A Comparative Financial Performance Analysis of Microfinance Institution

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Abstract

Comparative financial analysis of microfinance institutions provides a full picture of their financial health, operational efficacy, and socioeconomic impact. Stakeholders can make educated decisions that benefit both microfinance \organizations and the communities they serve by thoroughly examining key financial metrics, ratios, and trends. This insight can help regulators refine standards and provide an enabling climate for MFIs to grow sustainably. The financial records that were obtained for the study are those financial records that have undergone an audit. The research tries to understand the financial strength and weakness of the IIFL SAMASTA with the help of comparative study with other Microfinance companies: Credit Access Grameen and Satin Credit care Network Ltd.

***Keywords**: Ratios, Credit access, Comparative financial analysis, return on equity, Working capital ratio, Earnings per share, Return on asset ratio.*

Global Scenario

In ten years, microfinance institutions (MFIs) have lent hundreds of billions of dollars, with an average annual growth rate of 11.5% over the past five years. At the same time, the number of borrowers worldwide continued to increase – albeit at a slower pace than in the 2000 to 2010 period – recording an average annual growth rate of 7% since 2012, compared to a rate of nearly 20% in the previous decade.

In 2018, 139.9 million borrowers benefited from the services of MFIs, compared to just 98 million in 2009. Of these 139.9 million borrowers, 80% are women and 65% are rural borrowers, proportions that have remained stable over the past ten years, despite the increase in the number of borrowers. With an estimated credit portfolio of $124.1 billion, MFIs recorded another year of growth in 2018 (+8.5% compared to 2017).

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Over the past decade, MFIs have also improved their efficiency. Despite a decade marked by a sharp increase in the cost per borrower, from an average of $68.4 in 2009 to $106.7 in 2018 (+56%), the operating expense ratio decreased by 2.7 points over the period. Between 2009 and 2018, MFIs also recorded an increase in their returns on assets (+1.3 points) and equity (+2.9 points).

Nevertheless, there was a slight deterioration in the quality of the portfolio over the entire period, with the portfolio at risk (PAR) over 30 days having risen from 6.4% in 2009 to 7% in 2018. After a decline in the PAR > 30 days between 2010 and 2012, it rose again and stabilized between 2016 and 2018 at around 7%. South Asia continues to dominate global microfinance: it is the region with the largest number of borrowers (85.6 million in 2018), with this number growing faster than in other regions (+13.8% between 2017 and 2018). It also has the top three markets in terms of borrowers, India, Bangladesh and Vietnam.

A notable feature of the region, almost all borrowers are in fact female borrowers (89% in 2018). Although it represents almost two-thirds of global borrowers, South Asia is only second in terms of credit portfolio, with an estimated outstanding amount of $36.8 billion in 2018.

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In contrast, Latin America and the Caribbean alone account for 44% of the total microfinance sector portfolio, with $48.3 billion in outstanding loans (+5% per year on average since 2012). This region is the second largest in terms of number of borrowers, with 22.2 million customers in 2018, a slightly lower figure (-0.3%) after years of growth. The Latin America and Caribbean region also continue to be characterized by a low penetration rate in rural areas. MFIs in the region are the least rural-oriented, accounting for only 23% of their clients. In contrast to these leading regions, countries of Eastern Europe and Central Asia as well as those of the MENA region are smaller markets. However, they are growing both in terms of number of customers and credit portfolio. In Eastern Europe and Central Asia, the number of borrowers has increased by more than 30% since 2012, reaching 2.5 million in 2018. The MENA region has the same number of borrowers. MFIs in these two regions also have the lowest proportion of women borrowers, with 49% of female borrowers in Eastern Europe and Central Asia and 60% in the MENA region in 2018. Credit portfolios in these two regions also increased during the period. While the MENA region only experienced weak growth between 2017 and 2018 (+1%), Eastern Europe and Central Asia recorded an increase of 5%, an improvement after the decline in 2015 and 2016.

Indian Scenario

The concept of microfinance is not new in India. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Majority of poor are excluded from financial services. Microfinance is a programmed to support the poor rural people to pay its debt and maintain social and economic status in the villages. Microfinance is an important tool for improving the standard of living of poor. Inspire of many organizations of microfinance, microfinance is not sufficient in India. The study explores some suggestions to make microfinance more effective. The potential for growing micro finance institutions in India is very high. Microfinance market in India is expected to grow rapidly, supported by government of India's initiatives to achieve greater financial inclusion, and growth in the country's unorganized but priority sector. Microfinance has evolved rapidly into a global movement dedicated to providing access to a range of financial services to poor and near poor households. Major Cross- section can have benefit if this sector will grow in its fastest pace. On the basis of growth and evolution related to microfinance, the study predicts the new agenda for future. The microfinance industry being very small in terms of value added to the Indian financial sector. It examines the experience, of India, which has one of the largest microfinance sectors in the world. Globally, over a billion poor people are still without access to formal financial services. Some 200 million of these people live in India. The Indian Government should find an avenue for creation of awareness on how microfinance can benefit from loans and monitors closely to ensure disbursement of loans and grants to entrepreneurs.

