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Comparitive Study of Microfinance Institutions in India

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ABSTRACT: *The point of the examination is to comprehend the working of microfinance, explanations behind the destruction in the execution and its commitment towards monetary advancement. This paper investigates the budget report of two microfinance organizations. The microfinance organizations have contributed a ton towards the general upliftment of individuals living in provincial zones. The microfinance organizations additionally give assets to poor people (particularly focusing on ladies in the general public) and different other money related and non monetary administrations. The money related execution of the chosen organizations has been broke down dependent on couple of techniques. The issue looked by MFIs has been featured and answers for defeat such issues have been brought out.*
KEYWORDS: *Microfinance, MFTs, India, Poor, People*

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I. INTRODUCTION

Microfinance foundations help in activating the accessible assets so as to encourage budgetary help to the poor essentially to decrease their poverty. Financial organization is a body that gathers cash from different sources and places them into different resources, for example, bonds, stocks, credits or bank stores with the rationale to win benefits as premium and profit. They go about as a middle person body between moneylenders and borrowers, or savers and financial specialists. There are different budgetary establishments in the market with the target of giving monetary help to different associations however one of the critical money related organizations can be microfinance foundations, since its primary goal is to give monetary help to poor ranchers, independent company and family ladies. Because of presentation of microfinance foundations the poor area of the general public was given budgetary help to enhance their monetary and financial circumstance. Microfinance establishment assumes imperative job for neediness lightening in creating nations like India. In mid 1960s the interest of the corporative saving money part was in charge of meeting the credit require in the rustic territories of India, because of mechanical upgrade in the rural area, it was normal that business banks would assume a crucial job in giving credits through its branch extension and direct loaning. One of the significant reasons of the nationalization of business bank in mid 1960s was to improve the stream of budgetary credit to provincial family units by misusing middle people and cash loan specialists and so forth.

II. REVIEW OF LITERATURE

- (Sunitha, 2014) The researcher in this research paper talk about the percentage of people who do not access to the financial services and bank facilities in India (50000 out of 6 lakh villages in India) and researcher also talks about the importance of credit loans to the poor as compared to subsidies provided by the government and the problem faced by the poor due to non-availability of financial services in the backward areas forcing them to borrow from moneylenders with high interest and pushing them into debt trap. The researcher also talks about the sanction of loans by MFIs in a group which is known as JLG (Joint Liability Group).
- (Radhakrishna, 2012) In this research paper the researcher talks about the rapid growth in the expansion of MFIs in India and how there is a change in the functioning of MFIs which has turned into accelerating the improvements in governance, responsible finance practices and regulatory capacity. The community based micro finance institutions showed a positive impact on the performance of the MFIs. The importance of SHGs (Self Help Group) in facilitating funds amongst poor and has reduced the burden from MFIs and other banking sectors is also discussed.
- (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.

- (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 specialised 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.
- (Agarwal & Sinha, 2010) In this the researcher talks about the problems faced by microfinance institutions due to absence of dedicated legislation on working and management of microfinance institutions and even talks about the non-financial parameters been opted to measure the performance of MFIs. The researcher also says that how MFIs are used as tool for the introduction of new government policies and schemes to facilitate poor in much better way and concludes that most of the best performing MFIs have adopted various business models for its survival and sustainability.

III. RESEARCH DESIGN:

Title:
"Comparative studies of Microfinance Institutions in India"
Statement of problems:

The MFIs need lots of financial assistance from various other banking industries for lending activities. One of the biggest confront faced by the MFIs is high transaction and operating cost. The institution provides financial support to client at low interest rate which has been proven as a challenge behind the survival of the MFIs with the non-profit motive there is a decline in the growth rate of these institutions. As MFIs companies provide financial assistance with lower collateral to the client which stops MFIs to facilitate them with various other financial services. The biggest challenge faced by the MFIs is the misappropriation of funds allocated to the clients. One of the reasons behind the failure of MFIs institutions is because of poor rules and regulations framed by the government.

Objectives:

- To understand the functioning of MFIs.
- To study the failure of few microfinance institutions.
- To study the comparative financial data of the selected companies with quantitative and qualitative approach.

