



FINANCIAL PERFORMANCE ANALYSIS OF SELECTED INDIAN MICRO-FINANCE COMPANIES- A CAMEL MODEL APPROACH

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ABSTRACT

The microfinance sector in India is one of the fast-growing sectors and considered as an integral part of the economy. Hence, monitoring, supervision and unremitting performance evaluation of the microfinance institution sector is compulsory to ensure the financial stability of the economy since the banking sector is becoming more complex than before. The present study is an attempt to evaluate and compare the performance of the microfinance institution sector in India. The most effective guiding techniques, CAMELS rating system has been used to rank the microfinance based on their presentations. In this study, 5 microfinance institutions have been chosen as samples to meet the purpose of the study. Data for study has been collected from the microfinance annual reports for the period (2016-2019). The information is collected from annual reports of these MFIs and numerous ratios have been calculated gaging the aspects of CAMEL includes capital adequacy, asset quality, organization efficiency, earning quality and liquidity.

Key words: CAMEL, capital, Microfinance, Performance and India.

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1. INTRODUCTION

Microfinance institutes: Microfinance institutions (MFIs) provide a choice of financial services to poor households. Their worldwide growth in statistics had a positive impact by providing the poor with loans, savings products, fund transfers and insurance facilities. This helped to create an encouraging socio-economic environment for many of developing countries ménages

(Gopinath & Poornapriya, 2020). The nature of these institutions is quite different from traditional financial institutions (such as commercial banks). MFIs are significantly slight in size, limit their services towards poor households and often provide small collateral-free group loans (Kavitha & Gopinath, 2020). Most MFIs depend on contributor funds and are not-for-profit oriented organizations that share a common bond among the members. They also differ in their two main active objectives. First, as mentioned they act as financial peacekeeping troops to poor households. Microfinance institutions (MFIs) are a special case in the financial creation (Jaya & Gopinath, 2020). They have a dual monetary and social role and need to be well-organized at both. MFIs are significantly smaller in size, limit their services towards poor ménages and often provide small collateral-free group loans. MFIs depend on funder funds and are not-for-profit oriented organizations that share a common bond among the members. They also differ in their two main operational objectives. First, as mentioned they act as financial intermediaries to poor households. Microfinance institutions (MFIs) are a special case in the financial world (Bhawiya Roopaa & Gopinath, 2020).

2. REVIEW OF LITERATURE

Dar & Presley (2000): examined and broke down the third zone about camel model (i.e. management What's more control over internal governance about banks What's more money related organizations). Those microfinance institutions and monetary organizations of Muslim universe need aid though not seriously about. They found that those a nonattendance of right parity between administration controls privileges may be that real reason for the absence of benefit. In different produced countries, Bangladesh bank acquainted camel rating framework to 1993. Similarly, as an essential analytics and only offsite supervision framework.

Tucker and Miles (2004): studied that MFIs can be sustainable by either moving up the interest on loan, commissions or both the two. But Increasing the costs for customers probably increases the default rate. Increase in the cost of loan might not benefit the low-income house hold rather subject them to been marginalized. In their study, it was mentioned that microfinance institutions use the CAMELS technical note in their financial reporting.

Satta (2006) studied the performance evaluation of small firms financing schemes with a view to assessing their potential for improving small firms' access to finance. It measured financial performance in terms of net loans to total assets, non-financial investment to total assets, written of loans, ROA.

Srinivasan et al. (2006) studied that Microfinance has been attractive to lending agencies because of demonstrated sustainability and low cost of operations. In India, the engagement of NABARD and SIDBI shows that they saw long-term prospect for this sector. The study shows the growth and opportunities for MFIs in India

Ayayi and Sene (2010) conducted research on 223 MFIs and revealed that credit risk management was determining factor for financial performance. It stated it was important to control cost. Interest rate had to be reasonably high to cover cost. In addition, they discovered that use of relevant information and good banking practices and information systems facilitate sustainability.

Mishra and Kumari (2011) selected 12 public and private sector banks on the basis of market capture and measured the efficiency and soundness by Camel Model. From the analysis they ranked the banks. They said that HDFC takes the lead followed by ICICI and Axis Bank. Bank of Baroda and Punjab National Bank follows the fourth position held by IDBI and Kotak Mahindra Bank. Public Sector Banks like SBI and Union Bank takes the back seat. It donates that Private Sector Banks are performing better than Public Sector Bank.

