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# A Study on Trends in Consumer Credit Usage in India: A Secondary Data Analysis of EMI Financing

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## Abstract:

The rapid growth of consumer credit has significantly changed household spending habits in India. Equated Monthly Instalment (EMI) financing has become one of the main ways people access goods and services. This study analyzes secondary data on trends in consumer credit usage in India, focusing on the growth, adoption, and impact of EMI financing across different demographics and consumption categories.Using data from reliable Secondary sources like the Reserve Bank of India (RBI), National Sample survey (NSS), industry reports, and financial institutions, the paper looks at trends in consumer credit growth, sector distribution, and shifts in borrower behaviour and shifts in borrower behaviour over the past decade.The analysis shows a clear move from traditional borrowing to EMI based financing. This shift is driven by higher disposable incomes, more digital lending platforms, the rise of non-bank financial companies, and greater use of consumer goods, smartphones, cars, and lifestyle products. The study also examined how Fintech innovations, buy-now-pay-later (BNPL) models, and zero cost EMI schemes impact consumer spending and credit access especially for young and first-time borrowers.

*Keywords* — **Consumer credit, EMI financing, Household debt, Digital lending, Buy now pay later (BNPL), Financial inclusion.**

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## I. INTRODUCTION

### Background of the study.

Consumer credit plays a vital role in shaping modem economies by enabling households to smooth consumption, manage cash flows, and access goods and services that may otherwise be unaffordable through immediate income alone. In emerging economies such as India, the expansion of consumer credit has been closely linked with rising incomes, urbanization, technological advancements and financial sector reforms. Over the past decade, India has witnessed a significant transformation in its consumer credit landscape with Equated Monthly Instalments (EMI) financing becoming a dominant mode of borrowing for retail consumers.

EMI financing let's consumers buy products and services by spreading payments over a set period, which lowers the immediate financial burden. This type of credit has become popular in many areas, such as consumer goods, cars, housing, education, health care and digital services. The rise of Zero cost EMI plans, flexible payment periods, and quick credit approvals has boosted the use of EMI financing. As a result, spending habits in India have shifted from buying necessities to focusing on aspirations and lifestyle choices.

The growth of non banking financial companies, Fintech firms, and digital lending platforms has played a key role in expanding EMI financing. This is especially true for young customers, first time borrowers and those with limited access to traditional banking services

New ideas like buy now pay later (BNPL) models and app-based credit solutions have made it easier to access credit and have reduced transaction issues. This has helped improve financial inclusion. At the same time, support from regulations, wider credit coverage and Unified

payments interface have strengthened the consumer credit system.

However, the rapid growth of EMI financing has raised concerns about increasing household debt, credit risk and borrower over extension. Easy access to credit along with limited financial knowledge may put customers at risk of repayment stress and long-term financial problems. From a broader economic view too much dependence on consumer credit can affect financial stability. This situation calls for careful rules and responsible lending practices.

Again, this backdrop, the present study undertakes a secondary data analysis of trends in consumer credit usage in India with a focus on EMI financing. By examining data from institutional and industry sources the study seeks to analyse growth patterns, structural changes and emerging challenges within the consumer credit market. The study aims to contribute to existing literature by providing a comprehensive overview of the evolving role of EMI financing in India's consumption driven growth model and by offering insights relevant to policy makers, financial institutions and academic researchers.

## 2.2: Problem Statement

The rapid growth of consumer credit in India, especially through Equated Monthly Instalments (EMI) financing, has changed household spending habits and borrowing trends. While EMI financing has made it easier to afford consumer goods and services, its fast adoption raises important questions about the sustainability and long-term effects of this credit growth. Existing studied often look at overall credit growth or lending patterns from institutions but there is a lack of detailed analysis that examines the changing trends in EMI based consumer credit usage using through secondary data sources.

The growing use of EMI financing has created new challenges. These include issues with household debt, repayment stress and credit risk especially for young and first-time borrowers. Even with regulatory actions and better financial infrastructure we still lack a clear understanding of how consumer credit use has changed over time and across different sectors and income groups. Without a thorough analysis of EMI financing

trends, policy makers, financial institutions and institutions struggle to evaluate the wider impacts on economic and financial stability. Filling this gap is crucial for promoting responsible credit growth and helping people make informed decisions in India's changing consumer credit environment.

