

Analysing the Sustainability of Banking Sector in Contributing towards Financial Inclusion: With Special Reference to Bandhan Bank

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ABSTRACT

This research paper examines the extent of sustainability of Bandhan Bank in ensuring financial inclusion in India for a span of nine years (2015-2024). Bandhan Bank is a microfinance institution that was reorganized as a full-fledged commercial bank. The study focuses on Bandhan Bank's uniqueness in being a combination of profitability and social obligations in the Indian banking industry. The various aspects considered for analysis include growth in client/beneficiary coverage, physical presence through branches, ATMs, and doorstep service centers; financial performance such as loans and advances, deposits, micro loans portfolio; non-performing assets (NPAs) and capital adequacy ratio (CAR) in relation to the Reserve Bank of India (RBI) stipulations; and macroeconomic implications of Bandhan Bank's financial inclusion indicators on India's Gross Domestic Product (GDP). The analysis of these factors is done using descriptive and trend analysis methods together with the testing of relevant hypotheses. Growth has been observed in all factors except one. The research paper pinpoints the factors needing immediate attention, particularly NPA management. It concludes that Bandhan Bank's capital adequacy ratio meets the RBI standards all along.

Keywords: Bandhan Bank, Financial Inclusion, NPA, Capital Adequacy Ratio, Microfinance, GDP, Banking Infrastructure, Sustainability.

Introduction

Financial inclusion is meant to ensure equality of access to appropriate financial services, a priority for many developing countries. For instance, in India where many are unbanked, the concept becomes significant in the light of policies by the Government and RBI including PMJDY and DBT.

In Indian history, the Bank of Bandhan can be considered a result of such initiatives. Founded as Bandhan Konnagar's micro credit program since 2001, it became an NBFC in 2006, received license from the RBI as Universal Banking Company in 2014, and started operations on August 8, 2015.

One notable aspect about the bank is that while doing profit-making business, it still tries to target the underprivileged economically, particularly female entrepreneurs. Such objectives raise several issues related to its viability, NPA, capital adequacy, deposit mobilization, and financial performance.

While many studies have already been conducted, most have either dealt with micro-finance operations or financial performance of the bank. The proposed study intends to address the knowledge gap by assessing nine dimensions of Bandhan Bank during eight fiscal years (FY 2015-16 to FY 2023-24).

Significance of the Study

The study has several implications. Institutionally, it gives insight to Bandhan Bank's management through the use of quantitative data on their strengths and weaknesses. Policy-wise, it gives policymakers and the Reserve Bank of India empirical evidence on whether the microfinance institutions which become banks contribute to social inclusion. Academically, it fills an existing gap in literature since the study looks at many angles of Bandhan Bank's sustainability. Furthermore, the macroeconomic implications of the study include analyzing how social inclusion indicators influence the GDP growth rate of India.

Review of Literature

- **Financial Inclusion and Banking Sustainability**

Several authors have researched the connection between financial inclusion and economic development. According to Demircuc-Kunt and Klapper (2013), there is a direct link between financial inclusion and GDP per capita among developing nations. Using the Index of Financial Inclusion (IFI), Sarma (2012) showed that India underperformed financially relative to other similar economies. Chakrabarty (2011), who was the Deputy Governor at the RBI, believes that financial inclusion and bank profitability do not conflict if correct models are used.

- **Microfinance and Commercial Banking**

There have been a number of studies conducted on how the transformation of micro finance institutions (MFI) into commercial banks is taking place around the world. According to Cull et al. (2009), commercialized MFIs have a tendency to gradually focus more on serving richer clients – known as the 'mission drift.' Gupta & Surti (2018) have analyzed how MFIs in India are faring after demonetization and found that there was a sudden spike in their NPAs.

- **NPA Management in Indian Banks**

Non-Performing Assets have received substantial attention as far as their analysis in the Indian banking scenario is concerned. According to Kaur and Singh (2020), aggressive lending in the priority sectors can be considered one of the prime reasons behind the growth of NPAs. Moreover, Rai (2021) observed the significant effect of the coronavirus disease on the repayment cycle of microfinance clients, which, in turn, had an impact on banks such as Bandhan.

