International Journal of Advanced Research in Commerce, Management &Social Science (IJARCMSS)
ISSN :2581-7930, Impact Factor : 6.809, Volume 06, No. 01(III), January-March, 2023, pp 117-126

AN ANALYTICAL STUDY OF MICRO FINANCE AND ITS PERFORMANCE IN INDIA

Namrata Sharma*

ABSTRACT

Purpose of this research is to identify the financial growth of sample companies. The goal is to show that what impact of the financial variables on the sample companies. This has been done by applying by ratio analysis and various formulas. This research concluded that Ujjivan Microfinance Company has good financial performance in world of microfinance rather than other sample companies. In the Microfinance revolution, this research highlights the importance of Microfinance and figure out the financial growth of sample companies and in near future can research on social and organizational variable also.

Keywords: *Micro Finance, Performance, Ratio, Self-help Group, Joint Liability Group.*

Introduction

Concept of microfinance is movement whose aim is “A world in which many poor people and near poor household as much as possible have permanent access to an appropriate range of better quality of financial services there no extra formalities and no difficult procedure to get finance and not just for Credit” here include Insurance services, savings and fund transfer etc. Many promoters of microfinance believe that microfinance help to reduce poverty and help poor people to increase living standard including participants in the microcredit summit campaign.

Microfinance is a broad category of financial services. It has two main ways for supply the finance to poor people -: (1) Relationship based for individual entrepreneurs for small business (2) group based model, In which entrepreneurs come together to apply for loan and other service

New Approaches of Delivering Finance

Microfinance approaches develop in consider of safety and reliability of formal finance with the convenience and flexibility which are related with informal finance.

But microfinance still plays a modest role in India. At the All-India level, less than 5% of poor rural households have access to microfinance (as compared to 65% in Bangladesh) but significant variations exist across states. The southern states in particular account for almost 75% of funds flowing under microfinance programs.

MFIs provide finance by two basic methods:

- Group method
- Individual method

* Research Scholar, Department of Commerce, University of Rajasthan, Jaipur, Rajasthan, India.

Group Method

In group method, MFIs have to provide collateral free loans, group methodologies help in creating social collateral (peer pressure) that can effectively substitute physical collateral. Group becomes a basic unit with which MFIs deal.

MFIs provide their service at client's door step or client location which can be in urban area's colony, slums or rural area. In group model method Self Help Group and Joint liability Group (Grameen model and its variants) are two methods of it.

- **Self-help Group**: Self-help group started in 1980s by social development NGOs many of whom took up group formation as their main tool in which especially women. Self-help group is associations of maximum 20 members which are preferably belong to same background.

The group is free to decide the interest rate charged to its members, but typically, a member borrows from the group at about 24% per annum. After a loan from a bank is fully repaid, the group may borrow again, often a larger amount.

- **Joint Lability Group – Grameen Model**

Geameen model based in joint libility. It is the brainchild of Prof. Muhammad Yunus, founder of Grameen Bank in Bangladesh. Many MFIs have accepted the model as it has high focus on standardization and discipline. In the grameen model one group has consisted 5 members and when 8 groups formed, that 8 group forms as a center. Group of Grameen model meeting held at central level. These meeting take place in front of staff of MFI.

Joint Liability Group

Grameen model is a particular form of joint liability Group but in India there are other forms of JLG as well. There is a Group Leader in such JLGs, many MFIs prefer such group in urban business areas. Such JLGs do not hold periodic meetings.

Individual Model

Individual method considers credit worthiness of individual. Those customers need big amount loan and they capacity to produce amount for repayment of loan those customers considered for loan. These decisions generally base on their personal knowledge of clients. MFIs also ask for individual guarantors or take post-dated cheques from clients.

International Scenario of Microfinance

Microfinance performs a vital role in the development of poor people at global level and increases their living standards. Growth and Performance of the microfinance sector in the international level shows important difference in the comparison of other years across the different regions of the Global. Srinivasan (2012) had used the Mix Market data (disaggregated region wise) for the period 2003-09 to study the developments in the world-wide microfinance sector.

