Chapter – I
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INTRODUCTION

Performance on Commercial Vehicle Finance of Banking and Non-Banking Institutions in Namakkal District – A study

1.1 Introduction

The auto finance market in India has matured over time, it is a growing market, with 74 percent finance penetration and merely 1 percent Non-Performing Asset (NPA) levels, which is very less when compared to other industries in India.

The automotive market in India is expected to grow at a Compounded annual Growth Rate of 13 percent from the financial year 2016 to 2026. The value of the industry is expected to reach an overwhelming quantity of three hundred Billion USD by the year 2026. The road traffic in India is increasing and the vehicle penetration is expected to increase to 50 percent by the year 2020. The demographic profile of the nation is also supporting the growth of automobile industry. India’s population expected to reach 1.4 Billion by the year 2020. The growth in the automotive market is expected to be driven by India’s socioeconomic fundamentals and positive credit infrastructure.

A captive has formed as key participants in the Indian automotive finance landscape with 75 percent to 80 percent finance penetration of Original Equipment Manufacturers. This phenomenal growth is basically driven by innovative products and focused campaigns. The lenders of the vehicle finance have optimally utilized their potential by offering differentiated financing schemes and high level of customization.
Key drivers to the auto financing strategy are;

- Choosing the right segments and target them with the right customer value propositions
- Leverage used car financing — to reduce product life cycle, drive new car sales, enhance brand value and improve yields
- Refinance existing customers, cross-sell and bundle
- Create a best-in-class customer experience by enabling instant approvals

The commercial vehicle financing is a huge segment that is providing substantial profit to the lenders and also expected to provide enormous business in the future. In this scenario it is the need of the hour to understand the financial behavior of vehicle finance customers and to analyze the factors that drives them to choose the lenders. This research will extend the tentacles of the research in the field of financial behavior of business customers. The study will also enhance the understanding about the decision making process of vehicle finance customers and enable the banks to serve them better.

The repayment behavior of commercial vehicle finance borrowers is classified in to four types namely;

- Normal Repayment
- Pre closure of Loans
- Delinquent
- Default

The normal repayment behavior is simply paying the dues of the loan as prescribed by the lender. There will not be any delay in repayment or cheque bounces in case of the commercial vehicle finance borrower. This normal repayment behavior is encouraged and appreciated by the lenders since there is a not hiccup in the repayment of loans.
The pre closure of loans can happen during the tenure of loan payment, the pre closure can be because of several reasons, the commercial vehicle finance borrower may tend to eliminate the relationship with his lender or there may be enormous cash flow in a particular year, which the borrowers did not expect or any other change in the share holding pattern. This pre closure of loans will be accompanied with a penalty by the lenders to the borrowers. Since there is a chance of forgone opportunity in case of collecting funds and regular payment from the borrower, this behavior is less preferred by lenders when compared with normal repayment of loans.

Delinquency is delayed payment of the loan dues. The delinquency behavior is basically due to the lack of financial discipline by borrowers or delay in getting the money from its business creditors. This delinquent behavior is less attractive and not appreciated by the lenders.

Finally default behavior is the least attractive behavior of the commercial vehicle finance borrower by the lenders. In which the lenders delay their payment of their dues more than one hundred and eighty days. In case of default the loan will become a non performing asset for the bank, which will chew a major chunk of the lenders profit.

Generally commercial vehicle finance is offered by banks, non-banking institutions or other unorganized lenders. The lenders can offer either secured commercial vehicle finance or unsecured commercial vehicle finance. In case of secured loans, the lenders can ask secure the loan of commercial vehicle borrowers by pledging some of the assets like

1. Land or Building
2. Equipment or Supplies
3. Receivables from invoice

These assets are used to collateralize the loan borrowed for vehicle finance. Alternatively, the vehicle finance can also be unsecured loans, in that case the lenders will
rely on the cash flows of the commercial vehicle finance borrowers and predict the ability of the borrowers to repay the dues.

Commercial vehicle finance borrowers can seek the assistance of financial planners, commercial finance brokers or commercial finance consultants to source and structure the vehicle loans.

In general, there are two types of commercial vehicles namely light commercial vehicles and heavy commercial vehicles. These commercial vehicles are classified based on their gross weight. The light commercial vehicles have a gross weight less than 3.5 tones and the heavy commercial vehicles have gross weight more than 3.5 tones. The present study was carried out in Namakkal district, this district is known for its small and medium scale industries and supplies poultry not only for entire Tamil Nadu but also across India. Some of the MSMEs are even exporting their poultry products to other countries as well. Thus the necessity and need for transportation is must and is in high demand in Namakkal district.

