

A STUDY OF PERFORMANCE ANALYSIS OF GOLD LOAN NBFCS BASED ON CAMELS MODEL

DEEPTI SHASTRI GUPTA

Assistant Professor
Institute of Business Management and Research
IPS Academy, Indore (M.P.)
Email:deeptishastrigupta@ipsacademy.org

DR. VIVEK SINGH KUSHWAHA

Director
Institute of Business Management and Research
IPS Academy, Indore (M.P.)
Email: directoribmr@ipsacademy.org

ABSTRACT

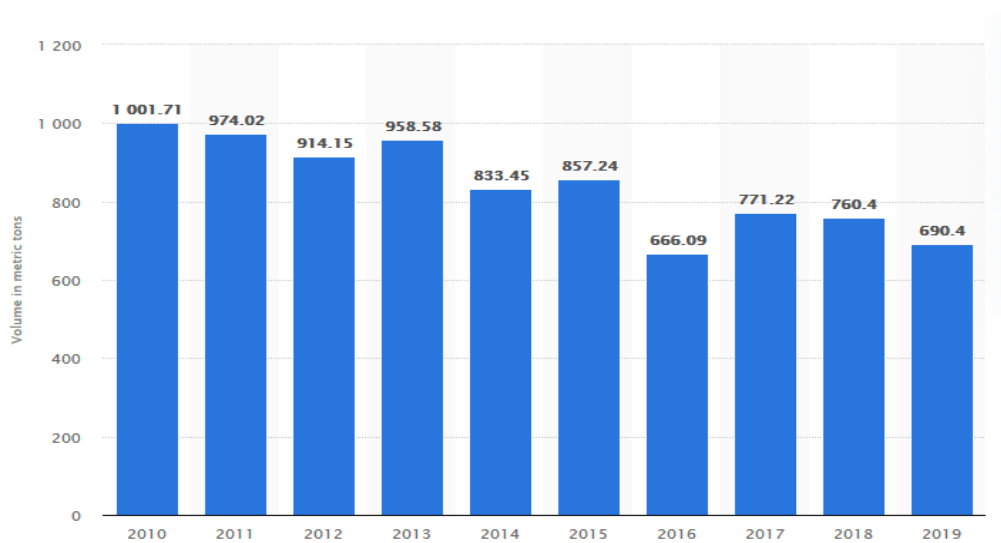
Industry 4.0 has also shown a major influence on the contemporary industrial economy. Moreover, in the coming years, the potential effect of I-4 will become immense, since virtually all industry and business sectors are making all their effort to use industry 4.0 's strength.It is acknowledged that India is the world's biggest importer of gold. Indians are highly intrigued and have heavy feelings about gold. As a result, there has also been good growth over the past few years in the gold loan industry. Looking to the India's economic growth and financial inclusion perspective, gold lending NBFCs have, on the one hand, made a major contribution by monetising the country's idle gold supply and on the other hand, the NBFCs gold loan meets the customer funding needs particularly of rural and unbanked communities of India. The vigorous growth and hostility of these gold loans by NBFCs in penetrating the potential gold loan market demanded a performance analysis of these Gold Loan NBFCs. The two giant gold loans NBFCs Manappuram Finance Ltd. and Muthoot Finance Ltd have been considered to analyse the financial performance based on elaborate and pertinent ratios using CAMELS model. The present study found that, Muthoot Finance Ltd scores better than Manappuram Finance Ltd in terms of Earnings Ratios; both the companies have near similar Capital Adequacy Ratio; in terms of Net NPA Ratio, Manappuram Finance Ltd scores better than Muthoot Finance Ltd. The study also has evidence that the two companies have displayed proclivity in their Liquid Assets Ratio and Debt to Equity Ratio.

Key Words: Gold, Gold Loan, NBFCs, CAMELS Model, t-test.

INTRODUCTION

Gold has always remained a centre of attraction for mankind since the beginning of civilization. From the centuries mankind has strong impulse to own the precious yellow metal. Gold is considered on the whole a valuable asset and an emblem of wealth and prosperity. In India, the demand for gold is influenced due to various factors such as socio-cultural and economic factors. As a custom, gold is used and gifted in the form of jewellery on distinct social ceremonies such as weddings and other auspicious occasions. For the centuries the Indian people believes that gold has a 'store value' and has been the most preferred investment avenue. Gold is a liquid asset, ability to beat inflation and the last resort in the period of economic and financial distress. India has been the largest importers of gold in the world. According to World Gold Council, India has more than 10 per cent of the total world's gold stock in its possession. A study of World Gold Council reveals India's accumulated gold stock ranges in between 24000 to 25000 tonnes. In 2019, annual demand of gold is 690.4 metric tonnes which is the third highest annual volume in the world.

Figure 1 Annual demand volume of gold across India from 2010 to 2019 (in metric tons)-



Source- World Gold Council

Due to huge gold stock in the country and greater than ever trend of borrowings against gold have motivated and encouraged NBFCs to emerge as a 'specialized gold loan companies'. These NBFCs plays an active role in the process of economic growth of the country by monetizing the idle gold stock of the country on one hand and fulfilling the short term financing needs of the people on the other hand.

To capture the increasing demand of the gold loans, gold loan NBFCs are expanding their operations at much faster pace by opening their new branches throughout the country. This may draw investor's attention towards risk into these types of NBFCs. Moreover, the recent financial crisis of IL&FS also point out the need of more rigorous and frequent examination of non-banking entities. Present study is an attempt to inspect financial performance based on CAMELS model which similar to supervisory criteria followed for banking entities in India.

