A STUDY ON THE FINANCIAL PERFORMANCE OF ESAF MICROFINANCE AND INVESTMENT (P) LTD (EMFIL) THRISSUR

by

RINSHA E

(2014-31-111)

MAJOR PROJECT REPORT

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Kerala Agricultural University

COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

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DECLARATION

I, hereby declare that this project report entitled **"A STUDY ON THE FINANCIAL PERFORMANCE OF ESAF MICROFINANCE AND INVESTMENT (P) LTD (EMFIL) THRISSUR"**is a bonafide record of work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree/diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara
19-08-2016

RINSHA E.
(2014-31-111)

Certificate

CERTIFICATE

Certified that this project report **"A STUDY ON THE FINANCIAL PERFORMANCE OF ESAF MICROFINANCE AND INVESTMENT (P) LTD (EMFIL) THRISSUR"** is a record of project work done independently by Ms. Rinsha E. under my guidance and supervision and that it has not previously formed the basis for the award of any degree, diploma, fellowship or associateship to her.

Vellanikkara
19-08-2016

Dr. Pavithran K.B.
Director (Retired)
School of Management
CUSAT
(Supervising Guide)

CERTIFICATE

We, the undersigned members of the advisory committee of Ms. Rinsha E., a candidate for the degree of **MBA in Agribusiness Management**, agree that the project work entitled **"A STUDY ON THE FINANCIAL PERFORMANCE OF ESAF MICROFINANCE AND INVESTMENT (P) LTD (EMFIL) THRISSUR"**may be submitted by Ms. Rinsha E., in partial fulfilment of the requirement for the degree.

Dr. Pavithran K.B.
Director (Retired)
School of Management
CUSAT
(Supervising Guide)

Dr. E.G. Ranjith Kumar
Director, MBA (ABM)
College of Co-operation, Banking & Management
Kerala Agricultural University
Vellanikkara

Dr.JayasreeKrishnankutty
Associate Professor (Extn.)
College of Horticulture
Kerala Agricultural University
Vellanikkara
(External Examiner)

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Rinsha E

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Chapter - 1

DESIGN OF THE STUDY

1.1 Introduction

Micro finance is a new reality in the world of development discourse and financial intermediation. Broadly speaking, micro finance means providing financial services to the poor, long excluded by mainstream banking and finance market. Commercial banks see in it a new profitable area of credit with a high repayment rate in a world of mounting non-performing assets and sub-prime hazards. Governments welcome micro finance as a less burdensome manner of fighting poverty. The most important economic rationale in bringing financial services to the door steps of the poor households is the economy in the transaction costs. For formal banks, it will be costly to mobilize the small savings of the poor families lying widely scattered. Equally prohibitive is the cost to the conventional banks in financing a large number of these families who require credit frequently and in small volume and that too not backed by collateral securities. Micro finance as a major financial service emerged in the 1970s, notably after Muhammad Yunus now of Nobel Prize fame started the Grameen Bank in Bangladesh. The Bank began to offer financial services to the poor once excluded from formal banking primarily because they lacked collateral. Today micro finance has emerged as an industry in which even big multi-national and national banks are interested because they are sure of repayment and fetches profit.

Microfinance is a novel economic development tool aimed at alleviating poverty through financial inclusion, socioeconomic empowerment, and self-sufficiency. By virtue of a large and poor population, India is one of the largest microfinance markets in the world, and having recently confronted a fundamental moral question related to the mission of the field, presents an interesting area to study.

Microfinance is a type of banking service that is provided to low-income or unemployed individuals who do not have access to typical banking services. Ultimately, the goal of the field is to give these individuals the opportunity to become self-sufficient and sustainably lift themselves out of poverty. Microfinance is a general term used to encompass a vast variety of

financial services to serve the poor, such as microcredit, micro savings, micro insurance, and fund transfers.

1.2 Background of the study

In developing countries, financing to the rural poor through formal financial services failed to meet the credit requirements of the rural poor people. The main reason of failure was absence of any recognized employment and hence absence of collateral with the poor. The high risk and the high transaction costs of banks associated with small loans and savings deposits are other factors which make them non-bankable. The lack of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders on huge interest rates. In different countries including India, efforts have been made by their governments to deliver formal credit to rural areas by setting up special agricultural banks/rural banks or directing commercial banks to provide loans to rural borrowers. However, these programmes have also not worked well due to various reasons. Women's World Banking (1995) estimated that in most developing countries, the formal financial system reaches to only top 25 per cent of the economically active population. This leaves the bottom 75 per cent without access to financial services apart from those provided by money-lenders and family. Thus, the inability of formal credit institutions to deal with the credit, 58 percentage requirements of poor effectively has led to emergence of microfinance as an alternative credit system for the poor. It helps them to build up assets, survive crises and to establish small business to come out of poverty. Except extending small loans (micro-credit), microfinance programme provides various other financial and non-financial services such as savings, insurance, guidance, skill development training, capacity building and motivation to start income generating activities to enhance the productivity of credit. This innovative programme is reaching the poor people especially women and has an impact on their socio-economic development as well as their empowerment.

1.2.1 EMFIL

ESAF Microfinance is one of the leading NBFC (Non-Banking Financial Company)-MFIs (Microfinance Institution) in India begin in 1992 with a small office in Thrissur, Kerala, launched by a group of like-minded social entrepreneurs as an NGO. ESAF was established as a response to the social and economic needs of the unemployed youth and the underprivileged.

The vison of the Forum was guided by the principle of sustainable holistic transformation of the poor and the marginalized. Inspired by the guiding principles and success of Prof. Muhammed Younus (Founder, Grameen Bank), the founders of ESAF ventured into micro financing and creation of self-sustainable groups to address the issues of poverty alleviation and employment generation in 1995, by organizing self-sustainable groups, to alleviate poverty and generate employment.

Since then, ESAF has grown by leaps and bounds in the Microfinance sector, promoting microfinance as a viable, sustainable and effective means for creating jobs and reducing poverty. Today, ESAF Microfinance have 0.57 million customers through 224 dedicated branches. ESAF started its Micro Enterprises Development (MED) program in 1995, which was an important intervention area. MED provided a broad package of financial and business development services to the socially and economically challenged men and women. In order to have a cost effective delivery of the services of microfinance operations through an RBI licensed NBFC, ESAF acquired Finance and Investments in 2006 and transformed it as ESAF Microfinance and Investments (P) Ltd. - EMFIL, in 2008. The Company now reaches out to more than 700 thousand poor households across six states in India covering the states of Kerala, Tamil Nadu, Maharashtra, Madhya Pradesh, Chhattisgarh and Jharkhand. ESAF Microfinance and Investment (P) Ltd aims to serve socially and economically challenged men and women, by organized self-sustainable groups, to alleviate poverty and generate employments.

1.3 Statement of problem

A rise in the diversification of investments and the emergence of new microfinance agencies, the quality of capital, asset, management, earnings and liquidity got more complicated and, thus, the necessity of financial performance evaluating has brought in forefront of consideration. The objectives of ESAF Microfinance And Investment (P) Ltd. (EMFIL) are poverty alleviation and generate employments. To achieve these objectives the institutions should be financially viable and sustainable. As a result and due to the influence of multitude and complexity of formulae and approaches for performance evaluation of financing as a base for ranking credit institutions in terms of investments' preferences, complexity, volume, size, the type of investments, and other influencing factors.

Financial performance of a company, being one of the major characteristics, defines competitiveness, potentials of EMFIL and economic-social interests of the company's management, reliability and welfare development of present or future contractors. The success of a business organization can be measured by the analysis of financial performance of the organization.

After having a prior discussion with the financial head of EMFIL, it was found that, according to the postulates of the organization they had a sustained financial performance as well as an excellent reputation in the local communication regarding their external activities. Thus, this research was primed to evaluate and compare financial performance of EMFIL, and to provide some comments by observing several financial ratios, analyzing trends of various financial elements of EMFIL's past 6 years performance results. This would finally contribute to improve the efficiency of management, shareholders and public (customers of the EMFIL) as well.

Thus, this research was trying to provide reasonable suggestions to increase the financial efficiency of EMFIL by doing a financial performance analysis.

Therefore, the present study, entitled 'A Study On The Financial Performance Of ESAF Microfinance And Investment (P) Ltd (EMFIL) Thrissur' was carried out to evaluate whether the performance of EMFIL in terms of its financial strength is showing an upward trend or not.

1.4 Objective of the study

General Objective

1. To analyze the overall financial performance of ESAF Microfinance And Investment (P) Ltd. (EMFIL).

Specific Objective

1. To analyze the capital adequacy, asset quality, management quality, earnings ability and liquidity of EMFIL for past 6 years.

1.5 RESEARCH METHODOLOGY

1.5.1 Description of study area

The study area of this research was ESAF Microfinance and Investment (P) Ltd (EMFIL). The past 6 years financial statements are collected from EMFIL through the annual reports for this study. The financial statements includes balance sheet, and income and expenditure statements are used.

1.5.2 Data Collection

1.5.2.1 Type of Data

Secondary data in quantitative was used for the present study. The reference period of the study was 6 years that is from 2010 to 2015 (includes 2010, 20111, 2012, 2013, 2014 and 2015).

1.5.2.2 Source of Data

Secondary data: Secondary data was collected from the annual report published in EMFIL official website. Data of 2010, 2011, 2012, 2013, 2014 and 2015 was taken for the study.

1.5.3 Data Analyzing and Interpretation

CAMELS rating, comparative analysis, graphs and diagrams are used to analyze and interpret the financial performance of the ESAF Microfinance and Investment (P) Ltd (EMFIL) for past 6 years. Classification & tabulation transforms the raw data collected in to useful information by organizing and compiling the bits of data contained i.e., observation and responses are converted in to understandable and orderly statistics are used to organize and analyze the data.

1. Tabulation
2. Narration
3. Graphical Display

1.5.4 Performance evaluation models for MFIs

During the 1990s, there was a growing interest on the part of financial institutions in microfinance. As a result, several performance evaluation indicators emerged in relation to different areas of management considered as the most important in evaluating performance of MFIs. The results achieved were diverse. In actuality, some models of evaluation were accepted in general and have been currently adopted by institutions to monitor and evaluate the business. Each of these models focused on specific profiles of analysis. This model contributes to raising the level of informative transparency with regard to the process of credit management of MFIs.

CAMELS Model (1993) from ACCION International

C- Capital adequacy

A- Asset quality

M- Management

E- Earnings

L- Liquidity

S- Sensitivity

1.5.4.1 ACCION International

It is a global nonprofit organization that supports microfinance institutions in their work to provide financial services to low-income clients. Over more than 50 years, ACCION has helped build 63 microfinance institutions in 32 countries on four continents. ACCION also engages in impact investing initiatives to support start-ups that are working to create models for improving the efficiency, reach and scope of financial services for the poor. Today, ACCION works with an active network of 29 microfinance institutions in 23 countries found in North America, Latin America, the Caribbean, Africa, and Asia. As of March, 2014 those institutions were collectively serving 4.96 million people with microloans and 3.64 million people with savings products. ACCION provides management services, technical assistance, governance, debt and equity investment, and training to microfinance institutions and microfinance support organizations. ACCION promotes the commercial model of microfinance, in which microfinance institutions adhere to a double-bottom-line – achieving both social and

financial goals. ACCION is headquartered in Boston, Massachusetts, and also has offices in Washington, D.C.; Bogota, Colombia; Accra, Ghana; Bangalore, India; and Beijing, China.

1.5.4.2 CAMELS Rating

The CAMELS rating system is an international bank-rating system where bank supervisory authorities rate institutions according to six factors.

C – Capital adequacy

A – Asset quality

M – Management quality

E – Earnings ability

L – Liquidity

S – Sensitivity

But for this study sensitivity analyses was not taken into consideration due to the confidentiality of data.

Capital Adequacy

1. Capital adequacy ratio = $\dfrac{\text{Tier One Capital + Tier Two Capital}}{\text{Risk Weighted Assets}}$

2. Equity capital to Total Asset Ratio = $\dfrac{\text{Equity Capital}}{\text{Total Assets}}$

3. Equity capital to Loan Ratio = $\dfrac{\text{Equity Capital}}{\text{Loan}}$

4. Paid-up Capital to Shareholder's fund Ratio = $\dfrac{\text{Paid-up Capital}}{\text{Shareholder's fund}}$

5. Debt Equity Ratio (DER) = $\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$

Asset Quality

1. Total Loan and Advances to Total Asset Ratio = $\frac{\text{Loans and Advances}}{\text{Total Assets}}$

2. Immovable Assets to Total Assets Ratio = $\frac{\text{Immovable Assets}}{\text{Total Assets}}$

3. Asset Utilization (AU) = $\frac{\text{Total Revenue}}{\text{Total Asset}}$

Management Quality

1. Fixed asset ratio = $\frac{\text{Fixed asset}}{\text{Long term Funds}}$

2. Non- interest Income to Total Assets = $\frac{\text{Non-interest Income}}{\text{Total Assets}}$

3. Non- Interest to Expenses = $\frac{\text{Non-interest Income}}{\text{Expenses}}$

4. Return on Capital Employed = $\frac{\text{Net Profit after Taxation}}{\text{Non-current Liabilities}}$

5. Profit Per Employee = $\frac{\text{Net Profit}}{\text{No. of Employee}}$

6. Profit Per Branch = $\frac{\text{Net Profit}}{\text{No. of Branch}}$

7. Business per Employee= $\frac{\text{Deposits + Advances}}{\text{No. of Employee}}$

8. Return on Networth = $\frac{\text{Net Profit}}{\text{Shareholders' fund}}$

Earnings Ability

1. Return on Assets (ROA) = $\frac{\text{Net Income}}{\text{Total Asset}}$

2. Return on Equity (ROE)= $\frac{\text{Net Income}}{\text{Shareholders' Equity}}$

3. Equity Multiplier (EM)= $\frac{\text{Total Asset}}{\text{Shareholders' Equity}}$

4. Income Expense Ratio (IER)= $\frac{\text{Total Expenses}}{\text{Total Income}}$

5. Profit to Expenses Ratio (PER) = $\frac{\text{Total Expenses}}{\text{Profit before tax}}$

Liquidity

1. Current ratio = $\frac{\text{Current Asset}}{\text{Current Liability}}$

2. Absolute Liquidity Ratio = $\frac{\text{Absolute Liquidity Asset}}{\text{Current Asset}}$

3. Deposits to Equity Capital Ratio = $\frac{\text{Total Deposit}}{\text{Equity Capital}}$

4. Absolute Liquid Asset to Total Deposits = $\frac{\text{Absolute Liquid Asset}}{\text{Total Deposit}}$

1.6 Key Observations made

1. Monitor financial performance and pinpoint strengths and weaknesses from which specific goals, objectives and policy initiatives may be formed in future.

2. Capital adequacy analysis, Asset quality analysis, Management capability analysis, Earnings analysis and Liquidity analysis serve to evaluate the periodic financial success of the firm.

1.7 Period of the Study

The period of the study is from 2010 to 2015.

1.8 Scope of the study

This study measured and analyzed past 6 years financial performance of EMFIL. This will help to identify the weaknesses and provide suggestions to overcome those, for the improvement of the organization and its stakeholders.

1.9 Limitations of the study

1. The period of study is limited to 6 years. It will not completely reveal the growing trend of organization.
2. The study was completely done on the basis of ratios calculated from the financial statements.
3. Due to the confidentiality of the data certain ratios related to NPA were not analyzed.

Chapter – 2

Review of Literature

Chapter - 2

REVIEW OF LITERATURE

2.1 Introduction

Today, microfinance institutions are seeking financial sustainability. Many MFIs were restructured in order to achieve financial sustainability and finance their growth. Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off. It embraces "generating sufficient profit to cover expenses while eliminating all subsidies, even those less-obvious subsidies, such as loans made in hard currency with repayment in local currency" (Tucker and Miles, 2004).

Micro Finance may be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards". At present, a large part of micro finance activity is confined to credit only. Women constitute a vast majority of users of micro-credit and savings services.

According to the United Nations, microfinance institutions can be broadly defined as provider of small-scale financial services such as savings, credit and other basic financial services to poor and low-income people. The term "microfinance institution" now refers to a wide range of organizations dedicated to providing services and credits these includes NGOs, Unions, Co-operatives, Private commercial Banks and NBFCs. Micro finance dynamic field and there is clearly no best way to deliver services to the poor and hence many delivery models have been developed over a period of time.

The analysis of banking performance has received a great deal of attention in the banking literature. A popular framework used by regulators is the CAMELS framework, which uses some financial ratios to help evaluate a bank's performance (Yue, 1992). Several studies involve the use of ratios for banks' performance appraisal, including Beaver (1966), Altman (1968), Maishanu (2004), and Mous (2005).

In the year 2006, Giovanni Ferro Luzzi and Sylvain Weber in their paper "Measuring the Performance of Microfinance Institution" use factor analysis to construct performance indices

based on several possible associations of variables without posing too many a priori restriction. The base variables are thus combined to produce different factors, each one representing a distinct dimension of performance. They then use the individual scores ascribed to each MFI on each factor as the dependent variables of a simultaneous equation model and presents new evidence on the determinants of MFIs performance.

In November 2007, Yogendra Prasad Acharya and Uma Acharya in their paper "Outreach and Financial Performance Analysis of Microfinance Institutions in India" finds that in India the industry's outreach rises in the period from 2003 to 2007 on average by 22.9 percent per annum. The paper identified that while MFIs reach the very poor; their reach to the disadvantaged, particularly to women is limited (38.4 Percent). From financial sustainability angle, it finds that MFIs are operationally sustainable measured by return on asset and return on equity. Similarly, the study also finds that MFIs are financial sustainable. Finally, it finds no evidence of trade-off between outreach and financial sustainability.

Dash & Das (2009) have analyzed the Indian Banking Industry under CAMELS framework. The thesis compares the performance of public sector banks with that of private/ foreign banks. The analysis was performed from a sample of 58 banks operating in India of which 29 were public sector banks and 29 were private/foreign sector. The data used were from the audited financial statement for the financial years 2003-2008. The findings concluded that private/foreign banks have an edge over the public sector banks. The two factors of the CAMELS parameters that contribute to the best performance of the private banking/foreign were the Management Soundness and Earnings and profitability.

Normally the CAMELS rating are done to analyze the financial performance of banks to compare and rate them in the industry. Now a days Microfinance institutes are also using CAMELS rating to rate and compare their financial performance to compete in the industry. EMFIL is a microfinance institutions have undergone through one of study conducted by Swaroop P.U. titled a study on financial performance analysis of ESAF Microfinance and Investment Private Ltd (2010) using normal financial ratios. In his study he finds out that the company is not in a good position to meet short term obligation and long term debt to fixed asset ratio is also huge but the company has the ability to overcome all situations and to have a sustainable financial position.

Kouser and Saba (2012) made a comparison between commercial, Islamic and mixed-type banks using a CAMELS analysis. The authors considered the CAMELS analysis as a simple and suitable tool for the evaluation of the management-wise and financial performances of the banks. The study showed that, compared to the other banks, the Islamic banks had a more sufficient capital and better assets quality. What is more, Islamic banks appeared also to have a better management quality. Interestingly, the interest-free branch of mixed-type banks performed better in terms of profits, compared to interest-free and commercial banks.

Manisha Raj, in the year 2013 on her research paper entitled "Microfinance Institutions in India and its Legal Aspects" states that Microfinance institutions have been proved a very important financial wing to incorporate the poor in the financial sector.

Piyush Tiwari and S.M. Fahad discuss in his study conducted on "conceptual framework of a microfinance institution in India". The successes and failures of various microfinance institutions around the world have been evaluated and lessons learnt have been incorporated in a model microfinance institutional mechanism for India. The authors found that the poor repay their loans and are willing to pay for higher interest rates. Secondly, the poor save and hence microfinance institutions should provide both savings and loan facilities. These two findings imply that banking on the poor can be a profitable business. However, attaining financial viability and sustainability is the major institutional challenge.

"CAMEL rating has become a concise and indispensable tool for examiners and regulators". This rating ensures a bank's healthy conditions by reviewing different aspects of a bank based on variety of information sources such as financial statement, funding sources, macroeconomic data, budget and cash flow. Nevertheless, bank's CAMEL rating is highly confidential, and only exposed to the bank's senior management for the purpose of projecting the business strategies, and to appropriate supervisory staff.

In 2006, a new component was added to the CAMELS rating system in order to take into consideration the elements of the MFI performance towards market risk. The market performance of a listed microfinance institution is an important factor impacting its overall performance. The quality of the information issued by MFIs has been traditionally low, but some improvements are being made, especially since CGAP agreed a set of disclosure guidelines for

MFIs financial reporting, in an attempt to improve the standardization of the MFIs financial information, CGAP (2003). It has also been difficult, until recently, to compare the financial information issued by the MFIs, because of the lack of standardization.

Providing a general framework in evaluating overall performance of banks is of great importance due to the increasing integration of global financial markets. CAMEL model reflects excellently the conditions and performances of banks over years as well as enriches the on-site and off-site examination to bring better assessments towards banks' conditions. Its purpose is to provide an accurate and consistent evaluation of a bank's financial condition and operations in the areas such as capital, asset quality, management, earning ability and liquidity. Muhammad (2009) claims that the strength of these factors would determine the overall strength of the bank. The quality of each component further underlines the inner strength and how far it can take care of itself against the market risks.

Thus, no such study has been conducted in ESAF Microfinance and Investment Private Ltd regarding the financial performance analysis using CAMELS rating. So, this study fills that knowledge gap by providing detailed analysis on the Capital adequacy, Asset quality, Management, Earnings and Liquidity of ESAF Microfinance and Investment Private Ltd. This study intends to investigate the use of the CAMELS rating system in EMFIL in evaluating the financial performance so that based upon the evaluation results; the company is able to finalize the decisions and adopt corrective measures by the management.

2.2 Reference

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Chapter - 3

Overview of Industry and ESAF Microfinance and Investment (P) Ltd (EMFIL) - A Profile

Chapter - 3

OVERVIEW OF INDUSTRY AND ESAF MICROFINANCE AND INVESTMENT (P) LTD – (EMFIL) – A PROFILE

3.1 Overview of Industry

Micro Finance is the best way to eradicate poverty and to empower people. Micro finance is the newly emerging financial industry. It has the target market of more than 1.8 billion people in the whole world. MFI's should be distinguished from the NGOs as they are not just charity organizations. The diverse products will mitigate the risk and at the same time gives a variety of services and choices to the clients. Micro finance is the tool that can bring the positive change in the life of the poor people. Micro finance is more than simply credit.

According to the definition on "Microfinance Gateway" an MFI is the organization that offers financial services to the low- income people (Microfinance Gateway, 2008).

Microcredit plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one's children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability to external shocks like illness, weather and more.

There is a wide range of micro financial institutions. Mostly when we talk about these, financial NGO's comes into the mind. These financial NGO's provide micro credit and micro finance services too and in most cases these financial NGO's provide other financial services along with the micro finance and similarly some commercial bank are also providing micro finance along with their routine financial activities so because of these micro finance services which are quite bit part of the whole of the activities of these commercial banks we can call these as a micro finance institutions. There are some other MFI's that can be considered in the business of micro finance. These institutions are the community based financial intermediaries such as credit union; cooperative housing societies and some other are owned and managed by the local entrepreneur and municipalities.

3.1.1 Significance of Microfinance Institutions in India

The microfinance institutions have a pivotal role to play in a society marked by economic classes. By providing small loans to poor peoples, these institutions attempt to provide remedies to the woes of the deprived class. Apart from this, it is through these institutions that poor people are able to avail small loan facilities on reasonable terms and interest rates. In the absence of these institutions the poor people are more likely to fall prey to the exploitation of money lenders, who are more likely to exploit the poor masses by providing loans on enormously high rates. As a result the problems of the poor class are likely to be multiplied instead of being nullified. According to Robinson, Marguerite (2001), poor people are exploited by informal money lenders who provide loans at high costs which can range from ten to more than a hundred percent.

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050 and on the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority. India's achievement of the MDG (Millennium Development Goal) of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. Thus need of microfinance agencies are increasing in India.

3.1.2 Microfinance in India and recent developments

Over 120 million households in India currently face financial exclusion. Over the past decade, the microfinance sector has played a key role in bringing basic financial services to the economically underprivileged, enabling them to raise their income level and improve living standards through small-scale credit, savings, and other basic financial products. Since its emergence in the 1980s, India's microfinance sector has grown tremendously in terms of both size and financial maturity, reaching out around 2.88 crore people across India, with a portfolio outstanding around Rs. 279 billion as on March 31, 2015.

