

“A Study of Overdue Management, Stressed Assets and their impact on Profitability: Evidence from Muthoot Finance Limited”

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ABSTRACT

Loan recovery or collection of receivables is a key function in financial institutions because it directly affects cash flow, income generation and overall financial performance, proper monitoring of loan accounts, prompt follow up with the customers and effective recovery systems helps in the reduction of defaults and improving the asset quality. The profitability of financial institutions largely rely on the efficient management of receivables timely repayment by borrowers ensures a steady inflow of funds and enhances income generation. Conversely, a rise in stressed assets leads to a loss of income and additional recovery expenses. Hence, there exists a robust relationship between managing loan collections and profitability. Managing stressed assets is a concern for financial institutions because of their direct impact on profitability and financial stability. This case study analyses the methods and strategies adopted by Muthoot Finance Ltd in the management of loan overdue receivables and to assess their impact on profitability of the organization. This study also aims to identify strengths and areas for improvement in receivables management.

KEY WORDS: NBFCs, OVERDUE MANAGEMENT, STRESSED ASSETS, PROFITABILITY

INTRODUCTION

The Non-Banking Financial Company (NBFC) sector is an important part of India's financial system, contributing significantly to economic growth and financial inclusion. NBFCs provide services such as loans, asset financing and investment facilities, often offering greater flexibility, simpler procedures and faster loan processing than traditional banks. Their operations are regulated by the RBI to ensure financial stability.

Gold loan-focused NBFCs have gained importance by providing quick financial assistance against gold ornaments, particularly for individuals, small businesses and self-employed persons requiring urgent funds. Rising gold prices, easy accessibility and collateral-based lending have increased the popularity of gold loans. NBFCs support financial inclusion by extending credit to small businesses, farmers and individuals who may have limited access to traditional banking services. They have also adopted digital technologies, online loan processing and mobile applications to improve customer convenience and operational efficiency. However, NBFCs face challenges such as rising Non-Performing Assets, stringent RBI regulations, intense competition, fluctuations in gold prices and the need for continuous technological upgrades. Despite these challenges, the sector continues to support credit expansion and financial inclusion and has considerable scope for further growth through increasing demand and technological advancement.

Muthoot Finance Ltd is a leading non-banking finance company, which is specialized in gold-backed lending. Having a significant presence in urban centers and rural territories across India, it aims to provide convenient and time efficient financial services as an alternative to traditional banking. The company has been able to expand its operations over the years and upgraded its position in the financial sectors. This case study examines the management of Muthoot Finance Limited on its loan receivables and addresses stressed assets such as fund outstanding balance and non-performing. The profitability of financial institutions largely rely on the efficient management of receivables timely repayment by borrowers ensures a steady inflow of funds and enhances income generation. Conversely, a rise in stressed assets leads to a loss of income and additional recovery expenses. Hence, there exists a robust relationship between managing loan collections and profitability. Through the case study of Muthoot Finance, the study evaluates the challenges faced by NBFCs in managing stressed assets and its impact on profitability of the company.

REVIEW OF LITERATURE

Sl. No.	Author / Source & Year	Area / Focus of Study	Methodology / Data	Major Findings	Relevance to Present Study
1	RBI Working Group on Gold Imports and Gold Loans (2013)	Asset quality and financial soundness of gold-loan NBFCs	Examined sectoral data on gold-loan NBFCs and other NBFCs	Gold-loan NBFCs historically recorded relatively low NPA ratios. The collateral value and borrowers' attachment to gold were identified as factors supporting	Provides an important sector-specific foundation for analysing NPA management and recovery in gold-loan NBFCs.

