

RBI tightens compliance norms for gold loans; BFC stocks fall

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The Reserve Bank of India (RBI) has unveiled draft guidelines on gold loans, tightening the compliance standards for lenders on assaying the quality of gold, monitoring end-use of funds, handling gold, harsh penalty for not returning gold on time to borrowers upon completing loan repayment and fixing the loan-to-value (LTV) ratio at 75 per cent.

Banks tend to keep the gold loan LTV ratio at 60-70 per cent, while non-banking finance companies (NBFCs) assign an LTV ratio of 70-80 per cent on gold loans. The RBI had barred IIFL Finance in March 2024 from sanctioning gold loans due to material supervisory concerns, including assigning a higher LTV ratio.

As the regulator clarified on Wednesday that NBFCs

cannot keep the LTV ratio on gold loans above 75 per cent, shares of gold loan NBFCs like Muthoot Finance and Manappuram Finance fell by up to 9 per cent.

'NEGATIVE MOVE'

"The RBI's move is seen as a negative for gold loan NBFCs, primarily due to the LTV limit. They have brought in higher uniformity via the circular. The regulator is stringent on banks maintaining an LTV ratio below 70 per cent. NBFCs assign an LTV ratio at the time of sanction of the loan while banks do it basis the maturity date of loans," a senior banker said.

According to AM Karthik, Senior Vice-President and Co-Group Head, Financial Sector Ratings at ICRA, the draft guidelines on gold loans provide improved clarity on the applicable LTV for the lenders.

"The cap in the LTV at 75 per cent on an ongoing basis

Lenders with higher gold loans

Ban k/NBFC	Overall advances	Gold loans (as % of overall advances)
<u>CSB Bank</u>	<u>T28,915 cr</u>	<u>45</u>
<u>Federal Bank</u>	<u>f2.33 lakh cr</u>	<u>13</u>
<u>South Indian Bank</u>	<u>f86,966 cr</u>	<u>20</u>
<u>Muthoot Finance</u>	<u>1.11 lakh cr</u>	<u>84</u>
<u>Manappuram Finance</u>	<u>f44,217 cr</u>	<u>55</u>

Source: Companies

Note: Data as on December 31, 2024

through the tenor for gold loans extended for consumption purposes and for the gold loans by NBFCs could have some near-term impact on growth," he said.

The additional provision of 1 per cent in case of breach in the LTV should, however, be manageable for large NBFCs operating in this segment, considering their overall business yield and healthy earnings performance.

"Notwithstanding the above, the impact of the evolving competitive environment in view of the new

harmonised regulations on NBFCs' performance shall remain monitorable," he said. If the end use is for income generation, lenders (excluding NBFCs) can prescribe an LTV ratio as part of their policy, he said. However, additional due diligence, including borrower cash flow assessment and primary security creation process, could be operationally onerous.

The RBI also said lenders shall ensure that the gold collateral is handled only in their branches and only by

their employees, a move that could hurt bank partnerships with fintechs for gold loans, where sourcing, assaying and transportation of gold is done by a third-party to the bank.

WILL BENEFIT ALL

VP Nandakumar, MD & CEO, Manappuram Finance, however, said the RBI's decision to harmonise gold loan rules and regulations will be beneficial for all stakeholders, especially gold loan NBFCs as there is currently no level-playing field.

"NBFCs have always been at a disadvantage compared to banks as the latter have access to cheaper funds, are eligible to offer gold-based agricultural loans, enjoy higher LTV ratios and benefit from favourable renewal policies. This scenario will change following the Central bank's latest decision, which we wholeheartedly welcome," he said.