

चिन्तनो विश्वगार्यम्

यतेमहि स्वराज्ये

ISSN : 2229-7227

Year : 9

Issue : 33 (IV)

January-March

www.chintanresearchjournal.com

Impact Factor : 4.012

International Refereed

चिन्तन

Chintan

Research Journal

रिसर्च जर्नल

(कला, साहित्य, मानविकी, समाज-विज्ञान, विधि, प्रबंधन, वाणिज्य एवं विज्ञान विषयों पर केंद्रित)

(Indexed & Listed at : Ulrich's Periodicals Directory ©, ProQuest . U.S.A.)

(Indexed & Listed at : Copernicus, Poland)

(Indexed & Listed at : Research Bib, Japan)

(UGC Approved List No. 41243)

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आचार्य (डॉ.) शीलक राम



यावत् जीवेत् सुखं जीवेत्

आचार्य अकादमी

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ISO 9001:2008

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International Refereed

UGC List No.41243
Impact Factor : 4.012
Peer reviewed

'चिन्तन' अन्तरराष्ट्रीय रिसर्च जर्नल (ISSN: 2229.7227)
वर्ष 9, अंक 33(IV) (पृ.सं. 379-387)
विक्रमी सम्बत्: 2076 (जनवरी-मार्च 2019)

A Qualitative Assessment on Loan Portfolio Quality of Microfinance Institutions in India

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Abstract

The loan portfolio is the primary income-generating asset in the balance sheet of a micro finance institution. Interest income typically constitutes over 90% of the total income of MFIs. Lending, obviously, is uptight with the intrinsic risk of repayment default. Therefore, maintaining a healthy loan portfolio with minimum loan default ensures the profitability and financial health of an MFI. This paper aims at analyzing the loan portfolio quality of microfinance players operating in India. For this purpose Portfolio at Risk (PAR) and Write off Ratio are used at the indicator of loan portfolio quality. Loan portfolio quality of different players in the sector was analyzed on the basis of PAR>30, PAR>60 and PAR>90. It was found that the loan portfolio quality of all the players in the microfinance industry has deteriorated during the period of study. Banks has the highest PAR>30 value while NBFC-MFIs has highest PAR>60 and PAR>90 values. Write off Ratio of microfinance industry has also shown a significant increase and stood at 1.61% which is highest ever.

Key-Words : Loan Portfolio, MFIs, Portfolio at Risk, Write off Ratio.

1. Introduction

Microfinance or microcredit is a type of financial service in which loans of small ticket size are given mainly to poor's in the rural, semi-urban and urban areas. By providing credit to the borrowers at the bottom of the economic pyramid, microfinance sector plays an important role in promoting inclusive growth.

Microfinance corresponds to a credit of low amount destined to people having little or no income. It fulfills credit needs of people at the bottom of the economic pyramid as most of them are trapped in poverty, have limited financial resources or do not have enough income to do business with traditional financial institutions. It also acts as a potential tool for empowering women especially in rural areas which may lead to more stability and prosperity for families. Due to its connection at grass-roots level, microfinance not only supports income generating activities but also impact livelihoods in both rural and urban geographies.

One of the essential and most important characteristics of microfinance loans is that they are small in size, short term, carry over without collateral, and the loan repayment frequency is higher than that of traditional commercial loans. These loans are generally taken out for income-generating activities. They are also provided for consumption, housing and other purposes.