## 2.3: Explicit Contribution And Significance

This study contributes to the existing literature by providing a detailed analysis of trends in consumer credit usage in India, focusing on EMI financing and area that has not been thoroughly explored. By gathering data from regulatory, governmental and industry sources, the study offers insights into growth patterns, sector distribution and changing consumer behaviour related to EMI based credit. These findings are important for policy makers and regulators as they evaluate the effects of rising household debt and financial stability. They also help financial institutions and Fintech companies create responsible lending practices.

Academically, this study improves the understanding of India's credit driven consumption patterns and serves as a reference for further research on consumer finance, financial inclusion and credit market sustainability.

## 3. REVIEW OF LITERATURE

The review of existing research shows how scholarly understanding of consumer credit usage in India, especially EMI financing, has evolved. The literature highlights a gradual shift from early static views of consumer borrowing to a more dynamic, segmented, and risk-sensitive outlook. This perspective acknowledges the structural, behavioral, and technological factors that influence credit usage.

3.1 Early Perspectives: Credit as a Tool for Consumption Smoothing

Early studies on consumer credit in India mainly framed borrowing as a way to smooth consumption and stabilize income. Researchers like Rangarajan and Mohan stressed the importance of institutional credit in promoting household welfare by providing access to essential goods and services. At this time, consumer credit mostly linked to housing loans and financing for durable goods through banks. EMI-based borrowing was seen as a rational financial choice driven by income limits

rather than aspirational spending. These studies assumed fairly stable borrower behavior and centered on overall credit growth without distinguishing between different products or borrower types. However, this early view largely ignored the diversity among borrowers and the changing reasons behind credit usage. EMI financing was regarded as a uniform financial tool, with little focus on repayment stress, behavioral biases, or long-term debt. This static interpretation prevailed in the literature before the swift growth of retail credit markets after liberalization.

3.2 Shift in Focus: Expansion of EMI Financing and Aspirational Consumption

As India's economy opened up and disposable incomes grew, researchers started looking at how EMI financing influenced aspirational and lifestyle spending. Studies by Banerjee and Duflo showed that access to formal credit changed consumption choices beyond just basic needs, especially for the growing middle class. Research from the Reserve Bank of India (RBI) and ICRA focused on the rapid rise of retail loans, highlighting a notable increase in personal loans, consumer durable loans, and automobile financing offered through EMIs.

This body of work represented a shift from seeing EMI financing as simply a tool to understanding its role in boosting demand. Researchers noted that easy access to credit, longer repayment periods, and promotional offers, like zero-cost EMIs, played a big role in purchase decisions. However, while these studies recognized the growth of credit, they often depended on cross-sectional or short-term data. This limited their ability to track changing risk patterns and borrower vulnerability over time.

3.3 Digital Lending, NBFCs, and Structural Transformation

With the rise of Non-Banking Financial Companies (NBFCs) and fintech platforms, research has shifted to include changes in India's consumer credit landscape. Researchers like Ghosh and Metrick pointed out how NBFCs are playing a larger role in assisting underbanked and first-time borrowers by offering simpler EMI products. Reports from the RBI and BIS showed how digital on boarding, new credit scoring methods, and instant loan approvals improved access to credit.

Studies during this time highlighted that EMI financing was not just for big purchases anymore. It now included everyday expenses like electronics, education, healthcare, and digital services. This change indicated a move toward a more varied and competitive credit market. However, scholars also began to notice new risks, such as aggressive lending practices, poor credit assessments, and increasing delinquency rates, especially among young borrowers. These findings indicated that consumer credit behavior was becoming more dependent on state conditions and sensitive to economic factors.

3.4 Behavioral Dimensions and Rising Household Indebtedness

Recent studies have increasingly used behavioral finance ideas to explain how consumers use credit. Research by Lusardi and Mitchell highlighted the importance of financial knowledge in shaping borrowing choices. Meanwhile, studies in India by Agarwal et al. Connected excessive use of EMIs to optimism bias and a preference for current consumption. RBI household surveys showed rising debt-to-income ratios, indicating increased repayment pressure even though income growth remained stable.

