A Comparative Analysis of Financial Performance of NBFC-MFIs & NGO-MFIs with reference to Microfinance Information Exchange

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ABSTRACT
Microfinance Institutions are used as tools of poverty eradication, women empowerment & financial inclusion, their performance is mostly evaluated on the basis of non-financial factors. The MFIs performance of MFI is thus evaluated on the basis of their social performance rather than its financial performance. However for the survival of any entity financial performance & financial sustainability plays a very important role. A MFI is measured for financial sustainability based on its efficient financial performance. Previously the MFIs were non-for-profit organizations later several non-banking financial companies & non-governmental organizations) have come into the microfinance sector. The primary aim of this research is to study the financial performance of Selected NGOs-MFIs & NBFC-MFIS & to compare their financial performance. The data is collected from secondary sources of data for the research study. The different sources used are journals research articles, papers, and different websites. The data collected is analyzed utilizing MS-excel & SPSS software.
Keywords: *MFI's, financial performance & financial sustainability*

1. Idea and Definition of Microfinance

"The poor stay poor, not because they are lazy but because they have no access to capital."- Milton Friedman.

As indicated by International Labor Organization (ILO), "Microfinance is an economic development approach that involves providing financial services through institutions to low income clients"

In India, Microfinance has been characterized by The National Microfinance Taskforce, 1999 as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

The idea of micro finance was raised to accomplish uncommon goal of financial strengthening of under-advantaged class of society, women and poor from the diverse standing, religion and doctrine. The primary goal of microfinance was to incorporate the families who were not in the formal financial framework. The microfinance depends on the essential standards of collaboration and it accentuation on estimations of value, shared self improvement and balance. The standards of microfinance center to accomplish a superior existence of the poor families and their kids with the idea of human advancement and the fraternity through individuals cooperating. Microfinance is characterized as any action that incorporates the arrangement of thrift, credit and other financial services, for example money transfer, savings, and insurance for the poor to empower them to raise their salary levels and enhance their living standards.

The microfinance service is given by a many range of players like GOI, NGOs. Microfinance organizations in India, utilizing distinctive delivery models of microfinance provide such services. The microfinance targets people who fall just underneath or more the broadly characterized above and below poverty line, with the point of making social esteem. The development of social esteem incorporates poverty eradication and the more extensive effect of enhancing employment opportunities through the arrangement of capital for microenterprise, savings and insurance for smoothing consumption and minimizing or alleviating risk.

2. Microfinance Institution:

MFIs have played a significant role in bridging the space between conventional financial institutions and low-income segment of the society. Lending to rural poor is expensive activity which affects the financial performance of MFIs. In several countries, completions among MFIs have enlarged speedily that led to lesser interest rates, more efficiency, and introduction of new financial services. MFIs in India are diverse in nature and only a few of them have managed to reach among poor with significant volume of credit. The top 10 MFIs have been able to reach 2 million poor customers.
MFIs in India not only have non-profit impetus but also profit maximization for long-term viability for credit disbursement on the other hand.

Microfinance institutions in India can be largely categorized into three categories:

1. NGO MFIs (registered under the Societies registration Act 1860),
2. Public trusts, Non-profit companies
3. Cooperative MFIs (registered under the State Cooperative Societies Act),
4. Non-banking finance companies (NBFCs) MFIs (incorporated under the Companies Act 1956), and
5. Local area banks (the only such MFI is Krishna Bhima Samruddhi Local area banks) (Richa Verma, 2014)

3. Objectives:

1. To analyze the financial performance of 24 four star rated NGO-MFIs reporting data to MIX for the period 2010 to 2014.
2. To analyze the financial performance of 24 four star rated NBFC-MFIs reporting data to MIX for the period 2010 to 2014.
3. To compare the financial performance of 24 four star rated NGO-MFIs & NBFC-MFIs reporting data to MIX for the period 2010 to 2014.

4. Following hypotheses will be tested in the course of the proposed research study:

$H0_1$: There is no significant difference between the means of Capital adequacy ratio of NGO and NBFC MFIs
$H1_1$: There is significant difference between the means of Capital adequacy ratio of NGO and NBFC MFIs.

$H0_2$: There is no significant difference between the means of Debt equity ratio of NGO and NBFC MFIs
$H1_2$: There is significant difference between the means of Debt equity ratio of NGO and NBFC MFIs.

