ABSTRACT

Indian Microfinance Industry has been the angel for the Poor Man. One which was the saviour for many has landed up in troubles in the recent years. The industry faces credit crunch. The intense commercialisation and the race to increase the customer database and the motive to increase the loan portfolio made MFIs to chase already existing customers to dump loans. The customer had little or no assets to be claimed off. The repaying capability of the clients is under stake. The loan burden has created a lump for the lenders.

During 2010, India’s largest Microfinance Institutions pitched financial crisis as well experienced social threat of its clients committing suicide due to over indebtedness. Inspite of Government regulations, efforts are taken privately to improve the situation. Though the Industry has multiple risks, the most worrisome amongst all had been the credit risk.

During the beginning of this year, about 363 million people in India are below the poverty line. The government is taking serious steps to upgrade their livelihood. One of such initiatives has been the introduction of Financial Inclusion which facilitates in bringing the deprived people under the bankable orbit. To rescue the poor from Ponzi Schemes, Microfinance has been taken as strong tool to overcome this issue.

Government and Private people have joined hands to provide financial services exclusively designed for poor. A new dimension of funding in financial industry has been created. This industry has experienced a spur growth initially, but in the recent times, showcases a turbulent scene.
The study analyses the Credit Risk, Solvency, Sustainability and Profitability of Microfinance Institutions for 10 years. Stratified random sampling has been opted to choose the samples. This study aspires to learn the credit risk levels and the factors affecting the financial sustainability. The researcher aims at identifying the solvency position of the company and proposes a financial sustainability index for the Microfinance institutions.

It also aims at learning the relationship between Operational Self Sufficiency (OSS) & Return on Assets and Portfolio at Risk, Operational Sustainability and Productivity. This study aspires to learn the credit risk levels of the varied Microfinance Institutions.

The researcher has used Morgan Stanley’s credit risk assessment method to analyse the risk position of the microfinance institutions. It has 3 quantitative and 4 qualitative variables. The quantitative variables were analysed through ratios and later rated through 6 point scale. The cumulative scores were compared with Morgan Stanley’s credit Score.

The sustainability is checked by building an index and the factors discriminating solvency of Microfinance Institutions had been carried out. The researcher has implemented the Altman’s revised Z Score for non-manufacturing industries to test the solvency position of companies.

The data was tested with paired sample test to ensure that the Operating Self Sufficiency of the Microfinance Institutions before and after Andhra Pradesh Crisis ordinance bill.

The results show that the situation is not promising and needs a total revamp and stringent regulatory controlling mechanism. All the companies taken for study do not satisfy the credit score requirements. But
sixty percent of the respondents prove better solvency position during the study period of 10 years.

The Gross Loan Portfolio, Loss Reserves and Liquidity position are the best predictor variables for discriminating solvent microfinance institutions. Survival analysis was used to predict future solvency position of microfinance institutions. The results show that there is definite difference in OSS before and after the Andhra Pradesh Crisis ordinance bill. On the whole, situation is not promising. The researcher suggests a revamp along with stringent regulatory controlling mechanism.