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Performance metrics of microfinance companies: an exploratory study in Indian context

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Abstract
Microfinance can suitably play a significant role in a country like India where 68.24 per cent of the population of the country lives in Rural Area and of it 60.85 per cent rely on agriculture for their livelihood and also to those low-income individuals who are looking for financial services at low interest rates. In any country, be it developing or developed one, Microfinance is regarded as a useful apparatus for economic development of that country.
Poverty is one of the prevalent challenges faced by Indian sub-continent. India, being one of the BRICs (Brazil, Russia, India, China and South Africa) nations, with approximately 1.35 billion population, is seen by almost every country as an emerging economy. India's growth fails to make significant impact due to its poverty, almost 23 per cent population of India lives in poverty. Government of India making it a priority started various schemes to mitigate poverty, but it failed to deliver. Here, microfinance comes forward to fill the gulf. There is some progress made in this area after active participation by NABARD. A substantial amount of Microfinance Institutions have also decocted in this business.
One of the parts of World Bank Group, The International Finance Corporation (IFC), has estimated that approximately 135 million people have unswervingly profited from programs established by microfinance institutions for the year 2014. Nonetheless, these programs till that date have only been made available to almost 20.05 per cent of the 3.23 billion individuals who are surviving below the poverty line as per the definition of World Bank. This paper identifies the role and importance of Microfinance Institutions and also it analyses the performance of these institutions in India.

Keywords: Microfinance, Microfinance Companies, Performance, Metrics

1. Introduction
The concept of Microfinance is not at all new; it sticks back to the 19th century where the present role of formal financial institutions was performed by then money lenders. Various advancement approaches have been concocted by international development agencies policymakers, non-governmental firms, and other organizations aiming towards reducing poverty in developing countries like India. One of the policies is microfinance schemes; it became gradually popular during the 1990s. It helps in fulfilling credit requirements of the poor that are working and financial services in form of savings.
Finance is an effective and an amazing instrument in fighting against the every nation's hurdle, that is, poverty and diffusing economic opportunities. The only thing that can help the poor in opening new avenues for them or to use their rich talent is access to finance. One of the ways to increase productivity of poor and rise in their income is to provide sustained services of credit. Nonetheless today's banking system has achieved new heights and remarkable outreach towards people, but the studies of 1980s discovered that large quantum of poorest people still remain outside the reach of formal financial system. Poor men realized that the existing policies of banks and financial institutions were not very well suited to serve their needs. The only solution for them was Microfinance. Muhammad Yunus, a Nobel Prize winner, in 1974, coined Micro-credit as an idea in Bangladesh as "Grameen Bank" Model. It was specifically tailored for the most deprived people of the world.
Microfinance initially has discovered as a form of deliberate help to the most deprived section of the society. However, today it signifies as an easy solution for mitigating poverty and acts as a financial tool for development and bringing financial inclusion in India. Microfinance Institutions (MFIs) are the institutions which provide microfinance services such as credit, savings, remittance and insurance services to deprived population. MFIs have

been brought up as a bridge to cover the gulf between poor and banks, as the only source of income for these deprived people were money lenders.

2. Literature Review

Gerard Miles and Michael Tucker (2003) [4] through their study on "Financial performance of Microfinance Institutions – A comparison of performance of Regional commercial banks by geographic regions" compared and studied the performance of MFIs with regional commercial banks. The study has compared and scrutinized 5 financial ratios from 3 diverse categories - the first category gauges productivity including return on equity, returns on assets and net profit margin; the second category focuses on leverage, spanned via debt to equity ratio, and the final category gauges the competence via operative expenses to assets ratio. The research covered 4 geographical regions, that is, Eastern Europe (11 Banks), Africa (16 Banks), Latin America (75 Banks) and Asia (60 Banks), also 151 MFIs for the period 1999-2001. It obtained the data of MFIs and commercial bank from FIS online. The research discovered that there are 60 independent MFIs which are cost-effective.

In the research by S. K. Sinha and Pankaj K. Agarwal (2010) [10], on "Financial performance of microfinance institutions of India: A cross sectional study", compared and scrutinized the financial performance of Microfinance Institutions. The research had been conducted in 2008 with a sample size of 22 Microfinance Institutions which were rated as five stars and primary data had been collected from mix market. The performance had been done on the basis of six parameters, namely, efficiency, revenue, risk, financial structure, productivity and expense. The study established that 13 out 22 MFIs had adopted varied business models, which can be seen in the case of some of the best performing firms of India.

