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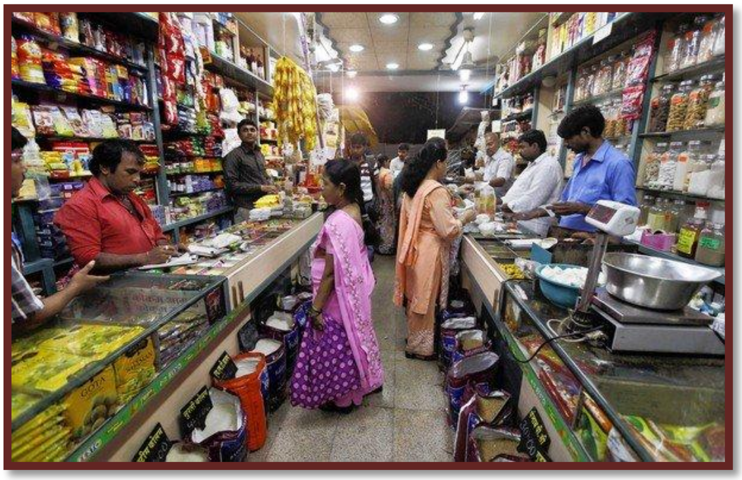
ROLE OF ORGANIZED RETAIL SHOPS AND NBFCS IN PROMOTING CONSUMER DURABLE CREDIT



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Abstract-

Indian cities are crowded with organized retail malls. This gradually changed the consumption pattern of the growing middle class in India. Easy availability of consumer durable loans from the organized retail malls also contributed to this change. Recent study by RBI noticed an increase in the consumer durable loans extended by banks. But NBFCs are prominent players in this field. In the study area (Pimpri-Chinchwad area) nearly 30 to 40% of total monthly purchase from the malls has been financed by the NBFCs. Reduction in the credit card purchase also indicates the popularity of consumer durable loans. The growth pattern of Bajaj Finance and Tata Capital, the two prominent NBFCs in consumer durable loan, shows an upward trend over the years. The NBFCs-non-deposit taking are subject to minimal regulations from RBI. NBFCs directly offers consumer durable loans the from renowned organized retail outlets such as Crome, Vijay Sales etc.

Key words-Organized, Consumer durable loans, NBFCs, RBI, Bajaj Finance ltd, Tata Capital

Introduction-

Organized retail malls started operating in Indian economy since 2005 onwards. Since then, there has been a tremendous increase in the consumer expenditure pattern of the people in India. Organized malls deals with different types of commodities like consumer goods, consumer durables and other lifestyle goods like furniture etc. In order to attract consumers from different income groups, the malls adopt various advertisement strategies, offers, credit facilities etc. Consumer durable loans are generally very small ticket loans typically for a tenure of 6 months to two years, used to finance the purchase of consumer goods such as televisions, refrigerators, washing machines, laptops, smart phones etc. Banks and Non-banking Financial Companies are providing consumer durable loans. The consumer credit facilities available in the malls help the consumers to purchase different types of consumer durables according to their choice. Organized malls join hands with Non-Banking Financial Companies to facilitate consumer durable loans. Certain malls are having their own financial companies to provide consumer durable loans. This research topic is about the role of organized malls and NBFCs in promoting consumer durable loan, their impact on the demand and RBI's regulations.

Objectives- l

To study the role of organized retail malls and NBFCs in popularizing consumer durable loan.
To study the impact of increase in consumer durable loan on consumer demand.
To study RBI's regulatory measures on consumer durable loans.

Research methodology

This research study is based on secondary and primary data. Secondary data includes annual report statements of two main NBFCs dominating in the study area namely BAJAJ Finserv and Tata capital. Primary data consists of the data collected from the organized malls deals with consumer durables operating in the study area. The study area covers Pimpri-Chinchwad municipal corporation area. There are five malls functions in the study area, includes Crome, Vijay sales, E-zone, Big Bazzar and L G Electronics. The malls provide finance facilities by allowing the NBFCs inside their shop. The researcher had a discussion with the NBFC officials and mall operators and collected some relevant data regarding their activities and performance.

