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Research Paper

Performance of MFIs in India Post Andhra Pradesh Ordinance

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ABSTRACT

We evaluate the performance of Microfinance Institutions (MFIs) in India by analysing select data for a 7-year period from 2011-12 to 2017-18. The effects of AP ordinance (2010), the RBI circular regulating MFIs (2011) and the demonetisation done by the Government of India (2016) on the performance of the MFIs in India are evaluated. The analysis shows that the Indian MFIs' performances have improved manifold over this 7-year period across most parameters. MFIs have done well not only on their social objectives and financial sustainability but also on operational efficiency and risk management parameters. There is, however, a drop in their performance in some parameters post demonetisation in 2016-17. This drop seems to be temporary as the parameters that saw a drop like the number of borrowers, ROE and PAR 30 days have improved in 2017-18.

Keywords: MFI, AP Ordinance, performance, demonetization

INTRODUCTION

Microfinance Institutions (MFIs) are started as Non-Governmental Organisations (NGOs) with the social objective of financing the poor and underserved. A Good return on investment along with the low Non-Performing Asset (NPA) levels attracted 'For profit' financial firms to the MFI Industry. Throughout the world, not just in India, Non-Banking Finance Companies (NBFCs)and banks have started extending microfinance services. MFIs in India are getting converted into Banks and are getting listed in the stock exchanges. These factors have resulted in MFIs having dual performance objectives – a social objective in serving the poor and a financial objective in ensuring their own sustainability.

In India, MFIs have been in existence since the early 1990s. They were on a steady growth path for the initial two decades. However, since 2003-09, the industry started growing quickly without direct supervision from any of the regulators. Lack of supervision along with a sudden spurt of growth led to multiple problems such as the predatory selling of unsuitable products, coercive collection practices and a fall in credit appraisal standards. In 2010, the state of Andhra Pradesh promulgated an ordinance to control the operations and activities of the MFIs based out of Andhra Pradesh. This ordinance not only affected the performance of Andhra Pradesh-based MFIs but also created overall liquidity issues for the industry as a whole. This was followed by a detailed investigation by an RBI-appointed committee and issuance of a circular regulating the MFIs' operations.

This paper attempts to evaluate the performance of the MFIs in India post AP ordinance and the RBI circular. Based on literature study, we have selected various parameters and rations that can be analysed to understand and evaluate both social and financial performances of the MFIs. This analysis is based on the aggregated secondary data published by Sa-Dhan, a Self-Regulatory Organization (SRO) working among MFIs in India. MFI is not a typical financial institution like a commercial bank. Hence the parameters that are used to evaluate the performance of the MFI Industry are different. We evaluate the performance of MFIs using various ratios across multiple performance perspectives- social, financial, operational and risk management.

This paper is structured as follows: Section 1 provides a brief introduction; Section 2 provides an overview of the MFI industry in general and the MFI industry in India in specific; Section 3 gives a summary of the review of related literature. Section 4 summarises the Industry performance in the last 7 years. Section 5 presents the relevant data analysis; Section 6 discusses the results; conclusions are offered in Section 7.

Indian Microfinance Institutions

Microfinance Institutions (MFIs) are semi-formal financial institutions that provide small loans and other financial services to poor people who cannot afford to provide any collateral (security) as required by commercial financial institutions such as banks. Microfinance as a concept originated with the micro credit movement started by Nobel laureate Muhammad Yunus in the year 1983. Muhammad Yunus started the Grameen Bank in Bangladesh to lend to poor Bangladeshi women to aid them in starting commercial activities that could improve their livelihood.

The main features of these micro-finance institutions that differentiate them from other financial institutions are: they lend small amounts as joint liability for groups of preferably women, without collateral and provide other financial services at the door steps of the customer. This innovative financial intermediary helps in breaking up both demand and supply side barriers including lack of credit history, physical barriers, lack of security, and even religious barriers in the case of Muslim women who were not allowed to go to the branches where they must deal with male staff.

In India, the microfinance programme was started by NABARD in collaboration with other Banks and Non-Government Organizations (NGOs) for primarily providing micro credit to the underserved and low-income population. This was done through the Self-Help Group (SHG) – bank linkage program since 1992. The sector has continuously evolved with private sector participation and microfinance institutions (MFIs) were formed. These microfinance institutions started with providing just credit and subsequently moved on to providing various services including savings, credit, insurance, pension and remittance services.

