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Financial Performance of Selected Micro Finance Institutions In Andhra Pradesh-A Study

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Abstract: *The growth of any organization depends on the overall performance such as Production, Marketing, Human resource and Financial performance of the organization. The financial performance of the any organization reflects the strength, weakness, opportunities and threats of the organization with respect to profits earned, investments, sales realization, turnover, return on investment, net worth of capital. Efficient management of financial resources and deliberate analysis of financial results are pre requisite for success of an enterprise. For the achievement of that, Ratio analysis acts as one of the major and important tool of effective financial management. Every organization requires ratio analysis for evaluation of the performances of business. This paper detailed study on the financial performance of the MFIs selected for the study in terms of various ratios which are commonly used to assess the financial performance in the microfinance industry. This list of ratios is by no means exhaustive. Some ratios are included here because they are very common; others are included because of ambiguity in their use. MFIs and analysts are encouraged to use whatever ratios they feel are appropriate and relevant to measuring performance. This set of ratios is not meant to be used as a reporting template.*

Keywords*: financial performance, ratio analysis, micro finance institutions (Mfis).*

I. Introduction

In the recent times microfinance has received increased attention among the researchers and financial service providers, as a good alternative in the rural credit market. It is estimated, however, that about 80 per cent of those who are in need of financial services, about 400-500 million people worldwide, are yet outside the mainstream of formal financial systems. The concept of microfinance is not new. Small, informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond. In Europe, as early as 15th Century, the Catholic Church founded pawn shops as an alternative to usurious money lenders. These pawn shops spread throughout the urban areas in Europe throughout 15th Century.

Finance is the most important function of all business functions. All business decisions have financial implications and therefore financial management is inevitably related to almost every aspect of business operations. In fact finance is so indispensable today that it right said that finance is the lifeblood of an enterprise without adequate finance, no enterprise can possibly accomplish its objectives.

Financial analysis is the process of identifying the financial strengths and weaknesses of firm by properly establishing relationships between the items of the balance sheet and the profit and loss account financial analysis can be undertaken by management of the firm or by parties outside the firm, viz., owners, creditors, investors and others. The nature of the analysis will differ depending on the purpose of the analyst. For example, trade creditors are interested in the fact that the firm should be able to meet their claims over a very short period of time. Their analysis will, confine to the evaluation of the firm's liquidity position. The suppliers of long-term debt, on the other hand, are interested in firm's long term solvency and survival. They analyze the firm's profitability over time, its ability to generate cash to be able to pay interest and return their claims and relationship between various sources of funds. Similarly, the investors, who have invested their money in the firm's shares, are most concerned about the firm's earnings.

Objective of the Study:

1) To evaluate the financial performance of the MFIs selected for the study.

Hypothesis:

- To know whether there is a significant difference among the selected MFIs in terms of Gross Loan Portfolio.
- To know whether there is a significant difference among the selected MFIs in terms of its financial parameters that includes Capital Adequacy Ratio, Debt Equity Ratio.

Research Methodology:

Thedata 2004-05to2010-11 have been collected from official website ofMFIsandMinistry of Finance. Data was also collected from other websites related to financial institutions as a whole and published and unpublished reports and periodic journals.Data relating to financial performance has been taken from the Balance Sheetand Profit &Loss account of Mfis.

Tools and Techniques (Ratio Analysis):

In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools is ratio or index. Ratio is an expression of the quantitative relationship between two numbers. Ratio is the relation of the amount, a, to another, b, expressed as the ratio of a to b; a: b (a is to b); or as a simple fraction, integer, decimal, fraction or percentage. Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over time. Ratios can be classified into four broad groups on the basis of items used:

(1) Capital Assets Ratio,
(2) Debt Equity Ratios,
(3) Return on Assets
(4) Return on Equity
(5) Financial Revenue Ratio
(6) Profit Margin Ratio
(7) Operating Expenses to Gross loan Portfolio

II. Review of Literature

C.BartualSanfeliu et al., (2013) studied based on goal programming that simultaneously considers different categories involved in the performance of Microfinance Institutions., and illustrated by a sample of Latin American MFIs.

AbhishekBehl&Manju Singh, (2014)focuses on the current structure of MIS systems in Micro finance sector and research on the existing scenario of competition with respect to various vendors offering similar services. They find that there is diversity in the services and packages offered by vendors and there is a need to build up common software for all the microfinance institutions to bring in uniformity.

Hubert TchakouteTchuigoua., (2015) identify the primary board characteristics that drive the quality of MFI governance and link governance quality to microfinance institutions' outreach performance. They measure governance quality with the governance rating score provided by Planet Rating, one of the agencies that specialize in the rating of microfinance institutions.

1. Capital to Assets Ratio:

This ratio measures the proportion of Capital to its Average Total Assets.