Kumar (2012) has given a definition to camel rating system, according to him it is a mean to categorize bank based on the overall health, financial status, managerial and operational performance. In his study he has chosen the SBI and its associates for checking the performance and concludes that State Bank of India is always in the lead than its associates in every aspect of camel.

Aspal and Malhotra (2013) measured the financial performance of Indian public-sector banks' asset by camel model and applying the tests like Anova, f test and arithmetic test for the data collected for the year 2007-2011. They concluded that the top two performing banks are bank of Baroda and Andhra bank because of high capital adequacy and asset quality and the worst performer is united bank of India because of management inefficiency, low capital adequacy and poor assets and earning quality. Central bank of India is at last position followed by UCO bank and bank of Maharashtra.

Dr. Mahua Biswas (2013): Measured and evaluated the performance of two public sector banks viz., Andhra Bank and Bank of Maharashtra with CAMEL model for a period of 2011-2013 have been collected from the annual reports of the banks and Twenty variables as supported by the existing literature related to CAMEL model are used in the study.

3. RESEARCH METHODOLOGY

Research Design

The study is quantitative in nature and a descriptive research based on secondary data to Evaluate the Financial Performance of Top 4 Microfinance Institutes based on Gross Loan Portfolio using the CAMEL model approach. The Top 4 MFIs were selected from the Micrometre Issue Q2 FY2018-20 (Government of India).

Population and Target Unit

The target units are the Top 4 MFIs selected on the basis of highest Gross Loan Portfolio given by Micrometre Issue Q2 FY 2018-20, issued by Government of India.

Sampling Technique

The sampling technique used for research is convenient sampling technique. It is sampling technique where objectives are selected because of their convenient accessibility and proximity to the researcher.

Sample Size

The MFIs that have Highest GLP have been selected for the study. Therefore, the sample size of 4 MFIs namely:

- Bharat Financial Inclusion Limited
- Muthoot Microfinance
- Satin Credit care
- Grameen Koota

Sampling Method- Source of Data Collection

As the study is based on secondary data, the whole data will be collected from annual reports, Money control & other websites available for financial data.

Statistical Tools and Techniques Used for this Analysis

CAMEL ratio analysis will be used to determine and compare the performance of the 4 MFIs and would be ranked accordingly.

4. OBJECTIVES OF THE STUDY

- To analyse the financial performance of MFIs.
- To analyse and compare the MFIs based on their performance for 3 years.
- To rank the MFIs based on each ratio.

The List of the MFIS Which Have Highest Gross Loan Portfolio are Listed Below

Table 1

Serial No.	Name of the Company
1	Bharat Financial Inclusion Limited
2	Muthoot Microfinance
3	Satin Creditcare
4	GrameenKoota

The above MFIs are to be analysed for the study and the secondary data is to be collected from the various financial sites and for this purpose no questionnaire is required to be made or filled up.

Parameters For Measuring Financial Performance

CAMEL Model has been used to conduct the Research.

5. NEED OF THE STUDY

- There are very few literatures that have captured the financial performance of MFIs in India to judge their performance in financial viability leading to proper outreach to the population.
- No study has been done so far on Financial Performance of MFIs based on the highest Gross Loan Portfolio.

Camel Approach

The CAMELS rating system is a recognized international rating system that bank supervisory authorities use in order to rate financial institutions according to six factors represented by the acronym "CAMELS". The acronym "CAMEL" refers to the five components of a MFI's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a MFI's Sensitivity to market risk was added in 1997; hence the acronym was changed to CAMELS (Saminathan et al., 2020a).

1. CAPITAL ADEQUACY: The CAMEL analysis looks at the institution's ability to raise additional equity in the case of losses, and its ability to establish reserves against the risks inherent in its operations. Other factors involved in rating and assessing an institution's capital adequacy are its growth plans, economic environment, ability to control risk and loan and investment concentrations (Saminathan et al., 2020b).

- $CRAR = \text{Capital} / \text{Total Risk Weighted Credit Exposure}$
- $\text{Debt Equity Ratio} = \text{Borrowings} / (\text{Share Capital} + \text{reserves})$
- $\text{Total Advance to Total Asset Ratio} = \text{Total Advances} / \text{Total Asset}$

2. ASSET QUALITY: This helps in analyzing the level of portfolio at risk and write-offs the existence and application of credit policies and procedures (Kavitha & Gopinath, 2020a). It results, how companies are affected by fair market value of investments when mirrored with the company's book value of investments.

