

FILLING UDAY KOTAK'S BIG SHOES

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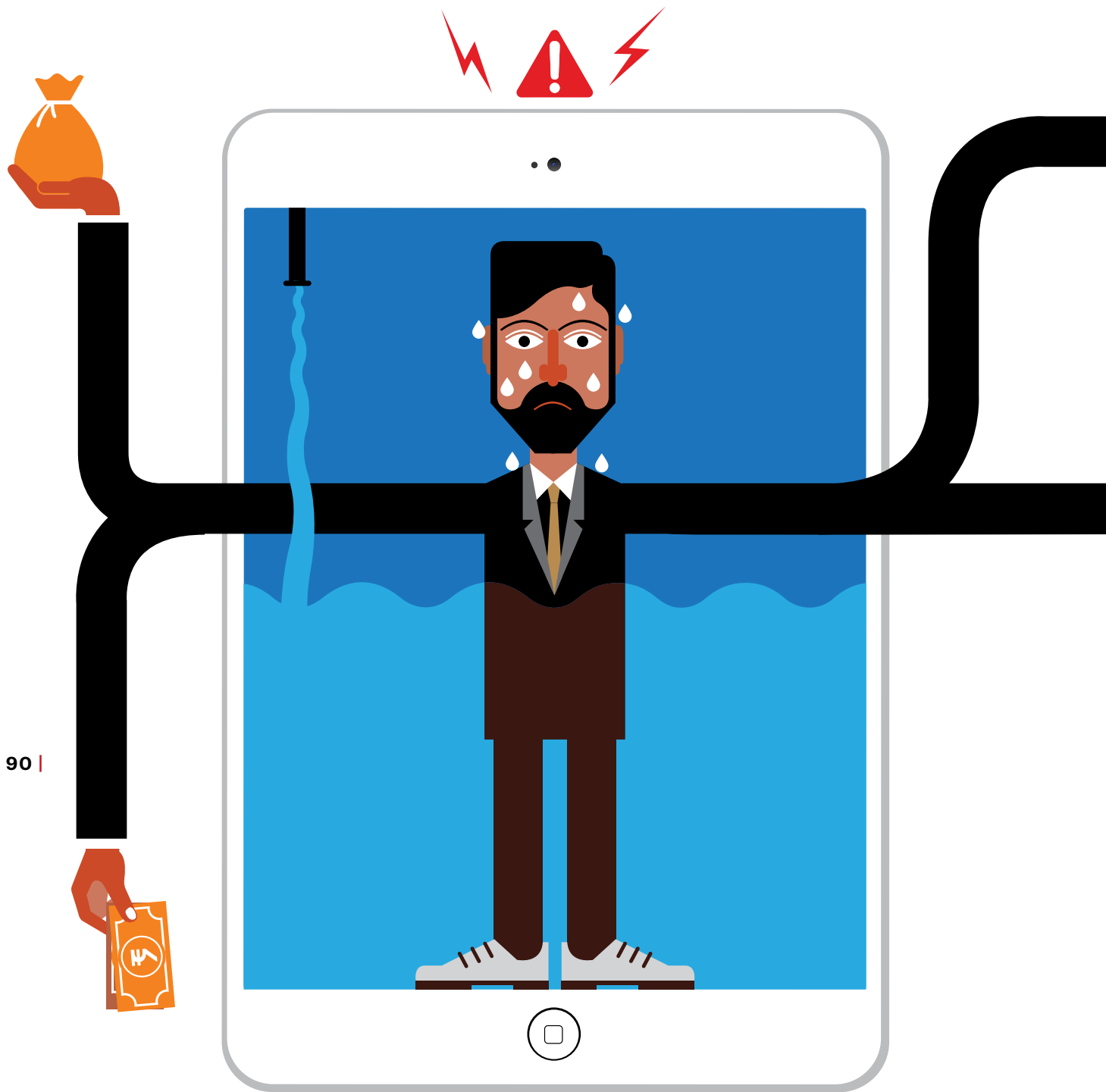
**ISRO'S  
BUSINESS  
MODEL**

