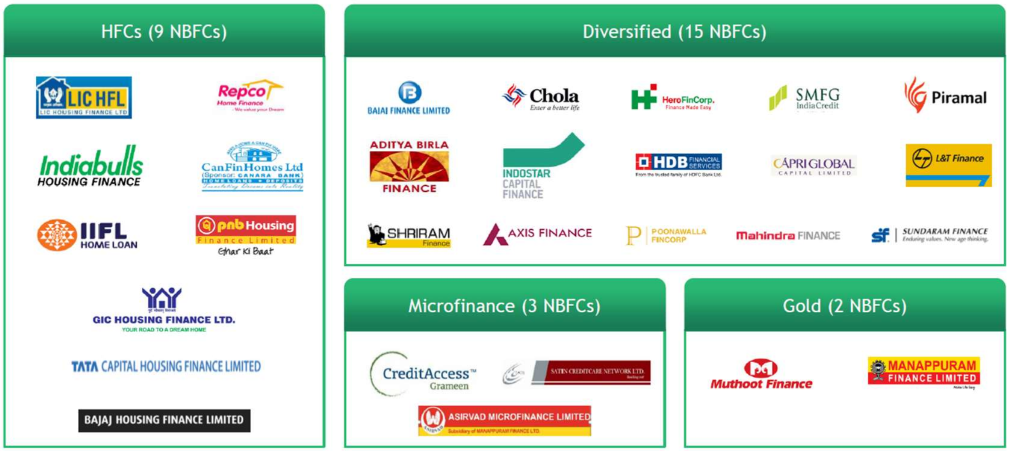
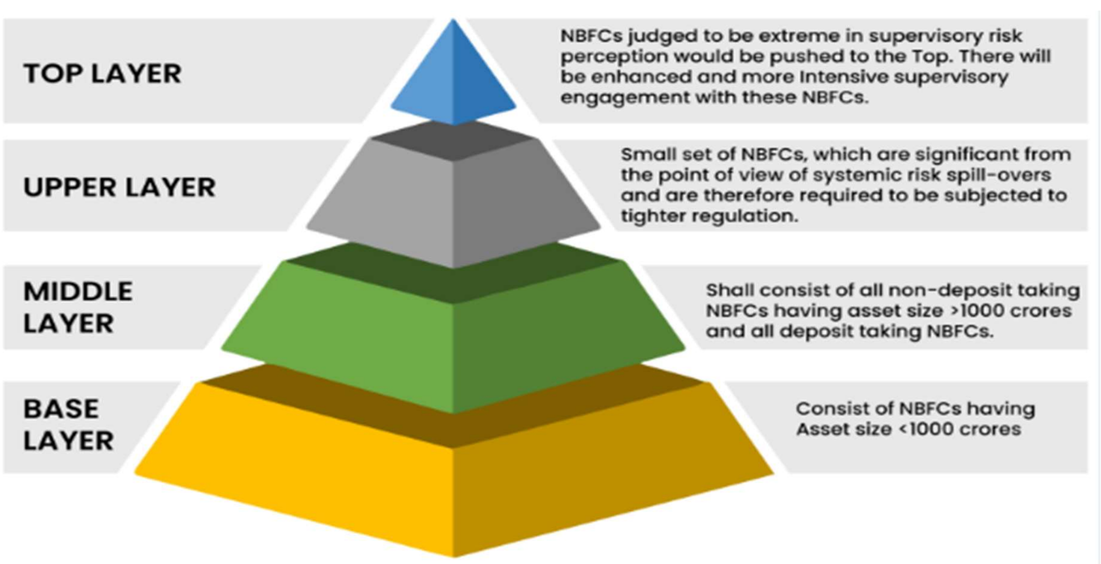
Introduction to NBFC:

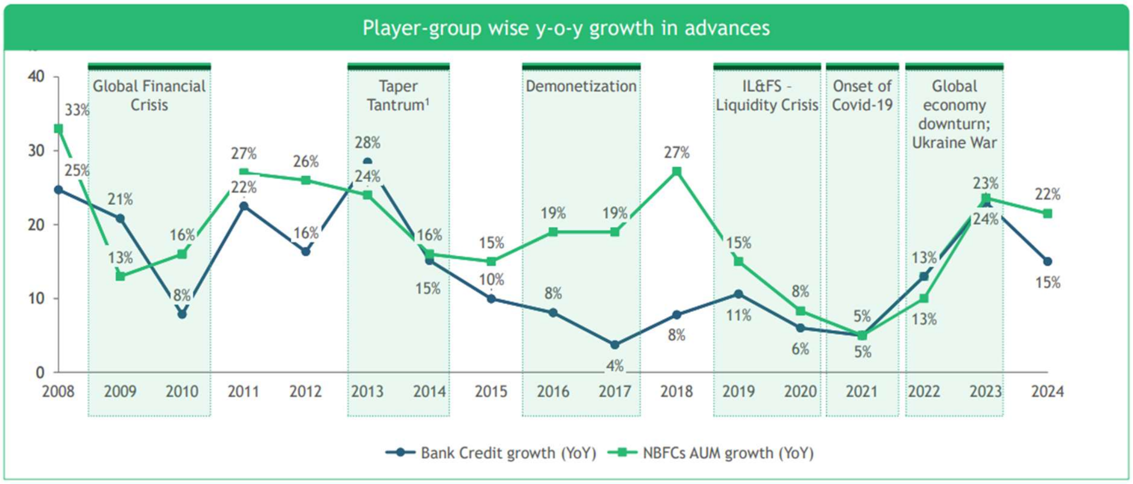
- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 or 2013, primarily engaged in lending, investing in marketable securities, leasing, and hire-purchase, without holding a banking license.
- A company is engaged in financial activity as its principal business if financial assets exceed 50% of total (net) assets and income from these assets exceeds 50% of gross income. Meeting both criteria mandates registration as an NBFC with the RBI.
- Classification of few top NBFC's in India:



How RBI differentiates between different NBFCs

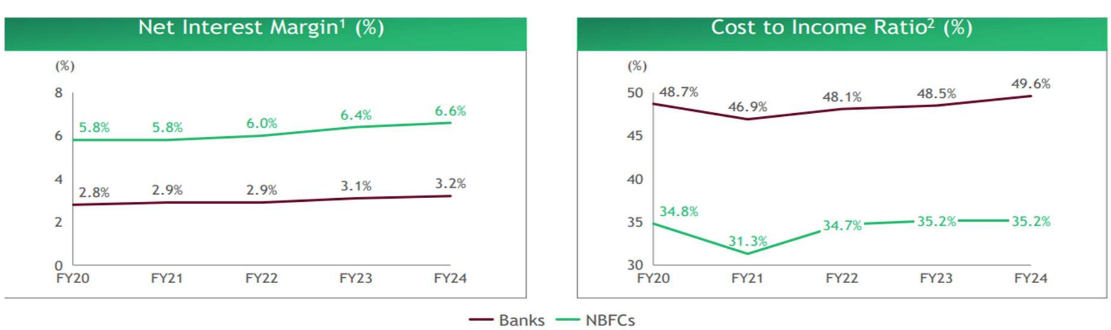


NBFC AUM growth over the years in comparison to banks:



- Over the past 17 years it is seen that banks credit grew at 14% whereas the NBFC's Aum grew significantly at 400 bp more at 18%.
- The major reason for such high growth in the AUMS of NBFC's is that the banks share of advances to NBFC as portion of total advances has increased from 5.2% to 9.4%.

- Even the cost to income ratio & net interest margin for the NBFC have been better than banks for a good period now.



