

A STUDY ON CAR FINANCE PROVIDED BY COMMERCIAL BANKS - A COMPARATIVE ATTITUDE OF DEALERS AND BANKERS

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Abstract

Owning a car is made simple by the fabulous offers of various banks and car finance companies in India. Now-a-days getting an automobile loan is quite easy. Organized and institutional auto mobile finance has come of age and companies aggressively market auto mobile loan schemes by innovative and tempting offers to prospective customers. Most of the lending institutions finance up to 90 per cent of the cost of the car depending on the model of the car and the repayment period.

Keywords: Automobile loan, Prospective customers and Repayment period.

Introduction

The generation that came of age with the Internet and Smart phones thinks cars are pretty lame. Automakers prefer to see the situation differently, that young people today love cars just as much as any other group, but just can't afford them right now. Retail finance has become the preferred business of the banks on account of its high spreads. It is due to the fact of the increasing risk of disintermediation in corporate lending. The super normal growth in retail finance has made it the primary driver of their asset book of banks. It is expected to capture 40 to 60 percent of incremental lending of banks by the next couple of years.

The main objective of the financial sector reforms is to promote an efficient, competitive and diversified financial system in the country. Indian banking industry has undergone tremendous change after the liberalization and globalization process that was initiated in 1991. Many structural changes like entry of private sector, liberalized credit allocation mechanism and reduced direct control over interest rate resulted in a new financial architecture that consisted of two well developed markets namely wholesale and retail. Thus, the concept of retail banking emerged and it focused on customization of products designed to meet specific needs of the customers. In today's new generation, the scenario is totally changed. Gone are the days when customers waited for months to get a loan. Now-a-days, bank agents are chasing customers and persuading them to avail credit schemes from the banks.

Consumer Finance Boom in India

There is a perfect correlation between the consumer finance boom and the consumer durables market, which includes both the two-wheeler market and the passenger car market. This correlation is reflected in the present hike in the demand. Therefore, the cheaper loans will drive a CAGR of 14.9 per cent in two-wheeler volumes over the forecast made for the Financial Year (FY) 2006-2007. Consequent to the reduction in the excise duty, cars have become more affordable, and it is expected that the sale of cars would grow at 20 per cent annually or even faster. Most of the banks have entered all the segments in retail finance. They are embracing the shares of Non-Banking Financial Companies (NBFCs) in this regard. Private Banks are competing with a more aggressive style to tap this market. Some schemes of the banks are given below.

The State Bank of India (SBI) is the preferred financier for Maruti. In all the 2,000 branches of the SBI, these loans are marketed. Two-wheeler financing is done through the tie-up with the Bajaj Auto and the TVS motors, and April 1, 2009 onwards, the Axis Bank entered into an understanding with the leading car dealers like Maruti, Chevrolet, Mahindra and Skoda for providing car finance. One of the leading car financiers is the Maruti Countrywide Auto Financial Services. It provides a wide range of finance for the customers of Maruti. The Union Bank of India has tied up with 'Ford' Credit as a preferred financier for Ford car and the Punjab National Bank has struck a similar arrangement with the Hyundai. The Karnataka Bank Ltd., has recently entered into a Memorandum of Understanding (MOU) with SAS Motors Ltd. for financing purchase of tractors, power tillers and other farm equipment, targeting rural markets, though not a consumer finance scheme.

Trend of Amount of Loan Disbursement

In this section, an attempt has been made to examine the trend of car loan disbursement of the select banks. To analyze the trend of the amount of loan disbursed by the banks over a period of ten years from 1998-99 to 2007-08, the following semi log trend equation was fit.

$$\text{Log } Y = a + bt$$

Where Y = Amount of loan disbursed (Rs. in crore);

t = Time variable

The above model was computed by the method of the least square.

The following formula was used to calculate the computed growth rate (CGR).

$$\text{CGR (\%)} = [\text{Antilog } b - 1] \times 100$$

Table 1 Amount of Car Loan Disbursed by the Select Commercial Banks in Madurai District

(Rs. in crore)

Year	SBI		ICICI	
	Amount of Loan	Percentage increase/decrease	Amount of Loan	Percentage increase / decrease
1998-1999	5.12	--	9.76	--
1999-2000	6.18	20.70	12.31	26.13
2000-2001	7.16	15.86	14.16	15.03
2001-2002	9.41	31.42	16.32	15.25
2002-2003	8.91	-5.31	20.12	23.28
2003-2004	7.92	-15.83	19.16	-4.77
2004-2005	8.62	8.83	18.42	-3.86
2005-2006	10.61	23.09	19.41	5.37
2006-2007	11.51	8.48	20.61	6.18
2007-2008	12.12	5.30	18.72	-9.17

Source: Annual Reports collected from the select banks.