Methodology:

For making the comparative studied of MFIs companies the data has been collected from the authorized websites for the period 2015-2016 to 2017-2018.
To satisfy the objective of research the following strategies would be used:

Profitability ratios (Quantitative approach):
• **Return on assets ratio**: ROA ratio is also called as return on total assets; this ratio indicates the total percentage of profit of a company in relation with overall companies' resources. Higher Return on Asset ratio is more favourable for the investors. This ratio helps the management and investors of the company to find how well the company is converting its investment in assets into profits. It is calculated as follows:
Return on assets ratio= Net Income/Average Total Assets*100
• **Capital Employed**: It is the total value of all assets employed in the business. It is calculated by subtracting Current liabilities from the total assets.
Capital Employed = Total Assets-Current Liabilities
• **Return on Investment ratio**: This ratio indicates the amount the return earned (based on Profit before tax) on the amount invested in the company. It is calculated as follows
Return on Investment ratio (ROI) = Profit before tax/Capital Employed*100

❖**Shareholders Ratio:**
• Earnings per Share= Net income available to shareholders/ no of shares outstanding.
❖**Net worth:** Net worth is the amount by which the total assets exceed by its liabilities (total liabilities – current liabilities). Net worth includes its long term liability and excludes current liabilities and other liabilities.
Net worth=Total Assets- Liabilities

❖**Profit after Tax**: It's the amount of profits earned by company after deducting the total amount of tax paid.

Qualitative Approach:
- Government policies
- Institutions rules and regulations
- Competition
- Diversification

Sources Of Data Collection:

For this research purpose secondary data would be used. Data has been collected from the RBI Annual reports, Companies Annual report, Economic Times, Economic Diary, Economic Survey, World Bank report and internet etc.

IV. DATA ANALYSIS

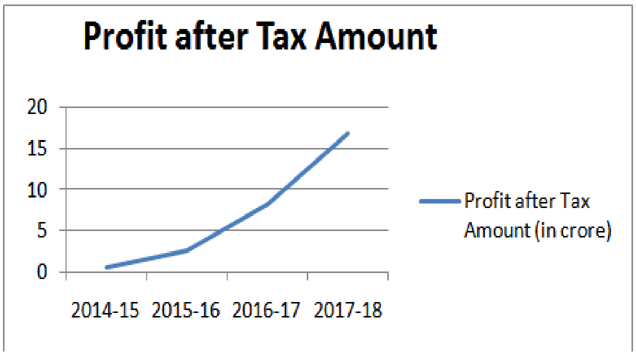
quantitative approach

1. s.m.i.l.e. :

Profit after Tax:

Profit after Tax:

Year	Amount (in crore)
2014-15	00.59
2015-16	02.68
2016-17	08.34
2017-18	16.84

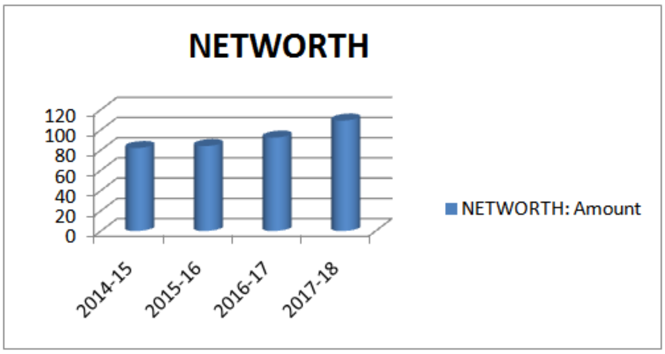


Assets turnover:

YEAR	Sales (Amount in crore)	Total Assets (Amount in crore)	Sales/ Total Assets
2014-15	42.6138	179.5524	0.2373
2015-16	35.4081	244.4477	0.1448
2016-17	67.7046	406.9356	0.1664
2017-18	99.6204	564.2931	0.1765

Networth:

Year	Amount (in crore)
2014-15	82.0947
2015-16	84.0392
2016-17	92.3813
2017-18	109.2165

