TruBoard Partners

CREDIT CARDS IN INDIA
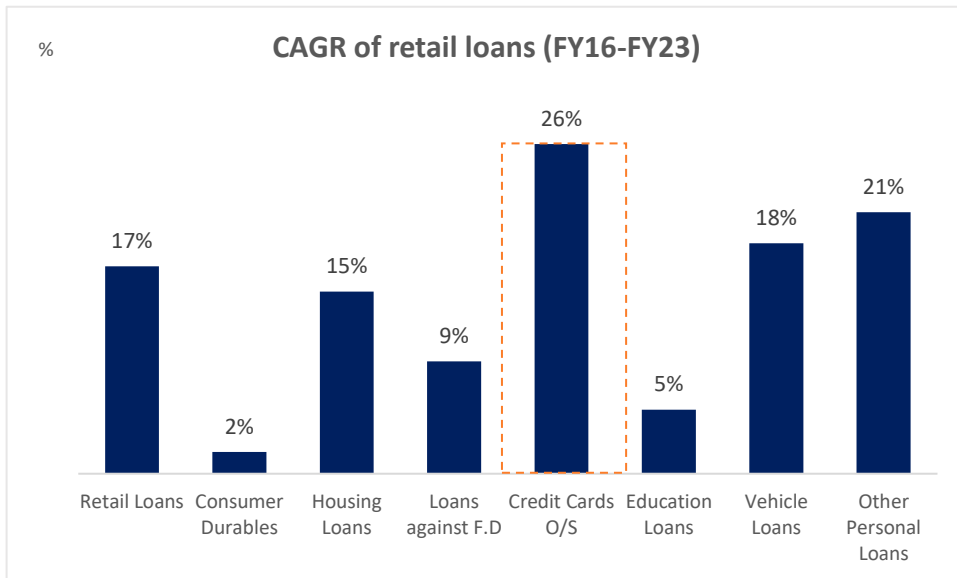
August 2023

Overview

➢ The share of retail loans in total credit outstanding by scheduled commercial banks has grown from 19% in FY16 to 29% in FY23. Outstanding retail loans by scheduled commercial banks have nearly tripled in the last seven years, growing at a CAGR of 17%, from INR 1.4 lakh crore in FY16 to INR 4.1 lakh crore in FY23. Within retail loans, loans against credit cards have grown at a CAGR of 26% during this period, from INR 38 thousand crore in FY16 to INR 1.94 lakh crore in FY23.

➢ While credit growth in most sub-sectors of retail loans have witnessed a moderation in Q1 FY24, growth in loans against credit cards, gold jewellery and education loans has recorded significant growth. Outstanding loans on credit cards increased to 31.9% on-year in Q1 FY24 compared to 29.9% the previous quarter.

➢ This surge in retail lending (currently constituting ~30% of the total credit), can be attributed to the ebbing of the COVID-19 pandemic, improving prospects of employment & economic situation, and burgeoning of digital lending products & platforms.

➢ According to the data shared by the RBI in reply to an RTI, credit card defaults have risen by INR 951 crore, to INR 4,073 crore in FY23 from INR 3,122 crore in FY22. Although the retail segment played a critical role in bank credit recovery process, concentration of banks' loan portfolio in unsecured lending can have serious macroeconomic and financial implications.

