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Swot Analysis of SKS Microfinance Limited

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Abstract:
Microfinance is all about providing small value loans and other financial services to the weaker section of the society in order to improve their standard of living. SKS Microfinance Limited founded by Vikram Akula is a RBI registered for profit NBFC-MFI. It is in operation in 19 states of our country. It is one of the largest MFIs in terms of gross loan portfolio and number of borrowers. The company extends collateral free income generating micro credit to the poor women of the rural and urban areas. SKS Microfinance Limited is the first MFI in India to be listed in stock exchanges such as BSE and NSE after its successful IPO in the year 2010. The strengths such as experience, expertise, pan-India presence, multiple and low cost funding, sound financial position help the company in achieving the corporate mission and vision. The company should educate the borrowers about the various products, and the interest rates which are some of the weaknesses fo the company. However, a lot of opportunities such as huge demand for microfinance products and huge untapped market may be explored by the company and at the same time the company must be vigilant about the various threats such as competition, political uncertainty and over-leveraging of the borrowers which may come as obstacle in its growth and expansion.

Keywords: *Microfinance, NBFC, JLG, GLP, RBI, IPO, BSE, NSE*

1. Introduction

Microfinance refers to supply of loans, savings, insurance and other financial services primarily to the financially weaker section of the society. These services are small – "micro" – because a person who does not have a lot of money most likely will not need a loan of several thousand rupees. However, a loan of a few hundred rupees may make a huge difference in their lives. It gives them the ability to purchase livestock for a small farm, a sewing machine to help make accessories and clothes, or supplies for a small store, for example.

A microfinance institution (MFI) is an organization that provides microfinance services to the world's poor. An MFI can operate as a nonprofit such as a non-government organization (NGO), credit cooperative, non-bank financial institution (NBFI), or even a formal regulated for profit bank.

MFIs differ in size and reach; some serve a few thousand clients in their immediate geographical area, while others serve hundreds of thousands, even millions, in a large geographical region, through numerous branches. Many MFIs offer services beyond loans and savings, including education on business and financial issues and social services focused on health and children.

2. Objectives of the Study

The objectives of the present study are;

1. To know about SKS Microfinance Limited
2. To know the Strengths, Weaknesses, Opportunities and Threats of the Company

3. SKS Microfinance-An Overview

SKS was started in 1996 by a young entrepreneur, Vikram Akula. When pursuing his Ph.D. in Political Science at the University of Chicago, Vikram had the vision of starting a microfinance institution to uplift the poorer sections of the society in India. His dissertation was in the area of poverty alleviation strategies which focused on 'How to scale microfinance faster'. While studying in the US, Vikram realized that microfinance institutions could sustain themselves in the long run only by following a for-profit model.

After returning to India from the US, he faced lot of difficulty in starting a new microfinance organization as he couldn't raise the required funds. Finally, he started SKS by raising an initial amount of Rs. 2.36 million from 357 people (mostly from his family and friends). Vikram was inspired by Bangladesh banker Muhammad Yunus and SKS was established based on Yunus's Grameen Bank model. SKS was initially registered as SKS Society, a Non-Governmental Organization (NGO), in 1997 and it started its operations in Tumnoor Village in Medak District, Andhra Pradesh, in 1998. SKS expanded its operations rapidly and in course of time, it won several awards for its achievements. Most of the money it received in the form of awards was also reinvested to fund the expansion of its operations.

By the year 2003, Vikram had arrived at the idea of converting SKS into a for-profit organization to fuel its growth. Toward that end, he founded a private company called SKS Microfinance Pvt. Ltd. and five for-profit Mutual Benefit Trusts (MBTs). The objective was to enhance the social and economic welfare of the company and MBTs' members. Vikram raised US$ 500,000 in 2003 through donations via MBTs and invested the amount in SKS Microfinance Ltd. to become its sole owner.

In 2005, the Company registered with and has since been regulated by the RBI as a Non-Deposit Taking Non-Banking Financial Company (NBFC-ND). In 2009, the Company became a public limited Company. The Company completed its IPO and its equity shares were listed on Bombay Stock Exchange (BSE) Limited and the National Stock Exchange (NSE) of India Limited in August 2010. In November 2013, the RBI re-classified the Company as an NBFC-MFI permitting it to carry on the business of a Non-Banking Financial Company - Micro Finance Institution, a separate category of Non-Deposit Taking Non-Banking Financial Companies engaged in microfinance activities.

