# DEALING WITH DEBT

## HOW INDIA PLANS TO PAY EMIs

The impact of the Coronavirus Pandemic on the Indian Borrowers' income and loan repayment capacity

A consumer survey report by

paisabazaar.com

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# SURVEY DETAILS

With the 6-month moratorium now over and the loan restructuring plan yet to be introduced by most lenders, there is a slight sense of uncertainty – both for the lenders and the consumers.

Paisabazaar.com's consumer survey aims to understand the impact of Covid-19 on our consumers' income and repayment capacity along with the strong trends emerging that may shape the way for consumers and the lending industry.

**No. of Participants**

**8616**

**(With debt outstanding of over Rs 1 lakh)**

**Age Group**

**24-57**

**Cities covered**

**37**

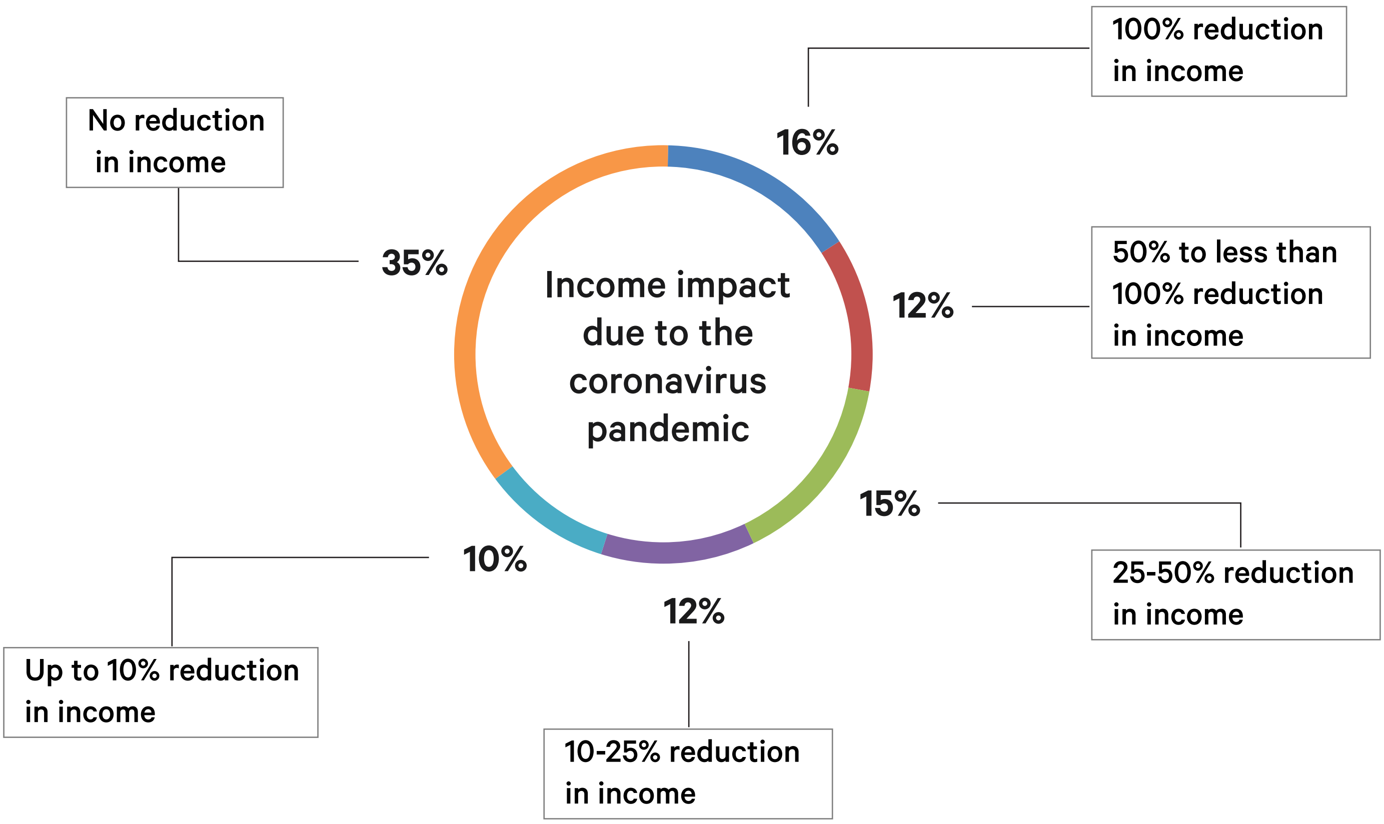
For queries/details on the survey, write to **Shamik@paisabazaar.com** & **Amandeepa@paisabazaar.com**

