



AN ANALYSIS OF LOAN SERVICES IN NBFC - WITH SPECIAL REFERENCE TO CHOLA

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Abstract

In the present economic environment it is very difficult to cater the needs of society by banks alone. Hence, Non Banking Finance Companies (NBFC) are emerging as an important segment of Indian financial system. NBFCs are financial institutions that provide banking services without meeting the legal definition of a bank, i.e. one that does not hold a banking license. It supplements the role of banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. They also provide investment, risk pooling, contractual savings, and market brokering. All NBFCs are under the direct control of RBI in India. They play an important role in channelizing the scarce financial resources to capital formation. Cholamandalam Investment and Finance Company Limited is popularly known Chola is one of the NBFC in India. Chola plays an indispensable role in mobilizing the nation's savings and channelizing them into high investment priorities and better utilization of available resources. It was organized in 1978 as the financial service arm of Murugappa Group. Chola commenced business as an equipment financing company and emerged as a comprehensive financial service provider offering vehicle finance, home loans, home equity loans, SME loans, investment advisory services, stock broking and a variety of other financial services to customers. In Thiruvananthapuram and Kollam, they are focusing on Commercial vehicle loan. The present study seeks to analyze the commercial vehicle loan services provided by Chola and to examine the loan recovery problems and strategies adopted by Chola.

Key words: Banking services, Vehicle Loans, Loan Recovery, Non Banking Finance Companies.

INTRODUCTION

Non Banking financial Companies (NBFC) are rendering bank related financial services on a wide range. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it under the Act. As per the RBI Act, a non-banking financial company is defined as (i) a financial institution which is a company (ii) a non banking institution has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner (iii) such other non-banking institution or class of such institutions, as the bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify. Under the Act, it is mandatory for a NBFC to get itself registered with the RBI as a Deposit Taking Company. This registration authorizes it to conduct its business as an NBFC. During 2006 RBI, for the smooth operations of NBFCs certain regulations/directions were issued, they are; a) Regulations for deposits for NBFCs accepting deposits b) Regulations for NBFCs not accepting deposits and c) Regulations for core investment companies for smooth functioning of their businesses as well as to give confidence to the participants as well as operators.

A well developed Non Banking Finance Companies (NBFC) is absolutely necessary to mobilize the savings and to allocate them to various investable channels and thereby to promote industrial development in a country. Cholamandalam Investment and Finance Company Limited, usually known as Chola was incorporated in 1978 as the financial service arm of the Murugappa Group. Financial service arm of the company was able to reach out and create contact for serving customers with outstanding services. Murugappa Group is one of India's leading business conglomerate. This Group has 28 businesses including nine listed Companies trading in National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). Its headquartered is in Chennai. Chola is a NBFC as well as a financial service provider offering vehicle finance, home loans, home equity loans, SME loans, investment advisory services, stock broking and a variety of other financial services to customers. The vision of Chola is to enable customers to enhance their standard of living and lead a better life style. Its subsidiaries include Cholamandalam Securities Limited (CSEC) and Cholamandalam Distribution Services Limited (CDSL).

Chola has created value for its customers by supporting them in becoming entrepreneurs in the field of commercial transportation. Chola is financing new and new customers every month. A loan is a type of debt, like all debt instrument. Loan entails the redistribution of financial assets overtime between the lender and the borrower. Chola enjoys a valuable and stable relationship with manufacturers and dealers and this helps them to become a leader in the commercial vehicle segment. Important features of Chola in vehicle finance are loans from rupees one lakh onwards, loans for both new and used vehicles, motor insurance, life insurance and personal accident cover. All these are undertaken with the conscious relationship of managers to assist the loan customers. At present they have 577 branches across the country.



SIGNIFICANCE OF THE STUDY

Finance is an important component for ordinary people to maintain their standard of living. Non Banking Financial Companies (NBFC) help the people to get rid of their financial difficulties. In this context NBFCs come to rescue customers. NBFCs are essential social organizations rendering variety of services to the socio-economic objectives of the society. Cholamandalam Investment and Finance Companies (Chola) offers different types of vehicle loans to the customers in Kerala for their socio- economic fulfillment. In this context the present study, an analysis of loan services in NBFC - with special reference to Chola is very significant and relevant.

