A Study on Financial Performance and Sustainability of MFIs in Chennai

V. VANITHA,
Research Scholar,
Khadir Moideen College, Adirampattinam

&
Research Scholar of Bharathidasan University

Under the Guidance of
Dr. O.M. Haji Moideen,
Head & Associate Professor
Khadir Moideen College, Adirampattinam

e. Mail: vanithavsan@gmail.com

Abstract

Microfinance Institutions (MFIs) in India, have proved their vital role in eradication of poverty and also established India as the Lead in Asia. Indian MFIs have adopted a systematic income generation for their sustainability and emerged as reputed NBFCs instead of their traditional way of welfare mode and NGO concept as not-for-profit. Despite several challenges from their inceptions, Indian MFIs have proved their innovation not only in their professional way of financial product and service, but also in their governance, Legal framework, Regulatory Mechanisms, Operational strategies, Financial management and accounting systems, Internal control and external audit arrangements and Human resource management, including staff incentive schemes etc.

In recent years, MFIs attract a wider interest. This is because of its crucial functions in cutting poverty, creating work, assisting existing business growth or branching out their activities, empowering women or the low - income citizenry, and promoting the growth of new business especially in growing nations, even in a Metropolitan city like Chennai.

Introduction

Microfinance Institutions (MFIs) in India, have emerged as a promising mission in eradication of poverty and also led India as Lead in Asia. Almost all Indian MFIs has opted out the traditional way of welfare mode and adopted a systematic income generation for their sustainability. Despite several challenges, a considerable number of MFIs have proved innovation not only in their professional way of financial product and service, but also in their governance, Legal framework, Regulatory Mechanisms, Operational strategies, Financial management and accounting systems, Internal control and external audit arrangements and Human resource management, including staff incentive schemes etc.

Grounding in the preceding background, the concept of microfinance and MFIs attract a wider interest. This is because of its crucial functions in cutting poverty, creating work, assisting existing business growth or branching out their activities, empowering women or the low - income citizenry, and promoting the growth of new business especially in growing nations, even in a Metropolitan city like Chennai.

Research Objectives:

The purpose of this research survey is to assess the performance and sustainability of microfinance institutions in Chennai. In order to achieve the aforesaid aim, some major objectives need to be achieved as follows:
Analyze the financial performance and outreach indicators of leading MFIs in Chennai
To analyze the operational efficiency of MFIs in Chennai.
Enhancing the skills and capacity of management in interpreting ratios, analyzing financial
trends, positioning themselves within the industry.
Analyze the importance of monitoring Group Members, their operational efficiency,
decision-making and fund management.
Analyze the exchange of knowledge and sharing of experience by MFIs
Identify the influence of the MFI on economic development through outreach analysis.

Review of Literature:
Anne Louis Lafourcade, Jennifer Isern (2005) said that Many MFIs work in rural areas. MFIs
will need to innovate and provide high quality services to retain clients and remain competitive in
their local financial market; in their research entitled “Overview of the outreach and financial
performance of MFIs in Africa”
Sadanand Sahoo & Gitanjili Mishra found that there is lack in adopting IT in their operational
efficiency of many MFIs operating in rural areas. Also, they need more awareness about the
technology, in their research entitled “Outreach and sustainability of MFIs through
information technology”.
Abbas Khedar, Ahmed Mustaf & Maisarah Mohamed concluded that there is no proper
measurement and regulatory framework for MFIs, in their research done on MFIs Performance
In “Comparison of performance of MFIs with commercial Bank of India”- Prof. Zootra Bi&
Dr. Shyam Lal Dev Pandey concluded that Lack of capital, Need continuous support to attract
foreign investors, Need to develop the legal regulatory framework.
In A comparative analysis of the financial performance of MFIs of India and Bangladesh-
Anand Kumar Rai concluded that MFIs which are converting themselves into NBFC are
financially more viable and their outreach is high.
Piyush Tiwari & s. M. Fahad found that “MFIs need more credit facilities and flexibility in
their process”, in their research entitled “The conceptual framework of an MFI in India”.
In a research work entitled “Analyzing the tradeoff between outreach and financial
performance for Indian MFIs”, Subham Kailthya concluded that the existence of
interdependence between financial performance and outreach is intuitive, while expansion of
outreach is associated with an increased efficiency of MFIs.

Problem Formulation:

Nevertheless, most microfinance institutions are much reliable on donors’ funds to extend their
program; thus, these establishments will face some troubles for their operations if there are no donors’
funds or subsidies anymore at the time to come. Others, in addition, charge higher interest charge per
unit to earn lots of profits to compensate loses and risks which seem very competitive in their
operations against well-known MFIs and new upcoming ones.

Furthermore, the notions by RBI towards MFIs’ operation and their establishment and stringent
regulations imposed by the State Governments on MFIs how the microfinance institutions can reach a
sound financial and outreach performance to be sustainable.

Methodology:
The analysis of the companies

- Efficiency
- Expenditure
- Revenue
- Risk
Data Collection & Analysis:
Essential information of three leading MFIs operating in Chennai, have been culled out from the MIX market. Analysis of their financial statements of three MFIs, have been done carefully. Further, Ratio Analysis, Capital Adequacy Ratio and Efficiency level of MFIs based on Active borrowers have been done.

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<tr>
<th>Table I – Operational Metrics of Three MFIs</th>
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<tbody>
<tr>
<td>Operational Metrics</td>
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<tr>
<td>No. of Active Members</td>
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<tr>
<td>No of centres</td>
</tr>
<tr>
<td>No of branches</td>
</tr>
<tr>
<td>No of districts covered</td>
</tr>
<tr>
<td>No of state covered</td>
</tr>
<tr>
<td>Total staff</td>
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<tr>
<td>Cumulative(LTD) disbursement</td>
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<td>Portfolio Outstanding(Gross)</td>
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Sources: MIX Market 2013

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<th>Table II - Current Ratio of three MFIs</th>
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<td>Year vs Current Ratio</td>
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<tr>
<td>2013</td>
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<tr>
<td>2012</td>
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<td>2011</td>
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<td>2010</td>
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<td>2009</td>
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The above analysis evident that almost all three MFIs have come up from their hard times and emerged as a capable NBFCs in a sustained way of service. In particular, the MFI – III has shown steady progress in their liquidity position, we can ascertain.

Capital Adequacy Ratio:

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<th>Table III – Capital Adequacy Ratio of three MFIs</th>
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<td>Capital Adequacy Ratio vs. MFI</td>
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<td>Capital Adequacy Ratio</td>
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From the above table, it is clear that the MFI –III has maintained a well adequacy ratio of 24.16% than that of the average ratio of 8.26%. Thus, it is concluded that the MFI –III has adopted better strategy and system in managing its capital, even in tough economic meltdown.

Conclusion:
We can conclude that lifting the ban on foreign lending restrictions to NBFCs (non-banking financial companies) by the Reserve Bank of India and the crucial move of the Indian Union Government in
getting the rupee value depreciated to slow the outflow of capital; definitely favour the MFIs. Plainly put, the majority of those NBFCs are Micro Finance Institutions, who are getting benefited from the way of enhanced funding for financial sectors despite a lot of regulatory problems and increasing operating cost. By Indian Union government’s move on legal framework and regulating principles for MFIs, MFIs can face-out all obstacles and achieve the next level of lending business in a commercially viable way too.

Reference:
1. www.mixmarket.org
5. Tor Jansson et al (2003), Performance indicators for Micro Finance Institutions, Microrate and IADB.

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