Sl. No.	Author / Source & Year	Area / Focus of Study	Methodology / Data	Major Findings	Relevance to Present Study
				<i>repayment behaviour.</i>	
2	Reserve Bank of India (2023)	Asset quality of NBFCs and NPA management	Analysis of supervisory data on Indian NBFCs	RBI reported improvement in NBFC asset quality, with declining GNPA and NNPA ratios and increasing provision coverage. It also emphasised that an NPA can be upgraded only after the borrower's entire arrears are paid.	Useful for defining GNPA, NNPA, recovery and provisioning variables in the present study.
3	Barwer (2026)	Credit risk management, asset quality and financial performance of Indian NBFCs	Quantitative study covering credit appraisal, monitoring, early-warning mechanisms and recovery management	The study reports significant relationships between credit-risk management, asset quality and financial performance. Recovery management is identified as an important component of credit-risk management.	Directly supports examining loan monitoring, collection/recovery and stressed assets in NBFCs.
4	Kumar & Prasad (2025)	Factors affecting profitability of Indian NBFCs, including NPAs	Panel data of Indian NBFCs, 2015–2024; Pooled OLS, Fixed Effects	Net NPAs and loans and advances were found to have a negative effect on firm performance,	Provides empirical support for examining whether stressed assets and NPAs affect profitability.

Sl. No.	Author / Source & Year	Area / Focus of Study	Methodology / Data	Major Findings	Relevance to Present Study
			<i>and Random Effects</i>	<i>while other financial variables had positive effects.</i>	
5	Chandrashekhar & Parameshwari (2026)	Asset quality and financial performance of selected Indian NBFCs	Secondary data from four major listed NBFCs, 2016–2025; regression analysis	GNPA was found to have a significant negative influence on ROA, while NNPA did not show a statistically significant independent effect.	Highly relevant for developing the GNPA/NNPA–profitability relationship in your Muthoot Finance study.
6	CRISIL Ratings (2026)	Asset quality, collection efficiency and credit costs of gold-loan NBFCs	Sector analysis of repayment behaviour, recovery patterns, risk management and auction processes	Recovery and credit costs depend on prepayments, LTV levels and effectiveness of monitoring and timely auction processes.	Particularly relevant to gold-loan collection, recovery, collateral management and stressed assets.
7	CRISIL Ratings – Muthoot Finance (2026)	Muthoot Finance's asset quality and recovery performance	Analysis of Muthoot Finance's financial and asset-quality indicators	Muthoot Finance's gold-loan portfolio has been supported by strong collection efficiency and low credit costs. Regular gold-loan auctions have also contributed to maintaining asset quality.	Provides company-specific evidence directly relevant to your case study of Muthoot Finance.

Sl. No.	Author / Source & Year	Area / Focus of Study	Methodology / Data	Major Findings	Relevance to Present Study
8	CRISIL Ratings – Muthoot Finance (2026)	Stressed assets, recoveries and profitability of Muthoot Finance	Analysis of loan portfolio, Stage III assets, credit costs and profitability	The majority of the company's portfolio is secured by gold. Low credit losses and controlled provisioning have supported profitability, while asset quality in non-gold businesses remains an area requiring monitoring.	Helps distinguish gold-loan asset quality from non-gold stressed assets and examine their implications for profitability.
9	RBI (2013)	Regulation and risk management of gold-loan NBFCs	Regulatory review of lending against gold jewellery	RBI introduced specific guidelines for NBFCs lending against gold jewellery, reflecting concerns relating to collateral, loan-to-value and risk management.	Provides the regulatory context for gold-loan collection, collateral management and recovery practices.
10	CRISIL Ratings (2025–26)	Loan portfolio quality and delinquency in Muthoot Finance's non-gold businesses	Analysis of segment-wise asset quality	Delinquencies have been more prominent in the non-gold portfolio, while the gold-loan portfolio has remained comparatively resilient. Profitability has been supported by high margins and	Useful for analysing segment-wise stressed assets, recovery and profitability within Muthoot Finance.

