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Lenders bank on personal loans to grow retail books

BY SHAILESH MENON, ET BUREAU | MAR 22, 2019, 07:23 AM IST

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Personal loans have become one of the most sought-after products for banks and new-age lenders. These unsecured advances have rolled up to a record Rs 3.5 lakh crore on the 'lending book' this fiscal, data sourced from top credit bureaus showed.

Personal loans (PLs) are non-collateralised advances, made available to a borrower at higher rates for personal use. These are usually offered to salaried individuals with a reasonably good credit score and repayment capabilities.

"Personal loan books have never grown to levels as it is now... It's kind of a record book-size currently," says Ramadasu Bandaru, AGM, [CARE Ratings](#).

"Lenders do not prefer to give loans to corporates anymore. Every lender is trying to grow their retail book aggressively now – and this is where PLs come handy. Lenders have to simply check the credit history of a prospective borrower before handing out these small, short-term loans," he explains.

PLs help improve net interest margins of lenders. These unsecured loans are offered to borrowers at rates ranging between 12% to 24% per annum. A few NBFCs and new-age fintech companies (that specialise in shortterm, small-ticket loans) are known to charge up to 26% while lending money to borrowers with low credit scores.

"These are typically consumption-driven borrowings... People take personal loans for anything – right from marriage to acquiring an asset or redoing their houses," says Ambuj Chandna, who heads the consumer assets vertical of [Kotak Mahindra Bank](#).

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Private banks keep the chunkiest of PL books while PSU banks and NBFCs are trying to expand the segment by spreading out to smaller towns and even villages. As of September 2018, private banks such as Kotak, HDFC and ICICI collectively hold close to `1.45 lakh crore worth of PLs, while PSU banks and NBFCs nurture a PL pool of over `2 lakh crore.

"Personal loan is one of the fastest growing segments for us too," Chandna admits.

"A large portion of our book comprises loans given to our existing customers. It's easy for us to give loans to existing customers as we've enough data on their banking habits," says Chandna.

The use of "in-house data" (available with lender in the case of existing customers) and inputs from credit bureaus have helped lenders ramp up their PL books. Tech-savvy lenders analyse the creditworthiness of a borrower by "fitting" them in system-driven lending models built using data. New-age lenders like [Home Credit](#), an NBFC specializing in consumer durable loans and personal loans, also runs

checks on social networking sites to gather "transactional and behavioural" data of prospective customers.

"For personal loans, we use a lot of automated decision making tools to arrive at the creditworthiness of a borrower... We also eye-ball specific cases," admits Chandna.

Rising use of tech-driven, decision-making tools has reduced the turnaround time (TAT) for personal loans. While PSU banks are able to disburse PLs in 48 hours, private banks and established NBFCs close such deals in about 24 hours. New-age lenders – mostly operating in online space – are able to ascertain the "quality" of borrowers and pay out these loans in four to eight hours. Average ticket sizes of PLs range between Rs 2 lakh to Rs 5 lakh – for a period of three to five years.

"But most of the time, borrower repays PLs before term... In majority of the cases, PLs offered for 3 years come back in 15 to 18 months," says Ravi Agarwal, head of wholesale lending at Rattan India Finance, a non-bank lender that commenced business a few months ago.

"Most lenders only offer PLs to salaried individuals... In our case, we only lend to individuals working with large employers. We use filters to weed out sectors (industries) that are not doing well... We stay away from borrowers who work in small companies, which are facing sectoral headwinds," Agarwal explains.

Default rates in personal loan books are well within manageable limits for most lenders operating. Of the Rs 47,500 crore worth PLs disbursed by NBFCs in FY18, only 2.6% are 90 days past the due date (90+ DPD). The unit 90+DPD implies that the borrower has missed payments on a loan for three months or 90 days. Private banks and PSU banks – which have disbursed close to Rs 1.24 lakh crore each in FY18 – logged a little over 1% and 4% (90+DPD) respectively.

"As of now, we do not see a bubble in PL books of key lenders," says Ramadasu of CARE Ratings. "PL pay-outs will come back to lenders as these are mostly given to salaried employees. There's no need to worry at the moment," he affirms.

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