CreditScape : AUTO LOANS

PUBLICATION ON CREDIT LANDSCAPE

CONTENTS

- Automotive Industry Overview
- Industry Trends
- DROC Analysis
- Portfolio Overview & Sourcing Trends
- Ticket Size Composition
- Risk Profile
- Regional Mix – State Wise
- Regional Mix – District Wise
- Our Views
- List of Abbreviations
- About CRIF High Mark

AUTOMOTIVE INDUSTRY

Automotive industry contributed to almost 7% of the total GDP in India, during FY 2017-18. With the advent of new technologies, the industry as a whole experienced growth, since FY 2015-16. Favourable government regulations and incentives, along with increasing consumer's demand for high-end technologies are propelling the growth for automotive industry. Keeping pace with the ongoing global trend, Indian automotive industry is also evolving, in terms of technologies and infrastructure. Government is collaborating with OEMs, tier I companies, and PSUs, to bring in various schemes and initiatives, such as deploying electric vehicles, promoting MaaS (Mobility as a Service), etc., in order to keep pace with global trend. Infusion of foreign investment, along with consistent increase in the domestic demand and export of automobiles have helped the nation to emerge as fourth largest automotive industry in the world.

INDUSTRY TRENDS

Automotive Industry	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (2012-2017)
Sales	26,65,015	25,03,509	26,01,236	27,89,208	30,47,582	32,87,965	4.29%
Avg. Ticket Size*	-	-	4,60,385	4,67,378	4,97,922	5,17,301	-
FDI (USD Bn.)	1.54%	1.52%	2.73%	2.53%	1.61%	1.74%	2.51%
Production	32,31,058	30,87,973	32,21,419	34,65,045	38,01,670	40,10,373	4.42%
Exports	5,59,414	5,96,142	6,21,341	6,53,053	7,58,727	7,47,287	5.96%
GDP Contribution	-	-	5.70%	5.80%	5.90%	7.1%	-

Source: SIAM, Govt. Data
*Numbers from CRIF High Mark Credit Bureau.

With the evolution of automotive industry, auto financing sector has also increased, registering a growth of 37% in volume from FY 2013-14 till FY 2017-18. Consistent increase of automotive sales and production in India have helped auto financing companies to register two times increase in their portfolio from March 2015 till March 2018. Adoption of advanced technologies along with government mandates on safety features have compelled the OEMs to provide top end technologies even in their base model cars. Along with this, gradual increase of custom duty for imported parts of passenger vehicles, in order to encourage CKD units in India, have led to an increase the price of cars in India. Owing to these factors, Indian auto finance industry witnessed 16% increase in the national average ticket size from March 2015 till March 2018.

DROC ANALYSIS:AUTOMOTIVE INDUSTRY IN THE REALM OF AUTO FINANCE

DRIVERS

- Increasing consumer demand for battery electric vehicles will propel the growth of auto loan disbursals, in terms of both value and volume. NITI Ayog forecast that by 2030, PC market will be completely dominated by EVs.
- Consumer preference towards SUVs and crossovers are providing traction for auto loans. SUV market has grown by ~20% against hatchback or sedan, which have registered ~5% growth over CY 2017

RESTRAINTS

- High level of competition coupled with low ROAs do not provide much incentive to the auto finance companies.
- There is ~**36%** increase in the new entrant in NBFCs, in a span of a year. High market competition may lead to lower profits for the market players.

DROC

CHALLENGES

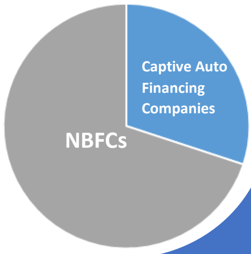
- With a growing popularity of carpooling services and increasing convenience of public transit, the country started experiencing comparatively low vehicle penetration in PCs, despite having high population density.
- Used car financing has recently witnessed high growth rate and popularity as because, along with unorganized players, OEMs are also offering auto financing for certified pre-owned cars.

OPPORTUNITIES

- Tax imposition on petrol and diesel cars to promote electric vehicles can shoot the price of majority of passenger cars, which may increase the demand for auto loans
- Increasing popularity of captive auto finance companies, can provide traction to auto financing. The market has grown 5 times from FY 2015-15 to FY 2017-18 and currently captures 14% of total auto loan financing industry.

