SBI Research

Credit Growth to drive GDP: Nothing Unsecured about Unsecured Lending

20-October-2023

Executive Summary…..1/2

- **As an omen of things to unfold, the total asset/liabilities growth of the banking system during FY14-23 stands 1.3 times higher than the growth in the last 63-years (the combined incremental growth in assets and liabilities of ASCBs for the 9-year period ended March 2023 comes to Rs 187 lakh crore against Rs 142 lakh crore growth cumulatively clocked during the six-plus decades post independence (FY1951-2014)**
  - With credit growth clocking new highs since early 2022, there is a growing need to assess the multiplier effect created through the broader economy within the overarching objective of sustainability
  - In FY24, credit to nominal GDP ratio may end up being around 1.7 times, up from 1.2 times in FY23, boosting the flow of funds to the broader economy, as also ensuring a bull phase of growth is sustained
- The credit-to-GDP gap has also narrowed, reflecting the improved credit demand in the economy in the face of rising capacity utilization in the manufacturing sector
- There is one way causal relationship between GDP and ASCB credit, with increase in credit leading to higher GDP using credit data from 1990 and GDP
- Analysing Time trend in retail loans shows no major compositional shifts (since April'2021 for secured as also unsecured portfolio of retail credit) with both secured and unsecured segments growing since COVID-19. Also, the share of secured portfolio dominates the unsecured portfolio within retail space. Further, total share of unsecured retail loans is only around **one-tenth of ASCBs credit portfolio**, indicating contained risk at the time
- Lenders could also draw comfort from the fact that **Secured loans are mostly long term** (Housing loans constitutes nearly half of the retail portfolio) while unsecured loans are mostly demand loans that have lower comparative presence on lenders' balance sheet while higher RoI also nudges borrowers to opt for pre-payment in many cases. Quality of retail portfolio growth of NBFCs (including Fintechs + P2P) has recovered in FY23
- While approval rate for NTC (New to Credit) borrowers, whom lenders treat cautiously in the beginning, stood at 23% for the period ending march'23 (lower compared to 34% and 28% in 2020/21 respectively) the score tier upgrade for borrowers from Subprime, Near prime and Prime segments clocked better numbers than score tier downgrade (FY 23 over FY22) emphasizing much improvement in underlying spirits

Executive Summary…..2/2

- Recent origination statistics by Risk Tiers in consumer credit showcase increasing sectoral alignment: **PSBs clearly trumping peers in terms of better rated customer onboarding**

- Basis CIBIL CMI data (Mar'23), Personal loans of Rs 50,000 and more comprise ~98% of the total personal loan book size in terms of value. Small-ticket personal loans of less than Rs 50,000 form ~2% of the personal loan book size (in terms of value) and account for only 0.3% of the total retail loan book size at industry level

- Household debt as measured by credit card outstanding per credit card in India has been either static or declining both in nominal and real terms (after adjusted for CPI inflation) in 2023. The decline in real credit card outstanding per card despite higher inflation expectations is a positive development. In nominal terms, the outstanding per credit card rose by 13% in August, down from 24% in January. The real outstanding per credit card growth in August declined to 5.8% from 16.4% in January

- Heuristic data analysis of select borrowing profile reveals that both NTC (New to Credit) and NTCC (New to Credit Card) segments (i.e. people getting inducted into formal credit mechanism first time, either through institutional lenders or a credit card company) are showing little divergence in credit behavior post onboarding, alleviating concerns being raised from select quarters

  - In fact, NTC customer profile shows judicious adherence to repayment discipline vis-à-vis NTCC populace

- Continued better and evolving risk monitoring and robust lending practices by all systemic players in sync with Credit Information Companies is the optimal approach to anchor consumerism optimally

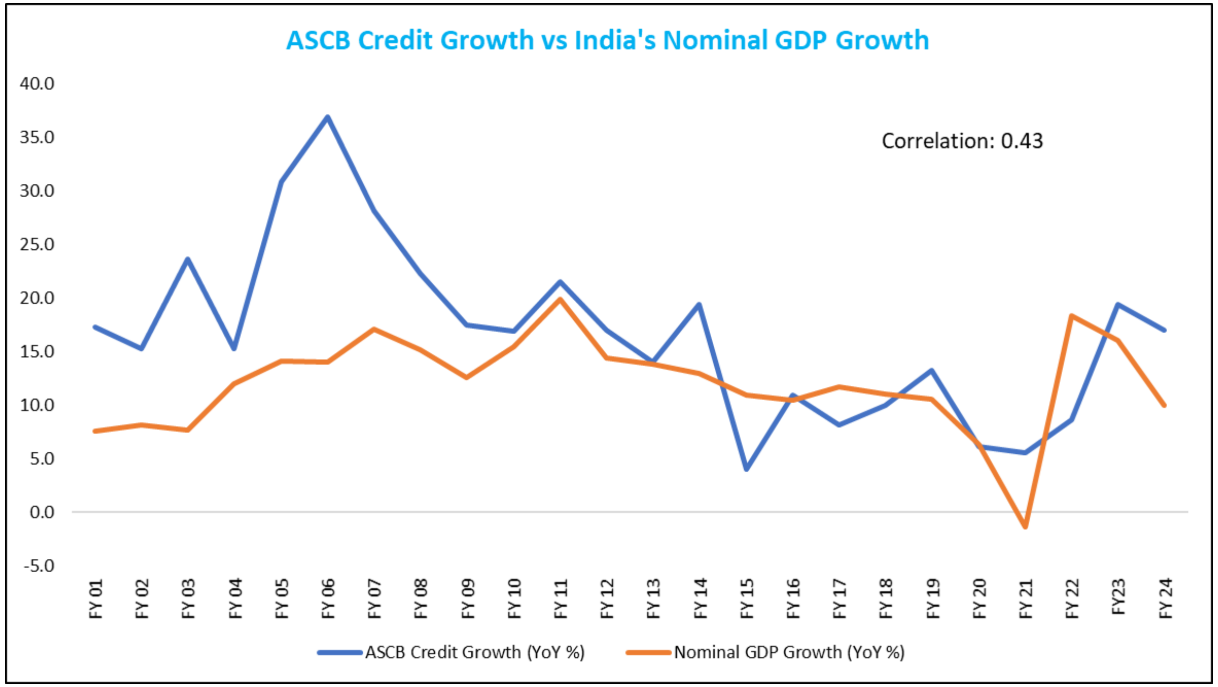
- Bank results declared so far indicate the good run continuing with bottom line further improving while GNPA falling sub-3%