Review of Literature-

According to M.Narendra, chairman & Managing director, Indian overseas bank, as banks have lowered interest rates aggressively, consumers have lapped up the opportunity to purchase consumer durables as high inflation did not allow them to save**.**

The Reserve Bank of India (RBI) has on December 12, 2012 published draft guidelines for non-banking finance companies (NBFCs) based on the recommendations of the Usha Thorat-chaired Working Group on the Issues and Concerns in the NBFC Sector. The guidelines propose tightening of the non-performing asset (NPA) recognition and provisioning norms for NBFCs so as to bring them on a par with those applicable for banks. While this is in general a positive step, some NBFCs offering products with annual or quarterly repayments may find their asset quality turn volatile because of this change. Further, increasing the Tier I capital as well as the risk weights for some asset classes, while not aligning (reducing) the same for some other asset classes in which banks enjoy lower risk weights (such as loans for commercial vehicles, construction equipment, and home loans etc), would reduce the NBFCs' leveraging capacity vis-à-vis banks. At the same time, the lack of access to Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) as well as any liquidity back-up line would continue to weigh on the performance of NBFCs.- ICRA comments on RBI's draft guidelines for NBFCs.

Scope and Importance of the study-

Consumer durable goods industry is one of the upcoming industry in India. It creates a lot of employment opportunities every year and contributes to the development of the country. One of the determining factor for the growth of consumer durable industries is the demand for durable goods. In cities the organized retail shops helps the consumer durable industries in capturing the demand comes from the growing middle class in India. The NBFCs plays an intermediary between the organized malls and the consumers, by financing the consumer's purchase. The recent RBI report says that the consumer durable loans saw a spurt of 52.7% in February 2014 from the year ago period as buyers reduced their credit card spends, taking loans to finance their purchase instead. The NBFCs are very active in consumer durable loans but its role in creating demand remained unnoticed.

The importance of this topic are-

1. Easy availability of consumer credit creates an upward wave in the consumer demand. Increase in consumer demand can create an increase in production and employment. Also it is an indicator of increase in standard of living of the people.
2. Another factor is the increasing importance of NBFCs in Indian banking sector. In spite of RBI's efforts to control the activities of NBFCs their interference is continuing. In the case of consumer durable loans the picture is very clear that the banks prefer to take a back seat, but the NBFCs are very active.
3. It is important to study the reasons for an increasing popularity of NBFCs and their easy penetration in to the banking sector.
4. The organized malls use the NBFCs as one of the important advertisement strategy. It helps to increase the sales of organized malls.
5. With the liberal terms and easy procedure, how the NBFCs are able to sustain in this field and what are the sources of their fund is an important matter to be studied.

Limitations of the study-

The study is confined to the organized malls in the study area. So this gives a very brief idea of the activities of the NBFCs in consumer durable loans. Actually, the NBFCs operates in various other fields also viz the purchase of vehicles, manufacturing equipments for the companies, housing etc. The NBFCs are highly professionals and they are interested in increasing the number of customers. So it was very difficult to collect data from them. There is no relevant study conducted to measure the performance of NBFCs in various banking activities. The functioning of the NBFCs are based on RBI's norms. But RBI's study on consumer durable loans are based only on the banks. The NBFC's annual report statement and credit rating studies like CRICIL's report are some of the sources provide authentic data. The RBI is supporting the banks in increasing their performance in consumer durable loans. But banks are not too keen on pushing such loans. For them it is extremely difficult to recover such loans as they are not secured like home loans. RBI's rules and regulations on consumer durable loans applicable to NBFCs are not very clear.

Organized malls and loan facilities

India is one of the consumer states where the marginal propensity to consume is high. The availability of consumer loan again inspires the consumers to purchase goods and services. A slight push with consumer credit can create an upward movement in the consumer demand.

