

Gold loan NBFCs see muted growth

Muthoot, Manappuram to consolidate ops, go slow on expansion

RUTAM VORA

Ahmedabad, 28 June

Amid tight regulatory norms set by the Reserve Bank of India (RBI), non-banking finance companies (NBFCs) engaged in the gold loan business see muted growth in the current financial year.

According to industry players, the 60-per cent cap of the amount NBFCs can lend against gold, or the loan-to-value (LTV) ratio set by the apex bank, would hamper volumes for these companies.

While industry sources expect India's ₹1 lakh-crore organised gold loan industry to grow by 10-12 per cent in 2012-13, NBFCs engaged in this business have decided to consolidate their operations and prepare for a flat growth this year.

In March, RBI capped the LTV ratio at 60 per cent for gold loan NBFCs, curtailing the availability of gold for loan. RBI also raised the capital requirements for these NBFCs from 10 per cent to 12 per cent by April 2014.

"The volumes may get affected due to new regulations by RBI. We will have to revise our expansion plans and look for modest growth numbers. However, profits may not get affected as we will be able to save on operational costs by limiting our branch network," said George Alexander Muthoot, managing director (MD), Muthoot Finance Ltd. Muthoot offered loans with LTV ratio of around 75 per cent.

Muthoot Finance, which added close to 1,000 new branches last year, is now looking to add about 250 branches this year. Muthoot has ₹24,400 crore worth of assets under management (AUM) with a network of over 3,700 branches. The AUMs registered a compound annual growth rate (CAGR) of 75 per cent over the past five years.

Manappuram Finance Ltd, another leading gold loan company, is also going slow on expansions. Manappuram has decided not to open any new branch this financial year but

MARKET MOVEMENT

Company	Jun 19, 2011	Jun 28, 2012	% Change
Manappuram General Finance & Leasing	56.75	32.1	-43.44
Muthoot Finance Ltd	160.1	139.4	-12.93
Shriram City Union Finance Ltd	542.0	627.9	15.85
Sensex	18,693.86	16,990.76	-9.11

Source: BSE

focus on strengthening its current branch network.

"We will not open any new branch this year. About 100 branches are already worked out and are on the verge of opening. But we will shut down 100 branches at different places in the country, so there will be no net addition in the existing network of about 3,000 branches," said I Unnikrishnan, MD, Manappuram Finance.

Manappuram has AUMs worth ₹11,600 crore, which grew at a CAGR of close to 90 per cent over the past five years. Another leading player in the gold loan businesses is Shriram City Union Finance, which has close to 36 per cent of its earnings coming from gold loans.

Shares of gold loan NBFCs have declined over the past one year. The shares of Muthoot Finance and Manappuram Finance fell by about 13 per cent and 43.5 per cent, respectively on BSE. Shares of Shriram City Union Finance, however, rose by over 15 per cent over the past one year. The benchmark Sensex fell by over nine per cent during the year.

"Things would get normal, but only after the LTV cap is fully digested by the system," said Unnikrishnan.

"The gold loan NBFCs will have to rework their growth strategy in the changed regulatory environment. The future depends on how they re-engineer their business plans," said an analyst at a leading brokerage house in Mumbai.

However, analysts see growth potential in the gold loan business, where demand has been genuine due to its fast and convenient way of financing the short-term personal or business financial needs.

According to analysts, the RBI regulations on LTV will have limited impact due to a shift in collateral valuation to replacement cost (including making charges) against the gold content-based valuation.

"Fiscal 2013 will be the year of consolidation for gold finance

companies in terms of growth and margins. But from 2014 onwards, the business model would deliver steady growth of 15-20 per cent, impressive returns and benign asset quality metrics," said an analyst at Edelweiss Securities Ltd.

Gold loan NBFCs contin-

ue to have advantage over other competing banks in the gold loan space. "Despite their twin advantages of higher LTV and lower interest rate offerings, banks will have to work hard to tackle the aggression of existing players and changing customer perception," said the analyst from Edelweiss.

In recent years, more banks got attracted to the gold loan business as these loans are given against gold, which does not depreciate fast unlike other assets. Also, these loans carry higher interest margin compared to other secured advances.