Credit and GDP

Relationship & Causation

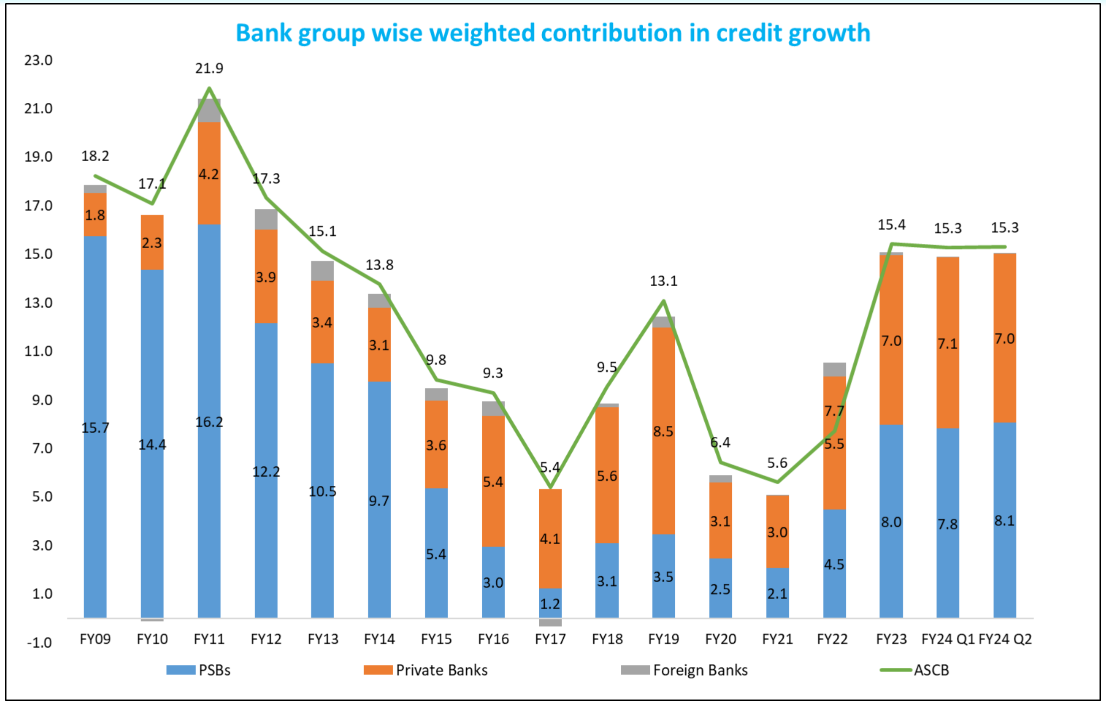
Credit Growth to surpass Nominal GDP Growth

- The ASCB data for the period FY01-10 indicates that bank credit grew at an average of 1.82 times of nominal GDP growth, during a period of high growth
- However, during FY11-20, the relationship broke down, and growth declined to 1.0 times largely mostly because of the severe asset quality issues of banks post the 2008 global crisis. The relationship broke down during the pandemic years of 2020-21 and FY22 as GDP contracted
- In FY24, credit to nominal GDP ratio may end up being around 1.7 times, up from 1.2 times in FY23, boosting the flow of funds to the broader economy, helping sustain the momentum
- **If the banking sector's indicators are taken as a new normal, we are in for a sustained period of growth**



Current traction in Credit Growth since FY14 has outpaced credit growth in last 63 years!

- ASCB's credit growth (YoY) has been accelerating since early 2022. Aggregate deposits grew by 13.2% and credit by 20% (without HDFC it was 15.3%, but still broadly similar to FY22) till September. In the coming months, we expect credit demand to remain robust due to the festive season
- There are many interesting facets of this continued traction in credit growth. If we look at the combined incremental growth in assets and liabilities of ASCB for the 9-year period ended March 2023, it is at Rs 187 lakh crore. If we compare this incremental growth with the previous many decades (FY51-14) that ended March 2014, it was Rs 142 lakh crore
- **The total asset/liabilities growth of the banking system during FY14-23 is 1.3 times higher than the growth in the last 60-years**
- As banking sector growth leads to GDP growth, the Nominal GDP also increased by 1.4 times higher during FY14-23, compared to FY51-14



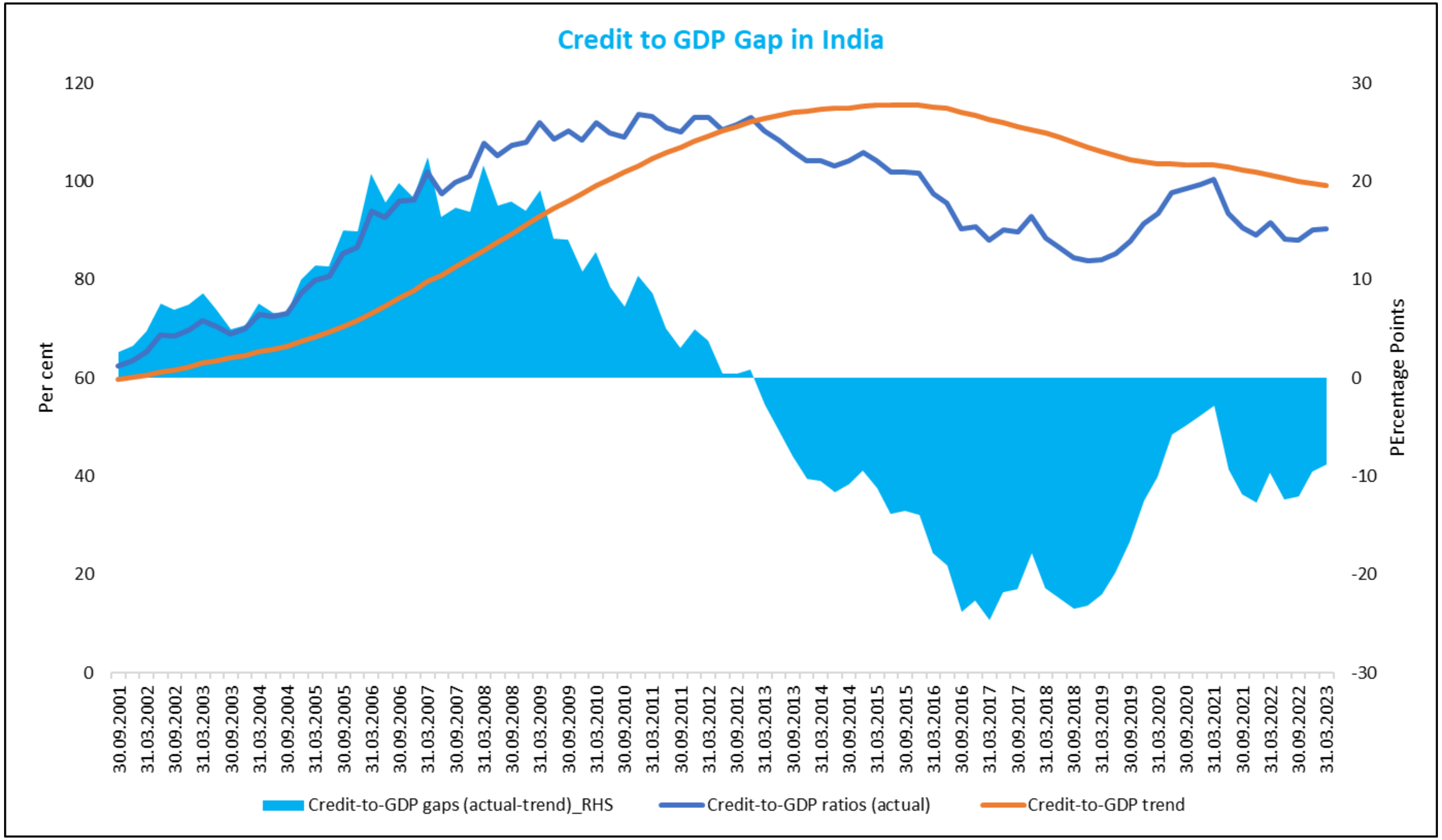
Incremental Deposit and Credit (Rs Bn)				
Period	Credit	Deposit	Total	x times
FY 1951	5	9	14	
FY 2014	62821	79557	142378	
1951-2014	**62815**	**79548**	**142364**	
FY 2023	141980	187423	329403	
2014-2023	**79159**	**107866**	**187025**	1.3

