

Vehicle financiers may lose some sheen

High fuel prices, low freight rates could impact demand

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STRONG PERFORMANCE IN FY18

Riding on strong performance and a supporting macro environment, stocks of three major vehicle-finance companies — Mahindra & Mahindra

Financial Services, Cholamandalam

Investment and Finance Company, and Shriram Transport Finance Company — have surged 30-50 per cent over the past year. However, unfavourable changes in some macro factors have led to pressure on these stocks, which have declined 6-8 per cent in the past one month.

First, rising cost of funds could weigh on their profitability, as many banks have started hiking lending rates, and interest rates on debentures are also trending upward due to high-yield trajectory. Auto-finance firms source a large chunk of their fund requirement (77-82 per cent) through loans and debentures. The fear of rising interest rates

Key metrics in FY18 Figures in (%)	Loan book growth	NI growth	Net profit growth	Margin
Mahindra & Mahindra Financial Services	20.4	25.0	122.8	9.1
Cholamandalam Investment and Finance Company	25.5	28.3	35.5	9.7
Shriram Transport Finance Company	21.0	22.0	24.7	7.5

NI: Net interest income

Source: Companies

is likely to persist, owing to high inflation and more-than-anticipated GDP growth, among others.

Given the stiff competition and the relatively higher interest rates charged by finance companies, experts are skeptical of auto-financiers' ability to pass on higher cost of funds to customers. Having said that, "This set of financiers (auto/vehicle finance companies) can manage their cost-to-income ratio to protect their margin," said Rajesh Gupta, assistant vice-president (retail research), at SBICAP Securities. The Street will keep an eye on the June quarter numbers to see if margins remain intact.

Second, sales grew strong

though April-May 2018, owing mainly to a lower base. Due to impact of the GST last year, auto-vehicle demand could still see some pressure, given high fuel prices and low freight rates.

High crude oil prices and a weak rupee versus the US dollar are pushing up fuel prices, which are at record levels. Diesel prices, for instance, have risen by over 15 per cent over the past six months and are likely to remain elevated in the near-term, say experts.

On the other hand, freight rates are also under pressure. This is likely to weigh on business of commercial fleet players. Amidst these developments, analysts say it will be interesting to watch whether the asset quality of vehicle financiers comes under pressure in the ensuing quarters — owing to a delay in repayment of loans by buyers, given their income might get hit due to low freight and high fuel prices.