Table 2 Trend and Growth Rate of Car Loan Disbursed During 1998-99 TO 2007-08

Bank	Trend Co-efficient		R ²	CGR (%)
	a	b		
State Bank of India	0.0830	1.6811* (21.547)	0.84	8.653
ICICI Bank	0.0688	2.4234* (25.123)	0.89	9.127

The trend and growth rate of the amount of loan disbursement of the SBI and the ICICI are given in Table 2.

CGR - Compound Growth Rate; *

Indicates that the trend co-efficient are statistically significant at 5 per cent level.

The trend and growth rate of the amount of loan disbursed for different segments of passenger cars are given in Table 3.

Table 3 Trend and Growth Rate of Car Loan Disbursed for Different Segment of Cars

Particulars	Trend Co-efficient		R ²	CGR (%)
	a	b		
SBI Small size car	0.1222	0.9458* (6.950)	0.85	12.993
Mid-size car	0.1037	0.8987* (6.499)	0.92	10.93
ICICI Small size car	0.0641	1.8252* (30.979)	0.92	8.618
Mid-size car	0.0751	1.3153* (19.377)	0.84	7.804

CGR - Compound Growth Rate; * Indicates that the trend co-efficient are statistically significant at 5 per cent level.

The ranks assigned to the four identified statements are given in Table 4.

Table 4 Banker's Opinion to on the Tie-Up with Dealers

Sl. No.	Statement	Mean Score	Rank
1.	Pay-out tie up with the dealer	56.21	III
2.	Manufacturer sub-vention money to increase sales of vehicles	72.38	I
3.	Manufacturer sub-vention money to increase bank fund volume	64.32	II
4.	Total sales value increase	41.16	IV

It is observed from Table 1.4 that the statement, "manufacturer sub-vention money to increase sales of vehicles" was ranked first by the bankers as their opinion of the tie-up with dealers. It is followed by "manufacturer sub-vention money to increase bank fund volume", "Pay-out tie-up with the dealers" and "total sales value increase".

Strength of the Competitors

In order to assess the strength of the competitors, the dealers were too ranked by the according to their preference. The ranks assigned by them are presented in Table 5.

Table 5 Competitive Strength of the Dealers

Sl. No.	Factors	Name of the Dealers				
		ABT Maruti	Solamalai Motors	AR.A.S.P. V. PV. & Co.,	Susee Automobiles (P) Ltd.,	Akshaya Ford
1.	Brand Power	1	2	1	2	2
2.	Loyal Customer	5	3	2	1	1
3.	After Sales Network	4	1	6	3	5
4.	Dealers Reputation	6	4	5	4	4
5.	Advertising & Sales Promotion	2	5	3	5	3
6.	Performance of the Brand	3	6	4	6	6

Table 5 shows that among the strength of the competitors, "brand power" was ranked first to ABT and A.R.A.S & P.V. PV. Co. It was ranked second by Solamalai, Susee and Akshya Ford. "Loyal Customer" was ranked first by Susee and Akshya Ford. It was

ranked second by A.R.A.S & P.V.PV.Co. "After sales network" has been ranked first by Solamalai. It was ranked third by Susee and fourth by ABT Maruti Ltd. "Advertising and sales promotion" was ranked second by ABT Maruti, third by A.R.A.S & P.V.PV.Co, and Akshya Ford, fifth by Solamalai and Susee. Thus, it may be seen from the analysis that brand power, loyal customer and after sales network were considered the strength of the competitors in that order.

Table 6 Agreement in Perception of Dealers about Competitive Brands

Sl. No.	Agreement	Rank Correlation Co-efficient
1.	ABT Vs Susee Automobiles	0
2.	ABT Vs Akshya Ford	0
3.	ABT Vs Solamalai Motors	0.67
4.	Susee Auto Vs Solamalai Motors	0.67
5.	Susee Auto Vs Akshya Ford	0.67
6.	Solamalai Vs Susee Automobiles	0.67
7.	A.R.A.S PV.PV. & Co. Vs ABT Maruthi	0
8.	A.R.A.S PV.PV. & Co. Vs Akshya Ford	0.67
9.	A.R.A.S PV.PV. & Co. Vs Solmalai Motors	0

The agreement between dealers in perception about competitive brands was found to be high and positive between all the dealers. It is seen from the analysis that the agreement in perception between the dealers of Ford Ikon and others is positive. Thus it indicates

that Ford Ikon is that king among the mid-size cars which threatened the majority of the dealers followed by Hyundai Accent (4) in the sales as well as in attracting customers.