Laxmi Sunitha, Maruthi Ram Prasad and Sunitha and (2011) [5] conducted a research on Impact and Emergency of Microfinance in the current situation of India. Post the premier efforts by Indian Government, NGOs, Public and Private Banks, etc., the scenario of microfinance in India has reached the stage of a take-off. An effort should be initiated to promote a next- generation of credit leaders at micro level to serve and strengthen the requirements of Microfinance Institutions, so that their impact towards the evolution of the deprived society and poverty mitigation can be optimized. Each state could hold up a meeting with these micro credit leaders. We will slowly but can surely transform our country in new ways, via unleashing the talent and entrepreneurial skills of the poor.

In his article Bayeh Asnakew Knide (2012) [2], on "Financial sustainability of microfinance institutions in Ethiopia" has intended at finding the factor affecting financial sustainability of Microfinance Institutions in Ethiopia. The research has tailed with a quantitative research method using a balanced panel data set of one hundred twenty five opinions from sixteen Microfinance Institutions over the period 2002 to 2010. The indicators, namely, depth of outreach, subsidy and sustainability, financial sustainability breadth of outreach, capital structure and efficiency had been taken for the study. The data had been examined using econometric test and vivid statistics. The research found that depth of outreach, microfinance breadth of outreach, cost per borrowing and dependency ratio has affected the financial sustainability of micro finance institutions in Ethiopia. During the study it was also discovered that staff productivity and capital structure of the Microfinance Institutions have great impact on financial sustainability of MFIs in Ethiopia.

In the research paper by Ajita Poudelm Junaid Saraf, Zohra Bi (2013) [1] titled "Performance and Sustainability of MFIs in India" designed to research the outreach of MFIs of India and portfolio quality and operating efficiency of Indian Microfinance Institutions, growth and involvement of microfinance system of India. The indicators, namely, outreach, portfolio size and operating efficiency have been used for analysis. They highlighted that MFIs have been concentrating in southern region of India and majority of MFIs have been NBFC.

In the research study conducted by Nikita (2014) [8], it was concluded that first time in the year 2012-13 after the launch of SHGs BLP, there is a drop in the number of SHGs who's saving linked with banks. The research also discovers that growth in the loan outstanding of SHG was responsible for rise in Non-Performing Assets. Lastly, it is established that the larger part of share belongs to commercial banks when the loan is issued agency wise to MFIs. It was suggested that improvisation should be in the programs launched under the Microfinance Scheme, from time to time.

According to the research conducted by Kumar Vipin *et al*. (2015) [6], it was concluded that the Microfinance Institutions and SHG's are playing a significant role in serving the services of microfinance which leads towards the upliftment of low income and poor people in India. Nevertheless, reports of slow progress of poor quality of group functioning, graduation of SHG members, dropout of members from groups etc., have also been stated. While designing the next phase of SHGs scheme varied findings and suggestions from various countries should also be taken into account.

3. Objectives of the Study

1. To study the role and importance of Microfinance in India.
2. To analyse the financial performance metrics of Microfinance Companies in India.

4. Microfinance

The term Microfinance simply refers to small- or micro-scale financial services (together with small loans and other financial facilities) provided to the deprived ones, who are excluded from formal banking systems due to the reason that they have no collateral and low income. The poor people of the society also have basic needs like each and everyone else such as, primary education, water and sanitation, basic health care etc., and need financial services like, savings, loans, money transfers and insurance to manage their treacherous lives, along with the facility of basic social services. Easy access to finance provides them the opportunity to participate in the market economy through bargaining power, income and building up of social empowerment in their communities. It provides them with the opportunity to become independent in the long run and utilising these financial services to build small businesses for future cash flows.

The chief aim of Microfinance was to enable the excluded section of people in the society who do not even have an access to banking system for the purpose of increasing income, condensing their vulnerability to stress of economy and building assets. Over the years, it has been seen and experienced that facility of financial products and services to poor people, generated by Microfinance Institutions is applicable and practicable, as these institutions can cover their costs through operating effectively and efficiently.

As per Reserve Bank of India, “the range of tasks of a micro finance bank should mainly be to embark on simple banking amenities of deposits and loan funds to excluded units of the society comprising of small business units, small and marginal farmers, unorganized sector and small and micro industries.” RBI has guided that up to twenty five per cent of the branches of SFBs are required to be opened in unbanked areas. Whereas forty per cent of the advancing of loans has to be billed according to the norms of commercial banks, the remaining thirty five per cent can go towards priority sector where the micro-finance banks have economic benefit. Domestic banks and foreign banks with more than twenty branches have to lend at least forty per cent, eighteen per cent, seven and half per cent, ten per cent towards agriculture, micro enterprises and weaker sections respectively and outstanding four and half per cent towards any priority sector.

