

# Customer's Perception Towards Muthoot Finance Ltd. - A Study in Thoothukudi

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**G. Maria Delicia Helina**

**Assistant Professor & Head,  
Department of Commerce ,  
Holy Cross Home Science College,  
Thoothukudi , Tamil Nadu, India**

## Abstract

*At present in India Gold loans can be availed from co-operative banks, public sector banks, private sector banks and other private lenders. Some banks, however, offer it only in certain regions, while private lenders process the loan in less than a couple of hours, some co -operative and public sector banks may take up to a day to issue the loan. Muthoot Finance falls under the category of NonBanking Financial Company (NBFCs) of the RBI guidelines. The present paper identifies the various factors which are considered by borrowers while availing the gold loan and the various reasons for opting Muthoot Finance for availing gold loan .The study also identifies the various demographic factors like gender, age, income level, educational background of the borrowers which have an impact in opting Muthoot Finance for availing gold loan.*

## I. INRODUCTION

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, they are fast emerging as an important segment of Indian financial system. It is an heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways engaged in the business of loans and advances, acquisition of shares, stock, bond purchase, Insurance business, or chit business: but does not include any institution whose principal business is that includes agriculture or industrial activity; or the sale, purchase or construction of immovable property. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme of arrangement or any other manner, or lending in any manner is also a non-banking financial company

(residuary non-banking company). These companies play an important role in providing credit to the unorganized sector and to the small borrowers who are neglected by the banks at the local level. NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices. They raise funds from the public, directly or indirectly, and lend them to ultimate spenders. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons. Thus, they have broadened and diversified the range of products and services offered by a financial sector. Gradually, they are being recognized as complementary to the banking sector although they are not better than private banks in terms of facilities provided but still they are for their customer-oriented services; simplified procedures; attractive rates of return on deposits; flexibility and timeliness in meeting the credit needs of specified sectors; etc.

## **II. STATEMENT OF THE PROBLEM**

India's financial services sector is comprised not just of banks but also non-banking financial companies. The role of NBFCs is important to the economy, when a large part of the population still lives in rural/semi-urban areas. With an economic revival is pegged to the development of rural and sub urban economies, NBFCs' role in deposit mobilization and credit extension can hardly be over emphasized. NBFCs being an effective intermediary has been well recognized, with the core strengths of NBFCs being strong customer relationships, excellent understanding of regional dynamics, well-developed collection systems and personalized services. In this function, they are perceived to be playing a complimentary role to banks rather than being competitors, reaching out in areas where banks have a limited presence. Competition for NBFCs has mainly emerged from the new private sector banks and foreign banks. The competitive environment is augmented by deregulation of interest rates, easy accessibility to capital market, relaxation of entry norms and the entry of new firms in the financial service sector including the multinationals.

At the same time, NBFCs have also created a niche for themselves in terms of product profile, thereby providing a fillip to the growth and development of respective sectors of their operations. NBFCs bring the much-needed diversity to the financial sector, thereby diversifying risks, increasing liquidity in the market, thus promoting financial stability and bringing efficiency to the financial sector.

Customers are also becoming more demanding, for this purpose NBFCs need to understand the requirements of their customers. These institutions are depended upon by poor people prone to some drawbacks in formal financial system. The NBFCs however is not a risk free finance offered to poor. The risks involved relates to payment of slightly high interest rate compared to the rate charged by the formal financial system. However, the benefits and convenience of NBFCs in terms of lower importance for collaterals, easy

access, simplified procedural formalities and availability in short notice were attracting borrowers particularly in the rural and urban environment.

In view of different categories of customers, there is a need to NBFCs to frame a well thought customer oriented product planning and pricing strategy with a commitment to add value to customers. This approach enables NBFCs legitimize their presence amidst volatile, and competitive environment.

Against this background, a need is felt to study the attitude and satisfaction of rural and urban borrowers under the NBFCs finance from Thoothukudi District.

### III. OBJECTIVES OF THE STUDY

- [1] To evaluate the NBFCs complimentary role to bank and to study the position of Muthoot Finance with reference to lending practices of Gold Loan in Thoothukudi District.
- [2] To ascertain the customers profile of Muthoot Finance of Thoothukudi District.
- [3] To find out the various leading factors influencing the customers in selection of Muthoot Finance for availing Gold loan.

