A Study on Performance Evaluation of Microfinance Institutions in India– An Empirical Analysis

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Abstract
Microfinance refers to small scale financial services for both credits and deposits that are provided to people/ firms, who operate at small level and their needs, are confined to small amount of money. Although India has a vast network of banking organizations for catering financing needs of individuals and firms still the demand for funds has remained unfulfilled over years. Over years micro financial institutes have emerged like an important alternative source of financing other than banks by providing easy funding at convenient terms especially in rural areas. Micro finance operate through two main channels in India that are Banking system through the SHGs under Self Help Group-Bank Linkage Programme (SHG-BLP) and joint liability group- JLG bank lending program and Micro Finance Institutions (MFIs) lending through individual and group approach. Recent studies revealed that SHG-BLP which is world largest micro financial programme has covered approx. ten crores of households with 85 SHG with the deposit of Rs. 16114 crores and annual loan off take of Rs. 38800 crores with outstanding loan amounting Rs 61600 crores (NABARD report 2016-17) while on the other hand microfinance industry has total loan portfolio at Rs 106,916 Cr. As on March 31, 2017 as per MFIN report –Micrometer 2017. So the main objectives of this paper are to study the growth pattern and outreach of Microfinance Institutions in India. Further the study focused upon evaluating the performance of selected Micro Financial Institutions based upon their Gross lending Portfolio and Outstanding Loans using cross tabular studies and one way ANOVA. The technique used to identify if there exist a significant difference in the mean performance of select MFIs. The data collected for the study includes secondary data. The various sources used for collecting secondary data include research papers, journals, Status of Microfinance in India reports published by NABARD, MFIN reports etc.

Key Words: *Micro Financial Institutions, Self help Groups, Gross Lending Portfolio, Non performing assets*

Introduction

Access to financial services has been a big challenge for low income people in developing and under developed countries since long. This need gave emergence to such organizations which could offer easy financial services to low income category customers. It has been names as micro financial institutions (MFIs). Microfinance in India started in the late 1980s It Primary function of such organizations is to impart loan to their members and accepting deposits, few of them also

provide insurance and other services. These organizations basically focus upon customized approach to serve their clients, especially those who lack access to financial service from formal sources.

Bank and other financial institutions provide financial support to MFIs for further offering financial help to poor and financial needy people. Basic target clients of MFIs are villagers, micro entrepreneurs, indigent women and poor families.

In India microfinance functions through SHGs under Self Help Group-Bank Linkage programme and Micro Finance Institutions (MFIs) lending through individual and group approach.

Literature Review

Cherry S N et.al (2014) made a comparative performance analysis of top performing micro financial institutions based on their yield on GLP and concluded that five of them were earning better return than other MFIs as their yield were recorded above the industry aggregated average of 23.93%.

Sayed G and Trevedi P in their study discussed the role of MFIs in financing MSMEs. The study basically observed that 57.6% of respondents are satisfied or very satisfied with the products offered by Microfinance Institutions. The findings also revealed that most of the respondents in this study reported that their business had expanded and their income and physical assets had increased significantly as a result of having taken microfinance loans.

Bi Z and Pandey S L (2011) in their study compared MFIs with commercial banks based upon financial structure, Profitability and Efficiency. They found that there was no significant difference in the debt equity ratio, profitability ratios (Return on asset, return on equity and net profit margin ratio) of public sector, private sector banks and MFIs in India although There was significant difference in the operating expenses to total assets ratio of commercial banks and MFIs at 5% level of significance

Tiwari, A. (2012) in his study compared lending pattern between India and Bangladesh. The study basically highlighted profitability and operational excellence of Indian MFIs in comparison to Bangladesh.

Most of the studies have discussed the role of MFIs towards funding small enterprises and growth pattern of MFIs but very limited literature is available regarding performance of small, medium and large MFIs within this sector. So basically this study focused upon revealing the comparative performance of various categories of MFIs and proportionate contribution of selected top performing MFIs in total business outreach.