MANAPPURAM FINANCE LIMITED

Manappuram Finance Ltd. is the most popular gold loan provider NBFC incorporated in 1992. It offers a variety of financial services including Gold Loan, Micro Finance Loans, Vehicle and Equipment Finance, Housing Finance and Other on-lending and insurance products. The above graph shows a well-diversified portfolio including its core business of Gold Loan. Gold loan is the highest contributing part in building AUM with 67.4% share in AUM for Q3 of financial year 2020.

MUTHOOT FINANCE

Muthoot Finance Ltd. is India's biggest gold financing company in terms of loan portfolio. Its operations are pan-India in the gold loans sector. Muthoot Finance Ltd It is the largest gold financing company in India in terms of loan portfolio. Gross loans are around Rs.34,246 Cr comprising approximately 90% of total loan portfolio.

Table 1 Comparison of Gold Loans Provided by Manappuram Finance Ltd and Muthoot Finance Ltd

| Comparison Criteria | Manappuram | Muthoot |
|----------------------|---|---|
| Eligibility | Anyone above 18 years of age with gold jewellery of 18 carats or more to pledge | Anyone above 18 years of age with gold jewellery of 18 carats or more to pledge |
| Max/Min Loan Amount | Up to Rs 1 crore | Rs. 1,500 to Rs. 1 crore |
| Loan Tenure | Up to 12 months | Up to 15 months |
| Interest Rate | Base rate + 3% onwards | 14% onwards |
| Processing Fees | Up to Rs. 200 | Up to Rs. 500 |
| Prepayment charges | No prepayment penalty charges | No penalty charges for prepayment |
| Late Payment Charges | 3% on the outstanding principal amount from the date of default | Penal interest rate depends on various factors and is printed on the loan agreement |

THE CAMELS MODEL

In the U.S., the CAMELS Rating System was developed as a supervisory rating system to determine the financial health of a bank. CAMELS is an acronym reflecting the six variables that are taken into consideration for the ranking. The CAMELS ranking is not issued to the media, unlike other regulatory measurements or scores. It is only used to consider and control future risks through top management. On a scale of 1 to 5, supervisory authorities use scores to rank each bank. The power of CAMEL lies in its capacity to recognise sustaining and collapsing financial institutions.

The components of CAMELS are:

(C)apital adequacy

(A)ssets

(M)anagement capability

(E)arnings

(L)iquidity

(S)ensitivity

CAPITAL ADEQUACY

Capital adequacy assesses conformity of an organisation with minimum capital reserves level legislation. Regulators determine a ranking by measuring the existing and multi-year capital status of a financial institution. The future capital state is estimated on the basis of future intentions of the institution, such as whether they intend to offer dividends or buy another company. The CAMELS inspector will also look at pattern research, capital structure, and capital liquidity.

ASSETS

The quality of assets is significant, when if they are high risk, the value of assets will decline rapidly. Loans, for example, are a form of asset that can be compromised if money is lent to a person at high risk. Along with credit threats such as interest rate risk and liquidity risk, the investigator looks at the bank's lending policy and loan activities. Consideration is given to the efficiency and patterns of global properties. If a financial company has a history of losing value from significant investments because of credit risk, they will earn a lower ranking.

EARNINGS

Earnings help measure the long term sustainability of an institution. To be able to expand its operations and sustain its competitiveness, a bank wants an acceptable return. Specifically, the investigator investigates the stability of sales, the return

on assets (ROA), the net interest margin (NIM) and the potential for future profits under harsh economic circumstances. The key earnings are the most important when determining earnings. The core earnings are an institution's long-term and predictable earnings that are influenced by the cost of one-time products.

LIQUIDITY

For banks, liquidity is extremely critical as a bank run might result from the absence of liquid resources. The interest rate risk and liquidity risk are discussed in this group of CAMELS. Interest rates impact benefit from the company division of the financial markets of a bank. If the risk of the interest rate is high, the value of the fund and the loan portfolio of the organisation would be unpredictable. Current and potential cash flow conditions without impacting every day activities are defined as the risk of liquidity.

SENSITIVITY

The last group is sensitivity and the organisation tests its business risk sensitivity. The oil loan market, medical loan and agricultural lending can be measured, for example. Sensitivity indicates the amount of benefit that can all be conveyed by Beta that influences interest rates, exchange rates and product prices. A score is given from one to five for each group. One is the highest score which reflects good institutional efficiency with risk management practises. Five is the lowest ranking, on the other hand. This means that the bank is very likely to default and that urgent steps need to be taken to validate the situation. If the actual financial position of an entity ranges from 1 to 5, it is considered a composite ranking.

A scale of 1 means a good result, a good performance and aligns with the concept of risk management. A 2 scale means that there are modest vulnerabilities in a financially stable organisation. A scale of 3 means that the organisation has many dimensions of supervisory importance. Scale 4 suggests that an institution has dangerous procedures and is thus vulnerable because of severe financial difficulties. A ranking of 5 indicates that an organisation has insufficient risk management procedures as a matter of policy.