### IV. HYPOTHESIS

In order to meet the above objectives this study has chosen attributes of customer satisfaction level regarding the lending practices of Muthoot Finance of Thoothukudi District.

**H<sub>1</sub>** There is a correlation between the income level of borrowers & reasons for choosing Muthoot finance.

**H<sub>0</sub>** There is no correlation between the age of borrowers & awareness about various institutions providing gold loan

**H<sub>1</sub>** There is a correlation between the age of borrowers & awareness about various institutions providing gold loan.

### V. SCOPE OF THE STUDY

This study gives importance to all the borrowers' preference towards NBFCs .The study is based on the data provided by the respondents of rural and urban borrowers belonging to the Thoothukudi District on the basis of NBFCs through a structured questionnaire covering preference, individual level awareness, opinion, attitude, factors influencing, selection of NBFCs and level of satisfaction of borrowers.

### VI. RESEARCH METHODOLOGY

The study has pre-determined objectives and methodology; it is both descriptive and analytical in nature. Apart from this, the study observes the customers' individual level awareness, opinion, satisfaction and attitude on Muthoot Finance of Thoothukudi District.

### 6.1 Source of Data

The primary data required for the study will be collected by way of well-structured questionnaire finalized after a pilot study. The present study is based on the primary data collected from the Borrowers of NBFCs of Thoothukudi District. Literature survey consists of different thesis literatures like books, published articles and websites.

### 6.2 Sampling Procedure of the Study

Borrowers of NBFCs constitute the universe of the study. All the borrowers belonging to the Thoothukudi District on the basis of NBFCs represented the sampling frame. A sample of 50 customers who are directly associated with the banks will be approached for the study adopting random sampling technique. The information has been collected through structured questionnaire. Since the NBFCs refused to provide the list of customers, the questionnaires were got filled up from the customer personally visiting to the bank premises.

### 6.3 Framework of Analysis

Statistical tool SPSS 20.0 will be used to classify and analyze the data collected in the surveys undertaken. For the purpose of analysis inferential statistics, ANOVA, t-Test, Chi Square Test, Correlation, Regression and Factor Analysis will be applied.

### 6.4 Limitation of the Study

The study is limited to Gold loan under the Muthoot Finance of Thoothukudi District.

## VII. REVIEW OF LITERATURE

The following studies relating to loan borrower's satisfaction enabled to identify the research gap to identify the researchable questions:

**Douglas Musiega (2014)** focus on borrower characteristics on loan repayment in commercial banks among 105 respondents adopting random sampling method revealed a significant positive correlation between borrowers behaviour during credit accessibility or after acquiring credit from the bank and had a lot of effect on determining the relationship formed during the lending process in terms of effectiveness and efficiency of loan repayment.

**Berekela Abraham Diro, SureshVadde (2014)** determines the effects of microloans on the livelihood of beneficiaries. Microloan programs reduce poverty by improving socio-economic situation of low income and poor people based on voluntary participation. The livelihood status of the people who availed the loan facility has improved in the long run.

**Arpita Sharma's (2014)** study revealed that, agriculture financing by co-operative credit societies have been important sources of credit to farmers. Farming was carried out in a traditional way as the credit needs of the farmers were limited and was met by the money lenders, relatives, and friends and to some extent by Taccavi loans from government.

**Baby's (2014)** study analysed the sources of rural credit and classified agriculture financing into non-institutional and institutional support. Institutions found it

challenging to provide cost-effective and affordable service to small farmers, hence most of the small farmers’ preferred non-institutional finance.

**Amiya Kumar Mohapatra (2014)** viewed that agricultural co-operative credit societies have been played a vital role in meeting the credit needs of rural farmers and artisan protecting from the clutches of money lenders. The legal entities provided credit and credit linked facilities to the small and marginal farmers at a relatively lower cost with minimum formalities.

**Abhijit Sarkar’s (2014)** study revealed that most important pre-request for significant progress in the agricultural sector was the availability of credit through institutional or non-institutional sources leading to higher investment in agricultural. Cooperatives, Scheduled commercial banks and Regional Rural Banks advanced credit for the development of agricultural and allied sectors.