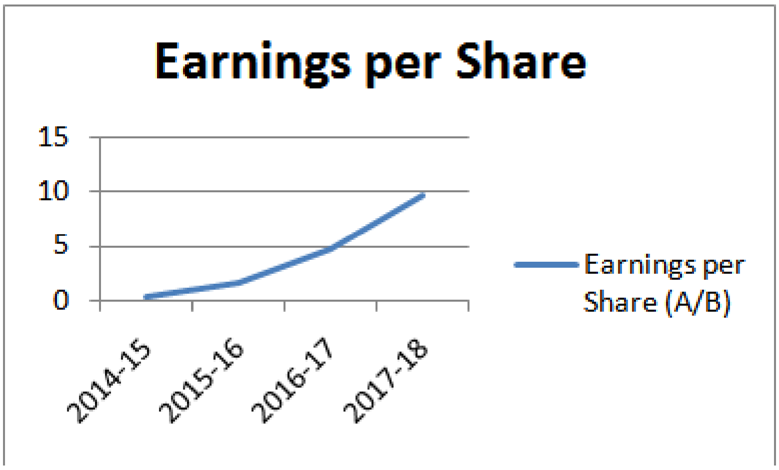


Return On Investment:

YEAR	Total assets (A)(amount in crore)	Current liabilities(B)(amount in crore)	Capital employed(C) (A-B) (amount in crore)	PBT (D) (amount in crore)	ROI (C/D)
2014-15	179.5524	72.3516	107.2008	0.5478	195.69
2015-16	244.4477	106.9312	137.5165	4.0169	34.23
2016-17	406.9356	139.5479	267.3876	14.0771	18.99
2017-18	564.2931	197.9247	366.3684	24.5301	14.94

Earnings Per Share:

Year	Net profit after tax (A)(in crore)	Number of shares outstanding (B) (in crore)	Earnings per Share (A/B)
2014-15	0.5892	1.7339	0.3398
2015-16	2.6749	1.7339	1.5427
2016-17	8.3421	1.7339	4.8110
2017-18	16.8351	1.7339	9.7090



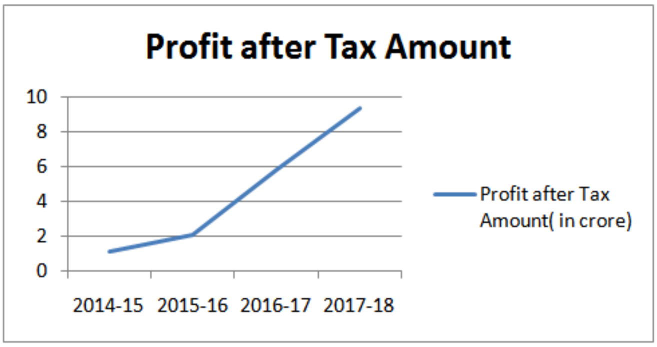
In the financial year 2014-2015 s.m.i.l.e. had net worth of Rs 82 crore, and gradually their net worth has increased to Rs109.2 crore for the year 2017-18. Each year the net worth of the company has increased. The revenue of the company is around Rs 100 crore in the year 2017-18. The asset turnover of the company had fluctuation in the year 2014-15 the asset turnover was 0.2353, later it was 0.1765 in the year 2017-18. EPS is important fundamental tool to analyze company's profitability. The EPS breaks down companies' profits on per share basis. The EPS was Rs 0.34 in year 2014-15, but in the year 2015-16 it was Rs 1.54 and later it increased to Rs 9.7 in the year 2017-18. The company's return on Investment in the year 2014-2015 is 195.69 whereas there has been decrease in ROI in 2017-2018 to 14.94. Profit after tax in the year 2014-2015 is Rs 0.6 crore there has been increase in profit in 2017-2018 to Rs 16.83 crore.

2. Village Financial Services Ltd :

Profit after Tax

Profit after Tax

Year	Amount (in crore)
2014-15	1.0949
2015-16	2.0800
2016-17	5.8680
2017-18	9.3630