3.1.3 Microfinance in Kerala

As per the government website on women in Kerala, Kerala has a high female literacy rate of 86.2%. However, in spite of this achievement, the conspicuous absence of women in the public domain is considered a paradox in Kerala's model of development and has drawn considerable attention over recent years. The female labor force participation rate has been as low as 15.9% and has decreased over recent years. Unemployment among females in the state is higher than that of males by 5 times in rural areas and 3 times in urban areas, with the unemployment rate in Kerala itself considered severe and 3 times above the national average. 15 lakhs of Kerala families are in poverty, with women and children being the prime victims of its negative socioeconomic effects. Thus, there is certainly more than sufficient demand in the state for the services of microfinance organizations aimed at alleviating poverty and empowering women. The basic theory behind women empowerment through access to MFIs is that "microfinance empowers women by putting capital in their hands and allowing them to earn an independent income and contribute financially to their households and communities. Empowerment is expected to generate increased self-esteem, respect, and other forms of empowerment for women beneficiaries."

When women have access to economic resources and services, it will lead them to empowerment. As the economically strong markets or groups have a strong say in every space, bringing and equipping women in economic sector will have prospects such as control over the means of production and profit used for strategic choices and due and equal space in personal, familial and public life. Microfinance has been seen as contributing not only to poverty reduction and financial sustainability, but also to a series of "virtuous spirals" of economic empowerment, increased well-being and social and political empowerment for women themselves, thereby addressing goals of gender equality and empowerment.

3.1.4 Channels of microfinance

There are two major delivery channels for microfinance in India—self-help groups (SHGs) and microfinance institutions (MFIs). SHGs typically have 10–20 members of the same locality who meet weekly or monthly to contribute a set savings amount, which is then lent to other members. SHGs are promoted by various non-governmental organizations (NGOs) and the apex agricultural credit bank, National Bank for Agriculture and Rural Development

(NABARD), under its SHG-bank linkage program. MFIs on the other hand mainly deliver their services via the Grameen model, (developed by Grameen Bank, Bangladesh) or the ASA model, developed by ASA, a leading Bangladesh-based NGO-MFI. However, the target clientele for both channels—SHGs and MFIs—are those without access to banking services or who depend on informal sources such as friends and money lenders for their credit requirements.

3.1.5 Regulatory Framework of Microfinance in India

In early 1990's there have been many significant state initiatives in the institutional and policy spheres to enable the poor access financial services. Some major initiatives include the bank linkage programme under the guidance and supervision of the National Bank for Agriculture and rural Development (NABARD) in 1992, the setting of the Rashtriya Mahila Kosh to re-finance microfinance activities of NGOs in 1993 and establishment of Small Industries Development Bank of India (SIDBI) Foundation for Micro-Credit (SFMC) as a financier of microfinance institutions (MFIs). On the policy front, RBI has come out with directives on various aspects of microfinance provision. Releasing the fact that Self- Help Group (SHGs) and NGOs are a priority sector; RBI engaged them in microfinance business by registering them as Non-Banking Financial Companies (NBFCs). As a result, commercial banks (RRBs) and cooperative banks have also emerged as important channels of microfinance provision.

Through the RBI (Amendment) Act, 1997, RBI made it obligation for NBFCs to apply to RBI for certificate registration. One of the conditions for application was that the NBFC must have minimum US $ 46511.6 Net owned funds (NOF) that will make it eligible to accept public deposits. RBI introduced a new regulatory frame work for the NBFCs in 1998, focused on NBFC accepting public deposits with a view to safeguarding the interests of the depositors. RBI also established a Micro Credit Special Cell in 1999-2000 to suggest measures for augmenting flow of microcredit. In the same year, NABARD established the Task Force on Supportive Policy and Regulatory frame work for micro credit.

The Micro Financial Sector (Development and Regulation) Bill, 2007, was introduced in March 2007 which applied only to three categories of non-for-profit MFIs: societies, trust and

cooperatives. These are collectively referred to in the bill as Micro Finance Organizations (MFOs). A microfinance institution under the Microfinance Institutions (Development and Regulation) Bill, 2012 includes the following entities:

(a) A society registered under the Societies Registration Act, 1860;

(b) A company registered under section 3 of the Companies Act, 1956;

(c) A trust established under any law for the time being in force;

(d) A body corporate; or

(e) Any other organization, which may be specified by the RBI if the object of the institution is the provision of microfinance services. It does not include a banking company, co-operative societies engaged primarily in agricultural operations or industrial activities or any individual who carries on the activity of money-lending and is registered as a moneylender under the provision of any State law. A MFI in India acquires permission to lend through registration. MFIs are registered as one of the following five types of entities:

1. Non-Government Organizations engaged in microfinance (NGO MFIs), comprising of Societies and Trusts

2. Cooperatives registered under the conventional state-level cooperative acts, the national level Multi-State Cooperative Societies Act (MSCA 2002), or under the new State-level Mutually Aided Cooperative Societies Act (MACS Act)

3. Section 25 Companies (not-for profit)

4. For-profit NBFCs

5. NBFC-MFIs.

3.2 Company Profile

3.2.1 EMFIL

ESAF Microfinance and Investment (P) Ltd (EMFIL) is a Microfinance Institution promoted by the promoters of ESAF which is a leading NGO engaged in SHG Promotion,

microfinance and other community development initiatives. ESAF Microfinance is one of the leading NBFC-MFIs (Microfinance Institution) in India. ESAF had a humble beginning in 1992 with a small office in Thrissur, Kerala, launched by a group of like-minded social entrepreneurs. ESAF was established as a response to the social and economic needs of the unemployed youth and the underprivileged. The vison of the Forum was guided by the principle of sustainable holistic transformation of the poor and the marginalized. Inspired by the guiding principles and success of Prof. Muhammed Younus (Founder, Grameen Bank), the founders of ESAF ventured into micro financing and creation of self-sustainable groups to address the issues of poverty alleviation and employment generation in 1995, by organizing self-sustainable groups, to alleviate poverty and generate employment. K. Paul Thomas is the current Chairman & Managing Director, ESAF Microfinance.

Since then, ESAF has grown by leaps and bounds in the Microfinance sector, promoting microfinance as a viable, sustainable and effective means for creating jobs and reducing poverty. Today, ESAF Microfinance is one of the premier microfinance institutions in India, particularly in Kerala, effectively empowering 4.34 lac members through 150 dedicated branches. ESAF started its Micro Enterprises Development (MED) program in 1995, which was an important intervention area. MED provided a broad package of financial and business development services to the socially and economically challenged men and women. In 1998, ESAF started microfinance operations as an effective mean for poverty alleviation and employment creation. In order to have a cost effective delivery of the services of microfinance operations through an RBI licensed NBFC, ESAF acquired Finance and Investments in 2006 and transformed it as ESAF Microfinance and Investments (P) Ltd. - EMFIL, in 2008.

EMFIL began microfinance operations in March 2008 by taking over the microfinance operations under ESAF Society. It extends loans to women through the joint-liability group (JLG) model of lending. EMFIL's operations are concentrated in Kerala and it also has presence in four other states. As on March 31st, 2015, it had 5,66,872 borrowers and loans outstanding of Rs.11707.00 million. The MFI is among the leading aggregators implementing the National Pension System (NPS). In Central India, EMFIL is partnering with various international developmental organizations to implement water and sanitation projects. The MFI extends loans to slum-dwellers in this region for water and sanitation facilities. Recently, it has begun

extending loans for solar-powered products as well.

3.2.2 History of EMFIL

ESAF Society, a Non-Governmental Organization, was launched with an aim to serve the deprived suffering from the travails of unemployment and poverty. In 1995, the Micro Enterprise Development initiative of ESAF was launched, which resulted in the formation of ESAF Microfinance and Investments Pvt. Ltd., a regulated Non-Banking Finance Company (NBFC-MFI), in 2008. The Company now reaches out to more than 700 thousand poor households across six states in India covering the states of Kerala, Tamil Nadu, Maharashtra, Madhya Pradesh, Chhattisgarh and Jharkhand.

The vision of the Organization was guided by the principle of sustainable holistic transformation of the poor and the marginalized and the mission is to be a sustainable, professionally managed and transparent institution providing financial services with emphasis on the economic development and empowerment of the poor. The founder of ESAF ventured into micro financing in 1995, by organizing self-sustainable groups, to alleviate poverty and generate employment. Since then, ESAF has grown by leaps and bounds in the Microfinance Sector, promoting microfinance as a viable, sustainable and effective means for creating jobs and reducing poverty.

3.2.3 Board of Directors and Management Team

Given EMFIL' new for-profit orientation, company have made the decision to have a mixed Board composed of the promoters, external investors, and independent directors. EMFIL believes that a combination of experience from within the institution and expertise from the microfinance industry at large, in combination with investor board members whose money is at stake, will create a suitable level of strategic guidance and accountability that can be pushed down into the organization. To be a board member, investor directors will have to have upwards of a 20% stake in the institution.

EMFIL's Management team is led by Managing Director, K. Paul Thomas, who is the founder and having immense experience in microfinance and other development activities. The management team is enriched with experienced personal in the field of Banking, Rural

Development and Marketing. EMFIL has nine members in Board of Directors comprising of experienced professionals and ten members in senior management team consists of professionals from the microfinance, rural banking, agriculture and operations domains.

Table 3.1 List of Board of Directors of EMFIL

Board of Directors			
Sl No.	Name	Designation	Profile
1	Mr. K. Paul Thomas	Founder, Chairman, Managing Director	- EMFIL founder, more than two decades of microfinance experience, previously associated with Indian Farmers Fertilizer Cooperative (IFFCO) - Board member of MFIN (Apex microfinance body) - Chairman of Kerala Association of Microfinance Institution (KAMFI)
2	Mr. George Thomas	Executive Director	- Nine years of experience in microfinance sector - Associated with various government departments for more than a decades - Former Assistant Director, Agriculture Department of Kerala Government
3	Mr. Vikraman Ampalakkat	Executive Director	- Four decades experience in financial service sector of which 17 years in microfinance sector - Former Chief General Manger of SIDBI - Board member of Muthoot

			Fincorp Limited and Samasta Microfinance Ltd
4	Mr. Cherian Thomas	Independent Director	- CEO, IDFC Foundation, 27 years of experience in banking, finance and infrastructure - Board member of Infrastructure Development Corporation Ltd (Karnataka, Uttarakhand), Delhi Integrated Multi-Modal Transit System Ltd, Buddha Smriti Udhyan Development Company Ltd, J C Advisory Services Private Ltd, and Shikhar Microfinance Private Ltd
5	Kolasseril Chandramohanan Ranjani	Non- Executive Director	- Managing Director of Dia- Vikas Capital (p) ltd. - 20 years of experience in financial services and development finance with SIDBI and was the senior Microfinance Specialist at Micro Save before joining Dia- Vikas Capital - She holds post-graduation degree in Bank Management.
6	Mr. Christopher Jebakumar	Non- Executive Director	- Nominee Director of IDBI - Currently working as deputy general manager- priority sector in IDBI
7	Ms. Srikumari	Non- Executive Director	-A nominee of ESAF Swarsraya Multi State Co-operative Credit Society Ltd has field level experience in organization and

			lending Sangams.
8	Mr. Raveendranathan Prabha	Independent Director	- Nominee of ESCCO and Former GM of Canara Bank - Advisor of Sa-Dhan and board member of Grameen Financial Services Ltd

3.2.4 Client Profile

About 93% of EMFIL's clients are located in rural areas while 7% are from urban areas which comprises of 30 % people from SC/S T and 50% from OB C (Other Backward Communities). ESAF has set its social targets for each of its branch network on indicators such as reaching the marginalized, reaching the poor, geographic outreach to backward areas, Access to water and sanitation facilities, Access to social security etc. Accordingly 30% of ESAF's clients are those who do not have access to own water and sanitation facilities and 75% are poor (as per the International poverty line) while the national average stands at 55 % as per the same poverty line (USD 2.50 PPP).84% of the urban clients are below the RBI Urban line where the national average stands at 74% and 60% of the rural clients are below RBI rural line where the national average for the same line stands at 64%. Women headed households are also focused to enable more women to take active role in the economy of their household. At present 5% of the households covered by ESAF are women headed households which comprises of widows, divorced, unmarried women who h as dependent male members.

3.2.5 Social Initiatives by ESAF and other Group Companies

From the inception of ESAF, the promoter Shri K Paul Thomas had realized that mere provision of credit will not be sufficient to make marked difference in the lives of the poor people unless they are given adequate know-how, skills and need specific products that change lift them from the level of extreme poverty. Separate verticles were thus formed to provide specialized services to the clients of ESAF Microfinance. An integrated approach in providing need based specialized service was envisioned as the primary purpose of forming these verticles. ESAF Society, the mother NGO continues to undertake community development activities aimed towards the betterment and well-being of larger community who are deprived

from mainstream development benefits in the field of education, health care, clean energy, livelihood support etc. Some of these verticles are mentioned below:

Table 3.2 List of verticles of ESAF and its purpose

Sl.No	**Support entities/verticles**	**Primary purpose of creation**
1	ESAF Society (Not for profit)	To undertake suitable community development activities to support initiatives in education, water and sanitation, health, environment, disaster management and livelihood support through awareness, building community
2	ESAF Swasraya Multistate Credit Co-operative Society	To offer services such as micro savings, micro-insurance, deposits, recurring deposits facilities along with provision non-financial training by encouraging bottom-up governance structure. The elected representatives from amongst the 6.58 lakh community women are elected to the board of ESAF Microfinance and to that of ESCCO.
3	ESAF Microfinance	To enable access to micro credit to poor households to help them support their micro enterprise and improve standard of living.
4	ESAF Swasraya Producers Company ltd	To enable marginal producers in procurement, production and marketing of their produce so that they get fair price for their produce.
5	ESAF Health Care Pvt Ltd	To provide low cost and quality health care for all so that the poor too are able to save days lost to their illness.
6	ESAF Retails Pvt Ltd	To enable access to need based delivery and service of household products and to support the sale of the products developed by micro entrepreneurs.
7	ESAF Dairy Pvt Ltd	To support the marginal farmers engaged in dairy

		through the provision of dairy loans and offering them fair price through milk collection from the same farmers.

3.2.6 Milestones of EMFIL

2010: Selected by the Central Government for implementation of 'Sanchar Sakthi Project'

2010: Selected by the Central Government as an aggregator for Swavalamban Yokana, a Govt. sponsored pension scheme (NPS Lite)

2011: Rated mfR4 by CRISIL, Rated for Responsible Microfinance

2012: Formed alliance with Jharcraft to promote handcraft products made by ESAF clients

2013: Selected by World Bank Group for 'India Development Marketplace' award

2013: Received Microfinance Institutions Network Seal of Transparency in recognition to the organization's commitment to transparent pricing

2013: Graded MF12 and Bank Loan Rating 'BBB' by CARE Ratings

2013: Selected as Approved Voluntary Organization by the Planning Commission of India

2014: Received 'NBFC-MFI' license from Reserve Bank of India

2014: Recognized as MIX S.T.A.R. MFI

2014: Received National Center for Promotion of Employment for Disabled People Disability Inclusion Award

2015: EMFIL has applied for the small farmer bank license called for the RBI

2015: ESAF Quarterly Newsletter 'Lahanti' wins the 'Best Content' Award (NiB Award) Among Corporate journal in India.

Chapter – 4

Financial Performance of ESAF Microfinance and Investment (P) Ltd (EMFIL)– An Analysis

Chapter - 4

FINANCIAL PERFORMANCE OF ESAF MICROFINANCE AND INVESTMENT (P) LTD (EMFIL) – AN ANALYSIS

4.1 Introduction

Financial analysis refers to an assessment of the viability, stability and profitability of a business or a project. The term financial analysis is called financial statement analysis. It includes both 'analysis and interpretation'. Analysis is used for the simplification of financial data by classification of the data given in the financial statements. Interpretation means explaining the meaning and significance of the data so simplified. However, both analysis and interpretation are interlinked and complimentary to each other and significance of the data so simplified. Analysis is useless without interpretation and interpretation without analysis is difficult or even impossible. Financial statements are prepared primarily for decision making. They play dominant role in setting the framework of managerial decisions.

The analysis of financial is used to determine the financial position and results of operations as well. A number of methods or devices are used to study the relationship between different statements. An effort is made to use those devices which clearly analyze the financial position of the enterprise. Financial performance analysis applies analytical tools and techniques to general purpose financial statements and related data derive estimates and inferences useful in business decisions. It is a screening technique in selecting investment and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decisions. Financial analysis reduces the hunches, guesses and intuition and in turn it diminishes uncertainty in decision making.

Financial statement reports on firm's position at point of time and on its operation over some past period. However, the real value of financial statements lies in facts that can be used to help to predict the firms future earnings and dividends from an investors stand point predicting the future conditions and more important, as a starting point for planning actions that will influence the future course of events.

The Methods of Analysis are:

1. CAMEL Rating
2. Comparative Analysis

4.2 CAMELS Rating

The CAMELS rating system is based upon an evaluation of five critical elements of a credit union's operations: Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity. This rating system is designed to take into account and reflect all significant financial ratios an examiners can assess in the evaluation of financial performance. For this study sensitivity analysis is not taken into consideration.

CAMELS

C- Capital adequacy

A- Asset quality

M- Management quality

E- Earnings

L- Liquidity

S – Sensitivity

4.3 Comparative Analysis

Comparative financial statements are statements of the financial position of different period of time. It is prepared so as to provide time perspective to the consideration of various elements of financial positions embedded in such statements. This is done to make the financial data more meaningful. The statements of two or more years are prepared to show the absolute data of two or more years increase or decrease of absolute data in value and in terms of percentages. Comparative statement can be prepared for both the income statements as well as the position statement. Here for this study comparative analysis is prepared for comparing the Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity of EMFIL for the past 6 years.

4.2 CAMELS Rating

4.2.1 Capital adequacy

Capital base of financial institutions facilitates depositors in forming their risk perception about the institutions. Also, it is the key parameter for financial managers to maintain adequate levels of capitalization. Moreover, besides absorbing unanticipated shocks, it signals that the institution will continue to honor its obligations. The most widely used indicator of capital adequacy is capital to risk-weighted assets ratio. Capital adequacy, ultimately determines how well financial institution can cope with shares to their balance sheets. Capital cushions fluctuations in earnings so that credit unions can continue to operate in periods of loss or negligible earnings. It also provides a measure of reassurance to the members that the organization will continue to provide financial services. It serves to support growth as a free source of funds and provides protection against insolvency. Maintaining an adequate level of capital is a critical element. Determining the adequacy of a credit union's capital begins with a qualitative evaluation of critical variables that directly bear on the institution's overall financial condition. The ratios used to analyze the capital adequacy are:

a) Capital adequacy ratio = $\dfrac{\text{Tier One Capital + Tier Two Capital}}{\text{Risk Weighted Assets}}$

b) Equity capital to Total Asset Ratio = $\dfrac{\text{Equity Capital}}{\text{Total Assets}}$

c) Equity capital to Loan Ratio = $\dfrac{\text{Equity Capital}}{\text{Loan}}$

d) Paid-up Capital to Shareholder's fund Ratio = $\dfrac{\text{Paid-up Capital}}{\text{Shareholders' fund}}$

e) Debt Equity Ratio (DER) = $\dfrac{\text{Total Debt}}{\text{Shareholders' Equity}}$

4.2.1. a. Capital adequacy Ratio

Capital Adequacy Ratio (CAR) or Total Capital Ratio measures a financial institutions capital position and is expressed as a ratio of its capital to its assets. It determines the capacity of the financial institution in terms of meeting the time liabilities and other risks such as credit risk, operational risk, etc. CAR below the minimum statutory level indicates that the MFI is not adequately capitalized to expand its operations. Ideal CAR for MFIs (using Tier 1 only) is above the 8% minimum. This is appropriate, as analysts suggest that minimum capital adequacy for MFIs should exceed the Basel II recommendations that MFIs should maintain CAR of 12% or higher.

$$\text{Capital adequacy ratio} = \frac{\text{Tier One Capital + Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Tier One Capital = Paid up Capital

Tier Two Capital = Reserves and Surplus + Provision for Loan Loss

Risk Weighted Assets = Fixed Assets @ 100% + Loan portfolio @ 100% +

Other Assets and Advances @ 100%

Table 4.1 Capital adequacy Ratio of EMFIL

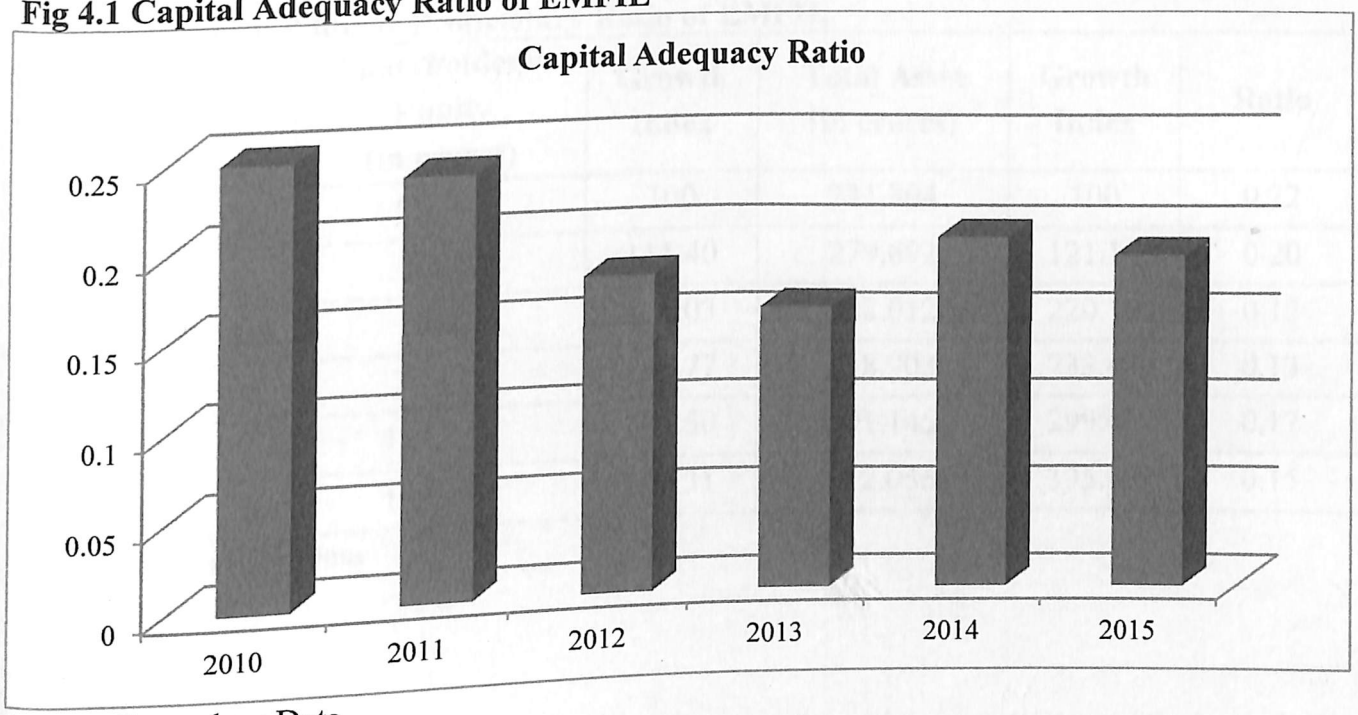
Years	Tier1 Capital (in crores)	Growth Index	Tier2 Capital (in crores)	Growth Index	Risk Weighted Assets (in crores)	Growth Index	Ratio
2010	48.302	100	6.484	100	219.494	100	0.25
2011	50.000	103.51	17.258	266.16	270.823	123.38	0.24
2012	50.000	103.51	21.162	326.37	382.915	174.45	0.18
2013	50.000	103.51	25.356	391.05	463.516	211.17	0.16
2014	96.916	200.64	24.839	383.08	594.625	270.91	0.20
2015	98.831	204.61	57.843	892.08	811.514	369.72	0.19

Source: Secondary Data

Inference

The above table shows the figures and Capital Adequacy Ratio of EMFIL which is favorable for every year. Any MFIs need to maintain a minimum of 12 % CAR or above. It is considered as the capacity of the financial institution in terms of meeting the time liabilities and other risks such as credit risk, operational risk, etc. As comparing the CAR of past six years, it is higher in the year 2010 and lower in the year 2013. The diagrammatical representation of capital adequacy ratio is shown below.

Fig 4.1 Capital Adequacy Ratio of EMFIL



Source: Secondary Data

4.1.1. b. Equity Capital to Total Asset Ratio (Equity Ratio or Proprietary Ratio)

The equity ratio is a ratio used to help determine how much shareholders would receive in the event of a company-wide liquidation. The ratio, expressed as a percentage, is calculated by dividing total shareholders' equity by total assets of the firm, and it represents the amount of assets on which shareholders have a residual claim. The figures used to calculate the ratio are taken from the company's balance sheet. A high proprietary ratio indicates a relatively favorable position to the creditors at the time of liquidation.