**Suresh (2015)** study on impact of micro finance on SHGs in Karnataka concludes that, there is a vast scope for micro entrepreneurial activities in rural as well as urban areas. Women share in rural employment has increased significantly. More and more SHGs have to be developed to support the neglected groups leading to balanced socio-economic development of the country.

**About Muthoot Finance:** The origins of Muthoot Finance can be traced back to 1939 when M.George Muthoot ventured into financial services through a partnership firm under the name of Muthoot M. George & Brothers (MMG). MMG was a Chit Fund based out of Kozhencherry. In 1971, the firm was renamed as Muthoot Bankers, and had begun to finance loans using gold jewellery as collateral. The operations of Muthoot Bankers was then renamed and incorporated as Muthoot Finance in 2001. Muthoot Finance falls under the category of systematically important Non-Banking Financial Company (NBFCs) of the RBI guidelines. The company has more than 3,510 branches spread across 23 states of the country and is the largest gold loan company in India. Muthoot Finance, according to the IMaCS Research & Analytics Industry Reports [Gold Loans Market in India, 2009 (“IMaCS Industry Report 2009”) and the 2010 update to the IMaCS IndustryReport 2009 (“IMaCS Industry Report (2010 Update)”), is the largest Gold Loan NBFC and has the largest network of branches for a Gold Loan NBFC in India. Muthoot Finance is also the highest credit rated Gold Loan Company in India, with a credit rating of AA- (CRISIL) and LAA-(ICRA).

**VIII. DATA ANALYSIS**

**Table 1: Gold loan Business in India**

Gold Loan providers	Gold Loan market Share (%)		
	FY 15	FY 16	FY 17
Muthoot Finance	11.0	13.4	19.5
Indian Overseas Bank	13.1	12.6	13.9
Indian Bank	13.2	13.2	10.4
Manappuram	3.7	4.9	6.8
South Indian Bank	4.7	6.1	6.3



Muthoot Finance Corp.	3.6	4.8	5.9
State Bank of Travancore	8.9	6.4	5.1
Andhra Bank	3.1	3.6	3.7
Federal Bank	4.7	4.3	2.3
Total Gold Loan (Rs. in bn)	129.1	246.3	376.4

Source: IMacs Industry Report

**Table 2: Demographic Profile of Respondents**

Demographic Profile of Respondents			
Characteristics		No. of Respondents	Percentage
<b>Total No. of Respondents</b>		<b>50</b>	<b>100</b>
Gender	Male	41	82
	Female	9	18
	Total	50	100
Age	21 to 25	5	10
	26 to 30	10	20
	31 to 35	26	52
	36 to 40	3	6
	41 to 45	0	0
	46 & above	6	12
	Total	50	100
Qualification	Non Matriculate	8	16
	Matriculate	11	22
	Pre University	9	18
	Degree	16	32
	Post Graduate	3	6
	Others	3	6
	Total	50	100
Monthly Income	5000 to 10000	33	66
	10001 to 15000	11	22
	15001 to 20000	4	8
	20001 to 25000	0	0
	Above 25000	2	4
	Total	50	100
No. of	Nil	0	0

Dependents	1 to 2	9	18
	3 to 4	21	42
	More than 4	20	40
	Total	50	100

Source: Primary Data from Survey

The demographic data presented in the table 1 indicates that 10 percent of the respondents fall in the age category of 21 to 25 years, 20 percent of the respondents are in the age group of 26 to 30 years, whereas 52 percent of the respondents came in the age group of 31 to 35 years, 6 percent belong to age category of 36 to 40 years, whereas only 12 percent of the respondents fall in the category of 46 & above. 82 percent of the respondents were male & 18 percent were female. Educational profile of the respondents indicates that 32 percent are graduates, 22 percent are matriculate, 18 percent are 10+2, 16 percent are non-matriculate, 6 percent are post graduate, whereas 6 percent possess other qualification. The analysis also reveals that 22 percent of the respondents had a monthly income of Rs. 10001 to 15000, 8 percent fell in the income category of 15001 to 20000 whereas majority of the respondents i.e. 66 percent were in the bracket of 5000 to 10000 & only 4 percent had a monthly income of above 25000. The information related to number of dependents indicates that 42 percent of the respondents have a family size of 3 to 4 members, 40 percent have more than 4 members whereas only 18 percent have 1 to 2 dependents.

