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### RESEARCH ARTICLE

## TRANSFORMATION FROM MICRO FINANCING UNIT TO BANK: CASE STUDY OF BANDHAN, KOLKATA.

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#### Abstract

Microfinance institutions serve as an addition to banks and in some sense a superior because along with providing credit they also offer other financial services like savings, insurance and non-financial services like personal counseling provide guidance and support to start small business etc. Central government and state governments are taking efforts for poverty alleviation. Many programs are currently active in various regions of India. Along with them the microfinance is also contributing through their work towards financial inclusion. In the past few decades it has actually provided money to the unnoticed communities and thereby helped to get rid of poverty. Mr. Chandra Shekhar Ghosh founded Bandhan Financial Services Limited (BFSL) in the year 2001. This micro finance institution is involved in providing loans to small customers, those who have no or less way in to official banking services. In June 2015, the banking regulator gave its final permission. Bandhan Financial Holdings is owned by Bandhan Financial Services Limited (BFSL), the largest micro finance organization in India. The bank focuses on Eastern India as banking penetration is still poor in the region but at the same time want to expand their loan portfolio by increasing lending funds to retail business and Micro and Small Medium Enterprises.

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#### Introduction to Microfinance:-

Basically microfinance is a channel which provides fund to the community or group who do not have approach to banking services. Micro-credit, by definition, means short term loans that are advanced to poorer sections of the society for the purpose of self-employment or any activity plan which help them to earn income and take care of their families.

Over the past few decades, Microfinance sector has grown rapidly. In 1976, Muhammad Yunus, established Grameen Bank, Bangladesh which was considered as the foundation of the modern MFIs. This bank was established with the objective of providing financial facilities to the needy and weaker sections of the society. This bank focuses more on women to help them increase their standard of living, earn profit and become financially strong and independent. According to Yunus, poor people are like 'human bonsai'. They were deprived because society had not accepted their existence and left without the real social and economic support to develop. Grameen Bank took effort to shift the neglected community to the main stream of the society. For the pioneering work on micro-finance, Nobel Prize was awarded jointly to Mr. Mohammad Yunus and Grameen Bank in the year 2006.

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Today, this micro finance business has progressed into a vibrant industry. By providing short term loans to promising entrepreneurs, this sector helped them to establish new businesses. When talking about giving refinance facility to MFIs significant role has been played by the Non-Banking Financial Companies, Regional Rural Banks, Commercial Banks, Co-operative societies etc.

Microfinance sector has become imperative sector. It was initially started with micro investments, micro saving then it was engaged in micro credit. Now they transformed into micro enterprises. This continuous progression has created a chance to the rural people to develop and achieve reasonable monetary, societal and educational empowerment. Thus, it has helped them in moving toward improved standard of living and quality of their life.

### **Role of Microfinance:-**

The latest research of World Bank highlights that, India is a country with almost one third of the world's poor. Central government and state governments are taking efforts for poverty alleviation. Many programs are currently active in various regions of India. Along with them the microfinance is also contributing through their work towards financial inclusion. In the past few decades it has actually provided money to the unnoticed communities and thereby helped to get rid of poverty. Government Reports be evidence for the progress of the people who have taken advantage of micro credit facility and have been able to enhance their earnings and hence the standard of living.

Through 'Pradhan Mantri Jan-Dhan Yojna' the government is taking efforts to attract more and more public for opening their saving accounts with zero balance, total 21.61 crores account opened till date i.e. 21<sup>st</sup> Sept., 2016. This indicate that yet major portion of the Indian population still don't have their savings account in banks and thus unable to avail all banking services. Underprivileged communities also require monetary services to accomplish their wants like spending, construction of property and security against future uncertainty. Microfinance institutions serve as an addition to banks and in some sense a superior because along with providing credit they also offer other financial services like savings, insurance and non-financial services like personal counseling provide guidance and support to start small business etc. The borrower gets all mentioned services at their door step and many time the MFI design repayment schedule in such a way which borrower find convenient. But important drawback lies with these institutions that all services & facilities come at high cost. The interest rates charged by them are higher than commercial banks and vary widely from 10 to 30 percent.