**SPACE**

# India Inc.'s NEXT FRONTIER

CHANDRAYAAN-3'S SUCCESS HAS HIGHLIGHTED THE ROLE OF PRIVATE COMPANIES IN INDIA'S SPACE SECTOR. NOW, THESE COMPANIES, WHICH INCLUDE START-UPS AND LEGACY NAMES, ARE GETTING READY TO MAKE BIGGER BETS

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## CREDIT WATCH

### DIGITAL LENDING

Digital financing has made retail finance accessible. Fintech companies have thrived by offering online loans, often at higher interest rates, to customers with low credit scores or those new to credit

### BANKS SHIFT TOWARDS RETAIL LOANS

Traditional banks have also shifted their focus from industrial loans to providing more retail loans. Retail loans now make up 30 per cent of bank credit, up from 19 per cent in 2015



# THE RETAIL LENDING BURDEN

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**RETAIL LOAN DEMAND HAS BOOMED AFTER COVID-19, THANKS TO FINTECH FIRMS THAT CAN SERVE CONSUMERS REMOTELY. BANKS AND NBFCs HAVEN'T BEEN FAR BEHIND IN THE DIGITAL SHIFT. HOWEVER, THE SURGE IN UNSECURED LOANS POSES THE RISK OF OVER-LEVERAGING, AND PRESSURE IS MOUNTING**



BY **TEENA JAIN KAUSHAL**

ILLUSTRATION BY **RAJ VERMA**

## **RISING DEBT**

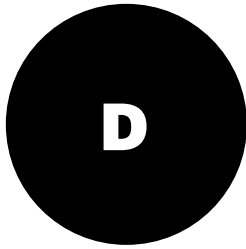
Many young individuals have fallen into the trap of overspending, which increases tension and anxiety, especially when they are unable to pay back their debt

## **YOUTH-DRIVEN DEMAND**

Nearly 40 per cent of retail loan demand comes from customers aged between 18 and 30 years. Given that more than half of India's population is under 30, this could pose a significant challenge

## **CAUTION NEEDED**

Despite growth in retail lending, there are warning signs of increasing delinquencies and concerns about concentration in retail loans becoming a systemic risk. It is crucial for lenders—including fintechs, NBFCs, and banks—to exercise caution



**DELHI-BASED HARINATH MEHRA** is worried about his friends. More specifically, their spending habits. Armed with multiple credit cards, his friends often go on spending sprees. What worries him the most is their tendency to spend more than they can afford, which has become a habit now. “For instance, many times they end up ordering a full meal when all they want is a burger,” says the 24-year-old.

It’s not as if Mehra was born wise. “I went through a lot of stress and anxiety when I couldn’t pay my credit card bills. It was not easy to deal with recovery agents, and it caused me a lot of mental harassment,” recounts Mehra. Thankfully, he is debt-free now. (See box ‘Freedom from Debt’.)

He isn’t alone. Millennials and GenZ folks, enticed by the ready availability of credit cards, Buy Now, Pay Later (BNPL) schemes, and other options on lending apps, can easily fall into a debt trap by overspending using these options, then paying only the minimum due or defaulting on their debt obligations, and then getting caught in the rigmarole of debt recovery. In fact, a July report by credit bureau TransUnion CIBIL reveals that 40 per cent of the retail loan demand is driven by younger customers aged between 18 and 30 years. Experts say this could become a serious challenge, given the demographics of the country where over half the population (52 per cent) is aged below 30, per the National Family Health Survey-5 (2019-21).

