



Credit Evaluation And Financial Growth In Non-Banking Financial Companies

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Abstract

This research examines the credit evaluation methodologies and financial tactics implemented by Shriram Finance Limited, a leading non-banking financial company (NBFC) in India. The study investigates the company's strategies for managing loans and advances, evaluating its risk management protocols, and analyzing its financial stability and growth trajectory. Through a detailed analysis that includes ratio analysis and a review of loan growth patterns, the study identifies key strengths, weaknesses, and potential opportunities for expansion within the company. The findings underscore the importance of Shriram Finance's customer-centric services and its strategic focus on financial inclusion in driving its success. Nonetheless, the company faces ongoing challenges such as the management of non-performing assets (NPAs) and the need for adherence to regulatory requirements. The study concludes by offering recommendations aimed at enhancing credit risk assessment processes and improving operational efficiency to support sustainable growth in the competitive NBFC landscape.

Keywords :

Non-Banking Financial Companies ,Credit Evaluation, Financial Growth ,Shriram Finance Ltd, Financial Inclusion, NBFCs.

Introduction

The non-banking financial sector (NBFC) in India has played a critical role in fostering financial inclusion, providing a wide array of financial services to segments of the population that are often underserved by traditional banks. NBFCs, such as Shriram Finance Limited, have historically

focused on catering to the financial needs of individuals and small businesses in rural and semi-rural areas. Established in 1979, Shriram Finance has evolved into a prominent player in the Indian financial landscape, offering products ranging from vehicle loans to small business loans and gold loans. The company's dedication to customer-centric services and its innovative approach to financial products have positioned it as a key contributor to India's economic growth, particularly by supporting the financial aspirations of underserved communities.

2. Literature Review

Kasper Roszbach (2024)

Bivariate Tobit model with variable censoring threshold - Estimation for loan provision decision and loan survival analysis. Evaluate loan applicants using credit scoring models - Analyze loan survival and default risk in bank lending policy. The bank's loan provision process is inefficient. - There is no trade-off between default risk and return in lending policy. Loan provision process inefficiency - Conflicting objectives: default risk vs. survival time maximization.

Venkatesh Mahadevan, and Anjali N. Kulkarni (2012)

Logistic Regression, MLP, Radial Basis NN, SVM, Decision Tree - Integrated model combining various credit evaluation techniques. Evaluate credit approval techniques for Indian Banks - Develop a new integrated credit evaluation model. Lack of comparison with traditional credit evaluation methods - Limited discussion on potential challenges faced during model development. Integrated model combines 5 techniques for credit approval process. - Research methodology involves quantitative analysis with two data sets.

Nimbark Hardik (2023)

Qualitative multi-case study design - Video-recorded interviews with bankers and regulators. Assess IT adoption in Indian banks for SME credit evaluation. - Understand soft information usage in addressing SME information opacity. Soft information constraints - Soft information content. Banks are improving SME financing operations through digitalization. - IT tools can verify SME soft information.

3. Research Methodology

➤ **Data Collection**

The study utilizes secondary data sources, including the financial statements of Shriram Finance Ltd, industry reports, and previous research papers. Data analysis focuses on the trends in loans and advances, the impact of mergers, and the company's financial performance over the past five years.

➤ **Analytical Tools**

Statistical tools such as ratio analysis and trend analysis are employed to interpret the financial data. The Altman-Z Score is used to assess the company's credit risk, and the results are compared with industry benchmarks to evaluate the company's financial health.

Objectives :

- **Reduce the Risk of Borrower Default:** The primary goal is to minimize the chances of borrowers defaulting on their loans.
- **Profit Generation:** Shriram Finance aims to generate profit through the interest charged on loans.
- **Ensuring Suitable Loan Terms:** The study emphasizes ensuring that borrowers receive loans with terms that are appropriate based on their repayment capacity.
- **Preventing Financial Strain:** The objective is to avoid lending excessive amounts to borrowers who might struggle to repay, thereby protecting them from financial strain.

4. Analysis and Discussion

Financial Growth of Shriram Finance Ltd

The analysis reveals significant growth in the company's financial assets and loan disbursements over the past five years. The vehicle loan segment, in particular, has shown a steady increase, reflecting the company's stronghold in the commercial vehicle financing market. The consolidation of Shriram Group entities in 2022 has contributed to the expansion of the company's service portfolio and customer base.

