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An Analysis of Micro Finance Banking Sector of India: With Respect to Opportunities & Hindrances in Performance

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Abstract:
Originally, microfinance was a volunteer aid program for the most underprivileged members of society. Presently, nevertheless, it serves as a commercial means of reducing poverty and functions as an instrument of economic growth and financial inclusion in India. Through social and financial intermediation, microfinance has become a feasible alternative to reach the previously unreachable for their economic and social empowerment. Microfinance Institutions (MFIs) are the organizations that offer the underprivileged microfinance services including savings, credit, insurance, and remittance services. The study's objective is to evaluate MFIs' financial opportunities & hindrances in financial performance in India.

Keywords: Micro Financial Institutes, Financial Performance, MFI's Services

Introduction:
The impoverished can use their considerable abilities or create doors for better possibilities when they have access to financing. Offering long-term financial services is one way to help the impoverished raise their income and productivity. Despite the remarkable expansion and reach of India's banking system, empirical research conducted in the 1980s showed that a significant portion of the country's impoverished still do not have access to official financial services. It is acknowledged that the current banking system, practices, and regulations have not been enough to fulfil the credit requirements of the underprivileged.
Initially, microfinance was a voluntary aid program for the poorest members of society. But now, it serves as a market-based means of reducing poverty and as an instrument for economic growth and financial inclusion in India. Microfinance Institutions (MFIs) are the organizations that offer the underprivileged microfinance services including savings, credit, insurance, and remittance services. MFIs have emerged as a conduit between banks and the impoverished, for whom money lenders have traditionally been their only source of credit.

Objective of the study:
The primary objective or the motive of the conduct of the study was:
- To analysis of micro finance banking sector of India: with respect to opportunities & hindrances in performance.

Benefit of the Study:

The study will employ the full financial performance indicators methodology that Microfinance Information Exchange) uses. In order to analyze the financial performance, a number of criteria have been taken into consideration, including institutional features, financing structure, outreach indicators, overall financial performance indicators, income and costs, efficiency, risk, and liquidity. There are no macroeconomic indicators in this study.

Research Methodology Undertaken for The Study:

The primary data source for the study is secondary data. The information was gathered from www.mixmarket.org, the Microfinance Information Exchange (MIX).

Design of the Sample and Sampling

This research takes into account MFIs that have complied with the disclosure requirements set out by the Consultative Group to Assist the Poor (CGAP), the international organization of leading MFI donors, and have provided information on all financial reporting metrics to gain the insights for the research purposes.

Review of Literature:

Bayeh Asnakew Knide (2012)5, in this article on "Financial sustainability of microfinance institutions in Ethiopia" has aimed at identifying factor affecting financial sustainability of MFIs in Ethiopia. The study has followed a quantitative research approach using a balanced panel data set of 126 observations from 14 MFIs over the period 2002 to 2010. The indicators, namely, financial sustainability, subsidy and sustainability, breadth of outreach, depth of outreach, capital structure and efficiency have been taken for analysis. The data has been analysed using descriptive statistics and econometric test.

The study has found that microfinance breadth of outreach, depth of outreach, dependency ratio and cost per borrowing has affected the financial sustainability of micro finance institutions in Ethiopia. The study has concluded that capital structure of micro finance institutions and staff productivity has created significant impact on financial sustainability of MFIs in Ethiopia for study period.

Zohra Bi, Ajita Poudelm Junaid Saraf (2013) 6 in their paper titled "Performance and Sustainability of MFIs in India" have aimed to study the contribution and growth of Indian microfinance system, outreach of Indian MFIs and operating efficiency and portfolio quality of Indian MFIs. The indicators, namely, outreach, portfolio size and operating efficiency have been used for analysis. They have highlighted that MFIs have been concentrating in southern region of India and majority of MFIs have been NBFC. The study also found that large NBFC MFIs have maximum outreach due to their efficiency and sustainability. The review of literature has revealed that the sustainability of MFIs is not possible without sound financial performance.

