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Market Watch

Auto slowdown may hit banks' retail growth

BY ASHWIN MANIKANDAN & NEHAL CHALIAWALA, ET BUREAU | UPDATED: MAY 08, 2019, 09.07 AM IST

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MUMBAI: Indian banks' retail growth may take a hit due to slowdown in motorcycle and car sales and liquidity tightness in the market, say top bankers and rating agencies as growth in personal vehicle loans, which make a sizeable part of banks' overall retail credit, nearly halved in the last fiscal.

Latest data from the RBI shows that the personal vehicle loan portfolio made up by cars and two-wheeler loans grew 6.5% in fiscal 2018-19 as against 11.3% in the previous fiscal. At Rs 2 lakh crore, this portfolio constitutes almost 10% of all retail loans in the commercial banking system.

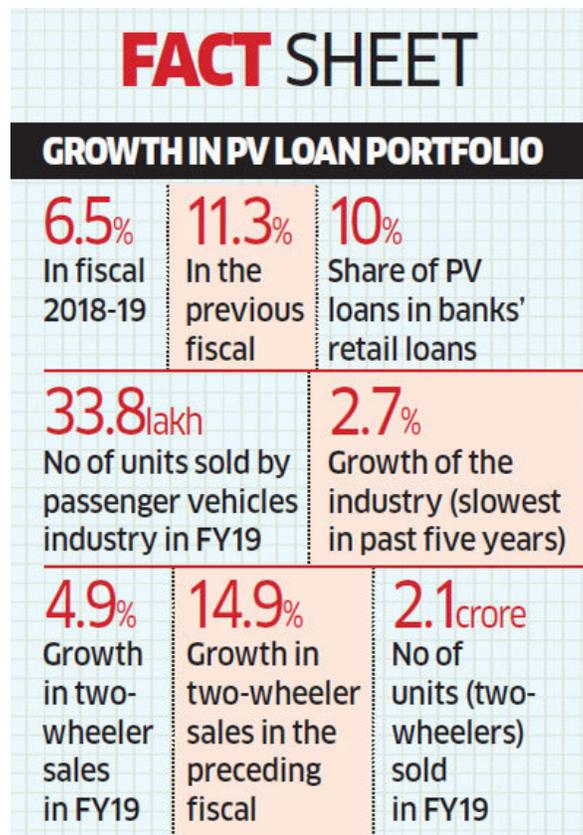
This comes in tow with the sales slowdown in the auto industry. During FY19, the Indian passenger vehicle industry sold 33.8 lakh units, posting a growth of 2.7% —the slowest in the past five years. Two-wheeler sales grew 4.9% to 2.1 crore units in FY19, as against the preceding fiscal's high of 14.9%.

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"We have witnessed some slowdown in our auto loan portfolio, especially the personal vehicle loan segment in the current quarter... While our yearly growth has been close to 15% in the March quarter, this may fall to single digit in the next quarter," said Sandeep Batra, executive director, ICICI Bank.

Most major retail banks, who dominate the vehicle finance segment, such as Kotak Mahindra Bank, HDFC Bank and ICICI Bank reported lower growth rates in the March quarter. Automobile sales growth slowed last fiscal as tight credit conditions after the NBFC crisis and higher insurance pay out in the first year to follow judicial orders.

Maruti, the biggest car-maker in India, reported a 5.25% growth in sales last year as against a double-digit growth forecast it gave at the beginning of the year. While financial markets and rule change affected sales, there may be structural shifts happening in the economy which could alter the demand pattern permanently.

"The question that needs to be asked is if something structural is changing. Is there a fundamental change in consumer behaviour happening with the rise of Ola and Uber," Uday Kotak, chairman, Kotak Mahindra Bank told media during their March quarter results conference.

"If this is indeed the case, we need to be ready with a new alternative," he said. Other bankers and auto-industry stakeholders that ETspoke with also attributed this slowdown to tightness in liquidity forcing banks to reduce their risk-appetite in these loans. While lenders would fund up to 90% of a vehicle's cost earlier, they are now weary to lend more than 75%, said an autodealer.

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