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A STUDY OF GOLD LOAN IN MUTHOOT FINANANCE LIMITED

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ABSTRACT

Incorporated more than 125 years ago, Muthoot Group today touches the lives of people in more ways than one. The enterprise is expanding ambitiously and is aligning business priorities with social responsibility. Muthoot Finance holds the largest gold loan portfolio in the world. By making the gold loan available easily at the lowest interest rates, easy documentation processes and repayment options, enable people to meet their fund requirements even in times of exigency. It provides personal and business loans (secured by gold jewellery) primarily to individuals who have no access to formal credit for a reasonable tenure to meet their short-term working capital requirements.

INTRODUCTION

Muthoot Finance Limited (MFL) is a “systematically important non-deposit taking NBFC” that is involved in the business of providing loans against gold and is today, considered to be the largest company in India (in terms of loan portfolio, with a gold loan portfolio of Rs.22694 crores provided to over 5.5 million accounts) to be offering this service. It is the flagship company of the Kerala based “Muthoot Group”. MFL has an operating history of over seven decades having first started the gold loan business in 1939. Muthoot Finance Ltd. was incorporated as a private limited Company on 14th March, 1997 and was converted into a public limited Company on 18th November, 2008. The Company is promoted by Mr. M. G. George Muthoot, Mr. George Thomas Muthoot, Mr. George Jacob Muthoot and Mr. George Alexander Muthoot collectively operating under the brand name of ‘The Muthoot Group’, which has diversified interests in the fields of Financial Services, Healthcare, Education, Plantations, Real Estate, Foreign Exchange, Information Technology, Insurance Distribution, Hospitality etc. The Company obtained permission from the Reserve Bank of India for carrying on the business of Non-Banking Financial Institutions on 13.11.2001 vide Regn No. N 16.00167. The Company is presently classified as Systemically Important Non- Deposit Taking NBFC (NBFC-ND-SI).

The Company made an Initial Public Offer of 51,500,000 Equity Shares of the face value ` 10/- each at a price of ` 175/- raising ` 9,012,500,000.00 during the month of April 2011. The equity shares of the Company are listed on National Stock Exchange of India Limited and BSE Limited from 6th May, 2011.

However it was only in 2001 that the company secured an NBFC license from the RBI. In addition to the gold loan business, MFL also provides money transfer services through their various branches by acting as sub-agents of various registered money transfer agencies. Recently MFL has also got into the collection agency services. In addition to all of that the company also operates three windmills in the state of Tamil Nadu. During the quarter ended December 31, 2013 MFL reported a PAT of Rs. 194 crore against a PAT of Rs. 270 crore in the corresponding period in the previous financial year. The reduction in profits during the quarter were primarily on account of the reduction in portfolio during the period (of 14%) and also owing under recoveries of interest from auctioning of delinquent contracts. As on December 31, 2013 the company had a net worth of Rs. 4121 crore and had a gross NPA% of 1.99%. Muthoot Finance Ltd (MFL) is the flagship company of the Kerala based business house 'The Muthoot Group', which has diversified operations in financial services, healthcare, real estate, education, hospitality, power generation and entertainment. MFL has a long and established track record of operating in the gold loan business and is India's largest gold loan focused NBFC with a managed advance base of Rs. 21,618 crore (provisional) as on March 31, 2014. The company operates through an extensive pan India branch network of 4270 as on March 2014. The company derives a significant proportion of its business from South India where gold loans have traditionally been accepted as means of availing short term credit, although over the past few years the company has increased its presence beyond South India.

VALUES OF THE MUTHOOT FINANCE: Being a prominent venture of the Muthoot Group, Muthoot Finance Ltd. carefully and passionately imbibes the values of the former. It takes pride in its strong foundation, which is deeply rooted in the following pillars: s

Ethics: Muthoot's main aim is to put the needs of its customers first before anything else. The Company strives to provide them with the best quality of service under the Muthoot Brand Umbrella and is doing so with a smile.

Values: Accountability for all our operations and services, and towards the society makes Muthoot a socially responsible and intelligent citizen. Its empire has grown by leaps and bounds on the basis of these values. The times may change, but its values will remain unchanged.

Reliability: With an unblemished track record throughout the markets that it serves; and across national as well as global boundaries, Muthoot Finance values its commitment to customer-service.