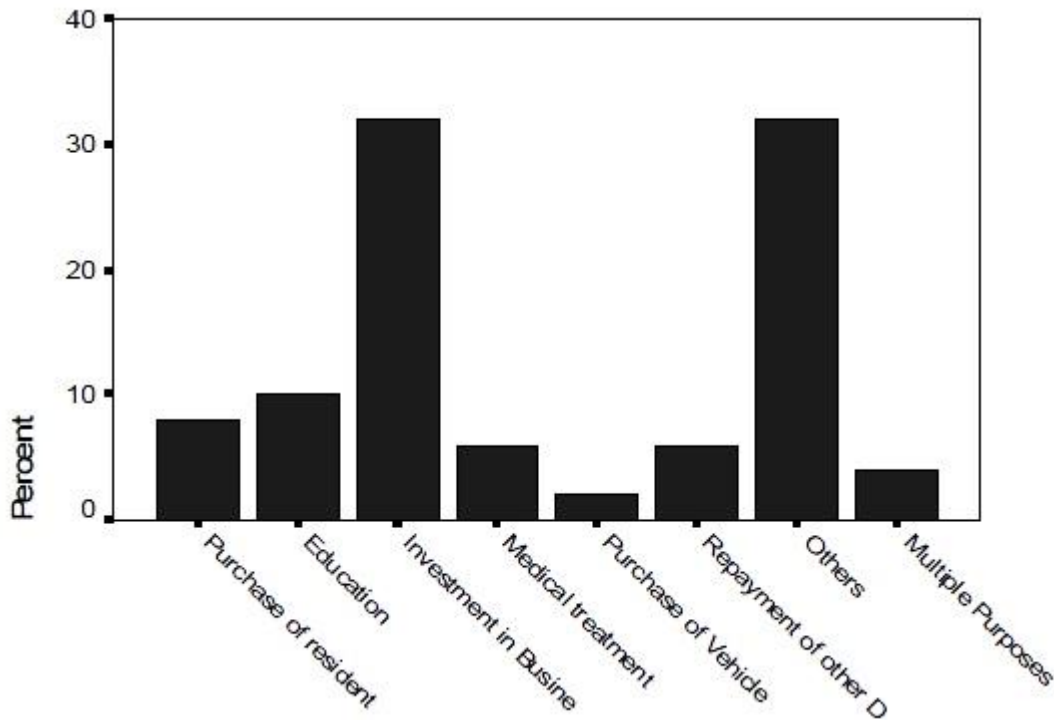
**Table 3: Purpose of Gold Loan**

Purpose	Frequency	Percent	Valid Percent	Cumulative Percent
Purchase of residential property	4	8.0	8.0	8.0
Education	5	10.0	10.0	18.0
Investment in Business or profession	16	32.0	32.0	50.0
Medical treatment	3	6.0	6.0	56.0
Purchase of Vehicle for personal use	1	2.0	2.0	58.0
Repayment of other Debts	3	6.0	6.0	64.0
Others	16	32.0	32.0	96.0
Multiple Purposes	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Primary Data from Survey

**Interpretation:** The study reveals that 32 percent of the respondents avail gold loan for investing it in business or profession, 10 percent of the respondents had availed the loan for education of self & dependents, 8 percent have availed the loan for purchase/construction of the residential house, 6 percent for meeting emergency medical expenses, 6 percent has taken the gold loan for repayment of other debts, whereas 32

percent of the respondents have taken the loan for other purposes like they support their relatives & friends who are in need.