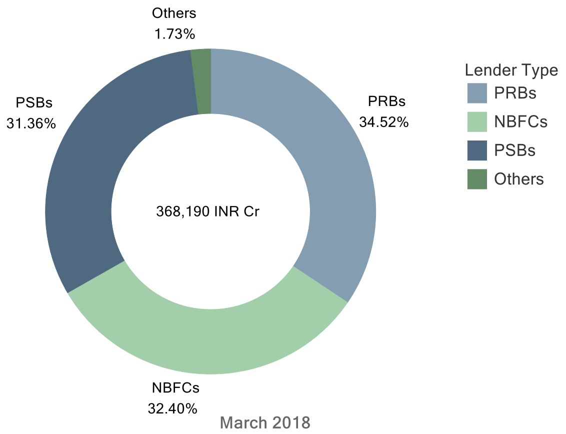
AUTO FINANCE: PORTFOLIO OVERVIEW & SOURCING TRENDS

- As of **FY 2017-18**, the **Gross Loan Portfolio (GLP)** of Auto Loans Sector stood at **Rs 368,190 Cr.** This is dominated by **Private Banks (PRBs)** with a market share of **34.52%**, followed by **NBFCs (32.40%)** and **PSBs (31.36%).**
- **Private Banks (PRBs)** saw the highest **Y-o-Y growth** in the sector as well, with a growth of **23.76%** in their market share, followed by **PSBs** and **NBFCs**, with **18.95%** and **16.16%**, respectively.

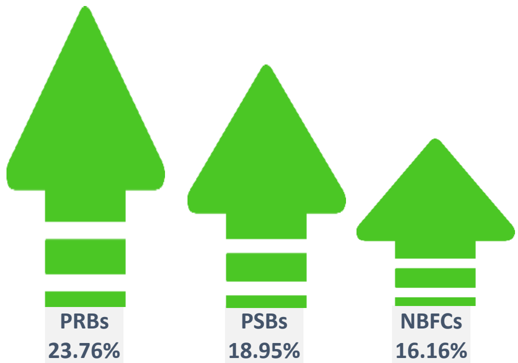


Captive Auto Financing Companies have a market share of more than **43%** of the overall **NBFC Gross Loan Portfolio (GLP)**

