Debt Weight

As job losses and economic slowdown push retail debt past ₹40 lakh crore, there's growing worry about possible defaults on repayments

:: **Shailesh Menon**

The past one year has been tough for Balasundaram Iyengar (name changed on request), who runs a small, brochure-designing company in Delhi. Fresh orders to print glossy catalogues and pamphlets for tour operators – who formed a large part of the firm's client roster – stopped exactly a year ago, when the first Covid-19 cases began to be reported from the country.

Business and life have been on a downward spiral for the Iyengar family ever since. Paying salaries to his designers and proofreaders in the first few months of the lockdown – without any revenues coming in – depleted Iyengar's capital buffer. His personal savings dwindled at an alarming pace as bills stacked up on his table every month. Bills and living expenses of June maxed out the Iyengar family's credit cards. By September, Iyengar was staring at a debt pile of over ₹30 lakh that he owed to a large private bank.

Reasons for High Delinquency

- Job losses, salary cuts and economic slowdown
- After the IL&FS debt crisis, lenders were more focused on offering loans to retail borrowers
- Low-interest regime encouraged people to borrow more
- Ecommerce foray into smaller cities and towns saw more people buying products on credit
- Income levels of the self-employed are still below pre-Covid level

Iyengar is among the thousands of self-employed professionals who have lost their livelihood and are caught in a debt trap at the fag end of the pandemic. It is not only the self-employed, but also the salaried, who are staring at bank bills that may take years – or a serendipitous windfall – to settle.

"Lenders may feel some pain in the coming quarters, but it may not be an unprecedented disaster. The wholesale loan books of some lenders may see more stress in the coming months."

YS Chakravarti, MD & CEO, Shriram City Union Finance

Retail debt in India – at over ₹40 lakh crore – has never been so alarmingly high, and lenders have a lot to worry about. Non-performing assets (NPAs) are gradually piling up across retail loan buckets and unsecured portfolios (such as personal loans or credit card payouts) are a ticking time bomb.

It's no wonder that RBI in its recent financial stability report said that banks' gross NPAs may rise sharply to near-14% by September 2021 – a peak revisited after several years.

"The repayment profile is building up well, but it is still far from pre-Covid levels. The self-employed, low-income earners are finding it difficult to service loans as their income levels have not recovered yet," says Rohit Garg, co-founder, SmartCoin, a fintech lender serving low-income borrowers.

Staid macroeconomics or gory statistical projections, however, do not offer comfort to Iyengar – or other careworn borrowers like him. A couple of months ago, the 51-year-old approached Freed, a Gurgaon-based debt settlement firm, to find a way out of the mess.

"We are negotiating with the bank now. We are asking them to give us one year to pay back the principal amount. We are also requesting the bank to waive off the accrued interest portion," Iyengar told *ET Magazine*.

Nobody, except Freed, believes the bank would listen to Iyengar's pleas. Freed says it has reasons to be optimistic. "We recently settled an unsecured loan at 60% haircut. The borrower only had to repay 40% of the money he owed the bank," says Ritesh Srivastava, founder-CEO of Freed.

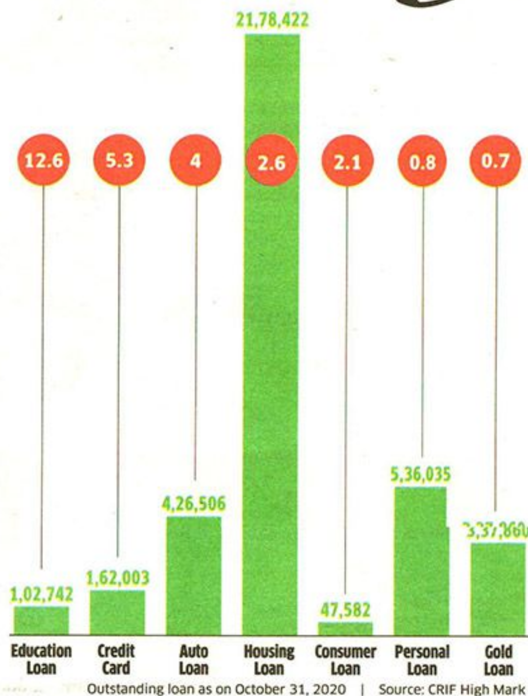
Srivastava founded Freed last year, right in the middle of the pandemic. Nine months into the operations, Freed claims to have enrolled 2,100 distressed borrowers, with a debt pile amounting to ₹120 crore. "There's a lot of stress, especially in the personal loan and credit card segments. Many of our borrowers are between 24 and 35 years of age," says Srivastava. "Banks are worried about their money. They are willing to reach a settlement – even with a deep haircut. They are desperate to recover whatever money they can and close the defaulting loan accounts," he adds.

