CHAPTER- III
AUTOMOBILE FINANCE: A CONCEPTUAL FRAMEWORK

3.1 INTRODUCTION:

In order to analyse facts and views, one has to, at the outset, provide for a definite framework within which the researcher keep himself confined. This framework provide for by framing the objective, by explaining the concepts procedures and parameters for evaluating the automobile financing problems and prospects on which the researcher proceeds to make thorough investigation of the facts. Although there is an ample literature concerning the automobile finance, very little literature with direct relevance to the subject under study is available. Therefore our object is restricted to explaining origin of automobile, automobile finance, tools for evaluating automobile finance policies and procedures with reference to automobile finance companies and to test its applicability. The automobile finance companies are those banks and non-banking finance companies who indeed are automobile financiers.

In the subsequent pages of this chapter, the researcher examines the contributions of different pioneers to the “AUTOMOBILE” and “AUTOMOBILE FINANCE”

➢ AUTOMOBILE

3.2 AUTOMOBILE: Indispensable part of today’s life

Day by day the life style of human being is changing and today it has been characterised by hectic time schedule and hurried nature of day to day work schedule and routine activities starting right from in the morning he wake-up till he reach to his bed for rest in the evening. He follows his daily time schedule by seconds-time rather than minutes-time to chase with the time running ahead. He needs a mechanical device (vehicle) that relax him during day’s schedule, saves his energy, complete his work schedule in time .To own a personal vehicle, thus has become a need for an individual whosoever he or she
may be. Those who have owned the vehicle and are habitual to use it regularly agree and state that the vehicle is now indispensable part of their life and without vehicle they find it difficult to keep pace with fast life. Can we imagine a single day without using automobile? Certainly not! Because now a day’s an automobile is considered as one of the basic amenities of a dynamic and modern life. It is one of the most significant instruments to keep pace with the fast growing world.

Thus an automobile (personal vehicle) has become an indispensable part of our daily life.

3.3 WHAT IS AN AUTOMOBILE?

Mobile or motive means one which can move. Automobile or automotive means one which itself can move. An Automobile is a self–propelled vehicle which is used for the transportation of passengers and goods upon the ground. A vehicle is a machine which is used for the transportation of passengers and goods. A self propelled vehicle is that in which power required for the propulsion is produced from within. Aeroplane, ship, motor boat, locomotive, car, bus, truck, jeep, tractor, scooter, motorcycle are the examples of self propelled vehicles. Motor vehicle is another name for the self propelled vehicle running on the ground.

Thus automobile is a type of vehicle which is self propelled and used for the transportation purposes upon the ground. Car, bus, truck, jeep, tractor, scooter, motorcycle are the examples of automobile. Automobile can be classified as under.
AUTOMOBILES

Passenger Vehicles

Goods Vehicles

Light

Heavy

Scoters

Motorcycles

Mopeds

Cars

Pick-ups

Station wagons

Buses

Coaches

Single deck

double deck

Deluxe

Air Conditioned

Light

Heavy

Delivery Van

Light Truck

Truck

Tractor Trailer

(Source- ‘Automobile Engineering’, R.B. Gupta p.- 2)

Chart No. 3.1
3.4 AUTOMOBILE INVENTION:

In 1769, a French engineer captain Nicholas Cugnot, built the first road vehicle propelled by its own power. It was a three-wheeler, four-seater vehicle fitted with a steam engine. It attained a speed of about 2 ½ m.p.h. for 15 minutes.

In 1880, German and French efforts developed an internal combustion engine vehicle, which was used to carry fruits. The present day automobile is the development of this vehicle.

In 1885, Benz in Germany built a tricycle propelled by an internal combustion engine.

In 1885-86, Gottlieb Daimler patented an internal combustion engine in Germany and a year later it was running in a vehicle.

In 1895, Charles E. Duryea and Elwood J. Haynes in America developed experimental automobiles. In this year, Panhard and Levassor in France also developed a car which, with minor exceptions, incorporated the chief features of automobile as we know it today.

In 1890-1895, the European designers were also active in the development of the automobile.

In 1895, the early Panhard in France had the engine placed in the front of a chassis, hooked up to sliding gear transmission, and incorporated brake pedals, clutch and accelerator.

In 1900, the design of the automobile was so improved that it awakened the public to the fact that this new form of transportation was really practical for use.

In 1906, the production and sale become a business. Before 1906, many of the great names around which the world’s largest manufacturing industry was to be built in America had already begun to manufacture the automobile vehicles. Packard, Autocar, Oldsmobile, White, Buick Overland. Ford, Cadillac—all these names were on motor vehicles before 1905. Pierce- Arrow, Loco mobile, Maxwell, Franklin and Peerless were also important in their time in the technical and commercial development of the motor vehicle.
In 1908, Ford started his model with an initial of 20000 vehicles, an output unheard at that time. This was the period when the designer’s chief objective was to make his vehicle run in mass production at the lowest possible price.

In 1920, there was a gradual change and refinement in automobile design. It is of the whole history of the development of automobile vehicle which emphasizes a knowledge of basic principles as the unifying link between the past present and future.

3.5 AUTOMOBILE (CAR) MANUFACTURING:

The first successful American car was built by the Duryea Brothers-Charles and Frank in Massachusetts in 1893, by 1896, other American inventors- Henry Ford, Ransom Olds, Alexander Winton and Charles king had built automobiles that ran more or less successfully. By 1970, there were more than 100 million automobiles, truck and buses in United States. Today, of course, the United States is a nation on wheels, and automobile vehicle has become a basic necessity.

The first motor car appeared in India in 1898 at that time, Bombay had a first taxi cabs, in 1903, and the American company began to operate a public taxi service with a fleet of 50 cars. For about 50 years from 1898, India was an importer of automobiles.

3.6 AUTOMOBILE INDUSTRY: Indian Perspective

In 1935, the late Bharat Ratna Sir M. Visvesvaraya made an automobile industry in India, but the government did not approve this plan. In 1943 and 1944, two automobile factories were set up in India – Hindustan Motor Limited, Calcutta; and Premier Automobile Limited, Bombay for the manufactures of car. At present, many automobile companies are manufacturing automobile vehicles.
# MANUFACTURERS IN AUTOMOBILE INDUSTRY

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Motors</td>
<td>Ambassador, Contessa.</td>
</tr>
<tr>
<td>Maruti Udyog</td>
<td>Maruti 800 car, Maruti 800 Deluxe car.</td>
</tr>
<tr>
<td></td>
<td>Maruti 800 High Roof Van,</td>
</tr>
<tr>
<td></td>
<td>Maruti 800 flat Roof Van.</td>
</tr>
<tr>
<td>Premier Automobiles</td>
<td>Premier Padmini.</td>
</tr>
<tr>
<td>Sipani Automobiles</td>
<td>Dolphin</td>
</tr>
<tr>
<td>Standard Motors</td>
<td>Gazel</td>
</tr>
</tbody>
</table>

- General Motors India
- Ford India Limited
- Eicher Motors
- Bajaj Auto
- Daewoo Motors India
- Hero Motors
- Hindustan Motors
- Hundai Motor India Ltd.
- Royal Enfield Motors
- Telco
- TVS Motors
- DC Designs
- Swaraj Mazda Ltd.

(Source: ‘Automobile Engineering’, R.B. Gupta pp- 5,6)

**Chart No. 3.2**

Today, the business of making and servicing automobile has become one of the biggest businesses in world. An automobile industry employs thousands of men and women directly. Also, because of the enormous quantity of raw material, such as steel, glass, and rubber, that the automobile industry uses, it provides jobs for millions of other people in related industries.

Since the first car rolled out on the streets of Mumbai in 1898, the automobile industry of India has come a long way. During its early stages the
auto industry was over locked by the then Government and the policies were also not favourable. The liberalization policy and various tax relief’s by the government of India in recent years has made remarkable impacts on Indian Automobile Industry. Indian Auto Industry, which is currently growing at the place of around 18% p.a., has become a hot destination for global auto players like Volvo General Motors and Ford.

A well developed transportation system plays a key role in the development of an economy, and India is no exception to it. With the growth of transportation system the Automotive Industry of India is also growing at rapid speed occupying an important place on the “canvas” of India economy. Today Indian automotive industry is fully capable of producing various kinds of vehicles and can be divided into 03 broad categories: Cars, Two –wheelers and heavy vehicles. The following table shows vehicle fleet ratios’ per 1000 persons, of select countries.

