

REASERCH PAPER ON FINANCIAL REVIEWS OF GOLD LOAN COMPANIES IN INDIA

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ABSTRACT: *Gold loan has become one of India's fastest growing businesses. The entry of organized sector in recent years, especially the entry of new players like NBFCs into the field of gold loan, has made the business more profitable and it attracted widespread attention in the media. Even though the study was conducted in collecting information regarding the nature, character and composition of gold loan business in India. For borrowers, gold loans have emerged as one of the best means of raising quick, short-term capital. For lenders, gold loans are more advantageous compared with home and car loans because of the shorter tenures, lower processing time and cost, and greater returns due to higher interest rates. These factors, along with appreciation in value of gold, have led to an explosion in the gold loan market. With everyone wanting a piece of this action, the organized sector is challenging the large unorganized gold loan market dominated by pawnbrokers and moneylenders, with NBFCs leading the pack due to simpler approval and disbursal processes, flexible products and better accessibility. In this study author has researched financial performance of the sample gold loan providing companies like Muthoot Finance Company, Manappuram Gold loan Company, India Info line Finance Limited, Mahindra Finance, Muthoot Fincorp Limited.*

Key Words : NBFCs, GOLD LOAN,

INTRODUCTION

Gold loans have become a basis for creation of new financial products such as loans for purchase of gold wherein gold is purchased on the date of loan and held as a pledge until the equated monthly installments are paid⁴. The concept of Gold loans is not a new phenomenon to the Indians. Lending against gold has been in vogue since the very inception of the process of lending. The origin dates back to several centuries when it was used as the main commodity of exchange in the system of barter and trade. The same holds today for the fulfillment of short term financial requirements. India holds the repute of being the largest user of gold ornaments in the world with states like Kerala and Tamil Nadu topping the list on Indian cities. Taking advantage of this, several Southern companies have roped in to capture the market. Banks in coastal Karnataka (like Syndicate Bank and Canara Bank); Kerala (Federal Bank, South Indian Bank, Catholic Syrian Bank and Dhanalakshmi Bank) and in Tamil Nadu (Indian Bank, Indian Overseas Bank, Karur Vysya Bank and Lakshmi Vilas Bank, among others) entered the gold-loan fray during the 60s in a grand manner⁵. Several commercials promoting institutions, such as Mannapuram gold and Muthoot finance group, raging in the media show the extent to which the market for gold has flourished.

The origin of gold loans took place in the Southern states where the landowners and moneylenders would traditionally lend money against gold at exorbitant rates but without many restrictions for special occasions. This practice continued for several years in the unorganized sector with the pawnbrokers. Their business is impeccable, but the problems arose with the increase in the market rates and interest rates of gold to as high as 24-32%. Most of the borrowers were from relatively lower grounds that lost everything since re-pledging was not possible. When the finance companies collapsed in the '80s the people lost all their money. Finally the commercial banks and other Nonbanking financial institutions evolved that, in the present day, control up to 25% of the market demand⁶. The interest rates were regulated by the RBI and were further regulated after the nationalization of banks took place in 1969.

OBJECTIVES OF THE STUDY

The study aims at analyzing the performance parameters of the institutions providing gold loan. More specifically, the present study is designed to carry out the following objectives:

1. To understand scenario of gold loan in India
2. To find out current trends of financial institutions providing gold loans
3. To examine the financial performance of financial institutions under study
4. To examine the overall productivity and profitability of the financial institutions
5. To suggest ways and means to improve performance

ADVANTAGE AND UNIQUE FEATURES OF GOLD LOAN

There are various advantages and unique features of Gold Loan as compared to other Loans as follows.