# TWO-THIRD OF CUSTOMERS SUFFERED INCOME LOSS DUE TO COVID

Close to 1.9 crore salaried jobs were lost in India from April to July this year, according a CIME Report. The pandemic has also been particularly hard for India's self-employed class, drying up cash inflows and thereby, threatening the future of their businesses.

In our survey, a whopping 65% of the respondents said that the coronavirus pandemic and the resultant lockdown has had a negative impact on their income.

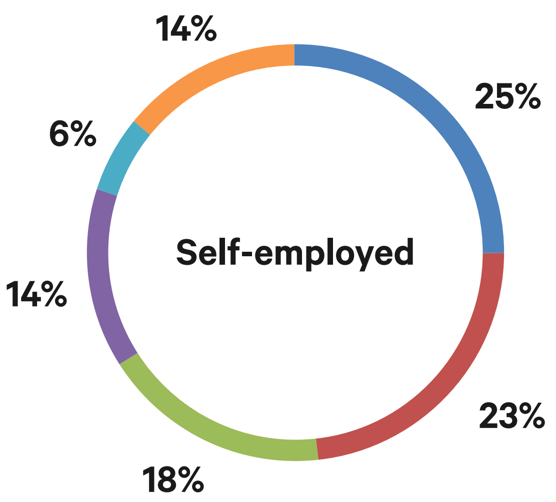
About 16% of them claimed to have lost 100% of their income with another 28% reporting income reduction of more than half due to the ongoing Covid crisis.



# 86% SELF-EMPLOYED CUSTOMERS REPORT LOSS IN INCOME VS 56% SALARIED

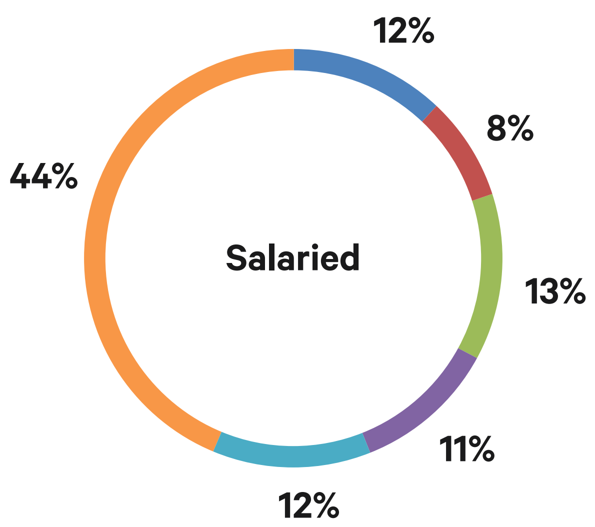
Analysis of responses provided by salaried and self-employed customers clearly showed that the latter are more severely impacted by the pandemic.

**Income impact due to the coronavirus pandemic**




86% of the self-employed customers said the pandemic has adversely impacted their income, 25% claimed that their income has come down to zero. Interestingly, the 14% of self-employed consumers who said their income has not been negatively impacted, a majority of them (over 90%) were self-employed professionals like Doctors and Lawyers who had their own practice.

- 100% reduction in income
- 50% to less than 100% reduction in income
- 25-50% reduction in income
- 10-25% reduction in income
- Up to 10% reduction in income
- No reduction in income




On the other hand, salaried customers though highly affected, are impacted less than the self-employed. While 44% of the salaried respondents claimed their salary has not been negatively affected, another 30% said their salary has been reduced by more than half from the Pre-Covid levels. 12% salaried customers reported complete loss of salary due to job loss.