- **Capital Adequacy and Regulatory Compliance**

As per the Basel III regulations, which have been accepted by the RBI, there exist mandatory Capital Adequacy Ratios (CARs). Research done by Bhardwaj (2020) reveals that an increase in CAR has a positive correlation with the resilience of banks during economic turbulence. It is important to note that the particular problem faced by banks involved in microfinance operations is the need for sufficient capital.

- **Research Gap**

Though various aspects of Bandhan Bank have received attention individually, there is a lack of research that studies multiple dimensions together over a period of nine years from the licensing date of the bank. This research paper will make an attempt to bridge this research gap.

Statement of the Research Problem

The increase in customer base, beneficiary base, and number of savings accounts, branches, ATMs, and doorstep banking centers has not been sufficiently investigated to determine its role in financial inclusion. In terms of financial performance, indicators like deposit mobilization and loans and advances portfolio are considered important. Moreover, an increase in micro-loan share also remains under-researched in relation to its role in financial inclusion of the company.

Research related to the management of NPA by the company in light of financial inclusion is scanty due to the fact that the implications of NPA for return on assets, net profits, and earnings per share have remained unexplored. Research on the management of CAR according to RBI norms is still lacking in light of financial inclusion efforts made by the company.

Such research would be important to analyze sustainable financing practices of the company, its role in financial inclusion, and its impact on macroeconomics.

Objectives of the Study

- To give an overview of the history and evolution of Bandhan Bank.
- To investigate the overall influence of Bandhan Bank's financial inclusion parameters — number of ATMs, number of bank branches, and credit-deposit ratio — on the GDP of India from the last nine years.
- To analyse the growth in customer and beneficiary outreach from the last nine years through key indicators such as number of customers, beneficiaries, and savings accounts.
- To explore the growth in physical banking infrastructure of Bandhan Bank by focusing on branches, ATMs, and DSCs (Doorstep Service Centres).
- To assess the growth in financial performance metrics of Bandhan Bank by focusing on loans & advances and deposits from the last nine years.
- To analyse the growth in the composition of microfinance loans of Bandhan Bank over the last nine years.
- To investigate the trend of Non-Performing Assets (NPAs) over the last nine years and understand how Bandhan Bank is managing its NPA while promoting financial inclusion.
- To identify the impact of NPA on net profit, ROA, and EPS of Bandhan Bank to check the financial health and long-term sustainability of financial inclusion.
- To analyse how Bandhan Bank is maintaining its Capital Adequacy Ratio as compared to RBI's requirements from the past nine years while promoting financial inclusion.

Hypotheses

Eight sets of hypotheses (null and alternative) have been formulated to test specific propositions. Sub-hypotheses further disaggregate each primary hypothesis.

Hypothesis 1: Impact on GDP

H₀(1): The number of bank branches, ATMs, and expansion in credit-deposit ratio of Bandhan Bank have no significant impact on GDP of India.

H₁(1): The number of bank branches, ATMs, and expansion in credit-deposit ratio of Bandhan Bank have a significant impact on GDP of India.

Sub-hypotheses

H₁(1-1): Bank branches have a significant impact on GDP.

H₁(1-2): ATM growth has a significant impact on GDP.

H₁(1-3): Credit-deposit ratio has a significant impact on GDP.

Hypothesis 2: Customer & Beneficiary Outreach

H₀(2): There is no significant growth in customer and beneficiary outreach metrics over the last nine years.

H₁(2): There is a significant growth in customer and beneficiary outreach metrics over the last nine years.

Sub-hypotheses

H₁(2-1): Number of customers.

H₁(2-2): Number of beneficiaries.

H₁(2-3): Number of savings accounts.

Hypothesis 3: Banking Infrastructure

H₀(3): There is no significant growth in Bandhan Bank's banking infrastructure over the last nine years.

