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Q&A: I Unnikrishnan, MD, Manappuram Finance

'The govt should promote gold loans'

Dilip Kumar Jha / Mumbai July 17, 2011, 0:29 IST

In the last four-five years, the gold loan market has been transformed. In an interview with Dilip Kumar Jha, I Unnikrishnan, Managing Director, Manappuram Finance, says from customers pledging jewellery as a last resort for funds, there is now extensive interest in the sector. Edited excerpts:

How has the stigma attached to gold loans changed?

Gold loans, which were earlier considered the last resort for consumers, have successfully changed their image into convenience loans through lots of advertisement campaigns involving celebrities. Convenience loan refers to a loan which is easily available in the least possible time and at an affordable interest rate. While looking at our customer base and the end use of money, we feel people borrow money for agricultural and allied activities (30 per cent), emergencies like hospitalisation (15-20 per cent), education (10 per cent) and working capital requirement (15-20 per cent). Customer profiles have changed severely over the last few years. Around 65 per cent of our customers are from the middle and lower middle income groups—if they have 40 grams of gold, they would like to borrow a loan against 20 grams.

What was the growth rate of the gold loan industry in the last four-five years?

The industry witnessed a growth of 50-60 per cent in the last four-five years. However, in the next five years, the growth may slide. In absolute terms, the loan base would increase to last year's level but the growth rate would decline.

What are the advantages of borrowing from the organised sector, compared to local moneylenders?

Players in the organised sector score over money lenders in terms of transparency, affordability and technology. There are some good moneylenders in major gold markets as well. However, the government and the regulator do not get a clear picture about the pledged gold and the money lent to people through moneylenders. Gold loans should actually be promoted by the government to bring into circulation the 18,000 tonnes of gold lying idle. When customers take loans, they unlock their earlier investments. Hence, instead of taking loans against immovable property, taking loans against gold jewellery should be the priority.

Would you consider lending more money against jewellery with hallmark certificates?

Certainly! That is being considered today. The quality of gold jewellery is a major determinant for considering the quantum of a loan. The purity of gold rose 1-1.5 carat, or four-six per cent, in the last five years. Some rural areas are yet to achieve this growth but most urban markets have already seen this. In the next three years, the average purity of gold is likely to rise four-five per cent.

Going forward, do you plan to lend against investment products like coins, bars and exchange-traded funds (ETFs)?

We are open to funds against coins, if they come along with jewellery. However, we are not considering lending against other investment products, including bars and ETFs. We have enough funds to lend against gold jewellery. We are also ready to meet the Reserve Bank India's (RBI) mandatory capital adequacy ration by raising funds from the market.

What is the mix of your fund raising sources, especially after RBI had withdrawn priority sector status to non-banking financial companies?

RBI's decision is unlikely to affect our business. We are now considering raising funds directly from the public. We plan to raise Rs 750 crore through our maiden retail non-convertible debenture issue to fund growth. The issue may come with a tentative coupon size of 11-12 per cent. The company's cost of funds has increased by 200 basis points, in line with the rising interest rates. The company also aims to grow its loan book by 40 per cent this financial year. We are planning to open over 1,000 new branches this year.