The sources of funds for such organizations were primarily the donations from multilateral donor agencies and grants from Governments and development agencies. Based on these grants and the success of the MFIs on the ground MFIs grew exponentially in the last decade in India. The quantum of credit made available to the poor and financially excluded clients has gone past 68,000 crore and number of clients benefitted is close to 35 million as of March 2018. [(1)]

In the last 25+ years of its existence, the MFI industry in India has tasted both success and failure. Banks flushed with excess liquidity made it easy for MFIs to borrow for further lending. This combined with no single regulator to regulate the industry and the Government of India's aggressive push for financial inclusion led to a multi-fold growth of MFIs during 2003-2009. MFIs' growth in India was initially skewed towards south and western India. For example, in 2005, the top 5 microfinance organizations were all headquartered at Andhra Pradesh and accounted for 52% of the total gross loan portfolio of the industry and 46% of total industry client outreach. [(2)] This skewed, rapid growth, combined with intense competition and paucity of detailed regulation led to multiple governance issues in the industry in the later part of 2000s. These issues include sudden and increased growth without necessary evaluation of areas of growth, diminished credit appraisal standards, 'Ghost Clients' and fund diversions, lack of prudent cash management practices, and lack of systematic MIS. [(3)]

One major turning point in the growth story of MFIs was the ordinance passed by the Andhra Pradesh Government. This was in response to the number of farmer suicides that happened in 2010. The farmers squarely blamed the 'for profit' MFIs' collection pressure as the reason for their suicide. The ordinance – Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2011, restricted the operations of MFIs in Andhra Pradesh. This had a major impact on the performance of the MFIs particularly in collecting the dues, which led to bankruptcy of some MFIs. Thus, the entire MFI industry in Andhra Pradesh got stagnated and experienced decline in business.

In response, the Reserve Bank India (RBI) appointed a committee headed by Sri Y H Malegam to study the issues pertaining to the MFI sector in India. Based on the recommendations of the committee, RBI issued a circular dated 2nd Dec 2011 for NBFC-MFIs [(4)] regulating operations. The performance of Indian MFIs has come a long way since the shake-up due to AP ordinance. One MFI has even become a universal bank (Bandhan), 8 others have become small finance banks and the industry has seen many successful IPOs of MFIs such as Equitas and Ujjivan.

Literature Review

MFIs work towards increasing fund availability for poor and under-served clients not serviced by regular Commercial Banks. At the same time, MFIs also look for financial sustainability as they compete for the donor and grant money among themselves. MFIs' requirement to raise finance from commercial sources such as capital markets, have increased the pressure on MFIs' performance; more particularly, financial sustainability. Hence, MFIs have a "double bottom line" – in addition to a developmental or social objective, they also have a financial objective. [(5)]

MFIs try to follow both the objectives of poverty alleviation and financial sustainability, albeit combining them in different proportion. [(6)] Each MFI positions itself at different places of this continuum of poverty alleviation and financial sustainability. The research report of International Labor Organization on Microfinance and Public Policy found that out of their total sample of 302 MFIs, the MFIs that are older (in terms of age), larger (in terms of both number of clients and the portfolio) and those who use the 'lending to individuals' policy as their lending philosophy tend to be more financially sustainable. [(6)]

The financial sustainability of an MFI is defined by the efficiency in the operations of the organization. The efficiency is generally defined by the ratio of inputs to outputs. There is no single way to measure efficiency of MFIs. [(7)] The Microfinance Consensus Guideline [(8)] presents many ratios for sustainability/profitability, asset/liability management, portfolio quality and efficiency/productivity of any MFI. Some of these ratios are:

a. Sustainability/Profitability – Return on Equity (RoE), Return on Asset (RoA), Operational Self-Sufficiency (OSS), Profit Margin and Financial Self-Sufficiency (FSS).
b. Asset Liability Management – Yield on gross loan portfolio, Current ratio, Yield

gap, Funding expense ratio and Cost of funds ratio.

c. Portfolio Quality – Portfolio at Risk (PAR), Write off ratio and Risk coverage ratio.
d. Efficiency/Productivity – Loan officer productivity, Personnel productivity, Average disbursed loan size, Average outstanding loan size and Operating Expense Ratio (OER)

Armendáriz, B., and Morduch, J. in their book, [9] 'Economics of Microfinance' suggest the financial performance or sustainability of a MFI is measured by net operating income and five financial ratios including Operating self-sufficiency ratio (OSS), financial self-sufficiency ratio (FSS), return on assets (ROA), portfolio at risk (PAR 30 days) and yield on gross loss portfolio. One ratio that is predominantly used by many practitioners frequently is operating expenses upon average gross loan portfolio or total assets. The main variables included in this ratio are average loan balances, staff costs and staff productivity. This ratio is higher for the financially unsustainable MFIs than financially sustainable ones. [6]

When it comes to the social performance of MFIs, there is a clear lack of depth of information available. This leads to reinforcement and leaning towards the financial performance goals as they are clearly measurable. [6] The social performance is generally measured by indicators of outreach including the number of borrowers, number of female borrowers, total loan portfolio amount, average loan amount per borrower and the ratio of loan balance to GNP per capita. [6] MFIs focusing on poverty alleviation tend to engage in smaller transactions, leading to increased cost of operations and in turn charge higher interest rates compared to other MFIs. [6] Additionally, targeting (Social Ends Vs Financial Profits), Interest rates, other interventions and opportunities including training, healthcare, Incentives for staff – proper MIS and reporting may improve the reach of the MFIs. [10]

Schreiner defines a framework for outreach - the social benefits of microfinance - in terms of six aspects: worth, cost, depth, breadth, length, and scope. [11] The framework encompasses both the poverty approach to microfinance and the self-sustainability approach. The poverty approach prefers great depth of outreach, targets very poor clients, measures success through the expansion of the mainstream economy in the long term and depends on donation for the revenue shortfall. The self-sustainability approach prefers wide breadth, long length, and ample scope, targets less-poor clients and measures success by the quantum needs of the poorest that are met in the short term. The social benefit of the outreach of a microfinance organization is the net gain weighted by depth, summed across breadth of clients and across scope of contracts, and summed and discounted through length of time.