INDUSTRY 4.0 AND THE GOLD LOAN MARKETS

Industry 4.0 has also shown a major influence on the contemporary industrial economy. Moreover, in the coming years, the potential effect of I-4 will become immense, since virtually all industry and business sectors are making all their effort to use industry 4.0 's strength. The de facto goals of this new model are

fulfilled by all major countries and big corporations spending tremendously in the R&D centre operations and the specialists of the software development team. In order to have a positive effect on all industries, the fourth industrial revolution unfolded. The financial services sector is also one of the industries which has made extensive use of the influence of Industry 4.0. Because of the optimistic direction of digital advancement and the transformation of financial processes all countries of the world, the finance, insurance, loans and mortgages, foreign exchange, scrip and many other financial sectors flourish.

Mobile devices have become a new banking norm worldwide. The world's leading mobile banking drivers are in the emerging regions like Asia Pacific and Africa. In the United States more than 70 percent of shares are determined on the basis of computer algorithms, while human experts take only below ten percent of shares. This saves a great deal of financial consultancy fees. In Bangladesh, technology-driven micro-loans have opened a period of disadvantaged rural people's fiscal empowerment. The modern block-chain dependent crypto-banking technology is about to change the finance industry radically quite soon.

In the Gold Loan Segment of fin-services, IT is the foundation of organisations that are mainly targeted at helping to improve the top and bottom lines. In all stages of organisational life cycle, technology supports the business growth to brand retention to more efficient customer involvement. In the principal gold loan portfolio and broader NBFC market, companies lend to the sections of customers where the traditional banks usually don't deal with. Rapidly issuing loans is another advantage. Therefore, IT helps in rational decisions made quickly to guarantee easy loans to clients that come with greater credit risk. Analysis of the consumer using data and the required technology for accessing this data is also paramount. Operations costs have also drastically reduced due to automation of recurring manual tasks.

REVIEW OF LITERATURE

Thilakam and Saravanan (2014) the authors attempted a CAMEL criterion for analysis of selected NBFCs. They selected 36 NBFCs in Tamil Nadu out of which 4 Government Companies, 13 Small Companies and 13 Small Companies and another 13 Top Companies were also selected. They evaluate the financial performance and based on findings the suggestions were offered. **Akter, R., Ahmad, S., & Islam, M. S. (2018)** they studied 33 NBFIs in Bangladesh by using CAMELS model. After the study they found that out of 33 NBFIs 1 was "1 or Strong", 15 were "2 or Satisfactory", 13 were "3 or Fair" and

3 were “4 or Marginal” according to the CAMELS rating at end of the June 2016. **Attarwala, A. A., & Balasubramaniam, C. S. (2020)** they identified the NBFCs working in areas such as hire purchase, financing physical assets, commercial vehicles and infrastructure loans. Their research study examined the role of Reserve Bank of India (RBI) in protecting the public deposits with NBFCs and for fostering overall financial stability in the economy. **Sarker, A. (2005)** their study throws light on the collapse of Lehman Brothers. They study its financial particulars of the last five years (2003-2007) using the CAMELS ratios. **Nimalathasan, B. (2008)** they studied the banking sector of Bangladesh and divided into four categories of scheduled Banks. These are Nationalized Commercial Banks (NCBs), Government Owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs), and Foreign Commercial Banks (FCBs). They used different statistical methods such as Data Envelopment Analysis (DEA) and the Stochastic Frontier Approach (SFA). They examined 48 Banks in Bangladesh from Financial year 1999-2006 using CAMELS rating system and showed that 3 banks was 01 or Strong, 31 banks were rated 02 or satisfactory, rating of 07 banks was 03 or Fair, 5 banks were rated 4 or Marginal and 2 banks got 05 or unsatisfactorily rating. **Venkateswaran (2012)** found that organized gold loan market in India grew at CAGR of 40 per cent during FY 2002-10. **Sibi, M. S. (2014)** their paper covers the gold loan protection practices among borrowers in financial institutions. The purpose of this paper was to collect the borrowers’ opinion towards protection practices followed by Banks and NBFCs. The objective was achieved through primary data which was not the scope of our study. **Mary (2013)** analysed that the demand for gold as an investment option was gaining attraction among consumers of Cochin and Delhi. The research found that gold is priced sensitive at low prices but insensitive when price increases. **Roy (2013)** using CAMEL model analysed that the gold loan NBFCs (Manappuram Finance, Muthoot Finance and Muthoot Fincorp) used huge debt in their capital structure formation, used aggressive lending policies and their lower liquidity policy put them on the edge of high risk. Gupta (2014) in his study compared the Economic value added (EVA) with the CAMEL indicators as an independent variable of financial health of all public sector banks and 20 top private sector banks during 2003 to 2008. Their results revealed that EPS and Return on Net Worth were better predictor of financial health of banks followed by EVA over the other

indicators. Kumar and Sharma (2014) studied and analyzed the performance of the top 8 market capitalized banks by using CAMEL approach during the period 2006-10. The study showed that SBI was top performer followed by PNB and HDFC bank. **Malhotra and Aspal (2014)** studied the financial performance of the private sector banks in India by using the CAMELS model during 2008-2012. The study identified no significant difference in CAMELS ratios among the selected private sector banks. The study found that Kotak Mahindra bank has better performance followed by Axis bank and lastly ICICI bank in terms of performance.

OBJECTIVE OF STUDY

The financial condition and performance of two the chief gold loans NBFCs - Manappuram Finance Limited and Muthoot Finance Limited using the CAMEL model are analysed and compared.

HYPOTHESIS

Manappuram Finance Ltd. and Muthoot Finance Ltd. have no sizeable difference in their results based on the CAMELS Models.