Swot Analysis of Iifl Samasta

Strengths

A wide range of financial products are available.

In India, we have approximately 2500 offices in over 500 locations.

Stocks with high EPS and EPS growth.

Efficient in managing Assets to generate Profits.

Annual net profit Improving for last 2 years.

Weakness

The Conservative population sees high risk exposure.

Lack of brand visibility results from a reduced emphasis on advertising.

Opportunities

High income urban families.

More penetration into the growing cities.

Threats

Stringent Economic measures by Government and RBI.

Entry of foreign finance firms in Indian Market.

Literature Review

A literature review is a piece of academic writing that contextualizes and demonstrates knowledge of the academic literature on a given subject. It is considered a literature review rather than a literature report because it also involves a critical assessment of the sources. It is both a method of reading and writing about the literature.

Sharif Mohd (2018) provides a deep dive in the concept of the Performance of Microfinance Institutions in India and also states the importance of microfinance in the developing countries like India.

Katsushi S. IMAI, Raghav GAIHA, Ganesh THAPA, Samuel Kobina, ANNIM Aditi GUPTA (2012) conclude that with donor investments in microfinance declining, policymakers and practitioners are concerned about how macroeconomic, crises, and macro-institutional issues affect MFI performance. The current study looked at the effects of institutional factors and the macroeconomic environment on the financial performance of MFIs, using data from the Microfinance Information Exchange (MIX) as well as WDI 2010, World Governance Indicators, and the Chinn and Ito (2006) index of capital account openness. We considered four broad categories of MFI performance when defining a dependent variable

R. Rupa (2014) states that Microfinance has been an essential tool in poverty alleviation, women's empowerment, and financial inclusion. India has the most excluded households, approximately 145 million, from the banking system. Furthermore, as of January 2011, only about 50000 communities in India have access to credit. As a result, there is a significant opportunity for the microfinance sector to give loans to the low-income population, thereby eliminating poverty and contributing to the overall development of the country.

Pankaj K. Agarwal (2010) concludes that the majority of the best-performing organizations use various business models India. This is seen in 13 of the 22 parameters investigated. However, there is a gap in other areas, including risk coverage, debt equity ratio, productivity, cost per borrower, operational self-sufficiency, and so on resemblance between the firm's performance. The similarity in performance, however, is not attributable to a chance aspect, but a purposeful business plan resulting from group lending and a rural focus.

Piyush Tiwari and S.M. Fahad (2004) states that the experience of a successful microfinance operation can provide some significant lessons. First and foremost, the poor repay their debts and are willing to pay higher interest rates than commercial banks in exchange for credit. The pressure from the solidarity group and sequential lending offers significant repayment motivation and result in extraordinarily low default rates. Second, the poor save, thus microfinance should offer both savings and credit options. Microfinance lending must be grounded in order to be sustainable.

Dr Shyam Lal Dev Pandey (2011) Microfinance has been an essential tool in poverty alleviation, women's empowerment, and financial inclusion. However, India has the most excluded households, approximately 145 million, from the banking system. Furthermore, only about 50000 of India's 6 lakh villages have access to financing. Globally, around 2.5 billion people, or roughly half of the world's adult population, do not use formal financial services. Nearly 2.2 billion of the 2.5 billion unbanked people live in Africa, Asia, Latin America, and the Middle East. As a result, the microfinance business has a huge opportunity to give credit to the low-income population, thereby decreasing poverty

Scope of the Study

The analysis was conducted with the help of secondary data obtained from audited financial records and covers the financial operations done by "IIFL SAMASTA". The financial records that were obtained for the study are those financial records that have undergone an audit. The research tries to understand the financial strength and weakness of the IIFL SAMASTA with the help of comparative study with other Microfinance companies: Credit Access Grameen and Satin Credit care Network Ltd.

Objectives of the Study

To study financial performance of IIFL SAMASTA during 2019-2023.

To Compare financial performance of IIFL SAMASTA against other microfinance institution (Credit Access Grameen and Satin Credit care Network Ltd).