**Graph 1: Purpose of Gold Loan**

**Table 4: Correlations between the Gender of the borrower & the purpose of the gold loan**

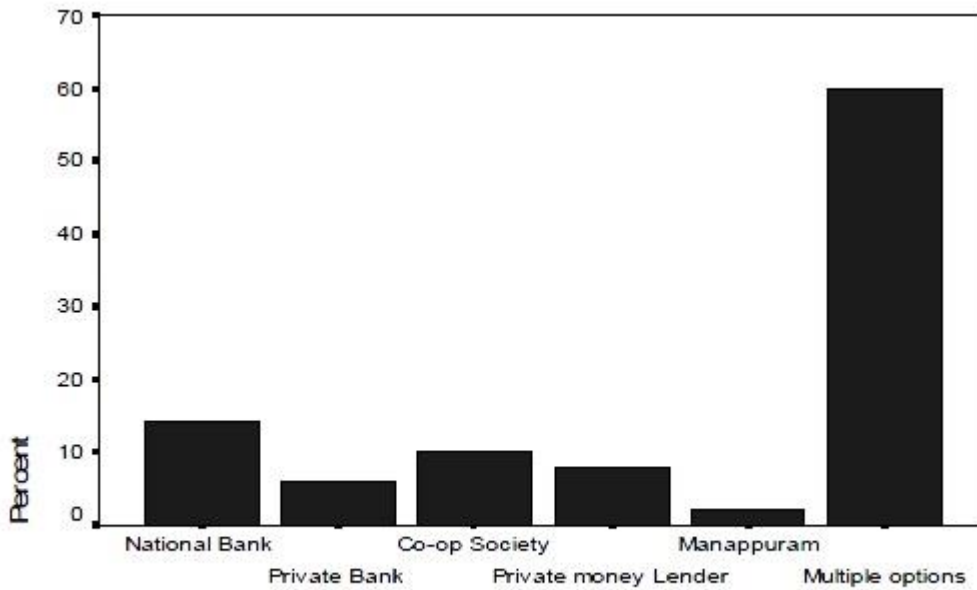
		Gender	Purpose
<b>Gender</b>	Pearson Correlation	1.000	.000
	Sig. (2-Tailed)	.	.998
	N	50	50
<b>Purpose</b>	Pearson Correlation	.000	1.000
	Sig. (2-Tailed)	.998	.
	N	50	50

Correlation analysis between the gender of the borrower & the purpose of the gold loan shows that there is no correlation.

**Table 5: Awareness among Respondents regarding Gold Loan providers**

Awareness	Frequency	Percent	Valid Percent	Cumulative Percent
National Bank	7	14.0	14.0	14.0
Private Bank	3	6.0	6.0	20.0
Co-op Society	5	10.0	10.0	30.0
Private money Lenders	4	8.0	8.0	38.0
Manappuram	1	2.0	2.0	40.0
Multiple options	30	60.0	60.0	100.0
Total	50	100.0	100.0	





**AWARENES**

**Graph 2: Awareness among Respondents regarding Gold Loan providers (Institutes)**  
 Source: Primary Data from Survey

**Interpretation:** Research indicates that 60 percent of the respondents are aware about various other institutions providing gold loan in Belgaum, 14 percent are aware about the nationalized banks, 10 percent are aware about co-op Societies providing gold loan, 8 percent are aware about private money lenders, 6 percent are aware about private banks, whereas 2 percent are aware about the Manappuram.

**Table 6: Frequency distribution showing cross tabulation between Age & Awareness**

Age		Awarenes						Total
		Nation Al Bank	Private Bank	Co-Op Society	Private Money Lenders	Manappuram	Multipl E Options	
21 to 25	Count	1			1		3	5
	% within AGE	20.0%			20.0%		60.0%	100.0 %
26 to 30	Count	1	1				8	10
	% within AGE	10.0%	10.0%				80.0%	100.0 %
31 to 35	Count	4	2	4	2	1	13	26
	% within AGE	15.4%	7.7%	15.4%	7.7%	3.8%	50.0%	100.0 %
36 to 40	Count				1		2	3
	% within AGE				33.3%		66.7%	100.0 %

<b>46 &amp; above</b>	Count	1		1			4	6
	% within AGE	16.7%		16.7%			66.7%	100.0%
<b>Total</b>	Count	7	3	5	4	1	30	50
	% within AGE	14.0%	6.0%	10.0%	8.0%	2.0%	60.0%	100.0%

**Table 7: Correlations between the Age of the borrower & the Awareness about various Institutions providing gold loan**

		Age	Awareness
<b>Age</b>	Pearson Correlation	1.000	-.014
	Sig. (2-Tailed)	.	.923
	N	50	50
<b>Awareness</b>	Pearson Correlation	-.014	1.000
	Sig. (2-Tailed)	.923	.
	N	50	50

Correlation analysis between the Age of the borrower & the Awareness about various Institutions providing gold loan shows that there is a very weak negative correlation.

