



A study on performance appraisal of selected microfinance institutions in Gujarat

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Abstract

Microfinance primarily has been a form of voluntary help to most poor population. Although, today it represents a market solution to mitigation of poverty and acts as a development and economic tool in taking about financial inclusion in India. Microfinance has emerged as a supportable alternative to reach the before unreached for their social and economic empowerment through social and financial intermediation. Various types of services provided by the microfinance institutions such as savings, credit, insurance and remittance services to poor. The study aims at analyzing the financial performance of MFIs in Gujarat. The data have been collected from the Microfinance Information Exchange from the financial year 2013 to 2018. The statistical tools, i.e., Descriptive statistics and growth rates have been used for analyzing the data in terms of overall financial performance.

Keywords: financial performance, microfinance, MFIS

Introduction

Finance is an unusual effective tool in spreading economic opportunity and belligerent against poverty. Entrance to finance allows the poor to use their rich talents or open avenues for greater opportunities. Providing continuous credit services is one of the means to increase income and efficiency of poor. Though the banking system in India witnessed unprecedented growth and achieved phenomenal outreach, notwithstanding this, empirical studies in the 1980s have revealed that a very large number of poorest of the poor continue to stay separate the reach of formal banking system. It is understood that existing banking policies, procedures and system not have been well appropriate to meet the credit needs of poor. And, it is in this situation micro finance has come as a solution. Starting with the Grameen bank founded by Mohammed Yunus in 1970s microfinance represented a method of lending that is to be tailored specifically to the world's poorest population. Microfinance initially has been a form of voluntary help to the most deprived population. Conversely, today it represents a market solution to alleviation of poverty and deeds as a development and economic tool in conveying about financial inclusion in India. The organisations that are providing microfinance services such as savings, credit, insurance and settlement services to poor are called Microfinance Institutions (MFIs). MFIs have come up as a association between banks and poor, whose only source of credit has so far away been the money lender.

In India, microfinance largely activates over and done with Self Help Group (SHGs), Non-Government Organizations (NGOs), as well as Credit Agencies. It delivers poor persons with the earnings to find their own way out of poverty. It place the power exactly in their hands, giving them a larger stake in their own achievement than one-time contribution of food, goods, or cash. The advantages of Government for

poverty alleviation could not succeed to the anticipated level, may be due to the fact that they do not take awareness of power of the poor to deal with their own problems.

Review of Literature

In the past, Many Organizations and individuals conducted numerous studies on the various aspects of the working women investor. These studies were mainly related to financial behaviour of working women with reference to investment, risk and return, however, not much of research was done on investment patterns and perception of women in Rajkot city. So an effort is made to review some of the studies related to the topic in order to get into the intensity details of the chosen study.

Pooja Maken & Dr. Shashi Shekhar (2017) in their paper revealed that the financial performance of Punjab national bank and HDFC bank is measured by a number of key indicators with reference to total income, deposits, advances, net profit and investment etc.

Jonathan Morduch (1999) concluded that the microfinance movement has made inroads around the world. In the process, poor households are being given hope and possibility to improve their lives through their own labour. The microfinance movement has also lifted the profile of NGOs. While government failures become increasingly evident, NGOs have had the energy, dedication, and financial resources to pursue required legislative changes and Institutional experimentation.

Joanna Ledger wood according to him this handbook focuses on the institutional and financial aspects of microfinance. A comprehensive source for donors, policymakers, and practitioners, the handbook first covers the policy, legal, and regulatory issues relevant to microfinance development and subsequently treats rigorously and in depth the key elements in the process of

construction viable financial institutions with effective outreach to the poor. Marguerite S. Robinson the Microfinance Revolution views microfinance from the commercial or financial systems perspective. Robinson sets microfinance in its correct place as one important tool in the 'poverty mitigation toolbox.

Objectives of the Study

- To analyses the growth rate of Selected MFIs in Gujarat. To study about how the Microfinance benefited to the society.
- To evaluate financial performance of selected MFIs in Gujarat.
- To study the characteristics, working method, different schemes, major activities, different Models, rates of interest, functions, & performance of selected MFIs.
- To learning the Brief Profile of Select Microfinance Institutions.
- To study the development of microfinance service in Gujarat.