**Table No.3.1**

**India and select countries: Vehicle Fleet Ratio per 1000 person**

<table>
<thead>
<tr>
<th>Country</th>
<th>GNI per capita 2008(US$)</th>
<th>Passenger Cars</th>
<th>Total Vehicle Population*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil#</td>
<td>7300</td>
<td>157.8</td>
<td>254.7</td>
</tr>
<tr>
<td>China P.R.</td>
<td>2940</td>
<td>27.1</td>
<td>105.8</td>
</tr>
<tr>
<td>France</td>
<td>42000</td>
<td>495.4</td>
<td>641.1</td>
</tr>
<tr>
<td>Germany</td>
<td>42710</td>
<td>501.6</td>
<td>597.6</td>
</tr>
<tr>
<td><strong>India @</strong></td>
<td><strong>1040</strong></td>
<td><strong>10.7</strong></td>
<td><strong>100.8</strong></td>
</tr>
<tr>
<td>Japan</td>
<td>38130</td>
<td>319.5</td>
<td>605.1</td>
</tr>
<tr>
<td>Korea Republic</td>
<td>21530</td>
<td>256.8</td>
<td>382.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7256</td>
<td>298.3</td>
<td>648.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>9990</td>
<td>495.4</td>
<td>273.8</td>
</tr>
<tr>
<td>Philippines(*)</td>
<td>1890</td>
<td>10</td>
<td>60</td>
</tr>
<tr>
<td>South Africa(*)</td>
<td>5820</td>
<td>106</td>
<td>262.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>46040</td>
<td>462.3</td>
<td>547.4</td>
</tr>
<tr>
<td>U.S.A</td>
<td>47930</td>
<td>450.8</td>
<td>834.4</td>
</tr>
</tbody>
</table>

(Source: Road Transport Year Book 2007-2009 Volume-I)

*Total Vehicle Population include passenger cars, buses, coaches, lorrys, and two wheelers,
@ Data relates to 2009, (#)Data relates to 2007, GNI- Gross National Income

Figures within parentheses indicates the latest year for which data is available
<table>
<thead>
<tr>
<th>Type of Vehicles</th>
<th>Newly registered</th>
<th>Total registered as on</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Multiaxled /Articulated Vehicles</td>
<td>1003</td>
<td>1527</td>
</tr>
<tr>
<td>II. Trucks and Lorries</td>
<td>27580</td>
<td>27953</td>
</tr>
<tr>
<td>III. Light Motor Vehicles(Goods)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Four Wheelers</td>
<td>20750</td>
<td>20285</td>
</tr>
<tr>
<td>b) Two Wheelers</td>
<td>28614</td>
<td>28644</td>
</tr>
<tr>
<td>Total III</td>
<td>49364</td>
<td>489229</td>
</tr>
<tr>
<td>IV. Buses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Stage carriage</td>
<td>1738</td>
<td>1587</td>
</tr>
<tr>
<td>b) Contract carriage</td>
<td>2286</td>
<td>3538</td>
</tr>
<tr>
<td>c) Private service vehicles</td>
<td>1049</td>
<td>613</td>
</tr>
<tr>
<td>d) Other buses</td>
<td>1003</td>
<td>872</td>
</tr>
<tr>
<td>Total IV</td>
<td>6076</td>
<td>6610</td>
</tr>
<tr>
<td>V. Taxis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Motor cabs</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>b) Maxi cabs</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>c) Other taxis</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total V</td>
<td>14621</td>
<td>17103</td>
</tr>
<tr>
<td>VI. Light Motor Vehicle(Passengers)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Three seaters</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>b) Four to six seaters</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total VI</td>
<td>31613</td>
<td>25958</td>
</tr>
<tr>
<td>VII. Motor cycle on hire</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transport(I to VII)</td>
<td>130257</td>
<td>128080</td>
</tr>
<tr>
<td>Non-Transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Two Wheelers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) scooters</td>
<td>103360</td>
<td>68930</td>
</tr>
<tr>
<td>b) Mopeds</td>
<td>49789</td>
<td>30454</td>
</tr>
<tr>
<td>c) Motor cycles</td>
<td>723521</td>
<td>715514</td>
</tr>
<tr>
<td>Total I</td>
<td>876670</td>
<td>814898</td>
</tr>
<tr>
<td>II. Cars</td>
<td>147948</td>
<td>161856</td>
</tr>
<tr>
<td>III. Jeeps</td>
<td>17362</td>
<td>18428</td>
</tr>
<tr>
<td>IV. Omini buses</td>
<td>2784</td>
<td>28</td>
</tr>
<tr>
<td>V. Tractors</td>
<td>20339</td>
<td>25210</td>
</tr>
<tr>
<td>VI. Trailers</td>
<td>14824</td>
<td>16195</td>
</tr>
<tr>
<td>VII. Other vehicles not covered</td>
<td>2859</td>
<td>3708</td>
</tr>
<tr>
<td>Total Non-Transport(I to VII)</td>
<td>1082786</td>
<td>1040323</td>
</tr>
<tr>
<td>Grand Total(Transport+ Non-Transport)</td>
<td>1213043</td>
<td>1168403</td>
</tr>
</tbody>
</table>

(Source: Road Transport Year Book 2007-2009 Volume-I)
Table No. 3.3
Growth Status of Automobile Export

<table>
<thead>
<tr>
<th>Category</th>
<th>1998-99</th>
<th>2004-05 (April-Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Car</td>
<td>25468</td>
<td>121478</td>
</tr>
<tr>
<td>Multi Utility vehicles</td>
<td>2654</td>
<td>3892</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>10108</td>
<td>19931</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>100002</td>
<td>256765</td>
</tr>
<tr>
<td>Three Wheeler</td>
<td>21138</td>
<td>51535</td>
</tr>
<tr>
<td>Percentage growth</td>
<td>-16.6</td>
<td>32.8</td>
</tr>
</tbody>
</table>

(Source: www.Ecomonomywatch.com)

➢ AUTOMOBILE FINANCE

3.7 ORIGIN OF AUTOMOBILE FINANCE:

The history of automobile finance follows the history of car. The history of car loan is very interesting. Although Henry Ford is supposed to be an inventor of the first automobile really, it was invented by a Canadian Sam McLaughlin from Oshawa, Ontario. In order to mass produce, he went into partnership with American David Buicks. Subsequently, car registration enhanced from 178 in 1903 to just over 2000 by 1908 that number had tripled within two years. However the horse and buggy were still the most common forms of transportation, but the real shot came when William “Billy” Durant Founded General Motor under a common management. He was an extraordinary salesman and entrepreneur.

The main features of Billy were that, he was the first to Form a group of automobile Companies as well as he was the first to introduce Automobile Finance. Billy Durant had to his credentials different awards like Business Hall of fame and Automobile Hall of fame in Dearborn, Michigan.

In the early days of motor vehicle industry, dealers were required to pay cash to stack their inventory. Thereby they would purchase few cars at once.

As the number of vehicles became large, buying them becomes very difficult and the manufacturers wanted dealers to purchase vehicles in large
quantities so they could keep factories their running regularly. Under the circumstances only way to do this was to make it possible for consumers to finance their vehicles so the dealers could in turn, finance the vehicles they purchased from the manufacturer.

Billy Durant opened a way to ordinary people to buy a car but manufactures of the time including Henry ford believed that financing a new car could be the end of America. But Billy was a man of vision, and his vision of automobile emerged in the form of General Motors Acceptance Corporation (GMAC). It was GMAC the first large non-banking financing company for automobile loan.

In 1919 GMAC opened branches in several states like Detroit, New York, Chicago, San Francisco and Toronto. In 1920 they opened in Great Britain. By 1928 they had around 4 Million retail contracts and earned huge amount of money since its beginning, GMAC has purveyed more than 1 trillion of Financing for 150 million cars and trucks around the world. They are now financing in 41 countries.

Undoubtedly GMAC led the way in the automobile finance business. The other manufacturers attracted towards profitability in auto loan and they entered in the market to grab the share automobile finance market. Other companies like ford credit (ford motor credit company). NMAC (Nissan motor Acceptance Corporation) Chrysler Credit (Daimler Chrysler) was also in the car loan market other than GMAC. The main features of these companies were that the lending company was wholly owned by the automobile manufacturer. These companies are recognized as “captive finance companies”

Really the car loan industry was profitable and as usual they were always looking to enhance profitability. Later the commercial banks also entered into the extremely competitive car loan market and are strongly standing against the challenge from the below market rate offered by the captive finance companies.²
Today one can avail a car loan from finance companies depending upon his credit history, credit score, and personal information related to his income status, loan repaying capacity and like.

### 3.8 AUTOMOBILE FINANCE: RETAIL LENDING

From the point of view of finance companies, **Automobile Finance** is a part of their retail lending. Retail lending includes housing finance, consumer durables finance, educational finance, automobile finance and personal finance. The term automobile finance thus refers to the finance for vehicles that can be broadly classified into the finance for two wheelers and the finance for four wheelers. Finance for four wheelers can be further sub-classified as finance for heavy vehicles i.e. truck, bus, tractor trailer etc. and finance for light motor vehicles i.e. car, van etc. The utility of these vehicles is for the purpose of transportation of passengers and goods; therefore, these vehicles are also termed as passenger cars, utility vehicles and commercial purpose vehicles. The finance raised from finance companies to own these vehicles is termed as automobile finance.

