1.1 INTRODUCTION:

The process of globalization is under way in all the fields and automobile industry and finance cannot remain aloof of it. In fact, these are the fast growing segments of economy today. Automobile industry especially can play a major role in India’s economy as it has done in other countries like Japan, Germany, Italy, UK and Korea. In other words, it can be stated that automobile industry has a greater potential for its expansion, growth and development in India. The statistical records clearly indicate that the passenger car penetration in India at present is lower compared to the global levels. While it is merely 8.5 vehicles per thousand people in India, it is 17 vehicles in China, 27 vehicles in Thailand, 90 vehicles in Brazil, 180 vehicles in South Korea and more than 450 vehicles per thousand in the U.S.A., U.K. and Germany. India being a vast country having the second largest population in the world has a greater scope indeed for the growth and development of the automobile industry.\(^1\)

As the Indian economy has been growing fast, the mobility needs of this large population manifests itself in a sustained demand for personal transportation. Some of the important facts in this behalf are:-

The global market for two-wheelers has shown a tremendous growth over the past decade, reaching a total of 28.9 million vehicles in 2002. Asia accounts for 86% of this, with China and India being the market for over half of the world’s two-wheeler sales. Other markets in the region are Indonesia, Vietnam, Thailand and Japan. Today, with the annual sales of five million units, the Indian two-wheelers market is the second largest in the world after China.\(^2\)

The share of motorcycles was about 55% in 2001 and 65% in 2002 of all the two-wheelers sold, with the sales of over 3.75 million motorcycles in the
year 2002-2003. It distinctly indicates an increasing trend in the motorcycle use which is in evidence for the past three to four years.\(^3\)

Along with this, the automobile finance sector also has been growing. The finance companies have established good relations with the manufacturers and agencies to boost the sales.

In the year 2005, automobile finance companies had financed 70% of the total cars sold in the country. The finance market has grown at a Compound Annual Growth Rate (CAGR) of 20% over the last four years to over Rs.25,000 crores in 2003-04. It is also seen that about 40-50% sales of two-wheelers were financed by automobile finance companies. The loans for two-wheelers have grown at a CAGR of over 30% during the last four years.\(^4\)

The ‘Hindu Survey of Indian Industry 2005’ has published the data relating of the contribution of automobile industry to the Gross Domestic Product (GDP) and employment. In India, the automobile industry’s turnover contributes roughly 5% of the (GDP). The more important thing here is that this industry has provided direct employment to two million people, and indirect employment to 10 million people. In a Developing Country like India, where poverty and unemployment are the two burning problems, the automobile industry can play a significant role in reducing their severity. Also, there are excellent prospects for this industry, because it has to meet the transportations needs of the growing population. This industry’s contribution to the country’s direct taxes amounts to about 19%.\(^5\)

Though apparently, the overall vistas of automobile industry, along with automobile finance, look impressive and progressive, a closer examination reveals that the automobile finance sector is facing certain problems in the areas of finance, management, marketing, competition, Government rules and regulations, loan sanctioning procedures, rates of interest, finalization of EMIs, schedules of recovery, customer satisfaction, down payment system, further development issues, etc. In spite of the problems noted above, the automobile finance has proved an extremely convenient mode of financing the vehicle purchases. It can play a very vital role in the development and growth of the
automobile industry and the country’s economy. Today the people have an unprecedented ambition to own a personal vehicle. They can provide a wide range of customers both to the automobile and automobile finance sectors. However, for satisfying the newer expectations of the growing number of customers, the automobile finance companies need to adopt a systematic streamlined financing. It may not be an exaggeration that the prospect of the automobile industry is dependent upon the financing of automobile purchases. If sufficient and convenient finance is provided to those who have a strong desire to buy two-wheelers or four-wheelers, it will certainly be an elixir to automobile sector. In this regard the banks and other financial companies must emerge with their helping hands to the automobile industry. Banking and Non-banking finance companies (NBFCs) who are indeed the automobile financiers are termed as automobile finance companies. Funds at the disposal of automobile finance companies are of circulating nature and the speed of circulation is an indicator of the degree of efficiency of fund mobility. The faster the turnover, the higher is the degree of efficiency. In this context, the prime responsibility of automobile finance companies is to see that there is adequacy of finance for automobile financing, good auto finance mobility and also recovery.6