Research Methodology

The research design of a study outlines the nature of information required for the purpose of the study, the method of data collection, the technique used for the analysis and interpretation of the data for the study.

Data Collection

Data is the basic input to every decision making practice in a research study. The data can be classified into primary and secondary data. The data which is collected from the pitch under the control and supervision of the investigator is known as primary data whereas the data collected from books, journals, magazines, government publications, annual report of companies etc. is recognized as secondary data. The reliability of decisions depends on the quality of data and the quality of data can be expressed in terms of representative feature of the reality which can be ensured by appropriate data collection method. And so the entire research study has purely based on secondary data. The relevant secondary data have been collected, analysis and interpreted from annual report of respective banks websites, official source of Reserve Bank of India, official website of selected microfinance institutions, various research journals,

government publications, reference books, magazines, newspapers and together with internet etc.

Sample Design

The area of microfinance institution in India is very large, so it is not possible to measure the performance of whole population. For the present study, non-probability convenience sampling technique is used to get sample from universe. From all over the India seven (7) Microfinance Institutions (Non-Banking Finance Company) are being selected which includes MI situated in Gujarat State and some other which are not situated in Gujarat but their branch office is situated in Gujarat, both are considered in this research work. Among the whole MFIs in India on the basis of geographical area the Gujarat state is being selected as the population of the study to represent an overall picture of the state of Gujarat. The list of selected Non-banking finance company (MI) is given in below:

1. Arman financial services limited
2. Ujjivan financail services limited
3. Swadhaar fineserve pvt ltd
4. Spandana spoorthy financial limited
5. Pahal financil services private limited
6. Janalakshmi financial services private limited
7. L & T Finance Limited

Period of the Study

The reference period of the study is to be 6 year which starts from the financial year 2013-14 to 2017-18.

Discussion & Analysis

To know the financial performance of microfinance institutions in Gujarat various types of statistical tools and techniques were applied. These samples were analyzed and interpreted. Tables were drawn on the basis of percentage method, average, standard deviation and covariance.

Financial Performance of MFIs in India

Financial performance appraisal is the process of ascertaining the financial strengths and weaknesses of the firm by suitably establishing the relationship between the items in statements. It also helps in short-term and long term estimating. Growth can be recognized with the help of financial performance analysis. Understanding the financial performance helps to increase profitability and sustainability of MFIs.

Table 1: Profitability Indicators of Microfinance Institutions

Profitability Indicators	Return on Assets	$(\text{Net operating income-taxes})/\text{average total assets} * 100$
	Return on Equity	$(\text{Net operating income-taxes})/\text{total equity} * 100$
	Operational Self-Sufficiency	$\text{Operating income}/(\text{financial exp}+\text{operatingexp}+\text{loan loss provision}) * 100$
	Profit Margin	$\text{Net operating income}/\text{Totalrevenue} * 100$
	Return on Capital Employed	$\text{Net operating profit}/\text{Capital employed} * 100$

Return on Assets

Return on assets (ROA) ratio is an indicator of how profitable a company is relative to its total assets. ROA givesan idea to manager, investors, or analyst to how proficient a company's management is at using its assets to

generate earnings. Return on assets is revealed as a percentage.ROA is best used when associating similar companies or comparing a company to its previous performance.

Table 2: Return on Assets Ratio (%)

Year	Ujjivan	Swadhaar	Spandana	Pahal	Janalakshmi	Arman	L&T
2013	2.9	1.02	-42.9	0.6	1.7	4.5	5.5
2014	3.2	0.4	2.8	1.2	2.8	4.4	3.01
2015	2.5	0.8	4.6	1.7	2.01	1.7	2.07
2016	3.7	1.9	10.9	1.5	1.9	3.1	1.9
2017	5.5	5.2	2.3	1.2	2.9	3.04	0.08
2018	0.02	NA	5.7	-3.1	NA	2.7	0.7
Average	2.97	1.55	-2.77	0.52	1.89	3.24	2.21
S.D	1.78	1.90	19.90	1.81	1.05	1.06	1.92
C.V	60.07	122.19	-719.28	350.41	55.49	32.83	86.79

(Source: Compiled from the Annual Reports of the MFI)

Table-2 Depicts that ARMAN is good in Average (3.24%) than the average of remaining all MFI during the study period. All this certify that ARMAN stand better than all other MFI in view of (ROA) and also its use its assets very efficiently to generate earnings of company.

