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ANALYTICAL STUDY ON THE MICROFINANCE COMPANIES AND THEIR FINANCIAL PERFORMANCE IN INDIA

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ABSTRACT

Hierarchical performance is heavily influenced by capital structure. In an agricultural country like India, micro-finance is seen as a useful tool for financial upliftment. Microfinance may play an important role in providing financial kinds of support to poor and low-income individuals in a country like India, where 70 percent of the population resides nearby and 60 percent relies on agriculture (according to World Bank statistics). Microfinance has emerged as a viable option for reaching out to the previously unreachable in order to improve their social and economic conditions via social and financial intermediation. Microfinance Institutions are organizations that provide impoverished people with microfinance services such as loans, savings, insurance, and settlement (MFIs). Microfinance companies are often seen as agents of social change, and their success is typically judged by non-financial criteria. Working costs by loan portfolio, normal compensation by GNI per capita, and loans per staff person have all shown improved competence and efficiency in Indian MFIs. Asset sources for microfinance institutions (MFIs), as well as their performance and financial manageability, have become a major topic for MFIs and poverty alleviation efforts to achieve the UN's long-term development goals. Indian MFIs have a superior ROE and OSS than other MFIs in terms of overall financial performance. Although Indian MFIs showed greater financial revenue from resources, a higher return on net portfolio (ostensibly), and lower operating expenses from resources, they were unable to pay all costs and financial costs. The goal of the study is to look at the financial performance of MFIs in India.

Keywords: *Financial Performance, Microfinance, MFIs, Capital Structure, Financial Sustainability.*

Introduction

Finance is a very effective instrument for distributing economic opportunity and combating poverty. Access to money enables the impoverished to put their many skills to good use or to expand their horizons. One way to improve impoverished people's income and productivity is to provide them with long-term loans. Despite the fact that India's banking sector has seen extraordinary development and has a spectacular reach, empirical research conducted in the 1980s showed that a significant proportion of the poorest of the poor remain outside the official banking system. It has been recognized that current banking rules, processes, and systems are inadequate to fulfill the credit requirements of the poor.

Unlike conventional banking, MFI lending is referred to as controlled credit. The majority of microfinance customers reside in rural regions, and microfinance operations are heavily reliant on personal connections. Microfinance is an idea that has been around for a long time. It dates back to the nineteenth century, when money lenders acted informally as now-formal financial organizations. Various development methods aiming at poverty reduction in developing nations have been developed by governments, international development agencies, non-governmental organizations, and others during the last two decades. Microfinance programs, which offer financial services in the form of savings and credit possibilities to the working poor, are one of these methods that has grown in popularity since the early 1990s.

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Microfinance businesses' success is often evaluated by non-financial criteria since they are primarily seen as agents of social change. The notion of social performance has tended to eclipse these businesses' financial soundness. However, the twain of Financial Success and Outreach have been recognized criterion in a lot of studies to analyze the performance of any MFI. However, although there are a variety of social performance evaluation methods and institutionalized grading systems, financial performance assessment has failed to acquire traction.

Review of Literature

Syeda Sonia Parvin et al (2020) focuses on the connection between microfinance organizations' capital structure and financial performance, as well as fulfilling the program's goals through reaching out to eligible customers without collateral. The connection between capital structure and performance of MFIs is studied using a dataset of 187 MFIs. The Random effect and Fixed effect models were utilized in this study's panel data regression analysis. "Financial success has been measured using Return on Asset (ROA) and Net Income to Expenditure (NIER)." Equity to Asset Ratio (EAR), Debt to Loan Ratio (DTL), Risk, and Size are the variables that affect NIER, according to the results. Moreover, EAR and DTL have a favorable impact on ROA, while Risk has a negative impact. The results of this research will help MFIs to design their capital structure by establishing a portfolio of capital sources from market-based sources of funds that will allow them to optimize their financial performance and reach out to impoverished customers without collateral.

Hailu Abebe Wondirad (2020) empirically examines whether competition (measured by using the new measure of competition, the Boone Indicator) moderates the relationship between Microfinance Institutions' (MFIs) social and financial performances using data from 183 Indian MFIs over the period 2005–2014. The findings indicate that MFIs' social and financial performances have a positive significant relationship. Moreover, the form of the relationship is both lead-lag and cotemporally. The Indian microfinance market was very competitive over the period 2005–2014. The empirical findings show that competition positively moderates the relationship between MFIs' social and financial performances. More precisely, the empirical analysis provides evidence that the association between MFIs' depth of outreach and operational self-sufficiency is conditional upon competition. These results suggest that in a competitive market, the more MFI deepen their depth of outreach, the higher contribution it has to their operational self-sufficiency.

