CreditScape

A Publication On Credit Landscape
Vol VII - PERSONAL LOANS

CRIF

Together to the next level

INFORMATION. ANALYTICS . SOLUTIONS

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Introduction

Among the various retail asset products, personal loan (PL) has seen some of the most dramatic changes in terms of the product design and customer segment. PL has also witnessed most of the disruption caused by the FinTechs and the adoption of technology by incumbent lenders.

Some notable PL trends in recent years have been:

- Number of PLs sourced per year has nearly tripled, observed at the end of FY 2020. Lenders are focusing on customer acquisition with the hope of moving up the value curve over a period of time.
- NBFCs and neo-age lenders or FinTechs are increasingly targeting young, low income, digitally savvy customers who have small ticket and short-term credit needs and no or limited credit history – customers who are generally avoided by the incumbents because of their high perceived risk.
- Small Ticket PL (STPL) are considered as personal loans of ticket size <₹50K and have been observed to drive volumes by as much as 162% Y-o-Y, as of Mar 2020.
- More than 50% of volume share in STPL is of 0-5K segment, as of Mar 2020 - a strong indication that concept of checkout finance and pay day loan is catching up (PL for convenience).
- In FY 2020-21, COVID-19 disruptions have resulted in curbed lending by financiers who were earlier steering the volume growth of the PL market. Incumbents with deeper roots in Tier II and III geographies –under relatively lenient lockdown, have shown more resilience towards the pandemic induced stress.

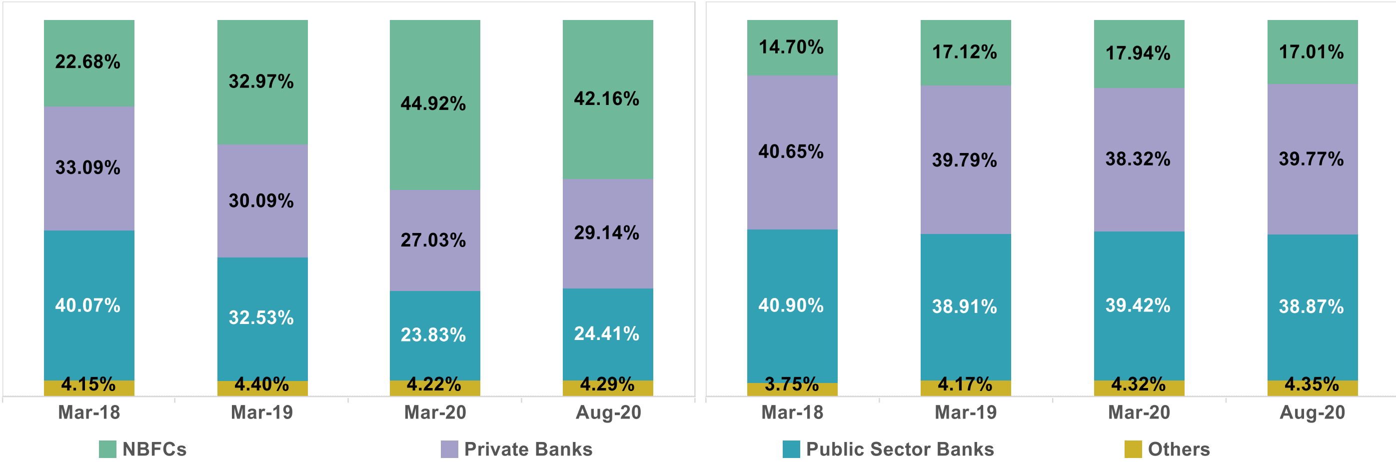
Industry Growth

	Mar-18	Mar-19	Mar-20	Aug -20
Portfolio Outstanding (Cr)	2,85,961	3,99,092	5,04,792	5,07,684
Growth in Portfolio Outstanding	41.08%	39.56%	**26.49%**	**0.57%**
Active Loans (Lakh)	140	201	320	315
Growth in Active Loans	23.80%	44.16%	**58.89%**	**-1.5%**
Avg. Ticket Size(K)	281	271	222	230
Balance Per Loan (K)	205	198	158	161
Amount Delinquency 31-180 %	2.07%	2.07%	2.51%	2.02%
Loan Delinquency 31-180 %	**2.79%**	3.24%	**5.55%**	**5.13%**
Amount Delinquency 91-180 %	0.52%	0.51%	0.78%	0.61%
Loan Delinquency 91-180 %	**0.91%**	1.15%	**2.59%**	**2.64%**

- As of Aug 2020, the personal loans book stood at ₹5,07,684 crore, having grown by only 0.57% over Mar 2020 due to COVID-19 disruptions. In the last 2 years, the PL book has grown by around 40% annually, which dropped to a sluggish annual growth of only 26.4% as of Mar 2020.
- As of Mar 2020, active loans have grown rapidly, at nearly 60%, much faster, compared to previous years. COVID-19 has impacted the originations in the five months of this fiscal year, with a minor degrowth in the active loans.
- While there is growth in the portfolio, the average ticket size has reduced continuously over the last 2 years, reducing by 18% Y-o-Y by Mar 2020. As of Aug 2020, the average ticket size increased by 5% over Mar 2020.
- Amount delinquencies for 31-180 DPD and 91-180 DPD have increased by 44 bps and 26 bps respectively, while loan delinquencies have increased by 2X in the last 2 years, as of Mar 2020.

Competition Landscape

Portfolio Market Share (by Volume) | Portfolio Market Share (by Value)



- ❑ In terms of volume, NBFCs continue to grow and have doubled their market share in the last 2 years, observed at FY 2020 end. Their current market share as of Aug 2020 is 42%. Public sector banks and Private banks have lost significant volume share over the last 2 years.
- ❑ In terms of value market share at the end of FY 2020, there is no significant shift in the last 2 years for NBFCs. Public sector banks continue to dominate the personal loans landscape by value, with a share of nearly 40% as of Aug 2020, offering credit to their captive customer base, including in tier II and III geographies.

NBFCs including FinTechs are doing more and more small ticket personal loans business, offering a variety of personal loans to customer segments who may not qualify for personal loans via traditional lenders as well as tailored offerings to the changing preferences of customers. This helps in expanding their borrower base rapidly and provides cross-sell opportunities for other financial products & services.

Growth of FinTechs in India

India is currently the world's second largest FinTech hub preceded by the US, attributable to the significant growth of the FinTech industry in India in the last 5 years. The overall transaction value in the Indian FinTech market is estimated to go up steeply from around $66 bn in 2019 to $138 bn in 2023[2], growing at a CAGR of 20%. Over a 100 digital payments FinTechs were founded in India in 2015 and 2016 each, which reduced by 2019.