RESEARCH METHODOLOGY

CAMELS model is widely accepted ratio-based model commonly used to measure the efficiency of the banks. CAMELS model covers financial performance ratios i.e. capital adequacy, asset quality, management efficiency, earning capacity, liquidity and sensitivity ratios of a particular financial institution. CAMELS model has been used by RBI as supervisory criteria to evaluate the financial soundness of the NBFCs. The two biggest gold loan NBFCs namely- Manappuram Finance Limited and Muthoot Finance Limited are selected on the basis of their market share in the gold loan market. To achieve the stated objective, CAMELS model has been used to evaluate the financial performance of the two selected companies. The study is focused on the secondary data collected from the annual reports of the companies, distinct journals, articles and websites. The data is analyzed with the help of arithmetic mean. Independent t-test also used to check the significance difference in the mean scores of various ratios of the two selected companies.

ANALYSIS AND FINDINGS

This section contains the ratio analysis for the two companies based on the various metrics and ratios analysed under the CAMELS framework of ratio analysis for banks and NBFCs. The ratio analysis is displayed; a test for

comparison of means is also applied to find out whether, based on a particular ratio there is substantial difference amongst the two companies.

Table 2: Mean Values of the Ratios

| Metric | Muthoot Finance Ltd | Manappuram Finance Ltd |
|--|---------------------|------------------------|
| Return on assets (%) | 5.7 | 4.6 |
| Return on equity (%) | 22.0 | 21.1 |
| RoCE | 23.9 | 21.8 |
| PAT (Rs Billion) | 17.8 | 8.4 |
| Basic EPS (Rs.) | 43.8 | 8.4 |
| EV/EBITDA | 7.5 | 5.7 |
| Enterprise Value ('000 Crore) | 38.6 | 18.2 |
| Net NPA | 2.9 | 0.7 |
| PBDIT Margin (%) | 77.0 | 69.1 |
| PBIT Margin (%) | 75.8 | 66.7 |
| PBT Margin (%) | 39.5 | 34.2 |
| Net Profit Margin (%) | 25.8 | 22.9 |
| CAR | 25.5 | 24.5 |
| Liquid Assets to Total Assets | 4.99 | 4.42 |
| Debt to Equity (Proxy for Sensitivity) | 2.7 | 2.8 |

Table 1, above shows the mean values for the metrics and ratios presented in column 1 along with their values in column 2 and column 3 for Muthoot Finance Limited and Manappuram Finance Limited respectively.

Table 3 Earnings Ratios

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|----------------------|--|------|------|------|------|------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Return on assets (%) | 3.3 | 4.5 | 6.4 | 6.3 | 8.1 | 3.0 | 5.4 | 4.0 | 4.9 | 5.9 |
| t-test | t- calculated = 1.09; p value = 0.30, Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |
| Return on equity (%) | 15.1 | 19.4 | 24.8 | 22.4 | 28.3 | 12.8 | 24.7 | 17.8 | 22.1 | 28.2 |
| | t- calculated = 0.25; p value = 0.80 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |
| RoCE | 6.7 | 36.9 | 16.3 | 28.7 | 30.7 | 8.5 | 39.4 | 13.1 | 24.0 | 24.2 |
| | t- calculated = 0.26; p value = 0.79 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |
| PAT (Rs Billion) | 8.1 | 11.8 | 17.8 | 19.7 | 31.7 | 3.5 | 7.6 | 6.8 | 9.4 | 14.8 |
| | t- calculated = 2.11; p value = 0.0757 , Result -Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.03) | | | | | | | | | |

| | | | | | | | | | | |
|-------------------------------|--|------|------|------|------|------|------|------|------|------|
| Basic EPS (Rs.) | 20.3 | 29.6 | 44.5 | 49.3 | 75.3 | 3.5 | 7.6 | 6.8 | 9.4 | 14.8 |
| | t- calculated = 3.68; p value = 0.017 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.0087) | | | | | | | | | |
| EV/EBITDA | 5.4 | 7.1 | 7.7 | 9.3 | 8.1 | 4.7 | 5.3 | 6.5 | 6.7 | 5.4 |
| | t- calculated = 2.4; p value = 0.044 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.022) | | | | | | | | | |
| Enterprise Value ('000 Crore) | 20.0 | 30.2 | 36.9 | 49.7 | 56.0 | 10.3 | 16.0 | 18.9 | 22.8 | 23.2 |
| | t- calculated = 2.9; p value = 0.02 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.01) | | | | | | | | | |

We apply t- test on the ratio, Return on Assets for the two companies i.e. Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2020, to test whether there exists substantial difference between their Return on Assets. As the calculated t value is less than the critical t value and therefore the null hypothesis that the mean difference is equal to zero cannot be rejected implying that there is no substantial difference between the Return on Assets for the two companies.

We apply T test on the ratio return on equity for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016-2020 to test whether there exists a substantial difference between the return on equity. as the calculated t value is less than the critical t value and therefore the null hypothesis that the mean difference is equal to zero cannot be rejected implying that there is no substantial difference between the return on equity for the two companies.

We apply T test on the ratio return on capital employed for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2020 to test whether there exist a substantial difference between the return on capital employed. as the calculated t-value is less than the critical P value and therefore the null hypothesis that the mean difference is equal to zero cannot be rejected implying that there is no substantial difference between the return on capital employed for the two companies.