Dependability: Muthoot Finance does not judge itself by the profit it makes but by the trust and confidence that people have had in it for over 125 years. With over 6 million people having turned towards Muthoot, to help them in their hour of need, Muthoot feels that this has been possible only because of its core guiding principle.

Trustworthiness: Muthoot pledges loyalty in its operations, fairness in its dealings and openness in its practices. The Company embraces policies and practices that fortify trust.

Integrity: The value is innate to a corruption-free atmosphere and an open work culture. At Muthoot Finance Ltd., therefore, it cultivates transparency as a work ethic.

Goodwill: Muthoot Finance has 6 million outstanding loan accounts spread across the country. The Company serves around 80,000 customers each day. With an unmatched goodwill, the Company shoulders the responsibility of creating a deserving brand image.

HISTORY OF THE STUDY

1887 The Group comes into being as a trading business at a village in Kerala

1939 Commenced gold loan business

2001 Received an RBI license to function as an NBFC

2004 Received highest rating of F1 from Fitch Ratings for a short-term debt of ` 200 Million

2007 Retail loan and debenture portfolio crossed ` 5 Billion

- Retail loan portfolio crossed ` 14 Billion, Net owned funds crossed ` 1 Billion, Accorded SI-ND-NBFC status, Branch network crossed 500

2008

- Retail loan portfolio crossed ` 21 Billion
- Retail debenture portfolio crossed ` 12 Billion
- Fitch affirms the F1 short-term debt rating with an enhanced amount of ` 800 Million
- Converted into a Public Limited Company

2009

- Retail loan portfolio crossed ` 33 Billion
- Retail debenture portfolio crossed ` 19 Billion
- Net owned funds crossed ` 3 Billion
- Gross annual income crossed ` 6 Billion
- Bank credit limits crossed ` 10 Billion
- Branch network crossed 900 branches

2010

- Retail loan portfolio crossed ` 74 Billion
- Retail debenture portfolio crossed ` 27 Billion
- CRISIL assigned ‘P1+’ rating for short-term debt of ` 4 Billion , ICRA assigns A1+ for short-term debt of ` 2 Billion
- Net owned funds crossed ` 5 Billion
- Gross annual income crossed ` 10 Billion

- Bank credit limits crossed ` 17 Billion
- Branch network crossed 1,600 branches

2011

- Retail loan portfolio crossed ` 158 Billion
- Retail debenture portfolio crossed ` 39 Billion
- CRISIL assigned long-term rating of AA- Stable for ` 1 Billion subordinated debt issue and for ` 4 Billion Non-convertible Debenture issue, respectively
- ICRA assigned long-term rating of AA- Stable for ` 1 Billion subordinated debt issue and for ` 2 Billion Non-convertible Debenture issue respectively
- PE investments of ` 2,556.85 Million in the Company by Matrix partners, LLC, The Wellcome Trust, Kotak PE, Kotak Investments and Baring India PE
- Net owned funds crossed ` 13 Billion
- Gross annual income crossed ` 23 Billion
- Bank credit limit crossed ` 60 Billion
- Branch network crossed 2,700 branches

2012

- Retail loan portfolio crossed ` 246 Billion
- Retail debenture portfolio crossed ` 66 Billion
- ICRA assigned long-term rating of AA- Stable and short-term rating of A1+ for ` 9,353 Crores Line of credit
- Successful IPO of ` 9,012.50 Million in April 2011
- Raised ` 6.93 Billion through Non-convertible Debenture Public Issue – Series I
- Mobilised ` 4.59 Billion through Non-convertible Debenture Public Issue – Series II
- Net owned funds crossed ` 29 Billion
- Gross annual income crossed ` 45 Billion
- Bank credit limit crossed ` 92 Billion
- Branch network crossed 3,600 branches

2013

- Retail loan portfolio crossed ` 260.00 billion
- Retail debenture portfolio crossed ` 97.00 billion
- Net owned funds crossed ` 37.00 billion
- Gross annual income crossed ` 53.00 billion
- Profit After Tax for the year crossed ` 10.00 billion
- Bank credit limit crossed ` 99.00 billion
- Branch network crossed 4,000 branches
- ICRA assigned long-term rating of AA- Stable and short-term rating of A1+ for the ` 10,428.00 million line of credit
- Raised ` 2.60 billion and ` 2.70 billion through public issues of Series III and Series IV secured non-convertible debentures, respectively
- ICRA assigned [ICRA] AA-/Negative for Issue of up to ` 4,000.00 million Secured NCDs and Unsecured NCDs
- CRISIL assigned CRISIL AA-/Negative for Issue upto ` 4,000.00 million Secured NCDs and Unsecured NCDs

OBJECTIVES OF THE STUDY

- The following are the specific objectives of the present study.
- To know the history of Muthoot finance limited in India.
- To identify the Financial Performance
- To analyse the Global economy and Indian economy
- To evaluate the gold loan market

METHODOLOGY AND DATACOLLECTION: The present study is based on secondary data. The data required for the study has been collected from books, magazines, newspapers and RBI guidelines, Annual reports.

