

Gold loan NBFCs AUM to rise 12-14% in FY23, say analysts

MANISH M SUVARNA
Mumbai, March 22

THE ASSETS UNDER management (AUM) of gold loan non-banking finance companies (NBFC) is expected to rise 12-14% in the financial year 2022-23, on the back of buoyancy in the gold prices and limited borrowing avenue for select customer segments.

However, due to the increased competition from banks in the higher loan ticket segment, the loan growth of gold-focused NBFCs will likely stay muted in FY22.

“With gold loan NBFCs also becoming conscious of the market demand at appropriate yields, the growth is expected to be higher in FY23,” said Sanjay Agarwal, senior director, CareEdge.

The non-bank lenders usually face competition from banks in the larger ticket loan, which is between ₹3 lakh and ₹5 lakh category. Then gold loan NBFCs compete on service, last-mile reach and domain expertise which is difficult for the banks to replicate.

Analysts say even as banks are targeting the gold loan segment aggressively, NBFCs are expected to remain key players in this segment due to their pan-India presence, the ability to facilitate the transaction in a very short period, and hassle-free process.

On the asset quality front, the reported non-performing assets (NPA) of gold loan NBFCs could see variations depending on the movement in the gold prices and timing of the auctions undertaken by these entities.

The analyst said that gold as an asset class, provides good recovery and principal loss is not seen. But there are some losses in the auctioning. “Principal loss is next to negligible. However, there could be some amount of auction losses impact



Analysts say even as banks are targeting the gold loan segment aggressively, NBFCs are expected to remain key players in this segment due to their pan-India presence, the ability to facilitate the transaction in a very short period, and hassle-free process

interest portion of the gold loan, principal recovery is to the full extent,” said Jinay Gala, associate director, India Ratings and Research. However, the credit cost impact on the profitability has been quite modest.

A circular from the Reserve Bank of India – released on November 12, 2022 – on upgradation of bad loans are likely to have a minimal impact on gold loan NBFCs, said AM Karthik, VP and sector head, Financial Sector Ratings, ICRA. This is on account of such entities having a bullet repayment system. The borrowers are also incentivised via lower interest rates if they pay loans before the due date.

financialexp.epar.in

 **MAGZTER**

Clipped from - Financial Express Mumbai - March 23, 2022
Read it digitally on the Magzter app