In India various public sector and private sector banks and NBFCs are involved in providing consumer durable loans. Of these the role NBFCs are prominent. Recent trends noticed a huge increase in the demand for consumer durable goods. One of the factors responsible for this is the easy availability of consumer credit inside the malls. In other words, the malls promote consumer durable loans with the help of NBFCs. The organized retail shops situated in different cities changed the entire outlook of India. It has changed the attitude and consumption pattern of the consumers. The spacious shops and variety of goods available in the malls attracts the consumers towards the shops. Once they enter inside the shop, they are welcomed by the loan counter with attractive advertisements like sanctions loan in 3 seconds, no processing fee, zero % interest rate, easy repayment terms etc. Consumer durable loans are easily available to all with minimum papers like ID proof, Pan card etc. Once the consumers select the product, they can easily take it to home. This is one of the important instruments helps the consumers to convert their desire in to demand.

NBFC'S sources of fund-

NBFCs comprise a heterogeneous lot of privately –owned, small sized financial intermediaries which provide a verity of services including equipment leasing, hire purchase, loans, investment and chit fund activities. The NBFCs can be broadly classified in to three categories: (a) asset finance companies (such as equipment leasing and hire purchase (b) loan companies and (c) investment companies. A separate category of NBFCs called the residuary non banking companies (RNBCs) also exists. Besides there are miscellaneous non-banking companies namely, chit funds, mutual benefit financial companies (Nidhis and un notified nidhis) and housing finance companies. In terms of regulation and supervision, there are two broad categories of NBFCs, viz, NBFCs-Deposit taking and NBFCS non- deposit taking. While NBFCs-D has been regulated by the RBI from 1963, an amendment to the RBI act in 1997 empowered the RBI to regulate and supervise all categories of NBFCs comprehensively. But NBFCs –ND, until recently, were subject to minimal regulations as they were non –deposit taking.

Total sources of funds for NBFCs may be divided in to two categories:

1.Owned funds: The promoters of NBFCs can start their business with prescribed amount of money and initially invest money depending on the requirement of business and the scale of operations. The investment by promoters are known as owned funds and can be enlarged by the issue of equity capital.

2 Borrowed funds- NBFCs can raise borrowed funds from one source or multiple sources depending upon the scale of operations or equipment of funds. Borrowed funds consists of public deposits, debentures, bonds, commercial paper, bank borrowings, inter-corporate deposits etc. Besides this, there are different sources of borrowed funds which are required for the efficient functioning of NBFCs. These sources are commercial banks, commercial finance companies, loan from financial institutions, debentures, insurance and pension funds, inter-corporate deposits and money market.

Popularity of NBFCs among the consumers-

The NBFCs are popular among the consumers of all income groups in India. This is especially due to the simplicity in the loan procedures such as minimum down payments, affordable EMIs, easy sanction, easy verification process before sanctioning of the loan and no penalty or harassment during recovery of loan. The RBI tried to increase the performance of banks in consumer durable loan by injecting Rs. 14000/-crores last year. But the banks are still not very active in this field. The ban on 0% interest scheme insisted by RBI is not applicable to NBFCs. This also contributed to the growth of NBFCs. Actually, 0% loan is not giving any benefit to the consumers it is benefitting to the NBFCs in attracting the consumers. The customers will have to pay more than the actual price of the commodity and they are not getting any price discount during the purchase. But still the consumers prefer to purchase by taking consumer durable loans rather than credit card purchase.

As per the primary data collected from the malls, during the study, 30% to 40% of the total monthly purchase has been done through consumer durable loans. Bajaj financial services and Tata capital are the two prominent NBFCs providing consumer durable loans. The table below shows the performance of these NBFCs in the organized malls situated in the study area.