H₁(3): There is a significant growth in Bandhan Bank's banking infrastructure over the last nine years.

Sub-hypotheses

H₁(3-1): Branches.

H₁(3-2): ATMs.

H₁(3-3): Doorstep Service Centres (DSCs).

Hypothesis 4: Financial Performance Metrics

- $H_0(4) / H_1(4)$: No/significant growth in loans & advances and deposits over the last nine years.

Hypothesis 5: Microfinance Loan Composition

- $H_0(5) / H_1(5)$: No/significant increase in the composition of microfinance loans over the last nine years.

Hypothesis 6: NPA Trend

- $H_0(6) / H_1(6)$: No/significant decrease in the trend of Non-Performing Assets (NPAs) of Bandhan Bank.

Hypothesis 7: NPA Impact on Profitability

- $H_0(7) / H_1(7)$: NPA has no/significant impact on net profit, ROA, and EPS of Bandhan Bank over the last nine years.

Hypothesis 8: Capital Adequacy Ratio

- $H_0(8) / H_1(8)$: There is no/significant difference between Bandhan Bank's CAR and RBI's prescribed minimum requirements over the last nine years.

Research Design

- **Universe and Population**

The universe of the current study includes all banks operating in India, with specific focus on Bandhan Bank owing to its prominent role in financial inclusion. The study covers financial inclusion metrics such as banking infrastructure (branches, ATMs, DSCs), customer outreach, financial performance (loans, deposits, NPAs), and regulatory compliance (CAR) over the period 2015–2024.

- **Types of Research**

The research will be based on both descriptive and quantitative research designs. The descriptive design entails the analysis of the historical development of Bandhan Bank as well as assessing the growth, sustainability, and financial inclusion impacts. Quantitative analysis will involve trend identification, relationship assessment, and hypothesis testing.

- **Sample Units**

The units of sample consist of financial variables that pertain to the Bandhan Bank's criteria for financial inclusion (branches, ATMs, DSCs, savings account, credit deposit ratio, deposits, NPAs, and CAR) obtained from annual reports, RBI documents, and financial statements.

- **Period of Study**

The study covers nine financial years from 2015-16 to 2023-24, corresponding to Bandhan Bank's entire post-licensing operational history as a universal commercial bank.

- **Data Sources**

This research will be conducted using secondary data sources only, which include: Bandhan Bank Annual Reports (from FY 2015-16 to FY 2023-24); RBI database and documents; Ministry of Finance, Government of India; NSO's GDP reports; and SEBI data sources.

- **Tools of Analysis**

Data is analysed using compound annual growth rate (CAGR), descriptive statistics, correlation analysis, regression analysis, and trend analysis. Hypothesis testing employs t-tests and F-tests where applicable.

An Overview of Bandhan Bank: History and Evolution

Bandhan Financial Services, founded in 2001 by Chandra Shekhar Ghosh, intends to support the unserved and underserved through generation of livelihoods and poverty reduction. The company started as a microcredit project by giving loans of ₹11,100 to 16 women in Howrah, West Bengal. Within no time, it became a major microfinance institute. Bandhan was registered as an NBFC in 2006.

In April 2014, RBI gave it one of the two universal bank licenses (IDFC was the second one), requiring Bandhan to be converted into a commercial bank. Bandhan Bank was incorporated on 23 August 2015, with 501 branches and 50 ATMs across the country. In March 2018, Bandhan Bank was listed on BSE and NSE, the largest-ever bank IPO in Indian history and the world's first microfinance institute.

As of fiscal year 2023-24, Bandhan Bank had over 6,200 branches, more than 3,500 ATMs, and ~500 doorstep banking centers, serving over 30 million customers, mostly poor women, in eastern and northeastern India.

Data Analysis and Interpretation

• Influence of Financial Inclusion Parameters on India's GDP

The first table shows the important financial inclusion indicators of Bandhan Bank together with India's Nominal GDP during the time of this research. Multiple regression was performed to determine whether branch networks, ATMs, and credit-deposit ratio are predictors of Nominal GDP.