Memo item:

Nominal GDP(1951-2014)	*112233*	-
Nominal GDP(2014-2023)	*160072*	1.4

Credit-to-GDP gap narrowed; Financial Deepening will continue to rise

- The credit-to-GDP gap narrowed, reflecting the improved credit demand in the economy in the face of rising capacity utilisation in the manufacturing sector.



Empirical Relationship between GDP and Credit Growth: ASCB Credit causes GDP

- GDP and ASCB credit series are not stationary so Johansen cointegration test is used to study the long term relationship between the two. The results show that two series have one cointegration relationship, implying that the two tend to move together

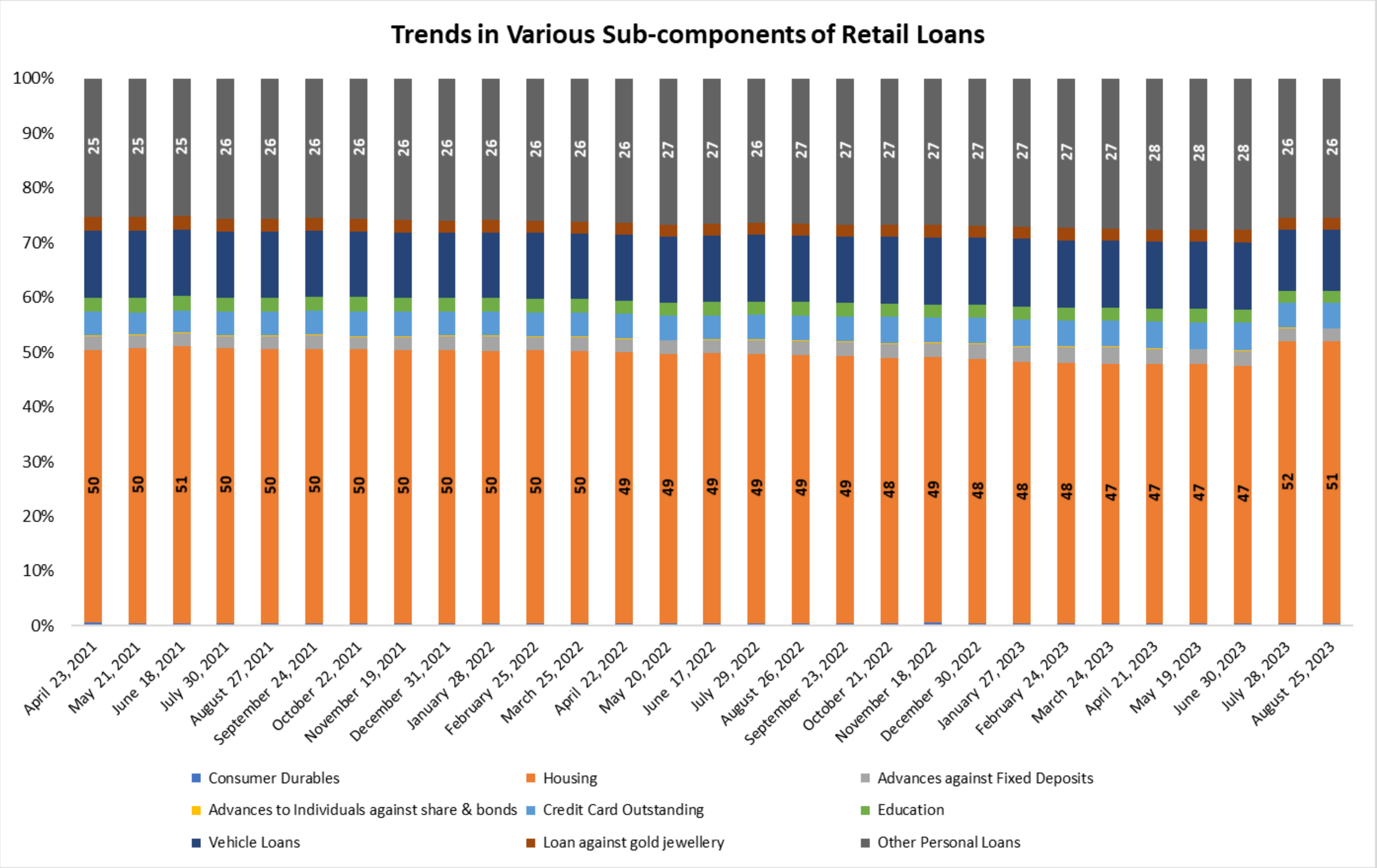
- Additionally, Granger causality test results for the GDP (at current price) and credit data from 1990 shows that there is ***one way causal relationship between GDP and ASCB credit, with increase in credit leading to higher GDP***

Sensitivity of Credit to Business cycles - Johansen Cointegration Test	
Difference order	1
Lag selection (AIC)	2
Rank	1
Trace statistic	31.31
Critical Value at 5% level	25.87
Cointegrating relationship with GDP	Yes