### **Case Study of Bandhan:-**

"Bandhan is about togetherness, we work for inclusive growth" Mr. Chandra Shekhar Ghosh, Managing Director and CEO of Bandhan Bank.

### **Background:-**

With the desire of changing Kolkata's agrarian surroundings, Mr. Chandra Shekhar Ghosh founded— Bandhan, India's largest tiny loans giver.

Mr. Chandra Shekhar Ghosh founded Bandhan Financial Services Limited (BFSL) in the year 2001. This micro finance institution is involved in providing loans to small customers, those who have no or less way in to official banking services. From past 15 years, BFSL is funding for small business entrepreneurs and women borrowers. Thus, it has earned trustworthiness and many great compliments for their contribution for the development of the community who are unnoticed by the formal banking system.

The organization has a network of 2,022 branches spread across 22 Indian states and Union territories, serviced by over 15,000 employees.

### **Management:-**

Dr. Ashok Lahiri is the Chairman of Bandhan Bank. And Chandra Shekhar Ghosh is acting as the managing director and chief executive officer of the bank.

### **Interest Rates (August, 2015):-**

- 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.

### **Its Progress & Transformation:-**

Bandhan has its headquarter at Kolkata; it is the first bank to be set up in eastern part of India after Independence. Bandhan bank's two-third branches and three fourth of its loans are in West Bengal, Assam and Bihar. It had a gross loan portfolio of about Rs 5,700 crore as of March 2014 though it functions in under-banked regions of India.

Bandhan received the in-principle approval of the Reserve Bank of India (RBI) for setting up a universal bank in April 2014. Then Bandhan Bank Limited was incorporated on 23rd December 2014 as a wholly-owned subsidiary of Bandhan Financial Holdings Limited. In June 2015, the banking regulator gave its final permission. Bandhan Financial Holdings is owned by Bandhan Financial Services Limited (BFSL), the largest micro finance organization in India.

As per the RBI licensing norm, capital limit to start a new bank is Rs. 500 crore. But the Bandhan Bank started with a capital base of Rs. 2,570 crore. As on 31 March, 2015, Bandhan Financial Services Limited had provided loan of about Rs. 9,524 crore and the repayment rate is over 99%.

The BFSL 2,022 branches have transformed into door step service centers for Bandhan Bank. The Bandhan bank has thus started with 501 branches and 50 ATMs on day one. Now the total staff strength of the bank is around 19,500. The bank had made net profit of Rs. 275 crore during eight months period i.e. August 2015 to March 2016.

Bandhan Bank expects to propose its outstanding banking products and services to all different sectors of the society. Though it is a bank for all, yet they want to continue their focus on providing funds to meet the financial requirements of community who are ignored by the formal banking system. Also they expect to extend their services by focusing more on generating better education, wellbeing and self-employment opportunities to the poorer sections of the society.

The management of the Bandhan bank now desires to expand the loan portfolio by increasing lending funds to retail business and Micro and Small Medium Enterprises.

### **Investors:-**

Besides its founder, Chandra Shekhar Ghosh, Singapore Sovereign Wealth Fund GIC, World Bank's International Finance Corporation (IFC), North Eastern Financial Inclusion Trust, Bandhan Employees Welfare Trust and Small Industries Development Bank of India (SIDBI) are the main investors of the bank.

### **Conclusion:-**

Micro finance institutions are basically established with the objective of providing financial facilities to the needy and weaker sections of the society. They helped the government to get rid of poverty and achieve economic development of the country.

The banking sector gives the impression to get a new competitor and a boost in the economy in India. After 11 years, India has got a new private bank – Bandhan Bank. The bank is a full-blown commercial bank that came into being recently. Bandhan is also the first microfinance company in India that has been transformed into a bank. It got a banking licence from the Reserve Bank of India in 2014. The bank is set up to cater to the needs of the unorganized sector such as daily wage earners and women running small business. The bank focuses on Eastern India as banking penetration is still poor in the region but at the same time want to expand their loan portfolio by increasing lending funds to retail business and Micro and Small Medium Enterprises. In future, it expects to offer saving, insurance and remittance services to the needy people of the society.

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