Reshu Goel, Dr. Megha Aggarwal (2020) This study reveals the impact of microfinance program on the rural entrepreneurs which create tremendous impact to the industry, academics and as well as to the society. The inter-link of microfinance and entrepreneurship provides major contribution in the country because it will reduce unemployment, poverty and creates job opportunities especially in rural areas where opportunities are limited. MFIs program motivates people, belongs to backward section of society, for work as a micro-entrepreneur, will bring out the strategies for fighting against poverty. The study will also help the policy makers, NGOs, agencies to take correct strategic action plan for livelihood related activities.

Lensink, (2018) The stability of microfinance institutions is of paramount importance for inclusive growth and financial stability. Risk management in MFIs remains, however, a major challenge for their sustainability. In this article the researcher also talks about the skills, which clients (poor) are already specialized in rather than wasting time in teaching them new things. Poor must be trained in those things which will help them in making best use of the loan taken by the institution which will improve their financial conditions and will pool them out from poverty.

Nikodemus Herger et.al (2016) Qualitative Interviews, Macroeconomic Forecast, and Quantitative Extrapolation were used in a thorough research on the qualitative and quantitative image of the microfinance industry in 2016. Microfinance is envisioned as a highly reliable financial service for people who do not have access to conventional financial services. India, Bolivia, Cambodia, Kenya, Ghana, Costa Rica, Azerbaijan, Mongolia, Paraguay, Armenia, Tajikistan, Peru, Ecuador, Kyrgyzstan, and Georgia have the world's biggest microfinance markets. With a predicted increase of 30% in 2016, Asia Pacific remains the world's fastest-growing microfinance center. There are an estimated 10,000 microfinance institutions (MFIs) in the globe, but only around 500 MFIs would meet the qualifying criteria in terms of their business model's long-term viability. In 2016, microfinance contributed 7.5 percent of India's GDP.

Kumar Vipin et. al. (2015) According to the findings, SHGs and MFIs play a critical role in the delivery of microfinance services, which drives the development of India's poor and low-income people. However, numerous research results in various areas of the nation have indicated sluggish development of SHG members graduating, poor quality of group functioning, dropout of members from groups, and other issues that must be considered while developing the road map for the next phase of the SHG program.

Verma & Aggarwal, (2014) In this study the researcher aims to study the concept of microfinance and Microfinance Institutions and its impact on financial inclusion with special focus on poverty alleviation and women empowerment in India. In this paper the researcher says that MFIs plays a crucial role in financial inclusion and societal development. The researcher also recommends various ideas regarding the growth and sustainability of MFIs to facilitate greater financial inclusion.

Nikita (2014) study concludes that first time in the year 2014-15 after the launch of SHGs BLP there is a decline in the number of SHGs who's saving linked with banks. The study also finds out there was growth in the loan outstanding of SHG and which was responsible for increases in NPAs. At last, it is found out that the major share belongs to commercial banks when the agency wise loan issued to MFI. He suggested that steps should be taken to improve the performances of programs launched under Microfinance time to time.

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) performed a research on the impact of microfinance on the Indian scenario in the event of an emergency. Following pioneering efforts by the government, banks, NGOs, and others, India's microfinance landscape has reached a critical juncture. To enhance the emergence of Micro-Finance Institutions (MFIs) and maximize their contribution to the sector's development and poverty reduction, an effort should be made to create a cadre of new generation micro-credit leaders. Each Indian state may consider establishing a multi-party working committee to meet with microfinance leaders and have a discussion on how to improve the regulatory climate and dispel misconceptions. We must expand on a successful model with one state leading the way. We will gently but steadily change India by unleashing the entrepreneurial potential of the underprivileged, in ways we can only begin to imagine.

Pankaj K Agarwal and S. K. Sinha (2010) found in their study that the sustainability of microfinance institutions is important in order to pursue their objectives through good financial performance. This paper studies the various players in the microfinance sector which range from not-for-profit organizations which work towards a developmental objective to commercial banks which view microfinance as a good source of deposits with sound banking and as a measure to reach their priority lending targets.

