



## ORIGINAL RESEARCH PAPER

## Management

### A CASE STUDY ON ZERO PERCENT INTEREST LOAN: AN INSIGHT ON ACCESS TO FINANCE FOR NEW ENTREPRENEURS

**KEY WORDS:** Financial services, NBFC's, Interest free loans, Terms and conditions.

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#### ABSTRACT

The financial market in India is fast changing with the growth of internet access to a very large population. The last development is the emergence of large number of Zero Percent Interest Loan by NBFC's to feed the financial need of the Indian customers. Indian financial market has both formal and informal money lending business going for long time. The Informal financial providers such as money lenders are getting replaced to some extent by these NBFC's especially in urban India. Many schemes are promoted by these NBFC's. It is high time government of India comes out with proper rules and regulation for this segment of financial service so that the common man is protected.

#### INTRODUCTION

Indian financial markets consist of RBI-controlled Scheduled Commercial Banks (Public and Private Sector banks), Cooperative Banks in both Urban and Rural and Non-Banking Financial Corporations (NBFCs). Apart from the formal institutions, many informal financial institutions and money lenders work in the Indian Financial Market. With the growth of technology, many online financial applications are being operated without any regulatory backing and mostly illegally. Though the NBFCs operate under RBI's control, they can independently devise their products and services.

Individuals can avail of loans for various purposes, either from the formal or informal banking systems.

Formal Banking Systems consist of Commercial Banks, both Public Sector and Private Sector Banks, Foreign Banks, Branches in India, Cooperative Banks, and Urban and Rural and Non-Banking Financial Institutions for specific purposes. Informal banking consists mainly of Money lenders of various shades and names. Most Small Business people and people who are daily wage earners, people working in MSMEs, and Informal sector employees depend on local money lenders and Non-Banking Financial institutions registered as Societies. These individuals and societies charge exorbitant Interest from their customers. One such type of financing is by these financial institutions collaborating with the producers to sell consumer durable items.

Non-Banking Financial Companies ("NBFCs") are one of India's most critical pillars of financial services. They play an essential role in reaching out to a hitherto under / un-served, broad-basing the formal lending ecosystem while bringing the benefits of formalization to the 'Bharat' we know. NBFCs cater to the needs of both retail and commercial sectors and, at times, develop robust niches with their specialized credit delivery models that even more prominent players, including banks, have found hard to match. They play a critical role in supporting economic growth across income levels, sectors as well as geographies, and in doing so, leading to more employment opportunities and more incredible wealth creation.

The followings are the types of loans offered for Individuals and MSMEs:

1. Personal Loans: Any personal use like buying consumer durables, travel and vacation, small-time renovation of property, medical etc., Mostly unsecured based on the salary drawn or business income of the individual. Higher Interest is charged for high-risk undertaken by the moneylenders.
2. Auto Loans: For purchase of two-wheelers, four-wheelers, commercial vehicles etc., The vehicle will be collateral apart from the salary drawn or earnings from the commercial vehicle. Primarily Commercial Banks lend to people with

regular and steady income category people, and money lenders in various forms lend to high-risk individuals and charge high-interest rates.

3. Student Loans: For payment of Fees and living expenses, education loan is extended both by formal and informal lenders. This type of loan is now picking up in the market. The students are required to repay after getting their jobs. The parent will be the co-borrower to guarantee the loan repayment.

4. Debt consolidation Loans: Most of the banking system focuses on customers who are defaulters of previous loans to take over these loans with higher interest charging. Mostly with regular income people, if they fail to pay their earlier loans, other financial institutions take high risk and take over these loans.

5. Payday Loans: High-interest loans targeted at regular-salary people to meet their immediate or emergency requirements.

6. Small Business Loans: Usually at very high-interest rates to the small shops and establishments extended by the money lenders. They collect loan repayment daily from these small business people.

7. Gold Loan: By pledging Gold with an individual Gold loan is extended by the formal and informal banking system. The formal banking system extends such loans to customers who need money for various personal purposes. The Informal system extends these loans at a very high rate of Interest, and this system is in place for a very long period.

8. Loan Against Property: Both formal and informal sectors have been extending loans against the property as collateral at a reasonable interest rate. Due to Covid, the formal system has stopped this type of loan because of heavy default in this segment.

9. Agricultural Loan: Both secured and unsecured loans are extended by formal and informal banking systems. Rural cooperative banks significantly extend crop loans to farmers against Gold or property. This loan is usually at a subsidized rate of Interest.

10. Consumer Loan: Non-banking financial institutions and money lenders offer Consumer loans to purchase various household items for people working in formal and informal sectors. One such product is Zero Percent loans.

Let us compare the best three companies operating in the field of Consumer Loans:

- (1) Bajaj Financial Services Ltd.,
- (2) Tata Capital Financial Services Ltd.,
- (3) Capital First Ltd.,

#### (1) Bajaj Financial Services Ltd.,

Bajaj Financial Services Ltd serve millions of customers by providing solutions for asset acquisition through financing, general insurance, family and income protection in the form of life and health insurance and retirement and savings

solutions. BFS is listed on the Bombay Stock Exchange and the National Stock Exchange and participates in financing businesses and individuals.