- 100% reduction in income
- 50% to less than 100% reduction in income
- 25-50% reduction in income
- 10-25% reduction in income
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- No reduction in income

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# CHENNAI HAD THE LEAST INCOME & REPAYMENT IMPACT; NCR, MUMBAI AFFECTED MOST

In terms of impact, split by Geography, the survey showed Chennai is the least impacted city by the Coronavirus pandemic in terms of loss of income. Over 48% of consumers, who participated in the survey from Chennai, said they did not suffer any negative impact due to the health crisis and the resultant restrictions imposed. And only 9% of Chennai residents who participated in the survey suffered a 100% income loss.

**Cities most impacted by the Pandemic in terms of income loss**

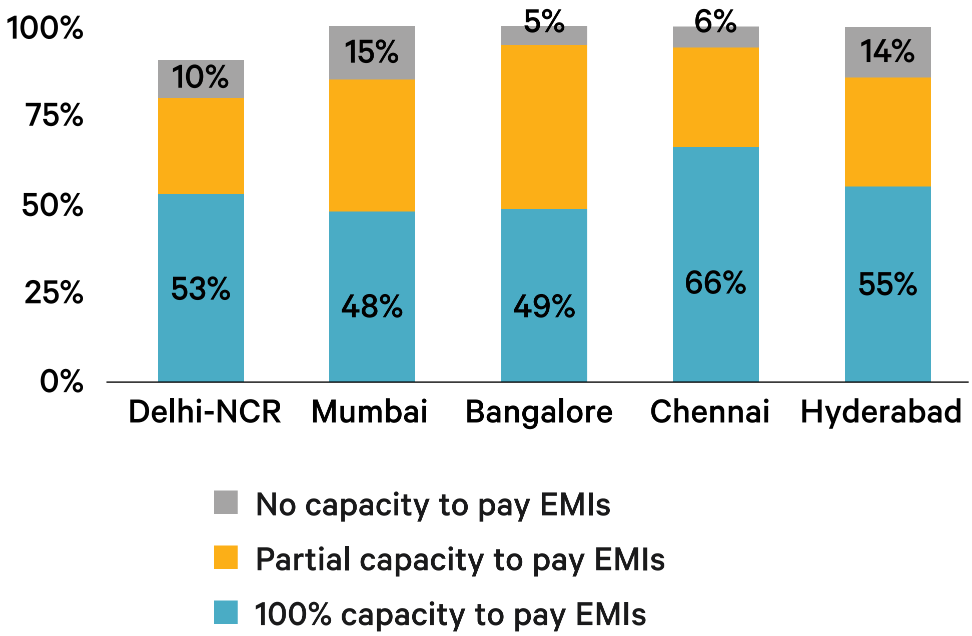
| | Cities | % of Consumers who suffered income loss | % of Consumers who suffered 100% income loss |
|---|---|---|---|
| 1 | Delhi NCR | 70% | 16% |
| 2 | Bangalore | 67% | 12% |
| 3 | Hyderabad | 63% | 20% |
| 4 | Mumbai | 61% | 26% |
| 5 | Chennai | 52% | 9% |

Delhi and the NCR cities were the most impacted cities with 70% of their resident participants reporting a negative impact on income. Among these, 16% of customers from the NCR also said their income has come down to zero due to the pandemic related disruptions.

However, in terms of percentage of customers who had a complete loss of income, Mumbai was the worst placed with 26% Mumbaikars reporting income plummeting to nil.

Also, Mumbai had the highest percentage of moratorium takers, as 65% of customers from Mumbai who participated in the survey took a moratorium.