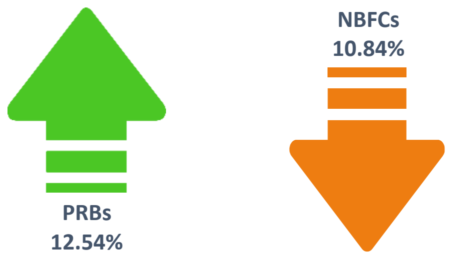
Market Share: Across Lender Type



Y-o-Y Portfolio Growth: Across Lender Types



Growth in Disbursals (by Volume): By Lender



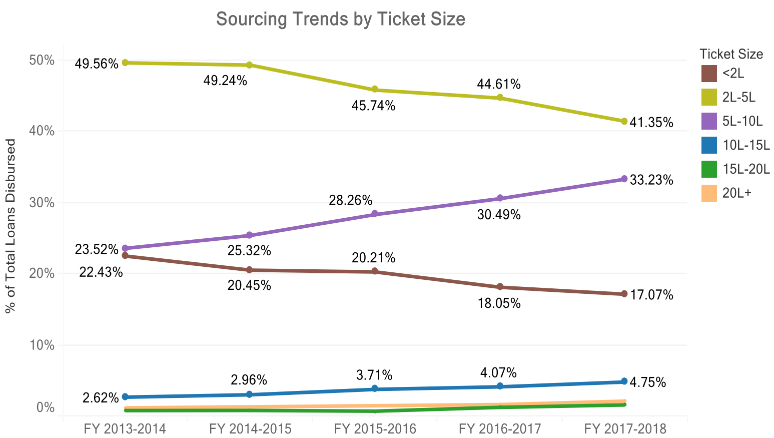
*During FY 2013-14 to FY 2017-18

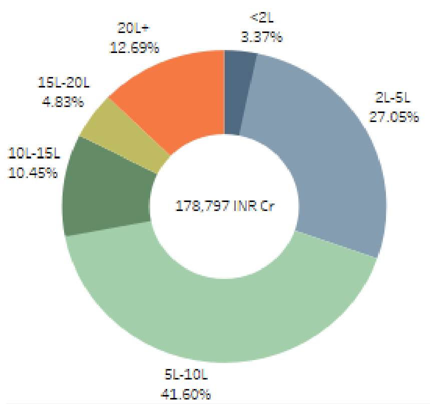
- **Loan Disbursals (by volume)** saw an overall growth of **70.52%** between **FY 2013-14 to FY 2017-18**, with a **CAGR** of **11.26%. Loan Disbursals (by value)** saw an overall growth of **39.29%** during the same period, with a **CAGR** of **6.85%.**
- **Private Banks (PRBs)** saw an upsurge of **12.54%** in their **disbursals (by volume)** during **FY 2013-14 to FY 2017-18**, while the **NBFCs** experienced a **drop** of **10.84%** in their **disbursals (by volume)** for the same period

Q3 (October-December) of every FY observes a rise in **market share** as well **disbursals** of auto loans, owing to the **new arrival** and **year-end** stock clearance sale

AUTO FINANCE: TICKET SIZE COMPOSITION

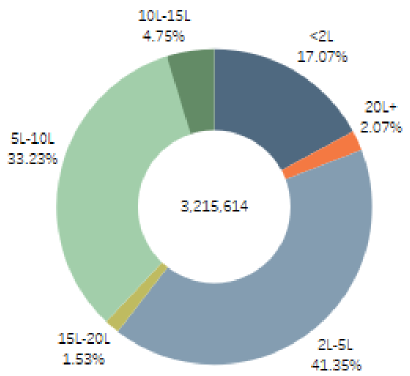
- **Disbursals** for ticket size **5L-10L** has accelerated by **41.28%** during **FY 2013-14** to **FY 2017-18**, with a **CAGR** of **7.16%.** A major driver for this is the consumers' **growing affinity** towards **SUVs**, which is priced in the bracket of **INR 7L-15L**
- **<5L** ticket size loans witnessed drop in sourcing from FY 2013-14 till FY 2017-18, owing to the reducing demand for hatchbacks and compact cars



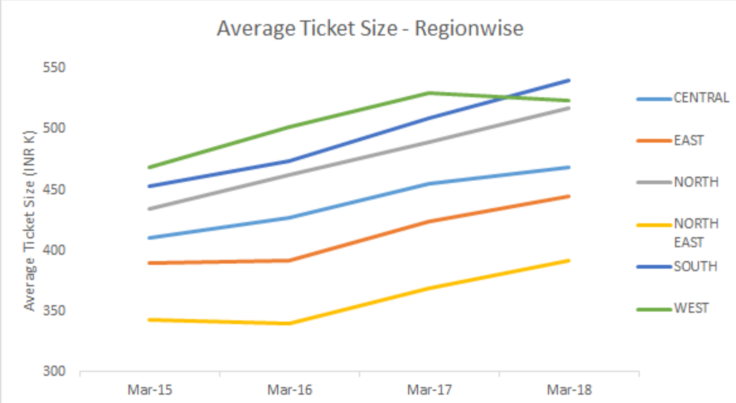


Sourcing Analysis for FY 2017-18:

- **2L-5L** loans dominate the market in terms of **volume**, as **13 out of 20** bestselling models are from **hatchback** segment
- In case of market share by **value**, **5L-10L** ticket size loans have the **largest** market share of **41.60%**, followed by **2L-5L** ticket size loans with **27.05%**, during **FY 2017-18**



Hatchbacks experienced a drop in sales of **~3.85%** while **SUVs** witnessed a growth of **~20%**, during **Dec '16 – Dec '17**



- **Southern** and **western** regions of India have witnessed consistent **high average ticket size**, owing to **higher penetration** of **top end cars** in these regions
- **North** and **South** of India **individually** recorded **highest growth** (19%) in their **average ticket size** of auto loans from **March 2015 till March 2018**

OEMs such as Maruti Suzuki, **Hyundai, Renault** account for nearly 65% share of the Annual Sales in India with popular **hatchbacks in the <5L segment** such as **Alto, Swift, Baleno, i10, Kwid** etc. in 2018

