Details as on July 31, 2023

India's retail credit is growing - Can it become a problem?

Retail credit growth is growing fast – at rates in excess of 20 pc. This has raised concerns in some quarters including the Central Bank as to whether this is sustainable and whether the borrowers are getting into a debt trap. In this article, we examine the various segments of retail credit and the potential issues that lenders could face.

But first, why did it start? The genesis of the retail credit boom started as a number of factors came together –the JAM trinity (Jan Dhan Yojana, Aadhar and Mobile) created a significant database of potential people who received subsidies and opened bank accounts. The second reason was the UPI revolution which enabled a number of people (small merchants and traders) to receive money into their bank account directly. Third, imposition of a pan India GST created another large database of SME's and mid-sized companies tracking their payments and giving lenders an opportunity to lend. Another significant change has been the availability of improved credit bureau data which helps in better underwriting of risk. Finally, all PSU banks felt it necessary to diversify their book from traditional large corporates, due to their lumpy nature and project related risks. This combination of factors has set in place a credit boom that seems unstoppable.

Will this end badly? Not yet. Our interaction with companies indicate that there is room to grow and so far credit costs appear manageable. The current growth rates suggest that the underserved segments of the market are now able to access credit and this demand is sustainable for the next few years. Hence, Small Finance Banks, Affordable housing finance companies and fintechs have reported significantly higher growth than the traditional finance companies and banks.

India's credit growth is driven by consumer loans

Credit Growth (%)	FY21	FY22	FY23	June'23
Non Food Bank Credit	5.5	8.7	15.4	16.4
Retail	10.9	12.6	20.6	20.9
Housing	9.5	12.9	15.0	15.0
Auto	10.9	8.8	24.8	22.9
Credit Card	9.8	12.7	30.9	36.0
Personal Loans	13.7	16.6	23.7	26.1
Services	2.4	8.7	19.8	26.7
NBFC	-0.9	7.8	30.2	35.1
Trade	12.8	10.8	17.8	17.3
Real Estate	0.1	0.6	8.0	11.3
Industry	-1.3	7.5	5.7	8.1
Infrastructure	1.1	9.1	0.6	1.7
Non-Infrastructure	-2.7	6.6	8.9	12.0
Agriculture	10.1	9.9	15.4	19.7

Source: RBI, Bloomberg

Banking system's credit growth remained healthy in May '23 at 15.6% YoY. Credit Growth did get impacted during covid (FY20-22), growing in single digit. Post that there has been a sharp recovery in FY'23 and momentum continued so far in FY'24.

Credit growth is driven by strong demand from retail and service sector. Within retail sector, there is a recovery across sub sectors with unsecured segments like credit card and personal loans showing highest momentum. Within services sector, lending to NBFC is the largest sub sector growing at higher rate which in turn is again feeding in to consumption credit. Credit growth to corporate sector has remain lacklustre, especially in infrastructure segment.

EQUITY MARKET OUTLOOK

JM FINANCIAL
MUTUAL FUND

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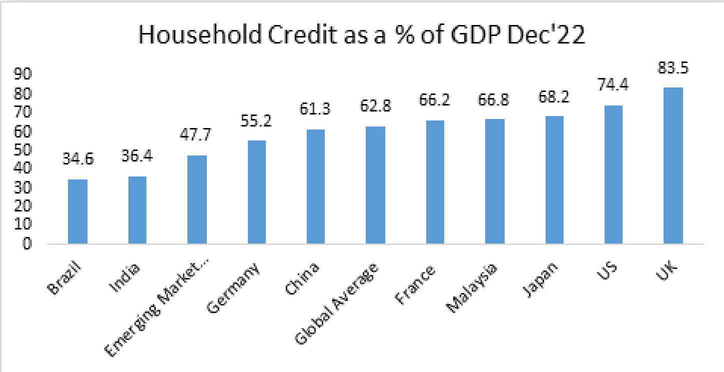


India's household credit to GDP is at 36%, significantly lower than global average of 63% and emerging market average of 48%. It indicates Indian households are lesser leveraged than other countries and have higher potential to borrow.