Microfinance in the Bangladesh

Muhammad Yunus is Bangladeshi social entrepreneur, banker, economist and civil society leader who were awarded the Nobel peace prize for founding the Grameen bank and pioneering the concepts of Microfinance and Microcredit. He was only person whose efforts used to reduces the poverty in Bangladesh by micro-credit and grameen bank. Bangladesh has one of the longest histories with Micro-finance.

Now, Bangladesh boasts a large number of well-known microfinance institutions (MFIs) including Grameen Bank, BRAC, and the Association of Social Advancement (ASA). Simultaneously, many smaller MFIs have started operations throughout Bangladesh.

Scenario of Microfinance in India

Microfinance plays effective importance to provide finance by various models to poor people and women in backward areas. The microfinance sector posted impressive growth of flow of funds from banks to MFIs improved in 2014 as some banks became enthusiastic in their lending to this sector. As a result, we saw some leading MFIs growing between 30 to 50 per cent during the year," says Sanjay Sinha, Managing Director of Micro-Credit Ratings International (M-CRIL). Industry body of Microfinance institutions Network (MFIN) issued report in which show increment of 30% as compare of second quarter of 2013-14 to issued loan by MFIs.

Women Empowerment through Microfinance

Microfinance provides miracle change in women's life. Microfinance supplies the finance to women to establish their own small enterprises. Microfinance programme like the Self-Help Bank Linkage Programme (SHG) in India have been increasingly hailed for their positive economic impact and the empowerment women. A majority of microfinance programs target women with the explicit goal of empowering them. MF provide platform to women to show their talent which they can't show because of lack of finance.

Study about Some MFIs

Various institutions provide Microfinance service. Here, described some microfinance institutions.

- **Ujjivan Financial Services Pvt. Ltd.**

Ujjivan financial services Pvt. Ltd. established in November 2005 by Mr. Smith Ghosh. Ujjivan is the most diversified MFIs in the country with operations spread across nearly 20 states. Headquarter of this co. is in Bangalore, Karnataka.

- **Janalakshmi Financial Services Pvt. Ltd.**

Janalakshmi financial services Pvt Ltd commenced microfinance operations in April 2008 by taking over the portfolio of Janalakshmi social services, a non-profit company promoted by Ramesh Ramanathan. JSS had early acquired the urban microfinance programme of Sanghamithra rural financial services and started its microfinance programme in July 2006.

- **Annapurna Microfinance Pvt. Ltd.**

Annapurna is a microfinance venture people's, development organization that is more than two decades old. In November 2009, the promoters acquired Gwalior finance and Leasing co. Pvt. Ltd. The name was changed to Annapurna Microfinance Pvt. Ltd. Headquarter of this Company in Hyderabad. AMPL has had its primary focus on SHG loans since its inception in 2009 and since then the company has aimed at enhancing its products, development and addressing issues pertaining to it. SWASTH is the most recent addition to the products being offered.

Review of Literature

Kashif & Shridhran (2012) revealed result defend the view that the Micro financial services not only affected the interests of participants but also the collective welfare of the area availed these services. The results show that Micro finance plays a vital role for the core poor and also for the economy.

Imai, Arun & Annim (2010) focused on concept that inadequate financial services and lack of access how affected to the poor household. Hypothesis taken: (a) access to MFIs and useful loans for reduced poverty (b) amount of useful loan had poverty reducing impact. This study concluded that how to reduce poverty by using better use of MFIs.

Basu & Srivastava (2005) explored the possibilities related the microfinance and rural credit access and potential of microfinance. They discussed (a) reach (b) impact as main issue. Main objectives was that increase rural credit access by grap the potential opportunities in Microfinance.

Yadav (2014) analyzed that microfinance credit to poor people and improve and established their tiny business. And core conclusion was that microfinance can solve housing problem and empower women in the society.

Basu & Shrivastava (2005) focused on self- health group that how to reduced poverty and provide finance to poor people. The main findings and implications were: (1) India's poor access a little amount from financial sources (2) microfinance were trying to solves this problem.

Bi & Pandey (2011) studied performance, efficiency and effectiveness of microfinance. In this paper microfinance institutions were selected on ranking which was given by microfinance information exchange and statistically tools used for study. Data was collected from microfinance information exchange and it had various parameters.