Objective of the Study

The main Objective of the Research paper is to analyze the financial performance of MFIs in India.

Research Methodology

The research is Descriptive in nature. The data for the present study was collected from different sources. To assess the performance of the microfinance institutions in India from Status of Micro Finance in India, NABARD report (various issues), The Bharat Microfinance Report (various issues) and other relevant sources for the period 2014-15 to 2018-19. Simple statistical tools like averages, percentage, etc. were used to derive the inferences of the study.

Data Analysis and Interpretations

Table 1 presented progress under MFI-Bank linkages programme. The number of MFIs availing loans from banks during the year 2014-15 decreased over the respective previous year. The number of MFIs availing loans from the banks during the year 2015-14 increased by 28 per cent over the year 2014-15.

Table 1: Progress under MFI-bank linkage Programme (Amount in crore)

Year →	2018-19		2016-17		2016-17		2015-16		2014-15	
Particular ↓	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.
Loan O/S against MFIs on 31st March	5357 (165.2)	29225 (14.3)	2020 (56.7)	25581 (13.7)	4662 (42.5)	22500 (36.2)	2422 (18.6)	16517 (14.5)	2042 (4.2)	14426 (26.0)
Loan Disbursed by Banks/FI to MFIs	2314 (257.6)	19304 (-7.2)	647 (9.8)	20796 (36.9)	589 (8.1)	15190 (47.7)	545 (28.0)	10282 (31.2)	426 (-8.4)	7840 (50.6)
Fresh Loans as % to loans O/S		151.4		123.0		148.13		62.3		54.3

However, the number of MFIs seeking bank loans increased significantly in 2017-18 and 2018-19 compared to the previous year. It went up from 9.8 percent to 257.6 percent. Banks raised their overall loans to MFIs in 2016-17, 2015-16, 2016-17, and 2017-18, correspondingly, over the preceding year. It grew by 50.6, 31.2, 47.7, and 36.9%, respectively. Banks' overall loans to MFIs fell by 7.2 percent in 2018-19 compared to the previous year. The amount of money owed to MFIs rose every year after that, compared to the preceding year. In 2017-18 and 2018-19, it grew by 13.7 and 14.3%, respectively, over the previous year. The new loan as a proportion of total loans outstanding has risen every year since the preceding year. As a result, it is evident that MFIs are gaining trust from both customers and lending institutions.

Table 2: Rural and Urban Share of MFI Borrowers

Year	Urban	Rural
2019	115 (39)	180 (61)
2018	247 (62)	152 (38)
2017	249 (67)	122 (33)
2016	145 (44)	185 (56)
2015	91 (33)	184 (67)

Table 2 and Figure 1 illustrate the rural-urban distribution of MFI borrowers. Microfinance in India was formerly thought to be primarily a rural phenomena. In 2015, 67 percent of clients were from rural areas, but that number dropped to 56 percent in 2016, and then to 33 percent in 2017. The proportion of rural clients rose slightly to 38% the following year, in 2018. For the first time, the number of urban clients outnumbers the number of rural clients. However, in the following year, 2019, there was a substantial improvement in the proportion of rural clients, which rose to 61%.