BFL is a deposit-taking Non-Banking Financial Company registered with the Reserve Bank of India. It has a subsidiary of Bajaj Finserv Ltd engaged in lending and accepting deposits. BFL lends to SMEs, Retail and commercial customers with a significant presence in Urban and Rural India. It accepts Public and corporate deposits and offers a variety of financial services products to its customers.

BFL has two 100% subsidiaries, i.e. (i) Bajaj Housing Finance Ltd, which is registered with National Housing Bank as a Housing Finance Company, and Bajaj Financial Securities Ltd, which is registered with the Securities and Exchange Board of India as a stockbroker and depository participant.

BFL is developing five proprietary marketplaces, they are (i) EMI Store, (ii) Insurance Marketplace, (iii) Investment Marketplace, (iv) BFL Health and (v) Broking App. These five apps will allow customers to review, compare and buy many financial products and services across electronics, insurance, investments and health category.

BFL is also developing apps for (i) Sales One App, (ii) Merchant App, (iii) Collections app and (iv) Partner app to improve productivity and efficiencies of employees, channel partners and the merchant ecosystem.

BFL is involved in Consumer B2B – Auto Finance Business Consumers, B2B-Sales Finance Consumer, B2C – Business SME Business Rural, B2B – Sales Finance Business Rural, B2C – Business Commercial Lending Business.

## (2) Tata Capital Financial Services Ltd.,

Tata Capital Financial Services Limited ("Company" or "TCFSL") is a wholly-owned subsidiary of Tata Capital Limited ("TCL"). It is a Systemically Important Non-Deposit taking Non-Banking Financial Company ("NBFC-ND-SI"), holding a Certificate of Registration dated November 4, 2011, from the Reserve Bank of India ("RBI").

The company is headquartered in Mumbai and has a vast network of 106 offices across India.

### (A) Commercial and SME Finance Division ("CSFD")

CSFD specializes in product offerings ranging from Term Loans, Working Capital Term Loans, Channel Finance, Bill Discounting, Construction Equipment ("CEQ") Finance, Equipment Finance, Leasing Solutions, Lease Rental Discounting, Promoter Finance, Loan Against Securities and Structured Products.

The company would keenly focus on key customer relationships and the Tata ecosystem lending for the CSFD business. This Division will look to grow its Supply Chain, Structured Finance, Construction Equipment and Leasing Business as it has sustainable advantages.

CEQ Business continued to be amongst the top five players in the industry due to original solid Equipment Manufacturer tie-ups and retention of customers. The niche leasing business is one of the most robust suites of CSFD. CSFD has also pioneered itself by focusing on digital lending in supply chain finance, vendor financing and equipment financing. CSFD is committed to being a complete financial solutions partner to its customers through high-quality service levels and innovative products which provides value to its customers.

### (B) Consumer Finance and Advisory Business ("CFAB")

CFAB offers a wide range of Consumer Loans, such as Auto Loans (Used Car Loans and Two Wheeler Loans), Business Loans, Loans Against Property, Personal Loans, Consumer

Durables Loans and Loans Against Securities.

CFAB will focus on changing its product mix and improving penetration in high-yielding segments and, in parallel, continue to adopt a strategy to improve Collection efficiencies across products and vintage buckets. Increasing the share of digital business and developed markets was one of the critical drivers for personal loan business growth. Cost to Income Ratio improved from 50.8% in FY 2019-20 to 46.5% in FY 2020-21 through various cost control initiatives such as negotiating existing agreements with vendors, sourcing cost on marginally lower business volumes, pausing new hiring and replacements, freezing travel and infrastructure costs.

## (3) Capital First Ltd.,

The company is a Non-Deposit Accepting Non-Banking Finance Company, has not accepted any deposits from the public during the year under review and shall not accept any deposits from the public without obtaining prior approval of the RBI. Unlike traditional financing models, Capital First provides financing for business expansion, loans for Plant and Machinery, Office furniture, display panels, and office automation like PCs, laptops and printers. The company has successfully created new models of financing the MSMEs and Indian consumers in hitherto unbanked and under-penetrated segments using a differentiated model based on new technologies and deep analytics.

Within a short time, Capital First has built an extensive network and provides financing in 225 locations across the length and breadth of the country. The company is focused on providing retail loans to MSMEs and consumers, including long-term loans secured by property, two-wheeler loans and durable consumer loans, which is expected to drive growth for the company.

Credit Analysis & Research Ltd. ("CARE") reaffirmed the "A1+" ("A One Plus") rating for the short-term borrowing program. The rating is the highest rating issued by CARE for short-term debt instruments and indicates the strong capacity for timely payment of short-term debt obligations and further indicates that the borrowing carries the lowest credit risk.

The company has established itself as a unique franchise where it has developed the capability to provide small-ticket loans. Over 97% of the company's 2.25 million customers financed have between Rs 20,000 and Rs 2,00,000 with an average tenure of 8 months to 2 years.

