

Credit Risk Management and Financial Sustainability of Ashirvad Micro Finance Institution in Salem City, Tamilnadu

Mrs M.Sudandira Devi¹, Dr P.Ashok Kumar²

¹PhD Research Scholar (Assistant Professor) PG and Research Department of Commerce
AVS College of Arts and Science & Sona College of Arts & Science, Salem

²Assistant Professor, PG and Research Department of commerce,
Sri Vasavi College(Aided) Erode-638316
doi.org/10.64643/IJIRTV1217-188385-459

Purpose: The focus of the study is to assess the significant relationship between credit risk management practices and financial performance using some selected Micro Finance Institutions in Salem District, Tamil Nadu. Specifically, we sought to establish the effect of credit terms and policies, lending, credit analysis and appraisal and credit risk control on financial performance.

Abstract—The study was conducted in Ashirvad MFI in Salem city. The problem related to microcredit and financial sustainability in Micro Finance Institutions The objective of this study is to assess if there is a significant relationship between credit risk management and financial performance. The researcher assumes a significant relationship between credit risk management and financial performance. The study adopted is descriptive research. The primary data was collected by using interview schedules. Ratio analysis and trend analysis was used to analyse the data. The study's findings showed a positive relationship between credit risk management and financial performance.

Index Terms—MFI, Credit Risk Management, Financial performance

I. INTRODUCTION

Microfinance is not a new company. It dates back to the century when cash lenders were comfortable performing the role of now formal financial institutions. Over the past two decades, policymakers, international development agencies, non-governmental organisations, and others have devised various development approaches to decrease poverty in developing countries. One of these strategies, which

has become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of a nest egg and credit opportunity to the working poor (Johnson and Rogaly, 1997).

According to the report of the World Bank, India cascade under a small revenue class. It is the second most populated country in the world. Seventy per cent of its population lives in rural areas. 60% of people depend on agricultural; as a result, the speed of under employ is high. Rural citizens need more access to institutionalised appreciation (from the commercial bank). Since the 1990s, shortage reduction has taken superiority at national and international development levels. Within this framework, various initiatives have been taken by management. Microfinance has caught notice as an effective tool for poverty decrease and socioeconomic development. Hence Microfinance can play an essential role in improving the standard of living of the poor.

In India, the beginning of the microfinance movement could be traced to the Self-Help Groups. (SHG)

Bank Linkage Programme (SBLP) started as a pilot assignment in 1992 by NABARD. This Programme proved to be very winning and has also developed as India's most popular model of microfinance. The regulatory framework for microfinance in India is not united. Microfinance is provided by commercial banks, Regional Rural Banks (RRBs), and the SHG's cooperative societies and institutions (MFIs) that take various forms, including those of NGOs and Non-Bank Financial Institutions (NBFIs). The Reserve Bank of India governs Bank and NBFIs (RBI), SHGs

are regulated by NABARD, and the cooperatives are governed by the Registrar of Cooperative Societies (RCS) etc.

II. STATEMENT OF THE PROBLEM:

In recent decades, Microfinance institutions in India have proved to eradicate poverty and gender conflict. Comparatively, four southern states of India have received 75% of the funds and reached almost all remote pockets of their geographical area.

Because of the strong tie-up with NGOs and private partnerships between banks and MFIs, outreach and better financial sustainability, the researcher wants to analyse the relationship between Credit Risk Management and the Financial Sustainability of ASHIRVAD MFI in Salem city, Tamil Nadu.

III. OBJECTIVES OF THE STUDY

- To analyse the profitability position of Asirvad Microfinance Institutions.
- To analyse the financial performance of Asrivad Microfinance Institutions

IV. SIGNIFICANCE OF THE STUDY

- The present study is an effort to study the importance of microfinance and to analyse the performance of microfinance institutions operating in India.
- It assumes significance because these institutions must be loped efficiently given that they are users of marginal and scarce money and the intended beneficiaries are the marginalised sections of society.
- MFIs must sustain themselves financially to continue pursuing their lofty objectives through good financial performance.