Evolution of the Gold Loan Sector in India:

2007-2012:

- Rapid urbanization
- Upswing in middle-class incomes
- Substantial increase in gold prices
- Gold loan NBFCs rapidly expanded their network
- Customers availed more gold loans as it translated into higher credit values for their gold assets

2012-2015:

- Growth trajectory witnessed significant slowdown
- RBI's decision to revoke PSL status for gold loans resulted in increased cost of funds
- Decline in gold prices led to unfavorable LTV
- In some cases, the value of gold loans exceeded the collateralized gold, contributing to increasing NPA in the industry
- RBI reduced LTV from 85% to 75%

2015-2018:

- Gradual recovery witnessed
- Improved operational efficiency
- Improved customer experience
- Demonetization further affected demand
- NBFCs faced liquidity crisis, hindering their ability to meet credit demands

2018-2022:

- The COVID-19 pandemic resulted in a cash crunch
- NBFCs further streamlined operations, reduced costs
- Introduced innovative products like digital gold loans, top-up loans and doorstep gold loans
- AUM of leading companies observed 20% growth
- Managed NPAs through collection mechanisms and stringent auction policies

2022-2024:

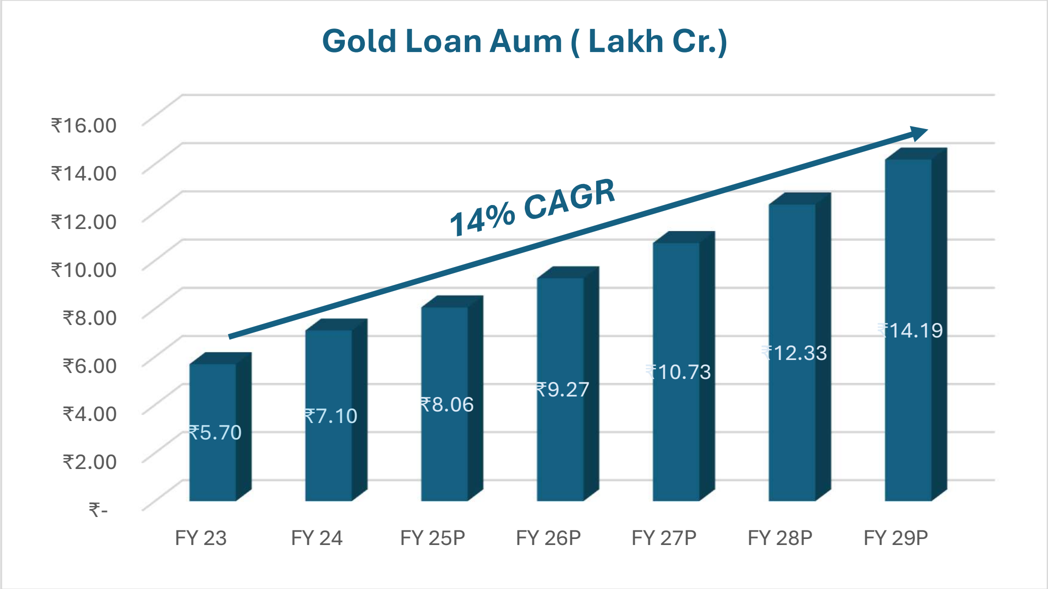
- Increased digital penetration in the gold loan space
- Growth of FinTech partnership model
- NBFCs primarily focused on South India increased geographic footprints to other parts
- Increased penetration from banks

2024-Present

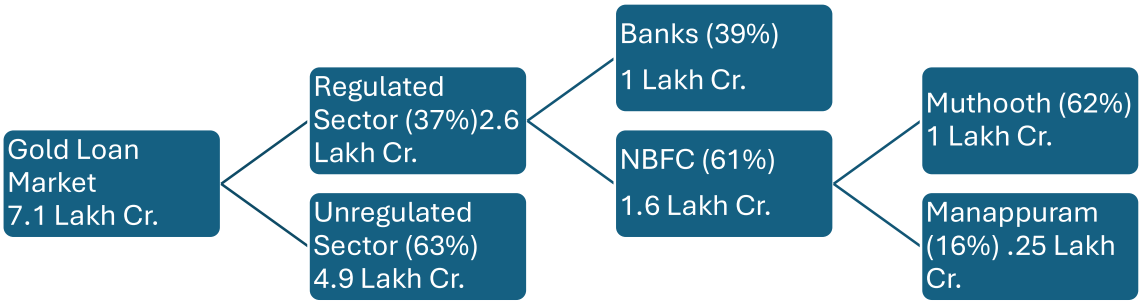
- Increase in the gold prices
- Regulatory intervention – fear of loan-to-value limit breaches
- Shift towards improved operational efficiency
- Focus on risk management
- Emergence of AI tools, facilitating risk management

Basics on the Gold Loan Industry

- Gold loan is nothing, but a very simple transaction involved between two entities; a borrower pledges his/her gold in return for a specific amount which they must pay in a timely manner once the loan is repaid the gold is given back to the borrower.
- Gold loan in India is rapidly growing showcasing promising growth in the upcoming years and shows that the market has space to expand, as a matter of fact it is one of the fastest growing securing lending prospects in the country. The gold loan AUM is growing at whooping 14-15% CAGR.



Classification of the Gold Loan Industry (Lenders):



- Gold Loans remains a dominant segment, though a large share of the market is still served by unregulated players, particularly local jewellers.
- Approximately 63% of the gold loan market continues to operate outside the regulated financial ecosystem (showcasing potential growth as education is on the rise and rural areas getting access to the financial framework).

Why Gold Loans Are Concentrated in South India?

Gold loans, where borrowers use gold jewellery as collateral, are predominantly concentrated in South India. Here's why:

- **Higher Gold Ownership:**
    - South India has a significantly higher rate of gold ownership due to its cultural importance. Gold is a staple in weddings, festivals and as a family heirloom. According to the World Gold Council, South India accounts for about 40% of India's total gold consumption. This abundance of gold makes it a readily available asset for securing loans. However, Temple's gold reserves account for an estimated 16 percent of India's gold holdings. However, this gold is largely unavailable for monetization due to its sacred and sentimental value, limiting its direct impact on the gold loan market.
- **Higher Proportion of assets tied up in gold:**
    - South India has the highest average gold holdings in the country, with about 20 -25% of household net worth tied to gold. This is largely due to its deep cultural role in weddings, festivals, and as family heirlooms. As a result, gold loans are widely used in the region, with families leveraging their gold for short-term credit. This strong demand is supported by a well-developed network of NBFCs like Manappuram Finance, which contributes to 80% of India's gold loan demand. South India also accounts for 40% of the country's gold consumption, reinforcing its dominance in the gold loan market.
    - In contrast, Western India allocated only 8 - 12% of household net worth to gold. Here, the focus is shifting towards other financial instruments (Capital Market). As a result, gold loans are less common, the market is more influence by banks and urban-focused financial products, leading to a smaller share of overall gold loan market.
- **Cultural Acceptance of Using Gold as Collateral:**
    - In South India, gold is both a sentimental and practical asset. People are comfortable pledging it for loans because it's seen as a temporary way to access cash without losing ownership permanently. This cultural norm, built over decades of informal lending practices, drives the popularity of gold loans.

Gold in Transition: From Household Treasure to Financial Leverage

- India has long been known as the land of gold. With one of the highest household gold reserves in the world, it's surprising that gold loans only gained significant momentum in the past 10–15 years. But this wasn't due to a lack of resources—it was a matter of timing, economic shifts, and evolving priorities.
- To understand this transformation, we must step back into the 1990s and early 2000s. At that time, India was still navigating the aftermath of its 1991 economic liberalization. The financial ecosystem was nascent, and the Repo Rate (Previously called Bank Rate)—the rate at which the Reserve Bank of India lends money to commercial banks—was extremely high. Consequently, borrowing costs were steep, both for institutions and retail borrowers. Lending, especially in the form of short-term or collateral-based loans, was neither affordable nor accessible for the average Indian.
- Moreover, for most Indian households, the focus during that period was survival and stability. Priorities cantered on basic needs: owning a home, securing formal education, and putting food on the table. Luxuries—such as consumer electronics or vehicles—were distant aspirations. In this context, the idea of pledging gold to finance discretionary spending held little appeal.
- There was another key element: the price of gold itself. Until the early 2000s, gold prices remained relatively subdued. Pledging 10 grams of gold did not yield sufficient funds to make a meaningful difference in a household's financial situation. Thus, while the gold was present, the incentive to monetize it was low.

The turning point came post-2005.

