

WHATSINIT

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EXUBERANCE in retail lending to reward a few

■ STEEP rise in retail lending reflects the backdrop of a feeble corporate credit demand, weak investment cycle and rising leveraging of households, which continue to see decline in financial savings. While banks with lower credit cost and higher unimpaired tier-1 capital will gain market share, winners will be those who have higher Casa deposits and lower cost of funds. Rise in retail borrowing amid declining pace of disposable income insinuates rising risk of default. But, dominance of mortgage backed lending signifies heavy reliance of lenders on wealth effect from elevated real estate prices. Decline in property prices recently in urban and rural areas might result in lenders shifting towards durables, vehicle financing or even uncollateralised lending.

Lenders are now gearing up to capitalise on the income effect arising from reflationary fiscal policies. Hence, consumption demand will intensify further in the visible future. While private lenders will gain market share with upsurge in retail lending, intensive competition due to multiplicity of players viz banks, NBFCs, micro-finance companies, will suppress profitability. This is exemplified by the wafer thin margins banks are making in mortgage lending over base rates, implying considerable underpricing of default and liquidity risks. Additionally, rising inflation could restrict any further fall in wholesale borrowing rates. We are cognizant of the spill-over effects of hardening of global treasury yields on India G-sec yields and thus also on BFSI stocks. Hence we believe banks having higher Casa, lower cost of funds, low credit cost and lesser asset quality concerns will be relatively better off. HDFC Bank and IndusInd Bank remain our top picks. PSU banks lag behind by a large margin on most parameters, largely because of lack of ability to grow. Among NBFCs, we look for companies with low asset quality concerns, niche regions or sectors and rising margins along with growth. Companies catering to niche segments with relatively higher risk perception, and often overlooked by the formal banking system, should help them continue to grow at a healthy pace. Our top picks in the NBFC space are Cholamandalam Finance and Mahindra Finance. We remain structurally positive on Bajaj Finance, though valuations are rich.

—*Dhananjay Sinha & Kruti Shah*
Emkay Global

mail to:
mystocks@mydigitalfc.com