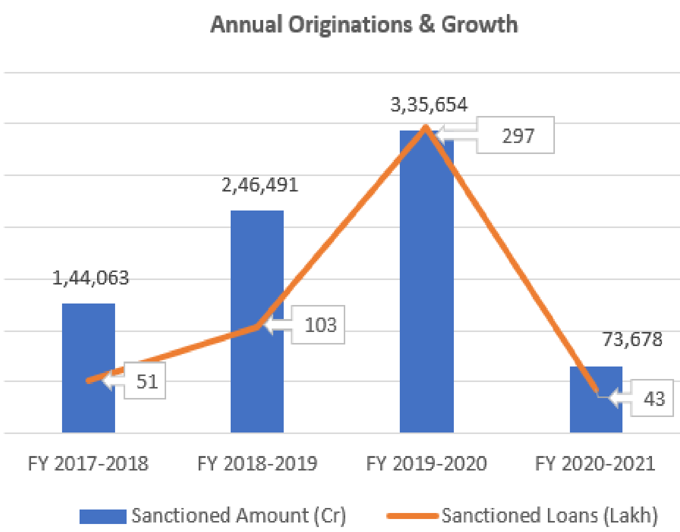
In India, Government and regulatory support along with rapidly evolving technology and sustained funding, have been catering to the unmet needs and changing consumer behaviour towards fast and convenient digital modes of credit, in turn driving the FinTech market.

Peer to Peer (P2P) Lending

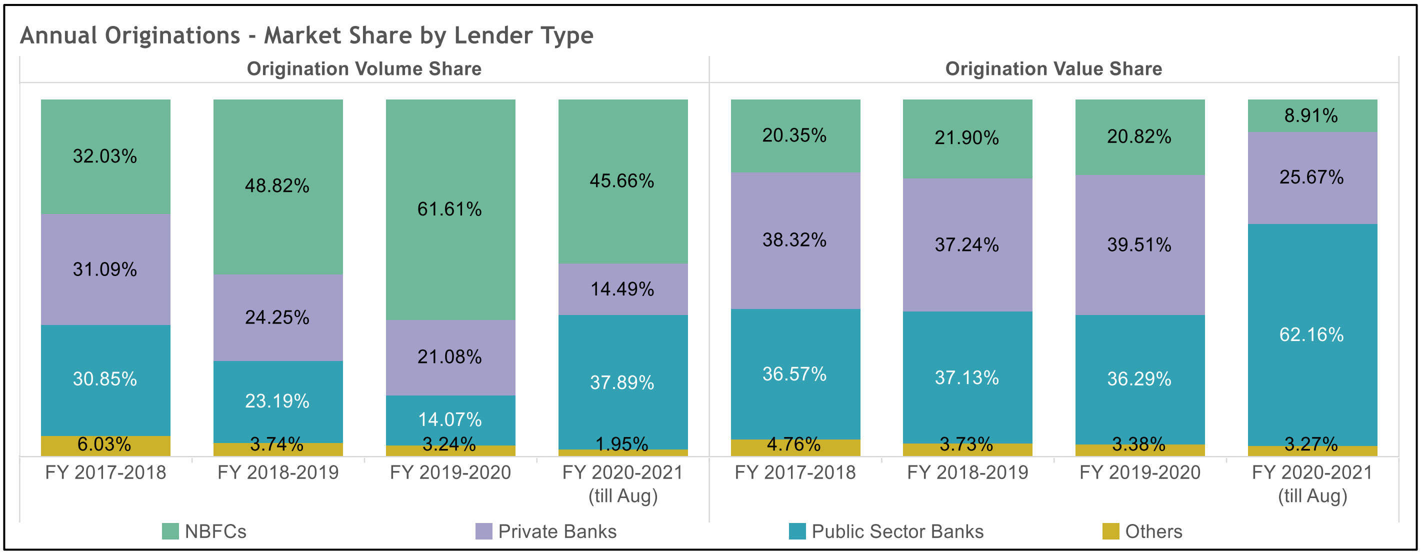
The Indian lending landscape in the recent years has seen a rising focus on alternative lending models. Alternative lending platforms are bridging the demand supply gap in credit by focusing on new customers and digitising the credit underwriting and disbursement processes. Supporting infrastructure and polices, rising internet penetration and increase in general customer awareness has resulted in the launch of several innovative lending business models. One such model is the P2P lending which aims to provide a marketplace that connects individuals in need for credit with individuals and institutes willing to lend their excess funds.

In August 2017, the RBI classified all the P2P lending sites as NBFCs. Currently, the P2P lending space in India has more than 30 players. Although nascent, the future of P2P lending looks promising with experts estimating the P2P lending industry to touch $5 billion by 2023[3]. Many P2P lenders are also actively seeking membership of credit bureaus to perform credit assessment of borrowers and also report the performance of the borrower.

Loan Disbursal Trends



- Annual originations by volume in FY 2019-20, increased Y-o-Y by 140% and by value at 47%.
- Annual originations (by volume) of <50K and 50K-1L in FY 2019-20 have seen an annual growth of 185% and 56% respectively.
- Annual originations (by value) of 3L-5L and 5L+ in FY 2019-20 have grown Y-o-Y by 23% and 61% respectively in FY 2019-20.
- Impacted by COVID-19 pandemic, overall PL originations in FY 2020-21 till Aug stood 50% lower in volume than originations in the same period previous year.



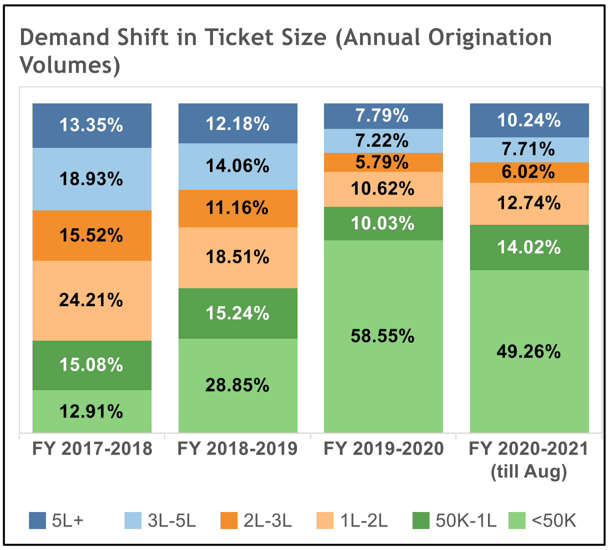
NBFCs have continued to focus on volumes, with nearly 2X growth in the share in disbursements from FY 2017-18 to FY 2019-20.

- In terms of value, NBFCs have a relatively lower share of 20.82% in originations in FY 2019-20, as a result of disbursing small ticket sized loans through attractive onboarding offers and rewards and easy repayment options to acquire customers.
- Public sector banks and private banks, largely disbursing high value personal loans or pre-approved loans to other customer segments who may not be banking with NBFCs, have a larger share in the amount of disbursements.

