

Unsecured lending business back on a growth path

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In a challenging and competitive ecosystem, non-banking financial companies (NBFCs) are expected to witness a constant growth of 15-20 per cent in the retail finance business. The unsecured lending business, which was under-served since 2008, is now making a comeback; and is becoming one of the biggest growth drivers for NBFCs in retail financing.

With a diversified portfolio and a strong customer base beyond key metros, ECL Finance Ltd., the NBFC arm of Edelweiss Financial Services Ltd., is well-poised ride the wave of unsecured lending through serving underserved self-employed segment of people with customised product offerings. **Anil Kothuri**, President and Head Retail Finance, Edelweiss Financial Services, spoke to **The Hindu** about emerging opportunities and company's way forward.

Excerpts.

Retail finance segment is on a growth path which was ignored by banks earlier. And now, they are also showing a lot of interest in this segment. What are your views?

Yeah, Edelweiss Retail Finance commenced business in September 2010. So we finished exactly five years. And we have home loans, loan against property, loan to SMEs secured and unsecured, and we have a microfinance business.

Now our understanding is that the demand in the retail finance segment is reasonably constant and growing at a constant rate of between 15 and 20 per cent annually.

There are now some companies, which are dedicated to serving individual customers. However, what has happened like you've rightly pointed out is that in the days that the industry was doing very well.

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trial houses and the focus on the retail segment was less.

Will you say the retail segment was ignored?

I will not say ignored. I will just say that the focus was elsewhere. And the focus was on the larger segment. Growth was happening, and it's easier to do larger loans. Because one loan would be a few Rs.100 crore as opposed to retail.

Now what's happening is that number one the demand from corporate India is tapering off. Two, whatever borrowing is happening is happening outside of the banking system because banks are not dropping base rates and markets are adjusting.

So, issuance of NCDs and borrowings from the professional markets have increased. For this reason, now it is becoming imperative for banks to address the retail segment. And which is why we're seeing some heightened activity in terms of either advertising or overtures made to customers in the retail segment.

But for a new entrant like Edelweiss, how are you able to compete with banks which have established branches all over the country?

Presence does not necessarily translate into serving the customer. Because, you look at the housing finance business, about 55 per cent goes to housing finance companies and only 45 per cent to banks. So, what this means is specific focus on serving specific segments of customers translates into customised product and more focused addressing of the customer needs.

Very often the customers who come to us are the same customers who go to the bank. But they come to us either because of serious surveys, or more customised loan amounts or simply because they do not have access to banks.

For example we have a business where we offer loans to customers without formal income declared on paper. In Tamil Nadu (Madurai) we did something called a loan camp where we did some basic advertising and asked customers to come to our branch

and take some pre-approvals for home loans. 70 customers visited the branch. That was an eye opener for me obviously because Madurai is a large city and there are several banks present. But there are customers who do not have access still to home loans. So I think by providing the right product to the customer, and by turning it around on a reasonably quick basis, there is an opportunity to serve enough customers.

How is a product like loan against property picking up?

It is growing quite significantly. Under the loan against property business the combined outstanding of all banks and housing finance companies was about Rs.2.2 lakh crore according to a recent rating agency report. Over the next four years it's expected to increase to Rs.5 lakh crore.

The volumes every year are growing by about 50 per cent, because customers have discovered this habit that they can actually pledge their residential or commercial property to raise money quickly for their business.

Growth in home loans is slowing down or is it growing?

It is actually growing. Over the past four years, between 2010 and 2014, the number of home loans has stayed constant at about 10 lakh, across the country. This is data from CIBIL. So the growth has happened only because of ticket size. Now for the first time over the past 12 months on a run rate basis we are tracking to about 11.5 lakh loans. That is a measure of how the number of loans are increasing. Despite, whatever views people may have on the property market and all of that, the fact is that the number of loans is increasing.

Is it the right time for people to enter or they have to wait for some more time to purchase house?

If you look at it, we are a reasonably high inflation country. If you take an average of 7 per cent annually, nominal prices have to increase by 7 per cent if the real price is constant. Which means in 5 years it is a 50 per cent increase, 7 per cent compounded annually. In that sense there has been a slightly muted increase and prices have actually declined in some markets like the NCR market. So that's my take.

The next thing is that migration to urban India, which is the basis for the growth of cities like Gurgaon, or even OMR and ECR in Chennai. In 2005 there was no OMR or no ECR. All those things have developed now. Metro [rail project] is happening so connectivity is there. It's 20 minutes more in the train, that's all. Once the metro came, it was an option for people to sell their New Delhi homes, buy a larger place in Gurgaon, and use metro rail to Delhi.

That is the logic that drives property

prices. And so long as there is urbanisation, there is a natural upward pressure on prices. However, there will be periods of stagnancy definitely.

What do you think about interest rates?

Common consensus seems to be that rates will not increase from here over the short term. However, for borrowers of home loans and things like that, it's a long term liability.

In 15 years rates will go up, rates will come down, all kinds of things will happen. So today's rates need not or should not be a factor in deciding home loan. One should budget for the three per cent increase and ensure that you're comfortable at a slightly higher EMI, because that can happen sometimes. What will happen to interest rates is an increasingly complex matter. So individuals should not try to base their decisions on interest rate movements.

What about small ticket home loans and affordable housing?

That is something that we are pursuing quite significantly and overall that is going to grow quite significantly. The reason again is that the metropolitan markets are quite saturated and people now are finding it viable to live even in smaller cities. One of the big factors is that inter connection there. Now lenders are coming up with products to address the underserved self employed segment of people.

Do you have any products for these people who are not salaried and are self employed?

Yes, we do have an assessed income product, because not all self employed customers, especially the smaller self employed people maintain profit and loss accounts. We have innovative ways to assess their income and repayment capacity. Before offering loans due diligence needs to be greater because you are not merely looking at some pieces of paper. You need to observe the customer's business before you record your observations. So enhanced due diligence is the basis of arriving at an appropriate loan amount.

Which retail segment is growing in the last one year?

The unsecured lending market, which was under-served since 2008 is beginning to make a comeback. Banks pulled out of unsecured lending after 2008, because losses went high. Small ticket personal loan segment didn't do very well. Lot of people pulled out of unsecured lending. But increasingly people are making a comeback to unsecured lending. As a consequence it is growing very quickly.



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