Car loans outspeed vehicle sales by three times, clock over 18% CAGR in 5 years

Preference For Bigger, Pricier Vehicles, Longer Loan Periods Help Growth

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Chennai: Car loan growth is speeding faster than new car sales.

Over a period of five years since 2013, the overall loan growth in car financing has clocked a CAGR(compounded annual growth rate) of 18.3% with top financiers like HDFC, State Bank of India, ICICI, Axis and IndusInd banks scoring 18-20% growth.

In contrast, vehicle sales have managed only 5-6% growth.

Car financiers say the reason for this is the growing preference for bigger and pricier vehicles and longer loan periods which have helped grow the loan book.

Also demonetisation and the growth in used car financing have further helped auto loan penetration.

"The loan book growth is due to a growing preference of first time car buyers to move higher than the entry segment to B or C segment cars. As a result, the ticket size and average loan amount has gone up," said Vyomesh Kapasi, managing director, Kotak Mahindra Prime.

BORROWING VS BUYING

- Loan growth has been stronger than the underlying revenue growth in the past few years
- Loan growth in the car financing segment across players, March fiscal year-ends, 2013-17 (Rs bn)

Source: Company, Kotak Institutional Equities

	2013	2014	2015	2016	2017	CAGR 2014-17(%)
HDFC bank	309	331	405	502	621	23.4
State Bank Of India	248	279	321	385	467	18.7
ICICI Bank	116	155	188	223	255	18
cholamandalam Finance	144	171	176	201	236	11.5
Kotak Bank	128	132	147	167	184	11.7
Axis Bank	76	85	90	125	168	25.5
Mahindra & Mahindra	89	82	85	98	108	9.5
IndusInd bank	21	26	31	39	47	20.9
Total Loans in Auto	**1130**	**1261**	**1444**	**1741**	**2085**	**18.3**
Y-o-Y change (%)		11.6	14.5	20.6	19.8	

"Also loan tenures have gone up by 10-12 months on an average. Just two-and-a-half years ago it was 40-42 months on average but now it is around 52 months. As the loans take longer to liquidate the loan book has grown," he said.

"Thirdly whenever interest rates come down to single digit, finance penetration goes up. Normally this moves between a range of 60-80% and now it is hovering around 80%," Kapasi added.

Apart from these factors, the growing interest in used car financing has also helped grow the overall car loan book.

Finance penetration in the used car market was around 30-32%%' which has now jumped to 40-42%. What has also helped is the higher growth in premium car sales.

"The trend for elongated loan periods is also fuelled by people's preference for higher-end cars. The car industry may not have grown that fast but premium cars are doing well," said Ashok Khanna, business head, vehicle loans, HDFC Bank.

With around ₹4,500 crore of disbursals per month and a loan book of ₹70,000 crore, HDFC Bank is the big daddy of this business.

In terms of 5-year-compounded annual growth rate it tops the loan book roster all through followed by State Bank of India, ICICI, Cholamandalam Finance, Kotak, Axis, Mahindra & Mahindra and IndusInd says a latest Kotak Institutional Equities report (see table).

What has also fuelled the trend is the sudden drop in cash purchases post demonetisation.

"Earlier 30% of the vehicles used to be bought without auto loans which is now down to 15%," said Ramesh Iyer, managing director, Mahindra & Mahindra Financial Services.

"Also the amount financed has gone up sharply from 60-70% to as high as 80-90% in urban areas. This in turn has added to the loan book growth," Iyer added.