

A comparative study of financial performances of Bharat Financial Inclusion Limited and Ujjivan Financial Services Limited

Dr. V.S. Kushwaha

Director, IBMR, IPS Academy.

Prof. Ritika Luthra

Assistant Professor, COC, IPS Academy

ABSTRACT

The modern use of the expression "micro-financing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro-financing. Another pioneer in this sector is Akhtar Hameed Khan. Microfinance India is a national level advocacy platform, initiated by ACCESS Development Services, spurned off to ACCESS-ASSIST, to engage various stakeholders and develop a comprehensive vision for the entire sector. Indian microfinance remains a diverse and complex arena with its array of products and methodologies. Microfinance India seeks to promote the distinct voices of those associated with the field – regulators, policy makers, government, banks, expanded its ambit of stakeholders - attracting new entrants such as rating agencies and social equity investors. Cumulatively, these new players, their financial instruments, delivery models, insurance companies, MFIs, donors, academicians, SHPIs etc. the sector has matured and technology platforms - emphasize the need for an expanded understanding of the arena and all its associated contributors. Microfinance India Summit, starting under the aegis of CARE, ACCESS and now ACCESS – ASSIST has become the most significant platform for the future visioning of India's microfinance sector. The latest rankings of the top MFI's in India has been released in the Bharat Microfinance Report 2015, the results are based on data made available to Sa-Dhan by MFI's and are for the financial period of FY2014-15. These rankings can be considered to be valid until October 2016, when fresh rankings of microfinance companies will be released. Among the list of these top 10 MFIs in India, two of them have been selected for undertaking a comparative study of their financial performance, namely, Ujjivan Financial Services Limited and Bharat Financial Inclusion Limited, which was formerly SKS Limited. Accordingly, the balance sheets were picked from their official websites and ratio analysis have then been performed on them to see whether there is any significant relationship between the results of these two MFIs. The paper seeks to find out the same and it also tries to establish the need for such MFIs in India.

INTRODUCTION

“Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without money.” (Gert van Maanen, Microcredit: Sound Business or Development Instrument, Oikocredit, 2004)

“(Microcredit) is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor....charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty.” (Muhammad Yunus, Expanding Microcredit Outreach to Reach the Millennium Development Goals, International Seminar on Attacking Poverty with Microcredit, Dhaka, Bangladesh, January, 2003)

Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance is micro-savings, money transfer vehicles and micro-insurance. Microcredit is an innovation for the developing countries. Microcredit is a service for poor people that are unemployed, entrepreneurs or farmers who are not bankable. The reason why they are not bankable is the lack of collateral, steady employment, income and a verifiable credit history, because of these reasons they can't

even meet the minimal qualifications for an ordinary credit. By helping people with microcredits it gives them more available choices and opportunities with a reduced risk. It has successfully enabled poor people to start their own business generating or sustain an income and often begin to build up wealth and exit poverty.

Accordingly, we have various Microfinance Institutions working in the country. The latest rankings of the top MFI's in India has been released in the Bharat Microfinance Report 2015, the results are based on data made available to Sa-Dhan by MFI's and are for the financial period of FY2014-15. These rankings can be considered to be valid until October 2016, when fresh rankings of microfinance companies will be released. Bandhan Financial Services which transformed into a full-fledged bank under the name of Bandhan Bank is India's leading MFI on most parameters. Other MFIs included in the list are-Ujjivan, SKS, Janalakshmi, Asmitha, Equitas, etc. The study focuses on the comparative analysis of the financial performance of Ujjivan Financial Services Limited and Bharat Financial Inclusion Limited, which feature among the top ten MFIs, however there is a considerable difference in their scale of operations.

The mission of Ujjivan is to provide full range of financial services to the economically active poor to build better lives. As of September 30, 2015, their operations were spread across 24 states and union territories, 209 districts and 469 branches, with no operations in Andhra Pradesh, Telangana, Jammu and Kashmir, Arunachal Pradesh, Nagaland, Manipur and Mizoram. Ujjivan prides itself on being a customer-centric organization that follows a strategy of developing products that directly address customer needs. Ujjivan has developed its entire product suite based on the needs of the various segments of financially excluded customers. Ujjivan has segmented its customers by geographic location, occupation and income level, to identify their needs in order to develop suitable products and services for them. The product development process extensively relies on rigorous market research and product pilots to gather customer insights from the field as inputs into product development. Once the product is launched, regular customer feedback is solicited and products are reengineered as required, to complete the loop. The range of products, from Rs 2,000 to Rs 10,00,000 that Ujjivan offers helps their customers finance their various activities.