The lending to agriculture sector will be categorized as:
1. Agriculture Infrastructure
2. Farm Credit (including medium/long-term credit to farmers and short-term crop loans)
3. Subsidiary Activities.

Farm Credit comprises of:
- Loans to individual farmers (including SHGs or JLGs, i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans)
- Allied activities such as fishery, dairy, sericulture, bee-keeping, animal husbandry and poultry.

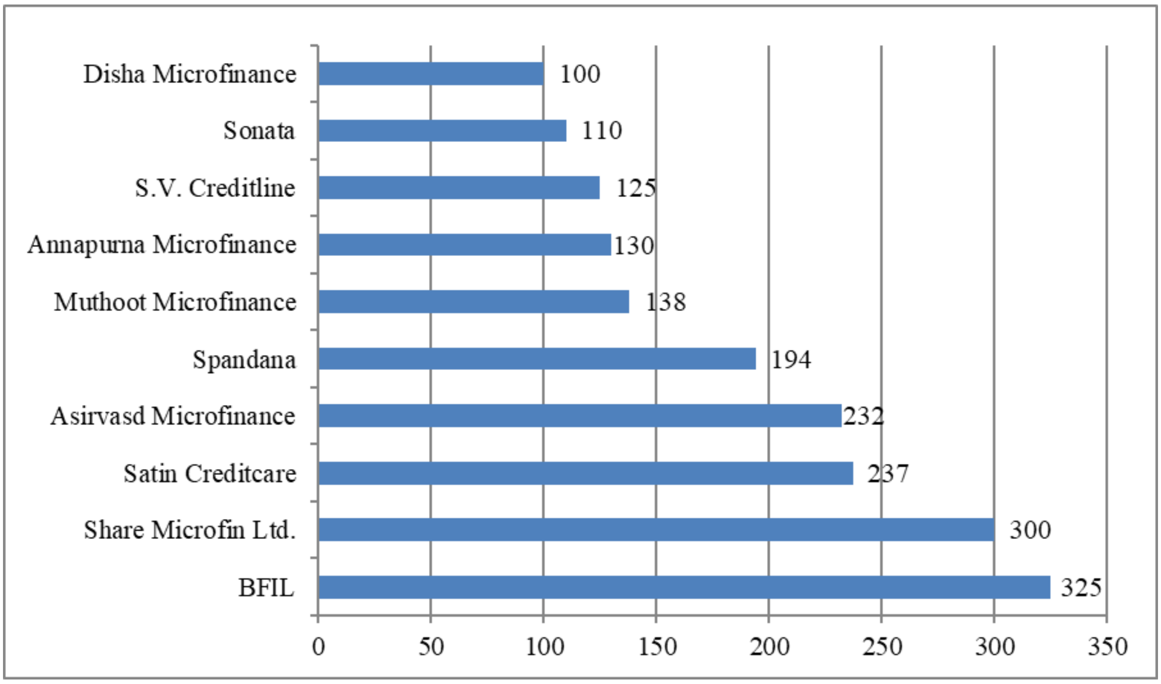
4.1 Features of Microfinance
- It basically delivers to the poor section of the society.
- It deals in micro and small loans.
- It provides an enticement to grab self-employment openings.
- It is one of the most operational and guaranteed Poverty Mitigation Strategies.
- It is less profit oriented as well as more service-oriented.
- It is intended to support trivial producers and entrepreneur.

4.2 Role and Importance of Microfinance
As per the research conducted by World Bank, India is home to world’s one-third population surviving equivalent to 1 dollar per day, that is, poor sections of the society. Microfinance is a major contributor towards financial inclusion and also numerous state government and central government mitigation programs are currently running in India. Over the past few years it has been witnessed that these programs have helped in eliminating poverty from the country. Reports demonstrate that pupils who have taken finance from Microfinance Institutions have become independent enough, been able to raise their income and henceforth improve their living standard. Accordingly we can see that, Microfinance plays a very significant role in development of economy of India in following ways:

- **Mitigating Poverty:** Microfinance has helped poor people to get employment. It has also helped them to advance their entrepreneurial skills and grasp business opportunities. It has noticed that employment has helped these individuals to raise their income level, which in-turn has reduced the poverty level.
- **Credit Facilities to Rural Poor:** Generally it has been seen that rural poor depend on non-banking or non-governmental agencies for their financial necessities. Microfinance Institutions have been successful in catering the needs of poor by bringing financial help to their doorstep in a socially and economically way.
- **Development of Economy:** Finance always has been and will be a major player in stabilizing the economic growth of any country. Because of easy availability of micro credit to the poor, the productivity of goods and services has increased, which led to rise in Gross Domestic Product and contribution towards development of the economy.
- **Empowering the Women:** It has been witnessed that approximately 51 per cent of Self Help Groups have been formed by women. Thus women have greater opportunity now to utilise their skills and make efficient use of financial aids for their upliftment and of the economy. In this way, Microfinance has encouraged and empowered women.
- **Mobilisation of Savings:** Microfinance has helped in inducing the habit of savings among the individuals. It has provided these individuals with meagre income; the opportunity to save and meanwhile raise their capital as well. The fiscal aid engendered by savings and micro finance available from financial institutions is used to provide advances and loans to its customers. Hence, microfinance has helped in mobilising the savings of individuals.
- **Welfare of the society:** Micro credit has helped in improving the lives of individuals and betterment of the society, by providing employment to the people. With income generation they may decide to go for better education, medical facilities etc.
- **Development of Skills:** Microfinance available to the poor individuals has encouraged them to become member of Self Help Groups and set up businesses either independently or jointly. These institutions provide them training also they learn leadership skills. Hence microfinance in one or another way has helped in the development of skills of these individuals.

4.2 Microfinance Institutions
Microfinance Institutions are generally defined as diverse types of organisations or business firms that provide micro credit services, vacillating from non-profit organisations to large profit organizations, like- credit unions, microfinance banks, NGOs, rural banks and credit cooperatives**.**

"Microfinance has evolved as an economic development approach intended to benefit low-income women and men. It refers to the provision of financial services to low - income clients, including the self-employed" (Ledgerwood, 2000)



Source: Bharat Microfinance Reports

Fig 1: Top 10 MFIs Operational in Various Number of Districts in India

5.0 Data Analysis
5.1 Mfis Loan Portfolio

Table 1: MFIs Loan Portfolio

S. No.	Microfinance Institution	Gross Loan Portfolio (Values in Cr.*)
1.	Cashpor Micro Credit	1335
2.	SKDRDP	6400
3.	Grameen Koota	3078
4.	Asirvad Micro Finance	1795
5.	Annapurna Microfinance	1240
6.	Spandana Sphoorty	1300
7.	Disha Microfin Ltd.	1319
8.	BFIL	9154
9.	Muthoot Microfin	1978
10.	Satin Credit Care	3615

Source: *Bharat Microfinance Reports*
Cr*: Crore**

As per the report dated 31st March, 2017, the aggregate portfolio of loan that was outstanding of Microfinance Institutions apart from Six Small Finance Banks (SFBs) had reached to Rs. 46,940 crores. During Financial Year 2015-16, Six SFBs alone had Gross Loan Portfolio of Rs. 24,550 crores out of overall Gross Loan Portfolio of Rs. 63,845 crores. Gross Loan Portfolio during the financial year 2016-17 had declined to Rs. 46,940 crores from a grand total of Rs. 63,845 crores, but to be factually correct there was growth rate of almost 18.75 per cent, if we factor in the 6 Small Finance Banks as Microfinance Institutions.