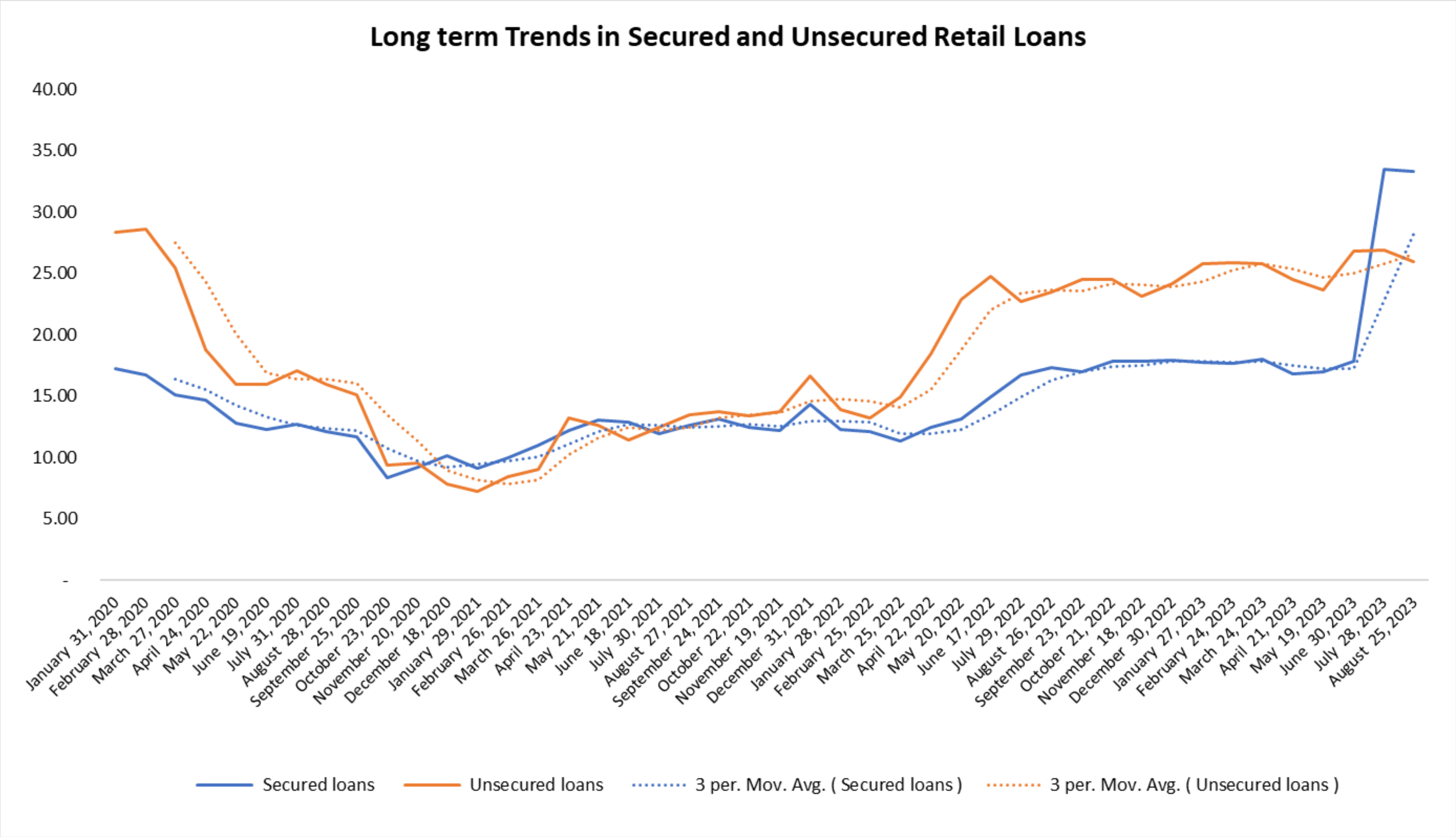
Pairwise Granger causality test (lags 2)		
	F-Statistic	Prob.
GDP does not Granger Cause ASCB Credit	0.72717	0.4928
ASCB Credit does not Granger Cause GDP	7.84183	0.0022
Only second relationship is significant at 5% level of significance, implying credit Granger causes GDP		