PERIOD OF THE STUDY: The study is primarily focused on the growth of gold loan in Muthoot finance in India over the past 4 years i.e. from 2010 to 2013.

REVIEW OF LITERATURE:

1. Sarika Malhotra says that not so long ago, NBFCs were a hot favourite of private equity investors in India (Malhotra, 2013). With the Indian economy on a roll, most PE funds wanted to put their money in non-banking finance companies (NBFCs) specialising in gold loans. But, today, gold loan companies have lost their lustre because of a stricter regulatory environment and a volatile gold market, pushing funds to vehicle finance companies instead. And with the economy in a slowdown, exits from gold loan lenders have also become much harder. For example, the vehicle financing company, Au Financiers, has been a virtual PE magnet the past few years. It first hit the jackpot in 2008 when Motilal Oswal Private Equity invested INR 20 crore. Funds have been pouring in since. Oswal invested another INR 20 crore in the company in 2010 and International Finance Corporation (IFC) INR 35 Crore, followed by INR 150 crore by Warburg Pincus and INR 33 crore by IFC last year. Chrys Capital also invested INR 120 crore in 2013. At the same time, the lender has also grown from strength to strength: Au's net worth has leapt to INR 500 crore from just INR 15 crore in 2008 while its valuation has galloped to INR 1,200 crore from INR 30 crore in the same period. For Motilal Oswal too, the investment was worth its weight in gold. A partial exit in 2012 is reported to have translated into a five-fold return on investment, while a further stake sale took its returns up 10 times. Vehicle finance companies in particular have been attracting more funding. Quoting experts, the researcher says they offer more stability than gold loan firms which are subject to business risks such as price fluctuations and quality of collateral. Gold players have been hit by uniform valuation methodology for jewellery and operating model changes suggested by the RBI which requires them to seek permission to open new branches and disburse higher value loans through cheques. Also, PE funds believe in the business model of lending against income-generating assets such as commercial vehicle finance, as compared to businesses operating in consumption-based lending. Vehicle

loan companies get most of their business from semi-urban and rural areas. Most people in urban areas, looking to buy cars, go to banks for loans, but those seeking trucks, especially from smaller towns, prefer vehicle finance NBFCs.

2. The Reserve Bank of India's (RBI's) new guidelines on lending against gold will weaken the competitive positions, growth prospects, profitability, and asset quality of gold loan non-banking financial companies (Moneycontrol.com, 2013) (NBFCs). CRISIL expects the profitability of these NBFCs to decline by nearly 75 basis points (bps), and their loan books to decline in the near term. However, the new guidelines, issued on September 16, 2013, will promote orderly, sustainable growth in the sector over the long term. Implementation of the RBI guidelines will weaken the competitive positions of gold loan NBFCs vis-à-vis those of banks and the unorganised sector. The introduction of uniform valuation methodology for jewellery will limit the flexibility to offer loans at higher effective loan-to-value (LTV) ratios, and prompt customers to move to other lenders. According to CRISIL Ratings, borrowers with limited stocks of jewellery will move to the unorganised sector that will continue to offer loans at higher LTV ratios. Interest-sensitive borrowers will shift to banks that offer loans at much lower costs for similar or higher LTV ratios. The growth of the gold loan NBFC sector will also be constrained by two stipulations in the new guidelines: that NBFCs take the regulator's approval before opening new branches, and disburse higher-value (above INR 1 lakh) loans through cheques. Moreover, intensifying competition will lead to reduced yield for gold loan companies. The detailed norms on auctioning will also increase the operational costs and challenges in auctioning gold. The desire to limit delinquencies to avoid auctioning will lead to higher investments in collection systems. As a combined impact of these developments, the gold loan NBFCs' return on assets (RoA) is expected to decline by nearly 75 bps.

