CHAPTER IV
FINANCING ROAD TRANSPORT OPERATORS

Introduction

"Transport is an integral part of Commerce and can be described as a branch of Commerce concerned with the removal of the hindrance of place or difficulties arising from situation. It plays a very crucial role in economic, political and social development of a country". Rapid Industrialisation cannot take place, unless adequate facilities for transportation are available. In the absence of such facilities 'transport bottleneck' is created and it provides a severe constraint to the growth of the country. Neither large-scale production nor mass distribution of commodities is possible without proper transport facilities. Improvement in transport leads to improvement in the industrial organisation of a country.

"The modern civilization is an off-spring of modern transportation. It is a mirror which reflects the progress of a nation, and a link between industry, trade and agriculture. The modern civilization, which

rests upon the large scale factory production, specialisation and division of labour, international exchange of goods and services and in which the life is fully inter-dependant, stands on a single stone, that is, transport. In the absence of transportation all the factories would close down due to non-availability of raw materials drawn from distant places"¹.

Due to physical separation of different countries, a constant flow of goods and efficient marketing depend upon satisfactory transport services. The entire economic or commercial life of a modern country depends upon services of transport. The production of raw materials, their movement to markets and factories, and the distribution of food stuffs and finished products to ultimate consumers pass through transport. In fact at every stage in the activity of production and marketing of goods, transport plays a vital part. It is an element of cost in the production of goods. It enters in the sale price and affects both producers as well as consumers. The best and cheapest transport services, are therefore, absolutely necessary for businessmen, as well as consumers. "There is no better

¹. Jain, J.K., Transport Economics, P.11
single yard-stick than transport to measure the stage of development of a country. It carries ideas and inventions to the people and has considerably contributed to the evolution of civilization.\footnote{1. Ogburn, W.F., The Economics of Transport, (1946) P.11.}

Among the different transport systems such as water ways, air ways, rail and road, road transport system plays a crucial part in directly serving the needs of the consumer and businessman as well as serving as feeder system to the other methods of transportation. Road transport operators depend very much on external finance for purchase of vehicles. Though the vehicle is an excellent security for a loan by any financier, the banks have not taken up financing road transport vehicles in a big way. Mostly the private money lenders use to finance road transport operators through hire-purchase scheme. Now financing road transport comes under priority sector. Therefore, there is a considerable expansion of bank loans to road transport sector.

Road transport operators-coverage and definition

This category of borrowers include operators of taxis, auto-rickshaws, trucks and buses. The financing

\footnote{1. Ogburn, W.F., The Economics of Transport, (1946) P.11.}
schemes by bank cover small transport operators also such as cycle rickshaws, carts and bullock-carts and other animal driven carts. Bank show preferential treatment to these small operators as they represent the weaker section.

Eligibility for bank advance

Advances are given to the persons who are owning not more than six vehicles including the one which is proposed to be financed by the Bank. The vehicle must be owned and operated by the borrower. Credit facilities for the purchase of vehicle in replacement of an existing vehicle is also possible. But the existing vehicle must have been disposed before availing the credit facility for purchasing the new vehicle.

A partnership consisting of not more than six partners will also be eligible if the vehicle is normally driven by the partners in rotation.

The operators of taxis, auto-rickshaws, trucks, buses, hand-carts, bullock-carts, other animal drivencarts, who themselves carry goods or passengers are entitled to get bank credit.

Activities financed under this category

There are certain specific activities which are financed under this category. The main activities
which are financed by the commercial banks are for purchasing vehicles, repairing or renovating them.

There are 24 classifications for which the loan is provided by the banks. List of eligible activities are given in appendix II¹.

**Purpose for which the loan is required**

While providing finance facilities to any sector, the mode of utilisation of funds must be considered. It is a matter of importance that the funds must be utilised for the purpose for which they have been borrowed. So it must be seen by the bank that the finance provided has not been diverted for any other purpose. For the road transport operators loans are sanctioned by the bank only for the following specific purposes:

1) For meeting the cost of the vehicle which includes the cost of spares and all taxes payable at the time of purchase.

ii) For repairing and renovating the vehicle.

iii) For working capital requirements.

¹. Refer Appendix II for list of activities.
Type of finance required

There are various types of finance which are provided by banks to cater to the needs of the borrower. The finance required by transport operators are generally term loans for acquisition of vehicles and short-term loans for maintenance and repairs.

The small borrowers under this sector are covered under credit guarantee scheme. The scheme contains special provisions in relation to credit facilities to small borrowers of this sector. The period of loan should not be more than seven years. But in special cases it may be extended upto eight years.

The maximum borrowing facility available under this scheme is the cost of chassis valued at dealer's invoice-rate plus the cost of construction of body of trucks, buses and auto-rickaws. Some banks fix a separate ceiling on the cost of the construction of body. Advances against taxis are made on the basis of dealer's invoices.

In all the cases, usually a margin of 25% is maintained. The requirement of margin is generally waived in the case of small loans to weaker sections for purchase of cycle rick-shaws, hand-carts etc.
Second hand vehicles are also eligible for loan. In such cases the vehicle may be valued after allowing for usual depreciation from the cost price or market value whichever is lower.

