

**CASE: VILLAGE FINANCIAL SERVICES PRIVATE
LIMITED (VFSPL): A MICRO FINANCE COMPANY ONLY
FOR POOR WOMEN**

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Abstract

The case discusses the success story of Village Financial Services Private Limited (VFSPL), 1st only for women, Eastern Indian Micro Finance Company having status of NBFC i.e. Non Banking Financial Company, registered by RBI . VFSPL is also India's 1st ISO certified Micro Finance Company.

From year 2005-06, VFSPL has started its micro finance operations. VFSPL Micro Finance program has grown rapidly & currently helping thousands of poor families of India. These programs are started with the motive of providing credits to the poor women's, the purpose was to generate income activities and help the poor women's to become economically self sufficient. The aim was to bring a qualitative change in the life of poor women's. VFSPL is providing poor women's standard of living & their own independent status in the society.

As on 31st March 2017, VFSPL is working in 8 states with 40 working districts of these states with 159 branch offices. VFSPL total number of loan borrowers are 2, 40,707 with cumulative loan disbursement amount is 2056.56 crore. The incredible thing is repayment rate which is 98.52%..

Keywords Micro Finance, Micro Credit, NBFC, Niche Segment

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Issues

This case is structured in a way that helps out in achieving the following teaching objectives:

- Understanding the opportunities and challenges for Micro Finance Sector.
- To discuss the business model adopted by VFSPL and to understand the various strategies used by VFSPL making it pioneer and successful in micro finance segment in India.
- To discuss the key strength drivers.
- To discuss the weakness of VFSPL
- Alternates for further success

Content

- Origin of Micro Finance
- Rapid Growth of Micro Finance Industry
- About VFSPL
- Progress of VFSPL
- Progress Model of VFSPL
- Weakness of VFSPL
- Alternatives for VFSPL
- Teaching Notes
- Questions
- References

Introduction

Origin of Micro Finance

Globally, all around the world, Micro-finance has existed in form of informal lending and borrowing stretches for centuries. But the modern expression micro-financing has its roots in the late 1970s in Bangladesh. The microfinance pioneer was Mohammad Yunus, who started and shaped the modern industry of micro financing.

A 27 Dollar Loan

Yunus while visiting one nearby local villages, Jorba, saw a group of 42 poor women's manufacturing bamboo stools. These poor women's were tied into a cycle of debt with local traders because of shortage of fund.

It was very shocking for Yunus that the entire borrowing needs of the 42 women was equivalent of US\$27. Yunus help these poor women's and lent them 27 dollar loan at zero interest. This loan helps these poor women to sell their stools at a reasonable price and in this way Yunus small loan amount break out the cycle of debt.

The Grameen Bank: Pioneer in Micro Finance

This incidence laid down the foundation for the Grameen Bank project, and today this bank is working in more than 80,000 villages and having more than 6 million borrowers.

In the year 2006, Yunus and Grameen Bank were awarded with the world highest award, Nobel Prize for Peace for their work.

Rapid Growth of Micro Finance Industry

After the success of The Grameen Bank, a big number of new micro-finance institutions were entered in this niche segment in the years 1970s and 80s around the world. And now for the companies micro-finance was a potentially viable business. Many of the institutions started in Micro Finance sector mainly as NGOs which were funded by receiving grants and subsidies from government and private bodies.

During the 1990s, players of micro credit began to realize that there is requirement of change in current business model in order to grow further and not only relying on grant funding there is requirement of restructuring the business. Players of micro credit segments now start attracting commercial investors, adopting and start developing more effective business to improve their efficiency and sustainability of their business.

Now focus of players moved from NGO models. Now the aim of micro finance industry was to promote it as a sustainable industry which would provide micro financial services to the poor

people at reasonable prices. A large share of this sector is dominating by small micro-finance companies but now a day's many large banking institutions and other large players have also entered in this sector including Deutsche Bank, Citigroup, Credit Suisse, and many more.

Till now micro finance evolves throughout the world around. It is one of the rapidly growing financial segments. According to the estimation of World Bank, globally, more than 16 million people are served by some 7000 microfinance institutions. CGAP experts mean that around 500 million families benefits from these micro loans making new business possible.

