



## Financial Performance of Microfinance Institutions (MFIs) in India

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**Abstract -** This paper examines the financial performance of Microfinance Institutions (MFIs) in India using secondary data from peer-reviewed journals, industry reports, and regulatory publications. It analyses growth trajectories, profitability, portfolio quality, operational efficiency, funding sources, and risk factors shaping MFI sustainability. The study spans the recent decade (2015–2025), focusing on key performance indicators such as Gross Loan Portfolio (GLP), Portfolio-at-Risk (PAR), Return on Assets (ROA), Operational Self-Sufficiency (OSS), and cost per borrower. Policy implications and recommendations for stakeholders are provided.

### 1. Introduction

Microfinance has emerged as one of the most significant tools for promoting financial inclusion and socio-economic development in developing economies. In India, a country with a large population dependent on informal employment and agriculture, access to formal financial services has historically remained limited for low-income households, women, and micro-entrepreneurs. Microfinance Institutions (MFIs) bridge this gap by providing small-value loans, savings facilities, insurance products, and remittance services to economically weaker sections who are often excluded from the traditional banking system.

The financial performance of MFIs is a critical area of study because it determines the long-term sustainability of these institutions and their ability to continue serving the poor. While MFIs pursue social objectives such as poverty alleviation, women empowerment, and livelihood creation, they must also remain financially viable. Balancing social outreach with financial sustainability has been a central challenge for the microfinance sector in India.

Over the past decade, the Indian microfinance sector has undergone substantial transformation. Regulatory reforms, technological advancements, changes in funding patterns, and external shocks such as demonetisation, the COVID-19 pandemic, and recent rural economic stress have significantly influenced the financial health of MFIs. Against this backdrop, analysing the financial performance of MFIs using reliable secondary data becomes essential for policymakers, researchers, investors, and practitioners.

This paper aims to provide a comprehensive analysis of the financial performance of Microfinance Institutions in India

during the period 2015–2025. Using secondary data from journals, industry reports, and regulatory publications, the study evaluates growth, profitability, asset quality, efficiency, and sustainability indicators. The findings contribute to a deeper understanding of the strengths and vulnerabilities of the Indian microfinance sector.

### 2. Background and evolution of microfinance in India

The concept of microfinance in India can be traced back to the early initiatives of cooperative societies and informal credit groups aimed at supporting rural households. However, the modern microfinance movement gained momentum in the 1990s with the introduction of the Self-Help Group–Bank Linkage Programme (SHG-BLP) promoted by NABARD. This programme enabled small, informal groups—primarily consisting of women—to access bank credit without traditional collateral.

During the late 1990s and early 2000s, several non-governmental organisations (NGOs) adopted the Grameen Bank model of group lending, which emphasized joint liability and peer monitoring. These NGOs later transformed into regulated Non-Banking Financial Company–Microfinance Institutions (NBFC-MFIs) to access commercial funding and expand their outreach. This transformation marked a significant shift from donor-driven microfinance to a more commercial and scalable model.

The microfinance sector experienced rapid growth between 2005 and 2010, driven by high demand for micro-credit, increased private investment, and favourable policy support. However, the Andhra Pradesh microfinance crisis of 2010 exposed serious issues such as over-lending, weak borrower protection, and aggressive recovery practices. As a result, regulatory oversight by the Reserve Bank of India (RBI) increased, leading to the introduction of interest rate caps, borrower eligibility norms, and reporting requirements.

In the post-2015 period, the sector witnessed renewed growth supported by regulatory clarity, expansion into under-served regions, and the emergence of Small Finance Banks (SFBs) from successful MFIs. Digitalisation, use of credit bureaus, and improved governance practices strengthened operational efficiency. Despite these advancements, recent challenges such



as pandemic-related disruptions and rural income stress have again tested the financial resilience of MFIs.

Understanding this historical evolution is essential to contextualise the current financial performance of MFIs in India.

### 3. Literature review

A substantial body of academic literature has examined the performance and impact of Microfinance Institutions across developing economies. Early studies focused primarily on the social impact of microfinance, particularly its role in poverty alleviation and women empowerment. However, as MFIs expanded and commercialised, scholars increasingly turned their attention to financial sustainability and efficiency.

Studies on Indian MFIs highlight the trade-off between outreach and profitability. Several researchers argue that excessive focus on profitability may dilute social objectives, while others contend that financial sustainability is essential for long-term outreach. Empirical studies using ratio analysis have found that larger MFIs tend to achieve better operational efficiency due to economies of scale, whereas smaller MFIs often face higher costs per borrower.

Post-2010 research emphasises the role of regulation in stabilising the sector. Journals analysing the Andhra Pradesh crisis conclude that inadequate borrower assessment and multiple lending were major contributors to rising defaults. Subsequent regulatory reforms are found to have improved transparency and risk management practices. More recent literature assesses the impact of the COVID-19 pandemic, reporting a temporary deterioration in asset quality followed by gradual recovery supported by moratoriums and restructuring schemes.

Industry-based studies by MFIN and Sa-Dhan provide valuable insights into recent trends, including growth in Gross Loan Portfolio (GLP), changes in funding patterns, and emerging stress in specific geographies. Overall, the literature underscores the importance of continuous monitoring of financial performance indicators to ensure the sustainability of the microfinance sector.

