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Baring's Bet on Manappuram may be Paying Off

Gold-loan provider has outperformed peers with a 29% gain since Baring picked up 0.94%

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MUMBAI

Baring Private Equity Partners India was probably the lone institutional investor buying shares in Manappuram Finance at two-and-a-half-year lows when investors fled in droves after the regulator moved to arrest a bubble in March, a move that would curb credit growth by at least a third in some cases.

The gamble that Baring took was that social compulsions of the government and even the regulator would, over a period of time, lead to easing of rules, which could get growth back on track and transform lenders against gold from pawnbrokers to an organised industry.

Early signs are the Baring's gamble is paying off. Manappuram has outperformed the broader financial services sector with a 29% gain since June 22, when Baring picked up 0.94%, compared with the ET NBFC index's 6.5% rise.

Baring holds 5.94% in Manappuram Finance.

"We are confident RBI will remove the strictures it has imposed on gold loan companies once it fully appreciates the social implication of the strictures of driving the un-banked back into the arms of the local moneylenders with whom RBI's writ does not run," said Rahul Bhasin, managing partner, Baring Private Equity Partners India.

The Reserve Bank of India in February came down heavily on a proprietary company of Manappuram's promoter for raising public deposits. When the central bank banned deposit taking, investors panicked that something was amiss in the company. But the promoters calmed the public by repaying deposits and agreed to stop taking deposits.

A month later, the regulator

cut the loan-to-value ratio – the amount expressed in terms of jewellery value a company can finance – to 60% from as high as 90%. This could cut a financier's overall business by a third.

Gold companies were upset with the new rule, saying that it cut their growth prospects, but the central bank believed that such a restriction was essential to maintain long-term sustainability of the industry.

"There were several complaints, they were growing very fast and anything that grows very fast develops a lot of weaknesses," Anand Sinha, deputy governor at the RBI had said. "So we did take action, but not to kill them, but to ensure that they survive in a healthier way."

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Though the regulations crippled growth initially, they led to stronger growth later, as non-banking finance companies performed well overall. Now that the central bank has accepted financial inclusion as part of its agenda, finance companies such as Manappuram may be a vehicle to achieve that, giving hopes to investors such as Baring.

Manappuram had grown at an annual compounded growth rate of 113% in the past three years.

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