<i>Sl. No.</i>	<i>Author / Source & Year</i>	<i>Area / Focus of Study</i>	<i>Methodology / Data</i>	<i>Major Findings</i>	<i>Relevance to Present Study</i>
				<i>controlled credit losses.</i>	

NEED FOR THE STUDY

Overdue Receivables management is a function of financial management in Non-Banking Financial such as Muthoot Finance Ltd, because as it directly affects liquidity, profitability, and overall financial stability. The company deals with a large volume of gold loans, where timely repayment by customers plays a main role in maintaining smooth business operations and efficiency. When customers fail to repayment contribute to an increase in stressed assets and Non-Performing Assets (NPAs). This adversely impacts profitability and creates additional financial pressure to the company. Therefore, it is necessary to study the credit policies, lending procedures, and collection practices succeeded by the company to examine how effectively receivables are managed. Evaluating the lending criteria for first-time and benefits provided to regular customers helps in assessing customer behaviour and repayment patterns. Overdue loans management practices and provides insights for improving recovery efficiency and reducing financial risk. This study offers useful insights into how effective overdue loan receivables management can reduce financial risk, control stressed assets and enhance the profitability and long-term sustainability of Muthoot Finance Ltd.

OBJECTIVES OF THE STUDY

1. To evaluate the techniques applied for managing overdue loan accounts.
2. To analyse the credit policy and collection procedures followed by Muthoot Finance Ltd.
3. To examine the impact of stressed and non-performing assets on the profitability of Muthoot Finance Ltd.

SCOPE OF THE STUDY

The study here examines on understanding the credit policies, lending procedures, and collection practices adopted by Muthoot Finance Ltd., in relation to the gold loan segment only. FY2021–FY2025 has been taken as the main study period, because the annual reports provide a reasonably consistent five-year series.

HYPOTHESES FOR THE STUDY

Hypothesis 1

H₀: Stage III loan assets have no significant relationship with ROA.

H₁: Stage III loan assets have a significant relationship with ROA.

Hypothesis 2

H₀: Credit cost has no significant relationship with ROA.

H₁: Credit cost has a significant relationship with ROA.

RESEARCH METHODOLOGY

This study relies mainly on firsthand information collected by the researcher directly from the loan department in Muthoot Finance Ltd. It has also relied on secondary data collected from the published Annual Reports of Muthoot Finance Ltd, financial statements, the company website, RBI reports,

industry publications, textbooks, journals, research articles and other reliable financial websites. Ratio analysis technique was employed to analyse the variables that impact loans overdue management. Regression analysis was done for testing of hypotheses.

DATA ANALYSIS AND INTERPRETATION

NBFCs in India employ a multi-stage loan collection strategy involving preventive monitoring, digital reminders, tele-calling, field-level follow-up, trained recovery agents, restructuring or rescheduling of viable accounts, negotiated settlements, collateral realisation and, where necessary, legal recovery. Gold-loan NBFCs additionally rely on the liquidation of pledged gold through regulated auction procedures. Increasingly, data-driven borrower segmentation and early-warning mechanisms are used to identify accounts at risk of becoming stressed assets. The effectiveness of these strategies is reflected in collection efficiency, overdue levels, recovery rates, credit costs and ultimately the GNPA/NNPA position and profitability of the NBFC. RBI regulations require recovery activities to be conducted fairly and without intimidation or harassment, making compliant and customer-sensitive recovery an important component of modern NBFC loan management.

Muthoot Finance Limited has managed to build an efficient framework linking loan collection/asset quality with profitability. In FY2021–FY2025 the company has provided a reasonably consistent five-year series. The analysis of variables and their measurement are determined as follows:

<i>Variable</i>	<i>Measurement</i>
<i>GNPA</i>	<i>Gross NPA ÷ Gross Loan Assets × 100</i>
<i>NNPA</i>	<i>Net NPA ÷ Net Loan Assets × 100</i>
<i>Stage III</i>	<i>Stage III Assets ÷ Gross Loan Assets × 100</i>
<i>Credit Cost</i>	<i>Credit Cost ÷ Average Loan Assets × 100</i>
<i>Write-off Ratio</i>	<i>Write-offs ÷ Average Loan Assets × 100</i>
<i>Auction Ratio</i>	<i>Gold Loan Auction Amount ÷ Gold Loan AUM × 100</i>
<i>ROA</i>	<i>PAT ÷ Average Total Assets × 100</i>
<i>ROE</i>	<i>PAT ÷ Average Net Worth × 100</i>
<i>Profitability</i>	<i>PAT / Net Profit Margin</i>

