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Market Watch

Banks go slow on lending to auto dealers

BY ASHWIN MANIKANDAN & NEHAL CHALIAWALA, ET BUREAU | UPDATED: AUG 01,
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MUMBAI: Several [banks](#) have expressed concern over a build-up of stress in their loans to automobile dealers and may tread cautiously, even slowing down on disbursements as the auto industry grapples with its worst sales slowdown in over a decade.

Banking industry experts estimate the total outstanding loans to automobile dealers to be in the range of Rs 70,000-80,000 crore.

State Bank of India this week issued a circular to its branches, advising them to tighten collateral norms while lending to [auto dealers](#). Non-state [lenders](#) Axis Bank and [Kotak Mahindra Bank](#) said they were going slow on lending to dealers. "The auto sector has been going through a slowdown for the past six to nine months. It has been difficult for the dealers to sell off inventory and in this context, we issued advisories to our branches to ensure no new unnecessary exposures are taken," PK Gupta, the managing director for retail and digital banking at SBI, told ET. "We had a meeting with stakeholders from the industry on Monday and we conveyed the same message to them," he said, while adding: "The endeavour of our bank is to support the auto industry during these times of stress."

The nation's top lender issued the circular following pressure from a leading automaker to increase funding to its dealers, after one of its latest models saw strong bookings, said people in the know.

Automobile sales have fallen every month for almost a year now, except for October when the numbers were nearly flat.

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In June, nine out of India's 11 main passenger vehicle makers reported a double-digit decline in sales. In the first quarter of fiscal 2019, the sales volume is estimated to have dropped 15-20%.

"The market is stressed and many dealers who have recently entered this space are finding it difficult to manage their repayment obligations. Every lender has been cautious and SBI is also doing the same thing in ensuring prudence," said a top dealer requesting anonymity.

Axis Bank and Kotak Mahindra Bank stated their position during their post-earning conferences with analysts and journalists.

"All our key dealerships have an inside out view about what is going right and what is going wrong. And, if there is one thing which we are very clear about, that when we feel that there is a risk of losing money, we just make sure that we first protect our money," Uday Kotak, the managing director of Kotak Mahindra Bank, said at the time. "And, therefore, we have actually had a negative situation in our (auto) dealer finance business in terms of the growth of the book."

He said some new banks were "pretty reckless" in the past two years in lending to automobile dealers.

Axis Bank, which declared its quarterly results on Tuesday, said issues surrounding the sales slowdown in the auto sector had reflected in its SME loan book. "We are not pushing some of the dealer finance portfolios due to the well-articulated stress in the auto sector. Additionally, we are also recalibrating some of the exposures and that has reflected in our slowing SME growth as well," said executive director Rajiv Anand.

Weak demand for new vehicles has increased the inventory with dealers. For passenger vehicles, inventory levels had peaked to more than 60 days earlier this year from the norms of around 30 days, as per data from the Federation of Automobile Dealers Associations.

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The levels have now reduced to an average of 30-35 days, after manufacturers cut production. Close to 300 dealerships have shut shop in the past 18 months due to the slowdown, according to the federation.

“The mismatch in loan tenors and cash flow from inventory sales has prompted most the lenders to tread with caution on the dealer financing portfolios,” said an analyst, speaking on the condition of anonymity. “The banks now want to disburse these loans with high collateral, which will ensure high loan-to-value ratios to make up for the fall in creditworthiness.”

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