AUTO FINANCE: RISK PROFILE

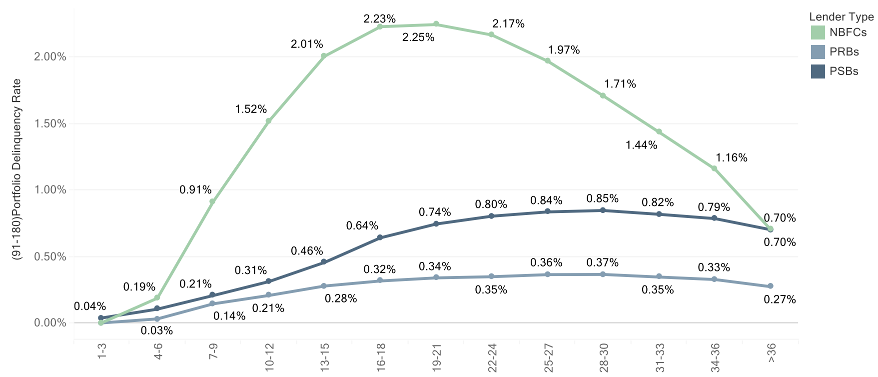
Stressed Ticket Size Segments PAR 91-180

	March 2017							March 2018						
	<2L	2L-5L	5L-10L	10L-15L	15L-20L	20L+	Total	<2L	2L-5L	5L-10L	10L-15L	15L-20L	20L+	Total
PRBs	11 Cr 0.47%	133 Cr 0.43%	196 Cr 0.46%	41 Cr 0.39%	10 Cr 0.30%	32 Cr 0.26%	423 Cr 0.41%	9 Cr 0.44%	151 Cr 0.46%	250 Cr 0.46%	52 Cr 0.36%	12 Cr 0.22%	46 Cr 0.25%	521 Cr 0.41%
NBFCs	196 Cr 3.94%	1,127 Cr 3.15%	950 Cr 2.73%	152 Cr 1.74%	54 Cr 1.38%	133 Cr 0.92%	2,613 Cr 2.54%	73 Cr 1.36%	492 Cr 1.26%	532 Cr 1.31%	125 Cr 1.17%	54 Cr 1.02%	173 Cr 0.94%	1,449 Cr 1.21%
PSBs	52 Cr 1.79%	291 Cr 0.84%	502 Cr 1.09%	110 Cr 1.46%	31 Cr 1.40%	76 Cr 2.08%	1,062 Cr 1.09%	44 Cr 1.53%	254 Cr 0.71%	536 Cr 0.92%	162 Cr 1.57%	71 Cr 2.00%	114 Cr 2.33%	1,180 Cr 1.02%
Others	9 Cr 4.74%	21 Cr 2.35%	20 Cr 1.95%	3 Cr 1.06%	1 Cr 1.36%	3 Cr 0.70%	57 Cr 1.95%	25 Cr 3.36%	50 Cr 2.55%	45 Cr 2.20%	11 Cr 2.22%	6 Cr 2.37%	19 Cr 2.22%	156 Cr 2.45%
Grand Total	268 Cr 2.58%	1,572 Cr 1.53%	1,668 Cr 1.33%	306 Cr 1.13%	97 Cr 1.00%	245 Cr 0.79%	4,155 Cr 1.36%	151 Cr 1.38%	948 Cr 0.87%	1,363 Cr 0.88%	350 Cr 0.98%	143 Cr 0.98%	352 Cr 0.83%	3,307 Cr 0.90%

