Gold Loans NBFCs – Asset Quality Stable, Growth to Remain Moderate

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Synopsis

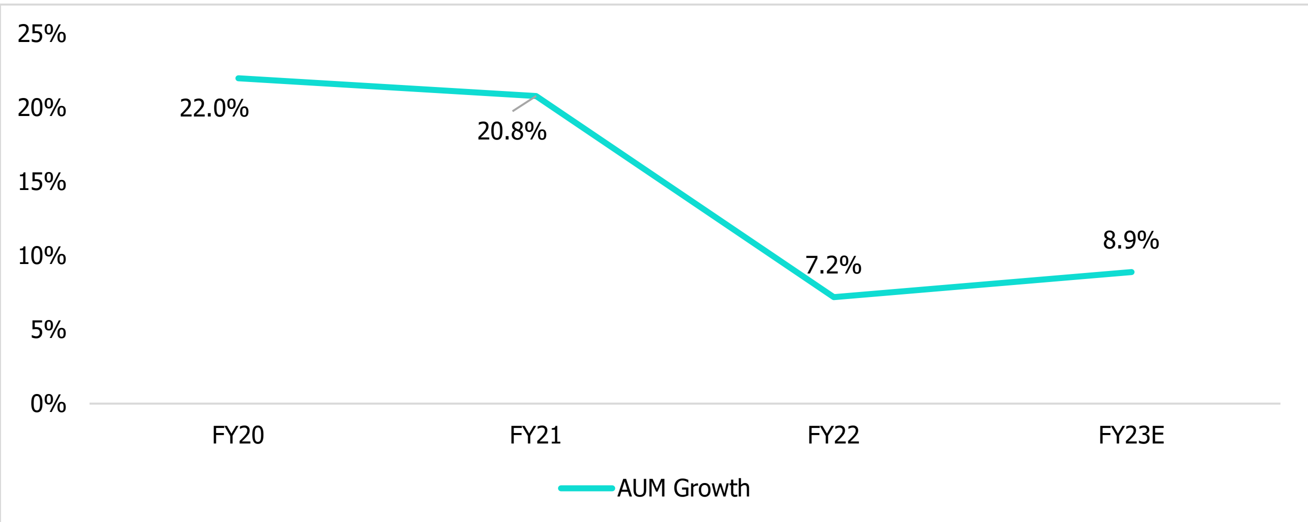
- Gold loan NBFCs have shown relatively stable asset quality parameters and the credit cost has remained low even in the difficult times of Covid-19 as companies continuously monitored LTV and initiated timely recovery steps.
- Gold loan NBFCs have reported a lower growth in FY22 as compared to previous years with gold prices almost remaining stable from May 2021 to February 2022.
- The quantum of auctions increased in FY22 due to a significant decline in gold prices during September 2020 to March 2021, which also impacted the AUM growth rate in FY22.
- The growth rate is expected to slightly improve during FY23 but will remain moderate in comparison to the pre-Covid period due to the prevailing competitive scenario, especially in the higher ticket segment.

AUM Growth of Gold Loan NBFCs

Gold Loan industry is dominated by unorganised players. Within the organised players, banks hold significant portion of the gold loan with majority of them being agriculture based gold loans whereas NBFCs operate in retail personal gold loans. At 7.4%, the AUM growth of gold loan NBFCs for FY22 came in higher than CareEdge's expectations of 6% with higher-than-expected growth witnessed in some of the major NBFCs during Q4FY22.

However, in the retail personal gold loans segment, banks grew only by 1.2% in FY22 primarily due to restoration of LTV cap for banks from 90% to 75% effective April 01, 2021, and aggressive pricing by NBFCs in the higher-ticket size loans to counter competition from the banks. Historically, NBFCs have dominated the personal gold loan space, but in FY21 banks started focusing on this space as gold was seen as a safer asset class aided further by relaxation in LTV norms.

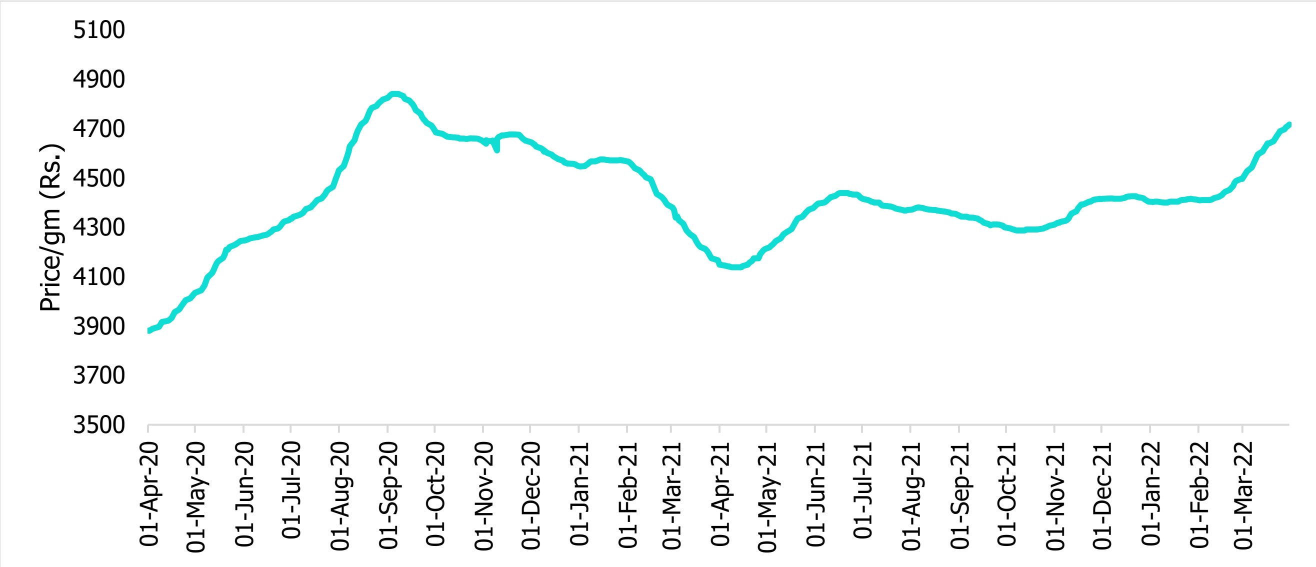
Figure 1: AUM Growth Rate of Gold Loan NBFCs