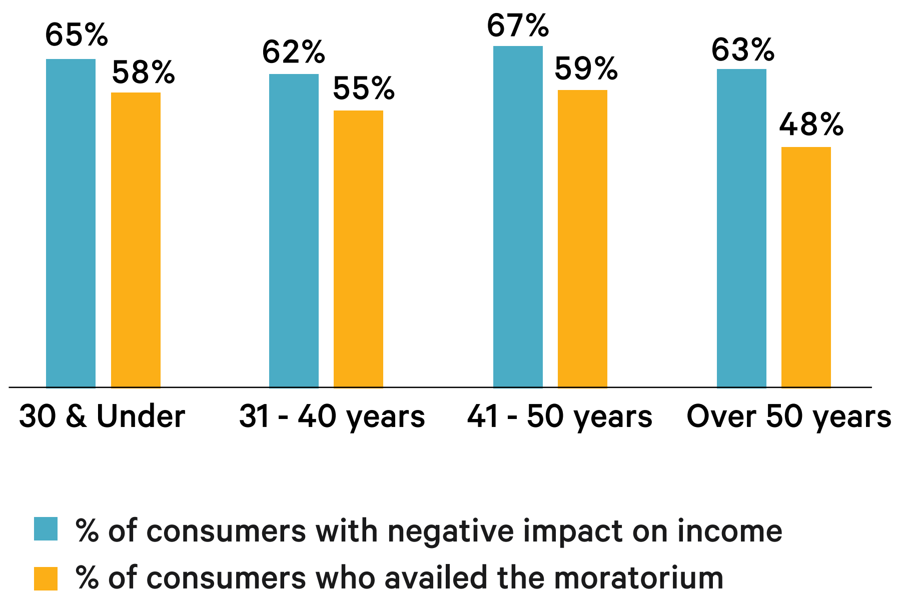
With the moratorium now over, when we asked consumers about their capacity to repay their EMIs, 66% of respondents from Chennai said they would be able to afford their monthly debt obligation in full. Mumbai was the worst placed, with Delhi and Bangalore only marginally better. 52% of Mumbai respondents cannot pay their EMIs in full, with 15% of them saying they currently have zero payment capacity.



# OLDER BORROWERS ARE MORE FINANCIALLY STABLE

The survey showed the coronavirus pandemic has disrupted incomes across age brackets, from the young first-time salary earner to senior and experienced professionals who are not far away from the retirement age.

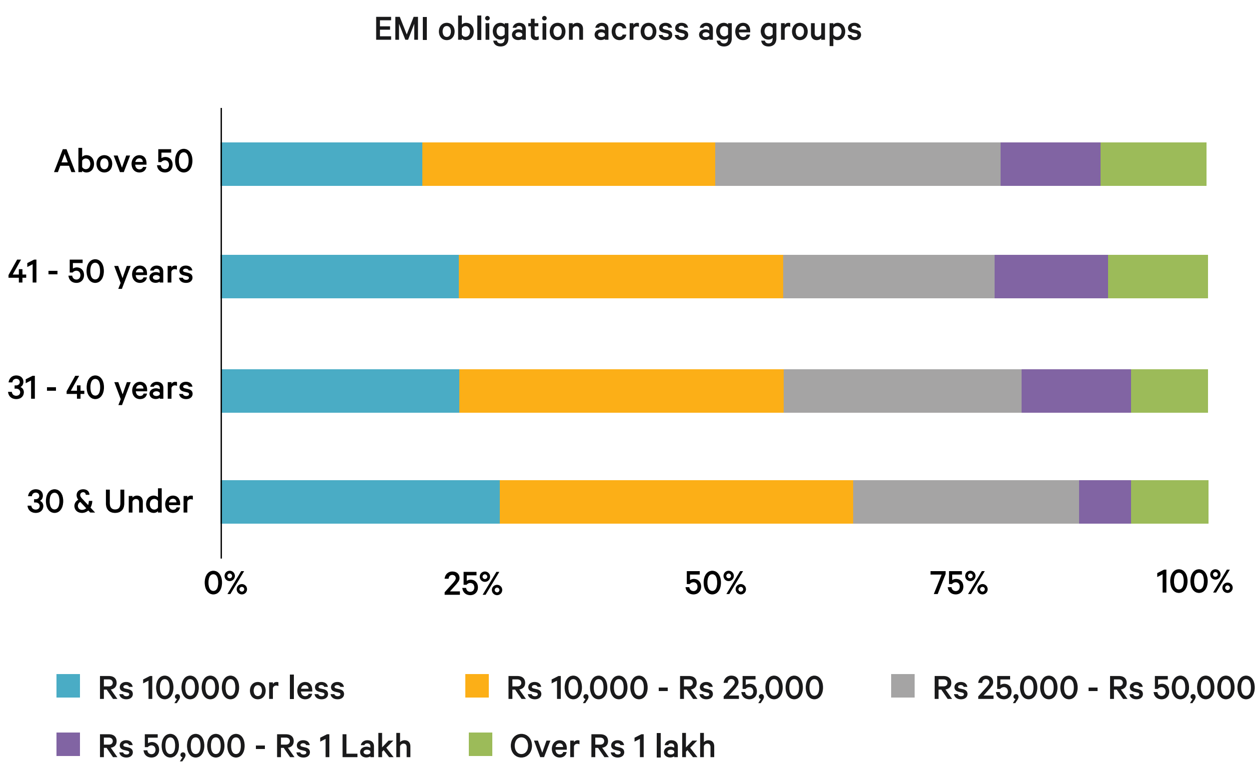
While the income impact was largely uniform across all age-groups, both among salaried and self-employed customers, data from the survey showed that there were lesser takers for the moratorium among those who are over 50 years of age (48% Vs Over 55% for every other younger age groups).



