

GOLD LOAN

Funding, shoring up balance sheet has been the biggest challenge

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MUMBAI

Back in 1986, when V.P. Nandakumar was working at a local bank, his father convinced him to leave his job and join the family business. The father persuaded him by threatening to shut down the business that started in 1949 as a pawnbroking outlet in Thrissur, Kerala.

"I think that somewhere he saw the entrepreneurial streak in me and indirectly advised me to run the company," says Nandakumar, 55, who has built Manappuram General Finance and Leasing Ltd into India's only listed gold loan company, offering loans by taking gold as collateral.

When the second-generation entrepreneur took over the reins of the company, it had capital of a little over Rs5 lakh. Today, Manappuram General has stockholders' equity of Rs17.26 crore, having been listed on the Bombay

Stock Exchange in 1995.

The one-time pawnbroker has grown to become a non-banking finance company with 800 branches.

Manappuram General's business model is simple. Borrowers don't need to submit documents of their cash flows or anything else; they only need to put down the collateral. Unlike housing loans or vehicle loans, the underlying asset—gold—is kept with the lender and not the borrower, lowering the risk of default.

Although such loans are normally granted for a period of one year, they are typically foreclosed in as early as three months, says Nandakumar, who describes gold as a "credit card for the rural poor".

Loans against gold are availed mainly to buy agricultural inputs or to fund day-to-day business operations in a country where household gold holdings are estimated to be around 20,000 tonnes. "So there is an immense scope for gold loans, provided the com-

pany gets sufficient funding," says Nandakumar.

According to K.P. Balaraj, managing director of venture capital firm Sequoia Capital India, which invested in the company in 2007, lenders tend to expand their loan book rapidly, making them prone to piling up non-performing assets, or NPAs. "So that worry we don't have here as NPAs in gold lending business is hardly 0.1%-0.2%," he says.

To be sure, there are challenges and risks. "You need to create an infrastructure that understands the quality of the product," says Ramesh G. Iyer, managing director, Mahindra and Mahindra Financial Services Ltd. "Also, one has to be sure and clear about the ownership of the product. In addition, the safe custody of the product is also important."

Sequoia Capital and India Equity Partners were among the funds that invested in Manappuram General in its first two rounds of fund raising. In December 2007, Se-



Business first: Manappuram chairman and chief executive officer V.P. Nandakumar says gold is a credit card for the rural poor.

quoia Capital and India Equity Partners invested Rs35 crore each in two tranches to fund its expansion plans. In 2008, Nandakumar raised Rs108 crore more from private equity investors.

"As we met different companies that we were going after in a focused manner, Manap-

puram clearly stood out," says Balaraj of Sequoia Capital, who sits on the board of Manappuram General.

For Nandakumar, funding and shoring up the balance sheet of Manappuram has been the biggest challenge. In 1999, he acquired a small non-deposit taking company in Coimbatore and named it Manappuram Finance (Tamil Nadu) Pvt. Ltd. Manappuram General is currently in the process of merging itself with Manappuram Finance (Tamil Nadu) Pvt. Ltd.

He wanted to buy a non-deposit taking finance company because at that time such companies were exempted from capital adequacy requirements of the Reserve Bank of India (before the change in June 2008). "The advantage was that there was no capital adequacy requirement so we could grow the balance sheet even without raising the capital as per the regulatory requirement," he said.

For Nandakumar, his life revolves around his business.

"My time has gone in developing this business," he says. "So apart from the core business, I have a few companies on the side that are into insurance broking and software development. We are developing a centralized banking platform so that the transaction of any branch (of Manappuram) can be viewed at a central office," he adds.

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Manappuram reduces BPLR

Manappuram General Finance and Leasing Company Ltd has reduced its prime lending rate to 12% with effect from November 6. The recent credit upgrade – Manappuram being accorded highest credit rating of A1+, has enabled the gold loan company to raise funds through Commercial papers at reasonably low cost.

Gold lender cuts rates

Gold lender Manappuram General Finance and Leasing Co has cut its lending rate to 12 per cent from November 6.