Gross NPA Ratio= Gross NPA/ Total Loans Net NPA Ratio= Net NPA/Total Loan

3. MANAGEMENT QUALITY: This component governs the general management, human resource policy, management information systems (MIS), internal control and auditing (Gopinath, 2019). It covers the management's ability to ensure the safe operation of the institution as they comply with the necessary and applicable internal and external regulations.

- Business Per Employee= Total revenue/ No. of Employees
- Profit per employee= Net profit/ No. of Employees
- Return On Net Profit= Net Income/ Revenue
- Net Profit to to Total Asset= Net Income/ Total Asset
- Percentage Change in Net Profit= (Current year NP-Previous year NP)/ Previous Year Net Profit X 100

4. EARNINGS EFFICIENCY: The key components of revenues and expenses are analyzed, including the level of operational efficiency and the institution's interest rate policy, as are the overall results as measured by return on equity (ROE) and return on assets (ROA).

- Dividend Payout Ratio= Dividend/ Net Profit
- Interest Income to Total Income= Interest Income/ Total Income
- Other Income to Total Income= Other Income/ Total Income
- Return on Assets= Net Profit/ Total Assets

5. LIQUIDITY MANAGEMENT: The liability structure of the institution and the productivity of its current assets are also important aspects of the overall assessment of an institution's liquidity management (Gopinath, 2017). Availability of assets which can easily be converted to cash, dependence on short-term volatile financial resources can also help in judging the liquidity position of a company.

- Current Ratio= Current Assets/ Current Liabilities
- Quick Ratio= Quick Assets/ Current Liabilities
- Liquid Asset to Total Asset= Liquid Assets/ Total Assets

5. DATA ANALYSIS AND INTERPRETATION1.CAPITAL ADEQUACY

(a). Capital Adequacy Ratio

Table 2

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	33.50%	35.10%	39.70%	36.10%	1
2	Muthoot Microfinance	24.48%	26.15%	26.75%	25.79%	4
3	Satin Creditcare	24.14%	28.17%	29.78%	27.36%	3
4	GK	29.70%	27.23%	28.23%	28.39%	2

Interpretation: All the four MFIs namely BFIL, Muthoot Microfin, Satin Creditcare and GK have CRAR with 36.10%, 25.79%, 27.36%, 28.39%. Though, BFIL has highest ranking in CRAR in Basel II. On the other hand, Muthoot microfinance has taken the last positions with

CRAR 25.79%, which is the least. So, Muthoot does not have much capacity to adapt to its losses.

(b) Debt-Equity Ratio

Table 3

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	2.85	3.32	3.83	3.333333	3
2	Muthoot Microfine	1	2.45	1.53	1.66	1
3	Satin Credit care	2.9	3.7	3.1	3.233333	2
4	GK	3.05	4.11	4.06	3.74	4

Interpretation: Muthoot Microfin secures first position in Debt-Equity ratio with 1.66 followed by Satin Creditcare with 3.23. BFIL and GK stand at last with average of 3.33 and 3.74 times. It means that the creditors and depositors of Muthoot Microfin and Satin Creditcare are more secured as they are using less debt than other 2 MFIs. Whereas, Creditors and Depositors of BFIL and GK are at higher risk as they are focusing more on Debt than the shareholder's wealth and GK stays last with the highest risk and by Debt-Equity Ratio of 3.74.

(c). Total Advances to Assets ratio

Table 4

Sl. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	0.71	0.702	0.63	0.68	4
2	Muthoot Microfin	0.89	0.9	0.76	0.85	1
3	Satin Creditcare	0.67	0.69	0.73	0.69	3
4	GK	0.86	0.87	0.78	0.83	2

Interpretation: Muthoot Microfin has got the highest position in advances to assets ratio by 85% followed by Grameen Koota with 83%, Whereas Satin Creditcare and BFIL holds the last positions with 69% and 68%. All the MFIs have a good lending policy. But Muthoot Microfin and GK has adopted a better lending policy than other banks because there ratios are higher, which will definitely increase the profits of the MFIs.

