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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM (G/SM/M)

SIXTH TRIMESTER (Batch 2019-21)

END-TERM EXAMINATIONS, MAY 2021

[Reappear]

Course Name	Microfinance	Course Code & Title	**MF -FIN602**
Max. Time	**2 hours**	Max. Marks	**40 Marks**

INSTRUCTIONS:

- Answer in your own language and be precise.
- All parts of a question should be answered in one place.
- There is no negative marking.
- Use of calculators is allowed.
- This Question Paper Contains two parts. Both parts and all questions from both parts are compulsory.
- This is an open book exam and Answers to the questions will be plagiarism checked on assignment basis in Moodle with limit of 10%. Every additional 10% will attract a penalty of 5 marks.
- Please submit your answers (theory as well as application) in MS Word.

PART A – MICROFINANCE THEORY [25 MARKS]

Please read the case and answer the questions that follow:

Chandra Shekhar Ghosh, managing director and CEO of Bandhan Bank, is an unusual banker. Unlike his peers, Ghosh doesn't possess an MBA from an Ivy League school. He operates out of the bank's Kolkata headquarters, again an aberration given that most bankers work out of Mumbai, India's financial capital. Ghosh, in short, is an outlier who earned his success against unlikely odds, much like his five-year-old institution, Bandhan Bank, which today commands a market capitalisation of over ₹56,000 crore (about $7.5 billion).

"I am not a banker. But I have a strong understanding of people's needs at the grassroots level," says the 60-year-old awardee of the Ashoka Fellowship, a recognition for leading social entrepreneurs globally.

Despite not having a commercial banking pedigree, Ghosh's Bandhan Financial Services was the first microfinance company in the country to win a banking licence from the Reserve

Bank of India (RBI) in April 2014. The only other applicant was infrastructure financing company IDFC, which was also given a new bank licence.
Bandhan Bank, which started operations as a commercial bank in August 2015, follows a different model than its larger peers, State Bank of India, HDFC Bank, ICICI Bank, and others.

Analysts see Bandhan Bank as a "unique Indian financial services play" that primarily focusses on microfinance, affordable housing, and micro, small and medium enterprises (MSMEs), targeting the country's large unbanked population and underpenetrated markets.

"Bandhan is in a different space compared to other universal banks. Its DNA is financial inclusion and to serve the vast unserved segments of our society," says Samit Ghosh, founder of Ujjivan Financial Services, one of India's most successful non-banking finance companies (NBFCs), which is now a small finance bank.

The decades of experience Ghosh has in understanding people's needs in the rural and semi-urban markets has served Bandhan Bank very well in the last five years.
Analysts say Bandhan's current account savings account (CASA) deposit ramp-up is the fastest when compared with any other private-sector lender during its initial years of operations. As brokerage firm CLSA points out, Bandhan took just 12 quarters to ramp up its CASA ratio to 40% in December 2018 from 21% in March 2016. In comparison, its larger peer IndusInd Bank took 33 quarters to reach that target, while Kotak Mahindra Bank took 40. The CASA ratio is a key indicator of a bank's financial health and shows its capacity to raise money with lower borrowing costs.

Bandhan Bank—No. 117 on the 2020 Fortune India 500 list—has seen a steady rise in retail deposits, which is currently on a par with large banks. "After Kotak, Bandhan is the only midsized bank that has been able to scale up retail deposits in the last decade," argues the recent CLSA report. For FY20, Bandhan's ratio of retail deposits to total deposits was recorded at 78.4% as against 77.4% in the year-ago period. For the last fiscal, the bank reported retail deposits of ₹44,760 crore. For the September quarter, the bank posted net interest income (NII) of ₹1,923.1 crore, up 26% as against ₹1,529.0 crore a year ago.

Catering to a customer base of 20.8 million people, Bandhan Bank had a loan book of ₹76,620 crore, with 1,045 branches across the country. Its total deposits for the second quarter ended September stood at ₹66,130 crore. What is significant is that the bank claims 50% of its customers are exclusive to them.

It is this loyalty and customer connect that Ghosh wants to cultivate further in order to fuel the bank's next phase of growth.
A challenge that is staring Bandhan right in the face is that it is still focussed on microfinance. Today, about 62% of the bank's loan book is microfinance loans. Ghosh is aware of this, and knows that in order to grow, the bank needs to diversify, or risk being pigeonholed. "We want to be the primary bank of our customers, serving all their banking needs right from housing loans and personal loans to gold loans. This will also help us diversify from our concentration in microcredit," he says, adding that Bandhan needs to be "a universal bank". And, Ghosh has already laid the groundwork for it.

