FINANCIAL RISK CONTORL IN MICROFINANCE

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Abstract

The article is a study on the status and the development growth of the microfinance sector. The main focus is on the microfinance clients, stating the reason behind the failure of non-repayment of financial loans. And also indicates the factors that affect the microfinance client in their business. Having all these thoughts in mind, the study was conducted on a particular Microfinance company named "Samasta Finance Pvt limited". The research basically indicates the overall performance of all 173 branches of the company. Analysis is done using the data of more than 2 years, in order to find out the highest AUM (Asset Under Management), PBT (Profit Before Tax), Loan disbursement of the overall 173 branches of SMFL.

Review of Literature

Risk taking is also a specific role or an action played by the every micro loan lenders or a company. In the absence of the regular follow up towards the clients or fail in the action that would aim to reduce the risk repayment, hence we could say that has a greater impact and also the reason why the client fail. Risk sharing, loans are mostly initiated by the approval of group of people who are willingly taking up the loan and its risk equally. In the absence or of any defaulter of the group, each other members have to contribute the loans borrowed finds and initiate a repayment to the organization. If any of the group members disagrees to accept the equal contribution, therefore its considered to as financial risk, and could also be a reason for non-repayment. The risk of exchange rate, a sudden fluctuation in the currency rates might also have negative or positive impacts on the microfinance company. The outside borrowers may face risk of more paying for conversion of currency towards the repayment of borrowed funds (Andryushchenko, 2015).

Microfinance misses its mark; microloans are lent to farmers in order to improvise the agricultural technology which indeed helps in generating income. Also in the other aspects, rather than alleviating poverty by lending the loans to the poor, providing them a job would benefit them in improvising their standard of living and lead a better life. Therefore we could say, due to lack of employment would leads to the reason why the borrowers are not able to repay the debt (Aneel, 2007).

Borrowers are facing exchange rate risk, and fluctuations risk. This occurs due to there are various borrowers seeking loans from the various parts of the country for their emergency requirements and needs. Since the value of the borrowed funds goes down, borrowers had to end up paying an extra amount for what he has received as a loan. We could emphasis on fluctuation changes of dollar to rupees. Due to changes in the value of the currency, the value may inflate or deflate this as an indirect effect on the borrowers and also a reason why the borrowers fails to repay back to the lenders.

There are many microfinance companies which are having the same core business lending loans and recollecting it back. Competitions are too high, as a result there are high chances in differential interest ratesthat are being charged. So there are many clients without noticing the differential interest rates at the moment of purchasing the loan, and in the later days when he acknowledges the difference, hence the clients may get de-motivated by the differential rates that are charged by the companies and might turn out to fail in repaying back the debt (Kar, 2011).

Every borrower is capable of repaying the debt on time. In the same case we can say every borrower are not capable of repaying the debt. In most of the cases the borrowers enjoys the benefits of the loan, in the sense the funds are been utilized for the purpose of family issues and other contingences. Hence when it comes to repaying back the debt the family members would not turn up to support the borrower. Therefore lack of inadequate support may cause the default in the repayment. This situation, which may have a negative impact on the microfinance industry, leads to the loss to the organization. The study findings says that in the early days when the microfinance concept was introduced, most of the loan subscribers were men, with the age of (31-40) years and almost 71% of

the male borrowers fail to return back and their it increases the credit risk of the microfinance company(Emenike O).

Challenges are what guides human, and gives a push towards their standard of living. The article talks about the various challenges that are faced by the different set of groups, such as life cycle, Emergency, opportunities. Every individual are relying on one or the other field to avail the financial services. Microfinance ask for the collateral for the (salary or any other incomes that the individual is capable of earning) disbursement of the funds to an individual. In this case there are various FFI agents who provide financial services even though the borrower is not a salaried person still they are eligible to avail the loans. These repayments are made on behalf of borrower through the compensated commission of the business. Life cycle referred to covering the entire life span from the day of born, till the human beings on earth. These are the various factors to be considered. Compare to other country, India has a major lacking behind in terms of eradicating the problems that faced by the lenders (Rao).

There are 3 different variables that are taken into consideration in this article, 1 assessment of borrowers, credit worthiness, and loan portfolio management. (ROE) return on equity, the repayment of the equity or the borrowed fund are absolutely based on the loyalty of the individual who is well dedicated towards maintaining the customer loyalty of making the repayment on time. It is also said that if the equity is outstanding for more than 30 days, it considered as portfolio at risk(Fernando).