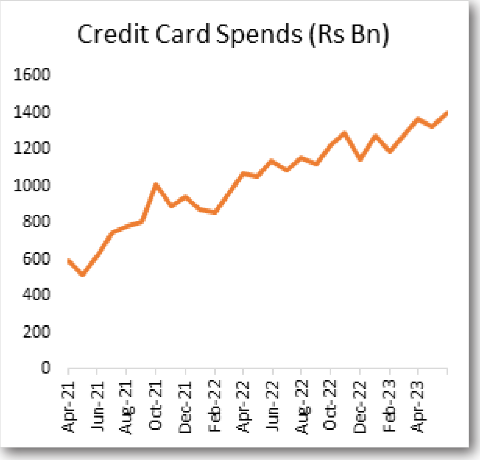
Niche segments like affordable housing finance, small finance banks and microfinance have delivered better loan growth than large private banks, PSU banks and large housing finance companies both in 1 year as well as 3 Year period. Consumer finance companies continue to outperform on growth both in 1 year as well as 3 year period. Fintech companies have grown exponentially in sourcing loans as well collecting insurance premium. Auto finance companies have outperformed in last 1 year, benefiting from cyclical upturn.

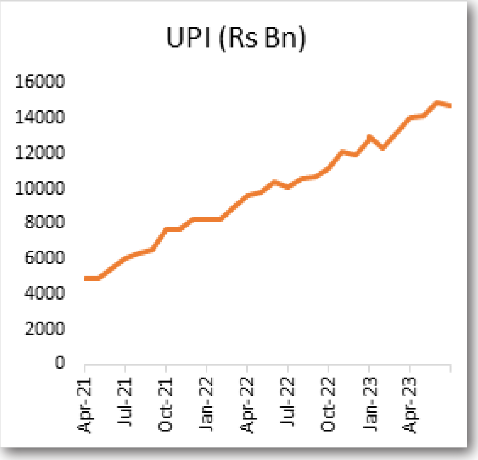
Source: BIS

Rs. in Cr	Loans				Growth (%)	
Private Banks	**FY20**	**FY21**	**FY22**	**FY23**	**YoY**	**3 yrs CAGR**
HDFC Bank	9,93,703	11,32,837	13,68,821	16,61,949	21	19
ICICI Bank	6,45,290	7,33,729	8,59,020	10,19,638	19	16
Axis Bank	5,71,424	6,14,399	7,07,696	8,45,303	19	14
Kotak Bank	2,19,748	2,23,670	2,71,254	3,19,861	18	13
	24,30,165	**27,04,635**	**32,06,791**	**38,46,752**	**20**	**17**
PSU Banks						
State Bank of India	23,25,290	24,49,498	27,33,967	31,99,269	17	11
Bank of Baroda	6,90,121	7,06,301	7,77,155	9,40,998	21	11
Canara Bank	4,32,403	6,39,287	7,03,864	8,30,929	18	24
	34,47,814	**37,95,085**	**42,14,986**	**49,71,197**	**18**	**13**
Large HFC						
HDFC Ltd	4,39,910	4,85,294	5,54,863	6,08,363	10	11
Canfin Homes	20,526	21,892	26,378	31,193	18	15
PNB Housing	66,669	60,687	55,381	57,840	4	-5
	5,27,104	**5,67,873**	**6,36,621**	**6,97,396**	**10**	**10**
Affordable HFC						
Aavas Finance	6,181	7,523	9,053	11,476	27	23
Home First	2,724	3,018	3,817	5,094	33	23
Aptus Housing	2,741	3,432	4,411	5,928	34	29
	11,646	**13,973**	**17,281**	**22,498**	**30**	**25**
MFI/SFBs						
Credit Access	9,173	9,718	14,765	19,043	29	28
Satin Credit Care	4,709	5,515	4,897	5,684	16	6
Equitas SFB	13,728	16,848	19,374	25,799	33	23
Ujjivan SFB	14,044	14,494	16,303	21,290	31	15
	41,654	**46,575**	**55,340**	**71,816**	**30**	**20**
Auto Finance						
CIFC	55,403	65,839	74,149	1,04,748	41	24
MMFS	64,993	59,947	60,445	79,455	31	7
Sundaram Finance	28,045	29,404	28,400	33,755	19	6
	1,48,441	**1,55,190**	**1,62,994**	**2,17,958**	**34**	**14**
Consumer Finance						
Bajaj Finance	1,41,376	1,46,687	1,91,423	2,42,269	27	20
Poonawalla Fincorp	11,175	8,565	10,678	15,229	43	11
SBI Card	23,117	23,766	30,553	39,361	29	19
IDFC Bank	85,595	1,00,550	1,17,858	1,51,795	29	21
	2,61,263	**2,79,569**	**3,50,513**	**4,48,654**	**28**	**20**
Fintech						
Paytm (Loans Sourced)	NA	3,161	7,619	35,378	364	-
PB Fintech (Insurance Premium Sourced)	3,762	4,755	6,975	11,589	66	46