The ‘Story’ of Unsecured Credit

Time trend in retail loans shows no major compositional shifts

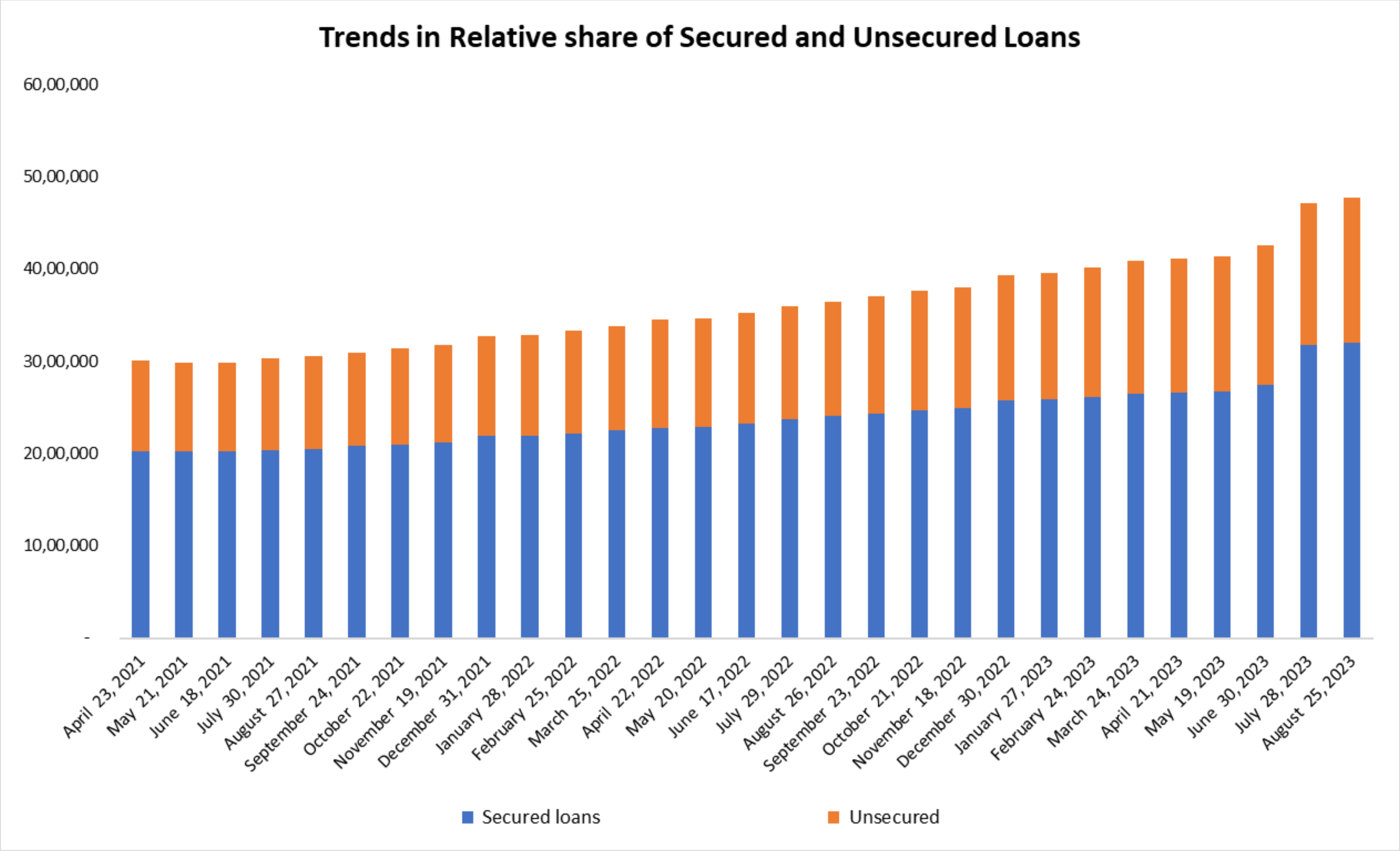


Both secured and unsecured retail credit has grown since COVID-19

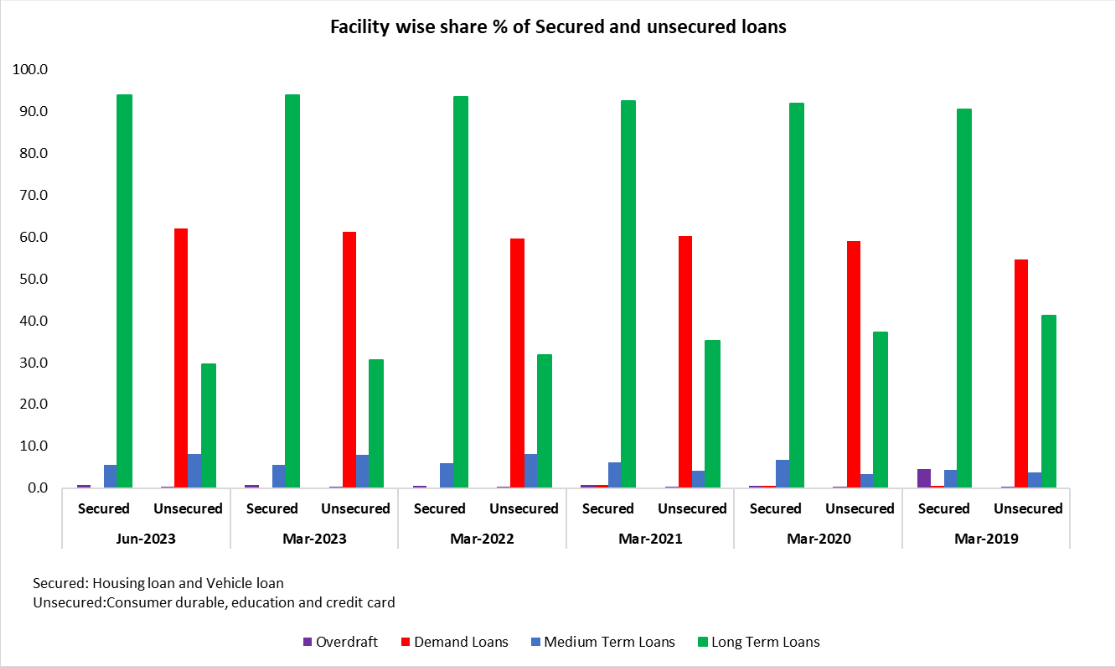


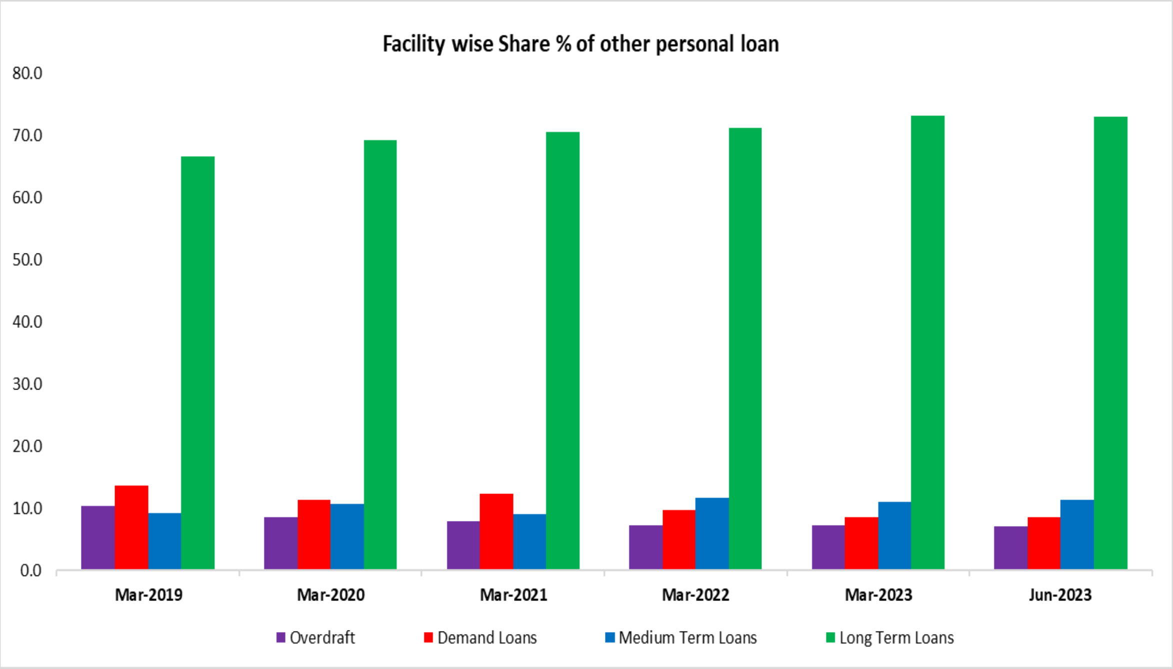
Secured loan = Housing loans + loans against FD, loans against shares & bonds, vehicle loan and gold loans