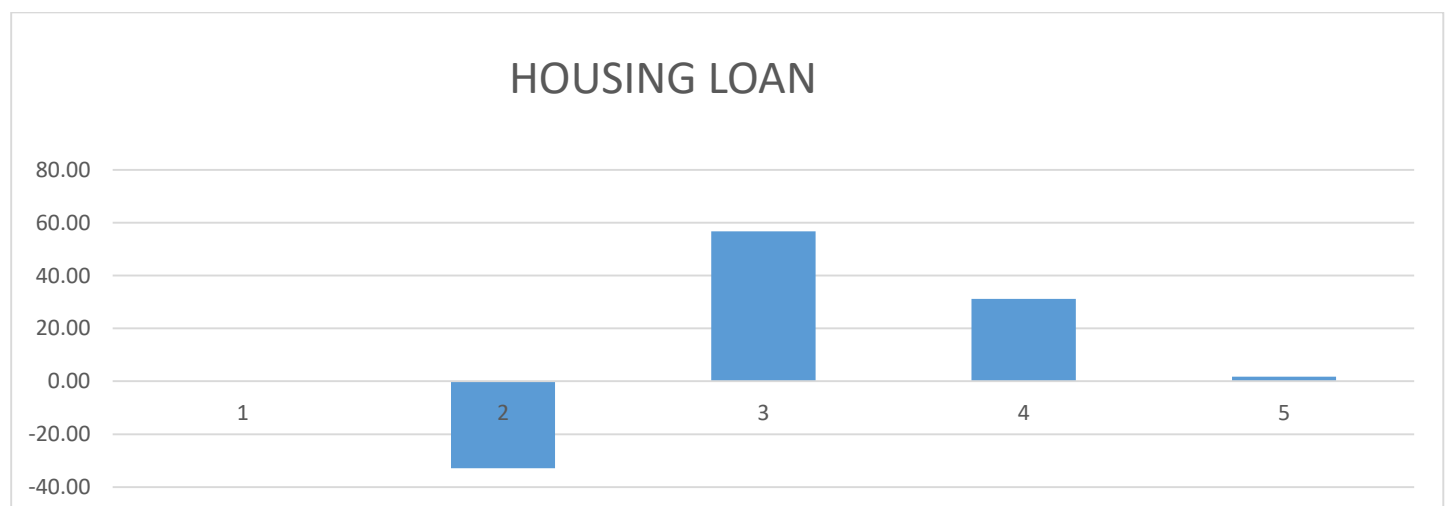
Credit Evaluation and Risk Management

Shriram Finance Ltd employs a rigorous credit evaluation process that includes the use of advanced data analytics and credit scoring models. The company's proprietary ratio has improved over the years, indicating a stronger equity base and reduced reliance on external debt. However, the return on equity (ROE) has fluctuated, suggesting a need for more efficient capital management.

Challenges and Opportunities

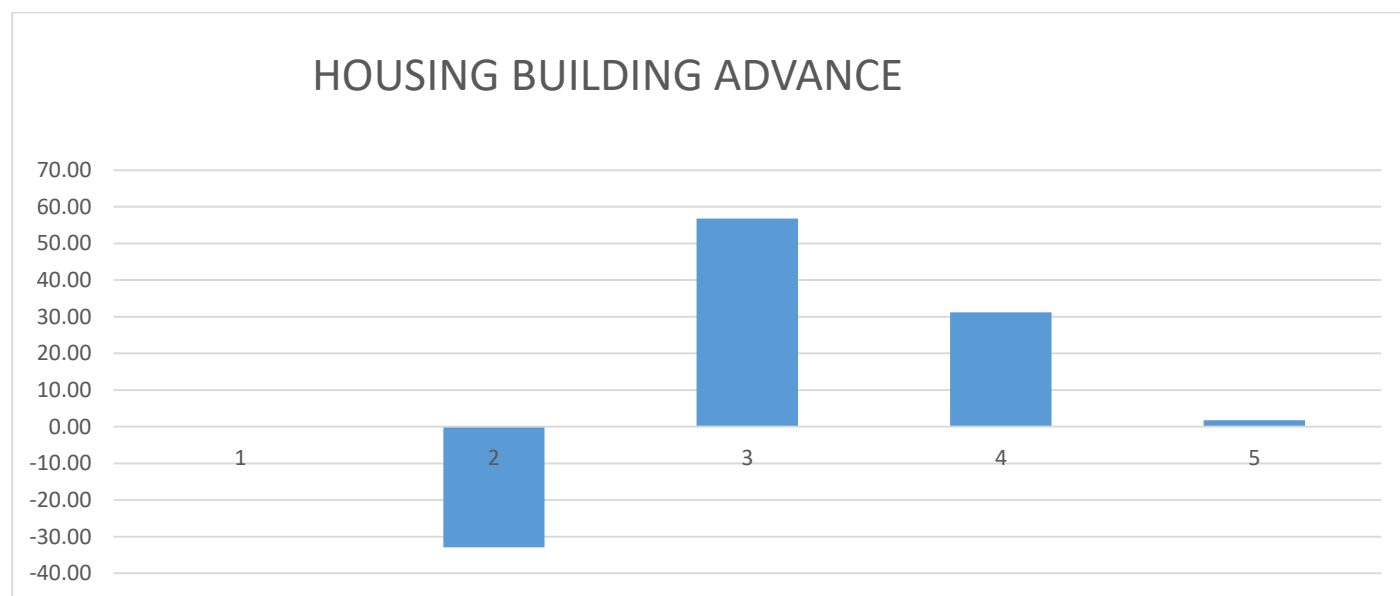
Despite the positive growth, Shriram Finance Ltd faces challenges such as regulatory changes, competition from other NBFCs, and the need for technological upgrades. The paper discusses the opportunities for the company to leverage digital transformation and expand its services in the rural market.