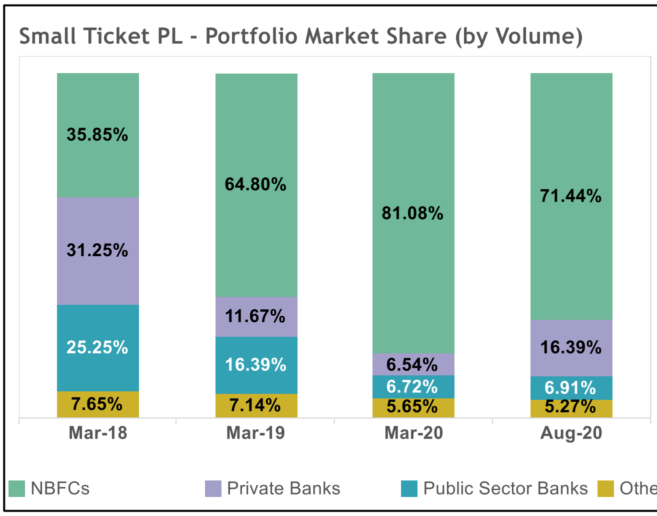
Impacted by the COVID-19 pandemic and the lockdown, share of NBFCs & Private Banks in originations in FY 2020-21 till Aug has reduced, while that of Public sector banks has increased.

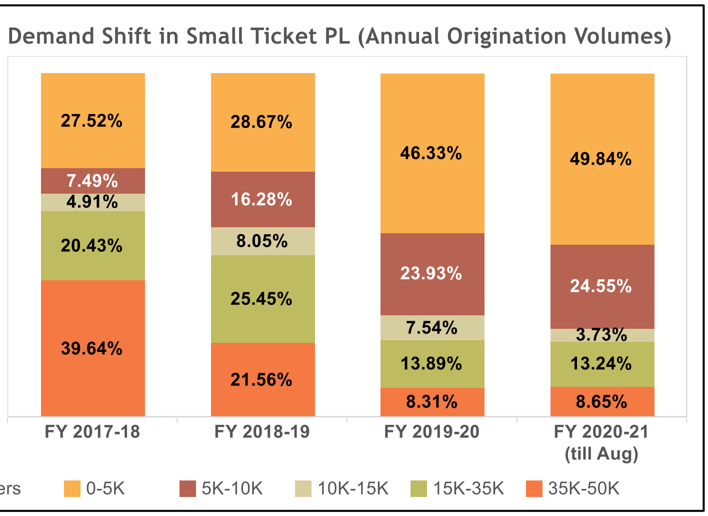
Loan Disbursal Trends by Ticket Size

Traditional and neo-age lenders are constantly innovating in order to meet the rising demand of India's young generation by providing instant small-value loans, attractive repayment schemes and quick disbursals, with NBFCs and FinTechs in the forefront of this change.



- ❑ Over the years, there has been a visible shift in the credit behaviour of PL customers, with borrowers moving from a need-based demand to convenience-based demand e.g. checkout financing.
- ❑ The share of PLs of <50K ticket size is nearly 5X in a span of 2 years, observed at FY 2020 end.
- ❑ The STPL market as of Aug 2020 stands at ₹12K crore, having grown 77% Y-o-Y at the end of Mar 2020.
- ❑ By volume, the Y-o-Y growth stood at 162% as of Mar 2020 with loan delinquency (91-180 DPD) increasing to >2X over the previous year.



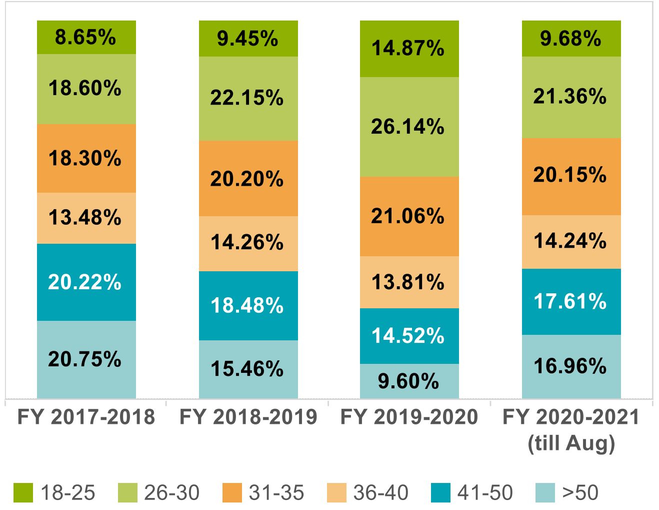


- ❑ NBFCs drive a large part of volume growth in the STPL, having increased their share from 36% as of Mar 2018 to 81% as of Mar 2020, with the top 3 NBFCs alone constituting nearly 57% of the market share by volume as of Mar 2020. Loans of <15K are dominated by NBFCs with the top 3 NBFCs alone constituting nearly 70% of the volume share as of Mar 2020.
- ❑ The COVID-19 pandemic has impacted the NBFC book with their volume share reducing by 9% as of Aug 2020. The incumbents have been more resilient with an increase in volume share of STPL during peak months of the pandemic.
- ❑ Nearly 50% of the loans disbursed in STPL in FY 2020-21 till Aug are in the 0-5K segment, with high repayment stress, largely attributable to the defaults in NBFC book.

Loan Disbursal Trends by Age of Borrower

- Personal loans demand is largely being driven by millennials and young borrowers in the age group 18-30 years with an increase in share from 27% to 41% in annual originations in the last 2 years.
- Borrowers <35 years have been the most active in borrowing STPL with an increase of 12% in volume share in annual originations in the last 2 years.
- Mature customers >36 years, with greater stability in their incomes to afford other forms of secured loans such as home loans, vehicle loans etc. have been observed to demand lower proportions of personal loans in their credit portfolio.
- However, in FY 2020-21, disruptions due to COVID-19 have led to an increase in share of mature borrowers, while youngers borrowers have demanded lower volume of PL.

Demand Shift in Borrower Age (Annual Origination Volumes)



Observed over the last 3 years, NBFCs have continued to focus on lending to millennials and young customers under the age of 35 with a constantly increasing share in annual originations. These borrowers also have a large role to play in the steep growth of small ticket personal loans market in India.

However, the pandemic has been observed to have had a reverse effect on borrowings with increasing proportion of >35 years borrowers in originations in FY 2020-21 (till Aug).

Annual Sourcing Volume - Credit Score & Borrower Age

	Mar-20						Grand Total
	18-25	26-30	31-35	36-40	41-50	>50	
Very Low Risk	33.36%	36.14%	38.87%	41.76%	46.82%	55.39%	40.82%
Low Risk	26.65%	26.48%	25.21%	24.32%	22.38%	19.23%	24.40%
Medium Risk	8.59%	9.31%	9.44%	9.28%	9.29%	8.89%	9.15%
High Risk	22.40%	18.47%	16.86%	15.66%	14.41%	11.60%	17.11%
Very High Risk	9.00%	9.59%	9.62%	8.98%	7.10%	4.89%	8.52%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Annual Sourcing - Volume Delinquency (Loans 91-180 DPD)

	Mar-20						Grand Total
	18-25	26-30	31-35	36-40	41-50	>50	
Very Low Risk	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Low Risk	0.36%	0.20%	0.17%	0.13%	0.11%	0.05%	0.17%
Medium Risk	6.60%	3.62%	2.97%	2.63%	1.87%	0.64%	2.94%
High Risk	21.00%	14.44%	11.92%	10.15%	7.94%	5.13%	12.87%
Very High Risk	27.05%	23.01%	20.84%	17.91%	14.56%	8.21%	19.85%
Grand Total	7.88%	4.81%	3.88%	3.15%	2.25%	1.05%	3.83%

Each borrower in the bureau is categorized into risk tranches (based on their credit scores) of ‘Very Low Risk’ to ‘Very High Risk’. Due to COVID-19 disruptions in originations, credit score-based trends are analysed over FY end.