If the ratio is high, it indicates that a firm has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional

debt, if necessary. Conversely, a low ratio indicates that business may be making use of debt or trade payables, rather than equity, to support operations of the firm.

$$\text{Equity capital to Total Asset Ratio} = \frac{\text{Equity capital}}{\text{Total Assets}}$$

Shareholders' Equity = Paid-up Capital + Reserves and Surplus

Total Asset (Directly from the Balance Sheet)

Table 4.2 Equity Ratio or Proprietary Ratio of EMFIL

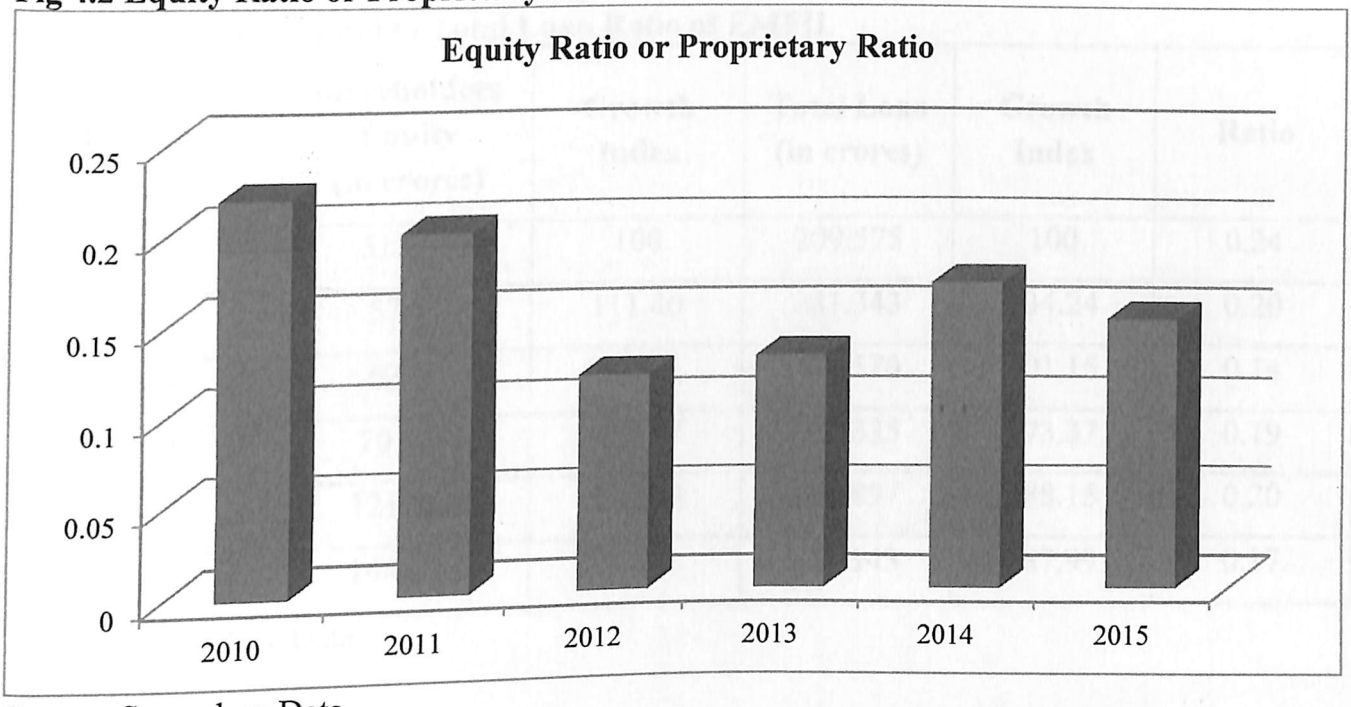
Years	Shareholders' Equity (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratio
2010	51.265	100	231.804	100	0.22
2011	57.11	111.40	279.692	121.18	0.20
2012	62.56	122.03	508.012	220.10	0.12
2013	70.119	136.77	538.903	233.48	0.13
2014	121.756	237.50	691.145	299.45	0.17
2015	144.216	281.31	912.056	395.16	0.15

Source: Secondary Data

Inference

From the above table shows the figures and equity ratio or proprietary ratio is gradually decreasing year by year up to 2014. On 2014 it shows a slight increase but in 2015 it is declining to 15.81%. This result shows that EMFIL is making use of too much debt rather than equity. Generally an equity ratio of 0.5:1 or above (or 50% or more) is considered as ideal. Here the ratios are not satisfactory. The diagrammatical representation of equity ratio is shown below.

Fig 4.2 Equity Ratio or Proprietary Ratio of EMFIL



Source: Secondary Data

4.1.1. c. Equity Capital to Loan Ratio

This ratio may be defined as the relationship between equity capital and total liability. As this ratio is calculated for every year, decrease in the ratio would denote that the company is faring well, and is having affordable liabilities.

$$\text{Equity Capital to Loan Ratio} = \frac{\text{Equity Capital}}{\text{Loan}}$$

Shareholders' Equity = Paid-up Capital + Reserves and Surplus

Loan (Directly from the Balance Sheet)

Table 4.3 Equity Capital to Total Loan Ratio of EMFIL

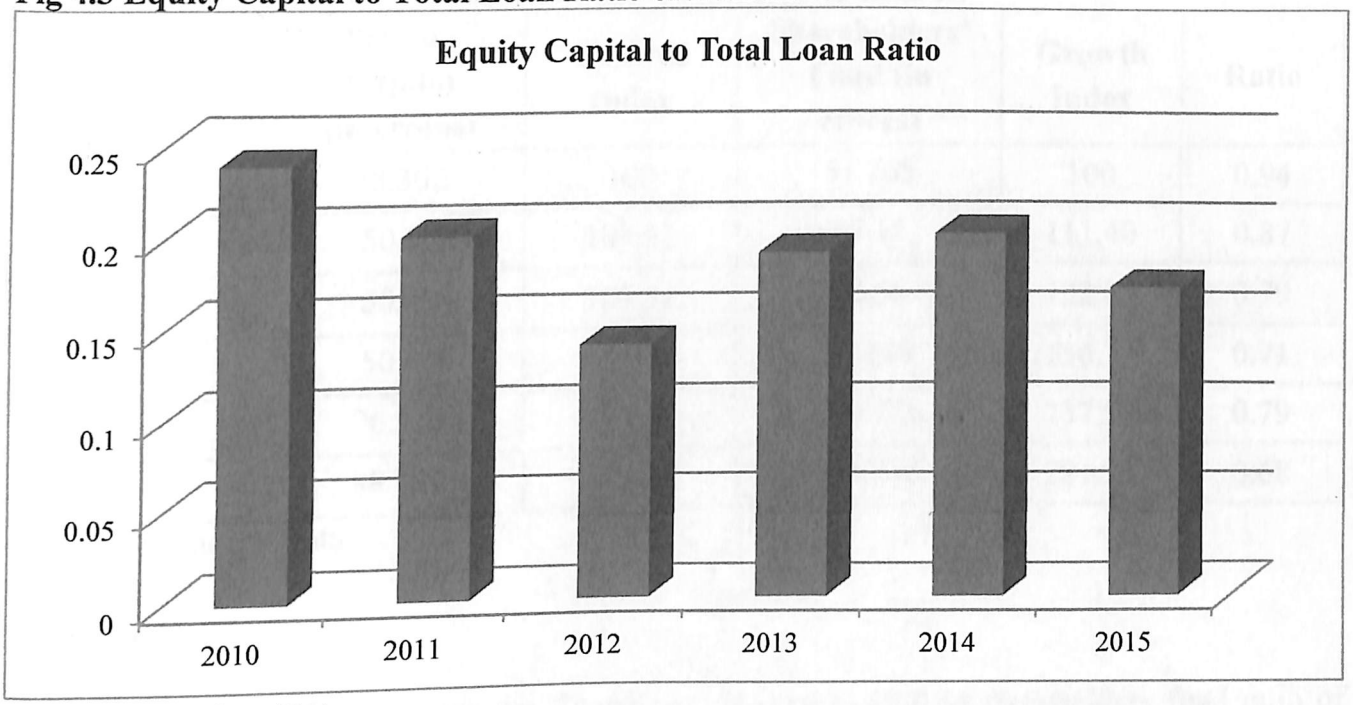
Years	Shareholders' Equity (in crores)	Growth Index	Total Loan (in crores)	Growth Index	Ratio
2010	51.265	100	209.575	100	0.24
2011	57.11	111.40	281.343	134.24	0.20
2012	62.56	122.03	421.570	201.15	0.14
2013	70.119	136.77	363.335	173.37	0.19
2014	121.756	237.50	603.897	288.15	0.20
2015	144.216	281.31	813.143	387.99	0.17

Source: Secondary Data

Inference

The above table shows the figures and equity capital to total loan ratio of EMFIL.As this ratio is calculated for every year, decrease in the ratio would denote that the company is faring well, and is having affordable liabilities. The equity capital to total loan ratio is very high in the year 2010 and is decreasing gradually. For the last year it is only 0.17 which is fairly good. The diagrammatical representation of equity capital to total loan ratio of EMFIL is shown below.

Fig 4.3 Equity Capital to Total Loan Ratio of EMFIL



Source: Secondary Data

4.1.1. d. Paid-up Capital to Shareholders' fund Ratio

This ratio may be defined as the relationship between paid-up capitals to equity capital. Paid-up capital is the amount of a company's capital that has been funded by shareholders. Paid-up capital can be less than a company's total capital because a firm may not issue all of the shares that it has been authorized to sell. Equity capital includes paid-up capital and reserves and surplus thus paid-up capital is a part of equity capital.

$$\text{Paid-up Capital to Shareholder's fund Ratio} = \frac{\text{Paid-up Capital}}{\text{Shareholders' Fund}}$$

Paid-up Capital (Directly from the Balance Sheet)

Shareholder's Fund = Paid-up Capital + Reserves and Surplus

Table 4.4 Paid-up Capital to Shareholders' fund Ratio of EMFIL

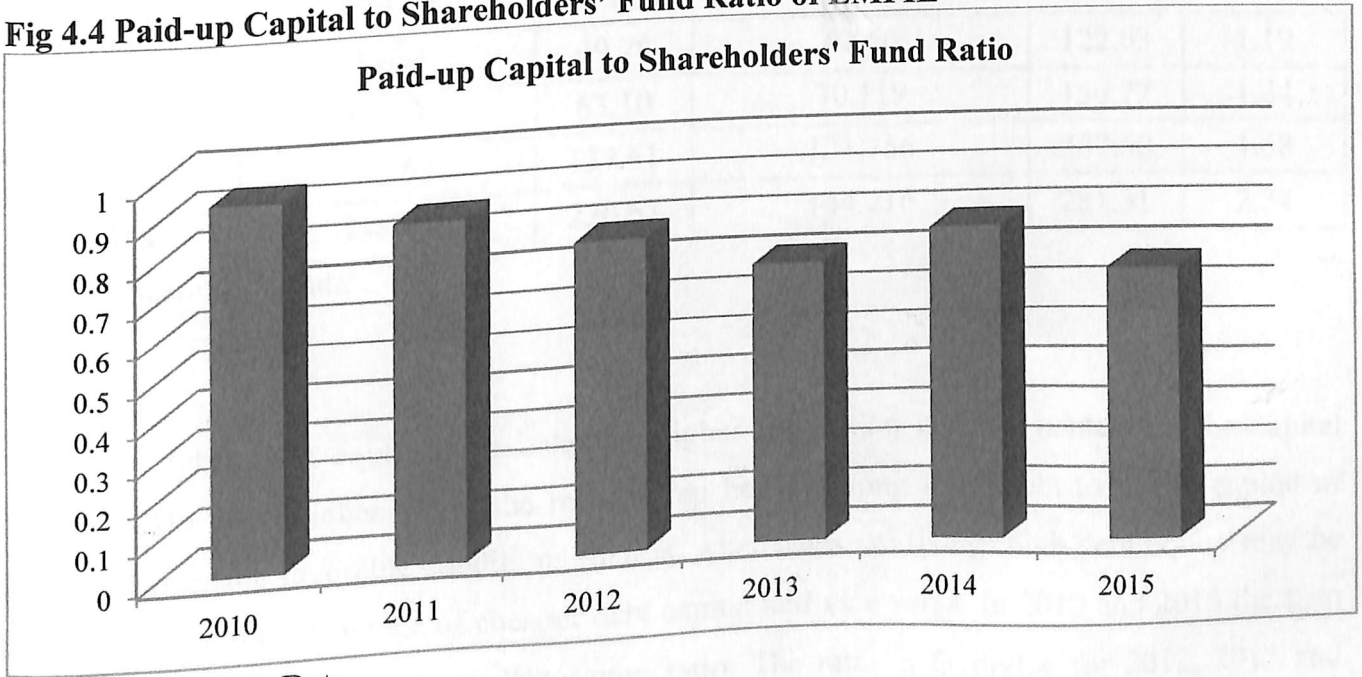
Years	Paid up Capital (in crores)	Growth Index	Shareholders' Fund (in crores)	Growth Index	Ratio
2010	48.302	100	51.265	100	0.94
2011	50.00	103.51	57.11	111.40	0.87
2012	50.00	103.51	62.56	122.03	0.79
2013	50.00	103.51	70.119	136.77	0.71
2014	96.916	200.64	121.756	237.50	0.79
2015	98.831	204.61	144.216	281.31	0.68

Source: Secondary Data

Inference

The above table indicates the figures and paid-up capital to shareholders fund ratio of EMFIL. Paid-up capital can never exceed authorized equity capital is considered as favorable condition for the firm. Here EMFIL is maintaining the favorable ratio. The ratio is showing a decreasing status but the paid-up capital never have exceeds the equity capital. Below the diagrammatical representation of paid-up capital to shareholders fund ratio of EMFIL is shown.

Fig 4.4 Paid-up Capital to Shareholders' Fund Ratio of EMFIL



Source: Secondary Data

4.1.1. e. Long Term Debt - Equity Ratio

The two major components of financial enterprise are long term debt and equity. This ratio expresses the relationship between long term debt and equity of the firm. The objective of long term debt equity ratio is to measure the relative proportion of long term debt and equity in financing the assets of a firm. In short, long term debt and equity is very useful for analyzing long tern financial condition of a company. A debt-equity ratio of 2:1 is the normally accepted by private sector enterprise.

$$\text{Long Term Debt - Equity Ratio (DER)} = \frac{\text{Long term Debt}}{\text{Shareholders' Equity}}$$

Total Debt = Long-term borrowings + Long-term provisions + Deferred tax liabilities

Shareholders' Equity = Paid-up Capital + Reserves and Surplus

Table 4.5 Long term Debt to Equity Capital Ratio of EMFIL

Years	Long term Debt (in crores)	Growth Index	Shareholders' Equity (in crores)	Growth Index	Ratio
2010	149.33	100	51.265	100	2.91
2011	172.57	115.56	57.11	111.40	3.02
2012	74.34	49.78	62.56	122.03	1.19
2013	94.23	63.10	70.119	136.77	1.34
2014	205.52	137.61	121.756	237.50	1.68
2015	338.49	226.67	144.216	281.31	2.34

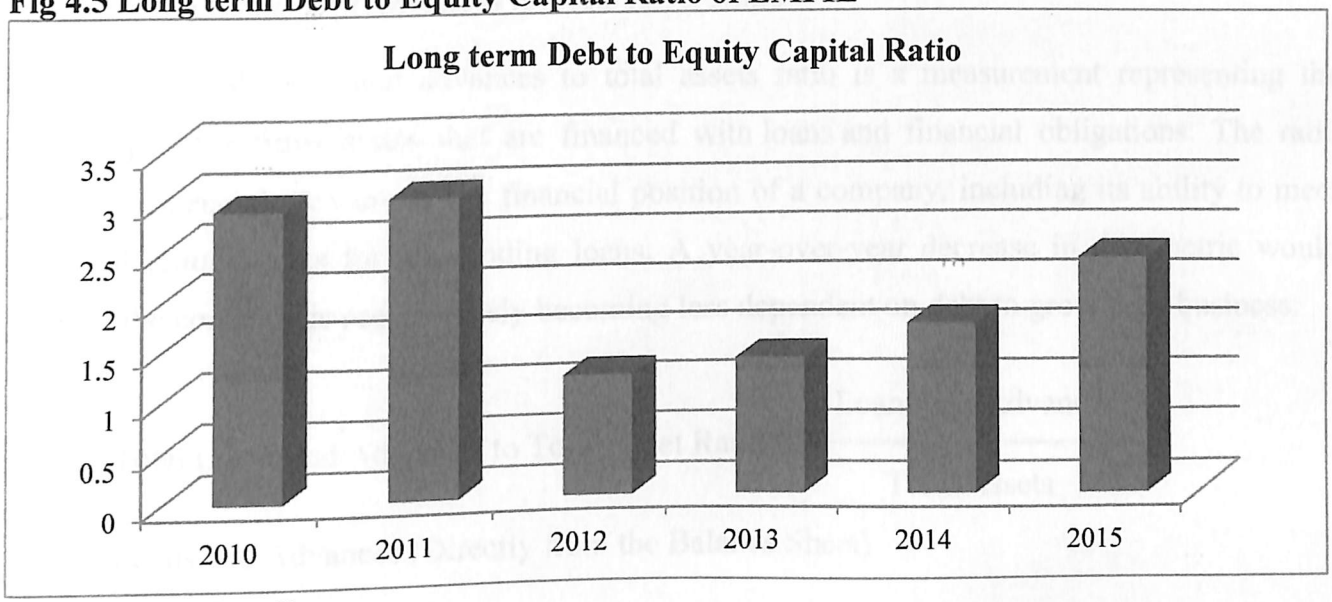
Source: Secondary Data

Inference

A higher debt equity ratio indicates higher proportion of debt content in the capital structure. The above table shows the relationship between long term Debt to equity capital of EMFIL. Under the favorable conditions (that is, when sales are rising) high debt equity may be adopted to take the advantage of cheaper debt capital and vice versa. In 2010 and 2015 the firm has achieved the ideal long term debt equity ratio. The ratio is favorable for 2012, 2013 and

2014. The ratio is relatively high in the year 2011. The diagrammatical representation of long term debt to equity capital ratio is shown below.

Fig 4.5 Long term Debt to Equity Capital Ratio of EMFIL



Source: Secondary Data

4.1.2 Asset quality

Asset quality determines the robustness of financial institutions against loss of value in the assets. The deteriorating value of assets, being prime source of banking problems, directly pour into other areas, as losses are eventually written-off against capital, which ultimately threaten the earning capacity of the institution. With this backdrop, the asset quality is gauged in relation to the level and severity of non-performing assets, adequacy of provisions, recoveries, distribution of assets etc. Popular indicators include nonperforming loans to advances, loan default to total advances, and recovery to loan default ratios. The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of their assets in terms are exposing to risk. The ratios used to ascertain the asset quality of EMFIL are listed below.

a) Total Loan and Advances to Total Asset Ratio = $\frac{\text{Loans and Advances}}{\text{Total Assets}}$

b) Immovable Assets to Total Assets Ratio = $\frac{\text{Immovable Assets}}{\text{Total Assets}}$

c) Asset Utilization (AU) = $\frac{\text{Total Revenue}}{\text{Total Assets}}$

4.1.2. a.Total Loans and Advances to Total Asset Ratio

The total loans and advances to total assets ratio is a measurement representing the percentage of a firms assets that are financed with loans and financial obligations. The ratio provides a general measure of the financial position of a company, including its ability to meet financial requirements for outstanding loans. A year-over-year decrease in this metric would suggest the company is progressively becoming less dependent on debt to grow their business.

Total Loans and Advances to Total Asset Ratio = $\frac{\text{Loans and Advances}}{\text{Total Assets}}$

Loans and Advances (Directly from the Balance Sheet)

Total Assets (Directly from the Balance Sheet

Table 4.6 Loans and Advances to Asset ratio of EMFIL

Years	Loans and Advances (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratios
2010	691.173	100	230.804	100	2.99
2011	501.233	72.52	279.692	121	1.79
2012	316.703	45.82	508.012	220	0.62
2013	334.241	48.36	538.903	233	0.62
2014	221.465	32.04	691.145	299	0.32
2015	194.253	28.10	912.056	395	0.21

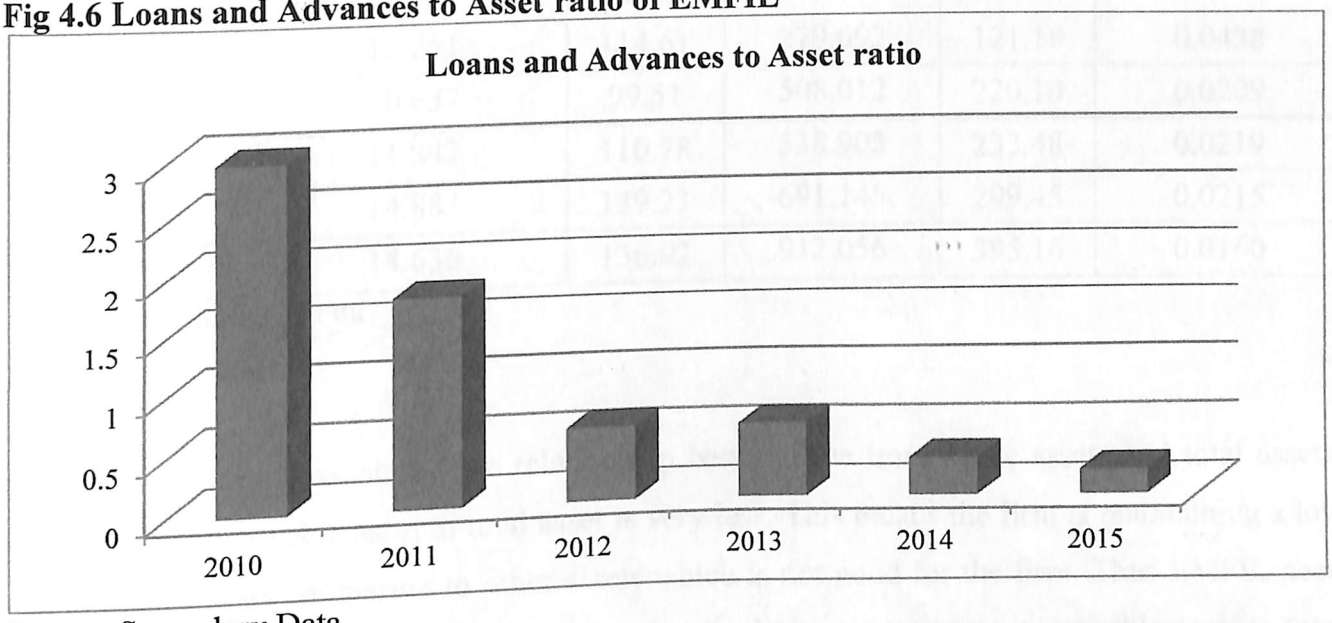
Source: Secondary Data

Inference

The above table explains the relationship between total loans and advances to total assets of EMFIL. A year-over-year decrease in this metric would suggest the company is progressively becoming less dependent on debt to grow their business. Here, total loans and advances to total assets ratio is declining year by year. Thus it shows a positive relationship is maintained between

total loans and advances and total assets by the firm. The diagrammatical representation of loan and advance to asset ratio is shown below.

