

FINANCIAL PERFORMANCE ANALYSIS OF SELECTED MICROFINANCE INSTITUTIONS IN DELHI

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ABSTRACT

Microfinance is a financial service which aims at providing finance to the poor who have no or limited access to traditional banking services. Although it is a social tool that target to alleviate poverty, microfinance has emerged as a business model in the last decade. Institutions that provide microfinance services are known as Microfinance Institutions (MFIs).

There has been an increase in the number of microfinance institutions in recent years. MFIs are primarily evaluated on the basis of their outreach and sustainability, which ultimately depend on their financial performance. Therefore, there is a need to analyze the financial performance of the Microfinance Institutions (MFIs) to ensure how these institutions manage the funds and attain profitability. This paper analyzes the financial performance of selected MFIs of Delhi for five years from 2013-14 to 2017-18. Financial ratios have been compared and it has been found that there exist differences in the Operating self-sufficiency (OSS) ratio of three selected MFIs. For other four financial ratios, it has been found that there is no significant difference for the three MFIs.

Keywords: Microfinance, MFIs, Ratio analysis, financial performance.

INTRODUCTION

Microfinance is not a new concept. Small, informal savings and credit groups have operated for centuries across the world. In the recent times microfinance has emerged as an alternative to rural credit. Still, about 1.7 billion adults remain unbanked i.e. without an account at a financial institution according to a report of Globalindex. Microfinance institutions being a social tool that help in alleviating poverty is mainly evaluated on the parameter of outreach and sustainability. One of the major contributing factor that affect outreach and sustainability is the financial performance of MFIs. Finance is considered as a backbone of any organization, be it financial or not-for-profit organization. It becomes therefore necessary to evaluate the performance of MFIs on the basis of its financials.

Financial performance is the indicators of healthy organization. It incorporates computation of various ratios and comparing these ratios across few years to observe the trend. Very often, managers observe the financial ratios and design strategy to improve the performance of the organization. Financial ratios set the relationship between items of profit and loss account, balance sheet and cash flow statement. The ratios are indicators of an organization sound health and help the stakeholders to take decision regarding

investment in the organization. In recent times, there has been an increase in the number of IPOs of Microfinance Institutions. Therefore, it becomes necessary for shareholders and prospective investors to study the financial performance of the MFIs and take the decision of investing in MFIs.

MFIs receive support and services not only from donor agencies, but also from investors, lenders, management consulting firms, and many specialized businesses. This collectively constitutes global microfinance industry. As with any global industry, microfinance needs accepted standards by which MFIs can be measured. Common standards provide the language that enables MFIs to communicate with other participants in the industry. Efforts have been done to develop the framework to evaluate the financial performance of MFIs due to their distinguishing characteristics. The SEEP network has developed such a framework for measuring financial performance of the MFIs. This formally is known as “SEEP 18 Indicators” that group the measuring ratios in four parameters namely – Profitability and Sustainability, Asset- Liability Management, Portfolio Quality and Efficiency and Productivity.

OBJECTIVE OF THE STUDY:

The current paper is an attempt to measure and compare the financial performance of selected Microfinance Institutions of Delhi for the period 2013 to 2018. Specifically, the objective is:

- a. To measure the financial performance of selected MFIs for the period 2013-2018.
- b. To know whether there is any significant difference in the financial performance of selected MFIs during the period 2013-2018.

RESEARCH METHODOLOGY:

The paper is descriptive and analytical in nature. It attempts to highlight the importance of measuring various ratios used to evaluate the financial performance of selected MFIs. Also, the computed ratios have been analyzed and compared across a period of 5 years to observe if there is any difference in the financial performance of selected MFIs.

The data used in the paper is Secondary Data. The data has been collected from Microfinance Information Exchange (MIX) and the respective MFIs annual reports for the period 2013-14 to 2017-18. Three MFIs have been selected for study, primarily belonging to Delhi – Fusion, BFIL and Satin. These have been selected on the basis of their reporting to mixmarket.org according to September 2018 report.

The various financial ratios have been computed on the basis of guidelines provided by CGAP (Consultative Group to Assist the Poor). The CGAP has provided a tool named as “FRAME” – Framework for Reporting, Analysis, Monitoring and Evaluation.

The computed ratios has been summarized using graphs and compared to identify the trend. Further, following hypothesis are tested-

Hypothesis 1: There is no significant difference in the Operating self sufficiency ratio of Fusion, BFIL and Satin Microfinance Institutions.

Hypothesis 2: There is no significant difference in the return on assets ratio of Fusion, BFIL and Satin Microfinance Institutions.

Hypothesis 3: There is no significant difference in the return on equity ratio of Fusion, BFIL and Satin Microfinance Institutions.

