

## Case Study: Bandhan Bank Limited

### Bandhan Bank's Story

India has been growing at an average annual rate of more than 7% over the last five years; however, a shortage of formal sources of financing in rural and semi-urban markets is preventing economic growth from reaching the bottom-of-the-pyramid population. With India being home to the largest number of unbanked adults in the world—estimated at 190 million people<sup>1</sup>—increasing access to finance in the country has been a central focus of the World Bank, given its goal of achieving Universal Financial Access (UFA) by 2020. Against this backdrop, International Finance Corporation (IFC), the global development institution and member of the World Bank Group, conducted an extensive sector mapping exercise in 2010 to identify potential investment targets in microfinance institutions (MFIs) active in India's low-income states.

During this process, IFC identified Bandhan Financial Services Limited (BFSL) as a quality MFI with robust management and efficient operations, and made a US\$29 million equity investment in the company in 2011. Following IFC's involvement, Bandhan grew rapidly and soon became the largest microfinance provider in India, reaching some of the country's most rural and remote areas. In 2014, the company received approval from the Reserve Bank of India to transform into a full-service commercial bank; however, it would need to raise capital through a new financing round,



change its corporate structure to establish a new entity that would run all commercial banking operations, and build a banking infrastructure and platform.

In 2015, IFC proposed that it partner with the IFC Financial Institutions Growth Fund—a soon-to-be created vehicle managed by IFC Asset Management Company (AMC), a wholly owned subsidiary and captive private equity arm of IFC. They would jointly invest US\$88 million in Bandhan, with US\$34 million going directly to the newly created Bandhan Bank and another US\$54 million to BFSL, the promoter holding company of the bank. With IFC and AMC's guidance and support, Bandhan has transformed into a publicly listed commercial bank, currently providing a suite of retail financial solutions, including savings and loans products, to over 13 million customers across India.

### The Role Played by Private Capital

IFC and AMC were committed to providing both capital and know-how to support Bandhan through its transformation into a commercial bank. Critical to achieving growth, IFC and AMC invested a total of US\$115 million in equity and US\$26 million in subordinated debt in the company between 2011 and 2016 to strengthen Bandhan's capitalization and funding structure. IFC and AMC also assisted Bandhan in finding a reputable global anchor investor during

its pre-IPO financing round in 2015, thus allowing the company to further diversify its shareholder base.

In addition to financial support, IFC identified several key areas for value creation during the due diligence process around governance and operations. At the governance level, Bandhan adopted IFC's proprietary corporate governance improvement program and sought to ensure a well-functioning and

#### The Company



#### Essentials

**Company:** Bandhan Bank Limited

**Website:** bandhanbank.com

**Country:** India

**Sector:** Financial services

**Business focus:** Commercial banking

**Size:** US\$846 million in operating revenue (interest income + fee income) (as of fiscal year ending March 2018)

**GP:** IFC, a global development institution focused on the private sector in developing countries (ifc.org), and IFC Asset Management Company (AMC), a wholly owned subsidiary and captive private equity arm of IFC (ifcamc.org)

**Dates of investment:** Several subscription rounds of primary capital raised between 2011 and 2016, with the latest one in February 2016

**Investment:** IFC and AMC invested a total of US\$115 million in equity and US\$26 million in subordinated debt in Bandhan Bank

#### Impact Highlights

IFC and AMC invested in Bandhan Bank Limited at a critical point in its evolution to support its transformation from a regional microfinance institution to a deposit-taking, microfinance-focused universal bank of national scale.

Through a combination of capital support, value creation initiatives on operational issues, and active guidance on corporate governance, IFC and AMC helped Bandhan successfully complete its transformation process into a commercial bank. During IFC's and AMC's investment period, Bandhan strengthened its financial health, professionalized its operations and significantly expanded its business. Since IFC and AMC's investment, total loans have increased from US\$1.3 billion to US\$4.5 billion, while the number of customers grew from 6 million to more than 13 million, and employees from 13,200 to more than 28,000.