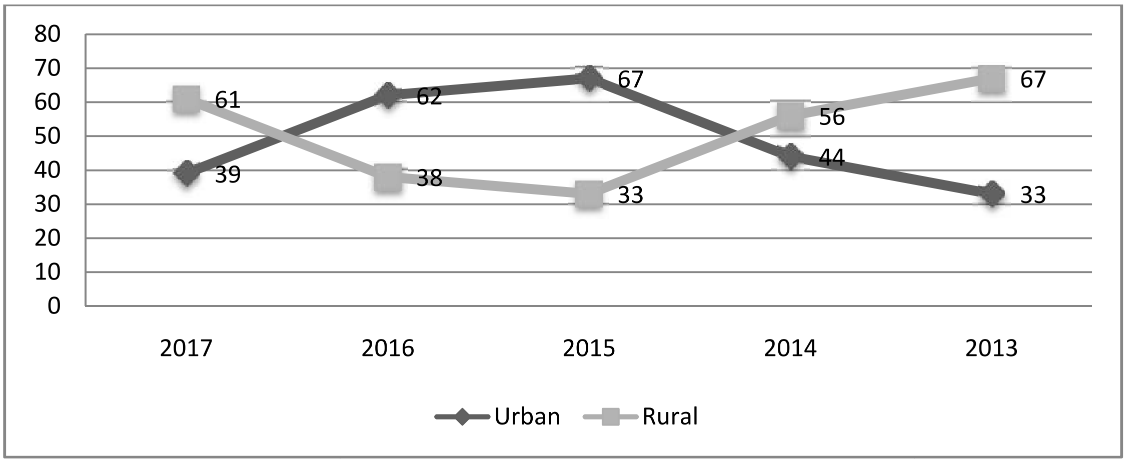

Figure 1: Trends in Rural and Urban Share of MFI Borrowers

In 2019, the trend of rural to urban is the reverse of trend of 2018 because of exclusion of 6 SFBs. One of the keys finding from this study shows that small sized of MFIs are rural centric.

Loan Purpose

Traditionally, MFIs have been lending for both consumption and productive purposes. It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. In 2017, RBI regulation stipulated that a minimum of 50% of the MFI loans are to be deployed for income generating activities.

Table 3: Income Generation Loans and Non- Income Generation Loans (Rs Crore)

Year	Non Income Generation Loan	Income Generation Loan
2019	7867.05 (15)	44579.95 (85)
2018	4340.7 (6)	68004.3 (94)
2017	11782.4 (20)	47129.6 (80)
2016	7711.6 (20)	30846.4 (80)
2015	2321.64 (9)	23474.36 (91)

According to Table 3 and Figure 2, the percentage of income generating loans was 91 percent in 2015, but it dropped to 80 percent in 2016. During the following year, 2017, the percentage of revenue generating loans remained unchanged. In the year 2018, it grew by 94 percent. The ratio of income generating loans to non-income generation loans in 2019 is 85:15.

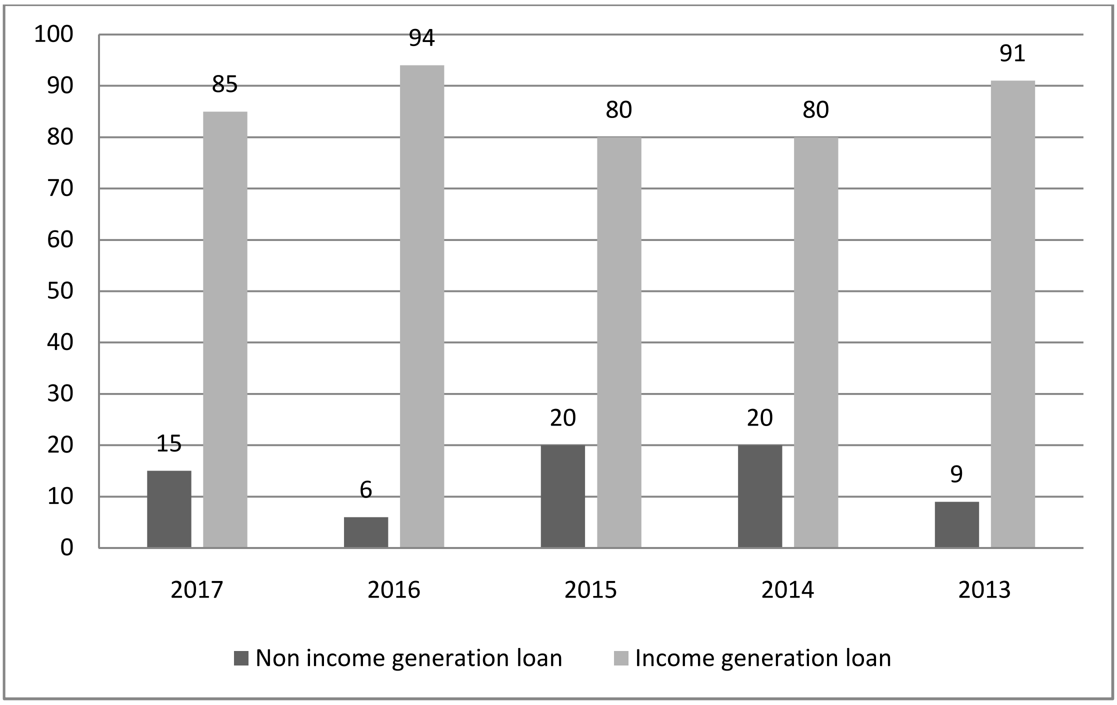

Figure 2: Income generation loans and non- income generation loans

Agriculture, animal husbandry, and commerce are three of the most common sub-sectors in which revenue generating loans are used. Non-income generating loans are utilized for a variety of purposes, including consumption, housing, education, water and sanitation, and health. Trading and small businesses received up to 31% of the total income-generating loan, followed by agriculture (30%) and animal husbandry (10%). (22 percent). The remainder of the income-generating loan was spent on transportation, cottages, handicrafts, and other activities.