Kumar, Bohra & Johari (2010) described India's economy, poverty and it affected on GDP and growth. They studied for various needs: (1) financial source for rural development (2) support rural people and maintain economic and social standard in rural area (3) economy based on agriculture. They concluded that microfinance had high potential and it can avail high benefit with fast pace.

Singh (2009) analyzed new microfinances approaches were taken provision of savings, credit services and products with target to increase living standards. He concluded that microfinance can participate to solve inadequate housing and poverty reducing.

Banerjee *et al.* (2013) conducted study on a branch of microfinance institutions for specified slums. Researcher taken various variables like business variable, business input, business revenue, profit, employee, expenditure etc. and compared with new and old business.

Basu & Srivastava (2005) focused on rural and poor customer and linkage between finance and poverty. He explored possibilities by microfinance and microcredit and rural credit access for poor people and women in India.

Rajendran (2012) analyzed the positive impact of microfinance on women empowerment, poverty reduction GDP growth, rural development, participation in community etc. and concluded that microfinance and self -help group can contribute at large scale for core development of poor.

Gupta (2014) focused on services which provided by MFI and poverty alleviation. He described that national body like SIDBI, NABARD devoted significant time, energy and financial resources to MFIs. Objective of this paper were to study effect on rural household, microfinance facilitates, poverty alleviation and study of external environment factor.

Bansal & Bansal (2012) described that formal financial institutions didn't provide finance because of systematic risk in agriculture, administrable difficulties, lack of information, repayment problems but MFIs overcome these problems and concluded that microfinance is way to eliminate poverty in rural areas and provide opportunity to set up enterprises by small credit.

Das (2014) analyzed the growth of regional wise towards the overall growth of microfinance on the international level. He concluded that by transparency, responsible pricing, privacy of data of customers can establish long term relationship with customers and eliminate poverty.

Manohar (2015) defined purpose of study was that explore and penetration growth of self - bank linkage (SBL) programme in the six regions of India from 2007-08 to 2013-14. Paper concludes that if focus to give loan for productive purpose can reduce the difference by repayment capacity and income of borrowers.

Research Gap

This study is done to analyze the growth of MFIs by financial variables. In MFIs not done that type of research in which growth or impact calculated by only financial variables

Objective of the Study

- To evaluate the financial performance of microfinance companies.

Sample Size

- In this research paper sample size is three.

Here we taken 3 microfinance companies:

Ujjivan Financial Services Pvt. Ltd.

It was established in November 2005. This company set up by Mr. Smith Ghosh, is among the first few MFIs in the country design and run urban microfinance programs. Headquarter of this co. is in Bangalore, Karnataka.

Janalakshmi Financial Services Pvt. Ltd.

It commenced microfinance operations in April 2008 by taking over the portfolio of Janalakshmi social services, a non-profit company promoted by Ramesh Ramanathan. Headquarter of this company is in Bangalore, Karnataka.

Annapurna Microfinance Pvt. Ltd.

In November 2009, the promoters acquired Gwalior finance and Leasing co. Pvt. Ltd. The name was changed to Annapurna Microfinance Pvt. Ltd. Headquarter of this Company is Hyderabad (Andra Pradesh).

Variables

In the financial variables consider operating efficiency, loan loss protection, growth, capital adequacy, sustainability or profitability of various companies.

- **Operating Efficiency**: It is a capability of a company to deliver its service to customers in effective manner with high quality product or services.
- **Operating Expenses Ratio:** Operating expenses ratio show the relation in the operating expenses and gross loan portfolio.
- **Cost per Active Client:** This variable denotes that how much expenses company do on one active client for retain in the company. It is valuable to compare with the local per capita GNI because it is very rough proxy for labor cost in the market.
- **Active Client per Staff Member:** This variable defined the efficiency or productivity of personnel or employees. It described that employees are how much efficient in their work to manage the customers.

Growth

It is a positive change in terms of size, profit, business expansion etc.

- **Loan Portfolio Growth**: This variable indicate that MFI how much growing over year. It shows the ability and quality of service to expend and get and reach more customers.