Return on Equity

Return on equity (ROE) ratio is a measure of financial

performance calculated by dividing net income by shareholders' equity. For the reason that shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets. ROE is reflected a measure of how effectively management is using a company's assets to generate profits. A good or bad ROE will be contingent on what's normal for the industry or company peers.

Table 3: Return on Equity Ratio (%)

Year	Ujjivan	Swadhaar	Spandana	Pahal	Janalakshmi	Arman	L&T
2013	10.5	2.6	-1.16	3.7	9.5	14.8	29.3
2014	14.8	2.8	-6.4	5.9	9.9	10.5	16.1
2015	10.3	2.1	1.04	12.2	7.02	8.09	13.6
2016	14.8	2.1	132.1	9.9	13.05	6.9	13.8
2017	111.8	5.7	9.8	6.6	7.09	6.5	0.2
2018	0.02	NA	17.5	-19.4	NA	7.8	3.4
Average	27.04	2.55	25.48	3.15	7.76	9.10	12.73
S.D	41.88	1.84	52.92	11.45	4.40	3.12	10.31
C.V	154.88	72.09	207.68	363.55	56.70	34.32	81.00

(Source: Compiled from the Annual Reports of the MFI)

Table-3 Depicts that UJJIVAN is good in Average (27.04%) and also SPANDAN (25.48%) than the average of remaining all MFI during the study period. All this certify that ARMAN and SPANDAN stand better than all other MFI in view of (ROE) and also its use its equity very efficiently to generate earnings of company.

Operational Self-Sufficiency

Operational Self Sufficiency (OSS), expressed in percentage terms, provides an indication as to whether a Microfinance Institution (MFI) is earning sufficient revenue (through interest, fee and commission income) so as to shelter its total costs-financial costs, operational costs and loan loss provisions. MFIs can achieve OSS of 100%, either by increasing their operating income or by reducing their total costs.

Table 4: Operational Self-Sufficiency Ratio (%)

Year	Ujjivan	Swadhaar	Spandana	Pahal	Janalakshmi	Arman	L&T
2013	126.6	105.9	19.01	106.3	116.2	139.4	125.6
2014	130.6	104.5	129.8	111.7	122.1	137.9	116.8
2015	123.02	92.5	147.9	114.9	116.5	138.3	118.9
2016	135.9	126.2	206	113.3	115.4	130.6	120.9
2017	1535.8	105.5	121.5	108.7	115.7	129.5	100.7
2018	162.8	NA	166.5	81.7	NA	119.6	109.03
Average	369.12	89.10	131.79	106.10	97.65	132.55	115.32
S.D	571.73	44.98	62.93	12.35	47.90	7.61	9.00
C.V	154.89	50.48	47.75	11.64	49.06	5.74	7.81

(Source: Compiled from the Annual Reports of the MFI)

Table-4 Depicts that UJJIVAN is good in Average (369.12%) earning good revenue than the average of remaining all MFI during the study period. All this certify that UJJIVAN stand better than all other MFI in view of (OSS).

Profit margin

Profit margin is one of the commonly used profitability ratiogauge the degree to which a company or a business activity makes money. It characterizes what percentage of

sales has turned into profits. Simply put, the percentage figure indicates how many percent of profit the business has generated for each dollar of sale. For instance, if a business

reports that it achieved a 35% profit margin during the last quarter, it means that it had a net income of \$0.35 for each dollar of sales generated.