Fig 4.6 Loans and Advances to Asset ratio of EMFIL



Source: Secondary Data

4.1.1. b. Immovable Assets to Total Assets Ratio

Immovable assets are assets that are permanently affixed to a building, cannot be easily or cheaply removed from the building, or cannot be used after removal from the building. Total assets the combined amount of a company's fixed assets and current assets as recorded in the company's balancesheet. This shows all the assets used by a company regardless of how they are financed. Compare net. The aim of this ratio is to highlight the distinction between movable and immovable property.

$$\text{Immovable Assets to Total Assets Ratio} = \frac{\text{Immovable Assets / Fixed Assets}}{\text{Total Assets}}$$

Fixed Assets (Directly from the Balance Sheet)

Total Assets (Directly from the Balance Sheet)

Table 4.7 Table showing Immovable Assets to Total Asset ratio of EMFIL

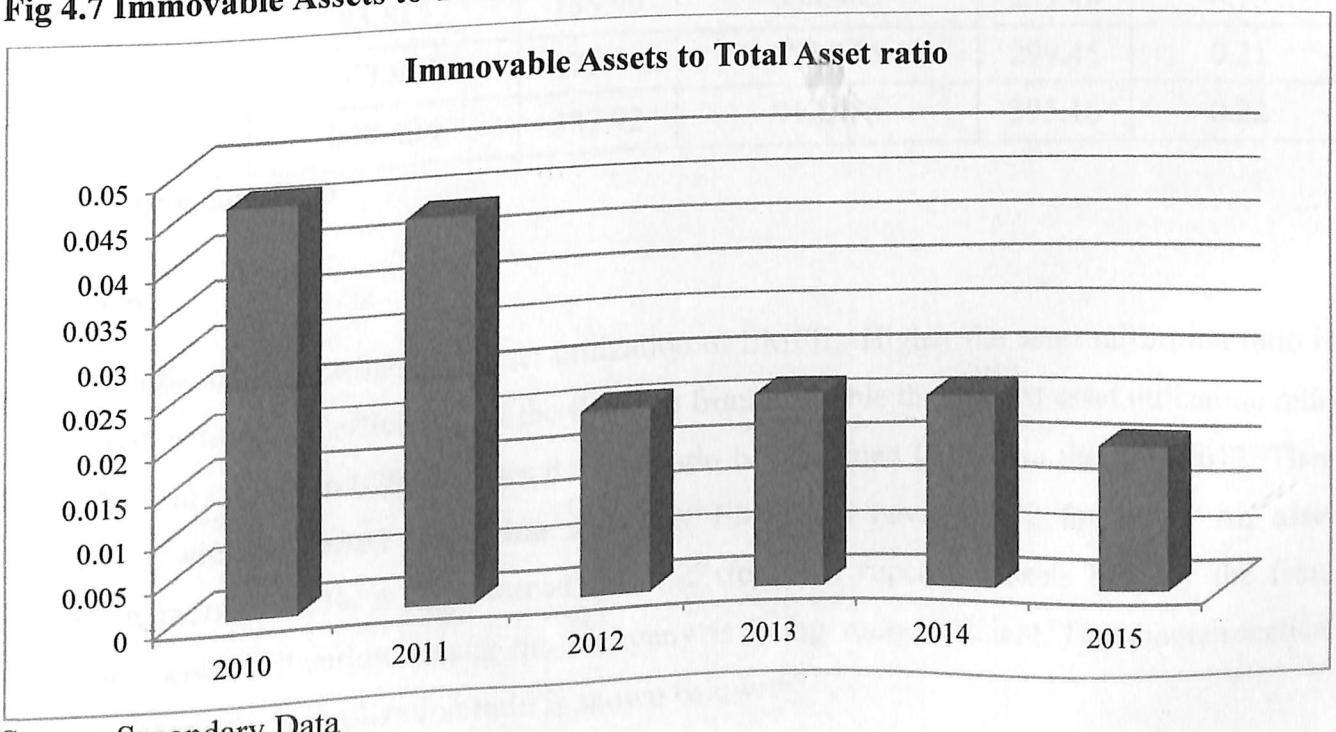
Years	Immovable Assets (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratios
2010	10.689	100	230.804	100	0.0463
2011	12.251	114.61	279.692	121.18	0.0438
2012	10.637	99.51	508.012	220.10	0.0209
2013	11.842	110.78	538.903	233.48	0.0219
2014	14.883	139.23	691.145	299.45	0.0215
2015	14.636	136.92	912.056	395.16	0.0160

Source: Secondary Data

Inference

The table above shows the relationship between the immovable assets and total assets. The ratio of immovable asset to total asset is very less. This means the firm is maintaining a low ratio of fixed asset comparing to other assets which is not good for the firm. Thus EMFIL need to increase their fixed asset ratio. The diagrammatical representation of immovable asset to total asset ratio is shown below.

Fig 4.7 Immovable Assets to Total Asset ratio of EMFIL



Source: Secondary Data

4.1.2. c. Asset Utilization (AU)

The asset utilization ratio measures management's ability to make the best use of its assets to generate revenue. The asset utilization ratio is calculated by dividing total revenue by the total assets. A high ratio may mean the management is more efficient in utilizing the assets of firm.

$$\text{Asset Utilization (AU)} = \frac{\text{Total Revenue}}{\text{Total Asset}}$$

Total Revenue (Directly from the Income and Expenditure Statement)

Total Asset (Directly from the Balance Sheet)

Table 4.8 Asset Utilization Ratio of EMFIL

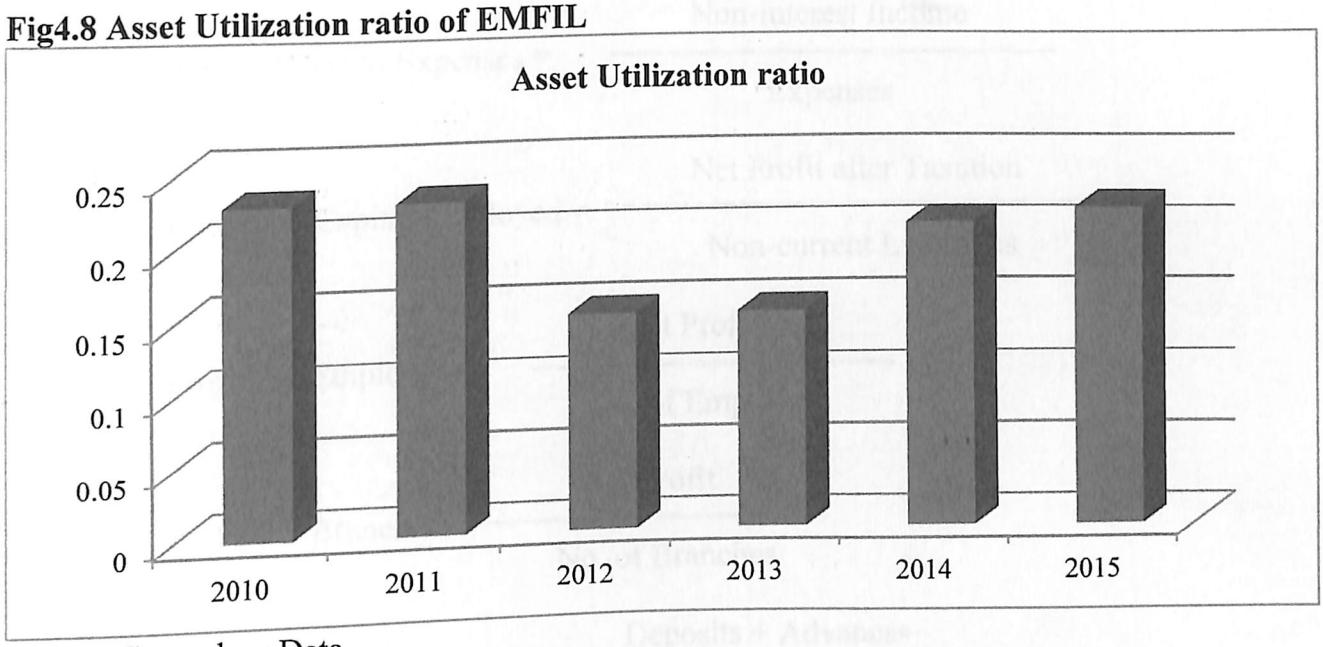
Years	Total Revenue (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratios
2010	53.729	100	230.804	100	0.23
2011	65.253	121.45	279.692	121.18	0.23
2012	80.893	150.55	508.012	220.10	0.15
2013	83.815	155.99	538.903	233.48	0.15
2014	147.995	275.44	691.145	299.45	0.21
2015	208.424	387.92	912.056	395.16	0.22

Source: Secondary Data

Inference

Above table indicates the asset utilization of EMFIL. Higher the asset utilization ratio is considered as more the efficiency of the firm. So from this table the highest asset utilization ratio is for the years 2010 and 2011. After that the ratio has declined to 0.15 in the year 2012. Then the ratio gradually started increasing and now EMFIL is having 0.22 for 2015. An asset utilization ratio of 22%, a firm earned Rs. 0.22 for each rupee of assets held by the firm. Increasing asset utilization means the company is being more efficient. The diagrammatical representation of asset utilization ratio is shown below.

Fig4.8 Asset Utilization ratio of EMFIL



Source: Secondary Data

4.1.3 Management quality

The capabilities of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations is reflected in this rating. Generally, directors need not be actively involved in day-to-day operations; however, they must provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board's goals, objectives, and risk limits into prudent operating standards. Reflected in this rating is both the board of directors' and management's ability to identify, measure, monitor, and control the risks of the credit union's activities, ensure its safe and sound operations, and ensure compliance with applicable laws and regulations. The ratios used for the assessment of Management quality are:

a) Fixed asset ratio = $\frac{\text{Fixed asset}}{\text{Long term Funds}}$

b) Non- interest Income to Total Assets = $\frac{\text{Non-interest Income}}{\text{Total Asset}}$

c) Non- Interest to Expenses = $\frac{\text{Non-interest Income}}{\text{Expenses}}$

d) Return on Capital Employed = $\frac{\text{Net Profit after Taxation}}{\text{Non-current Liabilities}}$

e) Profit Per Employee = $\frac{\text{Net Profit}}{\text{No. of Employee}}$

f) Profit Per Branch = $\frac{\text{Net Profit}}{\text{No. of Branches}}$

g) Business per Employee= $\frac{\text{Deposits + Advances}}{\text{No. of Employee}}$

h) Return on Networth = $\frac{\text{Net Profit}}{\text{Shareholders' fund}}$

4.1.3. a. Fixed Asset ratio

Fixed assets to long term funds ratio establishes the relationship between fixed assets and long-term funds and is calculated by dividing fixed assets by long term funds. If the fixed asset is more than the long term funds it would means that a part of the fixed assets has been financed out of short term funds. This would affect the working capital position of the firm. It may create problem in long run. Moreover, it is against the sound accounting practices. Lower the rate, better the financial position.

Fixed asset ratio = $\frac{\text{Fixed asset}}{\text{Long term Funds}}$

Total Debt = Long-term borrowings + Long-term provisions + Deferred tax liabilities

Fixed Asset (Directly taken from Balance Sheet)

Table 4.9 Long term debt to fixed asset ratios of EMFIL

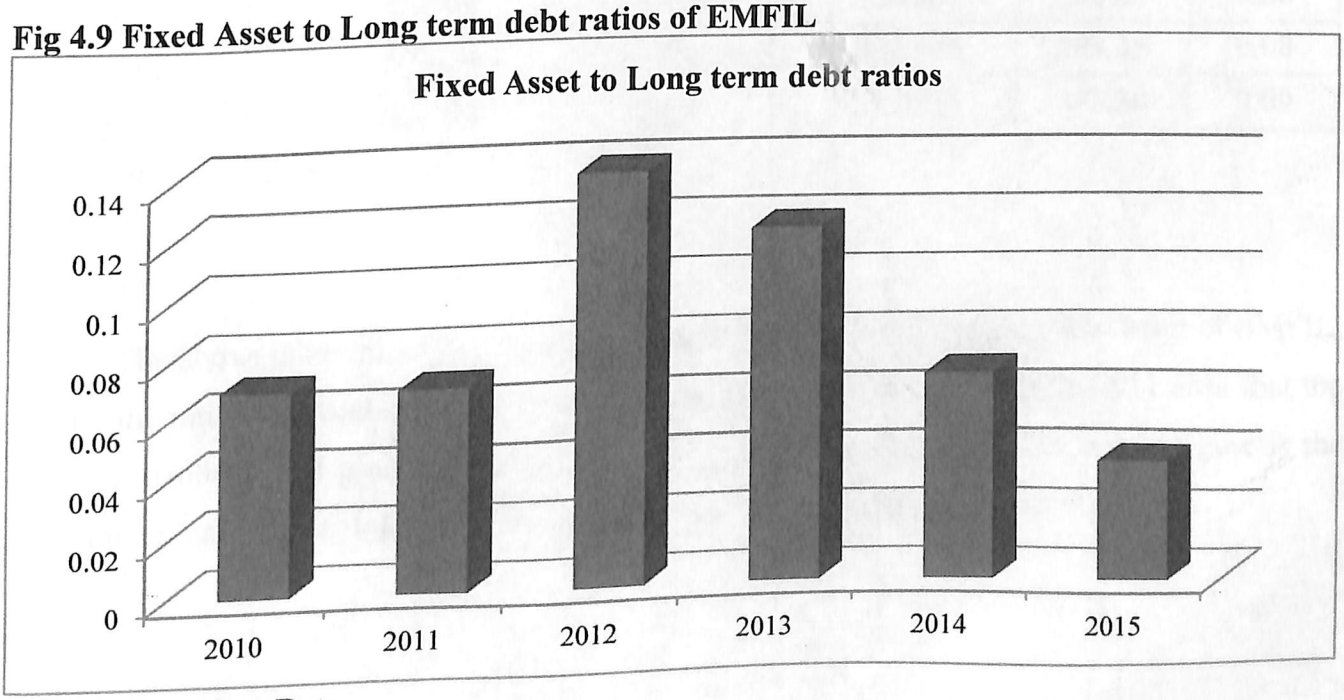
Years	Fixed Asset (in crores)	Growth Index	Long term Fund (in crores)	Growth Index	Ratio
2010	10.684	100	149.33	100	0.07
2011	12.251	114.66	172.57	115.56	0.07
2012	10.637	99.56	74.34	49.78	0.14
2013	11.842	110.84	94.23	63.10	0.12
2014	14.883	139.30	205.52	137.63	0.07
2015	14.636	136.99	338.49	226.67	0.04

Source: Secondary Data

Inference

The table above indicates the relationship between the long term debt and fixed asset of EMFIL. Lower the rate is considered as better the financial position. Here, the long term debt to fixed asset is satisfactory for every year. The diagrammatical representation of fixed asset to long term debt ratio is shown below.

Fig 4.9 Fixed Asset to Long term debt ratios of EMFIL



Source: Secondary Data

4.1.3. b. Non- interest Income to Total Assets

This ratio shows how much the firm is earning on total assets through non-interest income. Higher the ratio better for the financial institution. The non-interest income and total asset plays key role in financial performance of the firm. The non-interest income to total asset ratio is calculated by using the following formula.

$$\text{Non- interest Income to Total Assets} = \frac{\text{Non-interest Income}}{\text{Total Assets}}$$

Non-interest Income = Total fund Based Income – Interest

Total Asset (Directly taken from the Balance Sheet)

Table 4.10 Non-Interested Income to Total Asset ratios of EMFIL

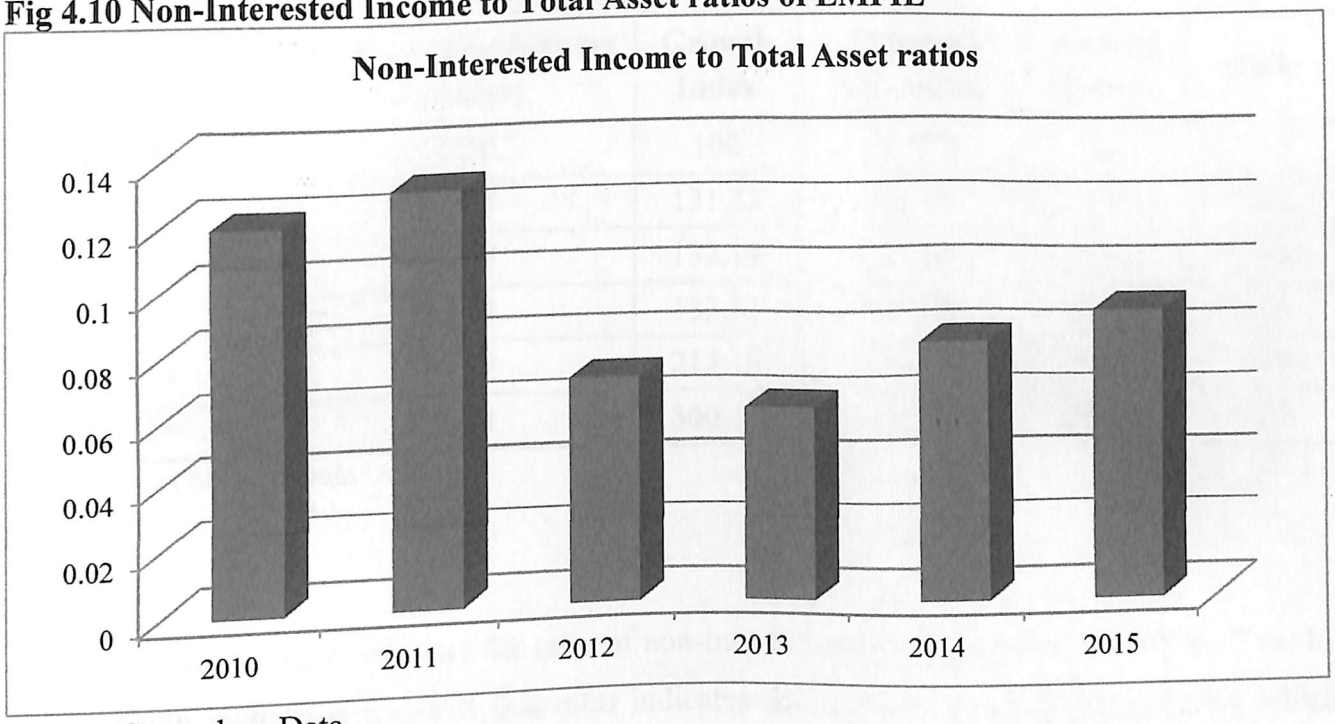
Years	Non-interested Income (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratio
2010	27.050	100	230.804	100	0.12
2011	35.525	131.33	279.692	121.18	0.13
2012	35.758	132.19	508.012	220.10	0.07
2013	35.794	132.33	538.903	233.48	0.06
2014	57.659	213.16	691.145	299.45	0.08
2015	81.184	300.13	912.056	395.16	0.09

Source: Secondary Data

Inference

The above table indicates the relationship of non-interest income to total asset of EMFIL. Higher the ratio is favorable for the firm. Here, the ratio is higher for the year 2011 after that the ratio has declined and gradually increases up to 0.09 for the last year. The below figure is the diagrammatical representation of non-interested income to total asset ratios of EMFIL.

Fig 4.10 Non-Interested Income to Total Asset ratios of EMFIL



Source: Secondary Data

4.1.3.c Non- Interest Income to Expenses

This ratio indicates the relationship between non-interest income and expense. Non-interest income and expenses have an important impact on financial institutions earnings and risk management. Rapidly growing financial institutions, constantly increasing marketing expenses and changing consumer needs and desires have pushed operating expenses higher and higher.

$$\text{Non- Interest to Expenses} = \frac{\text{Non-interest Income}}{\text{Expenses}}$$

Non-interest Income = Total fund Based Income – Interest

Expense = (Directly taken from the Income and Expenditure Statement)

Table 4.11 Non-Interested Income to Expenses of EMFIL

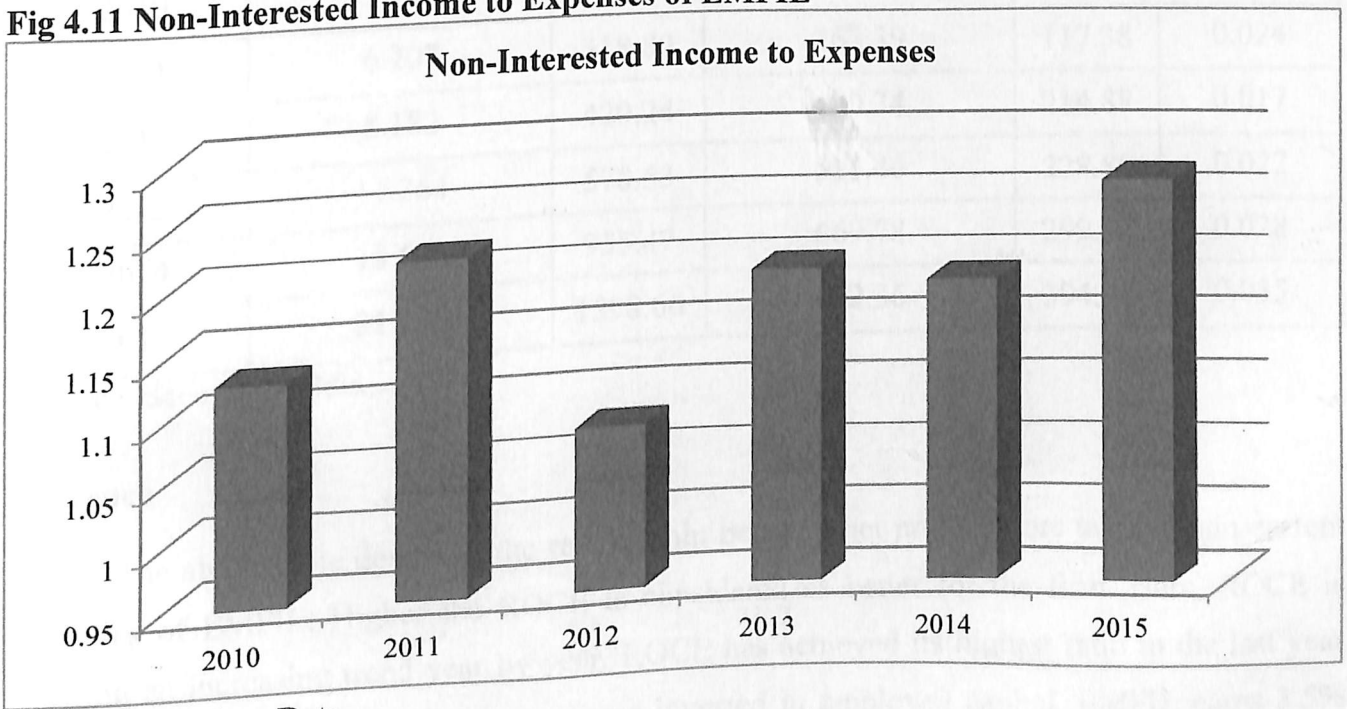
Years	Non-interested Income (in crores)	Growth Index	Expenses (in crores)	Growth Index	Ratio
2010	27.050	100	23.970	100	1.13
2011	35.525	131.33	29.195	121.80	1.22
2012	35.758	132.19	33.048	137.87	1.08
2013	35.794	132.33	29.796	124.31	1.20
2014	57.659	213.16	48.108	200.70	1.19
2015	81.184	300.13	63.874	266.47	1.27

Source: Secondary Data

Inference

The above table indicates the ratio of non-interest income to expense of EMFIL. Year by year a slight increasing trend of this ratio indicates that the firm is gradually growing which provides a favorable condition for the firm. The diagrammatical representation of non-interested income to expenses of EMFIL is shown below.