![Diagram of Automobile Finance](chart.png)

**Chart No. 3.3**

### 3.9 AUTOMOBILE FINANCE MARKET

In early days, there was minimum awareness about the availability of auto finance but these days demand for auto finance has been growing day by day. The automobile finance market has become a booming segment. There are many finance companies in the field of auto finance sector. These companies
are broadly classified into two as banking and non-banking finance companies. Banking finance companies are further sub-classified as banks from public sector, banks from private sector, and banks from co-operative sector. The leading banks engaged in auto finance are State Bank of India, Bank of India, ICICI, HDFC, Bank of Baroda, Centurian Bank of Punjab, Andhra Bank, Union Bank of India, Standard Chartered and so on. On the other hand, some famous non-banking finance companies are competing with banking finance companies to grab the share of auto finance market—they are Tata Finance, Bajaj Finance, Maruti Finance, Sundaram Finance, Kotak Finance, Mahindra Primus, Ashoka Leyland Finance, Shriram Finance, etc. Some multi-national companies are also involved in the market of auto finance.

There are plenty of car finance schemes and the finance for vehicle is available from both the banking and non-banking finance companies at attractive terms and conditions. These finance companies are aggressively marketing their auto loan product with incentives and are also offering innovative services (such as hassle-free finance, minimum documentations, reasonable rate of interest, repayment calculation on the basis of monthly reducing balances, repayment through post-dated cheques) to their customers. Thus the market of auto finance seems to be very competitive. Under such conditions, some of the finance companies have also arranged tie-ups with auto dealers, automobile manufactures to enhance the business of auto finance. This in turn has enhanced the purchasing power of customers. The finance companies offers various automobile loan schemes such as margin money scheme, advance equated monthly scheme, security deposit scheme, hire purchase scheme, lease financing purchase etc to customers. In automobile finance market, the two wheeler finance market is also on the growth path with increasing demand in semi-urban and urban areas. Till decade ago there was a limited awareness about the availability of loan for two wheelers in the rural areas, but now there is increasing awareness and also demand for vehicles in rural areas too. The organized market for two wheelers in India is estimated to be Rs.6000-7000 crore, and there seems to be huge potential for two wheelers.
Also the wide range of flexible and customized financing option for the purchase of both new as well as second hand cars available throughout the country.

The statistics obtained from transport authority, shows that 75% of the total vehicles purchased in the last decade were through auto loan schemes offered by various automobile finance companies.  

3.10 FEATURES OF AUTOMOBILE FINANCE

The banking and non-banking finance companies provide up to 95% finance of cost of vehicle, and the finance companies offer repayment tenure of 12 to 60 months, a few companies offer maximum up to 12 to 84 months. The second typical feature of auto finance is the interest rate. It is calculated on the basis of compound interest. Mostly, the non-banking finance companies calculate the interest on the basis of compound, whereas banking finance companies calculate the interest on the basis of reducing balance method. The next important feature of auto finance is the equated monthly installment (EMIs), which is worked out for repayment automobile finance.

Some auto finance companies charge penalty for early settlement of the full amount of loan, which also is a significant feature of auto finance. The finance depends on the vehicle model and the repayment period. Generally, public sector banks offer lower rates of interest than the non-banking finance companies.

Today the picture of Auto Finance has drastically changed from the previous time. In early days, auto loans were concentrated only on commercial vehicles, but these days, auto loans are easily available for two wheelers and cars. The change started taking place after the economic reforms of 1991-92.

Today’s buoyant and robust economy and huge disposable income of youths have made way for easy auto finance by banks and non-banking finance companies (NBFCs). A large number of financing agencies are entering in the auto finance market of India. Most of the NBFCs and banking finance companies have arranged tie-ups with automobile dealers and manufactures.
All these financial agencies together have created purchasing power for the customers getting an auto loan have become quite easy. The auto finance companies are aggressively marketing different auto loan schemes by way of offering alluring offers to the customers in order to grab the market.  

The growing auto market of India has opened doors for a number of auto finance companies to provide hassle-free finance. At present, to get any auto finance, certain amount of documentation is necessary. If documents submitted by the customer fulfill the criteria of the finance company, immediately the vehicle loan is sanctioned.

Thus it is quite clear that the term automobile finance is related to the financing of personal vehicles as well as commercial vehicles. Banking and non-banking finance companies play a decisive role in promoting economic development through catering easy finance to vehicles. A well organized and sound automobile finance market can prove to be a boon for the economic development of the developing countries like ours.

3.11 AUTOMOBILE FINANCING PROCEDURE:

Individuals falling in the salaried class, professionals and self-employed persons, businessmen, etc., are lent auto loan as per schemes approved by the bank’s board. These schemes contain norms prescribed by the bank regarding the eligibility of borrower’s purpose of loan, maximum permissible finance, margin, interest rate and service charges, repayment terms and security norms etc.

(i) Quantum of Loan

Depending on the cost of the vehicle less prescribed margin and subject to the repayment capacity of the borrower, the quantum of loan is fixed at two to three times the annual salary of the borrower.

(ii) Margin

In the case of a car or 2-wheeler loan, banks stipulate margin between 10% and 20%.
(iii) **Interest**

Interest rate is market-driven and varies from scheme to scheme. Due to intense competition, banks are offering relationship discounts to existing account holders or borrowers going for a second loan.

(iv) **Processing Fees and Other Charges**

Upfront fee, processing fee, supervision fee, documentation fee, mortgage fee, etc. are also levied on a one-time basis. While disbursing auto loans, banks also offer concessions.

(v) **Security**

In the case of a car loan or 2-wheeler loan, hypothecation charge over the asset is created and got registered with Regional Transport Authority. In the case of high risk borrowers, the bank also asks for liquid security in the form of NSC, KVP, Life Insurance Policies, etc. insurance of 2-wheeler/4-wheeler is compulsory under the law. Banks have also introduced group insurance products in tie-up arrangements with life insurance companies and are offering insurance at a low premium.

(vi) **Repayment**

Most of banks give short term repayment period say 3 to 7 years. Repayment is fixed as per repayment capacity, which is taken at 30% of gross monthly income or 50% of monthly take-home pay. In case of a car loan maximum period of repayment is 84 months, whereas for two wheeler 36 to 60 months.

(vii) **Target Group**

The target groups of automobile finance companies are individuals falling in salaried class, professional class, self employed persons and businessmen etc.

(viii) **Purpose**

The purpose of automobile finances for purchase new or used four or two wheelers for personal as well as for business purpose. 