The Company is one of the largest MFIs in India by Gross Loan Portfolio (GLP) as also number of Borrowers and branches as on March 31, 2015, and the only microfinance Company to be publicly listed in India. The Company is primarily engaged in providing microfinance to economically weaker individuals in India, who are classified by the Company as its "Members". Further, the Company classifies Members whose loans are outstanding as "Borrowers".

The Company's core business is providing small value loans and certain other basic financial services to its Members. Its Members are predominantly located in rural areas in India, and the Company extends loans to them mainly for use in small businesses or for other income-generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from institutional sources of financing. The Company believes that non-institutional sources typically charge very high rates of interest.

In its core business, the Company utilizes a village-centric, group-lending model to provide unsecured loans to its Members. This model relies on a form of 'social collateral', and ensures credit discipline through peer support within the group. The Company believes this model makes its Members prudent in conducting their financial affairs and prompt in repaying their loans. Failure by an individual Borrower to make timely loan repayments will prevent other Members in the group from being able to borrow from the Company in future. Therefore, the group will use peer support to encourage the delinquent Borrower to make timely repayments or will often make a repayment on behalf of a defaulting Borrower, effectively providing an informal joint guarantee on the Borrower's loan.

In addition to its core business of providing micro credit, the Company uses its distribution channel to provide certain other financial products and services that its Members may need. The Company offers loans for the purchase of mobile phones and solar lamps. The Company also operates a number of pilot programmes that it may gradually consider converting into separate business verticals or operate through subsidiaries, subject to satisfactory results of the pilot programmes and receipt of regulatory approvals. The existing pilot programmes primarily relate to giving loans to its Members for the purchase of certain productivity-enhancing products such as sewing machines, bio-mass stoves and loans against gold as collateral. The Company intends to expand its involvement in these other financial products and services to the extent consistent with its mission, client-focus and commercial viability.

Borrowers undergo financial literacy training and must pass a test before they are allowed to take out loans. Weekly meetings with borrowers follow a highly disciplined approach. Re-payment rates on collateral-free loans are more than 99% because of this systematic process.

4. SWOT Analysis of SKS Microfinance Limited

SWOT analysis is an acronym for strengths, weaknesses, opportunities, and threats. It is a structured planning method that evaluates those four elements of a project or business venture. A SWOT analysis can be carried out for a company, product, place, industry, or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. Some authors credit SWOT to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. However, Humphrey himself does not claim the creation of SWOT, and the origins remain obscure. The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit.

- Strengths: characteristics of the business or project that give it an advantage over others
- Weaknesses: characteristics that place the business or project at a disadvantage relative to others
- Opportunities: elements that the business or project could exploit to its advantage
- Threats: elements in the environment that could cause trouble for the business or project

4.1. Strengths of SKS Microfinance Limited

<u>4.2.1. Market Leadership</u>

According to the Microfinance Institution Network (MFIN), as on March 31, 2015, the company is the second largest MFI in India by Gross Loan Portfolio (GLP), number of borrowers and branches. The company focuses its operations across 19 States in India. The company believes that its consistent position among the leading MFIs in the microfinance sector enhances its reputation and credibility with its members and its lenders. This enhanced reputation and credibility has numerous benefits, including the ability to secure capital at lower costs, recruit and retain skilled employees, optimize staff productivity, retain existing borrowers and add new members, as also expand into new regions and product areas.

4.2.2. Experience and Expertise in the Industry and Adaptability to the Changing Regulations

The company believes that its long-standing experience in the microfinance industry helps to understand the needs and behaviour of the borrowers, the complexities of lending to these individuals and issues specific to the microfinance industry in India. The Company believes this expertise gives it a competitive advantage in this industry. The company has developed skills in training its members. The company uses the knowledge of its members, including their culture, habits and education, to design customized financial products and pricing plans. Further, consultation and dialogue with regulators and policy-makers in the recent past has provided the company with an opportunity to understand their concerns while growing its business in a prudent manner.

