

Credit Appraisal Of Vehicle Loan In Shriram Finance Limited

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Abstract- Credit appraisal is a critical activity within the lending ecosystem of Non-Banking Financial Companies (NBFCs), particularly in the vehicle loan segment where borrowers often exhibit irregular income patterns and higher default probability. Shriram Finance Limited, a leading NBFC in India, follows a comprehensive appraisal system involving document verification, CIBIL analysis, field investigation, and income assessment. This study analyses the credit appraisal practices of the Villianur Branch and examines how these practices influence EMI structuring, borrower selection, and Non-Performing Asset (NPA) trends from 2020 to 2025. The study uses secondary data collected from branch records and customer case sheets. Findings indicate that systematic appraisal, supported by field verification and behavioural checks, contributes to improved loan performance and a consistent decline in NPAs. The study concludes that integrating digital scorecards, expanding post-disbursement monitoring, and strengthening risk-based scoring tools will further enhance portfolio quality.

Keywords- Credit Appraisal, Vehicle Finance, EMI, NBFC, NPA, Loan Assessment.

I. INTRODUCTION

The Indian vehicle finance industry has experienced significant growth due to the rising demand for commercial and individual mobility. NBFCs play a central role in meeting this demand by offering flexible loan products and personalised field-level services. However, vehicle loans are inherently risky because repayment depends on income stability, customer behaviour, market fluctuations, and asset utilization. Therefore, credit appraisal becomes the most essential step in ensuring that loans are sanctioned responsibly.

Credit appraisal refers to a systematic evaluation of the borrower's financial strength, character, credit history, occupation, repayment capacity, and the economic viability of the loan. For NBFCs like Shriram Finance Limited, this process includes multiple layers: personal discussion, residence verification, occupation stability assessment, guarantor evaluation, evaluation of financial documents, and

CIBIL score checking. The objective is to ensure that only creditworthy borrowers receive loans and that the institution minimizes delinquency and NPA levels.

Shriram Finance Limited is recognized for its strong field force and robust customer relationship practices, which help assess borrowers more accurately than automated systems alone. The Villianur Branch deals with diverse borrowers such as small transport operators, traders, first-time borrowers, and self-employed individuals, many of whom do not possess formal income proof. This increases the importance of qualitative appraisal tools, field visits, and behavioural analysis.

This study examines the appraisal system of Shriram Finance Limited, evaluates customer EMI structures, and analyses NPA trends over five years. The purpose is to understand how credit appraisal directly influences loan quality and repayment behaviour, and how modern tools can further strengthen the process.

Scope of the Study

The study focuses on the Villianur Branch of Shriram Finance Limited and includes only vehicle loans sanctioned between 2020 and 2025.

Objectives of the study

- i. To study the credit appraisal process in Shriram Finance Limited.
- ii. To identify factors influencing credit decisions.
- iii. To assess the effectiveness of credit appraisal.

II. REVIEW OF LITERATURE

Nair (2023) explored the connection between credit appraisal and financial sustainability in NBFCs. The research concluded that detailed credit screening, rigorous documentation, and income assessment significantly enhance asset quality. NBFCs with structured appraisal systems recorded lower NPAs and higher return on assets. This insight aligns with Shriram

Finance’s multi-stage appraisal process, which puts strong emphasis on borrower profiling and financial verification.

Singh & Mehta (2022) conducted an empirical study on sanction determinants in vehicle financing. Their regression analysis showed that EMI-to-income ratio, occupation stability, CIBIL score, and previous repayment history are the most influential factors in loan approval. These determinants correspond strongly with Shriram Finance’s appraisal checklist and its emphasis on financial discipline and repayment behaviour.

Jain (2021) investigated the impact of credit appraisal on NPA levels in vehicle loans. The findings indicated that institutions conducting strict pre-sanction checks—such as income verification, guarantor assessment, and loan-to-value (LTV) evaluation—experienced significantly lower NPAs. This supports the present study, as Shriram Finance’s NPA trend from 2020 to 2025 shows steady improvement due to strengthened appraisal systems.

III. RESEARCH METHODOLOGY

This study adopts an analytical research design to examine how credit appraisal practices influence loan performance.