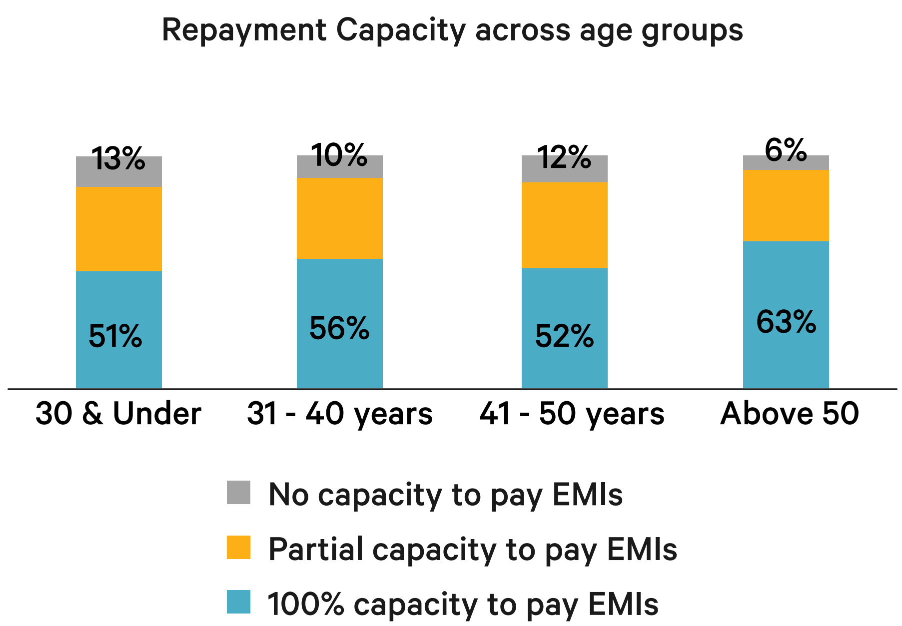

A more financially stable life could be the primary reason behind a large section of older customers not choosing to take the moratorium.

However, when we looked at the debt obligation for these older customers who are over 50 years of age, more than 50% of them have EMIs of more than Rs 25,000 to repay. In fact, around 11% of them have a monthly obligation of above Rs 1 lakh.

In comparison, among those who are 30 years or less, only 36% of them have EMI obligation of over Rs 25,000. For those in their 30s and 40s, 43% have EMIs of Rs 25,000 and above to pay each month.

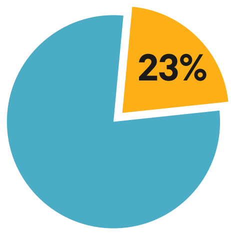



Interestingly, despite widespread job loss and adverse impact on income, customers above 50 years of age also reported the highest repayment capacity with 63% of them saying they can meet their EMI obligation every month with no need for any relief from their lender. Only 6% of those above 50 said they do not have any repayment capacity due to the income loss, compared to 10%-13% in younger age groups.