While Bassem analysis shows a neutral link between financial performance and depth of outreach [12] Abate et al states categorically that serving poor clients and achieving financial sustainability are difficult objectives and are to be achieved simultaneously. [13]

Summary of Indian MFIs Performance Data

Sa-Dhan, the association of community development finance institutions in India, in association with National Bank for Agriculture and Rural Development (NABARD), has been publishing 'The Bharat Microfinance Report' for the past fifteen years, since 2003. This report presents the health of Microfinance industry in India by including the aggregate financial and operational data of many MFIs in India along with the latest industry news, inspiring case studies etc. This report also includes the details of the performance of the Self-Help Group (SHG) – Bank linkage programme. Sa-Dhan is one of the two Self-regulatory Organizations (SRO) of the MFI Industry that is recognized by the RBI.

Every year, many MFIs – both members and non-members of Sa-Dhan report their financial and operational data to Sa-Dhan, after which the data is aggregated and presented in the form of a report by them. For example, in 2018, 202 MFIs reported data, which includes 77 non-members of Sa-Dhan. This data represents around 99% of the microfinance sector in India. We have taken the data of the last 7-years from 'Bharat Microfinance Reports' and analyzed various parameters, ratios and operational/risk management numbers to evaluate different aspects of the performance of the MFI industry in India.

This is a longitudinal study of the performance of the MFI industry in India. The period from 2010-11 to 2017-18 was selected for evaluation of the performance of the industry post the promulgation of AP ordinance (2010) and the implementation of the RBI circular (2011), regulating the MFI business in India. Though no regression or causal analysis has been done on the data, the ratios are selected based on the literature review to show cause the all-round performance of the MFIs on both financial sustainability parameters and social parameters.

The summary statistics of MFIs in India, across last 7 years is presented in Table 1.

Table 1 – Summary of Financial and Operational Performance of Indian MFIs for last 7 years

Particulars	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
No. of MFIs	184	155	155	156	166	172	202
Client Outreach (In Lacs)		275	330	371	399	295	351
Women Clients (%)	95%	96%	97%	97%	97%	96%	96%
SC/ST Clients (%)	20%	21%	19%	28%	30%	20%	33%
Other Minorities (%)	23%	23%	14%	18%	27%	10%	17%
Rural Clients (%)	69%	67%	56%	33%	38%	61%	55%
Gross Outstanding Portfolio (In Crores)	24607	25738	33517	48882	63853	46842	68789
Own Portfolio (In Crores)	20913	22338	29442	39028	46939	32944	47708
Managed Portfolio (In Crores)	3694	3400	4075	9854	16914	13898	21080
Loan Disbursed (in Crores)	22635	25796	38558	56860	72345	52447	81737
Total Assets (in Crores)	25240	28051	36125	51564	58621	46247	58728
Avg. Loan per Borrower	7725	8112	10079	13162	11425	12751	14700
Income Generation Loan (%)	85%	91%	80%	80%	94%	85%	93%
Branches	11459	10697	11687	12221	11644	10233	14026
Total Employees	86956	75670	80149	94773	103415	89785	110914
Female Staff in MFIs (%)	12%	16%	19%	16%	15%	12%	12%
Average Borrower per Credit Officer (ABCO)	355	510	438	419	440	426	407
NPA (%)		0.40%	0.02%	0.21%	0.15%	0.69%	1.48%
PAR (30 days) (%)	1%	0.40%	0.02%	0.13%	0.29%	1.32%	0.80%
Operating Expense Ratio (%)	11.88%	12.00%	12.08%	11.45%	10.22%	10.5%	9.97%
Finance Cost Ratio (%)	12.00%	11.89%	12.17%	12.42%	13.30%	14.8%	13.03%
Yield (%)	17.00%	22.00%	24.00%	24.00%	21.00%	22%	18.56%
Margin (%)		10.00%	10.60%	10.20%	10.00%	8.08%	9.55%
Operational Self Sufficiency (OSS) (%)		111%	114%	113%	113%	114%	110%
Return on Asset (%)	2.61%	0.01%	1.94%	1.73%	2.20%	2.40%	1.63%
Return on Equity (%)	7.64%	4.80%	9.25%	8.19%	11.60%	13.31%	7.48%
Particulars	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Capital Adequacy Ratio (%)	30.70%	19.40%	19.60%	19.10%	19.39%	21.13%	22.10%
Leverage		3.9	3.3	2.9	3.2	2.9	2.80
Fund Flow (Outstanding) (In Crores)	16959	20724	27663	40802	44822	33923	50232
Equity Outstanding (In Crores)	1325	2034	4233	4195	4509	3615	3919

RESULTS ANALYSIS AND PRESENTATION

In this section, detailed analysis of select parameters, ratios etc. are presented in four major groups:

a. Depth and Breadth of outreach of MFIs (Social objective)
b. Financial sustainability
c. Operational efficiency
d. Risk Management

Depth and Breadth of outreach of MFIs: The depth and breadth of the outreach of MFIs explains the MFIs' performance with respect to their social objective(s). Breadth of outreach means the number of clients the MFIs service and depth of outreach means the value attached to the services provided by the MFIs. [14] Serving the most deserved i.e. female customers, rural customers etc. serves as a good proxy for the depth of the services provided by the MFIs. MFIs in India have reached both a good depth as well as breadth when it comes to outreach.

