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### An Analytical study of Muthoot Finance on Gold Loan Scheme

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Peer Review Information	Abstract
<p><i>Submission: 27 Jan 2025</i> <i>Revision: 28 Feb 2025</i> <i>Acceptance: 30 March 2025</i></p> <p><b>Keywords</b></p> <p><i>Gold Loan Policy</i> <i>NBFCs</i> <i>Muthoot Finance</i></p>	<p>This research paper examines the gold loan policies and financial services offered by Muthoot Finance, one of India's leading non-banking financial companies (NBFCs). The study assesses interest rates, market influence, customer satisfaction, and competitive comparisons. By analysing these factors, the paper provides insights into how Muthoot Finance has strengthened its position in the gold loan sector.</p>

#### Introduction

Gold loans have gained prominence in India, providing individuals with a quick means to access liquidity by leveraging their gold assets. Muthoot Finance has emerged as a key player in this domain, offering competitive loan schemes with minimal documentation. This paper explores the company's gold loan policies, interest rates, market impact, and customer perspectives while comparing them with industry competitors.

#### Objectives

- To analyse the gold loan policies of Muthoot Finance.
- To study the relationship between loan tenure and default rates.
- To evaluate customer satisfaction and preferences.
- To provide insights for improving gold loan services.

#### Literature Review

- Sharma & Patel (2020):** Investigated gold loans' role in financial inclusion, concluding that NBFCs like Muthoot Finance play a vital role in reaching unbanked populations.
- Rao & Mehta (2019):** Analysed interest rate structures across gold loan providers and found that NBFCs offer more flexible terms than traditional banks.
- Kumar et al. (2021):** Studied customer satisfaction in gold loan services and noted that Muthoot Finance ranks highly in ease of access and service efficiency.
- Banerjee (2022):** Explored digital advancements in gold loan services, emphasizing Muthoot Finance's role in online lending.
- Singh & Verma (2023):** Examined the impact of regulatory changes by the Reserve Bank of India (RBI) on gold loan providers, with insights into Muthoot Finance's compliance strategies.
- Gupta & Sharma (2022):** Investigated customer preferences in gold loan services and highlighted Muthoot Finance's role in providing customized loan solutions.
- Nair & Menon (2021):** Studied the financial performance of NBFCs in the gold loan sector, emphasizing Muthoot Finance's consistent growth and profitability.
- Reddy et al. (2020):** Analysed the risk factors associated with gold loans and how

Muthoot Finance mitigates default risks through its lending policies.

### Hypotheses Framing And Test

**Hypothesis Testing 1:** Customer satisfaction is not significantly influenced by the interest rates of Muthoot Finance's gold loans.

*Null Hypothesis ( $H_0$ ):* Customer satisfaction is not significantly influenced by the interest rates of Muthoot Finance's gold loans.

*Alternative Hypothesis ( $H_1$ ):* Customer satisfaction is significantly influenced by interest rates.

### Chi-Square Test Results:

Customer Satisfaction Level	Low Interest Rate	High Interest Rate	Total
Satisfied	120	80	200
Not Satisfied	50	150	200
<b>Total</b>	<b>170</b>	<b>230</b>	<b>400</b>

The chi-square formula used is:

$$\chi^2 = \sum \frac{(O - E)^2}{E} \quad \chi^2 = \sum \frac{(O - E)^2}{E}$$

O = Observed frequency

E = Expected frequency (calculated as row total × column total / grand total)

**Conclusion:**

The computed chi-square value exceeded the critical value at a 5% significance level, leading to the rejection of the null hypothesis ( $H_0$ ). This indicates a significant relationship between interest rates and customer satisfaction.

### Hypothesis Testing 2: Relationship Between Loan Tenure and Default Rates

*Null Hypothesis ( $H_0$ ):* The loan tenure has no significant effect on the likelihood Default Rates.

*Alternative Hypothesis ( $H_1$ ):* The loan tenure significantly affects the likelihood and Default Rates.

### Chi-Square Test Analysis:

Loan Tenure	Defaulted	Not Defaulted	Total
Short Term	40	160	200
Long-Term	90	110	200
<b>Total</b>	<b>130</b>	<b>270</b>	<b>400</b>

The chi-square test was conducted using the formula:

$$\chi^2 = \sum \frac{(O - E)^2}{E} \quad \chi^2 = \sum \frac{(O - E)^2}{E}$$

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where:

O = Observed frequency

E = Expected frequency (calculated as row total × column total / grand total)

### Conclusion

Upon calculation, the chi-square value was found to be greater than the critical value at a 5% significance level. This leads to the rejection of the null hypothesis, indicating a strong correlation between loan tenure and default rates.

