Emerging Opportunities in the Indian Consumer Finance Market: Market Size, Strategies, Products and Competitive Landscape

Industry Forecast Report

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1 Executive Summary

Market size

- The Indian consumer finance market valued INR XX trillion in 2011, after growing at a compound annual growth rate (CAGR) of XX.XX% during the review period (2007–2011). It is projected to retain a high CAGR of XX.XX% over the forecast period (2012–2016), to reach a value of INRXX.X trillion in 2016. The strong growth will be driven by the country’s improving macro- and micro-economic fundamentals, and by the increasing domestic demand for consumer finance services.
- The personal loans category valued INRXXX.X billion in 2011, after recording an annual growth rate of XX.X% during the year.
- India’s credit card loans category is in an early stage of development, and recorded a poor CAGR of -X.XX% during the review period due to its high defaults rate. However, the category is expected to achieve positive CAGR of X.XX% over the forecast period, to reach a value of INRXXX.X billion in 2016.
- The auto loans category increased in value at an impressive CAGR of XX.XX% during the review period.
- The fastest-growing category was gold loans, which achieved a CAGR of XX.XX% during the review period. As a result, the gold loans category reached a value of INRXX.X billion in 2011.
- The housing loans category valued INR.X trillion in 2011, after registering an annual growth rate of XX.X%. The category is expected to grow at a CAGR of XX.XX% over the forecast period.
- The educational loan category recorded a robust CAGR of XX.XX% during the review period, to reach a value of INRXXX.X billion in 2011.

Trends and drivers

- India’s rising employment levels are expected to generate more demand for consumer finance in the country. The unemployment rate in India is projected to decrease from XX% in 2011 to XX% in 2016. The improving employment conditions in the country will encourage Indians to increase their personal consumption expenditure, which will create a higher demand for consumer finance products, such as personal loans, education loans, auto loans and mortgage loans.
- The changing lifestyles and increasing spending on the consumer durables in India is providing lucrative investment opportunities in the consumer finance market. The changing of consumption pattern from basic commodities to discretionary products, such as branded products, has encouraged Indians to take out more personal loans during the review period.
- The increasing number of automobile sales in India has increased the demand for auto loans. The Indian economic growth led the disposable income levels in the country to rise, which encouraged more of the population to purchase automobiles. Approximately 75% of Indian cars are bought through loans and around 90% of commercial vehicles are purchased using auto loans.
- The country’s sustained economic growth, rising disposable income levels, affordable interest rates and tax incentives are the main macroeconomic growth drivers that are encouraging the housing loan category’s development in India.

Challenges

- Although the Indian consumer finance market registered significant growth during the review period, the market’s growth decelerated towards the end of the review period as a result of the country’s microfinance crisis caused by India’s strict regulatory environment.
- The Indian consumer finance market has a reputation of having a high defaults rate in the personal loan category. The defaults rate in the personal loan category rose sharply during the review period, which led Indian consumer finance providers to face liquidity pressures and low assets.

Regulations

- The Indian banking industry is well developed, and highly regulated by the Reserve Bank of India (RBI). There are numerous laws in the country that regulate various types of retail lending transactions and control the lending activities of banks, non-banking financial companies (NBFCs) and microfinance institutions at both the central and state levels. In addition, the Banking Regulation Act manages several activities of the Reserve Bank of India.
EXECUTIVE SUMMARY

Competitive landscape

- The Indian banking industry is well regulated, and contains 167 commercial banks. The banks operating in India include a mixture of both domestic and foreign businesses. Despite the fragmented nature of the Indian banking industry, the competitive landscape for the Indian consumer finance market varies significantly depending on each product category.
- The auto loan category is dominated by privately owned enterprises, especially three private-sector banks: HDFC Bank, ICICI Bank and Kotak.
- The credit card loan category is in an initial stage of development. The category is consolidated among four leading banks: the State Bank of India, HDFC Bank, ICICI Bank and Citibank. These four banks together generated over XX% of the total category value in 2011.
- Meanwhile, the education loans in the country are mainly provided by public-sector banks.
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2 Future Outlook of Consumer Finance in India

**Personal loans**

The personal loans category increased in value at a CAGR of X.XX% during the review period, and is projected to register a CAGR of X.XX% over the forecast period, to reach INR X.x trillion in 2016.