STATEMENT OF THE PROBLEM

An analytical study of loan services in NBFC will answer the questions, what are the loan services provided by Chola for the customers and what are the problems and strategies of Chola for loan recovery.

OBJECTIVES OF THE STUDY

The main objectives are;

1. To analysis the vehicle loan services in Chola.
2. To examine the loan recovery problems and strategies followed in Chola.

SCOPE OF THE STUDY

The study is confined to employees of Chola working in Thiruvananthapuram and Kollam. It focuses only on vehicle loan services in Chola and loan recovery problems and strategies of them.

METHODOLOGY

The study is being mainly undertaken based on primary data collected through a questionnaire. The sampling unit consist mangers and clerks of the Cholamandalam Investment and Financial Services Limited in Thiruvananthapuram and Kollam. Simple Random Sampling is adopted for the selection of sample. The total sample size is restricted to 30. Secondary data is being collected from different sources like scholarly articles, textbooks and various websites.

REVIEW OF LITERATURE

Pellissery and Koshy (2015) made an evaluation of financial performance of public sector banking companies and non-banking financial companies in India. The basic purpose of the study was to understand and analyze the financial performance of the selected companies. A variety of services at differential rates are provided by the two selected groups of companies (i.e., NBFC's and banking companies). The NBFC's selected for the study are Bajaj Auto Finance Ltd (BAFL), Reliance Capital Ltd (RCL), LIC Housing Finance Ltd (LICHFL) and banking companies are Bank of India (BOI), Central Bank of India (CBI), Indian Overseas Bank (IOB). The study pertains to analyze the best performer among the selected companies and best group between the two groups within a particular period of 5 years (2007-2011.). They found out that LICHFL is to be the best performer among the selected companies in terms of ratios and NBFC's have outperformed the Banking companies.

Arvind and Srividya (2013) conducted a study on financial performance of Sakthi finance limited (SFL). Sakthi finance is one among the NBFC in India. Aim of the study was to know the efficiency and liquidity position of the company and to offer suggestions for improving the financial performance. They found out that interest earned and operating expenses showed an increasing trend from 2004-05 to 2008-09 and a varying trend in the case of other income and interest expended. However they suggested that the company can introduce a new attractive scheme for the depositors, the programme of the SFL should be analyzed every time to time by some financial experts so that heavy changes in financial performance can be reduced and the company can concentrate more on reserves for the future expansion of the business.

Perumal and Satheeskumar (2013) conducted a study on non-banking financial companies. Objectives framed for the study were to document the growth and development of Non-Banking Financial Companies, to evaluate the performance of Sundaram Finance Limited and Lakshmi General Finance Limited and to bring light on the perceptions of the sample customers about the functioning of NBFCs. They suggested that the procedure for the liquidation of NBFCs should be substantially on line with those available for banks, so that these proceedings can quickly be brought to completion and the claims of various depositors and other creditors could be settled as early as possible. Whenever the RBI has reasons to believe that the management of an NBFC is likely to indulge in fraudulent activities to the detriment of the company or its depositors, the RBI may notify such company and on notification, the assets of the company shall stand attached and the management of the assets be vested with a custodian to be appointed by the RBI.

Vadde (2011) made an evaluation on the performance of non-banking financial companies in India. This study analyzed the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. Study was based on the audited annual accounts of 1,211 companies, which closed their accounts during the period 2008 to 2009. The study also presented a comparable data for the preceding two years 2006-07 and 2007-08 for the same set of companies, based on the analysis of their accounts for the respective years. Operating profits of the selected companies declined along with diminishing profitability during 2008-09. Likewise share of external sources in total sources declined during 2008-09 when compared with the previous year.

Kantawala (2001) attempted to study the financial performance of non- banking finance companies in India. Objectives of the study were to examine the financial performance of different groups of NBFCs separately. It also attempted to examine the relative financial performance of different groups of NBFCs for the period 1985-86 to 1994-95 in terms of profitability, leverage and liquidity. The reasons of selecting this period for the purpose of study was, during this period the number of NBFCs have flourished by leaps and bounds, the absolute amount of deposits with NBFCs have gone up from 4956.6 crores to Rs.85495.1 crores (increase is almost 17 times), the share of deposits with reporting NBFCs have gone up over a period of time from 4.78% to 16.49%. The study concluded that there exist a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs. The analysis of the variance gave details about the average ratios which became a useful guide to companies to decide about diversification or continuation in the same line of business considering overall profitability within the regulatory framework. In brief, different categories of NBFCs behave differently and it is the entrepreneur's choice in the light of behavior of some the parameters which go along with the category of NBFC.

