
A STUDY ON THE FINANCIAL PERFORMANCE OF CHIT FUND COMPANIES

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Article Received: 10 April 2026, Article Revised: 30 April 2026, Published on: 20 May 2026

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DOI: <https://doi-doi.org/101555/ijarp.5720>

ABSTRACT:

Chit fund companies have become an important part of the Indian financial system by providing financial assistance, savings opportunities, and credit facilities to people from different economic backgrounds. In many rural and semi-urban areas, chit funds act as an alternative financial source for individuals who may not have easy access to banks or other formal financial institutions. The traditional nature of chit funds, combined with their flexibility and accessibility, has made them popular among middle-income and lower-income groups. Chit fund companies encourage the habit of regular savings while also offering members an opportunity to obtain funds during emergencies, business needs, educational expenses, and personal requirements.

The financial performance of chit fund companies plays a major role in determining their stability, efficiency, and long-term sustainability. Financial performance analysis helps in evaluating how effectively these companies utilise their financial resources, manage risks, maintain liquidity, and generate profits. A financially strong chit fund company can build customer confidence, attract more subscribers, and ensure smooth operational activities. On the other hand, weak financial management may lead to losses, customer dissatisfaction, and financial instability. Therefore, analysing the financial position of chit fund companies is essential for understanding their operational success and growth potential.

The study is based on both primary and secondary sources of data. Primary data may be

collected through questionnaires, interviews, and direct interaction with employees, customers, and management of chit fund companies. Secondary data may be gathered from annual reports, company financial statements, journals, websites, books, research articles, and government publications. Various financial tools and ratio analysis methods can be used to interpret the collected data and derive meaningful conclusions regarding the financial condition of the companies.

The study also highlights the various challenges faced by chit fund companies, such as increasing competition from banks and non-banking financial institutions, customer awareness issues, regulatory compliance, risk of subscriber default, and economic uncertainties. Understanding these challenges is important for improving the operational and financial efficiency of chit fund companies. The study provides useful suggestions and recommendations for strengthening financial management practices, improving transparency, adopting digital systems, and enhancing customer trust.

INTRODUCTION:

Financial institutions are essential for economic growth because they mobilise savings and provide financial assistance to individuals and businesses. Among the various financial institutions, chit fund companies occupy a unique position in India's financial sector. A chit fund is a traditional financial arrangement in which a group of individuals contribute a fixed amount periodically, and the collected amount is given to one member through an auction or lottery system. Chit funds are popular among middle-income and lower-income groups because they combine both savings and borrowing features. They are widely used in rural and semi-urban areas where formal banking services may not be easily accessible. Over the years, chit fund companies have expanded their operations and become an important part of the non-banking financial sector.

The financial performance of chit fund companies reflects their efficiency in managing funds, controlling risks, generating profits, and maintaining customer trust. Evaluating financial performance is important because it helps determine the stability and growth potential of these companies. Financial analysis also assists management in making strategic decisions for future development.

This study aims to examine the financial performance of chit fund companies using various financial indicators such as profitability ratios, liquidity ratios, and solvency ratios. The study also identifies the challenges faced by chit fund companies and suggests measures for improving their financial efficiency.

PURPOSE OF CHIT FUND FOR ARTICLE:

A chit fund is a traditional financial system that encourages savings and provides financial assistance to its members. It is widely used in India as an alternative source of finance, especially among middle-income and small business groups. The main purpose of a chit fund is to help individuals save money regularly while also giving them access to funds during financial needs.

One of the important purposes of a chit fund is to promote the habit of savings. Members contribute a fixed amount every month, which helps them manage their finances in a disciplined manner. This regular contribution encourages financial planning and reduces unnecessary spending habits.

Another major purpose of chit funds is to provide easy access to credit. Members who require money urgently for personal, business, educational, medical, or family purposes can receive the chit amount through an auction or bidding process. Unlike banks and other financial institutions, chit funds usually involve fewer formalities and quicker access to funds.

Chit funds also support small businesses and self-employed individuals by providing working capital for their business activities. Many small traders and entrepreneurs depend on chit funds because they may not easily qualify for bank loans due to lack of collateral or formal financial records.