Objectives of the Study

1) To make a comparative analysis of small, medium and large MFIs and contribution of selected MFIs in terms of their outreach and lending portfolio for the last three consecutive years.
2) To assess the performance of micro financial institutions using yield on gross portfolio for last seven years

Scope of the Study: MFI has been categorized into three parts i.e. small medium and large based upon their gross lending amount. MFI with GLP < Rs 100 Cr is termed as small, MFIs with GLP > Rs 100-500 Cr has termed as medium and GLP > Rs 500 Cr has been defined as large MFIs. Currently (As on March 2017) there are 7 small, 20 medium and 14 large MFIs. 8 micro financial banks have been converted into small financial bank with the approval received from RBI. So study covers the data reported by 41 micro financial institutions with Micro Financial Institutional Network (MFIN). Outreach of the MFIs has been accessed in term of their branches, clients, gross lending portfolio; loan amount disbursed etc. further the proportionate contribution of selected MFIs has been calculated. Top 10 performing MFIs (BFIL, Satin, GK, Muthoot micro finance, Ashirvad, Spandana, Annapurna, Sonata, Arohan, Fusion) based upon their GLP at the end of March 2017 has been selected for analyzing their performance and their contribution.

Table-1 **Branches**

	Small	**Medium**	**Large**	**% contribution of top 10**
FY 14-15	59 (2)	723 (20)	2,750 (78)	74.18
FY 15-16	98 (2)	1,014 (21)	3,683 (77)	73.7
FY 16-17	141 (2)	1,422 (23)	4,783 (75)	71.38

Source: Microscape report 2016-17
*Numbers in bracket indicate the proportion of small, medium and large in total

In terms of outreach MFI's in F.Y. 2014-15, 15-16 and 16-17 more than 71% branches are associated with top 10 MFI's. There is a steady growth in the number of branches over years. In F.Y. 2014-15 there were 3532 which increased to 6346 in F.Y. 2016-17. (Increase of 80% growth)

Table-2 Clients (Cr)

	Small	**Medium**	**Large**	**% contribution of top 10**
FY 14-15	0.01 (1)	0.13 (13)	0.83 (86)	81.44
FY 15-16	0.02 (1)	0.2 (14)	1.2 (85)	81.69
FY 16-17	0.02 (1)	0.26 (15)	1.51 (84)	81.01

Source: Microscape report 2016-17
*Numbers in bracket indicate the proportion of small, medium and large in total

In terms of outreach MFI's in F.Y. 2014-15, 15-16 and 16-17 more than 81% of the clients are associated with top ten MFI's. In the F.Y. 2014-15, there were .97 crore clients which increased to 1.42 crore and 1.79 crore in 2015-16, 2016-17 respectively, that indicating the growth of 47% & 27% respectively. Out of the total clients just 1% has been associated with small, 15% medium and 84% large. The proportion of clients in selected MFI's is around 81% itself.

Table-3 Gross lending Portfolio (Crores)

MFIs (All)	**Small**	**Medium**	**Large**	**% contribution of top 10**
FY 14-15	129 (1)	1348 (10)	12,264 (89)	83.24
FY 15-16	282(1.1)	2,867 (11.5)	21,880 (87.4)	79.86
FY 16-17	326 (1)	3,811 (12)	27,504 (87)	78.19

Source: Microscape report 2016-17
*Numbers in bracket indicate the proportion of small, medium and large in total
In F.Y. 2016-17 GLP decreased by 112% in small,80% in medium and 52% in large scale industries as comparison of F.Y. 2015-16.In total contribution of top ten MFI's decreased by 51% in F.Y. 2016-17 as comparison to F.Y. 2015-16. In F.Y. 2015-16 total contributions in term of GLP of top ten MFI's increased at the rate of 75% which slight down to 24% in the subsequent year.
As per current regional distribution of portfolio (GLP), south accounts for 31% of the total industry portfolio, north for 27%, west for 24%, and east for 18%. Top five top states, viz. Karnataka, Tamil Nadu, Maharashtra, Uttar Pradesh and Madhya Pradesh account for 54% of glp (Report of micrometer 2017)

Table-4 loan amount disbursed (Cr)				
	Small	**Medium**	**Large**	**% contribution of top 10**
FY 14-15	164 (1)	1764 (9)	17,039 (90)	85.17
FY 15-16	310 (1)	3,462 (11)	27,306 (88)	81.88
FY 16-17	353 (1)	4,380 (11)	34,798 (88)	81.20

Source: Microscape report 2016-17
*Numbers in bracket indicate the proportion of small, medium and large in total

Figure- Top MFIs in terms of GLP (in crores) Source: Report of Microscape 2016-17

As indicated in the above table 4 average loan disbursed per account has increased over years. Total loan disbursed in FY 2016-17 was registered at 39,532 crore indicating a YoY growth of 27 percent compared to YoY growth of 64% in previous year so there was a fall of 57.8 percent in the growth rate of loan disbursed through MFIs. Further proportionate contribution of small, medium and large MFIs in total loan disbursement is 0.89, 11.08 and 88 percent respectively. Moreover average loan disbursed per account has also increased over years steadily.
Figure 2 indicates that although average loan outstanding per client has increased for all small (20%), medium (27%) and large MFIs (17%) since FY 2014-15 to FY 2015-16 but a small proportional fall has been registered in small and medium MFIs indicating their better performance.