5.2 Regional Spread of Loan Portfolio

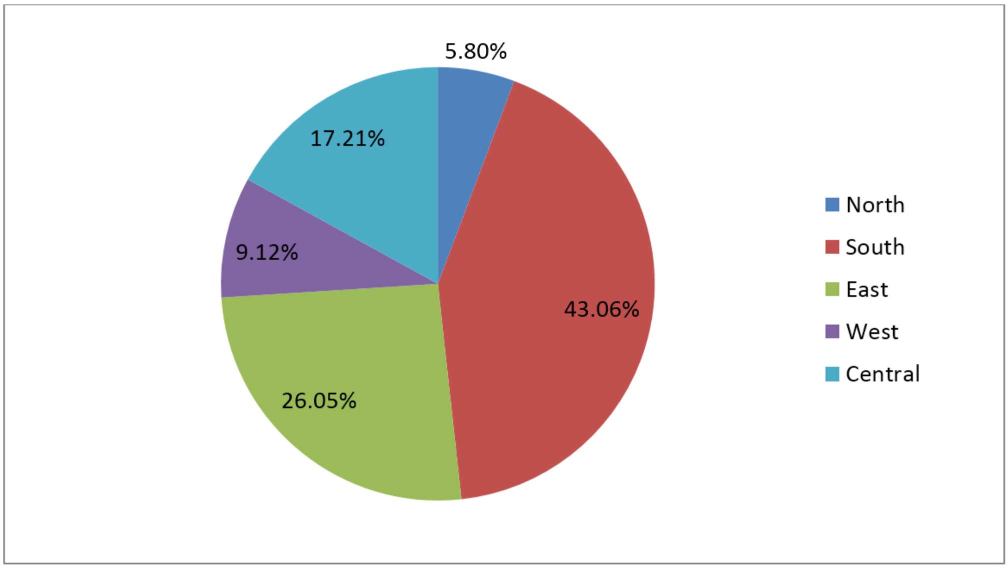


Fig 2: Region-wise Loan Portfolio

Source: *Bharat Microfinance Reports*

Among all the regions, South continues to dominate the aggregate loan portfolio outstanding of Microfinance Institutions with 43.06 per cent followed by East with 26.05 per cent. West and Central have a share of 9.12 per cent and 17.21 per cent respectively. Whereas North has the least portfolio of share of 5.80 per cent. All the regions experienced a boom in their loan portfolio outstanding except North and Central region.

5.3 Loan amount disbursed during 2013-2017

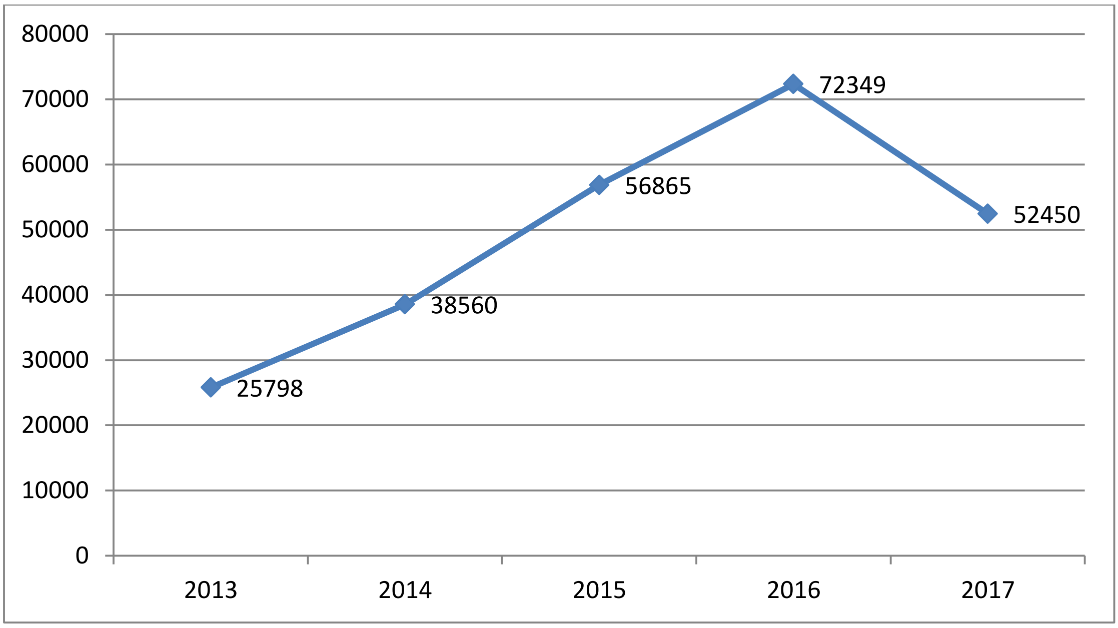


Fig 3: Loan amount disbursed during 2013-2017 (in crores)

Source: *Bharat Microfinance Reports*

In the above figure, we can see that, the amount of loan disbursed by the financial institutions raised rapidly from the year 2013-16, with rise of almost 180.16 per cent over the former. But the year 2017 resulted in a downtrend; the amount disbursed shrunk down to Rs. 52,450 crores, taking a dive of approximately 27.50 per cent.

5.4 Rural-Urban share of number and amount of loan disbursed

Table 2: Percentage of Rural-Urban Share of No. of Loan Disbursed

Region	2016	2017
Urban	74	56
Rural	26	44

Source: *Bharat Microfinance Reports*

During financial year 2016-17, in rural areas, 70 lakh loans was disbursed which constitutes exactly 35 per cent of the total loan disbursed, whereas in urban areas 130 lakh loans was disbursed constituting 65 per cent of the total. Table 2 indicates that number of loans disbursed in urban areas took a dive of 24.32 per cent whereas number of loans disbursed in rural areas rocketed up by 69.20 per cent 2017 as compared to 2016.