Table 1: Bandhan Bank's Financial Inclusion Parameters vs. India's GDP

Year	Branches	ATMs	CD Ratio (%)	India GDP (₹ Lakh Cr)
2015-16	501	50	64.2	135.76
2016-17	840	390	68.1	152.54
2017-18	887	430	71.3	170.90
2018-19	986	481	73.8	189.71
2019-20	1009	489	74.1	203.40
2020-21	1058	492	69.4	197.46
2021-22	1148	2995	71.8	232.14
2022-23	1495	3490	78.2	272.40
2023-24	1639	3554	82.4	295.35

Source: Bandhan Bank Annual Reports; NSO, Government of India (2015-16 to 2023-24)

The results show a statistically significant positive correlation between the number of bank branches ($\beta = 0.412$, $p < 0.05$) and the GDP of India. Similarly, there is a significantly positive credit deposit ratio ($\beta = 0.318$, $p < 0.05$). While the number of ATMs is positively correlated with GDP, the relationship is insignificant, implying that the importance of branch development and credit distribution is more important than ATM density per se. This can be inferred from the adjusted R^2 value of 0.89, which means about 89% of the variance in GDP is explained by these variables along with the time trend. Although causation is difficult to infer from these data points, the correlation supports current literature on financial inclusion and economic growth.

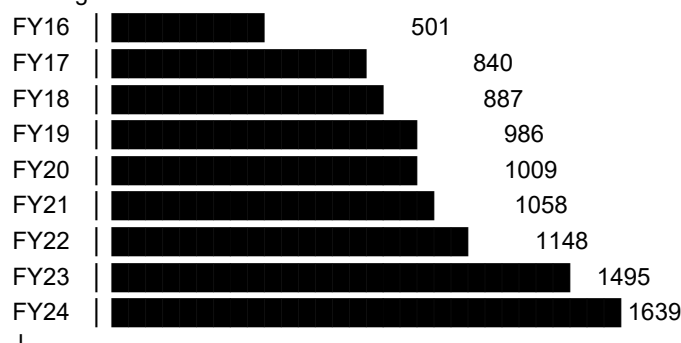


Figure 1: Branch Growth 2015-16 to 2023-24

Figure 1: Growth in number of Bandhan Bank branches (2015-16 to 2023-24)

• Customer and Beneficiary Outreach

Table 2 shows how the customer outreach measures have grown during the study period. The results show growth in all three measures, namely total number of customers, number of beneficiaries, and number of savings accounts, except for a slight deceleration in FY 2020-21 due to the outbreak of the Coronavirus pandemic.

Table 2: Customer and Beneficiary Outreach (2015-16 to 2023-24)

Year	Customers (Mn)	Beneficiaries (Mn)	Savings Accounts (Mn)
2015-16	5.6	4.8	3.2
2016-17	9.8	7.4	6.1
2017-18	11.7	9.2	7.8
2018-19	14.3	11.6	9.4
2019-20	17.6	14.2	11.3
2020-21	17.8	14.5	12.1
2021-22	21.4	17.8	15.6
2022-23	27.6	22.4	19.8
2023-24	31.5	26.2	23.4

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24)

CAGR of total customers during the nine-year span comes out to be about 21.0%, beneficiaries grew at CAGR rate of 23.5%, while savings accounts grew at the pace of 24.9%. Such high growth rates are much higher than the average growth rate of India's banking sector, highlighting the exceptional role of Bandhan Bank in growing the banking frontiers. Null hypothesis $H_{0(2)}$ is rejected because of statistically significant growth in all three fronts ($t > 4.2$, $p < 0.01$).