3. Compared with the rest of the world, in India, the gold loan market is big business Ashish and Mehatha. Until a decade back, most of the lending was in the unorganized sector through pawn brokers and money lenders. However, this scenario changed with the entrance of organized sector players such as banks and non-banking finance companies (NBFCs) which now command more than 25 percent of the market. NBFCs have been a major driving force behind this growth given their extensive network, faster turnaround time, higher loan-to-value ratios and the ability to serve non-bankable customers. Gold loans are among the newest class of assets which have seen rapid growth in securitization. But, with the restriction on agricultural sector status of gold loans by RBI, the pace of securitization of these loans is slowing down as most of these securitizations focused on benefits accrued through the use of agricultural sector status. Also, RBI's draft securitization guidelines (Sept. 2011) had proposed minimum holding period (MHP) of 12 months for allowing securitization transactions. Given the short tenure of gold loans (a year and lesser), securitization of the same will not be possible. The government views gold loans as an

effective means of meeting the demand for micro-finance in India. This would encourage framing of policies favorable to the growth of the gold loan market. Since more than 75 percent of the gold loan market is still with the unorganized segment as of 2010, the organized segment has a huge potential for growth through cannibalization of the unorganized segment.

FINANCIAL PERFORMANCE: During the year under review, Muthoot recorded a growth of 18% in revenues, rising from ` 4,549 Crores to ` 5,387 Crores. Net Profit grew at 13%, crossing another major milestone at ` 1,004 Crores, compared to ` 892 Crores achieved in fiscal 2012. The branch network (4,082 branches) also witnessed 11% growth, enabling wider presence across India's 21 states and four Union Territories. These achievements become all the more impressive when considered against the backdrop of a challenging operating environment, which prevailed throughout the last financial year brought about by the regulatory changes and sentiment-driven market speculations. The following tables make the position clear.

FINANCIAL PERFORMANCE

Year	Gold Retail Loans AUM	Average Gold Loan o/s per branch	Revenue	PAT	CAR
2009-10	7342	4.57	1,089	227	14.79
2010-11	15728	5.75	2,316	494	15.82
2011-12	24417	6.63	4,549	892	18.29
2012-13	26000	6.36	5387	1004	19.62

LOAN ACCOUNTS (Rs. in lakhs)

2009-10	28
2010-11	47
2011-12	60
2012-13	63

BRANCHS (in . no.s)

2009-10	1,605
2010-11	2733
2011-12	3678
2012-13	4082

EMPLOYEES (in no.s)

2009-10		9,745
2010-11		16,688
2011-12		25,351
2012-13		24,881

GROSS INCOME (Rs. in crores)

	FY 2011-12	FY 2012-13
INTEREST INCOME	4,528	5,364

OTHER INCOME	21	23

SOURCES OF FUNDS

Sources of funds	Rs. in Crores	In percentage
Secured Non-Convertible Debentures (Muthoot Gold Bonds)	9,460	39
Secured Non-Convertible Debentures (Listed)	1,787	7
Borrowings from Banks	10,136	48
Subordinated Debt	2,300	10
Subordinated Debt (Listed)	10	0
Commercial Paper	216	1
Other Loans	179	1

Global and Indian Economy: The global economy witnessed a non-uniform pattern of growth recovery in the financial year 2013, which has been often termed as a three-speed recovery. It involves those economies that are performing relatively well and can improve (emerging markets and developing countries), those that are on the mend (the US, Sweden, and Switzerland) and those that still have a long way to go (Eurozone and Japan).

The developing economies demonstrated resilience to global headwinds and continued to grow, even though moderately. China is still ahead of the race, followed by India and other BRICS nations. India's economic growth plummeted to a decade low of 5% (Source: CSO and PMEAC) owing to poor investment across all sectors of the economy, firm inflation, high fiscal deficit , widening current account deficit and policy inertia. All sectors of the economy underperformed during the year. However, India's long-term optimism is strengthened by its demographic advantage (population of more than 1.2 Billion of which, about half is below the age of 30) which has the capability to drive GDP growth for quite a long period at a consistent level.

Exhibit: India's GDP Growth Trend Year	**GDP (%)**
2009-10	**8.6**
2010-11	**9.3**
2011-12	**6.2**
2012-13	**5**

BENEFITS OF NBFCs' PRESENCE IN THE GOLD LOAN SPACE

Core focus: The primary focus of the gold loan NBFCs is to provide gold loans. Thus, NBFCs can focus more on ensuring customer delight through better and faster customer service. A higher concentration on one product allows a proper structuring of the offerings and adopts faster corrective measures to meet the changing needs and behavior of the customer.

