

Asian Age

Lenders bet big on gold loans

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Mumbai, May 4: For Mr Ravindra Bahandare, the source of cash to fund his textile trading firm was not a bank, but a 14-gram gold chain that he had pawned for ₹20,000 (\$451) at one of the thousands of gold loan offices mushrooming across India.

"My business has been slack for three, four months and I wanted a quick loan to fund my working capital," he said in suburban Andheri, where he agreed to an interest rate of 24 per cent for the jewellery, an amount typical for specialist gold lenders.

India's formal gold loan market is growing at 30 to 40 per cent annually and attracting global interest. Abu Dhabi Investment Authority and a Goldman Sachs fund are among investors in Muthoot Finance, India's largest specialist gold lender, which starts trading on Friday after a popular \$200 million IPO.



The opportunity is clear: Indians have traditionally used gold as a store of wealth and hold 10 per cent of the global supply, much of it in jewellery. At the same time, more than half of Indian adults operate outside of the formal financial sector, according to the Reserve Bank of India.

The risk for the industry is that high interest rates and margins and the potential excesses of accelerating competition will draw a regulatory backlash of the sort that has crippled India's once-soaring microfinance sector.

Although gold is currently trading at \$1,500 an ounce

and hit a record \$1,575.79 on Monday, a plunge in gold prices would erode the value of collateral held by lenders and undermine demand as borrowers receive less cash.

The short loan tenors involved in gold loans mitigate risk. The longer the term, the lower the loan-to-value ratio, which is typically 75 per cent for three months.

"You're just taking a call on three months," said Mr Amit Saxena, chief executive of Karvy Finance.

Gold loans are safe if branches are secure and the lender properly appraises the collateral, which can be liquidated in case of default.

Non-performing assets accounted for less than half a per cent of Muthoot's retail loan book. Its gold loans stood at \$2.9 billion at the end of November, about six times their total in March 2008, a listing document showed. — Reuters