

An Analysis of Financial Performance of Bandhan: Post Transformation Period

Annu*

Research Scholar, Department of Commerce, MDU, Rohtak

Abstract – Financial inclusion is a necessity for the inclusive growth of an economy of a developing country like ours. A large portion of the population of the India is poor and not able to access the financial resources available to them. To tackle this problem, micro finance is a decent medium. Bandhan is a microfinance institution, which was establish in West Bengal to alleviate the poverty and empower the women by making them self-dependent through financial inclusion. This paper shows the how it is working towards its core objectives. It transforms itself from an NGO to NBFC and a NBFC to BANK. The paper also analyses the performance of the Bandhan after its transformation into a bank. This study finds out that performance of Bandhan bank is good and growing continuously in terms of extension of its activities and with a sound financial position which is analysed with the help of various ratios.

Keywords: Bandhan, Micro Finance Institution, Bank

-----X-----

INTRODUCTION

For the upliftment of the poor section of the society which is unable to access the banking and financial services, micro finance is a medium to provide finance. Microfinance is a type of financial service that is provided to unemployed or low income individuals or groups who have no other access to financial services. It is also known as micro credit.

Bandhan, a microfinance institution was established by Mr. Chander Shekhar Ghosh in 2001 to help the poor and needy section of the society. They started it with the two major objectives Alleviation of the poverty and Women empowerment with the Initial capital of Rs. 2 lakh which is collected by them from their friends and relatives. Bandhan which means togetherness justify its' vision. It is largest microfinance institution in India according to Forbes list of top 50 microfinance firms. It started its operation as an NGO named Bandhan Konnagar in 2001 under the chairmanship of Mr. Ghosh. To achieve its major objective, focus of its operations was to provide funds to the rural or urban women who are in disadvantageous position in finance. Reason to focus on poor women is that according to them women use their income and saving in more productive way like education of their children and improve standard of living by proper management of household expenses. From NGO it started to working as a non-banking financial company and in 2015 it entered into banking business by approval of reserve bank of India. It is first bank of India which is set up in eastern part of the India after independence and

maximum of its branches and loans advances in west Bengal. In the year 1993 and 2003 reserve bank of India opened door for many new banks which all are setup in west, north and south but not in east. Its' headquarter is in Kolkata.

TRANSFORMATION OF NGO TO NBFC AND NBFC TO BANK

In 2001, Mr. Chandra Shekhar Ghosh started an Ngo to provide microfinance services to disadvantageous section of the society in West Bengal named as Bandhan Konnagar. It expands its micro financing activities to Kolkata and launches 100th branch in 2005 and its clients base reaches at 1, 00,000. In 2006, Ganga Niryat Pvt Ltd (which is an NBFC registered in 1995) is acquired by Bandhan and started its operations as Bandhan financial services private limited (which was incorporated under the companies act, 1956). Bandhan Konnagar NGO transfers its business to Bandhan financial services limited. This transformation process consumed a lot of time (over the 3 years) and required major restructuring within the organisation. In 2007, it was declared India's 1st and world's 2nd largest microfinance institution by the Forbes. It launches its 1000th branch and its client's base reaches at 2 million in 2009. It tied up with western union for money transfer in 2010 and loan disbursal raised to Rs. 2000 Crore. In 2011, 11% stake is acquired by international finance corporation (IFC) for Rs. 135 Crore. As an NBFC Bandhan has its own limitation for example it could not accept deposits from them who have surplus

funds so that Mr. Ghosh realised that there is a gap in market and only a bank may fill this gap and they decide to transfer its micro finance business to bank. An 'in principle approval' was provided by the reserve bank of India on April 9, 2014 to Bandhan financial service limited (BFSL) to set up a bank in private sector. At that time it has a loan disbursal of 29,990 Crore and 5.5 million clients. Reserve bank of India issued licence on June 17, 2015, under the section 22(1) of Banking Regulation Act, 1949. Bandhan Financial Services Limited transfer its whole business to bank on august 23, 2015 in compliance with the condition of banking licence which was issued under section 22(1) or the Banking Regulation Act, 1949. Bank started its operations on 23rd august 2015 and on 3rd September 2015 it was included in the second schedule of reserve bank of India act, 1934. It started with 501 branches and at the end of that number of branches was 656. It started its operations in 22 states and union territories and at the end of the year it expanded its operation to 29 states and union territories. At the end of financial year 2017-18, it has 936 bank branches in 34 states and union territories, 2,764 Door Step Service Centres and 130 lakh customers. At present it has maximum of its branches in west Bengal (355) and number of (DSCs) Doorstep Services Centres is 902. Bihar is at second position in having maximum of bank branches of Bandhan (83) and having 345 door step service centre. Bandhan transform its micro financing business to banking business with a vision to be a world class bank for convenient and affordable financial solutions to all, in an inclusive and sustainable manner.