The company was founded on the theme that financing India's fifty million MSMEs and its fast-emerging middle class, with a differentiated model based on new technologies, provides a significant and unique opportunity. The company has so far financed more than 2.25 million customers, including 1.5 million self-employed individuals and MSMEs.

## Zero Percent Interest Loan

One of the products/services developed by some of the NBFCs is a Zero Percent Interest Loan.

## Details Of The Scheme

A typical loan from the NBFCs is usually at 13% to 18%, but some financial institutions offer 0% Consumer Durable loans, as detailed below.

Example details of the scheme from various financial institutions are given below:

### Consumer Durable Loans

Particulars	Bajaj FinServ	Tata Capital	Capital First
Loan Amount	Upto Rs. 4 Lakhs	Upto Rs. 5 Lakhs	Upto Rs. 5 Lakhs
Maximum Tenure	2 years	2 years	3 years

Processing Fees	As Applicable	As Applicable	As Applicable
Eligibility	Individuals between 21 and 60 Years	Individuals between 21 and 60 Years	Individuals between 21 and 65 Years
Income Proof	3 Month Salary and Bank Statement	3 Month Salary and Bank Statement	3 Month Salary and Bank Statement
Documents	Aadhaar, PAN	Aadhaar, PAN	Aadhaar, PAN
Down Payment	As Applicable	As Applicable	As Applicable
Failure to Make Payment	Penalty Applicable	Penalty Applicable	Penalty Applicable

The NBFCs share Interest costs with Manufacturers, Dealers and Consumers in different ways. Cash Discount applicable on Purchases will be forfeited by the consumer. Financing is a method manufacturing companies adopt to induce impulse buying and consumer overspending. The Manufacturers and dealers can avoid holding costs and storage costs of inventory. The realization of profit also occurs in advance due to the financing and sale of goods. The Cash flow position of the company also improves.

Processing Fees Charged by Various Financial institutions range from Rs.499 to Rs.10,000 depending upon the loan amount sanctioned. The finance companies charge almost 24% to 36% as a penalty for overdue if not paid on the due date.

The customer can buy his needs without waiting to save for the same. He can fulfil his dreams without waiting for his cash position to improve. The consumer is compelled to save since he has to make payment of EMI without fail. Otherwise, he has to pay a heavy penalty.

#### Questions:

1. Explain various Loans offered by NBFCs to their customers.
2. Explain at least 3 NBFCs in detail and their various services.
3. What are the benefits and problems of 0% Interest loans for consumers? Work out examples of how 0% interest loans are not 0% Interest to Consumers.

#### Teaching Notes

##### Learning Objectives

The student should learn about the financial market in general.

The financial market segmentation like Scheduled Commercial banks, Public Sector Banks, Private Sector Banks, Foreign banks, Urban Cooperative banks, Rural Cooperative Banks, and Non-Banking Financial Corporations registered with the Reserve Bank of India, Registrar of Companies, Securities Exchange Board of India.

The student should understand the regulatory framework of the financial market, i.e. Ministry of Finance, Ministry of Commerce and Industry, Reserve Bank of India, Ministry of Corporate Affairs, and Registrar of Companies.

The student should learn about Non-Banking Financial Corporations (NBFCs) and their contribution to the rural economy.

To understand various loan types extended by formal and informal banking systems.

The students must know various options for the ordinary person to meet their financial requirements.

The student to appreciate the concept of Zero Percent Interest

Loan and how it works for the benefit of various societal stakeholders.

1. Explain various Loans offered by NBFCs to their customers.

Ans: 1. Personal Loans, 2. Auto Loans, 3. Student Loans, 4. Debt consolidation Loans, 5. Payday Loans, 6. Small Business Loans, 7. Gold Loan, 8. Loan Against property, 9. Agricultural Loan, 10. Consumer Loan.

2. Explain at least 3 NBFCs in detail and their various services.

Ans: (1) Bajaj Financial Services Ltd., BFL is involved in Consumer B2B – Auto Finance Business Consumers, B2B-Sales Finance Consumer, B2C – Business SME Business Rural, B2B – Sales Finance Business Rural, B2C – Business Commercial Lending Business.

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Ans: The NBFCs share Interest costs with manufacturers, dealers and consumers in different ways. Cash Discount applicable on Purchases will be forfeited by the consumer. Financing is a method manufacturing companies adopt to induce impulse buying and consumer overspending. The Manufacturers and dealers can avoid holding costs and storage costs of inventory. The realization of profit also occurs in advance due to the financing and sale of goods. The Cash flow position of the company also improves.

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Example: Whenever a person avails Zero Percent Interest Loan, he has to undergo the following steps:

- (a) Down Payment: Mostly, the Interest and Holding cost of the consumer durable item will be collected. For a Loan of Rs. 50,000, a Down Payment of Rs. 5,000, Approximately a Minimum of 10% will be collected.

- (b) Processing Fees: Ranging from 1% to 5% of the loan amount will be collected as processing fees., usually this will cover the Interest otherwise to be collected on the loan amount.
- (c) The NBFC, Dealer and manufacturer will share the profit as soon as the product is sold. If finance is not extended, there will be unsold inventory, Inventory storage cost, carrying cost etc., to be incurred, which is avoided.

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