- The unique features of Gold Loan are that even unemployed or non-working can apply for it Unlike other Loans, Gold Loan lenders don't demand for any certificate to show one's Income and even no Credit card history is required. Thus, even unemployed and non-working people can also apply for Gold Loan.
- The unique feature of Gold Loan is that it requires minimum documentation during the process. Unlike any other unsecured Loan, the Gold Loan require much papers(documentations) , only few documents such as ID proof and address proof is enough to avail of such Loan.
- One of the main advantage of Gold Loan is its low interest rates Usually Loan over gold is provided in the interest of 12-16% per annum and this is quite low compared to Gold Loans available at interest rates of 15-26% per annum by Unorganized Loan Lender.
- The unique feature is the Gold Loan charge low interest rate as compared to Gold Loans from the Unorganized Loan Lenders. In rural areas Agricultural Loan against gold is also available for agriculturist at very nominal Rate of Interest of 7%-8% , but one need to give a proof of agricultural document. This is the unique advantage and feature of the Gold Loan is that it provides Agricultural Loan against gold asset to the farmer. This can help the farmers in rural area to come out of debt trap
- The unique feature of Gold Loan, its convenient form and simple procedures Gold Loan is the most simple and convenient forms of Loan because all one needed to do is pledge one's own gold with a bank or finance company and can get up to 80% of the market value of the gold as a Loan.
- The borrower will be given an option to pay only interest during the entire term and at the end of the tenure one can pay the complete borrowed amount in a single shot.
- In case of Gold Loan processing time is very less. Usually banks take just a few hours to complete the process whereas in case of NBFCs, Non-Banking, Financial Companies a few minutes are enough for the same. So for immediate financial help this is the best option

These above features have made the Gold Loan unique. As a result, the Gold Loan has become an attractive option at the time of financial need. The market is expanding in quick process as compared to other Loans in India. But unlike other Gold Loan, there is some charges associated with it.

FACTORS AFFECTING GOLD LOAN GROWTH IN INDIA

By virtue of their business model, NBFCs grew rapidly over the last few years as evidenced by their increase in market share. The key differentiators for the NBFCs as compared to the banks and cooperatives are

- Quick Loan approvals and disbursements, with minimal documentation.
- Multitude of Loan options with higher LTVs.
- Greater accessibility due to better penetration.
- Non-bankable customers are also served.
- Better operating cost structure versa-à-versa banks.
- Convenient hours of operation.
- Flexibility : Provision of very small and very large Loan amounts. In the process of the Gold Loan, there can be chance of defaulter as lender gives the Loan on gold pledged. It means the lenders take the possession of gold asset. There can the risk in Gold Loan for both Borrowers as well as the lenders, as from borrowers point of view, the lender takes the possession of their gold asset. Thus there can be possibility of risk of theft . And from the Lenders point of the borrower may like to go defaulter. The risk in gold loan has been explained in detail.

HYPOTHESIS OF THE STUDY:

Below mentioned are the main hypotheses for the research.

- To Review Gold Loan Scenario in India
- To analyze Profitability Trends of different gold loan companies
- To analyze Liquidity Trends of different gold loan companies
- To analyze the debt equity status of gold loan companies
- To understand the use of assets of gold loan companies efficiently
- To make the necessary suggestions to improve appearance through hypothesis studies

UNIVERSE OF STUDY

For the research purpose, Researcher has selected the following major finance companies dealing mainly with Gold Loans. These companies are holding major share of Gold Loan Market.

- Muthoot Finance Company
- Manappuram Gold loan Company
- India Info line Finance Limited
- Mahindra Finance
- Muthoot Fincorp Limited

PERIOD OF STUDY

The data of the financial year 2010-11 to 2014-15 (i.e. total 5 years) will be used to analyze the profitability of the selected Gold Loan companies.

Present study has been made covering the period of 5 years from year 2010-11 to 2014-15. The period of time before the year 2010 and even after 2015 have also been considered wherever necessary.

DATA COLLECTION AND TYPES OF DATA

There are mainly two types of information used for Research Work which are

1. **Primary Data:-**
2. **Secondary Data:-**

Here we will use secondary data for financial performance of selected financial companies. To collect the secondary data following types of mediums will be used.

- Company's annual report.
- Journals and magazines.
- Reliable publications
- Internet

TOOLS OF THE FINANCIAL ANALYSIS

The financial health of any company can be diagnosed by analyzing profitability, productivity. For making such analysis collected data is duly edited, classified and analyzed by using appropriate and relevant accounting and statistical techniques. There are various tools or techniques for analyzing the financial data are used. These tools can be classified in to two:

- I. **ACCOUNTING TOOLS**
 - a. Ratio Analysis
 - b. Comparative Statement Analysis
- II. **STATISTICAL TOOLS**
 - a. ANOVA Test