Name of the organized retail shop	NBFCs providing consumer credit	% of monthly purchase made by loans
e-zone	Bajaj Finserv	30-40%
Vijay sales	Bajaj Finserv	40-50%
Crome	Tata capital & Bajaj Finserv	30-40%
Big bazaar	Bajaj Finserv	30-40%
L.G.Electronics	Bajaj Finserv	25-30%

There are Five organized malls situated in the study area. Bajaj Finserv's loan counter is operating in all malls. Tata capital is another NBFC owned by Tata group, functions in Crome one of its sister concerns. Both are keen in providing consumer durable loan. It is a short term loan for six months and the procedure is very simple. They advertise 0% interest instant loans. Bajaj Finserv's big advertisements in the malls shows loan in 3 seconds. They ask for residence & ID proof, 1 cheque & ECS mandate/EMI cheque, latest salary and 2 month's bank statement. Once the customer selects a durable good he can purchase that on the same day by providing the documents. The Equated Monthly Installment (EMI) is the same everywhere, but the down payments are different. Bajaj Finserv follows different down payments in different malls. For example, if the total loan amount is Rs.30000/- EMI is Rs.3334/- and down payment varies from Rs.10600 to Rs.11250/- Tata capital strictly verifies the credibility of the customers before sanctioning the loan. They also provides cheap loan to the customers at low down payment of Rs.10600/-, for the above mentioned amount.

Growth pattern of NBFCs –

1.Bajaj Finserv. –

Bajaj Finserv is the holding company for the financial services business of the Bajaj Group. The group has significant presence across the spectrum of financial services comprising asset finance, life insurance, general insurance and wealth management. Bajaj Finserv reported a consolidated profit tax (PAT) of Rs.1,574 crores on gross revenue of Rs.15,814 crores for 2012-13 (refers to financial year, April 1 to March 31), against a PAT of Rs.1,338 crores on Gross

revenue of Rs. 14,526 crores for 2011-12.The Company's total income increased by 43% to Rs. 3,111 crores in FY2013. Profit before tax grew by 45% to Rs. 872 crores. Profit after tax rose by 46% to Rs.591 crores. Loan deployment was up by 23% to Rs.19,367 crores. Bajaj Finance ended the year with net non-performing assets (net NPA) accounting for only 0.19% of its total loan book, which is amongst the lowest in the industry. Capital adequacy as on 31 March 2013 stood at 21.95%, which is well above the RBI norms. Being aggressive in business yet conservative in financing, the Company opted to raise further capital in FY2013 through a rights issue in February 2013 which offered existing shareholders three shares for every nineteen shares held. The issue was subscribed 1.16 times and enabled Bajaj Finance to raise Rs. 744 crores. This will create adequate headroom to leverage further growth in the next couple of years. Bajaj Finance continued to remain the largest two-wheeler lender in the country. It maintained its position as the largest consumer durables lender in India and helped finance 13% of all consumer electronics sold in the year. In doing so, it acquired over 1.9 million new customers and operated across 4,500 points of sale in the country. The Company financed one out of every four LCD and plasma televisions sold in India. Bajaj Finance's 'personal loan cross-sell' where it focuses on customers with a good repayment history of their two-wheeler and/or consumer durables loans to cross-sell a personal loan grew by 47% to Rs. 862 crores. In addition, the business of offering personal loans to relatively well off salaried employees working for leading companies stood at Rs. 559 crores in FY2013. Present in the top 91 cities of the country, Bajaj Finance's Consumer durable financing deployments grew by 42% in FY2013 as competitive activity remained benign due to high up-front investments required in distribution, technology and processes that are vital to compete in this relatively low ticket size, high volume business.
Bajaj Finance's decision to focus on 'affluent' customers and major dealerships has yielded significant benefits through lower operating costs and improved risk performance. BFL has a unique and innovative product offering called the EMI (Existing Member Identification) card for its existing consumer durable customers. The card entitles a customer to obtain a loan for incremental consumer durables with the facility to 'Swipe, Sign and Go'. This product has been well received and has been extremely successful. Today, the number of EMI cards in force exceeds 1 million. Bajaj believes in continued customer association and hence targets customers with good repayment history of their two-wheeler and or consumer durables loans to cross-sell a personal loan. Present in top 75 cities, the Company financed over 106,000 new customers during FY2013. Also, to diversify its offerings in the consumer finance business, last year BFL started a personal loan offering for salaried employees. The business targets relatively affluent employees above a threshold salary range working for leading companies. And to broaden its customer acquisition engine, the Company launched India's fastest online personal loans in August 2012. This facility allows the customer to obtain an approval for a loan up to Rs.15 lacks in 15 minutes using a digital medium. Bajaj Alliance Life insurance Co Ltd. & Bajaj Finance Ltd.(BFL) have come together to offer Bajaj Alliance Group Suraksha to consumer durables loan borrowers of BFL.