Muthoot Finance Limited:

**Asset Quality, Gold-Loan Auction and Profitability Indicators of Muthoot Finance Limited,
FY2020–21 to FY2025–26**

<i>Indicator</i>	<i>FY2021</i>	<i>FY2022</i>	<i>FY2023</i>	<i>FY2024</i>	<i>FY2025</i>	<i>FY2026</i>
GNPA (%)	1.11	3.12	3.71	3.28	3.41	2.35
NNPA (%)	0.11	1.70	2.43	2.79	2.79	2.04
Stage III loan assets / Gross Loan Assets (%)	0.88	2.99	3.79	3.28	3.41	2.35
Net Stage III / Gross Loan Assets (%)	—	—	—	—	2.79	2.04
Stage III loan assets (₹ crore, approx.)	463	1,736	2,396	2,485	3,700	NA
Gold-loan auction amount (₹ crore)	—	—	2,203	892	461	NA
Profit After Tax (₹ crore)	3,722.2	3,954.3	3,473.5	4,049.7	5,200.8	10,134.1
Return on Assets – ROA (%)	7.99	7.24	5.93	5.84	5.70	6.46
Return on Equity – ROE (%)	27.77	23.55	17.63	17.86	19.73	30.97
Net Profit Margin (%)	35.21	35.63	32.94	31.90	30.32	

The historical Stage 3 amounts for FY2021–FY2025 are supported by the company's financial disclosures; for example, the FY2022–23 report gives Stage 3 closing gross carrying amounts of ₹17,372 million for FY2021–22 and ₹23,986 million for FY2022–23. FY2025's detailed annual-report disclosure gives Stage 3 substandard and doubtful assets separately.

The FY2026 figures are based on the company's FY2026 results reported in May 2026 and subsequent reporting. FY2026 GNPA was **2.35%** and NNPA **2.04%**, while Stage III was approximately **2.35%**.

Profitability trend

The profitability figures show a substantial change over the six-year period:

Year	PAT ₹ crore	ROA	ROE
FY2021	3,819	6.19%	27.89%
FY2022	4,031	5.57%	23.48%
FY2023	3,670	4.70%	18.15%
FY2024	4,468	5.06%	19.10%
FY2025	5,352	4.67%	19.65%
FY2026	10,607	6.46%	30.97%

In the analysis of PAT for the FY2021–FY2026 FY2023 was a relatively weak profitability year, while FY2024–FY2025 showed recovery and FY2026 recorded a very substantial increase in profitability.

2. Auction-based recovery - Gold Loan Auction Amount (Principal Value of Loans Auctioned)

Muthoot Finance's reported gold-auction amounts were approximately:

FY2023 – ₹2,203 crore

FY2024 – ₹892 crore

FY2025 – ₹461 crore

The decline is substantial. External reporting based on company information confirms the ₹2,203 crore → ₹892 crore → ₹461 crore progression. Management explained that the ₹461 crore FY2025 figure represents the principal amount of loans auctioned, whereas the annual-report/RBI disclosure may report total dues and auction realisation, which explains differences between figures appearing in the annual report and investor calls. The principal amount of loans subjected to auction declined substantially from about ₹960 crore in FY2024 to ₹461 crore in FY2025, which can be examined alongside changes in GNPA/Stage III, collection practices and profitability. However, it should not automatically be interpreted as a 52% improvement in “recovery rate”, because auction amount is not the same as auction recovery.