The commercial vehicle finance borrowers will get loan from the lenders for three major reasons that are for purchasing new commercial vehicles, to renovate existing vehicle or to buy used commercial vehicles. The interest rate of the loan depends on the credit worthiness of the borrower, expected life of the commercial vehicle or loan to value ratio. Thus the need for financing the commercial vehicle users is important in case of highly business oriented district.

The commercial vehicles play a vital role in transporting the poultry products and other goods of the Micro Small and Medium scale enterprises from the place of production to other parts of the country. The MSMEs and commercial vehicle users are mutually dependent on each other for their business. Thus economic wellbeing of MSMEs will have a ripple effect on the Commercial vehicle owners and vice versa. When there are increased
volumes of business for commercial vehicle owners, there will be greater need for external sources of fund for running the business successfully. This source of funds required for commercial vehicle owners are supplied through organized and unorganized lenders. This research concentrates only on organized lenders of Namakkal district like banks and non-banking institutions. The scope of this research is limited to the banks and NBFCs of Namakkal district. The research did not cover unorganized lenders like pawn brokers in Namakkal district.

The parameters that are affecting the prepayment behavior was analyzed with the help of existing literature and were identified to be interest rate of the loan borrowed, duration or tenure of repayment, loan to value ratio, flexibility in repayment availed by the borrower during the time of purchase, type of loan borrowed, type of commercial vehicle used by the borrower.

For convenience of analysis the interest rate of the loan borrowed is divided into two categories first category of loan interest rate is named as low interest rates and the second as high interest rates. The interest rate of the loan is directly influenced by the credit worthiness of the borrowers, the interest rate for high net worth and credit worthy borrowers were classified as low interest rates, whereas if credit worthiness of a borrower is low, then the banks are taking higher risk, resulting in high interest rates. To be precise the interest rates that are less than or equal to 14 percent are classified as low interest rates and the interest rates that are more than 14 percent are classified as high interest rates.

The loan to value ratio is one of the determinant in deciding the repayment behavior of the borrowers, the ratio of loan to the value of underlying collateral or asset is mentioned as Loan to Value (LTV). For performing multinomial regression, the loan to value ratio is divided in to four categories. The loan to value ratio less than or equal to 40 percent,
from 41 percent to 60 percent, 61 percent to 80 percent and loans more than 80% of the underlying asset.

The commercial vehicle borrowers are categorized into borrowers who are using light commercial vehicles and heavy commercial vehicles. The borrowers who are using buses, trucks, and tankers are classified as heavy commercial vehicle borrower and the borrowers who are using mini trucks are classified as light commercial vehicle borrowers. The type of loan applied for is classified as commercial loan for new vehicles, commercial loans for used vehicles and top up loans for the borrowers in case of their financial down phase.

The duration or tenure of repayment is classified into three categories, if the duration of the loan repayment is less than or equal to five years it is classified as short duration, if the duration of the loan repayment is between five to ten years it is classified as medium duration and if the duration of the loan repayment is more than ten years then it is classified as long duration. At times the lenders offer flexibility in repaying the loan, the commercial vehicle finance borrowers can make use of this flexible repayment option to repay their loans according to their business cycle, availing the flexible payment option is also considered as an important factor in repayment behavior and hence included in the research study.

The commercial vehicles play a vital role in transporting the finished goods of the MSMEs to other parts of the country. This mutual dependence on other small scale enterprises produces an economic ripple effect, which is helpful in keeping economic wellbeing of the Namakkal district healthy. When there are increased numbers of MSMEs, there will be greater need for external sources of fund for running the business efficaciously. These sources of funds required for the MSMEs are supplied through banks, non-banking institutions and some unorganized financial intermediaries. The scope of this
research is limited to the banks and non-banking institutions. The research did not cover the repayment behavior of the vehicle finance borrowers in unorganized financial intermediaries.