In the bird's eye view microfinance is a tiny concept for facilitating small loans to the poor. Thinking in the broader concept microfinance is a branch of financial inclusion. The main focused area in this article is" the success and the failure" of the microfinance in India. Microfinance as a 'success' in the early days the microfinance institution were much focused on the customer retention by providing them a excellent credit service, by charging them a less interest rate. Because the whole point of the microfinance existence was to alleviate the poverty of the poor. By taking this as a point we could say that the microfinance was successful. In the year 2015 there were top 10 microfinance agencies to support the poor with high loans disbursements. Microfinance as a failure (financial exclusion) in most parts of the country (INDIA) people has no proper banking facility, in assured income generation within the family, most of the poor are illiterates and not eligible to access the loan formalities. Financially weaker ones do not have a permanent resident, so improper address reference may lead to face difficult in the availing of the loans from the microfinance institution. Lack of collateral verification also leads the poor go poor(Tara, 2016).

According to the snowball survey conducted in West Bengal on 220 female borrowers, the result found was among 220, 11% of the people are salaried and 18% of them are into running business, and 18% are in the field of agriculture, 30% are working as a labor in non-field labor, 7 % are into domestic service help. Housewives are highly found in the research. In this survey we could find various borrowers belong to different category of occupations, hence its concluded that in order to avail the microloans form the microfinance agencies an individual has to have a basic education and income generating activity so that an individual has an idea of effectively utilizing borrowed fund and

their won't be any problems faced in future by the borrowers and the microfinance Agency (Datta, 2017).

Advancement in financial agencies or markets helps in the circulation of fund flows the financial market so that the funds can be offered as the minimum loans to the financial needy people. Financial advancement plays a major role in mobilizing the cash deposits in the financial agencies. Advancement is carried out in 3ways: longer period schedules, decreasing transaction charges, and rebuilding the evaluation process. In the 1st way, it's very important to know the volume dimension, division of the maturity period of network such as, loans. The period structure is important because normally the repayment results are more in long run than compared to short run period. Hence, longer the pay cheque, it's more convenient to use the credit facility. 2nd way, decreasing the transaction charges, the charges are the factors to enter into the financial market. There are different parties, savers, borrowers, and mediator clients. Financial transactions are charges in-order to maintain the financial bonding, they accumulating, protection arrangement to the cash, and other financial documents. So it's important that advancement in financial market decreases the transaction cost. 3rd way, rebuilding the evaluation process, in every microfinance institution it's a basic necessity to know whom are we lending for, and we should have a confidence to recover the lent out funds back from the targeted clients. Therefore, it's very important to understand that advanced financial markets are highly innovative in nature. And at the same time, financial innovations are highly risk oriented; in controlling it required genuine responses. The risk occurs if the financial information, if there is a lack of internal management information system. In most of the cases the internal security in terms of management information system has overall good transaction improvements in the financial institutions (pischke, p. 2002).

Introduction

Samasta microfinance limited is a microfinance company which was established in March 2008 with an intention to provide financial services to economically weaker sections of the society.

In the year 2016-17 Indian Infoline Finance Limited (IIFL) came into existence as its strategic investor, which joined its hand to boost the operations of the company in upcoming years. IIFL holds 95.23% of the equity shareholding in the company and Samasta is one of the IIFL group of companies.

Samasta mainly focuses on bridging the gap between ambition and achievement of the skilled people who are financially weak. Through providing financial and non-financial services for the short-term period. This helps in enabling them a better quality of life. Samasta is a non-banking financial company, which believes in empowering individuals and enriches communities through its microfinance service.

SMFL helps in improving the standard of living by alleviating the financial stress among the poor people. SMFL provides ample of opportunities for income generation by lending loans, offering them various products and services, education loans, insurance policies etc.

Key words: Financial risk, Microfinance, Non-repayments, Grading

Objective of the study

1. To analyze the actual fact of why the borrowers aren't able to repay the debts back in microfinance sector.
2. To find out the PBT of top five branches of SMFL
3. To find out the AUM of top five branches of SMFL
4. To find out the loan disbursed of top five branches of SMFL

Data analysis of SMFL is done in-order to find the current position of all the branches of the company situated at various parts of the country,

Approach adopted

For finding out the top performing branches, rank and percentage and graph tools were considered for the research and analysis of data.

Research Design

The method of study here is through primary data, and secondary data from website.

Data Collection Method

Analytical tools: Tables and percentages

Sources of Data

Primary Data: Primary data will be collected by consulting financial team of the company, Management Information System (MIS) team.