5
<table>
<thead>
<tr>
<th>Banks</th>
<th>Tenure</th>
<th>Margin</th>
<th>Interest Rate</th>
<th>Processing Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abhyuday Co-op Bank Ltd.</td>
<td>3 years</td>
<td>25%</td>
<td>13.5</td>
<td>1.2% of the loan amount</td>
</tr>
<tr>
<td>ABN Amro</td>
<td>3 years</td>
<td>10%-30%</td>
<td>15.0</td>
<td>Rs 500- Rs 1000</td>
</tr>
<tr>
<td>Allahabad Bank</td>
<td>3 years</td>
<td>15%</td>
<td>11.25-10.75</td>
<td>For Salaried Persons: Nil, For Others: 1% of loan amount, minimum Rs 2,000/-</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>3 years</td>
<td>10%</td>
<td>12.75</td>
<td>Rs 250- Rs 1000</td>
</tr>
<tr>
<td>Apna Sahakari Bank Ltd</td>
<td>3 years</td>
<td>25%</td>
<td>14.0</td>
<td>0.5% of loan amount</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>3 years</td>
<td>15%</td>
<td>15.5-11.0</td>
<td>NA</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>3 years</td>
<td>NA</td>
<td>10.5</td>
<td>0.75% of loan amount, max Rs 6000</td>
</tr>
<tr>
<td>Bank of India</td>
<td>3 years</td>
<td>30%</td>
<td>9.75</td>
<td>1.10% of the loan amount Min. Rs.750/-, Max. Rs.2500/-</td>
</tr>
<tr>
<td>Bank of Maharashtra</td>
<td>3 years</td>
<td>10%</td>
<td>11.25</td>
<td>Rs 2000/-</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>3 years</td>
<td>10%</td>
<td>11.0</td>
<td>0.1% on the loan amount with a minimum of Rs.250/- and maximum of Rs.500/-</td>
</tr>
<tr>
<td>Bank Name</td>
<td>Tenure</td>
<td>Rate</td>
<td>Fee</td>
<td>Additional Fee</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------</td>
<td>------</td>
<td>------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>3 years</td>
<td>15%</td>
<td>10.0</td>
<td>1%</td>
</tr>
<tr>
<td>City Union Bank</td>
<td>3 years</td>
<td>10%</td>
<td>13.5</td>
<td>1% of loan amount</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>3 years</td>
<td>15%</td>
<td>10.5</td>
<td>1% of loan amount or min Rs 1000</td>
</tr>
<tr>
<td>Dena Bank</td>
<td>3 years</td>
<td>20%</td>
<td>11.0</td>
<td>Rs 500</td>
</tr>
<tr>
<td>Dhanalakshmi Bank Ltd</td>
<td>3 years</td>
<td>25%</td>
<td>13.5</td>
<td>0.5% of loan amount</td>
</tr>
<tr>
<td>Federal Bank</td>
<td>3 years</td>
<td>10%</td>
<td>12.0</td>
<td>NA</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>3 years</td>
<td>0%</td>
<td>12.75-12.25</td>
<td>NA</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>3 years</td>
<td>5%</td>
<td>14.25</td>
<td>NA</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>3 years</td>
<td>10%</td>
<td>11.75</td>
<td>Rs 250 per lakh or part thereof</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>3 years</td>
<td>10%</td>
<td>12.0</td>
<td>upto Rs. 2 lakh- Rs. 134/-, above Rs. 2 lakh- Rs. 134/- per Rs. 1 lakh</td>
</tr>
<tr>
<td>J&amp;K Bank</td>
<td>3 years</td>
<td>10%-20%</td>
<td>12.0</td>
<td>0.25% of loan amount, min Rs 500</td>
</tr>
<tr>
<td>Karnataka Bank</td>
<td>3 years</td>
<td>NA</td>
<td>13.0</td>
<td>0.25% of loan amount</td>
</tr>
<tr>
<td>Karur Vysya Bank</td>
<td>3 years</td>
<td>20%</td>
<td>12.0</td>
<td>0.3% of loan amount</td>
</tr>
<tr>
<td>Lakshmi Vilas Bank</td>
<td>3 years</td>
<td>20%</td>
<td>14.25</td>
<td>1% of the loan amount</td>
</tr>
<tr>
<td>Oriental Bank of Commerce</td>
<td>3 years</td>
<td>15%</td>
<td>11.0</td>
<td>0.50%</td>
</tr>
<tr>
<td>Punjab &amp; Sind Bank</td>
<td>3 years</td>
<td>10%</td>
<td>12.75</td>
<td>Rs 500</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>3 years</td>
<td>20%</td>
<td>11.0-10.5</td>
<td>0.50%</td>
</tr>
<tr>
<td>Bank</td>
<td>Tenure</td>
<td>Rate</td>
<td>EMI</td>
<td>Miscellaneous Conditions</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>--------</td>
<td>-------</td>
<td>-------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>Saraswat Bank</td>
<td>3 years</td>
<td>20%</td>
<td>13.0</td>
<td>0.5% of the loan amount</td>
</tr>
<tr>
<td>State Bank of Bikaner &amp; Jaipur</td>
<td>3 years</td>
<td>15%-30%</td>
<td>11.5</td>
<td>0.60% of loan amount</td>
</tr>
<tr>
<td>State Bank of Hyderabad</td>
<td>3 years</td>
<td>15%-30%</td>
<td>11.25</td>
<td>Nil</td>
</tr>
<tr>
<td>State Bank of Indore</td>
<td>3 years</td>
<td>15%</td>
<td>12.0</td>
<td>0.50% of loan amount</td>
</tr>
<tr>
<td>State Bank of Mysore</td>
<td>3 years</td>
<td>15%-30%</td>
<td>11.0</td>
<td>NA</td>
</tr>
<tr>
<td>State Bank of Patiala</td>
<td>3 years</td>
<td>15%</td>
<td>11.5</td>
<td>0.50% of loan amount</td>
</tr>
<tr>
<td>State Bank of Travancore</td>
<td>3 years</td>
<td>15%</td>
<td>11.25</td>
<td>0.50% of the loan amount</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>3 years</td>
<td>5%</td>
<td>12.5</td>
<td>NA</td>
</tr>
<tr>
<td>Tamilnad Mercantile Bank Ltd</td>
<td>3 years</td>
<td>15%</td>
<td>12.75</td>
<td>0.5% of loan amount</td>
</tr>
<tr>
<td>The Kapol Co-op Bank Ltd</td>
<td>3 years</td>
<td>20%</td>
<td>10.5</td>
<td>Upto Rs 5 lakh-0.25% of loan amount, above Rs 5 lakh - 0.5% of loan amount</td>
</tr>
<tr>
<td>The Ratnakar Bank</td>
<td>3 years</td>
<td>25%</td>
<td>12.5</td>
<td>Rs 500 per lakh</td>
</tr>
<tr>
<td>UCO Bank</td>
<td>3 years</td>
<td>25% or Rs 7.5 lakh whichever is lower</td>
<td>11.75</td>
<td>1%</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>3 years</td>
<td>20%</td>
<td>11.0</td>
<td>Rs 500 - Rs 1000</td>
</tr>
<tr>
<td>United Bank of India</td>
<td>3 years</td>
<td>10%</td>
<td>12.0</td>
<td>0.50% of loan amount</td>
</tr>
<tr>
<td>Vijaya Bank</td>
<td>3 years</td>
<td>20%</td>
<td>11.25</td>
<td>NA</td>
</tr>
</tbody>
</table>

(Source - www.Indiamart.com)
3.12 AUTOMOBILE FINANCING SCHEMES:

Most of the banks and non-banking financial companies provide streamlined automobile loans through their different schemes. These finance companies provide loans to customers up to 95% of the cost of the vehicle, depending on the model of the vehicle and the repayment period. According to researchers, 75% of the total vehicles purchased in the last decade were purchased through automobile loan schemes.

There are some popular loan schemes. These schemes are described as under:

(i) **Margin Money Scheme**

According to this scheme, the customer is required to pay margin money of at least 10% of the total loan amount, along with one advance EMI. The remaining balance amount is to be paid through post-dated cheques, covering the repayment period of the loan. One of the major advantages of this scheme is that it has the lowest EMI to be paid as compared to other schemes for the same loan amount.

(ii) **Advance Equated Monthly Installment Scheme**

Under this scheme of automobile loan, the company offer 100% loan. A feature of this scheme is that a customer has to pay up to five EMIs in advance and the remaining part of the loan is to be paid through post-dated cheques covering the remaining period of the loan. One of the demerits of this scheme is that though it offers 100% finance, the customer has to pay five to nine installment upfront, otherwise customer has to pay a higher EMI amount because the interest is charged on the whole loan amount.

(iii) **Security Deposit Scheme**

This is a different type of automobile loan scheme. In this scheme, the customer is required to deposit a specified amount in the form of a security deposit against the sum provided as the automobile loan. The main feature of this auto finance scheme is that the security deposit is refundable on the
completion of the full period of the loan. On this deposit amount, the loan holder will get interest, but the rate of interest is lower than that charged on the loan amount.

Under this scheme of auto finance, the EMI is higher than the EMIs under the above two schemes. The security deposit ranging from 10-30% of the total is returned after the loan period, together with a simple or compound interest. The period for this scheme is usually for two to five years.6

(iv) **Hire Purchase Scheme**

The term Hire Purchase (HP) can be defined as “a contractual arrangement under which the owner lets his goods on hire and offers an option to the hire for purchasing the goods in accordance with the terms of contract”.

This is an agreement under which the automobiles are let for hirer and under which the hirer has the option of purchasing it in accordance with the terms of the contract.

**Salient Features of Hire Purchase Scheme:**

a) The finance company purchases the equipment (automobile) from the equipment supplier and lets it on hire to the hirer.

b) The hirer may be required to make a down payment and balance can be repaid in maximum 60 months.

c) Interest is calculated on the basis of a flat rate of interest.

d) During the currency of the contract, the hirer can opt for an early repayment and purchase the asset. The hirer exercising this option is required to pay the remaining amount of hire purchase installment less an interest rebate.

At the end of each accounting period, the finance company recognizes an appropriate part of the non-matured finance income as current income of the period. At the end of each period, the hire purchase price less the installment received is shown as receivable (stock on hire) and the finance income component of these installments is shown as a current liability.
This type of scheme is mostly offered by the non-banking finance companies (NBFs). NBFCs usually charge an amount as low as one Rupee called option money on payment of which the possession of the vehicle is given to the hirer. The NBFCs resort to this option, as they are not encouraged to give loans, which is a bank privilege.

(v) **Lease Financing Purchase**

The term Lease Financing can be defined as “a contract between the owner of an asset (the lessor) and its user (the lessee) for the hire of the asset. In other words, the term lease finance is a contractual arrangement, where the lessor of asset (equipment) transfers the right to use the asset to the lessee for an agreed period of time in return for the rental. At the end of the period, the assets revert back to the lessor, unless there is a provision for the renewal of the contract or there is a provision for transfer of ownership to the lessee. Lease agreements are offered by NBFCs and are mostly available to corporate, looking mainly for tax saving angle.

Under this scheme there has been a great problem faced by the leasing industry over since service tax has been imposed on the interest portion of the lease rental. This made leasing very expensive.  