- In the millennials segment (18-25 years), 22% of the annual sourcing by volume was to High Risk borrowers, which also had high loan delinquency of 21% as of Mar 2020.
- The Very High Risk borrowers yielding highest defaults at 27% as of Mar 2020, had a relatively smaller share of 9% in the annual sourcing volume.

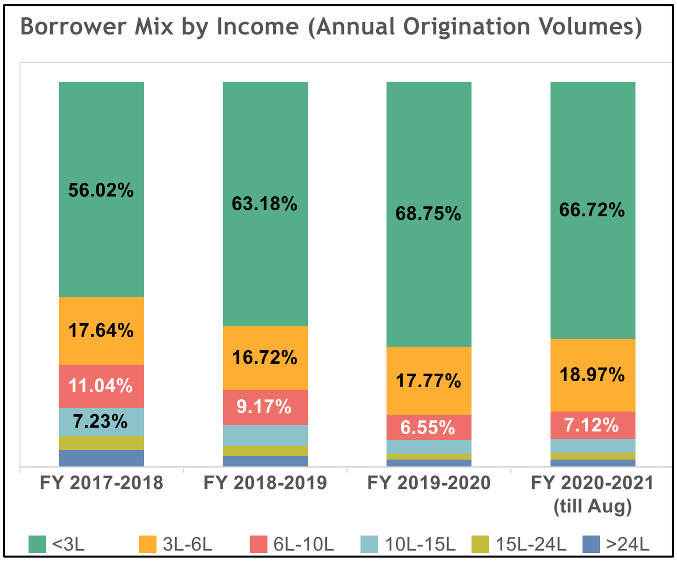
Loan Disbursal Trends by Borrower Income

Borrower income is one of the primary determinants of eligibility of a borrower for a personal loan. From high salaried borrowers to low income groups, financial institutions customise their personal loan offerings to include a vast income category of borrowers, qualifying other eligibility criteria such as age, credit score, work city etc.

- The proportion of loans disbursed to <3L annual income segment borrowers has continued to grow over the last 3 years, having reached 69% in originations in FY 2019-20. The share remained high at 67% in FY 2020-21 till Aug.

- Traditionally, lenders have preferred to give personal loans to salaried individuals with a healthy fixed obligations to income ratio, as their repayment capacity is good.

- The share of NBFCs in annual originations to borrowers with <3L annual income has continued to increase from 53% as of Mar 2018 to 86% as of Mar 2020, reducing only marginally to 78% as of Aug 2020.



Note: Observations on borrower income-based trends are based on approx. 36% of the overall personal loan borrower base for whom this data point is available in the credit bureau.

Inorganic growth has been observed in volume of loans to low income borrowers. This is disruptive from a customer acquisition standpoint, though also may impact the credit discipline of borrowers as observed in the defaults.

Annual Sourcing Volume - Credit Score & Borrower Income

	Mar-20						Grand Total
	<3L	3L-6L	6L-10L	10L-15L	15L-24L	>24L	
Very Low Risk	29.72%	27.23%	36.84%	39.34%	40.24%	41.59%	40.82%
Low Risk	26.66%	23.76%	24.40%	22.84%	23.01%	22.89%	24.40%
Medium Risk	9.95%	10.52%	10.75%	10.71%	10.74%	10.82%	9.15%
High Risk	21.45%	23.18%	16.65%	15.87%	15.57%	14.86%	17.11%
Very High Risk	12.22%	15.31%	11.36%	11.24%	10.45%	9.84%	8.52%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Annual Sourcing - Volume Delinquency (Loans 91-180 DPD)

	Mar-20						Grand Total
	<3L	3L-6L	6L-10L	10L-15L	15L-24L	>24L	
Very Low Risk	0.01%	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%
Low Risk	0.26%	0.27%	0.08%	0.05%	0.05%	0.04%	0.17%
Medium Risk	4.64%	3.05%	0.87%	0.59%	0.93%	0.43%	2.94%
High Risk	13.54%	11.79%	4.21%	2.67%	4.07%	2.26%	12.87%
Very High Risk	23.06%	21.40%	13.20%	9.89%	9.93%	8.59%	19.85%
Grand Total	5.96%	5.73%	1.97%	1.41%	1.60%	1.13%	3.83%

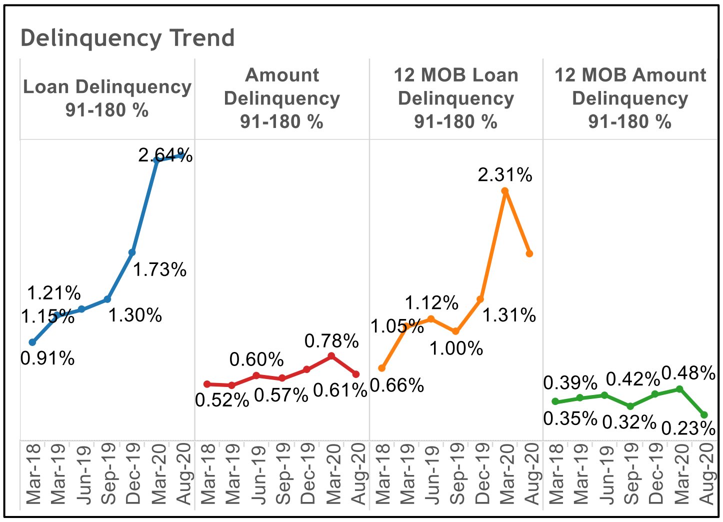
Higher the income of borrowers, higher is their share in annual sourcing of personal loans to the Very Low Risk category of borrowers. Observations are made on portfolio as of Mar 2020 to study the originations and portfolio performance, due to COVID-19 induced disruptions and the regulatory guidelines impacting business and data flows to the credit bureau.

- The volume delinquencies (91-180 DPD) for borrowers with low income of <6L stood at nearly 5X that of higher income borrowers.

- For <3L income and Very High Risk borrowers, volume delinquency stood at 23% as of Mar 2020.

Delinquency Trends

Is the growth coming in at the cost of increasing risk? Prima facie, the risk trends reveal a deterioration in the risk profile of the personal loan book. However, the stress at an overall level is still low and within segments is significantly different due to varied target segment in terms of the customer profile and the personal loan terms (tenure & interest rate) being offered.



- Loan (volume) delinquency 91-180 DPD has deteriorated heavily from 0.9% to 2.64%, largely attributed to the surge in small ticket (<50K ticket size) lending to risky customer segments.
- However, the overall Amount (value) delinquency 91-180 DPD continues to remain low at 0.61%, coming in from the sub 50K ticket size segment at 9.4% (refer stressed segments in chart below).
- As of Aug 2020, the loan and amount 91-180 DPD delinquency observed at 12 months from disbursal (vintage) has seen a drop of 0.59% and 0.19% over Mar 2020.