India's MFIs' Financial Performance based on Opportunities & Problems:

The process of correctly determining the link between the items in statements to determine the firm's financial strengths and shortcomings is known as financial performance analysis. It is also beneficial for both long- and short-term forecasting.

Analysis of financial performance may be used to pinpoint growth. Enhancing MFIs' profitability and sustainability requires an understanding of their financial performance. Based on its activities and financial

status, an MFI can determine its financial performance using ratios and indicators.
The financial performance of MFIs has been evaluated using MIX-established metric categories. Financial ratios and multiple variables stated as absolute values make up each parameter group. The financial performance of MFIs has been evaluated using MIX-established metric categories.

Institutional Attributes:
Over the course of the research period, MFIs in India have seen a slight drop in 2011, but overall, their offices, people, and assets have increased at a faster rate. This has demonstrated the pervasive expansion that MFIs have been displaying in India. Because of the MFIs' usurious interest rates and abusive collection tactics, the state government of Uttar Pradesh was compelled to enact an ordinance that severely restricted the MFIs' ability to operate. The public's distrust of MFIs as a result of the 2010 crisis had a detrimental effect and led to a decline in the number of MFI offices, employees, and assets in 2013.

The totality of financial performance:
The quantity of microfinance customers attained and the rate at which this client pool grows are both influenced by sustainability. MFIs need to make enough money from financial services to pay for their operational and financial expenses in order to remain in business. They also frequently need to use their profits to increase institutional capital. which is more than 3%. This has demonstrated that MFIs have not made the best use of their resources to produce returns and increase their profitability.

Income & Expenditure Side:
MFIs have not been very good at controlling costs. Only with the aid of subsidies are Indian MFIs able to survive with such a low profit margin. The yield on gross portfolio nominal indicates that Indian MFIs have been able to increase their financial revenue due to their high interest rates. Since they have demonstrated a growing tendency during the research period, the MFIs in India should focus on controlling overall expenditures by asset, financial expense by asset, and provision for loan impairment by asset. However, there has been a downward trend in operating costs during the research period, which is indicative of growth.

Hazard and Availability:
The findings show that throughout the course of the study, MFIs in India had a rise in both risk and liquidity indices. An essential factor that indicates the danger of loan default is portfolio quality, which MFIs in India have managed to maintain at a suitable level. It has been noticed that both PAR > 30 days and PAR > 90 days have been maintained at an adequate level over the research period, in accordance with Sa-Dhan's recommendation that the PAR should be less than 10%. The proportion of MFI loans that have been subtracted from the total amount of loans that are not expected to be repaid has been rather high. Indian MFIs must use practical strategies to lower the loan loss rate and write-off percentage.

Outcome of the Study:
- Growth is the focus of Indian MFIs. Investor interest in Indian microfinance institutions is expected to increase.
- MFIs allocate a larger portion of their assets to lending activities in India. Over 7% of the global loan portfolio size of the industry has been made up of the gross loan portfolio of Indian MFIs.

- There is a greater growth rate in the quantity of active borrowers at Indian MFIs
- The percentage of female clientele validates MFIs' social responsibility. The spread of Indian MFIs has reached a deep level.

Study Restrictions:

- This study is also susceptible to the constraints associated with statistical methods.
- The study's duration and number of MFIs have been limited due to the unavailability of continuous data from MIX for over 3 years.

Conclusion of the study:

With over 145 million homes, India has the largest number of people who are not able to use the financial system. Furthermore, just about 50,000 of India's 6 million villages have access to financing as of January 2011. Therefore, there is a tremendous chance for the microfinance industry to give credit to the low-income population, which will help to reduce poverty and advance the nation's overall development.
Reduction of expenditures, expansion of outreach, and enhancement of overall profitability are contingent upon technological breakthroughs, product needs, and continuous attempts to fortify the capability of Indian MFIs. Despite the excellent growth the microfinance sector has recorded, adequate regulation and control would assist reach to improve over all performance of deprived poor people of urban areas of India as it is the major hindrance in the flourish of this sector.

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