# 23% OF THOSE WHO TOOK THE MORATORIUM HAD NO IMPACT ON INCOME

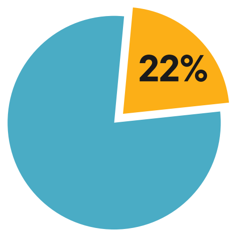
As a relief to the financially stressed borrowers, the RBI had permitted a moratorium from March to August that allowed deferment of EMIs and Credit Card debts. 56% of our survey's respondents said they had availed the moratorium offered by their lender Bank or NBFC on their loans and/or credit card outstanding during this period.


Customers who availed moratorium but did not suffer any income loss

However, 23% of those who availed moratorium had also reported they had no negative income disruption during this period. This could be a result of a cautious approach being followed by many to preserve funds for an uncertain future or plain lack of awareness about the accrual of interest cost on availing loan moratorium facility.

On the other end of the spectrum, 22% of consumers whose income though fell to zero due to the pandemic, did not opt for the moratorium. This could be due to large amount of savings and funds or lower EMIs that they could afford despite income disruption.




Customers who suffered 100% income loss but did not take moratorium

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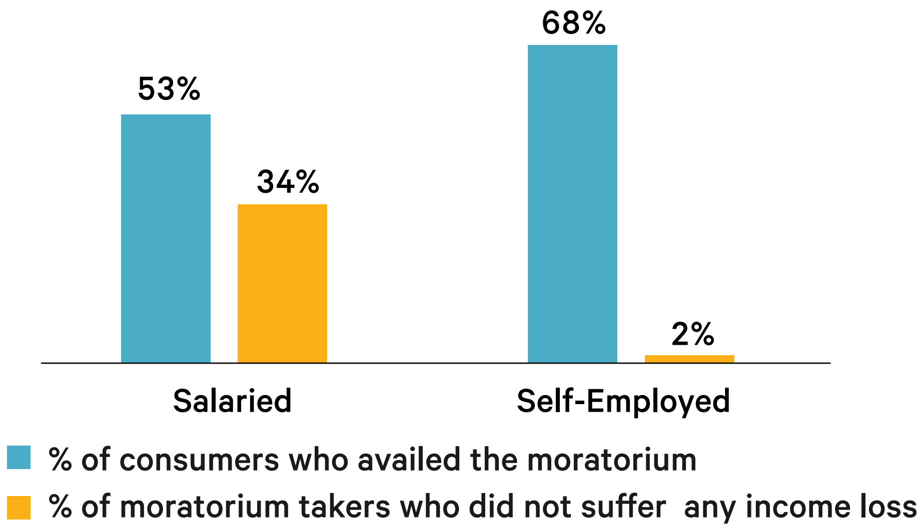
# MANY SALARIED PROFESSIONALS TOOK THE MORATORIUM IN FEAR OF JOB LOSS

One of the key findings of the survey was that while 53% of the salaried professionals availed the moratorium, over one-third (34%) of them did not suffer any impact on their salaries. A primary reason was fear of losing their job or a significant cut in salaries, and as a result, many decided to save more for an uncertain future, by taking the moratorium.