2. ASSET QUALITY

(a). Gross NPA Ratio

Table 5

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	6%	0.10%	0.10%	2.07%	3
2	Muthoot Microfin	6%	7.20%	5.11%	5.98%	4
3	Satin Creditcare	0.41%	0.20%	0.03%	0.21%	2
4	GK	0.08%	0.08%	0.06%	0.07%	1

Interpretation: GK stands at the first position with its gross NPA at 0.07%. This shows that GK is the most efficient in managing its advances and collection properly. The last spot is taken by Muthoot Microfin with its average Gross NPA 5.98%. Satin Creditcare occupies the second and BFIL the forth position. The lesser the Gross NPA ratio is ,the better it is for the MFIs.

3. Management Efficiency

(a). Return on Net Profit

Table 6

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	0.90	5.20	5.30	3.8	2
2	Muthoot Microfin	3.84	3.32	2.50	3.22	3
3	Satin Creditcare	15.9	22.4	19.1	19.13	1
4	GK	2.3	0.046	0.04	0.79	4

Interpretation: Satin is at the peak with 19.13% of Return on Net worth followed by BFIL with 3.8%. It means that Satin and BFIL are earning good amount of profits from the capital they invested in fixed assets. The higher the return the more products and efficient management is in utilizing economic resources, where as Muthoot and Gk has least rate of return with 3.32% and 0.79%.

4. Earning Capacity

(a). Interest Income / Total Income

Table 7

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	0.03%	1.18%	0.09%	0.43%	2
2	Muthoot Microfin	0.03%	0.02%	0.03%	0.03%	4
3	Satin Creditcare	0.79%	0.76%	0.82%	0.79%	1
4	GK	0.38%	0.37%	0.42%	0.39%	3

Interpretation: Interest income is the difference between the revenue that is generated from a MFI's assets and the expenses associated with paying out its liabilities so here in this case it is observed that Satin stands in the 1st position with the average of 0.79%, so that satin is earning good interest and followed by BFIL is in next position with 0.43% and in 3rd position GK is there and at last in the final position. Muthoot micro finance is there and the interest rate is very less in muthoot with average of 0.03%.

5. Liquidity

(a). Current Ratio

Table 8

SL. No.	MFI	2017	2018	2019	Avg	Rank
1	BFIL	1.62	1.88	1.67	1.723	3
2	Muthoot Microfin	1.66	1.84	1.89	1.796	2
3	Satin Creditcare	2.43	2-18	1.82	2.143	1
4	GK	1.71	1.62	0.79	1.373	4

Interpretation: Current ratio is a useful test of the short-term-debt paying ability of any business. A ratio of 2:1 or higher is considered satisfactory for most of the companies. Satin stand in the 1st position with average current ratio of 2.14 which is above 2 so it is good and next Muthoot Micro Finance in 2nd position with 1.79 and followed by BIFL with 1.72 and in the last position GK stands with the least ratio of 1.37.

6. LIMITATIONS

- The study can further be made more extensive by taking a larger sample size.
- The time period taken for study can also be widen so as to have a deep insight of the objectives.
- Secondary Data is sometimes not available.

7. SUGGESTIONS

a. BFIL

- Needs to lower its debt and increase its advances to maintain good profitability.
- Should increase its efficiency and management and lower its NPA.

b. Muthooth Microfine

- Needs urgent measures to control its NPA.
- The aggressive lending has increased its NPA, thus should have stringent rules while giving advances.

c. Satin Credit care

- Overall performance of Satin Creditcare is satisfactory but it is blocking lot of funds in case of quick ratio and liquid ratio.
- The liquidity position of Satin Creditcare needs to be checked and monitored efficiently.

d. Grameen Koota

- This company is not capitalizing on financial leverage and thus the pitfalls can be seen in its profitability.
- Grameen Koota should manage its debt- equity ratio so as to earn good profits and increase its revenue and earning capacity.

8. CONCLUSION

The study was conducted to check the Financial Performance of selected MFIs in India. The CAMEL Model Approach was adopted for the same. The CAMEL model approach is appropriate to analyze and judge the performance of any financial institution as it helps to check the Capital quality, asset quality, management efficiency, earning capability and liquidity position (Kavitha & Gopinath, 2020b). The Analysis and Performance has been checked the same and also suggestions have been given for the same to improve the MFIs.

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