A BRIEF REVIEW OF LITERATURE

Jagtap (2017) conducted a study named 'Transformation From Financing Unit To Bank: Case Study of Bandhan, Kolkata.' The study explains the brief history of Bandhan with highlighting the importance of micro finance to poor rural section. The study also enlightens the key aspects of the progress of Bandhan and its transformation process. And found that it is a first micro finance institution which is transformed into bank.

Thomas and Dave (2015) conducted a study entitled 'a successful microfinance to bank: a case study of Bandhan'. In their research they tried to highlight the challenges to Bandhan in transformation of MFI (microfinance institution) to a bank. According to them, maintenance of CRR and SLR, to decide appropriate product basket, geographical centre for operations and keeping profitability in initial period may be challenges for Bandhan. And they analyze the financial structure of the Bandhan as a nongovernment organisation and a non-banking financial company. Financing structure of last 5 year is also analysed in this study. They found that financial status of the bank was good. At last they concluded that it will not be so difficult for Bandhan to

transform into bank because of having an experience of 13 years in micro finances.

Kohli (2015) performed a case study research on Bandhan bank named 'a case study of Bandhan: the newest entrant in the competitive banking sector in India.' A swot analysis for Bandhan was carried out in this study and what strategies it adopted for transition from micro financing to bank are also discussed. The study found that Easy accessibility to poor rural people (i.e., its presence in the rural area) is a significant feature of the Bandhan which put forth a lot of opportunities for Bandhan and make it different from the others. Diversity of customers is big challenge for the Bandhan because it has to maintain a balance between the techno-savvy urban customers and rural masses. An emotional attachment with the rural poor people is strength for Bandhan because it provides a large customer base. It had adopted the strategies to cater the all opportunities and challenges in a cost effective manner.

Nilakantan et.al., (2013) conducted a research named 'the impact of microfinance on women empowerment: evidence from eastern India.' This study was based on the data collected from a sample of the women borrowers of Bandhan (a large MFI in India) and for the measurement of the empowerment some economic dimensions are used like credit related decisions, enterprise management and expenditure related decisions. A multivariate Probit regression was used for data analysis purpose. The study found that increased access to microfinance as measured by long duration of treatment was associated with no or negative empowerment effect. In other words more use of microfinance services by women has not any positive impact on the women empowerment.

Manoharan et.al., (2011) in their research entitled 'micro finance institutions in India –a study on financial performance' analyze the financial performance of 7 micro finance institutions (Spandana Sphoorty Financial Ltd., BASIX, Axomi, Bandhan, Village Financial Services Private Ltd., Grameen Financial Services Pvt. Ltd). In this study it was tried to find that which MFI is performing at top line and which is performing at bottom line. By using the annual growth rate, compounded growth rate and applying different statistics like, mean, standard deviation and analysis of variance etc. the study found that from the selected MFIs Spandana is performing at top line whereas Axomi is performing at bottom line.

OBJECTIVES

This paper addresses the following objectives:

- To explain the history of Bandhan in brief

- To analyse the financial performance of Bandhan after transformation of it into a bank

RESEARCH METHODOLOGY

Descriptive research design is used for this study. Data and information used for this study are collected from the secondary source. Various research papers, journals, research articles, websites, newspaper and annual reports of Bandhan etc. are assisted to me to complete this paper. In this paper, it is tried to analyse the financial performance of the Bandhan. For this purpose ratio analysis is used to study the various aspect of the financial performance like financial structure, overall financial performance, revenues and expenses.