In recent years, innovations are seen in the area of micro-finance. Use of mobile phones for sending & receiving money, introduction of new loan products like machineries loans, loans for harvest stock spaces, cattle fattening loans etc.

Loan methodologies become more simple & supportive. Not only micro credit but also other products like micro-insurance and micro-savings are also gaining popularity.

About Village Welfare Society (VWS) & Village Financial Services Private Limited (VFSPL)

In 1996, VWS starts its operation of microfinance activities. In 2004, under Section 25 not-for-profit Company, Village Micro Credit Services was formed to undertake the microfinance activities. In January, 2006, this group acquired a Kolkata based existing Non-Banking Financial Company (NBFC), Spencer Vinimay Pvt Ltd. Later, it was renamed as Village Financial Services Private Limited (VFSPL). On 27 September 2013, the company was reclassified by Reserve Bank of India as "NBFC-MFI".

As on 31st March 2017, VFSPL is working in 8 states namely West Bengal, Bihar, Jharkhand, Assam, Tripura, Sikkim, Odessa and Uttarakhand. There are 159 branch offices of VFSPL in 40 districts of these states. Total number of loan borrowers from VFSPL are 2, 40,707 with cumulative loan disbursement amount is 2056.56 crore. The incredible thing is repayment rate which is 98.52%.

Vision of VFSPL

The objective of existence of VFSPL is to create 'low-income self dependent women entrepreneurs. The aim is to provide approachable, efficient and sustainable financial and other support services to poor women's in more ethical, transparent and respectful way.

Vast Experience of Promoters

Mr. Ajit Kumar Maity and Mr. Kuldeep Maity, promoters of VFSPL, have more than two decades of experience in micro-financing industry. VFSPL is the one of the oldest micro finance company in West Bengal.

Well Defined Organizational Structure and Effective Governance Framework

VFSPL has a well-defined organization structure and effective governance framework consists of 7 experienced Board of Directors (BoD), of which 2 are promoter directors, 1 nominee director and 4 independent directors.

Table I: Governing Board of VFSPL

Name	Designation
Mr. Ajit Kumar Maity	Chairman
Dr. Kuldeep Maity	Managing Director and CEO
Dr. Sankar Datta	Independent Director
Mr. A Ramanathan	Independent Director
Dr. T. K. Mukhopadhyay	Independent Director
Ms. Jayshree Vyas	Independent Director
Mrs. Alpana Bhandari	Director (Nominee)

Source: www.village.net.in

Progress of VFSPL

In the year 1978, West Bengal was badly affected by flood. This incidence motivate group of youth and they decided to help poor and affected people of this area. They founded Village Welfare Society (VWS), as a grant based not-for-profit organization in 1982. In 1996, VWS starts its operation in the area of microfinance activities. In 2004, under Section 25 not-for-profit Company, Village Micro Credit Services was formed to undertake the microfinance activities. In

January, 2006 the group finally acquired a Kolkata based Non-Banking Financial Company (NBFC), Spencer Vinimay Pvt Ltd. Later, it was renamed as Village Financial Services Private Limited (VFSPL). On 27/09/2013, the company was reclassified as “NBFC-MFI” by Reserve Bank of India.

Table ii: Performance of VFSPL

Year	2014	2017
No. of Working States	03	08
No. of Districts Covered	23	40
No. of Branches	106	159
Total No. of Customers	1, 47,241	2,40,707
Loan disbursement amount	1089.75 crore	2056.56 crore

Source: www. village.net.in

VFSPL is Indian 1st Micro Finance Company which was started in Eastern India. It has N.B.F.C status i.e. Non Banking Financial Company status & also India’s 1st ISO certified Micro Finance Company.

Only for Women Micro Finance Company

The aim of VFSPL is to help poor women and giving them opportunities to become economically self sufficient. The customers of VFS are solely poor women and aim of the company is to engaged these women’s in some kind of small income generating activities (IGA) or to help them to start IGA or up scaling their IGA. Objective of the company is to provide micro credits to them for income generating activities.

