

IDFC and Bandhan make the cut for banking licences

RBI ignores corporate houses, will consider India Post's application after consultation with govt

BS REPORTER
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The decade-long wait for new bank licences finally ended on Wednesday, with the Reserve Bank of India (RBI) deciding to issue permits to two of the 25 applicants. The ones to make the cut were IDFC, a diversified financial services firm with a special focus on infrastructure financing, and Bandhan, the country's largest micro lender based in Kolkata. Industrial houses were again disappointed, as the central bank chose to ignore them.

A day after the Election Commission gave its clearance to grant of new licences, RBI's committee of central board met to deliberate on the two names placed before it and decided to give its in-principle approval. RBI will also consider the application of India Post. But that will be done through a separate process in consultation with the government.

IDFC and Bandhan will get a year and a half to begin operations, failing which their licences could be cancelled.

"The 'in-principle' approval granted will be valid for 18 months, during which the applicants have to comply with the requirements under the guidelines and fulfil the other conditions as may be stipulated by the RBI," the banking regulator said in a statement, adding that licences for commencement of banking operations will be given after the entities have fully complied with the norms. "Until a regular licence is issued, the applicants would be barred from doing banking business," the RBI said.

The statement also said that some entities that did not qualify for a full-fledged banking licence in this round could again apply in future rounds or apply for differentiated licences under the proposed framework.

The process to issue bank licences was started in February 2010, after a Budget announcement by the then

BANKERS IN THE MAKING



NEW ERA FOR BANKING SECTOR

The RBI's in-principle approval to Bandhan and IDFC to set up banks has ended an 11-year wait for new entrants in the sector. *Business Standard* analyses India's banking history and takes a look at the challenges before them

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BANDHAN FINANCIAL SERVICES

Bandhan has grown leaps and bounds in the past four years, emerging as India's largest microfinance institution. As on December 31, its gross loan portfolio stood at ₹5,112 crore, with a customer base of over five million



"WE WILL BE ABLE TO OFFER FULL-FLEDGED BANKING SERVICES TO THE POOR PEOPLE"

Chandra Shekhar Ghosh,
Chairman, Bandhan

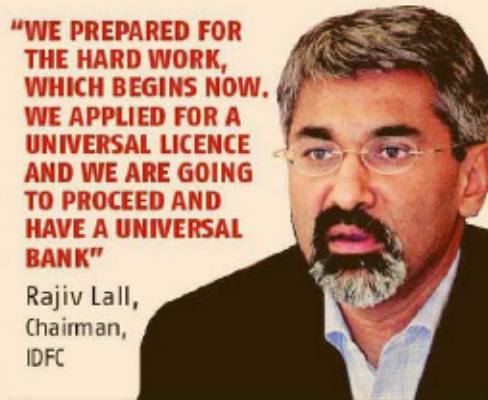
KEY NUMBERS (As of February 2014)

Presence	22 states & UTs
No of branches	2,016
No of borrowers	5,233,193
Staff strength	12,961
Loans disbursed in February 2014	₹963 cr
Gross loan portfolio	₹5,704 cr

Source: Bandhan website

IDFC

Infrastructure Development and Finance Corporation has, over the years, emerged as an integrated lender to infra projects to become India's fifth-largest non-banking lender with a diversified loan portfolio within the infra space



"WE PREPARED FOR THE HARD WORK, WHICH BEGINS NOW. WE APPLIED FOR A UNIVERSAL LICENCE AND WE ARE GOING TO PROCEED AND HAVE A UNIVERSAL BANK"

Rajiv Lall,
Chairman,
IDFC

KEY NUMBERS (FY13 financials)

Assets	₹68,394 cr
Revenue	₹8,148 cr
Net Profit	₹1,836 cr
Market cap*	₹17,520 cr
Return on equity	14.2%
Return on capital employed	11.4%
Capital adequacy ratio	22.1%

*According to latest share price

MIXED REACTIONS

While some welcomed the announcement, many others, especially the Opposition leaders, questioned the timing of the RBI move



"It is a good beginning. The RBI has said licences will be a continuous process. More banking entities are good for the sector"

BIMAL JALAN

Former RBI governor, who headed a committee that screened licence applications



"This is the most inappropriate time for issue of bank licences. RBI could have waited for the next government before issuing licences"

YASHWANT SINHA

Former finance minister and senior BJP leader

finance minister (now President) Pranab Mukherjee, with the objective of promoting financial inclusion. Three years later, the RBI released the final licensing guidelines in February 2013. The deadline for filing applications was July 1, 2013.

A total of 27 entities applied for licences. These included conglomerates like the Birlas, the Anil Ambani group, Larsen & Toubro and the Bajaj group, as well as non-banking financial companies like LIC Housing Finance and Edelweiss. Another micro lender, Janalakhsmi, had also applied. While the Tata group withdrew its application

citing stringent norms that stipulated a non-operative financial holding company structure, Videocon Group-promoted Value Industries also dropped out.

The central bank's decision to issue licences came despite stiff resistance from the country's main Opposition party, the Bharatiya Janata Party, which had recently said the RBI should wait till the new government took charge after election results next month.

The RBI had set up a high-level advisory committee under former central bank governor Bimal Jalan to screen the 25 applications. According to the

panel's suggestion, the applicants that were under the glare of investigative agencies in connection with scams were dropped from contention.

In the previous round of licensing, two entities — Kotak and YES Bank — had been allowed to enter the banking sector in 2003-04.

The RBI has already said, from now, the issuance of bank licences will not be a once-in-a-decade affair. It will fine-tune the guidelines and licences will be given on tap. There will also be differentiated licensing for entities, like payment banks, which are different from universal banks.