Stressed Segments by Value Delinquency (91-180 DPD by Value)

Lender Type	Aug-20 <50K	50K-1L	1L-2L	2L-3L	3L-5L	5L+	Grand Total
NBFCs	7.58%	1.07%	1.27%	1.19%	0.90%	0.34%	1.53%
Private Banks	0.41%	0.48%	0.48%	0.46%	0.37%	0.25%	0.33%
Public Sector Banks	0.44%	0.22%	0.12%	0.09%	0.06%	0.04%	0.06%
Grand Total	9.40%	0.86%	0.75%	0.66%	0.43%	0.25%	0.61%

- The small ticket segment (<50K Ticket Size) carries the most stress by value at 9.4%.
- The 50K-1L, 1L-2L and 2L-3L ticket size segments carry high stress of >1% and higher than industry value delinquency 91-180 DPD.
- For NBFCs the amount delinquency 91-180 DPD in <50K ticket sized portfolio stood high at 7.58% contributing to the overall high stress as of Aug 2020.

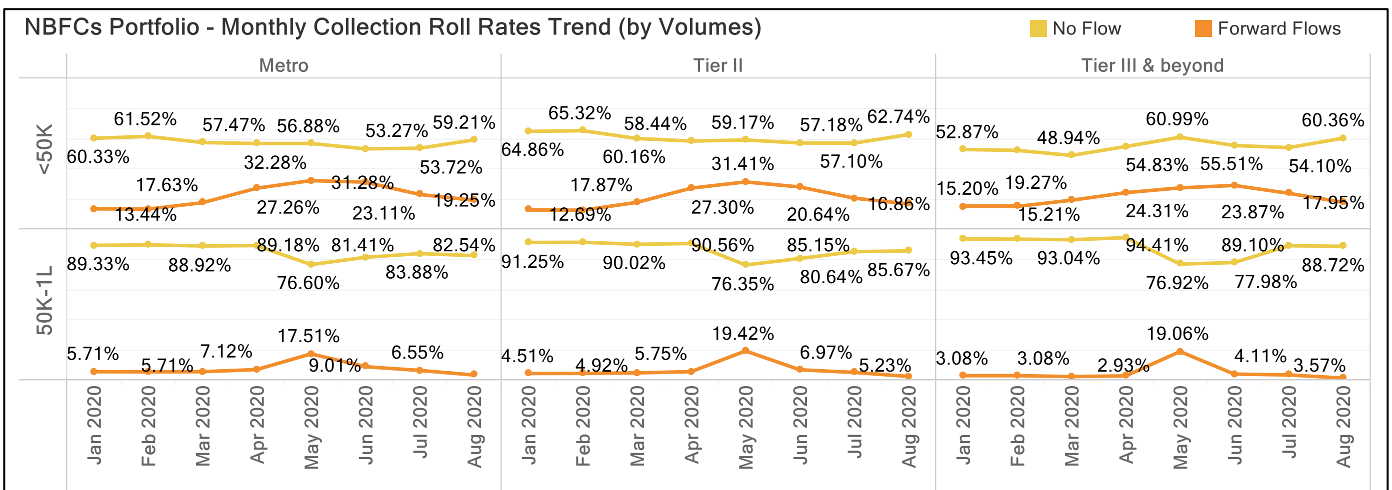
The overall volume & value delinquency 91-180 DPD for NBFCs is at 5.42% & 1.53%, respectively. Even though these are high as compared to the rest of the lenders, NBFCs charge a higher Rate of Interest (ROI) from customers in the small ticket lending (<50K Ticket Size) segment, which contributes to only 2.7% of the overall personal loan book.

Collections in Personal Loans

- For personal loans, observed through past trends, the net monthly forward flow typically stands around 6%, while the net monthly roll back rate is around 1%.
- COVID -19 and the resultant lockdown announced by the government impacted these rates to a considerable extent, as widespread disruptions to household incomes of borrowers ensued. While the net monthly roll back rate increased to around 2% by June 2020 and further to 5% by Aug 2020, the net monthly forward flows spiked up to nearly over 10% by June 2020, reducing to around 6% by Aug 2020.
- NBFCs who have been a major growth driver of personal loans in terms of the volumes saw a 2X spike in the net monthly forward flows in the post lockdown period, until June 2020, reducing to nearly pre lockdown figures by Aug 2020.
- Metros and Tier II cities under stricter lockdown measures, saw higher forward flow rates than Tier III regions.

In order to cope with the rising defaults, most lenders are mapping new strategies to put more effective collection mechanisms in place, specifically targeting small ticket borrowers, as the lockdown and the six-month moratorium is lifted. Many public sector banks have also offered top up personal loans to their borrowers to tide through these trying times.

- For loans given by NBFCs of ticket size <50K, the net forward flows in Metros shot up to 32.2% in May 2020 from 13.4% in Feb 2020, higher than Tier II and III regions. The impact was equally severe for 50K-1L sized loans.
- However, with the gradual easing of the lockdown, most borrowers have reinstated their existing payment arrangements, evident from the declining trend of forward flows from June 2020 onwards.



The monthly collection roll rates are observed as proportion of portfolio flows between consecutive months and observations are made on Standard, SMA and SUB-STD (91-180 DPD) portfolio and the flows in the sebsequent month.

Geographic Deep Dive

Personal Loans Market - Regional Scorecard (Mar-20)									
Tier	Portfolio Outstanding (Cr)	Y-o-Y Growth	Avg. Ticket Size(K)	Value Delinquency 91-180 %	Volume Delinquency 91-180 %	Annual Origination Volume (Mn)	Y-o-Y Growth	Live Borrower Base (Mn)	NTC (Vintage <12M) Base %
Metro	**1,84,876**	**22.53%**	**239**	**0.81%**	**2.69%**	**10.74**	**124.35%**	**8.44**	**9.51%**
Delhi NCR	45,198	23.57%	236	0.83%	2.86%	2.63	134.64%	2.17	11.20%
Bangalore	30,406	20.44%	274	0.60%	2.47%	1.69	124.43%	1.17	9.59%
Hyderabad	29,892	26.51%	254	0.64%	2.90%	1.82	150.89%	1.13	10.82%
Mumbai	28,280	22.13%	229	1.08%	2.82%	1.67	118.11%	1.40	7.76%
Chennai	22,007	16.61%	272	0.88%	2.00%	0.95	81.51%	0.90	7.28%
Pune	14,269	22.44%	218	0.87%	2.76%	0.89	119.28%	0.74	7.19%
Kolkata	10,357	26.00%	184	0.73%	2.62%	0.74	127.11%	0.64	12.01%
Ahmadabad	4,468	26.55%	173	1.04%	2.96%	0.35	109.43%	0.29	7.24%
Tier II	**1,20,879**	**28.68%**	**180**	**0.94%**	**3.01%**	**9.26**	**152.81%**	**7.29**	**11.95%**
Tier III	**1,97,743**	**29.03%**	**240**	**0.64%**	**2.14%**	**10.12**	**140.72%**	**9.33**	**14.56%**
Industry	**5,04,792**	**26.49%**	**222**	**0.78%**	**2.59%**	**30.19**	**137.95%**	**25.16**	**12.14%**
The portfolio has data of low address quality on which a district AND/OR pin code is not identifiable. The Industry figures represented here are inclusive of such portfolio.									