$H0_3$: There is no significant difference between the means of Return on assets of NGO and NBFC MFIs
$H1_3$: There is significant difference between the means of Return on assets of NGO and NBFC MFIs.

5. Research Methodology:

5.1 Research Design:

- The data is collected from the financial statements and the annual reports of the selected NGO-MFIs & NBFC-MFIs.
- The research takes into consideration only four star rated NGO-MFIs & NBFC-MFIs by Microfinance Information Exchange (MIX).
- The data of selected NBFC-MFIs and NGO-MFIs is collected for the period 2010 to 2014.
- Averages of five years ratios of all NGO-MFIs & NBFC-MFIs is taken & then the means of averages of these ratios are compared using ANOVA
- For the study MS-Excel & SPSS has been used.

5.2 Sources of data:

Data used for the present study was collected from secondary sources. Data of NGO-MFIs & NBFC-MFIs was collected from the MIX Market Inc. website. Along with the MIX Market Inc. Also the secondary data was collected from the sources such as journals, magazines and research publications.

5.3 Sample Size:

- 24 Four star rated NGO-MFIs reporting data to MIX are selected as sample
- 24 Four star rated NBFC-MFIs reporting data to MIX are selected as sample

6. Data Analysis & Interpretation:

6.1 Average Ratios (Five years 2010 to 2014) of NBFC-MFIs

SN	NAME	CAR	DEBT EQUITY	RETURN ON TOTAL ASSETS
1	Bandhan	15.94	5.91	4.18
2	Disha	18.18	1.89	1.32
3	MMFL	33.83	2.38	2.39
4	VFS	13.32	6.66	0.92
5	JFSPL	16.09	0.74	0.21
6	FUSION	36.36	2.11	0.21
7	BSS	21.38	4.27	1.95
8	SVC	15.98	3.07	-1.72
9	SCNL	25.89	4.88	0.89
10	MUTHOOT	15.31	0.03	3.20
11	JAGRAN	67.78	0.14	4.07
12	BFL	25.98	4.03	-1.95
13	IDF	3.51	39.13	0.61
14	NAVCHETNA	37.42	2.90	1.04
15	SMILE	35.24	3.02	1.41
16	CHAITANYA	14.81	0.88	0.42
17	RGVN India	26.67	1.99	3.00
18	Sahayog	25.61	5.64	1.25
19	Samasta Microfinance Ltd.	21.76	5.61	0.53
20	Swadhaar	25.47	1.28	-0.31
21	MFS	27.96	1.88	2.15
22	Sonata	14.12	1.82	1.00
23	SSFL	10.05	3.99	2.33
24	SV Credit Line Private Lt	14.95	9.84	1.46

6.2 Average Ratios (Five years 2010 to 2014) of NGO-MFIs

SN	NAME	CAR	DEBT EQUITY	RETURN ON TOTAL ASSETS
1	SMGBK	19.42	46.71	0.87
2	Sarala	9.06	5.64	6.18
3	SUWS	17.17	6.51	4.71
4	SRFS	17.99	4.86	3.21
5	PRAYAS	20.1	0.01	3.73
6	BJS	17.25	12.17	2.93
7	CASHPOR	17.21	15.60	2.71
8	CDOT	23.02	13.46	2.45
9	GRAM UTTHAN	16.32	13.97	0.59
10	HIH	22.66	1.76	0.17
11	SMCS	18.81	1.56	1.93
12	SKDRDP	2.69	25.80	1.64
13	WSDS	14.78	26.87	0.82
14	WSE	24.81	16.34	1.06
15	MAHASHAKTI	14.23	5.67	0.99
16	GMSSS	26.78	1.81	4.33
17	BMVS	18.63	1.93	4.86
18	Grameen Sahara	26.47	18.97	2.33
19	Guardian	14.14	20.60	0.19
20	Impact	18.53	1.45	4.89
21	IRCED	14.76	11.00	0.48
22	LBT	12.68	2.34	3.18
23	HPPI	24.31	1.06	2.80
24	SEBA RAHARA	20.45	3.55	1.96

