



FINANCING THE RURAL CAR SEGMENT OF GUJARAT – SCOPE AND CHALLENGES

Management

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ABSTRACT

This is a study conducted to understand the Indian Rural Passenger car market. For which a sample size of 104 respondents were chosen who owned cars and interviewed, from 5 villages of Himmatnagar District of Gujarat State. It was done basically to understand the customer's requirements related to Car Finance, to understand customer buying behavior and customer buying patterns and also to figure out the Gap in their requirements and availability of Finance. It has been conducted to understand the Rural market potential and the necessity of financiers to tap Rural markets by introducing robust schemes and by taking adequate precautions where there is a possibility of incremental NPA no's.

KEYWORDS

Introduction

Indian market dynamics have seen a sea change post liberalization of economy in 1990s and the changes further got percolated down to India's traditional rural markets as well by the start of 2001 and since then it has been constantly on growth path thus making it imperative for researchers, economists, manufacturers and retailers to reach up to them and have a detailed insight in order to tap these highly potential rural markets which are going to lead the future growth of everyone.

India which is classified in to around 450 districts and approximately 6, 30,000 villages has two third of total consumers living in them and almost half of the national income is generated from this rural India. Rural India, which accounts for more than 68 per cent of the country's 1.3 billion population (according to the Census of India 2011), is not just witnessing an increase in its income but also in consumption and production.

Population in Crores			
	2001	2011	Difference
India	102.9	121	18.1
Rural	74.3	83.3	9
Urban	28.6	37.7	9.1

Source: Censusedia.gov.in

Literacy Rate in (%)			
	2001	2011	Difference
India	64.8	74	9.2
Rural	58.7	68.9	10.2
Urban	79.9	85	5.1

Passenger Car market in India

The Indian passenger vehicle industry has finally surpassed the three million units sales mark, According to the Society of Indian Automobile manufacturers (SIAM), passenger vehicle sales rose 9.23% from the previous year to 30,46,727 units in the year ending on March 31st 2017, thereby registering its best performance in five years. While the growth momentum was high in the first 6 months, sales were hit in the second half due to Demonetization exercise. The passenger vehicle space was hit for a brief period but regained normalcy by January 2017.

The overall passenger vehicle industry achieved the 3 million milestone on the back of new launches as well as sharp growth in SUV sales at 7,61,997 units (Up 29.91% year on year), what with demand for compact SUV's going through the roof. The passenger car segment sold a total of 21, 02,996 units (up 3.85%)

DOMESTIC CARS SALES IN 2016

OEM	May-16	5 Change	MS(May 2016)
Maruti Suzuki	113162	10.60%	48.30%
Hyundai	41351	10.40%	17.66%
M&M	19635	8.00%	8.39%
Toyota	12630	10.00%	5.40%
Honda	9950	-26%	4.25%

Tata Motors	8617	-23.00%	3.68%
Renault	8343	132.00%	3.60%
Ford	5780	22.00%	2.47%
Volkswagen	3591	-14%	1.53%
Nissan+Datsun	3506	-5.00%	1.50%

Source: <http://auto.economicstimes.indiatimes.com/news/industry/complete-indian-passenger-vehicle-sales-analysis>

Need for the study to be done

Indian Rural Market has gone through a sea change in past two and a half decades both in terms of the status of consumer, their purchasing power, living standards, buying preferences, perception towards debts, consumerism and Automobile – Car Market manufacturer's approach towards rural consumers, along with the banking services which in turn have played a vital role by making the loan available to these rural consumers. With the inter connect and interdependency of all three components which include Rural consumer, car manufacturers / dealers and finance partners including Banks and NBFCs it becomes imperative to study the behavior and pattern of Indian rural customer, their concerns, requirements, expectations and aspirations so as to assist the manufacturers & distributors to plan their strategies to cater these rural buyers, fulfill their expectations and aspirations as well thus making inroads in rural markets and hearts of rural consumer which will ultimately enable them to enhance their sales and market base. This study is also required from the point of view of Financers / Bankers which are facing difficult times in rural market penetration despite of rapid growth seen in banking sector in past one decade.