Perception of dealers on Commercial Bank Car Loans

Table 7 Dealers Perception about Car Loan Provided by Commercial Banks

Sl. No.	Perception	No. of Dealers* (N = 5)	%
1.	Increase the Sales	5	100
2.	Attract more Customers	4	80
3.	Quick Delivery of Loans	4	80
4.	Easy EMI	3	60
5.	Access to afford ability by Middle Income Group	4	80

Source: Primary Data. * Multiple Responses

Details about the perception of dealers on car loan facilities provided by the commercial banks in the study area are given in Table 7. As per Table 7 'increase in the sales' of cars due to financial facilities provided by the commercial banks was ranked first, "bank loan attracts more customers" was ranked second. It is followed by 'quick delivery of loans', 'easy EMI provided by the banks' for car loan and 'Access to afford ability by Middle class people'.

Table 8 Media to Reach Potential Buyer about Brands of Mid-Size Cars

Sl. No.	Media	Mean score	Rank
1.	Advertisement	57.12	I
2.	Display on show Room	48.16	II
3.	Mechanic	40.32	III
4.	Demonstration	34.12	IV
5.	Friends and Family members	28.16	V
6.	Dealers	25.12	VI

The ranks assigned to the six statements perceived by dealers about the media to reach the potential buyer to enquire about the brands are presented in Table 8.

It is seen from above table that the advertisement was ranked first followed by display on show rooms. "Mechanic" was ranked third and "demonstration" ranked fourth. "Friends/relatives" and "dealers" were ranked fifth and sixth.

Effect of Finance Schemes on Sales of Cars in Madurai District

According to the views of dealers, the sales of cars belonging to both the segments, small and mid size cars, have been helped as a result of easy availability of finance. Finance schemes have helped to bring in not only those customers who could not afford to buy but also those who were not buying them because of income tax reasons. Currently, various flexible and attractive finance schemes are available from different banks and

finance companies. Customers can avail of finance for a maximum period of 7 years and a return on investment as low as 13 per cent. More than 70 per cent of the customers go in for finance schemes, irrespective of any specific customer profile and the segment they are purchasing.

Attitude of the Borrowers on Various Issues

The attitude of the borrowers on various issues like reasons for getting car loan, reasons for selecting the bank, difficulties encountered in availing the loan, cost of servicing, rate of interest, document procedure, and the like were gathered and consolidated. Separate analysis was made for the borrowers of each and totally of all the two banks.

Conclusion

Thus it may be concluded from the analysis that more than 75 per cent of the total car sales in the study area have been through car loan from commercial banks. Tie-up with dealers and sub-vention money were found to be a major role to promote the sales of passenger car through bank finance. According to dealers, car loan provided by banks can promote the sale and access to purchase by middle class people. The advertisement is the powerful medium to reach the potential buyers about brands of cars. And it may be concluded from the analysis that both the SBI and the ICICI have followed very long procedure and formalities to get a loan. This may be due to acquaint experience while they collect earlier loans. Above all, the ICICI adopts a professional approach in the method of verification through a Credit Information Bureau of India Limited (CIBIL). But the SBI adopts only the traditional method of formalities to get a loan.

Regarding customer service, since the SBI is a public sector bank, the branch cannot take any decision for rendering service to customers. But the ICICI Bank can take any decision for rendering customer service. The expenditure incurred towards customer service is more in ICICI, Hence, the ICICI is charges more. In the case of the SBI, it does not spend more money towards customer service as compared to the ICICI bank. This is the reason that customer service of the SBI is low while comparing the ICICI Banks. Thus it may be concluded according to car sales through bank finance of dealers perception, the ICICI bank provides most favour to the dealers to increase the sales volume of business with new scheme, such as sanctioning the sub-vention money and tie-up with dealers and manufacturers. Though the customers desire to take a loan only through the SBI, as nationalized bank the dealers insist on the ICICI bank rather than the SBI, because of the professional approach in lending and the maximum level of customer service. The borrowers are convinced by the ICICI bank service and they are ready to afford expenses charged by the ICICI bank to get better professional service and smooth lending.

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