Share of secured retail credit significantly dominates total retail loans

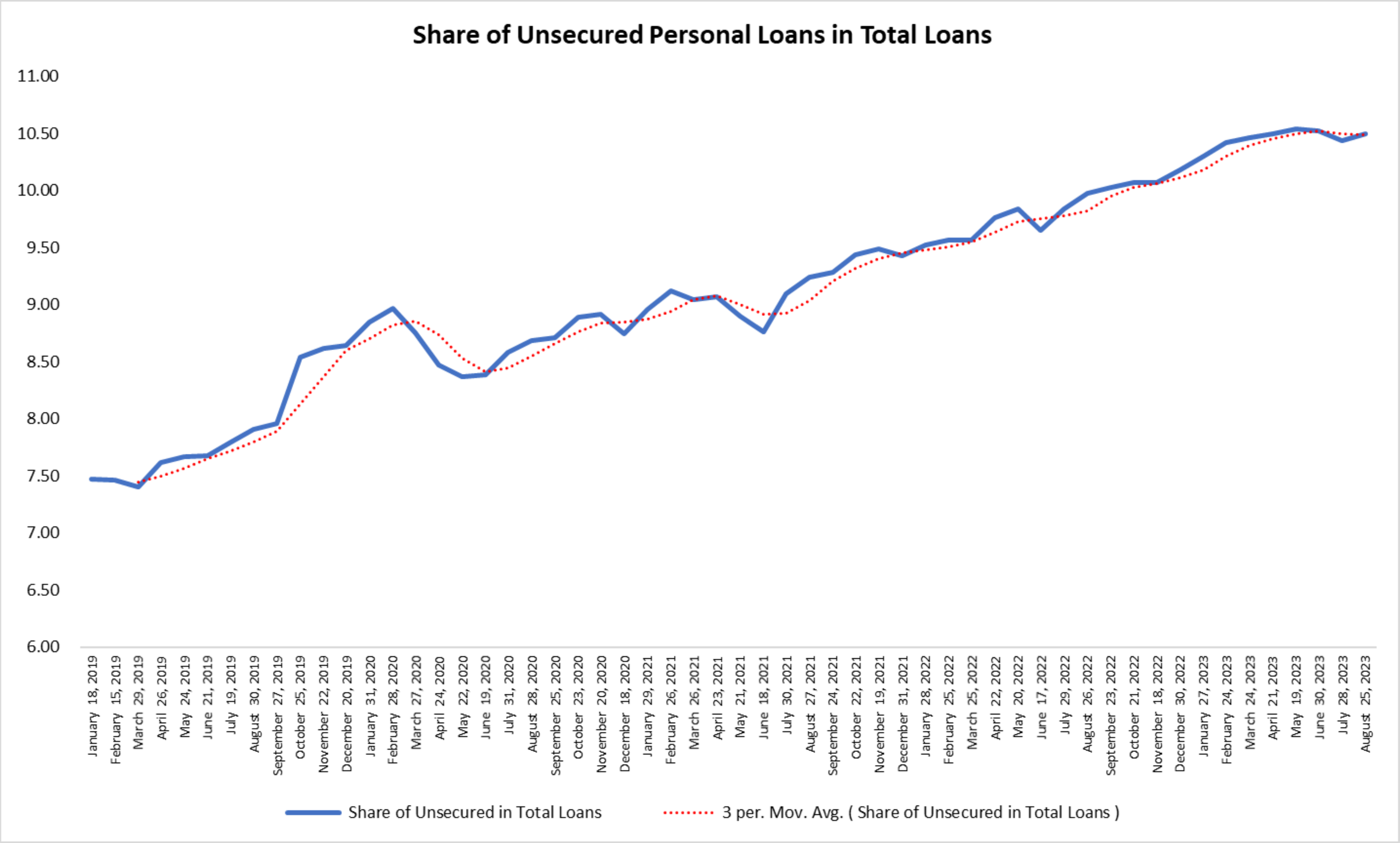


Secured loans are mostly long term and unsecured loans are mostly demand loans

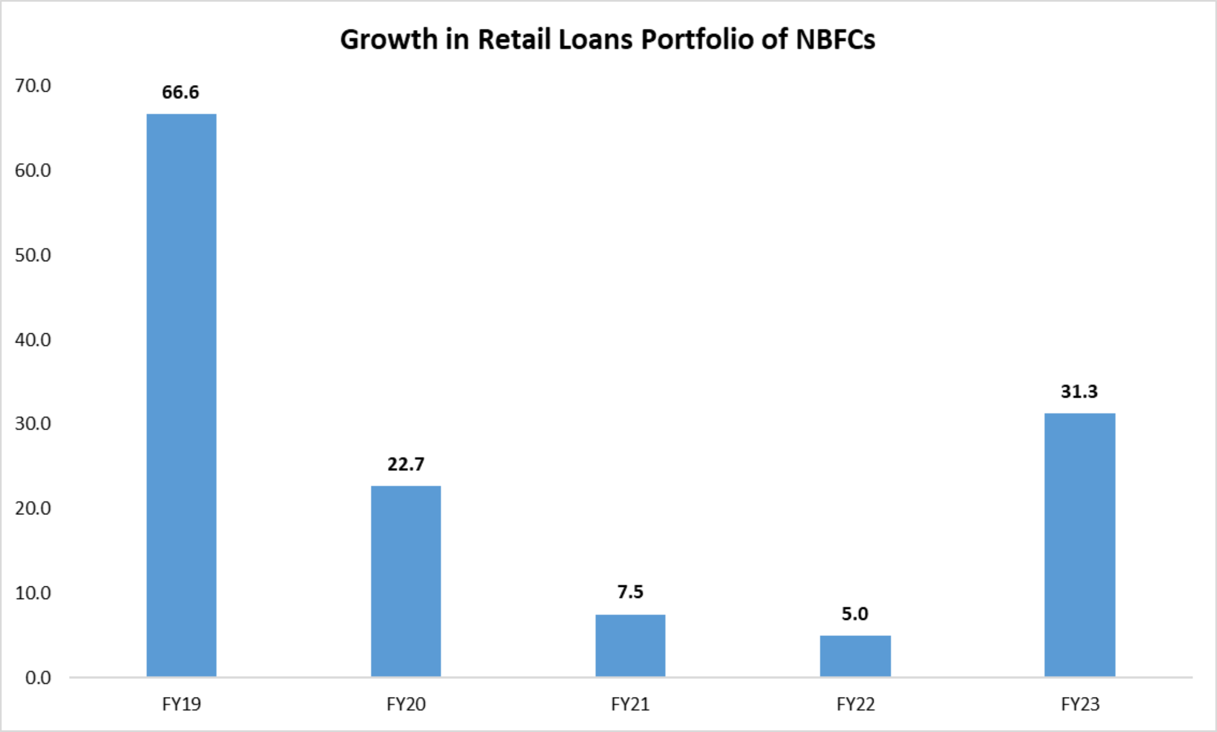


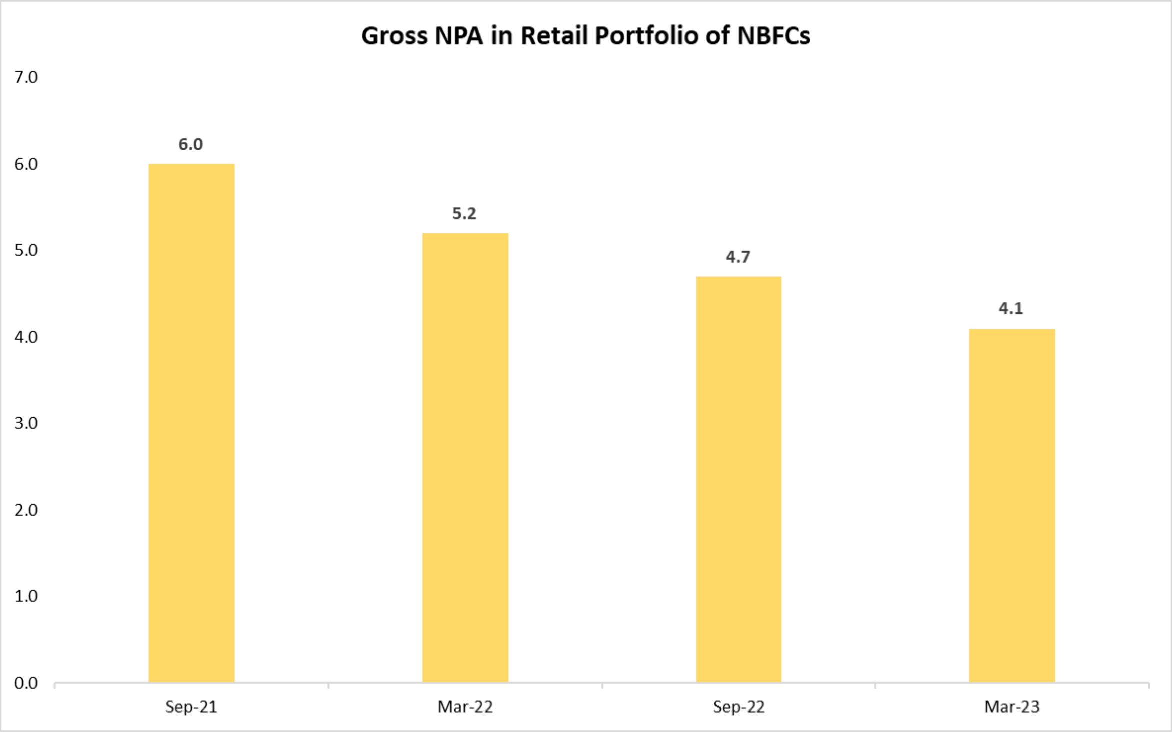


Total share of unsecured retail loans is minimal at 10%... indicating contained risk