We apply t-test on the metric, profit after tax in billion rupees, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the profits after tax for the two companies. As the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the

mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd. has a substantially higher PAT than Manppuram Finance Ltd.

We apply t-test on the metric, Basic EPS, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exists a substantial difference between the Basic EPS for the two companies. As the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher Basic EPS than Mannauram Finance Ltd.

We apply t-test on the metric, EV/EBITDA, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exists a substantial difference between the EV/EBITDA for the two companies. as the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher EV/EBITDA than Mannauram Finance Ltd.

We apply t-test on the metric, Enterprise Value, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the Enterprise Value for the two companies. as the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher Enterprise Value than Mannauram Finance Ltd.

Figure 2: Mean Earnings Ratios

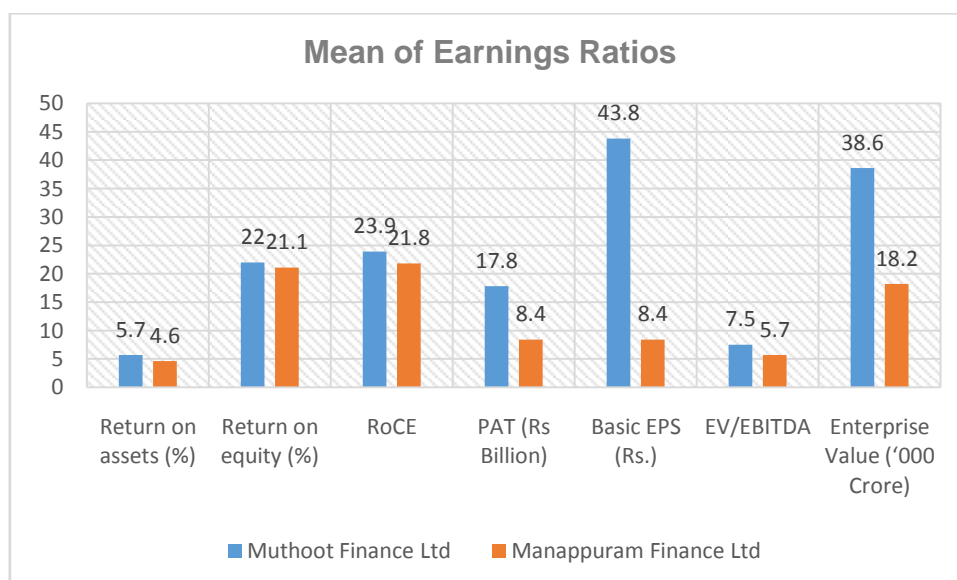


Figure 02 above displays a comparison of the means of the earnings ratios for the two companies.

Table 4 Profitability Ratios

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|-----------------------|---|------|------|------|------|------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| PBDIT Margin (%) | 76.8 | 74.4 | 76.9 | 77.8 | 79.0 | 65.7 | 72.3 | 65.2 | 67.4 | 74.8 |
| | t- calculated = 3.9; p value = 0.02 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.0042) | | | | | | | | | |
| PBIT Margin (%) | 73.5 | 73.5 | 76.2 | 77.2 | 78.5 | 63.3 | 70.4 | 63.2 | 65.4 | 71.2 |
| | t- calculated = 4.5 ; p value = 0.002 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff> 0 (for p = 0.001) | | | | | | | | | |
| PBT Margin (%) | 27.0 | 33.5 | 45.3 | 44.7 | 46.5 | 23.4 | 37.0 | 36.0 | 35.6 | 38.9 |
| | t- calculated = 1.09; p value = 0.30 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |
| Net Profit Margin (%) | 16.6 | 20.5 | 28.3 | 28.6 | 34.6 | 15.2 | 24.1 | 23.5 | 23.1 | 28.5 |
| | t- calculated = 0.7; p value = 0.47 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |

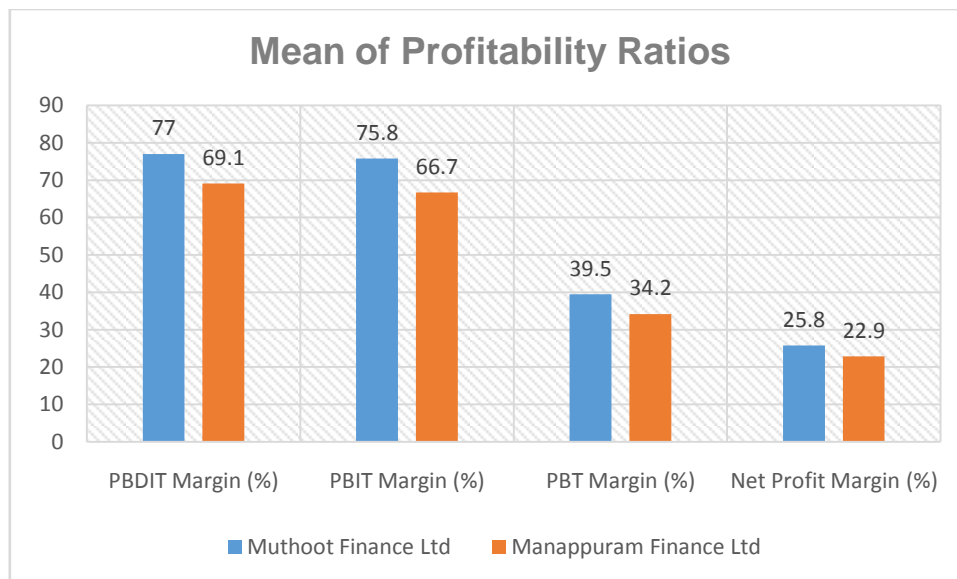
Figure 3: Mean of Profitability Ratios

Figure 03 above displays a comparison of the means of the profitability ratios for the two companies.