3. FY2026 asset-quality development

Muthoot Finance reported:

GNPA: 2.35%

NNPA: 2.04%

Stage III: approximately 2.35%

ECL provision as % of loan assets: 1.10%

Loan Assets Under Management (AUM): ₹1,62,825.9 crore

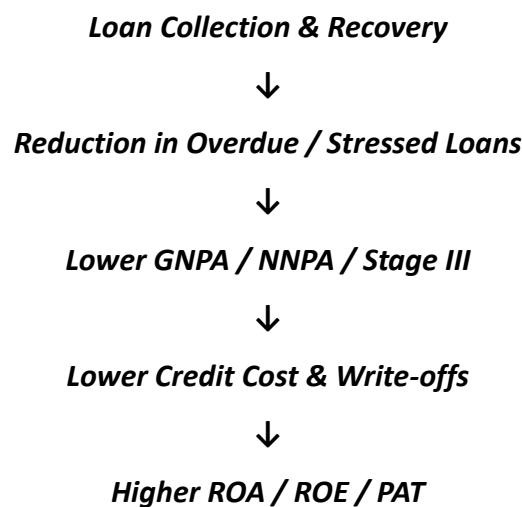
Gold-loan AUM: ₹1,54,084.3 crore.

The Stage III ratio therefore improved substantially from approximately 3.41% in FY2025 to 2.35% in FY2026, although the absolute amount of stressed assets did not necessarily fall proportionately because the loan book expanded substantially and the company changed its NPA classification approach. Management specifically stated that the change to borrower-wise NPA classification affected the absolute Stage 3 numbers.

4. Write-offs

Bad debts written off in FY2026 were reported at approximately 0.14% of loan assets, compared with about 0.10% in FY2025. The absolute FY2026 write-off amount was approximately ₹235 crore. This suggests that while the Stage III ratio improved, write-offs remained an important component of credit-risk management.

The conceptual relationship is expressed below:



However, the Muthoot Finance data also shows that profitability is not determined by asset quality alone. Loan growth, interest income, cost of funds, operating efficiency and the size of the loan book also affect profitability. FY2026 saw very strong profit growth even though GNPA increased sequentially from 1.58% in December 2025 to 2.35% in March 2026.

It is found that unlike some NBFC-MFIs, Muthoot Finance does not consistently publish a comparable company-wide "collection efficiency" ratio for its core gold-loan business. Its disclosures instead provide useful proxies such as Stage III movement, overdue accounts, auction amounts, recoveries, write-offs and loan regularisation. The company's auction policy also explicitly states that it tries to encourage customers to redeem or renew loans before auction.

5. Collection and recovery

Muthoot Finance Limited does not publish a single consolidated "collection efficiency %" for its core gold-loan business in the same manner as some microfinance NBFCs. However, there are several observable proxies for collection effectiveness.

A. Gold-loan auction amount

Below are the recovery indicators of Muthoot Finance Ltd.

FY23: ₹2,203 crore

FY24: ₹892 crore

FY25: ₹461 crore

The declining auction requirement can be interpreted as evidence of lower reliance on forced collateral liquidation, although it cannot be interpreted as equivalent to collection efficiency, because auction volumes are also affected by gold prices, loan growth, borrower behaviour and LTV levels.

B. Stage 3 reduction during FY25

Management reported that the gold-loan Stage III portfolio declined from more than ₹3,700 crore at December 2024 to about ₹3,347 crore at March 2025. Total NPA declined from approximately ₹4,117 crore to ₹3,700 crore over the same period. That is useful evidence of recoveries/upgrades and/or resolution of stressed accounts during the quarter.

6. Credit cost and write-offs

Management reported FY25 total impairment of approximately ₹766 crore, of which around ₹130 crore was write-offs, with the balance largely related to incremental provisions/ECL. The management also indicated that some of the deterioration was associated with the non-gold branch-based personal-loan business, where collection weaknesses resulted in higher NPAs and provisions.

Thus, this can be represented through the construct:

Credit Cost = Impairment/credit-loss expense ÷ Average loan assets

and

Write-off Ratio = Write-offs ÷ Average loan assets

These are potentially much better explanatory variables than simply using the absolute amount of write-offs.

7. Stage III assets

Stage III is particularly useful because it captures credit-impaired assets under Ind AS 109. For FY25, Muthoot Finance reported:

Stage III loan assets = 3.41% of loan assets.