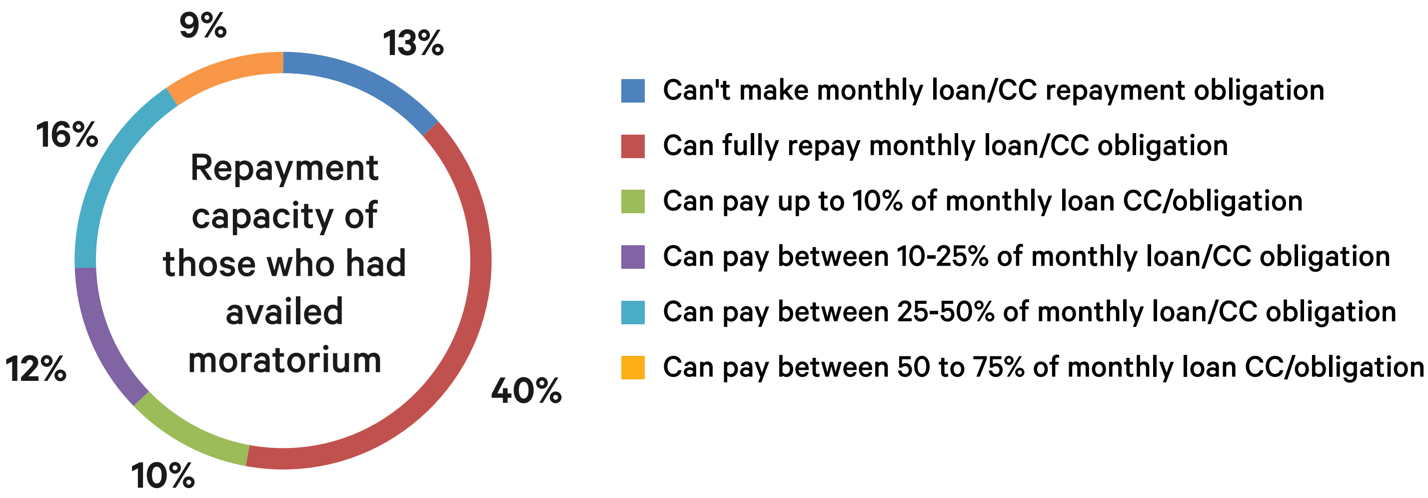



However, this was in contrast with self-employed customers whose need to take the moratorium was more immediate. 68% of those who run their businesses took the moratorium. Of these, almost 98% of them had a negative impact on their income since the Coronavirus outbreak this year.

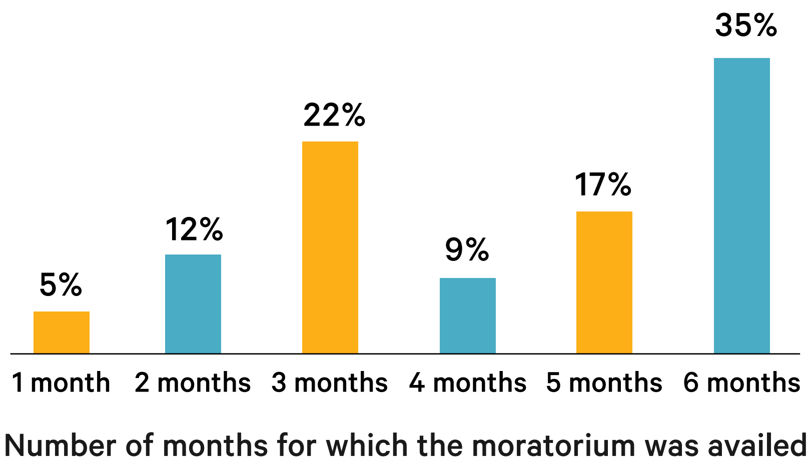
Many in businesses like real estate, tourism, food etc. reported that earnings remain considerably impacted even at current levels, though lockdown-related restrictions have been largely lifted.

# 40% OF CONSUMERS WHO AVAILED MORATORIUM CAN AFFORD THEIR EMIs

Though 44% of the customers had not taken the moratorium, but a much larger number - 55% said they can afford to pay their loan EMIs and Credit Card bills each month hereon. In fact, of the consumers, who had opted for the moratorium, 40% of them say they now have the repayment capacity to meet their monthly EMI obligations in full.




However, there were still 9% customers who said they currently do not have any repayment capacity to service their monthly debt obligation.




52% of the consumers who took moratorium, availed it almost for the entire duration. 35% of these customers opted for the moratorium for 6 months and another 17% for 5 months, indicating continued repayment constraints or a conservative approach to preserve cash for a large section of borrowers.

Interestingly, 51% of the customers who have a monthly EMI obligation of Rs 25,000 or less took the moratorium. Hence, it was not surprising that more than 2 in 3 customers (68%) whose EMI was in excess of Rs 1 lakh had opted for the moratorium.

# OVER HALF OF MORATORIUM TAKERS MAY SEEK LOAN RESTRUCTURING, BUT A LARGE SECTION MAY BE INELIGIBLE

Our survey has shown that a large section of those who had taken the moratorium, had no income impact; others also have the full repayment capacity. Despite this, over half of the customers said that they would like to approach their lender for a loan restructuring plan. 70% of those who had taken the moratorium said they would apply for the loan recast plan. However, since only those whose income and repayment capacity has been impacted significantly due to the pandemic can opt for loan recast plan, a large section of these applicants are likely to be rejected by their respective lender(s).