Secondary Data: Company website

SITUATION ANALYSIS

Problem Identification

The problem involved in SMFL is that the estimated PAR (Portfolio at risk) is currently 1.01% as per the monthly financial statement. So, here up to 1% and less than 1% is acceptable as per the RBI guidelines. At SMFL the risk level is more than 1%, that is (1.01%). i.e., this is the major problem identified in the company.

Analysis of external factors/drivers

In case if the RBI guidelines of (interest rate, the minimum deposit, loan amount) are reframed then it would have a negative impact on overall performance of the organization. It could be either irregular payments from the clients due to higher interest rates, and initial deposit increases more than 5 crores, then that might have a negative impact on the board of directors to pool the fund.

The government has allowed 100% foreign direct investment (FDI) in 'other financial services' carried out by non-banking finance companies (NBFCs), continuing with the liberalisation of the overseas investments regime.

Repayment

Samasta microfinance has implemented the group lending or joint liability (JLG) methodology. In this method the loan is disbursed to every one of the group and the group guarantees each other's loan. This method has been used by various microfinance institutions across India and showed the consistency high success rate in repayment. This group repayment creates necessary discipline among the members and leads to the successful repayment of the microloan.

Table.1 Grading Analysis

Category	PAR (%)	ROA < 0%	ROA 0 -1%	ROA 1 - 3%	ROA >3%	Total
Mature branches (> 1 year)	> 10%	1st	2nd	3rd	4th	**0**
Pos (Crores)						**-**
Mature branches (> 1 year)	< 10%	5th	6th	7th	8th	**0**
Pos (Crores)						**-**
Un matured	> 1%	9th	10th	11th	12h	**0**

branches (<1 year)						
Pos (Crores)						-
Un matured branches (<1 year)	< 1%	13th	14th	15th	16th	**0**
Pos (Crores)						-

Inference: As per my research, I could find the companies operation in various states - Karnataka, Tamilnadu, Kerala, Goa, Rajasthan, Maharashtra, Bihar, Odisha, Chhattisgarh and Gujarat.

There is a need for grading of branches to find out which branch and which state is performing well. Every state and their branches have been graded using numerical figures from 1 to 16 grade based on the following criteria:

1st grade: If the branch exists more than one year, PAR is more than 10% and ROA is less than 0%.

2nd grade: If the branch exists more than one year, PAR is more than 10% and ROA is between 0-1%.

3rd grade: If the branch exists more than one year, PAR is more than 10% and ROA is between 1-3%.

4th grade: If the branch exists more than one year, PAR is more than 10% and ROA is more than 3%.

5th grade: If the branch exists more than one year, PAR is less than 10% and ROA is less than 0%.

6th grade: If the branch exists more than one year, PAR is less than 10% and ROA is between 0-1%.

7th grade: If the branch exists more than one year, PAR is less than 10% and ROA is between 1-3%.

8th grade: If the branch exists more than one year, PAR is less than 10% and ROA is more than 3%.

9th grade: If the branch exists less than one year, PAR is more than 1% and ROA is less than 0%.

10th grade: If the branch exists less than one year, PAR is more than 1% and ROA is between 0-1%.

11th grade: If the branch exists less than one year, PAR is more than 1% and ROA is between 1-3%.

12th grade: If the branch exists less than one year, PAR is less than 1% and ROA is more than 3%.

13th grade: If the branch exists less than one year, PAR is less than 1% and ROA is less than 0%.

14th grade: If the branch exists less than one year, PAR is less than 1% and ROA is between 0-1%.

15th grade: If the branch exists less than one year, PAR is less than 1% and ROA is between 1-3 %.

16th grade: If the branch exists less than one year, PAR is less than 1% and ROA is more than 3%.

Overall estimated performance of SMFL branches

Table.2 Grade sheet of overall SMFL branches.

