

PERFORMANCE EVALUATION OF SELECTED MICROFINANCE INSTITUTIONS OPERATING IN NEW DELHI, INDIA

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Abstract

The Microfinance Institutions operating in New Delhi, India are still in their infancy stage. The performance of Institutions is dismal and awareness among the marginalized section is minimum. Thus, primary data on selected Microfinance Institutions (MFIs) operating in New Delhi has been collected and analyzed to evaluate the performance of the institutions. For the selected case situations of chosen NBFC-MFIs, cross comparison among the institutions would help us conclude the best operating MFI and grade all others. Relevant suggestions for other institutions would be provided.

Keywords: Microfinance, Microfinance Institutions, Performance Evaluation.

1. Introduction

Micro Finance is the provision of credit and other financial services to the poorest of the poor. These needy people have been out-rightly secluded from the formal financial sector due to non-possession of collaterals with them. They form the majority of the population in any developing country, including India. Thus, it becomes customary to cater to their credit requirements for a holistic development of the nation. In such an environment, Micro Finance Institutions (MFIs) and other similar lending agencies have evolved to provide micro credit for short duration to this needy group. The loans are mostly collateral free and provided at high rates of interest to cover the high operating costs of the institutions. Such institutions provide hopes of a poverty free nation to many. Such ideology has been initiated by Muhammad Yunus, who received Nobel Peace Prize in 2006 for forming Grameen Bank and coining the concepts of Micro credit and Micro finance. According to him, Micro Finance- extension of small amounts of collateral free loans to jointly liable poor group members for self-employment and income generation- has become a major tool of promoting inclusive growth and sustainable development.

The Micro Finance Industry is unique in nature due to its double bottom line objective of Outreach (reaching large number of poor) and Sustainability (ability to cover costs and earn profits in the long run). Thus, the strategies followed by other industries cannot be replicated to the Micro Finance Industry. The Micro Finance Institutions have been operating for quite long now, but fail to address the problems of the poor and sustain themselves in the long run. Such a scenario is more prevalent in the Northern region of the country, particularly Delhi. The reasons for their ultimate failure are varied. The institutions lack foresightedness, professional staff, Government support, appropriate financial policies, sound and strict repayment mechanisms; and adequate monitoring of client base, technology, infrastructure and the like. By keeping these facts in mind, I have chosen the topic 'Performance Evaluation of Microfinance Institutions in New Delhi, India' to understand the overall performance of the Industry in the capital of the country.

2. Review of Significant Literature

Agarwal Swati, (2009) in her research paper has highlighted the dismal state of the Micro Finance sector in the capital of the country due to negligible efforts of the State and Central Government. The different schemes initiated by Delhi Government for urban poor shows numerous steps taken by the government, but the inadequate cash outlay for the sector in every consecutive Budget speaks a different story altogether. The corrupt implementation of various schemes in numerous departments makes Micro Finance an illusion in the capital up till date. Our attention has been drawn towards the efforts taken by the South Indian States in the field of Micro Finance which the Delhi government needs to learn and incorporate in its functioning.

Copstake, 2007, in his research paper, showed that the entire chosen sample set of MFIs performed satisfactory on both social and financial performance indicators, but there was still scope for improvement. It has been suggested that better strategic planning, routine monitoring of clients, periodic review of activities undertaken can significantly help the MFIs manage their social and financial performances better and reduce mission drift. Emeni, (2008) paper discussed a lot of factors for the dismal state of MFIs in the country, Nigeria. The MFIs have been requested to tap the local and international capital markets to raise funds for their clients and expand their institutions. It is believed that the MFIs need to study the lending and working mechanisms of the prevalent and well established money lenders in the area which can help them expand their industry rapidly. Wijesiri, Vigano and Meoli, (2015) observed that none of the MFIs in the chosen dataset performed well on both dimensions of efficiency i.e. financial and social. While the Age of MFIs and Degree of Capitalization was found to be significant indicators of financial efficiency. On the other hand, Age of MFIs, type of institution and Return on Asset as an indicator of profitability are found to be crucial indicators of social efficiency

3. Research Method and Research objectives

The primary sources of data would include all the NBFC-MFIs registered with Reserve Bank of India (RBI) and operating in New Delhi. The selected MFIs include: Altura Financial Services Limited, Capital Trust Limited, Fusion Microfinance, Satin Credit care Network Limited, Saija Finance Private Ltd, Shikhar Microfinance and S V Credit line Pvt Ltd.