Table 3: Amount Disbursed

Region	Loan Disbursed in 2017 (in crore)	Loan Disbursed in 2016 (in crore)	Amount of disbursement increased/decreased in 2017 over 2016	Growth (%)
Urban	26850	51455	-24605	-41.81%
Rural	25600	20894	4706	22.52%
Total	52450	72349		

Source: *Bharat Microfinance Reports*

5.5 Purpose of Loans

Conventionally, Microfinance Institutions lend for productive and consumption commitments both. From previous studies and researches conducted, it can be believed poor sections of the society use loan amount emergency purposes more than their livelihood purposes. According to Reserve Bank of India regulation of 2015, it has been mandates that 51 per cent of loan amount has to be disbursed for income generation activities only. Usage of loan under varied sub sectors has been demonstrated in Figure 4 for both non-income generation and income generation loans.

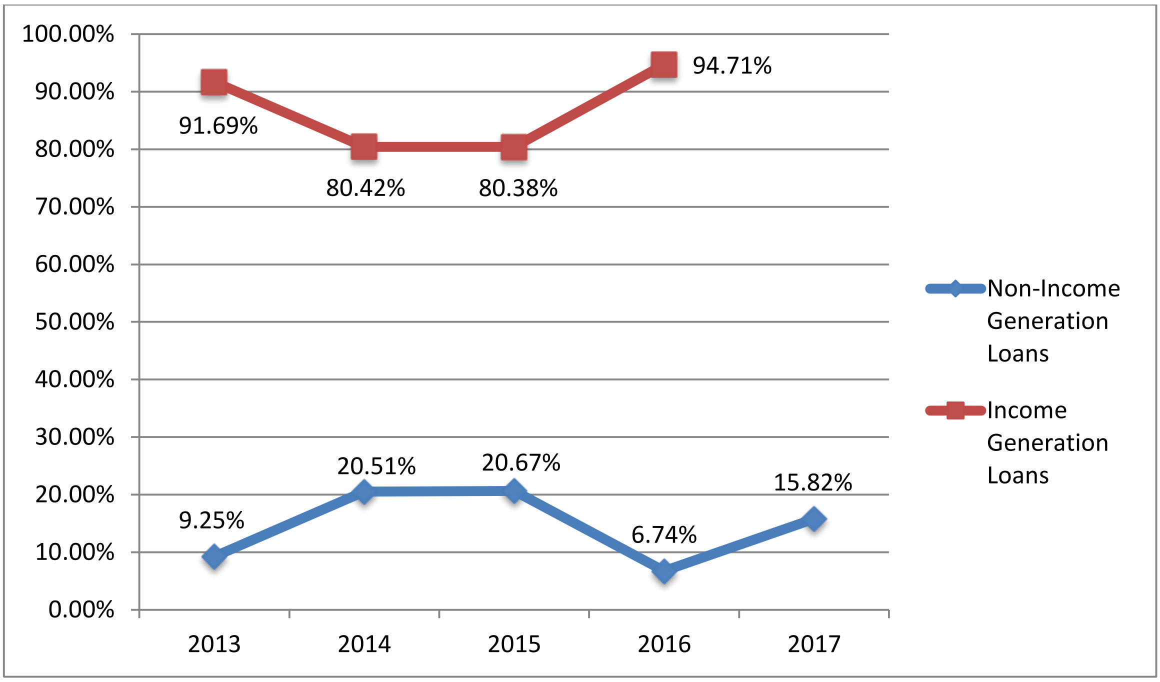


Fig 4: Share of Income Generation Loans and Non Income Generation Loans
Source: *Bharat Microfinance Reports*

