India

Overweight *(no change)*

Banks

IIFL crisis: Prefer banks vs gold finance NBFCs

- The IIFL crisis creates an equal opportunity for banks (SBI/HDFC Bank) due to improved pan-India reach, lower interest rates & improved turnaround time.
- Based on our analysis, the dominance of banks has been improving in gold loan biz from ~34% in FY21 to ~38% by 9MFY23 excl. agri-gold loans (Fig. 2).
- We believe that like the home finance biz, gold finance will also witness a gradual shift in market share in favour of banks led by their improved efficiency.

RBI ban on IIFL's gold finance business - impact to stay longer

The Reserve Bank of India or RBI has barred IIFL Finance (IIFL) from giving any further gold loans with effect from 4 Mar 2024 based on certain observations made by the regulator over the loan-to-value or LTV offered, cash payment made by the company, etc. The ban will have a significant impact on IIFL's growth and profitability as gold loans form ~32% of its total assets under management or AUM as of Dec 2023-end, with an average yield of ~19%, which is high compared to other businesses of IIFL, indicating a higher impact (> 50%) on its revenue and profitability. Though we are unsure about the resolution of the matter, considering the historic trend as well as slower growth post adapting to the regulations, we expect IIFL to post weak earnings growth in FY25F.

RBI ban on IIFL is beneficial not only for NBFCs but for banks as well

The basic assumption is that the ban on IIFL is advantageous for peer non-banking finance companies or NBFCs which are having a similar business profile. However, we believe this creates an opportunity for banks and NBFCs alike, especially banks with an interior reach like State Bank of India or SBI and HDFC Bank. These banks are also attracting small ticket size gold loan customers backed by their improved pan-India reach (improved branch network), lower interest rates as well as improved turnaround time by adopting digital means (Fig. 1). These banks are also tapping the customers based on their transaction history with gold loan NBFCs and seeking to transfer the gold loans to their banks.

Market share movement - banks step up the game in gold lending

In the absence of specific market share availability, we have plotted six banks and six NBFCs who have a sizable exposure to gold financing. Based on their AUM movement, we have calculated the change in market share for banks and NBFCs. As per our analysis, the dominance of banks has been improving in personal gold loans even after excluding agriculture activity-led gold loans. The share of banks has improved from ~34% in FY21 to ~38% by 9MFY24 (Fig. 2). On an individual basis, Muthoot Finance remains the market leader with ~27.2% market share followed by SBI at ~12.1% as of Dec 2023-end (Fig. 3). Again, on a steady-state basis, we are witnessing most gold financing companies losing their market share whereas banks remain the gainers.

Meeting PSL requirements along with zero risk weight is key

The major factors of attraction for gold lending business in case of banks are gold loans given in rural/semi-urban areas being categorized as priority sector lending (PSL), which is preferable compared to other agriculture-linked loans due to product simplicity and 100% secured nature. Additionally, such loans, being more than 100% secured, attract zero risk weight, which supports efficient capital utilization. However, on the flip side, banks require higher infrastructure investment, in terms of the number of lockers required for gold storage and the ground staff needed for assessing the value of gold.

We prefer SBI/HDFCB vs gold finance NBFCs to play the momentum

As highlighted earlier, our preference stays for banks with an interior reach like SBI and HDFC Bank (gold loan disbursement growth stood at +65% yoy in 1HFY24). The wide branch network of these banks enables them to penetrate retail gold loan markets in an aggressive manner (Fig. 4). We still believe that like the housing finance business, gold finance business will also be largely penetrated by banks against NBFCs, with a consistent rise in their market share through increased penetration and by offering lower interest rates.

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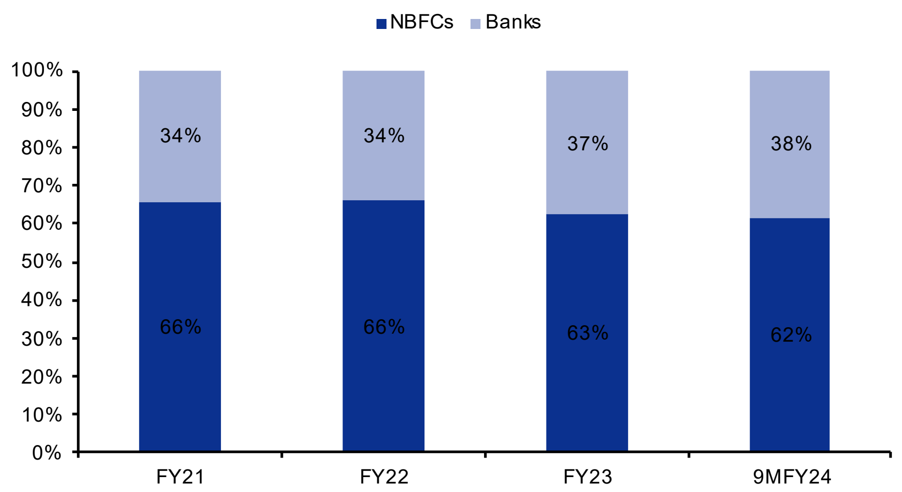
Figure 1: Basic market scenario for non-agriculture gold loans in India

