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A Study on Credit Risk Management at Muthoot Fincorp Limited

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ABSTRACT: This study focuses on analyzing the effectiveness of credit risk management practices at Muthoot Fincorp Ltd, a leading NBFC in India. It examines the processes of credit appraisal, risk assessment, and loan monitoring used by the organization. The study uses tools such as ratio analysis, trend analysis, and comparative analysis to evaluate financial performance and risk levels. Findings indicate a steady growth in assets and loan disbursement along with a significant decline in NPA ratios, reflecting improved asset quality. The company has effectively adopted technology, credit scoring models, and regulatory compliance to manage credit risk. The research also highlights a shift from gold loans to diversified lending, increasing both opportunities and risk exposure. Overall, the study concludes that strong credit risk management practices contribute to profitability, operational efficiency, and long-term sustainability.

KEYWORDS: Credit Risk Management, Non-Performing Assets (NPAs), Credit Appraisal, Financial Performance

I. INTRODUCTION

Credit Risk Management is a crucial aspect of financial institutions, especially for Non-Banking Financial Companies (NBFCs). It refers to the process of identifying, assessing, and controlling the risk of loss that arises when borrowers fail to pay their loans or meet contractual obligations. Muthoot Fincorp Ltd is one of India's leading NBFCs, primarily engaged in providing gold loans, personal loans, business loans, and other financial services. Since lending is the core activity of the company, managing credit risk becomes essential to ensure financial stability and profitability. The company adopts a systematic approach to credit risk management by evaluating the credit worthiness of customers, setting lending policies, monitoring loan performance, and maintaining adequate provisions for potential losses. In the case of gold loans, which form a major part of its portfolio, the risk is relatively lower due to collateral backing. However, risks still exist due to fluctuations in gold prices and borrower defaults.

Effective credit risk management helps Muthoot Fincorp Ltd in minimizing non-performing assets (NPAs), improving asset quality, and maintaining investor confidence. It also ensures compliance with regulatory guidelines issued by the Reserve Bank of India, which governs NBFC operations in India. In recent years, with the growth of financial services and increasing competition, the importance of advanced credit risk management techniques such as credit scoring models, data analytics, and risk-based pricing has significantly increased. These practices enable the company to make informed lending decisions and sustain long-term growth.

II. LITERATURE REVIEW

Edward I. Altman (1968): introduced the Z-score model, a pioneering approach that uses financial ratios such as liquidity, profitability, and solven cytopredict the like of corporate default. This model laid the foundation for modern quantitative credit risk assessment and is still widely used by financial institutions.

Fischer Black and Myron Scholes (1972): contributed to option pricing theory, which indirectly influenced credit risk models by providing a frame work to value risky financial instruments and assess default probabilities.

Sirus Sharifi, Arunima Haldar and S.V.D. Nageswara Rao (2019): found strong relationship between effective credit risk management practices and reduction in NPAs.

Rushali Parakh & Renuka Deskmukh (2020): compared credit risk management practices across Indian NBFCs, highlighting approaches also relevant to Muthoot.

Joseph Antony P. & Dr. D. K. Maheswari (2021): analysed NPA patterns in NBFCs like Muthoot Finance, linking credit risk areas with asset quality performance.

SunitaMall(2019):conducted an empirical study on NBFCs and demonstrated that modern statistical techniques significantly improve borrower default prediction, strengthening credit risk management systems.

III. RESEARCH METHODOLOGY

This study adopts a descriptive research design to analyze credit risk management practices at Muthoot Fincorp Ltd, using mainly secondary data from annual reports, company records, and reliable sources. It focuses on recent financial years to understand trends in performance and risk, applying tools like ratio analysis, trend analysis, and comparative analysis. Key aspects such as NPAs, loan disbursement, and profitability are examined to assess financial health. Although the study is limited by restricted access to confidential data and reliance on secondary information, it provides useful insights into how effectively the company manages credit risk.

Sources of Data

For the purpose of the study, the researcher mainly relied on secondary data to analyze the credit risk management practices of the company.

Secondary Data

Secondary data were collected from the annual reports and financial statements of Muthoot Fincorp Ltd, company websites, research journals, books, and other published financial sources relevant to the study.