Lending Procedure

Before lending, the bank must take necessary precautions to secure the safety of funds and its repayment according to the stipulated schedule.

The bank must try to know the financial back-ground of the applicant. His experience in driving the vehicle, his honesty, character etc., must also be taken into account. The borrower must be the operator of the vehicle and the driving licence must be in his name. His licence must be checked up to see whether it contains any endorsement regarding any accident.

The bank should also ascertain the prospects of his proposed venture to know whether the applicant would be able to get enough business as a transporter. His estimated income should also be checked up to determine his loan repaying capacity within the stipulated period.

The bank should ask for a guarantee from a reliable party well-known to the bank.
Precautions after sanctioning the loan

The bank must directly make payment to the dealer on the basis of proforma invoice. He must insist that the borrower takes a comprehensive insurance policy on the vehicle in the joint names of himself and borrower.

A margin of 25 per cent is generally maintained on such advances. A lower margin of 10 per cent is required in case of small borrowers who constitute weaker sections.

The bank must see that the documents like a demand promissory note, an agreement of hypothecation, a letter of guarantee and a letter of loan are executed by the borrower. A letter stating that the demand promissory note be regarded as a continuing security for the outstanding amount of the loan, must also be obtained by the bank.

The loans will be sanctioned after all these formalities are fulfilled.

Rate of interest charged by the banks

Commercial banks provide loans with the varying percentage of rate of interest.
Usually the rate of interest on term loans for not less than 3 years is fixed at 12.5% for all types of vehicles. The interest on short-term working capital is subject to a ceiling of 17.5%

**Repayment**

The loan must be repaid in three or four years in monthly or quarterly instalments. The bank must also see that the borrowers pay the instalments regularly.

**Performance Evaluation**

Like retail trade and small business the road transport operators also used to depend on the indigenous bankers and money lenders for their financial requirements. Their main requirement of finance is for the purchase of vehicle. Private money lenders used to advance money under hire purchase scheme for bus operators, truck owners, taxi and auto-rickshaw operators. Weaker section of transport operators such as cycle rickshaws, hand-driven and animal driven carts have not received the benefits of bank finance till the inclusion of this sector under priority sector Advances.
An evaluation of bank finance to road transport operators is now being attempted by first taking up the volume of total advances granted by selected commercial banks in Thanjavur Town.

Table 4.1 shows selected commercial bank's advances to Road Transport operators in Thanjavur Town as on 31.12.1986. The Table also presents the percentages relating to advances to road transport operators by selected commercial banks as percentage on total advances as well as its percentage on advances to non-conventional sector by these banks.

The Table shows that the advances given to road transport operators by selected public sector banks is only Rs.245.46 lacs but the performance of the private sector banks is less than one third of the amount advanced by the public sector banks. However advances to road transport operators as percentage on total advances is more or less equal for public and private sector banks amounting to 3.16% and 3.82% respectively. Among the non-conventional sector borrowers the percentage of loan advanced by private sector banks is nearly 14% of the total loans to non-conventional sector as against 11% by public sector banks.
TABLE 4.1

Selected commercial bank's advances to Road Transport Operators in Thanjavur Town as on 31.12.1986.

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Total Bank Advances</th>
<th>Advances to Non-conventional Sector</th>
<th>Advance to Road Transport Operators</th>
<th>% of Advances to Road Transport Operators on Total Advances (3 as % on 1)</th>
<th>% of Advances to Road Transport Operators on advances to non-conventional sector (3 as % on 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>7776.00</td>
<td>2295.19</td>
<td>245.46</td>
<td>3.16</td>
<td>10.70</td>
</tr>
<tr>
<td>Banks (a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Sector</td>
<td>2061.96</td>
<td>568.14</td>
<td>78.80</td>
<td>3.82</td>
<td>13.87</td>
</tr>
<tr>
<td>Banks (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (a + b)</td>
<td>9837.96</td>
<td>2863.33</td>
<td>324.26</td>
<td>3.30</td>
<td>11.32</td>
</tr>
</tbody>
</table>

SOURCE: Primary data collected from the Records of Commercial Banks.
In general it can be stated that advances to road transport operators have not reached even 4% of the total loan advance by selected commercial banks in Thanjavur Town. Even within the non-conventional sector advances, advances by selected banks amounted to only 11.32% considering the fact that the vehicle offers an excellent security for the bank and a well organised road transport operators is likely to bring in enough revenue to pay off the bank loan there is no reason why the bank should not extend loan facilities to more road transport Operators.

For an assessment of the progress made by commercial banks in their advances to road transport operators which is included in the priority sector, trend percentages are calculated for the 5 year period ending with December 1987. Table 4.2 shows advances made by selected commercial banks in Thanjavur Town to road transport operators together with the trend percentages for the 5 year period 1983-1987.