LOAN SERVICES BY CHOLA

Loans are necessary to allow people to become self-employed or to significantly improve their standard of living. Cholamandalam Investment and Financial Services Limited (Chola) is a developed instrument that allows loans to customers for supporting and materializing their dreams by financing vehicles.

Table: 1,Status of Loans

Components	Respondent	Number (%)
Loan applicants	30	55 (100%)
Loan sanctioned	30	38 (69.09%)
Loan disbursed	30	34 (61.81%)

Source: Primary data

As per the employees in Chola, average number of loan application received in a month for acquiring vehicle is 55 (100%) applications. From that, loan sanctioned for applicants are 38 (69.09%) and the number of loan disbursed are only 34 (61.81%). This reveals that every applicant for vehicle loans cannot avail loans from Chola.

Table: 2,Status of Loan Amount

Components	Respondent	Amount (%)
Loan amount applied	30	1.95 crores (100.00%)
Loan amount sanctioned	30	1.69 crores (86.67%)
Loan amount disbursed	30	1.59 crores (81.54%)

Source: Primary data

According to employees opinion, in a month of 2015 the average loan amount applied for vehicles is 1.95 crores (100%). From that 1.69 crores (86.67%) loan amount is sanctioned and 1.59 crores (81.54%) loan amount is disbursed to customers with a gap of .10 crores in between loan applied and loan sanctioned.

Table: 3,Rate of Interest

Components	Respondent	percentage
Rate of interest for vehicle loans	30	9.44%

Source: Primary data

Employees responded that the rate of interest is 9.44% charged for commercial vehicle loans in Chola on monthly basis is moderately affordable to a common man.

Table: 4, Factors influencing Commercial Vehicle Loan

Components	Respondent	Months
Time taken to avail loan	30	3 months
Duration of loan repayment	30	48 months
Time allowed for repayment	30	1 month

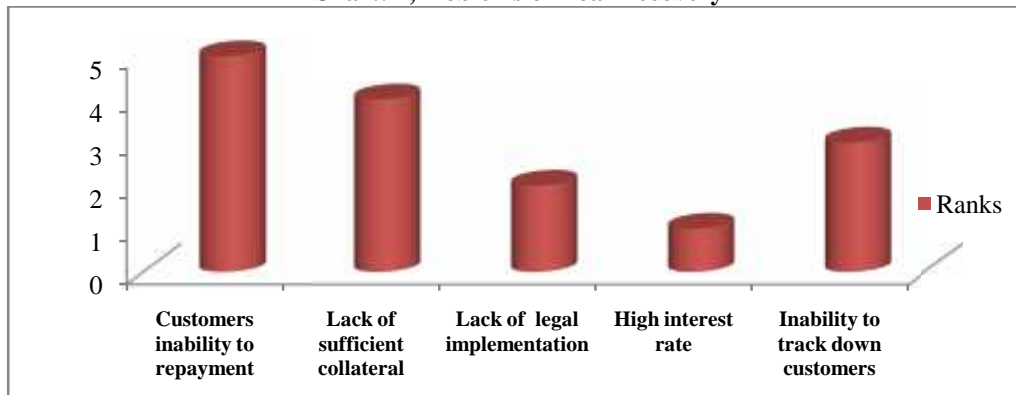
Source: Primary data

The employees in Chola informed that a maximum of three months is taken to avail loan for commercial vehicles and a maximum of forty eight months are allowed for its repayment. And also a maximum of one month is allowed for repayment of loan.

LOAN RECOVERY PROBLEMS AND STRATEGIES OF CHOLA

The main activity of Chola is granting of commercial vehicle loans to customers. The interest charged on vehicle loans form a major source of revenue for them. Failure to pay the monthly interest along with loan installment amount affects the revenue of Chola. Therefore they pay more attention for loan recovery procedures.