The corporate social responsibility (CSR) activities of Bajaj Group are guided by the vision and philosophy of its Founding Father, Late Shri Jamnalal Bajaj, who embodied the concept of Trusteeship in business and laid the foundation for ethical, value-based and transparent functioning. The core elements of CSR activities include ethical functioning, respect for all stake-holders, protection of human rights and care for the environment. The Bajaj Group generally implements the above initiatives through its employees, welfare funds and Group NGOs/Trusts/Charitable Bodies operating at various locations in the Country. It also enlists the help of non-Group NGOs, Local Authorities, Business Associations, Social and Philanthropic Organizations of repute and Civil Society, wherever deemed necessary.

2. Tata Capital Finance Services Limited (TCFSL)-

TCFSL offers through its consumer finance and advisory business (CFAB) a wide range of consumer loans such as Auto loans (car and two wheeler commercial vehicle loan),business loans, personal loans and loans for consumer durables. Disbursement of CFAB in FY 2012-13 aggregated Rs.3,824/ crores as compared to Rs.3,151 crores in F.Y.2011-12 an increase of about 21%. The quality of CFAB's portfolio continues to be amongst the best in the industry with gross NAP and net NAT at 0.57% and 0.39% respectively as at March 31, 2013.

Tata capital plans to increase its consumer finance business volume through consolidation and growth in existing products, improving profitability by balancing its business mix, leveraging the existing customer base to build long term customer relationship. TCFSL is also engaged in the distribution of TATA CARD in association with State Bank of India. During F.Y.2012-13, active card accounts grow by 60% over previous year and average spend per card accounts grew by 55% during the same period.

RBI's norms-

As per Section 45 IA of the Reserve Bank of India Act, 1934, no NBFC shall commence or carry on the business of non-banking financial institution (NBFI) without obtaining certificate of registration (CoR) from the Reserve Bank of India. Business activities to be carried on by such NBFCs are provided under Section 45 I(c) of the RBI Act, 1934. The Reserve Bank of India may take appropriate action against any person (NBFC) contravening the provisions of RBI Act, 1934. The Rate of Interest on loans is a contractual obligation between NBFC and borrower. RBI has not issued any guidelines in this regard. However, the Board of each NBFC has to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium, etc and determine the rate of interest to be charged for loans and advances. NBFC cannot charge interest that is seemed to be excessive. The rate of interest should be annualized rates so that the borrower is aware of the exact rates that would be charged to the account. Further, the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers has to be disclosed by the NBFC to the borrower or customer in the application form and communicated explicitly in the sanction letter capital. In order to ensure transparency in such matters, the NBFCs have been advised by the Reserve Bank to adopt a Fair Practice Code with the approval of their Boards. They are also advised to lay out appropriate internal principles and procedures in determining interest rates and other charges. Further, our Master Circular on this subject (Fair Practices Code) states that "The NBFCs should convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record."

The mode of disbursal of loan amounts by NBFCs is not governed by RBI regulations. As regards the business practices of NBFCs, these are matters of contract between the NBFC and the borrower and therefore the loan transaction between the borrower and NBFC is regulated by the terms and conditions of the contract. Any grievances in this regard can be raised before the appropriate courts (both civil and criminal) including the local Consumer Forums, as the consumer may deem fit. No guidelines have been issued by Reserve Bank relating to vehicle financing by NBFCs.

