FORTUNA PR

Business Line

CIRRUS

Mon, 22 Apr-24; Business Line - Chennai; Size : 610 sq.cm.; Circulation:66902; Page : 8

LIVING IN BORROWED TIMES

Why retail loans remain unstoppable

PIQUE INTEREST. Banks are lending more than ever, including unsecured credit, even as the RBI moves to curb overreach

K Ram Kumar

Bank loan offers are flooding customers via SMS, WhatsApp message, email, calls, and advertisements, promising to meet every kind of need — from home and vehicle purchase to education and wedding expenses. And they are finding plenty of takers too.

Retail or personal loans, as classified by the regulator, have grown by leaps and bounds in the last decade to become the banking sector's single biggest loan segment. And nothing can seemingly dampen this either, not even a rise in lending rates after the repo rate was hiked by 250 basis points between May 2022 and February 2023, and the enhanced risk-weights on unsecured loans.

The segment has grown 18.1 per cent year-on-year as on February 23, 2024. This would have been 28 per cent, if adjusted for the impact of the HDFC-HDFC Bank merger.

Yet, here's the catch. During the same period last year, the growth was 20.6 per cent. So, is the base effect catching up?

According to Sanjay Agarwal, senior director, CARE Ratings, the base effect is at play in the case of personal loans. "FY21 and FY22 were slack years due to Covid. So, relatively, FY23 was a hyper-growth year. A part of the catch-up in credit growth happened in FY24 also.

But that, by no stretch, means bad news for the sector.

"Only the base effect would have pulled down the growth in percentage terms for personal loans. But on an absolute basis, personal loan growth is still high. Things look good. We don't see any cause for concern," Agarwal reaffirms.

ALL-TIME ASSET. Loans against gold were untouched in the RBI's latest attempt to rein in bank credit ISTOCK.COM

RETAIL POWER

From September 2021 to September 2023, retail loans saw a compound annual growth rate (CAGR) of 25.5 per cent, higher than the headline credit of 18.6 per cent, according to the RBI's Financial Stability Report (FSR). Share of retail lending in gross advances increased to 42.2 per cent from 37.7 per cent during this period.

Unsecured retail loans, in particular, grew faster, up 27 per cent from September 2021–23, commanding a share of 23.3 per cent in total retail loans or almost 10 per cent of total bank credit.

TIGHTER NORMS

Agarwal says the personal loan segment is still the fastest growing for banks. Therefore, while the swelling base-effect could see retail loans hitting the slow lane in FY25, in absolute terms the overall growth is anticipated to be robust despite the RBI's attempt to curb the exuberance towards certain loan segments by annoucing macro-prudential measures in November 2023.

Given the disproportionate explosion of unsecured retail loans, the RBI had increased the risk weight by 25 bps each for certain categories — namely consumer credit; consumer credit exposure of non-banking finance companies (NBFC); credit card receivables of scheduled commercial banks (SCB) and NBFCs; and exposure of SCBs to NBFCs. Certain asset-generating retail products such as housing loans, education loans, vehicle loans, and loans secured through gold and gold jewellery were untouched.

RBI Governor Shaktikanta Das, in his foreword to the FSR, noted that increasing risk weights underlines the central bank's commitment to preserving financial stability without compromising the availability of funds for economic productivity.

The question is whether this is reflecting in the growth of unsecured loans as intended.

"Sentiments were impacted, especially in November, December 2023 and January 2024 after the new risk weights took effect. So, this did pull down growth in the personal loans segment to an extent. But beyond that, the sector is very robust. Banks will not stop business for the sake of capital," explains Agarwal.

Banks loaded their interest rates by 50-75 basis points on select unsecured loans, following the increase in risk weights. "We didn't find an immediate impact on loan growth in the subsequent month or until February 2024. Now, if one were to look at month-on-month data you will notice a gradual reduction in the pace of growth," says the CEO of an NBFC catering to retail borrowers. Yet, the category is unlikely to become a headache for banks, whether due to asset quality or capital adequacy.

Despite the sharp growth in retail lending, the FSR emphasised that the underlying asset quality in retail loans has improved.

UNSECURED AND STELLAR

The gross non-performing assets ratio of retail advances improved to 1.6 per cent in September 2023 from 2 per cent in September 2022, while special mention accounts or SMA (1 and 2) ratio rose marginally from 2.7 per cent to 2.8 per cent during this period. SMAs are tracked for incipient signs of stress in portfolio.

What's surprising is the stellar quality of unsecured loans. Gross NPA of unsecured retail advances improved to 2 per cent in September 2023 from 2.5 per cent a year ago. In the next 4–8 quarters it remains to be seen whether the portfolio stays healthy despite the moderation projected. That will indicate whether loan growth is keeping quality intact, or the portfolio is good by itself.

Agarwal is also confident that the capital requirements of banks may not change much because of the new risk weight norms.

"Today, the banking sector has no challenge on the capital front. Return on equity is measured on balance sheet capital, not on the regulatory capital. While optimising the regulatory capital, the focus will be on maximising balance sheet capital."

Given the high growth-high yield nature of retail loans, banks will focus on them even if the regulatory capital requirement is higher. "Today, there is enough regulatory capital in the sector," Agarwal says.

Rating agency ICRA anticipates credit growth to moderate to 11.6-12.5 per cent in FY25, as against 16.3 per cent in FY24, amid challenges in mobilising deposits, high interest rates and the increase in risk weights. Yet, bankers and industry experts insist there is no slowdown in the new fiscal, but rather a consolidation of gains in the retail segment.