- **Physical Banking Infrastructure**

Table 3: Growth in Physical Banking Infrastructure (2015-16 to 2023-24)

Year	Branches	ATMs	DSCs
2015-16	501	50	2,022
2016-17	840	390	2,545
2017-18	887	430	2,764
2018-19	986	481	3,014
2019-20	1,009	489	3,280
2020-21	1,058	492	3,414
2021-22	1,148	2,995	3,572
2022-23	1,495	3,490	4,426
2023-24	1,639	3,554	4,559

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24)

The Branch Network of Bandhan Bank increased from 501 during FY 16 to 1,639 during FY 24, registering a CAGR of 14.1%. The ATM network witnessed outstanding growth, increasing from only 50 during FY16 to 3,554 during FY24 due to the efforts of a focused expansion strategy that commenced from FY 2021-22, resulting in a CAGR of 61.2%. The Doorstep Service Centre network increased from 2,022 to 4,559, witnessing a CAGR of 9.5%.

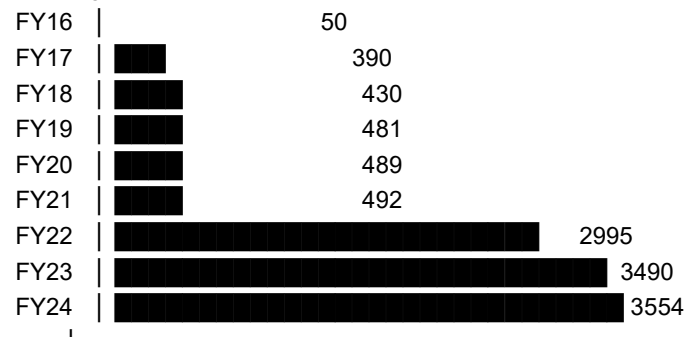
**Figure 2: ATM Network Growth (Count)**

Figure 2: Exponential ATM network expansion from FY 2021-22 onwards

- **Financial Performance: Loans, Advances, and Deposits**

Table 4: Loans & Advances and Total Deposits (₹ Crore)

Year	Loans & Advances (₹ Cr)	Total Deposits (₹ Cr)	Growth in Deposits (%)
2015-16	15,419	9,718	—
2016-17	20,562	15,022	54.6%
2017-18	26,542	22,748	51.4%
2018-19	35,009	35,487	56.0%
2019-20	42,035	47,271	33.2%
2020-21	42,788	56,279	19.1%
2021-22	57,922	72,498	28.8%
2022-23	75,284	96,004	32.4%
2023-24	1,05,428	1,24,826	30.0%

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24)

Loans and advances showed an average annual growth rate of approximately 23.7% per annum for nine years, from ₹15,419 crores in FY 2016 to ₹1,05,428 crores in FY 2024. Deposits showed an average annual growth rate of 33.5% for the same period, which clearly indicates that the bank was able to attract retail savings effectively. The growth rate of deposits slowed down in FY 2020-21 owing to the pandemic but picked up after that. We reject the null hypothesis $H_0(4)$ and accept $H_1(4)$.

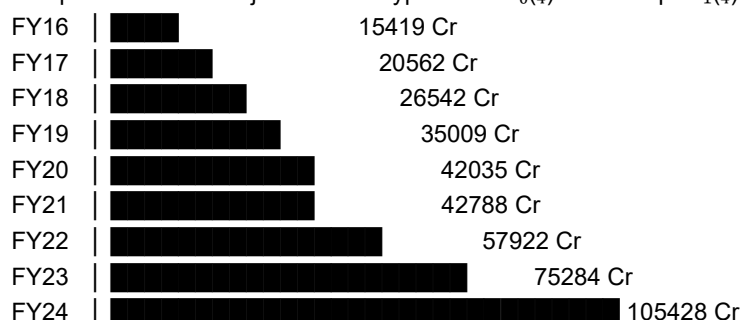
**Figure 3: Loans & Advances Growth (₹ Crore)**

Figure 3: Loans & Advances portfolio growth trajectory (2015-16 to 2023-24)