MAJOR FINDINGS

Major findings of present study can be concluded as under

- It is concluded that Equity share capital of the selected gold loan companies have shown almost 40% growth during study period.
- High EPS (Earning Per Share) ratio shows the favorable situation of the company's profitability. EPS of the selected gold loan companies were found satisfactory.
- Current Ratios shows the ability of the company to pay obligation. Current Ratio of the selected gold remain stable between 1 to 2 which is considered as good.
- Quick Ratio shows the ability of the company to meet short term financial liabilities. 1:1 Quick ratio considered to be sufficient as it shows company have sufficient current assets available to pay of current liabilities. In case of selected gold loan companies under study, it can be seen that Quick Ratio was ranging between 1 to 2 which is quite impressive.
- Debt Equity Ratio is used to measure a company's financial leverage of the company. In case of Debt Equity Ratio of selected gold companies was going higher to lower which is good sign.
- Dividends per share (DPS) is the total dividend a company pays out, over a 12-month period, divided by the total number of outstanding shares. A company uses this method to share profits with its shareholders. In case of gold loan companies under survey, DPS is not so impressive.
- PBT Margin Ratio (Profit Before Tax Margin) is a pretax profit **margin** ratio of a company's pre-tax earnings to its total sales. The higher the pretax profit **margin**, the more profitable the company. In case of sampled gold loan companies, Average PBT Margin ratio of the selected gold loan companies during study period found satisfactory high.
- PAT Mrgin Ratio (Profit After Tax Margin) is a after-tax profit **margin** ratio to evaluate financial performance calculated by dividing net income by net sales. In case of selected gold loan companies under study, Average PAT Margin ratio companies during study period found enough high.
- Return on assets (ROA) is a financial ratio that indicate that how profitable a company is relative to its total assets. In the present study, it is found that selected gold loan companies had ROA ranging from 3% to 5% return on assets.
- Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. Higher ROCE shows the favorable situation. In present study, Return on capital employed ratio was ranging from 8% to 16% during study period which is favorable sign for the gold loan industries.
- Asset turnover ratio measures the value of a company's sales or revenues generated relative to the value of its assets. Asset Turnover Ratio of selected gold loan company was almost around 18 which is quite satisfactory.
- It can be further analyzed that total sales of selected gold loan companies had risen by almost 100% over study period except IIFL.
- Net profit of selected gold loan companies under study had increased by almost 2 time from the base year i.e. 2011 during study period.
- Overall financial health of selected gold loan companies are sound and growing rapidly.

SUGGESTION

- First and foremost important factor to be considered for gold loan industries is competition. Now there are several players are in the market even all the nationalized and private sector banks are also dealing in gold loan business. So here quality of the service will play very important part in future.

- Gold loan companies should concentrate on ease of procedure of loan sanctioning. It is very important as majority customers for gold loan are not very much educated.
- In the heavy competition era, interest rates of the gold loan company also affect widely on sales so gold loan companies should maintain reasonable, competitive and uniform interest rate in the market for healthy business.
- The main problem that can be seen in the study is recovery of loan. It can be seen that many time gold loan companies do not get loan recovery timely which affects adversely to the health of the business. So gold loan companies should manage properly and timely loan recovery.
- In the matter of loan recovery, it was found that many customer have complained about the loan recovery approach of the gold loan companies. So gold loan companies should approach customer for loan recovery soften.
- Some small gold loan companies do not possess proper gold testing and valuation equipments which result in loss of customer confidence. So companies should furnish themselves with modern equipments.
- Gold loan companies should concentrate on expanding their branch to cover large amount of areas.
- Main competition faced by gold loan companies is from nationalized banking sector as these banks have already vast customer base. So gold loan companies should concentrate on more marketing efforts with some exciting offer.
- Gold loan companies should minimize processing charges, gold valuation charges which helps companies to grow their business more.
- Gold loan companies should remove prepayment charges from the borrower.
- Some financial ratios were not found in favor like utilization of assets etc. so try to manage same and make some policy changes so that utilization of assets should be optimum.

CONCLUSION

For borrowers, Gold Loans have emerged as one of the best means of raising quick, short-term capital. For lenders, Gold Loans are more advantageous compared to home and other Loans. This is because of the Gold Loan shorter tenures, lower processing time and cost, and greater returns due to higher interest rates. These factors of processing have led to the appreciation in value of gold, as well as an explosion in the Gold Loan market. Since 2008 the Organized sector has challenged the large Unorganized Gold Loan market dominated by pawnbrokers and moneylenders, with NBFCs leading the pack due to simpler approval and disbursal processes, flexible products and better accessibility. These factors have led to the expansion of the Gold Loan market in organized form. The next chapter includes the borrower's, Consumers Profile and Consumer Behaviour models.

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