Based on the systematic and comprehensive review of the empirical and theoretical literature on the microfinance institutions, the following objectives have been laid down:

1. To analyze the performance of the selected NBFC-MFI registered with RBI and operating in Delhi;
2. To cross compare the selected micro finance institutions with each other on the basis of size;
3. To grade the institutions on the basis of their financial performance.

3.1 Hypothesis for Objective No 1:

Ho: There is no significant difference in the performance of selected micro finance institutions based upon their categorization of size.

To analyze the financial performance of the selected micro finance institutions, qualitative descriptive research methodology has been used. The study uses three major financial performance indicators, viz: loan quality, operational efficiency and portfolio quality. The following variables are assumed to gauge the performance of the selected micro finance institutions given the performance indicators:

Loan Quality:

1. Average loan per borrower;
2. Loan disbursed to gross loans;
3. Proportion of defaulted accounts;

Operational Efficiency:

1. Manager to field staff ratio;
2. Field staff per branch;

3. Rate of interest;
 4. Average loan per field staff.
- Portfolio Quality:
1. Portfolio at risk >30 days
 2. Portfolio at risk >90 days.

To test the hypothesis, we have used **dummy regression model** to capture the effect of the size of the micro finance institution on the given financial performance variables. The number of branches of the micro finance institution has been used as proxy for categorization of the sample micro finance institutions into two categories, viz, big and small. In all, nine bivariate regressions are run to investigate whether size has any role in explaining the variation in the chosen variables that are assumed to measure different indicators of financial performance. The Dummy variable in our model takes the value '1' if the size of the institution is big, else '0', when the size of the institution is small. Further, the study uses a ranking method for evaluating the performance of the sample institutions on the basis of different financial performance indicators and on overall basis. The scale ranges from 1 to 7, with '1' reflecting the best ranking and the '7' the poor or worst ranking.

4. Profile of Selected Microfinance Institutions Altura Financial Services Limited

Altura Financial Services Limited is a NBFC -MFI registered with RBI to provide micro finance services to the under-served rural and semi-urban women across the nation. The institution is currently operational in 7 states of our country to reach the under-served section of our society. JLG loans are provided by the organization for income generating purposes which include loans for agriculture, cattle, materials, dairy, small scale businesses etc. The loan tenure ranges from 12 months to 24 months to support the income generating and repayment capacity of the borrowers. Maximum of Rs. 50000 has been dispersed as group loan to clients for repayment of pre-calculated installments. The institution charges interest rate of 24.91% p.a. from its clients on reducing balance. Regular trainings are provided and workshops conducted to equip the clients with necessary resources, skills and vision to transform their small businesses into profitable entities. The company has even tied up with Life Insurance Corporation (LIC) to provide credit life insurance to its clients. Insurance covers the unfortunate event of death of borrower or spouse only to reimburse the appropriate loan amount to the family to reduce the debt burden.

4.1 Capital Trust Limited

Capital Trust Limited was incorporated in 1985 and has been working as a NBFC for over 30 years in the financial services industry. In 2008, after abandoning its operations in the prior Consultancy Services, the institution ventured into the foray of micro finance. Thus, capital trust became one of the few companies to span in the areas of both micro finance and MSME Industry. Yogen Khosla is the current Managing Director of the company and was the one to introduce the company to retail lending of micro loans in the rural and semi-urban areas of the nation. Due to his great vision and focus, the company even entered the top 100 Small and Medium Enterprises in India list created by India SME Forum in 2017. The MFI provide individual and group loans to their clients for various income generating activities which include manufacturing, dairy and livestock, trading, services, food, retail and agriculture. Micro finance loans are provided for retail financing of products like two wheelers, consumer durables, office equipment etc. Mostly, known products are offered to the borrowers on 26 % rate of interest per annum and 1% processing fees. The institution is geographically present in 6 states and union territories spread across the Northern region of the country.