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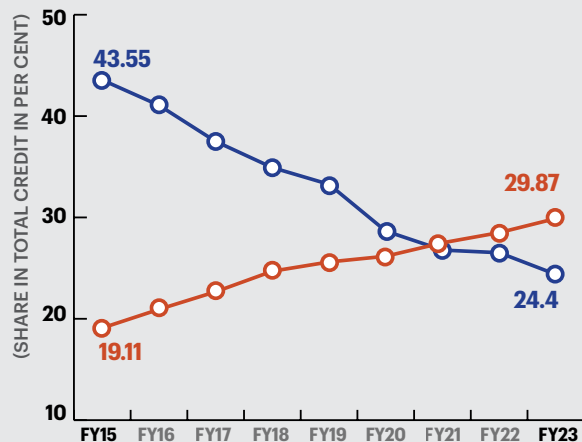
Consider this: According to data shared in Parliament, the amount outstanding on credit cards rose 28 per cent to ₹2.10 lakh crore in March 2023 from ₹1.64 lakh crore in March 2022. During the same period, credit card defaults rose to ₹4,072 crore from ₹3,122 crore in March 2022, which implies that defaults increased almost at the same rate as loans being disbursed.

“Credit card payment defaults increased in June 2023, despite credit card lending growth. Unsecured credit portfolios and

small-ticket loans drove retail credit expansion. Serious delinquency rates for credit cards rose by 2.9 per cent, while consumer durables delinquency increased by 1.5 per cent,” says Mahesh Shukla, Founder & CEO of PayMe, a fintech firm that offers short-term and personal loans. The fintech has seen 145 per cent jump in retail loans to ₹450 crore in FY23. Its gross NPA is currently at 3.2 per cent.

The ordeal of 37-year-old Ritu Sree from Hyderabad is yet another example. She was trapped in a web

## PULLING AHEAD



● INDUSTRY\*  
● PERSONAL LOANS

OTHER MAJOR CATEGORIES ON THE LOAN BOOKS OF BANKS ARE AGRICULTURE AND ALLIED ACTIVITIES, AND SERVICES; \*INCLUDES MICRO, SMALL, MEDIUM AND LARGE ENTERPRISES

SOURCE CMIE ECONOMIC OUTLOOK

> Banks are increasing retail lending while cutting back on credit to the industrial sector

> Due to rising NPAs in industry loans, banks shifted their focus to retail loans



**“There is definitely a concern that non-collateraised loans are increasing but cases of loan default are low as everything is based on the credit score”**

**MADAN SABNAVIS**  
CHIEF ECONOMIST, BANK OF BARODA

of app-based loans she took for her wedding and parents' medical expenses. Initially, she juggled ₹16.37 lakh in debt on a monthly income of just ₹30,000. But, a sudden financial catastrophe, coupled with constant lender calls (nearly 300 a day) and harassment, started taking a toll. Sree found SingleDebt, a debt management solutions provider, while searching for legal advice on creditor harassment. Its counsel has helped her regain control over her finances.

Due to such instances, debt-

relief platforms have seen a boom of late. "Our customer base has increased three times from last year... the trend shows that over-leveraging is happening and stress is building up," says Ritesh Srivastava, CEO & Founder of Gurugram-based debt relief platform FREED. He says the average loan size for FREED's customers has risen to ₹5.30 lakh now from ₹4 lakh in 2020, and the average age of a borrower has gone up from 29 to 32.

Harish Parmar, Founder of SingleDebt—that has seen a 25 per cent

increase in business—warns that this boom could snowball into a crisis as serious as the 2008 US sub-prime one. "People are struggling to pay online credit they got from BNPL and loans on apps. More due diligence has to be done... If that is not done, then this is a time bomb ready to explode... a lot of irresponsible lending is taking place."