It is with this background the present study is undertaken to closely examine and carefully analyze the automobile financing procedure and practices in automobile finance companies in such a region where there is growing demand for automobile finance, but vehicle population growth has not matched with the requirement, auto loan finance and recovery problems are faced by finance companies. The study thus is undertaken with a view to finding out the causes of, and stating suggestions for improvement in the existing procedure of auto loan financing. Kolhapur district- the area selected for the study is such region dominated by good number of automobile finance companies.
Against the backdrop of the above discussion the researcher has undertaken a research endeavour entitled “A COMPARATIVE STUDY OF PROBLEMS AND PROSPECTS OF AUTOMOBILE FINANCE WITH REFERENCE TO SELECTED AUTOMOBILE FINANCE COMPANIES IN KOLHAPUR DISTRICT.”

1.2 STATEMENT OF THE PROBLEM:

Within the broad framework of functioning of banking and non-banking finance companies their loan portfolio consists of the industrial loans, retail loans and other loans. the retail loans of banking and non-banking finance companies covers the wide range of financial products like housing loan, education loan consumer durables loan, personal loan ,loans for IPOs, loan against shares ,auto finance and mutual fund investment advisory services.

A review of the literature revealed that the industrial and retail loan segment amounted to more than 60% of the total banks loan. The size and business of retail market has increased significantly and the auto finance product of retail market is on the rise because of low interest rate, availability of loan for the new as well as for second hand cars, poor transport in urban areas.

Similarly on account of liberal financing by banks the production of vehicles (Two wheelers/ four wheelers) have a regained positive growth, but on the past of auto financing there seems to be some practical problems towards scrutinizing auto loan applications, sanctioning quantum of loan, recovery of auto loan etc. Also the loan applicants face the difficulties in filling the lengthy application form, obtaining of required documents making arrangement of margin money providing security documents, documents of guarantors, and delay in receiving loan amount and so on. Therefore with an intention to make a comprehensive study of automobile finance by banks, non-banking finance companies the researcher has selected the subject “A comparative study of problems and prospects of automobile finance with reference to selected automobile finance companies in Kolhapur district”.
1.3 AUTOMOBILE SITUATION IN KOLHAPUR DISTRICT:

The total population of Kolhapur district, according to the Census of 2001, was 35.15 lakh. This population since 2001 Census must have increased considerably. In the year 2007, the population of personal vehicles per thousand people in Kolhapur district was as follows:

Table No.1.1

Vehicle Population per 1000 People in the District

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Types of personal Vehicle</th>
<th>Vehicle population per 1000 People</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Motor Cycles</td>
<td>84</td>
</tr>
<tr>
<td>2.</td>
<td>Scooters</td>
<td>13</td>
</tr>
<tr>
<td>3.</td>
<td>Mopeds</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>Passenger Cars</td>
<td>9.5</td>
</tr>
<tr>
<td>5.</td>
<td>Jeeps</td>
<td>4.46</td>
</tr>
</tbody>
</table>

Source: Statistics of the Office of the Regional Transport Officer, Kolhapur.

This population of personal vehicles clearly reflects the lower ownership and/or lower availability of vehicles per thousand people, which is a somewhat dismal situation. The researcher’s probing into the automobile finance strongly brought that the inadequate availability of automobile finance has resulted in the lower population of automobile vehicles per thousand people. It was, therefore, sensed that a further in-detailed study was required to be undertaken.

1.4 OBJECTIVES OF THE STUDY:

The following objectives have been set out for the present study.

1. To visualize the profiles of the sampled banking and non-banking finance companies engaged in automobile finance in Kolhapur district.
2. To study the systems and procedures being followed by the automobile finance companies.
3. To specify the problems and prospects of automobile financing companies in Kolhapur district.
4. To present analysis and interpretation of the data collected from the sampled customers of the banking and non-banking automobile finance companies and draw meaningful inferences.

5. To study the impact of automobile finance by banking and non-banking finance companies on the automobile market as well as on the socio-economic status of customers.

6. To put forward meaningful suggestions for better performance of automobile finance companies.

1.5 HYPOTHESES OF THE STUDY:

The following hypotheses have been set for the present study.

1. Majority of the auto loan borrowers are not satisfied towards auto loan finance Services.

2. Document called in support of auto loan application are not numerous

3. Majority of the auto loan borrowers do not make prepayment of auto loan

4. There is no significant Variation about regularity of EMI Payment.

1.6 METHODOLOGY ADOPTED FOR THE STUDY:

The present study is based on both primary as well as secondary data. Primary data were collected from a sampled 14 banking and non-banking automobile finance companies, and through a structured interview schedule administered to a sampled 280 customers (automobile finance borrowers) of above mentioned 14 banking and non-banking automobile finance companies.