**Table 8: Frequency distribution showing cross tabulation between Income level & reasons**

Income		Reasons				Total
		Low Or Less Rate Of Interest	Easy Processing	Convenience	Multiple Options	
5000 To 10000	Count	6	4	3	20	33
	% Within Income	18.2%	12.1%	9.1%	60.6%	100.0%
10001 To 15000	Count		1		10	11
	% Within Income		9.1%		90.9%	100.0%
15001 To 20000	Count	1	1		2	4
	% Within Income	25.0%	25.0%		50.0%	100.0%
25000 & Above	Count				2	2
	% Within Income				100.0%	100.0%
Total	Count	7	6	3	34	50
	% Within Income	14.0%	12.0%	6.0%	68.0%	100.0%

**Table 9: Chi-Square Test**

	Value	df	Asymp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	6.611	9	.678
<b>Likelihood Ratio</b>	9.297	9	.410
<b>Linear-by-Linear Association</b>	1.204	1	.273
<b>No. of Valid Cases</b>	50		

14 cells (87.5%) have expected count less than 5. The minimum expected count is 12. Calculated value of chi-square is 6.611 & the table value at 5% significance level & 9 degree of freedom is 16.92. As the calculated value of chi-square is less than the critical value, alternative hypothesis is rejected & Null hypothesis is accepted, which signifies that there does not exist a relation between the Income level of the borrower & the Reasons for choosing Muthoot finance for availing Gold loan.

**Table 10: Correlations between the Income level of the borrower & the reasons for opting Muthoot finance for availing gold loan**

		Income	Reasons
<b>Income</b>	Pearson Correlation	1.000	.139
	Sig. (2-tailed)	.	.335
	N	50	50
<b>Reasons</b>	Pearson Correlation	.139	1.000
	Sig. (2-tailed)	.335	.
	N	50	50

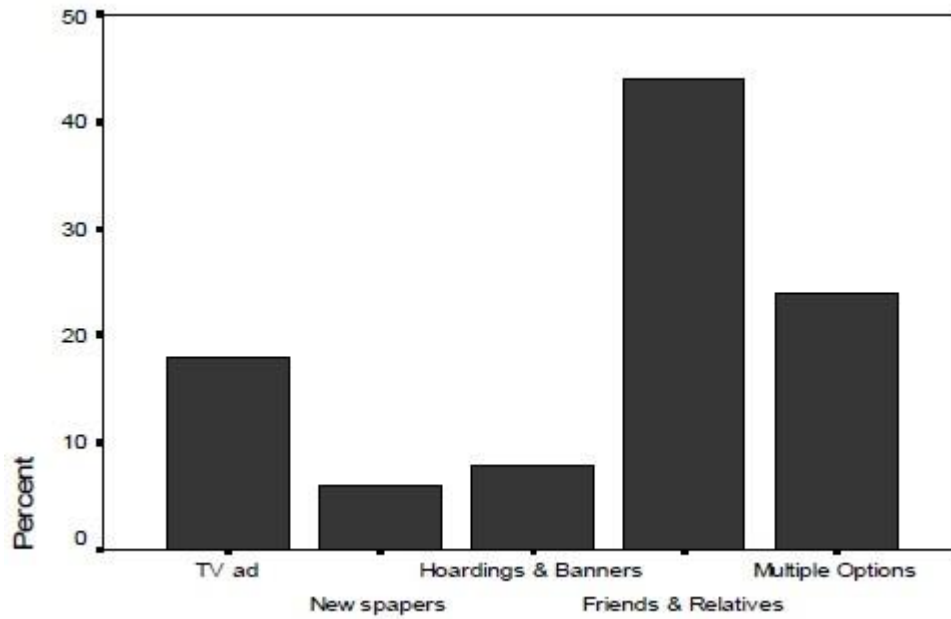
Correlation analysis between the Income level of the borrower & the reasons for opting Muthoot Finance for availing gold loan shows that there exists a negligible positive correlation.