We apply t-test on the metric, PBDIT Margin, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the PBDIT Margin for the two companies. As the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher PBDIT Margin than Mannauram Finance Ltd.

We apply t-test on the metric, PBIT Margin, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the PBIT Margin for the two companies. as the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher PBIT Margin than Mannauram Finance Ltd.

We apply t-test on the metric, PBT Margin, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exists a substantial difference between the PBT Margin for the two companies. As the calculated t- value is less than the critical t value,

therefore we accept the null hypothesis that the mean difference is equal to zero consequently there is no substantial difference between, PBT Margin between two companies.

We apply t-test on the metric, Net Profit Margin, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exists a substantial difference between the Net Profit Margin for the two companies. As the calculated t- value is less than the critical t value, therefore we accept the null hypothesis that the mean difference is equal to zero, consequently there is no substantial difference between, Net Profit Margin between two companies.

Table 5 Capital Adequacy Ratios

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|--|---------------------|------|------|-------|------|------------------------|-------|------|-------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| CAR | 24.5 | 24.9 | 26.3 | 26.05 | 25.5 | 24 | 26.12 | 27 | 23.65 | 21.7 |
| t- calculated = 0.95; p value = 0.37 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | | |

We apply t-test on the metric, CAR, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the Capital Adequacy Ratio (CAR) for the two companies. As the calculated t- value is less than the critical t value, therefore we accept the null hypothesis that the mean difference is equal to zero, consequently there is no substantial difference between, CAR between two companies.

Figure 4: Mean Capital Adequacy Ratio

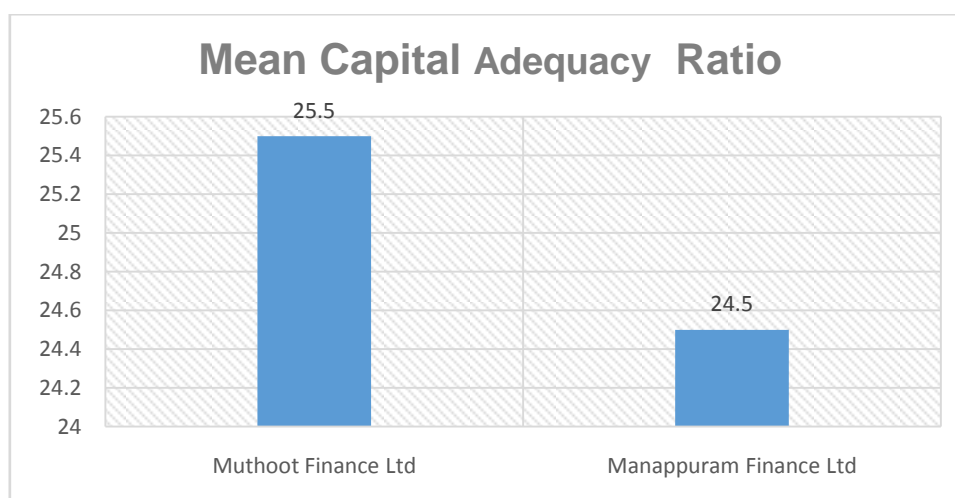


Figure 04 above displays a comparison of the mean of the Capital Adequacy Ratio for the two companies.

Table 6 Asset Quality

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|---------|--|------|------|------|------|------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Net NPA | 2.46 | 1.69 | 6.16 | 2.35 | 1.93 | 0.76 | 1.72 | 0.33 | 0.32 | 0.54 |
| | t- calculated = 2.52; p value = 0.050 , Result – Reject the Null of H01: Mean Diff = 0 and H01: Mean Diff > 0 (for p = 0.025) | | | | | | | | | |

We apply t-test on the metric, Net NPA Ratio, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the Net NPA Ratio for the two companies. As the calculated t- value is greater than the critical t value, therefore we cannot reject the null hypothesis that the mean difference is equal to zero consequently we accept the alternative hypothesis that the mean difference is greater than zero. Implying that Muthoot Finance Ltd has a substantially higher Net NPA Ratio than Mannauram Finance Ltd.