Researchers argue that EMI financing promotes mental accounting. Consumers tend to underestimate their long-term repayment commitments because of low monthly payments. This bias, along with strong marketing and easy digital access, raises the risk of taking on too much debt. The research increasingly shows that credit usage is affected not only by income and interest rates but also by how borrowers think, economic uncertainty, and regulatory changes.

3.5 Research Gap and Need for a Conditional Framework

Despite extensive research on consumer credit growth, existing studies remain fragmented. They focus on either institutional supply, borrower behavior, or short-term trends. There is limited analysis of secondary data that combines temporal trends, sectoral shifts, and risk implications of EMI financing within a single framework. Like earlier "safe-haven" models in financial markets, traditional credit studies assume stable

relationships between income, credit access, and consumption.

The evolving literature suggests that EMI financing in India is conditional. Its impact varies across economic cycles, borrower segments, and institutional structures. This gap requires a systematic study based on secondary data that captures the changing nature of consumer credit usage. The current research addresses this need by combining data from multiple sources to analyze how EMI financing has changed consumption behavior while also introducing new financial risks.

## 4. OBJECTIVES OF THE STUDY

a. To examine the growth trends and patterns of consumer credit usage in India with a specific focus on EMI financing using secondary data sources.

b. To analyse the sector wise distribution of EMI based consumer credit across major consumption categories such as consumer durables, automobiles, housing and personal loans.

c. To assess the role of financial institutions, NBFCs and digital lending platforms in expanding access to EMI financing in India.

d. To evaluate the implications of rising EMI based consumer credit on household indebtedness, repayment behaviour and financial stability.

## 5. RESEARCH METHODOLOGY

This study employs a structured secondary data research methodology to analyse trends in consumer credit usage in India, with a specific emphasis on EMI financing. The approach is both explanatory, seeking to clarify the evolving and conditional nature of EMI based consumer borrowing and analytical offering evidence-based insights into its implications for household indebtedness and financial stability. By integrating a systematic review of existing literature with longitudinal secondary data analysis, the study moves beyond isolated observations to develop a comprehensive understanding of India's consumer credit dynamics.

### 5.1: Research Design

The research aims to overcome the shortcomings of individual studies on policies and empirical findings by blending them into a clear analytical framework. It follows a two-stage process.

The first stage includes a thorough review of academic literature, regulatory reports, and industry publications. This review maps the development of consumer credit research in India. It looks at how early views of EMI financing as a way to manage consumption have shifted to modern worries about excessive borrowing and behavioral risks. This stage highlights key themes, structural changes, and gaps in current research.

The second stage makes the main analytical contribution of the study. It features a quantitative analysis of secondary data obtained from the Reserve Bank of India (RBI), the National Sample Survey (NSS), credit bureaus, and reports from banks and NBFCs. The study uses time-series and comparative trend analysis to look at growth patterns, sector distribution, and changes in borrower behavior related to EMI financing. This approach allows the research to capture the changing and context-dependent nature of consumer credit use, especially during different economic phases and within various institutional frameworks. By blending systematic literature review with analysis of empirical data, the research offers a strong and integrated assessment that addresses the limitations of standalone studies and aids in informed policy and financial decision-making.

### 5.2: Data Collection Sources

The present study is based entirely on secondary data drawn from multiple credible sources to ensure depth, reliability and a holistic understanding of consumer credit usage and EMI financing in India. The key data sources include:

• Academic databases:

A review of scholarly literature was conducted using top academic databases to identify relevant empirical studies, conceptual papers, review articles related to customer credit, instalments-based financing, digital lending, household borrowing in India. These sources provide a foundation and evidence on credit adaptation patterns, consumer behaviour and financial inclusion.

• Government and Regulatory Publications

Data and insights came from reports published by regulatory and government bodies like the Reserve Bank of India (RBI), Ministry of Finance and official institutions. These reports provide reliable information on credit growth, retail lending trends, regulatory changes, policy initiatives affecting EMI based financing.

• Industry reports and Market Surveys

The study included findings from industry reports released by banks, non banking financial companies, Fintech firms and consulting groups. These sources offer useful insights into EMI penetration, consumer preference, credit usage across different sectors and the role of digital platforms and Buy now pay later models.