The table 1.1 shows the Capital TO Total Assets Ratio calculated for each MFI during the period of study:

Table 1.1: Capital to Assets Ratio (%)

Year	AML	BSFL	SHARE	SKS	SPANDANA
2004-05	10.39	34.93	14.16	0.83	8.67
2005-06	4.31	20.95	7.47	13.59	3.56
2006-07	6.02	14.56	8.43	20.87	3.26
2007-08	8.96	11.78	15.70	15.72	10.46
2008-09	10.00	11.36	14.28	21.86	15.21
2009-10	11.09	14.15	11.26	23.73	16.67
2010-11	15.05	13.44	12.27	42.09	15.29
Average	**9.40**	**17.31**	**11.94**	**19.81**	**10.45**
S.D	**3.50**	**8.39**	**3.09**	**12.47**	**5.58**

(Source: Calculations from the Annual Reports)

From the table 1.1 it can be seen that that AML has less proportion of 9.5% of Capital to its Total Assets as against SKS which has higher ratio of 20% approximately. AML had a Capital of Rs.6.91 Crores in 2004-05 with a Total Assets of 66.54 Crores. The same has been increased to Rs.215.09 Crores and Rs.1429.05 Cores for Capital and Total Assets respectively. BSFL has Rs.23.54 Crores of Capital that includes Equity Share Capital and Reserve and Surpluses and Rs.67.34 Crores of Total Assets in 2004-05 as against Rs.210 Crores and Rs.1564 Crores in 2010-11 for Capital and Total Assets respectively. With reference to SHARE, the Capital as on 2004-05 was stood at Rs.27.71 Crores and the Total Assets were Rs.195 Crores as against

Rs.301.29 Crores and Rs.2456 Crores in 2010-11 for Capital and Total Assets respectively. SKS had just Rs.0.33 Crores of capital and Rs.39.96 Crores of Total Assets in 2004-05 as against Rs.1780 Crores of capital and Rs.4231 Cores of Total Assets as at 2010-11. This is indicating the phenomenal growth in the total financial position for SKS from 2004-05 to 2010-11. SPANDANA had Rs.23 Crores of Capital and Rs.274 Crores of Total Assets in 2004-05 as against Rs.474 Crores of Capital and Rs.3102 Crores of total Assets during 2010-11.

2. Debt - Equity Ratio:

Debt/Equity, is another common measurement of an MFI's capital adequacy, indicates the safety cushion the institution has to absorb losses before creditors are at risk. It also shows how well the MFI is able to leverage its Equity to increase assets through borrowing and is frequently called the Leverage ratio. This ratio is usually important for investors and lenders.

The table 2.1 shows the D/E ratio of each MFI against each year during the period of study:

Table 2.1: Debt - Equity Ratio (%)

Year	**AML**	**BSFL**	**SHARE**	**SKS**	**SPANDANA**
2004-05	8.62	1.86	6.06	119.88	10.53
2005-06	22.18	3.77	12.38	6.36	27.07
2006-07	15.61	5.87	10.86	3.79	29.72
2007-08	10.16	7.49	5.37	5.36	8.56
2008-09	9.00	7.81	6.00	3.57	5.58
2009-10	8.02	6.07	7.88	3.21	5.00
2010-11	5.64	6.44	7.15	1.38	5.54
Average	**11.32**	**5.62**	**7.96**	**20.51**	**13.14**
S.D	**5.26**	**1.96**	**2.47**	**40.60**	**9.84**

(Source: Calculations from Annual Reports)

It can be seen from the table 2.1 that the average D/E ratio is high for SKS followed by SPANDANA and AML. BSFL and SHARE are considered to be good as their ratio is under control. During 2004-05, SKS has a serious problem of D/E ratio which has reached to a paramount level of 119.88 which implies that the proportion of debt is too high due to `the crisis of MF in Andhra Pradesh.

SKS had Rs.0.33 Crores of Equity and Rs.39.6 Crores of External Liabilities due to which the D/E ratio of SKS is 119 during 2004-05. This is considered to be very peculiar for SKS when it is compared to other MFIs. Gradually, the contribution towards Equity started increased and the D/E ratio of SKS has a minimum of 1.38 during 2010-11. There is a significant increase in the amount of Equity by approximately Rs.822 Crores. Among all MFIs, BSFL has been maintain a steady ratio which is around 5.5 during the period of the study.

III. Return on Assets (ROA):

Return on Assets (ROA) 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.