Source: Annual financials of respective companies

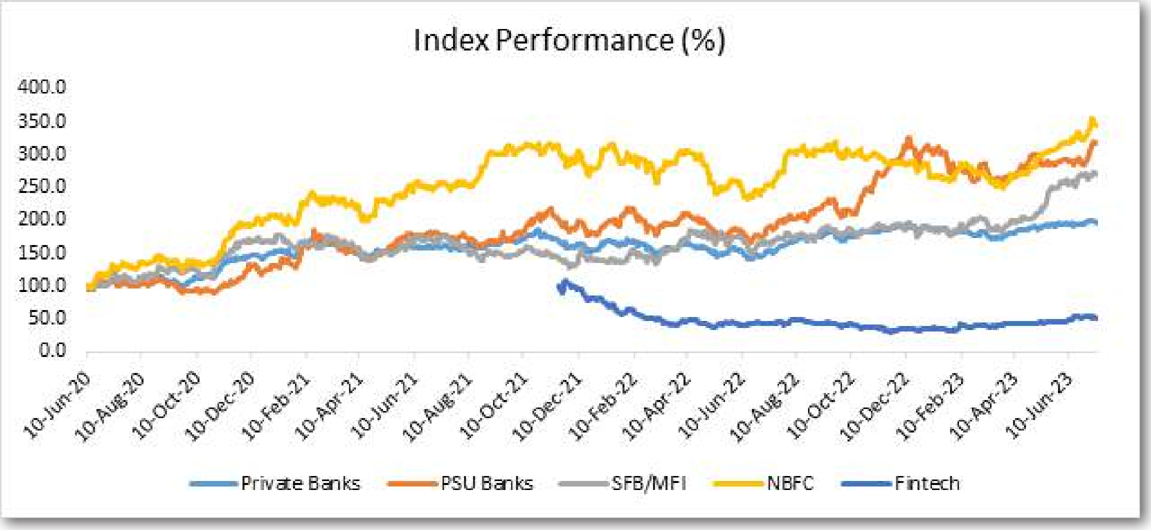
Higher growth in consumer credit is well supported by increased contribution of digital transactions in form of credit card and UPI.





We have internally created Index for SFB/MFI, NBFC and Fintech and compared it against Nifty Private Bank Index and Nifty PSU Bank Index. We observed that SFB/MFI Index & NBFC Index has significantly outperformed Nifty Private Bank Index over last 3 year period, tracking outperformance on loan growth and profitability. PSU Bank Index has delivered better returns, attributable to improvement in asset quality and distressed starting valuations. Fintech have initially corrected post listing on account of valuation concerns, however there is a steep recovery over last 6 months.

Source: RBI, NPCI



Source: Bloomberg, Internal research

Although these are early days and there is no stress as of now, we will be monitoring the progress of loans in this sector carefully. Given the high growth characteristics, we will be adding selectively to our portfolios.