4.2.3. Sustainable Profitability, Sound Financial Position and Prudent Asset and Liability Management

Although the company's financial condition deteriorated in the aftermath of events in Andhra Pradesh and the Company incurred losses during 2011-12 and 2012-13, the company believes it has maintained sufficient financial discipline as well as a relative degree of financial strength during these periods. For instance, the company satisfied all its debt repayment obligations even during the Andhra Pradesh microfinance situation, that is, in 2011-12 and 2012-13, and thereafter. Its revenues grew at a CAGR of 51% from 2012-13 to 2014-15, and the company reported a profit of ₹ 187.7 crore in 2014-15. As on March 31, 2015, the company's net worth was ₹ 1,046.5 crores and its debt to equity ratio was 2.56. The company's capital adequacy ratio was 22.3% which is well above the requirement of 15% prescribed by the RBI under the NBFC-MFI Directions. Moreover, the company's gross NPA and net NPA were 0.1% and 0.1% respectively as on March 31, 2015. In addition to traditional cash flow management techniques, the company also manages its cash flows through an active asset and liability management strategy. The company has structured its model primarily to borrow for a longer tenure while lending for a shorter tenure, and hence the company has a positive asset liability management structure. As of March 31, 2015, the average maturity of its arrear-free Gross Loan Portfolio on assets was 5.7 months, while the average maturity of its outstanding borrowings was 9.2 months. this strategy allows it to better manage liquidity and meet the growing loan demands of an increasing membership, even if external borrowings and funding sources face temporary disruption.

4.2.4. Multiple Sources of Finance and Cost-Effective Funding

The company constantly strives to diversify its sources of capital. During 2010-11, the company raised ₹ 722.2 crore through its initial public offer (IPO), followed by a qualified institutional placement (QIP) and preferential allotment, raising ₹ 263.5 crore in 2012-13 and another QIP raising ₹ 397.6 crore in May 2014. During 2014-15, the Company received net proceeds of ₹ 1,432.5 crores from securitization of loans and also raised Rs. 200 crores through private placement of Non-Convertible Debentures (NCDs) rated 'A+' and ₹ 213.4 crore through issuance of Commercial Papers (CPs) rated 'A1+'. Historically, the MFI sector has significantly relied on priority sector lending (PSL) funds from commercial banks. The company believes that the cost of such funds is considerably lower than the cost of other bank funds. The company is eligible to borrow PSL funds from banks as an NBFC-MFI. CARE has provided the company with a grading of 'MFI 1' or 'MFI One' as an MFI, which is the highest obtainable grading on an eight-point scale. The company has also obtained bank debt ratings for a funding exposure of ₹ 3,300 crores which was upgraded during the year as CARE 'A1+' (for its short-term facilities) and CARE 'A+' (for its long-term facilities). The company also has a long-term NCD rating of 'A+' for ₹ 400 crores from CARE and short-term (CP/ NCD) rating of 'A1+' for ₹ 750 crores from ICRA. Its securitized transactions during 2014-15 were provisionally rated by CARE at 'AA(SO)' and ICRA at 'AA(SO)', signifying levels of safety regarding timely servicing of financial obligations and levels of credit risk.

4.2.5. Sustainable Model of Operation and Technology Savvy

The company recognizes that establishing and growing a successful rural microfinance business in India involves the significant challenge of addressing a borrower base that is quite large and typically lives in remote locations. To address this challenge, the company believes it has designed a sustainable model, and developed systems and solutions for the following three components, which the company believes are required to effectively scale up its business:

- Capital: Historically, the Company has successfully obtained a variety of funds required to finance its lending operations;
- Capacity: With its Pan-India presence and extensive distribution network, the company believes it has the capacity to provide products and services to a large number of members;
- Cost reduction: The Company believes it has implemented process-based systems and customized software that reduce the cost of conducting transactions across a widespread branch network and a substantial member base. To manage its operating expenses and increase efficiency, the company has deployed 'SKS Smart' (a significant upgrade to the earlier Portfolio

Tracker), customized and comprehensive software which simplifies data entry and targets to improve accuracy and efficiency of collections and fraud detection. The business processes, from member acquisition to cash collections, have been standardized and documented. Its branch offices are similarly structured, allowing for quick rollout of new branches. In addition, the terms and conditions of its loan products are generally uniform throughout India. Further, the Company has standardized its recruitment and training programmes and materials so that they are easily replicated across its entire organization. This standardized approach also allows employees to move efficiently from one region to the other based on demand and growth requirements.