At present, Bandhan has close to 3,500 branches that serve only microfinance loans to women. The bank is now redesigning those branches to accept deposits and provide other services. It is setting them up in a way that within a radius of 2-3 km it can target potential customers who do not have access to banking services. These people might not be regular customers, but have the need for other consumer loans and deposits. To explain, Ghosh did some quick math. "If one branch can generate deposits of at least ₹1 crore, then we can generate about ₹3,500 crore of deposits without incurring any major cost of setting up new branches." Typically it would cost about ₹50,000-₹60,000 per branch to upgrade the existing infrastructure. The bank has started the pilot run in December, and will roll out this plan in phases.

"Bandhan has a universal banking licence and it is right to diversify away from the volatile microfinance (MFI) sector. The bank has unveiled a five-year strategy where the share of MFI will be 30% of the expanded book. MFI will remain one of the dominant portfolios, but not the only one," says Anand Dama, head-BFSI, Emkay Global Financial Services.

Ghosh did share his business plan with *Fortune India*. The intention, he says, is to create the next customer for other banking services and loans from its current base of microfinance borrowers. In September, the bank rechristened its largest portfolio as the emerging entrepreneurs business (EEB) vertical, that would serve underbanked entrepreneurs in rural and semi-urban markets, besides the usual microfinance borrowers. EEB has two broad categories: microcredit, where borrowers are part of a group and make weekly repayments; the second bracket is individual loans. These are given to those who run bigger businesses, and whose monthly household income is higher.

Over the last few years, the microfinance model has been moving away from group- to individual borrowing as loan ticket sizes inch up. "Traditional group guarantees don't work anymore in the practical world, so this shift makes sense," says Dama. This will help the bank cultivate its existing microfinance customer base to build a diversified loan portfolio, thereby mitigating the usual high risks associated with microcredit.

Bandhan is also focussing on building a robust technology backend to connect better with customers. It has launched digital accounts, and has also introduced a software that helps with credit decisions based on analytics and A.I. Ghosh has also made two key hires to drive the new initiatives. In September, Kumar Ashish was appointed executive president and head of the EEB vertical. Ashish—who has spent two decades at ICICI Bank—was group director at Airtel Money in Africa, prior to joining the bank. Bandhan also roped in former Bajaj Capital CEO Rahul Parikh as the bank's chief marketing and digital officer.
Another key element was the acquisition of Gruh Finance, an affordable housing and rural finance company that Bandhan bought from HDFC last year. Ghosh is confident that affordable housing will be a key growth driver for the bank after microfinance. "It has similar potential like microcredit for us," he says. Analysts expect "rich dividends" in the long term from Gruh Finance. The bank aims to offer housing loan services across 500 branches by the end of the current financial year.

"The first five years were all about developing the business; the next will be about growth," says Ghosh. He is clearly bullish about what's next. Reason: In a country of more than 1.3 billion, over 65% of the population live in rural India and are excluded from the financial services domain. According to the World Bank, India has the second largest unbanked population in the world at 190 million, after China.

Ghosh knows how to play to his strengths. "I cannot compete with SBI or HDFC Bank in terms of size and scale, but I can compete with them with my service, especially in the rural markets where I have an advantage," he says. That can only bode well for what's coming next for Bandhan Bank.

1. **Bandhan Bank's Business Model is different from others. Comment with reasons.** **[8 Marks]**

2. **Identify the key decisions Bandhan has taken to enhance its business model and work towards a sustainable growth rate** **[6 Marks]**

3. **"I cannot compete with SBI or HDFC Bank in terms of size and scale, but I can compete with them with my service, especially in the rural markets where I have an advantage," Explain in the context of this case.** **[6 Marks]**

4. **Explain the role technology can play in the further development of Microfinance Industry. Give examples.** **[5 Marks]**

PART B – MICROFINANCE APPLICATIONS **[15 Marks]**

1. **Illustrate with examples, the concept of Breakeven level of operations for Microfinance Organisation. Comment on the profit earned if any at Breakeven Level of operations?**

   [5 Marks]

2. Take the following numbers for ABC Ltd. , a Microfinance Institution:

Interest Yield on Portfolio of MFIs	-	24%
Funding Expenses	-	12%
Cost of Loan Losses	-	1%
Variable Operating Expenses	-	1%
Fixed Operating Expenses	-	Rs.12 Lacs per annum

   a) **Due to COVID crisis, it is expected that Cost of Loan losses will increase from 1% to 2% and the portfolio quality will also decrease resulting in yield on portfolio to decrease to 22% from 24%. Given this new scenario, determine the new operating breakeven level.** **[5 Marks]**

   b) **In this new scenario, ABC wanted to earn a profit of Rs.4 lacs per annum. Compute, how much should be the operating volume of ABC to achieve a profit of Rs.4 lacs per annum?** **[5 Marks]**