The Non-Banking Financial Companies (NBFCs) is a financial institution registered under companies act, 1956. The non-banking institutions are involved in the business of advances and loans acquisition of shares, stocks and chit business. The operations of the non-banking financial companies are regulated by Reserve Bank of India. The different types of NBFCs in India includes

1. Asset Finance Companies (AFCs)
2. Investment Companies (IC)
3. Loan Companies (LC)
4. Infrastructure Finance Companies (IFC)
5. Gold Loan NBFCs

The Asset Finance Companies is a type of NBFC that is involved in financing the physical assets such as automobiles, tractors, generators etc. The primary business of the asset financing companies is that they involve in financing the real or physical assets supporting economic activities. The primary business of investment companies is to raise funds through securities. The major business of the loan companies is to provide advances that are not covered by asset financing companies. The major mode of operation of the infrastructure finance companies is that they involve in long term debt to finance the infrastructure projects. These companies can raise funds by issuing bonds with minimum five years of maturity. These companies can accept investment from companies and public who are having long term investment plans. The gold loan NBFCs provides loan against the gold deposited as collateral to them. Thus the presences of non-banking institutions are inevitable in Indian economy.
The banks also play a vital role in providing economic stability of the nation. The banks accept deposits and provide advances for the operation of business and other economic activities. Though the banks and non-banking financial services seem to be similar there are some fundamental differences in both of them.

**The difference between the banking and non-banking institutions are:**

A NBFC cannot accept demand deposits, whereas a bank can accept and issue demand draft. An NBFC is not a part of payment and settlement system, whereas a bank is actively involved in payment and settlement system as such. A NBFC cannot issue cheques drawn on itself and it is not necessary for the NBFCs to maintain the ratios prescribed by Reserve Bank of India such as cash reserve ratio, statutory liquidity ratio etc. Whereas a bank has to strictly maintain the reserve ratios as prescribed by RBI.

Being an important economic hub of the country, the Namakkal district requires commercial vehicles for transportation of goods. The need for transportation has increased the demand of commercial vehicles in the district. The purchase of commercial vehicles may require initial finances for the procurement of the. The major lenders for commercial vehicles are banking and non-banking institutions. These institutions should understand the mind of their customers and their perceived service quality in case of banks. The present study is investigating the gap in service quality and compares the perception of service quality in the minds of banking and non-banking institutions customers.

The scope of the study is limited to banking and non-banking institutions of Namakkal district, Tamil Nadu. The research study especially focuses on the asset financing companies that are involved in financing the commercial vehicles. The research did not cover other NBFCs like gold loan NBFCs, Investment Companies, Infrastructure finance companies etc.,
The research study covers the dimensions of service quality such as Reliability, Assurance, Tangibles, Empathy and Responsiveness (RATER) model developed by Zeithaml et al., (1988).

Namakkal district is located in the state of Tamil Nadu, India. It is one of the well-known districts for lorry building and poultry farming. Namakkal district is well known for truck and lorry body building throughout the country. The truck body builders manufacture the chases for trucks, tankers, trailers and rig units. The finished products of these truck building industries are then exported to other countries from Namakkal. Truck building is followed as a primary occupation in Namakkal district right from the year 1956. This truck body building industry in Namakkal provides employment for more than twenty-five thousand people directly and indirectly. There are about four hundred industries in Namakkal which are directly and indirectly involved in truck body building.

Apart from truck building Namakkal district is also well known for its poultry farming. The MSMEs of Namakkal district produces 65 percent of total egg output of Tamilnadu. Therefore, this district is a hub for Micro Small and Medium scale Enterprises (MSMEs) that produces truck bodies and poultry. The finished goods of these MSMEs have to be transported to other part of the district, other parts of the state and the nation. Thus the commercial vehicles play a vital role in transporting the finished goods of the MSMEs to other parts of the country. This mutual dependence on other small scale enterprises produces an economic ripple effect, which is helpful in keeping economic wellbeing of the Namakkal district healthy. When there are increased numbers of MSMEs, there will be greater need for external sources of fund for running the business efficaciously. The sources of funds required for the MSMEs are supplied through banking, non-banking institutions and some unorganized financial intermediaries.
The scope of this research is limited to the banks and NBFCs. The research did not cover the repayment behavior of the vehicle finance borrowers in unorganized financial intermediaries.

1.2 Significance of the Study

The commercial vehicles are the key and they are playing a significant role on the movement of goods and services from one place to another place. Starts with the needs of essential articles and ends with the unessential goods and services are heavily depending upon the role of commercial vehicles. Day by day the role and number of commercial vehicles is increasing at decent speed. To provide more number of lenders are highly warranted. At the same time both commercial vehicle seekers/owners and the lenders are facing their own problems and challenges. In the case of customers (borrowers) they are facing plenty of challenges towards the identification of right lender and in contrary the lenders are facing the same issues and challenges towards the identification of prompt borrower.