Table 5: Profit Margin Ratio (%)

Year	Ujjivan	Swadhaar	Spandana	Pahal	Janalakshmi	Arman	L&T
2013	21.01	5.6	-426.2	5.9	13.9	28.3	20.4
2014	23.4	4.3	22.9	10.6	18.1	27.5	14.4
2015	18.7	8.4	32.4	12.9	14.3	27.7	15.9
2016	26.5	20.8	51.5	11.7	13.3	23.5	17.3
2017	93.5	5.2	17.7	8.01	8.6	22.8	0.7
2018	38.6	NA	39.9	-22.4	NA	16.4	8.3
Average	36.95	7.38	-43.63	4.45	11.37	24.37	12.83
S.D	28.57	7.11	187.81	13.40	6.34	4.54	7.17
C.V	77.31	96.35	-430.42	300.96	55.77	18.63	55.85

(Source: Compiled from the Annual Reports of the MFI)

The Profit Margin Ratio implies the financial efficiency of the MFI in terms the percentage of the profit made in relation to its Total Assets. The table 5 suggesting that UJJIVAN is good in average ratio (36.95%) than the average of remaining all MFI during the study period. Higher the ratio implies the higher the efficiency. For the purpose of the calculating this ratio, only Net Operating Profits before Taxes has been considered.

Return on capital employed (ROCE) ratio is a financial ratio that measures a company's profitability and the efficiency with which its capital is used. In other words, the ratio measures how well a company is creating profits from its capital. The ROCE ratio is reflected an important profitability ratio and is used frequently by investors when screening for suitable investment candidates. ROCE considers debt and other liabilities as well. This provides a better signal of financial performance for companies with significant debt.

Return on capital employed

Table 6: Return on capital employed Ratio (%)

Year	Ujjivan	Swadhaar	Spandana	Pahal	Janalakshmi	Arman	L&T
2013	6.9	1.7	-58.4	3.9	4.1	16.4	6.04
2014	8.9	1.3	4.01	3.4	6.1	12.5	4.1
2015	5.7	3.7	7.2	6.03	3.7	10.1	4.9
2016	9.2	2.5	24.7	6.2	3.5	9.9	3.9
2017	1.3	4.6	3.9	3.9	2.8	9.9	0.13
2018	0.2	NA	9.8	-6.7	NA	6.5	1.5
Average	5.37	2.30	-1.47	2.79	3.37	10.88	3.43
S.D	3.82	1.67	28.94	4.80	1.99	3.31	2.20
C.V	71.14	72.60	-1975.27	172.01	59.10	30.42	64.25

(Source: Compiled from the Annual Reports of the MFI)

Table-6 Depicts that ARMAN is good in Average (10.88%) than the average of remaining all MFI during the study period. All this certify that ARMAN stand better than all other MFI in view of (ROCE) A higher ROCE indicates more efficient use of capital. ROCE ratio should be higher than the company's capital cost; else, it indicates that the company is not using its capital effectively and is not generating shareholder value.

Findings

- Profitability in terms of return on assets is better for all MFI excluding SPANDAN.
- UJJIVAN and SPANDAN have better profitability in terms of Return on Equity and remaining all are performed at medium level.
- All MFI have earn good Revenue during the study period.
- Profit Margin Ratio for all MFI are good excluding SPANDAN
- Profitability in terms of Return on Capital Employed is better for all MFI excluding SPANDAN.

Suggestion

- Government can take measures to give financial Institutional status (status of Bank) based on the consistent performance of MFIs (to those who quality the conditions)
- RBI can set up regulatory authority to monitor the performance of microfinance Institutions. Though the microfinance Institutions follow the norms and standards set by RBI, a separate regulatory authority would more efficiently monitor performance of MFIs.
- MFI should need to efficient use of available resources to generate better earnings.

Conclusion

Microfinance has been significant tool in poverty mitigation, empowerment of women and in bringing about financial inclusion. India has the highest number of households, about 145 million, which are excluded from banking system. Also, out of 6 lakh villages in India, only approximately 50000 have access to finance as on January 2011. Hence there exists a great opportunity for the

microfinance sector to provide credit to the low income population, thereby, reducing poverty and thus in the development of country as a whole. Technological inventions, product requirements, and constant efforts to reinforce the capacity of Indian MFIs are needed to decrease costs, growth outreach and improvement overall profitability. Even though the microfinance sector has reported as remarkable growth, adequate regulatory and governance would help achieve the goal of poverty mitigation and financial inclusion and this could be reached with combined cooperation of banks, donors' government, NGO and other performers in the country. Thus, continuous efforts are required to diversify the sources of funding available for the MFIs in order to attract foreign investment for well-established MFIs in order to serve the rural low income population, alleviate poverty and also, make them profitable.

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