Category	PAR (%)	ROA < 0%	ROA 0 - 1%	ROA 1 - 3%	ROA >3%	Total(Cr)
Mature branches (> 1 year)	> 10%	5	1	-	1	7
POS (Crores)		17.74	4.21	-	3.78	26
Mature branches (> 1 year)	< 10%	10	-	11	44	65
POS (Crores)		50.21	-	46.53	307.25	404
New branches (<1 year)	> 1%	-	-	-	-	-
POS (Crores)		-	-	-	-	-
New branches (<1 year)	< 1%	82	5	10	4	101
POS (Crores)		283.97	36.11	62.77	28.20	411.04
Total Branches		**97**	**6**	**21**	**49**	**173**
Total POS (Crores)		**351.91**	**40.32**	**109.30**	**339.23**	**840.76**

Grade sheet

Grade	1st	2nd	3rd	4th	5th	6th	7th	8th
AUM	17.74	4.21	-	3.78	50.21	-	46.53	307.03
Branch	5	1	0	1	10	-	11	44

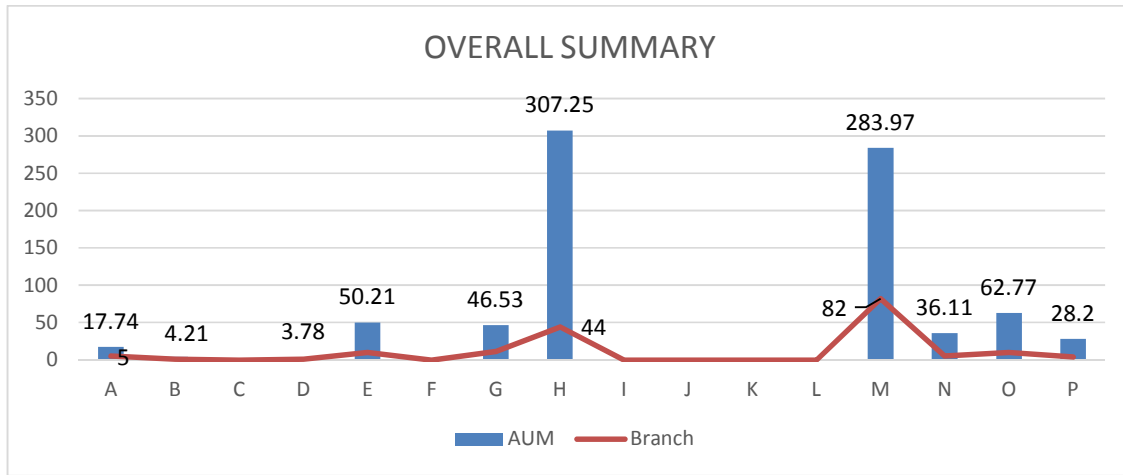| Grade	9th	10th	11th	12th	13th	14th	15th	16th	Total
AUM	-	-	-	-	283.97	36.11	62.77	28.2	840.77
Branch	0	0	0	0	82	5	10	4	173

Figure.2 Overall summary of SMFL branches

Inference: This analysis emphasis on the overall performance of all the 173 branches under 10 states of SMFL.

According to the summary grade sheet of SMFL, there are 7 matured branches with more than 1 year, PAR value greater than 10%, here 5 branches with a ROA lesser than 0%, and AUM of 17.74 Cr falls under '1st' grade.1 branch with a ROA 0-1% holds a AUM of 4.21 Cr. And 1 branch with a ROA greater than 3% holds a AUM of 3.78Cr.

There are 65 branches with more than 1 year, PAR value lesser than 10%, here 10 branches with a ROA lesser than 0%, and AUM of 50.21 Cr falls under '5th' grade. 11 branches with a ROA 1-3% holds AUM of 46.53Cr falls under '7th' grade. And 44 branches with a ROA greater than 3%, holds AUM of 307.25Cr falls under '8th' grade.

There is no new branch which is less than 1 year with a PAR value more than 1%.

On the other hand, there are 101 branches which is less than 1 year, PAR lesser than 1%. 82 branches with a ROA less than 0% with an AUM of 283.97 Cr falls under '13th' grade. And 5 branches with a ROA 0-1%, holds an AUM of 36.11Cr which falls under '14' grade.10 branches with a ROA1-3%, and AUM of 62.77Cr, which falls under '15th' grade .4 branches with ROA greater than 3%, holds an AU0M of 28.20 Cr. which falls under '16th' grade in the summary sheet.

Therefore, there are 173 branches under 10 states with an AUM estimated of 840.76 Cr.

Top five branches under Samasta microfinance limited:

After the allocation of the ranks and grades to all the branches of SMFL, we found the top five branches which have a strong performance comparing to all 173 branches. These top 5 branches have been pointed out based on their higher profits (profit before tax), AUM (Assets under Management) and the total loan disbursement made by the branches. PBT, AUM and Loan disbursement details of all the branches are collected form the accounts department and the data is finally analysed using data analysis tool. And I found out the top 5 ranks and percentage among the 173 branches. The details based on the top 5 branch performance, profit, AUM and disbursement are shown in the below table.