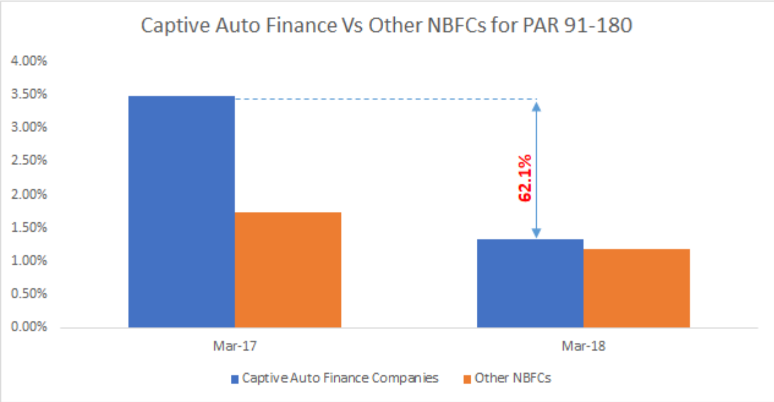
PAR 91-180 %
0.22% 4.74%

- Industry **PAR 91-180** level was **0.90%** in **Mar' 18**
- **Private Banks** indicate best book performance at **0.41% PAR 91-180**, **PSBs** are the next best with **0.92%**
- **PAR 180+ levels** for **PSBs** has deteriorated by **40 basis points** Y-o-Y by Mar 2018

Portfolio 91-180 Rates by Lenders



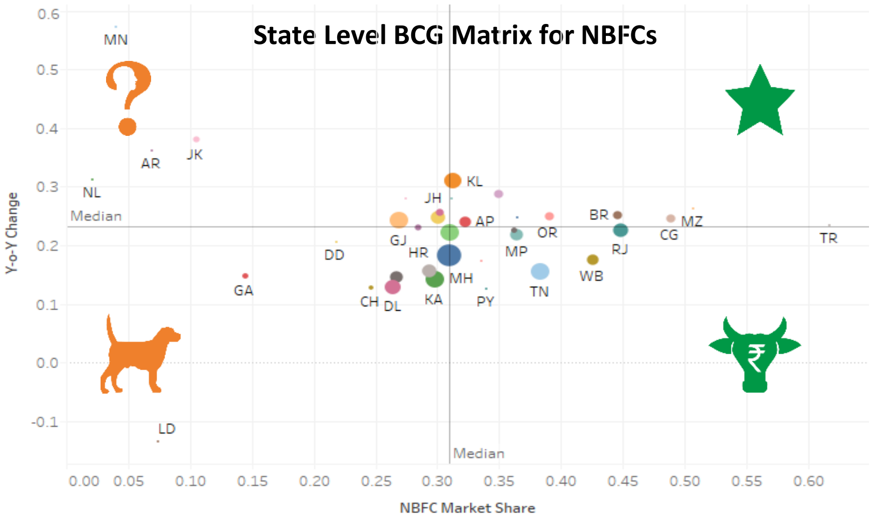
Ratio of the Portfolio 90 or more days past due to the Total Sanctioned Amount, observed at various months on book.



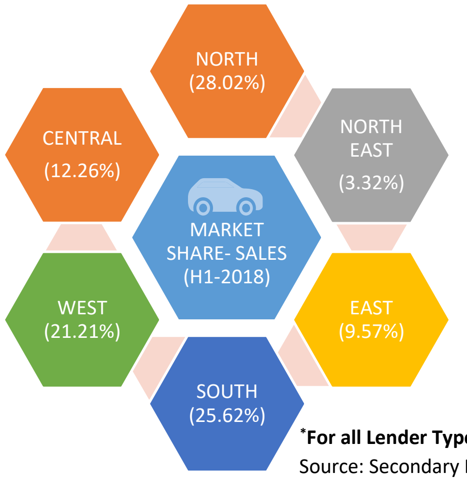
- **NBFCs** witnessed an improvement in their delinquency profile as their risk level for **PAR 91-180 risk levels**, which has **dropped** by **1.33%** during FY 2017-18
- **Improvement** in the **PAR 91-180 risk level** of **NBFCs** is contributed by **captive auto finance companies**, that constitute **44%** of NBFCs' PAR 91-180, although its PAR 180+ over the last year remained constant over the period

<2L ticket size loans, that mainly caters the **low end hatchback** segment cars such as **Alto 800**, **Kwid**, etc., witnessed **high level** for **PAR 91-180 risk rates**, during FY 2017-18