Data Collection

Secondary data was collected from:

- Customer case sheets (AAA to FFF)
- Loan appraisal documents
- EMI and IRR calculations
- NPA reports (2020–2025)
- Branch credit policy and operational guidelines
- Tools and Techniques
- EMI calculation formula
- Trend analysis for NPA levels
- Comparative analysis of borrowers
- Qualitative evaluation of credit appraisal steps

IV. DATA ANALYSIS AND INTERPRETATION

1. Credit Appraisal Framework at Shriram Finance

Shriram Finance follows a layered appraisal process involving:

a. KYC Verification

Includes Aadhaar, PAN, ration card, driving licence and photographs. Ensures identity and residence authenticity.

b. Residence Verification (RV)

Field executives verify:

- Duration of stay
- Ownership status
- Neighbour feedback
- Lifestyle indicators

This helps assess borrower stability and repayment capacity.

c. Occupation Verification (OV)

Executives visit workplaces to verify:

- Nature of occupation
- Stability of income
- Seasonal variations
- Business infrastructure

This step is critical for self-employed borrowers.

d. CIBIL Score Analysis

CIBIL score is used to identify:

- Past repayment behaviour
- Existing liabilities
- Loan enquiries
- Delinquency history

Borrowers with scores above 700 receive favourable IRR.

e. Loan-to-Value (LTV) Calculation

Ensures the loan amount does not exceed asset value. Helps control credit exposure.

f. Guarantor and Co-applicant Verification

Reduces risk and improves repayment accountability.

2. EMI Analysis

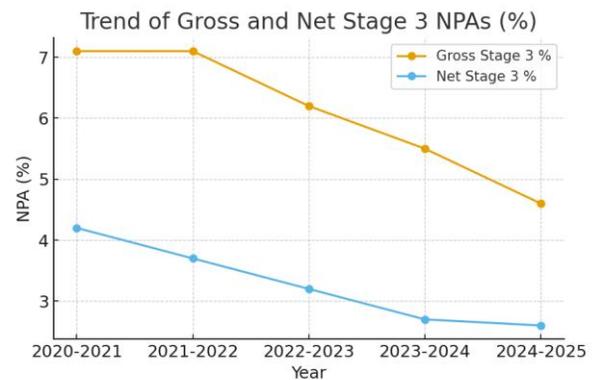
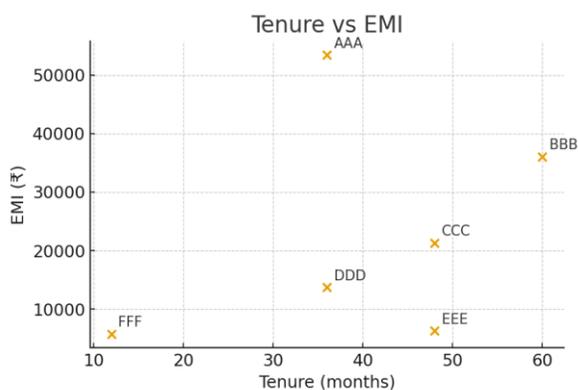
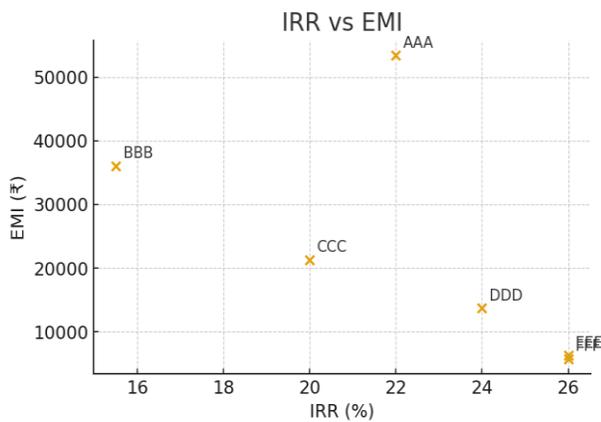
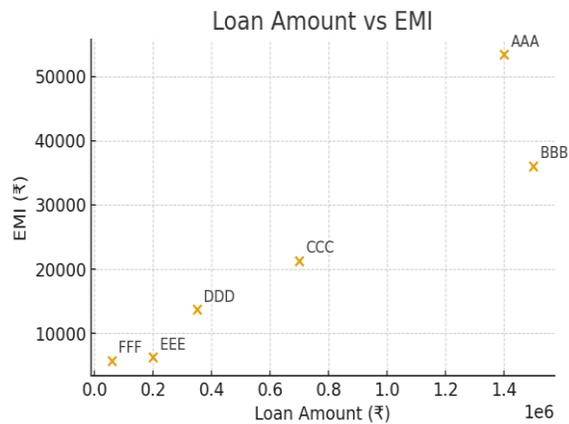
Customer	Loan Amount (₹)	IRR (%)	Tenure (months)	EMI (₹)
AAA	1400000	22	36	53467

