LenDen Club

THE EDGE

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WHAT'S NEW AT LDC!

After the successful launch of the Investor 2.0 app and web update in March 2020, we took investors' feedback and considerations before adding new features to enhance the user experience.

THE PROGRESSED AUTO INVEST

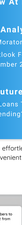
Now, investors who are manually investing can select the investment plan, upgrade and customise Customisation is available for Auto-invest along with Silver and Gold plans. This new Auto-invest offers borrower selection on the basis of **5 customisation options: Gender, Stay-Type, Age Group, Salary Range and Credit Score.**

Auto-invest enhancement will enable **several benefits** with smooth and effortless engagement while operating the investments and making the process more convenient to achieve the desired portfolio.

ADD FAMILY MEMBER(S) INVESTOR ACCOUNT

Investors can add their family member(s) account (child) account(s) under the parent account. This makes it **easier to invest and track the portfolio from one parent account.**

By signing in to their parent account, the investor can add new child accounts in the name of their blood relation like son, daughter, wife, husband etc. Fill in basic details such as PAN number, date of birth and relationship along with valid proof. Select an investment plan and pay the one-time registration fee.



ECONOMIC ANALYSIS

IMPACT OF MORATORIUM!

The RBI gave financial institutions an option to provide a moratorium for borrowers from 1st March 2020. If we decode the Reserve Bank of India announcement, it is aimed at two actions.

First, allowing borrowers not to have an EMI burden when economic activity is down.

Borrowers may not get the income which may reduce the capability to pay EMI during this pandemic. This will safeguard the borrowers' interest. Second, it gave an option to the institutions to let borrowers pay interest during the moratorium and allow banks/NBFCs (Non-Banking Financial Companies)/Investors to continue getting returns during the moratorium period.

This move by RBI was welcomed by borrowers' who got more time to sort out their financials. A number of banks including ICICI, SBI, HDFC etc. have given their borrowers an option to opt for a moratorium. The Supreme court also directed RBI and the government to include more sectors, one of them being agriculture which was severely affected.

According to LiveMint research, NBFCs and banks had 59% and 29% loans under the moratorium from April to June respectively. On a weighted-average basis, this amounted to Rs. 28.3 trillion and 30.6% loans. This has severely affected the liquidity condition of various NBFCs, especially the lower-rated and small entities. While the same being reflected in the books resulting in a hit for estimated profits. Loan sell-down which has been around Rs 2 lakh crores over the last two fiscal years will be impacted due to asset quality concerns

As per the TransUnion CIBIL, there will be a trend of stricter credit policies towards lending platforms especially for the borrowers who opted for a moratorium during this phase. Moreover, a drop is expected in approval rates from newbies.

At LenDenClub, for the months of April, May and June, 65%, 76% and 86% of the borrowers respectively paid their EMIs while the rest opted for the moratorium option. After the announcement of Unlock 1.0 in early June, we are observing a trend where borrowers who opted for the moratorium earlier have restarted paying their EMIs.

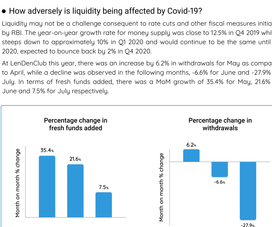
Fact About Us!

- There is a significant increase in loans for emergency purposes, from 6.5% in the January-March quarter to 78% in the April-June quarter of the total loans.

LENDING OUTLOOK FOR JULY-SEPT 2020

The last quarter saw the GDP shrinking, and with the lockdown forcing most consumers to postpone discretionary spending, lending activity fell sharply by more than 70%, hitting the bottom at the end of April and spreading over May. There has been some bounce back in June as hope for a 'new normal' to find its way, with people resuming their work.

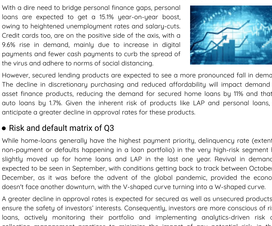
As the "unlocking" gradually takes place - the economy is expected to revive, with a spurt in credit demand- especially unsecured personal loans from MSMEs and individuals, as the majority of them, have depleted their savings/retained earnings. We expect a good bounce-back taking place in the Q3 2020 for pure-play digital investors and spread over another in Q4 2020 for others with a full V-shaped recovery. Extension in the moratorium and further lockdowns will create some complications and this could have an impact on certain companies. At LenDenClub, there has been a significant change in the behaviour of loan purposes. In Q1 2020, it has been observed that there has been a jump of 15% for emergency purpose loans from 63% to 78%.



● How adversely is liquidity being affected by Covid-19?

Liquidity may not be a challenge consequent to rate cuts and other fiscal measures initiated by RBI. The year-on-year growth rate for money supply was close to 12.5% in Q4 2019 while it steeps down to approximately 10% in Q1 2020 and would continue to be the same until Q3 2020, expected to bounce back by 2% in Q4 2020.

At LenDenClub this year, there was an increase by 6.2% in withdrawals for May as compared to April, while a decline was observed in the following months, -6.6% for June and -27.9% for July. In terms of fresh funds added, there was a MoM growth of 35.4% for May, 21.6% for June and 7.5% for July respectively.