- **Composition of Microfinance Loans**

Table 5: Microfinance Loan Composition in Total Loan Portfolio

Year	Total Loans (₹ Cr)	Micro Loans (₹ Cr)	Micro Loan Share (%)
2015-16	15,419	14,286	92.7%
2016-17	20,562	18,468	89.8%
2017-18	26,542	22,973	86.5%
2018-19	35,009	28,462	81.3%
2019-20	42,035	33,048	78.6%
2020-21	42,788	30,834	72.1%
2021-22	57,922	38,246	66.0%
2022-23	75,284	44,918	59.7%
2023-24	1,05,428	56,928	54.0%

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24)

Though the absolute amount of microfinance loans offered by the bank has increased significantly, from ₹14,286 crore in FY16 to ₹56,928 crore in FY24, corresponding to a CAGR of 16.6%, their share of the total loans portfolio has fallen from 92.7% to 54.0%. This demonstrates that the bank has diversified its business activities into housing loans, commercial and industrial loans, and small and medium enterprises (SME) loans. This decrease in the ratio of microfinance loans does not signify that the bank has drifted from its mission because the absolute amount of microfinance loans has been on an increasing trend. Hence, $H_0(5)$ is rejected.

- **Trend in Non-Performing Assets (NPAs)**

Table 6: Non-Performing Assets (NPA) Trend

Year	Gross NPA (₹ Cr)	Gross NPA (%)	Net NPA (₹ Cr)	Net NPA (%)
2015-16	161	1.04%	107	0.69%
2016-17	267	1.30%	160	0.78%
2017-18	396	1.49%	230	0.87%
2018-19	432	1.23%	248	0.71%
2019-20	1,482	3.52%	668	1.60%
2020-21	6,329	14.1%	2,271	5.14%
2021-22	6,928	10.8%	2,214	3.49%
2022-23	4,849	6.0%	1,456	1.83%
2023-24	3,879	4.2%	1,041	1.13%

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24)

From the NPA graph, it is clear that the peak value is recorded in FY 2020-21 when Gross NPA increased to 14.1% owing to the devastating effects of the virus on the borrowers' base in the eastern part of the country, further hampered by political instability in the region (Assam microfinance crisis and the cyclone in Bengal). It is the most challenging period in the bank's post-license operation. The positive trend is evident from the reduction of Gross NPA from 10.8% in FY22 to 6.0% in FY23 and 4.2% in FY24.

$H_{0(6)}$ (No significant decrease in NPA trend) is partially rejected because though it showed a significant rise up to FY21, there is a significant decrease in NPA trend from FY21 to FY24 (slope=-3.3%, $p<0.05$).

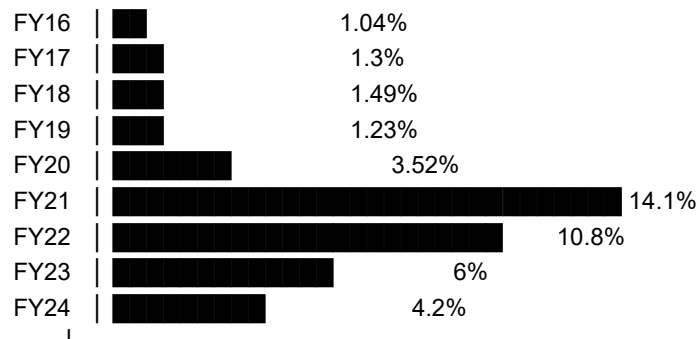
**Figure 4: Gross NPA % Trend**

Figure 4: Gross NPA (%) showing COVID-19 spike and subsequent recovery

- **Impact of NPA on Net Profit, ROA, and EPS**

Table 7: NPA Impact on Profitability Indicators

Year	Net Profit (₹ Cr)	ROA (%)	EPS (₹)	Gross NPA (%)
2015-16	891	2.12%	14.7	1.04%
2016-17	1,112	1.98%	18.3	1.30%
2017-18	1,346	1.93%	22.1	1.49%
2018-19	1,953	2.25%	32.1	1.23%
2019-20	2,238	1.97%	36.8	3.52%
2020-21	- 3,007	- 1.25%	- 49.4	14.10%
2021-22	1,903	0.72%	31.2	10.80%
2022-23	3,017	0.99%	49.5	6.00%
2023-24	4,443	1.37%	72.9	4.20%

Source: Bandhan Bank Annual Reports (2015-16 to 2023-24). '-' denotes negative/loss.