AUTO FINANCE: REGIONAL MIX – STATEWISE

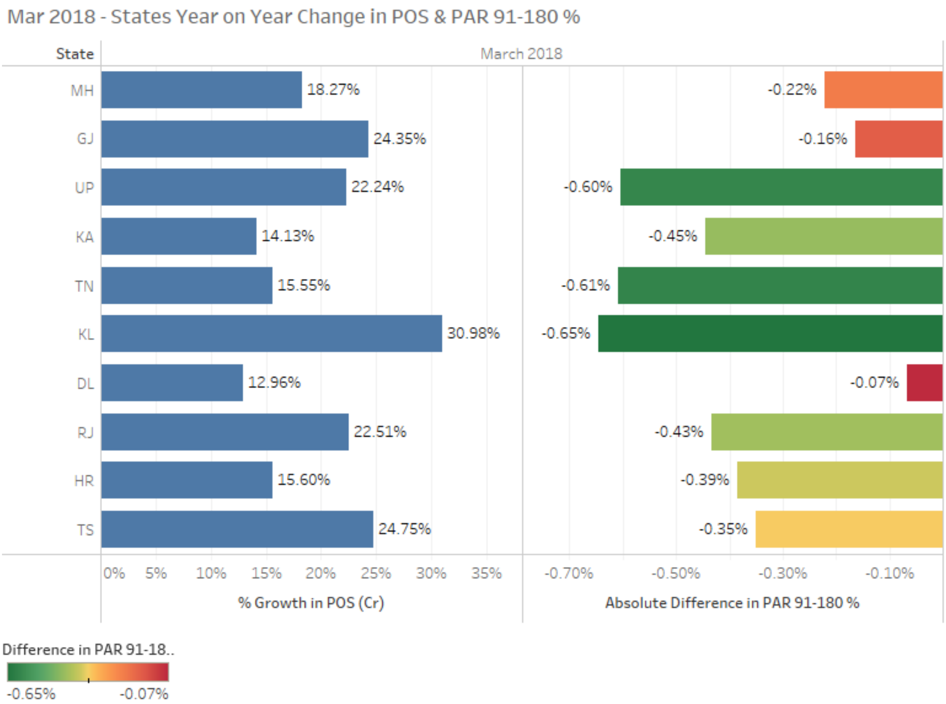


Regional sales distribution of Auto Industry

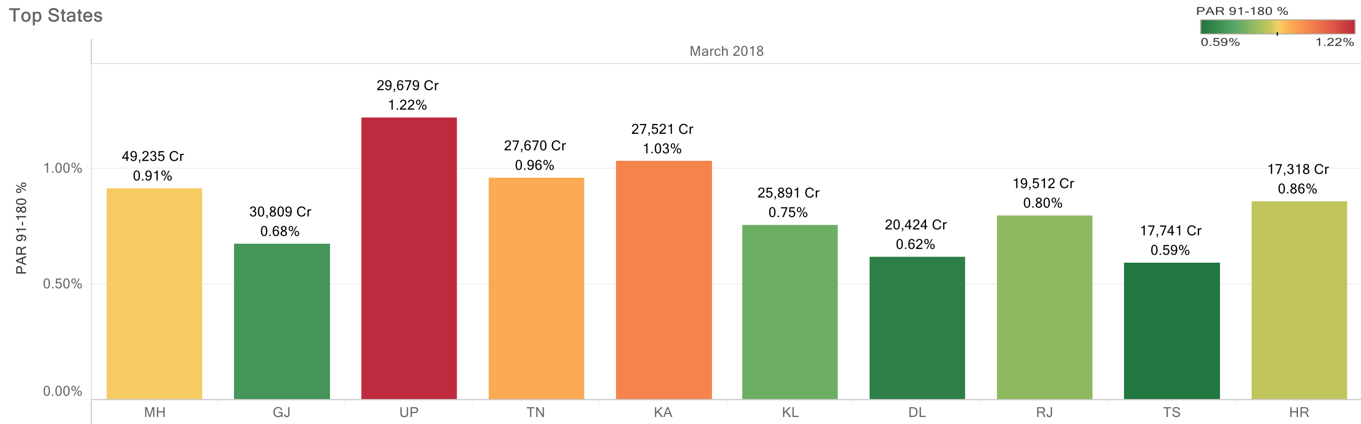


*For all Lender Types
Source: Secondary Research

- **Top 10 states** constitute **72.19%** of the total **GLP** for auto loans, as of **March 2018**
- **West Bengal, Tamil Nadu, Madhya Pradesh** and **Rajasthan**, etc. are **Cash Cows** for NBFCs, while **Kerala, Bihar, AP**, are emerging market **Stars** featuring high market share in case of NBFCs.

