PRESS RELEASE

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Gold loans[1] by banks and NBFCs are set to reach the Rs. 15 trillion mark by March 2027: ICRA

- *Organised gold loan market is set to cross Rs. 10 trillion in the current fiscal and reach 15 trillion by March 2027*
- *NBFCs' retail[2] gold loans are expected to expand at 17-19% in FY2025*
- *Yield pressures have abated to some extent, but remain lower than the peak*

ICRA forecasts the organised gold loans (GL) by banks and non-banking financial companies (NBFCs) to exceed Rs.10 trillion in the current financial year and projects it to reach ~Rs.15 trillion by March 2027. The rating agency highlighted that banks remain dominant driven by their gold jewellery-backed agriculture loans. At the same time, NBFCs hold the pole position in retail gold loans and are expected to expand at 17-19% in FY2025. The moderation in competitive intensity is leading to some expansion in the loan yields of the NBFCs, however their yields are expected to be lower by 200-300 bps than the peak levels seen 4-5 years back.

Overall organised GL expanded at a compounded annual growth rate (CAGR) of 25% over the period FY2020-FY2024, driven by banks, which expanded these loans at a higher CAGR of 26%, while the NBFCs expanded theirs at 18% during the same period. Bank GL growth was driven by agriculture loans backed by gold jewellery, which grew at a CAGR of 26% during FY2020-FY2024, while their retail GLs grew by 32% on a lower base. Consequently, the share of the NBFCs reduced during this period, which were largely focussed on retail GLs for consumption or business purposes.

Public sector banks (PSBs) accounted for about 63% of the overall GL in March 2024, up from 54% in March 2019, while the NBFC and private banks' shares moderated by equal measure during this period. The NBFCs, however, continue to hold a stable share in the retail GL over the last 3-4 years. ICRA expects NBFC GL to expand at 17-19% in FY2025 and projects it to grow at a CAGR of 14-15% during FY2026-FY2027.

"Over the recent past, NBFC GL growth trends were influenced by the trends demonstrated by other loan products, namely microfinance, unsecured business or personal loans, which are also targeted at similar borrowers. With intensifying headwinds for unsecured loans, resulting in lower growth vis-a-vis the previous fiscal, and supported by buoyant gold prices, the NBFC GL book growth revived in FY2024 and the trend is expected to continue into FY2025," ***A M Karthik, Co-Group Head, Financial Sector Ratings, ICRA Limited*** *said, speaking on this.*

Growth in the GL book of NBFCs is largely driven by the gold prices as the branch additions and the tonnage of gold jewellery held as collateral grew at the modest pace of 3-4% vis-à-vis the 18% growth in the loan book during FY2020-FY2024 for the larger players. The NBFC GL book is quite concentrated, with the top four players accounting for 83% share in March 2024; this, however, declined from 90% two years ago as some of the existing players have diversified to this segment and some newer players have emerged.

Yield pressures faced by the NBFCs in FY2022 and FY2023, have abated to some extent in FY2024; however, they continue to remain 200-300 basis points (bps) lower than the peaks witnessed in FY2020/FY2021. Credit costs have remained low, staying well below 0.5% in the last five years. Access to collateral and the liquid nature of the same

[1] Loan against gold jewellery
[2] GL extended for other than agriculture purposes

reduce the lender's credit risk. In case of loan overdues, lenders undertake timely auctions, which have helped in healthy realisations.

Entities are steadily augmenting their online lending and a sustained scale-up should help improve their operating leverage and augment their customer base. The directions restricting cash disbursements (on loans more than Rs.20,000/-) have not impacted business significantly as entities have been able to adapt to the new requirement.

"Healthy growth outlook, low credit cost and a relatively improved pricing power for gold loan companies support their credit risk profiles. This asset class, however, is highly regulated around various operational aspects, including branch opening, collateral evaluation and storage, auction process etc. Thus, improving operating efficiencies in view of the above, would be the key and provides scope for the players to further strengthen their earnings performance," **Karthik added**.

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