Both the sampled automobile finance companies and their customer’s respondents were selected by using purposive quota convenience sampling technique. In this techniques, “Purposive” meant that the companies indeed were automobile financier, “Quota” meant that 20 customer respondents per each of the sampled automobile finance company, i.e. a total of 280 customer respondents and “Convenience” meant that only those companies and individual customer respondents that were willing to participate in the survey were administered the pretested structured interview schedules.
For cross-verifying the data gathered through the survey method and for recording the researcher’s impression about the working of the automobile finance companies, the non-participatory observation method was also adopted. The necessary secondary data were collected mostly through the library Research Method and through internet searches.

1.6.1 THE STUDY UNIVERSE:

The study universe of the present study consists of the automobile finance companies in the Kolhapur district. These automobile finance companies are the banks and non-banking finance companies.

In Kolhapur, as on at the time and survey, there were a total of 93 automobile finance companies i.e. 22 public sector and scheduled banks, 10 private sector banks and 51 co-operative sector banks. Also there were 10 non-banking finance companies. Accordingly, the universe of the present study consists of 93 automobile finance companies as shown below:

<table>
<thead>
<tr>
<th>Automobile Finance Companies</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector banks</td>
<td>22</td>
</tr>
<tr>
<td>Co-operative sector banks</td>
<td>51</td>
</tr>
<tr>
<td>Private sector banks</td>
<td>10</td>
</tr>
<tr>
<td>Non-banking finance companies</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
</tr>
</tbody>
</table>

1.6.2 SAMPLE DESIGN:

Sample may be defined as selection of some part of the universe, on the basis of which judgment or inference about the universe is made. It is the process of selecting samples and obtaining necessary information about an entire universe or population by examining only a part of it.

While framing sample design the researcher has taken due-care to embody the universe comprehensively by selecting automobile finance
companies from Public Sector, Co-operative Sector, Private Sector and also from the Non-banking finance companies sector, under study area.

As stated earlier in the methodology, by adopting Purposive, Quota, Convenience Sampling Method, researcher has selected from the universe the 14 automobile finance companies and 280 customer respondent i.e. 20 customer respondents per each of the sampled 14 automobile finance companies. The procedure adopted to arrive at sample automobile finance companies and their sample customer responds is explained as below:

- First the list of these finance companies (Banks and Non-banking finance companies) functioning in the district of Kolhapur was obtained from the office of the District Association of Urban Co-operative Banks Ltd., Kolhapur, and from the office of Lead Bank (Bank of India), Kolhapur.
- With a view to cover the recently established finance companies too, the researcher has taken into consideration those finance companies that have completed at least three years span of functioning in the field of automobile finance as their one of the retail lending.
- To have adequate representation of the universe, researcher has sampled 15% finance companies for in-depth study. Finance companies were then classified as banks and non-banking finance companies, and by following simple random sampling technique, for the final selection of samples the researcher adopted the lottery method.
- The names of these finance companies were written on the separate paper slips. All these slips were put in a bag and the number representing 15% from banks and non-banking finance companies were drawn out one by one and recorded on a separate list. These finance companies as shown below thus were identified as samples for the present study.

Then resorting to quota sampling the 280 customer respondents (i.e. 20 customer respondents per each of the sampled automobile finance companies) were selected as sample respondents.
The detail breakup of sample selection procedure is reflected in the table given below:

**Table No.1.3**

**Break-up of sample automobile finance companies**

<table>
<thead>
<tr>
<th>Automobile Finance companies</th>
<th>Total Automobile finance companies (No.)</th>
<th>Automobile finance companies selected as samples (No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector Banks</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>Co-operative Sector Banks</td>
<td>51</td>
<td>6</td>
</tr>
<tr>
<td>Private sector Banks</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Non-Banking finance companies</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93 (100%)</strong></td>
<td><strong>14 (15%)</strong></td>
</tr>
</tbody>
</table>

(Bracket figure indicates percentage.)