Capital Adequacy

The statutory minimum reserve of capital which financial institutions available.

- **Leverage:** It is important ratio for investor, moneylenders and competitors of same industry or other industry. It shows that how much capital comes in the form of debt or loan in the MFI to meet out their financial needs.

Sustainability & Profitability

Profitability and sustainability ratios in traditional financial analysis reflect the ability of the MFI to cover its operations and grow in the future using its own funds.

- **Return on Equity:** It defined that how much money MFI generate with the money of shareholders have invested.
- **Return on Assets:** ROA measure that how efficiently company can manage its assets produce profit during a period.

Period of the Study

In this research 2 years (2014 & 2015) taken for the Study.

Tools & Technique

In this study various formulas and & Ratio Analysis applied as tool analysis the financial growth of all Companies.

Sources of Data Collection

For the research data source is secondary. Data collected from company's annual report, website of sample companies, newspaper, past research papers etc.

Analysis and Interpretation of Financial Variables

Here, various financial variables analyzed by ratio analysis as below:

- **Operating Efficiency:** It is capability of a company to deliver its service to customers in effective manner with high quality product or services.
- **Operating Expenses Ratio:** Operating expenses ratio show the relation in the operating expenses and gross loan portfolio. In the operating expenses include administrative & transportation expenses, sales commission, employee benefits, travel expenses, depreciation, rent, repair, tax, amortization.

  In the gross loan consider the borrowings. In it consider short term and long-term borrowings.

  Operating expenses ratio $=\frac{Operating\ expenses}{Average\ gross\ Loan}$

  - **Cost per Active Client:** It determine average cost to maintain the active customer in the company. It is valuable to compare with the local per capita GNI because it is very rough proxy for labor cost in the market. If cost per active client is less its mean cost of labor also reduce or efficient use of labor.

Cost per Active Client = $\frac{Operating\ expenses}{Average\ no\ of\ clients}$

- **Active Client per Staff Member:** This variable defines the efficiency or productivity of employees. This ratio described that employees are how much efficient in their work to manage the clients.

Active Client per Staff Member = $\frac{Number\ of\ Active\ Client}{Total\ number\ of\ Personnel}$

- **Growth:** it is a positive change in terms of size, profit, business expansion etc.
  - **Loan portfolio Growth**: It shows the ability and quality of service to expend and get and reach more customers. It define that MFI how much growing to give the loan to customers to over the year.

Loan Portfolio Growth = $\frac{Current\ Year\ Loan\ Portfolio}{Previous\ Year\ Loan\ Portfolio}$-1

- **Capital Adequacy:** The statutory minimum reserves of capital which financial institutions available.
  - **Leverage:** this variable defines the relationship between debt and equity. It is important ratio for investor, moneylenders and competitors of same industry or other industry. Debt in excess is danger to the MFI. It increase debt level and lead to credit downgrade and go in the worse direction.

Leverage Ratio = $\frac{Debt}{Equity}$

- **Sustainability & Profitability:** Profitability and sustainability ratios in traditional financial analysis reflect the ability of the MFI to cover its operations and grow in the future using its own funds.
  - **Return on Equity:** It shows that NI returns as percentage of shareholders Equity. It defined that how much money MFI generate with the money of shareholders invested.

ROE = $\frac{Net\ Operating\ Income - Taxes}{Equity}$

- **Return on Assets:** ROA is an indicator of how profitable a company to its total assets. It measure that how efficiently a company can manage its assets to produce profit during a period.

