



**New venture:** Bandhan's chairman and managing director Chandra Shekhar Ghosh.

## GREEN SIGNAL

# Bandhan Bank to begin ops from 23 Aug

**Kolkata firm gets RBI nod to start commercial operations; to merge microfinance institution business with bank**

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MUMBAI

**B**andhan Financial Services Pvt. Ltd will start full-fledged commercial banking operations on 23 August.

Kolkata-based Bandhan got the final Reserve Bank of India (RBI) approval to start commercial banking operations on Wednesday.

So far, it had "in principle" approval, which it received in April last year, alongside Mumbai-based IDFC Ltd, to set up a bank.

Bandhan's chairman and managing director Chandra Shekhar Ghosh declined to give details about the hierarchy of the management, pending RBI approval, but it is widely believed that he will head the bank.

A group of 20 people, hired from various banks and organizations, will be in charge of Bandhan Bank's day-to-day activities.

After becoming a bank, Bandhan will merge the micro-finance institution business with the bank, as per RBI requirements, but it will carry on its micro-loan activities through its existing 2,022 low-cost service outlets. The commercial bank will start operations with 600 branches, Ghosh said at a press conference.

About 200 of those branches will be in metro and urban areas, while the rest will be in semi-urban and rural areas, he added.

From Day 1, it will have 250 automated teller machines, or ATMs, as well as 12,000 hand-held point-of-sale devices that it calls "human teller machines".

Bandhan's loan book, now at ₹10,000 crore, will touch ₹11,000 crore by the time the bank starts commercial operations.

Its net worth, which is ₹2,700 crore at present, is expected to reach ₹3,200 crore by the launch date.

The micro-finance firm already has some 6.6 million customers and by 23 August it hopes to take that number to about 10 million, Ghosh said.

However, big-ticket loans, or even retail loans, will not be free-flowing for some time as the

existing lending rate is steep.

Bandhan's lending rate stands at 22.4%, way higher than what most banks offer.

Being a microfinance firm that cannot raise deposits, Bandhan's funds are mainly raised as loans from banks.

Owing to the high cost of deposits, the bank cannot lower its lending rate right away, but will do so over time, Ghosh said. Hence, the bank will focus more on deposit accretion in the initial period.

"Once we have enough deposits and our cost of funds gets cheaper, we will pass on the rate benefit to our customers," Ghosh said.

Small Industries Development Bank of India (Sidbi), GIC Singapore and International Finance Corp. are three key investors in Bandhan.

Ghosh's stake, as a promoter, is less than 3% in the firm.

But he declined to give details about the shareholding pattern.

Bandhan recently raised ₹1,020 crore from these three firms.

Sidbi and IFC have been equity partners with the company for a while.

The bank will go for an initial public offer by 2018, but the three major investors will continue to stay invested in the bank, said Ghosh.

The focus will be on retail lending and the bank will stay away from the corporate sector, Ghosh said.

"I would not like to go into those areas (infrastructure, corporate loans). If you see the situation of the country and the situation of banks, it is better to stay away from those sectors," Ghosh explained.

According to a senior analyst with a global management consulting firm, Bandhan should be able to bring down its cost of deposits fairly quickly as the bank has a good and satisfied customer base.

"Bandhan's customers are sticky. The only issue the customers had so far was that while they could borrow from Bandhan, they couldn't keep their money with the firm. Once deposit products get introduced, it will be an easy ride for Bandhan to accumulate cheap deposits really fast," said the consultant who did not want to be named as the firm he works for is advising Bandhan on its transformation.

In fiscal 2014-15, Bandhan's net profit was ₹428 crore while its bad assets were only 0.1% of the loan book.