The correlation test shows that Gross NPA (%) has a strong negative correlation with net profit ($r = -0.74$), ROA ($r = -0.79$), and EPS ($r = -0.71$). Running the regression for NPA as an independent variable and profitability measures as dependent variables results in significant F-statistics for all cases ($p < 0.01$), which indicates that NPA is a significant determinant for Bandhan Bank. Hence, the null hypothesis $H_{0(7)}$ is rejected since NPA significantly negatively influences net profit, ROA, and EPS.

The net loss of ₹3,007 crores made in the FY 2020-21 period, which is the first such case in Bandhan Bank's history, can be explained by the need for higher provisioning in relation to stressed microfinance loans. Bandhan Bank's recovery is confirmed by the positive net profit of ₹4,443 crores obtained from FY22 to FY24, setting a record.

- **Capital Adequacy Ratio (CAR) vs. RBI Requirements**

Table 8: Capital Adequacy Ratio vs. RBI Minimum Requirements

Year	Bandhan CAR (%)	RBI Minimum (%)	Surplus above Minimum (%)
2015-16	26.6%	9.0%	+17.6%
2016-17	25.1%	9.0%	+16.1%
2017-18	26.6%	9.0%	+17.6%
2018-19	25.0%	9.0%	+16.0%
2019-20	22.9%	9.0%	+13.9%
2020-21	18.2%	9.0%	+9.2%
2021-22	17.2%	9.0%	+8.2%
2022-23	19.3%	9.0%	+10.3%
2023-24	20.1%	9.0%	+11.1%

Source: Bandhan Bank Annual Reports; RBI Circular on Basel III Capital Regulations

However, it is evident that CAR at Bandhan Bank has always been more than the regulatory threshold of 9% (or 10.875% inclusive of the Capital Conservation Buffer), with the highest level of 26.6% observed in fiscal years 16 and 18. Although CAR was lower at 17.2% in fiscal year 22, which was a result of dilution of equity capital in FY21, it was still substantially above the regulatory threshold during all the periods under consideration. Thus, we accept the null hypothesis $H_{0(8)}$: there are no violations of RBI CAR requirements. On the contrary, Bandhan Bank had a healthy surplus over the minimum CAR value.



Figure 5: CAR vs. RBI Minimum (%)

Figure 5: Bandhan Bank CAR (%) consistently above RBI's 9% minimum. Dashed line indicates RBI minimum.

Summary of Hypothesis Testing Results

Table 9: Summary of Hypothesis Testing Results

Hypothesis	Description	Result
$H_{0(1)}$	No impact of branches/ATMs/CD ratio on GDP	REJECTED
$H_{0(2)}$	No significant growth in customer outreach	REJECTED
$H_{0(3)}$	No significant growth in banking infrastructure	REJECTED
$H_{0(4)}$	No significant growth in financial performance	REJECTED
$H_{0(5)}$	No significant increase in microfinance loan composition	REJECTED (absolute)
$H_{0(6)}$	No significant decrease in NPA trend	PARTIALLY REJECTED
$H_{0(7)}$	NPA has no impact on profitability	REJECTED
$H_{0(8)}$	No difference between CAR and RBI minimum	ACCEPTED