ANALYSIS OF FINANCIAL PERFORMANCE OF BANDHAN BANK

Bandhan is the first microfinance entity to transform itself into a bank. Bandhan started its operations on 23rd august, 2015 with 501 Branches, 50 ATMs and 2200 Doorstep Service Centres (DSCs) spreading all over the India. And at present growth of Bandhan bank can be understand with the help of following table:

Table 1.

Growth story of Bandhan Bank

Basis	FY 2015-16	FY 2016-17	FY 2017-18
No of states and union territory	29	33	34
No. of bank branches	656	840	936
No of ATMs	228	282	460
No. of customers	84lakh	105lakh	130lakh
No. of employees	20548	24548	28159
No. of doorsteps services centres (DSCs)	2022	2443	2764
Deposits	12089 cr	23229 cr	33869 cr
Advances	15593 cr	23543 cr	32339 cr
No. of debit card issuance	7524572	9553813	10547455
No of total transactions	14.22 cr	68.30 cr	85.48 cr

Source: <https://www.bandhanbank.com/>

Bandhan bank is extending its operations continuously in terms of no. of bank branches, no. of ATMs, no. of customers, no. of employees, no. of states & union territory covered by Bandhan bank, no. of DSCs etc. we can see from the above table that geographical extension of its operation is increased up to 34 states as on 31st march 2018 from 29 states as on 31st march 2016. No of bank branches, ATMs and DSCs are also increased up to 936, 460 and 2764 respectively at the ending of financial year 2017-18 from 501, 50 and 2200 respectively as on 23rd Aug. 2015 (when it started its operations as a bank). No. of employees and customers base also shows an increasing trend. Increased in deposits and advances for the study period can be observe with the help of following chart:

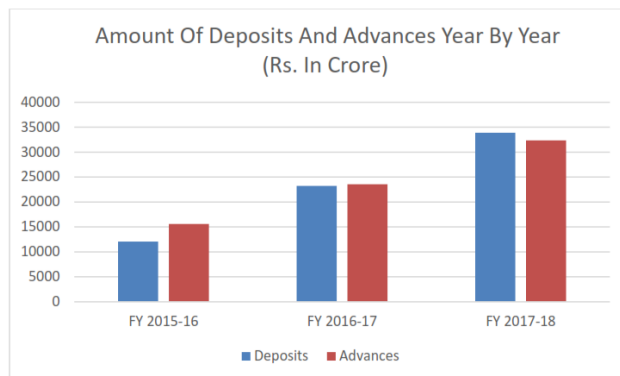


Figure 1.

Number of debit card issued and total number of transactions are also increased year by year which can be observe from the following charts:

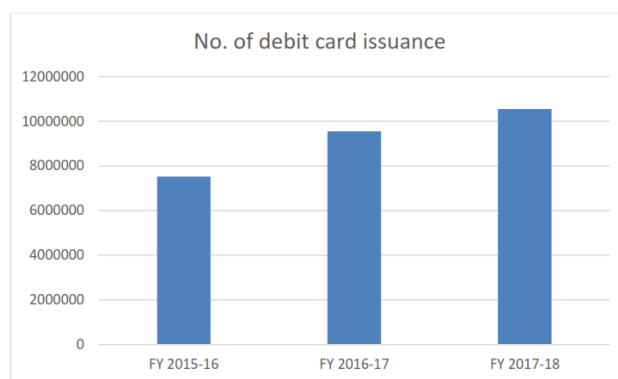


Figure 2.

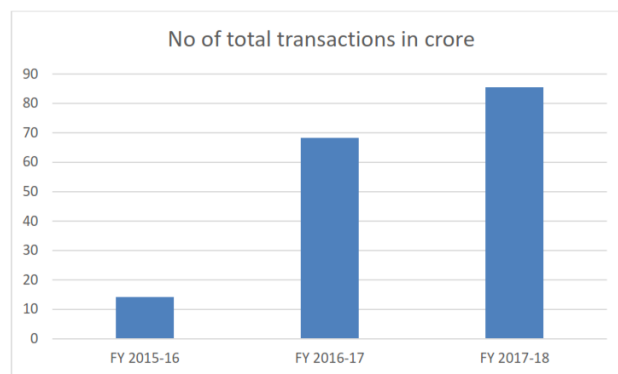


Figure 3.