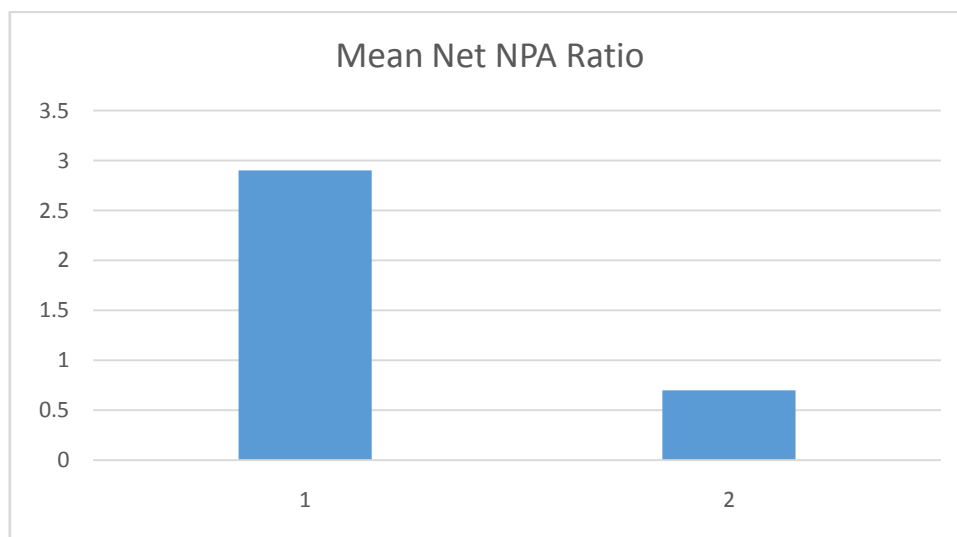
Figure 5: Mean Net NPA Ratio

Figure 05 above displays a comparison of the mean of the Net NPA ratio for the two companies.

Table 7 Liquid Assets

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|-----------------------------------|--|------|------|------|------|------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Liquid Assets to Total Assets (%) | 2.5 | 5.08 | 1.59 | 4.6 | 11.2 | 4.1 | 3.13 | 3.01 | 2.5 | 9.4 |
| | t- calculated = 0.25; p value = 0.79 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |

We apply t-test on the metric, the Liquid Assets To Total Assets, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exist a substantial difference between the Liquid Assets To Total Assets for the two companies. As the calculated t-value is less than the critical t value, therefore we accept the null hypothesis that the mean difference is equal to zero; consequently there is no substantial difference between, LIQUID Assets to Total Assets between two companies.

Figure 6; Mean of Liquids Assets to Total Assets

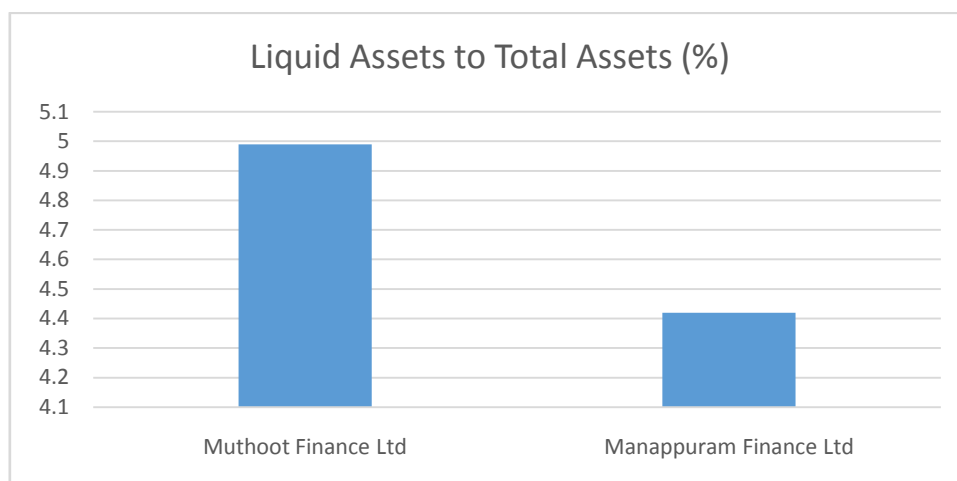


Figure 06 above displays a comparison of the mean of the Liquid Assets to Total Assets Ratio for the two companies.

Table 8 Sensitivity

| | Muthoot Finance Ltd | | | | | Manappuram Finance Ltd | | | | |
|----------------|---|------|------|------|------|------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Debt to Equity | 2.43 | 2.61 | 2.71 | 2.74 | 3.21 | 2.88 | 2.48 | 2.69 | 2.9 | 3.27 |
| | t- calculated = -0.56; p value = 0.58 , Result - Accept Null of H0: Mean Diff = 0 | | | | | | | | | |

We apply t-test on the metric, the Debt to Equity Ratio, for the two companies Muthoot Finance Limited and Manappuram Finance Limited for the period 2016 to 2017 to test whether there exists a substantial difference between the Debts to Equity Ratio for the two companies. As the calculated t- value is less than the critical t value, therefore we accept the null hypothesis that the mean difference is equal to zero;consequently, there is no substantial difference between, Debts to Equity Ratio between two companies.

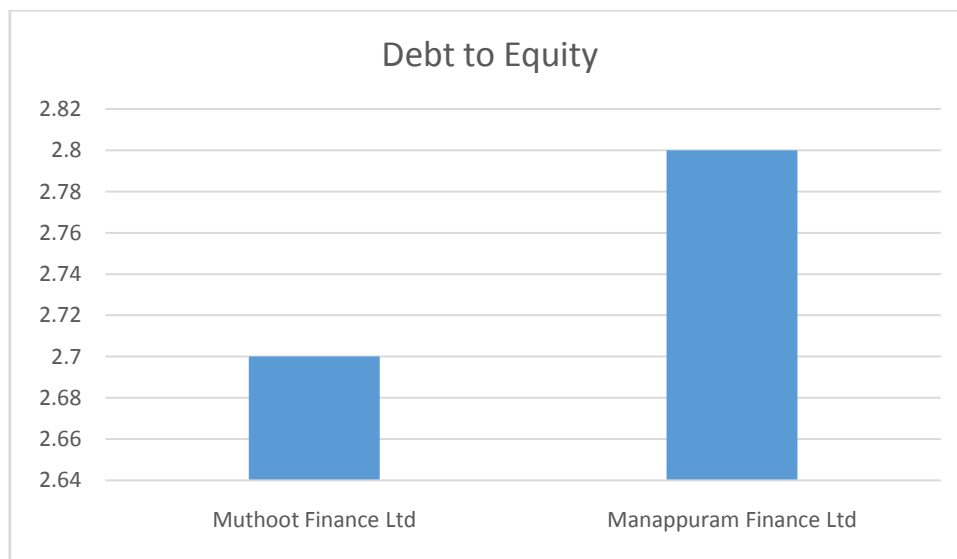
Figure 7: Mean Debt to Equity Ratio

Figure 07 above displays a comparison of the mean of the Debt to Equity Ratio for the two companies.