- Between 2005 and 2012, several macroeconomic and market forces aligned to fuel the exponential rise of gold loans in India. First, global gold prices surged, especially during the 2007–2012 financial crisis period. Investors and households worldwide turned to gold as a safe-haven asset, driving prices to all-time highs. Suddenly, the same 10 grams of gold could fetch a significantly larger loan amount.
- At the same time, the world was witnessing a historic phase of monetary easing. In response to the global financial crisis, central banks—including the RBI—slashed interest rates to stimulate growth. Borrowing became cheaper, and lenders had more incentive to diversify and expand retail credit, including secured lending against gold.
- In addition, India's middle class was expanding, consumer aspirations were evolving, and financial inclusion was improving. People were no longer just borrowing out of necessity but also to fund aspirations—education, business ventures, weddings, travel, and more. Gold loans, being quick and collateralized, emerged as a perfect solution.
- Another subtle but important factor was that gold as an asset class outperformed inflation over the two-decade span. This made pledging gold not just a practical financial decision but also a relatively safe one. Households realized they could meet urgent needs without liquidating a culturally and emotionally asset.
- In conclusion, while India always possessed gold, it wasn't until a combination of falling interest rates, rising gold prices, and changing economic aspirations came together that gold loans found their moment. What we've witnessed over the past decade, and a half is not just a financial trend, but a cultural shift in how Indians view, value, and leverage their most precious metal.

Evolution of the Microfinance Sector in India:

Initial Period 1974-1984:

- 1974: Shri Mahila Sewa Sahkari Bank established to provide financial service to women in un organized sector.
- 1984: NABARD advocated SHG as a tool for poverty

Challenge Period 2002-2006:

- 2002: Norms for unsecured lending to SHGs were alligned with other secured lending products.
- 2004:RBI included MFIs as a tool for financial inclusion.
- 2006: High Interest rate & unethical recovery policies led RBI to close few MFI brnaches .

Growth & Crisis Period 2007-2010:

- 2007:Private Equity Players entered the market; MFI book reaches 35 billion ₹.
- 2009: MFIN formed allowing NBFC-MFIs to become members.
- 2010: Abdhra crisis, RBI issued Ordinance that curbed MFI activities significantly.

Consolidation & Maturity 2012-2015:

- 2012: RBI implemented new changes with Malegam committe recomendation.
- 2014: RBI gave Bandhan Bank universal banking license, making it the largest micro lender.
- 2015: Goverment lauched MUDRA Bank

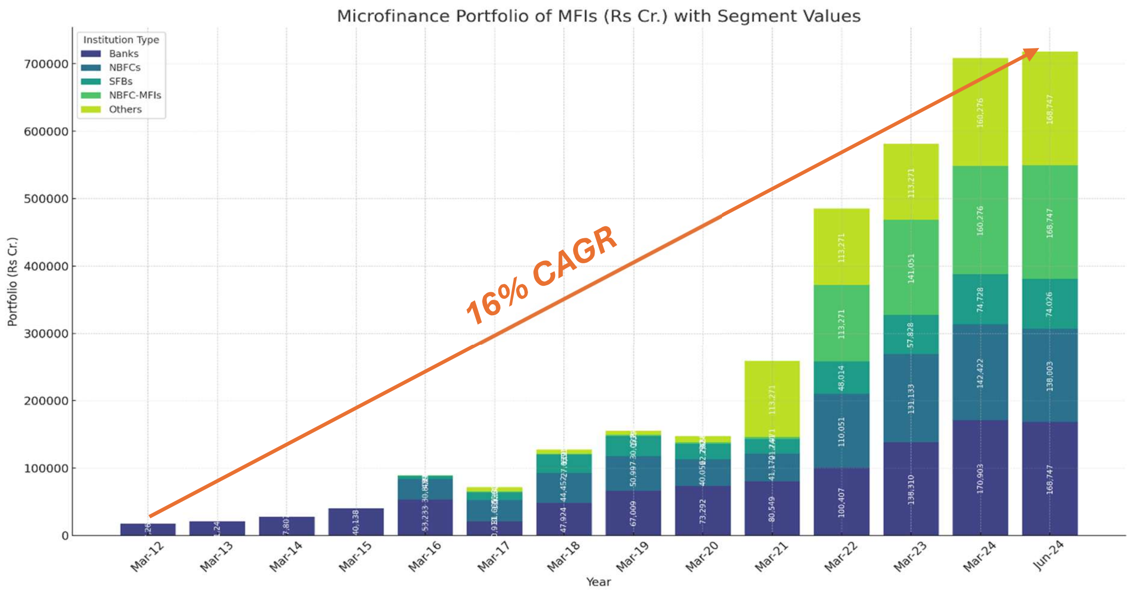
Fall & Reform Period 2020-Present:

- 2020: Assam Crisis, NPA hits all time high. Loan rates climb upto 40%.
- 2024: Hits a fresh all time high of 4 lakh crore + loan book.
- 2025: GNPA at almost 16%, RBI sets new reforms in the industry.

What gives NBFC-MFI an edge over Banks:

1. Their penetration strategy in the utmost backward areas of the nations.
2. Having local tie-ups for collection money in these backward places.
3. This business vertical is risky, but with increasing the interest rate as no RBI guidelines prevailing allow them to compensate for the risky environment they are competing in.
4. The low-ticket size allows NBFC to engage in such business as there is no direct obligation for the funds they are giving unlike banks having heavy and huge deposits taken from customers, they must match the liability with an asset (loan) and provide returns and make money out of it.
5. Operational expenditure for banks is high in comparison to NBFC which is a crucial factor as well.

Basics on the Microfinance Industry



How is Microfinance shaping the Indian Economy?

Microfinance in India plays a critical role in fostering financial inclusion by integrating economically disadvantaged populations into the formal financial system. It has empowered individuals to achieve self-sufficiency through entrepreneurship, improved income stability, and enhanced their ability to build assets and withstand economic shocks. Notably, it has catalysed the rise of women entrepreneurs, particularly in rural areas, by boosting household incomes and self-esteem. Microfinance institutions also emphasize financial literacy to promote responsible credit usage, while simultaneously driving digitization in remote regions by enabling access to mobile and biometric technologies. Furthermore, their consistent support during crises has strengthened borrower resilience and sustained livelihoods during periods of distress.

Commendable job that MFI sector caters to:

1. Providing credit to 6 Cr. + underprivilege women [Till 2023 march].
2. Clean water & sanitation, roughly 4.8 million loans were sanctioned for the purpose of proper sanitation and having access to clean water back in 2023, out of which 80-85% loans were sanction via the Microfinance division.

Why Are Microfinance Loans Concentrated in Northeast?

India Microfinance loans, small loans aimed at people without access to traditional banking, are notably concentrated in Northeast India. The reasons include:

- **Limited Access to Traditional Banking:**
    - The Northeast has a low banking penetration of 40 - 45% of households with access to formal banking services, compared to 70 - 75% in the South, 65 - 70% in the West, reflecting regional disparities in infrastructure and economic development. This gap creates a demand for microfinance institutions (MFIs), which provide small, unsecured loans to individuals and micro-entrepreneurs in rural and semi-urban areas.
- **Community-Oriented Culture Supporting Group Lending:**
    - The region's tight-knit, communal culture aligns with the group-lending model of microfinance. Self-help groups collectively guarantee loans, leveraging trust and mutual accountability. This social structure makes microfinance an effective tool for credit delivery.
- **Economic Necessity in Rural and Underserved Areas:**
    - In Northeast India, microfinance addresses a critical need with high poverty rates up to 32% and reliance on agriculture/small businesses, as compared to 8.3% poverty in the South, 7.5% in the West. It offers accessible credit to low-income groups and individuals for starting or expanding income-generating activities, making it a lifeline in the Northeast.

Manappuram Finance Ltd.:

In the heart of Kerala, where gold is more than just a metal—it's a symbol of security, tradition, and prosperity—a small pawnshop opened its doors in 1949. This modest beginning laid the foundation for what would become Manappuram Finance, now India's second-largest gold loan Non-Banking Financial Company (NBFC).

Breaking down the Business phases of Manappuram Finance Ltd.:

1. **1992-00:**

   The journey of Manappuram General Finance and Leasing Limited—now known as Manappuram Finance Limited—began during a challenging economic phase. At the time of its incorporation, India was grappling with a Balance of Payments crisis, and the Bank Rate (comparable to today's REPO rate) hovered around a steep 16%, making borrowing extremely costly. These were testing times for any lender, with soaring interest rates and market uncertainty—but Manappuram defied industry norms and stayed firmly on its growth trajectory. It was in this tough environment that India initiated its historic reforms—embracing Globalisation, Privatisation, and Liberalisation—which laid the foundation for long-term economic growth.
   Amidst this backdrop, Manappuram began carving out its place in the financial ecosystem. Despite the odds, it steadily progressed, taking nearly 15 years to reach an Asset Under Management (AUM) of ₹100 crore by 2007. From there, it took another 17 years to scale up to ₹42,000 crore.