**Table 11: Source of information about Muthoot Finance**

Source	Frequency	Percent	Valid Percent	Cumulative Percent
<b>TV ad</b>	9	18.0	18.0	18.0
<b>Newspapers</b>	3	6.0	6.0	24.0
<b>Hoardings &amp; Banners</b>	4	8.0	8.0	32.0
<b>Friends &amp; Relatives</b>	22	44.0	44.0	76.0
<b>Multiple Options</b>	12	24.0	24.0	100.0
<b>Total</b>	50	100.0	100.0	

Source: Primary Data from Survey

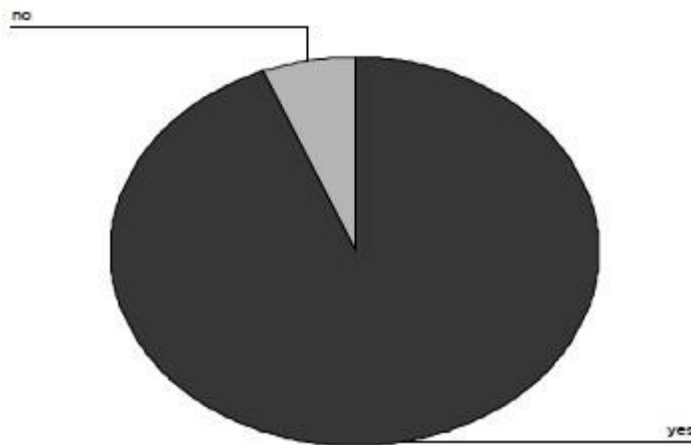
**Interpretation:** The analysis indicates that the 44 percent of the respondents have come to know about Muthoot Finance through their Friends or Relatives, 18 percent came to know through TV ads, 8 percent through Hoardings & banners, whereas 6 percent through Newspapers.



**Table 12: Level of satisfaction with reference to the services provided by Muthoot Finance**

Satisfaction	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	47	94.0	94.0	94.0
No	3	6.0	6.0	100.0

Source: Primary Data from Survey



**Graph 5: Level of satisfaction with reference to the services provided by Muthoot Finance**  
 Interpretation: 94 percent of the respondents are satisfied with the services provided by the Muthoot Finance.

**Table 13: Reasons for opting Muthoot Finance for Gold loan**

Reasons	Frequency	Percent	Valid Percent	Cumulative Percent
Low or Less rate of Interest	7	14.0	14.0	14.0
Easy processing	6	12.0	12.0	26.0

Convenience	3	6.0	6.0	32.0
Multiple Options	34	68.0	68.0	100.0
Total	50	100.0	100.0	

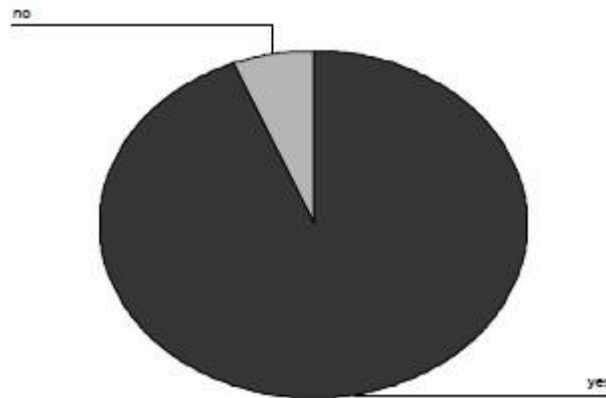
Source: Primary Data from Survey

**Interpretation:** The survey reveals that 68 percent of the respondents opted Muthoot Finance for obtaining Gold loan because of various factors like Low interest rate, Easy processing & Convenience while taking a Gold loan.

**Table 13: Prospects for Muthoot Finance**

Prospects	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	40	80.0	80.0	80.0
No	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Source: Primary Data from Survey



**Graph 6: Prospects for Muthoot Finance**

**Interpretation:** The study discloses that 80 percent of the present loan takers are willing to avail the loan from Muthoot Finance in future also.

## IX. CONCLUSION

This study identifies that Muthoot Finance Ltd. has a very strong position in the gold loan market when compared with other loan providers in the same segment. The study also identifies the various demographic factors like gender, age, income level, educational background of the borrowers which have an impact in opting Muthoot Finance for availing gold loan. The null hypotheses are accepted & the alternative hypotheses are rejected based on the Chi-square test & correlation analysis.

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