Table 4: Assets with MFIs over the years

Year	Assets
2019	47247
2018	58621
2017	51564
2016	36125
2015	28051
2014	24240
2013	22736

Table 4 displays the total assets of MFIs. In 2013, the total assets held by MFIs were Rs. 22,736 crores, which grew steadily over the years to Rs. 58621 crores in 2018. MFI total assets have been steadily increasing over the past six years, from 2011 to 2018, but have dropped by 21% in 2018-19. The majority of an MFI's assets are its net loan portfolio. At the conclusion of the 2018-19 fiscal year, reporting MFIs' net loan portfolio accounted for about 73% of total assets. The second place was taken by cash and cash equivalents, which accounted for 19% of the total. Because most MFIs get loan financing at the end of the year, it can only be lent to customers at the beginning of the following year, cash and cash equivalents are at this level. The next largest asset category is trade and other receivables, which account for 7% of the MFIs' total assets. The MFI's net fixed assets account for just 1% of its overall assets.

Table 5: Financial Performance Indicator of MFIs Model in India

Particulars	2019	2018
NPA (%)	0.69%	0.15%
CAR (%)	21.13%	19.39%
OSS (%)	114%	113%
ROE (%)	13.31%	11.60%
ROA (%)	2.4%	2.20%
Margin (%)	8.08%	10%
Income generation loan (%)	85%	94%
Average loan per borrower (crore)	12751	11425
Gross O/S Portfolio (crore)	46842	63853
Women client (%)	96%	97%
Client outreach (Lakhs)	295	399

Table 5 summarizes the overall performance of microfinance institutions in 2018 and 2019. The table indicates that customer outreach decreased by 26% in 2019 compared to 2018. The proportion of women's outreach, on the other hand, fell from 97 percent to 96 percent. The total outstanding portfolio has dropped by approximately 27% from Rs. 63,853 crore to Rs. 46,842 crore in 2019, while the average loan per borrower has risen by 11.60%. In 2018, income-generating loans accounted for 94% of all loans, however this figure dropped to 85% in 2019. Over this time, metrics related to overall financial structure, such as return on assets and return on equity, as well as the capital adequacy ratio, have risen. "The average OSS of Indian MFIs has risen from 13% in 2018 to 14% in 2019." Operational self-sufficiency refers to an MFI's capacity to cover all of its operational and financial expenses from its operating revenue. In addition, the profit margin has decreased from 10% in 2018 to 8.08 percent in 2019. Non-performing assets rose from 0.15 percent to 0.69 percent over this time.

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Conclusion

The MFI sector has a lot of potential and can help the nation grow economically by concentrating on the rural and urban classes. The MFI industry is expected to expand further, necessitating the establishment of a regulatory framework to ensure seamless operation with government assistance. To decrease expenses, expand outreach, and raise overall profitability, technological advances, product needs, and continuous initiatives to develop the capability of Indian MFIs are required. To guarantee sustained and equitable development, the Indian government must concentrate on expanding financial services to both rural and urban areas. Despite the microfinance sector's impressive growth, adequate regulatory and governance would aid in achieving the goal of poverty alleviation and financial inclusion, which could be achieved with the combined cooperation of banks, donors, governments, non-governmental organizations, and other players in the country. Since the past two decades, India's microfinance banks have played a significant role in rural regions. The federal government and the Reserve Bank of India should take the necessary steps to ensure that India's microfinance industry continues to expand. In India, there is a lot of room for microfinance institutions to expand. If this industry grows at its highest rate, it will help a wide range of people. As microfinance becomes more generally recognized and mainstreamed, the provision of services to the poor may expand, increasing efficiency and outreach while reducing costs. Apart from the aforementioned recommendations to improve the microfinance industry, collaborative efforts of regulatory authorities, donors, and other stakeholders are also needed to filter out illegal MFIs.

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