International auto majors, who have been speeding into the rapidly-growing Indian automobile market in recent years, are trying innovative strategies to expand market share and boost sales. Many are now setting up finance subsidiaries that offer loans to consumers, institutional buyers and even dealers.

As in many other markets, a majority of vehicles – two-wheelers, passenger cars and commercial vehicles – that are sold in India are bought by consumers with automobile loans. About 75 per cent of cars in India are bought through loans, whereas the figure for commercial vehicles is as high as 90 per cent.

International auto manufacturers, including Volkswagen, Mercedes, BMW and Toyota – all with significant operations in India – have decided to set up their own financing arms here to provide a fillip to sales.

The auto-loan business in India was worth around US$6.7 billion last year, but the finance crunch has led to a sharp decline in funds available for the business.

German auto major Volkswagen, for instance, recently set up Volkswagen Finance Pvt Ltd, a fully-owned subsidiary, to offer financial products not only to the consumer, but also to its channel partners, including working capital for its dealers.

The new subsidiary will also cater to consumers and dealers buying or selling other group brands, including Volkswagen commercial vehicles, Audi and Skoda models. It will also tie up with other domestic financial institutions and insurance companies to increase market penetration.

“It was necessary to establish a financial arm in India to support the VW Group and its brands in the best possible way and to generate synergies between the manufacturer and the consumer,” remarks Oliver Schmitt, managing director, Volkswagen Finance. “This is happening in most of the places globally where we have production facilities. It has turned out to be a successful move.”

The German auto major is investing US$730 million in a new plant – with a capacity of 110,000 vehicles per annum – near Pune, which will become operational.
International auto majors, including Fiat and Volkswagen, are setting up auto finance subsidiaries to extend loans to buyers. By Annamma Oommen.
The auto loan lending operations of international and Indian carmakers will be busy in 2009, as manufacturers are set to unveil a clutch of 50 new models in 2009. Auto majors are planning to launch a slew of new models in 2009, a year they expect auto sales to rev up, despite the gloom in the global automobile industry.

According to auto analysts, dozens of new models – including the hugely popular sports utility vehicles (SUVs) – are likely to be launched this year, as carmakers go on the overdrive, wooing consumers with a wide range of vehicles. SUV sales shot up by 38 per cent last year over the previous year’s figures.

The 2009 launches will be priced from the bare minimum Rs1 lakh (about US$1,900) for the Nano by Tata Motors, to the US$10,000 Fiat Grand Punto hatchback, to high-priced BMWs, Mercedes’ and Fiat’s Alfa Romeo, costing about US$100,000 or even more.

Tata Motors will be launching the Nano this summer with the first of the roll outs from its Uttarakhand plant; the company is setting up a larger plant for the Nano near Ahmedabad, which will begin production by next year.

Toyota Motors, now the world’s largest automaker, will be launching its new SUV, the Fortuner at a price tag of around US$40,000. It has also launched a new version of its Innova.

General Motors, which expects overall SUV sales in India to grow by 40 per cent in the current year, has launched the automatic version of its Captiva. Further, it is also planning to introduce a new small car in the Indian market, besides the Chevrolet Cruze.

Renault-Nissan will be launching a range of models, from the Megane hatchback and Sandero sedan (part of Renault’s portfolio), to the Micra hatchback and Murano SUV (from Nissan’s).

Nissan’s Teana sedan and the X-Trail SUV will also be launched in India in 2009. The SUVs are priced in the US$40,000-plus category.

For even costlier models, look to the European makers: the new Mercedes E-class, the new BMW 7 series and possibly Fiat’s Alfa Romeo 159. Fiat recently launched the Linea and will also introduce the Grand Punto hatchback and a Bravo sedan later this year.

From the Volkswagen stable one can look forward to the Polo, the Skoda Fabia Combi and the Skoda Superb, besides the Yeti and the Roomster.

The year will also see Japan’s Honda launch its compact car, the Jazz. Hyundai, which recently drove in the i20, will launch the Avante sedan, the Sonata Embera and the Santa Fe.
own finance arm.

With a target of selling 100,000 trucks by 2015, the company feels that the combination of high interest rates, high steel prices and capped freight rates could hit the company and industry quite hard.

Consequently, the company feels that it will be able to offer more consistent interest rates to consumers with its own financial services subsidiary.

Other than finance, the company would also provide operating lease contracts, insurance and maintenance contracts. Volvo has a US$225 million joint venture with Eicher Motors Ltd – called VE Commercial Vehicles – besides its own existing plant to manufacture trucks and buses.

Japanese auto major Toyota Motors – now the world’s largest car manufacturer – is also examining the possibility of setting up an in-house finance company.

