GOLD LOAN NORMS

RBI rules out equal treatment for NBFCs with banks

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The Reserve Bank of India (RBI) has declined to raise a cap of 60% of the value of ornaments that gold loan companies are allowed to lend to customers or bring commercial banks under the ambit of the ceiling, thus maintaining the edge of banks, which can lend more for the same pledged worth.

In April, the Association of Gold Loan Companies (AGLOC) had approached the central bank, seeking a level playing field with commercial banks in the gold-lending business.

AGLOC had argued that their business has taken a hit as there is a flight of customers to commercial banks and private moneylenders, who offer higher value loans against the ornaments.

"It (RBI) has ruled out that possibility," said I. Unnikrishnan, vice-president of AGLOC and executive director and deputy chief executive officer, **Manappuram Finance Ltd.** "The LTV rules can have an impact on the business. We have already seen the signs of customers moving towards other lenders." As at the end of March, Manappuram had a loan book of ₹11,500 crore to 1.7 million borrowers in 2,950 branches.

In March, the apex bank capped the LTV ratio for NBFCs at 60% and raised their capital requirements from 10% to 12% by April 2014.

"NBFCs as a class of financial institutions are concentrated niche players, hence the CRAR (capital to risk weighted assets ratio) has been fixed at 15%, well above 9% for banks," RBI said in a clarification. "NBFCs which describe themselves as 'gold NBFCS' are further exposed to the risk of having to deal in a specific commodity. Hence the risk is higher in them vis-a-vis all other NBFCs."

They can't be compared with banks, even those that extend jewellery loans, as this may be a "minuscule portion of the balance sheet and all banks are diversified entities", it said.

Since March, the shares of **Muthoot Finance Ltd** and **Manappuram Finance Ltd** fell by 22.18% and 40.07% respectively, on BSE, while India's benchmark Sensex fell 4.09% and bankex, the gauge of major bank stocks, dropped 5.64%.

> Industry officials say their business has taken a hit as there is a flight of customers to commercial banks

Bankers, especially those based in southern India, said there has been some benefit to their gold loan business in the aftermath of RBI clampdown on the NBFC sector.

Abraham Chacko, executive director of **Federal Bank Ltd**, said the bank added ₹500 crore to its gold loan portfolio in the first three months of this fiscal.

"There would have been some benefit for sure on account of the restriction in the NBFCs' gold loan business. We have grown our portfolio to around ₹4,000 crore, with around 65% growth witnessed in the first quarter," Chacko said.

The central bank first began tightening regulations on the sector in February 2011, when it took away the priority sector status to the loans given by banks to gold loan NBFCs for lending to borrowers. Later, the central bank asked banks to reduce their exposure to NBFCs that have gold loans as 50% or more of total financial assets.

RBI crimped funding to an estimated ₹3 trillion gold loan industry post its fast growth, both in the size of the firms' balance sheets and physical presence, in the last few years.

According to industry estimates, NBFCs account for about ₹50,000 crore of the organized gold loan market, while ₹50,000 crore is with commercial banks.

Though there are no reliable figures about the unorganized market, about ₹2 trillion might be with private moneylenders, according to industry officials.

John Muthoot, chairman and managing director of **Muthoot Fincorp. Ltd**, said though commercial banks might not pose a big risk to gold loan companies, the RBI regulations could impact the business prospects in the near-term and push borrowers back to moneylenders.

Muthoot Fincorp has a loan portfolio of ₹7,200 crore to around 1.5 million customers through around 2,500 branches. Gold loans, initially considered as the last resort for Indian middle-class to borrow, picked up momentum in recent years with gold loan-focused NBFCs seeing brisk business, despite increases in interest rates.

Analysts said such NBFCs could, however, lose market share further since the apex bank is unwilling to relax rules for the sector. "With the LTV cap staying, NBFCs are definitely expected to lose market share. The very fact that RBI is unwilling to give a level-playing field to NBFCs will have an incremental negative impact on the profitability of such companies. They have to live with the new reality," an analyst with a Mumbai-based brokerage said. He requested anonymity as he is not authorized to speak with the media.