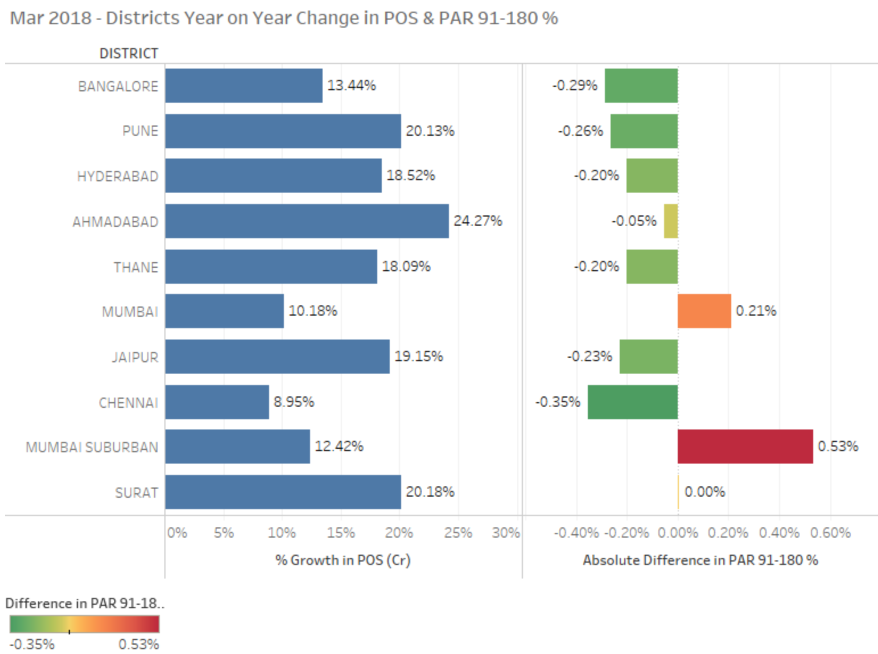


- **Top 10 states** observed improved risk levels for **PAR 91-180** while PAR 180+ remained constant throughout the year
- **Gujarat, Uttar Pradesh, Kerala, Rajasthan, Telangana** experienced more than **20%** growth in their **portfolios**, during FY 2017-18
- **Uttar Pradesh, Tamil Nadu and Kerala,** experience maximum **PAR 91-180** as well as high **PAR 180+** improvement, despite registering more than 15% Y-o-Y growth in their GLP