THREE PILLARS OF CHIT FUNDS PERFORMANCE:

The performance of chit fund companies mainly depends on three important pillars: financial stability, customer trust, and operational efficiency. These pillars help in measuring the success, growth, and sustainability of chit fund organizations.

1. Financial Stability:

Financial stability is one of the most important pillars of chit fund performance. A chit fund company must maintain strong financial management to ensure smooth operations and timely payments to subscribers. Proper maintenance of funds, regular collection of instalments, low default rates, and effective cash flow management contribute to financial strength. A financially stable chit fund company gains credibility and attracts more customers.

2. Customer Trust and Satisfaction:

Customer trust plays a major role in the success of chit funds because the system mainly operates on confidence among members. Transparency in operations, timely disbursement of funds, fair auction practices, and good customer service increase customer satisfaction. When subscribers trust the company, they are more likely to continue investing and recommend the scheme to others. A strong relationship with customers improves the reputation and long-term performance of the chit fund company.

3. Operational Efficiency:

Operational efficiency refers to how effectively the chit fund company manages its daily activities and services. Efficient record-keeping, proper communication, digital payment systems, timely collection processes, and compliance with legal regulations improve the organisation's performance. Companies with efficient operations can reduce risks, minimise delays, and provide better services to subscribers, leading to higher profitability and growth.

OBJECTIVES OF THE STUDY:

The present study focuses on analysing the financial performance of chit fund companies and understanding their role in the financial sector. Chit funds are considered an important source of savings and borrowing for many individuals, especially in developing economies. The study aims to evaluate the financial condition, operational activities, and challenges faced by chit fund companies to understand their overall performance and sustainability.

1. To analyse the financial performance of chit fund companies.

This objective aims to examine the overall financial condition of chit fund companies by studying their financial statements, income, expenses, assets, and liabilities. The analysis helps in understanding whether the companies are financially strong and capable of maintaining stable business operations.

2. To evaluate the profitability position of chit fund companies.

Profitability is an important indicator of business success. This objective focuses on analysing the profit-earning capacity of chit fund companies by studying their revenue generation, operating profit, and net profit. It helps to determine how effectively the companies are utilising their resources to generate returns.

3. To study the liquidity and solvency position of chit fund companies.

Liquidity and solvency are essential for the smooth functioning of financial institutions. This objective helps in understanding the ability of chit fund companies to meet their short-term and long-term financial obligations. It also indicates the financial stability and risk-bearing capacity of the companies.

4. To understand the operational efficiency of chit fund companies.

Operational efficiency refers to the effective management of business activities and resources. This objective aims to study how efficiently chit fund companies manage collections, payments, customer services, and overall administration. Efficient operations contribute to better customer satisfaction and improved financial performance.

5. To identify the challenges faced by chit fund companies.

Chit fund companies face several challenges such as customer defaults, regulatory issues, competition from banks and financial institutions, and economic uncertainties. This objective focuses on identifying these problems and understanding their impact on the performance and growth of the companies.

6. To provide suggestions for improving financial performance.

Based on the findings of the study, suitable suggestions and recommendations will be provided to improve the financial performance and operational effectiveness of chit fund companies. These suggestions may help companies strengthen their financial position, reduce risks, and enhance customer confidence.

METHODOLOGY:

The methodology of this study explains the systematic procedure followed to analyse the financial performance of chit fund companies in an objective and organised manner. The study is mainly based on the collection, analysis, and interpretation of financial data related to chit fund companies. The financial performance analysis may be conducted either internally by the company for managerial decision-making purposes or externally by researchers, analysts, and financial experts to evaluate the efficiency and financial stability of the companies.

For conducting an effective financial performance analysis, all financial information, assumptions, and analytical methods used in the study must be reliable, relevant, and appropriate. The major inputs required for the study include financial statements such as

balance sheets, profit and loss accounts, annual reports, and other related financial records of chit fund companies. The study also considers factors such as profitability, liquidity, solvency, and operational efficiency to assess the overall financial condition of the companies.

The researcher is required to maintain objectivity, accuracy, confidentiality, and ethical standards throughout the study. The analysis should be conducted without bias and based on factual financial information. To arrive at meaningful conclusions, various financial analysis tools such as ratio analysis, comparative analysis, trend analysis, and percentage analysis are applied depending on the objectives of the study.