2. **2000-2006:**

   In the early 2000s, the NBFC entered a pioneering partnership with ICICI Bank for securitization-based lending, becoming the first gold loan NBFC in the industry to do so. This collaboration marked a significant milestone in the sector, continuing successfully until 2006. However, regulatory changes introduced by the Reserve Bank of India (RBI) led to the termination of the deal.
   In 2006, the RBI implemented the **RISK RETENTION POLICY**, specifically targeting short-term, high-risk retail portfolios. These new regulations fundamentally altered the risk-sharing dynamics between banks and NBFCs. Under the revised framework, NBFCs could no longer pass on credit risks to banks as effectively as before. Most notably, the RBI mandated that a securitization transaction would only be treated as a "true sale" if the originator bore no obligation to repurchase assets or provide credit enhancements beyond certain prescribed limits.
   As a result of these stringent regulatory changes, raising funds through bank partnerships became significantly more challenging for NBFCs, leading to the eventual breakdown of the securitization deal with ICICI Bank.

3. **2007-2012:**

In 2007, the global financial crisis struck, triggering a major shift in lending behaviour—capital providers became risk-averse, prioritizing secured lending. It was in this environment that Manappuram Finance found a key turning point. Temasek, a leading Singapore-based debt investor, stepped in through its Indian arm, Fullerton, with a ₹500 crore debt infusion. This strategic support marked the beginning of a major transformation for the company.

Later that same year, Sequoia and Hudson followed with an additional investment of approximately ₹70 crore. Around the same time, HDFC and Axis Bank extended debt support of ₹25 crore each. These cumulative investments not only stabilized the company’s funding base but also catalysed a phase of exponential growth.

From an approximate AUM of ₹100 crore in 2007, Manappuram surged to ₹9,600 crore by 2012—delivering a remarkable 150% compound annual growth rate (CAGR) over five years. Temasek’s entry is widely regarded as the pivotal turning point in Manappuram’ s growth story, laying the foundation for broader investor interest and long-term scalability.

4. **2013-2018:**

During a challenging period marked by falling gold prices and unfavourable loan-to-value (LTV) ratios, both Manappuram and its customers found business growth increasingly difficult. These five years proved to be particularly weak for the gold loan sector and NBFCs at large, as the economy faced a liquidity crunch. A key driver of this crisis was the rising REPO rate, which increased by 125 basis points, making borrowing more expensive. As a result, demand for credit declined significantly, and the market responded with caution.

Amid this tough macroeconomic backdrop, Manappuram’ s growth slowed substantially. Its AUM grew modestly from ₹9,500 crore to ₹15,000 crore, reflecting a CAGR of just 9%–10%—a sharp 93% decline from the 150% CAGR achieved in the preceding five-year period. This phase became a turning point for the company, highlighting the urgent need to diversify its business model to reduce risk exposure and ensure long-term sustainability in a volatile financial environment.

Recognizing this, Manappuram took a decisive step in 2015 by acquiring an 85% majority stake in Asirvad Microfinance for approximately ₹50 crore, at a time when Asirvad’ s AUM was just around ₹325 crore. This strategic move paid off significantly. By 2018, Asirvad’ s AUM had already reached ₹2,000 crore—delivering a remarkable 44% CAGR, far outpacing the gold loan business. As of June 2024, Asirvad’ s AUM had soared to nearly ₹11,500 crore, marking it as a major contributor to Manappuram’ s diversified growth story.

5. **2018-2022:**

The COVID-19 pandemic unexpectedly created a favourable environment for the gold loan industry, providing a significant boost to Manappuram’ s growth trajectory. During this period, the company was able to meaningfully scale up its loan portfolio. Post-COVID, conditions remained supportive as the REPO rate dropped to its lowest level in 25 years—around 4%—substantially reducing Manappuram’ s cost of borrowings and expanding its profit margins. As a result, the company achieved exceptional Net Profit Margins of over 27% in FY2020 and FY2021, compared to its long-term average margin range of 20%–21%.

Several key macroeconomic and regulatory factors fuelled this growth:

- Gold prices increased at a CAGR of 11%–12%, while the RBI raised the LTV ratio to an unprecedented 90%.
- The lowest REPO rate in 25 years lowered funding costs for lenders.
- Rising unemployment created a surge in demand for short-term, small-ticket loans.
- Depressed property prices supported demand for home and renovation loans.

6. 2023-Present:

At this stage, the Indian economy entered a period of subdued momentum—businesses continued to grow, but at a slower pace. This phase was also marked by elevated default rates across sectors. While there were no major structural shifts during this period, a notable development was the entry of a new investor into Manappuram’ s cap table, signalling continued confidence in the company's long-term potential and headroom for growth.

Despite the broader economic slowdown, Manappuram maintained steady progress, gradually expanding its loan book. By March 2025, the company had achieved a robust Asset Under Management (AUM) of ₹42,000 crore, translating to a healthy 13% CAGR during this period.

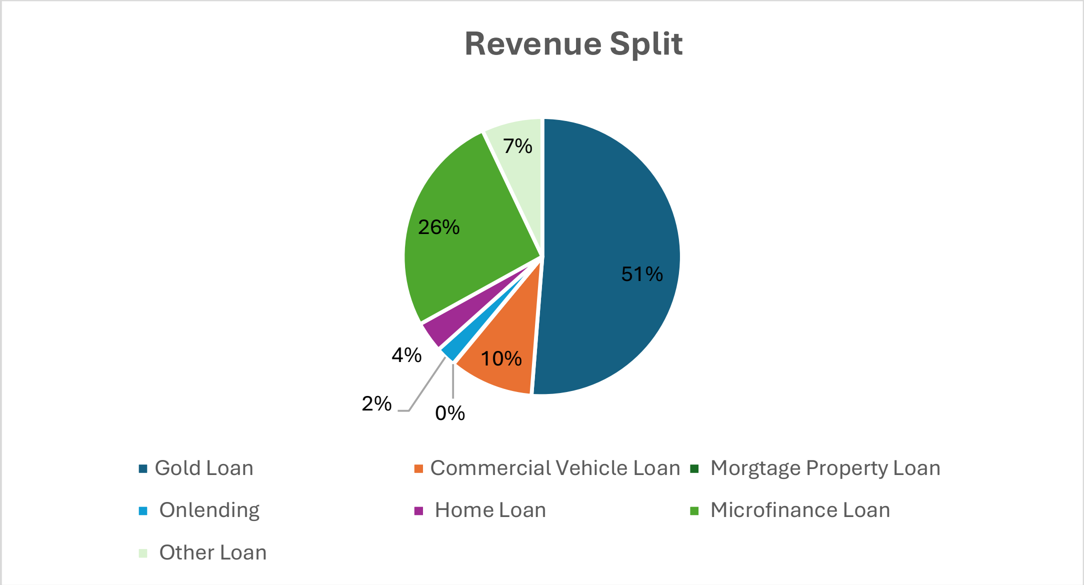
Apart from this Manappuram is expanding the Cap Table By introducing Bain Capital.

