

INDIA REWIND

India Rewind is a monthly update from DSP's Investment desk. It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

"Navigating India's Financial Landscape: Unsecured Personal Loans Take Centre Stage"

The Indian banking system has experienced strong retail loan growth, with a remarkable ~18% CAGR from FY17 to FY23. Unsecured loans, including personal loans and credit card receivables, have been a driving force, contributing to ~39% of the incremental share in retail loans and ~16% in overall loans for FY23. Retail loans now claim a larger slice, growing from ~28.4% in FY20 to ~32.1% in FY23. This growth has bolstered margins for banks and NBFCs. Additionally, household savings have increased, showcasing a positive trend in the Indian financial landscape. At this juncture, it becomes pivotal to delve into the sustainability of the current growth and contemplate the prospective path ahead.

Riding the Waves of Three Transformative Trends: The growth of unsecured loans is driven by three key trends: i) the growing acceptance among consumers to borrow for personal expenses, indicating a changing perspective on personal finance, ii) the digitization of loan origination has made it easier for individuals to access small-value loans swiftly, fostering a culture of convenient borrowing and iii) the utilization of alternative sources for credit assessment has enhanced the accessibility and manageability of unsecured personal loans for a broader spectrum of borrowers. Together, these trends shape the contemporary landscape of unsecured personal loans.

Unsecured Personal Loan Landscape: Banks vs. Fintech: In the realm of unsecured personal loans, banks and fintech companies are carving distinct paths. Banks prioritize loans for existing customers, while fintechs, often in collaboration with smaller NBFCs, target smaller ticket loans for new-to-credit consumers (PL disbursement accounts for ~70% of fintech disbursements). Personal loans have gained popularity among the mass market, with fintechs holding a ~49% market share by value. Banks have witnessed significant growth (~22% CAGR over last 3 years) in personal loans, primarily driven by loan volume rather than ticket size inflation. Large banks leverage their robust customer base, enhanced by advanced digital capabilities, AI/ML applications, and deep insights into customer cashflows. They are also self-sustained through deposit balances and boast well-established recovery mechanisms. In contrast, fintechs' recovery mechanisms remain untested. The overall delinquency rate has also remained in line for the unsecured loans compared to secured loans for larger banks, providing comfort on the asset quality.

Empowering Financial Dreams: The Rise of Unsecured Personal Loans in India's Workforce: Amidst a growing workforce, unsecured personal loans are set for substantial expansion. This growth will be fueled by (1) increased short-term credit adoption, (2) smart utilization of alternative data for underwriting, and (3) a rising average loan size as consumer spending surges. Currently, active personal loan penetration stands at ~14%, but is anticipated to reach ~25% of the employed population by FY28, resulting in a ~14% CAGR from FY23-28, compared to a ~28% CAGR from FY20-23. The average loan size is projected to grow at a ~6% CAGR, leading to a ~20% CAGR in the total personal loan market. India's retail credit to GDP at ~40%, much lower than its peers, indicating a significant way forward (*please refer chart of the month*).

Valuations, flows and earnings: In YTD23, MSCI India Index US\$ returned ~3.8% vs. MSCI EM ~(4.3%) and MSCI DM ~6.4%. MSCI India (~19.2, 2YF) is now trading at ~1.2SD above MSCI EM and DM, slightly above its long-term averages. FII Net flows stand at ~USD 12bn and DII at ~USD 19bn for YTD23. FIIs have been sellers for the last month but the overall impact has not been much as DIIs have matched nearly \$ for \$. Halfway into the earnings season, 36 MSCI India companies (46% of index cap) have reported results. After a mixed start, misses are running slightly ahead of beats with 35% MSCI India stocks seeing beats, 41% misses and 24% inline results. Most consumer companies have surprised positively so far, while IT and Capex cyclicals have seen the most misses.

Chart of the Month:

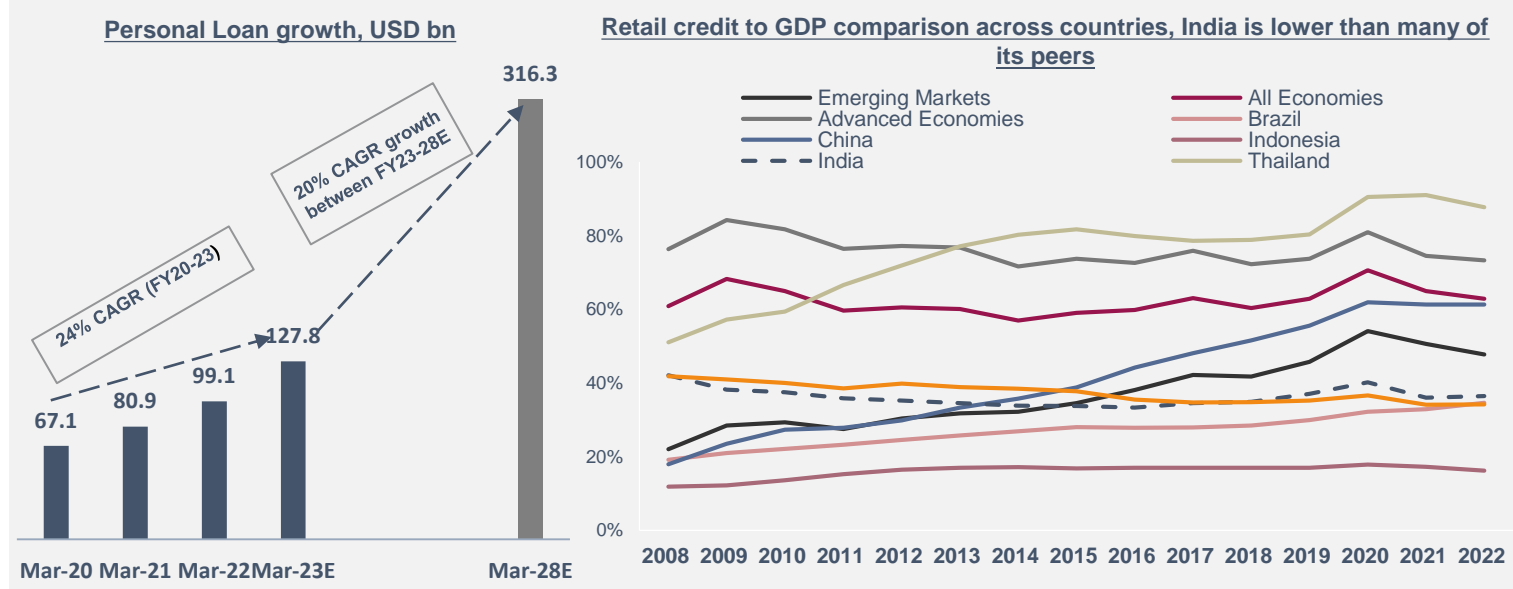


Chart Source: Axis Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward, PL; Personal Loans



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[India Rewind October 2023](#)
[India Rewind September 2023](#)
[India Rewind August 2023](#)
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India at a Glance

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E |
|--|------|------|------|------|-------|------|------|-------|
| Economic Activity and Employment | | | | | | | | |
| GDP, USD bn | 2295 | 2651 | 2701 | 2871 | 2668 | 3176 | 3390 | 3713 |
| GDP per capita, USD | 1767 | 2018 | 2036 | 2141 | 1969 | 2321 | 2451 | 2658 |
| Real GDP growth, % | 8.3 | 6.8 | 6.5 | 4.0 | -6.6 | 8.7 | 7.2 | 6.2 |
| Prices, interest rates and money | | | | | | | | |
| CPI inflation, % y/y (average) | 4.5 | 3.6 | 3.4 | 4.8 | 6.2 | 5.5 | 6.7 | 5.4 |
| Repo rate, % (year-end) | 6.25 | 6.0 | 6.25 | 4.4 | 4.0 | 4.0 | 6.50 | 6.0 |
| 10 year bond yield, % (year-end) | 6.7 | 7.4 | 7.4 | 6.1 | 6.2 | 6.8 | 7.3 | 7.0 |
| USDINR (year-end) | 64.8 | 65.0 | 69.2 | 75.4 | 73.5 | 75.8 | 82.3 | 83.0 |
| Fiscal accounts | | | | | | | | |
| General government budget balance, % GDP | -7.0 | -5.9 | -5.9 | -7.8 | -13.9 | -9.5 | -9.4 | -9.0 |
| Balance of payments | | | | | | | | |
| Trade balance, USD bn | -112 | -160 | -180 | -158 | -102 | -189 | -266 | -250 |
| Exports, USD bn | 280 | 309 | 337 | 320 | 296 | 429 | 456 | 403 |
| Imports, USD bn | 393 | 469 | 518 | 478 | 398 | 619 | 720 | 668 |
| Current account balance, USD bn | -14 | -49 | -57 | -25 | 24 | -39 | -69 | -55 |
| Foreign direct investment (net), USD bn | 35.6 | 30.3 | 30.7 | 43.0 | 44.0 | 38.6 | 35 | 38 |
| Total FX reserves, USD bn | 370 | 425 | 413 | 478 | 577 | 607 | 578 | 608 |
| Total external debt, % GDP | 20.5 | 20.0 | 20.1 | 19.5 | 21.4 | 19.1 | 18 | 15 |
| Credit ratings | | | | | | | | |
| Moody's | Baa3 | Baa2 | Baa2 | Baa2 | Baa3 | Baa3 | Baa3 | Baa3 |
| S&P | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- |
| Fitch | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- |

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March, E - Estimates

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