Ratio analysis to analyse financial performance of Bandhan bank

Different ratios are shown in the following table for the study period:

Table 2.

Ratios of Bandhan bank related to financial year 2015-16, 2016-17 and 2017-18

Ratios/Year	2015-16 (%)	2016-17 (%)	2017-18 (%)
Return on equity	18.36	28.51	25.98
Return on assets	3.18	4.47	4.06
Capital adequacy ratio	29.01	26.36	31.48
Cost to income ratio	58.97	36.31	35.00
NPA	0.15	0.51	1.25

Source: <https://www.bandhanbank.com/>

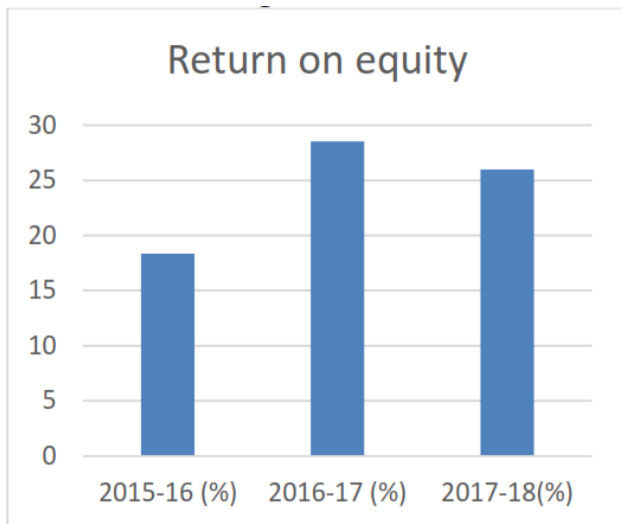


Figure 4.

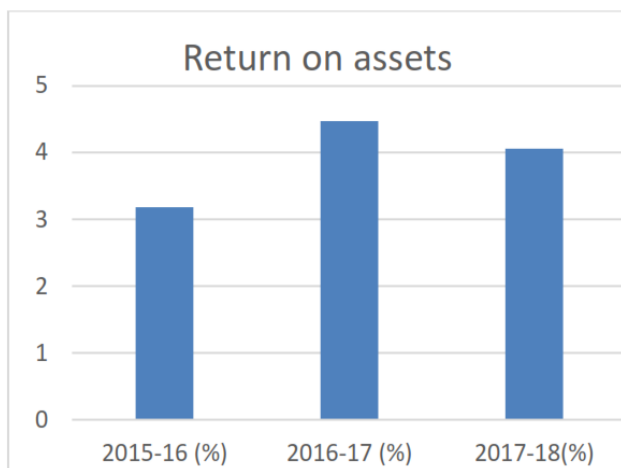


Figure 5.

Return on equity

Return on equity (ROE) is a profitability ratio which is used to measure the efficiency of a firm to use the money of shareholders for the profit generation and growth purpose of the company. ROE of Bandhan bank is good and continuously increasing. At the end of FY 2015-16 it was 18.36 % and increased to 28.51% at the end of FY 2016-17. At the end of FY 2017-18 it was increased to 25.98 %. We can say that it indicates good financial position of the bank.

Return on assets

Return on assets (ROA) is also a profitability ratio which measures the how much income is generated with the use of total assets (total investment). A high ROA is considered good because it indicates a firm's efficiency to generate more profit with less investment. We can observe from the table 2 and figure 5 that ROA of Bandhan bank is increased in the year 2016-17 (4.47%) in comparison to the year 2015-16 (3.18%) and it is decreased slightly in the year 2017-18 (4.06%) in comparison to the year 2016-17.

