

Gold loan cos cut rates by 300 bps on new norms

Aparna Ramalingam | TNN

Chennai: Increased competition from banks and stringent regulations from the Reserve Bank of India, such as stricter KYC norms as well as the 60% cap on loan-to-value (LTV) ratio, has forced gold loan companies to lower interest rates to attract borrowers.

Such loans are normally availed of by small traders with the average ticket size being Rs 20,000 with a one-year repayment time frame. For long, the main selling proposition of gold loan companies was their ability to disburse loans across the counter after ascertaining the quality of gold by an in-house expert. But that is set to change after complying with the KYC norms.

Interest rates on such loans by NBFCs have gone down by 300 basis points in the last two months. From 27%, interest on gold loans now hovers around 24%. "We have a self-imposed ceiling of 24%. Earlier, we used to charge 26% for such loans," I Unnikrishnan, managing director, Manappuram Finance, said.

Competition and RBI's norms have resulted in a de-growth in Manappuram's gold loan portfolio. At the end of the fourth quarter of FY12, the company's gold loan portfolio stood at Rs 11,500 crore. This has come down to Rs 10,760 crore at the end of the first quarter of FY13. "We are expecting a flat second quarter," Unnikrishnan said.

Sometime ago, gold loan companies got together to form an association, which currently has 50 members, in order to bring self-regulation into the industry. "One of the first issues was to bring uniform rates for gold loans," Thomas George Muthoot, director, Muthoot Fin-corp, said. This NBFC has brought down its interest rates on gold loans to 24% from 27%.