Bharat Financial Inclusion Limited (formerly, SKS Limited) serves millions of poor women across tens of thousands of villages and urban slums in India. They have achieved this scale through an innovative combination of using a for profit model, drawing on best practices from the business world and deploying technology. Bharat Financial Inclusion Limited distributes small loans that begin at Rs. 2,000 to Rs. 12,000 (about \$44-\$260) to poor women so they can start and expand simple businesses and increase their incomes. Their micro-enterprises range from raising cows and goats in order to sell their milk, to opening a village tea stall. It uses the group lending model where poor women guarantee each other's loans. Borrowers undergo financial literacy training and must pass a test before they are allowed to take out loans. Weekly meetings with borrowers follow a highly disciplined approach. Re-payment rates on their collateral-free loans are more than 99% because of this systematic process. It also offers micro-insurance to the poor as well as financing for other goods and services that can help them combat poverty. For more than ten years, Bharat Financial Inclusion Limited has provided opportunities for poor families to gradually lift themselves out of poverty. Microfinance serves as an important foundation for broader development, which includes improvements in health, education and political participation. Their members have proved that with every loan disbursed and every micro-insurance policy provided, they gain greater control of their lives and help fulfill its mission.

HYPOTHESES

H0: There is no significant relation between the financial performances of the two companies.

H1: There is a significant relation between the financial performances of the two companies.

H0: There is no significant relation between scale of operations and growth of the company.

H1: There is a significant relation between scale of operations and growth of the company.

OBJECTIVES

- To measure the financial performance by way of ratio analysis.
- To compare the financial performance of the two companies.
- To evaluate the importance of such MFIs.
- To find the degree of correlation between the results of the two companies.
- To establish the need of such MFIs in India and their contribution to the economic growth of the economy.
- To observe the trend of growth of the two companies.

SCOPE

The study is confined to the balance sheet data of the two companies as mentioned above. Both these MFIs feature in the top 10 MFIs list released by Bharat Microfinance Report 2015. Since, the two companies differ in their scale of operations; the ratio analysis has been conducted over the balance sheet data obtained from official websites. Although two MFIs have been taken for the study but we can also get a considerable idea about the progression and growth of such MFIs towards the betterment of the economy.

METHODOLOGY

The study is completely based on secondary data that has been obtained from official and authentic websites. The balance sheets of the two institutions were examined. Since there was seen a reasonable difference in their scale of operations, a common size balance sheet was prepared so as to justify the comparison of ratios of the two concerns. Once the common size balance sheet was prepared, all the possible ratios of the two institutes were computed with all those parameters available from the balance sheet. Having obtained the ratios, their results were then correlated so as to see if there exists any kind of correlation between the ratios so derived.