5.5.1 Income Generation Loans

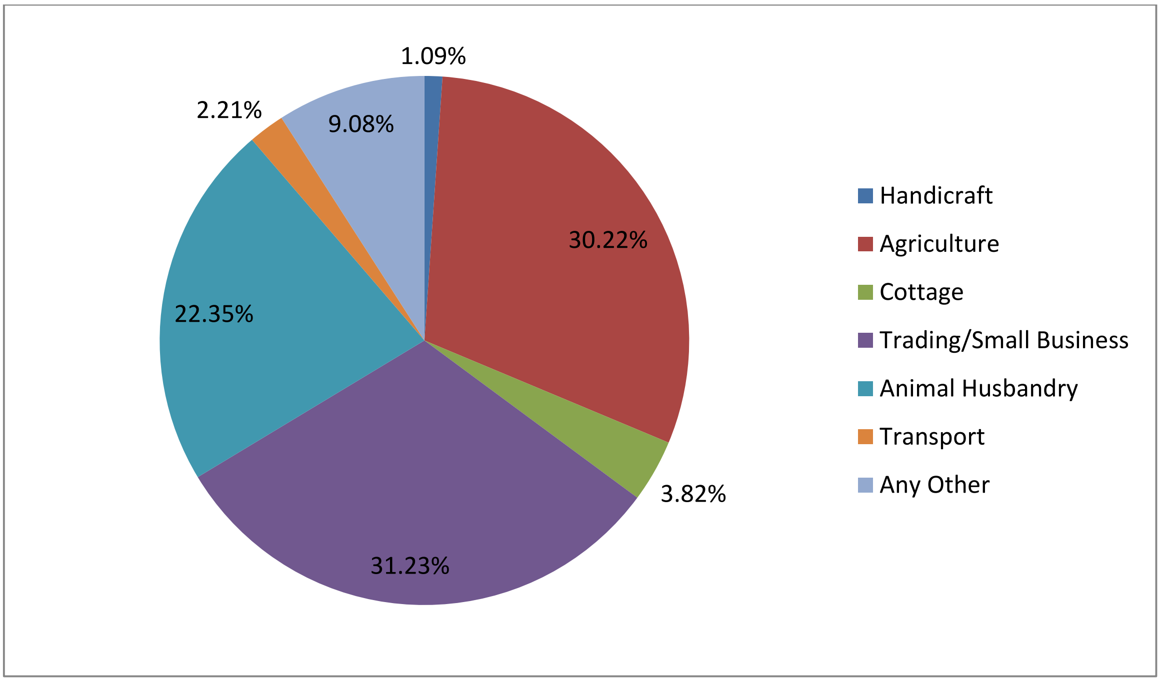


Fig 5: MFIs sectors of Income Generation Loans
Source: *Bharat Microfinance Reports*

Microfinance Institution's purpose of loan has gained significant vitality post RBI regulation stating that not less than 51 per cent of total loan amount be disbursed towards income generation activities. Figure 5, demonstrates that Trading and Small Business Activities has highest share of loan amount followed by Agriculture sector at 30.22 per cent and Animal Husbandry sector at 22.35 per cent.