Deal and Effect of Bain Capital:

- Bain Capital and Manappuram in March decided on this agreement.
- Bain will infuse a capital of 4385 Cr. INR for 18% Stake via preferential allotment of equity & warrant.
- This will also trigger a mandatory open offer for purchase of 26% of the company at 236, hence after the entire deal Bain Capital will be holding anywhere in between 18 – 41% stake in the company, becoming the biggest stakeholder.
- Should take place in Q2 & Q3 the current financial year.
- With the help of this infusion Manappuram is bringing on board the experience of Bain.
- Manappuram intends to fast track gold loan by leveraging gold loan market.
- Could accelerate their mortgage and vehicle finance businesses.
- Have growth & deploy proper risk management strategies in the microfinance lending division.
- They also intend to invest in Technology for cross-sell & product innovation.
- This makes Manappuram being led by a formal professional multinational organisation, new minds working towards a better goal.
- Bain Capital has been invested into other financial institutions of India like:
    - L&T Finance
    - 360 One Wealth & Asset Management

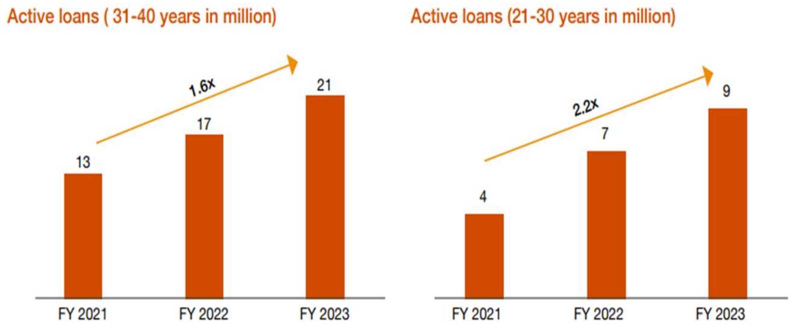
Current Status of Manappuram:

Manappuram is divided into multiple different segments:



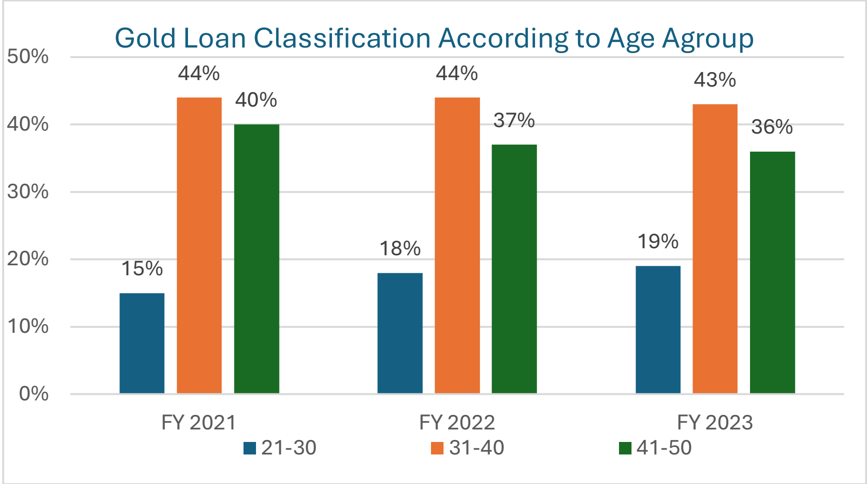
Shedding More insights on the Major contributing Business Segments:

1. **Gold Loan**
    - Gold Loan being the greatest contributor to the Loan Portfolio of a significant just above 50%, making it the second biggest NBFC- Gold loan lender in the country.
    - Like the industry even Manappuram has its AUM concentrated in the Southern belt of the country.
    - The Gold loan industry today is showcasing rapid growth of 15% CAGR there are multiple factors attested to such high growth:
        - Gold loan adoption is rising rapidly among individuals aged 21–30, making it the fastest-growing demographic in this segment. With projections indicating that this age group will comprise 20–25% of India's population over the next decade, their increasing financial activity presents a significant opportunity for growth in the gold loan market.

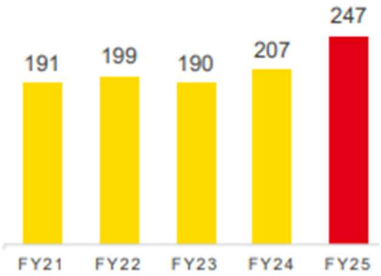


        - The above graph depicts the changing trend and faster acceptance of gold loan in the younger age group.

- It is seen that 21-30 age group has been capturing market share and today it is almost 20%+ market share of the total Gold Loan AUM.



- Talking about Gold Loan AUM Growth in past 5 Years for Manappuram Finance:



Value in 100 cr.

- Showcasing a 5-6% CAGR for the past 5 years.
- There are a few aspects as to why Manappuram is not being able to grow as big as Muthoot Finance the biggest and second biggest player almost have a key AUM difference in the gold loan category of roughly 4 times. Key comparison

	Manappuram		Muthoot	
Particulars	**Mar-25**	**Mar-24**	**Mar-25**	**Mar-24**
AUM	₹ 42,251.00	₹ 40,947.00	₹ 1,20,577.00	₹ 88,187.00
Interest Income	₹ 9,799.00	₹ 8,488.00	₹ 19,662.00	₹ 14,545.00
% Interest Income	23.19%	20.73%	16.31%	16.49%
Interest Expense	₹ 3,574.00	₹ 2,865.00	₹ 7,412.00	₹ 5,430.00
% Interest Expense	36.47%	33.75%	37.70%	37.33%
Impairment Loss	₹ 1,962.00	₹ 578.00	₹ 1,634.00	₹ 553.00
% Impairment Loss	20%	7%	8%	4%
Employee Expenses	₹ 1,841.00	₹ 1,597.00	₹ 2,324.00	₹ 1,828.00
% Employee Expenses	19%	19%	12%	13%

- Manappuram is facing issue in terms of developing better margin than that of its peers because of multiple reason it has been facing even with having higher interest income in terms of %age and interest expense in terms of revenue is less than that of its peers.
- Manappuram already having a higher Impairment Loss last year than peer this year it accelerated 300% more.
- Even the employee expense is higher than that of Muthoot, showing that they cannot bring their cost down.

Regime change impact on Gold Loans:

1. Demonetization in 2016 led to a severe cash shortage, which triggered an increase in demand for quick liquidity. After cash the second most available liquid asset in Indian households is gold, so naturally many Indian households turned to gold loans to meet urgent cash needs, leading to a 28% year-on-year rise in Manappuram' s gold loan disbursements in FY17. Industry-wide, gold loan's assets under management grew by 20% in 2017, with NBFCs like Manappuram and Muthoot accounting for 75–80% of the regulated gold loan market.

2. In response to the COVID-19 pandemic, Reserve Bank of India (RBI) temporarily raised the loan-to-value (LTV) ratio for gold loans from 75% to 90% in 2020 to ease liquidity pressures. This relaxation significantly boosted borrowing capacity for individuals and helped maintain credit flow during the economic turmoil. As a result, Manappuram Finance reported a 15% year-on-year growth in its gold loan assets under management (AUM) in FY21, supported further by a surge in gold prices, which reach around INR 48,000. At the industry level, gold loan AUM grew by 18% in FY21, with NBFCs outperforming banks in loan disbursals and portfolio expansion. Although defaults rose slightly, Manappuram' s gross NPA remained manageable at 3.9% for the year. Overall, the combination of higher LTV limits and elevated gold prices played an important role in supporting borrower demand and driving growth during the pandemic.

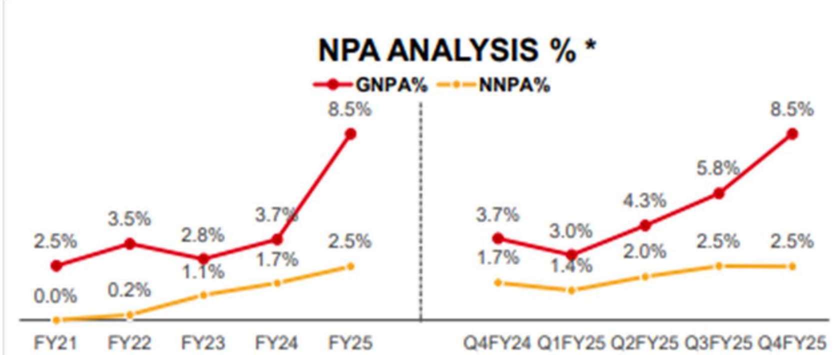
Risks in the Gold Loan Industry:

1. **Underutilization of Gold as Collateral:** Only 5.6% of household gold is pledged, reflecting significant underutilization. High interest rates of 20-24% for smaller loans, with Manappuram' s average ticket size at ₹68,000 and Muthoot's at ₹93,000, deter borrowers compared to personal loans at 13-18% for those with a sound ITR. Larger loans above ₹20 lakh offer rates around 10%, but limited gold holdings restrict access, keeping the market size smaller than its potential.
2. **Cultural and Sentimental Barriers:** Gold's deep cultural significance, described as a "distinct and revered status as a symbol of financial prosperity" and "cultural heritage often passed down from one generation to the next", fosters a sentimental attachment that discourages pledging. This is particularly evident in South India, where 80% of gold loan demand originates, but applies nationally.
3. **Alternative Credit Options:** The rise of digital lending and financial inclusion has introduced alternatives like personal loans, credit cards, and unsecured loans. The attachment notes personal loans at 13-18% p.a. for those with good ITRs, often more appealing than gold loans. The search results indicate that while gold loans don't require credit checks, alternatives are preferable for creditworthy borrowers, limiting gold loan adoption.

