Comparitive Study of Microfinance Institutions in India

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Abstract: The point of the examination is to comprehend the working of microfinance, explanations behind the destruction in the execution and its commitment towards monetary advancement. This paper investigates the budget report of two microfinance organizations. The microfinance organizations have contributed a ton towards the general upliftment of individuals living in provincial zones. The microfinance organizations additionally give assets to poor people (particularly focusing on ladies in the general public) and different other money related and non monetary administrations. The money related execution of the chosen organizations has been broke down dependent on couple of techniques. The issue looked by MFIs has been featured and answers for defeat such issues have been brought out.

Keywords: Microfinance, MFTs, India, Poor, People

INTRODUCTION

Microfinance foundations help in activating the accessible assets so as to encourage budgetary help to the poor essentially to decrease their poverty. Financial organization is a body that gathers cash from different sources and places them into different resources, for example, bonds, stocks, credits or bank stores with the rationale to win benefits as premium and profit. They go about as a middle person body between moneylenders and borrowers, or savers and financial specialists. There are different budgetary establishments in the market with the target of giving monetary help to different associations however one of the critical money related organizations can be microfinance foundations, since its primary goal is to give monetary help to poor ranchers, independent company and family ladies. Because of presentation of microfinance foundations the poor area of the general public was given budgetary help to enhance their monetary and financial circumstance. Microfinance establishment assumes imperative job for neediness lightening in creating nations like India. In mid 1960s the interest of the corporative saving money part was in charge of meeting the credit require in the rustic territories of India, because of mechanical upgrade in the rural area, it was normal that business banks would assume a crucial job in giving credits through its branch extension and direct loaning. One of the significant reasons of the nationalization of business bank in mid 1960s was to improve the stream of budgetary credit to provincial family units by misusing middle people and cash loan specialists and so forth.

REVIEW OF LITERATURE

(Sunitha, 2014) The researcher in this research paper talk about the percentage of people who do not access to the financial services and bank facilities in India (50000 out of 6 lakh villages in India) and researcher also talks about the importance of credit loans to the poor as compared to subsidies provided by the government and the problem faced by the poor due to non-availability of financial services in the backward areas forcing them to borrow from moneylenders with high interest and pushing them into debt trap. The researcher also talks about the sanction of loans by MFIs in a group which is known as JLG (Joint Liability Group).

(Radhakrishna, 2012) In this research paper the researcher talks about the rapid growth in the expansion of MFIs in India and how there is a change in the functioning of MFIs which has turned into accelerating the improvements in governance, responsible finance practices and regulatory capacity. The community based micro finance institutions showed a positive impact on the performance of the MFIs. The importance of SHGs (Self Help Group) in facilitating funds amongst poor and has reduced the burden from MFIs and other banking sectors is also discussed.

RESEARCH DESIGN

Title: “Comparative studies of Microfinance Institutions in India”

Statement of problems:

The MFIs need lots of financial assistance from various other banking industries for lending activities. One of the biggest confront faced by the MFIs is high transaction and operating cost. The institution provides financial support to client at low interest rate which has been proven as a challenge behind the survival of the MFIs with the non-profit motive there is a decline in the growth rate of these institutions. As MFIs companies provide financial assistance with lower collateral to the client which stops MFIs to facilitate them with various other financial services. The biggest challenge faced by the MFIs is the misappropriation of funds allocated to the clients. One of the reasons behind the failure of MFIs institutions is because of poor rules and regulations framed by the government.

OBJECTIVES

- To understand the functioning of MFIs.
- To study the failure of few microfinance institutions.
- To study the comparative financial data of the selected companies with quantitative and qualitative approach.

DATA AND METHODOLOGY

For making the comparative studied of MFIs companies the data has been collected from the authorized websites for the period 2015-2016 to 2017-2018.

To satisfy the objective of research the following strategies would be used:

Profitability ratios (Quantitative approach):

Return on assets ratio: ROA ratio is also called as return on total assets; this ratio indicates the total percentage of profit of a company in relation with overall companies' resources. Higher Return on Asset ratio is more favourable for the investors. This ratio helps the management and investors of the company to find how well the company is converting its investment in assets into profits. It is calculated as follows,

Return on assets ratio= Net Income/Average Total Assets*100

Capital Employed: It is the total value of all assets employed in the business. It is calculated by subtracting Current liabilities from the total assets.