6.3 Capital Adequacy Ratio:

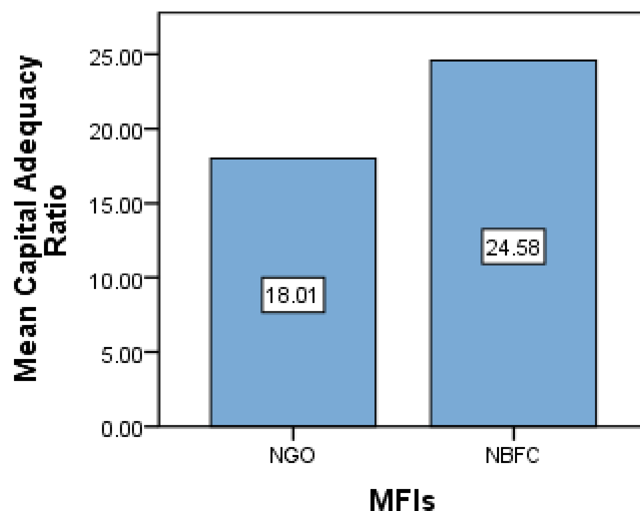
The capital adequacy ratio is a measure of banks capital. It is expressed as a percentage of a bank's risk weighted credit exposures. This ratio is also known as capital to risk weighted assets ratio.

Descriptives
Capital Adequacy Ratio

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
NGO	24	18.0112	5.48910	1.12046	15.6934	20.3291	2.69	26.78
NBFC	24	24.5800	17.19583	3.51008	17.3188	31.8412	3.51	94.09
Total	48	21.2956	13.05618	1.88450	17.5045	25.0867	2.69	94.09

ANOVA
Capital Adequacy Ratio

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	517.782	1	517.782	3.178	.081
Within Groups	7494.019	46	162.913		
Total	8011.801	47			



Comparision of Means of Capital Adequacy Ratio of NGO and NBFC

There is no significant difference in the means of the capital adequacy ratio at 5% level of significance. Therefore, null hypothesis is accepted. The Mean of the Average Capital Adequacy Ratio of NBFC is

greater than that of NGO. A higher CAR is essential for the microfinance institutions because a thin layer of capital would not allow for loss absorption in case of default.

6.4 Debt Equity Ratio

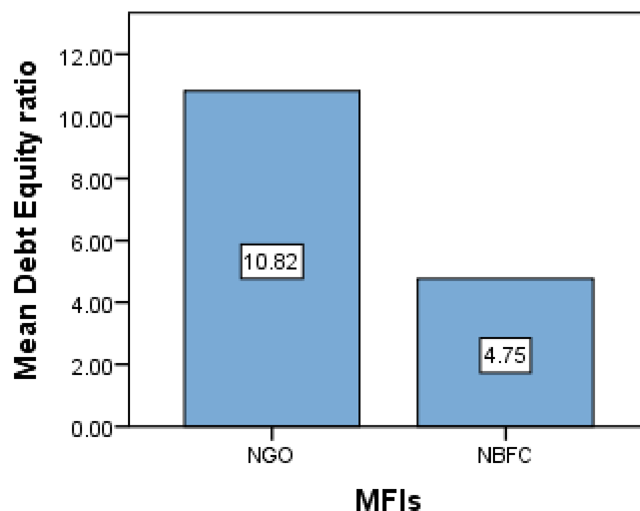
The debt equity ratio is a measure of the company's financial leverage. The ratio is calculated by dividing the company;s long term debt by the shareholder's equity. Higher the debt equity ratio implies a risky investment because higher the debt higher the interest has to be paid by the company.

Descriptives
Debt Equity ratio

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
NGO	24	10.8183	11.15971	2.27797	6.1060	15.5307	.01	46.71
NBFC	24	4.7537	7.68067	1.56781	1.5105	7.9970	.03	39.13
Total	48	7.7860	9.96012	1.43762	4.8939	10.6782	.01	46.71

ANOVA
Debt Equity ratio

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	441.350	1	441.350	4.810	.033
Within Groups	4221.234	46	91.766		
Total	4662.584	47			



Comparision of Means of Debt Equity Ratio of NGO and NBFC

The output shows that there is significant difference between the means at 5% level of significance. Thus there is significant difference in the debt equity ratios of NBFCs and NGOs, thereby rejecting null hypothesis. From the graph it can be seen that the NGOs have higher debt equity ratios because many of them are growth oriented. Socially NGOs depend on grants and donations and do not have much access to capital. Hence, with most of the NGOs been growth oriented, tap the capital markets for raising adequate capital and have liberal access to commercial debt funds. Hence this leads to a higher debt equity ratio for the NGOs whereas NBFCs are required to be well rated in order to gain access to funds from the capital markets. Hence, they have a lower debt to equity ratio when compared to NGOs.

