Bandhan's microfinance business with the banking one will take place through creation of two verticals at each branch level, for the microfinance and retail banking operations. As of now the bank has nearly 19,500 permanent staff. (Business Standards)

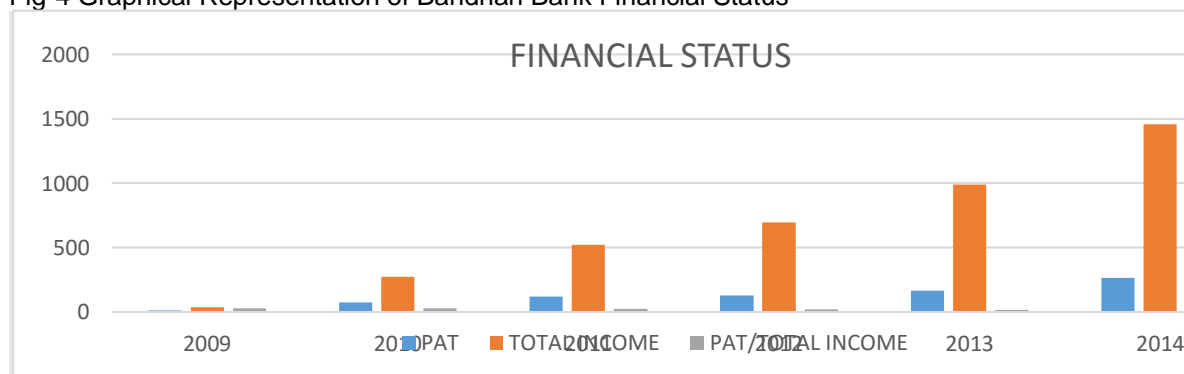
According to Care Rating 2011 despite significance increase in total income & lower operating expenses (as a percentage of total assets) PAT (after deferred tax) increased at a lower rate due to decline in IRR coupled with provisioning of Rs 10.5 crore on standard assets (as per RBI guidelines) and increase in cost of borrowing over the above period. Accordingly, PAT (after deferred tax) margin deteriorated.(Table 6 & fig 4)

Table-6:Financial Status of Bandhan Financial Pvt Ltd (Rs.Crore)

Particulars	AUDITED			PROJECTED		
	2009	2010	2011	2012	2013	2014
PAT	10.20	73.90	117.60	126.00	165.70	264.00
TOTAL INCOME	37.00	274.00	521.00	694.30	990.20	1458.40
PAT/TOTAL INCOME	27.568	26.971	22.57	18.148	16.734	18.102

Source: Care Ratings, Credit Analysis & Research Ltd, Dec 19, 2011, Annexure 6

Fig-4 Graphical Representation of Bandhan Bank Financial Status



Source: Care Ratings, Credit Analysis & Research Ltd, Dec 19, 2011, Annexure 6

From the above analysis and reports of various analysts, it is quite clear that Bandhan as microfinance institution with the high transparency and sustainability and with the large scale of operations and strong operational set up has proved its existence successfully in long run. With a

moderate rate of earning profit over the years this institution has been fulfilling the social objectives tirelessly.

Naturally, the courage of opening the door and stepping into a new era of modern banking is quite expected. Bandhan as Bandhan Bank has started its commercial operations with 501 branches across 24 states and 1.43 crores accounts. Mr. Chandra Sekhar Ghosh, the managing director and chief executive officer of Bandhan Bank Ltd has said on the inauguration programme (23 August, 2015) that most of the Indian Banks collect money from urban and rural segment and deploy the money in corporate and retail sectors, but their bank would like to take the money from both rural and semi-urban segment, and he promised to give the money back (in the form of credit) to the rural and semi urban sectors also. Initially, they will stay away from large corporate credit and will concentrate on credit to micro, small and medium enterprises MSMEs)(The Telegraph,2015).

As mentioned above the interest rate for the savings bank account has been fixed at 4.5% for a balance of up to Rs. 1 lakh and 5% for balance above Rs. 1 lakh. The interest rate for term deposit has been fixed at 8.5% for 1-3 years. It will also give additional benefits of 0.5% extra interest to senior citizens (www.mapsofindia.com)

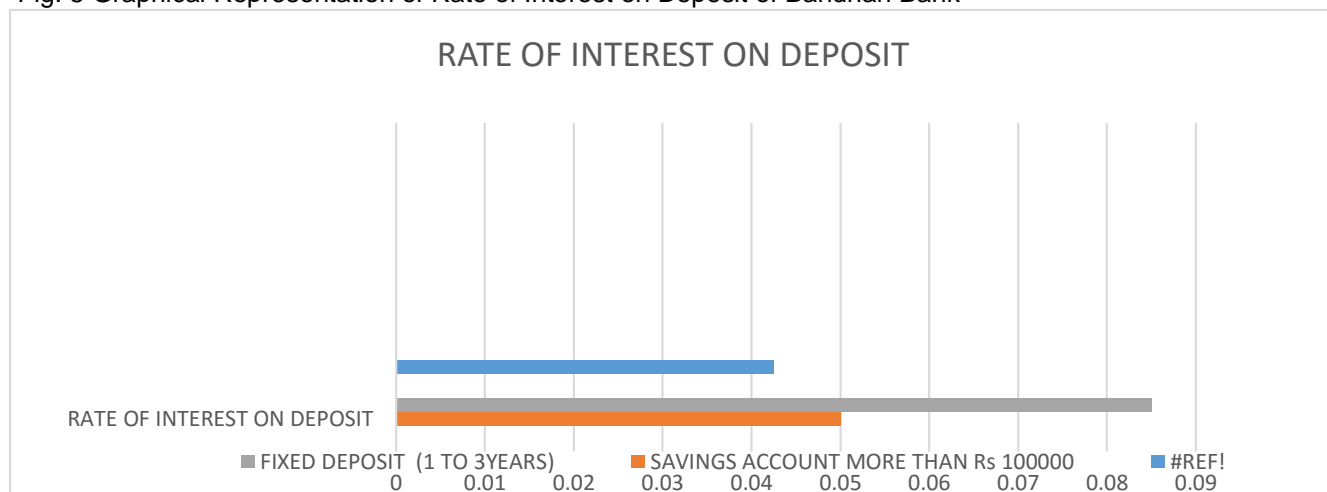
The structure of the rate of interest on the deposits of Bandhan Bank is set up as follows:

Table-7: Rate of Interest on Deposits (Percent/per annum)

For Savings Accounts:	Rate
Up to Rs. 100000	4.25
More than Rs. 100000	5
For Fixed Deposits:	Rate
1 to 3 years	8.5(+0.50 in case of senior citizen)

Source: ABP, Kolkata 24 August, 2015

Fig: 5 Graphical Representation of Rate of Interest on Deposit of Bandhan Bank



On 23 August, 2015 RBI deputy governor H.R. Khan said that BandhanBank would start operations at a time credit growth had slackened and profitability had taken a hit with deteriorating asset quality.

The key challenge of this bank is to mobilise deposits. It is expected that Bandhan Bank would be able to significantly gain market share from regional rural banks and cooperative banks because of its strong microfinance network. Another Challenge will be to reduce the base rate of 12% and offer cheaper loan to customers (The Telegraph, 2015).

Future prospects and Recommendations:

5.1. Future Prospects:

RBI has a norm that a new bank should have a capital of at least Rs. 500 crore. However, Bandhan started its operations with a capital of Rs. 2,570 crore, which is expected to increase to Rs. 3,052 crore soon. During the inauguration, Finance Minister Jaitley said that Bandhan Bank would help and boost the growth of entrepreneurs in West Bengal. He also added that the bank would have to face a challenge to push the credit deposit rate of Bengal from about 68% to national average 76%.

Bandhan is likely to face a challenge to establish itself in the banking industry. Along with the competition that it has to face from the existing commercial banks, it will also have to compete with the 11 payment banks that have recently got license from the RBI. Also, RBI is likely to grant license to another set of new banks by the next month to establish small finance banks. Moreover, Bandhan Bank will have to look after the investors' interests for profit as well rather than just focusing on small investors. Now only time will tell whether Bandhan will be able to successfully transform itself in to a full-fledged commercial bank.

5.2. Recommendation:

The east and the northeast are the most under-banked regions in India. Out of around 126000 bank branches, the east accounts for 16%, and the northeast only 2.6%. West Bengal, the fourth largest state in India by population, where Bandhan Bank has its largest branch network accounts for 5.62% of bank branches, 6.22% of deposits, and 4.67% of credit and for every Rs.100 the banks mobilize in this state, Rs.58 is given as loans. Bandhan Bank will also have many branches in Bihar- the third largest Indian state by population, which accounts for 4.78% of the branch network, 2.44% of deposits and 1.05% of credit, and where the credit –deposit ratio is 33.25%. Barring Odisha, Assam and Uttarakhand, all other states in the east account for less than 1% of the branches, deposits and credit, and these branches offer loans to the extent of one-fourth to one- third of the deposits they mop up.

It looks like Bandhan will strive to change how banking is done in India. It is starting with a 6.7 million borrower base, catered to through 2022 doorstep service centres across 35000 villages in 22 states, and will continue to give small loans. Many of its 500 branches will raise deposits to support the credit portfolio, but more importantly, it will also collect deposits from small savers who are often being taken for a ride by the so called shadow banks (Bandyopadhyay, 2015).

Now, in the increasing level of competitive field of banking it is recommended firstly, to improve the margin of Profit After Tax(PAT) and secondly, to enter into the security market by issuing security of Bandhan Bank Ltd in near future.

Conclusions:

Indeed, there are challenges as many more banks- of different kinds and sizes- will come up in next few years and state –run banks are likely to change their approach to business. The Bandhan Model may encourage other banks to extend their turf and embrace financial inclusion in a meaningful way. In 2001, the microfinance institution which has started its business with a small table and two employees in Konnagar-Bagnan(West Bengal) are dreaming to make itself the 'best bank' with the objective of making –AapkaBhala, SabkiBhalai i.e., good to one and all.

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Appendix -2 Financial Statements as per 19th dec 2011 Care report

INCOME AND EXPENDITURE STATEMENT	AUDITED (Rs in Crore)			PROJECTED (Rs in Crore)		
	2009	2010	2011	2012	2013	2014
Year ended March 31,						
Income						
Interest Income on own portfolio	27.80	222.10	427.10	628.20	896.00	1352.80
Other Opening Income	9.20	51.90	93.90	66.10	94.20	105.60
Total Income	37.00	274.00	521.00	694.30	990.20	1458.40

Financial Costs						
Interest expose on own portfolio	9.00	94.60	196.60	314.70	515.30	721.00
Total Financial Costs	9.00	94.60	196.60	314.70	515.30	721.00
Net Interest Income	28.00	179.40	324.40	379.60	474.90	737.40
Operating Expenses						
Operating Expenses	12.30	57.20	115.40	156.60	192.50	307.10
Depreciation	0.10	7.80	17.40	13.00	13.10	13.10
Total Operating Expenses	12.40	65.00	132.80	169.60	205.60	320.20
PAT Before Provisioning & Taxes	15.60	114.40	191.60	210.00	269.30	417.20
Provision & write off	0.00	0.50	13.60	18.20	17.00	15.40
PBT	15.60	113.90	178.00	191.80	252.30	401.90
PAT	10.20	73.90	117.60	126.00	165.70	264.00