**DIGITAL LENDING SURGES**

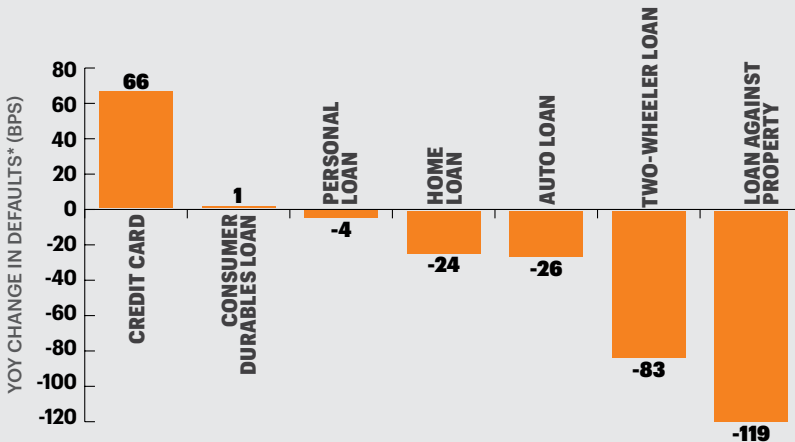
Catapulted by the rise in small-ticket lending, India has seen an annual growth of 39.5 per cent in digital lending over the past 10 years. Per a report by IIFL Fintech, India's digital lending market is expected to touch \$15 billion by 2030 from \$38.2 billion in 2021, at a CAGR of 33.5 per cent. Do note that most of these are unsecured loans, disbursed without any collateral.

Two things led to this surge: digitalisation and cross-selling. The pandemic helped fintechs shine because they could serve customers from a distance. Subsequently, payment apps such as Mobikwik and Paytm started cross-selling products, leading to easy loans. Today, Bajaj Finserv, Navi, LoanTap, PayMe, SmartCoin are among players that offer app-based loans.

To facilitate lending, fintechs tie up with NBFCs or banks, and leverage tech to streamline the application and disbursement process. Customers can easily apply for loans through apps by submitting the required documents, which are authenticated using a number of digital tools. Often, the loan is disbursed within hours.

The partnership with fintechs is one reason why there has been a spike in unsecured loans of NBFCs; according to a report by rating agency Icra, the number rose to about 23 per cent of the retail NBFC AUM in March 2023, from 17 per cent in March 2021. Per a Reserve

**DEBT STRESS**



\*DEFAULTS WITH DUE DATE PAST OVER 90 DAYS; DATA AS OF MARCH 2023

> Defaults in credit cards rose even as high growth in retail credit continued

> Secured loans registered a decline in defaults

SOURCE TRANSUNION CIBIL CONSUMER CREDIT DATABASE



**"Our customer base has increased three times from what it was last year... the trend clearly shows that overleveraging is happening and stress is building up"**

**RITESH SRIVASTAVA**  
CEO & FOUNDER, FREED



**“People are struggling to pay back credit they got from BNPL and loans on apps. More due diligence has to be done by all parties. If not done, then this is a time bomb ready to explode”**

**HARISH PARMAR**  
FOUNDER, SINGLEDEBT



**“Credit card payment defaults increased in June 2023, despite credit card lending growth. Unsecured credit portfolios and small-ticket loans drove retail credit expansion”**

**MAHESH SHUKLA**  
FOUNDER & CEO, PAYME

## CASE STUDY

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## FREEDOM FROM DEBT

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**HARINATH MEHRA**  
Age 24

**HIS STORY** Mehra lost his job in 2020, during Covid-19. He quickly found a new job, but it came with a 50 per cent pay cut. The salary was insufficient to cover his mounting credit card debt. Mehra had already amassed a debt of ₹3.95 lakh; his debts mounted after he lost his job during the pandemic

**HOW HE GOT DEBT-FREE** He got in touch with debt relief platform FREED which settled his bill at a 45 per cent discount with the credit card company. He became debt-free in just four months following counselling from the company

Bank of India report, 53 per cent of loans disbursed by NBFCs, and 10.8 per cent of the total amount disbursed, came through digital channels. In the case of banks, only 6.04 per cent of loans and 2.07 per cent of the total amount disbursed was through digital channels.

How do NBFCs benefit? They can reach out to new-to-credit borrowers who are otherwise difficult to find. This is important because as of June 2022, one-third of the retail credit market consisted of new borrowers, and the number has been increasing since. Then there are subprime borrowers—individuals with lower credit scores—who, according to Shukla of PayMe, accounted for 32 per cent of retail loans as of October 2022, an increase from 28 per cent in 2019.