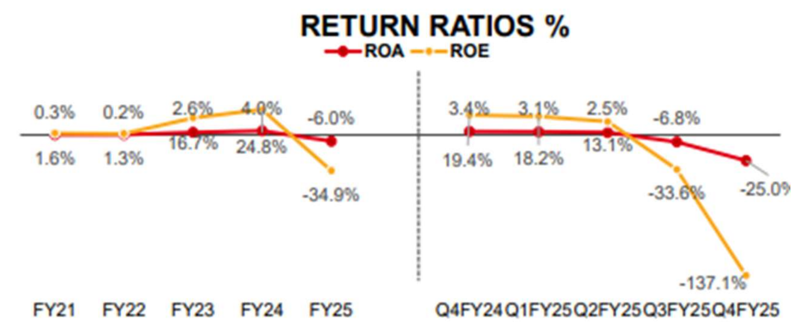
4. **Short Tenure Limitation:** The gold loan tenure, capped at 12 months, discourages borrowers with long-term financial needs, such as business expansion or home purchases. This short-term constraint reduces its appeal compared to longer-tenure loans from banks or other NBFCs, further limiting market growth.
5. **Gold Valuation Risks for Manappuram:** The manual nature of gold valuation poses risks of inaccuracy, fraud, and delays, a key challenge noted in the attachment. Manappuram must invest in technology, to mitigate these risks in its -branch network.
6. **Competition Challenges:** Banks offering lower rates (8-12% vs. Manappuram' s 18-22%,) threaten margins, with their share rising to 40%. Manappuram' s rural focus counters this but limits urban growth.

2. Microfinance Loan: Asirvad

- With Asirvad Microfinance business growing rapidly it came with a bigger cost of NPA.
- Over the span of past 5 quarters, the GNPA has risen from 3.7% to 8.5%



- This led the RBI to put a hold on fresh disbursement of loans on 17th October 2024, later this was revoked by RBI in Jan-25.
- The return ratios were hit badly as a loss was booked and hence this has been a major case of fall, of this vertical.



Regime change impact on MFI:

1. Pradhan Mantri Jan Dhan Yojana (PMJDY) (launched in 2014), aimed to provide banking access to every household, laying a strong foundation for microfinance institutions (MFIs) to reach the population which don't have access to banks.
   The Result: By 2023, over 50 crore bank accounts had been opened 67% in rural and semi-urban areas which highlights the banking penetration. During this period, the microfinance loan portfolio grew from ₹1.2 lakh crore in FY15 to ₹3.5 lakh crore in FY24, achieving a CAGR of ~12% and the number of active women borrowers rose from 3.7 crore to 6 crore.

2. The Digital India initiative, launched in 2015, promoted digital infrastructure, mobile banking, and fintech adoption, with supporting programs like Aadhaar and UPI simplifying KYC and financial transactions. This enabled microfinance institutions (MFIs) to digitize loan disbursals & repayments, which led to greater efficiency and reach. Asirvad Microfinance reported that 80% of its payment collections were digital by FY24. As a result, digital repayments in the sector rose from just 10% in 2015 to 65% by 2023, while the cost-to-income ratio for MFIs dropped from 45% in FY15 to 38% in FY24. This shift not only reduced operational costs and fraud risk but also allowed MFIs to scale services in remote areas and uplift the weaker section of the society.

3. Demonetization in November 2016, which withdrew 86% of India's currency from circulation, was a major push toward formalizing the economy. This move disrupted informal money lenders, but it also created an opportunity for formal microfinance institutions (MFIs) to expand their reach. Rural borrowers witnessed cash crunch and turned to MFIs. As a result, Asirvad Microfinance reported a 25% year-on-year growth in assets under management in FY17. However, collections were temporarily affected, with Gross NPAs rising to 4.2% in FY17 from 2.8% in FY16. Despite these short-term repayment challenges, the overall microfinance sector's AUM grew by 31% in FY17, and by FY18, much of the NPA levels had stabilized as liquidity and borrower cash flows improved. Demonetization ultimately helped reduce dependence on informal moneylenders, driving borrowers toward regulated MFIs that offered structured loans and digital repayment option.

4. In 2022, Reserve Bank of India (RBI) introduced a revised regulatory framework for microfinance institutions (MFIs), with an objective to strengthening borrower protection and formalizing lending practices. The new rules capped interest rates, mandated financial literacy programs, and introduced a household income ceiling of ₹3 lakh to determine borrower eligibility. These policies increased the compliance burden for NBFC-MFIs. Asirvad Microfinance faced a temporary ban on new disbursals in October 2024 after its Gross NPA level surged to 8.5%, however this ban was later lifted in January 2015. The increased documentation and customer verification requirements slowed down disbursals, particularly in remote areas where digital penetration remains uneven.

Risks in the Microfinance Industry:

1. **High Default Rates:** The microfinance industry in India faces significant challenges with high default rates, with Non-Performing Assets (NPAs) rising to 16% by March 2025, reflecting over-leveraging and repayment stress, particularly among low-income borrowers impacted by economic slowdowns and regulatory scrutiny.

2. **Limited Banking Infrastructure Dependency:** The reliance on regions with low banking penetration, such as Northeast India, creates operational challenges, as the lack of formal financial infrastructure in other areas hinders scalability and increases costs for microfinance institutions like Manappuram' s Asirvad.

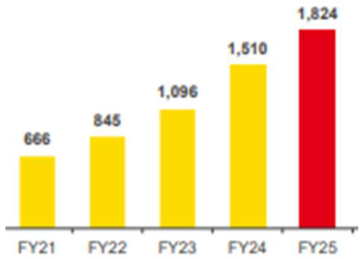
3. **Regulatory Pressures:** The Reserve Bank of India's stringent regulations, such as interest rate caps and mandatory financial literacy programs introduced in 2022, add compliance costs and operational complexities, as seen in Asirvad' s October 2024 lending ban (revoked January 2025), impacts the growth significantly.

4. **High Operational Costs:** The need for extensive field staff and community engagement to manage small-ticket loans raises costs, with Manappuram' s cost-to-income ratio for Asirvad rising to 48% in FY25 due to high segment expenses.

Emerging Segments Driving AUM Growth:

1) Housing Finance Business:

- The housing finance segment has emerged as a high-potential growth area for NBFCs, particularly in the affordable housing space, catering to low-ticket loans for both home purchases and renovations.
- This vertical has demonstrated strong financial performance, with consistent AUM growth over the past five years, highlighting rising demand and effective portfolio expansion.



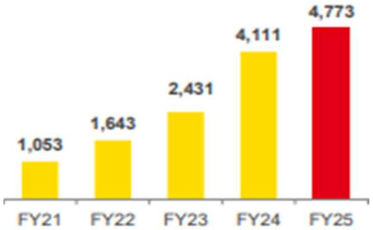
- The housing finance segment has recorded a robust 22% CAGR, steadily increasing its contribution to the overall business portfolio over the past five years.

% share of AUM in FY 21	2.46%
% share of AUM in FY 25	4.24%

- With a stable interest rate of 15% in FY25.
- Manappuram' s strategy over the years to upscale the business has been:
    - ✓ Better Penetration in Tier 3 & 4 towns.
    - ✓ Focus on marketing PMAY scheme.
    - ✓ Increased emphasis on ground level marketing.
    - ✓ Digital Payment platforms for managing EMI collections efficiently.

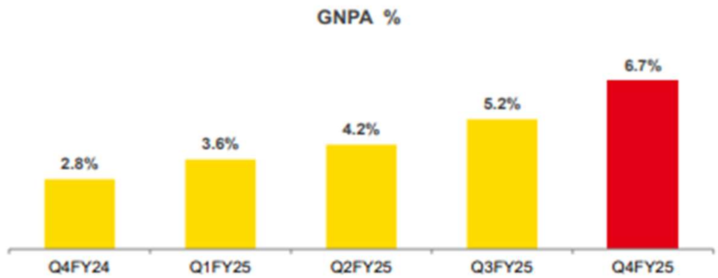
2) Vehicle & Equipment Finance Business:

- Vehicle and equipment finance has become a key growth driver, supported by rising household income and increasing mobility needs across urban and semi-urban regions.
- The segment covers financing for two-wheelers, four-wheelers, and commercial equipment, addressing both personal and business requirements.
- With steady 35% YoY growth in AUM over the past five years, this vertical is expanding its share within the overall lending portfolio.