Return on Assets = $\frac{Net\ Operating\ Income - Taxes}{Average\ Assets}$

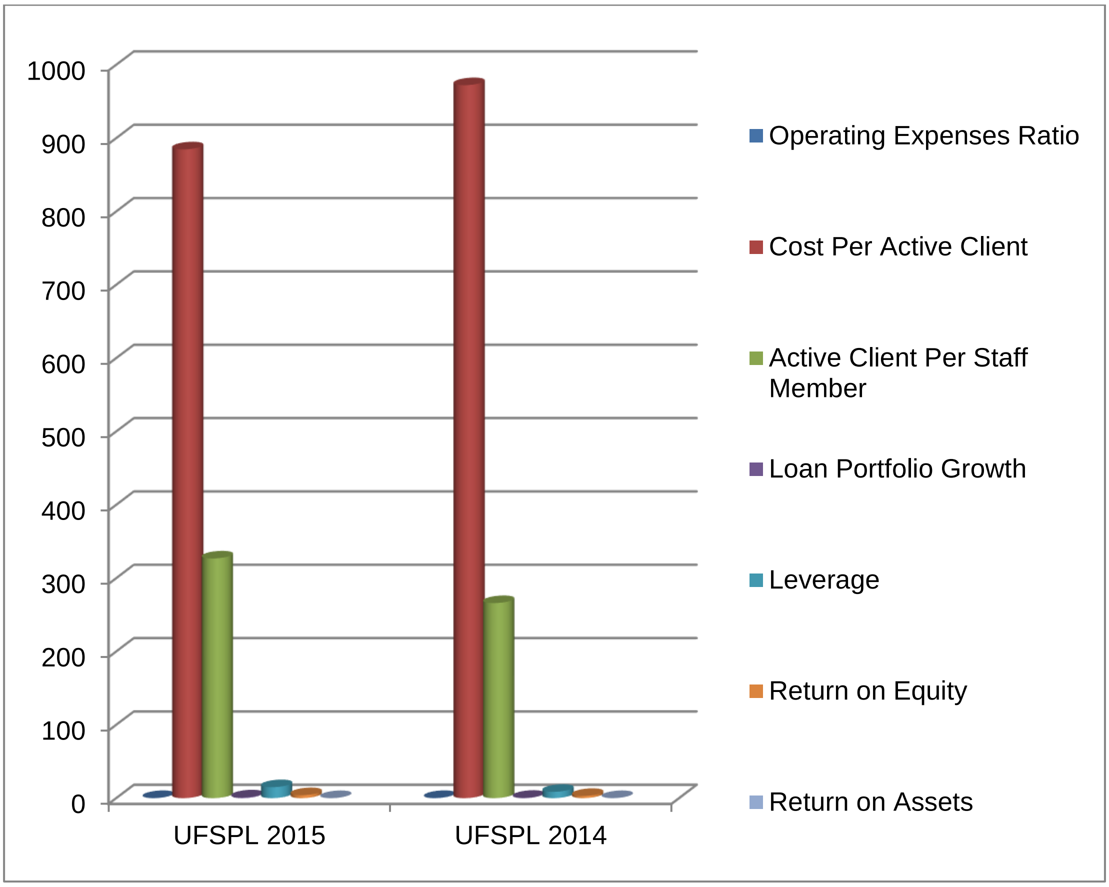
Ujjivan Financial Services Pvt. Ltd.

Table 1: Financial Performance of Ujjivan Company

Particular	Ujjivan Company 2015	Ujjivan Company 2014
Operating Expenses Ratio	0.1591	0.2128
Cost per Active Client	884.63	972.157
Active Client per staff member	326.797	265.98
Loan Portfolio Growth	0.99	0.44
Leverage Ratio	14.95	8.65
ROE	4.04	2.98
ROA	0.087	0.094

In table 1 described that in 2015 operating expenses ratio decreased by 0.05 because operating expenses and average gross loan increased in 2015. So, liabilities increased and operating expenses were decreased. Cost per active client is reduced in 2015 by 87.527 because operating expenses & number of clients increased. So, in 2015 cost is decreased, it increased efficiency of MFI. Active client per staff member increases the efficiency of staff member and quality of services which one employee can manage more Clients by 60.817. Variable loan portfolio increased MFI supply more financial services or loan to customers in 2015. ROE increased in 2015 by 1.06. ROA decreased in 2015 by 0.007. It decreased because NOI didn't increase as compare to total assets.

Figure 1: Financial Performance of Ujjivan Microfinance Service Private Ltd.



In figure 1 described the financial performance of the Ujjivan microfinance company by various financial variables. OE ratio shows that operating efficiency increased in 2015 by less operating expenses. CPAC shows that cost decrease to retain the employee in the company. ACPSM variable described that company increased the efficiency of the employees in 2015. Growth indicator described that company increase reach of the customer. Leverage defines that Company taking more loan from Outside. ROE indicates that company increase in generate money shareholders money. ROA described that company decreased its efficiency to manage the total assets.