4.2 Fusion Microfinance

Fusion microfinance has been set up and registered as a NBFC- MFI in 2010. It operates according to the Joint Liability Group Model of Grameen Bank initiated by Nobel Prize Winner Professor Muhammad Yunus in Bangladesh. They focus on reaching out to hundred percent women client residing in rural and semi urban areas to provide financial services to them and convert them into successful women entrepreneurs. The marginalized women

clients are engaged in various kinds of small businesses like transportation, carpentry, livestock, small shops etc. The household income of women clients residing in rural areas falls below Rs. 1,00,000 and Rs. 1,60,000 in urban areas. They have dispersed their operations to 14 States via 305 branches. Their Gross Loan Portfolio outstanding reaches out to be Rs. 960.55 crore out of which the cumulative loan amount disbursed amounts to Rs. 2567.66 crores. Every branch is set up and headed by a branch manager and 4-5 Relationship officers. The field officers visit the villages to familiarize themselves to the local villages and explain their operations to the prospective clients. The borrowers in most cases themselves from groups of 5 clients each and in total 3-6 groups form a centre. A three day Compulsory Group Training (CGT) is provided to the clients followed by a Group Recognition Test (GRT) undertaken by Branch Manager. Consequently, the loan disbursement is done at the branch premises. Various types of loan products are offered at Fusion like Income Generation, Top up, Emergency and Sanjivani. Repayment for various products is mostly weekly, fortnightly and monthly for the borrowers.

4.3 Satin Creditcare Network Limited

According to the issue 21 Micro-meter by Micro Finance Institution Network (MFIN), the company is reported to be the third largest micro finance institution in terms of its Gross Loan Portfolio. The institution started its operations in the year 1990 and registered itself as a Non Banking Finance Company (NBFC) with RBI in 1998. The main business is to provide jointly liable group loans to economically active women in rural and semi-urban areas. They also provide individual loans for small businesses particularly Micro Small and Medium Enterprises (MSMEs), product loans for purchase of solar lamps and developmental loans for water connection and sanitation facilities. The organization has spread its operations across 16 States and union territories with 634 branches in India which have moderate or low levels of penetration by other MFIs. It is one of the few MFIs to be listed with Calcutta Stock Exchange, National Stock Exchange and Bombay Stock Exchange for their equity shares. All the clients at SCNL are provided Compulsory Group Training (CGT) by the credit officers / field staff of the institution. Consequently, Group Recognition Test (GRT) is conducted on the clients to assess their genuine understanding towards the program and interest towards jointly sharing their loan. After the successful completion of GRT, credit is extended Collateral free to the clients in jointly liable manner. The institution provides different types of products and services according to the requirements and repayment capacities of their client. The first type of product offered is the income generating loan for various sub-sectors like animal husbandry, production, service and trade. Different amounts ranging from Rs. 5000 to Rs. 50000 are repayable in one, one and half hour and 2 years according to the income generation capacity of the borrowers. The second type of product offered is water and sanitation loan for rural and semi-urban clients facing problems of open defecation and drinking water. The Loan provides adequate water and sanitation facilities within their households. The third type of product is the solar loan for financing solar lanterns at affordable rates for the villages which are still not electrified. According to the CRISIL Report dated January 11, 2017 the institution has been assigned a fundamental grade of 3 out of 5 and a fair value of their share at Rs. 518.

4.4 Saija Finance Pvt. Ltd

Saija is NBFC formed in 2007 and registered with RBI to provide micro finance to rural and urban poor spread in the Northern and Eastern regions of the country. Mr. S. K. Sinha is the Chairman cum Managing Director at Saija. Using his professional knowledge, experience and networking activities the institution has become one of the first to achieve Rs. 30 million worth of business. The institution has suitably modified the Grameen Bank Model into a more workable and practical JLG model. The borrowers voluntarily form a group of 5 to 6 members under the guidance and support of Saija Executive. After the formation of the group, compulsory group training include awareness of products and services offered by the Institution, policies and procedures followed, the concept of group guarantee and benefits of the model. Consequently, group recognition test is conducted to ensure understanding of the above mentioned concepts by all group members. Group meetings are weekly or fortnightly held to discuss social or community issues, communication of developmental changes, filling