V. REVIEW OF LITERATURE

Lensink (2018) et al. proposed the stability of microfinance institutions is of supreme significance for inclusive expansion and financial stability. However, risk management in MFIs remains a significant challenge for their sustainability. In this writing, the researcher also talks about the skills in

which clients (poor) are already specialised rather than killing time in teaching them new things. They must be skilled in those things, which will help them make the best use of the loan taken by the institution, improve their financial conditions, and pool them out from shortage.[1]

Kumar Vipin et al. (2015) et al. explore the study that the SHGs and MFIs play a vital role in the freedom of microfinance carrying weapons forces which leads development of poor and low-income people in India. However, purposeful progress on graduation day of SHG members, poor quality of group completion, dropout of a member from groups etc., have also been reporting various study results in different parts of the country, which need to be taken into account while plotting the road map for the next phase of the SHG programme [2].

Nikita (2014) et al. depict the study end the first time in the year 2012-2013 after the launch of SHGs BLP there is a rejection in the digit of SHGs whose saving connected with the bank. The study also found out there was an increase in the loan exceptional of SHG and which was in charge of the rise in NPAS. At last, it is created that the most crucial share belonged to commercial banks when the society-wise finance was issued to MFI. He suggested that steps should be taken to improve the performance of programs launched under Microfinance from time to time [3].

Sunitha (2014) proposed the researcher in this research term paper talk about the fraction of people who do not contact to the financial services and bank amenities in India (50000 outof 6 lakhs villages in India) and researcher also talks about the significance of credit loans to the unfortunate as compare to subsidies provide by the government and the problem faced bythe poor due to non-availability of financial services in the backward areas forcing them to borrow from moneylenders with tall attention and pushing them into debt corner. The researcher also talks about the endorse of loans by MFIs in a group which is known as JLG (Joint Liability Group) [4].

Verma & Aggarwal, (2014) et.al describe in this learn the investigator aims to study the impression of microfinance and Microfinance Institutions and its impact on financial additionwith special center of attention on shortage improvement and women

empowerment in India. In this paper the researcher says that MFIs plays a crucial role in financial insertion and societal development. The researcher also recommends various ideas regarding the growth and sustainability of MFIs to facilitate larger financial insertion [5].

Zohra Bi, Ajita Poudelm Junaid Saraf (2013) et.al determines in their paper titled “Performance and Sustainability of MFIs in India” have aimed to study the expense and increase of Indian microfinance system, outreach of Indian MFIs and operating effectiveness and portfolio quality of Indian MFIs. The indicator, namely, outreach, collection size and working efficiency have been second-hand for analysis. They have dyed that MFIs have beenpaying attention in southern section of India and bulk of MFIs have been NBFC. The study also establish that big NBFC MFIs have greatest outreach payable to their efficiency and sustainability. The review of journalism has discovered that the sustainability of MFIs is not possible without sound economic performance [6].

Hampala, Uganda et.al denotes this study evaluated the relationship between credit risk management techniques and financial performance of MFI in Hampala,Uganda. A sample of 60 members of staff in finance and credit departments of three licensed MFI were taken for the study and annual reports (2011-2015) were considered.The study indicates that credit identification and credit risk appraisal has a strong relationship on financial performance, credit risk monitoring and credit risk mitigation had a moderate relationship. So the study concluded that MFI should continually emphasis effective credit risk identification, credit risk appraisal, credit risk monitoring and credit risk mitigation techniques to enhance maximum financial performance [7].

KareKezi Jean and Butera Edison et.al proposed the study was conducted in SACCO’s ofKigali city. The objective of the study to assess whether there is a significant relationship between credits risk management and financial performance.It adopted qualitative and quantitative approach. In this study census method was used to analyze all the 35 SACCO’s. The study found that there is a positive relationship between credit risk management and loan performance. It also revealed that credit risk

management influences loan performance. Credit terms and collection policy are significant where as client appraisal is insignificant So SACCO’s have to maintain high level of performance by applying all credit risk management practices [8].

VI. METHODLOGY

Primary Data:

The Primary Data are those which are collected a fresh and for the first time, and thus happen to be original in character. Primary Data can be obtained either through observation or through direct communication with respondent in one from or another or through personal interviews.

Secondary Data

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. Usually published data are available in

Books, Magazines and Newspapers (ii) Report and publications of various associations connected with business and industry, stock exchanges etc. (iii) Public Records and statistics, Historical Documents and other sources of published information. The research has collected the necessary data for this study though published annual reports, related websites of the company.

Source of data:

The study is based on secondary data it is gathered from publication of the financial statements of ASRIVAD MICROFINANCE INSTITUTIONS LIMITED ranging from the last 5 years.