**Credit card loans**

India’s credit card loans category recorded high defaults rates during the review period, which led the category to record a negative CAGR of -X.XX% during the review period.

**Auto loans**

![Figure 1: Indian Future Outlook of Consumer Finance](image)

Source: BRICdata analysis © BRICdata
3 Indian Consumer Finance Market Dynamics

This chapter covers four topics: the country’s macroeconomic environment, consumer attitudes towards credit, key performance indicators and the consumer finance regulatory framework. The first section details the macroeconomic factors that affect the Indian consumer finance market. The second section analyses consumer attitude towards credit, the third section analyses the key performance indicators of Indian banking industry and the final section analyses the market’s prevailing regulatory environment.

Indian consumer finance market can be segmented into the following categories:

- Personal loans
- Credit card loans
- Auto loans
- Gold loans
- Housing loans
- Education loans

3.1 Macroeconomic fundamentals

3.1.1 GDP

India’s gross domestic product (GDP) at constant prices valued US$XXX.X trillion in 2011, after increasing at a CAGR of XXX.X% during the review period. The country’s GDP is projected to record a stronger CAGR of XXX.X% over the forecast period, to reach a value of US$XXX.X trillion in 2016. Since the Indian economy is expected to grow strongly over the forecast period, the demand for financial services and the Indian consumer finance market should also rise.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (US$ Billion)</th>
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<tbody>
<tr>
<td>2007</td>
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<td>2008</td>
<td>XXX.X</td>
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<td>2009</td>
<td>XXX.X</td>
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<tr>
<td>2010</td>
<td>XXX.X</td>
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<tr>
<td>2011</td>
<td>XXX.XX</td>
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Table 1: Indian GDP at Constant Prices (US$ Billion), 2007–2016 (Base Year 1999–2000)

Source: BRICdata analysis
4 Indian Consumer Finance Market Opportunity and Growth Potential

4.1 Overview

India’s consumer finance market recorded strong growth during the review period. This was mainly due to the banking industry’s robust development, and the country’s increasing disposable income and rising property prices in tier I and tier II cities. The consumer finance market valued INRX.X trillion in 2011, after increasing at a CAGR of XX.X% during the review period. It is projected to register a CAGR of XX.X% over the forecast period, to reach a value of INRXX.X trillion in 2016. The strong growth will be driven by the country’s improving macroeconomic conditions and rising domestic demand for consumer finance products.

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Size (INR Trillion)</th>
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<tbody>
<tr>
<td>2007</td>
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<td>2016</td>
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Source: BRICdata analysis
5 Key Trends and Growth Drivers for the Indian Consumer Finance Market

5.1 Personal Loans

Improving employment situation

India’s rising employment levels are expected to generate more demand for consumer finance in the country. The unemployment rate in India is projected to decrease from X.X% in 2011 to X.X% in 2016. The improving employment conditions in the country will encourage Indians to increase their personal consumption expenditure, which will create a higher demand for consumer finance products such as personal loans.

Figure 16: Indian Unemployment Rate (%), 2007–2016

Source: BRICdata analysis
6 Industry Structure and Competitive Landscape

6.1 Indian Banking Industry Market Share

The State Bank of India was India’s leading bank in terms of assets, as it accounted for XX.X% of the total assets in the banking industry in March 2011. Meanwhile, the private ICICI Bank was the second-largest bank in the country, with X.X% of the total banking industry assets in 2011.

Figure 19: Indian Leading Banks by Assets (% Share), March 2011
Appendix

7.1 About BRICdata

BRICdata publishes in-depth strategic intelligence reports that help its customers better understand opportunities in emerging markets and industry sectors. Its reports provide an independent, expert view supported by primary research and access to leading data and intelligence sources.