4.2.6. Pan-India Presence and Extensive Distribution Network

As on March 31, 2015, the Company had 64 lakh Borrowers, 1,268 branches and ₹ 4185 crores gross loan portfolio. The Company focuses its operations across 19 states in India. Further, as on March 31, 2015, the Company had 8,329 (7,433 outside the states of Andhra Pradesh and Telangana) Branch Managers, Assistant Branch Managers and Sangam Managers, including Trainees, who comprise 85.9% (85.2% outside the states of Andhra Pradesh and Telangana) of its total workforce. During 2014-15, each of its Sangam Managers managed 966 Members on an average in States other than Andhra Pradesh and Telangana. The Company believes that its presence throughout India and its distribution network in rural India results in significant competitive advantage.

4.2.7. Product Pricing Power

The Company believes that its national presence and the ability to access a large member base gives it theleverage to negotiate favourable terms with institutions which would like to distribute their products through its network. This, in turn, results in lower pricing for the products that are distributed to its members. For instance, the Company currently works with Nokia IndiaSales Private Limited and with D. Light Energy Private Limited for the financing of mobile phones and solar lamps, respectively for its members. The Company financed 4.5 lakh mobile phones and 3.9 lakh solar lamps during 2014-15.

4.2.8. Experienced Management Team and Board

The company's Board comprises experienced investors, industry experts and management professionals. The Company believes that it has a strong senior management team to lead it, which includes Mr. M. R. Rao, Managing Director and Chief Executive Officer, as well as Mr. S. Dilli Raj, President. The Company's Senior Management team has members who have significant experience in the microfinance and financial services. The team has developed the knowledge to identify and offer products and services that meet the needs of its members, while maintaining effective risk management and competitive margins. The company's mid-level management personnel also have years of experience, in-depth industry knowledge and expertise.

4.2. Weaknesses of SKS Microfinance Limited

4.2.1. Debt Restructuring Policy Not in Place

The company does not have an explicit policy on restructuring of loans and/or grace period to provide for cases of non-repayment of installments by a member and inability of the group to contribute on behalf of the defaulting member. However, the company does offer a moratorium of few weeks in special cases and is also working at launching a comprehensive debt restructuring policy in the near future.

4.2.2. Poor Understanding among the Borrowers about the Rate of Interest

The company has shifted its policy towards quoting a single declining interest rate to the clients in all its communication, yet we observed that the clients are yet to assimilate the concept of declining interest rate and move away from the concept of flat rates. The process of doing away with the usage of dual rates may require more coaching and refresher training programmes for the staff officers and clients.

4.2.3. Policy Manuals Vs Practice On Installment to Income Ratio

SKS conducts an assessment of the income and expenditure of the client through broad indicators and states that it complies with 40% of installment to income ratio (IIR) for the assessment for its loan approvals. However, the IIR based assessment norm has not been stated in the policy manuals and the ratio does not get captured in the application form, loans files or the MIS.

4.2.4. Weak Grievance Cell

SKS has recently introduced a toll-free client service number where customers can lodge their suggestions/feedback. Further, the clients at the centers visited were found to be sharing their concerns with the staff officers and the toll-free phone numbers and staff officers Code of Conduct Compliance Assessment Report- SKS Microfinance Limited phone numbers were found to be noted on the center registers. However, there is a fair scope of improvement in the existing formal grievance system, as currently the operating manual doesn't lay down any clear roles, responsibilities and timelines for complaint resolution. Further, in light of SKS's scale of operations and nature of its borrowers, there is a merit in developing alternate channels to ensure borrowers are forthcoming in giving the feedback as well as a mechanism to address the grievances and to record nature of queries and time taken to address the issues.

4.2.5. High Attrition Rate

In line with the industry trends, the company had faced significant staff attrition rates which coupled with frequent transfers of Sangam Managers can impact continuity of client servicing. Nevertheless, company's focus on standardized operating procedures, staff training and internal audit can be expected to minimize the risk of disruption and dilution of staff conduct.

4.3. Opportunities of SKS Microfinance Limited

4.3.1. Huge Demand and Supply Gap

There is a huge demand and supply gap among the borrowers and issuers. In India around 350 million of the people are poor and only few MFIs are there to serve them. There is huge opportunity for SKS microfinance to serve the poor people and increase their living standard. The annual demand of micro loans is nearly ₹ 60,000 crores and only ₹ 5,456 crores are disbursed to the borrower.