6.5 Return on Total Assets

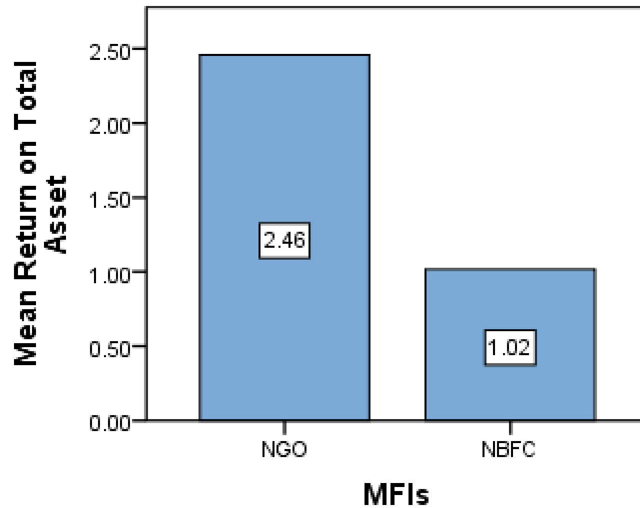
The return on total assets indicates how effectively a management generates earnings from its investments. It indicates how profitable a company is relative to its total assets. It is expressed as a percentage. It is also known as "return on investments".

Descriptives
Return on Total Asset

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
NGO	24	2.4587	1.68792	.34455	1.7460	3.1715	.17	6.18
NBFC	24	1.0183	2.33482	.47659	.0324	2.0042	-7.84	4.18
Total	48	1.7385	2.14282	.30929	1.1163	2.3608	-7.84	6.18

ANOVA
Return on Total Asset

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	24.898	1	24.898	5.999	.018
Within Groups	190.910	46	4.150		
Total	215.808	47			



Comparision of Means of Return on Total Assets of NGO and NBFC

There is significant difference in the means of ROA for NGOs and the NBFCs at 5% level of significance. Thus, null hypothesis is rejected. High ROA and ROE is required to attract private capital to achieve its mission of poverty alleviation. NBFCs have a small asset base than the NGOs which impacts their profitability. The return on assets for NGOs is higher than NBFCs as their operating expenses are lower as compared to NBFCs. The optimum range of ROA as per ACCION audit is greater than 3% (> 3%). This implies that the both type of Indian microfinance institutions are still lagging behind on the profitability front.

7. Conclusion:

7.1 The capital adequacy ratio is a measure of bank's capital to its risk. Capital adequacy ratio is the ratio which determines the financial institution's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. In the simplest formulation, a financial institution's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system. Mean of the Average Capital Adequacy Ratio of NBFC is greater than that of NGO. A higher CAR is essential for the microfinance institutions because a thin layer of capital would not allow for loss absorption in case of default. However there is no significant difference in CAR of NGO and NBFC MFIs, which shows that they both are at same risk level.

7.2 The debt equity ratio is a measure of the company's financial leverage. Higher the debt equity ratio implies a risky investment because higher the debt higher the interest has to be paid by the company. NGOs have higher debt equity ratios because many of them are growth oriented. Socially NGOs depend on grants and donations and do not have much access to capital. Hence, with most of the NGOs been growth oriented, tap the capital markets for raising adequate capital and have liberal access to commercial debt funds. Hence this leads to a higher debt equity ratio for the NGOs whereas NBFCs are required to be well rated in order to gain access to funds from the capital markets. Hence, they have a lower debt to equity ratio when compared to NGOs. This leads to a significant difference in debt equity ratio of NGOs and NBFCs.

7.3 The return on total assets indicates how effectively a management generates earnings from its investments. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit. It indicates how profitable a company is relative to its total assets. The ratio is considered as an indicator of how effectively a company is using its assets to generate earnings before contractual obligations must be paid. The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. The mean of return on total assets of NGOs and NBFCs have shown significant difference. High ROA and ROE is required to attract private capital to achieve its mission of poverty alleviation. NBFCs have a small asset base than the NGOs which impacts their profitability. The return on assets for NGOs is higher than NBFCs as their operating expenses are lower as compared to NBFCs. But, both institutions are still lagging behind on the profitability front.

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