Source: Company Data, CareEdge Calculations

AUM growth of gold loan NBFCs is directly proportional to growth in gold holdings and the price of the yellow metal. As seen in Figure 2, the price of gold has remained almost stable during the period from May 2021 to February 2022, hence, the growth is only from the improvement in gold holdings.

Figure 2: Movement in Gold Prices during FY22



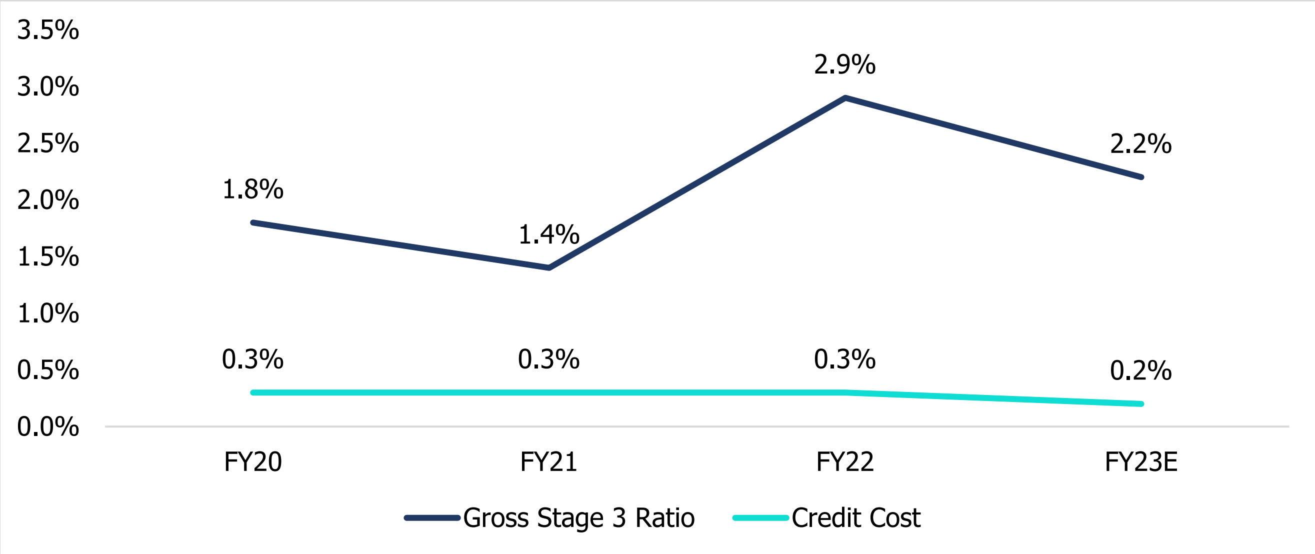
Source: Association of Gold loan companies (India)

CareEdge estimates the growth rate for gold loan NBFCs to be 8.9% in FY23 and to remain moderate considering the prevailing competitive scenario from the banks, especially in the higher ticket segment. A sustained rally in gold prices poses an upward risk to CareEdge's growth estimates.

Asset Quality Parameters of Gold Loan NBFCs

Due to the secured nature of the asset class, the impact of the Covid-19 pandemic was minimal on the gold loan segment in comparison with other segments. As seen in Figure 3, credit cost for gold loan NBFCs remained stable at 0.3% in FY22. Though GNPA has increased in FY22 due to Covid-19-induced economic slowdown, credit cost was under control during FY21 & FY22 with aggressive recovery (auction) steps taken by some of the large gold loan NBFCs.

Figure 3: Gross Stage 3 Ratio and Credit Cost for Gold Loan NBFCs



Source: Company Data, CareEdge Calculations

Asset quality of gold loan NBFCs had an uptick in Gross Stage 3 (GS3) levels in FY22 as compared to FY21 on account of delay in the auction process by NBFCs as a customer retention strategy. However, the LTV was monitored on a continuous basis to avoid auction losses. CareEdge estimates GS3 levels to decrease from 2.9% as on March 31, 2022, to 2.2% as on March 31, 2023. Despite the increase in GS3, the credit cost remained lower at 0.3% in FY22 due to continuous monitoring of LTV resulting in lower Loss Given Default. Credit cost is expected to remain intact going forward as well.

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