Indian MFIs have seen a steady increase in their client outreach from 275 lacs in 2012-13 to close to 400 lacs in 2015-16. The numbers fell to 295 lacs in March 2017 but grew to 351 lacs in 2017-18. This is a 19% growth over a period of 6 years. This increase is achieved without compromising on the depth of their service. The percentage of women clients out of the total clients has always be greater than 95%. The percentage of clients from SC/ST background (socially under-served class) which has increased substantially from 20% in 2011-12 to 33% in 2017-18 is another proof for the depth of the services. However, the rural borrowers share in the total borrowers' share has seen a decline from 69% to 55% during the same period. The drop in the number of clients in 2016-17 could be directly attributed to the demonetization exercise brought about by the Government of India in November 2016. The percentages of rural clients have been declining steadily till 2014-15 as the MFIs focused their growth strategies in the Urban areas. This trend has reversed since then.

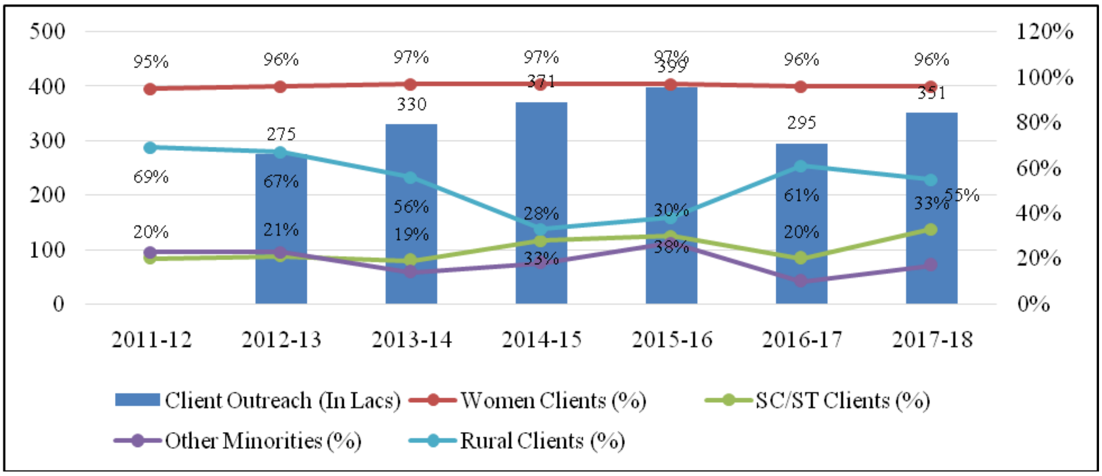

Figure 1 – MFI Clientele - Last Seven Years

Another proxy for the depth of the MFIs' services is the average loan per borrower. The lower the number, the poorer the client is. This number has seen a steady increase in the last seven-year period. This could primarily be due to repeat customers getting higher loans from the same MFI. However, this has helped in increasing the total loan portfolio as well as the overall financial performance of the MFIs.

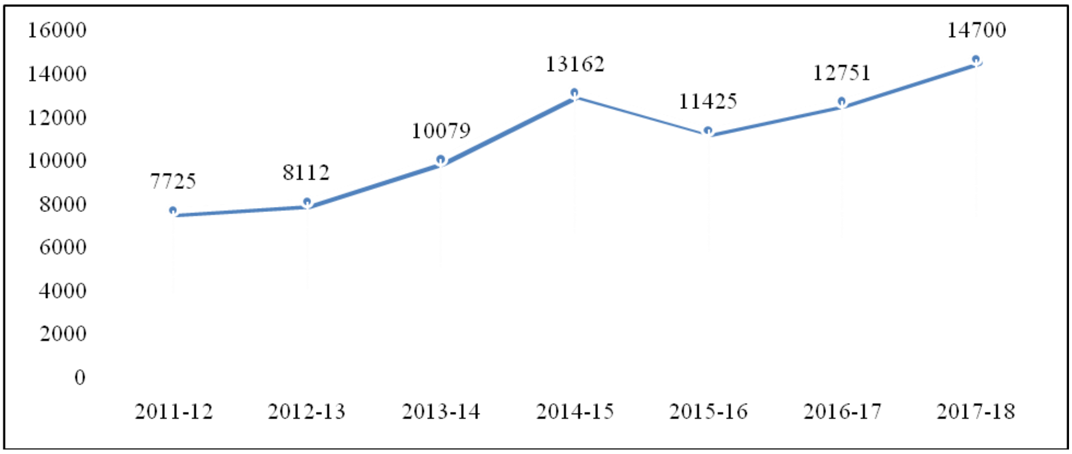

Figure 2 – Average Loan per Borrower

Financial Sustainability: There are multiple measures that are used to evaluate the financial sustainability of financial institutions. These include Return of Asset (RoA), Return on Equity (RoE), Profit Margin and Yield. Over and above these MFIs being specialized financial institutions, certain specific ratios such as Operational Self Sufficiency (OSS) and Financial Self Sufficiency (FSS) ratios are used for evaluating their financial sustainability.