**Table No.1.4**

**Break-up of sample auto loan borrower respondents**

<table>
<thead>
<tr>
<th>Automobile Finance Companies</th>
<th>Automobile finance companies selected as samples (No. 1)</th>
<th>Quota of 20 auto loan borrower respondents (No.2)</th>
<th>Sample auto loan borrower respondents (No.1x2)=No.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector Banks</td>
<td>4</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Co-operative sector Banks</td>
<td>6</td>
<td>20</td>
<td>120</td>
</tr>
<tr>
<td>Private sector Banks</td>
<td>2</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Non-banking finance companies</td>
<td>2</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td></td>
<td><strong>280</strong></td>
</tr>
</tbody>
</table>
Table No 1.5

List of sampled automobile finance companies

<table>
<thead>
<tr>
<th>Automobile Finance Companies (Banking/Non-Banking)</th>
<th>Sample Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Banks:</strong></td>
<td></td>
</tr>
<tr>
<td>1. State Bank of India. Rajarampuri Branch kolhapur</td>
<td></td>
</tr>
<tr>
<td>3. Bank of India. Branch Shahuwadi</td>
<td></td>
</tr>
<tr>
<td>4. Bank of Maharashtra. Branch Kagal</td>
<td>4</td>
</tr>
<tr>
<td><strong>Co-operative Sector Banks:</strong></td>
<td></td>
</tr>
<tr>
<td>1. Saraswat Co-operative Bank Ltd.Kolhapur</td>
<td></td>
</tr>
<tr>
<td>3. Warana Sahakari Bank Ltd. Warananagar.</td>
<td>6</td>
</tr>
<tr>
<td>5. Janata Sahakari Bank Ltd. Branch Ajara</td>
<td></td>
</tr>
<tr>
<td>6. Ajara Urban Co-op. Bank Branch Gargoti</td>
<td></td>
</tr>
<tr>
<td><strong>Private Sector Banks:</strong></td>
<td>2</td>
</tr>
<tr>
<td>1. Axis Bank Branch Rajarampuri.</td>
<td></td>
</tr>
<tr>
<td>2. HDFC Bank Branch Gadhinglaj.</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Banking Finance Companies:</strong></td>
<td>2</td>
</tr>
<tr>
<td>1. Shriram City finance Kolhapur</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14</td>
</tr>
</tbody>
</table>

1.6.3 SOURCES OF DATA COLLECTION:

From the point of view of the objectives finalized for the study, the data necessary for the research work was classified into primary data and secondary data.

Primary data:

The primary data were collected from the sampled respondents with the help of, use of two structured interview schedules, together with informal discussions and personal observations.

The first set of respondents comprised of 14 automobile finance companies that were selected as sample responding units. A detailed structured
interview schedule containing close-ended questions pretested through pilot study, was administered to the officers (mostly an authorized spoke person of these sampled automobile finance companies) to elicit the information about their daily operations, such as marketing, finance sanctioning, recovery problems etc.

The second set of respondents comprised of 280 automobile finance borrowers, customers respondents of the sampled automobile finance companies.

Two separate questionnaires were prepared for these two types of respondents.

**Secondary data:**

The necessary Secondary data were collected resorting to the following library sources.

- Archives of the office of the Regional Transport Officer, Kolhapur.
- Brr. Khardekar library of Shivaji University, Kolhapur.
- Chh. Shahu Central Institute of Business Education and Research, Kolhapur.
- Vasantdada Patil Institute of Management Studies and Research, Sangli.
- Bharati Vidyapeeth’s Institute of Management, Kolhapur.
- The New College, Kolhapur.

Furthermore, various financial and general newspapers and periodicals, government reports and publications, earlier Ph.D. and M. Phil. Research work were referred.

Also certain background information was gleaned from various websites on the internet.

**1.6.4 DATA ANALYSIS AND INTERPRETATION:**

After collection of primary and secondary data, it was scored and analyzed with the help of computer for the purpose of arriving at various
statistical inferences. The inferences and findings derived from this exercise, juxtaposed against the theoretical background.

The secondary data were interpreted through an intellectual exercise for the purpose of drawing conclusions. Similarly specific computer software used forward processing and graphical presentation.

1.7 SCOPE OF THE STUDY:

The present research work is an exploratory investigation into the problems and prospects of automobile finance companies in a limited geographical scope is confined to the boundaries of Kolhapur District in Maharashtra State.

Its topical scope covers the assessment of the functioning of the sampled automobile finance companies and the opinions of their customer borrowers.