5.5.2 Non-Income Generation Loans

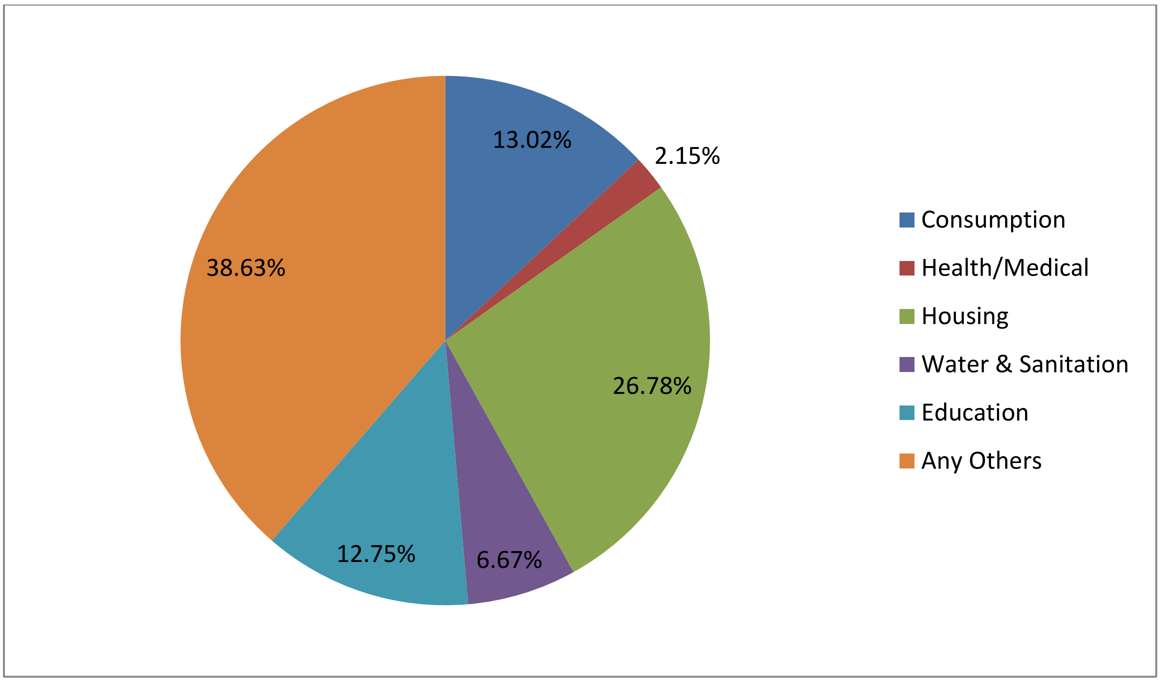


Fig 6: MFIs sectors of Income Generation Loans
Source: *Bharat Microfinance Reports*

From the above figure we can say that, after the mandating regulation of RBI, the use of loan amount for non-income generation activities has strived down. Still the use of loan amount for housing purpose is largest among any other activity with share of almost 26.78 per cent.

6. Findings

- The total amount of loans disbursed during the years 2013-14, 2014-15, 2015-16 and 2016-17 increased with an exception in the year 2016-17. The growth rate was 49.46 per cent in 2013-14, 47.47 per cent in 2014-15 and 27.22 per cent in 2015-16. But this rate took a dive of 27.50 per cent during 2016-17.
- The growth rate of number of active borrowers of Indian MFIs is higher.
- The proportion of income generation loan during 2016-17 was shared highest by Trading and Small Business with share of 31.23 per cent followed by Agriculture Sector with a share of 30.22 per cent.
- The loans outstanding uplifted by 13.7% in 2015-16 and 14.3% in 2016-17. Overall there was increase in new loan applications in successive years.
- The rising percentage of women encourage by the SHGs justifies social commitment of Microfinance Institutions.

7. Suggestions

- Indian Government can take various steps to give status to Financial Institutions status, 'The status of Bank', who qualify the basic conditions and also have consistent performance.
- Reserve Bank of India should set up a regulatory authority over Microfinance Institutions, to monitor the functioning of such institutions. Though these institutions work well under the law and abide by all its regulations, a separate legal authority monitoring them will induce them to work more efficiently. Reserve Bank of India should set up governing body to monitor and measure the performance of microfinance Institutions.
- Indian institutions providing micro credit can be sustained by efficient cost management, leverage management and asset management which will lead to vigorous growth in Return on equity and assets.
- Management of leverage can be operative with well-sustained debt equity ratio and capital asset ratio, as per the limit fixed by the apex bodies.

8. Conclusion

In developing countries Microfinance is considered as a significant measure to mitigate poverty, women empowerment and to bring financial inclusion in India, for aid of those who are excluded from such aids. The significance of micro credit in the developing countries like India cannot be challenged, as it plays a significant role for economic and social development of low income individuals and poor. About 146 million households are excluded from the formal banking system in India, which one of the highest, in terms of number. According to January 2016, only 75,000 villages have access to financial system out of 600,000 villages of India. Therefore, the opportunity still exists for the microfinance Institutions to provide small credit to low income groups and individuals, and hence paving the way of reduction in poverty. There is an urgent to uplift the capability of Microfinance Institutions so as to increase its outreach, boost overall performance and reduce costs. This can be achieved through product requirements, technological innovations and other ongoing determinations Henceforth, rigorous efforts is the need of the hour to find diverse sources for funds and to attract foreign direct and indirect investments. These investments will help the microfinance institutions help cater the needs of the rural people, mitigate poverty and help in advancing them.

Past 1990s, both at international and national levels, reduction of poverty have become a prime priority. The availability of financial resources has serious influence over the economic and social development of any country.

Microfinance can be regarded as a form of an institution which provides wide variety of financial services such as payment services, loans, deposits, micro-credit, insurance, savings, money transfers, etc. to economically weaker sections of the society. A well-equipped and well developed financial system helps to induce savings in that country and opens up opportunities for numerous investments. Hence it is necessary on the part of Government of India to extend the range of their financial services to both urban and rural areas so as to bring sustainable growth within the country. Over the past 2 decades Microfinance Institutions are playing a significant role in rural areas. Both the central government and state governments should take necessary steps to make people aware of the services provided by the Indian Government and Microfinance Institutions, so as to encourage them to utilise their entrepreneurial skills, improve their economic status and enhance their standard of living.

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