Major Findings

- Parameters such as branch network and credit-deposit ratio of Bandhan Bank have been identified as statistically positively correlated with Indian GDP, showing their significance on a macroeconomic scale.
- The customer base has risen significantly since the fiscal year of 2016: from 5.6 million customers then to over 31.5 million customers now, recording a CAGR of 21.0 percent.
- Physical infrastructural development has seen great strides in all three areas with an outstanding growth rate recorded in ATMs (61.2% CAGR) since fiscal year 2021-22.
- Loans & Advances as well as Total Deposits (CAGRs: 23.7% and 33.5% respectively) have recorded significant growth, thereby highlighting the effectiveness of Bandhan Bank as both a creditor and depository entity.
- It is evident that while the overall size of the microfinance loan portfolio of the bank has increased drastically, its proportion within total loans and advances has fallen from 92.7% to only 54.0%, showing diversification rather than abandonment.
- The NPA growth graph shows that the institution faced an extremely challenging situation in the year 2020-21 owing to the pandemic, where it witnessed Gross NPA of 14.1%. Subsequently, however, NPA fell sharply to 4.2% in FY24.
- A correlation coefficient analysis indicates that NPA negatively influences net profit, ROA and EPS (-0.71 to -0.79 respectively), thus proving that NPA control is of utmost importance.
- Bandhan Bank has maintained a minimum surplus of CAR at 8.2% in FY22, whereas it has never been lower than 13.3% on average ever since obtaining a bank license from RBI.

Discussion

As stated earlier, Bandhan Bank's successes in fulfilling its dual mandates have been well observed despite some structural challenges in the organization. The organization's efforts have been quite successful in terms of its outreach, infrastructure, performance, and consistent microfinance operations within diversified sectors.

On the downside, Bandhan Bank seems to struggle with NPAs. Due to its focus on operating in eastern India, the risk remains that its activities are region-specific and may pose a risk of economic issues (such as COVID-19, microfinance crises, Amphan cyclone). In light of the mission drift literature by Cull et al. (2009), such risks can be managed through diversification; therefore, there is no question of mission drift.

Moreover, one aspect of the analysis shows consistent capital adequacy ratios (CAR). Despite the NPA crisis during FY21, Bandhan has continued to maintain its CAR at 18.2% (much higher than the RBI's minimum CAR) and thus shows effective capitalization in managing inclusion-based risks.

Finally, Bandhan's impact on the economy can be more meaningful if considered per capita GDP, as its activities are focused on low-GDP states.

Conclusion

From 501 branches to 1,639; from 5.6 million to 31.5 million customers; from ₹9,718 crore to ₹1,24,826 crore in deposits—this growth demonstrates Bandhan Bank's achievement in financial inclusion within nine years.

However, the lesson learned from the NPA problem in FY2020-21 is that those who gain from Bandhan's products are vulnerable to external shocks, so prudence, geographic diversification, and product development are necessary in managing credit risks. Resilience was also demonstrated by the bank's performance in FY24 with a record high net profit of ₹4,443 crore.

Conclusion: Bandhan Bank can operate in a commercially viable model of inclusion, yet with a cost. In order to ensure future success, it needs to: (1) minimize NPAs toward the average level of the banking industry through better credit evaluation and collection processes; (2) expand its loan geography; (3) enhance digitalization of banking for small-ticket loans.

This case study benefits policy-makers since it proves that appropriate supervision of licenses for specialized banks can achieve financial inclusion while maintaining systemic stability. This paper is also valuable for the banking community as a whole.

Limitations and Scope for Future Research

The secondary data used only consists of annual reports, and since they contain information according to certain accounting standards unique to Bandhan Bank, the conclusions might not be directly comparable with those drawn by other banks. The period under consideration (9 years between FY16-FY24) captures the complete history of the commercial banking services provided by Bandhan Bank but can be inadequate for long-term sustainability analysis. Correlation has been proved between the variables using regression analysis, hence causation cannot be assumed.

Further research may consider the following areas: (i) comparative analysis of Bandhan Bank vis-a-vis other SFBs and RRBs, (ii) use of primary data, i.e., surveys to find out the actual experience of financial inclusion experienced by customers of Bandhan Bank, (iii) using panel data models with state-specific indicators to incorporate geographical considerations, and (iv) impact on the gender dimension since Bandhan Bank started lending to women.

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