Hypothesis 4: There is no significant difference in the yield on portfolio ratio of Fusion, BFIL and Satin Microfinance Institutions.

Hypothesis 5: There is no significant difference in the portfolio to assets ratio of Fusion, BFIL and Satin Microfinance Institutions.

The collected data is analyzed using one way ANOVA statistic using Excel to compare the financial performance based on five parameters of operating self sufficiency ratio, return on assets, return on equity, yield on portfolio and portfolio to assets ratio.

LITERATURE REVIEW:

There is vast literature on analyzing the performance of MFIs. However, the main focus of these studies is on non-financial parameters because of the reason that microfinance is primarily a social tool. But with the development of Microfinance institutions into profit making organization has started a shift towards importance of financial parameters.

Mia & Chandran (2016): The study measured the productivity performance of the microfinance sector. Malmquist total factor productivity approach was used with a particular focus on measuring productivity performance of MFIs.

Dey (2015): This study focused on challenges and suggestive measure for the growth of microfinance.

Gashayie & Singh (2015): The study reviewed the factors that affect financial sustainability of MFIs.

Quayes (2015): The study analyzed the trade-off between outreach and performance of MFIs.

DATA ANALYSIS:

Growth of any organization can be measured by the position of its accounting statements. Financial performance of MFIs is depicted in their income sheet, balance sheet and cash flow statement. The financial analysis of the selected MFIs in this paper has been computed using the SEEP framework of 18 ratios. However, out of the 18 ratios, focus is completely on pure financial ratios. Following five ratios have been analysed-

1. Operating Self-Sufficiency Ratio (OSS): It is the degree to which internally generated operational revenue covers all operating expenses from the MFIs core business of providing financial services. It excludes any non-operating revenues and donations and includes all financial expenses and provision for loan losses. Operational Self-Sufficiency (OSS) is the most basic measurement of sustainability, indicating whether revenues from operations are sufficient to cover all operating expenses.

This ratio measures the degree to which the institution is able to function independent of grant support. By focusing on cost coverage, OSS reflects the MFI's ability to continue its operations if it receives no further subsidies.

The breakeven point of an MFI's operations is 100 percent. Young MFIs may take several years to break even, and when they do, they should never return to an OSS of less than 100 percent. OSS does not tend to fluctuate as much as other ratios and the positive trend can be achieved through growth and increased efficiency. As a result, OSS is the one profitability measurement that is worth monitoring on a monthly basis. Managers should consider the drivers behind OSS—is it due to larger loan sizes, high yields, low financial expenses, or efficient operations? Although not considered as rigorous an indicator as ROE, OSS is a simple and useful measurement for MFI managers, particularly for young MFIs that want to monitor their path to sustainability.

$$\text{Operating Self-Sufficiency Ratio} = \frac{\text{Financial revenue}}{\text{Financial Expenses} + \text{Provision for Loan Losses} + \text{Operating Expenses}}$$

Equation 1: Operating Self- Sufficiency Ratio

Table 1: Operating Self-Sufficiency Ratio

Year	Fusion	BFIL	Satin
2013-14	2.263278	2.422689	1.699946
2014-15	1.830012	2.594407	1.754188
2015-16	2.030479	2.412708	1.897699
2016-17	1.396652	2.495055	1.740197
2017-18	1.101347	2.698749	2.126775



Figure 1: Operating Self-Sufficiency Ratio

Table 2: One-Way ANOVA

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	5	8.621769	1.724354	0.22271
Column 2	5	12.62361	2.524721	0.014745
Column 3	5	9.218805	1.843761	0.03061

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.864256	2	0.932128	10.43175	0.00237	3.885294
Within Groups	1.072259	12	0.089355			
Total	2.936515	14				

The result shows that p-value is less than 0.05, therefore null hypothesis is rejected. It is concluded that there is significant difference in the operating self-sufficiency ratio of the three MFIs. The Operating Self-Sufficiency ratio of Fusion is declining over the period of 5 years, while it is improving for BFIL and Satin.

2. Return on Assets: It measures how well the MFI uses its assets to generate returns. This ratio is net of taxes and excludes non-operating items and donations. It indicates how well an MFI is managing its assets to optimize its profitability. The ratio includes not only the return on the portfolio, but also all other revenue generated from investments and other operating activities. If an institution's ROA is fairly constant, this ratio can be used to forecast earnings in future periods. Unlike ROE, this ratio measures profitability regardless of the institution's underlying funding structure; it does not discriminate against MFIs that are funded primarily through equity. Therefore, ROA is a good measurement to compare commercial and noncommercial MFIs.

