

MFIs take a hit; Bandhan stops disbursements temporarily

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No point circulating ₹2,000 notes in rural areas unless smaller denomination notes are available, says Bandhan Bank MD



Chandra Shekhar Ghosh, MD and CEO of Bandhan Bank

Kolkata, November 15:

At a time when cash-based microfinance companies are feeling the pinch of demonetisation, the microfinance wing of Bandhan has, to an extent, managed to tide over the crisis with banking operations of the organisation coming to its rescue.

However, Bandhan Bank has temporarily suspended disbursements since November 9, a day after the Prime Minister announced demonetisation of ₹ 500 and ₹ 1,000 notes. The suspension will be in force till November 19.

According to Chandra Shekhar Ghosh, Founder, MD and CEO of Bandhan Bank, the reason for suspension of disbursements is primarily less availability of currency notes with smaller denominations in rural areas.

This move, he says, will help tide over any short-term liquidity crisis in bank branches.

“There is no point in circulating notes of ₹ 2,000 in rural areas unless smaller denomination — like a ₹ 100 note — are available,” he told *BusinessLine*.

In terms of disbursements (new and existing loans), the average daily amount for the microfinance business of Bandhan has been to the tune of ₹ 100-125 crore, while collections have been around ₹ 130 crore.

Collections of existing loans, he claimed, have seen less of an impact.

“Since we are a bank, we are accepting older currency denominations of ₹ 500 and ₹ 1,000. The currency exchange operations are going on through our banking segment,” he added.

Since demonetisation, Bandhan has seen a ₹ 1,500 crore spike (in terms of exchange) in its deposit base, which stood at ₹ 18,000 crore in the first half of this fiscal (till September).

MFIs hit

Many small MFIs, however, have been hit both in terms of collections and disbursements.

MFIs like Village Financial Services and Arohan Financial Services said collections have fallen 60-70 per cent.

Uttrayan Financial Services confirmed that disbursements, which include cashless transfers (made directly to accounts), have dropped at least 20 per cent.

Cash flow

As Kuldip Maity, MD and CEO of Village Financial Services, said: “For every ₹ 100 collected earlier, ₹ 50 would go towards repaying loans obtained from banks, while the remaining would be circulated as disbursements. But now we are collecting ₹ 60 and, of that, ₹ 50 is going towards repaying bank loans. So the entire cash flow of our business has been hit,” he explained.

The MFI's outstanding loan book is ₹ 365 crore.

Extending timeframes

Arohan, on its part, has given an additional one week to customers to repay dues. It will not be charging interest or penalties.

“We may consider extending the timeframe depending on the situation,” Manoj Nambiar, the company's MD, said.

Ujjivan Financial Services Managing Director Samit Ghosh pointed out that cashless transfers have begun. “By the end of this week cash disbursements (for Ujjivan) should resume,” he said.

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