• Financial and Consumer Data sources

Secondary statistical data on consumer credit growth, loan disbursements, interest rates, and repayment patterns came from publicly available financial databases and institutional publications to support trend analysis.

## 5.3: Sampling Technique

The study uses a purposive sampling technique to choose secondary sources for analysis. This non-probability method involves deliberately selecting research studies, reports, and statistical publications that are relevant to consumer credit usage and EMI financing trends in India. Only sources providing empirical evidence, quantitative data, or systematic analysis of retail lending, installment-based credit, and digital financing mechanisms were included.

This sampling technique is suitable because the study's goal is not to generalize findings across all financial literature, but to gather insights from reliable, recent, and context-specific sources. By focusing on publications from reputable academic journals, regulatory bodies, and industry institutions, the study maintains methodological rigor and relevance while capturing important trends and developments in EMI-based consumer credit in India.

## 5.4: Data Analysis Methods

In addition to reviewing existing literature, the study uses various data analysis methods to support its findings on consumer credit usage and EMI financing trends in India. Time series analysis examines changes in consumer credit growth, retail loan disbursements, and EMI adoption over time. This approach helps identify long-term trends, cyclical patterns, and structural shifts influenced by economic conditions, digitalization, and regulatory actions.

Regression analysis checks the relationship between key factors such as income levels, interest rates, digital payment use, and the growth of EMI-based credit. When applicable, comparative and ratio analysis assesses EMI penetration across different sectors and shifts in consumer borrowing behavior. These quantitative methods provide a solid foundation for the study's conclusions and help confirm the observed trends in consumer credit growth and the rising reliance on instalment-based financing in India.

## 6. SUMMARY OF FINDINGS

The secondary data analysis in this study several important findings about how consumer credit use is changing and how EMI financing is becoming more important in India.

• Key finding 1

EMI financing has become a major way for consumers to access credit in India. This shift is driven by raising consumer expectations, better access to formal credit and more options for installment-based payments in areas like consumer goods, cars, education and healthcare.

• Key finding 2

Time series trends show a steady rise in retail credit growth. Loan based on Equated Monthly Instalments (EMI) plays a major role in consumer lending. This growth has grown up in recent years because of digital lending platforms, Fintech innovations and easier credit approval processes

• Key finding 3

The analysis shows a strong link between macroeconomic condition and EMI adoption. During times of uncertainty or financial pressure people tend to rely more on installment-based financing. Consumers use EMIs to balance their spending while handling short-term cash flow issues.

• Key finding 4

Changing consumer behaviour especially among young and urban populations has been a key growth of EMI financing. The desire for the

affordable options, quick access and low initial costs has led to more borrowing, sometimes without fully considering long term repayment responsibilities.

- Key Finding 5:

While EMI financing has improved financial inclusion and purchasing power, the findings also show rising concerns about over-leverage and household debt. The increasing popularity of digital EMIs and Buy Now Pay Later (BNPL) models raise the risk of impulsive borrowing. This highlights the need for responsible lending practices and better regulatory oversight.

## 7. INTERPRETATION OF FINDINGS: A PROPOSED FRAMEWORK

### 7.1: A Conditional Framework for EMI-Based Consumer Credit Usage

The findings support a Conditional Framework for EMI-Based Consumer Credit Usage. This framework explains consumer borrowing behavior under two non-linear regimes: Stable Consumption and Credit Stress. In the Stable Consumption regime, consumers use EMI financing in a planned way that aligns with their income. This approach supports affordability and helps smooth consumption. Household debt levels stay manageable, and repayment risks are relatively low.

In contrast, the Credit Stress regime occurs due to external economic shocks like income uncertainty, inflation, or interest rate increases. During this phase, consumers rely more on EMIs and digital credit for liquidity. This reliance leads to rapid debt accumulation and a higher risk of default.

### 7.2 Interpretation of Results

The framework shows that easy access to EMI and digital credit increases borrowing during financial stress. What starts as a financing option for convenience can rapidly turn into a necessity, which heightens financial vulnerability for households. These findings indicate that static assessments of consumer credit risk overlook risks during stressful periods. This underscores the need for ongoing credit evaluation and responsible lending practices.

