

Consumer Finance: There's strong opportunity for growth

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At BAF, we expect strong loan growth, op. leverage gains, and stable credit costs to drive 37% EPS CAGR over FY17-20e, which should support its premium valuation.

Consumer finance offers a large growth opportunity and while competition is intensifying in this segment, we believe only a few focused firms will be able to scale up given strong entry barriers, high opex intensity and long gestation period required to

achieve critical mass and break even. We believe BAF should be able to maintain dominance and deliver strong loan growth in this segment. Retain Buy on BAF; Hold on CAFL

An attractive growth opportunity

Favourable structural factors, low finance penetration, shortening product cycle, availability of easy financing option and increasing willingness to take credit should drive growth in this segment. Finance penetration in consumer durable segment is estimated around 20-22%. Consumer loan accounts for almost one fifth of new loan accounts opened.

Intensifying competition

Banks are getting more aggressive on retail credit and consumer financing segment. Banking sector consumer durable (CD)/personal loans (₹5.6 trillion) grew 41% y-o-y and its share of retail loans have increased to 31% in Jan 18. HDFC Bank (Buy) and its subsidiary HDB have been most aggressive. Most other banks are targeting the segment through credit card/cash back route; that too is primarily limited to their existing customer base.

Channel feedback

Banks are restricted from offering zero interest financing on CD loans, but they are offering these through cashback/discount route. Our visits indicated that HDFC Bank was offering longer tenure loan, usually no processing fee, but with down payment. Also, its existing credit cardholders could avail up to 6 month zero cost financing. BAF had a small processing fee, but no down payments for shorter tenure loans. Anecdotal feedback from few CD retail chain units in Mumbai suggest 20-25% of consumers prefer financing, of which more than half opt for BAF, but HDFCB/HDB are gaining traction as well.