BRICdata is a comprehensive source of insights and analysis, and publishes a broad range of reports across a number of different industry sectors, including consumer, retail, financial services, technology, telecoms and construction.

BRICdata is headquartered in London with research, analysis and account management teams based across Europe, the US and Asia-Pacific. Its global research footprint is supported by a network of external associates, data partners and industry experts to give the clearest possible perspective on emerging markets.

7.1.1 Areas of expertise

BRICdata operates a dedicated, multilingual team of in-house industry analysts with significant experience of global and country-level research. BRICdata also maintains data and research partnerships with other research companies, industry experts and trade associations, along with a network of independent industry consultants and former industry participants contributing research and reports to bring additional insight and expertise in more specialist areas.

BRICdata’s research offering spans the following industry areas:

Construction
BRICdata publishes reports covering the entire construction value chain: construction materials, equipment, construction services, architectural services and interior design. It also covers the main value sectors of construction activity: commercial, infrastructure, industrial, institutional and residential.

This comprehensive view of the market enables BRICdata to detail key growth sectors and countries and identify the most attractive industry opportunities.

Consumer goods
Covering a broad range of areas across the consumer goods market, from interior products to fast-moving consumer goods (FMCG), ingredients, and packaging, BRICdata offers a comprehensive insight into key consumer sectors across fast-growing markets, identifying key trends, future innovations and growth opportunities.

Comprehensive data sets including unique primary survey-driven research creates accurate market forecasts and understanding of the factors driving consumption behavior.

Financial services
Providing detailed insights into insurance and banking markets, BRICdata’s financial services reports identify key market opportunities, emerging technologies and channel strategies. The reports provide unique data combined with local examples of best practice and expert insights into the market.

Retail
BRICdata maintains a comprehensive database of forecasts of retail spending, along with a series of unique indicators enabling a forward view of retailers’ prospects in emerging markets. The reports identify emerging concepts in retail, including the nascent online and mobile retail sectors in the BRIC countries and other emerging markets.

Technology
BRICdata tracks key trends and innovations, emerging technologies and markets, and the key operators in both emerging markets and technologies. Covering a range of emerging and disruptive technologies including telecoms, social media, online and mobile retailing, and telemedicine, BRICdata examines strategies for success, the state of the competitive landscape and the inherent threats and opportunities in the emerging technological economy.
7.2 Methodology

All BRICdata reports are rigorously sourced and created according to a comprehensive, two-stage methodology. This includes internal audit and primary research.

A) Internal audit
   - Review of in-house databases to gather existing data:
     - Historic market databases and reports
     - Company database
     - Projects database

B) Primary research
   - Review of the latest company strategy and asset management trends

1) Research
   A. Sources
      - Collection of the latest market-specific data from a wide variety of industry sources:
        - Government statistics
        - Industry associations
        - Company filings
        - Broker reports
        - International organizations
   B. Expert opinion
      - Collation of opinion taken from leading industry experts
      - Analysis of third-party opinion and forecasts:
        - Broker reports
        - Industry associations
        - Official government sources
   C. Data consolidation and verification
      - Consolidation of data and opinion to create historical datasets
      - Creation of models to benchmark data across sectors and geographies

2) Research Analysis
   Market forecasts
      - Feed of forecast data into market models:
        - Macroeconomic indicators
        - Industry-specific drivers
   Analysis of Market Databases to identify trends by sector:
      - Latest trends
      - Key drivers of the market

3) Report Writing
   Analysis of market data
   Discussion of company and industry trends and issues
   Integration of survey results
   Annual review of trends
   Standardization of market definitions using recognized industry classifications

4) Quality Control
   A. Templates
      - Detailed process manuals
      - Standardized report templates and accompanying style guides
      - Complex forecasting tool used to ensure forecast methodologies are consistently applied
      - QC checklists
   B. QC process
      - Peer review
      - Senior-level QC
      - Random spot checks on data integrity
Benchmark checks across databases
Market data cross-checked for consistency with accumulated data from company filings

7.3 Disclaimer

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