Research Tools:

The following analytical tools are used:

Ratio Analysis

Trend Analysis

VII. RESULT AND DISCUSSIONANALYSIS AND INTERPRETATION

CURRENT RATIO

Year	Current Asset	Current Liabilities	Current Ratio
2015-2016	0.51	0.28	1.8214
2016-2017	0.70	0.31	2.2580
2017- 2018	0.23	0.66	0.3484
2018-2019	1.39	0.20	6.95
2019-2020	1.23	0.07	17.5714

Table. A: Sources: Secondary Data

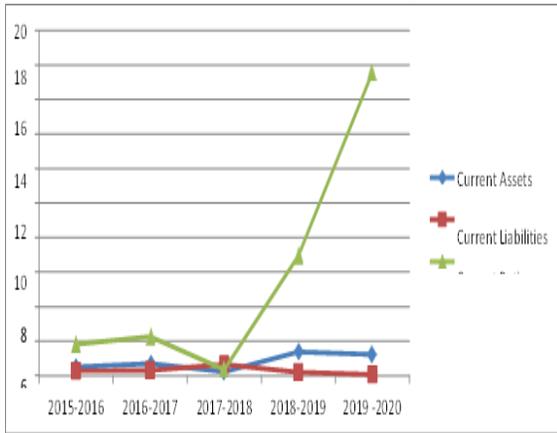


Fig A.1: Secondary data Analysis for Current Ratio

INTERPRETATION

This table shows the current Ratio of Asirvad Microfinance Institutions, during the study Period 2015- 2020. In the year 2015-2016 the ratio was recorded as 1.8214, but it has slowly decreased to 2.2580, in the year 2016-2017.

But in the year 2017-2018, the ratio was decreased 0.3484. But in the year 2018-2019, the ratio was decreased to 6.95, and but is has increased 17.571 in 2019-2020. It is concluded that current ratio position was mostly satisfied in all the years.

LIQUID RATIO

YEARS	Liquid Assets	Current Liabilities	Ratio
2015-2016	0.29	0.28	1.0357
2016-2017	0.5	0.31	1.6129
2017-2018	0.04	0.66	0.0606
2018-2019	1.21	0.20	6.05
2019-2020	1.06	0.70	1.5142

Table. B: Sources: Secondary Data

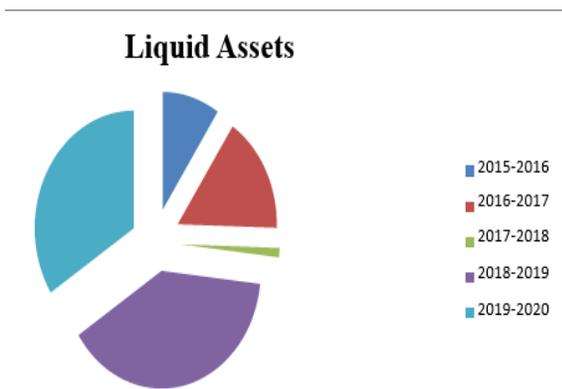


Fig B.1: Liquid Ratio Analysis

INTERPRETATION:

The above table shows that the liquid ratio Microfinance Institutions. During the period 2015 to 2020. In the year 2015-2016 recorded as 1.0357 but it is slowly decreased to 1.612, in the year 2016-2017. But in the year 2017-2018, the ratio was decreased to 0.0606, and increased 6.05, in the year 2018-2019. Then decreased to some extent and again it was decreased to 1.5142 in the year 2019-2020. Hence, the liquid ratio shows a fluctuating trend during the study period. It clearly exhibits the company is inability to repay on demand.

TREND ANALYSIS FOR NET PROFIT

Year	Net Profit	Trend Value
2015-2016	0.36	100
2016-2017	0.47	130.55
2017-2018	0.71	197.22
2018-2019	0.94	261.11
2019-2020	0.38	105.55

Table. C: Sources: secondary Data

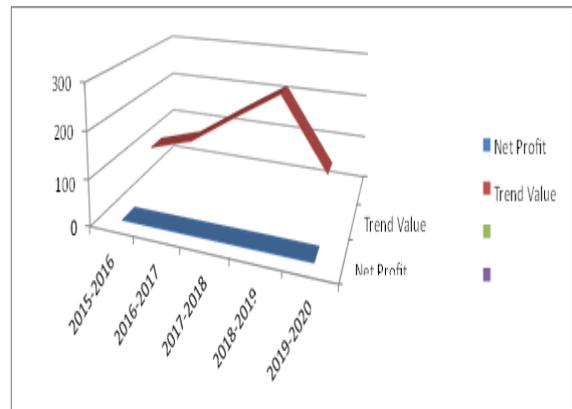


Fig C.1: Trend Analysis for Net Profit

INTERPRETATION:

The net profits have been increased to 261.11 in the year 2018-2019. The trend value reflects the favorable impact on assets as it is increasing every year. The company needs to concentrate in maintaining the current financial position as the net profit is increasing every year.

