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Banks, NBFCs: No meaningful impact of ban on diesel vehicles

Segment forms a small part of their loan books, estimate analysts

Sheetal Agarwal & Abhijit Lele | Mumbai
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The recent ban on registration of new diesel vehicles above 2,000cc in Delhi is unlikely to have a meaningful impact on the financials of banks or of non-banking financial companies (NBFCs). For, this segment is a small part of their loan books, estimate analysts, beside it being only for Delhi.

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Nitin Kumar, associate vice-president, Prabhudas Lilladher, says: "The impact might not be much, as it's just a three-month ban. There will be some impact if this gets replicated in other cities as well."

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While most lenders disclose the proportion of loans they give for buying of automobiles and some further disclose the exposure by sub-segments (two-wheelers, commercial vehicles, etc), none share the proportion of

loans granted for diesel SUVs, let alone with cc-wise segmentation. The numbers are estimated to be small if only the Delhi or National Capital Region market is considered.

Vaibhav Agrawal, vice-president at Angel Broking, says: "I do not think there will be any impact on the banking sector. If diesel vehicles above 2,000cc are banned, people will buy something else. They will not stop buying cars."

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Among NBFCs, Mahindra and Mahindra Financial Services derives about 31 per cent of its assets from automobile financing. Of this, 80 per cent is for Mahindra and Mahindra vehicles, dominated by the Bolero and pick-up vehicles, estimates Rajiv Mehta of IIFL. The impact here is difficult to assess. An industry source said the company's focus is largely semi-urban and rural; exposure to Delhi is small.

Movements in the stock prices of these companies seem to support the Street's views. Since the ban announcement on December 11, the stocks of key banks and NBFCs have delivered between four per cent to minus two per cent.

V Batra, co-head, financial sector ratings, ICRA, said the overall impact might not be material from a credit profile perspective, as the financiers are diversified entities. Also, the credit profile of captive finance companies (of automobile firms) is based on the parent company.

Efforts to get a response from private and public sector banks, as well as top NBFCs, did not generate any response till the time of going to press.

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- Diesel vehicles constitute a small part of the banks' loan books
- Since the ban announcement on December 11, the stocks of key banks and NBFCs have delivered between four per cent to minus two per cent
- Among NBFCs, Mahindra and Mahindra Financial Services derives about 31 per cent of its assets from automobile financing
- Most lenders don't share the proportion of loans granted for diesel SUVs, let alone with cc-wise segmentation

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