- Observed at FY 2020 end, while Metros constitute the largest share of the personal loans market,[4] Tier III & Beyond (towns and villages) have witnessed highest annual growth at 29% as of Mar 2020.
- Within Metros, Delhi NCR has the largest portfolio with highest Y-o-Y growth in fresh disbursements.
- Overall amount delinquencies 91-180 DPD are <1% for Metros, Tier II and Tier III and beyond geographies.
- Tier III and beyond bring in the maximum NTC borrowers (<12 months vintage) and have the largest live borrower base as of Mar 2020.

Rural geographies from Tier III and beyond also have a high PL penetration of small ticket sized (<50K) loans with a Y-o-Y growth of 404%, leading to greater financial inclusion of borrowers from rural towns and villages.

PL Industry - Aug 2020							
	Portfolio Outstanding (Cr)	Growth in Portfolio Outstanding	Avg. Ticket Size(K)	Amount Delinquency 91-180 %	Loan Delinquency 91-180 %	Originations in 5 Months (Mn)	Change over 6 months of prior year
Metro	1,78,955	2.94%	248	0.64%	2.96%	1.09	-78.59%
Tier II	1,21,541	10.79%	186	0.81%	3.22%	1.28	-71.81%
Tier III & beyond	2,02,228	14.65%	246	0.46%	1.89%	1.68	-65.50%
Industry	**5,07,684**	**10.12%**	**230**	**0.61%**	**2.64%**	**4.26**	-70.70%
The portfolio has data of low address quality on which a district AND/OR pin code is not identifiable. The Industry figures represented here are inclusive of such							

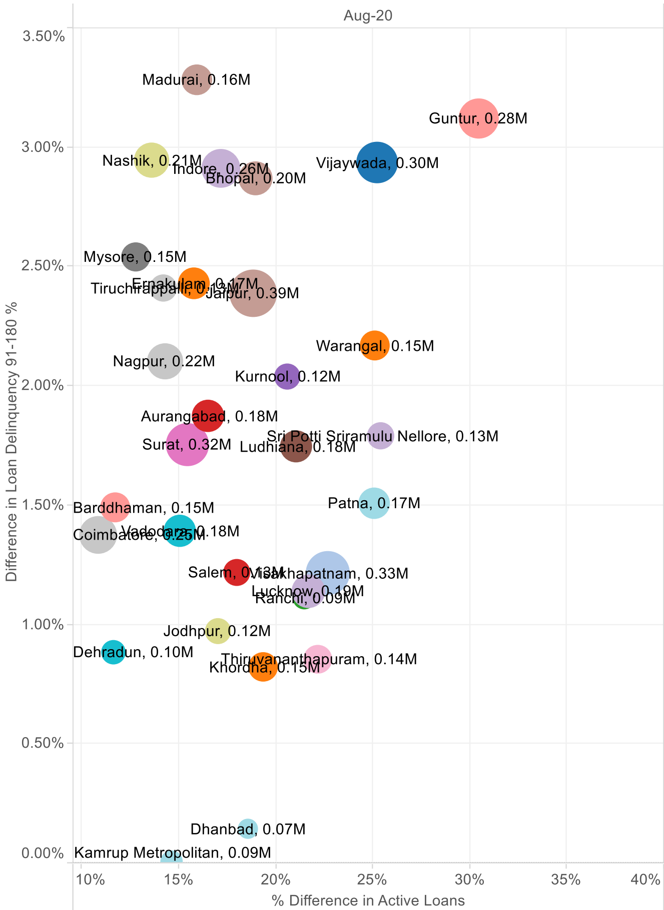
As of Aug 2020, the PL book in Metro cities has faced greater impact due to COVID-19 pandemic, owing to stricter lockdown rules and near nil economic activity through most of the 5 month period in FY 2020-21.

- The book size has grown Y-o-Y by only 2.94% in Metros as against nearly 15% in Tier III & beyond, with loan delinquency of 2.96%, against 1.89% in smaller towns and villages in Tier III & beyond.
- Originations in Metros have witnessed 42% degrowth compared to the same period previous year, as against 27% in Tier III & beyond areas.

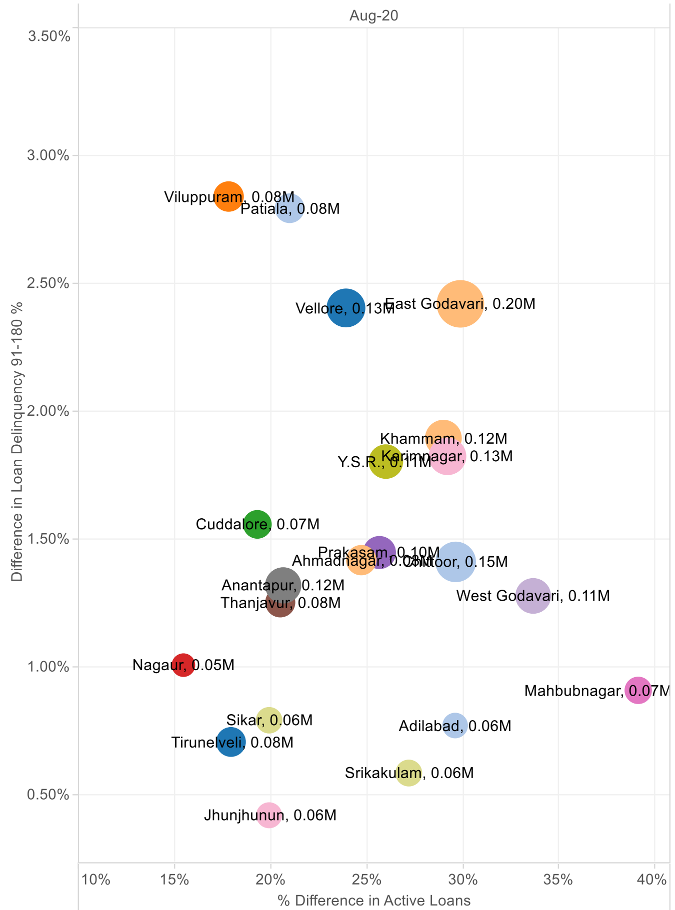
Geographic Deep Dive

Non-Metro Geographies – Growth in Active Loan Base (Volume) Vs Y-o-Y Change in Volume Delinquency

Tier II - Growth Centers



Tier III - Growth Centers



- In Tier II cities, the top 10 cities by portfolio size constitute 27% of the Tier II market, as of Aug 2020.
- Among these, Vishakhapatnam, Guntur and Patna have higher Y-o-Y growth in portfolio compared to others.
- Jaipur, Visakhapatnam, Surat and Vijaywada with the largest active loans base of over 0.3 Mn, witnessed Y-o-Y growth in active base ranging between 15-25%.
- These cities also face relatively lower increase in volume delinquency of 91-180 DPD compared to other Tier II cities such as Madurai, Nashik, Indore, Bhopal as of Aug 2020.

