Tata Motors Finance – Partnering fleet owners, nurturing FTUs

With a stronghold over small commercial vehicle financing, Tata Motors Finance (TMF) has been focusing on giving wings to the First Time Users, helping them kickstart their entrepreneurial journey. In this interview with ***Rajesh Rajgor,*** Rohit Tiku – Chief Risk and Strategy Officer, TMF, talks about the current market dynamics and how TMF is addressing the challenges faced by transporters, in its ambition of establishing itself as the financier of choice across all customer and vehicle segments.


Rohit Tiku, Chief Risk and Strategy Officer, Tata Motors Finance

How does your role as Chief Risk and Strategy Officer give an impetus to Tata Motors Finance's lending in the market?

In my opinion, the risk and strategy roles are two aspects of the same coin in a financial services' company that is essentially in the business of risk management. My role requires me to come up with appropriate strategies to achieve our company's objective of helping the growth of the Tata Motors ecosystem while ensuring that we operate within the risk appetite and tolerance set out by our Board of Directors and the Reserve Bank of India (RBI). It also requires me to consistently monitor not only the internal thresholds for risk parameters but also keep a close watch on various external parameters.

These have a strong bearing on the performance of our organisation not just in the near term but also in future. It requires me to constantly look out for and mitigate the likely threats, and more importantly have a keen eye on the various emerging opportunities in the market. We have seen in several instances the risk of not identifying the emerging trends in time and thereby not recognising the opportunities it presents can be the biggest risk factor – often threatening the existence of the firm.

What has been the impact of the prolonged pandemic on Tata Motors Finance's lending rates and overall market scenario? What was the risk and opportunity assessment for lending, particularly for first time users (FTUs)?

The prolonged pandemic has impacted the smaller entities and small operators especially the first-time users. These customers depend on daily cash flow to manage their operational expenses, personal requirements and financial obligations. They do not have the wherewithal to manage disruption in their business cycle and don't have the resources to manage the financial obligation on time if the business cycle is disrupted. However, we also know that since the transport business is the only source of income for most of these customers, if they somehow can remain in the business during the downturn, they would be able to manage their financial obligations as well.

Given the prolonged uncertainty in the business environment, we have seen the FTUs are a little hesitant to enter the market, especially in the medium and heavy commercial vehicle segments and bulk of the new vehicle purchases today is being done by large fleet operators. Since this relatively small customer base of large fleet operators is being targeted by most of the financial institutions, the interest rates have become very competitive with the availability of excess liquidity with banks further contributing to it. The small commercial vehicle segment, which is dominated by first time users, is also seeing a slower recovery as a result of lower buyer sentiment towards the purchase of vehicles and lower consumer sentiment, which is causing slower growth of consumer goods during the recovery phase. Since the SCV segment primarily operates for the transportation of consumer goods, hence its recovery is also slower than the MHCV segment.

Could you highlight some of the key challenges you foresee as per the current trend? How does Tata Motors Finance intend to address the same?

There are essentially three key immediate challenges in the CV financing market. First is the volatile business environment creating low business sentiment, impacting demand for some of the key CV segments which are usually addressed by small operators. Secondly, the repayment history of many of the existing CV customers has got adversely impacted, thereby reducing their ability to borrow. The percentage of overdue accounts has increased across all financiers and naturally many of the lenders

would tend to be a bit more cautious in certain segments for some time till the situation improves.

Thirdly, recent RBI regulations, especially the one around classifying accounts as NPA on a daily basis based on their due dates and upgradation of NPA accounts to standard only on payment of complete overdue amount, will also have a significant impact on CV financing business as most the CV customers, particularly the small operators, find it very difficult to clear the entire overdue amount in one go. Most CV financiers will need to relook at their current business model and align it with the requirement of the regulator. We believe at TMF we are adequately prepared to deal with all the challenges. While we have traditionally been very strong in the FTU and the SCV financing and are the largest player in this segment, in recent times we have also built our strong presence in the fleet operator segment and hence are able to comfortably manage the current shift in business towards the fleet segment.

We also believe that there are other emerging opportunities present like the used commercial vehicle financing where we have come up strongly in the last couple of years to emerge amongst the top three UV financiers in the country. There are also interesting opportunities around fintech-based lending for financing customers' operating expenses like fuel, toll, tyre, insurance, service, etc. We have created digital products in this space and have been running successful pilots around these products for the last 12 months. We believe we are now ready to scale them up.

Could you please share some of the unique customer solutions by Tata Motors Finance?

Creating unique and bespoke financing structures and solutions have been one of the key strengths of Tata Motors Finance. Over the years we have come up with many such unique structures like staggered EMI, step-up EMI, low EMI with rear end bullets, exchange schemes, long tenure deals, etc. for retail CV financing. We also provide various secured and unsecured financing solutions to transporters for managing their working capital requirements. Even in our corporate lending business, where we lend to TML dealers and vendors, we have come up with various structures to meet the capex, opex and the balance-sheet requirements of the customers. Through these innovative structures, we have helped many of our customers come out of certain crisis situations and more recently during the pandemic when many of these initiatives were of immense help to our customers both in retail as well as the corporate side.

In the last 12 months, TMF has further come up with unique digital solutions to reach out to our customers for both sales and service. We have developed digital solutions which allow our customers to avail some of our products completely through the digital channel seamlessly. We have also devised a chatbot-based approval system wherein the customers can get their loans approved (in Principle) by conversing with a chatbot. We have also launched our fuel loan product where customer can fill-up the fuel by making the payment through our customer one app 24x7. This product is widely accepted by our customer and now we are ready to take this to mass market. Various such products are under development to address every opex expenses of our transporters.

How mature is CV financing as a segment in India and what does the future hold?

CV financing in India is a very mature segment and is in fact one of the oldest retail financing segments in India with some of the prominent players including TMF active for the last 4-5 decades. Because of its certain unique characteristics, many of the new financiers and PSU banks find it difficult to understand and have not been very active in this space till now. There has been a continuous change in the customer profile of CV customers as the entire logistics industry gets more organised. The principals who generate freight demand are becoming more demanding in service delivery, reliability and pricing. Hence, the share of the business of large fleet operators is increasing as they are more capable to meet the new requirements than smaller players.

As the customer profile changes, their expectations and business requirements will also keep changing. We expect that going forward CV customers would demand more financial products and solutions around their business and operations apart from vehicle financing. We expect the used vehicle industry to become more organised and transparent. We are already seeing greater adoption of digital technology by customers, and it is only natural for them to expect that the conventional financing products and services would be delivered to them digitally. Today, bulk of this requirement is handled physically with quite a bit of physical documents being collected.

Financiers are going to embrace a data analytics-oriented approach to approve loans and service customers. This may be a big differentiator soon. ◆