Problem Statement

The organized financial sector at present is basically urban oriented where due to a tough competition it has to go for various compromises and sacrifices in terms of revenue generation in the process of either augmenting new business or to retain the existing one. However, despite of all these problems their reluctance in search of new avenues is well known. The reasons are vary and many. Fundamentally these organizations lack in rural orientation and thus find it difficult to enter and then manage the business in the far flung areas. In fact they have their own limitations so far the manpower is concern. Also they are not well conversant with the rural economy and therefore keep away from this potential area.

Scope of the Study

Study was conducted in 5 villages of Himmatnagar District of North Gujarat and 104 respondents who owned the cars were interviewed to understand the customer's various requirements related to Car finance in context of their financial and economic conditions and the gap in their requirements and availability of finance towards them on one hand and the need for financial organizations to move towards rural markets in reality of their priorities of target achievements, maintenance of IRR while maintaining their quality of portfolio by keeping an eye on NPAS on other hand.

Objective of the Study

- The objective of this study is to observe the dynamics of Indian Rural Markets over a period of time, reviewing the literature of rural markets and rural marketing, outlining the potentiality of rural markets with respect to purchase of Car and availing of Finance preferences. The study will also concentrate on the problems faced by rural markets.
- To Identify the Parameters that influence the rural customer's buying behavior of car and their choice of finance options.
- To determine the awareness level of rural customers related to financing options with regards to NBFC / Banks.
- To understand the economic / financial condition of the customer and their requirements for car loan which will help in solving the problem of adverse selection of customer, which is the existing problem for extending rural credit by Banks / NBFCs. To study the organization's perspective towards desired level of exposure for disbursing loans in relation to existing NPAs of respective NBFC / Bank.
- To study the Gap in the expectations of rural customers from financial organization, Bank / NBFC in availing the car loan as compared to their existing financing options
- To measure the penetration of NBFC / Bank with regards to various financing options and to explore the possible impact of Bank in rural India and especially challenges and opportunities would be highlighted.
- To understand the Targets of funding in terms of units and Disbursements of specific NBFC / Bank in a financial year and average expected growth in these targets year on year. The focus of research will be to tap the untapped markets of rural India by developing competitive strategies and exploring the vast potential existing beyond the existing urban strongholds of financial organizations to stay ahead of competition and to identify the issues and challenges of shifting from urban markets to rural markets.

Methodology

A preliminary study was conducted in form of informal interviews whereby 104 persons were interviewed on the basis of exhaustive questionnaire which was structured to collect the primary information.

Besides, secondary data was collected from literature review and different other market segments like dealers and financiers.

Inferences from Study

During the study it was observed that 44% of the families have 4 and more family members and had evenly balanced sex ratio with 50% of the families have 2 male and female members each. Families were mostly dependent upon agriculture with 64% of the population having 3.5 Vigha and more land holding resulting in to 66% of the families falling in the income group of 3.50 lacs and more.

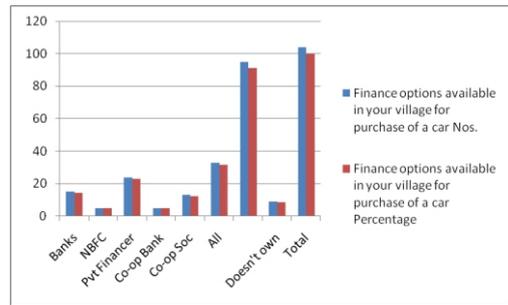
S.No	No. of Members in family (%)	Number of Male Members in family (%)	No. of dependent family members (%)
1	0	24	5
2	4	50	38
3	25	24	44
4	44	2	9
5 & more than 5	27	0	5

Units	Annual Income(%)	Units	Land Holding in own name (%)	Units	Source of Income(%)
1.5-2.5lac	9	No Land	12	Business	16
2.5-3.5 lac	27	1-2 bigha	9	Service	23
3.5-5.5 lac	38	2-3 bigha	5	Others	6
>5.5 lac	27	3-4 bigha	21		
		>4 bigha	43		