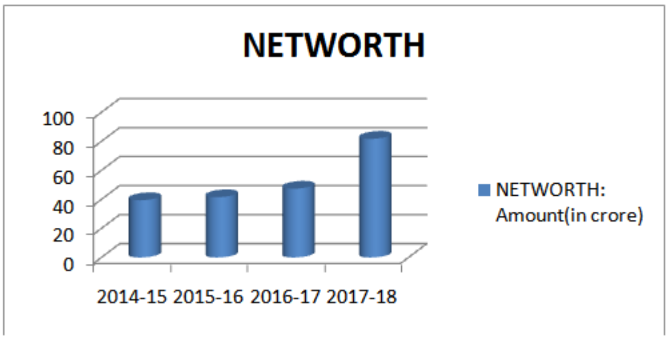


Assets turnover

YEAR	Sales (Amount in crore)	Total Assets (Amount in crore)	Sales/ Total Assets
2014-15	25.3927	135.9017	0.1868
2015-16	42.3110	296.9370	0.1425
2016-17	74.4612	458.4002	0.1624
2017-18	111.5524	737.2920	0.1513

NETWORTH:

Year	Amount(in crore)
2014-15	39.4434
2015-16	41.5235
2016-17	47.3916
2017-18	81.7547

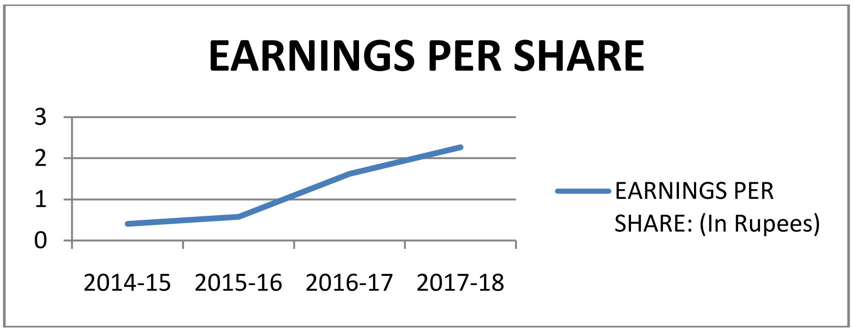


RETURN ON INVESTMENT:

year	Total assets (amount in crore)(A)	Current liabilities amount in (crore)(B)	Capital employed(amount in crore)(C) (A-B)	Profit before tax (amount in crore)(D)	ROI (C-D)
2014-15	135.9017	67.4513	68.4504	2.0725	33.03
2015-16	296.9370	141.7766	155.1604	3.8324	40.49
2016-17	458.4002	239.9223	218.4779	9.4098	23.22
2017-18	737.2920	379.5308	357.7611	15.1819	23.56

EARNINGS PER SHARE:

Year	Net profit after tax (amount in crore)	Number of shares outstanding (amount in crore)	Earnings per Share
2014-15	1.0949306	2.7134638	0.4035
2015-16	2.0800711	3.6179517	0.5749
2016-17	5.8680688	3.6179517	1.6219
2017-18	9.3630520	4.1348020	2.2644



In the financial year 2014-2015 village financial services had net worth of Rs39.44 crore, and gradually their net worth has increased to Rs81.75 crore for the year 2017-18. Each year the net worth of the company has increased. The revenue of the company has increased to Rs111.8 crore in the year 2017-18. Every year there is an increase in revenue of village financial services. The asset turnover of the company had fluctuation in the year 2014-15 the asset turnover was 0.1868, gradually it increased to 3.1624 in the year 2016-2017, in the year 2017-18 it was decreased to 0.1513. EPS is important fundamental tool to analyze company's profitability. The EPS breaks down companies' profits on per share basis. The EPS was Rs0.4035 in year 2014-15, but in the year 2016-17 it was Rs1.6219, but in the year 2017-18 there is an increase in the earning per share of the company to Rs2.264. The company's return on Investment in the year 2014-2015 is 33.03 whereas ROI in 2017-2018 is 23.56. Profit after tax in the year 2014-2015 is Rs1.0949 crore there has been increase in profit in 2017-2018 to Rs9.3630 crore.

V. QUALITATIVE APPROACH

Theoretical approach of analyzing company's performance basically means the external and internal factors other than financial data that affects the performance of the companies. There are few external and internal factors taken into consideration for the evaluation of the performance of companies.

1. Government policies:

Control of the microfinance business to date has pursued an unpleasant example in which organizations depending on other individuals cash (e.g. benefactor bolstered NGOs) are lawfully enrolled, be that as it may, not be controlled or directed; organizations utilizing individuals' cash (e.g. banks) are liable to prudential control and supervise. The changing idea of the microfinance business in particular the push toward store preparation requires administrative change to keep up the prudential honesty of the money related framework.