of loan application forms and collection of the payment amounts. The institution has spread its operations to 3 operational States through 64 branches and 37 districts. The institution offers 5 different kinds of products for its diversify clients namely Saija Karobar Rin (SKR), Saija Mahila Rin (SMR), Saija Vridhi Rin (SVR) and Saija Phone Rin (SPR). As the name suggests, the Karobar loan is provided to jointly liable 4 to 6 group members to provide financial assistance for their business Enterprises. The loan amount ranges from Rs. 10000 to Rs. 100000 for a weekly / fortnightly / monthly repayment according to paying capacity of the borrowers. The Mahila loan is loan grant to women to financially assist them in their income generating activities and genuine consumption needs. The loan amount ranges from Rs. 5,000 to Rs. 1, 00,000. Urja loan is a loan provided to clients to purchase solar lighting products for their households. The loan amount is Rs. 1899 and is payable in 13 fortnightly installments. Vridhi loan provide clients the facility to avail loans up to 75% of the main loan. The last product is the phone loan provided to transfer mobile phones to their clients on installments. The loan amount is Rs. 7,000 and the tenure of the loan being one year.

4.5 Shikhar Microfinance Pvt. Ltd

Shikhar Microfinance Pvt. Ltd. is a non-deposit taking Non- Banking finance company (NBFC-MFI) regulated by Reserve Bank of India (RBI). They provide financial services and livelihood opportunities to the un-bankable segment of the society. Their core services to the poor include income generating microfinance loans ranging from Rs. 15,000 to Rs. 80,000 repayable over a period of 12-36 months. The services empower the underprivileged to break the shackles of poverty, get rid of debt traps, initiate savings, provides better health, shelter, sanitation and education to their families. The institution follows the Joint Liability Group Model to provide micro-credit services to its economically backward clients. The current business summary snapshot of Shikhar Microfinance Pvt. Ltd as on 30th April 2017 includes 41,990 active loans to their clients amounting to Rs. 59.4 crore in the form of Gross Loan Portfolio with the institution. Shikhar Microfinance has spread its operations to 26 branches and 168 working staff in its earnest endeavor to reach the underprivileged. The wide range of areas covered by Shikhar includes Delhi NCR Region, Uttrakhand, Haryana and Western Uttar Pradesh. The current rate of interest charged to its clients on active loans is 25.35%. The clients are mostly those residing in slums, unauthorized colonies, rural and urban villages. Shikhar has even collaborated with two Third parties viz Samsung Electronics and Hindustan Unilever to move one level up in providing low cost products to their clients on voluntary basis. With the help of Samsung Electronics, the institution provides low cost smart phones to their customers at competitive prices and through Hindustan Unilever, water purifying devices are made available to their clients at affordable prices.

4.6 S V Creditline Pvt. Ltd

SVCL is a NBFC registered with RBI under section 451A and has its corporate office in Gurugram (Haryana). It started its micro finance operations in January 2010 to establish its strong presence in Northern and Central regions of the nation. Mr. Surinder Singh Kohli (Chairman and Independent director) has undertaken directorship in various Institutions before joining SVCL which includes IDFC, IIFCL, Reliance Infrastructure and BSES Yamuna and BSES Rajdhani Power Ltd. The institution targets women in rural areas with annual household income less than rupees one lakh and semi urban areas with household income less than rupees one lakh sixty thousand. These women are mostly engaged in income generating activities or intent to do so, but fail due to non access to financial services as they lack possession of collaterals. The loan amount is utilized for varied productive farm and non-farm activities like animal husbandry, trading, production etc. The institution follows the joint ability group model to form a group of 5 women bore well known to each other but not belonging to the same family. The business model of the organization follows the following steps: Villages and their prospective clients are identified by organizing projection meetings in the particular distressed area. Then, a group of 5 women borrowers is formed which undergo a three day training Program. Consequently, groups are joined to the centre and loans are granted to the group members for their income generating activities. After, successful repayment of first loan amount successive loans is granted to the borrowers to run

their business and enhance their savings. Finally, after witnessing success stories of existing members, new clients even join the group and expand the network of the institution. The Institution offers three different kinds of loan products namely Unnati, Pragati and Samriddhi. Under Unnati, loan amount ranges from Rs. 10,000 to Rs. 15,000 repayable within one year of loan grant. Pragati offers loan amount for 2 years ranging from Rs. 16,000 to Rs. 26,000. The loan product, Samriddhi offers loan ranging from Rs. 27,000 to Rs. 35,000. The rate of interest is 24.7% reducing balance for all loan products.

