

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. FI Net flows stand at ~USD 12bn and DII at ~USD 19bn for YTD23. FI's 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:

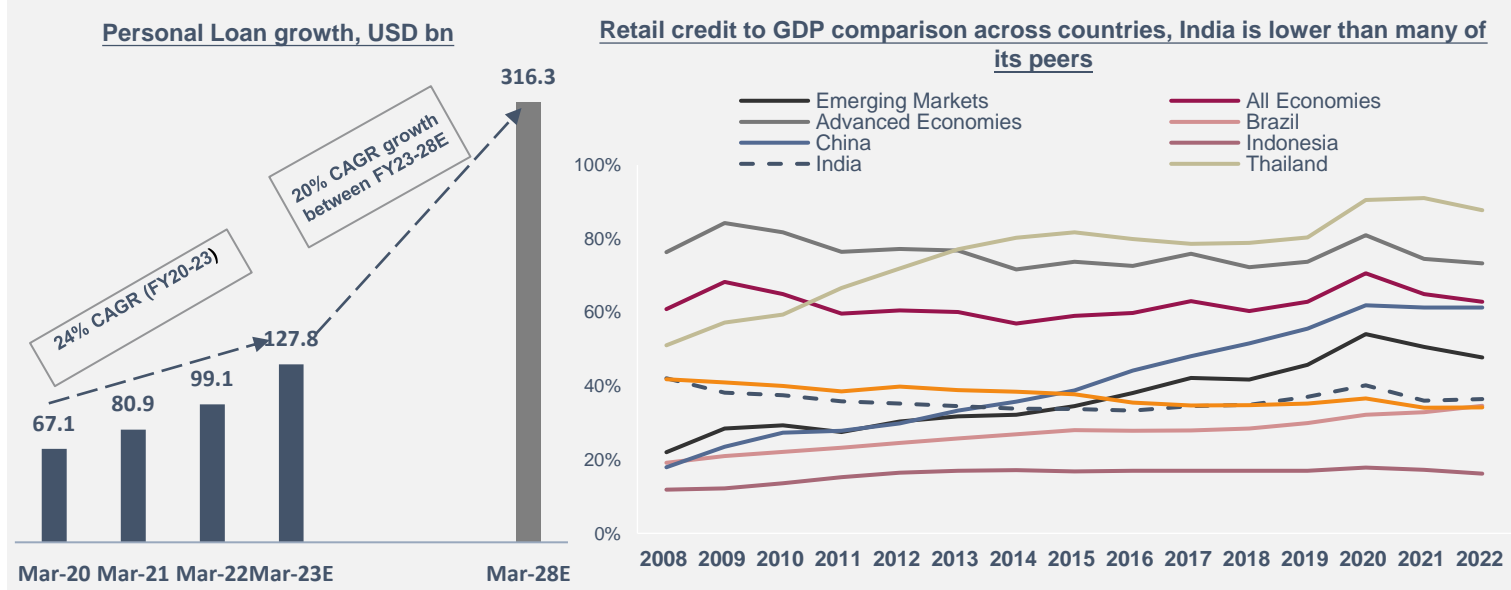


Chart Source: Axis Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FI - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF-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



Souvik Saha
Manager,
Investment Strategist



Jay Kothari
Senior Vice President,
Lead Investment Strategist

For past Issues, please see below:
[India Rewind October 2023](#)
[India Rewind September 2023](#)
[India Rewind August 2023](#)
[Older Issues](#)

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

DISCLAIMER: This communication is issued by DSP Asset Managers Private Limited. In this material DSP Asset Managers Private Limited. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions that are "forward looking statements".

RISKS - Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates.

All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates.

This communication contains information which refers to the past as well as information on future performance. **Neither past performance nor forecasts are a reliable indicator of future performance.**

This information and associated materials have been provided to you at your express request, and for your exclusive use. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such jurisdiction or country. Any distribution, by whatever means, of this information and related material to persons other than those referred to above is strictly prohibited.

Distribution of this communication may be restricted in certain jurisdictions. Any product(s) mentioned within this communication (i) may not be registered for distribution in your jurisdiction, and (ii) may only be available to professional or otherwise qualified investors or entities. The information is for general guidance only, and it is the responsibility of any person or persons in possession of this material to inform themselves of, and to observe any such restrictions, all applicable laws and regulations of any relevant jurisdiction, including of any applicable legal requirements, exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile.

Past performance may or may not be sustained in the future. There is no assurance of any capital protection/capital guarantee to the investors. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same. Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of investing into the investment strategies.