VIII. FINDINGS

- The liquid ratio shows a fluctuating trend during

- the study period.
- Net profit ratio has the dynamic changes while making assessment, it is analyzed that the declined ratio is caused due to the inefficiency in earning profits.
- The debt as well as the equity shows a fluctuating trends and the ratio is increasing every year.
- The dividend per share of the company is increasing every year.
- The shareholders earnings per share is increasing tremendously every year and it shows the profitability position of the company to return the capital and efficiency in sharing profit with the investors is good

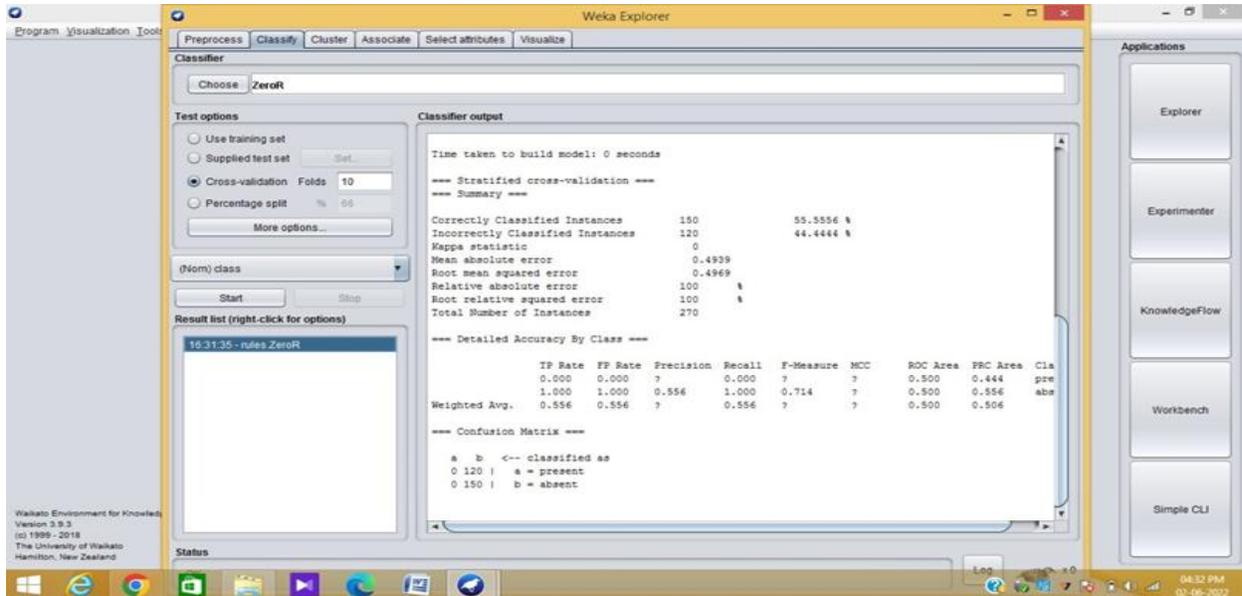


Fig D: MSE detection

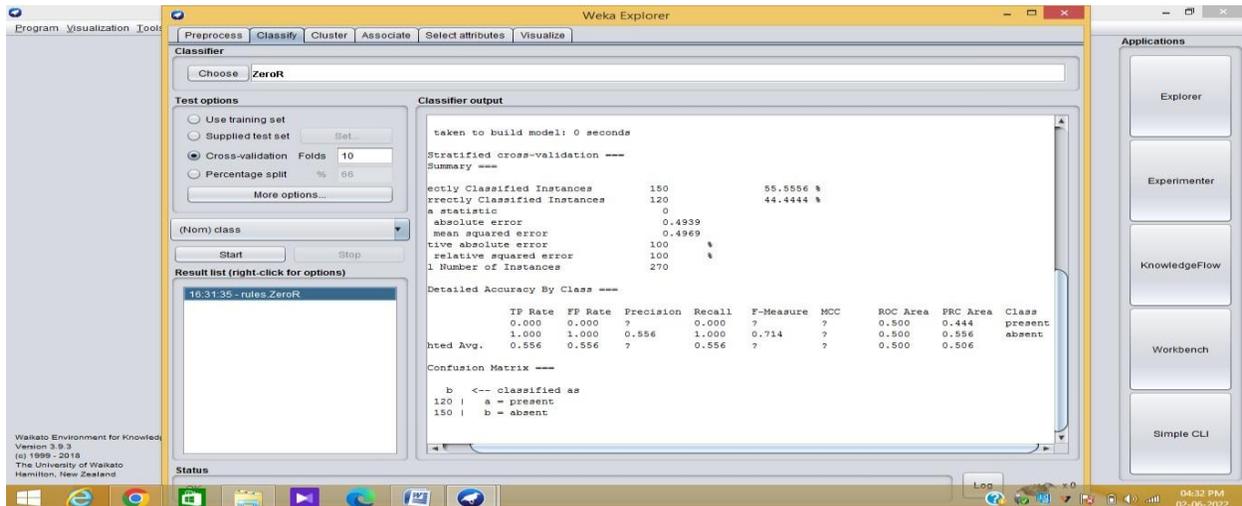


Fig E: Cross Validation for Secondary Data

SUGGESTIONS:

- The company should preserve the good balance between the current assets and current liability to steer clear of the broke position.
- The financial performance of “Microfinance Intuitions” shows ever-increasing trend it can be better much better to obtain a rising profitability position.

- The company's liquidity, profitability and solvency positions are very good. split endson the brand cost and value of the yield.
- Operating ratio leftovers more or less equal in the study period particular notice is needed to this concern in the operating cost and sales.

IX. CONCLUSION

Micro - credit aims to give lifeline to borrowers by providing loans at lesser interest rates thereby falling the need of currency lender and civilizing the standards of living. Micro finance have been important tool in poverty alleviation and in bringing about financial inclusion If India needs to move from increasing to developed countries, the poverty alleviation and decrease of revenue inequity are to be most priority. The MFIs industry has great potential and can bring about economic development in country by focus on rural class. The MFI's sector has further