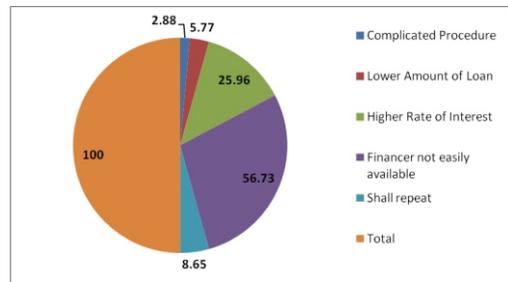
These statistics gives a clear indication that the rural population in present times has both the requirement of passenger cars and also the capacity to afford the same. This further signifies that there is a great opportunity for car manufacturers and retailers leading to greater opportunity for financiers. As far as the choices for car and financiers were concerned it was observed during the study that 69% of the users were of small car and Hatchback segment which makes prudent for financiers to foray in to these rural markets since as financiers their per capita exposure and risk gets limited.

It was observed in the study that the prime factor taken in to consideration before buying a car is easy availability of car loan. Even the family need came second as a factor to purchase the car.

Though being availability of finance being the major factor chosen by rural customers, it was found that the Private financiers with 23% were the major players in comparison to banks being 14% and NBFC being 5% present at the locations surveyed.

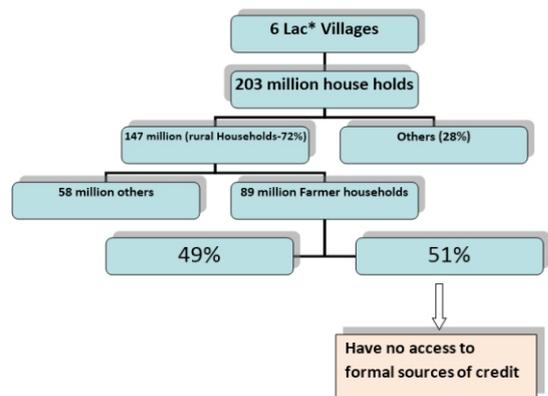


2 major observations noticed are that Rural customer has become rate conscious and thus lower rate of interest was chosen as the major factor for choosing a particular finance option. 56% of the respondents feel that their financier is not easily available for them and hence they will not like to repeat their financier.

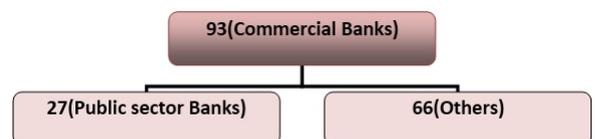


Conclusion

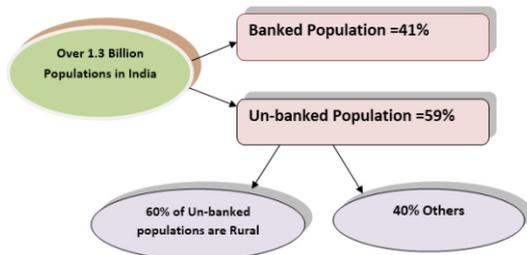
India as a country with more than 6 lac villages and 203 Million households which include 147 million households in rural which is good 72% has got its maximum potential in its rural pockets which in present times have not only seen improvement in their purchasing capacity but also in their awareness regards various products and this should make these markets the oblivious choice for marketers and financiers both and should prompt them to move from their existing but saturated urban markets to these high potential and unexplored rural markets. Of the 147 million rural households across India, 89 million are farmer households while 51% of these farm households have no access to formal sources of credit.



- While there are 93 commercial banks in India with 27 Public sector banks.



Still 59% of the population of India is unbanked and of this unbanked population 60% is rural population



Financers thus need to come above their apprehensions of recoveries and also their reluctance to enter in to rural markets due to lower ticket size and lower density of volumes considering that fact that per capita income of the rural households have gone up and 38% of the population falls in the income group of 3.50 lacs to 5.0 lacs while 27% are earning more than 5.0 lac. This increase in income is backed by their propensity to spend leading to a good potential for credit market in rural areas.

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