

Business Standard

Tightening of NBFC norms: Gold loan firms look to diversify

RBI feels gold loan firms are exposed to inherent concentration risk and adverse movement of gold prices

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Traditional gold loan companies are looking to diversify their business, as regulations for such entities as well as for non-banking finance companies (NBFCs) on a whole is getting tougher.

Given the rapid pace of their business growth and the nature of their business model, the Reserve Bank of India (RBI) felt that these companies were exposed to inherent concentration risk and adverse movement of gold prices. This was probably a key factor, which led to these companies venturing into newer areas of business. RBI has also issued fresh norms for the NBFC sector that mandates higher provisioning and capital norms as well as stringent NPA norms - in line with what the banks are required to do.

Mannapuram Finance, for example, has ventured into money transfer and foreign exchange, while Muthoot Finance is present in areas like ATM, wealth management services, ticketing and tour package, including money transfer and foreign exchange. Though most of the revenue comes from gold loans, in the years to come more diversification is on the cards.

RBI has cut down non-performing assets (NPAs) recognition period to 90 days and hiked provision for standard assets to 0.40 per cent from 0.25 per cent for NBFCs.

"The primary motive for expanding our product range beyond gold loans remains the fact that we see very good prospects in the areas we have identified. What we have proposed now would make business sense even if there were no regulatory compulsions on gold loans," said V P Nandakumar, MD & CEO, Manappuram Finance. According to Nandakumar, with India likely to get back to rapid growth, this is the opportune moment to explore related businesses.

Manappuram is keen on applying for a payments bank licence. In July, RBI had released the draft guidelines for licensing of payments banks and small banks. "The concept of a payments bank appears promising and we await more clarity about it. In the meantime, we intend to proceed with housing loans, vehicle finance and microfinance," said Nandakumar.

According to the draft guidelines, both payments banks and small banks are niche or differentiated banks with the common objective of furthering financial inclusion.

Earlier this calendar year, Muthoot entered into white-label ATMs. The move was because RBI

had permitted non-banking companies to set up ATMs, referred to as white-label ATMs to increase the penetration of the facility across the country.

"With our wide reach of network and branches, we felt that we should be a part of the new business ecosystem and strategies our policies and growth trajectory keeping in mind the new developments taking place in the market," said George Alexander Muthoot, managing director, Muthoot Finance.

According to Muthoot, having been the pioneers in gold loan industry they changed and adapted to the dynamic needs of the business and customers. "We have been successful in increasing our gold loan portfolio this quarter with Rs 338 crore and win back our customers who left us during the period of regulatory uncertainties," said Muthoot. The gold loan company acquired an asset financing company in Sri Lanka a few months ago.