2. Competitions:

The competition enhances the performance of the MFIs. Due to increase in the competition amongst MFIs borrowers are getting better services and better facilities to improve their economical situation. Due to increase in the competition amongst the MFIs companies, MFIs companies have started managing their operational cost but not the cost of borrowings. It has been proved by the researcher that this rise in the competition also has a negative impact on the company's overall profit percentage.

3. Institutions rules and regulations:

One of the factor the affects the performance of the MFIs companies are the internal rules and regulations of the institution itself. The internal rules and regulations affect the performance as well as the overall profit of a company. It has been noticed that MFIs are not taking appropriate records and data because of nit availability of better facilities which affects the organizations performance and leads to lack to information of the clients. It has been proved by the researcher that better internal rules and regulations will improve the performance of the MFIs.

4. Diversification:

There diversification means the services and activities performed by the MFIs company other than the main objective. It has been noticed that nowadays MFIs are indulged in various other services like consultancy, advisors services and many other services as well. It has been noticed that these services has helped in the improvement of the MFIs companies. But it has been noticed that due to diversification the MFIs companies have been diverted from their main objective which is to provide financial assistance.

Comparison between S.M.I.L.E. Microfinance Ltd and Village Financial Services Ltd

In financial year 2014-2015 the net worth S.M.I.L.E Ltd stood at 82.1 crore in the FY 2014-15 and their net worth in the year 2017-18 is 109.22 crore, the company has shown a tremendous growth in the net worth. and Village Ltd with net worth of 39.44 crore in the FY 2014-15 and net worth of 81.75 crore for the FY 2017-18. Ltd has showed decrease in the profit from 10.4 crore to (32.3) crore. We have found that S.M.I.L.E Ltd has highest in net worth and also more branches as compared to other MFI. Profit after tax of all four companies has increase in the year 2017-18Among all four S.M.I.L.E has the highest profit and the least Revenue earning company compared to all four financial institutions is S.M.I.L.E Ltd Ltd. The Return on Investment of all the two MFIs have decreased in FY 2017-2018 compared to FY 2016-2017, decrease in return on investment means the companies are not able to generate enough profits through investments made. In other hand the Return on Investment of another two companies has increased. The EPS of all three MFI's have increased in FY 2017-18 as compared to FY 2016-17 which indicates that companies are able to manage its assets for the purpose of generating profits.Both Return on Investment and Return on Asset of all the three Microfinance companies have increased in 2017-2018 compared to 2016-2017.

VI. FINDINGS & SUGGESTIONS:

From previously mentioned task we get think about financials execution of microfinance organizations' by breaking down information for four periods. We have discovered that S.M.I.L.E Ltd has most elevated in total assets and furthermore more branches when contrasted with other MFI.. Benefit after expense of each of the two organizations has increment in the year 2017-18Among every one of the four S.M.I.L.E has the most elevated benefit and the minimum Revenue gaining organization contrasted with every one of the two money related establishments is S.M.I.L.E Ltd The Return on Investment of all the two MFIs have diminished in FY 2017-2018 contrasted with FY 2016-2017, decline consequently on speculation implies the organizations are not ready to create enough benefits through ventures made. In other hand the Return on Investment of another two organizations has expanded. The EPS of each of the two MFI's have expanded in FY 2017-18 when contrasted with FY 2016-17 which demonstrates that organizations can deal with its advantages to generate benefits when contrasted with earlier year separated from.

VII. CONCLUSION:

Micro-credit aims to provide lifeline to borrowers by providing loans at lower interest rates thereby reducing the need of moneylender and improving the standard of living. If India wants to move from developing to developed countries, the poverty alleviation and reduction of income inequality are to be of most priority. The MFI's industry has great potential andcan bring about economic development in country by focusing on rural class. The MFI's sector has further growth and should thereby ensuring regulatory framework for smooth functioning by the support of the government. The MFI's are meeting vertical and horizontal axis for upliftment of society. The paper focuses on analyzing the position of two financial institutions and their performance from FY 2014 to 2018.

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