ROA should be positive. MFIs have achieved unusually high ROA in recent years. A positive correlation exists between this ratio and Portfolio to Assets; the ratio is higher for institutions that maintain a large percentage of the assets in the Gross Loan Portfolio.

$$\text{Return on Assets} = \frac{\text{Net Operating Income} - \text{Taxes}}{\text{Average Assets}}$$

Equation 2: Return on Assets

Year	Fusion	BFIL	Satin
2013-14	0.205407	0.027892	0.01481
2014-15	0.221835	0.052159	0.018423
2015-16	0.217673	0.051126	0.020521
2016-17	0.190641	0.010925	0.002668
2017-18	0.159729	0.041377	-0.00414

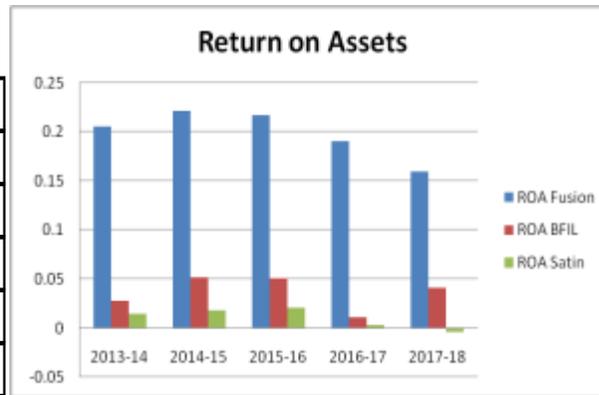


Table 1: Return on Assets

Figure 2: Return on Assets

Table 4: One-Way ANOVA

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Fusion	5	0.995285	0.199057	0.000631
BFIL	5	0.183479	0.036696	0.000303
Satin	5	0.052285	0.010457	0.000114

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.104366	2	0.052183	149.4004	3.31E-09	3.885294
Within Groups	0.004191	12	0.000349			
Total	0.108557	14				

Return on Assets ratio for all three MFIs is decreasing, although Fusion has better ROA as compared to BFIL and Satin. The p-value is higher than 0.05 indicating that null hypothesis is accepted and there is no significant difference in the mean ROA of three MFIs for the five years.

3. Return on Equity: In a for-profit MFI, Return on Equity (ROE) is the most important profitability indicator; it measures an MFI's ability to reward its shareholders' investment, build its equity base through retained earnings, and raise additional equity investment. For a non-profit MFI, ROE indicates its ability to build equity through retained earnings, and increased equity enables the MFI to leverage more financing to grow its portfolio. By excluding donations and non-operating revenues, this ratio demonstrates an institution's ability to generate income from its core financial service activity.

MFIs that are financed solely through equity donations will find this ratio less meaningful because donors rarely base their future investment decisions on ROE. ROE is, however, a good indicator of how well the MFI has used retained earnings and donor money to become sustainable.

Return on Equity =
$$\frac{\text{Net Operating Income} - \text{Taxes}}{\text{Average Equity}}$$

Equation 3: Return on Equity**Table 5: Return on Equity**

Year	Fusion	BFIL	Satin
2013-14	1.023704	0.645496	0.53637
2014-15	1.406189	1.600512	0.960704
2015-16	1.662878	2.38941	1.734436
2016-17	1.181596	0.72362	0.230201
2017-18	1.059988	3.274975	-0.39943

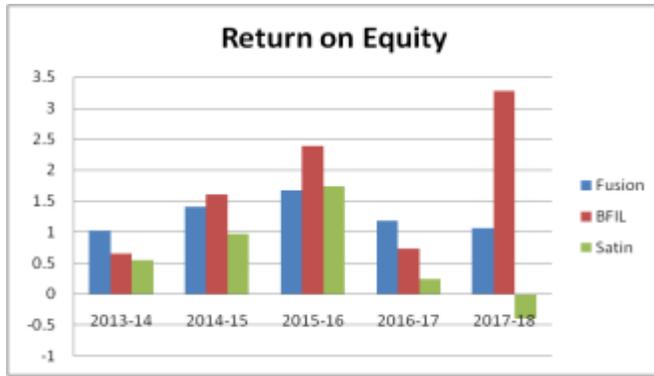


Figure 3: Return on Equity

Table 6: One-Way ANOVA

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Fusion	5	6.334356	1.266871	0.071358
BFIL	5	8.634014	1.726803	1.256859
Satin	5	3.062283	0.612457	0.638983

ANOVA

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	3.135938	2	1.567969	2.391168	0.133651	3.885294
Within Groups	7.868802	12	0.655734			
Total	11.00474	14				

The p-value for testing difference in the mean ROE is more than 0.05, therefore null hypothesis is accepted and prove that there is no significant difference in the mean ROE of three MFIs.