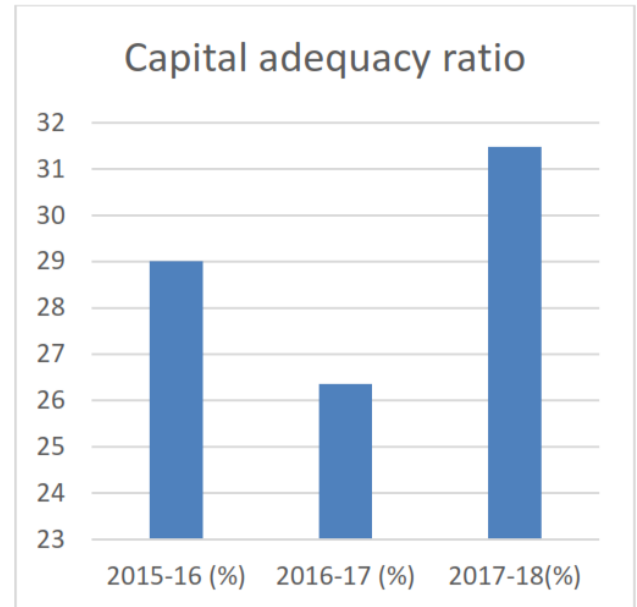


Figure 6.

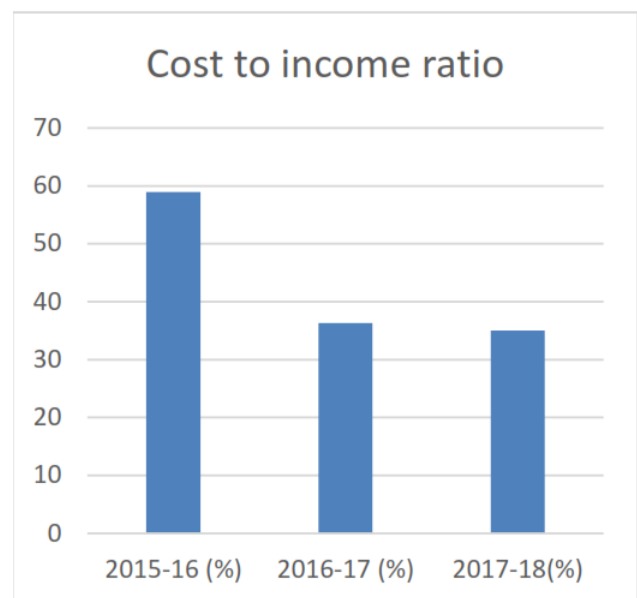


Figure 7.

Capital adequacy ratio

Capital adequacy ratio (CAR) is a ratio of capital of bank as a percentage to its risk weighted assets. As

per the norms of Basel III, minimum capital adequacy ratio is 8% and a high CAR is considered good because it indicates the ability to absorb more losses. CAR of Bandhan was 29.01% in the FY 2015-16, 26.36% in the FY 2016-17 and 31.48% in the FY 2017-18. It is good for the financial health of the bank.

Cost to income ratio

Cost to income ratio is ratio of operating expenses to operating income. The lower cost to income ratio is considered better for the profitability of the business. We can see from the table 2 and figure 7 this ratio of Bandhan bank shows decreasing for the study period and it is much lower than ideal ratio which lies between the 60-80%.

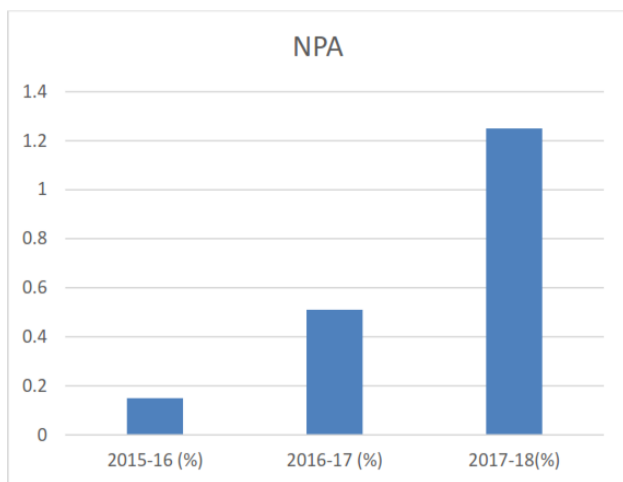


Figure 8.

Non-performing assets

Non-performing assets (NPA) are those loans and advances of a bank on which interest and principal amount are due from past period but not received. The percentage of NPA of Bandhan bank shows an increasing trend which is not good for the financial health of the bank in future. NPA of Bandhan bank was increased from 0.15% to 1.25 % during the study period.

Table 3.