“We are doing a study of the market for a finance arm,” says Sandeep Singh, deputy managing director (marketing), Toyota Kirloskar Motors. The company plans to launch its small car in India next year and is looking at volume sales. An auto-loan division would help it drive sales.

American auto-makers have had a mixed experienced in the auto financing business in India. General Motors, which also sells its Chevrolet brand in India, shut down its retail lending operation, a joint venture of GMAC (formerly known as General Motors Acceptance Corporation) with a local partner, last year.

Ankush Arora, vice-president, sales and marketing, GM India, says the move has not hurt its sales as public sector banks have stepped in to take up the

We are looking at developing our network through Volkswagen Finance. We will provide loans at affordable rates to our distribution channels to support our brands.

SLOW BUT STEADY

The slowdown in auto sales in the last quarter of 2008, caused primarily by the drying up of liquidity for car loans, saw the Reserve Bank of India turn on the spigot to ease the flow of funds.

Indian banks now have adequate funding and many have started lending to consumers, encouraging them to go in for a new model, or upgrade to a higher capacity vehicle.

State Bank of India (SBI), a public sector bank and the country’s largest commercial bank, recently announced a freeze on auto loan interest rates, pegging it at 10 per cent for a year, down from 11.5 per cent. The bank has frozen interest rates on new car loans taken between February 23, 2009 and May 31, 2009, for one year. In fact, public sector banks have been moving aggressively in the auto loans segment, offering to fund up to 85 per cent of the value of a car (as against 70 to 75 per cent being offered by private banks).

According to Arvind Saxena, senior vice-president, Hyundai Motors India, its exposure to public sector bank loans has doubled to 30 per cent over the past six to eight months. “This move by SBI will clearly put pressure on other banks to reduce interest rates,” he adds. With state-owned banks eager to extend loans, analysts expect auto sales to pick up in 2009.
slack. “Bank lending is growing rapidly,” adds Arora. With attempts being made to revive GMAC globally, Arora expects developments even in the India operations of its retail lending division.

Chrysler has plans to enter India, though it has not firmed up any partnerships so far. The US government has been extending funding to the retail lending arms of both GM and Chrysler.

Similarly, in France, the government has extended credit to the finance arm of Renault, though in India the French firm does not have a separate retail lending division.

Indian auto companies such as Tata Motors, Mahindra & Mahindra and Bajaj Auto have become more aggressive in lending through their finance arms.

“Around 25 per cent of our sales are being financed by Bajaj Auto Finance Ltd (BAFL),” says S. Sridhar, ceo, Bajaj Auto. “We expect this to grow and BAFL’s share of total sales will double in the next six months.”

Hero Honda, the market leader in the motorcycle segment, has been scouting for a joint venture partner to foray into the financing of its bikes.

Automobile industry analysts feel that auto sales in India suffered a setback in the last quarter of 2008 following the credit squeeze, with banks refusing to extend loans to buyers.

Traditionally, the auto loan segment in India has been dominated by public and private sector banks.

Market leaders Maruti and Hyundai have all these years depended on public sector bank funding of consumer auto loans. International banks and NBFCs too have had a modest share of the business. But with slackening auto sales, caused by the liquidity crunch and high interest rates, auto majors are eager to set up captive finance divisions to boost sales.

The Reserve Bank of India, the country’s central bank, has been slashing interest rates to encourage the off-take of auto and consumer loans.

This is likely to trigger growth in the auto sector in 2009. And with leading international firms planning to launch a series of new models in the current year, many are looking into the prospect of funding auto loans through their own subsidiaries.

International automobile manufacturers are getting into the ‘pre-owned’ cars (or used cars) business in a big way in India.

The pre-owned car market is expected to overtake the new car business, as a growing number of Indians prefer buying used vehicles that are certified by the original vehicle manufacturer.

General Motors is the latest to enter the pre-owned bandwagon. “As a part of the countrywide launch of our used car venture, we would roll out 10 outlets for used cars in select cities,” says P Balendran, vice-president, GM India.

According to him, the used-car market in India is largely unorganised, but offers a huge potential for growth. For every new car, there are two used cars that are sold, he adds. GM would be offering a six-month guarantee on used cars sold through its outlets.

With many automakers setting up their own lending divisions, consumers can expect to get easy loans for used cars kept in the showrooms.

Skoda, which has set up its Signature brand of outlets to market pre-owned cars, is also planning to set up a car exchange programme under a new brand. Car owners can get their old cars – of any brand – exchanged for a new Skoda at its dealer outlets under this exchange programme.

Other carmakers too have branded their used-car business, including MarutiTrue Value, Mahindra First Choice, Hyundai Exchange, Honda Auto Terrace, Fort Assured and Toyota You Trust. All of them are reporting brisk sales of pre-owned cars.

According to industry analysts, about a million used cars are sold in India every year, but 90 per cent of these are accounted for by the unorganised sector.