However, the existence and success of a lender is into the hands of lenders themselves because of they have to perform. To geared up and keep on the performance of a company is not an easy task because to prove the performance of each and every company has to constantly working towards their goal and for that they have to come out with plenty of innovative business strategies, the commercial vehicle finance market is facing several challenges to satisfy the counter parts because their expectations are more and they are having plenty of alternatives. However, the best and worst performances of the lenders are judged by the borrowers (customers) so the lenders have to address the needs and expectations of customers and accordingly they have to draft their strategies. So to provide meaningful tips to both customers and borrowers, this kind of study is highly inevitable because, the outcomes of this study is going to identify the top and best
performers in the commercial vehicle finance based on the perceptions of the customers and to provide valuable scope and tips to the borrowers to locate the best performer for having create business tie ups. So this study attracts decent interest of a segment of public and can be this issue will be put under research process.

1.3 Scope of the Research

This study is to discuss about the performance appraisal of commercial vehicle financiers of Namakkal district in Tamil Nadu. As far as this study is concerned, the performance appraisal or evolution is done on the basis of selection criteria’s for getting loans, guidance, varieties of services / products, pace of process execution and components of service quality such as reliability, responsiveness, assurance, empathy and tangibles. The perception of the commercial vehicles owners are collected on the above said variables to evaluate the performance of the lenders (both bankers and non-bankers). The data collection tool (questionnaire) is constructed on the basis of the above said variables and the responses of the respondents have been collected. Beyond the variables considered in the questionnaire this research is not consider anything to test the perception of the customers (borrowers). The study respondents (samples) are spreading only into the Namakkal district in Tamil Nadu, because this district is well known and very popular for commercial vehicles manufacturing. The collected data from the respondents have been entered under relevant analysis and made comparison between the banking and non-banking institutions. From the outcomes of this research, the researcher is going to conclude about who is performing well and is to suggest suitable and feasible suggestions to improve the performance of the counterpart.
1.4 Statement of the Problem

In today’s modern competitive world, the performance is playing a vital role and if not the existence is very tough due to stiff competition in the irrespective of field. It is a compulsion to each and every individual, group to prove their performance in their respective field and otherwise their survival becomes a question mark. Likewise, the consumers are self-motivated to compare the performance of the marketers and they are willing to support to the best performers. In the field of commercial vehicle finance, a stiff competition is prevailing between banking and non-banking institutions. Because of basically the commercial vehicle seekers and owners are well aware and knowledge in this field and they are having a powerful bargaining capacity indeed the bankers and non-bankers are in the compulsion to facilitate at most satisfaction in all aspects of pre and post lending. Due to the availability of more number of lenders (bankers and non-bankers), the customers are getting more choices towards the selection of lenders and their products. We well known that we are living into the consumer centric markets and the producing world is always under a pressure. Round the clock the consumers and customers are closely watching the performance of bankers and non-bankers and in fact they are expecting a significant positive development from the bankers and non-bankers.

The commercial vehicle finance market has to pump in plenty of innovations, strategies in terms of lending’s during both pre and post lending periods. As per the earlier statement, if any commercial vehicle finance institution is failed to satisfy the demands of the customers then the particular concern has to quit from the market because of the customers are constantly comparing the performance of both banking and non-banking institutions. So it is the right time to all bankers and non-bankers those who are involving into the vehicle financing they must apply for a SWOT analysis themselves and they have to redesign their business strategies to attract and arrest more number of customers towards
their companies. Further the role of commercial vehicle is very important to geared-up the performance of logistic management and the role of logistic management is highly connected with the nation’s economic development. So the researcher has an ample scope to conduct his research in the issue and hence the title of this research is “Performance on Commercial Vehicle Finance of Banking and Non-Banking Institutions in Namakkal district” – A Study.

1.5 Objectives

- To examine the customer’s perception towards the selection criteria’s for availing of commercial vehicle finance loans from Banking and Non-Banking Institutions.
- To study the agreement of customers towards the loan guidance and facilities on commercial vehicle finance of Banking and Non-Banking Institutions.
- To perceive the level of agreement of customers towards the varieties of services/products pertaining with commercial vehicle finance of Banking and Non-Banking Institutions.
- To match the pace of process execution of loans of Banking and Non-Banking Financial Institutions.
- To compare the perception of customers towards the overall service quality of Banking and Non-Banking Institutions on commercial vehicle finance lending.