ANALYSIS AND INTERPRETATION

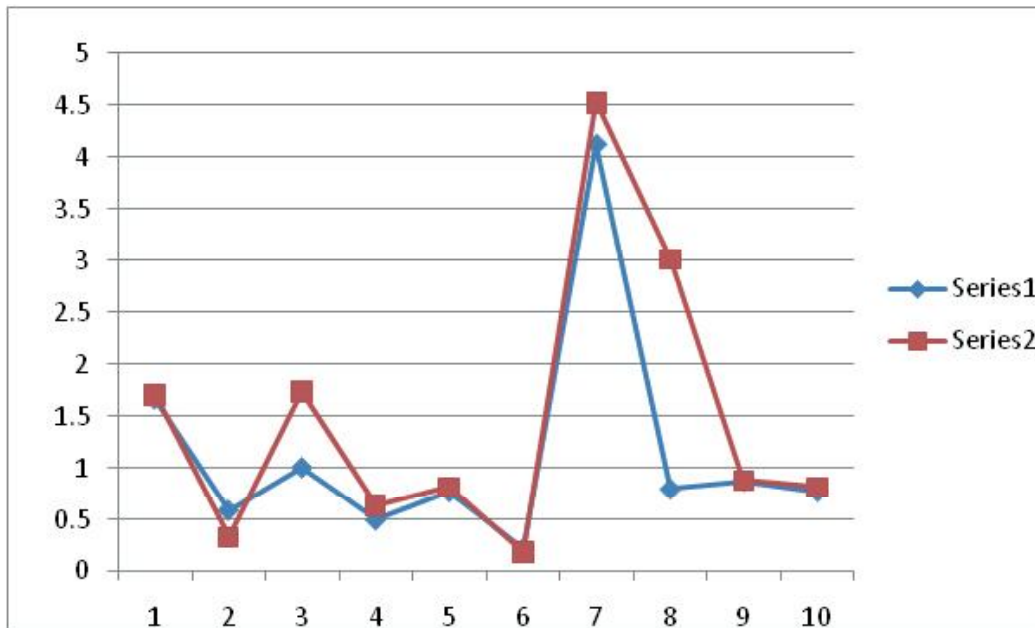
RATIO ANALYSIS	<u>Bharat Financial Inclusion Limited</u>	<u>Ujjivan Financial Services Limited</u>
Current Ratio	1.672236464	1.710907043
Cash Ratio	0.595112453	0.330528454
Debt-equity ratio	1.01028743	1.742267635
Debt to total capital ratio	0.502558696	0.635338292
Debt to total assets ratio	0.774581267	0.813292092
Proprietary Ratio	0.222710558	0.185211778
Ratio of current assets to proprietor's funds	4.126553474	4.531985878
Ratio of fixed assets to funded debt (provision)	0.801772182	3.016809548
Reserves to Capital Ratio	0.879314074	0.883042976
Solvency ratio	0.777288062	0.814788222

The above schedule contains three columns. The first column constitutes the different ratios that have been computed for the purpose. The other two columns contain the values of the different ratios that have been computed. An ideal current ratio is 2:1, as evident from the schedule, both the companies score fairly well over the current ratio, i.e., both have stronger liquidity positions despite the difference in the level of

operations. However, Bharat Financial Limited has a higher cash ratio of 0.595 as compared to 0.33 of Ujjivan Financial Services Limited. The debt-equity ratio of Ujjivan is higher, i.e., 1.74, so it is a more risky enterprise where debt forms a greater part of capital, whereas, the same for Bharat Financial Inclusion is approximately 1.0 and therefore it is comparatively less risky. The debt to total capital ratio of Bharat Financial Inclusion is 0.50 and that of Ujjivan is 0.63, which shows that the proportion of debt in total capital is more in case of Ujjivan when compared to Bharat Financial Inclusion.

As far as the debt to total assets ratio is concerned, Ujjivan is running on higher risk as the value of this ratio is 0.81. But Bharat Financial Inclusion is also on the riskier side with the value of the ratio being 0.77, however, the degree of risk is a little less when compared to the former. The proprietary ratio of Bharat Financial Inclusion is 0.22, is higher when compared with that of Ujjivan being 0.18. The higher this ratio, the better is the sustainability of the company. If we consider the ratio of current assets to total capital, it is higher in case of both the companies, the values being 4.12 and 4.53 for Bharat Financial and Ujjivan respectively, hence, both of these companies are doing fairly well. The ratio of reserves to capital is 0.88 approx. for both the companies, which shows that no matter what the scale of operations be, both of them have ample reserves, which will prove beneficial in the long run. Ujjivan is running at a little higher risk as compared to Bharat Financial, when we look into the Solvency Ratio for them, the values being 0.81 and 0.71 respectively. When talking of ratio of fixed asset to funded debt, Ujjivan scores much higher with the value being 3.02 and that of Bharat Financial being 0.80.

When these ratios were computed and analyzed it was seen that though the companies differ in the scale of operations, the values of these ratios for the two of them are quite close. In some cases, Ujjivan holds an edge over Bharat Financial, while in other cases, vice-versa is seen. Therefore, having computed the ratios, these were then correlated to see if there exists any kind of correlation between the two companies as far as their financial performances are considered.