4. Yield on Portfolio: Yield on Gross Portfolio, also called *portfolio yield*, measures how much the MFI actually received in cash interest payments and Fees and Commissions from its clients during the period; this ratio is the initial indicator of an MFI’s ability to generate cash for operations from the Gross Loan Portfolio. Cash receipts from the Gross Loan Portfolio are vital for an MFI’s survival.

$$\text{Yield on Portfolio} = \frac{\text{Cash Received from Interest, fees and commissions on loan portfolio}}{\text{Average Gross Loan Portfolio}}$$

Equation 4: Yield on Portfolio

Table 7: Yield on Portfolio

Year	Fusion	BFIL	Satin
2013-14	0.291889	0.265834	0.270317
2014-15	0.279221	0.263501	0.238339
2015-16	0.257672	0.259841	0.230894
2016-17	0.267914	0.22254	0.209052
2017-18	0.227652	0.206337	0.187914

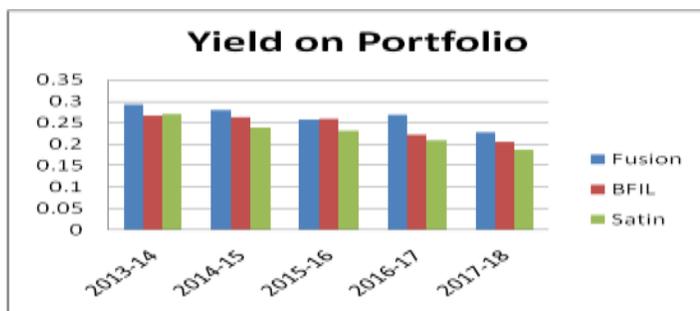


Figure 4: Yield on Portfolio

Table 8: One-Way ANOVA

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Fusion	5	1.324348	0.26487	0.000596
BFIL	5	1.218055	0.243611	0.000747
Satin	5	1.136515	0.227303	0.000967

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.003549	2	0.001774	2.304776	0.142213	3.885294
Within Groups	0.009238	12	0.00077			
Total	0.012786	14				

P-value of 0.142 proves that null hypothesis is accepted and indicates that there is no significant difference in the average yield on portfolio of three MFIs.

5. Portfolio to Assets: An MFI's primary business is making loans and providing other financial services to micro entrepreneurs. This ratio shows how well an MFI allocates its assets to its primary business and, in most cases, its most profitable activity—making loans.

$$\text{Portfolio to Assets} = \frac{\text{Gross Loan Portfolio}}{\text{Assets}}$$

Equation 5: Portfolio to Assets

Table 9: Portfolio to Assets

Year	Fusion	BFIL	Satin
2013-14	0.171736	0.689034	0.7034
2014-15	0.281818	0.622326	0.728337
2015-16	0.207574	0.695661	0.688595
2016-17	0.505267	0.688832	0.757098
2017-18	0.448826	0.7683	0.870101

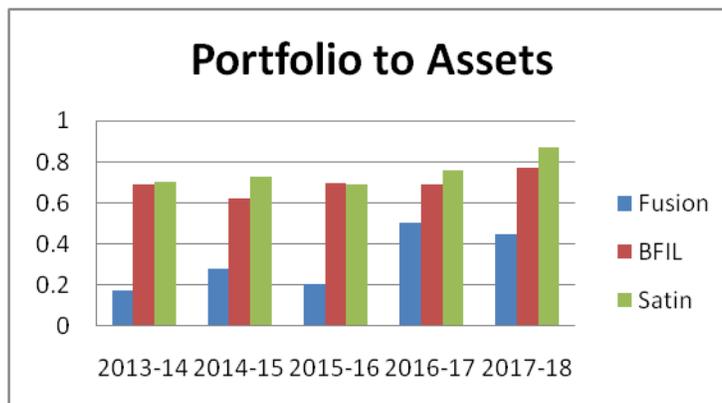


Figure 5: Portfolio to Assets

Table 10: One-Way ANOVA

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Fusion	5	1.61522	0.323044	0.021738
BFIL	5	3.464154	0.692831	0.002676
Satin	5	3.747531	0.749506	0.005221

ANOVA

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	0.536374	2	0.268187	27.14829	3.52E-05	3.885294
Within Groups	0.118543	12	0.009879			
Total	0.654917	14				

P-value is very high and therefore, it can be stated there is statistically no difference in the portfolio to assets ratio of three MFIs.

SUMMARY AND CONCLUSION:

Financial ratio analysis provides a framework for the organizations to evaluate their financial performance. It is found from the analysis that all the three MFIs are similar in financial performance except operating self sufficiency ratio. This implies that the organizations operational performance makes a difference and hence the three MFIs have statistically different OSS. For the remaining four ratios i.e. Return on Assets (ROA), Return on Equity (ROE), Yield on Portfolio and Portfolio to Assets ratio , there exist no significant differences in the three MFIs.

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