Research Methodology

Research methodology is a way of explaining how a researcher intends to carry out their research. It's a logical, systematic plan to resolve a research problem. A methodology details a researcher's approach to the research to ensure reliable, valid results that address their aims and objectives. It encompasses what data they're going to collect and where from, as well as how it's being collected and analyzed. A research methodology gives research legitimacy and provides scientifically sound findings. It also provides a detailed plan that helps to keep researchers on track, making the process smooth, effective and manageable. A researcher's methodology allows the reader to understand the approach and methods used to reach conclusions.

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Methodology Adopted for the study:

Sources of data: The required data for the study are secondary data and the data are collected from the audited reports of the company. The secondary data collected for the study are from the annual reports of the company from the year 2023-2019

Type of research: Descriptive research is the type of research done for this study.

Tools For Data Analysis

Ratio analysis was used for assessing the study

Working Capital Ratio = Current Assets / Current Liabilities

ROE = Net Income / Shareholders' Equity

ROA= Net income/Total assets

Net Profit Margin = (Net Profit / Revenue) x 100

D/E Ratio = Total Debt / Total Shareholder Equity

Earnings Per Share (EPS) = (Net Income – Preferred Dividends)/ Weighted Average Common Shares Outstanding.

Dupont analysis

DuPont analysis (also known as the **DuPont identity**, **DuPont equation**, **DuPont framework**, **DuPont model** or the **DuPont method**) is a tool in financial analysis, where return on equity, ROE, is separated into its components, useful in several contexts

Limitations of the Study

- Assumption that five years would be an appropriate time frame to provide an accurate picture of the financial strength and weakness of the company
- the study is based on secondary data and the limitations of secondary data might affect the study
- The comparative financial analysis study is limited to only 5 years

Data Analysis and Interpretation

Working Capital Ratio

The working capital ratio is calculated simply by dividing total current assets by total current liabilities. For that reason, it can also be called the current ratio. It is a measure of liquidity, meaning the business's ability to meet its payment obligations as they fall due.

Table: 1

Working Capital Ratio

Year	IIFL	Credit Access	Satin
2023	1.21	1.26	1.31
2022	1.17	1.54	1.75
2021	1.16	1.66	1.86
2020	1.23	1.44	1.64
2019	1.12	1.66	1.65

Source: Computed from IIFL Balance Sheet 2019-2023.

Interpretation

From the above table the working capital ratio for the IIFL SAMASTA is 1.21 for the year of 2023, 1.17 for the year of 2022, 1.16 for the year 2021, 1.23 for the year of 2020 and 1.12 for the year 2019. The working capital ratio for the Credit Access Grameen is 1.26 for the year of 2023, 1.54 for the year of 2022, 1.66 for the year 2021, 1.44 for the year of 2020 and 1.66 for the year 2019. The working capital ratio for Satin

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Credit care Network Ltd is 1.31 for the year of 2023, 1.75 for the year of 2022, 1.86 for the year 2021, 1.64 for the year of 2020 and 1.65 for the year 2019. The analysis indicates that there have been fluctuations in the current ratio of IIFL SAMASTA.

Return on equity

Return on equity (ROE) is the measure of a company's net income divided by its shareholders' equity. ROE is a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the better a company is at converting its equity financing into profits.

Table: 2

Return on Equity

YEAR	IIFL	CREDIT ACCESS	SATIN
2023	0.11	0.22	0.18
2022	0.05	0.13	0.04
2021	0.12	0.05	-0.01
2020	0.27	0.17	0.14
2019	0.25	0.21	0.25

Source: Computed from IIFL Balance Sheet 2019-2023.

Interpretation

From the above table the ROE for IIFL SAMASTA is 0.11 for the year of 2023,0.05 for the year of 2022, 0.12 for the year 2021, 0.27 for the year of 2020 and 0.25 for the year 2019. The ROE for the Credit Access Grameen is 0.22 for the year of 2023, 0.13 for the year of 2022, 0.05 for the year 2021, 0.17 for the year of 2020 and 0.21 for the year 2019. The ROE for Satin Credit care Network Ltd 0.18 for the year of 2023, 0.04 for the year of 2022, -0.01 for the year 2021, 0.14 for the year of 2020 and 0.25 for the year 2019. The analysis indicates that there has been decline in ROE of IIFL SAMSTA compared to CREDIT ACCESS and SATIN CREDITCARE

ROA

Return on assets (ROA) measures how efficient a company's management is in generating profit from their total assets on their balance sheet. ROA is shown as a percentage, and the higher the number, the more efficient a company's management is at managing its balance sheet to generate profits.

