



AMUL SET TO FLOOD DELHI, KOLKATA

BUSINESS OF BRANDS: PAGE 4

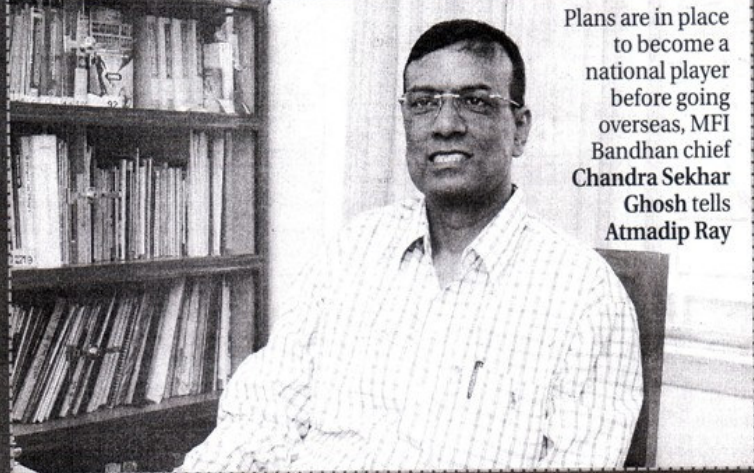
WANNABE STARS

INVESTOR'S GUIDE



VIEWPOINT: PAGE 15

MONDAY MUSINGS



Plans are in place to become a national player before going overseas, MFI Bandhan chief Chandra Sekhar Ghosh tells Atmadip Ray

Default's minimal despite having 'risky' borrowers

KOLKATA-BASED Bandhan, which was ranked second by *Forbes* magazine in the recent listing of the world's Top 50 micro-finance institutions (MFIs), is getting calls from Afghanistan, Brazil, South Africa, either to expand business or to share its expertise. The latest in this list is China. But for its founder and executive director Chandra Sekhar Ghosh, the immediate priority is to become a national player. In 2008, the entity has set its eyes firm on rolling out offices in Delhi and Mumbai. Mr Ghosh tells Atmadip Ray, after returning from China.

What is your expansion plan in 2008?

At present, Bandhan's main operation is in West Bengal. We are also present in Assam, Tripura, Meghalaya, Orissa, Bihar and Jharkhand. Now, we really want to have a national presence. This year, we plan to roll out our first offices in Delhi and Mumbai. Our assessment is that the number of urban poor has been increasing steadily in cities like Delhi and Mumbai, because of mass-scale migration from the rural area to urban area. Being a micro-credit player, we would like to tap the opportunities there. Then, keeping Delhi at the centre, we would expand to Uttar Pradesh and Rajasthan, too. Similarly, from Mumbai, we go to fringes of Maharashtra and Gujarat. This year, we plan to open about 200 branches. We are also going to recruit 2,000 people to support this growth plan.

Micro-credit institutions are often criticised for charging higher rate of interest. There is no regulation so far to contain the rate. What is the rate Bandhan charges?

When we kicked off operation in July 2002, we started to charge a flat rate of interest of 17.5%. But over the years, we've gradually reduced the lending rate to 12.5% (this comes to 24% on reducing balance). The ability to offer loans at cheaper rates compared with the other micro-credit agencies has, in fact, helped us get the *Forbes* ranking. We are an NGO and have a moral obligation to the poor. So, we would like to reduce the lending rate further whenever possible. Our operational cost of lending is around 20-21%. We keep a margin of 3-4%.

The low cost of operation is one of the major criteria for the *Forbes* ranking. What's the mantra behind keeping operational cost at lower level?

Simplicity helps reduce the cost. It's important to become sustainable as fast as possible. Achieving cost-competitiveness depends on how fast your operation becomes sustainable. We took just about two years to become viable.

How do you assess the risk of your borrowers?

Poor people are always risky. But our risk assessment is entirely different from banks. We take the risk and charge a premium for that. However, we try to assess the psychology of the poor borrower. One needs to see the capacity of the borrower. If one is ready to take a loan of Rs 1,000, there's no point offering her a loan of Rs 5,000. If you follow this simple logic, there is virtually no possibility of a default. The fact that we have witnessed a repayment rate of 99.99% is a clear testimony of the success of our model. Another principle is that we lend only to women. In the case of rural areas, we lend to families with a monthly income not more than Rs 2,500. For urban families, the benchmark income is Rs 3,500 per month. As of now, we've close to 11 lakh member-borrowers. We disburse loans worth Rs 3 crore every day. Some 1.2 lakh women get loans from us every month. The average loan size is Rs 3,600. The loans have been given for one year. We've 500 branches now. Every branch is restricted to offer loans to not more than 2,500 members. That's our way to keep control and supervise efficiently.

Achieving cost-competitiveness depends on how fast you become sustainable

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What is the source of your fund?

We source funds entirely from banks. This year, we need funds worth Rs 700 crore from banks to disburse Rs 1,000-crore loans. Last year, we disbursed Rs 600 crore. This year, we scaled up our disbursement target to Rs 1,000 crore. We typically borrow at 11-13% per annum. But naturally, the rate depends on the market condition. We get funds from Axis Bank, ABN Amro, Standard Chartered Bank and Small Industries Development Bank of India. We also borrow funds from public sector banks.

What is your take on the micro-finance bill?

The micro-finance bill is a recognition to the works of institutions like ours. Once the bill is in place, a regulated environment will make the sector healthy. The Reserve Bank of India needs to be involved as a regulator. RBI is cut out for such task.

When would Bandhan like to set its first footprint in the overseas market?

We've received invites from governments of Afghanistan and Brazil to take Bandhan to the countries. While there is no official invite from South Africa and China yet, we've received feelers from local chambers in these countries, too, which are upbeat about Bandhan. All these countries are interested about our ability to offer low-cost services to the poor. We may consider spreading our wings abroad in 2009.

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