4.3.2. Huge Untapped Market

India's total population is more than 125 croresand nearly 35 crore people are living below poverty line. So there is a huge opportunity for SKS microfinance to meet the demand of the un-served customers and the company should not leave any stones unturned to grab the untapped market.

4.3.3. Small Finance Bank License

Large part of SKS's borrowing is from banks, while its entry to the other sources was hampered in wake of AP crises. However, with recent rating upgrade it will be able to borrow money from debt market at competitive rates. Not only this, small finance bank license will also provide it with an opportunity to diversify its sources. In other words, the company can accept deposits from the public once it gets small finance bank license from RBI.

4.4. Threats of SKS Microfinance Limited

4.4.1. Increased Competition

The microfinance company under study not only getting competition from other players of the same industry but also it is directly competing with the microfinance wings of the various public and private sector commercial banks. Increased competition is threat to the company in particular and to the industry in general. Micro finance credit demand is being met by various entities including MFI namely SHGs, Cooperative Societies, Local Area Bank, NGO, etc. Though we expect NBFC-MFIs to gain market share, still competition from SHG cannot be ruled out completely. Further, emergence of small finance banks, which will essentially serve the same segment as MFIs, is a risk. Moreover, they will be in a position to provide full suite of basic banking services heightening competition for MFIs.

4.4.2. Political and Regulatory Environment

As SKS cater to customer segment at lower end of the income spectrum (poor households), it is vulnerable to political risk, similar to one witnessed in Andhra Pradesh in 2010. Moreover, it is likely to remain under active RBI purview. Any adverse measures could derail the microfinance growth story. For example, recent changes to PSL norms announced by the central bank may lead to greater funding choices for banks and the concomitant liquidity pressure on MFIs, particularly the smaller players.

4.4.3. Fastest Growing Segment and Over Leveraging

Following the Andhra Pradesh crisis that hit the microfinance sector in FY10, AUM growth remained flat for four years through to FY13. During this period, the RBI introduced a series of positive regulatory changes, including the creation of self-regulatory organizations (SRO) and credit information bureaus, that helped put the industry back on track. MFIs recovered to post an impressive 50%+ CAGR over FY13-FY15 that raised total AUM from ₹ 174bn to ₹ 400bn in FY15. Branch network has grown at a brisk clip of 20% in the last two years and aggregate MFI employee count has risen by 13% YoY in FY14 and 20% YoY in FY15. With rising presence of MFIs, customers are now being approached by several MFIs leading to competition and resulting in overleveraging of a customer as lenders would tend to entice the customer leading to a higher possibility of default risk. However, there are regulatory checks imposed by RBI in terms of overall indebtedness limit and number of lenders a borrower can get a loan from. Moreover, establishment of credit bureaus provides lender with adequate information on overall indebtedness of customers and repayment history.

6. Summary

The mission of SKS Microfinance is to provide financial services to the economically weaker sections. The vision is to serve 50 million households across India and other parts of the world and also to create a commercial microfinance model that delivers high value to our customers. The products, processes and people are all focused on creating the highest value for the customer. This includes being respectful to customers, understanding the needs of customers and being transparent with customers. The company follows ethical practices in all relationships at all times, including following the law both in letter and spirit. This includes not offering bribes, not paying or taking commissions, or any other short-cuts. The company has standardized processes enabling the institution to reach out to the most customers cost effectively. The company fosters innovation but in a way that ensures consistent quality.
The SWOT analysis of SKS Microfinance can be summed up as follows.
6.1. Strengths: Market Leadership, Experience and Expertise in the industry and adaptability to the changing regulations, Sustainable profitability, sound financial position and prudent asset and liability management, Multiple sources of finance and cost-effective

funding, Sustainable model of operation and technology savvy, Pan India presence and extensive distribution network, Product pricing power, Experienced Management Team and Board.

6.2. Weaknesses: Debt restructuring policy not in place, Poor understanding among the borrowers about the rate of interest, Policy manuals vs practice on installment to income ratio, Weak grievance cell, High attrition rate.

6.3. Opportunities: Huge demand and supply gap, Huge untapped market, Small finance bank license.

6.4. Threats: Increased competition, Political and regulatory environment, fasted growing segment and over-leveraging.

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