The table 3.1 shows the ROA for each MFI against each financial year starting from 2004-05 to 2010-11:

Table 3.1: Return on Assets (%)

Year	**AML**	**BSFL**	**SHARE**	**SKS**	**SPANDANA**
2004-05	0.00	0.04	3.16	-0.06	8.36
2005-06	2.94	0.87	2.25	2.82	4.72
2006-07	1.71	1.61	1.21	0.78	0.74
2007-08	1.39	1.72	1.07	1.96	4.23
2008-09	5.24	1.75	5.50	3.60	6.74
2009-10	4.35	3.16	5.55	4.94	9.01
2010-11	1.32	0.66	0.33	2.43	-0.31
Average	**2.42**	**1.40**	**2.72**	**2.35**	**4.78**
S.D	**1.85**	**1.00**	**2.12**	**1.68**	**3.58**

(Source: Calculations from Annual Reports)

From the table 3.1, it can be noticed that the average Return on Assets ratio of each MFI is around 2% and for SPANDANA it is 4.78%. It can also be noticed that the S.D value of ROA for each MFI is very significant and implies high volatility. The reason for this could be high fluctuations in the returns of MFIs from 2004-05 to 2010-11. Another significant remark is the ROA for each MFI for any year is positive except for SPANDANA which is -0.31% during 2010-11. SKS has shown a remarkable performance in terms of Profit during 2009, 2010 and 2011 which was amounted to Rs.124 Crores, Rs.267 Crores and Rs.174 Crores. The average growth in the Profit is 220% approximately for each MFI during 2008-09. Other MFIs have recorded a steady and a consistent growth in the Profits during the period of the study 2005 to 2011.

IV. Return on Equity (ROE)

Return on Equity (ROE) is the most important profitability indicator for a MFI particularly which are in the form of NBFC. 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.

The following table shows the results of ROA for each MFI from 2004-05 to 2010-11:

Table 4.1: Return on Equity (%)

Year	AML	BSFL	SHARE	SKS	SPANDANA
2004-05	0.00	0.10	21.83	-6.52	94.24
2005-06	51.42	3.35	23.53	27.09	80.20
2006-07	32.96	9.36	15.15	4.10	21.77
2007-08	17.49	13.26	8.18	11.71	53.02
2008-09	54.22	15.28	37.10	18.01	49.18
2009-10	40.54	23.73	45.33	21.56	55.95
2010-11	10.25	4.77	2.41	8.02	-1.93
Average	**29.55**	**9.98**	**21.93**	**12.00**	**50.35**
S.D	**20.86**	**8.13**	**15.26**	**11.38**	**32.68**
CV	**70.58**	**81.52**	**69.55**	**94.84**	**64.91**

(Source: Calculations from Annual Reports)

The table 6.8 clearly depicts that the average ROE is very high for SPANDANA and less in case of BSFL. As far as SKS is concerned that the Coefficient Variation is high for SKS and it tends to more volatility than other MFIs. On a whole, ROA is declined to a great extent during 2010-11 due to crisis in the MF industry in Andhra Pradesh. It can be clearly witnessed that the ROA is in increasing trend till 2009-10. Starting from 2005-06 till 2010-11, all MFIs have recorded impressive Profit Margins on the Equity. But due to the crisis in MFI sector in Andhra Pradesh, these MFIs have suffered a sudden decline in profits with an average rate of 110% over the previous year 2009-10. This has resulted in the negative ROE for SPANDANA and slight positive for other MFIs in the state.

V. Financial Revenue Ratio

This ratio is also called "Financial Revenue to Assets". This ratio calculates the relationship between the financial revenue of the MFI with the total assets deployed.
The table 5.1 shows the Financial Revenue Ratio of each MFI:

The Financial Revenue Ratio signifies the efficiency of the MFI in terms of its financial revenue in relation of its Total Assets. Higher the ratio implies that higher is the efficiency of the MFI in utilizing its assets . As a whole the ratio is satisfactory for all MFIs during 2004-05 to 2010-11. SHARE is enjoying greater degree efficiency followed by BSFL, SPANDANA and AML.

Table 5.1: Financial Revenue Ratio (%)

Year	AML	BSFL	SHARE	SKS	SPANDANA
2004-05	0.00	20.43	29.86	28.13	17.93
2005-06	26.82	25.00	28.08	20.33	22.15
2006-07	15.50	23.14	14.19	19.72	12.35
2007-08	19.85	24.71	18.49	20.05	19.26
2008-09	22.12	25.16	25.22	25.21	26.46
2009-10	21.61	22.86	24.44	27.13	30.48
2010-11	27.82	27.94	26.05	27.48	25.86

(Source: Calculations from Annual Reports)

This ratio is fluctuating for AML, SHARE and SPANDANA, and whereas for other MFIs this ratio is quite consistent. Almost all MFIs selected for the study have been enjoying good percentage of Revenue on its Total Assets during the period of the study. Interest income and fee income have been considered for the purpose of calculation of Revenue.

VI. Profit Margin

Profit Margin usually referred as “Net Profit Ratio” that gives the Proportion of Net Profit before the taxes on the Total Assets. This is another dimension to analyze the profitability of MFI on its assets for a given period of time.

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 6.1 suggesting that the ratio is looks to be quite good for all MFIs during the period of study. With reference to SPANDANA and BSFL, the degree volatility is very less when it is compared to other MFIs in the sector. 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. This profit does not include the non-operating income. As a whole the ratio is not showing much more deviations and the level of margin is also effective. It can also be noticed that the Profit Margins have been drastically declined during 2010-11 because of the crisis hit in the MFI sector in Andhra Pradesh. Large Borrowers did not pay their dues to the MFIs and as a result of that the collection process was severely affected. This has impacted the profits of the MFIs.
The table 6.15 shows the Net Profit Margin of MFIs during 2004-05 to 2010-11:

Table 6.1: Net Profit Margin Ratio (%)

Year	AML	BSFL	SHARE	SKS	SPANDANA
2004-05	19.04	3.05	16.68	-0.21	48.07
2005-06	17.28	8.99	16.33	17.18	32.91
2006-07	14.16	12.23	9.16	9.33	8.89
2007-08	10.34	12.04	9.61	16.50	37.14
2008-09	23.69	12.37	34.09	22.20	40.12
2009-10	31.81	20.83	35.46	28.00	44.46
2010-11	7.4	4.13	3.17	13.64	0.05
Average	**17.67**	**10.52**	**17.79**	**15.23**	**30.23**
S.D	**8.26**	**5.97**	**12.49**	**9.06**	**18.44**

(Source: Calculations from Annual Reports)

VII. Operating Expenses to Loan Portfolio:

This ratio establishes the relation between Operating Expenses and GLP for a given period of study. Lesser the ratio implies the higher efficiency as it indicates the cost that is being spent on GLP. On a whole the ratio is quite less for SPANDANA and high for BSFL. But there is a high degree of variation only for AML. It implies the AML is not consistency in Operating expenses when it is compared to other MFIs under the study.

Table 7.1: Operating Expenses to Gross Loan Portfolio

Year	AML	BSFL	SHARE	SKS	SPANDANA
2004-05	0.00	19.02	16.41	15.51	4.22
2005-06	13.64	18.54	15.13	10.44	5.82
2006-07	10.22	18.14	10.85	13.62	6.23
2007-08	10.42	19.18	10.34	12.13	5.64
2008-09	9.56	17.33	9.33	12.98	6.00
2009-10	6.39	15.94	8.19	10.19	5.40
2010-11	6.89	14.45	6.87	10.72	6.19
Average	8.16	17.51	11.02	12.23	5.64
S.D	4.33	1.75	3.52	1.95	0.69

(Source: Calculations from Annual Reports)

VIII. Conclusion

1) The average ratio of Capital to Total Assets is 9.40%, 17.31%, 11.94%, 19.81%, and 10.45% for AML, BSFL, SHARE, SKS and SPANDANA respectively. As far as SKS is concerned, the ratio has reached a maximum of 42.09% during 2010-11. As per the ANOVA test results, the difference among the MFIs is not significant.
2) The average Debt-Equity ratio of MFIs selected for the study was recorded at 5% for the year 2010-11 and SKS has the least ratio of 1.38% only. During 2005-06, all the MFIs have an average ratio of 15% due to more contribution of debt in the capital structure.
3) Out of the 54 MFIs for which profitability data was available, 9 had a negative Return on Assets (ROA) in excess of 6%, a large number of MFI generated the ROA between 0 to 2%. SPANDANA posted a negative ROA as on 2011 whereas the other MFIs selected for the study have recorded a ROE between 0 to 2%.
4) In terms of Return on Equity (ROE), 12 MFIs had a negative return, while 2 MFIs posted ROE in excess of 50%. During 2009-10, all MFI have recorded an impressive ROE which is more than 30% on an average and during the year 2010-11, there has a sudden down fall in the same and recorded at 6% on an average.

5) Financial Revenue Ratio is another significant one to comment upon the revenue analysis of the MFI. During 2010-11 the average ratio is recorded as 25% and the same had been continuing since 2006-07. Of all the MFIs, SHARE and SKS have been displaying good consistency in making the financial revenue.
6) The average Profit Margin ratio during 2010-11 was just 5% which has witnessed a drastic change or collapse when it is compared with the previous year which was around 25%. This has happened due to heavy expenses and decrease in the financial revenue. During 2007-08 and 2008-09, all the MFIs made a tremendous profit which was averaging around 30%
7) As far as Operating Expenses is concerned, the average ratio of Operating expenses to Gross Loan Portfolio (GLP) was recorded as 7% during 2010-11. On a whole, SKS has 12.23%, BSFL has 17.51% as a maximum average ratios.

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