Fig 4.11 Non-Interested Income to Expenses of EMFIL



Source: Secondary Data

4.1.3. d. Return on Capital Employed

Return on capital employed (ROCE) is a measure of the returns that a business is achieving from the capital employed. Capital employed equals firms Equity capital plus Non-current liabilities. ROCE indicates the efficiency and profitability of a firm capital investment. A higher ROCE indicates more efficient use of capital. A lower value of ROCE indicates lower profitability. Normally ROCE is shown in percentage.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit before Taxation}}{\text{Non-current Liabilities}}$$

Net Profit before Taxation (Directly taken from Income and Expenditure Statement)

Non-current Liabilities = Total Assets − Current Liabilities

Table 4.12 Return on Capital Employed of EMFIL

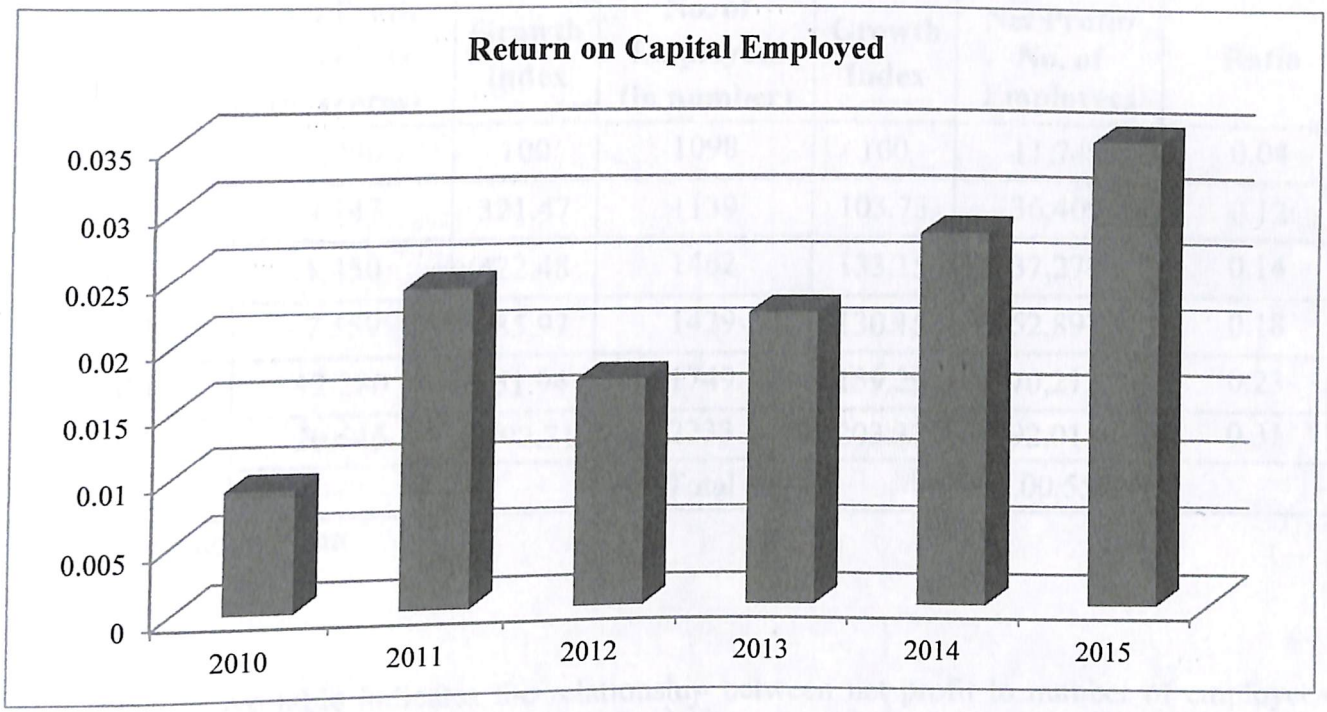
Years	Net Profit before Tax (in crores)	Growth Index	Non-current liabilities (in crores)	Growth Index	Ratio
2010	1.947	100	223.54	100	0.009
2011	6.207	318.80	262.39	117.38	0.024
2012	8.182	420.24	480.34	214.88	0.017
2013	11.264	578.53	511.46	228.80	0.022
2014	18.603	955.47	669.78	299.62	0.028
2015	31.126	1598.66	882.36	394.72	0.035

Source: Secondary Data

Inference

The above table describes the relationship between net profit before tax and non-current liabilities of EMFIL. Higher the ROCE is considered as better for the firm. Here, ROCE is showing an increasing trend year by year. ROCE has achieved its highest ratio in the last year which is 3.5%. In other words, every rupee invested in employed capital, EMFIL earns 3.5% return. The below figure is the graphical representation of return on capital employed of EMFIL,

Fig 4.12 Return on Capital Employed of EMFIL



Source: Secondary Data

4.1.3. e. Profit per Employee

Profit per Employee is a company's net profit after tax divided by the number of employees. There are no rules about what constitutes a good level of income per employee, or a bad level. This is one of the indicators to measure the performance of EMFIL. It is not only a Profitability indicator but also indicates the efficiency. Higher this ratio, better the profit per employee, which means employees are utilizing higher efficiency in his/her workings in the firm.

$$\text{Profit per Employee} = \frac{\text{Net Profit after Tax}}{\text{No. of Employee}}$$

Net Profit after Tax (Directly taken from Income and Expenditure Statement)

No. of Employee (Information from the office)

Table 4.13 Profit per Employee of EMFIL

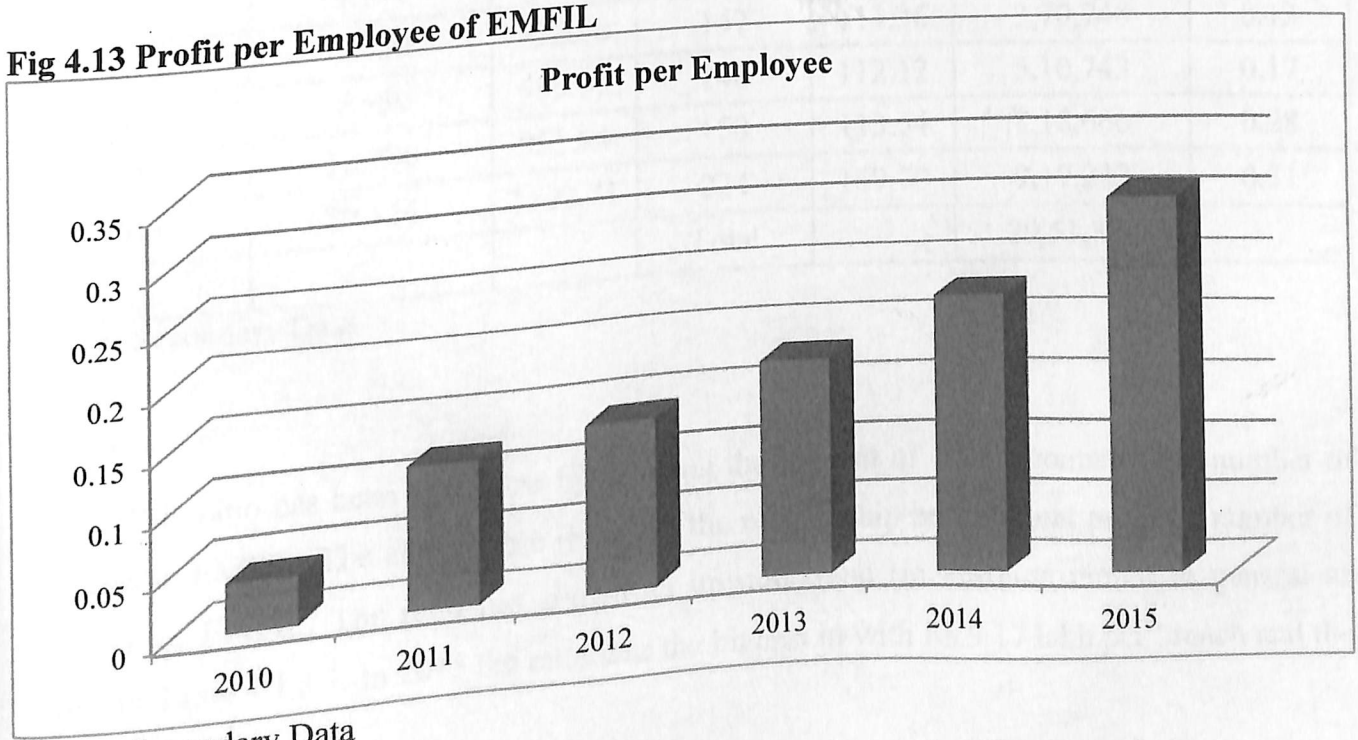
Years	Net Profit after Tax (in crores)	Growth Index	No. of Employees (in number)	Growth Index	Net Profit/ No. of Employees	Ratio
2010	1.290	100	1098	100	11,749	0.04
2011	4.147	321.47	1139	103.73	36,409	0.12
2012	5.450	422.48	1462	133.15	37,278	0.14
2013	7.559	585.97	1429	130.15	52,897	0.18
2014	12.280	951.94	1749	159.29	70,212	0.23
2015	20.546	1592.71	2233	203.37	92,011	0.31
			Total		3,00,556	

Source: Secondary Data

Inference

The above table indicates the relationship between net profit to number of employees. This ratio has been computed by dividing the amount of total amount of net profits after tax by the number of employees in EMFIL. The ratio has shown an upward trend (in absolute terms) in general as shown in Table 4.1.3.6. In 2015 the ratio was the highest with Rs.92,011 per employee. The diagrammatical representation of profit per employee is shown below.

Fig 4.13 Profit per Employee of EMFIL



Source: Secondary Data

4.1.3.f Profit per Branch

This ratio has been computed by dividing the amount of net profit by the number of branches of EMFIL. Net profit is the difference between income and expenditure, which indicates profitability at each branch level and the same time, indicates its efficiency. Better ratio is indicator of good health and efficiency. The formula used to identify the profit per branch is given below.

$$\text{Net Profit per Branch Ratio} = \frac{\text{Net Profit After tax}}{\text{No. of Branches}}$$

Net Profit After tax (Directly taken from Income and Expenditure Statement)

No. of Branches (Information from the office)

Table 4.14 Net Income per Branch of EMFIL

Years	Net Profit (in crores)	Growth Index	No. of Branches (in number)	Growth Index	Net Profit/ No. of Branches	Ratio
2010	1.290	100	132	100	97,727	0.03
2011	4.147	321.47	140	106.06	2,96,214	0.10
2012	5.450	422.48	147	111.36	3,70,748	0.13
2013	7.559	585.97	148	112.12	5,10,743	0.17
2014	12.280	951.94	150	113.64	8,18,666	0.28
2015	20.546	1592.71	224	169.70	9,17,232	0.31
			Total		29,51,330	

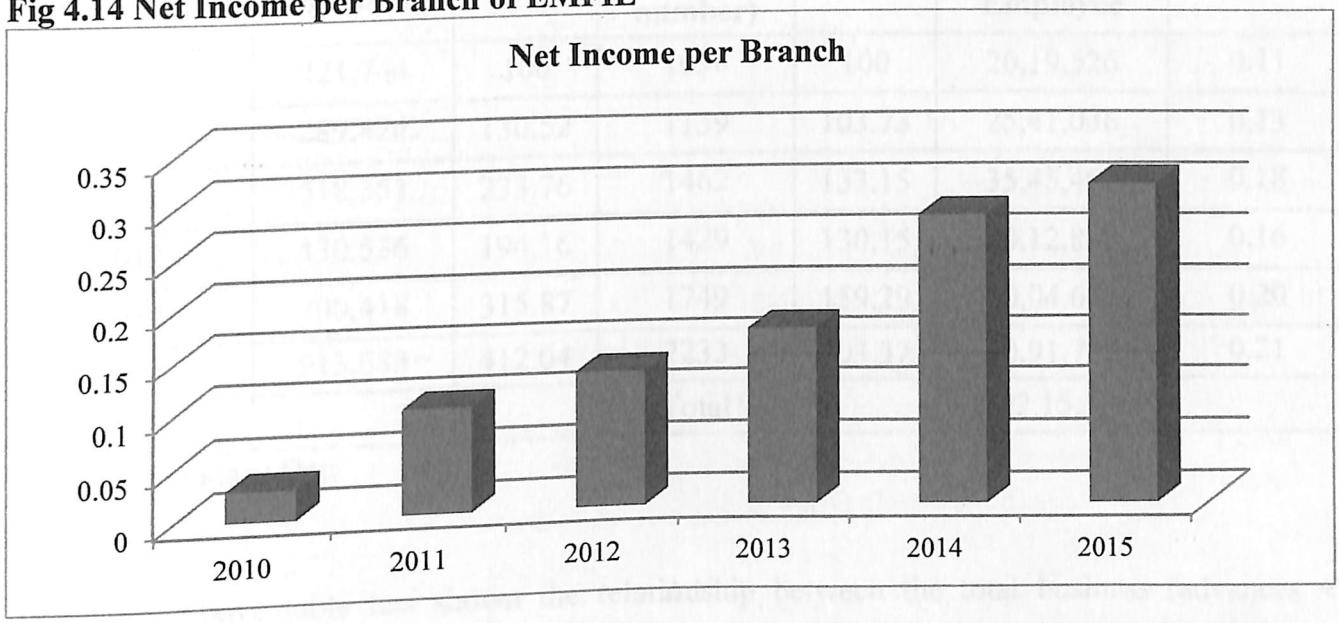
Source: Secondary Data

Inference

This ratio has been computed by dividing the amount of total income by the number of branches in EMFIL. The above table indicates the relationship between net profit to number of branches of EMFIL. The ratio has shown an upward trend (in absolute terms) in general as shown in Table 4.1.3.7. In 2015 the ratio was the highest in with Rs.9.17 lakh per branch and the

lowest in with Rs.97,727 per branch. The figure below indicates the graphical representation of net income per branch.

Fig 4.14 Net Income per Branch of EMFIL



Source: Secondary Data

4.1.3.g Business per Employee

This ratio has been computed by dividing the amount of total business by the number of employees in EMFIL. Business per employee is a measure to know how efficiently a particular company is utilizing its employees. Ideally, a company wants the highest business per employee possible, as it denotes higher productivity.

$$\text{Business per Employee} = \frac{\text{Deposits + Advances}}{\text{No. of Employee}}$$

Deposits + Advances (Directly taken from Balance Sheet)

No. of Employee (Information from the office)

Table 4.15 Business per Employee of EMFIL

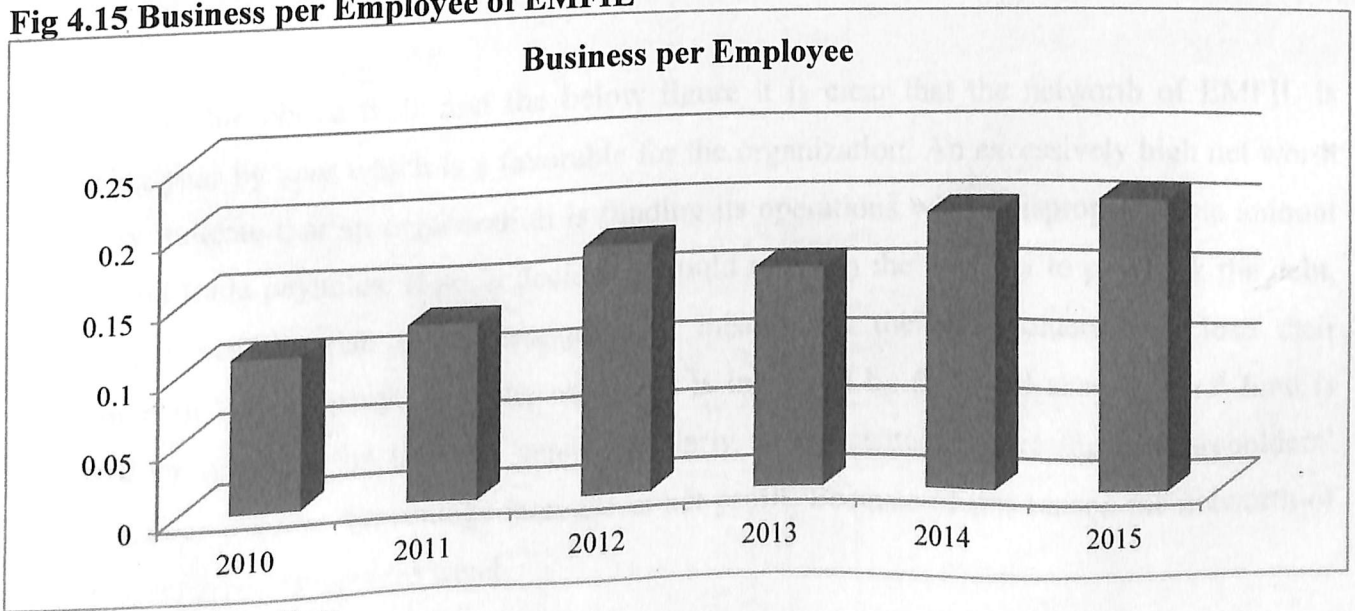
Years	Deposits + Advances (in crores)	Growth Index	No. of Employee (in number)	Growth Index	Deposits + Advances / No. of Employee	Ratio
2010	221.744	100	1098	100	20,19,526	0.11
2011	289.424	130.52	1139	103.73	25,41,036	0.13
2012	518.351	233.76	1462	133.15	35,45,492	0.18
2013	430.536	194.16	1429	130.15	30,12,848	0.16
2014	700.418	315.87	1749	159.29	40,04,677	0.20
2015	913.683	412.04	2233	203.37	40,91,729	0.21
			Total		1,92,15,308	

Source: Secondary Data

Inference

The above table has shown the relationship between the total business (advances + deposits) and the number of employees in EMFIL. The graph has shown an upward trend in Table 4.1.3.f. In 2015 the ratio was the highest in the case of BOI with Rs.40.91 lakh per employee and lowest in 2010 with Rs.20.19 lakh per employee. In 2013, BOI with Rs.30.12 lakh per employee shows a sudden fall and after that gradually it increases. The diagrammatical representation of business per employee is shown below.

Fig 4.15 Business per Employee of EMFIL



Source: Secondary Data

4.1.3. h. Return on Net worth

The ratio is useful as a measure of how well a company is utilizing the shareholder investment to create returns for them, and can be used for comparison purposes with competitors in the same industry. The following formula is used to calculate Return on net worth of EMFIL.

$$\text{Return on Networth} = \frac{\text{Net Profit after Tax}}{\text{Shareholders' fund}}$$

Net Profit after Tax (Directly taken from Income and Expenditure Statement)

Shareholders' fund = Paid-up Capital + Reserves and Surplus

Table 4.16 Table showing Return on Networth of EMFIL

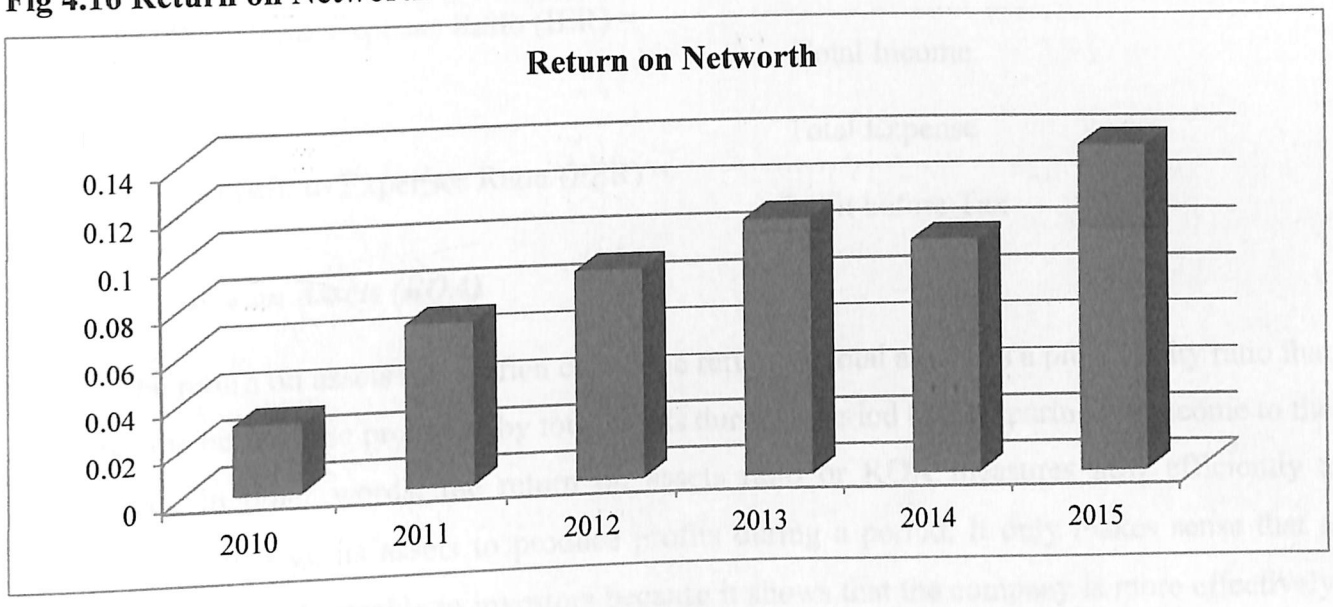
Years	Net Profit (in crores)	Growth Index	Shareholders' Equity (in crores)	Growth Index	Ratio
2010	1.290	100	51.265	100	0.03
2011	4.147	321.47	57.11	111.40	0.07
2012	5.450	422.48	62.56	122.03	0.09
2013	7.559	585.97	70.119	136.77	0.11
2014	12.280	951.94	121.756	237.50	0.10
2015	20.546	1592.71	144.216	281.31	0.14

Source: Secondary Data

Inference

From the above table and the below figure it is clear that the networth of EMFIL is ncreasing year by year which is a favorable for the organization. An excessively high net worth ·atio may indicate that an organization is funding its operations with a disproportionate amount)f debt and trade payables. If so, a decline in could result in the inability to pay back the debt, vhich increases the risk of bankruptcy; this means that the shareholders may lose their nvestment in the company. Here the net profit is increased by 59% and shareholders' fund is ncreased by 84% for the last two years. Similarly the percentage increasing in shareholders' und is greater than the percentage increase in net profit. Because of this reason the networth of :MFIL is showing an upward trend.

Fig 4.16 Return on Networth of EMFIL



Source: Secondary Data

4.1.4 Earnings Ability

Earnings and profitability, the prime source of increase in capital base, is examined with regards to interest rate policies and adequacy of provisioning. In addition, it also helps to support present and future operations of the institutions. Strong earnings and profitability profile of financial institution reflects the ability to support present and future operations. More specifically, this determines the capacity to absorb losses, finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital. Being front line of defense against erosion of capital base from losses, the need for high earnings and profitability can hardly be overemphasized. The single best indicator used to gauge earning is the Return on Assets (ROA), which is net income after taxes to total asset ratio. Other ratios used to analyze the Earning of EMFIL are listed below.

a) Return on Assets (ROA) = $\frac{\text{Net Income}}{\text{Total Asset}}$

b) Return on Equity (ROE)= $\frac{\text{Net Income}}{\text{Shareholders' Equity}}$

c) Equity Multiplier (EM)= $\frac{\text{Total Asset}}{\text{Shareholders' Equity}}$

d) Income Expense Ratio (IER) = $\frac{\text{Total Expenses}}{\text{Total Income}}$

e) Profit to Expenses Ratio (PER) = $\frac{\text{Total Expense}}{\text{Profit before Tax}}$

4.1.4. a. Return on Assets (ROA)

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period. It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. A positive ROA ratio usually indicates an upward profit trend as well.

Return on Assets (ROA) = $\frac{\text{Net Income}}{\text{Total Asset}}$

Net Income = (Directly taken from Income and Expenditure Statement)

Total Asset = (Directly taken from Balance Sheet)

Table 4.17 Return on Assets of EMFIL

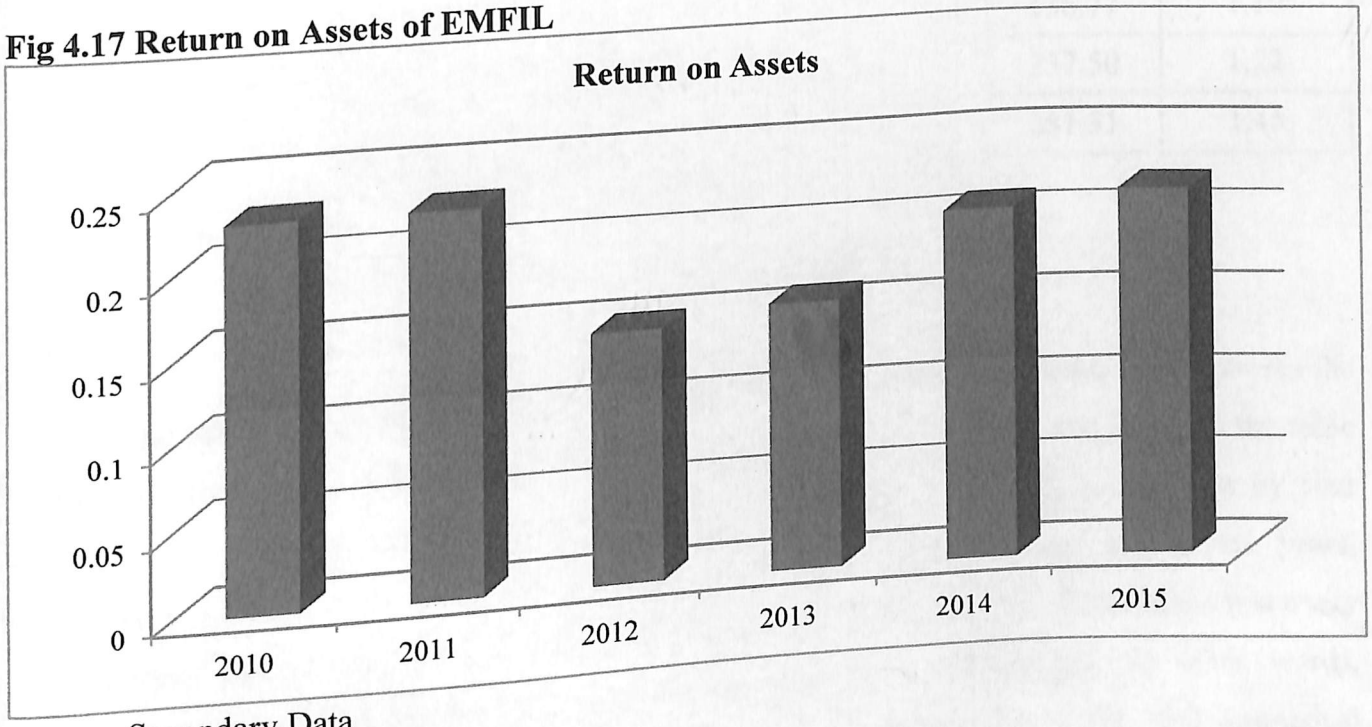
Years	Net Income (in crores)	Growth Index	Total Asset (in crores)	Growth Index	Ratio
2010	53.729	100	230.804	100	0.23
2011	65.253	121.44	279.692	121.18	0.23
2012	80.693	150.19	508.012	220.10	0.15
2013	83.815	155.99	538.903	233.48	0.16
2014	147.995	275.45	691.145	299.45	0.21
2015	208.424	387.91	912.056	395.16	0.22

Source: Secondary Data

Inference

The above table and the below figure shows the ROA of EMFIL for past 6 years. The return on assets ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits. Here the indication of positive ROA ratio shows an upward profit trend. In the years of 2012 and 2013 it is slightly declining because the percentage increase in net income (80%) is greater than percentage increase in total asset (55%) but is gradually showing an increment in last year 2015. Comparing the last 2 years the percentage increase in net income is 71% and percentage increase in total asset is 75% thus the ROA is showing an incremental trend. An increasing trend of ROA indicates that the profitability of the firm is improving.

