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Market Watch

Federal Bank bets on gold loans to drive credit demand in sluggish economy

BY PTI | UPDATED: JUL 06, 2020, 04.57 PM IST

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MUMBAI: Federal Bank is focusing on safer gold loans amid the COVID-19 pandemic and hopes to grow faster than last year in the segment as demand for other credit slows down, a top official has said.

The nod by the bank's board to raise up to Rs 12,000 crore capital is only an enabling resolution which will be taken to shareholders, and the bank will take a call on fund infusion only in early 2021, its managing director and chief executive [Shyam Srinivasan](#) told PTI recently.

The bank is targeting gold loan growth to touch 35 per cent during FY21 as against 29 per cent in FY20, Srinivasan said.

At Rs 9,600 crore, the bank's gold loan book is about 8 per cent of the [overall loan book](#), and there is ample room to grow it as the same was at 15 per cent of the book at the peak, he said.

When asked about the risks, he said the only challenge is around operational matters like checking gold for its quality and its security, and added that from a lending perspective, the bank does not go beyond 75 per cent on loan to value front.

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It can be noted that a lot of lenders are focusing on gold loans amid the present circumstances, wherein the rally in gold prices due to volatility in financial markets comforts the lenders, but Srinivasan underplayed the competition aspect, saying the bank has a unique set of customers carved out to whom the product is targeted at.

As for the overall loan demand and growth, he said it is taking time for the picture to get clear as virus infections continue to grow, and hoped for some clarity to emerge only towards the end of the calendar year.

The first half of the fiscal will be a difficult one, he said, referring to lockdowns and the subsequent impact on demand as the hindering factors, and added that the bank would grow its overall loan book by about 8 per cent in FY21 as against 11 per cent in FY20.

He said the bank is focusing on government schemes-linked lending like the one to small businesses, which comes with a state guarantee.

Srinivasan, however, declined to comment when asked if he fears deterioration in asset quality going forward, saying the picture will get clear only when the moratoriums get over.

"September is the new March," he said, pointing out that the RBI's moratorium ends in September and that is when the non performing assets position in the bank will be clear.

As of March 31, the gross non-performing assets (NPA) ratio improved by 15 basis points to 2.84 per cent.

Earlier, the bank had said advances overdue between 1 day to 90 days as on February 29, before the moratorium set in, were at Rs 840 crore, and it expects over Rs 300 crore of it to slip into NPA due to which the provision has been increased.

"Borrowers were both willing to pay back and capable earlier. While the willingness to pay has only gone up because of the humility that the crisis has brought, there are some segments where the crisis would have hurt the capability to repay," Srinivasan said, pointing to sagging business activity levels over the last few months.

The bank is focusing on conserving its capital and innovating to save costs, he said.



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has only taken an enabling resolution for fundraise and the same will be decided upon only in early 2021.

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