Branch network: Branches play a significant role in building an institution’s brand image. A wide network of branches enables NBFCs to be closer to the customer. Location and access to branches are key criteria for customers choosing a service provider. This expansion strategy by NBFCs led to significant customer addition.

Faster turnaround time: Superior service creates loyalty and deeper customer relationships. At the same time, lack of appropriate service can destroy those relationships. Gold loans also enjoy an advantage of having a quick-turnaround time of NBFCs. This is achieved without any compromise on documentation discipline and KYC compliance requirements.

Transparent and Standard Operating Practices: NBFCs offer a transparent transaction capturing all the terms clearly in the loan document and operate with standard operating procedures, which could provide enhanced customer comfort.

Flexible Repayment Option: Customers get a trouble-free loan period where he is not troubled for any payment of equated monthly installment, rather, would be allowed to make payment of interest and principal on closure of the loan.

Resources availability: NBFCs have access to organized credit and hence, do not face any constraints. The unorganized sector operates on proprietary funds, which limits its ability to lend and on better terms.

Value to the Customer: Customers stay with a service provider if they pay a price, which they deem fair for quality of the products they receive. Customers expect to pay an appropriate price for the services they receive, not necessarily the lowest. NBFCs have been able to run on this philosophy and have been offering loans at rates of interest lower than the unorganized segment.

Low-cost structure: The Company has built a network with a minimum investment corresponding to the potential of business in which it is going to operate. Employees are sourced locally and are provided training to deliver various skills keeping the operating cost low. This has enabled the Company to reach the break-even level faster, and thereby start contributing to its bottom line. This also provides downside protection in terms of closing down the operation in case desired level of business is not achieved.

EVOLUTION AND CHALLENGES OF THE STUDY

To compete with NBFCs, banks have recently improved/streamlined their loan processes – with some banks purchasing assaying machines to disburse loans in 15 minutes. This poses a challenge to the growing dominance of NBFCs in the gold loan market, more so since banks usually charge lower rates of interest compared with NBFCs.

Gold loans are among the newest class of assets which have seen rapid growth in securitization. But, with the restriction on agricultural sector status of gold loans by RBI, the pace of securitization of these loans is slowing down as most of these securitizations focused on benefits accrued through the use of agricultural sector status. Also, RBI's draft securitization guidelines (Sept. 2011) had proposed minimum holding period (MHP) of 12 months for allowing securitization transactions. Given the short tenure of gold loans (a year and lesser), securitization of the same will not be possible. A new proposal is under consideration to modify the MHP for gold loans to two months, which would allow securitization of gold loans. This would further provide liquidity to the primary market and provide a boost to the overall gold loan market.

The government views gold loans as an effective means of meeting the demand for micro-finance in India. This would encourage framing of policies favorable to the growth of the gold loan market. To counter the rise in borrowing costs due to removal of agricultural sector status on loans from banks, NBFCs are seeking newer avenues of borrowing. In addition to using bonds and commercial papers, NBFCs are attracting huge private equity investments of late.

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 the loan and held as a pledge until the equated monthly installments are paid. Gold saving schemes are also emerging wherein the customers pay regular cash flows which on maturity are added with a certain amount of interest payment to purchase gold for customers with frequent hikes in interest rates by the RBI and the subsequent hike in rates by banks, the cost of personal loan borrowing is increasing. This will lead to an increased consumer willingness to secure gold loans.

Since more than 75% of the gold loan market is still with the unorganized segment as of 2010, the organized segment has a huge potential for growth through cannibalization of the unorganized segment. A bigger, better and more efficient network of branches would help the organized segment target this growth area. The gold loan market in India is still under-penetrated considering the abundant availability of gold as collateral with Indian private households and the existing size of the gold loan market (approximately 1.2% of the total gold stock). This presents a significant scope for growth of the gold loan market. Earnings of MFL could improve in 2014-15, in light of the healthy incremental NIMs of the company, and the improved growth prospects, enhanced lender comfort and financial flexibility of the company following the stabilization of regulatory environment. Although, requirement under revised MCA rules chapter 4** for investments in G-Sec/Bank FDs against maturing debentures in a year will reduce ROA marginally over the short term medium term. The rating remains constrained due to the concentration of company's business to Gold loans, its lack of diversification in its earnings, its marginal borrower profile, exposure to market and operational risk associated with large cash handling spread across 4260 branches and 57.73 Lakh loans as of Dec-13.