Table 1: Conditional Framework for EMI-Based Consumer Credit Usage

| Dimension | Stable Consumption Regime | Credit Stress Regime |
|---|---|---|
| EMI Adoption | Moderate and planned usage | Sharp increase in reliance on EMIs |
| Consumer Behaviour | Rational, budget-oriented borrowing | Impulsive, necessity-driven borrowing |
| Household Debt Burden | Manageable and income-aligned | Rapid accumulation and over-leverage |
| Default & Delinquency Risk | Low and stable | Elevated and volatile |
| Role of Digital Credit | Convenience-driven | Survival and liquidity-driven |

## 8. LIMITATIONS OF THE STUDY

This study offers valuable insights into consumer credit use and EMI financing trends in India, but it has some limitations due to its scope and methodology.

1.The research relies solely on secondary data, which restricts the ability to capture actual consumer views, attitudes, and real-time borrowing habits. Using aggregated data may ignore regional, demographic, and income differences in EMI usage patterns.

2.Rapid changes in digital lending models and regulations may impact the relevance of some findings.

3.The analysis emphasizes trends and associations but does not prove causal relationships between variables. In conclusion, these limitations indicate that the findings should be viewed cautiously. Future research that includes primary data and more detailed analysis could offer better insights into consumer credit behaviour related to EMI.

## 9. CONCLUSION AND RECOMMENDATIONS

### 9.1: Conclusion

The analysis of secondary data on consumer credit usage in India shows a significant and ongoing growth of EMI-based financing. This growth is fueled by rising consumer aspirations, the increasing use of digital payment platforms, and the greater availability of credit from both traditional banks and non-banking financial companies (NBFCs). EMI financing has shifted from primarily being linked to high-value durable goods to including everyday purchases like electronics, clothing, travel, education, and even groceries. This change reflects a fundamental shift in consumer behavior; access to credit is increasingly seen as a tool for consumption rather than a last resort.

The study highlights that the rise of digital EMI options, such as no-cost EMIs, Buy Now Pay Later (BNPL) schemes, and app-based instant credit, has made consumer credit more accessible, especially for younger consumers and first-time borrowers. Collaborations with fintech companies and data-driven credit assessment approaches have lowered entry barriers, enabling quicker approvals and tailored repayment options. However, this rapid growth raises concerns about increasing household debt, potential overborrowing, and limited financial understanding among some consumer groups.

Trends in the secondary data suggest that while EMI financing boosts consumption growth and financial inclusion, it also shows weaknesses in credit risk management, particularly in unsecured lending. Late payments on small consumer loans and BNPL products highlight the need for better regulatory oversight and responsible lending practices. Overall, EMI financing has become a key part of India's consumer credit landscape, offering both economic opportunities and regulatory challenges.

### 9.2: Recommendations

1.Strengthening Financial Literacy

Policymakers, financial institutions, and educational organizations should prioritize consumer financial literacy programs. These programs should focus on responsible borrowing, awareness of interest costs, and understanding the long-term implications of debt. Clear communication about EMI terms, hidden charges, and how credit scores are affected is crucial to prevent excessive debt.

2.Responsible Lending Practices

Banks, NBFCs, and fintech companies should use strong credit assessment practices that balance growth and risk management. Using alternative data should go hand in hand with careful underwriting standards to ensure borrowers can repay their loans, especially for unsecured EMI and BNPL products.

3.Enhanced Regulatory Oversight

Regulatory authorities should keep an eye on new credit products, especially digital EMI and BNPL models. This oversight will help ensure transparency, protect consumer data, and safeguard consumers. Standardizing disclosure requirements across lenders can make comparisons easier and build trust.

4.Product Innovation with Safeguards

Financial institutions should create EMI products with built-in safeguards. This can include spending limits, cooling-off periods, and alerts for potential payment problems. Offering flexible repayment options can help borrowers handle temporary financial difficulties.

5.Future Research Scope

Future research might include primary data to explore consumer perceptions, behavioral biases, and repayment patterns related to EMI usage. Long-term studies could further investigate how EMI financing affects household financial stability over time.

In conclusion, while EMI financing has significantly increased consumer credit use in India, sustainable growth will depend on balanced regulations, informed consumers, and responsible lending practices.

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