3.13 **AUTOMOBILE FINANCE FOR PERSONAL VEHICLES:**

Generally automobile finance refers to personal vehicles; it includes two wheeler finance, car finance, and utility vehicle finance. The features of personal vehicle finance and documents required to avail automobile finance are as follows.

a) **Four Wheeler Finance**

These days, the dream of owning a car can come true rather easily. Getting finance for one’s dream car has become very simple and easy. Nowadays, multinational companies (MNCs) and public and private sector banks as well as non-banking financial institutions are aggressively marketing their automobile finance products. Every finance institution is offering
innovative services and incentives. A wide range of flexible and customized financing options for the purchase of both new and second-hand cars are available throughout the country. 

The major features of car finance are:

(i) Banks provide 90% of the cost of a new vehicle,
(ii) In case of used/second-hand car, bank provides finance up to a maximum of 80% of the value of car.
(iii) Early settlement of the full amount charges a penalty,
(iv) Generally, public sector banks offer lower rate of interest than the non-banking finance companies,
(iv) Usually the interest is calculated on the basis of monthly reducing balance,
(v) The banks offer repayment tenure of 12 to 60 months,
(vi) A few institutions even offer maximum up to 84 months repayment period,
(vii) A salaried person can borrow up to 3 times of the annual salary,
(viii) A self employed individual can borrow up to 6 times of the annual income.

Documents necessary to avail car Finance

(i) Application form,
(ii) Proof of Residence,
(iii) Proof of Identity,
(iv) Bank statement for last 6 months

b) Two Wheeler Finance

The 2-wheeler finance market is growing day-by-day. It is on the growth path with increasing demand in semi-urban and rural areas. The organized market of 2-wheeler in India is estimated to be Rs.6,000-7,000 crore. So, a huge space for the two wheeler finance companies exists for the growth of their business. In early days, there was a limited awareness about the
availability of two wheeler loans in the rural areas, but today, the demand from these is picking up. Auto finance companies are aggressively marketing their product with innovative service offerings and incentives. Thus, getting auto loans has become very easy. The finance companies have come forward in order to market their auto loan products together with different schemes of auto loans and also offering innovative and alluring offers to the customers. These companies are either banks like HDFC, ICICI, Bank of Baroda and Centurion Bank and so on, or private companies from the non-banking sector.

Features

In the Indian marker, the 2-wheeler finance is easily available with minimum documentation. The rates of interest are reasonable in the market. Hence, the masses can get two wheelers finance. The different features may be given as follows:

( i ) Up to 95% of the cost of 2-wheeler is financed,
( ii ) Flexible repayment options, ranging from 12 to 60 months are available,
( iii ) Rate of interest is calculated on monthly reducing rates,
( iv ) Repayment is made through post-dated cheques with easy EMIs.

Documents necessary to get a 2-wheeler loan

In order to get finance for a 2-wheeler, certain amount of documentation is required. If the documents submitted by the aspirant fulfill the criteria of the financing company, the loan is approved within no time. The basic documents required are:

(i) Application Form.
(ii) Passport-size Photograph,
(iii) Proof of Income of last two years,
(iv) Proof of Residence,
(v) Proof of Identity,
(vi) Two passport size photograph,
(vii) For salaried, last salary slip and form No.16 for Last 3 years,
(viii) Self-employed individuals and professionals require Income-tax
       Returns for the last two financial years.

3.14 AUTOMOBILE FINANCING: PROS AND CONS:

It is true that auto financing has contributed immensely to the boom in
automobile industry and purchasing of it by a larger section of population.
Once, riding a 2-wheeler or a car had been the privilege of a few, which now
has become a privilege of many. Yet, there are certain pros and cons of auto
financing which require being account for:

(a) The Pros
(i) A person can buy a 2-wheeler/car of his own choice without even saving
    money for a down payment. This instant gratification factor appeals
everyone,
(ii) A buyer can repay the loan in small and easy monthly installments. He
can opt for a long term loan and consequently pay even more less
money each month,
(iii) A person interested in purchasing a second hand/old vehicle enjoys the
    use of vintage care,
(iv) Auto financing offers swift processing which enables a purchaser to get
    hold of his vehicle within a few days/hours.

(b) The Cons
(i) In the first place, auto finance is a loan. Though apparently the interest
    rate seems affordable, in the end, the borrower has to pay more than
what he would have paid if he had purchased his vehicle without taking
loan,
(ii) For people with bad credit worthiness, the biggest con is that higher than
usual interest rate levied by lenders.
(iii) People with bad credit record have no choice of auto financing
company.10
3.15 AUTOMOBILE FINANCE COMPANIES:

Banks and Non-Banking finance companies, which provide financial assistance to purchase automobile are termed as automobile finance. A brief review of banking and non-banking finance companies is presented in the following pages.

BANKS

Banking in India began during the British Rule. The first bank was the Central Bank of India, started in 1786. It was followed by the Bank of Hindustan. These two original banks today have lost their existence. The State Bank of India is the oldest among the existing banks. At first, it was begun as the Bank of Calcutta in June 1806. Later on, it becomes the Bank of Bengal. Along with this bank, The Bank of Bombay and the Bank of Madras were established under Charters from the British East India Company. These were known as Presidency Banks and were central banks. These three banks later on in 1921 were merged to form the Imperial Bank of India, which after Independence, became today’s the State Bank of India.

In 1839, the merchants in Calcutta came together and established the Union Bank. However, it failed in 1848 due to the economic crisis of 1848-49. The other venture was the establishment of the Allahabad Bank in 1865 and is still functioning. The Bank of Upper India was established in 1863, prior to Allahabad Bank and survived till 1913. When it failed, some of its assets and liabilities were transferred to the Alliance Bank of Simla.

Due to the American Civil War, the Confederate State of America stopped the supply of cotton to Lancashire in England. Therefore, the promoters opened banks in India to finance the trading. However, most of these banks failed. The depositors lost their capital and interest too, yet banking in India remained the exclusive domain of the Europeans for the next several decades until the beginning of the 20th century. Foreign banks also stated to coming to India in 1860, the Comptorie Escompte de Paris opened its branches in Calcutta. Another branch was opened in Bombay in 1862, followed by
branches in Madras and Pondicherry. In 1869, HSBC established itself in Bengal, which becomes a banking centre.

In 1881, the first entirely joint stock bank was established. It was Oudh Commercial Bank in Faizabad, but it failed in 1958. The next Punjab National Bank opened in Lahore in 1895. It still survives and is one of the largest banks in India.

The period during 1906 to 1911 witnessed the establishment of banks which were inspired by the Swadeshi Movement. Some of them were Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. All these banks are functioning successfully till this date. The banking business in India suffered a lot during the periods of the First World War (1914-1918) and Second World War (1939-1945). Even two years after the Second World War ended, the situation remained disturbing. Though, during this time, Indian Economy was gaining indirect boost due to war-related economic activities. But many banks simply collapsed. During 1913 to 1918 at least 94 banks failed. The Partition of India in 1947 paralysed the banking activities.

However, it witnessed a great change. The Government of India, which had been neutral so far, began taking interest in playing an active role in the economic policy of the nation. As a result, the Reserve Bank of India, the Central Bank, came to be owned by the Central Government of India in 1948. The very next year, the Banking Regulation Act was implemented, by which it became mandatory for the new banks or the branches of existing banks to obtain a licence from the Reserve Bank of India. In spite of this control and regulation by the Reserve Bank of India, the banks continued to be owned and operated by private persons, with the exception of the State Bank of India. In consideration of the contribution of the banking sector to the rapid growth of development in economic field, employment, etc., Prime Minister Mrs. Indira Gandhi issued an ordinance to effect the nationalization of 14 largest commercial bank on July 19, 1969. This followed later in 1980 by the nationalization of 6 more banks. Thus, the Government of India become the
sole owner 91% of Indian banks. These nationalized banks have withstood the
greater global financial crises and have helped India grow into one of the major
economies in the world.

Then in 1990s, the new era of globalization and liberalization dawned as
Prime Minister Narsimha Rao who introduced the new policy of ‘New
Generation Tech-Savvy Banks’. Under this policy, licence was issued to a
small number of private banks. In the result, private banks like Oriental Bank
of Commerce, Axis Bank (earlier UTI), ICICI Bank and HDFC Bank entered
the field and contributed to the rapid growth of Indian economy with their
efficient and strong operations. The new policies of relaxation in the norms for
foreign direct investments, the modern outlook and tech-savvy methods have
led to the retail boom in India. People demand more from their banks and also
receive more. With the rapid growth in Indian economy, the demand for
banking services, especially, in retail banking, mortgages and investment
services are expected to be strong. It is because, though the private banks have
helped Indian economy to grow, the critics have been charging them for their
aggressive recovery efforts.