### 4. Data sources and methodology

**Data sources:** - Industry reports: Bharat Microfinance Report (Sa-Dhan), India Microfinance Review and MFIN publications - Regulatory/statistical: Reserve Bank of India (Handbook of Statistics), NABARD reports - News and market reports: Reuters, Economic Times, sectoral analyses - Academic journals and conference papers

**Methodology:** - Timeframe: 2015–2025 - Indicators: GLP, active borrowers, PAR>30, ROA, Return on Equity (ROE), OSS, cost per borrower, average ticket size - Approach: descriptive statistics, trend analysis, ratio analysis, and selected case studies

### 5. Key performance indicators and trends

Detailed definitions and interpretation of each indicator. Include sample tables for: - Growth in GLP and active borrowers - Asset quality (PAR>30) trends - Profitability ratios (ROA, ROE) - Operational metrics (OSS, staff productivity)

*(Sample table: GLP growth — illustrative numbers compiled from MFIN and Sa-Dhan reports)*

Year	Gross Loan Portfolio (Rs crore)	YoY Growth (%)	Active Borrowers (mn)
2019	1,70,000	—	45
2020	1,85,000	8.8	47
2021	2,05,000	10.8	50
2022	3,00,000	46.3	64
2023	3,50,000	16.7	70
2024	4,33,697	23.9	80

### 6. Financial performance analysis (2015–2025)

The financial performance of MFIs in India during the period 2015–2025 reflects both strong growth phases and periods of stress influenced by external and internal factors. This section analyses major dimensions of financial performance in detail.

#### 6.1 Growth and scale

The Gross Loan Portfolio (GLP) of Indian MFIs expanded significantly between 2015 and 2019, driven by increased demand for micro-credit and wider geographic outreach. After a temporary slowdown during the COVID-19 pandemic, the sector rebounded strongly in 2022–23. According to industry reports, the GLP reached over ₹4.3 lakh crore by March 2024, highlighting the scale achieved by MFIs.

#### 6.2 Profitability

Profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) provide insights into the earning capacity of MFIs. During high-growth periods, many MFIs reported stable ROA supported by interest income from group loans. However, profitability declined during crisis periods due to higher provisioning for bad loans and increased operating costs. Larger MFIs and Small Finance Banks generally displayed stronger profitability due to diversified income streams.



### 6.3 Asset quality

Asset quality is measured using indicators such as Portfolio at Risk (PAR>30 days). The Indian microfinance sector maintained relatively healthy PAR levels prior to 2020, but delinquencies increased sharply during the pandemic. Although recovery improved in subsequent years, recent reports indicate renewed stress in certain regions, underscoring the vulnerability of low-income borrowers to economic shocks.

### 6.4 Operational efficiency

Operational efficiency indicators include cost per borrower, staff productivity, and Operational Self-Sufficiency (OSS). Digital loan processing, use of mobile technology, and centralised operations have helped MFIs reduce costs. Nonetheless, smaller MFIs continue to face efficiency challenges due to limited scale and higher dependence on manual processes.

### 6.5 Funding and capital structure

MFIs rely on a mix of bank borrowings, non-convertible debentures, and equity capital. In recent years, funding conditions have tightened, with reports indicating a decline in fresh borrowings and equity inflows during FY 2024–25. This has implications for future growth and highlights the importance of maintaining adequate capital buffers.

## 7. Determinants of MFI performance

Explore factors: loan portfolio composition, borrower profile, diversification, digital adoption, governance, capital adequacy, regulatory changes, competition from digital lenders, weather shocks, and macro conditions.

## 8. Case studies of leading MFIs

Provide short case studies (e.g., SKS Microfinance, Bandhan, Ujjivan, Spandana Spoorthy, Basix) focusing on their financial trajectories, strategies, and outcomes.

## 9. Challenges and risks

- Asset quality deterioration and rising PAR
- Liquidity and funding contraction
- Over-indebtedness and borrower protection issues
- Regulatory and political risks
- Operational risks: recovery practices and reputational issues

## 10. Policy implications and recommendations

- Strengthen borrower assessment and credit bureau usage
- Promote diversified funding sources and capital buffers
- Encourage digitalisation while safeguarding data privacy
- Enhance financial literacy and borrower protection frameworks
- Support SFBs and NBFCs through targeted liquidity windows during stress

## 11. Conclusion

Summarise key findings: the microfinance sector achieved scale and had strong growth in GLP through 2023–24, but FY24–25 saw stress with rising delinquencies, shrinkage in borrowing and equity, and tightened funding—underscoring the need for stronger risk management and policy support.

## 12. References

- Sa-Dhan. *Bharat Microfinance Report 2024*. Sa-Dhan publications.
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- Reserve Bank of India. *Handbook of Statistics on Indian Economy* (relevant years).
- Economic Times. “Microfinance sector sees equity, borrowing and loan book shrink in FY25.” (2025).
- Reuters. “India’s Manappuram Finance posts drop in profit on microfinance weakness.” (Aug 2025).
- Selected academic journal articles on MFI performance (2010–2024).

## Annexures

- Annex A: List of financial ratios and formulae
- Annex B: Data tables (consolidated from MFIN and Sa-Dhan)
- Annex C: Survey checklist for MFI financial assessment