Table: 3

Return on Assets

YEAR	IIFL	CREDIT	SATIN
2023	0.02	0.05	0.04
2022	0.01	0.03	0.01
2021	0.02	0.02	-
2020	0.05	0.04	0.03
2019	0.03	0.07	0.05

Source: Computed from IIFL Balance Sheet 2019-2023.

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Interpretation

From the above table the ROA for IIFL SAMASTA is 0.02 in the year of 2023, 0.01 for the year of 2022, 0.02 for the year 2021, 0.05 for the year of 2020 and for the year 2019. The ROA for the Credit Access Grameen is 0.05 in the year of 2023, 0.03 for the year of 2022, 0.02 for the year 2021, 0.04 for the year of 2020 and 0.07 for the year 2019. The ROA for Satin Credit care Network Ltd in the year of 2023, 0.01 for the year of 2022, 0% for the year 2021, 0.03 for the year of 2020 and 0.05 for the year 2019. The analysis indicates that there have been fluctuations in the ROA of IIFL SAMASTA, CREDIT ACCESS and SATIN CREDITCARE

Net Profit Margin

The net profit margin, or simply net margin, measures how much net income or profit is generated as a percentage of revenue. It is the ratio of net profits to revenues for a company or business segment. Net profit margin is typically expressed as a percentage but can also be represented in decimal form.

Table: 4

Net Profit Margin

Source: Computed From IIFL Balance Sheet 2019-2023.

Interpretation

YEAR	IIFL	CREDIT	SATIN
2023	0.07	0.23	0.15
2022	0.05	0.17	0.03
2021	0.10	0.07	-0.01
2020	0.02	0.19	0.11
2019	0.16	0.25	0.14

From the above table the net profit margin for IIFL SAMASTA is 0.07 for the year of 2023, 0.05 for the year of 2022, 0.10 for the year 2021, 0.02 for the year of 2020 and 0.16 for the year 2019. The net profit margin for the Credit Access Grameen is 0.23 for the year of 2023, 0.17 for the year of 2022, 0.07 for the year 2021, 0.19 for the year of 2020 and 0.25 for the year 2019. The net profit margin for Satin credit care Network Ltd 0.15 for the year of 2023, 0.03 for the year of 2022, -0.01 for the year 2021, 0.11 for the year of 2020 and 0.14 for the year 2019. The analysis indicates that there have been fluctuations for both IIFL SAMASTA and SATIN CREDIT CARE while CREDIT ACCESS have a higher Net profit margin ratio.

Debt equity ratio

The debt-to-equity ratio (D/E ratio) shows how much debt a company has compared to its assets. It is found by dividing a company's total debt by total shareholder equity.

Table 5

Debt Equity Ratio

YEAR	IIFL	CREDIT	SATIN
2023	0.03	0.01	0.01
2022	0.02	0.36	1.03
2021	0.02	0.43	1.46
2020	0.05	0.26	0.96
2019	0.02	0.26	1.20

Source: Computed From IIFL Balance Sheet 2019-2023.

Interpretation

From the above table the Debt equity ratio for IIFL SAMASTA is 0.03 for the year of 2023, 0.02 for the year of 2022, 0.05 for the year 2021, 0.02 for the year of 2020 and 0.02 for the year 2019. The Debt equity ratio for the Credit Access Grameen is 0.01 for the year of 2023, 0.036 for the year of 2022, 0.43 for the year 2021, 0.26 for the year of 2020 and 0.26 for the year 2019. The Debt equity ratio for Satin credit care Network Ltd is 0.01 for the year of 2023, 1.03 is the year of 2022, 1.46 for the year 2021, 0.96 for the year of 2020 and 1.20 for the year 2019. The analysis indicates that the Debt equity ratio for IIFL SAMASTA has been constant throughout the years while there has been a decline of Debt equity ratio for both CREDIT ACCESS and SATIN CREDITCARE.

Earnings per share

Earnings per share (EPS) is a measure of a company's profitability, calculated by dividing quarterly or annual income (minus dividends) by the number of outstanding stock shares. The higher a company's EPS, the greater the profit and value perceived by investors.

Table: 6

Earnings per Share

YEAR	IIFL	CREDIT	SATIN
2023	22%	520%	312%
2022	10%	245%	54%
2021	21%	92%	-20%
2020	41%	227%	302%
2019	30%	224%	402%

Source: Computed From IIFL Balance Sheet 2019-2023.