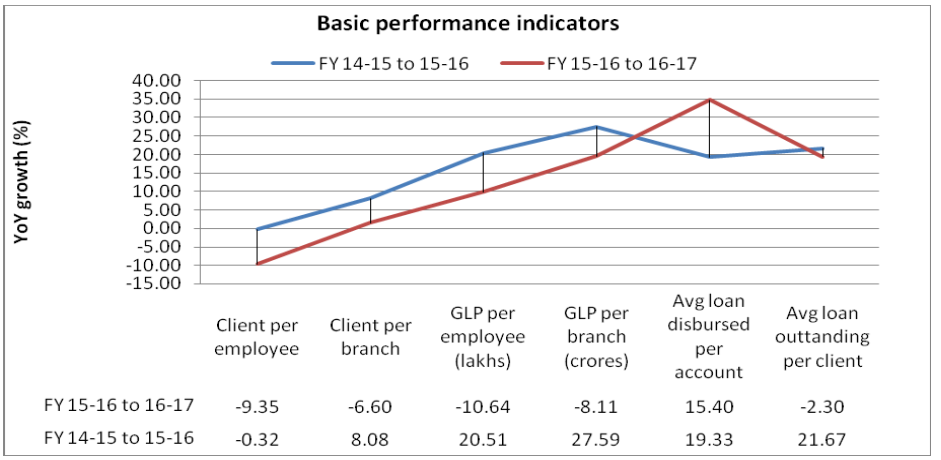

Figure-2 Basic Performance Indicators

Gross non performing asset of MFIs as on March 31, 2017 stood at 2.38% which is significantly higher than the NPAs of preceding two years. The proportion of gross nonperforming assets of medium MFIs is at 0.91 % as compared to 1.19% and 2.61% of small and large MFIs indicating the better performance over and above rest two.

Performance Analysis of last seven years

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.663	2	1.831	.248	.783
Within Groups	132.865	18	7.381		
Total	136.527	20			

As p value > 0.05 (i.e.0.783). This shows that there is no significant difference between the yield on gross lending portfolio of small, medium and large MFIs. None of the MFI categorized on their GLP has been able to extract more return over other.

Multiple Comparisons- LSD						
(I) firm	(J) firm	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1	Medium MFI	-.81286	1.45223	.583	-3.8639	2.2382
	Large MFI	-.94429	1.45223	.524	-3.9953	2.1067
2	Small MFI	.81286	1.45223	.583	-2.2382	3.8639
	Large MFI	-.13143	1.45223	.929	-3.1824	2.9196
3	Small MFI	.94429	1.45223	.524	-2.1067	3.9953
	Medium MFI	.13143	1.45223	.929	-2.9196	3.1824

Using LSD Multiple comparison post Hoc test, inferences can be drawn that there is no significance between small, medium and large MFIs in term of their yield on gross lending

Conclusion

The study concluded that in term of outreach, MFIs has registered a growth of 32 % in terms of branches opened, 27 % in term of clients and approximately 43 % for employees. In all growth of small and medium MFIs is more than that of large MFIs. Gross loan portfolio increased by 26% although the proportion of GLP of small MFIs has been confined to just 1 percent in FY 2016-17 and has least registered growth. Again the performance of Small MFIs in terms of proportionate growth in loan accounts and loan amount disbursement has been very less than other MFIs indicating a big challenge for them. The sector is basically dominated by top 10 performing MFIs who are accountable for performance of more than 80% outreach in terms of branches, clients, and loan disbursed. Among NBFC-MFIs, BFIL topped the list with gross loan portfolio of Rs. 9,150 crores in FY 16-17. In FY 16-17 top 10 MFIs in terms of GLP contributed 78% of the portfolio. Comparing small, medium and large MFIs based upon their yield on GLP, no significant difference has been noticed at 5% level of significance In spite of everything the coverage of MFIs is confined to just 32 states/ union territories in India where in just 19 states have more than 5 MFIs only. Approach in eastern area is very limited up to just 18% of GLP in industry portfolio wherein south region has the maximum coverage.

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