Profit of Bandhan bank for the study period

Year	Profit after tax (Rs in crore)	Net interest income (Rs. In crore)
2015-16	142	932.73
2016-17	1112	2403.50
2017-18	1346	3032.24

Source: <https://www.bandhanbank.com/>

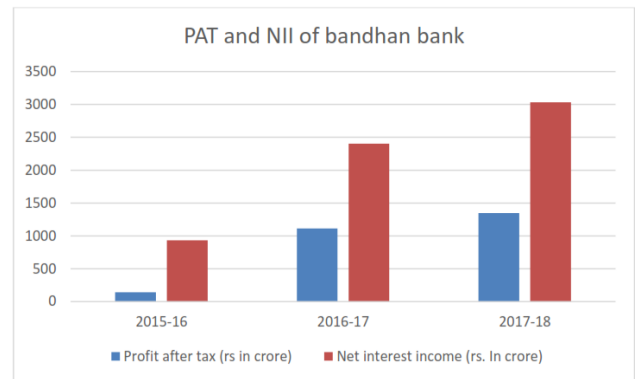


Figure 9.

Table 3 and figure 9 represent the profit after tax and net interest income of Bandhan bank for the FY 2015-16, FY 2016-17 and FY 2017-18. Profit after tax was increased by 127% in the FY 2016-17 over the FY 2015-16 and it was increased by 21.01% (which is less increment as compared to previous year) in the FY 2017-18 over the FY 2016-17. Similarly, net interest income also shows an increasing trend for all the three years.

CONCLUSION

Bandhan is the first microfinance institution of its type which transform itself into a universal bank. Bandhan transform itself successfully from non-government organisation to non-banking financial company and from non-banking financial company to a bank to achieve its vision and mission of financial inclusion of disadvantaged section of the society. It can be concluded from the above study that it became successful to fill the gap which it finds between a bank and microfinance institution. This study represents that Bandhan bank extended its operation after the transformation into bank. The study analysed the financial performance of the bank by using various ratios. Return on equity and return on assets ratios are analyse to check the overall financial position of the bank. Growing pattern of profit after tax and net interest income was studied to check the ability to generate the revenue. Capital adequacy ratios and cost to income ratios are studied to know the financial strength of the bank. By this study it can be concluded that overall financial performance of the Bandhan bank is good and shows a growing trend in almost all aspects. This is need to put a serious attention towards the increasing NPAs of the bank because it can be hurdle for the growth of the bank.

REFERENCES

Thomas, S. & Dave, G. B. (2015). A Successful Microfinance to Bank: "A Case Study of Bandhan". 2nd International Conference of Science, Technology and Management,

University of Delhi, Conference Centre, New Delhi (India) pp. 1786-1795.

Jagtap, M. V. (2017). Transformation from Micro Financing Unit to Bank: Case Study of Bandhan, Kolkata. *International Journal of Advanced Research*, 5(2), pp. 1148-1150.

Kohli, B. (2015). A Case Study on Bandhan: The Newest Entrant in the Competitive Banking Sector in India. *International Journal of Advance Research in Computer Science and Management Studies*, 3(10), pp. 25-31.

Nilkantan, R., Datta, S.C., Sinha, P., & Datta, S. (2013). The Impact of Microfinance on Women Empowerment: Evidence from Eastern India. *International Journal of Development and Conflict*, 3, pp. 27–40.

Manoharam, P., Ramachandra, R., & Nirmala, R. D. (2011). Micro Finance Institutions in India – A Study on Financial Performance. *International Journal of Micro Finance*, Puducherry, 1(1), pp. 57–69.

<https://www.bandhanbank.com/pdf/Bandhan-Bank-AR-2016-17.pdf>

<https://www.bandhanbank.com/pdf/Annual-Report-FY-17-18.pdf>

<https://www.bandhanbank.com/pdf/Bandhan-Bank-AR-2015-16.pdf>

<https://www.bandhanbank.com/>

<https://www.myaccountingcourse.com/financial-ratios/return-on-equity>

<https://economictimes.indiatimes.com>

http://content.icidirect.com/mailimages/IDirect_BandhanBank_IPORReview.pdf

Corresponding Author

Annu*

Research Scholar, Department of Commerce, MDU, Rohtak

annurohilla789@gmail.com