% share of AUM in FY 21	3.89%
% share of AUM in FY 25	11%

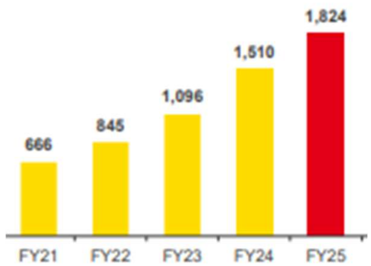
- A key concern in this segment is the rising Gross NPA, which has been increasing steadily over the past five years.
- Although the segment contributes around 11% to the overall portfolio, it accounts for over 6.5% of GNPA signalling asset quality stress that could impact the company's overall financial health.



- Manappuram' s strategy over the years to upscale the business has been:
    - ✓ Penetration in Rural and Semi Urban locations.
    - ✓ Covering all the 3000+ gold loan branches to provide this facility.
    - ✓ Tie ups with manufacturers (Autolite India).
    - ✓ Tie ups with platforms for exchange of pre-owned vehicle & Equipment (Shriram Automall).
- A sharp rise in NPAs often serves as an early warning sign of declining profitability, as seen in the case of Asirvad Microfinance—where surging NPAs severely impacted both financial performance and business sustainability.

3) MSME & Allied Business:

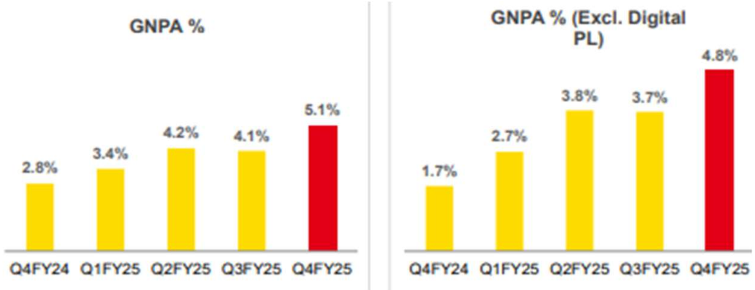
- This high-yielding business vertical has been a key contributor to Manappuram Finance's AUM growth, driven by strong interest income and rapid portfolio expansion.



- Growing at a 29% CAGR with an impressive average interest rate of 27%, this vertical has rapidly expanded to become a significant contributor to the overall business portfolio.

% share of AUM in FY 21	3%
% share of AUM in FY 25	7%

- This vertical is facing similar asset quality concerns as the Vehicle & Equipment segment, with Gross NPA levels rising consistently and now reaching their highest point in the past five quarters.



- Even without the Digital Personal Loan the GNPA is very high.
- Manappuram' s strategy over the years to upscale the business has been:
  - ✓ Strong presence in Tier 3 & 4 towns.
  - ✓ 80% digital payment collection, faster and less fraudulent transactions.
  - ✓ Dedicated in house local collection team.
  - ✓ Investment in training and development of human resource through online mode.
- A surge in NPAs often signals early stress on profitability—Asirvad Microfinance, a wholly owned subsidiary of Manappuram Finance, exemplifies how deteriorating asset quality can swiftly escalate into a threat to both earnings and business continuity.

Financial Snapshot and Key Metrics

1. **Capital Adequacy:**

   a. **Capital Tier 1 Ratio:**

   - The Tier 1 Capital Ratio, mandated at a minimum of 15% by RBI under Basel norms, assesses an NBFC's ability to absorb losses from risk-weighted assets.
   - it reflects the strength of a company's core capital—comprising equity, retained earnings, and reserves—relative to its risk exposure.
   - Manappuram has consistently maintained a strong capital position, with a Tier 1 ratio of 30.91%, up from 29% three years ago.

   b. **Liquidity Coverage Ratio:**

   - The Liquidity Coverage Ratio (LCR) ensures that financial institutions maintain sufficient high-quality liquid assets to meet 30-day short-term obligations under stress conditions.
   - A higher LCR indicates stronger liquidity resilience and complements capital adequacy assessments for overall financial health.
   - Manappuram and its peer Muthoot have consistently reported LCR levels in line with RBI guidelines over the past three years, reflecting prudent liquidity management.

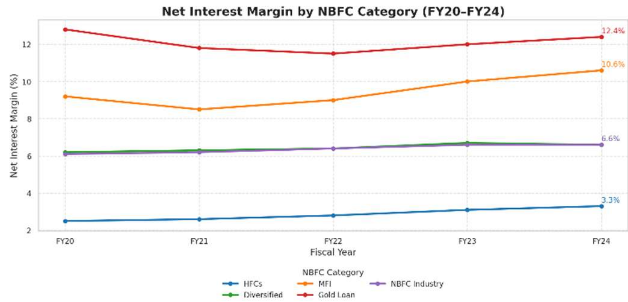
Liquidity Coverage Ratio	Mar-25	Mar-24	Mar-23
Manappuram Finance	215%	248%	213%
Muthoot Finance	299%	226%	281%
Minimum Ratio- RBI	100%	90%	80%

   - The data reflects strong liquidity positions, with both NBFCs holding over twice the required liquid assets to meet stress scenario obligations.
   - Manappuram has maintained an average LCR of approximately 225% over the past 3 years—125% above the RBI's 100% requirement.
   - Muthoot is standing out at an average 269% which is 169% above RBIs minimum requirement, showcasing greater strength in their books as compared to Manappuram Finance

2. Profitability:

a. Net Interest Margin:

- The Net Interest Margin (NIM) indicates an NBFC’s long-term viability, with a higher ratio reflecting efficient capital deployment and stronger earning potential.
- This how NIM looks for the industry:

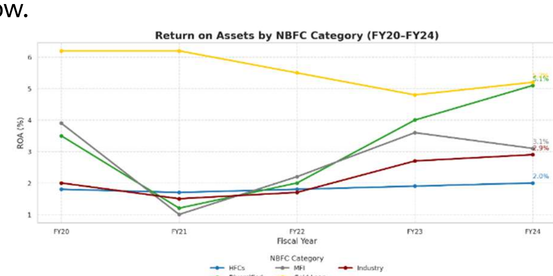


- Gold loan NBFCs consistently report the highest Net Interest Margins, with Manappuram outperforming the industry average—maintaining over twice the NIM of the broader NBFC sector, as shown in the table below.

Particulars	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Interest Income	₹ 10,041.00	₹ 8,318.01	₹ 6,700.00	₹ 6,061.00	₹ 6,331.00
Interest Expense	₹ 3,575.00	₹ 2,865.71	₹ 2,188.00	₹ 2,011.00	₹ 2,219.00
Average Interest-Earning Asset	₹ 42,252.00	₹ 41,511.96	₹ 34,746.00	₹ 29,502.00	₹ 27,104.00
Net Interest Margin	**15.3%**	**13.1%**	**13.0%**	**13.7%**	**15.2%**

b. Return on Asset (ROA):

- Return on Assets (ROA) measures how efficiently a company uses its assets to generate profits; Gold Loan NBFCs typically lead the sector with strong ROAs of 4.5–5.5%, compared to the broader NBFC industry average of 2–3%, as reflected in the chart below.

