Banks eye retail loans to boost business

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But overexposure to the category may spell trouble when the economy is showing signals of downturn in certain sectors

Most banks are now piggybacking on retail segment loans for business growth, while being cautious on other segments such as corporates.

The share of retail lending in total advances has crossed 50 per cent, and is expected to go up further for the top three private banks as well as a few public sector banks, as per the first quarter numbers released by several lenders.

The domestic loan book is being driven by the retail business for most banks.

For ICICI Bank, retail loan growth was 22.4 per cent in the quarter ended June 30, 2019. In the total domestic advances, retail now accounts for 61.4 per cent for the bank.

Including non-fund-based outstanding, the share of retail portfolio was 48.5 per cent of the total portfolio at June 30, 2019, compared to 46.9 per cent at March 31, 2019. Among the retail segments, home loans, with a share over 50 per cent in total retail portfolio, grew 19 per cent for the bank.

According to information provided by HDFC Bank, the domestic loan mix between retail and wholesale was 54:46 (as per Basel II classification).

Retail loan growth was at 16.5 per cent. With a 22 per cent year-on-year growth, Axis Bank, too, has a 52 per cent share of retail advances in total advances.

The growth in retail advances outpaced domestic loan growth, which was at 19 per cent for Axis Bank.

Public sector banks are also no exception. Punjab National Bank, too, witnessed a 22 per cent growth in retail lending at ₹91,248 crore, which was also driven by 29 per cent growth in home loans. The same trend is also seen in other banks, including Bank of Baroda.

State Bank of India, which is yet to announce the first quarter results of the current financial year, has also been witnessing steady growth in retail advances.

In FY19, credit growth in retail was 18.52 per cent, against 13.55 per cent in the previous financial year.

Macroeconomic concerns

While the increase in retail loans might augur well for banks in the short term for their earnings, there could be macroeconomic concerns over gross capital formation in the economy. As per data available with the RBI and the Ministry of Finance, the credit flow to industries such as textiles, petroleum, coal products, nuclear fuel, basic metal, and metal products has been on the decline. Eventhough corporate credit off-take appears to be going up for a few banks, the distribution was uneven as banks are being cautious. As bank credit is the main source of credit flow to the industrial sector, its substitution by retail lending may lead to certain issues.

Overexposure to retail loans could also mean trouble when the economy is showing signals of downturn in some sectors, as it could reduce the repayment ability of retail loan consumers in the long run.

However, there is no immediate concern for banks on the safety of the retail portfolio. “Our approach to retail credit is based on assessment of risk across customer segments and portfolios and product categories in a granular manner,” Sandeep Bakhshi, Managing Director and CEO, ICICI Bank, said during a recent earnings call.

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personal loans

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COMMENTS