5. MICRO FINANCE INSTITUTIONS: OVERVIEW

Parameters	Altura	Capital Trust	Fusion	Satin	Saija	Shikhar	S V Creditline
History	Received NBFC-MFI license in the year 2014 and started its operations	Capital Trust Limited was incorporated in 1985 and ventured into the foray of micro finance in 2008.	Set up and registered as a NBFC- MFI in 2010	Started operations in 1990 and registered itself as NBFC with RBI in 1998	Formed in 2007 and registered with RBI	In 2008, Shikhar Trust acquired a non-deposit taking NBFC to undertake the microfinance operations of Shikhar Microfinance Private Ltd.	Registered with RBI under section 451A having corporate office in Gurugram (Haryana)
Philosophy	To facilitate socio economic financial inclusion of distressed families	Encourage self-sufficiency and entrepreneurship in the unbanked population of the country	Providing the underprivileged women economic opportunities to transform the quality of their lives	Catering to the financially excluded households by being a one stop solution to their financial needs	To create significant social impact through high-quality sustainable microfinance	Shikhar values are popularly referred to as ICE-FEST. (Integrity, Credibility, Excellence, Fairness, Enterprising, Stewardship and Transparency.)	To build a professionally managed and sustainable microfinance institution
Leader	Ms. Mala Kaur is the Chief Executive Officer of Altura and handles its day to day operations	Yogen Khosla is the current Managing Director of the company	Tarun Mehndiratta is the current Chief Operating Officer (COO) at Fusion	HP Singh is the Chairman cum Managing Director at Satin	Mr. S. K. Sinha is the Chairman cum Managing Director at Saija	Mr. Satyavir Chakrapani is the Managing Director & Chief Executive Officer at Shikhar	Mr. Surinder Singh Kohli is the Chairman and Independent director of the institution
Business Model	Loan tenure ranges from 12 months to 24 months. Maximum of Rs. 50000 has been dispersed as group loan at interest rate of 24.91% p.a.	Retail financing provided for products like two wheelers, consumer durables, office equipment etc. at 26% interest rate and 1% processing fees	A three day Compulsory Group Training (CGT) is provided to the clients followed by a Group Recognition Test (GRT) undertaken by Branch Manager	Compulsory Group Training (CGT) and Group Recognition Test (GRT) is conducted on the clients before lending	JLG Model followed. CGT and GRT undertaken for prospective clients.	Joint liability group loans ranging from Rs. 15,000 to Rs. 80,000 repayable over a period of 12-36 months at 25.35% rate of interest p.a.	Three day training program is conducted before providing group loans to women borrowers

Products & Services	Income generating group loans (JLG) for varied purposes include cattle, agriculture, materials, dairy and starting of a small scale business.	Provide individual and group loans to their clients for various income generating activities which include manufacturing, dairy and livestock, trading, services, retail and agriculture	Various types of loan products are offered at Fusion like Income Generation, Top up, Emergency and Sanjivani.	Income generating loan, Water and Sanitation loan and Solar loan	Four loan products are offered namely SaijaKarobar Rin (SKR), SaijaMahila Rin (SMR), SaijaVridhi Rin (SVR) and Saija Phone Rin (SPR)	Income generating microfinance loans ranging from Rs. 15,000 to Rs. 80,000 repayable over a period of 12-36 months.	Three different kinds of loan products are offered namely Unnati, Pragati and Samridhhi
Geographic Spread	Currently operational in 7 states of the country	Present in 6 states and union territories across the Northern region of the country	Operational in 14 states through 180 districts and 316 branches	Spread its operations across 16 States and UTs with 634 branches	Working in three operational States through 64 branches and 37 districts	Shikhar has extended operations to 4 States and 176 Locations covered by 20 branches	SVCL is operational in 9 states through 227 locations

6. Result

The results of the dummy regressions reveal that size has no significant influence on the various financial performance indicators of the sample micro finance institutions. In all the regressions that we have run, the p-value of the coefficient of dummy variable (representing the explanatory variable in our case) is greater than 0.05. Hence, we do not reject our null hypothesis that, there is no significant difference in the performance of selected micro finance institutions based upon their categorization of size.