They are offering loans to women who are the member of **JLG**. JLG (Joint Liability Group) a joint group of 5 women’s. These women’s must have similar socio economic profile, living in same neighborhood with one member representing one family and they work for the development of all and are bound for repayment of the loan individually and group wise.

The women can use only this loan for income generating activity. House hold income of women should not be more than sixty thousand in rural areas and also should not be more than one lac twenty thousand in other areas.

Table iii: Product Mix of VFSPL

Product	Bridhhi Loan	Samridhhi Loan
Clientele (group, individual)	JLG group	JLG group
Purpose	Income Generation	Income Generation
Age Limit(Years)	18-55	18-55
Loan Size	4000-15000	16000-50000
Tenure	12 Months	24 Months

Source: www. village.net.in

The company not only provided micro credit services to its customers but also provided various other financial services like credit plus services. It is also provided support services to its customers. All these services are either provided by VFSPL or its group organization VWS.

The customers of VFSPL are only women. In India, in most of the part of country, women are dependent on their husband and in unfortunate event of death of their husband or divorce or separation, the entire family becomes helpless. VFSPL introduced life insurance policy not only for their customers but also for the husbands of their customers so that incase of any unfortunate event, at least these women can get a financial support or may start some income generating activities of their own. VFSPL has tied-up with few insurance companies to provide insurance service to their customers and their family members.

Growing Financial Performance Marked By Substantial Increase in Portfolio in FY17

Total income of VFSFL's grew by 76.34% to Rs.77.97 crore from FY16 to FY17. It was driven by significant increase in loan portfolio which was Rs.250.25 crore as on March 31, 2016 and Rs.386.21 crore as on March 31, 2017. NIM also declined from 7.71% in FY16 to 6.47% in FY17.

Also the Operating expense declined from 7.42% in FY16 to 6.05% in FY17. Provisioning cost declined from 0.82% in FY16 to 0.42% in FY17.

Decline in operating expense and provisioning cost resulted in improvement in ROTA from 0.96% in FY16 to 1.55% in FY17 despite decline in NIM.

Overall gearing deteriorated from 5.99 xs as on Mar 31, 2016 to 8.47 xs as on Mar 31, 2017 due to higher reliance on debt to increase the loan portfolio.

Healthy Asset Quality

Asset quality of VFSPL's continued to remain healthy in FY17 despite the impact of de-monetization. Reason being its portfolio was concentrated mainly in West Bengal which had minimal impact of de-monetization on the overall asset quality in MFI Industry.

The asset quality of VFSPL also remained easy, with gross NPA marginally deteriorating from 0.13% as on Mar 31, 2016 to 0.29% as on Mar 31, 2017 and further to 0.46% as on June 30, 2017.

Comfortable Liquidity Profile

The liquidity profile of VFSPL is very comfortable majority of the loan products of VFSPL having fortnightly collection mechanism with average tenor of one year.

Training to Customers

VFSPL also provide various kind of training to their customers. These training are on various areas like financial literacy, skill building and development, business development etc. Time to time company organize workshops on different social issues to aware its customers on social issues related with women education, family health, women empowerment etc.

These customers training are on customer development and customer awareness. Customer development training is on leadership development, skill building and business development. Customer awareness training focus on financial literacy and it also creates awareness about money making market, multiple borrowing, and other related issues.

Weaknesses of VFSPL

Limited Geographical concentration: Though the operation of VFSPL has expanded in 8 states in FY17 but the portfolio is highly concentrated in West Bengal with 81.11% as on Mar.31, 2016.

Limited flexibility in regard to equity capital mobilization: As on March 31, 2017, Stake of Maity & its family in VFSPL is 74.08%. Remaining 25.92% stake is held by four mutual benefit associations (MBA).

Under the MBA structure, borrowers of VFSPL earlier used to contribute capital (equal to 10% of the loan amount) to the MBA, which in turn invested in share capital of VFSPL. The said capital was refunded to the borrowers at the time of maturity of the loan at the discretion of the borrowers. However, VFSPL has stopped taking the capital contribution w.e.f April 1, 2012 and gradually refunded the capital received from its borrowers. The management plans to completely refund the capital received from its borrowers over the next 2 years.

Competition from other players: Though Micro Finance is emerging sector in India but has witnessed high competition in past few years. A large number of companies are operating in this sector like Annapurna Micro Finance, Ashirwad Micro Finance, Mudra Micro Finance, SV Credit Line etc.

Increasing competition may lead to pressure on the profitability of the company as most of the large MFI players are offering loans at a lower interest rate as compared to the rate offered by VFSPL.

HOW VFSPL is changing women's life: Success Story of Three Women's

Anita Hambir:

It is a true story of Anita Hambir, a poor woman lived in village Manikura whose life was changed by micro loan offered by VFSPL. One day Anita Hambir husband left her without any reason. She has two young children. This incidence made her totally helpless. She was completely dependent on her husband income. She took her 1st loan form VFSPL, Penro branch in 2000. With this small loan she started her business of paddy. She also started expanded her business by taking loan every year. Later on, she also started a new business of retail rice, potato and onion.

Presently, she is financial stable. She has a “pakka” house and has 2 LIC policies. Now, her son is also starting working and her daughter is studying in class 10. She is saving money for her son career and her daughter’s education and marriage. It is a true story of Anita Hambir whose life was totally changed by VFSPL and made her financial stable and independent.

Chandana Dey:

It is a true story where VFSPL changed the life of Chandana Dey who lived in Bandher Bazar , Deulpur. Chandana Dey father Mr. Sanat Dey was a poor person who had a small teas shop. Because of poor financial condition of her family she had to leave her schooling after 4th class. After leaving school, she started doing Jari work to help her father financially.

Few years later, Chandana’s was married to Mr. Badal Khanra of nearby village Keshabpur. By profession, her husband was also a jari labour. But Chandana dream was quite big. She wants to start her own Jari business. But problem was lack of money.

VFSPL made her dream come true. In starting she took loan of Rs. 3000/- . Later, Chandana scaled up her business by taking loan every year. Now after 9 years, Mrs. Chandana Khanra has a stable jari business. She has 25 people working under her. She has a happy family of husband and two sons.

Sampa Roy:

This is another true story how VFSPL made significant change in the life of one more women. Sampa was living with her husband and two daughters in extreme poor condition. Her husband was involved in selling coal dust from door to door. His income was very irregular and low.

Though Sampa was aware of VFSPL , but she never tried availed loan because of fear of repayment. One day, coincidentally, she comes in contact with one of the field staff VFS, who visited Sampa neighbor’s house for repayment collection. In 2011, she took first loan of Rs. 8000/- . With this loan she started her grocery shop .One year later, she again took a loan of Rs. 10000/- from VFSPL for the expansion of her business of grocery. Gradually her income increased and she is financially stable and her earning is around 5000/- per month.

She is now easily bearing her daughter education and is financially independent. Her husband is also helping her in her business and also doing his coal business.

There are many other women's having same stories and how VFSPL helped them in starting or expansion of their business and made them self-dependent women entrepreneur.

CSR Initiative

VLFSP run various programs for the welfare of their employee as well as for the society.

Customer Training Programs: The VLFSP is not only providing training to its employees but also to its customers. The training is related with customer development and awareness. The training of VLFSP includes training on awareness on financial literacy, training on skill building and business development etc. VFSPL is also organizing various workshops focus on various social issues time to time.

Adult Literacy Program: VLFSP people spend time to educate their customers who are involved with some income generating activity. Their employees voluntarily educate their borrowers after their schedule work apart on social issues and also educate them for Income Generating Activity.

Financial Literacy Program: Village Group also started training programs on Financial Literacy to educate poor women in income generating activity.

Old Age Home: VWS (Village Welfare Society) established an Old Age Home for caring unwanted poor old women. Here these poor helpless women are getting food, shelter, clothes and all other care they required.

Village Model School: VWS is running the "Village Model School" for the children in Howrah District. Here the poor are given pre-primary and primary education. Presently the school has 132 students in 7 classes from pre-primary to Class V level.

Day Care Centre for Elder People: VWS also established a Day Care Centre for old people. The aim is to provide service to older people during day time, when their family members are on work or outside the home.

Medical Clinics: Out Patient Clinic (OPC) are opened by VWS in its working areas. These OPCs are providing OPD services to the patients by qualified medical practitioners.

Scholarships: VWS of Village Group started various Scholarship program from year 2006-2007. These scholarships are giving to the deserving children of poor families to encourage them to go for higher studies and make a difference in their lives

Awards & accolades:

VFSPL received many award and accolades time to time because of its service excellence and remarkable change company made in the life of poor women entrepreneur.

VFSPL received “MSME Banking Excellence Awards” in the year 2016. This award is instituted by Chamber of Indian Micro, Small & Medium Enterprises, and CIMSME and is given under the category of Best NBFC-MFI for Promotional Schemes. VFSPL also received “The best Microfinance Company in Eastern India”. This award was given by Worldwide Achievers Foundation

Dr. Kuldip Maity, CEO and MD of VFSPL also received “Manager of the Year” Award. This was Europe’s one of the most prestigious Awards. VFSPL has also won “Best Enterprise” Award . Both of these awards were given by Europe Business Assembly and Socrates Committee.

Because of Dr. Kuldip Maity significant contribution in social/public services, he has been honored with the “Global Achievers Foundation Outstanding Achievement Award”. Dr. Kuldip Maity has also been honored by the Vision World Academy with the “Global Visionary Award”.

Dr. Kuldip Maity, for his outstanding achievement excellence and experience in the field of Microfinance, was awarded with “Rashtra Pratibha Puraskar” in 2011 by the Integrated Council for Socio-economic Progress in recognition of his outstanding achievements,

Dr. Kuldip Maity has been honored with the “Global Achiever’s Award for Business Leadership 2013” by the Economic Development Forum with

Alternatives for VFSPL

Though VFSPL is a very big name in micro credit segment but there is requirement of change in current business model in order to grow further and to become market leader.

Right now there is requirement of geographical expansion of business and also adding new micro finance services in its product mix. Company currently, offering only 2 types of loans and required few more loans in its product mix. Company can add loan products tailored to local contexts like loan for machineries, harvest stock spaces, and cattle fattening loans etc.

VFSPL main focus is on micro credit but company should also focus on products such as micro-insurance and micro-savings which are also gaining popularity. This will further strengthen company business.

Teaching Notes

The case discusses the success of VFSPL in the segment of micro credit services. The case discusses the importance of targeting the right market at right time. VFSPL is one of the few pioneer players in the segment of micro finance. Innovative strategies used by the company like only women customers, joint liability group, micro credits are some of the factors responsible for its success.

CSR initiatives of the company help the company to create goodwill and trust in the customers mind.

Various types of customers training helps its customers to invest money in effective ways and because of its loan repayment rate is very high.

Target Audience

The case has been taught and is effective as part of master's degree, MBA programme and other management courses like PG Diploma in Management and BBA as a part of the course Strategic Management & Service Marketing. This case study can be taught while explaining strategic service marketing.

Students/participants are given an insight about various opportunities and challenges in micro finance industry and how they can be faced through effective strategy development. They are also motivated to develop innovative strategies which can be implemented and utilized effectively.

Learning Objective

By the end of the case, reader will be able to understand -

- Opportunities present in the segment of Micro Finance.
- Reasons behind the success of VFSPL.
- Business Model of VFSPL
- Role of innovative strategies in the success of an organization

Teaching Plan and Analysis

Teaching of this case, a 20 minute introduction of the case may be useful before discussing the case. The introduction of the case should explain about the opportunities present in the area of micro finance and discuss the reasons for the success of VFSPL. The goal of the case is that students should understand that how effective and innovative strategies can help a company to be successful.

After completing the introduction, class can be break into teams of three to five students for discussion on case. These teams should discuss and summarize the case and answers to the following questions presented in the case study.

Questions:

a) Do SWOT analysis for Micro Finance Industry?

- b) What are the various factors responsible for success of VFSPL?
- c) Discuss the business model of VFSPL?
- d) Suggest any change in business model of VFSPL, if required.

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