FINDINGS

Based on the findings of the t-test, the return on assets (ROA) of the two firms is not substantially different.

Based on the findings of the t-test, the return on equity (ROE) of the two firms is not substantially different.

Based on the findings of the t-test, the return on capital employed (RoCE) of the two firms is not substantially different.

Based on the findings of the t-test, Profit After Tax of the two firms are substantially different. The PAT reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, Basic EPS of the two firms are substantially different. The Basic EPS reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, EV/EBITDA of the two firms are substantially different. The EV/EBITDA reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, Enterprise Value of the two firms are substantially different. The Enterprise Value reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, PBDIT Margin of the two firms are substantially different. The PBDIT Margin reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, PBIT Margin of the two firms are substantially different. The PBIT Margin reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, the Profit Before Tax Margin (PBT Margin) of the two firms is not substantially different.

Based on the findings of the t-test, Net Profit Margin of the two firms are substantially different. The Net Profit Margin reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, the Capital Adequacy Ratio (CAR) of the two firms is not substantially different.

Based on the findings of the t-test, Net NPA Ratio of the two firms are substantially different. The Net NPA Ratio reported by Muthoot Finance Ltd is higher than that of Manappuram Finance Ltd.

Based on the findings of the t-test, the Liquid Assets to Total Assets Ratio of the two firms is not substantially different.

Based on the findings of the t-test, the Debt to Equity Ratio of the two firms is not substantially different.

CONCLUSION

This study aims at evaluating and contrasting the two NBFC gold finance companies namely- Manappuram Finance Ltd and Muthoot Finance Ltd, explicitly based on the CAMELS model. Based on the findings of the study we may conclude that – Muthoot Finance Ltd has scored better in terms of Profitability Ratios compared to Manappuram Finance Ltd. Although in terms of ROA, ROE and ROCE the two companies have proclivity in trends, yet Muthoot Finance Ltd has scored better in terms of PAT in absolute terms, Basic EPS (in rupee terms), EV/EBITDA Ratio and Absolute Enterprise Value. In conclusion, Muthoot Finance Ltd scores better than Manappuram Finance Ltd in terms of Earnings Ratios. Both the companies have near similar Capital Adequacy Ratio. In terms of Net NPA Ratio, Manappuram Finance Ltd scores better than Muthoot Finance Ltd. The two companies have finally displayed proclivity in their Liquid Assets Ratio and Debt to Equity Ratio.

REFERENCES

- Thilakam, C., & Saravana, M. (2014). CAMELS analysis of NBFCs in Tamilnadu. *International Journal of Business and Administration Research Review*, 2(4), 226-231.
- Akter, R., Ahmad, S., & Islam, M. S. (2018). CAMELS model application of non-bank financial institution: Bangladesh perspective. *Academy of Accounting and Financial Studies Journal*, 22(1), 1-10.
- Attarwala, A. A., & Balasubramaniam, C. S. (2020). The Rise and fall of Non-Banking Financial Companies in India and Emerging Challenges. In *International Conference on Technology and Business Management June* (Vol. 12, p. 14).
- Sarker, A. (2005). CAMELS rating system in the context of Islamic banking: A proposed 'S' for Shariah framework. *Journal of Islamic Economics and Finance*, 1(1), 78-84.
- Nimalathasan, B. (2008). A comparative study of financial performance of banking sector in Bangladesh. An application of CAMELS rating system. *Universitatii Bucuresti. Analele. Seria Stiinte Economice si Administrative*, 2, 133.
- Venkateswaran, N. (2012). Indian Consumers towards Gold Loan Market. *Indian Streams Research Journal*, 2(11), 1-6.
- Sibi, M. S. (2014). Borrowers' Perspective towards Gold Loan Protection Practices Followed By Banks and NBFCs. *International Research Journal of Business and Management*, 7(9), 28.
- Mary, H.O.J. (2013). Gold and Consumer Behavior- A Comparative Study of Cochin and Delhi. Working Paper of Centre for Public Policy Research – Centre for Comparative Studies, 1-14.
- Roy, N. (2013). The Golden Route to Liquidity: A Performance Analysis of Gold Loan Companies. *International Journal of Research in Commerce, IT & Management*, 3(6), 94-98.
- Gupta, M. (2014). Financial indicators and Performance Evaluation of Banks. *The Indian Journal of Commerce*, 67(2), 43-54.
- Kumar, S., & Sharma, R. (2014). Performance Analysis of Top Indian Banks through CAMEL Approach. *International Journal of Advanced Research in Management and Social Sciences*, 3(7), 81-92.
- Malhotra, N., & Aspal, P. K. (2014). Performance Measurement of New Private Sector Banks in India. *The Indian Journal of Commerce*, 67(2), 2642.