Given above is the correlation chart, where series 1 shows the ratio values of Bharat Financial Inclusion Limited, and, series 2 shows the ratio values of Ujjivan Financial Services Limited, with the value of the correlation coefficient being 0.85. This value shows that there is a considerable degree of correlation between the financial performances of the two companies regardless of their financial statuses. Both the companies show progression and growth in positive direction no matter what their level of investment may be. Therefore, the Indian Economy is in dire need of such microfinance institutions to give boost to budding entrepreneurs who are deprived of funds for investment.

CONCLUSION AND SUGGESTIONS

The study highlights the financial performance of two companies by way of ratio analysis where the ratio analysis is taken to be a yardstick for the measurement of the same. There has been very negligible difference in the values of these ratios. These results were then correlated and it was found out that both these companies perform fairly well and progress in the same direction. The existence of such companies has become a necessity in order to provide a boost to microfinance sector and also to increase its customer base.

REFERENCES

- Bardoloi, G 2005, Grassroots Institutions, Rural Development and Environment Management in North East India, KB Publication, Guwahati.
- Ghosh. R. 2005, Micro finance in India – A critique, May, Social Science Research Network.
- Financial Performance of MFIs of India (A cross-sectional study) by P K Agarwal.
- Microfinance in India :Sectoral Issues and Challenges by RenukaBakshi , Research Scholar at Singhanian University.
- <http://www.sksindia.com/>
- http://www.sebi.gov.in/cms/sebi_data/attachdocs
- <http://www.sa-dhan.net/>
- <http://www.microfinancegateway.org/>
- <http://www.microfinanceindia.org/>
- <http://www.ujjivan.com/>

ANNEXURES

Balance Sheet as at March 31,2015

<u>Particulars</u>	<u>Bharat Financial Inclusion Ltd</u>	<u>Ujivan Financial Services Limited</u>
LIABILITIES		
Shareholders' funds		
Share Capital	1,262,924,930	861,330,000
Reserves and Surplus	9,201,633,570	6,503,170,000
	10,464,558,500	7,364,500,000
Share application money pending allotment	64,800	
Non-current Liabilities		
Long term borrowings	10,572,211,910	12,830,930,000
Long term provisions	127,184,909	59,490,000
	10,699,396,819	12,890,420,000
Current Liabilities		
Short term borrowings	6,096,276,475	45,030,000
Other current liabilities	19,271,887,706	18,919,540,000
Short term provisions	455,073,842	425,260,000
Trade Payables	0	117,840,000
	25,823,238,023	19,507,670,000
TOTAL	46,987,258,142	39,762,590,000
ASSETS		
Non-Current Assets		
Tangible	51,505,818	142,300,000
Intangible	38,019,928	37,170,000
Intangible assets under development	12,447,576	0
Non-Current Investments	2,000,000	1,010,000
Deferred tax assets	0	152,780,000
Long term loans and advances	2,448,460,510	68,460,000
Other non-current assets	1,252,264,079	5,985,060,000
	3,804,697,911	6,386,780,000
Current Assets		
Trade receivables/Receivables under financing activities	34,169,498	26,298,950,000
Cash and Bank	15,367,730,515	6,447,840,000
Short term loans and advances	27,135,519,718	206,620,000
Other current assets	645,140,500	422,400,000
	43,182,560,231	33,375,810,000
TOTAL	46,987,258,142	39,762,590,000

Common Size Balance Sheet as at March 2015

<u>Particulars</u>	<u>Bharat Financial Inclusion Ltd</u>	<u>Ujjivan Financial Services Limited</u>
LIABILITIES		
Shareholder's funds		
Share Capital	3	2
Reserves and Surplus	20	16
	22	19
Share application money pending allotment	0	
Non-current Liabilities		
Long term borrowings	23	32
Long term provisions	0	0
	23	32
Current Liabilities		
Short term borrowings	13	0
Other current liabilities	41	48
Short term provisions	1	1
Trade Payables	0	0
	55	49
TOTAL	100	100
ASSETS		
Non-Current Assets		
Tangible	0	0
Intangible	0	0
Intangible assets under development	0	
Non-Current Investments	0	0
Deferred tax assets	0	0
Long term loans and advances	5	0
Other non-current assets	3	15
	8	16
Current Assets		
Trade receivables/Receivables under financing activities	0	66
Cash and Bank	33	16
Short term loans and advances	58	1
Other current assets	1	1
	92	84
TOTAL	100	100