	Banks	NBFCs	Money Lenders
Annualised Interest Rate	9-13%	22-28%	25-48%
Repayment Terms	Partly Flexible	Flexible	Stringent
Loan-to-Value	Low	High	High
Turnaround time	Less than 1 Day	Less than 30 minutes	Less than 30 minutes
Product Focus	Medium	High	High
Market Share		35%	65%

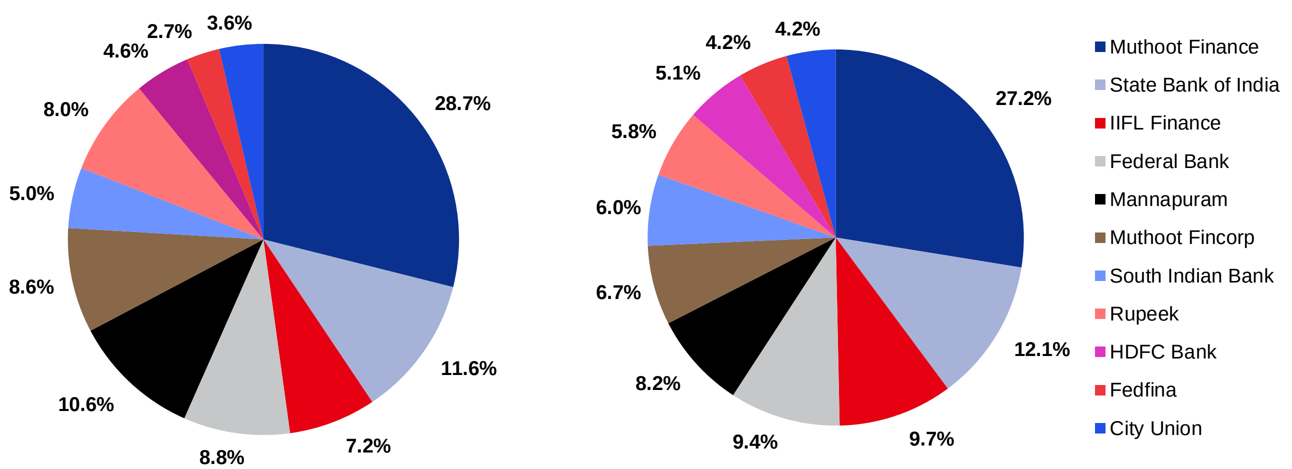
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: There is a gradual shift in market share from NBFCs to banks



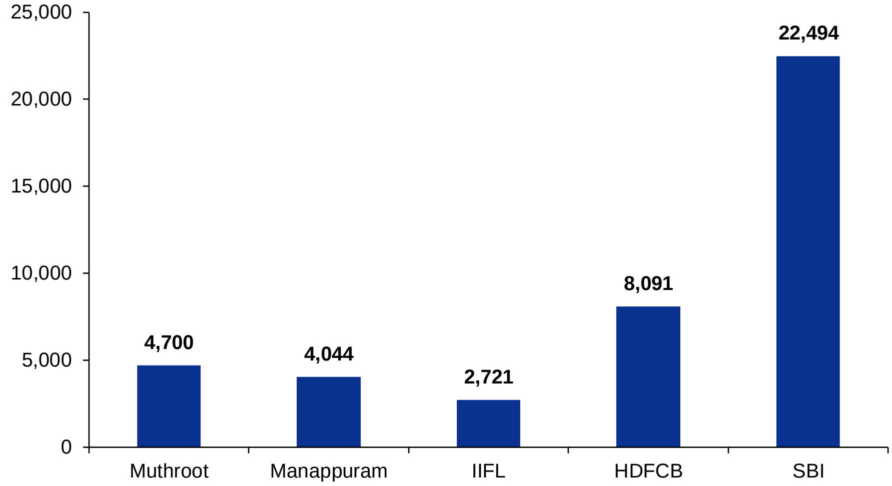
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Shift in market share in favour of banks is visible from Mar 2021 to Dec 2023 (excl. agri gold loans)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Branch network of large gold finance lenders as of Dec 2023-end



SOURCE: INCRED RESEARCH, COMPANY REPORTS
NOTE: FOR SBI & HDFC BANK, ALL BRANCHES DO NOT GIVE GOLD LOANS

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