Capital Employed = Total Assets-Current Liabilities

Return on Investment ratio: This ratio indicates the amount the return earned (based on Profit before tax) on the amount invested in the company. It is calculated as follows Return on Investment ratio (ROI) = Profit before tax/Capital Employed*100

Shareholders Ratio:

Earnings per Share= Net income available to shareholders/ no of shares outstanding.

Net worth: Net worth is the amount by which the total assets exceed by its liabilities (total liabilities – current liabilities). Net worth includes its long term liability and excludes current liabilities and other liabilities.

Net worth=Total Assets- Liabilities.

SOURCES OF DATA COLLECTION

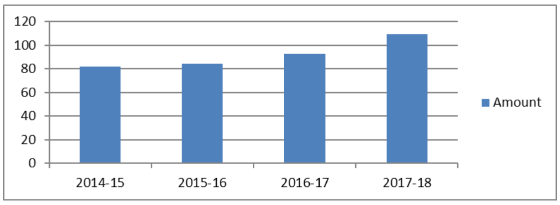
For this research purpose secondary data would be used. Data has been collected from the RBI Annual reports, Companies Annual report, Economic Times, Economic Diary, Economic Survey, World Bank report and internet etc.

Assets turnover:

YEAR	Sales (Amount in crore)	Total Assets (Amount in crore)	Sales/ Total Assets
2014-15	42.6138	179.5524	0.2373
2015-16	35.4081	244.4477	0.1448
2016-17	67.7046	406.9356	0.1664
2017-18	99.6204	564.2931	0.1765

Net worth

Years	Amount
2014-15	82.2497
2015-16	84.0392
2016-17	92.3893
2017-18	109.2185



QUALITATIVE APPROACH

Theoretical approach of analyzing company's performance basically means the external and internal factors other than financial data that affects the performance of the companies. There are few external and internal factors taken into consideration for the evaluation of the performance of companies.

1. Government policies: Control of the microfinance business to date has pursued an

unpleasant example in which organizations depending on other individuals cash (e.g. benefactor bolstered NGOs) are lawfully enrolled, be that as it may, not be controlled or directed; organizations utilizing individuals' cash (e.g. banks) are liable to prudential control and supervise. The changing idea of the microfinance business in particular the push toward store preparation requires administrative change to keep up the prudential honesty of the money related framework.

2. Competitions: The competition enhances the performance of the MFIs. Due to increase in the competition amongst MFIs borrowers are getting better services and better facilities to improve their economical situation. Due to increase in the competition amongst the MFIs companies, MFIs companies have started managing their operational cost but not the cost of borrowings. It has been proved by the researcher that this rise in the competition also has a negative impact on the company's overall profit percentage.

3. Institutions rules and regulations: One of the factor the affects the performance of the MFIs companies are the internal rules and regulations of the institution itself. The internal rules and regulations affect the performance as well as the overall profit of a company. It has been noticed that MFIs are not taking appropriate records and data because of nit availability of better facilities which affects the organizations performance and leads to lack to information of the clients. It has been proved by the researcher that better internal rules and regulations will improve the performance of the MFIs

4. Diversification: There diversification means the services and activities performed by the MFIs company other than the main objective. It has been noticed that nowadays MFIs are indulged in various other services like consultancy, advisors services and many other services as well. It has been noticed that these services has helped in the improvement of the MFIs companies. But it has been noticed that due to diversification the MFIs companies have been diverted from their main objective which is to provide financial assistance.

CONCLUSION

Micro-credit aims to provide lifeline to borrowers by providing loans at lower interest rates thereby reducing the need of moneylender and improving the standard of living. If India wants to move from developing to developed countries, the poverty alleviation and reduction of income inequality are to be of most priority. The MFI's industry has great potential and can bring about economic development in country by focusing on rural class. The MFI's sector has further growth and should thereby ensuring regulatory framework for smooth functioning by the support of the government. The MFI's are meeting vertical and horizontal axis for up liftment of society. The paper focuses on analyzing the position of two financial institutions and their performance from FY 2014 to 2018.

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