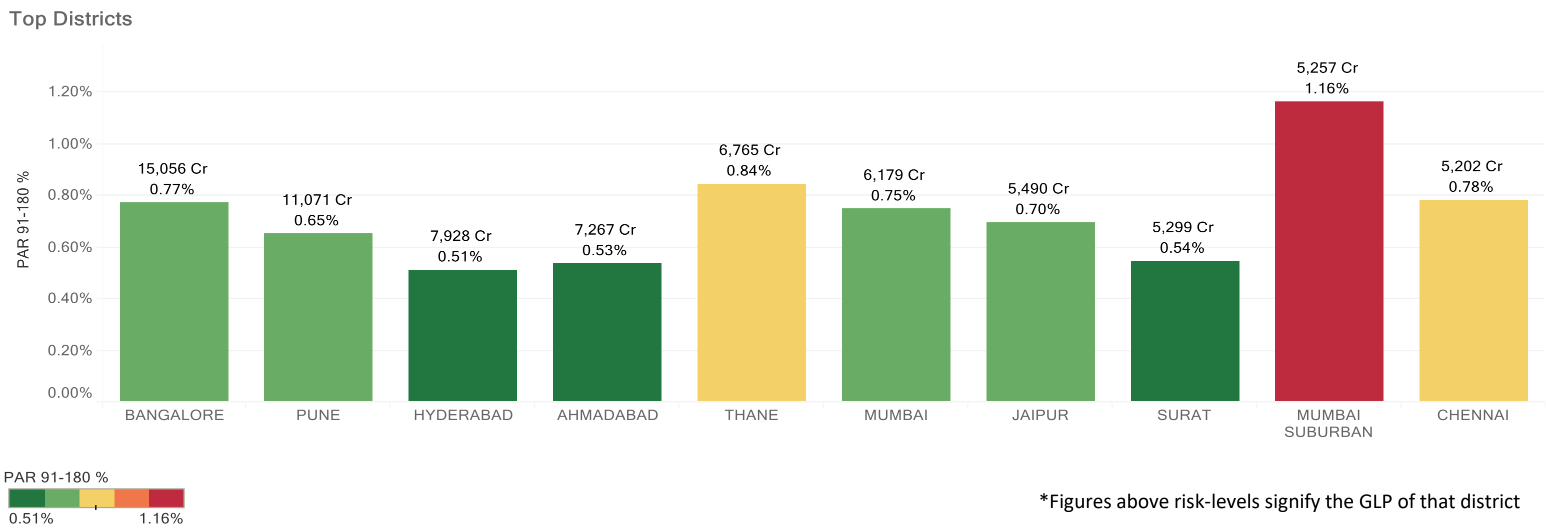


AUTO FINANCE: REGIONAL MIX – DISTRICTWISE

- **The Top 10 districts** contribute **20.51%** of the overall GLP for Auto Loans
- Except **Mumbai**, **Mumbai Suburban** and **Surat**, rest of the top 7 districts witnessed improvement in their **PAR 91-180** levels
- **Hyderabad, Mumbai, Mumbai Suburban, Surat and Chennai** recorded **average ticket size** < **6L** in **March 2018**, owing to growing demand for luxury cars
- **Hyderabad** and **Bangalore** experienced relatively higher growth rate of **5-6%** in their **average ticket size**, in last FY



- Top **10 districts** of FY 2017-18, have witnessed **19%** reduction in the **amount written off amount**, during FY 2017-18
- **Southern districts** of India constitute largest share of **29%** for PAR 91-180, as of March 2018. They are closely followed by **Northern** Indian districts with **27%**



*Figures above risk-levels signify the GLP of that district

OUR VIEWS

Indian automobile buyers have started moving from hatchbacks and compact cars segment towards SUVs and crossovers even though higher taxes are levied on this car segment. Shift in consumers' preference towards comfort over luxury features has also contributed to the growth in auto financing, with a GLP at Rs 368,190 Cr by March 2018, which translates into a 20.5% Y-o-Y growth over FY 2017-18. Also, customers may migrate to EVs in the longer run as Government of India is promoting EVs and has announced a subsidy of Rs 5500 Crore over the next five years under FAME II scheme. These ongoing trends in India have increased the demand for auto finance and this space would continue to offer lucrative opportunities for financiers.

LIST OF ABBREVIATIONS

ABBREVIATIONS	DESCRIPTION
GDP	Gross Domestic Product
PSU	Public Sector Unit
MaaS	Mobility as a Service
OEM	Original Equipment Manufacturer
FDI	Foreign Direct Investment
SUV	Sports Utility Vehicle
PRBs	Private Banks
PSBs	Public Sector Banks
CKD	Completely Knocked Down

***The analysis provided in the report above is based on Four Wheeler Financing data submitted to the Credit Bureau till Mar' 2018**

About CRIF High Mark

CRIF in INDIA - partner for all your credit related requirements

CRIF in India, now offers products and services for Credit Information, Business Information, Analytics, Scoring, Credit Management and Decision solutions in India. CRIF operates CRIF High Mark, India's leading credit bureau, which has largest database of individual records and supports millions of lending decision every month. CRIF High Mark is India's first full service credit bureau covering all borrower segments – MSME/Commercial, Retail and Microfinance. CRIF High Mark works with all leading financial institutions in the country, providing them a comprehensive bureau coverage using its proprietary 'Made in India for India Search Engine', proven to work even with low quality data.

We bring our global expertise in Analytics, Scoring, Credit Management and Decision Solutions to India through our centre of excellence at Pune. Our team of expert data scientist and statisticians bring together years of experience in developing bespoke scorecards for Origination, Marketing and Collections for Financial Services, Insurance or Telecom sectors.

We bring together best of both worlds – comprehensive data and sophisticated dedupe technology for India along with global best practices, expertise in scoring and top-rated credit management software solutions – to add most value to our clients.