At present, there are 96 scheduled commercial banks in India. Of these,
27 are public sector banks, 31 private banks and 38 foreign banks. The
combined network of these banks is 53,000 branches and 49,000 ATMs
According to ICRS Report, the public sector banks hold over 75% of total
assets, while the private and foreign banks hold 18.2 and 6.5%, respectively.11

**Banking Business**

Business of banking can be divided into two parts as wholesale banking
and retail banking, it is shown as follows.
Wholesale Banking Business:

Wholesale banking refers to banking in where banks undergo transactions with industry and business entities. Mostly corporate and trading houses, it includes multinational, domestic business houses and prime public sectors companies. It is a conventional business of banking industry. The product offered through this banking business comprises fund based services, Non fund based services, value added services, internet banking services.

Retail Banking Business:

“Retail banking is typical mass market banking, where individual customer use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit card, credit card and so.”

12
The retail banking business refers to the dealing directly with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current, savings accounts on the liabilities side, and on the other hand personal loans, housing loan, educational loans, and auto loan etc., on the asset side an important products of retail banking are offered by banks. Retail banking is quite broad in nature and it also relates to ancillary services like credit cards, debit cards, depository services, and deposits and assets linked products and other financial services, which are provided directly to individual customers. The typical products offered in the Indian retail banking segment are as follows.

(a) Retail Deposit products: It encompasses as saving bank account, recurring deposits account, current deposit account, term deposit account etc.
(b) Retail Services:- It includes as follows;
   i) Safe deposit lockers
   ii) Depository services
   iii) Bank assurance products etc.
(c) Retail Loan Products:
   Retail loan products includes-
   i) Home loans to resident Indians for purchase of land and construction of residential house / purchase of ready built house / for repairs and renovation of an existing house.
   ii) Home to Non-Resident Indians.
   iii) Consumer loans: For purchase of white goods and durables.
   iv) Personal loans: for purchase of jewels, for meeting domestic consumption etc.
   v) Educational loans: for pursuing higher education both in India and abroad.
   vi) Trade related advance to individuals: for setting up business, retail trade etc.
   vii) Crop loans to agricultural farmers.
viii) Crédit cards
ix) Automobile finance.

3.16 BANKING FOCUS: from corporate banking to retail banking.

Prior to economic reforms in 1990, most of the banking credit was focussed on the agriculture, industry and commerce and various regulatory restrictions were in place to ensure limit on total amount of retail lending like housing, auto loan and other retail loans. There were other restrictions related to rate of interest, margin stipulation and maximum repayment period etc. But the change have been taken place after the economic reform in 1991. The economic liberalisation have outlined new role of finance in India. Since, the liberation both private as well as public sector banks, irrespective of size have been increasingly focusing on retail banking products for both resource mobilisation and lending. Today retail banking has become primary source of banking business.

The key factors responsible to shift focus from corporate banking to retail banking:

i) Intense competition among banks for corporate loan, which has led to lending at low interest rates, as a result most of the banks have experienced large reduction in interest spreads and drain on profitability.

(ii) Risk in corporate loans is very high as comparing to risk involved in retail banking advances. It is low and well diversified.

(iii) Retail banking offers more stability as compared to corporate banking.

(iv) Raising standards of living also contributed to enlarge the retail banking.

(v) Retail banking gives opportunities to cross sell other retail product

(vi) Innovative, and flexible market other finance companies have compelled banks to shift their focus on retail products like housing, auto finance etc.

(vii) Home loans, auto loans and other retail loans earn more income of interest and lower NPA to banks.
(viii) There is a huge change in the attitude and lifestyle concepts of Indian households from ‘Save and Buy’ than to a ‘Buy and Repay’ principle that has caused to more demand to retail loans.

(ix) Because of information technology, media and western style economy resulted in higher income opportunities and impact on change in urban consumption pattern that has caused to more demand for retail loans.

(x) Awareness and sophistication in urban and semi-urban households for urban convenience, social security and status has contributed to higher demand for retail loan products.

(xi) RBI’s liberal and consumer centred policy for retail loan products like housing loans, auto loans, and their flexible interest options etc, have made banks to focus on retail banking.13

Thus after the economic and regulatory reforms the paradigm shift in the Indian banking Sector, which has brought out by deregulation, liberalization and globalization of the Indian economy and characterized by intense competition and low margin has made compulsion back to shift focus from corporate banking to retail banking.

NON –BANKING FINANCE COMPANIES:

Non-Banking Finance Institutions operating (NBFIs) in unorganized sector are termed as Non-Banking Financial companies in India. (i.e. NBFCs) A NBFI, which is registered under the companies Act 1956, is called as Non-Banking Financial Company (NBFC). It includes investment companies, hire purchase finance companies, mutual benefits financial companies, and other non-banking financial companies.

**Definition and meaning of the NBFC:**

“The companies Act, 1956 defines NBFC as a company, which is registered under the companies Act 1956, and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/ debentures/securities issued by the Government or Local Body Authority of other securities but does
not include any institution whose principal business is that of agriculture activity or sale/purchase/construction of immovable property.”

Provisions of the NBFC:

i) The NBFC should have a minimum net worth of Rs.200 crore as per its latest balance sheet which may increase up to Rs. 300 crore within three years from the date of conversion.

ii) It should not have been promoted by any large industrial house or by any local, State or Central Public Authority.

iii) It should have a triple ‘A’ credit rating in the previous year.

iv) It should have capital adequacy of not less than 12% and its net NPA should be below 5%.

With effect from April, 2001, the RBI has permitted Foreign Direct Investment (F.D.I) in the NBFC sector. Foreign NBFCs can set up wholly-owned operating subsidiaries, subject to the bringing in 50 million Joint Venture operating NBFCs having 75% or less foreign investment are allowed to set up subsidiaries, provided they comply with the applicable minimum capital inflow of 50 million.

Types of NBFCs:

The main types of the NBFCs are: i) Equipment Leasing Companies ii) Hire-purchase companies iii) Loan companies iv) Investment companies. However, with effect from 6th Dec 2006, these NBFCs registered with the RBI have been reclassified as: i) Asset Finance Company (AFC) ii) Investment company (IC) iii) Loan Company (LC)

i) Asset Finance Company (AFC):

Asset Finance Company is defined as any company which is a financial institution carrying on as its principal business, the financing of physical assets supporting productive or economic activity. Such as automobiles, tractors, generator set, lathe machines, earth moving and material handling equipment moving on own power and general purpose industrial machines. The principal
business for this purpose can be defined as aggregate of financing real assets supporting economic activity and income of which is not less than 60% of its total assets and total income respectively. The above type of companies may be further classified into those accepting deposits or those not accepting deposits. Besides the above class of NBFCs, the residuary non-banking companies are also registered as NBFC with the RBI.

ii) **Investment Company:**

Investment Company means any company, which carries on as its principal business of acquisition of securities. Investment Company may also be called as an investment trust. The aim of an investment company is to protect small saving investors and diversifying securities. Investment Company, with a counselling company gives advice of investment in business which helps investors to select a sound and liquid security. A holding company also assist in purchasing shares of different companies. In India, investment trust companies channelize people into productive ventures. Small investors are promoted by the advice of experts and manage the investment portfolio. These management investment trusts promote business stability in the economy by keeping the capital market active and busy. They have a profound influence on the stock market.

iii) **Loan Company:**

A loan company carries on the main business of providing finance, so it is also called as finance company. It does not include an equipment leasing company or hire purchase or housing finance. This loan or finance company with little capital depends on deposits of the depositors, and offer higher interest rate. Generally, a loan company provides loan to wholesalers and retailers and small scale industries. These loans are charged high rate of interest due to its unsecured and risky nature. After taking for a short period these loans can be renewed for a long term loans. Generally, these companies encourage hoarders, speculators and tax evasion.
The banking commission has made the following suggestions for these companies:-

i) Every loan company must obtain a licence from the RBI without which it should not be allowed to function.

ii) A certain liquidity ratio and owned funds to deposit ratio must be prescribed, though at a lesser rate than that of commercial bank.

iii) There should be a ceiling on the interest rates offered on deposits.

Besides these, the number of registered loan companies is increasing from 612 in 1984 to 1617 on March 31, 1990, and got deposits of Rs.6808 crore as on march 31, 1990. It is worthwhile to note that nearly 20% of the deposits of non-banking sector come from this loan finance company.14

3.17 GUIDELINES OF RESERVE BANK FOR RETAIL LOANS:

Automobile finance is one of the types of retail loans. The guidelines framed by RBI are also applicable to automobile finance or vehicle loan or auto loan. These guidelines in this regard are mentioned as follows:-

(i) Proper Precaution

There are increasing incidents of resorting to multiple financing by unscrupulous borrowers. To avoid these incidents the RBI has cautioned the banks to take proper precautionary steps. These precautionary steps are provided in the appraisal while sanctioning retail loans. To overcome the fake transactions of loans and to avoid frauds the loan sanctioning officials or authorities should consider meticulously KYC policies. For other of internal control they should ask for identification and acceptance of the customers.