growth and should thereby ensure regulatory frame labor for stage performance by the support of the government. The MFI's are meeting straight up and straight axis for upliftment of society. Thus continuous efforts are needed to diversify the funds and to earn profit through its investments which would ultimately improve the low income population and helps in alleviate poverty

REFERENCES

- [1] Lensink, R. (2018). Provisioning and business cycle : Evidence from Provisioning and business cycle : Evidence from microfinance institutions, (April 2018), 1–44.
- [2] Kumar vipin, Chauhan Monu and Kumar Ritesh (2015) An Overview of Microfinance in India, Abhinav National
- [3] Nikita (2014) An Analysis of Performance of Micro Finance in India, International Journal of Management Research & Review Volume 4, Issue 7, pp. 715-721.
- [4] Sunitha, S.(2014). A Comprehensive Study on Micro Finance Institutions in India, 2(2), 46–53.
- [5] Verma, S., & Aggarwal. (2014).Financial Inclusion through Microfinance Institutions in India. International Journal Of Innovate Research & Development, 3(1), 178–183
- [6] Zohra Bi, AjitaPoudelJunaidSaraf, "Performance and Sustainability of MFIs in India",Tenth AIMS, International Conference on Management, January 6 – 9, 2013., <http://en.m.wikipedia.org/wik/Asrivad> Microfinance Institutions, <http://m.moneycontrol.com>, <http://www.google.com>, <http://www.researchgate.net/>, <http://www.isorjournals.org/iosr-jef/papers/sifico/Version-2/6.51-61.pdf>, <http://www.asirvadmicrofinance.co.in>
- [7] Hampala Uganda(2015), study evaluated the relationship between credit risk management techniques and financial performance of MFI in Hampala,Uganda.
- [8] Credit Risk Management and Loan Performance: A Case of Umurenge Saccos in Kigali City, Rwanda 1Karekezi Jean Claude and 2Butera Edison Bugema University, International Journal of Recent Innovations in Academic Research olume-2, Issue-8, December-2018: 131-146