- In Tier III geographies, the top 10 towns and villages constitute 10% of the Tier II and beyond market.
- Among the top 5 cities by portfolio size, Srikakulam and West Godavari have witnessed higher Y-o-Y growth than Khammam, Chittoor and Y.S.R.
- The Y-o-Y growth in East Godavari, Chittoor and Karimnagar with large active loans base stood over at nearly 30% as of Aug 2020.
- Increase in loan delinquency 91-180 DPD is relatively lower in these cities compared to Viluppuram and Patiala at nearly 3% as of Aug 2020.

Although the growth in book size and originations is impacted by COVID-19, whether it is in large urban metros or rural towns and villages, supported by digital penetration, personal loans with customized offerings are increasingly being availed by borrowers to fulfil either their financing needs or aspirations or even for convenience.

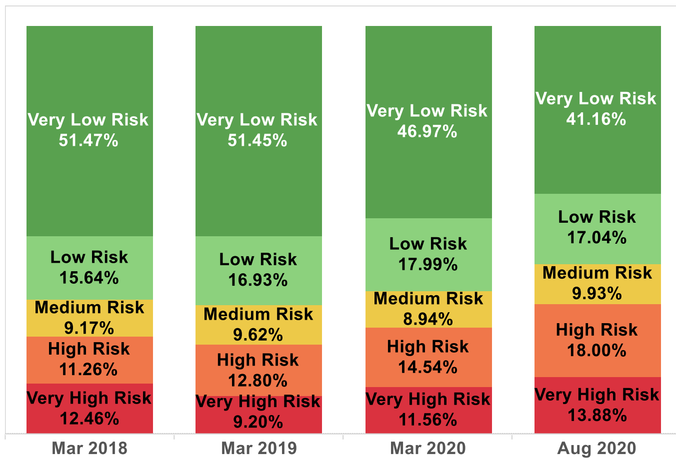
Borrower Landscape

As of Aug 2020, the total personal loans customer base stood at 6.31 crore, while the live customer base stood at 2.95 crore. The Y-o-Y growth of the live customer base at the end of FY 2020 stood at 48%. This growth is nearly 2X that in March 2018.

Borrower Base & Growth

	Mar 2018	Mar 2019	Mar 2020	Aug 2020
Total Borrower Base (Cr)	3.09	3.84	5.27	6.31
Growth %	24.34%	24.24%	37.36%	19.77%
Active Borrower Base (Cr)	1.29	1.70	2.52	2.94
Growth %	25.19%	31.41%	48.18%	16.81%

Industry - Borrower Mix by Credit Score



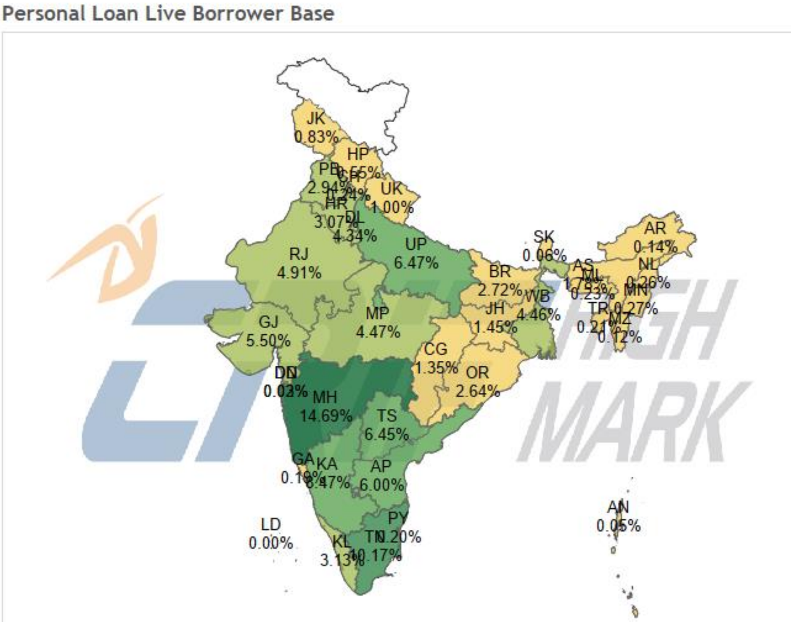
- As of Mar 2020, while 47% of the lending is still to Very Low Risk borrowers, the share of Very High Risk and High Risk borrowers continues to increase over the last 2 years, reaching 32% as of Aug 2020.

Observed over the last 2 years, NBFCs are in the forefront of such lending to risky borrowers with low credit scores, who are traditionally kept outside the lending ambit of banks, with their share having increased by 13% in 2 years as of Mar 2020.

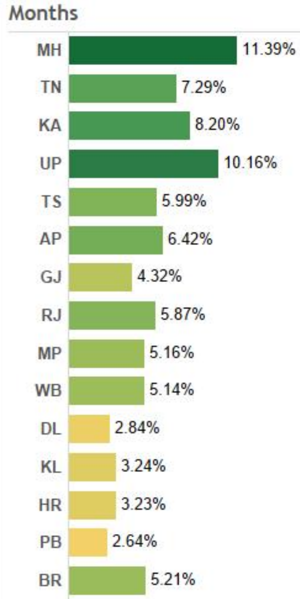
- Maharashtra (14.6%), Tamil Nadu (10.1%), Karnataka (8.4%), Uttar Pradesh (6.47%) & Telangana (6.45%) are the largest markets with 46% of the borrower base.

- Maharashtra (11.3%),Uttar Pradesh (10.1%), Karnataka (8.2%), Tamil Nadu (7.2%) & Telangana (5.9%) also have the largest share of new PL borrowers or those with a history of borrowings of less than 12 months.

Personal Loan Live Borrower Base



New Borrowers in Last 12 Months



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Summary

As of Mar 2020	Public Sector Banks	Private Banks	NBFCs	Others	Total
Portfolio Outstanding (Cr)	**1,99,005**	1,93,416	90,552	21,818	**5,04,792**
Growth in Portfolio Outstanding	28.15%	21.79%	32.52%	30.99%	**26.49%**
Active Loans (Lakh)	76	86	144	13	**320**
Growth in Active Loans	**16.41%**	**42.70%**	**116.46%**	52.19%	**58.89%**
Avg. Ticket Size(K)	356	316	94	228	**222**
Y-o-Y % Change	9.54%	-9.46%	**-35.62%**	-15.24%	**-18.08%**
Balance Per Loan (K)	261	224	63	162	**158**
Y-o-Y % Change	10.13%	-14.50%	-38.83%	-13.83%	**-20.20%**
Amount Delinquency 31-180 %	2.35%	1.58%	3.62%	7.68%	**2.51%**
Y-o-Y Change (absolute)	0.19%	0.05%	**1.12%**	3.11%	**0.44%**
Loan Delinquency 31-180 %	2.30%	2.07%	9.12%	8.19%	**5.55%**
Y-o-Y Change (absolute)	**-0.1%**	**-0.3%**	**4.72%**	2.12%	**2.31%**
Amount Delinquency 91-180 %	0.27%	0.63%	1.41%	4.13%	**0.78%**
Y-o-Y Change (absolute)	0.04%	0.16%	**0.43%**	2.53%	**0.27%**
Loan Delinquency 91-180 %	0.49%	0.86%	4.55%	4.70%	**2.59%**
Y-o-Y Change (absolute)	**0.08%**	**0.07%**	**2.5%**	2.31%	**1.44%**