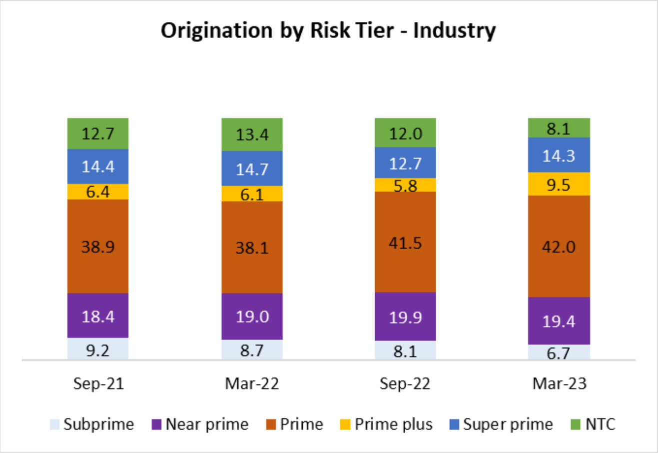
Retail portfolio growth of NBFCs (includes fintechs + P2P) has recovered in FY23 with falling NPAs

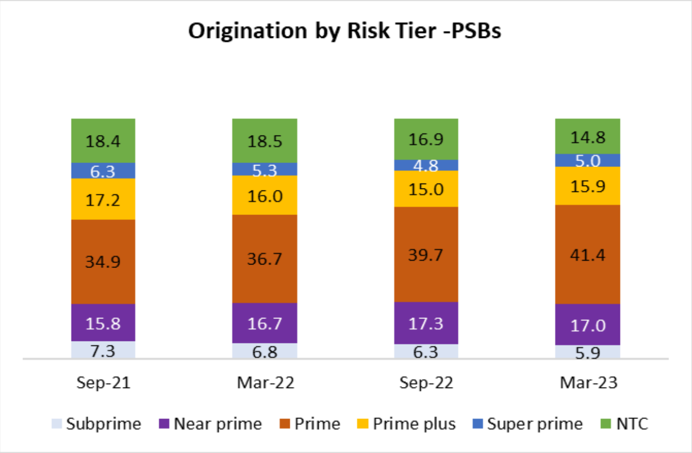


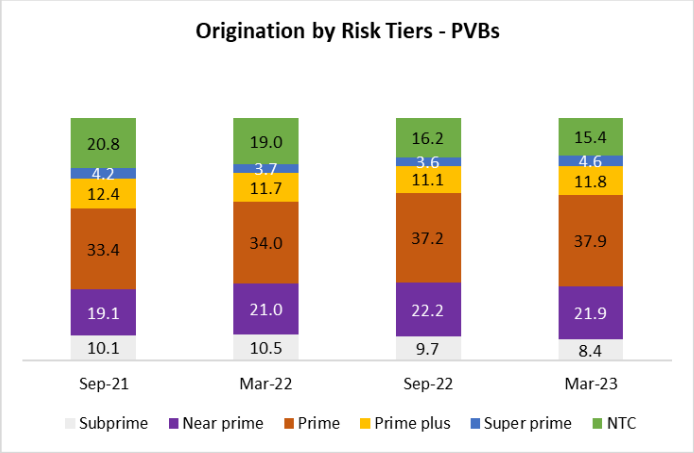


Origination by Risk Tier shows industry adopting a more cautious approach: PSBs clearly trump Peers!