Bandhan is actively working with some of the lowest income segments of India's population, helping them gain financial literacy. As of July 2018, the company has 4,177 touch points across India, consisting of 937 bank branches, 2,764 Doorstep Service Centres (DSCs) and 475 ATMs. Given that women represent nearly all of Bandhan's borrower base, the company has also played a key role in supporting women's entrepreneurship in the country.

# The Company View

“Financial inclusion is an important driver of continued economic growth in India and vital to ensuring this growth is distributed among everybody. It is also an incredible opportunity for Bandhan. Thanks to the support of IFC and AMC, Bandhan is well placed to capitalize on this opportunity and help the millions of people who do not have access to basic financial services.”

**Chandra Shekhar Ghosh**  
Founder, Managing Director and CEO,  
Bandhan Bank Limited

scalable decision-making process. IFC also recommended several changes aimed at professionalizing the Board, including the appointment of independent directors with distinct areas of expertise and the creation of Board committees (i.e., audit and nomination). Georgina Baker, a senior IFC manager appointed to serve as a Board Director, was instrumental in aiding the company in defining its strategy, implementing its transformation plan, and building a strong risk and credit culture.

At the operational level, IFC and AMC focused on improving credit and risk management policies, product design and human resource planning to scale Bandhan’s business model. IFC and AMC also supported information technology enhancements through the development of a management information system (MIS) and automation of all Bandhan’s branches—most of which were not computerized at the time of IFC’s initial investment. The company also implemented anti-money laundering measures and

controls, and developed a large-scale environmental and social (E&S) responsibility framework that ensures monitoring, reporting and proactive management of a diverse set of E&S parameters.

In partnership with IFC and AMC, Bandhan has experienced tremendous growth—total loans have increased from US\$1.3 billion at the time of IFC and AMC’s 2015 investment to US\$4.5 billion in 2018. Over the same period, the number of customers grew from 6 million to more than 13 million, while employee headcount increased from 13,200 to more than 28,000. The company’s return on equity (ROE) has been consistently above 20%, while the bank continues to be well-capitalized. In recognition of its performance, Bandhan won the award of Best Private Sector Bank as well as the prestigious C. Rangarajan Award for Excellence in Banking. In March 2018, Bandhan Bank’s shares were listed on India’s National Stock Exchange in the country’s largest bank IPO of the year.

## Beyond the Bottom Line

Bandhan has helped millions of rural customers, including some of India’s lowest income segments, secure access to finance. As of July 2018, the company has 4,177 touch points across the country, consisting of 937 bank branches, 2,764 Doorstep Service Centres (DSCs) and 475 ATMs. Given that women represent nearly all of Bandhan’s base of borrowers, the company has also played a key role in supporting women’s entrepreneurship by allowing these women to take a more active part in their households through the establishment and scaling of their businesses. In recognition of its contribution and impact to India’s

local communities, Bandhan was conferred with the Sera Bangalee honor by the North American Bengali Conference in 2017.

Bandhan has always placed high emphasis on responsible financing, and the company has been a key driver in promoting financial literacy across the country—including a better understanding of the virtue of saving. As a result, its programs have historically had a positive impact on the lives of its clients who suffer less from food insecurity and have seen improvements in their overall physical health thanks to increased assets that have translated to higher household incomes.

### IMPACT HIGHLIGHTS

As of:	2015 Investment	September 2018
Enterprise value (US\$m)	254 <sup>2</sup>	8,500 <sup>3</sup>
Total Income (US\$m) <sup>4</sup>	281	846 (as of March 2018)
Net Income (US\$m)	70	207 (as of March 2018)
Net Loans (US\$B)	1.3	4.5 (as of March 2018)
# of employees	13,200	28,826 (as of July 2018)
Environmental management system in place	Not fully developed	Yes
Health and safety policies in place	Not fully developed	Yes

2. Total equity (book value).

3. Market capitalization.

4. Operating revenue = interest income + non-interest (fee) income.