## RESEARCH METHODOLOGY

### Data Sources

- Primary Data: Customer surveys, interviews with staff and borrowers.
- Secondary Data: Company reports, financial statements, market analyses, and academic papers.
- Sampling Method: Stratified random sampling of customers.
- Tools: Questionnaires, financial ratio analysis, and trend analysis.

The research methodology for the study "An Analytical Study of Muthoot Finance on Gold Loan Scheme" outlines the systematic approach used to achieve the objectives of the study. The methodology ensures the collection, analysis, and interpretation of data to address the research questions effectively.

### Research Design

The study adopts a descriptive and analytical research design, which is appropriate for understanding the features of the gold loan schemes and evaluating customer satisfaction, challenges, and the impact of these schemes.

### Data Sources

#### Primary Data:

Data was collected directly from customers and employees of the branch of Muthoot Finance using the following tools:

- Structured Questionnaires: Designed to gather customer feedback on their awareness, satisfaction, and challenges regarding gold loan schemes.
- Interviews: Conducted with branch employees to understand operational challenges and strategies.

#### Secondary Data:

Information from company reports, brochures, official websites, and industry publications. Additionally, data from research papers, journals, and government reports related to gold loans and financial inclusion were reviewed.

### Sampling Methodology

- **Target Population:**

Customers of the branch who have availed of gold loan schemes, and branch employees involved in the operations.

- **Sampling Technique:**

A stratified random sampling method are used to ensure that customers from different socioeconomic backgrounds and loan categories are represented.

- **Sample Size:**

Approximately 400 customers are included, depending on feasibility and availability.

### Research Instruments

- **Questionnaires:** Structured and semi-structured questionnaires designed with close-ended and open-ended questions for customers and employees.

- **Observation:** Direct observation of branch operations to understand the loan disbursement process and customer interactions.

### Data Collection Process

Customers was approached during their visits to branch and other places.

### Hypothesis Testing Results

Hypothesis Testing:	Hypothesis	Results
Hypothesis 1	Customer satisfaction is not significantly influenced by the interest rates of Muthoot Finance's gold loans.	Rejected
Hypothesis 2	The loan tenure significantly affects the likelihood and Default Rates.	Accepted

### Findings And Discussion

#### Gold Loan Policies

Muthoot Finance offers diverse gold loan schemes with minimal paperwork and quick processing. The company provides varying interest rates and loan-to-value (LTV) ratios to cater to different customer requirements. Flexible repayment options and transparent procedures contribute to its strong market appeal.

#### Interest Rates and Market Impact

Interest rates on gold loans range from 9% to 26% per annum, depending on the loan scheme.

Compared to banks, Muthoot Finance offers higher LTV ratios, making its services more attractive. Its extensive branch network and digital initiatives have strengthened its market presence.

### Competitive Analysis

Muthoot Finance faces competition from Manappuram Finance, traditional banks, and fintech startups. While banks offer lower interest rates, their stringent eligibility criteria and lengthy processing times make NBFCs like Muthoot Finance a preferred choice. Although Manappuram Finance remains a key competitor, Muthoot Finance enjoys a larger market share.

### Customer Satisfaction

Customer reviews highlight Muthoot Finance's fast processing, ease of access, and reliability. However, some concerns exist regarding higher interest rates for long-tenure loans. The company's digital loan services and customer support enhance borrower convenience.

### Conclusion

This study highlights the significant role of Muthoot Finance in India's gold loan industry. By offering flexible loan options, higher loan to-value ratios, and quick disbursal processes, the company has positioned itself as a preferred choice for borrowers seeking instant liquidity. The analysis reveals that interest rates have a substantial impact on customer satisfaction, indicating that competitive pricing strategies can enhance borrower retention. Additionally, the loan tenure plays a critical role in default rates, emphasizing the need for effective risk management policies.

Despite facing competition from banks and other NBFCs, Muthoot Finance maintains a strong market presence due to its extensive branch network and digital loan services. The study underscores the importance of customer-centric policies and technological advancements in sustaining leadership in the gold loan sector. Future research could focus on the impact of fintech innovations and evolving regulatory frameworks on gold loan providers.

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