The FY25 annual report also provides the underlying Stage III asset classification. It reports:

Substandard: approximately **₹2,819.82 crore**

Doubtful: approximately **₹880.55 crore**

Total identified categories shown in the disclosure: approximately **₹3,700 crore**

The report also provides associated loss allowances/provisions.

8. Auction recovery

Muthoot's own auction policy provides useful qualitative evidence about its collection strategy. The company states that it attempts to avoid auction by communicating with borrowers and encouraging them to:

pay interest periodically;

release the pledged jewellery;

renew the loan after meeting applicable interest/LTV requirements; and

make part-payments where possible.

Auction is treated as a recovery mechanism after the prescribed procedures and notices. The policy also provides for refunding any surplus auction proceeds to the borrower. The company states that its

Auction Department monitors Stage 3/NPA accounts and that gold loans overdue for closure can be taken up for auction after the stipulated process.

Hence this affirms the conceptual connection:

Collection efforts → reduction in overdue/stressed accounts → fewer auctions → lower credit losses → better profitability

FY24–FY25 comparative analysis

<i>Variable</i>	<i>FY24</i>	<i>FY25</i>	<i>Movement</i>	<i>Interpretation</i>
<i>Stage III loan assets (%)</i>	3.28%	3.41%	Increase	<i>Slight deterioration in reported asset quality</i>
<i>ROA (%)</i>	5.84%	5.70%	Decrease	<i>Slight decline in return generated from assets</i>
<i>ROE (%)</i>	17.86%	19.73%	Increase	<i>Increase in return generated on shareholders' equity</i>
<i>Gold-loan auction amount (₹ crore)</i>	₹892 cr	₹461 cr	Decrease	<i>Substantial reduction in loans subjected to gold auction</i>
<i>PAT (₹ crore)</i>	₹4,049.7 cr	₹5,200.8 cr	Increase	<i>Significant increase in reported profit</i>

The FY2025 Annual Report reports PAT of ₹52,008 million for FY25 versus ₹40,497 million for FY24, while loan assets increased from ₹758,270 million to ₹1,086,478 million. The more interesting finding is actually the combination of apparently mixed movements:

Stage III increased slightly from 3.28% to 3.41%, while ROA declined from 5.84% to 5.70%. At the same time, ROE increased from 17.86% to 19.73%, PAT increased from ₹4,049.7 crore to ₹5,200.8 crore, and gold-loan auction amount declined from ₹892 crore to ₹461 crore.

IX REGRESSION ANALYSIS

1. Impact of Stressed Assets on Profitability

The regression analysis was undertaken to examine whether the level of stressed assets, measured through the Stage III asset ratio, is associated with the profitability of Muthoot Finance Limited, measured by Return on Assets (ROA).

The model is based on the premise that deterioration in asset quality may increase credit losses, provisioning requirements and recovery costs, thereby affecting the profitability of an NBFC. Conversely, effective monitoring and recovery of stressed loans may help contain the adverse effect of non-performing assets on profitability.

Annual Dataset

The analysis covers **FY2021–22 to FY2025–26**, providing five annual observations.

<i>Financial Year</i>	<i>Stage III Assets (%)</i>	<i>ROA (%)</i>
<i>FY2021–22</i>	<i>2.99</i>	<i>5.56</i>
<i>FY2022–23</i>	<i>3.79</i>	<i>4.69</i>
<i>FY2023–24</i>	<i>3.28</i>	<i>5.06</i>
<i>FY2024–25</i>	<i>3.41</i>	<i>4.67</i>
<i>FY2025–26</i>	<i>2.35</i>	<i>6.46</i>

The Stage III ratios are based on Muthoot Finance's reported asset-quality disclosures. The FY2025 Annual Report reports a Stage III ratio of 3.41% for FY2025, while the FY2026 results report Stage III of approximately 2.35% at March 2026. The ROA series used for the regression is the annual financial-ratio measure reported for Muthoot Finance for FY2022–FY2026.

