Unsecured loans grow four times the bank credit: Crisil

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'Outstanding unsecured loans should reach about Rs 9.5 lakh crore by fiscal 2021'

CHENNAI, JULY 4

Banks' unsecured loans – where money is lent without the backing of any collateral – clocked a CAGR (compound annual growth rate) of 27 per cent, or almost four times growth in bank credit, between FY15 and FY18.

According to a Crisil Research, as of March 2018, outstanding unsecured loans stood at about Rs 5 lakh crore, accounting for 26 per cent of retail lending, compared with 21 per cent three years ago.

Unsecured credit – comprising personal, small and medium enterprise (SME), and credit card loans – have been growing well over the past few years, riding on a surge in discretionary spending, increased availability of customer data, faster disbursements driven by technology, and reduction in interest rates in some segments.

Return on assets

Given the attractive yields – return on assets is 2.5-3.0 per cent for personal and SME loans, and 3-4 per cent for credit cards, compared with less than two per cent for home loans and new passenger vehicle loans – financiers are expected to maintain a sharp focus on the segment.

However, competitive intensity is increasing and has manifested in the form of lower rates in some segments such as personal loans. In unsecured SME loans, rates have remained sticky, but the average tenure and commission paid to direct selling agents have increased.

Prasad Koparkar, Senior Director, Crisil Research, pointed out that over the next three fiscals, the segment would maintain 24-25 per cent CAGR and the outstanding unsecured loans should reach about Rs 9.5 lakh crore by fiscal 2021.

Asset quality

Asset quality could deteriorate marginally in the near term, especially in unsecured SME lending, because demonetisation and the implementation of the Goods and Services Tax have had a material impact in that space. Gross non-performing assets (GNPAs) in unsecured loans have declined considerably, compared with the double-digit levels seen a decade back.

Financiers have been able to control asset quality – one-year lagged GNPA in unsecured personal loans was about three per cent as of March 2018 – through better risk management practices, greater use of technology, and a sharper focus on cross-selling to existing credit-tested customers. i.e. 85 per cent of personal loans offered by banks are to salaried customers, and 70 per cent of loans are through cross-selling.

In SME loans, pushing small-ticket credit and adoption of technology and data analytics have kept delinquencies low. Besides, lenders are proactively using data from credit bureaus to improve risk assessment and detect frauds.

“Unsecured loans will remain a highly attractive segment for lenders. Successful ones will be distinguished by the ability to cross-sell well, disburse quickly by leveraging technology and maintain robust underwriting and risk management practices, felt Ajay Srinivasan, Director, Crisil Research.

Going forward, lenders need to remain watchful and disciplined in credit underwriting because unsecured loans are vulnerable to economic downturns and liquidity squeezes.

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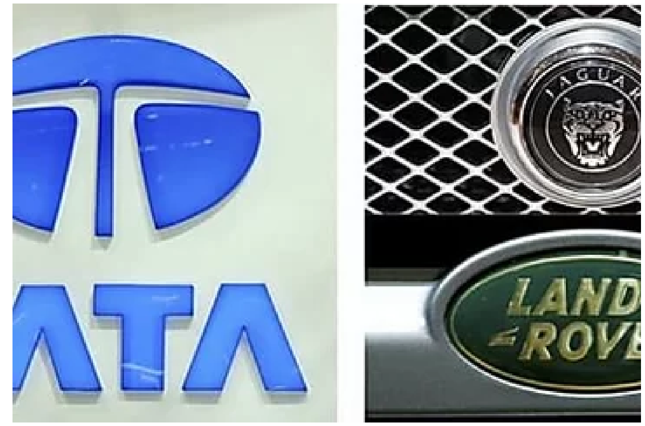

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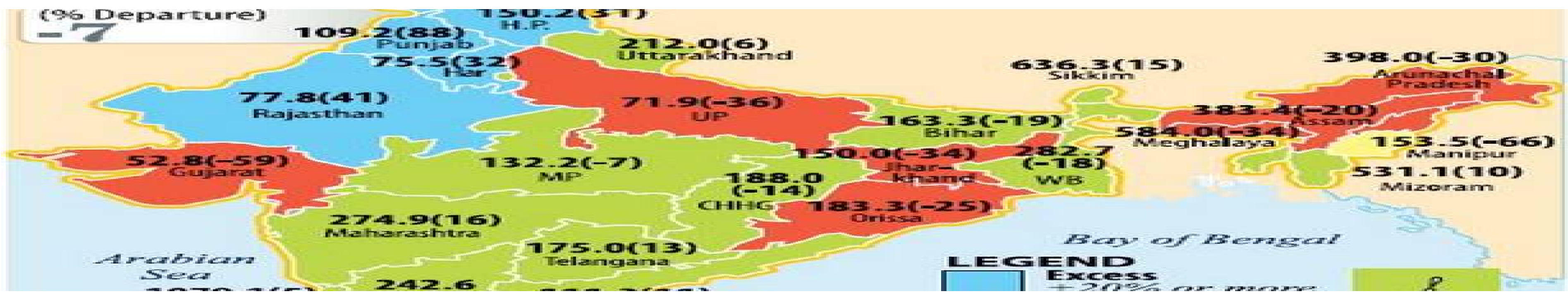

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