- The relaxation in the LTV norms announced by RBI in January 2014 for gold loans originated by NBFCs from 60% to 75% of the intrinsic value of gold content of jewellery and the introduction of the same cap for gold loans originated by Banks is likely to bring about a level playing field between banks and NBFCs, thereby improving its growth prospects of MFL. At the same time ability of the company to manage risks associated with adverse movements in gold prices through proactive monitoring of portfolio and timely auctioning of security to reduce severity of losses on delinquent accounts remain key rating sensitivity. Maximum incremental LTV of 75% however should keep the company's exposure to adverse movements in gold prices manageable. While MFL's proportion of contracts in high LTV buckets has declined considerably in 2013-14 ICRA notes that delinquency level for the company has been increasing with the 90+ day delinquency* increasing to 7.00% in March 2014 against of 6.82% as on March 31, 2013. Such delinquencies are largely emanating out of contracts originated in 2012-13; going forward MFL's ability to minimize under-recoveries on the same through timely collection/recovery steps will be an important rating consideration.

As on March 31, 2014 MFL had a total managed gold loan portfolio of Rs. 21,618 crore (provisional), and registered a 17% de-growth during 2013-14. As on December 31, 2013 MFL's reported capital adequacy was 23.76% and its Tier 1 capital stood at 17.00% against a regulatory requirement of 10%.

SOCIO-ECONOMIC DEVELOPMENT

- Marriage assistance for girls, especially for the marriage of daughters of widows
- Awarding toppers and meritorious students from government schools from the economically backward sections
- Notebook distribution
- Distribution of school uniforms
- Counseling
- Donations to physically challenged persons
- Donated sewing machines
- Christmas celebrations at General Hospital in Ernakulum
- Distribution of saris to widows at the Bhoopalarayerpuram Branch under Tirunelveli Region
- Handed over archery equipment to Mr. Kishore A., a Paralympic Games aspirant, for training
- Distributed piggy banks to the students of St. Francis UP School, Amballoor, to inculcate a habit of savings in them

- Financial assistance was provided for the new building of Snehatheeran Charitable Trust, Kerala for rehabilitation of mentally disabled woman
- Provided financial assistance to Prathyasha Kendram, Idukki, registered society under Kerala State AIDS Control Society
- Assisted financially, economically backward classes to help them receive treatment for serious illnesses
- In memory of our Founder Chairman, late Shri. M. George Muthoot, The Muthoot M .George Foundation has instituted an award of **2, 00,000** in cash and citation to the Best Young Researcher in Nephrology every year.
- Provided assistance for Dialysis to the needy patients, at leading hospitals across various cities

RISK MANAGEMENT: Businesses are exposed to varied risks. Risk management is the identification, assessment, and prioritization of risks, followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate events, or to maximize the realization of opportunities. At Muthoot, we identify, assess the probability of occurrence and its impact, prioritize these risks and develop strategies to avoid, prevent, reduce or share the risk.

Few of the major risks and their mitigation strategies are enumerated below:

Collateral Risk: Any decline in the value of gold collateral following a fluctuation in gold prices could affect the Company's loan integrity.

- Around 40% buffer is kept on the value of jewellery for calculation of the loan amount.
- The loan is structured solely based on the weight of gold content. The weight and value of stones embedded in the jewellery are not considered when valuing the jewellery.
- The sentimental value of gold jewellery is also another factor, which induces repayment and collateral redemption, even when the collateral value declines below the value of the repayment amount.

Credit Risk: Any failure of the counterparty to abide by the terms and conditions of the business could impact profitability.

- Rigorous loan approval and collateral appraisal processes are followed.
- Strong NPA monitoring and collection strategy have been instituted.
- The gold jewellery used as collateral for loans can be readily liquidated through auctions; therefore, the possibility of recovering less than the amount due to MFIN is low.

Interest Rate Risk: Any interest rate movement could jeopardise business profitability.

- The majority of MFIN's borrowings (loans and advances) are at fixed rates of interest.
- Diverse sources of funding have helped reduce the dependence on any one single source.
- Funding is carried out through a combination of borrowings like working capital limits from banks, issue of commercial paper, non-convertible debentures and equity.
- Loans are of shorter duration; demand is inelastic to interest rate changes.