➢ The RBI, however, has raised concerns over this rise in unsecured lending on financial stability. In addition to this, the RBI has highlighted concerns over the growing risk of delinquencies on unsecured loans amidst high interest rates and high inflation.
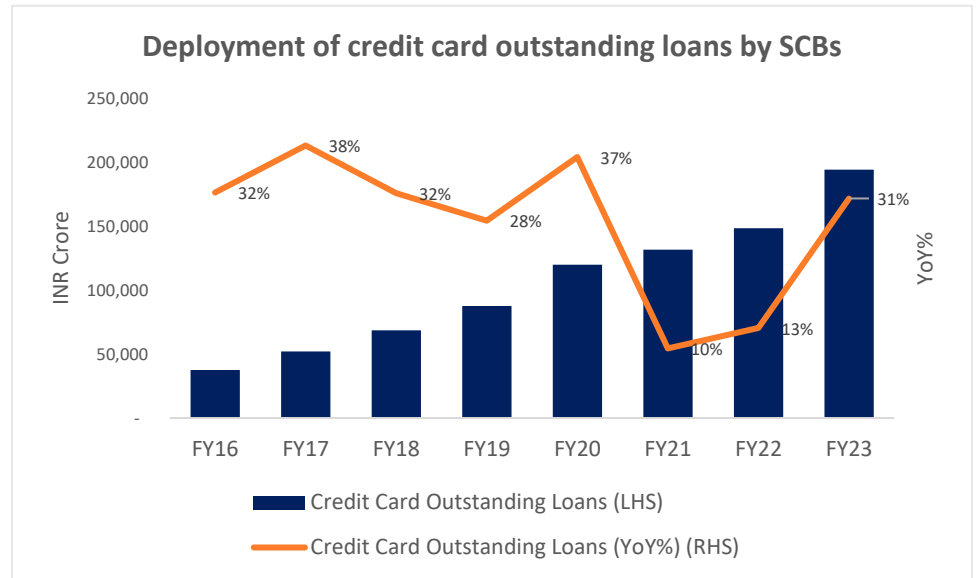
Key Trends - Credit Cards in India

➢ Number of credit cards issued by SCBs grew at a CAGR of 20% over the last seven years. Private banks lead the credit card market with 70% of the total cards issued, followed by public sector banks at 24%.

➢ Average spend per credit card has grown at a CAGR of 7.6% from INR 9,094 in FY16 to INR 14,924 in FY23. During this period, Consumer Price Index grew at a CAGR of 4.9%.

➢ Credit cardholders have increased their leverage in the last two years. While incremental amount outstanding on credit cards has almost quadrupled form FY21 to FY23, transaction value on credit cards has doubled during the same period.

➢ While GNPA ratio in retail loans has come down to 1.4% in FY23, compared to 1.8% in FY22, GNPA ratio in credit card receivables has increased to 2.02% in FY23 compared to 1.9% in FY22. Public sector banks seem to be faring poorly with credit card GNPAs at over 10%.

➢ Rising delinquencies in credit card loans needs attention and caution. There are talks that the RBI might increase risk weights on unsecured personal loans and outstanding credit card balances.
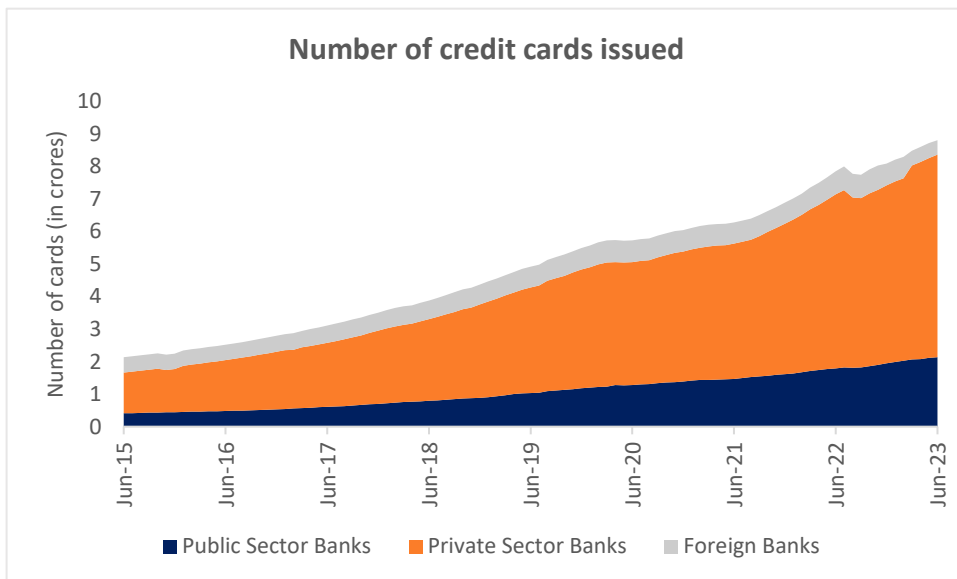
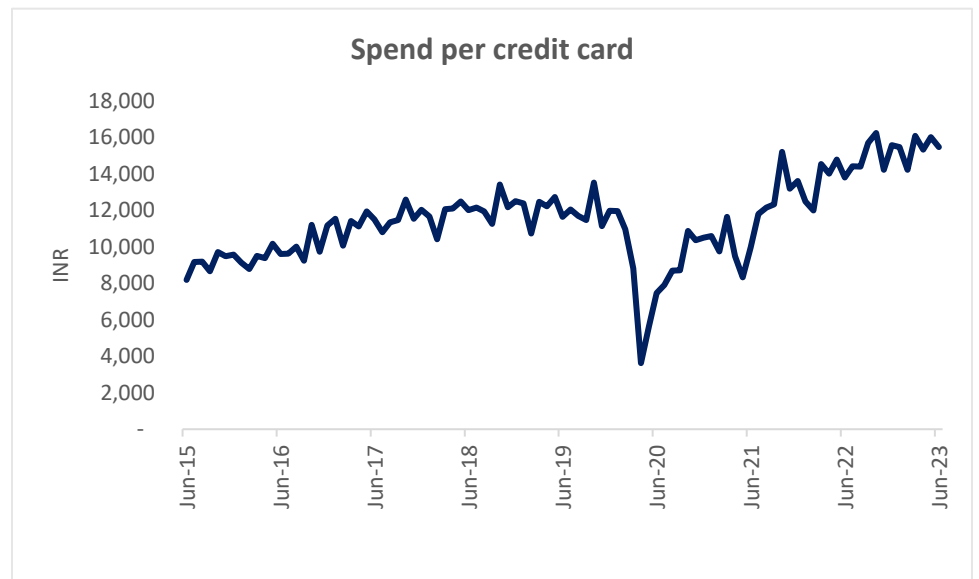## Credit card loans outstanding (SCBs) grew at a CAGR of 26%