The analysis of rankings of the different sample micro finance reveals that Fusion has poor ranking for loan quality while as rest of the institutions secure a moderate ranking between 3 and 4. Similarly, Capital trust and Saija get nearly poor ranking for operational efficiency, while others get a moderate ranking between 3 and 4. Satin, Capital trust and SVCL obtain close to poor ranking, while others get a moderate ranking between 3 and 4 for portfolio quality.

Overall, Satin, SVCL and Capital Trust secure nearly poor ranking while as others obtain a moderate ranking between 3 and 4.

Table 1: Summary of the results of Dummy Regression

Loan Quality Ranking	Satin	Saija	Capital Trust	Altura	Fusion	SVCL	Shikhar
Average loan per borrower (lower the better)	1	2	3	4	5	6	7
loan distributed to gross loan (higher the better)	7	6	3	4	5	2	1
proportion of defaulted accounts in active accounts (lower the best)	1	3	6	5	7	4	2
Overall Loan Quality Ranking	3	4	4	4	6	4	3
Operational Efficiency Ranking	Satin	Saija	Capital Trust	Altura	Fusion	SVCL	Shikhar
manager to field staff ratio (lower the better)	7	2	6	4	1	3	5
Rate of interest (lower the better)	1	5	7	2	3	4	6
field staff per branch (lower the better)	5	7	3	2	4	6	1

average loan per field staff (higher the better)	1	6	7	5	3	4	2
Overall Operational Efficiency Ranking	4	5	6	3	3	4	4
Portfolio Quality Ranking	Satin	Saija	Capital Trust	Altura	Fusion	SVCL	Shikhar
Portfolio at Risk past due over 30 days (lower the better)	7	4	6	1	2	5	3
Portfolio at Risk past due over 90 days (lower the better)	7	4	5	1	2	6	3
Overall Portfolio Quality Ranking	7	4	6	1	2	6	3
Overall Performance Rankings	5	4	5	3	3	5	3

Source: Compiled by Authors

Table 2: Summary of Performance Rankings

Model		coffecient	t Stat	p-value	R ²
avg loan=f(size)	intercept	13126.74419	2.791074	0.038396	0.0655
	size dummy	-4253.00381	-0.592	0.579604	
loan distribute to gross loan=f(size)	intercept	1.085428611	3.077457	0.027549	0.093657
	size dummy	-0.38726243	-0.7188	0.504445	
proportion of defaulted loans in active borrowers=f(size)	intercept	0.063313953	2.097906	0.089992	0.028788
	size dummy	0.017747326	0.384974	0.716089	
manager to field staff ratio=f(size)	intercept	0.224900798	1.908462	0.114612	0.001588
	size dummy	-0.01605143	-0.08917	0.932409	
rate of interest=f(size)	intercept	0.250875	73.15858	9.04E-09	0.25624
	size dummy	-0.006875	-1.31248	0.246374	
Field staff per branch=f(size)	intercept	5.38791856	3.831648	0.012227	0.015966
	size dummy	0.611795055	0.284828	0.787197	
Average loan per field staff=f(size)	intercept	162.1745678	0.426223	0.687672	0.222446
	size dummy	695.1308877	1.196003	0.285314	
Portfolio at risk>30days=f(size)	intercept	6.6975	1.348133	0.235467	0.115742
	size dummy	6.139166667	0.808986	0.455279	
Portfolio at risk>90days=f(size)	intercept	3.54	1.379811	0.226156	0.18247
	size dummy	4.14	1.0564	0.339132	

Source: Compiled by Authors

Discussions

The findings indicate the dismal state of micro finance institutions operating in New Delhi. The 15,000 crores Industry hold great potential to serve the financially needy, but are required to revisit their strategies to approach their customers. The State government needs to learn and pour in some funds to render financial help to these institutions so that they are able to enhance their financial performance. One major reason of the poor performance can be traced back to demonetization witnessed by the country on November 8, 2016. The clients

suddenly ran out of hard cash and failed to repay the loan amounts timely. The Institutions are still trying to recover from the sudden blown received at their end. The researcher would also like to mention that due to the sample size being quite limited, no generalization of the result can be done on other parts of the country. Further research can be undertaken from the point of view of the clients to understand what problems are faced by them and the reasons as to why they prefer one institution over another for their loan grant.



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