- ❑ As of Mar 2020, PL Book saw a Y-o-Y growth of 26.5% in terms of value. The volume growth was steep at nearly 60%, attributable to >100% growth in NBFCs, focussing on customer acquisition through small ticket lending, targeting young, low-income borrowers with short term credit needs.
- ❑ FinTechs and neo-age lenders with enhanced risk assessment capabilities and deep knowledge of digitally driven business models have had a vital role to play in this growth story.
- ❑ The incumbents with a larger outreach into far fetched geographies have had a higher market share by value, but low volume growth and delinquencies.
- ❑ The COVID-19 pandemic has impacted the PL landscape, reducing the Y-o-Y growth in book to 10% as of Aug 2020. While NBFCs and neo-age lenders have curbed lending, the incumbents have shown greater mettle in coping with the pandemic impact.
- ❑ Delinquencies for NBFCs have increased further while that for public sector banks & private banks have reduced.

As of Aug 2020	Public Sector Banks	Private Banks	NBFCs	Others	Total
Portfolio Outstanding (Cr)	**2,13,917**	1,92,077	80,363	21,327	**5,07,684**
Growth in Portfolio Outstanding	**24.32%**	**5.25%**	**-7.47%**	8.70%	**10.12%**
Active Loans (Lakh)	84	88	131	13	**315**
Growth in Active Loans	**20.88%**	**26.64%**	**12.33%**	1.73%	**17.75%**
Avg. Ticket Size(K)	349	313	96	240	**230**
Y-o-Y Change	2.19%	-11.92%	-9.80%	10.74%	**-3.11%**
Balance Per Loan (K)	255	219	62	166	**161**
Y-o-Y Change	2.85%	-16.88%	-17.63%	6.85%	**-6.48%**
Amount Delinquency 31-180 %	0.76%	1.56%	4.80%	8.35%	**2.02%**
Y-o-Y Change (absolute)	**-1.00%**	**0.00%**	**2.20%**	2.13%	**-0.01%**
Loan Delinquency 31-180 %	0.72%	1.62%	9.96%	8.78%	**5.13%**
Y-o-Y Change (absolute)	**-1.17%**	**-0.73%**	**5.04%**	1.74%	**1.56%**
Amount Delinquency 91-180 %	0.06%	0.33%	1.53%	5.23%	**0.61%**
Y-o-Y Change (absolute)	**-0.10%**	**-0.20%**	**0.50%**	2.67%	**0.04%**
Loan Delinquency 91-180 %	0.16%	0.39%	5.42%	5.85%	**2.64%**
Y-o-Y Change (absolute)	**-0.18%**	**-0.48%**	**3.47%**	2.82%	**1.33%**

Summary

SWOT Analysis Personal Loans

Strengths

- Personal loans by nature are an easy form of credit – collateral free with minimal documentation – thus are deeply penetrated even across Tier III towns and villages with a 29% Y-o-Y growth observed at FY 2020 end.
- An easily customizable product, PL is increasingly being lent to millennials (18-25 years) and low-income (<3L) customers who form a major chunk of the country's population
- NBFCs and neo-age lenders having 42% of the volume share in disbursements as of Aug 2020, cater to diverse PL needs which in turn yields high interests

Weaknesses

- Unsecured nature of credit which is often vulnerable to defaults – Y-o-Y increase of 1.56% in loan delinquency (91-180) as of Aug 2020
- Growth in PL disbursements by NBFCs (>2X in 2 years) comes with far greater repayment stress than other lenders, observed at FY 2020 end
- Even though customer onboarding and disbursement is becoming largely digital, incidents of coercive tactics being employed at times when it comes to collections is a hinderance in widespread adoption of instant digital credit

Opportunities

- Government support of ₹500 crore to boost acceptance infrastructure for digital payments provides an opportunity for lenders to increase their digital footprint
- Entry of global players, emergence of newer models and partnerships with FinTechs as well as traditional lenders is enabling instant as well as digital credit
- Rapid growth in volumes of small ticket PL market (162% Y-o-Y as of Mar 2020 against 72% as of Mar 2019) indicates the increasing focus of consumers on financing of seemingly regular/small value purchases and the room for further expansion

Threats

- The rapid inclusion of a borrower segment at the lower end of income helps in the financial inclusion, but also presents a challenge in borrowers' credit discipline
- Though a new borrower segment is being targeted and acquired at the lower end of the income, the customer retention for future cross-sell could be a challenge
- Unforeseen events such as COVID-19 & the resultant stress on the portfolio could be an impediment to sustained growth

Observed at the end of the FY 2020, over the last 2 years, the personal loans industry has seen continued growth in the portfolio and a sharp spike seen in annual disbursements. Rising urbanization, increasing household incomes and a steady rise in discretionary spending by Indians has boosted demand for such credit, which is also easy to avail without a collateral.

Rising millennial population has embraced the idea of easy credit, leading to an increasing number of NBFCs and neo-age lenders entering the personal loans market with new customized offerings. Such lenders have been observed to increasingly shift focus to small ticket sized loans offered to a larger number of borrowers to increase penetration. However, in order to ensure business viability, lenders need to focus on creating a healthy loan book with strategized approach towards managing risk and collections as well.

Till now, not all lenders have warmed up to the idea of digitization and the use of latest technology for online disbursements and collections. However, going forward, in this "new normal" induced by COVID-19 pandemic, it is imperative that all lenders adopt new and digital models of lending and repayments, for greater sustainability and penetration, while RBI continues to enhance safety measures for digital payments.

The COVID-19 crisis has brought with it a large amount of uncertainty for lenders where most lenders although flush with liquidity are taking a cautious approach in offering credit, especially unsecured, fearing a surge in defaults. At the same time, many lenders and FinTechs, in order to sustain business are lending to new borrowers with thin credit profiles. In such times, along with applications and other sources, a bureau score which is a constantly evolving metric, dynamic in nature with algorithms that lead to accurate profiling of the borrowers for their credit worthiness, comes in handy and gives confidence to lenders to lend even high-ticket sized loans without an adverse impact on asset quality.

Endnotes

[1] The analysis in this Edition of CreditScape is based on data which is 95% representative of the Industry as of Nov 2020 as received by the bureau. Due to COVID-19 disruptions, there has been delay in submission of data to the bureau.

[2] Emerging technologies disrupting the financial sector, Assocham, PwC, May 2019

[3] Why P2P Lending Should Be The New Investment Choice, Outlook Money, December 2019

[4] The personal loans portfolio has data of low address quality on which a district AND/OR pin code is not identifiable. The Industry figures represented are inclusive of such portfolio. Therefore, the geographical spread across Metros, Tier II and Tier III cities does not add up to 100%.

About CreditScape

CreditScape is a quarterly publication from CRIF High Mark on Retail lending in India. The publication is a deep dive into trends & analysis of key parameters such as Gross Loan Portfolio, Industry Growth, Market Competition, Sourcing, Portfolio Risks and Borrower Landscape of various retail lending products.

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