CAGR of retail loans (FY16-FY23)

%

- Retail Loans: 17%
- Consumer Durables: 2%
- Housing Loans: 15%
- Loans against F.D: 9%
- Credit Cards O/S: 26%
- Education Loans: 5%
- Vehicle Loans: 18%
- Other Personal Loans: 21%

Credit card outstanding stood at ~2 lakh crore at the end of Q1 FY24

Deployment of credit card outstanding loans by SCBs

INR Crore / YoY%

YoY%: FY16 32%, FY17 38%, FY18 32%, FY19 28%, FY20 37%, FY21 10%, FY22 13%, FY23 31%

- ■ Credit Card Outstanding Loans (LHS)
- — Credit Card Outstanding Loans (YoY%) (RHS)

Credit cards issued has grown at a CAGR of 20% (FY16-FY23)

Number of credit cards issued

Number of cards (in crores)

- ■ Public Sector Banks
- ■ Private Sector Banks
- ■ Foreign Banks

Per card spend grew at a CAGR of 7.3% (FY16-FY23)

Spend per credit card

INR

Point of sale transactions have grown at a CAGR of 12% (FY16-FY23)

Value of credit card transactions - point of sale

INR Crore

- ■ Public Sector Banks
- ■ Private Sector Banks
- ■ Foreign Banks
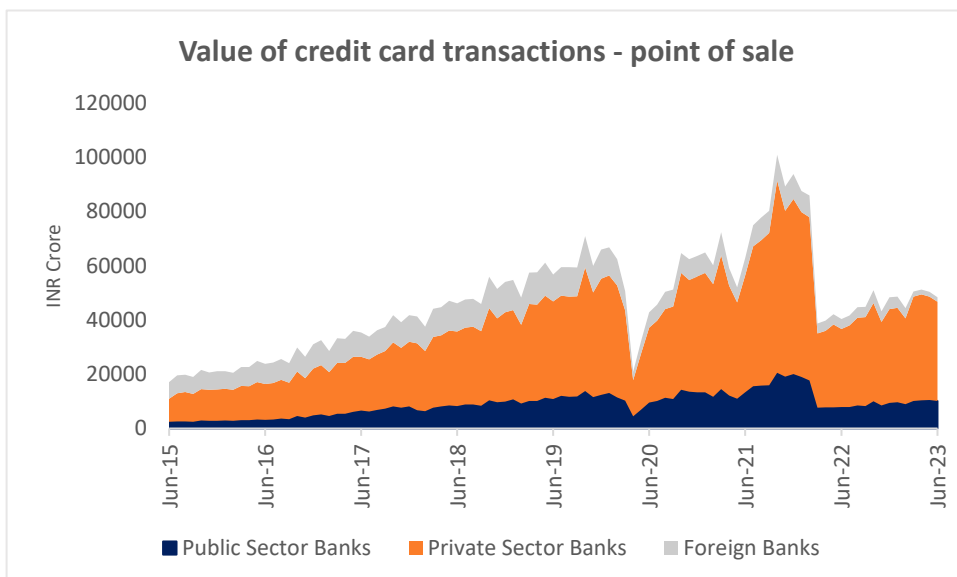
Private banks account for ~70% of e-commerce transactions