DATA COLLECTION PROCESS:

The study is primarily based on secondary data collected from reliable sources such as annual reports of chit fund companies, company websites, journals, magazines, research articles, books, and financial publications. The collected data is carefully organised and analysed to understand the financial performance and operational efficiency of chit fund companies.

The first step in the research process involves understanding the objectives and scope of the study. After defining the objectives, relevant financial data and information are collected from appropriate sources. The collected data is then classified, tabulated, and analysed using suitable financial tools and techniques. Based on the analysis and interpretation, findings and conclusions are drawn regarding the financial performance of chit fund companies.

The methodology also includes identifying the major financial challenges faced by chit fund companies and suggesting suitable measures for improving their financial stability and operational effectiveness. The entire study is conducted in a systematic manner to ensure the reliability, accuracy, and usefulness of the research findings.

FINANCIAL PERFORMANCE ANALYSIS AND ITS METHODS:

1. FINANCIAL STATEMENT ANALYSIS METHOD: Step-by-Step Analysis Process

The Financial Statement Analysis Method is used to evaluate the financial performance, profitability, liquidity, solvency, and operational efficiency of chit fund companies. This method helps in understanding the financial strength and overall performance of the organisation through systematic analysis of financial data.

Step 1: Define the Objective of Analysis

The first step in financial performance analysis is to identify the purpose and scope of the study.

- To analyse financial performance
- To evaluate profitability and liquidity position
- To study operational efficiency
- To assess the financial stability of chit fund companies

Step 2: Collect Financial Statements

The required financial information is collected from reliable sources.

- Balance Sheet
- Profit and Loss Account
- Annual Reports
- Cash Flow Statements
- Notes to Accounts

Step 3: Identify and Classify Financial Information

The collected financial data is classified into different categories for proper analysis.

A. Income-Related Items

- Revenue
- Commission income
- Operating income
- Net profit

B. Expense-Related Items

- Administrative expenses
- Interest expenses
- Operating costs

C. Assets and Liabilities

- Current assets
- Fixed assets
- Current liabilities
- Long-term liabilities

Step 4: Apply Financial Analysis Tools

Different financial tools and techniques are used to evaluate the performance of chit fund companies.

A. Ratio Analysis

Used to measure profitability, liquidity, and solvency.

- Current Ratio
- Quick Ratio
- Debt-Equity Ratio
- Net Profit Ratio
- Return on Assets

B. Comparative Analysis

Financial performance of different years is compared to identify growth and changes.

C. Trend Analysis

Used to study the increasing or decreasing trend in income, expenses, profit, and assets over a period of time.

D. Percentage Analysis

Financial statement items are converted into percentages for better interpretation and comparison.

Step 5: Evaluate Financial Position

The financial condition of chit fund companies is evaluated based on the analysis results.

- Profitability position
- Liquidity position
- Solvency position
- Operational efficiency
- Financial stability

Step 6: Identify Financial Challenges

The study identifies the major financial and operational problems faced by chit fund companies.

- Customer defaults
- Poor fund management

- Regulatory issues
- Increasing competition
- Lack of customer awareness

Step 7: Interpret Findings and Draw Conclusions

The analysed data is interpreted to understand the strengths and weaknesses of chit fund companies. Conclusions are drawn based on the financial performance indicators and overall analysis.

Step 8: Provide Suggestions and Recommendations

Suitable suggestions are provided to improve the financial performance and operational efficiency of chit fund companies.

LITERATURE REVIEW:

FINANCIAL PERFORMANCE OF CHIT FUND COMPANIES

Rao and Kumar (2018), in their study on the financial performance of non-banking financial institutions, explain that chit fund companies play an important role in providing financial support to middle- and lower-income groups. The authors highlight that effective financial management, proper fund utilisation, and customer confidence are the key factors influencing the profitability and sustainability of chit fund companies. Their study emphasizes the importance of liquidity management and operational efficiency in maintaining long-term financial stability.