BBB	1500000	15.5	60	36080
CCC	700000	20	48	21301
DDD	350000	24	36	13731
EEE	200000	26	48	6284
FFF	60000	26	12	5732

- Borrowers with strong profiles are given lower IRR to ensure affordability.
- Interpretation
EMI structuring is directly influenced by credit appraisal. Borrowers with higher income stability receive better terms.

3. NPA Trend Analysis (2020–2025)

Year	Gross Stage 3 %	Net Stage 3 %
2020-2021	7.1	4.2
2021-2022	7.1	3.7
2022-2023	6.2	3.2
2023-2024	5.5	2.7
2024-2025	4.6	2.6



The NPA trend shows a steady decline in both Gross Stage 3 and Net Stage 3 values.

- Interpretation

Improvement in NPAs may be attributed to:

- Stronger field-level verification
- Better customer profiling
- Improved follow-up mechanisms
- EMI reminders and digital alerts

The downward NPA movement reflects strong appraisal discipline.

4. Major Observations

- Borrowers with inconsistent income faced higher IRR.
- Customers with strong financial discipline received flexible terms.
- Digital appraisal tools are used but not fully utilized.

A comparative EMI analysis of six customers (AAA–FFF) reveals:

- Loan amount influences EMI burden significantly.
- Higher IRR increases total interest outflow.
- Longer tenures reduce EMI but increase overall cost of borrowing.

- Field verification plays a major role in screening high-risk customers.
- Proper documentation reduces approval delays and improves loan quality.

V. FINDINGS

1. Shriram Finance follows a robust credit appraisal system with multiple verification layers.
 2. Income stability, CIBIL score, and borrower occupation significantly influence loan approval.
 3. EMI structure is carefully designed based on borrower repayment capacity.
 4. NPA levels have declined steadily due to improved appraisal and monitoring.
 5. Field investigation remains one of the most effective tools in preventing fraud.
 6. Risk-based pricing ensures that higher-risk borrowers are charged higher IRR.
 7. Behavioural assessment plays an important role in sanction decisions.
4. **Offer flexible EMI options** based on seasonal income patterns.
 5. **Strengthen recovery teams** to address overdue cases immediately.
 6. **Conduct training programs** to improve credit officers' appraisal skills.
 7. **Implement automated reminder systems** for EMI alerts and overdue management.

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VI. CONCLUSION AND SUGGESTION

Conclusion

The study concludes that credit appraisal is the backbone of lending operations in Shriram Finance Limited. The multi-layered appraisal process ensures that borrowers are screened thoroughly before sanctioning loans. EMI analysis shows that structured interest and tenure decisions help align repayment obligations with borrower capability. The NPA trend from 2020 to 2025 shows a consistent decline, proving that the branch's appraisal improvements have strengthened asset quality.

As the lending environment becomes more competitive, the adoption of digital tools, automated scoring systems, and predictive analytics will further enhance the efficiency of credit appraisal and reduce risks. Continuous improvement in verification procedures and monitoring can lead to sustainable loan performance.

Suggestions

1. **Expand digital KYC and e-verification** to reduce turnaround time.
2. **Introduce AI-based risk scoring** for better prediction of delinquency.
3. **Enhance field verification** to identify fraudulent applications early.