● What may be the likely impact on stress levels for major products?

With a dire need to bridge personal finance gaps, personal loans are expected to get a 15.1% year-on-year boost, owing to heightened unemployment rates and salary-cuts. Credit cards too, are on the positive side of the axis, with a 9.6% rise in demand, mainly due to increase in digital payments and fewer cash payments to curb the spread of the virus and adhere to norms of social distancing.

However, secured lending products are expected to see a more pronounced fall in demand. The decline in discretionary personal loans and reduced affordability will impact demand for asset finance products, reducing the demand for secured home loans by 11% and that of auto loans by 1.7%. Given the inherent risk of products like LAP and personal loans, we anticipate a greater decline in approval rates for these products.

● Risk and default matrix of Q3

While home-loans generally have the highest payment priority, delinquency rate (extent of non-payment or defaults happening in a loan portfolio) in the very high-risk segment has slightly moved up for home loans and LAP in the last one year. Revival in demand is expected to be seen in September, with conditions getting back to track between October to December, as it was before the advent of the global pandemic, provided the economy doesn't face another downturn, with the V-shaped curve turning into a W-shaped curve.

A greater decline in approval rates is expected for secured as well as unsecured products, to ensure the safety of investors' interests. Consequently, investors are more conscious of risky loans, actively monitoring their portfolio and implementing analytics-driven risk and collection management practices to minimize the impact of any potential risk, in these difficult times.

INTO THE FUTURE

ARE DIGITAL LOANS THE FUTURE OF LENDING?

With improved online infrastructure and limitless expansion of internet services, it is expected that the total value of the digital lending business in the country will exceed $5 trillion, by growing 5x in the next 5 years. What is the reason behind this exponential augmentation in size? Inter-alia, use of advanced technologies and initiatives by FinTech players will have a tremendous role in increasing the availability of financial products and services to the bottom of the pyramid segment, who have otherwise been largely devoid of basic banking, credit and other financial services.

● Enabling first-time credit access to masses

Banks and NBFCs typically target super-prime and prime customers with credit scores above 700, thus widening the gap between the haves and have-nots of the credit arena. As a result, only 10% of small businesses currently have access to formal credit, thus remaining credit-deficient and underserved by big brick-and-mortar investors.

While the near-prime and subprime borrowers were traditionally financed mainly through informal channels only at an exorbitantly high rate of the capital of 30% or more, P2P lending is catering a large segment of the unbanked and underbanked population. By serving to the low-ticket size, short-term needs of individuals, P2P investors are elevating the barriers to equitable and inclusive credit growth and taking India closer to heightened financial inclusion in coming years.

● Potential market size

In FY 2017-18, total lending and deposits grew at a compound annual growth rate (CAGR) of 10.94% and 11.66% respectively. The fastest-growing segment in the emerging markets is the retail credit market, which is the fourth largest. It accelerated to USD 281 billion from USD 181 billion between December 2014 and December 2017.

Through digital channels, the number of transactions is more than doubled from 6.2 billion in FY16 to 13 billion in 2 years until FY18, indicating a digital disruption in both traditional and modern channels of finance. The FinTech lending market is forecasted to exhibit accelerated progress between 2019 and 2025 owing to factors such as growing internet and smartphone penetration, the thrust from digitisation and regulatory reforms. India's digital lending market will see a CAGR of 36% by 2023.

● End-to-end digital lending now a reality

Digital lending has significant advantages over traditional lending, with the potential to address prevalent credit-related challenges in India. One of the most distinguishable advantage of digital lending is speeder approval of credit. Credit assessments and loan disbursals on digital lending platforms have visibly quicker turnaround time than traditional loans – particularly for small-ticket credits and advances, which are most common among new-to-credit borrowers.

Fact About Us!

- Two-third investors on LenDenClub are under the age of 35 years.

Some of the factors why the disbursal turnaround time is significantly lower in digital lending are replacement of paper-work by digital data capture, automated evaluations leveraging on technologies like advanced analytics, artificial intelligence (AI) and machine learning (ML) and no or little in-person visits. 50% of the loan seekers with internet access buy online, the key factor being purely digital and no physical element involved at any stage of the customer relationship.

● Is "Digital" the new normal?

With the current Covid-19 pandemic, there has been a drastic behavioural change in the way people do daily transactions. Health will be a priority for everyone and India is getting ready to ride the digital lending boom. This point is validated by the fact that while ATM and physical branches faced a negative growth in transactions by 5% and 8% respectively, transactions through Digital Lending channels were growing at a huge 21% in 2017-18. In 2017, India held the largest share of Asia's alternative lending deal count at 41% as compared to just 7% in 2014, denoting a progressive growth in online lending of funds. To ensure that the digital lending model remains sustainable in future, it would be essential for FinTech investors and incumbent financial institutions to develop sustainable, secure and scalable technology platforms.

References: LenDenClub Research, CIBIL Retail Credit Outlook, BCG Digital Lending Report, PWC Report A wider circle