Senior executives of large private banks, however, paint a different picture altogether. They seem to be well in control of what could be a spiralling debt crisis. Bankers are putting up a bold face. A stoic demeanour can even prevent a run on the bank by depositors. A

Loan Book Status

Outstanding Loan (₹ crore)

Portfolio at Risk/ Delinquency of 90+ Days (%)



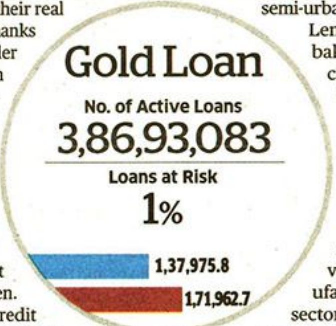
"Higher NPA in education loans is a legacy issue. NPA level in education financing business is sub-1% for well-managed portfolios. The credit will behave well if future cash flows have been underwritten right"

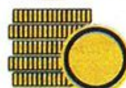
Amit Gainda, CEO, Avanse Financial Services

Loan Disbursals

In Oct 2018-Sept 2019 & Oct 2019-Sept 2020

Loan Amount Disbursed **Between Oct 2018 & Sept 2019** (₹ crore)
Loan Amount Disbursed **Between Oct 2019 & Sept 2020** (₹ crore)





Note: No. of active loans is as on October 2020
Source: CRIF High Mark

thick provisioning for probable debt write-offs, along with a mention of higher recoveries and an uptick in interest and fee income, would keep shareholders and the stock market happy.

"We have adequately provisioned for future write-offs. A large chunk of the provisioned amount may come back to the bank in the fourth quarter as recoveries have been pretty strong. We are well-positioned in terms of capital buffers to withstand any blow-out," says the executive director of a large private bank, requesting anonymity.

Data from CRIF High Mark, a widely tracked credit bureau, plots a gradual rise in NPAs (portfolio at risk or PAR – loans past due date for more than 90 days) across key retail loan buckets. Take the case of auto loans, where delinquencies have consistently inched up from 2.9% in March 2019 to 4% as of October 2020. Delinquency ratios in housing loan portfolio scaled up to 3.1% in June 2020 (from 1.9% in March 2019), before stabilising at 2.9% and 2.6% in September and October 2020 respectively. The consumer loan bucket, which comprises small-ticket, small-tenured loans, has seen a marginal uptick in delinquency to 2.1%.

Personal loan portfolio looks stable with a delinquency ratio of 0.8%, but this should be taken with a pinch of salt as most banks have not "recognised" their real NPAs in this segment, thanks to a Supreme Court order that prohibits them from marking out borrowers who availed the RBI-instituted moratorium between March and August last year. Most borrowers had taken moratorium support for their personal loan and credit card payments back then. Delinquency ratio in credit card portfolio has risen to 5.3% in October 2020 from 1.5% in March 2019, CRIF High Mark data suggests.

"Immediate threats for banks come from their retail loan books," says Madan Sabnavis, chief economist, Care Ratings. "There are a lot of people who have lost jobs or seen a reduction in their salaries. A large number of these people are likely to default on the repayments in the coming quarters. This may result in an uptick in delinquency ratios going forward," he adds.

Unlike private bank honchos, PSU bank managers are more realistic about the situation. They are already seeing stress in some retail loan portfolios and borrower segments. SME, two-wheeler, personal and affordable housing loan segments look the most vulnerable, they say.

"If manufacturing sector does not revive soon, PSU banks will see elevated levels of NPAs," says the MD & CEO of a large PSU Bank, requesting anonymity. "We are seeing slippages among retail borrowers who are working in the manufacturing sector. Also, because the earnings of small business owners and self-employed people have not reached pre-Covid levels, we see more stress among urban and semi-urban borrowers."