The trend percentages show that there is a steady increase in advance between 1983 and 1986. However in the year 1987 there is a steep increase of 9% as against the average of 4% annual increase during the period.
### Table 4.2


<table>
<thead>
<tr>
<th>Bank Group</th>
<th>YEARS</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.</td>
<td>2.</td>
<td>3.</td>
<td>4.</td>
<td>5.</td>
</tr>
<tr>
<td>Public Sector Banks (a)</td>
<td>209.90</td>
<td>223.25</td>
<td>231.70</td>
<td>245.46</td>
<td>264.00</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(106.4%)</td>
<td>(110.4%)</td>
<td>(117.0%)</td>
<td>(125.8%)</td>
</tr>
<tr>
<td>Private Sector Banks (b)</td>
<td>68.00</td>
<td>72.00</td>
<td>74.80</td>
<td>78.80</td>
<td>85.00</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(105.9%)</td>
<td>(110.0%)</td>
<td>(116.0%)</td>
<td>(125.0%)</td>
</tr>
<tr>
<td>Total (a + b)</td>
<td>277.90</td>
<td>295.25</td>
<td>306.60</td>
<td>324.26</td>
<td>349.00</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(106.2%)</td>
<td>(110.3%)</td>
<td>(116.7%)</td>
<td>(125.6%)</td>
</tr>
</tbody>
</table>

(Figures in bracket indicate the trend percentages)

**SOURCE:** Primary data collected from the Records of Commercial Banks.
Graph A.1
PUBLIC AND PRIVATE SECTOR FINANCE TO ROAD TRANSPORT OPERATORS

X AXIS: LCMS = 57
Y AXIS: ACMS = 4 CMS = 1 YEAR
As between the public sector banks and private sector banks selected for study the rate of increase appears to be more or less uniform. The increase in advances in the case of public sector banks ranges between 4% and 8% and in the private sector banks 4.1% and 8.9%. The public sector banks compared to the private sector banks have registered an increase of 0.8% more than that of private sector banks. However in terms of absolute amount the increase during the year by public sector banks is 37.10 lacs more than that of private sector banks.

Generally speaking selected commercial banks in Thanjavur Town are making steady progress of their amount advanced to road transport operators which constitutes an important segment of the Priority sector.

The individual performance of the selected commercial banks both in the public sector and private sector may now be taken up for consideration. The distribution of advances among the selected banks in Thanjavur Town to road transport operators as on 31.12.1986 is given in Table 4.3.
### TABLE 4.3

Distribution of advances to Road Transport Operators among selected banks in Thanjavur Town as at 31.12.1986.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Amount (Rupees in Lacs)</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>State Bank of India</td>
<td>126.40</td>
<td>38.98</td>
</tr>
<tr>
<td>2.</td>
<td>Indian Overseas Bank</td>
<td>30.70</td>
<td>9.47</td>
</tr>
<tr>
<td>3.</td>
<td>Indian Bank</td>
<td>68.85</td>
<td>21.23</td>
</tr>
<tr>
<td>4.</td>
<td>Canara Bank</td>
<td>1.86</td>
<td>0.58</td>
</tr>
<tr>
<td>5.</td>
<td>Punjab National Bank</td>
<td>17.65</td>
<td>5.44</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-Total (a)</strong></td>
<td><strong>245.46</strong></td>
<td><strong>75.70</strong></td>
</tr>
</tbody>
</table>

**PUBLIC SECTOR BANKS:**

**PRIVATE SECTOR BANKS:**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Amount (Rupees in Lacs)</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>City Union Bank Limited</td>
<td>39.00</td>
<td>12.03</td>
</tr>
<tr>
<td>2.</td>
<td>Bank of Madura Limited</td>
<td>14.80</td>
<td>4.56</td>
</tr>
<tr>
<td>3.</td>
<td>Lakshmi Vilas Bank Limited</td>
<td>17.60</td>
<td>5.43</td>
</tr>
<tr>
<td>4.</td>
<td>Karur Vysya Bank Limited</td>
<td>7.40</td>
<td>2.28</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-Total (b)</strong></td>
<td><strong>78.80</strong></td>
<td><strong>24.30</strong></td>
</tr>
</tbody>
</table>

**Total (a + b)**

|        | **324.26**                  | **100.00**              |

**SOURCE:** Primary data collected from the Records of Commercial Banks.
Of the total advances to road transport operators, public sector banks contributed more than 75% as against only 24% by private sector banks. Among all the selected banks, the State Bank of India occupies a dominant position with nearly 40% of the total advances of the selected commercial banks. The State Bank of India, the Indian Bank, and the Indian Overseas Bank advanced as much as 69.68% of the total loans advanced by selected banks to road transport operators.

Among the private sector banks, the City Union Bank Limited, has the leading role in financing road transport operators. Of the total advances of the private sector banks amounting to Rs.24.30 lacs, its contribution is nearly 50%.

Therefore, as seen from the Table, there is considerable variation in the level of activity of the selected commercial banks in Thanjavur Town in financing road transport operators. The Canara Bank among the public sector banks and Karur Vysya Bank Limited among the private sector banks should take up more interest and expand their volume of finance to the road transport operators.