Fig 4.17 Return on Assets of EMFIL



Source: Secondary Data

4.1.4. b. Return on Equity (ROE)

Return on equity (ROE) shows the relationship between the net income and shareholders' equity. ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the firm. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. A firm having higher growth will expect higher ROE.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Net Income (Directly taken from Income and Expenditure Statement)

Shareholders' Equity = Paid-up Capital + Reserves and Surplus

Table 4.18 Table showing Return on Equity of EMFIL

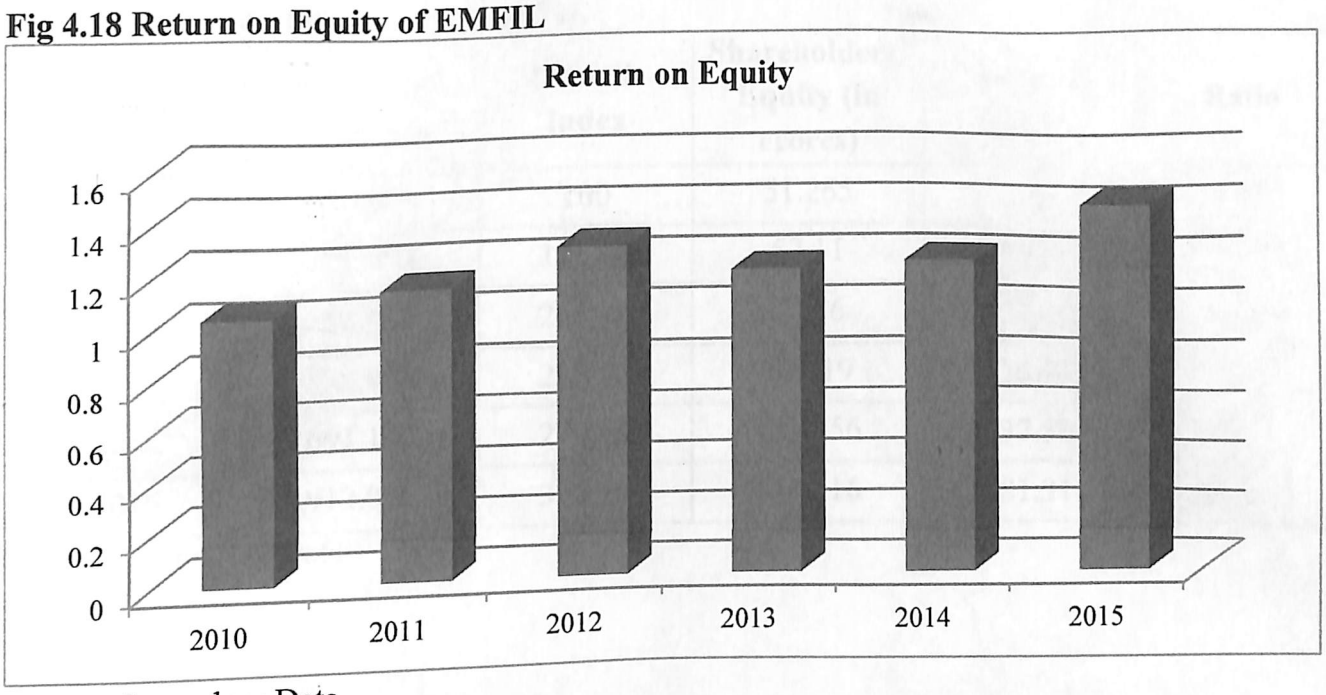
Years	Net Income (in crores)	Growth Index	Shareholders' Equity (in crores)	Growth Index	Ratio
2010	53.729	100	51.265	100	1.05
2011	65.253	121.44	57.11	111.40	1.14
2012	80.693	150.19	62.56	122.03	1.29
2013	83.815	155.99	70.119	136.77	1.19
2014	147.995	275.45	121.756	237.50	1.22
2015	208.424	387.91	144.216	281.31	1.45

Source: Secondary Data

Inference

The table above shows the ROE of EMFIL.ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the firm. As the table indicates after dividing net income with shareholders' equity ROE is increasing year by year which is a favorable condition for the firm. Here ROE is satisfactory in past six years. Shareholders' equity is increased by 87% whereas net income is by 71%. This means that every rupee of common shareholder's equity is getting an incremental earning. In other words, shareholders saw a 1.45 return on their investment in the year 2015. The diagrammatical representation of return on equity is shown below.

Fig 4.18 Return on Equity of EMFIL



Source: Secondary Data

4.1.4.c Equity Multiplier (EM)

An equity multiplier measures a company's financial leverage by using a ratio of the company's total assets to its stockholders' equity. Generally, a lower equity multiplier indicates a company has lower financial leverage. It is better to have a low equity multiplier, because a company uses less debt to finance its assets. A higher ratio means that more assets were funding by debt than by equity. In other words, investors funded fewer assets than by creditors.

$$\text{Equity Multiplier (EM)} = \frac{\text{Total Asset}}{\text{Shareholders' Equity}}$$

Total Asset (Directly taken from Balance Sheet)

Shareholders' Equity = Paid-up Capital + Reserves and Surplus

Table 4.19 Equity Multiplier of EMFIL

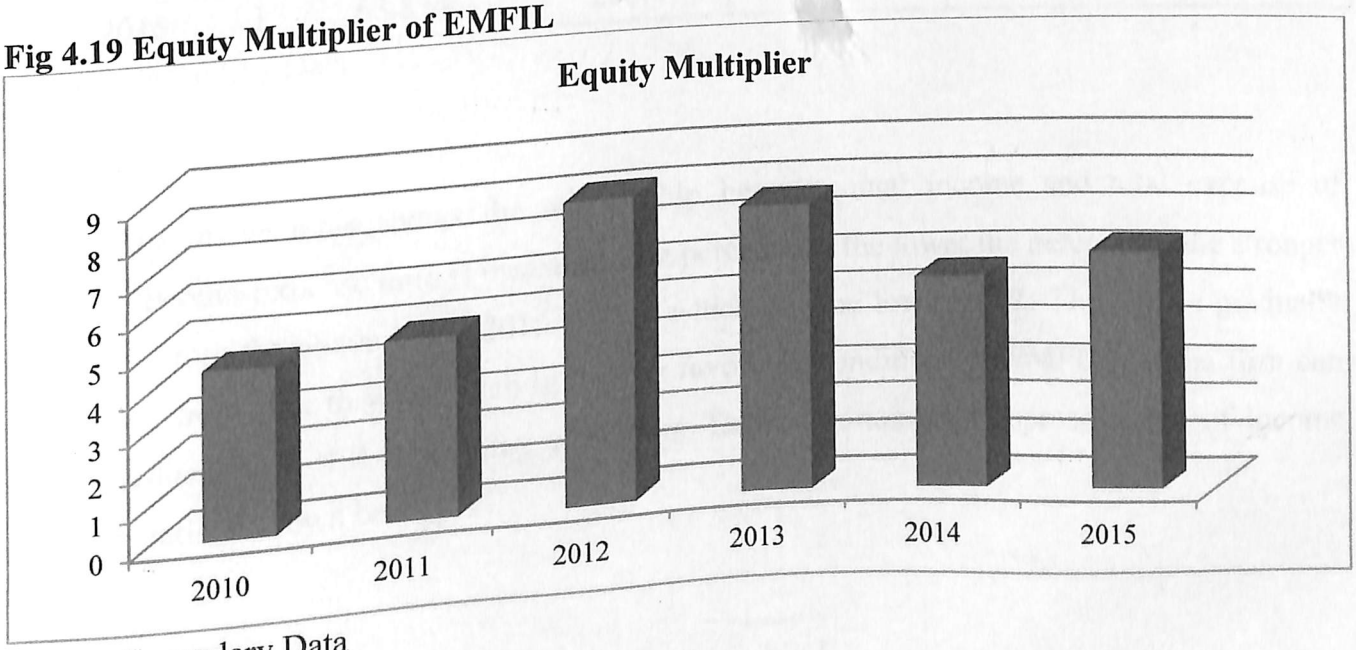
Years	Total Asset (in crores)	Growth Index	Shareholders' Equity (in crores)	Growth Index	Ratio
2010	230.804	100	51.265	100	4.50
2011	279.692	121.18	57.11	111.40	4.90
2012	508.012	220.10	62.56	122.03	8.12
2013	538.903	233.48	70.119	136.77	7.68
2014	691.145	299.45	121.756	237.50	5.67
2015	912.056	395.16	144.216	281.31	6.32

Source: Secondary Data

Inference

The above table indicates the equity multiplier of EMFIL for past 6 years. Generally, a lower equity multiplier indicates a financial company has lower financial leverage which is favorable for the firm. Equity multiplier is favorable for 2010 and 2011 afterwards it is increasing and now firm needs to concentrate on reducing the ratio for that the percentage increase in total asset should be more than shareholders' equity. The below figure indicates the graphical representation of equity multiplier of EMFIL.

Fig 4.19 Equity Multiplier of EMFIL



Source: Secondary Data

4.1.4. d. Income Expense Ratio (IER)

IER shows the relationship between the total income and total expense. The expense to income ratio is calculated by dividing total expenses by total income. This ratio measures the efficiency of operations. It demonstrates the amount of expenses incur in generating the income. A lower ratio shows the firm is more efficient.

$$\text{Income Expense Ratio (IER)} = \frac{\text{Total Expenses}}{\text{Total Income}}$$

Total Expenses (Directly taken from Income and Expenditure Statement)

Total Income (Directly taken from Income and Expenditure Statement)

Table 4.20 Income Expenses Ratio of EMFIL

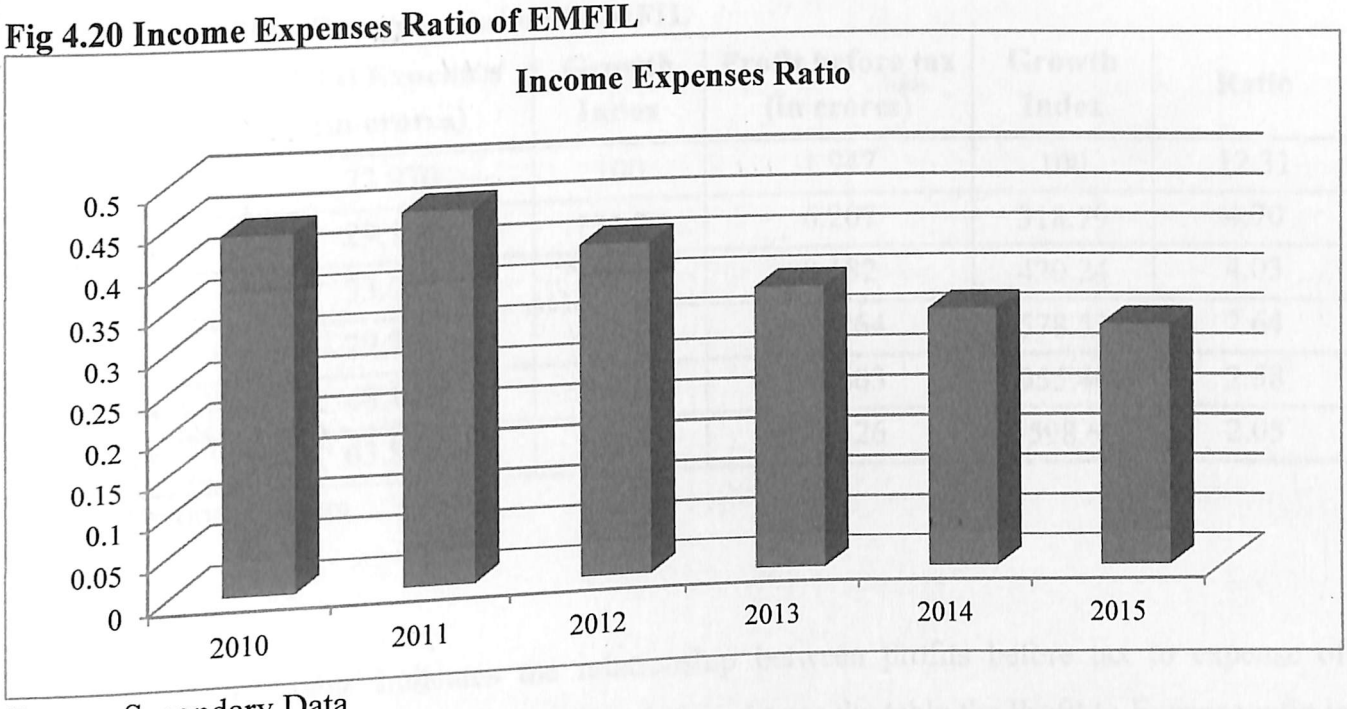
Years	Total Expenses (in crores)	Growth Index	Total income (in crores)	Growth Index	Ratio
2010	23.970	100	53.729	100	0.44
2011	29.195	121.79	65.253	121.44	0.46
2012	33.048	137.87	80.693	150.19	0.41
2013	29.796	124.31	83.815	155.99	0.35
2014	48.108	200.70	147.995	275.45	0.32
2015	63.874	266.47	208.424	387.91	0.30

Source: Secondary Data

Inference

The above table shows the relationship between total income and total expense of EMFIL. Income-Expense ratio is measured as a percentage, the lower the percentage the stronger the ratio. From the above table, 2015 is year which has the lowest IER. The IER is gradually decreasing from year to year which indicate a favorable condition for EMFIL. So the firm can expect reduction of IER in coming years too. The diagrammatical representation of income expenses ratio is shown below.

Fig 4.20 Income Expenses Ratio of EMFIL



Source: Secondary Data

4.1.4. e.Profit to Expenses Ratio (PER)

This ratio indicates the relationship between profits before tax to expense of EMFIL. The expenses of the firm and its profit percentage provide invaluable information that can help managers and owners assess the firm's financial health. Both the expenses and profit percentage can be expressed as a ratio that, at a glance, tells investors whether the business may be a wise investment. Generally the lower the ratio is considered as better. Expense and profit percentage play an important role in fundamental analysis, a form of financial analysis used to assess financial well-being of companies and whether they are stable investments.

$$\text{Profit to Expenses Ratio (PER)} = \frac{\text{Total Expense}}{\text{Profit before tax}}$$

Total Expense (Directly taken from Income and Expenditure Statement)

Profit before tax (Directly taken from Income and Expenditure Statement)

Table 4.21 Profit to Expenses Ratio of EMFIL

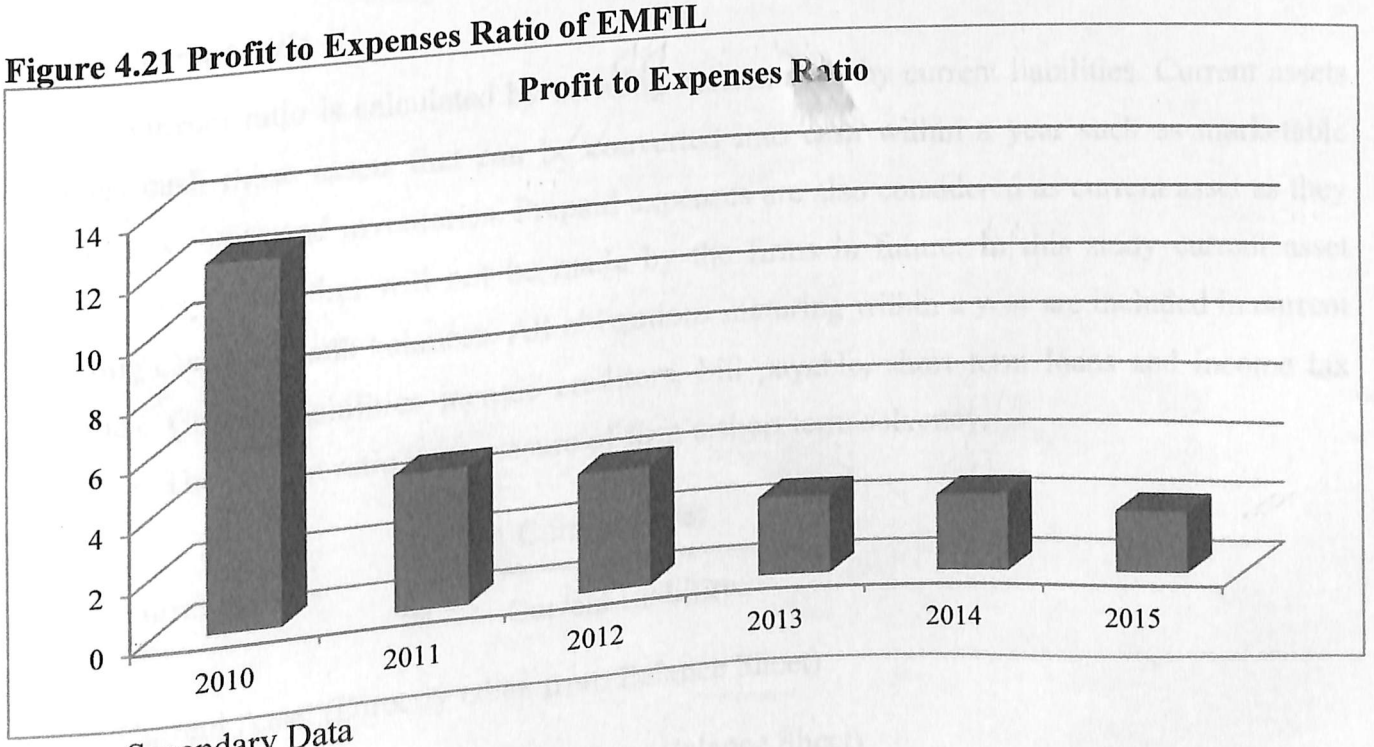
Years	Total Expenses (in crores)	Growth Index	Profit before tax (in crores)	Growth Index	Ratio
2010	23.970	100	1.947	100	12.31
2011	29.195	121.79	6.207	318.79	4.70
2012	33.048	137.87	8.182	420.24	4.03
2013	29.796	124.31	11.264	578.53	2.64
2014	48.108	200.70	18.603	955.46	2.58
2015	63.874	266.47	31.126	1598.66	2.05

Source: Secondary Data

Inference

The above table indicates the relationship between profits before tax to expense of EMFIL. The lower the ratio is considered as better. As per the table the Profit to Expense ratio is decreasing year by year this is a favorable condition for the firm. The least ratio was 2.05 for the year 2015. A huge decline in Profit to Expense ratio is happening when comparing the data of 2010 and 2015. The below diagram indicates the profit to expenses ratio of EMFIL.

Figure 4.21 Profit to Expenses Ratio of EMFIL



Source: Secondary Data

4.1.5 Liquidity ratio

Liquidity Ratios are used to measure the short-term solvency of a company. They show the ability of the company to quickly convert its assets into cash to pay its short-term debts. The higher the ratios, the more liquid the company and the less likely the company experience financial distress in short-term basis. Following three liquidity ratios are used for the study.

a) $$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

b) $$\text{Absolute Liquidity Ratio} = \frac{\text{Absolute Liquidity Asset}}{\text{Current Liability}}$$

c) $$\text{Deposits to Equity Capital Ratio} = \frac{\text{Total Deposit}}{\text{Equity Capital}}$$

d) $$\text{Absolute Liquid Asset to Total Deposits} = \frac{\text{Absolute Liquid Asset}}{\text{Total Deposit}}$$

4.1.5.a Current ratio

The current ratio is calculated by dividing current asset by current liabilities. Current assets includes cash those assets that can be converted into cash within a year such as marketable securities, debtors and inventories. Prepaid expenses are also considered as current asset as they represent payments that will not be made by the firms in future. In this study current asset including cash and bank balances. All obligations maturing within a year are included in current liabilities. Current liabilities include creditors, bill payable, short term loans and income tax liabilities. The current ratio is a measure of firm's short term solvency.

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

Current Asset (Directly taken from Balance Sheet)

Current Liability (Directly taken from Balance Sheet)

Table 4.22 Current Ratio of EMFIL

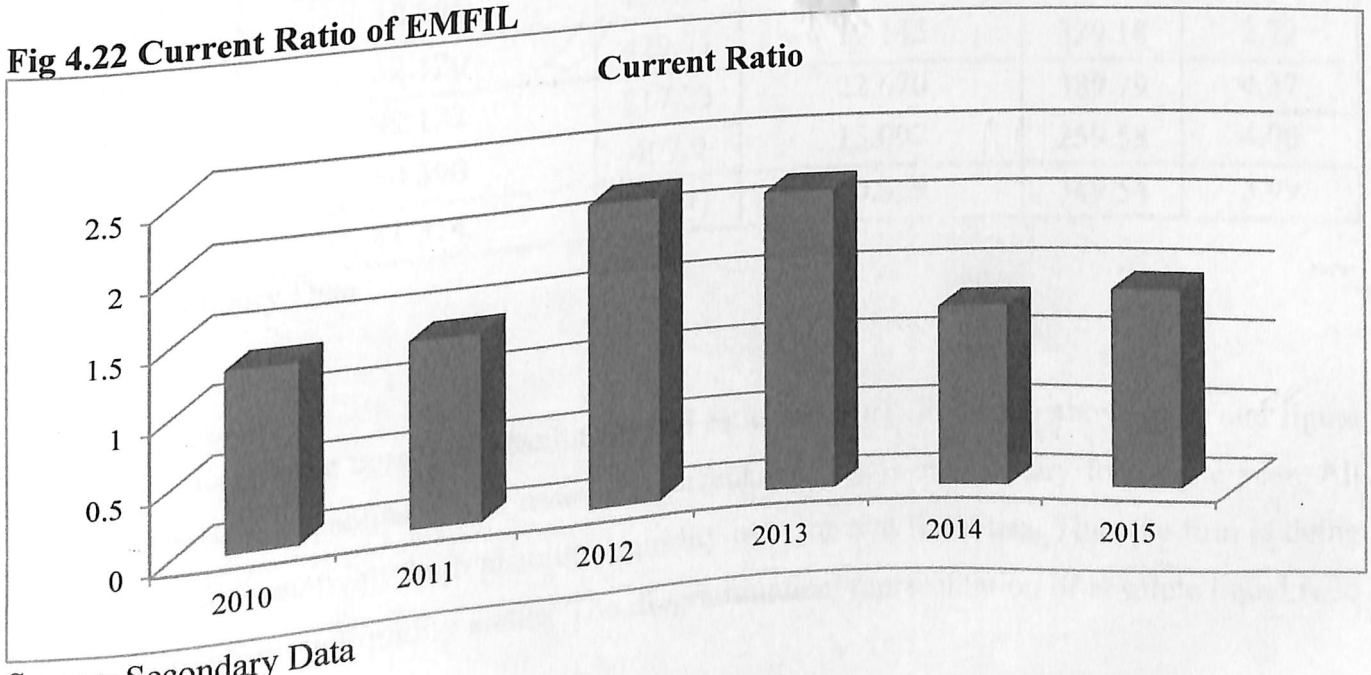
Years	Current Assets (in crores)	Growth Index	Current Liabilities (in crores)	Growth Index	Ratio
2010	174	100	132	100	1.32
2011	221	127.01	160	121.21	1.38
2012	231	132.76	105	79.54	2.20
2013	279	160.34	128	96.96	2.18
2014	441	253.45	335	253.78	1.31
2015	727	417.82	508	384.84	1.43

Source: Secondary Data

Inference

A good current ratio is 2:1. A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its obligations in time as and when they became due. On the other hand, a relatively low current ratio represents that the liquidity position of the firm is not good and firm shall not be able to pay its current liabilities without facing difficulties. From the above calculations the relatively high current ratio is for the years 2012 and 2013. For other years the current ratio is satisfactory for EMFIL.

Fig 4.22 Current Ratio of EMFIL



Source: Secondary Data

4.1.5.b Absolute Liquidity Ratio or Cash Ratio

Although receivables, debtors and bills receivables are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or in time. Hence, some inventories are in the opinion that the absolute liquid ratio should also be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid ratio.