The Return on Assets and Return on Equity are the two important profitability ratios that explain the financial sustainability of any business entity, more so for a financial institution. These numbers for Indian MFIs have improved in the 4-years period since 2012-13 to 2016-17 after a deep decline in the year 2012-13. Both the ratios saw another decline in the year 2017-18. This can be explained as the after-effect of demonetization in India. The sudden regulations seem to have had a negative effect on the ROA and ROE with a lag as the 2012-13 decline was caused by AP MFI ordinance 2010.

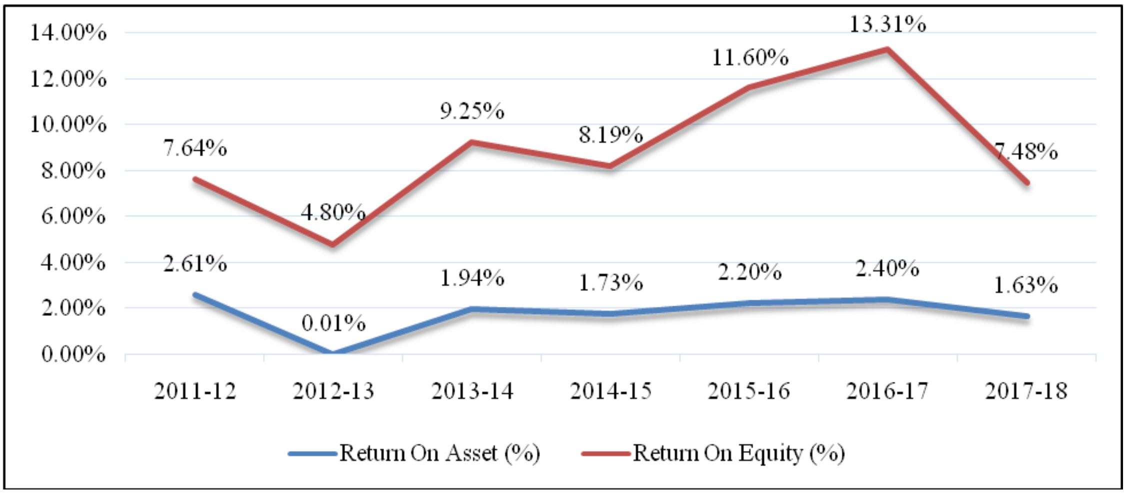

Figure 3 – Return on Asset and Return on Equity

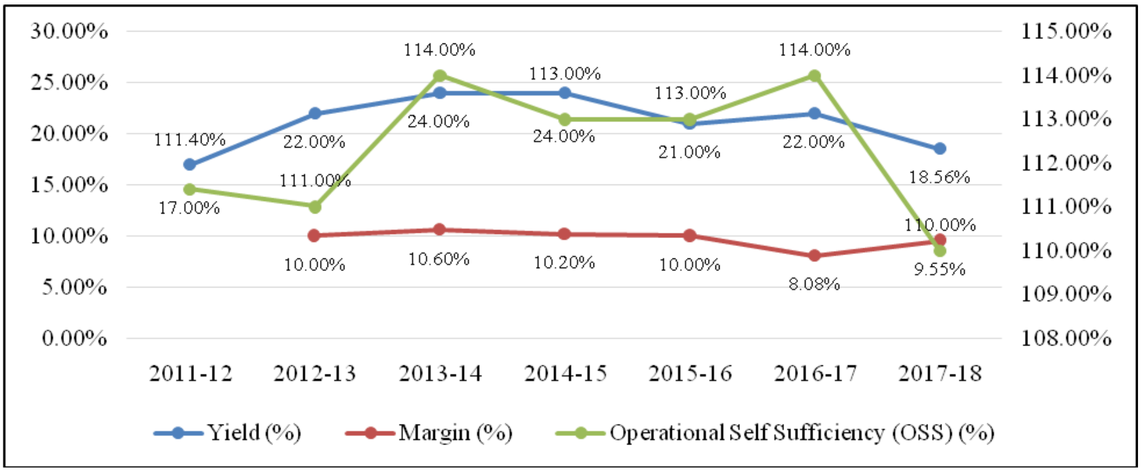

Figure 4 – Yield, Margin and OSS

The next set of ratios that illustrate the financial sustainability of the MFIs are the Margin, Yields and Operational Self Sufficiency (OSS). As per RBI regulations, there is a cap in the margins of NBFC MFIs which is reflected in the steady margin levels of MFIs over the 2012-13 to 2015-16. However, the yield has been growing consistently over the same period. The margin has seen a decline in 2016-17 but has improved in 2017-18. Yields have declined only in 2017-18 instead of 2016-17. OSS is defined as the ratio between the total operating income of an MFI to its total operating expenses including financing costs and loan loss provision. OSS numbers for Indian MFIs have been consistently above 110% over the last 7 years. This shows that the MFIs can cover all their operating expenses out of their operating income. This thus depicts the long-term sustainability of MFIs with reduced dependence on grants and subsidies and proves that they have indeed become self-reliant.