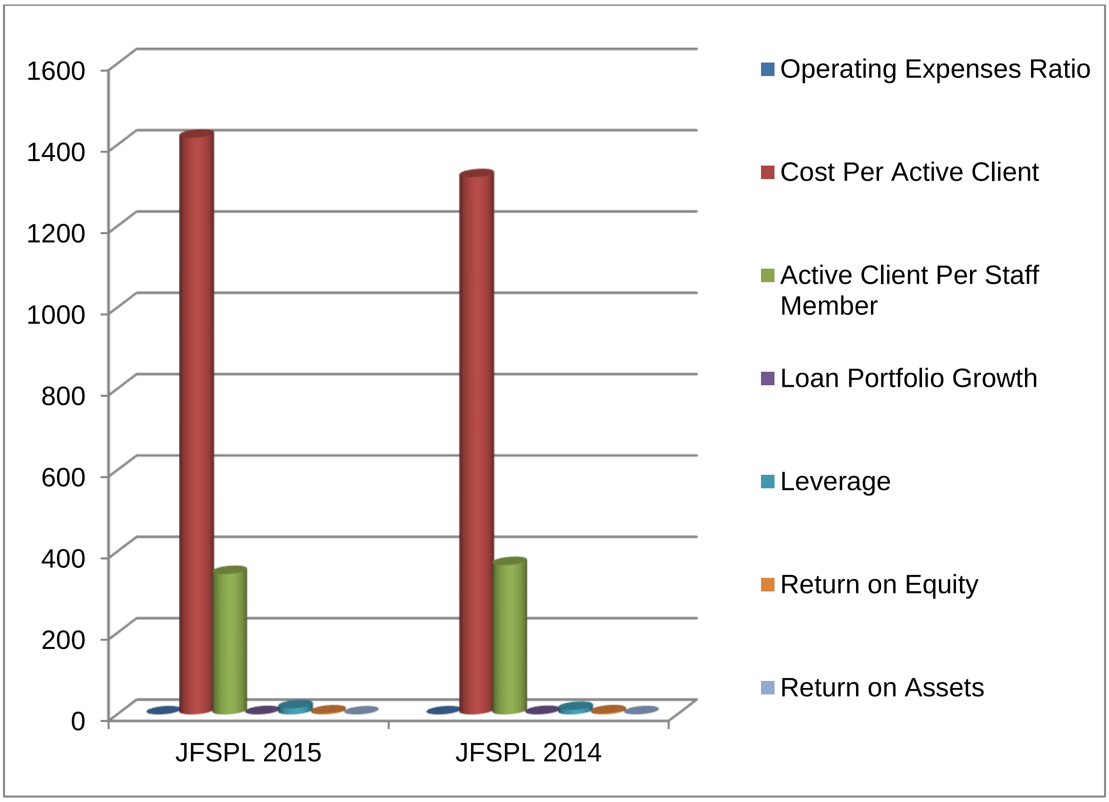
Janalakshmi Financial Services Pvt. Ltd.

Table 2: Financial Performance of Janalakshmi Company

Particular	Janalakshmi 2015	Janalakshmi 2014
Operating Expenses Ratio	0.17616	0.2438
Cost per Active Client	1418.12	1320.98
Active Client perstaff member	345.21	367.22
Loan Portfolio Growth	0.73	1.11
Leverage Ratio	15.061	11.268
ROE	2.56	2.85
ROA	0.064	0.072

In table 2 described that 2015 OE ratio shows that operating efficiency increased in 2015 by less operating expenses. CPAC increased in 2015 because OE and number of clients also increased. ACPSM decrease the efficiency of staff member in 2015. Growth variable defined that in 2015 MFI supply less financial services or loan to customers. Leverage ratio increased by 3.793 in 2015. ROE decreased corporation’s profitability in 2015. ROA decreased in 2015 by 0.008.

Figure 2: Financial Performance of Janalakshmi Financial Service Pvt. Ltd.