Absolute liquid asset includes cash, bank and marketable securities or temporary investments. The acceptable norms of this ratio are 50% or 1:2.

$$\text{Absolute Liquidity Ratio} = \frac{\text{Absolute Liquidity Asset}}{\text{Current Liability}}$$

Absolute Liquidity Asset = cash + bank

Current Liability (Directly taken from Balance Sheet)

Table 4.23 Absolute Liquid Ratio or Cash Ratio of EMFIL

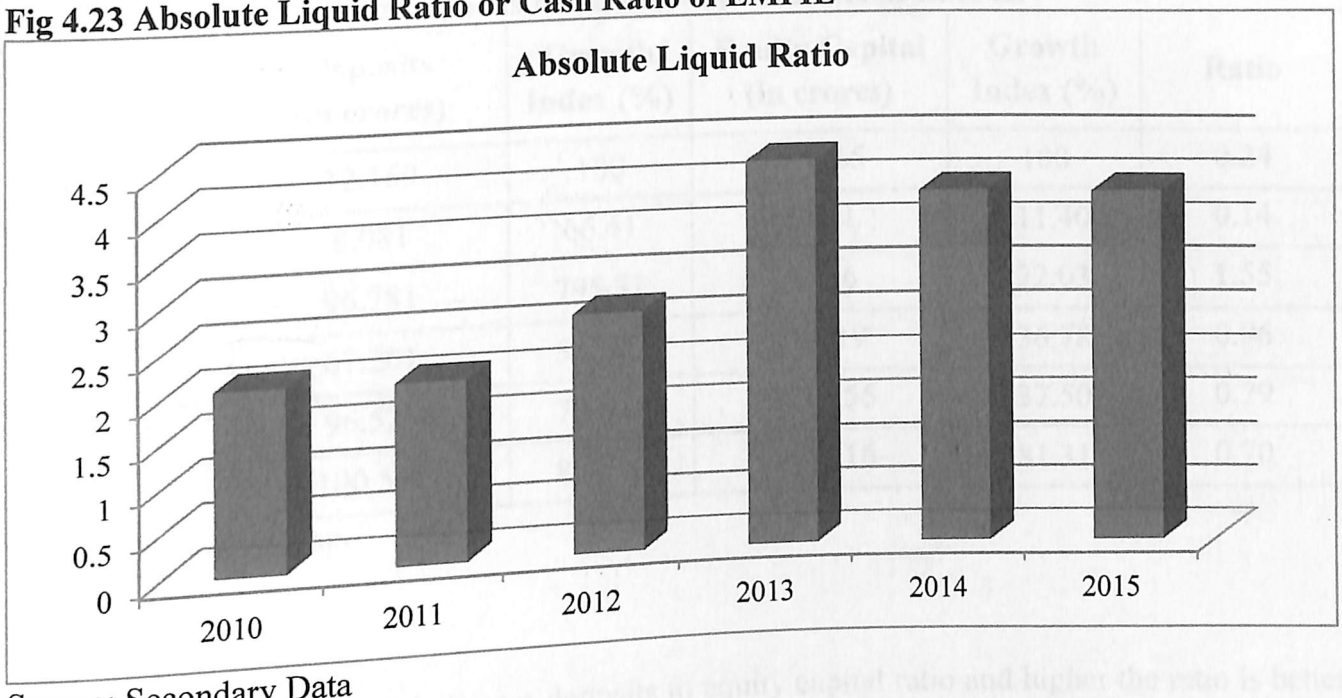
Years	Absolute Liquidity Assets (in crores)	Growth Index	Current Liabilities (in crores)	Growth Index	Ratio
2010	12.129	100	5.816	100	2.08
2011	18.396	151.67	8.908	153.16	2.06
2012	52.120	429.71	19.145	329.18	2.72
2013	99.122	817.23	22.670	389.79	4.37
2014	60.390	497.9	15.097	259.58	4.00
2015	81.314	670.41	20.329	349.54	3.99

Source: Secondary Data

Inference

The acceptable norm for absolute liquid ratio is 0.50:1. From the above table and figure shows the ratio of absolute liquid assets to current liability is satisfactory for all the year. All other years have relatively high absolute liquidity over current liabilities. Thus the firm is doing fairly well in absolute liquidity status. The diagrammatical representation of absolute liquid ratio is shown below.

Fig 4.23 Absolute Liquid Ratio or Cash Ratio of EMFIL



Source: Secondary Data

4.1.5.c Deposits to Equity Capital Ratio

A deposit account is a savings account, current account or any other type of account that allows money to be deposited and withdrawn by the account holder. Equity capital is the part of the share capital of a company owned by ordinary shareholders or in certain circumstances by other classes of shareholder. The deposits to equity capital ratio study the relationship between deposits and equity capital hold by the firm. Higher the ratio is better for the firm.

$$\text{Deposits to Equity Capital Ratio} = \frac{\text{Total Deposit}}{\text{Equity Capital}}$$

Total Deposit (Directly taken from Income and Expenditure Statement)

Equity Capital = Paid-up Capital + Reserves and Surplus

Table 4.24 Table showing Deposits to Equity Capital Ratio of EMFIL

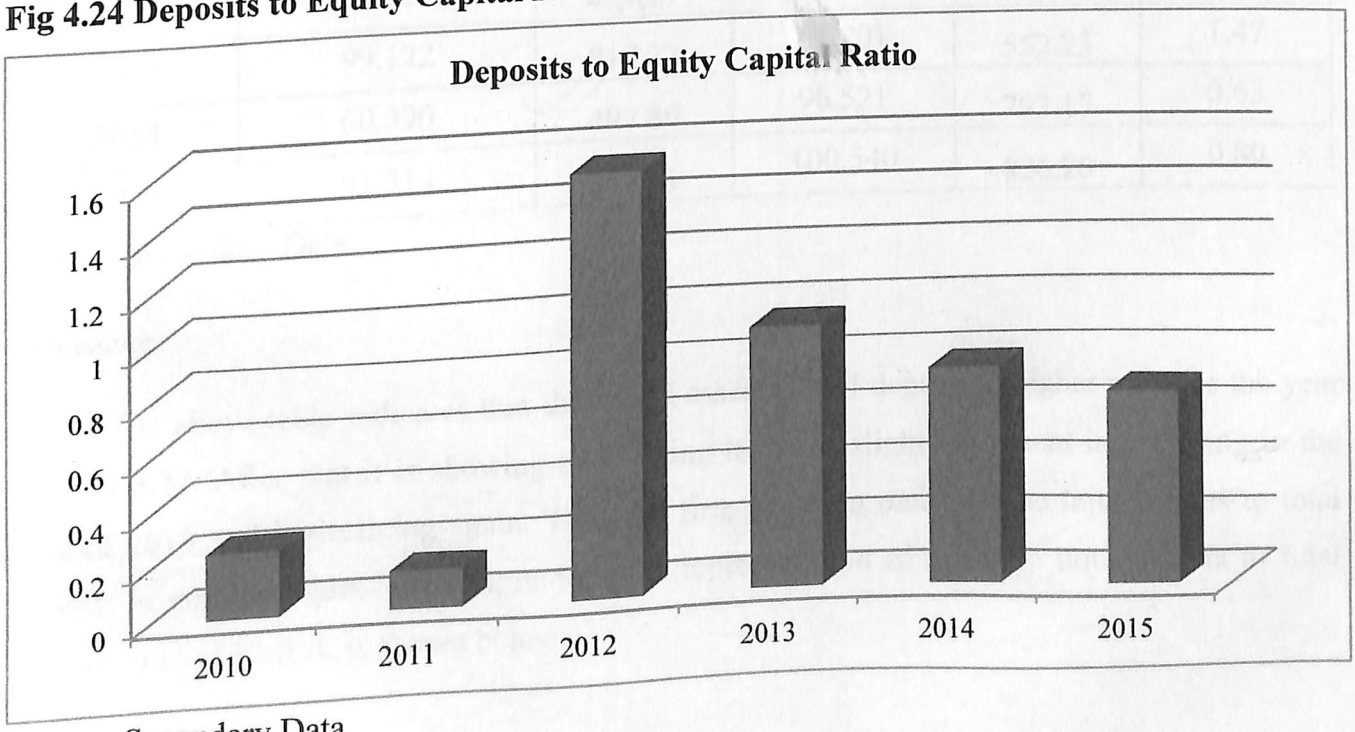
Years	Deposits (in crores)	Growth Index (%)	Equity Capital (in crores)	Growth Index (%)	Ratio
2010	12.169	100	51.265	100	0.24
2011	8.081	66.41	57.11	111.40	0.14
2012	96.781	795.31	62.56	122.03	1.55
2013	67.201	552.23	70.119	136.78	0.96
2014	96.521	793.17	121.756	237.50	0.79
2015	100.540	826.20	144.216	281.31	0.70

Source: Secondary Data

Inference

The table and figure indicates deposits to equity capital ratio and higher the ratio is better for the firm. Here, 1.93 is the highest ratio for the year 2012 there after it is showing a declining trend. But for the year 2015 the ratio is slightly decreasing this is because, percentage increase in total deposit is 96% which was more than the percentage increase in equity capital 84%. The below figure is the graphical representation of deposit to equity ratio of EMFIL.

Fig 4.24 Deposits to Equity Capital Ratio of EMFIL



Source: Secondary Data

4.1.5.d Absolute Liquid Asset to Total Deposits

This ratio shows the relationship between absolute liquid assets to total deposits. The numerator is computed from absolute liquid asset and denominator is the total deposit. This ratio can be considered as a deposit run of ratio since it is a proxy for what percentage of customer deposits and liquid asset could be met if they were withdrawn suddenly. The higher this ratio, the more liquid the firm is and the less vulnerable it is to a classic run.

$$\text{Absolute Liquid Assets to Total Deposits} = \frac{\text{Absolute Liquid Assets}}{\text{Total Deposits}}$$

Absolute Liquid Assets = cash + bank

Total Deposits (Directly taken from Income and Expenditure Statement)

Table 4.25 Absolute Liquid Assets to Total Deposits of EMFIL

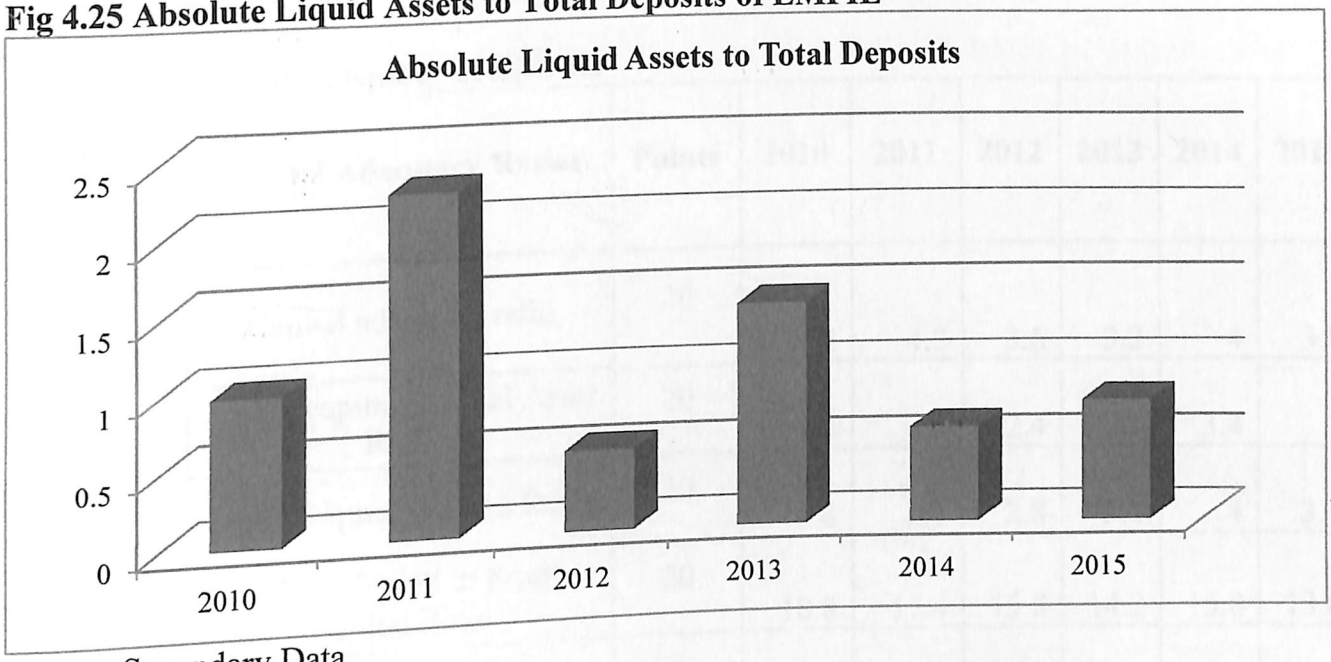
Years	Absolute Liquid Assets (in crores)	Growth Index	Deposits (in crores)	Growth Index	Ratio
2010	12.129	100	12.169	100	0.99
2011	18.396	151.67	8.081	66.41	2.27
2012	52.120	429.71	96.781	795.31	0.54
2013	99.122	817.23	67.201	552.23	1.47
2014	60.390	497.89	96.521	793.17	0.63
2015	81.314	670.41	100.540	826.20	0.80

Source: Secondary Data

Inference

The above table indicates that the liquid asset to total deposit is higher only for the year 2011 is 2.27. After that it is showing a declining trend. A slight increment is occurring in the year of 2013 and is declining again. Thus the firm needs to maintain the liquid assets to total deposit in coming years. The diagrammatical representation of absolute liquid assets to total deposit ratio of EMFIL is shown below.

Fig 4.25 Absolute Liquid Assets to Total Deposits of EMFIL



Source: Secondary Data

4.2 Comparative Analysis

The item-by-item comparison of two or more comparable alternatives, processes, products, qualifications, sets of data, systems, or the like. In accounting, for example, Comparison means item by item comparison of two or more comparable alternatives, process, products, sets of data, systems etc. In this study changes in a financial items over six years may be presented together to detect the emerging trends in the company's operations and results. Comparative analysis is prepared for knowing the nature and trend of EMFIL. Such presentation emphasizes the facts and significance of CAMELS rating in analyzing the financial performance. The changes can be observed by comparison of Capital adequacy, Asset quality, Management quality, Earnings, Liquidity of EMFIL of last 6 years and these changes can help in forming an opinion about the progress of the company.

Capital Adequacy

Table 4.26 Capital Adequacy of EMFIL

Sl. No.	Capital Adequacy Ratios	Points	2010	2011	2012	2013	2014	2015
1	Capital adequacy ratio	20	5	4.8	3.6	3.2	4	3.8
2	Equity capital to Total Asset Ratio	20	4.4	4	2.4	2.6	3.4	3
3	Equity capital to Loan Ratio	20	4.8	4	2.8	3.8	4	3.4
4	Paid-up Capital to Equity Capital Ratio	20	18.8	17.4	15.8	14.2	15.8	13.6
5	Debt Equity Ratio (DER)	20	58.2	60.4	23.8	26.8	33.6	46.8
	Total	100	91.2	90.6	48.4	50.6	60.8	70.6
	Rank		1	2	6	5	4	3

Source: Secondary Data

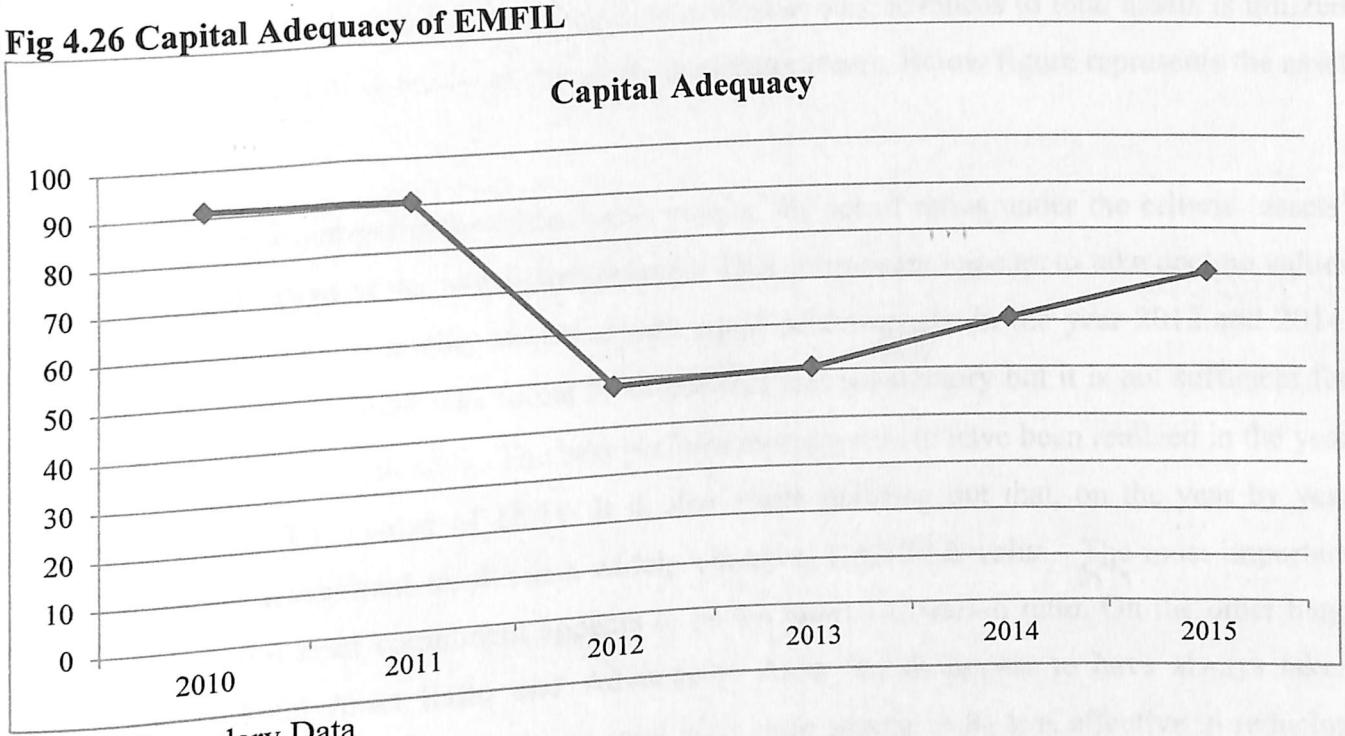
Inference

Capital Adequacy Ratio (CAR) measures an institution's solvency. The indicator provides information about ability to meet long-term expenses and obligations as well as absorb unanticipated future commitments. CAR measures an institution's resiliency against both expected and unexpected losses, which may result from endogenous and exogenous causes.

The average of annual CAMELS values for capital between 2010 and 2015 was found to be declining but it is satisfactory when we consider the capital adequacy as alone. In the year 2010, the yearly CAMELS value was higher whereas in the coming years it was decreasing. As far as a comparison between individual ratios is concerned, Debt Equity Ratio (DER) is very high in 2011 and is ranking appear to be the best ones. These ratios have always been positive in the period studied. Meanwhile the Capital Adequacy has risen sharply after the year 2013. The Capital adequacy ratio has the biggest weighting factor among those contributing to capital

assessment and this ratio appears to be the most responsible component of the CAMELS value relating to capital. The worst Capital Adequacy component in the capital assessment has marked in the year 2013. The graphical representation is shown below.

Fig 4.26 Capital Adequacy of EMFIL



Source: Secondary Data

4.2.2 Asset Quality

Table 4.27 Asset Quality of EMFIL

Sl. No.	Asset Quality Ratios	Points	2010	2011	2012	2013	2014	2015
1	Total Loan to Total Asset Ratio	30	89.7	53.7	18.6	18.6	9.6	6.3
2	Immovable Assets to Total Assets Ratio	30	1.389	1.31	0.63	0.66	0.65	0.48
3	Asset Utilization (AU)	40	9.2	9.2	6	6	8.4	8.8
	Total	100	100.2	64.2	25.2	25.2	18.6	15.5
	Rank		1	2	3.5	3.5	5	6

Source: Secondary Data

Inference

Asset quality is an important measure of the strength of EMFIL. The ratio of Immovable Assets to Total Assets Ratio and Asset Utilization (AU) are considered for the purpose of analysis. In addition, the ratio of total loans to total asset and advances to total assets is utilized to measure the extent of deployment of assets in earning assets. Below figure represents the asset quality of EMFIL.

Among the components with positive values, the set of ratios under the criteria 'assets' appear to be indicative of the worst performance. This component appears to take decline values in 2015 and 2013. Asset quality shows almost equal performances in the year 2012 and 2014. The entire assets component was found to be positive and satisfactory but it is not sufficient for the improvement of organization. The best performance appears to have been realized in the year 2011 with a CAMELS value of 18.11. It is also worth pointing out that, on the year by year basis, the assets assessment results in a widely changing CAMELS value. The most important contribution to the asset component appears to be by Asset Utilization ratio. On the other hand Total Loan to Total Asset Ratio and Advance to Asset Ratios appear to have always taken negative values. The immovable asset to total asset ratio appear to be less effective in reducing the assets performance, which is so close to zero. From the CAMELS values relating to these ratios appear to have worsened year by year and have been in 5th rank for the last year.

Inference

Asset quality is an important measure of the strength of EMFIL. The ratio of Immovable Assets to Total Assets Ratio and Asset Utilization (AU) are considered for the purpose of analysis. In addition, the ratio of total loans to total asset and advances to total assets is utilized to measure the extent of deployment of assets in earning assets. Below figure represents the asset quality of EMFIL.

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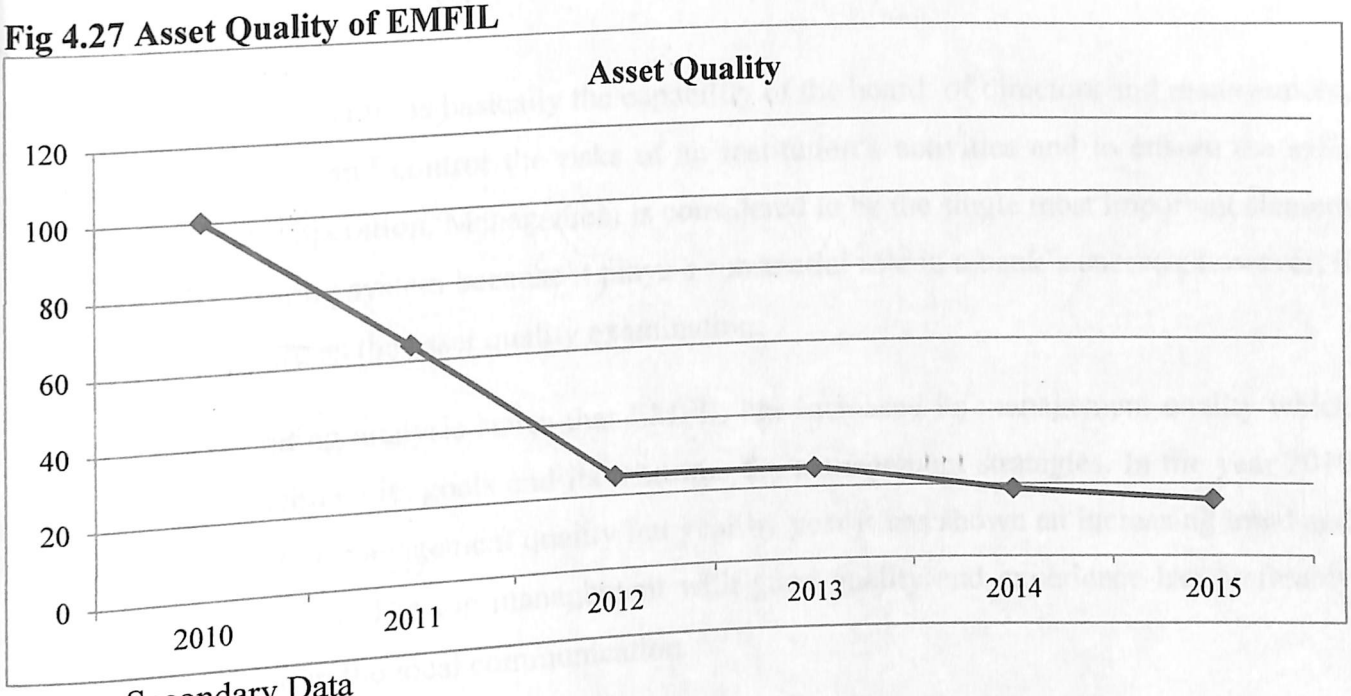
Fig 4.27 Asset Quality of EMFIL