Profit before tax (PBT)

Table.3 An estimated Top 5 branches based on PBT

| RANK	PBT(lakhs)	BRANCH NAME
1	7.73	Jayankondam
2	7.49	Mayiladuthurai
3	7.15	Dindigul
4	6.96	Kumbakonam
5	6.44	Thiruvarur
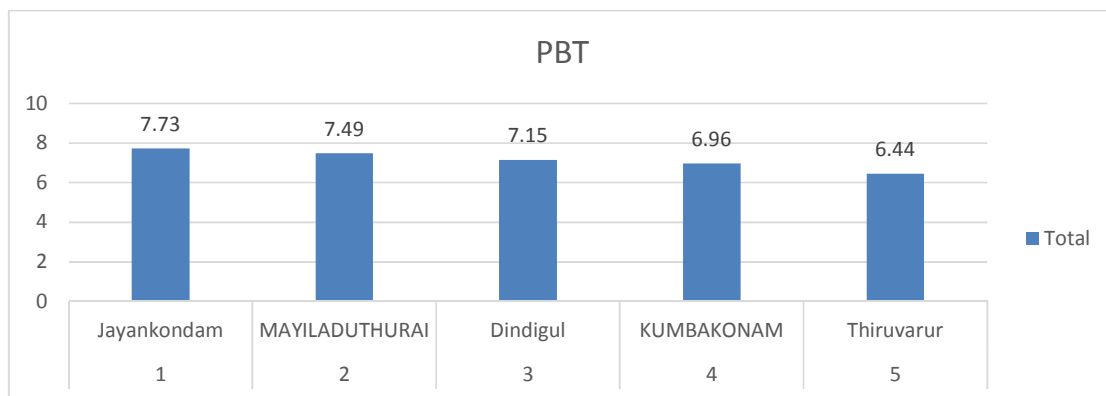
Figure.3 An estimated Top 5 PBT branches

When the PBT are divided among the 10 states. Then the PBT of Tamilnadu is Rs. 8.62(Cr) and (0.28) Cr for Karnataka. And Rs. 14.42 lakh for Maharashtra, (20.89) lakh for Kerala(18.97) lakh for Goa, (3.21) lakh for Odisha, Rs. (23.06) lakh for Rajasthan, Rs. (16.55) lakh for Chhattisgarh, Rs. (37.10) lakh for Bihar, Rs. (23.17) lakh for Gujarat.

So, we could say that 'Jayankondam' branch has the highest PBT of Rs. 7.73 lakhs

AUM (Asset Under Management)

Table.4 An estimated Top 5 branches based on AUM

RANK	AUM(Cr)	BRANCH NAME
1	12.32	Mayiladuthurai
2	12.06	Dindigul
3	11.44	Batlagundu
4	11.17	Chidambaram
5	10.70	Ramanathapuram
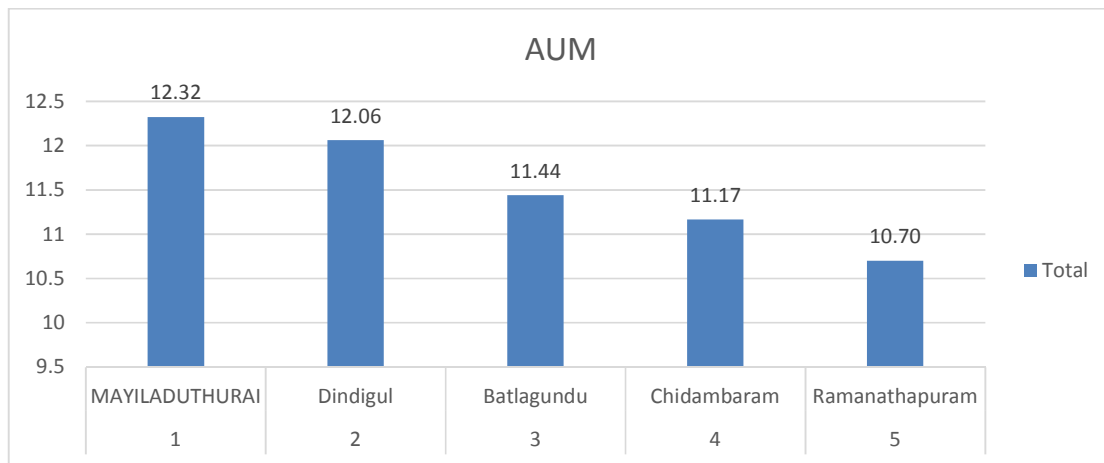
Figure.4 An estimated Top 5 AUM Branches Graph