In figure 2 described the financial performance of the Janalakshmi microfinance company by various financial variables. OE ratio shows that operating efficiency increased in 2015 by less operating expenses. CPAC shows that cost increase to retain the employee in the company. ACPSM variable described that company decreased the efficiency of the employees in 2015. Growth indicator described that company decrease reach of the customers because of the competition. Leverage defines that Company taking more loan from Outside. ROE indicates that company decrease in generate money with the shareholders money. ROA described that company decreased its efficiency to manage the total assets.

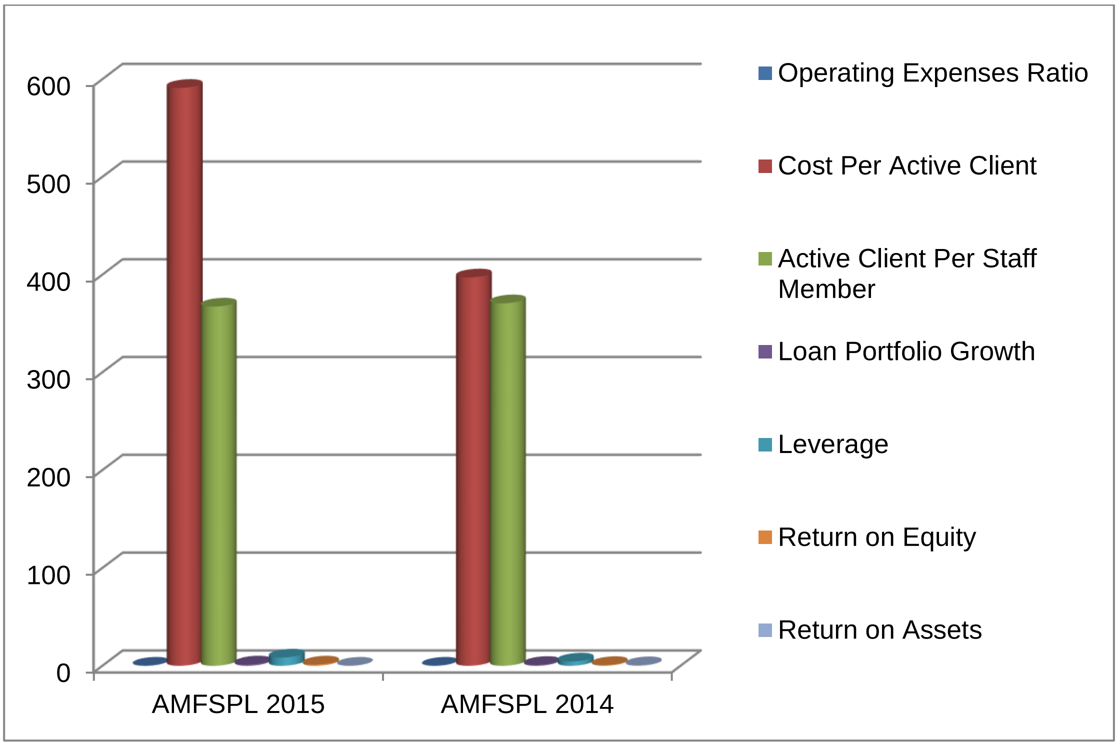
Annapurna Financial Services Pvt Ltd

Table 3: Financial Performance of Annapurna Company

Particular	Annapurna Company 2015	Annapurna Company 2014
Operating Expenses Ratio	0.0897	0.07804
Cost per Active Client	591.09	397.128
Active Client perstaff member	345.21	370.63
Loan Portfolio Growth	1.33	0.852
Leverage Ratio	8.43	4.34
ROE	1.29	0.77
ROA	0.069	0.065

In table 3 described that 2015 OE ratio increased in 2015 by 0.0117. Cost per active client is increased in 2015 because Operating cost increase so much because to reach service in every area of country. Active client per staff member decrease the efficiency of staff member and quality of services which one employee can manage less clients in 2015 by 3.31. Growth increases in 2015 because MFI supply more financial services or loan to customers. Leverage ratio increased by 4.09. ROE increased in 2015 by because company's net operating income more increased as compare to Shareholder. ROA increased in 2015 by 0.04.