Interpretation

From the above table the EPS for IIFL SAMASTA is 22% for the year of 2023, 10% for the year of 2022, 21% for the year 2021, 41% for the year of 2020 and 30% for the year 2019. The EPS for Credit Access Grameen is 520% for the year of 2023, 245% for the year of 2022, 92% for the year 2021, 227% for the year of 2020 and 224% for the year 2019. The EPS for Satin Credit care Network Ltd 312% for the year of 2023, 54% for the year of 2022, -20% for the year 2021, 302% for the year of 2020 and 402% for the year 2019.

Dupont Analysis

Table 7

Dupont Analysis

DUPONT ANALYSIS					
Particulars	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
PAT	468.07	502.07	554.10	645.36	669.42
REVENUE	34312.93	32981.12	28450.73	35718.54	42523.24
AVG. TOT ASSET	60892.06	54702.57	55742.24	69532.00	67497.21
AVG. TOT EQUITY	9331.06	9825.82	10379.92	11025.28	11694.70
NET PROFIT MARGIN	0.01	0.02	0.02	0.02	0.02
ASSET TURNOVER	0.56	0.60	0.51	0.51	0.63
EQUITY MULTIPLIER	6.53	5.57	5.37	6.31	5.77
ROE	0.05	0.05	0.05	0.06	0.06

Source: Computed from IIFL Balance Sheet 2019-2023

Interpretation

The consistent ROE suggests that company has maintained a steady balance between profitability, asset turnover, and leverage. The improvements in asset turnover could be contributing to the stable ROE despite fluctuations in other factors. To gain a deeper understanding, it would be useful to analyze the factors affecting the company's net profit margin, asset utilization, and financing decisions.

Findings

Comparative financial performance analysis for microfinance institutions (MFIs) involves evaluating various financial metrics and ratios to assess their financial health and operational efficiency. This analysis can help stakeholders, such as investors, regulators, and management, understand how an MFI is performing compared to its peers or industry standards. Here are some key findings in a the comparative financial performance analysis for an IIFL SAMASTA:

The working capital ratio for the IIFL SAMASTA is 1.21 for the year of 2023, 1.17 for the year of 2022, 1.16 for the year 2021, 1.23 for the year of 2020 and 1.12 for the year 2019. The analysis indicates that there have been fluctuations in the current ratio of IIFL SAMASTA.

the working capital ratio for the IIFL SAMASTA is 1.21 for the year of 2023, 1.17 for the year of 2022, 1.16 for the year 2021, 1.23 for the year of 2020 and 1.12 for the year 2019. The analysis indicates that there has been decline in ROE of IIFL SAMSTA compared to CREDIT ACCESS and SATIN CREDITCARE.

the ROA for IIFL SAMASTA is 0.02 in the year of 2023, 0.01 for the year of 2022, 0.02 for the year 2021, 0.05 for the year of 2020 and 0.03 for the year 2019. The analysis indicates that there have been fluctuations in the ROA of IIFL SAMASTA, CREDIT ACCESS and SATIN CREDITCARE

the net profit margin for IIFL SAMASTA is 0.07 for the year of 2023, 0.05 for the year of 2022, 0.10 for the year 2021, 0.02 for the year of 2020 and 0.16 for the year 2019. The analysis indicates that there have been fluctuations for both IIFL SAMASTA and SATIN CREDIT CARE while CREDIT ACCESS have a higher Net profit margin ratio.

the Debt equity ratio for IIFL SAMASTA is 0.03 for the year of 2023, 0.02 for the year of 2022, 0.05 for the year 2021, 0.02 for the year of 2020 and 0.02 for the year 2019.The analysis indicates that the Debt equity ratio for IIFL SAMASTA has been constant throughout the years while there has been a decline of Debt equity ratio for both CREDIT ACCESS and SATIN CREDITCARE

the EPS for IIFL SAMASTA is 22% for the year of 2023, 10% for the year of 2022, 21% for the year 2021, 41% for the year of 2020 and 30% for the year 2019.

Conclusion

IIFL Samasta has excellent operational efficiency and profitability. Its Return on Assets (ROA) and Return on Equity (ROE) figures are in line with industry standards, demonstrating efficient asset utilization and shareholder returns. The institution's liquidity situation is strong, ensuring its capacity to meet short- term obligations. A debt-to-equity ratio that is balanced shows appropriate leverage and financial risk management.

In conclusion, IIFL Samasta stands out as a well-managed microfinance institution with a significant emphasis on financial sustainability and social effect. Its capacity to balance profitability with social mission, cautious risk management, and operational efficiency distinguishes it in the microfinance market. To make well-informed decisions and assessments, it is critical to incorporate qualitative elements as well as the broader industry environment, as with any analysis.

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