Inference: As on 31st March 2018, the AUM (Asset under Management) of 173 branches of Samasta Microfinance Limited is **Rs. 840.49 Cr.**

The AUM is divided among the 10 states. Then the AUM of Tamilnadu is Rs. 378.31 (Cr) and 250.85 (Cr) for Karnataka. And Rs. 23.16(Cr) for Maharashtra, 8.38 Cr for Kerala, Rs.8.78 Cr for Goa, Rs. 157.35 Cr for Odisha, Rs.1.69 (Cr) for Rajasthan, Rs. 2.46 (Cr) for Chhattisgarh, Rs. 5.96 (Cr) for Bihar, Rs.3.55 (Cr) for Gujarat.

So, we could say that 'Mayiladuthurai' branch has the highest AUM of Rs. 12.32 Cr

LOAN DISBURSEMENT

Tabel.5 An estimated Top 5 branches based on loan disbursement

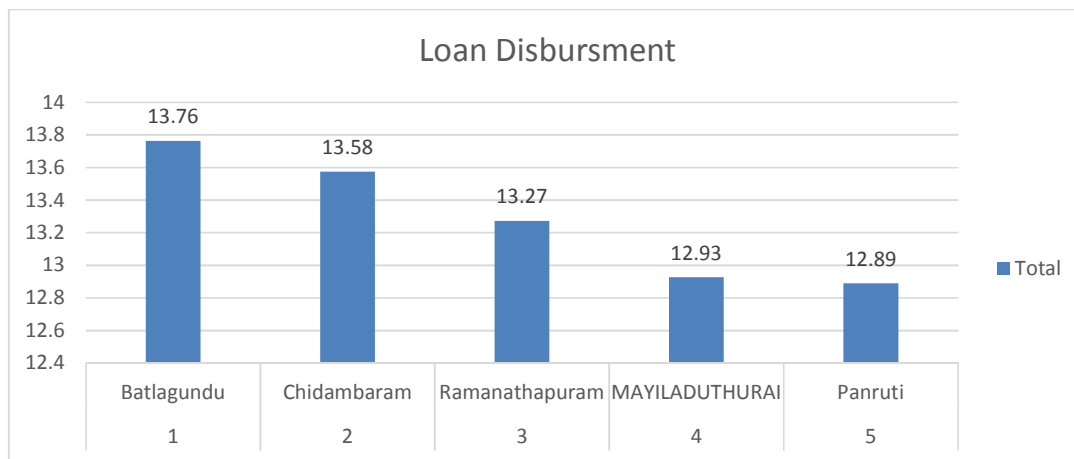| RANK	DISBURSMENT AMOUNT(Cr)	BRANCH NAME
1	13.76	Batlagundu
2	13.57	Chidambaram
3	13.27	Ramanathapuram
4	12.92	Mayiladuthurai
5	12.89	Panruti

Figure.5 An estimated Top 5 Loan disbursement branches

Inference: As on 31st March 2018, the total loan disbursement of 173 branches of Samasta Microfinance Limited is **Rs. 940.88 Cr.**

The total loan disbursement is divided among the 10 states. Then the AUM of Tamilnadu is Rs. 421.46 (Cr) and 288.27 (Cr) for Karnataka. And Rs. 25.05 (Cr) for Maharashtra, Rs. 9.35 Cr for Kerala, Rs.11.45 Cr for Goa, Rs. 171.50 Cr for Odisha, Rs.1.69 (Cr) for Rajasthan, Rs. 2.49 (Cr) for Chhattisgarh, Rs. 6.01 (Cr) for Bihar, Rs. 3.60 (Cr) for Gujarat.

So, we could say that 'Batlagundu' branch has the highest loan disbursement of Rs. 13.76 Cr

CONCLUSION

Microfinance is the life changing, life saver of millions of micro survivors. Microfinance is the minute area which rehabilitates the growth of individuals at the larger scope. This research paper allowed to identifying the top performing branches of SMFL in terms of its disbursement, delinquency and profitability among its 176 branches operating around the country. It was also found that, it is performing well in Tamilnadu state and as expansion of branches all over the country is in progress, it is incurring more expenses.

This paper also indicates the reason behind, the default in the repayment of the borrowed micro loans, and other availed services by the eligible borrowers. Through this paper it is also found that financial risk is more, than non-financial risks.

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