- Recent origination statistics by Risk Tiers in consumer credit showcase increasing sectoral alignment with prudent practices as there appears a secular tilt in transition towards better rated borrowers at industry level itself (March’23 over Sep’22) with Public Sector Banks adopting a lower onboarding of below prime rated borrower mix (sub prime + near prime strata) over their Private sector peers. PSBs, in general, have a borrower profile in unsecured loans that inclines more towards salaried customers from government/defense/PSUs domain







Source:RBI FSR(Jun’23), PSBs: Public Sector Banks and PVBs: Private Sector Banks

Decline in Credit card outstanding per card indicates no need to worry about unsecured loans for now

- Household debt as measured by credit card outstanding per credit card in India has been either static or declining both in nominal and real terms (after adjusted for CPI inflation) in 2023. The decline in real credit card outstanding per card despite higher inflation expectations is a positive development

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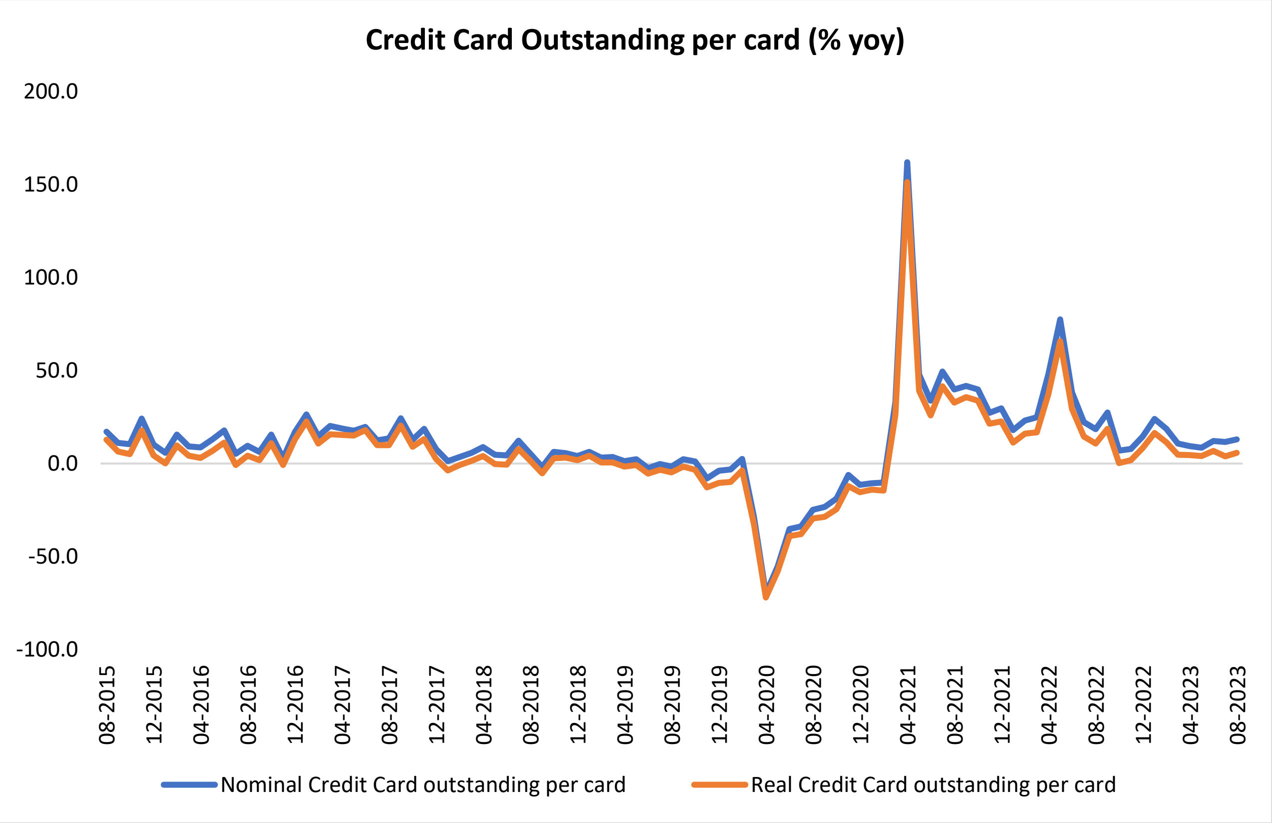

Trends in NTC and NTCC customers

SBI
The banker to every Indian

- We have analyzed a decent sample of credit card customers onboarded in recent period basis:
  - New to Credit (NTC) – Customers with no credit product/history
  - New to Credit Card (NTCC) – Customers who have loans or any credit product but do not have credit cards
- Heuristic data analysis of select borrowing profile reveals that both NTC (New to Credit) and NTCC (New to Credit Card) segments (i.e. people getting inducted into formal credit mechanism first time, either through institutional lenders or a credit card company) are showing little divergence in credit behavior post onboarding, alleviating concerns being raised from select quarters
  - In fact, NTC customer profile shows optimal adherence to repayment discipline vis-à-vis NTCC populace
- Basis CIBIL CMI data (Mar'23), personal loans of Rs 50,000 and more comprise ~98% of the total personal loan book size in terms of value. Small-ticket personal loans of less than Rs 50,000 form ~2% of the personal loan book size (in terms of value) and account for only 0.3% of the total retail loan book size at industry level. The cacophony around small ticket size loans clogging the pipeline is incorrect though continued cautionary approach from suite of lenders, especially those digital-heavy players in terms of prudent risk mitigation measures at origination level itself is the hallmark of responsible lending practices balancing superior sectoral growth that fuels consumerism optimally while ensuring a clean book

Early Bank Results show another blockbuster quarter in terms of profitability

- While quarterly results of only five banks announced (Q2 FY24), the signs are quite encouraging:
  - Net profit increased by ~50% y-o-y and ~25% q-o-q
  - GNPA dropped to less than 3% in Q2 FY24 as compared to 3.3% in same quarter a year ago

Banks Performance in Q2 FY24

Bank	Net Profit (Rs crore)					GNPA (%)		
	Q2FY23	Q1FY24	Q2FY24	QoQ%	YoY%	Q2FY23	Q1FY24	Q2FY24
Bandhan Bank	209	721	721	0.0	244.6	7.20	6.80	7.20
HDFC	10606	11950	15980	33.7	50.7	1.23	1.20	1.30
Indusind Bank	1805	2124	2202	3.7	22.0	2.11	1.94	1.93
Federal Bank	704	854	954	11.7	35.5	2.46	2.38	2.26
BOM	535	882	920	4.3	72.0	3.40	2.28	2.19
Total 5 banks	**13859**	**16531**	**20777**	**25.7**	**49.9**	**3.28**	**2.92**	**2.98**

Source: SBI Research

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