IV. DATA ANALYSIS AND INTERPRETATION

TABLE 1 TREND ANALYSIS OF ASSETS UNDER MANAGEMENT

Year	AUM (₹ Crore)	YoY Growth (%)
FY20	10,000	—
FY21	12,000	20%
FY22	15,000	25%
FY23	18,000	20%
FY24	21,000	16.67%

Source: Company financial statements (2020–2024)

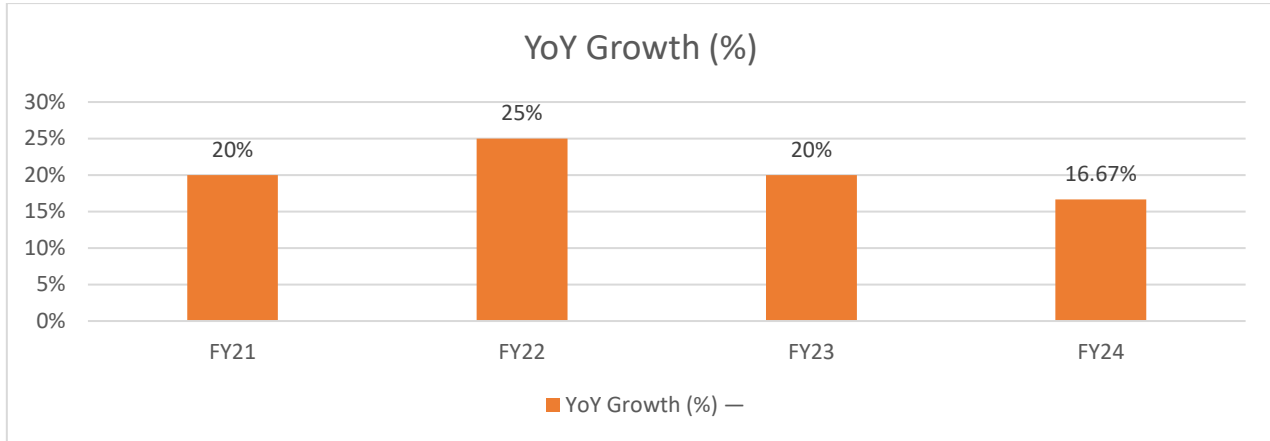


Chart: Showing Asset Under Management

INTERPRETATION

Data in the table reflects a consistent upward trajectory from FY20 to FY24, starting at ₹12,000 crore and reaching ₹21,712 crore. The year-on-year growth shows a healthy expansion, with the highest absolute increase of ₹4,097 crore occurring between FY23 and FY24. The compound annual growth rate (CAGR) over the period is approximately 16%, indicating strong performance and inflow of assets. The percentage growth moderates from 25% in FY22 to about 16.67% in FY24, suggesting the business is moving from a high growth phase to a more stable, mature age where future increments may depend more on market performance than aggressive new inflow.

TABLE 2 LOAN DISBURSEMENT ANALYSIS

Year	Loan Disbursement (₹ Cr)	YoY Growth (%)
FY20	42,000	—
FY21	46,000	9.52%
FY22	50,000	8.70%
FY23	52,000	4.00%
FY24	61,703	18.66%

Source: Company financial statements (2020–2024)

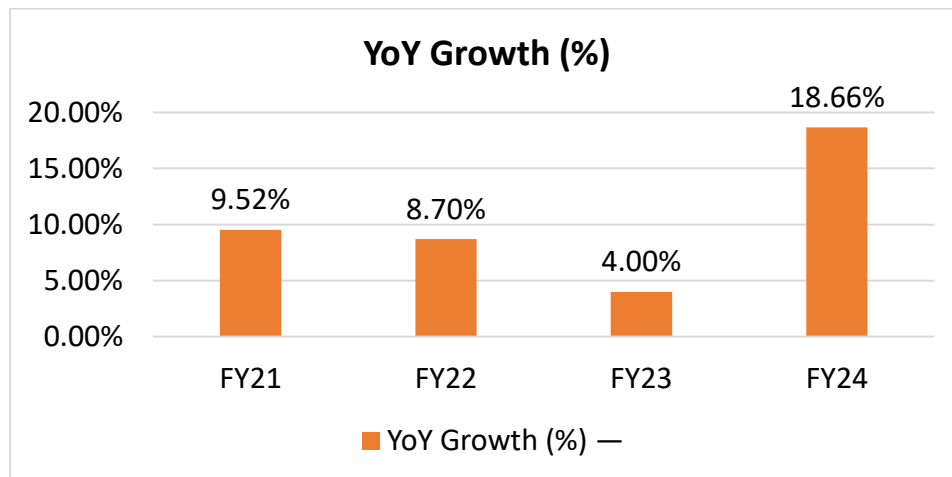


Chart: Showing Loan Disbursement Analysis

INTERPRETATION

The YoY growth shows a fluctuating trend over the years. It starts at 9.52% in FY21 and slightly decreases to 8.70% in FY22. The growth then drops significantly to 4.00% in FY23, indicating a slowdown in loan disbursement. However, in FY24, the growth sharply increases to 18.66%. This sudden rise reflects a strong recovery in lending activities. It may be due to increased demand or improved business strategies. The fluctuation suggests that the company faced temporary challenges but managed to overcome them. Overall, the trend indicates resilience and a return to strong growth performance.