Value of credit card transactions (e-commerce)

INR Crore

- ■ Public Sector Banks
- ■ Private Sector Banks
- ■ Foreign Banks

Source : RBI, TruBoard Research
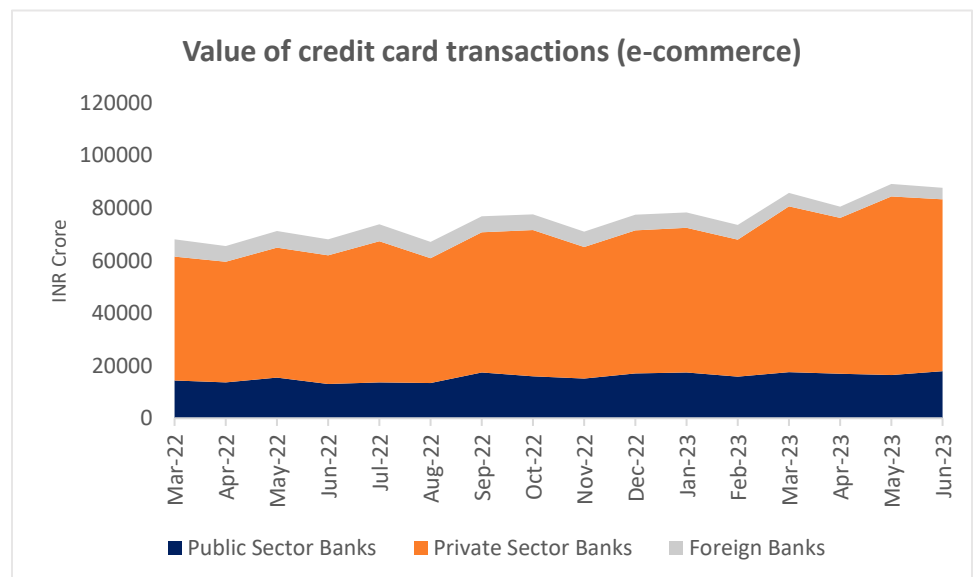
GNPAs falling in retail loans but rising in credit cards

GNPA ratio of SCBs

FY22		FY23	
Credit Card Receivables 1.90%	Retail Loans 1.80%	Credit Card Receivables 2.02%	Retail Loans 1.40%
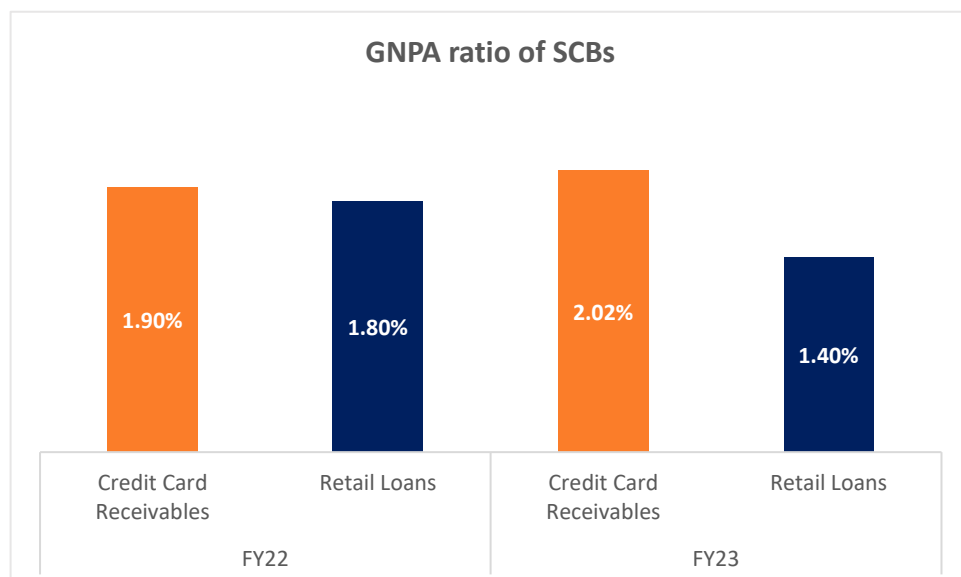
FY23 ratios are as per RBI's reply to an RTI query