Descriptive Relationship

The data indicate an inverse movement between Stage III assets and ROA over the study period. Stage III assets increased from **2.99% in FY2022 to 3.79% in FY2023**, while ROA declined from **5.56% to 4.69%**. Subsequently, Stage III remained elevated at 3.28% and 3.41% in FY2024 and FY2025, while ROA remained relatively lower at 5.06% and 4.67%, respectively. In FY2026, Stage III declined to 2.35%, accompanied by an increase in ROA to 6.46%.

This pattern provides an initial indication of a negative relationship between stressed assets and profitability. However, visual association alone cannot establish the statistical significance of the relationship; hence, regression analysis was undertaken.

Regression Results

<i>Statistic</i>	<i>Result</i>
<i>Number of observations (N)</i>	5
<i>Correlation coefficient (R)</i>	-0.965
<i>R²</i>	0.931
<i>Adjusted R²</i>	0.908
<i>Intercept (β_0)</i>	9.532
<i>Stage III coefficient (β_1)</i>	-1.341
<i>t-statistic for Stage III</i>	-3.83
<i>p-value for Stage III</i>	0.0079
<i>F-statistic</i>	40.47
<i>Significance of F</i>	0.0079

Regression Equation

The estimated regression equation is:

$$\text{ROA} = 9.532 - 1.341(\text{Stage III})$$

The coefficient of Stage III assets is **-1.341**. This indicates that, within this five-year sample, a one-percentage-point increase in the Stage III asset ratio is associated with an estimated **1.341 percentage-point decline in ROA**, holding the simple model specification constant.

The negative coefficient is consistent with the expected relationship between stressed assets and profitability. Higher stressed assets can require additional provisioning and recovery efforts and may reduce the income-generating quality of the loan portfolio.

Coefficient of Determination

The regression produces an **R² of 0.931**, indicating that approximately 93.1% of the variation in ROA in this five-observation sample is statistically associated with variation in Stage III assets under the specified simple regression model.

The adjusted R² is **0.908**, which remains high despite the adjustment for the small sample.

However, the very high R² **cannot** be interpreted as proof that Stage III assets alone cause 93.1% of profitability changes. Profitability of an NBFC is affected by several other factors, including interest margins, loan growth, funding costs, operating efficiency, credit costs, provisions, recoveries, gold prices, portfolio composition and other income.

Significance of the Regression Coefficient

The estimated Stage III coefficient has a **p-value of 0.0079**, which is below the conventional 5% significance level.

Therefore, for this sample:

Null hypothesis (H_0): Stage III assets have no significant relationship with ROA.

Alternative hypothesis (H_1): Stage III assets have a significant relationship with ROA.

The regression provides statistical evidence of an association between Stage III assets and ROA at the 5% level. The estimated relationship is **negative**.

The overall F-test also produces a p-value of approximately **0.0079**, indicating that the simple regression model is statistically significant at the 5% level.

Interpretation of the Findings

The regression results indicate a **strong negative association between stressed assets and profitability** in Muthoot Finance during FY2022–FY2026. The correlation coefficient of **–0.965** suggests that years with relatively higher Stage III asset ratios tended to be associated with lower ROA.

The regression coefficient further indicates that a one-percentage-point increase in Stage III assets is associated with an estimated 1.341-percentage-point reduction in ROA. This finding is economically consistent with the role of asset quality in NBFC profitability: deterioration in loan quality can result in higher provisioning requirements, greater collection and recovery costs and reduced effective income generation from stressed accounts.

The movement in FY2026 provides a particularly relevant observation. Stage III assets declined from 3.41% in FY2025 to approximately 2.35% in FY2026, while ROA increased to 6.46%. Muthoot Finance's FY2026 management discussion also noted that the reported NPA classification had been affected by a shift to borrower-wise classification, and management stated that the March 2026 Stage III percentage was materially lower than the previous year's level.

Nevertheless, the result should be interpreted as an association rather than evidence of causality. The sample contains only five annual observations, making the statistical estimates sensitive to individual years. Moreover, changes in ROA may reflect several simultaneous factors besides asset quality.