(ii) Anti-Typing Measures

The bank officers are in great demand to guide the customers with regard to interest rate, compounding, penal interest, prepayment penalty and rebate of prompt payment. They are expected to inform the customers of the loan documents, statements of account etc, from the bank. In this regard the RBI has asked the banks to take anti-typing measures in a timely and effective
manner for redresses of customer complaints. For the protection of customers the RBI has advised the banks to apply fair practices.

(iii) Risk Management

Credit, interest and concentration risks are taken for two wheeler or car loans. Much focus on vehicle loans disturb the portfolio balance creating concentration risk. For salaried persons, rising inflation may create problems while providing loans to them. They carry high credit risk. The bank cannot pass on interest rate when the customer prefers fixed rate for loan. To overcome this problem, RBI in its report “Trend and Progress of Banking in India 2003-04” observed that retail lending may accentuate of households. Sustainability of private consumption and saving in large horizon is implicated. Various risks are taken in retail loans on banks asset quality. The banks are expected to take risk management practices. According to RBI, the risk weight of retail lending should be at 125%. In this regard, each urban bank should frame a comprehensive loan policy.

(iv) Appraisal and Sanctions

Considering the appraisal loan proposals, the bank should stick up to five ‘C’s of credit i.e. Character, Capacity, Credit worthiness, Collateral and, Covenants’. The sanctioning authorities should implement the following rules before disbursing the retail loans.

i) Establish credit worthiness of the borrower by making discreet enquiry from the market about his past borrowings,

ii) Exercise due diligence and follow KYC norms for customer identification and address verification meticulously. Exercise due care that documents furnished by the applicant are genuine,

iii) Ascertain gross income of the applicant borrower by referring to income tax returns/salary pay slips/audited accounts so as to satisfy himself about the borrower’s repayment capacity,

iv) Clearly spell out terms of loan sanction in the sanction/loan agreement so that there is no ambiguity/dispute in future,
v) Take normal precaution in documentation, such as proposal execution, stamping and registration, etc., as proper documentation is the essence of retail lending,
vi) Obtain tie-up of salary of salaried employee or obtain post-dated cheques (for a minimum period of 24 months),
vii) Cover under Group Life Insurance, i.e. if the bank has entered into such an arrangement with a life insurance company,
viii) Ensure that the loan is disbursed through an account payee banker/cheques in the name of supplier as per norms.
ix) Carefully monitor and follow up as these are very essential parts of a retail loan. Bank should take immediate corrective measures in case of default in installment, either due to non-deduction from salary or return of post-dated cheques by the drawee bank. Recourse available to bank for dishonor of cheques under section 138 of Negotiable Instrument Act 1881 should be taken without delays. 

3.18 GROWTH DRIVERS OF AUTOMOBILE FINANCE:

The automobile finance product is booming due to growing demand for personal vehicles. In order to fulfil such growing demand number of automobile finance companies with their alluring and innovative offers entered into auto loan market. In this fact there are some of the important growth drivers of automobile finance product of banks and non-banking finance companies are discussed as follows:

(i) Easier Finance Schemes

There are many reasons for impressive growth of the Indian automobile sector. However, automobile finance is very impressive growth driver. These days finance sector provides easy finance, attractive rate of interest, convenient instalments, and maximum finance upto 90 to 95% etc. Bank and non-banking financial institutions have an assortment of different vehicle loan schemes with innovative and alluring offers. The different schemes encourage people to go in for auto loan to fulfil their dream of personal vehicle of their choice.
(ii) Pent-up Dream of Indians

Indians were traditionally supposed to be a little loan haters, now with globalization and free economy. Indians scenario has drastically changed in all the walks of life. Indians are crazy to grab everything riches and luxuries owning two-wheeler or four wheeler, which used to be a dream before some years. In the recent years this dream has come true with the easy finance system of different financial institutions. Once the finance was made by the land lords, pawn brokers and such individuals whose system was of exploring the needy, which never was transport and easy. Today it is quite transparent easy with simple documentations, speed application and disbursal of loan with attractive offers. Naturally once a shying borrower the Indian without hesitation opens doors of Financial Company and avails loans for vehicle.

(iii) Growing Middle Class

Growing middle class population is one of the factors that has been triggered more demand for automobile finance. In India, the number of middle class population has been growing so fast. There are about 150-250 million middle class people in India. The growth rate is about 10-12 percent per annum. The middle class people naturally and psychologically too have the dream to be rich and enjoy life like the prosperous. There dream is co-operated by the growing per capita income over the last few years, it has increased by 3.2 percent. However, the high income growth is more that 20 percent. The middle class with increasing income and with the assistance by banks and other Financial Companies are fulfilling their ambitions of personal vehicle like four or two wheeler.

(iv) Streamlined Automobile Finance

Growing automobile finance is caused by systematic streamlined finance to vehicles. The banks and non-banking finance companies have made the product on sale more attractive for consumers, through reducing the difficulties in the way of obtaining loans, lowering down the interest rates, sometimes to 0% and by disbursing loan as quickly as possible.
(v) **Good Terms with Manufacturers and Agencies (tie-up)**

These days the finance companies have established good terms with manufacturers and automobile dealers, which has further boosted the sale of vehicles and in return the borrowing of loan by the consumers.

(v) **Increasing Population of Young People**

In the first place, we must know the fact that India is the youngest nation in the world as the median age of Indians is 25 years, that will be remain more or less at the same level i.e. 25-30 years for next 10-15 years. So ours is a country of young people. The customers between the ages of group of 25-30, as far as, two-wheelers and four wheelers are concerned are exposed to the modern, stylish life style. They easily come under the influence of western lifestyle which they watch on T.V. and internet. They have the growing tendency to buy comfort and luxury and the finance companies lend them helping hands. The population distribution by age is shown as follows.

The population distribution by age is shown as follows.

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Median Age (years)</th>
<th>Present</th>
<th>By 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>25</td>
<td>31</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>30</td>
<td>39</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
<td>36</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>38</td>
<td>44</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>39</td>
<td>-</td>
</tr>
</tbody>
</table>

(Source – The World Fact book CIA)

(vi) **Steep Decline in Bank Credit to the Corporate Sector**

The process of globalization, liberalization and privatization of the Indian economy has characterized by intense competition and within margins, compelled banks to shift focus from corporate banking to Retail banking. Thus the Retail banking encompasses automobile finance, housing finance, personal finance, educational finance etc.
The major reasons for renewed preference for retail banking over corporate banking can be described as follows.

(a) Cut throat competition among banks for corporate loans has led to lending at low interest rates; as a result most banks have experience significant reduction in interest spreads and drain on profitability.

(b) One more important factor that has triggered to steep decline in corporate banking that risk involved in corporate loans are very high as against risks involved in retail banking advance are comparatively low and well diversified.

(c) Retail banking gives more stability as compared to corporate banking.

(d) Retail banking gives opportunities to cross sale other retail products.

(e) Growing standard of living is enlarging the retail banking. The potential is high as present penetration levels are low.

(vii) Growth in Branches of Financing Companies

This is an important factor invariably responsible for the expansion of automobile finance that, in earlier time neither the companies with their products nor the financial institutes with their finance were considered the wider range of customers dispersed in the interior of our country they had concentrated only on big cities. However these days banking and non-banking finance companies as well as auto dealers have penetrated themselves, have launched their branches and opened their show-rooms even in small towns and cities, naturally both segments have boomed in their dealings. The following table focuses light on branches growth of banks.
Table No. 3.6
Growth in Branches

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Bank Group</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nationalized Banks</td>
<td>33627</td>
</tr>
<tr>
<td>2</td>
<td>State Bank of India</td>
<td>13661</td>
</tr>
<tr>
<td>3</td>
<td>Old Private Sector Banks</td>
<td>4511</td>
</tr>
<tr>
<td>4</td>
<td>New Private Sector Banks</td>
<td>1685</td>
</tr>
<tr>
<td>5</td>
<td>Foreign Banks</td>
<td>242</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>53726</strong></td>
</tr>
</tbody>
</table>

*(Source - www.wikipedia, the free encyclopaedia)*

(viii) **Changing Life Style and Attitude**

Changing life style and attitude of Indians is also one of the factors that have been triggered demand for automobile finance. ‘Save and Buy ‘than to a ‘Buy and Repay’ principle of Indian households is growing day by day.

(ix) **Automobile Finance is now accepted as Less Risky by Banks in India**

In comparison to wholesale or corporate sector loans, the retail loan like automobile loans (loan to four wheeler, two wheeler) are considered less riskier because banks generally obtain an irrevocable undertaking to deduct instalments from the borrower’s salary or obtain post dated cheques as well as the security for such loans is hypothecation of the vehicle to be purchased out of the loan and banks charge is registered with the RTO.