PSBs have high GNPAs in credit cards

GNPA ratios of credit cards - PSBs vs PVBs

FY22: Public Sector Banks 10.3%, Private Sector Banks 1.8%
FY23: Public Sector Banks 18.0%, Private Sector Banks 1.9%

■ FY22 ■ FY23
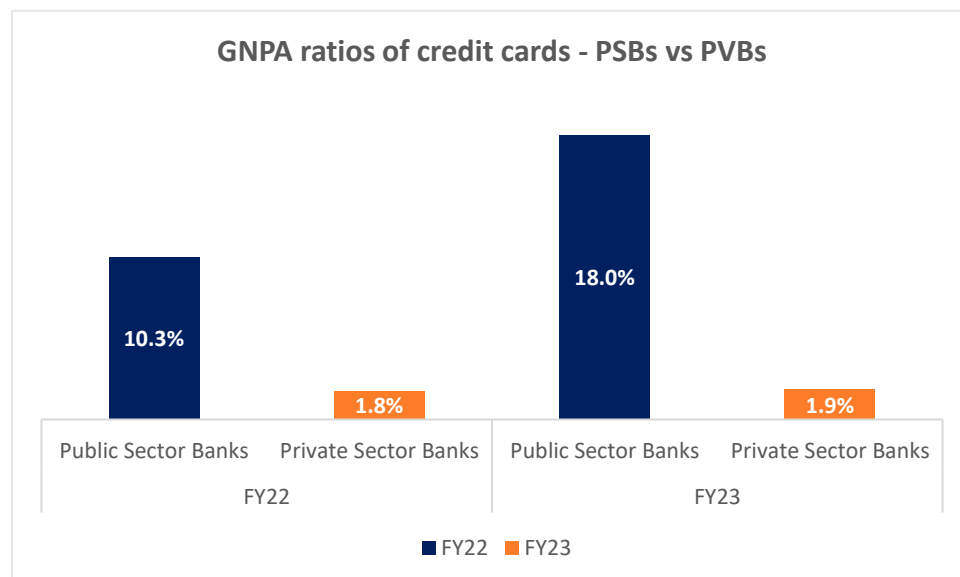
Credit card defaults rise by 30.5% in FY23

GNPAs in credit card receivables

INR Crore

FY22	FY23
3,122	4,073
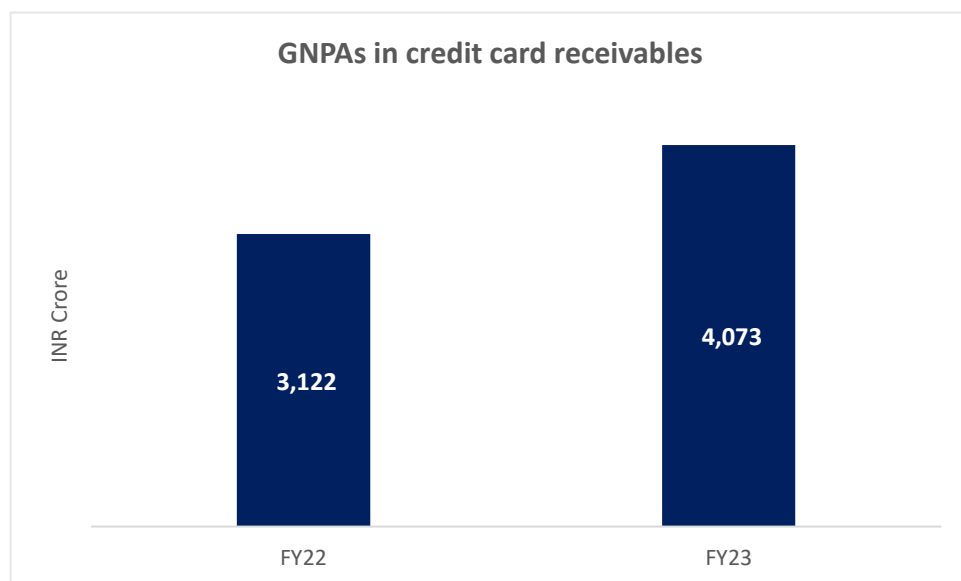
FY23 figures are as per RBI's reply to an RTI query

Cardholders increasing their leverage post-pandemic

Credit card leverage ratio

FY16 3.0%, FY17 4.4%, FY18 3.6%, FY19 3.1%, FY20 4.4%, FY21 1.9%, FY22 1.7%, FY23 3.2%
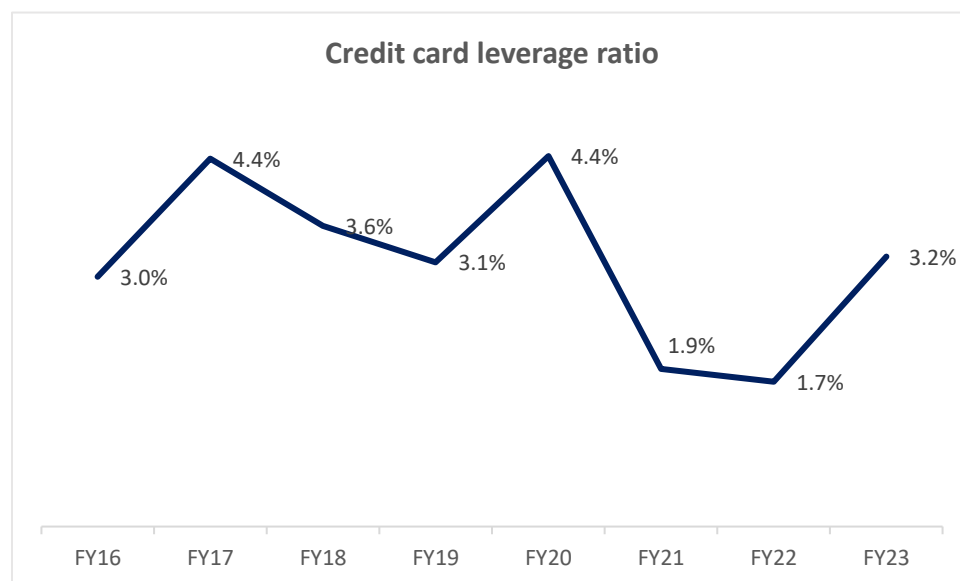
Leverage ratio = Incremental credit card outstanding loans by SCBs/ Value of credit card transactions

Professional collection companies can help reduce credit card GNPAs

➢ Lenders in India spend ~1% of the AUM on collections.

➢ Debt collection is the primary business of collection companies. They conduct their operations in an effective and efficient manner which can help credit card companies optimize the cost of collections. They generally work for multiple lenders, which allows scalability and resource management in a very efficient manner.

➢ Professional collection companies offer continuous monitoring, phygital collections, analytics, and legal action services. These companies employ new age technologies and predictive analytics to conduct their business in a formal and transparent manner.

➢ Engaging a professional collections company helps lenders manage a wide variety of risks - Strategic, Reputation, Compliance, Operational, Legal etc.

Source : RBI, TruBoard Research

TruBoard Partners

TruBoard Partners is India's first independent sector-agnostic Asset Performance Management company.

Our platforms utilize Data and AI to help Capital Providers maximize their Portfolio returns. By integrating technology into the post-investment performance cycle, we enable informed decision-making in both equity and debt investment categories. Our solutions are tailored to enhance IRRs, assess asset integrity, and measure the ESG impact, offering a comprehensive perspective on investments.

TruGreen

An Operations Management Software for renewable energy, which provides real-time monitoring tools to run generation assets better.

TruGenie

A platform for Real Estate and Infrastructure Monitoring which is a comprehensive solution designed to monitor both under-construction and operational projects.

TruCollect

A platform for retail loan portfolios will enable lenders and investors to manage their financial asset portfolios on a real-time basis.

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