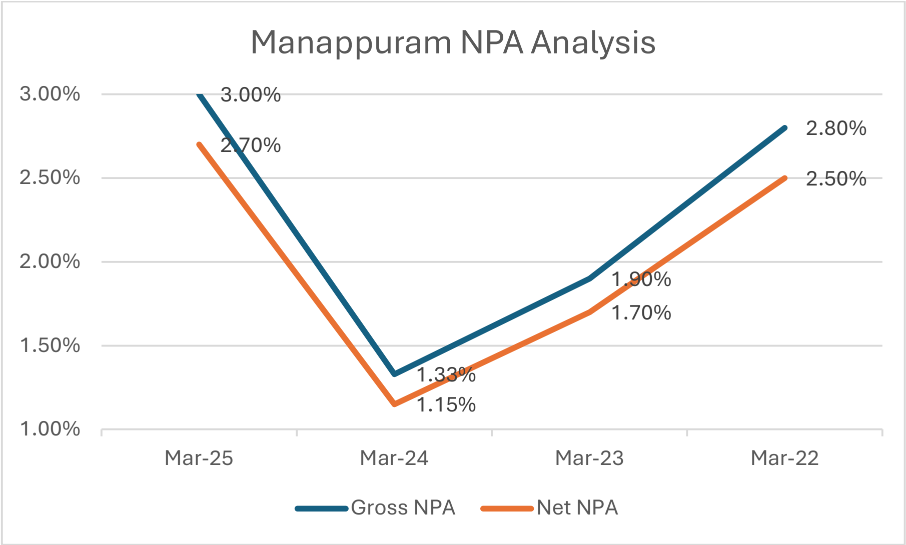


- Over the past five years, Manappuram and Muthoot have maintained comparable performance levels, with minimal difference in key metrics such as ROA.

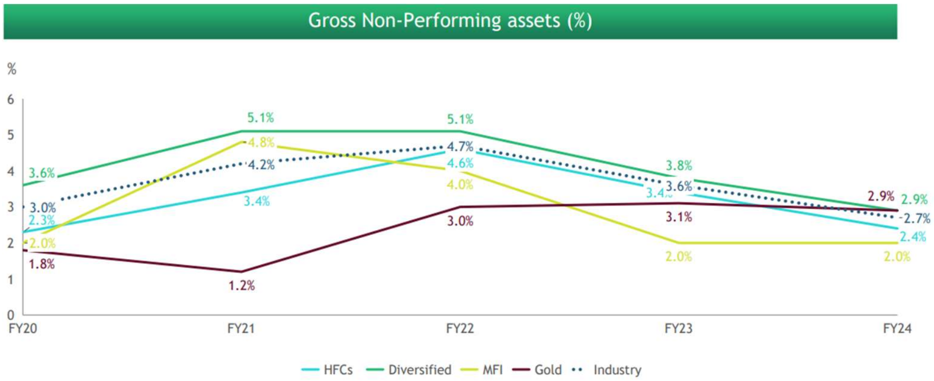
Particulars	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Manappuram Finance	4.47	4.81	4.31	4.83	6.61
Muthoot Finance	4.28	4.76	4.78	5.6	5.86

3. **Asset Quality:**
   a. **Gross Non-Performing Asset (GNPA) & Net Non-Performing Asset (NNPA):**

- Gross NPA indicates the overall asset quality and credit risk, with higher levels suggesting potential loan losses and pressure on profitability.
- Net NPA offers a clearer view of the actual non-performing loans remaining after provisioning, reflecting the true stress on the NBFC's balance sheet.



- NPA ratios have reverted to pre-dip levels after FY23–FY24; while not currently a concern, a continued rise could strain liquidity and significantly impact profitability.
- Manappuram' s current Gross NPA level aligns closely with the industry average, indicating stable asset quality in line with sector benchmarks.



4. **Cost Indicators:**
   a. **Cost To Income Ratio:**

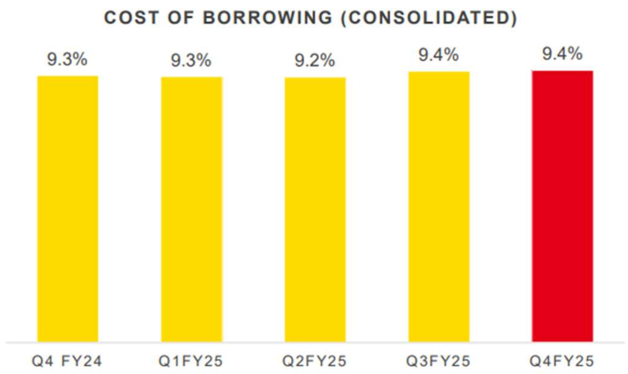
- The Cost to Income Ratio (CIR) measures operational efficiency by indicating the percentage of operating income used to cover a company's expenses.

Particulars	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Operating Income	₹ 6,466.00	₹ 5,452.30	₹ 4,512.00	₹ 4,050.00	₹ 4,112.00
Operating Expense	₹ 4,834.00	₹ 3,094.00	₹ 2,521.00	₹ 2,331.00	₹ 1,840.00
CIR	75%	57%	56%	58%	45%
Increase in 5 years	67.1%				

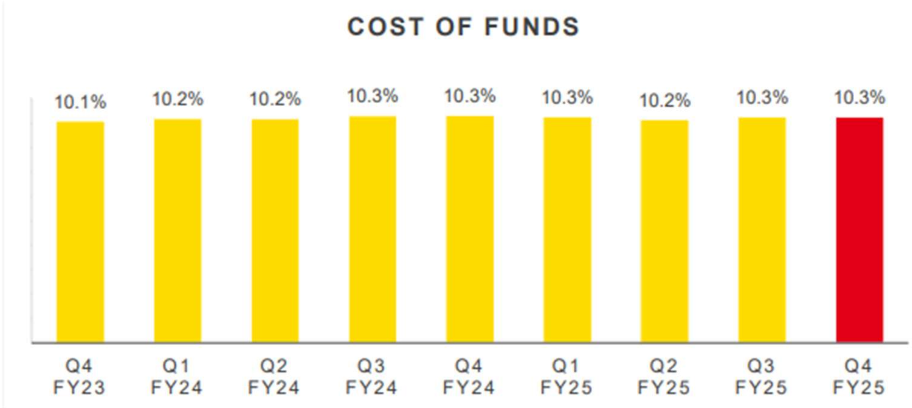
- Manappuram' s rising expenses outpacing revenue growth have led to efficiency concerns, signalling potential long-term cost management challenges.

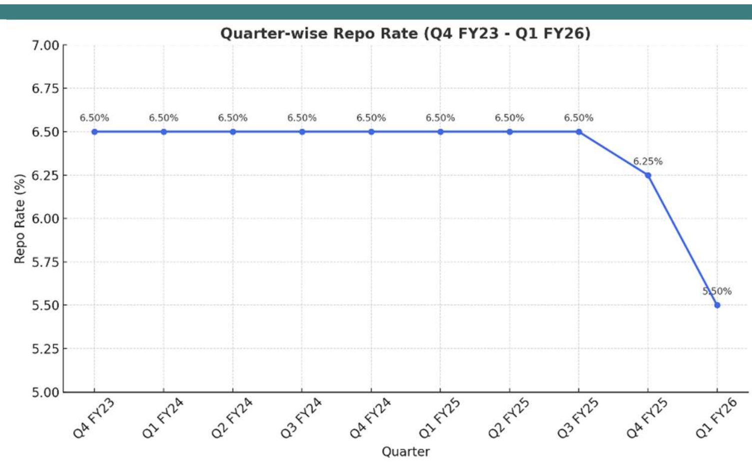
   b. **Cost of Funds:**

- Cost of funds represents the expense of raising capital through debt instruments; keeping it below the interest income rate—ideally under 10%—is crucial for maintaining business viability and profitability.



- Manappuram' s cost of borrowing has remained stable over the past five years, averaging 8.7%, with FY25 at 9.1% and the lowest at 7.5% in FY23—indicating consistent funding efficiency without significant cost escalation.
- While Manappuram remains stable, its subsidiary Asirvad Microfinance may face pressure if it fails to secure lower-cost funding, as its borrowing rates remain elevated despite a declining repo rate trend.





- Although the Indian REPO rate has declined, a corresponding drop in borrowing costs hasn't materialized yet; evaluating the Q1FY26 and Q2FY26 quarters will be crucial to assess whether funding costs begin to align with monetary easing.

Analysing Manappuram' s Price Action: A Technical Perspective

Sr No.	Date	Price Movement	Remark
1	27-06-2024	196-214 (9%)	Nifty had gone all time high following the beta and technical breakout for 52 week the stock rises
2	14 Oct 24 to 21 Oct 24	187 to 138 (-26%)	RBI put hold on loan sanctioning for Asirvad subsidiary of Manappuram, and all brokerage houses had a reduced rating for the firm.
3	20Mar to 21 Mar 2025	211 to 247 (17%)	On news about Bain capital investing via preferential shares, ends up hitting all-time high.
4	6 Jun to 17 Jun 2025	234 to 285 (21%)	On RBI coming out with better guidelines for gold loan disbursement, it rallies to all time high