Figure 3: Financial Performance of Annapurna Microfinance Service Private Ltd.



In figure 3 described the financial performance of the Annapurna microfinance company by various financial variables. OE ratio shows that operating efficiency decreased in 2015 by more operating expenses. CPAC shows that cost increase to retain the employee in the company. ACPSM variable described that company decreased the efficiency of the employees in 2015. Growth described that company increase reach of the customer. Leverage defines that Company taking more loan from Outside. ROE indicates that company increase in generate money with the money of shareholders. ROA described that company increased its efficiency to manage the total assets.

Conclusion

In this study, conclude that analysis fulfill the objective of the study. this study analyzed the financial performance of all three companies by various financial variables. On the basis of these Financial variables shown the growth of these Companies by comparison of 2014 & 2015. These variables analyzed the growth of all three companies.

This study conclude that analyze and interpret data finding came that Ujjivan company's financial Growth is good as compare to other Companies. These financial variables give Favorable effect to Ujjivan Company. In Ujjivan company profitability increased by analyzed ROE & ROA Ratio as compare to Janlakshmi and Annapurna companies. Ujjivan Company increased Operating Efficiency in 2015 from 2014 as compared to Janlakshmi and Annapurna companies.

Future Scope of Study

This Study gives a various scope in the future. Other researcher can study of various Companies together. And researcher can also study of these Companies other indicator also rather than financial indicator. Researcher can study of social indicator and Organizational indicator also.

References

1. Banerjee, A., Duflo, E., Glennester, R. & Kinnan, C. (2013). The miracle of microfinance? Evidence from a randomized evaluation. *Social Science Research*, working paper 13-09 Available at http://ssrn.com/abstract=2250500 assessed on 25 February 2016.
2. Bansal, A. & Bansal, A. (2012). Microfinance and Poverty reduction in India. *A Journal of Management.* 5(1), 31-35.

3. Basu, P. & Shrivastava, p. (2005). Scaling up microfinance India's rural poor. *National Council of Applied Economic Research,* 3646, 1-30.
4. Basu, P. & Srivastava, P. (2005). Exploring possibilities: Microfinance and Rural credit access for the poor in India. *Economic and political weekly*, 40(17), 1747-1756.
5. Bi, Z. & Pandey, S. (2011). Comparison of performance of microfinance institutions with commercials banks in India. *Australian Journal of Business Management and Research*, 1(6), 110-120.
6. Das, D. (2014). Growth of Microfinance sector at The International level. *Indian journal of research*. 3(7), 25-34.
7. Gupta, D. (2014). The impact of Microfinance on rural household and its role in rural development and Poverty alleviation. *International Journal of Management*. 5(4),145-151.
8. Imai, K., Arun, T. & Annim, S. (2010). Microfinance and household poverty reduction: new evidence from India. *World Development*, 38(12), 1760-1774.
9. Kashif, M. & Sridhran, P. (2012). Microfinance: the opportunities and challenges in rural India. *International Conference on Business Management*. Available at http://ssrn.com/abstract=2333145, 1-15, Assessed on 29 February 2016.
10. Kumar, M., Bohra, N. & Johari, A. (2010). Microfinance as an anti- poverty vaccine for rural India. *International Review of Business and Finance*, 2(1), 29-35.
11. Manohar, L. (2015). Growth of SHG-bank linkage programme - A comparative study of six regions in India. *International Journal of Research Humanities and Social Studies*, 2(8), 28-37.
12. Rajendran, K. (2012). Microfinance through self-help groups- A survey of recent literature in India. *International journal of Marketing*, *Financial Services and Management Research*, 1(12), 110-125.
13. Shrivastava, P. & Basu, P. (2005). Exploring possibilities: Microfinance and rural credit access for the poor in India. *Economic and political weekly,* 14(17), 1747+1749-1756.
14. Singh, N. (2009). Micro finance practices in India an overview, *international review of business research papers*, 5(5), 131-146.
15. Yadav, R. (2014). Significance of microfinance institutions in rural development of India. *International letters of social and humanistic sciences*, 21, 84-90.