

AN ASSESSMENT OF THE PERFORMANCE OF NON-BANKING FINANCIAL INSTITUTIONS IN INDIA: A CASE OF MUTHOOT FINANCE

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ABSTRACT

In the Indian market, Non-Banking Financial Companies' penetration is increasing day-by-day as banks consider them as their subordinates, offering a wide variety of services include loans, asset management, and investment products. NBFCs have emerged in such a backdrop as important partners for the country because they cater to the increasing demand for credit in rural and semi-urban areas and also help meet the growing need for alternative sources of funding. As a large number of highly diverse NBFCs, gold loan is the area where Muthoot Finance seem to specialize. This paper conducts an empirical analysis of the performance and examines the factors that have contribute to the success of Muthoot Finance, its challenges invasions and profitability. It explains the financial factors of Muthoot Finance, risk exposure factors, and their presence in the changing environmental issues. Looking into the financial statements of the company, its competitive strategy and position and the prevailing market trends, this paper searches for the opportunities and threats to Muthoot Finance's business within the context of the whole NBFC industry. The research also analyses how fluctuations in the economy, regulators, and technology changes affect the efficiency of Muthoot Finance and its penetration to consumers. The conclusions also point out Muthoot's tactics aimed at the expansion of the servicing potential of the gold loan. The research is summed up with proposals for conducting more effective operations, frameworks of risk management, and strategies focused on customers for NBFCs specifically related to the future growth trajectory of Muthoot Finance. In general, the research has been found to contain many definitions about the changing landscape of NBFCs in overall financial India's scenario concerning the opportunities as well as threats that one of India's largest players in the sector faces.

KEYWORDS: NBFCs, Gold Loan, Profitability, Environmental Issues, Risk Management.

Introduction

NBFC is referred to as; Non-Banking Financial Company. Under Companies Act, 1956 or Companies Act. 2013, an NBFC is registered as a company and engages itself as a financial institution. A non-banking financial company is defined in section 451(f) of the RBI Act, 1934 as-

- a financial institution which is a company;
- a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme of arrangement or in any other manner, or lending in any manner;
- such other non-NBFC institution or class of such institutions, as the NBFC may, with the previous approval of the Central Government and by notification in the Official Gazette, specify;

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"financial institution" means any non-NBFC institution which carries on as its business or part of its business any of the following activities, namely:

- Financing, whether by way of making loans or advances or otherwise, of any activity other than its own;
- Acquiring shares, stocks, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature;
- To hire or let upon hire such goods as come within the definition of "hire-purchase" under clause (c) of section 2 of the Hire-Purchase Act, 1972;
- Engaging in any class of insurance business;
- Managing, conducting or supervising as a foreman, agent or in any other capacity, of chits or kuries as defined in any law which is for the time being in force in any State, or any business which is similar thereto.

NBFCs finance-- ends at lending, asset management, insurance-and wealth management services. They are important in catering to the less accessible branches and population banks. Over the years NBFCs have added value to India in their contribution to the economy in promoting financial inclusion and acting as a catalyst for socio-economic development. Among these stands Muthoot Finance Limited, one of the leading players in the field.

Muthoot Finance Limited is a leading company incorporated in 1887. From then, it has transformed from playing into an overwhelming regional player to one of the most widely popular and largest gold loan lending companies in India. The entire offering of MFL is a widely varied portfolio of financial products including loans against gold, its flagship business primarily targeting the rural and semi-urban sectors of individual customers. Muthoot Finance derives a lot of its success from the company's strategic approach toward gold-backed loans as well as its vast branch network, reputation, and brand equity. The role played by Muthoot Finance and similar Non-Banking Financial Companies (NBFCs) in the Indian economy is hot, mainly because of the hyper growth in the sector enabling it to fill the void in lending by banks in segments and spaces where they have been reluctant to lend. However, with success comes its shares of challenges for NBFCs. Regulatory pressures, liquidity problems, asset quality, and market competition have posed so many questions to be answered on the continuity of their growth and profitability.

This article is a critical evaluation of the performance of Non-Banking Financial Companies in India, as evidenced by Muthoot Finance Limited. The study aims to unveil the operational strengths and weaknesses, opportunities and threats confronting Muthoot Finance, and how the company responded to the changes in the financial landscape. This study, therefore, sets out to investigate the broader effects of NBFCs on the Indian financial sector and their subsequent prospects as the market continues to rapidly evolve.

Additionally, this paper refers to the financial performances, strategic decisions, regulatory environments as well as challenges faced by Muthoot Finance with a view to generating a thorough understanding of the role of NBFCs in India and how far they can navigate the pathing of the modern financial environment.

Muthoot Finance Limited

Muthoot Finance restricted is the biggest company in India regarding gold investment, where it has achieved up to the highest credit portfolio]. It is among the organizations that cater for advances to individuals and businesses against gold ornaments or Gold Loans primarily to persons who cannot access a formal credit within a short time or for those who can't procure any credit at all to address unforeseen or other short-term cash spikes such as early retirement or better buy opportunities. The company is located in Kerala. Muthoot's fully-owned subsidiary Muthoot Insurance Brokers Pvt. restricted (MIBPL) has also been licensed by IRDAI as a direct broker since 2013 and is active in disseminating both life and non-life insurance products from various insurance companies. Another fully owned subsidiary of Muthoot Finance, Muthoot Home fin (India) limited, is a housing finance company, which has a Stress on moderate lodging fund. Muthoot Finance's daughter concern Belstar Investment and Finance Personality Limited (BIFPL) happens to be a micro financing institution. Sixty-six point-six one percent import share capital of BIFPL is held by Muthoot Finance. Muthoot Finance's offshore subsidiary Asia Quality Finance PLC (AAF) from Sri Lanka is involved in Retail Finance Lease Purchase and

Business Loans. Muthoot Finance Ltd was amalgamated on March fourteen, nineteen ninety-seven, as a privately-held company under the name The Muthoot Finance Pvt Ltd. The promoters are M. G. George St. George Muthoot. St. George martyr patron saint Muthoot George Thomas Muthoot George Jacob Muthoot and George Alexander Muthoot. The history of operations in the organization extended over a long time because M Saint George Muthoot (the papa of the advertisers) set up a gold loan business in 1939 under the legacy of an associative trading business that was instituted by his father Ninan Mathai Muthoot in 1887.

Review of Literature

In a research paper named Analysis of Financial Position and Performance of Public and Private Sector NBFCs in India: A Comparative Study on SBI and HDFC, Koley (2019) used financial performance of the largest private NBFC HDFC and the largest public NBFC SBI under study to compare the performance of both these types of NBFCs in India. The comparative study focused on the utilities that such NBFCs hold since their market capitalization is the highest. The study covered a period from 2013-14 to 2017-18 and used CAMEL approach to measure the financial position & performance; researcher had also adopted t-test and mean to evaluate all the components of CAMEL model individually. The study reveals that both the NBFCs have capital adequacy ratios above the Basel norms for NBFC. HDFC is risk averse and tries to provide a higher margin of safety to depositors. The productivity of human resources of HDFC is superior to that of SBI. Asset utilization is better in HDFC NBFC than SBI.

Dr. J. Shanmuganandavavel, in their paper titled "Performance of NBFC's –An Indian context", studied the performance NBFCs in India. It includes assets quality, profitability, exposure to sensitive sector and capital adequacy of NBFCs. Most of the components of CAMEL approach are applied in the study. Results showed that there is some deterioration in asset quality of NBFCs in recent times, but it is still better than that of banks. Besides, NBFCs also showed better profitability and capital position.

Biswas's output revolves around the analysis of performance evaluation of two public sector NBFCs in particular. The researcher compares the efficiencies of Andhra NBFC and NBFC for geographical region, by employing the CAMEL model. The study period has been assigned for 2011-2013 and hence the information has been fetched from the annual reports of the NBFCs. It measured the performance of personal and commercial NBFCs of Bangladesh through the CAMEL Model performed by Kabir and Dey (2012). The findings revealed that national NBFCs worldwide had improved overall management quality procedures.

- **Non-Banking Finance Companies (NBFCs) in India: A Short Overview:** Start with a brief description of how NBFCs have been proper roles in the Indian financial arena. Additionally indicate that the companies have the role of extending credit and financial services in areas not fully serviced by conventional banks.
 - Muthoot Finance Limited: Introduce Muthoot Finance, stating its importance in the Indian NBFC industry, mainly gold loans, and history.
 - Research Objective: It should be to assess critically Muthoot Finance's performance, challenges, and scope within the wider domain of the Indian NBFC industry.

- **Role and Importance of NBFCs in India**

NBFCs have become an indispensable part of the financial milieu in India, particularly in the wake of demands for increased financial inclusion and access to credit. Their key areas include the following:

- Providing Access to Credit by the Underserved Segments: NBFCs focus on the underserved sectors like the rural population, small- and medium-sized enterprises (SMEs), and income groups at the lower end of the spectrum, and cater affordable and accessible financial services to them.
- The Overall Boost to Economic Growth: NBFCs provide credit for infrastructure development and housing and education and personal loans, whose resultant consumption and investment in the economy bring overall growth.
- Filling Gaps Left by Banks: Banks formulate stricter lending criteria and leave many individuals or businesses out of the bank's ambit. NBFCs flexibly consider their lending and have thus played a major role in expanding financial inclusion.

- Investment Products: The portfolio of NBFCs also includes investment products like mutual funds, insurance, and wealth management services thus adding to the overall diversification of financial services in the country.
- Supporting Financial Stability: The NBFCs are a stabilizing force, as they provide counter-cyclical credit when the economy is cooling, perhaps when a bank exercises more caution.

Evaluation of Muthoot Finance's Performance

- Financial Performance: Muthoot Finance has always been a front-runner regarding its financial performance. The latest reports have testified that this company is really keeping up with its growth regarding revenue as well as net profit. The buoyancy is evident from the company being really strong with its gold loan portfolio, further accessories that, beside those, the company asset under management (AUM) has really taking a leap forward in growing; this is a clear signal of expanded market reach and extension to its customer base. It operates majorly based on high interest rates and loans, which are indeed easily accessible to customers in search of quick, collateral-based ones.
- Revenue Growth: The revenue from gold loans has supported Muthoot Finance's consistent flow of income in the sense that gold prices increase and thus make the loan book more secured.
- Profitability: Muthoot Financial maintains a heavy profit margin, thus Profitable through efficient risk aversion, operational efficiency, and low-cost borrowing. The company's name is synonymous with high ROE, making it among the best performers in the NBFC sector.
- Loan Portfolio: The gold loan category is the mainstay of the company's operations, for the very high demand it commands, given the stability as a collateral asset. Consequently, Muthoot Finance has already amassed a large portfolio of loans, thus ensuring its competitive edge.
 - Business Model and Risk Management: The business model of Muthoot Finance mostly hinged on secured lending, especially gold loans, which are less risky than unsecured loans. This model serves to reduce defaults while containing the level of non-performing assets (NPAs) for the company. Muthoot also has a robust risk management framework, supported by proper valuation and loan-to-value (LTV) calculations for gold loans.
 - Asset Quality: The NPAs of Muthoot Finance have been well contained, courtesy of its prudent risk management strategies and low-risk lending. Since gold loans are backed by collateral in the form of a physical asset, they are least likely to be defaulted on.
 - Liquidity Management: The company has a treasury management system robust enough to meet its short-term obligations and requirements for fund raising. Muthoot Finance has diversified its funding sources-from deposits, borrowings, and securitization-to cater and support liquidity.
 - Market Position and Competitive Advantage: Muthoot Finance is a leader in the gold loan sector, with a dominant market share in India. Its brand recognition and trust among customers, especially in rural areas, give it a significant competitive advantage. The company's focus on expanding its branch network and offering personalized services has helped it maintain a loyal customer base.
- Expansion Strategy: Muthoot Finance has been expanding its operations into newer geographies, both within India and internationally, to tap into emerging markets and increase its customer reach.
- Digitalization: The company has also made strides in digitalizing its services, allowing customers to avail of services like gold loan repayments, balance inquiries, and loan tracking through mobile apps and online platforms.
 - Regulatory Compliance: As an NBFC, Muthoot Finance is regulated by the Reserve Bank of India (RBI) and has consistently adhered to RBI guidelines on capital adequacy, risk management, and lending practices. This regulatory compliance enhances its credibility in the market.

Performance Analysis of Muthoot Finance Limited

- **Financial Performance:** Analyze the company's financial data over the past few years, focusing on key financial metrics such as:
 - Revenue growth
 - Profit margins
 - Return on Assets (RoA) and Return on Equity (RoE)
 - Non-performing Assets (NPAs)
- **Loan Portfolio:** Evaluate the size, composition, and performance of Muthoot Finance's loan portfolio, especially gold loans, which form a significant part of its business.
- **Market Position and Growth:** Assess Muthoot Finance's market share, customer base, and competitive position in the NBFC sector. Compare its growth trajectory with other prominent players in the gold loan and NBFC space.
- **Risk Management:** Analyse how Muthoot Finance manages risks such as credit risk, market risk, and liquidity risk. Examine its approach to diversifying its financial products and mitigating potential defaults.

Strategic Initiatives and Business Models

- **Business Model:** Discuss the business model of Muthoot Finance, particularly its reliance on gold loans as a collateral-based lending option, which has been a key driver of its growth.
- **Technology Adoption:** Evaluate Muthoot Finance's efforts to leverage technology in its operations, such as the digitalization of loan disbursements, customer services, and online gold loan facilities.
- **Diversification:** Look into the company's efforts to diversify into other financial products (e.g., insurance, microfinance, etc.) to reduce dependence on gold loans and enhance revenue streams.

Challenges Faced by Muthoot Finance

- **Regulatory and Compliance Challenges:** Examine the evolving regulatory framework for NBFCs and how it affects Muthoot Finance. Address issues such as liquidity constraints, the impact of RBI's tightening norms, and other government policies.
- **Competition:** Discuss the intense competition in the gold loan market, both from other NBFCs like Malappuram Finance and from traditional banks that are also venturing into similar products.
- **Economic and Market Conditions:** Evaluate how broader economic conditions, such as inflation, interest rates, and economic slowdowns, affect the financial performance of Muthoot Finance.
- **Credit Risk:** Given the volatile nature of gold prices and the potential for loan defaults, assess Muthoot Finance's vulnerability to these risks.

Impact of COVID-19 on Muthoot Finance

- **Operational Disruptions:** Discuss how the COVID-19 pandemic impacted Muthoot Finance's operations, including lockdowns, branch closures, and challenges in customer acquisition and loan repayment.
- **Recovery and Adaptation:** Explore how Muthoot Finance adapted to the situation, particularly in terms of digital transformation, increased online services, and restructuring its operations to handle economic disruptions.

Future Outlook and Prospects

- **Growth Prospects:** Evaluate the future growth prospects of Muthoot Finance in the context of an expanding economy, rising financial inclusion, and increasing demand for personal loans.
- **Innovation and Expansion:** Discuss potential opportunities for Muthoot Finance to expand its services, such as increasing its footprint in rural areas or further embracing digital financial services.

- **Challenges to Overcome:** Identify the key risks and challenges Muthoot Finance will need to address, including regulatory changes, rising competition, and evolving customer expectations.

Conclusion

Muthoot Finance Limited is a leader in the ecosystem of gold loan businesses and becomes a very important NBFC player in India. Its performance mirrors an effective business model, a significant market position, and a well-planned practice for risk mitigation. The company's contribution to the financial inclusion vision of the Indian economy, especially through gold loans, has been huge when it comes to addressing underprivileged parts of society with financial services.

But there are challenges in gold prices and increasing competition like any other NBFC, as regulatory changes keep hanging in between. Muthoot Finance has to constantly innovate the right balance between risk and growth, and on improved customer-centric services that would help it to sustain its growth path. Its importance to the economy of India is immense as it provides affordable and reliable credit to a wide spectrum of customers, thereby promoting economic growth and financial stability.

- **Summary of Key Findings:** Summarize the performance evaluation of Muthoot Finance, reiterating its strengths, challenges, and prospects in the context of the NBFC sector.
- **Recommendations:** Provide strategic recommendations for Muthoot Finance to enhance its financial performance, manage risks effectively, and position itself for sustainable growth in the competitive landscape.

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