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as a loan-ly asset

As a result, the market share of NBFCs has been seen rising to 32 per cent from 18 per cent in the past three years while that of public sector and private banks have dropped to 46.5 per cent and 11.6 per cent respectively from 52.3 per cent and 14.8 per cent for the same period.

Having more than 3,200 touch points through its pan-India branch network, Muthoot Finance has an outstanding loan book position of ₹20,000 crore. This gives



the company an edge over other PSU banks and NBFCs in terms of its reach, Muthoot said.

According to Mohan, gold loan NBFCs have better penetration in the rural areas where banks cannot reach. These factors aided their growth, despite the higher interest charges. Another differentiating factor is the customer-focused strategy and aggressive marketing at the micro level, including tele-calling.

Advertising and marketing of gold loans too helped in brand-building and trust amongst customers. This has resulted in gold loans having emerged as a convenient instrument instead of distressed loan, Muthoot said.

In 2010-11, Muthoot Finance spent ₹125 crore on advertising its gold loan products and plans to spend another ₹125 crore on taking gold loans to the next level through aggressive advertising across all media.

Mannapuram Finance roped in eight celebrities for its ad campaign in various states to communicate its brand across the spectrum, Mohan said.

Karvy, on the other hand, has an advertising strategy that is localised rather than mass media. "This enables proximity to our customers and helps us understand the customer base of that particular geography

better and to cater to their changing needs quickly," Saxena observed.

He added that many of Karvy's outlets are in the branches of its parent company and has helped it capitalise on its customer base and lineage.

The market size of gold loans in India is estimated at ₹57,000-70,000 crore annually. In 2010, the organised gold loans market was estimated at ₹35,000-40,000 crore with a compounded annual growth rate (CAGR) of 40 per cent during fiscal 2002-2010. However, other industry estimates peg the size slightly higher at ₹70,000 crore annually.

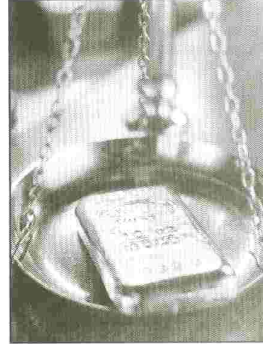
While concerns are seen brewing in the banking sector over lower credit off-take, companies offering gold loans see no such apprehensions based on their strong service pitch.

The outlook for gold loans continues to remain robust thanks to India being one of the largest markets for gold and, as of fiscal 2010, accounted for approximately 10 per cent of the total world gold stock with an annual demand of approximately 700 tonne.

Moreover, the key parameter of any loan business is its non-performing assets, which has been extremely low at 0.29 per cent at gross level and 0.25 per cent at net level in 2010-11 for Muthoot Finance.

Explaining the rationale for the low NPA, Muthoot said, "The major security attached is the emotional bond of the customers with the gold pledged with us.

Besides, the company offers only



71 per cent of the stable value of the gold calculated over a period of time."

While Muthoot declined to give any forward-looking statement with respect to its loans target, being a listed company, Saxena expects to grow the recently launched Karvy's gold loan portfolio to ₹150 crore by end of fiscal 2012 and to over ₹500 crore by 2013.

Of late, gold loans are no more eligible for a priority sector tag. But, gold loans continue to be a safe bet for the NBFCs since they cater to urgent cash needs, quick service and gold as an ideal mortgage asset for the average Indian in distress.