Its analytical scope covers the fulfillment of the objectives set out for the study, and testing of the hypothesis.

The functional scope is confined to offering a set of meaningful suggestions for improving the functioning of the automobile finance companies everywhere.

1.8 PRACTICAL SIGNIFICANCE OF THE STUDY:

The phenomenon of automobile financing expressed in the introductory paragraphs of this chapter requires the in-depth study towards knowing the problems, prospects, and financing practices being adopted by banking and non-banking finance companies who are indeed the automobile financiers too.

In a modern competitive world, the marketing of auto loan schemes, and then the recovery of auto loan disbursed has put forth challenges before the automobile finance companies. Automobile finance companies are required to reframe their marketing and recovery strategies for the smooth functioning and for to grab the sizable share in competitive market. Further they require to do comprehensive analysis of automobile loan applicants, their background, present status, financial soundness loan repayment capacity and like.
The presentation and analysis of the information is made especially with a view to focus on the auto loan financing procedure and practices being adopted by automobile finance companies. This includes key aspects like standardization of auto loan applications, scrutiny of loan applications, sanction of partial/full amount of loan, disbursement of loan, and loan recovery criteria etc.

In the present study, with reference to automobile finance companies functioning in Kolhapur district, the researcher has made an attempt to gather all relevant and up to date information regarding automobile finance procedure and practices being adopted by them, and also to collect the opinions of bank officers, automobile dealers, auto loan borrowers of automobile finance companies regarding the problems experienced by them in providing auto loan and its recovery (in respect of finance companies) availing and repaying auto loan (in respect of borrowers)

Thus the study conducted will prove useful to automobile finance functioning in the district of Kolhapur in particular as well as to other automobile finance companies in general.

1.9 LEVEL OF RESEARCH:

Although the prima facie nature of the present work appears to be a diagnostic descriptive investigation, it is the maiden venture in the study area to investigate the problems and prospects of automobile financing from management sciences’ perspective. Hence it really is formulative exploratory level endeavour. It is also hoped that the findings returned on analyzing the empirical data under this research work are sensitive enough to formulate and test promising hypothesis for subsequent researchers.

1.10 LIMITATIONS OF THE STUDY:

The following were encountered as the limitations of the study.

1. Under present study, the sampled respondents comprised of both auto loan financiers (i.e. financial institutions - banks and non-banking) and auto loan borrowers. This heterogeneity often gives rise to dichotomy
about the perceptions of a particular aspect of functioning of automobile finance companies, creating positive or negative biases at individual level.

2. The study has included sampled banks—(public, co-operative, and private sector) and non-banking finance companies who are indeed automobile financiers too. The temporal perceptions of the respondents (who are auto loan finance providers and on the other side auto loan finance receivers), in each of these finance companies may differ may have accordingly influenced their responses to the questionnaire. The Findings of the study may therefore have to be read against this backdrop, wherever necessary.

3. Samples are restricted to Kolhapur district only.

1.11 CHAPTER SCHEME:

The study is composed of seven chapters in the following manner.

Chapter I – Research Design

In this chapter the research design and the general methodology adopted for the study is explained at length.

Chapter II – Review of Literature.

In this chapter researcher has presented the brief summaries of different reference materials referred like book, thesis, research article, from magazines, journals and web references related to research subject under study.

Chapter III – Automobile Finance: A Conceptual Framework

In this chapter the historical perspective, and concrete conceptual background of automobile, and automobile finance has been developed from different text and reference materials, from websites and from the articles on the subject and the same has been presented in the summarized form.
Chapter IV – Profile of Kolhapur District

In this chapter researcher has presented the profile of Kolhapur district from the point of view of its geographical, social, industrial and educational setup.

Chapter V – Profile of Automobile Finance Companies under Study

The profile of automobile finance companies under study, their automobile financing procedure, services offered by them, and overall functioning pattern have been presented in this chapter.

Chapter VI: Data Analysis and Interpretation

In this chapter an attempt is made to present, analysis and interpreted the data collected from sample respondents with the help of simple percentage, statistical technique- 5-Point Likert type scale, Chi-square. Computer assistance is solicited wherever necessary.

Chapter VII- Findings and Suggestions

On the basis of data presentation, analysis, and interpretation researcher has presented suggestions that are helpful for better functioning and improving the performance of the automobile finance companies.

APPENDIX

- The questionnaires used for collecting the primary data
- Bibliography
References