Table 3 GROSS & NET NPA ANALYSIS

Year	Gross NPA (%)	Net NPA (%)
FY20	1.80%	1.20%
FY21	1.50%	1.00%
FY22	1.20%	0.80%
FY23	0.90%	0.70%
FY24	0.70%	0.65%

Source: Company financial statements (2020–2024)

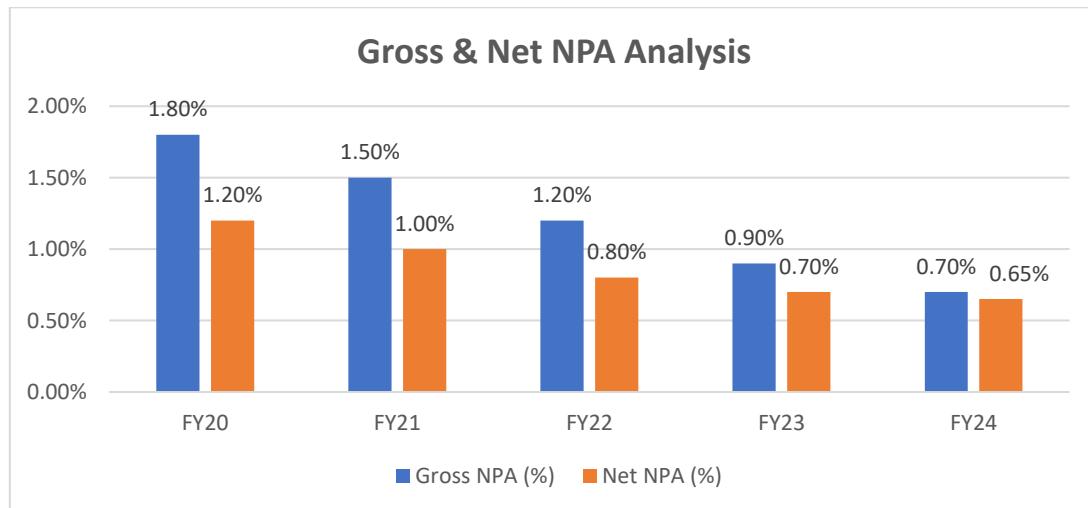


Chart: Showing Gross & Net NPA Analysis

INTERPRETATION

The Gross and Net NPA ratios show a consistent declining trend from FY20 to FY24. Gross NPA reduced from 1.80% in FY20 to 0.70% in FY24, while Net NPA decreased from 1.20% to 0.65%. This steady decline indicates improved asset quality over the years. It reflects effective credit risk management and better recovery practices. The gap between Gross and Net NPA is also narrowing, showing efficient provisioning. Lower NPAs suggest reduced loan defaults and stronger portfolio health. The trend highlights better monitoring and control over credit risk. Overall, it indicates a financially stable and well-managed lending system.

Table 4 LOAN PORTFOLIO COMPOSITION (Gold vs Non-Gold)

Year	Gold Loan Share (%)	Non-Gold Share (%)
FY20	75%	25%
FY21	72%	28%
FY22	70%	30%
FY23	68%	32%
FY24	65%	35%

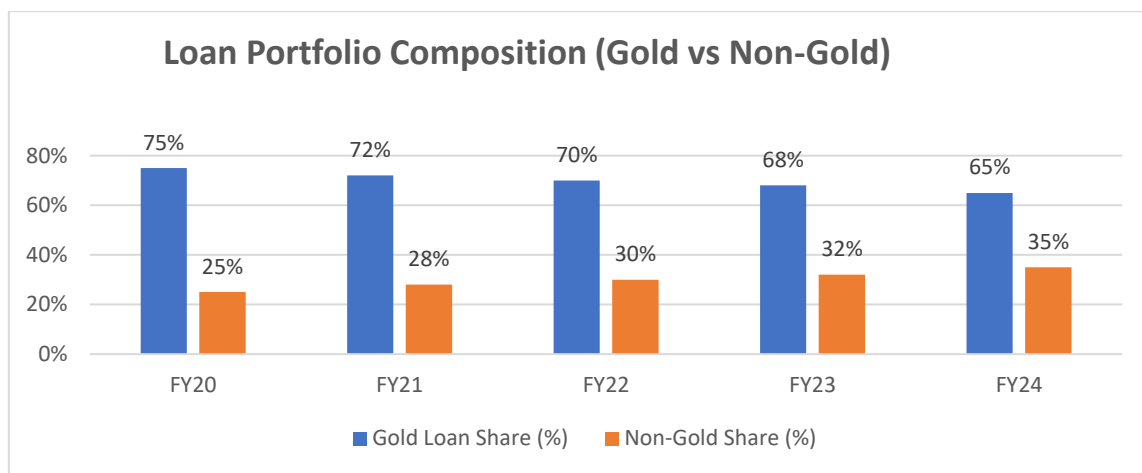


Chart: Loan Portfolio Composition (Gold vs Non-Gold)

INTERPRETATION

The loan portfolio composition shows a gradual decline in gold loan share from 75% in FY20 to 65% in FY24. At the same time, the non-gold loan share has increased steadily from 25% to 35%. This indicates a clear shift in the company’s lending strategy towards diversification. The reduction in gold loans suggests less dependence on secured lending. The rise in non-gold loans reflects expansion into other credit segments. This diversification may increase growth opportunities but also adds higher risk exposure. It shows the company is adapting to changing market demands. Overall, the trend highlights a balanced approach between growth and risk management.

V. FINDINGS, SUGGESTIONS, CONCLUSION

FINDINGS

The study reveals that Muthoot Fincorp Ltd has shown consistent growth in its Assets Under Management (AUM) over the years, indicating expansion in its lending activities and increased credit exposure. The loan disbursement analysis reflects a fluctuating trend, with a temporary slowdown followed by a strong recovery in FY24, highlighting the company’s resilience and ability to adapt to market conditions. A significant decline in both Gross and Net NPA ratios was observed, demonstrating improved asset quality and effective credit risk management practices.

Additionally, the portfolio composition shows a gradual shift from gold loans to non-gold loans, suggesting diversification in lending practices and reduced dependency on secured loans. While this diversification opens new growth opportunities, it also introduces higher risk exposure that needs careful monitoring. The study also finds that the company has effectively implemented credit appraisal techniques, monitoring systems, and recovery strategies to control defaults. Overall, the findings highlight that strong credit risk management practices have contributed to improved financial performance, operational efficiency, and long-term sustainability of the company.

SUGGESTIONS**1. Strengthening Credit Appraisal**

Muthoot Fincorp Ltd should enhance its credit appraisal process by adopting advanced tools such as data analytics, artificial intelligence, and updated credit scoring models to improve the accuracy of borrower evaluation.

2. Effective Monitoring & Early Warning Systems

The company should implement stronger monitoring systems and early warning mechanisms to identify potential defaults at an early stage and take timely corrective actions.

3. Managing Diversification Risk

As the company shifts towards non-gold lending, it should establish strict risk assessment policies and segment-wise lending limits to control higher risk exposure.

4. Improving Recovery Mechanisms

The organization can adopt technology-driven recovery methods such as automated reminders and digital payment options, while maintaining good customer relationships to improve collections.

5. Use of Technology & Innovation

Leveraging digital platforms and automation can reduce operational errors, enhance efficiency, and support faster decision-making in credit risk management.

6. Employee Training & Development

Regular training programs should be conducted for employees to improve their skills in credit evaluation, risk assessment, and recovery practices.

7. Regulatory Compliance & Internal Control

Maintaining strict adherence to RBI guidelines and strengthening internal audit systems will ensure transparency and reduce operational risks.

CONCLUSION

The study concludes that credit risk management plays a crucial role in ensuring the financial stability and growth of Muthoot Fincorp Ltd. The company has demonstrated effective credit appraisal, monitoring, and recovery practices, which have helped in reducing NPAs and improving asset quality. The consistent growth in AUM and loan disbursement reflects strong business performance, while improving profitability ratios indicate efficient utilization of resources. Furthermore, the shift towards non-gold lending shows strategic diversification, though it requires careful risk management to avoid higher defaults. The adoption of modern tools such as credit scoring and data analytics has strengthened decision-making and risk assessment. Overall, the study highlights that a well-structured credit risk management framework not only minimizes financial risk but also supports sustainable growth and competitive advantage in the financial sector.

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