1) THE GROWTH RATE OF HOUSING LOAN:

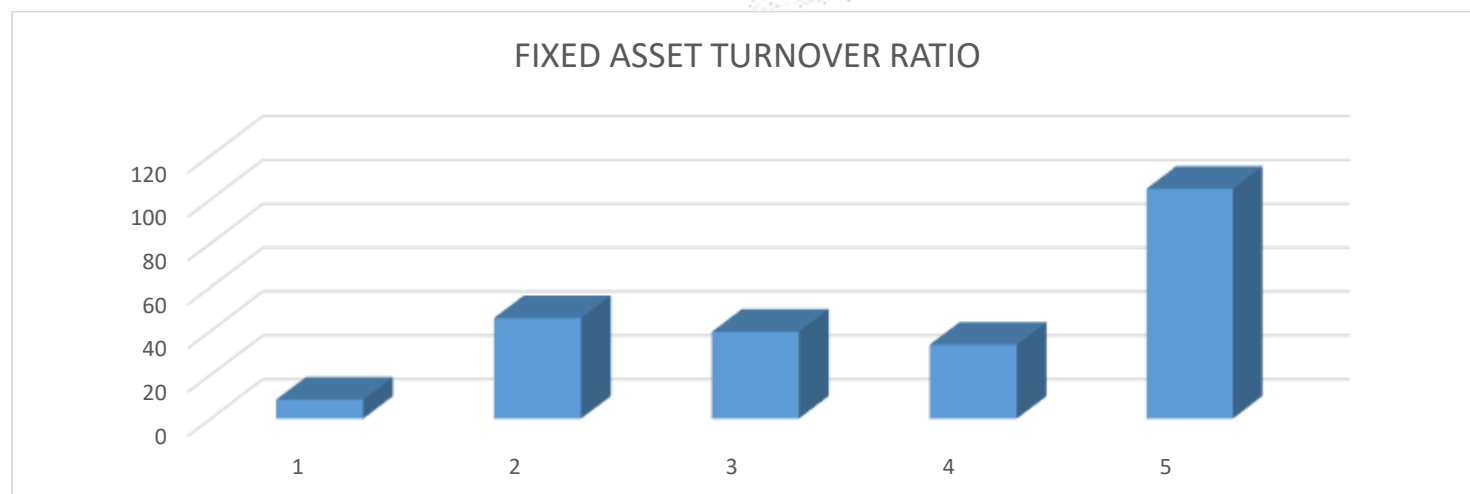


Interpretation:

According to the above table, the proportion of home loans borrowed climbed in 2019, but the pandemic caused the borrowing capacity to fall. In 2021, however, the percentage of loans borrowed increased once more.

2)THE GROWTH RATE IN HOUSE BUILDING ADVANCE:**Interpretation:**

According to the above table, the percentage of home building loans borrowed grew in 2019 but declined in 2020 as a result of the pandemic, presumably because fewer people built homes during the worst of the pandemic.

3) SHOWING THE FIXED ASSET TURNOVER RATIO

Interpretation:

- Purchasing more fixed assets is probably necessary when venturing into new business sectors or geographic markets, which will initially lower the turnover ratio until sales catch up.
- Replacing outdated equipment with new technology has initially increase costs and decrease the ratio before efficiency gains materialize.
- In sales fall while fixed assets remain constant, the ratio naturally dips due to higher asset costs per unit of revenue generated.

5. Findings and Recommendations

- Shriram Finance Ltd has shown resilience in its financial growth, particularly in the vehicle loan segment.
- The company's credit evaluation process is robust but requires continuous improvement to adapt to changing market conditions.
- Technological integration remains a key area for development, especially in enhancing customer service and operational efficiency.
- Shriram Finance Ltd should focus on digital transformation to streamline its operations and improve customer engagement.
- The company should explore new financial products tailored to the needs of rural customers, leveraging its extensive branch network.
- Enhancing the credit evaluation process with more sophisticated data analytics tools can further reduce the risk of NPAs.

6. Conclusion

The study of Shriram Finance Ltd.'s credit evaluation process reveals that effective risk management and credit assessment are crucial for the company's long-term financial success. By implementing rigorous credit evaluation techniques, Shriram Finance can mitigate potential risks associated with loans and advances, thereby ensuring sustainable growth. The analysis demonstrates the importance of diversifying loan products and maintaining a strong liquidity position. The company's ability to adapt to changing market conditions, maintain transparency, and offer tailored financial solutions has positioned it as a significant player in the non-banking financial sector. Moving forward, continuous improvement in credit evaluation processes, along with responsible lending practices, will be essential for Shriram Finance Ltd. to maintain its competitive edge and contribute to financial inclusion in India.

7. Bibliography

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