Impact of consumer durable loans on demand

Sales of consumer durables through the financing route grew at an unprecedented 80-90% over last year 2012 with banks and NBFCs competing to fill the vacuum created by an RBI ban on zero per cent EMI schemes. Retailers and consumer goods manufacturers reported a surge in sales over last year almost across the board**.** The finance ministry infused more than Rs.14000/-crores to improve the performance of banks in consumer loans. This enabled them to lend to borrowers in selected sectors such as consumer durables, two wheelers etc. at lower rate of interest to stimulate demand. This will be a relief to the consumers especially the middle class. It is also expect to give a boost to capacity addition, employment and production. The active involvement of NBFCs in this field also creates then the economic activities by increasing the demand for consumer durable goods.

"Consumer finance schemes were the real hero this festive season, with NBFCs taking the lead in cities and banks in smaller towns where penetration of NBFCs is still limited," said K.S. Raman, director at Next Retail, India's largest durables retail chain. Next Retail, Future Group's eZone, UniverCell and Great Eastern said sales through consumer finance schemes accounted for almost 35-40% of the total compared with 20-25% last year 2012. At the same time, these chains said the average billing value rose at stores. At The Mobile Store, for instance, the average billing value during Diwali went up to Rs.18, 500 crores from Rs.14, 500 crores, with sales growing 70-75% over last year. Future Group president Rajan Malhotra said consumers are using finance to trade up, leading to stronger demand for premium smart phones, large-screen TV sets, large-capacity frost-free refrigerators and fully automatic washing machines.

Sony India sales head Sunil Nayyar said the company's LED TV sets of 46 inches and above have been sold out, with sales having jumped 150%. Sales of some smart phones jumped over five times from last year, triggered primarily by consumer finance schemes. Sony India sales grew 60% this Diwali over last year, he said. NBFCs such as Capital First and Shriram Capital sought to make most of the opportunity. Public sector banks, including State Bank of India and Punjab National Bank, joined the party by lowering interest rates on consumer durables loans just ahead of Diwali after the finance ministry pushed them to do so to stimulate demand.

Research findings

1. Growing middle class and increase in spending power in the rural areas are responsible for increase in demand for consumer durable goods. Easy availability of credit also contributed to this increase.

2. RBI is not keen in controlling the NBFC's involvement on consumer durable loan. Ban on 0% interest scheme is not applicable to the NBFCs.
3. The NBFCs, Bajaj Finserv and Tata capital helps to increase the sales of organize retail shops. Nearly 40% to 50% of the total monthly purchase has been financed by the NBFC. In other words the organized retail malls helps in extending maximum consumer durable loans.
4. The consumers of all income groups are using consumer durable credit facilities now-a-days, because they feel it is a better option, compared to credit card purchase. Consumers are moving away from credit card purchase as banks charge hefty penalties on defaults. The fine is much lower in case of retail loan defaults.
5. The data shows that there is an increase in the growth pattern of NBFCs (Bajaj Finserv and Tata capital) involved in consumer durable loans. Involvement in different banking activities help them to sustain in this field.
6. In spite of infusing more than Rs.14000 crores extra capital to banks to enable them to lend in selected sectors including consumer durables, advances to consumer durable comprise just 1.2% of total loan portfolio of banks.

Conclusion and Suggestions

The quantity of consumer durable loans extended by the NBFCs is increasing. There is a need to improve the activities of banks in consumer durable loans. The RBI's efforts to push banks by infusing money are not successful. Strict action with proper guidelines and time restricted target to the banks can improve the situation. At the same time, NBFC's domination needs to be restricted. Ban on 0% interest loan is not applicable to NBFCs. So there is a difference in the loan amount issued by the banks and NBFCs. This will reduce the popularity of consumer durable loans issued by banks. RBI's regulations should be made equally applicable to banks and NBFCs. The influence of consumer durable loans in creating demand induced changes in economic variables to be monitored properly. There is a need to improve the performance of retail banking sector. Easy availability of consumer durable loans can help to improve the conditions of unorganized retail sector.

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