46% of the customers who had availed the moratorium said they do not want a new moratorium

67% of the moratorium beneficiaries would prefer if their loan tenure can be extended to bring down their EMIs

Maximum customers want their loan tenure to be extended by upto 6 months only

**Customer Speak**

*"I have a transport business and supply buses to 10 schools. Till the time schools don't reopen, my income would be zero."*
**– Rajkumar, a businessman from Delhi**

*"Thankfully, I can now pay almost 80% of my EMI on my car loan. In 2 months, I hope to recover my full business,"*
**– Kalpesh Rajan, a businessman from Mumbai**

*"I took moratorium, but my earning is almost back to normal. By grace of God, I would be able to pay the EMI on my Personal Loan"*
**– N Sadhu, a self-employed professional from Ahmedabad**

*"I lost my job due to Covid and no one has been hiring. The situation seems to be getting better, but till then need some kind of relief for my credit card dues"*
**– Shyamal S, Business Executive from Bangalore**

*"Taking any kind of relief will only add to the loan burden. That is why I avoided it,"*
**– Anil Kumar a Doctor from Kolkata**

# CONSUMER LENDING - THE ROAD AHEAD

By Naveen Kukreja, CEO & Co-founder, Paisabazaar.com

Since March, the ramifications of Coronavirus began to spread in India, disrupting lives and the economy. While gradual recovery in a few sectors has begun since the last couple of odd months, the road to complete normalcy is far and can be a treacherous one, for a few sectors.

A key industry that has been heavily impacted by the pandemic has been Lending. With widespread job loss, income disruptions and furloughs impacting the consumers' ability to repay that led to the moratorium at the advent of the pandemic, Lending in India has been standstill - albeit for a small percentage of the Salaried Prime Segment that was left unscathed by the crisis.

After detailed regular conversations with both customers and our partner banks and NBFCs, in my view, there would be 4 aspects that would shape the recovery of the lending industry --

1. **Repayment trends in Sep-Oct:** With the moratorium over, lenders are closely monitoring how existing customers, who took the moratorium, repay their EMIs. The trends that emerge from here would, to a large extent, shape how lenders open the supply for new loans for the next 6-odd months. Large lenders would need to walk the tight rope as they balance the relief, they offer through loan recast plans, and restoration of supply of new loans that would chart the recovery for the industry.

2. **The future of NBFC Fintech Lenders:** Over the last few years, several new-age NBFC lenders have emerged who, to an extent, drove the financial inclusion agenda by catering to the credit needs of sub-prime segments. However, the pandemic has left many of them vulnerable with their credit models now being put to test. Their survival and the access to capital they get from here to lend to the low-income segments would be critical to the overall recovery of the sector.

3. **The recovery of the economy:** If there's steady recovery in the economy and incomes start getting restored steadily, we can expect supply of loans to be back to Pre-Covid levels in 7-9 months. With the economy beginning to get back to its feet, more customer segments from heavily impacted industries like Travel, Aviation, Hospitality etc. would start getting looked at preferably again by lenders. And once that starts happening, I would also expect lending to SMEs to start recovering. Currently, lenders continue to be conservative in offering loans to the already credit-starved SME segment.

4. **Digitizing Lending:** A roadblock that has slowed down (during the lockdown, even halted) lending has been the lack of digitization. After the lockdown jolt, most players are now building the capability and infrastructure to make lending end-to-end digital. The regulator has also shown the right intent by introducing Video KYC earlier this year and I believe we are not far away from more progressive policy changes that would pave the way for paperless and presence-less lending for the entire industry.

The good news is that credit is a fundamental and perennial consumer need that's been there since time immemorial and would continue to exist. As economy starts reviving, we'd see credit needs around housing, car/bike, health, special events (like marriages), travel etc. come back gradually. Banks and other lenders would also start opening slowly and steadily in specific risk segments.

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