Efficiency:

There are a number of parameters that can be used to measure the efficiency of MFIs. Given the competition faced by MFIs in India and the cap on interest rates/margin enforced by the RBI, efficiency of operations is the corner stone for the sustainability of the MFIs. Field officers or credit officers form the major part of the MFIs' payroll. Hence the productivity of the field officers is one of the important measures. This is referred as Average Borrower per Credit Officer (ABCO) in MFI parlance. The ABCO peaked to 510 borrowers per officer in 2012-13 from 355 in 2011-12. This has stabilized to around 400 in the recent years. Competition and regulation have forced the MFIs to provide an improved service delivery to their clients which is confirmed by stable ABCO numbers.

The other two cost ratios that depict the efficiency of MFIs are Operating Expense Ratio (OER) and Finance Cost Ratio (FCR). OER is the ratio between total operating expenses and the gross portfolio while FCR is the ratio between total interest (and fee) cost and the gross portfolio. The OER of Indian MFIs has reduced from 11.88% in 2011-12 to 9.97% in 2017-18. This improvement of 1.91% over a 7-year period can be attributed to reasons such as technological advancements in delivering and administering the credit, rationalization of branches, getting repeat business from the same client etc. However, the FCR has increased from 12% to 13.03% during the same period. This could be because of the increase in the cost of funds available for the MFI and the decrease in overall liquidity situation in the financial markets in India. This also shows the pressure on MFIs getting additional finance.

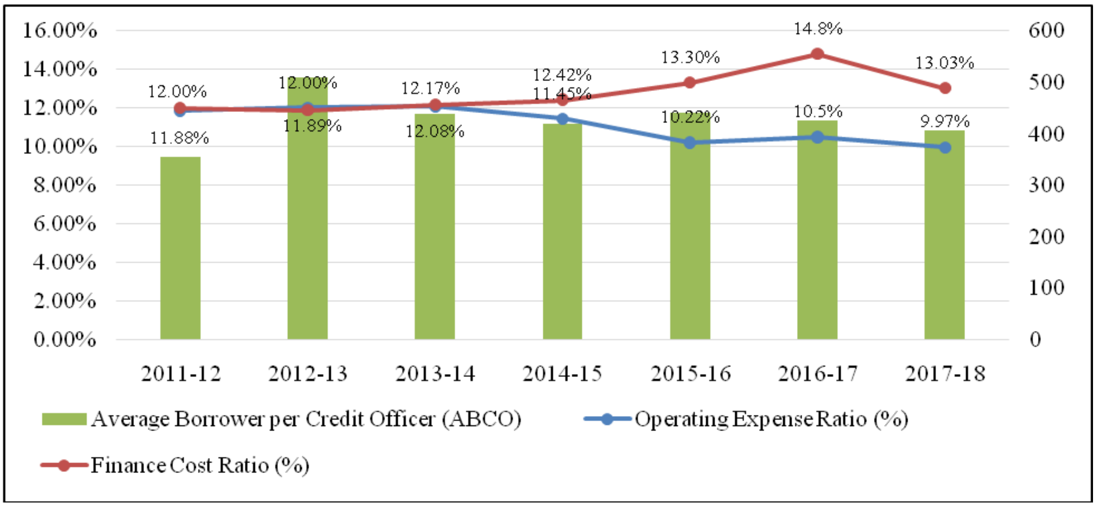

Figure 5 – Efficiency Ratios

Risk Management:

MFIs face multiple risks such as credit risk, operational risk and external risk which are not in the control of the management. Examples of these are AP ordinance and demonetization that have had a considerable impact on the performance of the Industry. Some risks even affect the long-term sustainability of the industry. MFIs have recognized the same and have also been improving their risk management practices. The parameters that are evaluated from the risk management perspective of MFIs in this paper are Non-Performing Assets (NPA), Portfolio at Risk (PAR), Leverage and Capital Adequacy Ratio (CAR).

PAR (30 days): Portfolio at Risk (30 days) is an important ratio that shows the portfolio quality and the credit risk levels of MFIs. PAR indicates the proportion of amount past due / in arrears to the total outstanding loan amount. PAR 30 days means the amount part of portfolio that is unpaid even after 30 days of the due date. This number has seen a steady decrease since the AP crisis days of 2010. There was an increase in 2016-17 due to demonetization in India, which has decreased to 0.80% in 2017-18.

NPA: Non-Performing assets are those loans for which, interest or principal amount has not been paid for a period of 90 days or more from the date of its due. This is used across the financial industry to evaluate the portfolio quality. This number which was at a very low 0.02% in 2013-14 has increased to 1.48% in 2017-18. This is also due to demonetization as NPA will have a lag of 2 months with PAR (30 days). This is expected to improve in 2018-19. Historically MFIs has recorded a low PAR and NPA percentage, which is a unique feature of the lending to women in joint liability groups.