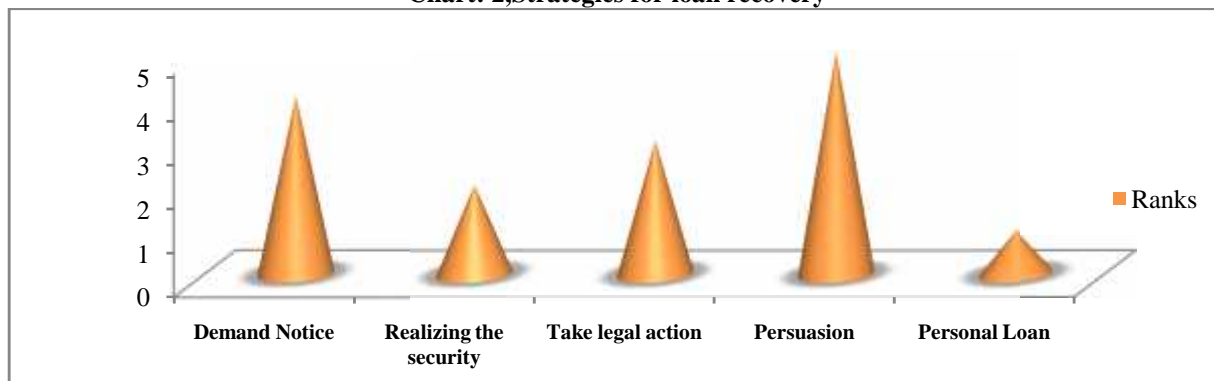
Chart: 1, Problems of Loan recovery



Source: Primary data

With regard to the problems of loan recovery faced by Chola, it is opined by the employees that the main problem is customers' inability to repay and it secured first rank. Second problem is lack of sufficient collateral security with the customers. Inability to track down customers is the third problem of loan recovery. It is noticed that lack of legal implementation stands forth followed by high interest rate which is slightly influencing Chola at the time of loan recovery.

Chart: 2, Strategies for loan recovery



Source: Primary data

According to employees' view, customers' inability to repay loan adversely affects Chola major revenue. So they have started adopting effective strategies for loan recovery by persuading the customers for repaying the loans promptly and it is ranked first. Likewise Chola send demand notice and take legal action against customers for recovering loans which got the second and third rank respectively. Similarly realizing the security and personal loans got forth and fifth ranks.

Table: 5, Penalty in delayed repayment/ loan defaults

Responses	Number (%)
Yes	30 (100%)
No	---

Source: Primary data

Entire respondents opined that Chola imposes penalty for delayed repayment and for loan defaults. This implies that Chola is maintaining an effective credit monitoring procedures.

Table: 6, Amount of Penalty

Variables	Number (%)
Fixed amount	---
Depend on the loan amount	30 (100%)

Source: Primary data

30 (100%) of the employees of Chola informed that they charge penalty on the basis of loan amount availed by customers to the defaulter.

CONCLUSION

Reserve Bank of India is taking steps from time to time for the regulation of NBFCs. Thus NBFCs occupy a significant position in financial intermediation. The contribution of NBFCs to economic development is highly significant and this is needed to integrate it with the mainstream financial system. NBFCs cover a significant portion of the total auto finance market in India. Though banks have low cost of funds, NBFCs have certain advantages and lesser stringent regulatory requirements as compared to banks. NBFCs are not bound by priority sector lending requirements, not required to maintain CRR, can customize products and have wider reach to customers. These differences have resulted in NBFCs having a significant role playing with banks on the lending front. Also, banks have concentrated more on the car loan segment whereas NBFCs have more focused on providing finance to the commercial vehicle segment.

Cholamandalam Investment and Financial Company (Chola) is one of the NBFC in India playing a crucial role in the attainment of macro-economic objectives. It acts as a vehicle for socio-economic transformation and also as a catalyst to economic growth. It is one of the leaders in commercial vehicle segment in Kerala. They provide vehicle loan for the purchase of commercial vehicles. The loan period is fixed to 4 years. Commercial vehicles include truck, tippers, tractors, pick-ups etc which is a critical value addition of every business because it plays a major role in the growth of every business. Thus Chola has played an important role in creating transportation entrepreneurs.

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