

Crisil report: Unsecured loans growing faster than bank credit

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Unsecured loans in the banking system grew at a rate four times that of overall growth in bank credit over the last three years, says a report by analysts at Crisil Research. Between FY15 and FY18, unsecured credit – comprising personal, small and medium enterprise (SME), and credit card loans – clocked a compound annual growth rate (CAGR) of 27%, according to a report by the ratings agency issued earlier this month. At the end of March, outstanding unsecured loans stood at close to Rs 5 lakh crore, constituting 26% of all retail loans, up from 21% at the end of FY15. If SME loans were to be excluded from the calculation, unsecured loans to consumers accounted for an all-time high 32% of all bank lending to consumers, as per a note by investment bank Jefferies.

Much of the growth is being led by mid-sized private lenders, such as Kotak [Mahindra](#) Bank and IndusInd Bank and comes on the back of the comfort provided by data from credit bureaus. PK Gupta, managing director (retail and digital banking), State Bank of India (SBI), said data from bureaus have helped lenders identify ideal customers for unsecured loans. “One of the reasons for this growth you see is because the credit bureaus which offer the relevant data based on salaries and other details,” he said, adding that yields from unsecured retail loans could range between 1.5% and 4% higher than secured loans, depending upon the credit rating of the borrower.

Competition in unsecured lending has also heated up a good deal in recent years. Paresh Sukthankar, deputy managing director, HDFC Bank, told analysts as much earlier this year. “So clearly, competitive intensity in most retail products has increased because, I guess, many banks who traditionally were not so active on retail, perhaps on the rebound from the wholesale business for them not growing as fast or maybe because they just are now looking to grow their retail books more than they had in the past,” he said, adding, “So it’s been competitive both from a rate perspective, from a payout perspective.”

So far, lenders have been able to maintain a grip on asset quality. The one-year lagged gross non-performing asset (GNPA) ratio in unsecured personal loans was around 3% as of March 2018. However, analysts are concerned about the jump seen in lending to new-to-credit borrowers. The December quarter of FY18 saw new-to-credit borrowers shoot up 59% year-on-year (y-o-y), according to the Jefferies note.

SBI's Gupta said the bank has seen low levels of delinquency in its unsecured retail portfolio as it has tapped into its existing base of deposit-holders for business. "We actually do not have a lot of customers from outside. Some of them may be new borrowers, but they are not new to the bank," he said. That might be true for much of the industry, as 85% of personal loans offered by banks are to salaried customers, and 70% of them are originated through cross-selling.

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