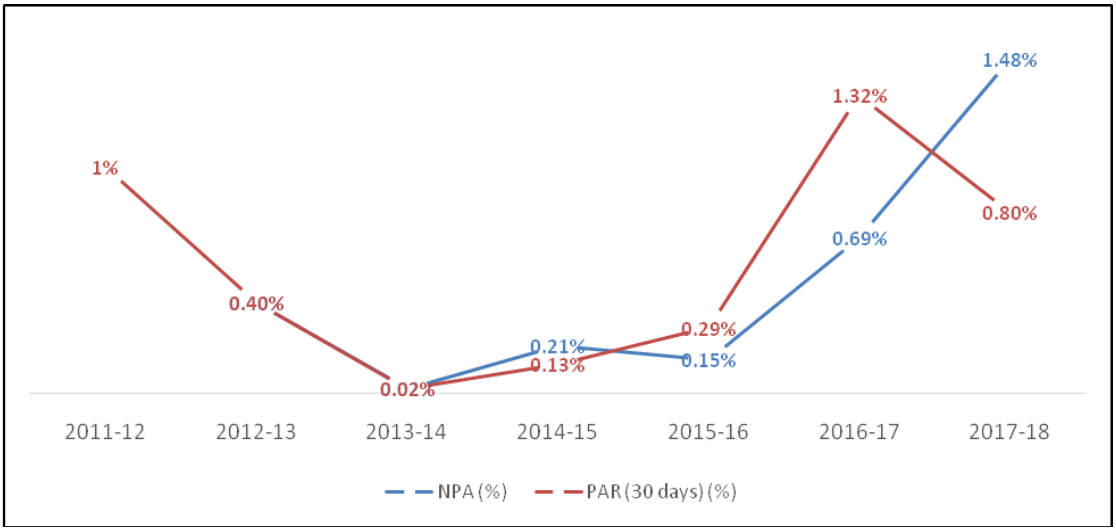

Figure 6 – NPA and PAR 30

Capital Adequacy Ratio: Capital Adequacy Ratio (CAR) is one of the important balance sheet ratios that is used to assess the MFIs' available capital in terms of the total credit exposure. As per RBI guidelines the minimum expectation of CAR for an NBFC MFI is 15%. The MFIs in India has consistently ~20% as CAR throughout last 7 years. This shows the MFIs are adequately capitalized to manage unforeseen risks affecting the industry.

Leverage: The leverage ratio shows the amount of total borrowings of the MFIs against their net owned funds. This ratio has been steadily declining from 3.90 in 2012-13 to 2.80 in 2017-18. This implies that the MFIs have reduced their borrowings, pumping in more own funds both in the form of fresh equity (including some IPOs) and reinvesting the earnings during the year. Higher CAR and lower leverage show a better fund management position for Indian MFIs over the last 7-year period as such.

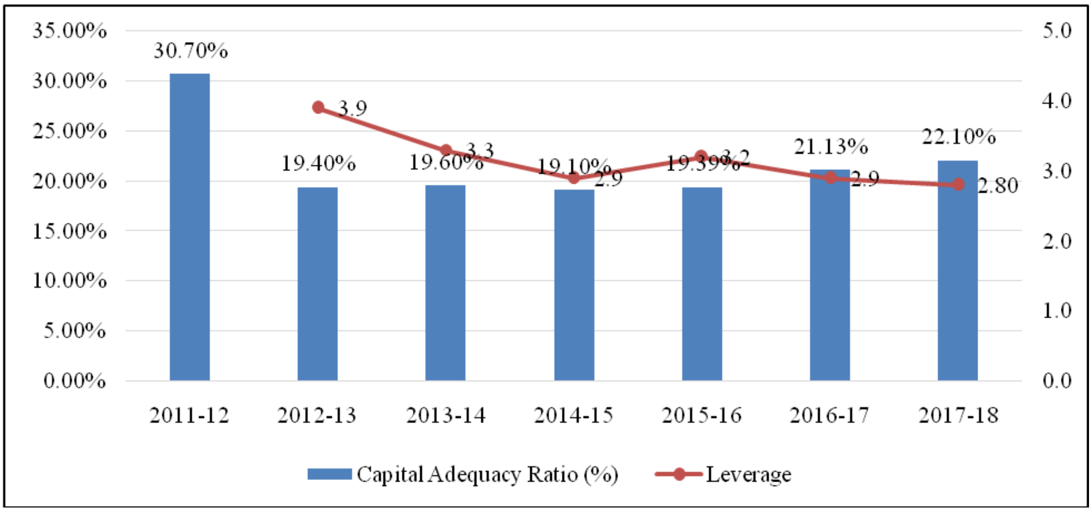

Figure 7 – Capital Adequacy and Leverage

DISCUSSION

The aim of the present study is to analyze the performance of the Indian MFI Industry over the last 7-year period post AP ordinance and RBI regulations. AP Ordinance had a negative impact not only on the MFIs operating in Andhra Pradesh, but to the entire MFI industry. AP ordinance lead to non-payments of dues and increase of NPAs for MFIs. There was a steep increase in PAR 90 numbers from 0.3% in 2010 to 58% in 2012 for the AP based exposure while it increased from 0.1% to 0.6% for non-AP based exposure. [15] Post this, the RBI set up the Malegam Committee to investigate the same and issued a circular dated 2nd Dec 2011 based on its recommendations for regulating MFIs' operations. This paper looks at some quantitative measures to evaluate the performance of the Indian MFI Industry post these two significant events.