Operational Risk: Any failure of systems, people or processes or any external event could affect business substantially.

- There are a series of checks and balances including operating manual and audit (internal and external) reviews.
- MFIN has well-defined appraisal methods as well as 'know your customer' compliance procedures to mitigate operational risks.

- Detailed guidelines have been laid out on the physical movement of cash and gold.
- Centralised software has been installed to automate inter-branch transactions, enabling branches to be monitored centrally.
- Installed surveillance cameras across 3,700 branches
- Internal Audit Department and Centralised Monitoring System have been formed to assist the management.

Liquidity Risk: An inability to mobilise necessary funds to meet operational and debt servicing requirements could lead to sluggish expansion.

- An Asset and Liabilities Committee (ALCO) meets periodically to review liquidity based on future cash flows.
- There is a mechanism, which tracks the potential impact of loan prepayment at a realistic estimate from a near to medium-term liquidity position.
- Developed and implemented comprehensive policies and procedures to identify, monitor and manage liquidity risks.
- The source of funds has a longer maturity than loans and advances made, resulting in a positive asset-liability matching and hence, a low liquidity risk.

Counter-party Business Risk: Cyclical or seasonal nature of business of a borrower could adversely impact the loan portfolio.

- Geographic spread of branches mitigates cyclical pressures in different regions.
- Customers include people from various social strata – from low income levels to upper class.
- Borrower profile consists of people engaged in various income generation activities.

BUSINESS SKILLS

Expand branch network and visibility to maintain market leadership position: MFL intends to continue to grow its loan portfolio by expanding its network through the addition of new branches. It has a longstanding presence in southern India, and is among the first organized Gold Loan providers in northern and western India. Its strategy for branch expansion includes further strengthening its market leading position in southern Indian states by providing higher accessibility to customers as well as leveraging its expertise and presence in southern India to enhance its presence in other regions of India, particularly in northern India, where it intends to open branches in most states. At the core of its branch expansion strategy, it expects to penetrate new markets and expand its customer base to include customers who otherwise would rely on the unorganized sector.

Target new customer segments: MFL intends to undertake sustained marketing efforts to diminish the stigma attached to pledging gold jewellery in India. It plans to work to position Gold Loans as a "lifestyle product" and expand its customer base to include upper middle income and upper income groups. It intends to emphasize its Gold Loan products' key advantages of expediency and minimal

documentation, and alter the image of Gold Loans from an option of the last resort to an option of convenience.

Access low-cost and diversified sources of funds: MFL source its funds for its Gold Loan business primarily from the proceeds of private placements of debentures in India and from secured and unsecured credit facilities from banks and other financial institutions. In addition, it intends to expand its program of selling a portion of its receivables under various bilateral assignment agreements with financial institutions. It may also consider the possibility of concluding rated securitization transactions in the future. It intends to increase the levels of its capital adequacy ratios in excess of regulatory requirements and strengthen its balance sheet with a view to have access to other sources of low-cost funds. Furthermore, it also intends to seek strong investments in MFL as another source of funding to expand its business.

Strengthen operating processes and risk management systems: Risk management forms an integral part of MFL's business as it is exposed to various risks relating to the Gold Loan business. The objective of its risk management systems is to measure and monitor the various risks it is subject to and to implement policies and procedures to address such risks. It intends to continue to improve its operating processes and risk management systems that will further enhance its ability to manage the risks inherent to its business.

CONCLUSION:

The company is a "Systemically Important Non–deposit taking NBFC" headquartered in the southern Indian state of Kerala. The company issue secured non–convertible debentures called "Muthoot Gold Bonds" on a private placement basis. Proceeds from the issuance of Muthoot Gold Bonds form a significant source of funds for their Gold Loan business. It also relies on bank loans and subordinated debt instruments as irs sources of funds. The emergence of organized retail undoubtedly gives consumers a wider choice of goods, more convenience, and a better shopping environment, among other benefits. Organized retail can appear small but spread in all local markets, social economic developments. It is also true that presently, they are facing many internal and external challenges, which are hindering their performance. Hence, there is a need to consider the above listed challenges for another reform to improve the performance of the gold loan particularly to meet the requirement of new and open improve the performance of the gold loan particularly to meet the requirement of new and open competitive environment.

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