Hypothesis Testing

<i>Hypothesis</i>	<i>Statistical result</i>	<i>Decision</i>
<i>H_0: Stage III assets have no significant relationship with ROA.</i>	<i>$p = 0.0079 < 0.05$</i>	<i>Reject H_0</i>
<i>H_1: Stage III assets have a significant relationship with ROA.</i>	<i>$\beta = -1.341; p = 0.0079$</i>	<i>Supported</i>

Thus, the annual regression provides evidence of a statistically significant negative relationship between Stage III assets and ROA during the period examined.

The simple regression analysis indicates a statistically significant negative association between stressed assets and profitability in Muthoot Finance Limited during FY2021–22 to FY2025–26. The estimated regression coefficient of **–1.341** indicates that a one-percentage-point increase in Stage III assets was associated with an estimated 1.341-percentage-point decline in ROA. The model recorded an R^2 of 0.931 and an adjusted R^2 of 0.908, while the Stage III coefficient was statistically significant at the 5% level ($p = 0.0079$). These findings suggest that deterioration in asset quality is associated with lower profitability. However, the results should be interpreted cautiously because the annual analysis is based on only five observations and does not control for other determinants of profitability.

X Results and Findings

Muthoot Finance's gold-backed lending model provides relatively strong security for recovery. The company uses regular follow-up, repayment monitoring, renewal/part-payment mechanisms and, where necessary, auction of pledged gold to recover dues.

The company's asset-quality position improved substantially over the study period, although some deterioration was visible in FY2025. Stage 3 assets were reported at 3.41% in FY2025, while the annual report provides detailed provisions against substandard and doubtful assets.

Effective monitoring and recovery helped contain stressed assets for much of the study period. However, the presence of Stage 3 assets indicates that continued attention to overdue accounts and credit-risk management remains necessary.

Provisioning for impaired assets has an important effect on profitability. Muthoot Finance's FY2025 disclosures show substantial loss allowances against Stage 3 assets, demonstrating the financial importance of NPA management.

Auction of pledged gold serves as an important secondary recovery mechanism when borrowers fail to regularise their accounts. However, reducing dependence on auctions through timely collection and account regularisation is preferable from a customer and recovery-management perspective.

Despite fluctuations in asset quality, Muthoot Finance has maintained substantial profitability. The company's reported profit after tax was ₹39.54 billion in FY2022 and ₹34.74 billion in FY2023, demonstrating its capacity to remain profitable while managing credit risk.

XI Conclusion & Suggestions

The study indicates that effective loan recovery management is closely associated with the maintenance of asset quality and profitability at Muthoot Finance Limited. The company's gold-backed lending model provides an important recovery advantage because pledged gold constitutes readily realisable security. Nevertheless, stressed accounts, provisioning requirements, write-offs and recovery costs can adversely affect profitability. Therefore, continuous monitoring of overdue accounts, early identification of stressed borrowers and efficient recovery mechanisms are essential for sustaining profitability. The findings also suggest that NPA management should be viewed not merely as a recovery function but as an integral part of profitability and risk management.

Early-warning systems should be strengthened to identify accounts showing repayment stress before they become NPAs.

Digital collection mechanisms through automated reminders, digital payment facilities and data-based monitoring of repayment behaviour need to be improved.

Early recovery should be prioritised rather than auction, wherever borrowers have the capacity to regularise their accounts.

Monitoring of non-gold loan portfolios need to be strengthened, since diversification into other lending segments can introduce different credit-risk characteristics.

Credit costs and write-offs need to be reduced through stronger borrower assessment, continuous monitoring and timely recovery.

Collection efficiency should be tracked systematically and collection/recovery indicators must be disclosed consistently so that the effectiveness of recovery strategies can be evaluated over time.

Asset-quality and profitability monitoring need to be integrated by regularly examining the relationship between GNPA, NNPA, Stage 3 assets, credit cost, write-offs, ROA and ROE.

Overall, the study can conclude that strong loan collection, timely resolution of stressed assets and controlled credit costs are important contributors to maintaining the financial performance of Muthoot Finance, although profitability is also influenced by factors such as loan growth, interest margins, operating costs and funding costs.

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