Source: Secondary Data

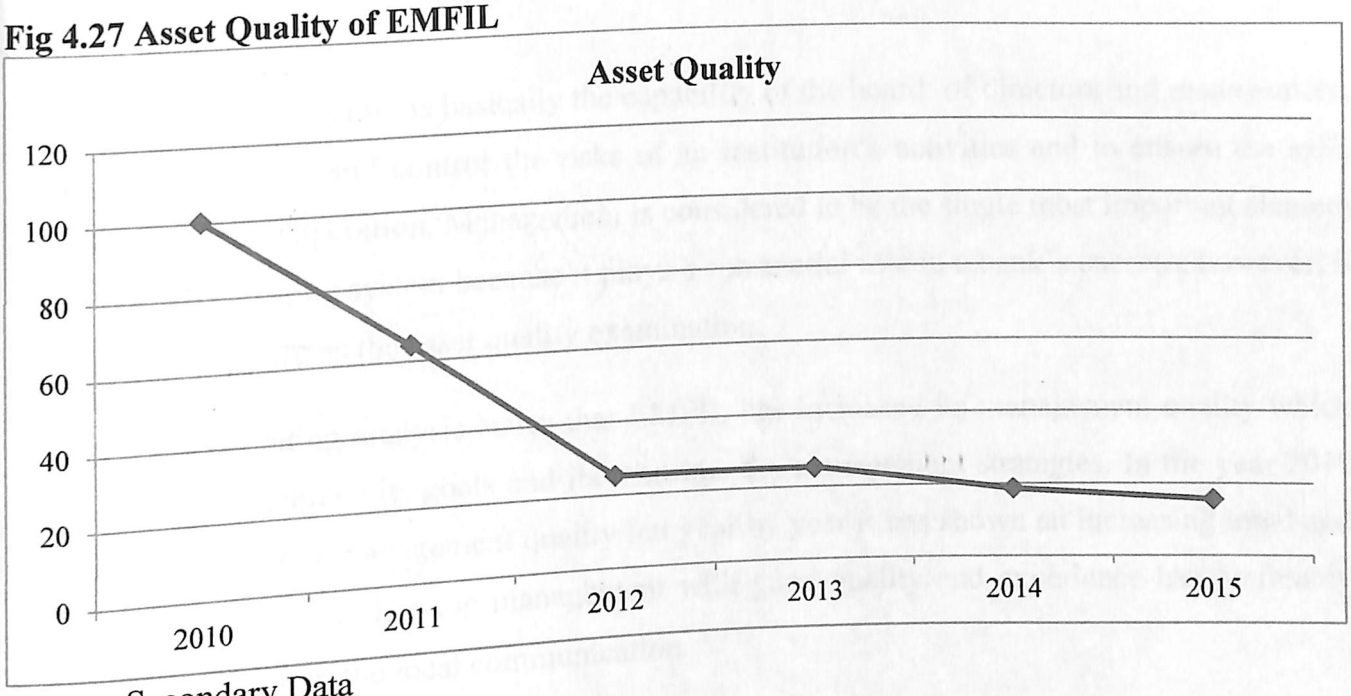
4.2.3 Management Quality

Table 4.28 Management Quality of EMFIL

Sl. No.	Management Quality Ratios	Points	2010	2011	2012	2013	2014	2015
1	Fixed asset ratio	12.5	0.875	0.875	1.75	1.5	0.875	0.5
2	Non- interest Income to Total Assets	12.5	1.5	1.625	0.875	0.75	1.0	1.125
3	Non- Interest to Expenses	12.5	14.13	15.25	13.5	15	14.88	15.88
4	Return on Capital Employed	12.5	0.113	0.3	0.213	0.275	0.35	0.438
5	Profit Per Employee	12.5	0.5	1.5	1.75	2.25	2.875	3.875
6	Profit Per Branch	12.5	0.375	1.25	1.625	2.125	3.5	3.875
7	Business per Employee	12.5	1.375	1.625	2.25	2	2.5	2.625
8	Return on Networth	12.5	0.375	0.875	1.125	1.375	1.25	1.75
	Total	100	19.24	23.3	23.09	25.28	27.23	30.06
	Rank		6	4	5	3	2	1

Source: Secondary Data

Fig 4.27 Asset Quality of EMFIL



Source: Secondary Data

4.2.3 Management Quality

Table 4.28 Management Quality of EMFIL

Sl. No.	Management Quality Ratios	Points	2010	2011	2012	2013	2014	2015
1	Fixed asset ratio	12.5	0.875	0.875	1.75	1.5	0.875	0.5
2	Non- interest Income to Total Assets	12.5	1.5	1.625	0.875	0.75	1.0	1.125
3	Non- Interest to Expenses	12.5	14.13	15.25	13.5	15	14.88	15.88
4	Return on Capital Employed	12.5	0.113	0.3	0.213	0.275	0.35	0.438
5	Profit Per Employee	12.5	0.5	1.5	1.75	2.25	2.875	3.875
6	Profit Per Branch	12.5	0.375	1.25	1.625	2.125	3.5	3.875
7	Business per Employee	12.5	1.375	1.625	2.25	2	2.5	2.625
8	Return on Networth	12.5	0.375	0.875	1.125	1.375	1.25	1.75
	Total	100	19.24	23.3	23.09	25.28	27.23	30.06
	Rank		6	4	5	3	2	1

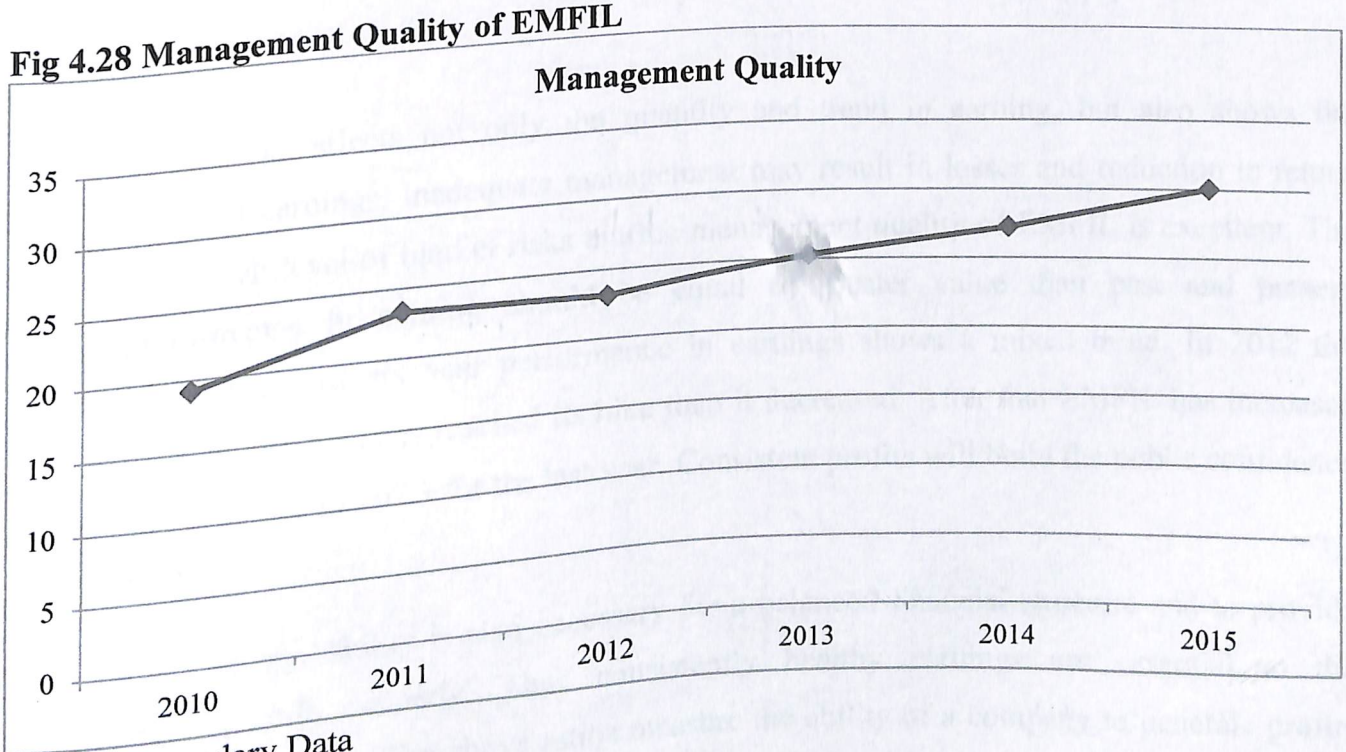
Source: Secondary Data

Inference

Management quality is basically the capability of the board of directors and management, to identify, measure, and control the risks of an institution's activities and to ensure the safe, sound and efficient operation. Management is considered to be the single most important element in the CAMELS rating system because it plays a substantial role in a bank's success; however, it is subject to measure as the asset quality examination.

CAMELS rating analysis states that EMFIL has increased its management quality which helps EMFIL to achieve its goals and its monitors the management strategies. In the year 2010 EMFIL has very poor management quality but year by year it has shown an increasing trend and reached to 447.1 point. The top management with good quality and experience has preferably excellent reputation in the local communication.

Fig 4.28 Management Quality of EMFIL



Source: Secondary Data

4.2.4 *Earning Ability*

Table 4.29 Earning Ability of EMFIL

Sl. No.	Earning Ability Ratios	Points	2010	2011	2012	2013	2014	2015
1	Return on Assets (ROA)	25	5.75	5.75	3.75	4	5.25	5.5
2	Return on Equity (ROE)	25	26.25	28.5	32.25	29.75	30.5	36.25
3	Equity Multiplier (EM)	25	112.5	122.5	203	192	141.8	158
4	Income Expense Ratio (IER)	25	11	11.5	10.25	8.75	8	7.5
	Total	100	155.5	168.3	249.3	234.5	185.5	207.3
	Rank		6	5	1	2	4	3

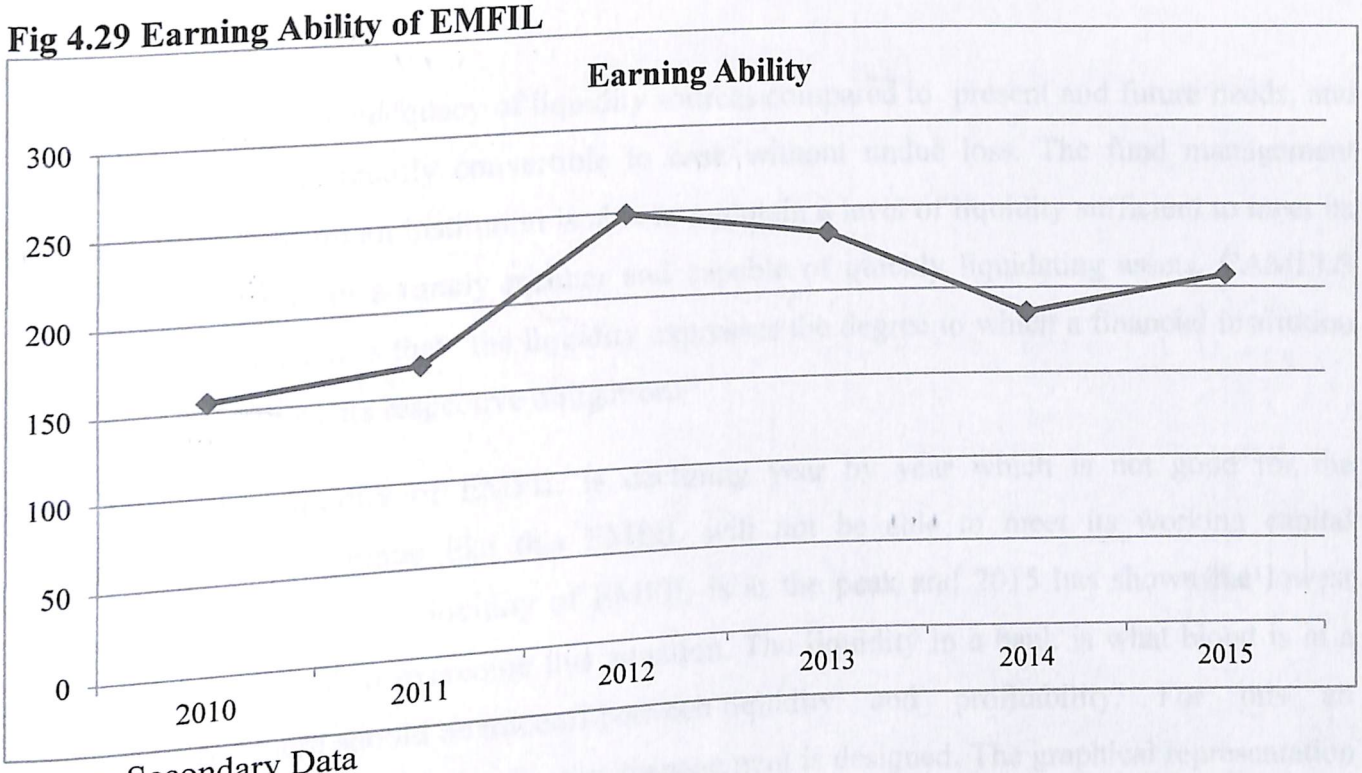
Source: Secondary Data

Inference

This rating reflects not only the quantity and trend in earning, but also shows the sustainability of earnings. Inadequate management may result in losses and reduction in return will leads to high level of market risks but the management quality of EMFIL is excellent. The future performance in earning should be equal or greater value than past and present performance. The past six year performance in earnings shows a mixed trend. In 2012 the performance in earnings has reached its hike then it decreased. After that EMFIL has increased their earnings ability to 207.3 for the last year. Consistent profits will build the public confidence in the EMFIL.

Good earnings ability is also necessary for a balanced financial structure and to provide shareholder rewards properly. Thus consistently healthy earnings are essential to the sustainability of EMFIL. The above ratios measure the ability of a company to generate profits from revenue and assets. The diagrammatical representation of earnings ability of EMFIL is shown below.

Fig 4.29 Earning Ability of EMFIL



Source: Secondary Data

4.2.5 Liquidity Ratios

Table 4.30 Liquidity of EMFIL

Sl. No.	Liquidity Ratios	Points	2010	2011	2012	2013	2014	2015
1	Current ratio	25	33	34.5	55	54.5	32.75	35.75
2	Absolute Liquidity Ratio	25	52	51.5	68	109.3	100	99.75
3	Deposits to Equity Capital Ratio	25	6	3.5	38.75	24	19.75	17.5
4	Absolute Liquid Asset to Total Deposits	25	24.75	56.75	13.5	36.75	15.75	20
	Total	100	115.7	146.3	175.3	224.5	168.3	173
	Rank		6	5	2	1	4	3

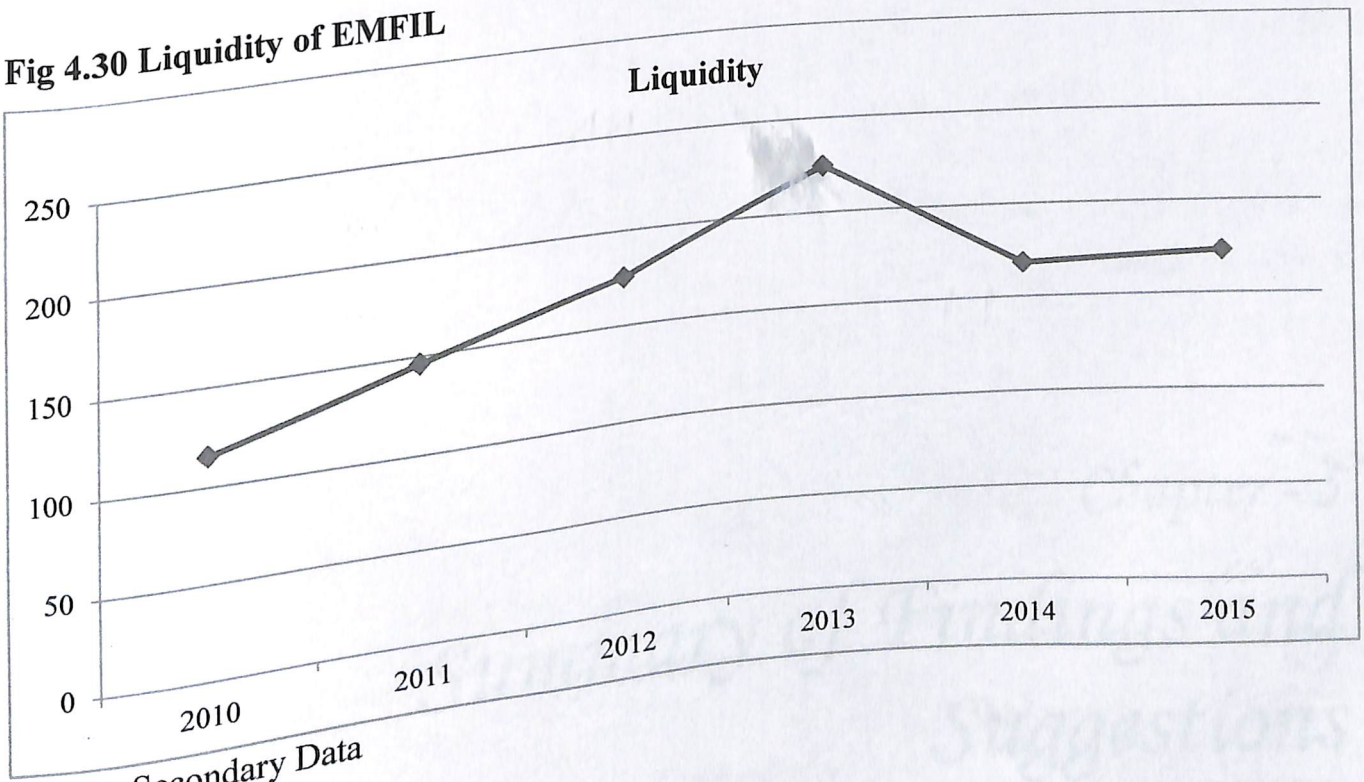
Source: Secondary Data

Inference

There should be adequacy of liquidity sources compared to present and future needs, and availability of assets readily convertible to cask without undue loss. The fund management practices should ensure an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and capable of quickly liquidating assets. CAMELS rating system emphasizes that "the liquidity expresses the degree to which a financial institution is capable of fulfilling its respective obligations".

Here, the liquidity of EMFIL is declining year by year which is not good for the organization. If it continue like this EMFIL will not be able to meet its working capital requirement. In 2012, the liquidity of EMFIL is at the peak and 2015 has shown the lowest liquidity. EMFIL need to overcome this situation. The liquidity in a bank is what blood is in a human body but there should be tradeoff between liquidity and profitability. For this an appropriate strategy of liability and assets management is designed. The graphical representation showing the liquidity ratio of EMFIL is shown below.

Fig 4.30 Liquidity of EMFIL



Source: Secondary Data

Chapter - 5

Summary of Findings and Suggestions

Chapter - 5

SUMMARY OF FINDINGS AND SUGGESTIONS

The financial statements are like a mirror, which is related to be financial position as well as the operating results, be it favorable or unfavorable of the company. The purpose of evaluation of financial statement differ among various group interested in the results of the company. Thus it is responsible for the overall performance of the company maintaining its solvency at the same ensuring an adequate rate of return.

Because of applying the financial ratios as the input and output indices of the CAMELS rating model can evaluate the financial performance of companies, which is the most important aspect of this study. The result obtained using selected ratios in the CAMELS rating model helps in maintaining the accuracy in the measuring and comparing the financial performance of ESAF Microfinance And Investment (P) Ltd (EMFIL).

As mentioned earlier, the 5 parameters are crucial in analyzing the EMFIL's Capital adequacy, Asset quality, Management, Earnings and Liquidity. To analyze the company's overall financial performance, CAMELS rating also taken into account of EMFIL's financial track records over several years (2010-2015).

At this point, the financial analysis has been made in attempting to draw some rough conclusions on the performance of EMFIL. One of the main points to understand about the financial analysis is that all the information that would be conclusive judgment about what is going on in the company is found in the financial statements and interview with the concerned staff.

From the brief explanation and illustrations of six years, financial statements of EMFIL have been used to analyze the financial performance and their trend for the years under study (2010-2015). Examination of the analysis makes it possible to shed some light on findings and draw some suggestions and conclusions.

5.1 Major Findings

Some of the findings of the study include the following:

5.1.1 Capital Adequacy

1. From the Income statement and Balance sheet the Capital Adequacy Ratio of EMFIL is favorable for every year. As comparing the CAR of past six years, it is higher in the year 2010 and lower in the year 2013.
2. The equity ratio or proprietary ratio is gradually decreasing year by year up to 2014. On 2014 it shows a slight increase but in 2015 it is declining to 15.81%. This result shows that EMFIL is making use of too much debt rather than equity.
3. The equity capital to total loan ratio of EMFIL for every year, decreasing. The ratio is very high in the year 2010 and is decreasing gradually. For the last year that is 2015, it is only 0.17 which is fairly good.
4. In 2010 and 2015 the firm has achieved the ideal long term debt equity ratio. The ratio is favorable for 2012, 2013 and 2014. The ratio is relatively high in the year 2011. A debt-equity ratio of 2:1 is the normally accepted by private sector enterprise.

5.1.2 Asset Quality

1. The total loans and advances to total assets ratio is declining year by year. This shows a positive relationship is maintained between total loans and total assets by the firm.
2. The ratio of immovable asset to total asset is very less. This means the firm is maintaining a low ratio of fixed asset comparing to other assets which is not good for the firm. Thus EMFIL need to increase their fixed asset ratio.
3. The asset utilization ratio of EMFIL is increased to 0.22 for the last year. Increasing asset utilization means the company is being more efficient.

5.1.3 Management Quality

1. Higher the ROCE is considered as better for the firm. ROCE of EMFIL is showing an increasing trend year by year. ROCE of EMFIL has achieved its highest ratio in the last year which is 3.5%.
2. Profit per employee and Profit per branch is showing an upward trend.
3. In 2015 the ratio was the highest in the case of BOI with Rs.40.91 lakh per employee and lowest in 2010 with Rs.20.19 lakh per employee. In 2013, BOI with Rs.30.12 lakh per employee shows a sudden fall and after that gradually it increases.

4. The networth of EMFIL is increasing year by year which is a favorable for the organization. The net profit is increased by 59% and shareholders' fund is increased by 84% for the last two years. Similarly the percentage increasing in shareholders' fund is greater than the percentage increase in net profit for every year. Because of this reason the networth of EMFIL is showing an upward trend.

5.1.4 Earnings

1. ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits. Here the indication of positive ROA ratio of EMFIL is showing an upward profit trend.
2. ROE of EMFIL is increasing year by year which is a favorable condition for the firm.
3. Equity multiplier is favorable for 2010 and 2011 afterwards it is increasing and now firm needs to concentrate on reducing the ratio.
4. Income-Expense ratio is measured as a percentage, the lower the percentage the stronger the ratio. The IER is gradually decreasing from year to year which is favorable for EMFIL.
5. Profit to Expense ratio is decreasing year by year this is a favorable condition for the firm. The least ratio was 2.05 for the year 2015.

5.1.5 Liquidity

1. Deposits to equity capital ratio and higher the ratio is better for the firm. Here, 1.93 is the higher ratio for the year 2012 there after it is showing a declining trend.
2. The liquid asset to total deposit is higher only for the year 2011 is 2.27. After that it is showing a declining trend. A slight increment is occurring in the year of 2013 and is declining again.
3. The analysis of liquidity measures indicates that EMFIL is declining year by year which is not good for the organization. In 2013, the liquidity of EMFIL is at the peak and 2015 has shown 3rd position in liquidity.

5.2 Suggestions

The following suggestions or recommendations, based on the above research findings, are forwarded below in order to enhance the financial performance of ESAF Microfinance And Investment (P) Ltd (EMFIL).:

1. EMFIL need to revise the strategies for maintaining overall asset quality by the next year itself since it is appearing to be declining yearly.

2. Even if EMFIL has shown an increasing trend in liquidity for the last year, either they should maintain the same or may become worst in coming years and might be liable to meet deposits and liabilities. Or else it is recommended to maintain more current assets.

5.3 Conclusion

The study was undertaken to analyze the financial performance of ESAF Microfinance and Investment (P) Ltd (EMFIL). A CAMELS analysis of ESAF Microfinance And Investment (P) Ltd (EMFIL) in terms of five components comprising of 26 ratios and comparison with the corresponding figures indicating the performance differently from the viewpoint of capital adequacy, asset quality, management quality, earnings and liquidity. CAMELS rating system provides a measurement of EMFIL's current overall financial, managerial, operational and compliance performance. Among the entire CAMELS ratio, some important ratios which are most significant are analyzed to judge the performance of EMFIL.

EMFIL appear to have good in management and better in earnings but worst in asset quality and liquidity. It is also worth noting that although the CAMELS values of the capital component of EMFIL are showing a decreasing trend but it is satisfactory according to Basel II recommendations, it shows steady improvement in consecutive years. From the study, Liquidity stands as the major problem of EMFIL. My suggestion is that EMFIL must need to increase current assets for any significant improvement in the liquidity. EMFIL need to adopt Strategies to increase the cash ratio could also contribute to improve this component. Apparently, asset quality is also a serious issue. The fact is that in the year 2011, all the asset quality assessment results of EMFIL are the best for the whole period. The overall assets quality for EMFIL is appearing to be declining yearly and need to revise the strategies by the next year itself. The earnings are showing good growth for the organization. However these improvement earnings actually appear to be in a steady increase.

Hereby it is concluded that ESAF Microfinance and Investment (P) Ltd (EMFIL) has to increase its asset quality and liquidity for a better financial condition. However, EMFIL has an excellent reputation in the local communication regarding their activities and performance but they need to increase their efficiency in the weaker elements.

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Appendix

APPENDIX

BALANCE SHEET of EMFIL

Rs. Crores

As at	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
Liabilities						
Paid up capital						
Reserves and surplus						
Net worth						
Borrowings						
Provision for loan loss						
Other liabilities						
Total current liabilities						
Total liabilities						
Assets						
Loans and advances (incl. managed portfolio)						
Cash & bank balances						
Deposits						
Other assets & advances						
Total current assets						
Total funds deployed						
Net fixed assets						
Total assets						

INCOME AND EXPENDITURE STATEMENT of EMFIL

Rs. Crores

For the period ended	March-2015	March-2014	March-2013	March-2012	March-2011	March-2010
Fund based income						
Interest income from loans						
Income from bank deposits						
Gain on assigned portfolio						
Total fund based income						
Interest and finance charges						
Gross spread						
Fee based income						
Total income						
Gross surplus						
Expenses						
Write-offs and provisions						
Provision for loan loss						
Depreciation						
Profit before tax						
Tax						
Profit after Tax						