Lenders with large balance sheets, adequate capital cushion and relatively easier funding options may survive a blowout scenario, say sector analysts. Lenders who are focused on borrowers engaged in select services sector or trading-like vocations (and not manufacturing or hospitality sector) will see higher recoveries over the next two quarters.

"Overall, lenders may feel some pain in the coming quarters, but it may not be an unprecedented disaster," says YS Chakravarti, MD & CEO, Shriram City Union Finance, a large NBFC. "Things have improved from last April, for sure. Recoveries are improving by a good measure. Although slippages are relatively higher in Stage 2 (61 to 90 days past due) collection cycle, most lenders are able to recover their monies and arrest the slippages in Stage 3 (above 90 days past due). The wholesale loan books of some lenders may see more stress in the coming months," Chakravarti adds.

"An uptick in NPAs should not be seen as a thing to be worried about excessively. It's just an NPA – not a write-off. Give borrowers some time, and they will repay"

George Alexander Muthoot,
MD, Muthoot Finance

According to lenders, the housing loan book showed some slippages in the first two quarters of this fiscal, but recovered towards the third quarter as home loan borrowers started paying their monthly instalments. A few borrowers also made good use of the one-time restructuring option given to them by banks and other lenders.

"Home loans are performing well and collection efficiencies are nearly back to pre-Covid levels," says Gagan Banga, VC & MD of Indiabulls Housing Finance, a large home loan provider. "Borrowers asking for a one-time restructuring in the housing loan segment were less than 1%. Most lenders are carrying 2-4% provision buffers despite lower slippages and minimal restructuring. So secured loans are doing well now. But unsecured loans may go through a credit cycle," he adds.

In terms of demand for fresh loans, lenders have managed to grow their gold loan, education loan, personal loan and credit card books. The demand for gold and personal loans and higher credit card purchases could be an indicator of liquidity stress at the ground level. More credit card purchases are also a proxy for online purchases.

Between October 2019 and September 2020, gold loans worth ₹1.72 lakh crore have been disbursed, as per CRIF High Mark scrolls. George Alexander Muthoot, MD of Muthoot Finance, does not see a large chunk of these disbursals as "desperate loans". "Gold loan has now become a lifestyle credit option," he says. More people, he says, take gold loans because these are easy to avail. Requirement for credit is fuelling the demand for gold loans, he adds.

Muthoot says there isn't a lot to worry about. "Consumers are in cash-conserving mode now. But with a lot of sectors doing well, the appetite to consume will come back. Also, an uptick in NPAs should not be seen as a thing to be worried about excessively. It's just an NPA, not a write-off. Give borrowers some time, and they will repay," says Muthoot.

Another category of retail debt that has grown significantly is education loan. It has grown nearly 26% (in 2020) to over ₹1 lakh crore. But this bucket has an abnormally high delinquency ratio (PAR 90+ days past due) of nearly 13%. Over 90% of education loans are booked by PSU banks.

Amit Gainda, CEO of Avanse Financial Services, says the NPA level in education financing business is sub-1% for well-managed portfolios. "The credit will behave well in this segment if future cash flows have been underwritten right," he says. "We don't take the conventional lending approach here. We underwrite these loans by evaluating the potential employability of the student, which includes scanning their academic record, entrance test scores, course and institute-profiling." About 50 criteria are evaluated to predict the employability score of a student, he adds.

According to Varun Chopra, CEO of Eduvanz, the demand for overseas student loans for under-graduate and post-graduate programmes witnessed a spike during the lockdown as major universities abroad offered discounts and relaxed their visa norms. "Back home, there has been a marked shift, with lenders preferring to provide credit for courses backed with job-placement guarantees or courses that help people to upskill. Many salaried employees started upskilling themselves as they were working from home and had spare time," adds Chopra.

There are, however, no concerns of rising NPAs or a retail debt crisis on Dalal Street. The BSE Bankex index has more than doubled over the past year. Will we have to rephrase that old Keynesian saying for these times? Markets, maybe, can remain irrational longer than banks can remain solvent. ■

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