While fintechs offer easy loans, they charge higher interest rates than banks. What, however, attracts most customers to them is the speed with which the loan gets disbursed. And therein lies the problem, say experts. “They (fintechs) should take some time to process the documents and not be under pressure to pay out loans in half an hour because that could mean they are not doing their full due diligence. RBI has to encourage fintechs to do full due diligence,” says Parmar of SingleDebt.

Banks too are focussing on retail loans. Per RBI’s Financial Stability report released in June, retail loans grew at a CAGR of 24.8 per cent from March 2021 to March 2023, almost double the CAGR of 13.8 per cent for gross advances. Further, unsecured retail loans increased from 22.9 per cent to 25.2 per cent, while secured loans declined from 77.1 per cent to 74.8 per cent. This is why RBI has warned that retail loans may become a systemic risk in its Report on Trend and Progress of Banking in India 2021-22.

PHOTO BY RAJWANT RAWAT

back then. So he would get beaten up by the bullies and they would smash him down the concrete steps of his school. But the scars that were worse were those that came from his father. He yelled at Musk for an hour or two, and yelled at him when he got beaten up. His father would take the side of the bullies. And so you see in the grown-up Elon those mood swings that his father had and also the mood swings that Elon Musk had as a child. You see him driven by these demons. Now, I'm here in New Orleans [in the US]. I led a pretty happy childhood but that may be why I'm not driven to do things the way Elon Musk is. I think those childhood demons he's turned into drives that are both astonishingly useful and also dark at times.

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*You are one of the very few people who have not only known but have lived with two of the biggest icons of the modern world—Apple Co-founder Steve Jobs and Musk. Both have had a lasting impact on how the world works. What is the one aspect in which they are polar opposites and the other in which they are similar?*

I think that Steve Jobs had a very good sense of human emotion. He could make products that would, as he put it, make our hearts sing—like the iPod, a thousand songs in your pocket. And he knew

with a feel for design what would excite people, and he cared about emotional connections. I think that Elon Musk cares more about engineering and manufacturing. Musk wants to make his own products and he's a very good materials scientist and engineer, but both of them had a sense of mission. They weren't just trying to improve the iPhone a little bit. They were trying to think different, as Steve Jobs said, they were trying to invent things that nobody else had seen, and that's the passion. They both had a

people in India love Tesla [and] are very, very eager for him to do more in India. [It's the] same with Starlink. And so he likes India a lot and he visits. I think that in terms of his future plans, that's a question of foreign direct investment and many other things. When he decided to go into China, there were laws in China that said if you're going to build a car factory, it has to be a joint venture with a Chinese enterprise and Elon Musk did not want to do that. So for three years, he kept refusing to do anything until it could

where things are going slowly and he says it is not the assembly line's fault; it's the fault of the design. So he will [rework] the design every day based on manufacturing.

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*If you had to choose one pivotal moment in Musk's life, what would it be?*

I think it would be when he decided to put all of his chips on the table and build a rocket ship company. And then right after, build an electric vehicle company. That showed a certain craziness. If you

## If you want to learn how to be an innovator, there's nobody better to understand than Elon Musk

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passion that allowed them almost to distort reality. People would say that's impossible and both Jobs and Musk would say no, it's not impossible. And it would drive people crazy, but they would also drive people to do things they didn't know they could do.

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*Elon Musk has lately shown a lot of interest in India. Since you've spent so much time with him, do you have any insights on his plans for Tesla's entry into India?*

He knows that a lot of

be something that he would control. So I think we can—if you read the chapter or two on China and his understanding of the Indian market—see how much he would love to get into the market in India. But the question would be, can he do it and keep control of his factory in the way he needs to? He is a control freak. [It's] not just quality checks, he feels that if you're in charge of your own manufacturing, you become more innovative. He walks the assembly lines late at night. He finds places

wanted to make money, you didn't invest in rocket ships and electric vehicles back then. But it just showed his all-in hardcore mentality. And at the end of 2008, they were both going bankrupt. They both ran out of money and he had to choose which one to save and he couldn't choose. He said both and he was able to take his own personal money out of his bank account and pay the workers because he was committed to keep both of them going.

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