Sharma (2019), in the study titled Financial Performance Analysis of Chit Fund Companies in India, focuses on evaluating the profitability, liquidity, and solvency position of selected chit fund companies. The study explains that ratio analysis and comparative financial statement analysis are useful tools for assessing the financial health of chit fund organisations. Sharma points out that customer defaults, improper fund management, and regulatory restrictions are major challenges affecting the growth and performance of chit fund companies.

Mohan and Reddy (2020), in their research on Operational Efficiency and Financial Stability of Chit Funds, examine the relationship between operational activities and financial performance. The authors emphasise that efficient collection systems, proper maintenance of accounts, and timely disbursement of funds improve customer satisfaction and organisational performance. Their research also highlights that digital financial practices and transparent operations contribute significantly to the financial growth of chit fund companies.

Priya and Lakshmi (2021), in their study on customer awareness and financial performance of chit fund companies, discuss the importance of customer trust and participation in improving the profitability of chit fund businesses. The study reveals that companies with better customer service, transparency, and effective communication achieve higher financial performance and customer retention. The authors also suggest that awareness programs and financial education can increase public confidence in chit fund schemes.

In the Indian context, several researchers and financial experts have studied the role of chit funds in the financial sector. Reports published by financial institutions and regulatory authorities explain that chit funds provide an alternative source of savings and credit, especially for small traders and self-employed individuals. These studies also emphasise the need for proper regulation, financial transparency, and efficient management practices to ensure the sustainable growth and financial performance of chit fund companies in India.

RESEARCH GAP:

Existing literature on the financial performance of chit fund companies mainly focuses on basic financial analysis such as profitability, liquidity, and solvency ratios. However, limited attention has been given to the practical aspects of financial management and operational efficiency in chit fund companies. Important factors such as customer trust, default management, fund utilisation, and service quality play a major role in the success of chit fund companies, but these aspects are not adequately covered in many studies. This creates a gap between theoretical financial analysis and the actual operational practices followed by chit fund organisations.

Another significant research gap exists in the study of risk management practices in chit fund companies. Although several studies discuss financial performance indicators, there is limited research on how chit fund companies manage risks such as customer defaults, delayed payments, liquidity problems, and market competition. Proper risk assessment and management are essential for maintaining financial stability, yet these areas are not deeply explored in existing literature.

The impact of customer awareness and customer satisfaction on the financial performance of chit fund companies is also not sufficiently examined. Most studies focus mainly on financial statements and accounting ratios, while factors such as transparency, communication, customer relationship management, and public confidence receive less attention. Since chit funds operate largely on mutual trust and participation, these non-financial factors have a direct influence on

organisational growth and sustainability.

CONCLUSION:

The study on the financial performance of chit fund companies provides a comprehensive understanding of how these organisations operate as an important part of the non-banking financial sector. It highlights that chit fund companies play a significant role in promoting savings habits among customers while also providing easy access to credit, especially for small traders, self-employed individuals, and middle-income groups. The analysis of financial performance helps in evaluating the overall stability, profitability, liquidity, and operational efficiency of chit fund companies.

The study reveals that the financial performance of chit fund companies largely depends on effective fund management, timely collection of subscriptions, and proper distribution of chit amounts. Profitability is mainly influenced by commission income, auction efficiency, and control over operational expenses. Liquidity management is also an important factor, as chit fund companies must ensure the availability of funds for timely payments to subscribers without financial strain.

The Asset-Based perspective in financial performance analysis shows the importance of managing assets and liabilities efficiently to maintain financial stability. Similarly, profitability and income-based evaluation indicate that consistent cash inflows and controlled risks contribute to the long-term sustainability of chit fund companies. The market perception and customer confidence also play a crucial role in determining the success of chit fund operations. The study also emphasises the importance of regulatory compliance, ethical practices, transparency, and customer trust in improving the financial performance of chit fund companies. Proper record maintenance, risk management, and adherence to legal frameworks such as the Chit Funds Act are essential for ensuring smooth operations and avoiding financial irregularities.

The literature review supports that financial performance cannot be evaluated using a single method alone. A combination of profitability analysis, liquidity analysis, solvency analysis, and operational efficiency measures is required to obtain a complete understanding of chit fund companies. It also highlights that external factors such as economic conditions, competition, and customer awareness significantly impact performance.