

'With GST, More Lending will be Formalised Now'

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As head of unsecured mortgages and small-ticket working capital loans, **Arvind Kapil** oversees the largest retail portfolio in HDFC Bank totalling more than ₹1.5 lakh crore. The soaring retail credit and competition in the segment has made many worry about standards. In a discussion with ET reporters, Kapil talks about all that's retail. Edited excerpts:

Gayatri Nayak: Deputy governor Viral Acharya has said unsecured lending and retail would cross-subsidise corporate loans. Is it so?

That's the question all the investors also ask because there has been rapid growth in this segment. In India, the per capita income is going up and there has been a rising trend on the consumer credit side. But, more importantly, India has 46% of food expenditure but the non-food expenditure is not growing. In UK, food expenditure is 9.5% and in Russia, it is 35%, so non-food expenditure is very high. The non-food expenditure has home loans, all small-ticket working capital, and MSME. Retail as percentage of the whole business, which constitutes a lot of unsecured loans, is only 16% of GDP compared with 80-90% in Germany and Singapore. The fact is that unsecured loans will grow over two to three decades. Consumerism is at a very nascent stage. Retail is growing despite our size without delinquency.

Saloni Shukla: But what about the system? We are seeing ₹3,000 of loan for even flight tickets now. Is risk building up?

It's all getting connected with digitisation. The biggest technology change at the ground level is mobile payments, where a lot of them are lending small amounts. But it's at a nascent stage. But it's important to keep a close eye on lending from the minute you lower the ticket size more than required. You have got to see what profiles you are funding. How good is an institution on risk assessment? That will never go away whether you are doing digital or not. The ability for risk management and the temptation to look at top line versus bottom line have always been there historically and will always be there.

MC Govardhana Rangan: For consumerism to pick up, there were certain factors that were in place in Western societies. Do we have those things in place?

There is no substitute to a growing economy. Common sense is that if the economy is growing, it is better for per capita income, more manufacturing and more jobs. In any country, 80% of job increase is in SMEs. SME lending



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historically has only been 10% of GDP here. With the GST kicker, more lending will be formalised. One-third of the working capital today is not formal lending because they borrow from family and friends. When they get inducted in the formal banking system, you will have far more robustness of revenues coming from this stream. You will have all of them with measurable turnover. Today, the biggest challenge in the self-employed segment is the fact that he does not fully declare his revenue. Once these self-employed get into GST, there is going to be a multiple that will come into the banking system. You are going to get more jobs because there is going to be more leverage and leverage always creates growth.



ON SMALL LOANS



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Pratik Bhakta: Everyone, from banks to NBFCs, are targeting similar kind of customers. But how many new-to-credit or thin-file customers we are actually adding?

In personal loans, the new-to-bank is very high. In SMEs, there is a substantial portion which is moving from public sector to private banks. But with GST, that will change because almost the entire fraternity is going to go through this learning curve in this manufacturing bandwidth where they are going to start borrowing from banks. There is going to be a whole lot of new-to-banks, so that piece is going to get a new kicker from the SME point of view. For personal loans, I can already see a huge amount of new-to-bank. Personal loan is the new working

capital for the salaried. If you are sure that your job is safe, you advance a lot of purchases and holidays.

Saloni Shukla: How do you see working capital benefit from GST?

With GST, every single transaction gets recorded, which means that the entire set of vendors who have to claim input credit have to ensure that every single supply chain down the line has done it. Otherwise, he will have to make provision for it. The government has smartly ensured that compliance also goes up substantially. So, in six months or a year down the line, you can actually talk to the businessman and he will give you his GST data and you will know his turnover and his banking history, which means he will be accurately fundable. He will then realise his rate of interest is lower than his friends and family.

Sangita Mehta: As your unsecured portfolio grows, how has your collection system grown as it needs a lot of follow up?

Unsecured does not have a higher delinquency rate thanks to the credit information bureaus. If you go back 10-12 years, unsecured used to be the riskiest product. How many of you would be comfortable if your name flashes in any of the bureaus as somebody who has not been paying on time? No one would. The advantage is everyone is benefitting.

Joel Rebello: How have fintech disruptions affected your business?

We have been ahead of the curve in that. If you look at our 10-second loans, we are almost doing ₹1,000 crore a month. Even on loan against shares, which used to take 5-7 days, we are doing it in 2-3 minutes, this is a product which is nowhere in the world. 35% of my total equity business is going digital already.