In the last 7 years, the overall performance of the MFI Industry in India has been impressive. It has achieved an all-round growth client outreach, gross outstanding portfolio, number of branches and employees with a good Portfolio at Risk (PAR) numbers. The gross outstanding portfolio of the Indian MFIs has grown 180% from Rs. 24,607 crores to Rs. 68,789 crores, while the client base has grown 28% from 275 lacs to close to 351 lacs over this period. This increase is achieved without compromising on the goal of serving women and weaker sections of the society like SC/STs, minorities etc. along with the quality of the portfolio. The borrowers of these MFIs have been returning to the same MFIs for subsequent loans. This has resulted in them borrowing higher amounts, which is reflected in the Average Loan per Borrower amount of Rs. 14,700. This is still very low as compared to any commercial lending scenario. These numbers depict the depth and breadth of the MFI operations in India. The depth and breadth are proxies for the social performance of the Industry and the MFI Industry has been achieving the same.

There has been a 22% increase in number of branches and 28% increase in the number of employees over this period. The increase in branch network and employees was accompanied by rationalization of the branch network, increase in the employee productivity, introduction of technology in operations; particularly in on-boarding of clients and collections and improved cash management processes which have all helped the industry to run its business more efficiently. This is reflected in the ~2% fall in the operating expense ratio over the last 7 years. However, another important parameter of field officer productivity – Average Borrower per Credit Officer (ABCO) has stabilized around 400. This shows that the industry has moved away from on-boarding hordes of clients under the same officer. This enables the officer to focus on service delivery as expected under the RBI guidelines.

The financial sustainability of MFIs in India has improved multifold post AP ordinance. This is proved by many growth parameters including ROA, ROE and profitability. The margin and OSS were held stable throughout this period. The RBI circular regulating MFIs lays down a cap on the margins and hence stable margins show both adherence to this policy guideline and improvement in the financial sustainability of the industry. Bandhan MFI becoming a universal bank and eight other MFIs becoming small finance banks also shows the increase in the confidence levels of financial sustainability of MFIs in India. The NPA and PAR numbers have been consistently low over the last few years. However, they seem to have increased marginally in the last couple of years – 2016-18. This increase and fall in profitability ratios in the last couple of years can be directly attributed to the demonetization policy announced by the Government of India in November 2016. The PAR numbers have quickly recovered in 2017-18, showing that the industry has quickly recovered from the policy intervention.

The CAR of Indian MFIs is consistently at ~20% which is higher than the RBI recommended minimum requirement of 15%, proving that the MFIs are well-capitalized. This coupled with reduction in leverage ratio, shows that the MFIs have reduced their dependence on the borrowed money for further lending. There are multiple reasons for the stellar performance of the MFI Industry in India including – Government of India's greater push for financial inclusion through Prime Minister Jan Dhan Yojna (PMJDY), availability of funds to the MFIs through the Mudra scheme, advent of technology and process improvement such as usage of AADHAR cards for on-boarding the clients, RBI guidelines streamlining the competition in the industry and rationalizing their branch and growth strategy.

CONCLUSION

This paper studies the performance of MFI Industry in India, post the AP Ordinance restricting the operations of MFIs in Andhra Pradesh and the RBI circular regulating their pan Indian operations. Using literature review, we have identified important parameters that need to be analyzed for evaluating the performance of MFIs. The aggregated industry data published by Sa-Dhan; one of the two Self-Regulatory Organizations for Indian MFIs was used to make the detailed analysis. Through this analysis, we are able to show the following:

The Indian MFI Industry has delivered an impressive performance across all parameters viz., social performance, financial sustainability, operational efficiency and risk management over the last 7-year period. The MFIs have particularly achieved their social objective of serving the poor, women and weaker sections of the society.

The MFIs have adopted the RBI guidelines for their operations steadfastly. This can be seen through the stabilized margin as well as the average borrower per credit officer numbers. The MFIs have also improved their productivity and the service delivery quality at the same time over the last few years.

Indian MFIs are sufficiently capitalized, they have reduced their leverage and have very low PAR and NPA ratios throughout the seven-year period, except for the last two years.

Demonetization has had a negative impact on the performance of MFIs in the last two years 2016-17 and 2017-18. There has been an improvement in many parameters including the number of borrowers and PAR in 2017-18 confirming the recovery.

There are some limitations to this study, evaluating only select parameters of performance and not all parameters, not comparing the Indian MFIs' performance with other MFIs of other countries and causality of the reasons attributing to the performance. Further studies are to be carried on to explore various dimensions, especially the impact of demonetization as it has had a major impact on the performance of MFI in the recent period.

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