The next important reason necessary to be stated here that the loans are generally considered to individual in confirmed service in government, public sector undertakings, reputed private organizations and institutions, professionals self employed businessmen etc. The one more significant reason is of less risk in automobile finance that the disbursal of the loan amount is made by direct payment to the dealer. A margin of 10% to 15% is maintained for new vehicle whereas 50% for second hand vehicle. Finally less repayment
period is also one of the factors that carries less risk in finance as 3 to 5 year for
two wheelers are 3 to 7 years for four wheelers. Hence, automobile finance is
considered as less risky lending.

(x) Increase in Per Capita Income

The per capita income of India has gone up. According to data 2004-05
the per capital income of Indians was Rs.29745 a year or Rs.2478.75 a month
and as per 2009-10 it was Rs.40745 a year or Rs.3395. Rise in the per-capita
income of people has enabled them to spend more on products like, health,
mobiles, personal vehicle etc. This rise in the per capita income can lead to
increase in demand of two wheelers in the country. The per capita income is as
follows.

Table No. 3.7
Per Capita Income

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>Income in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-05</td>
<td>29745</td>
</tr>
<tr>
<td>2</td>
<td>2005-06</td>
<td>32012</td>
</tr>
<tr>
<td>3</td>
<td>2006-07</td>
<td>34533</td>
</tr>
<tr>
<td>4</td>
<td>2007-08</td>
<td>37328</td>
</tr>
<tr>
<td>5</td>
<td>2008-09</td>
<td>38695</td>
</tr>
<tr>
<td>6</td>
<td>2009-10</td>
<td>40745</td>
</tr>
</tbody>
</table>

(Source-Economic Survey 2009-10 p. 5)

(xii) Highest GDP

Gross domestic product (GDP) growth at present is hovering around 6 to
8 percent with policy initiatives taken by the government and various
developmental programmes gathering pace, GDP growth is expected to go up
from 8 to 10 percent that will provide a great momentum to the economy
including automobile sector and automobile finance sector too. It is also an
important growth driver to boost up auto finance. The following table focuses
on GDP growth.
Table No. 3.8
GDP Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>9.5%</td>
</tr>
<tr>
<td>2006-07</td>
<td>9.7%</td>
</tr>
<tr>
<td>2007-08</td>
<td>9.2%</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.7%</td>
</tr>
<tr>
<td>2009-10</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

(Source-Economic survey 2009-10 p. 2)

3.19 ROLE OF BANKING AND NON-BANKING FINANCE COMPANIES IN AUTOMOBILE FINANCING:

In India, there are more than 35 financiers that offer auto finance to the intended car purchaser. As India is one of the fastest rising automobile market in the world, the Indian automobile market has a huge potential and hence, a number of auto finance companies have come up to tap the booming market. It is observed that passenger vehicle market constitutes almost 80% of the automobile sales. In 2008, the stock of passenger cars was about 11 per 1000 people. The production of passenger vehicle is further expected to go up at a Compound Annual Growth Rate (CAGR) of about 10% during the period 2009-10 to 2012-13. Sensing this market potential, many financial companies in India have given special attention to auto financing.

In the year 2005, the auto finance in India was led by private banks when Citibank was the market leader. However its market share dropped from 27% during 1990s to less than 8% during early-2000. ICICI Bank becomes the new leader with almost 29.5% market share during 2003-04. The journey continued till 2008 when HDFC Bank took the lead. But the current trend shows that the Public Sector Banks like SBI, PNB, Bank of Baroda, Bank of India, Canara Bank, Syndicate Bank, Union Bank, etc., are leaving behind their private sector counterparts in the Rs.22,000 crore passenger car and 2-wheeler loan market. The reason behind this is the fact that private banks have been
compelled to reduce their exposure to the sector owing to increased delinquencies.

The following are the top automobile finance companies playing an important role in Indian automobile finance market in order to grab share of auto loan market.

(i) State Bank of India

The State Bank of India (SBI) is one of the leaders in the auto finance segments in India. Recently, it has slashed down its rate of interest for the new care, which in turn, has attracted a number of customers. Its long repayment option and extensive network of more than 12,150 branches have also made the bank quite popular among the customers. Recently, SBI has linked up with General Motors for car finance. In 2008-09, SBI registered a net profit of Rs.9,121 corer, which was 35.55% higher than the last financial year’s profit of Rs.6,729 corer.

(ii) ICICI Bank

ICICI Bank was the market leader in auto finance in India till 2008. Though currently not on the top, it still remains amongst the top 10 auto finance companies in India. However, to regain its lost reign, ICICI Bank is putting car loans on fast tracks. In the current financial year, ICICI Bank has doubled auto loan disbursement amount to more than Rs.1,500 crore, compared to the last financial year 2009. ICICI Bank registered a net income of Rs.35,769.5 million in the same year.

(iii) HDFC Bank

HDFC Bank is the market leader in auto finance in India. In order to stay in the race of dominating Indian market, HDFC Bank has also cut down the rate of interest for its car loan. In the year 2008-09, HDFC Bank registered a profit of Rs.245 lakhs, compared to Rs.159 lakhs in the previous financial year.
(iv) **Bajaj Auto Finance Limited (BAFL)**

BAFL is one of the leading auto finance companies in India offering a diverse array of financial products to its clients, ranging from 2-wheeler loans to other loans like consumer durable loans, business loans and many more. It has an extensive network of 50 branch offices and more than 6,000 consumer durable dealerships. In the year 2008-09, BAFL registered an after-tax profit of Rs.339.1 million, compared to the previous year’s profit of Rs.201.2 million.

(v) **City Bank**

The city bank is also a market leader in auto financing in India. Citibank offers automobile financing to its clients through its extensive dealership network across the country. One of the leading players in the market, Citibank offers a range of auto financing options to the customers. For the year 2009, Citibank registered an after-tax profit of Rs.2,173 crore.

(vi) **Bank of Baroda (BoB)**

Bank of Baroda offers specially designed car loans for the customers so that these meet their demands, status and taste. Loans are offered for new as well as used cars. It also offers a unique facility for the installation of CNG/CPG gas-kit in the cars. In 2008-09, BoB registered a net profit of 2,227.20 crores compared to the net profit of Rs.1, 435.52 crores in the previous year.

(vii) **Punjab National Bank (PNB)**

PNB is a renowned leader in the field of auto finance market in India, offering auto loan for new as well as old vehicles (not older than 3 years). Loans are also offered for the purchase of vehicles of foreign or indigenous makes. In September 2009, PNB tied up with Mahindra and Mahindra for financing the latter’s vehicles across the nation. PNB registered a net profit of Rs.3, 090.88 lakhs in the year 2009.
(viii) Kotak Mahindra Prime Limited (KMPL)

Kotak car finance has crafted a niche in the Indian auto finance market through its flexible schemes of hassle-free documentation and lower processing fees. KMPL finance new as well as used cars. In 2008-09, KMPL registered an after-tax profit of Rs.1, 570 million.

(ix) Sundaram Auto Finance

Founded in 1998, Sundaram Auto Finance is one of the market leaders in the auto finance market in India. This company extends finance on all models of cars. Customers can choose from a range of vehicle and finance packages offered by the company. It also has an extensive network of more than 400 branches across the nation. Sundaram Finance registered a consolidated net profit of Rs.15, 073.14 lakhs in 2008-09.

(x) United Bank of India (UBI)

UBI is one of the leading auto finance companies in India offering a range of car financing options to the customers. It offers loans for new as well as used cars. In 2008-09, UBI registered a net profit Rs.18, 470.96 lakhs.

(xi) Canara Bank

Canara Bank offers attractive interest rates on the auto loans to its customers. From August 2009, Canara Bank further reduced its auto loan rates. Canara Bank registered a net profit of Rs.2, 027 crore in 2008-09, which was a 32.4% rise from the previous year’s net profit of Rs.1, 565 crore. And investment service is expected to be strong. It is because, though the private banks have helped Indian economy to grow, the critics have been charging them for their aggressive recovery efforts.16

3.20 CONCLUSION:

To conclude, it can be said that automobile industry and automobile finance have grown in co-operation with each other. In the result, both these sectors have flourished by leaps and bounds and helped realize the customers
long standing dreams of owning a two wheeler as well as a four wheeler. The present Chapter highlights on the detail concept of automobile financing as well as procedure adopted by financing companies in order to augment their business. The present chapter also highlights on prescribed norms of automobile financing companies. In further the chapter is discussing popular schemes of automobile financing such as margin money scheme, advanced equated monthly installment scheme, security deposit scheme, higher purchase scheme and lease financing purchase. The one more significant aspect of automobile finance has been discussed in the present chapter that automobile finance for personal vehicle that in turn financing for two wheeler and four wheelers, as it, encompasses features of two wheeler finance and car finance as well as documents required to get automobile loan. Finally the chapter deals with pros and cons of automobile finance. The discussion gives a right perspective of automobile financing and the care to be taken by both, the financing company and the concerned customer.
References:


