



LENDING RISKS IN CAR LOAN FINANCING WITH REFERENCE TO AXIS BANK

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ABSTRACT: If Axis Bank experiences operational and credit issues with its car loan financing, its performance and profits may be negatively impacted. Even though the vehicle is used as collateral for auto loans, it remains vulnerable to a variety of risks, including market fluctuations, borrower default, and a substantial decline in value. The bank takes into account all of these risks when determining a customer's creditworthiness by utilizing income, credit score, and collateral. Following the implementation of these measures, the likelihood of the bank defaulting decreases. These issues may be exacerbated by operational issues, including insufficient hardware, regulatory compliance, or inaccurate documentation. This investigation examines data from both internal and external sources to identify the primary risk factors that influence loan outcomes. It also provides methods for more effective risk management. In summary, it is imperative to educate clients on responsible borrowing habits, closely monitor their circumstances, and conduct thorough credit checks. In order to maintain the operation of the car loan industry and decrease non-performing assets (NPAs), all of these conditions must be met.

Keywords: *Axis Bank, vehicle loan financing, credit risk, operational risk, borrower default, collateral risk, asset depreciation, creditworthiness assessment, income analysis,*

I. INTRODUCTION

The banking and automotive sectors benefit from the ability of consumers to spread out the payment over a longer period of time by financing a vehicle through a loan. The growing demand for automobiles among both individuals and businesses has resulted in banks viewing auto loans as a consistent source of revenue. It is important to remember that these loans are not without risk. Debtor reliability, economic volatility, and internal company issues are all potential factors that can affect loan performance. This necessitates exercising extreme caution when managing potential hazards.

When borrowers fail to repay their loans, credit risk becomes acute. This can be attributed to a variety of factors, such as a lack of credit history, existing debts, and the need to address unforeseen financial challenges, such as a medical emergency or job loss. These errors result in a decrease in the value of financial institutions' assets, which in turn results in capital losses. By employing credit scoring systems, conducting background checks, and adhering to stringent eligibility criteria, lenders mitigate this risk. Despite the fact that these measures will be beneficial, they will not completely eliminate the default risk.



Market and interest rate concerns exacerbate the situation. In the event of an unstable economy or abrupt fluctuations in interest rates, it may be difficult to repay debt. For example, certain clients may encounter challenges in paying their monthly bills in the event of an abrupt increase in interest rates. Similarly, individuals may encounter challenges in fulfilling their financial obligations if their disposable income decreases due to inflation or economic downturns.

Operational hazards have equivalent effects. In the event of fraud, insufficient monitoring systems, delays in loan processing, or documentation issues, the bank's image and bottom line may be damaged. Dealerships, credit bureaus, and auto loan agents are all required to adhere to dependable procedures and maintain high internal standards. New concerns such as data privacy and cybersecurity emerged, despite the fact that operations were enhanced by the transition to online lending platforms.

II. LITERATURE SURVEY

Reddy, P., & Sharma, K. (2025): Reddy and Sharma conducted an investigation into the operational and credit risks associated with auto loan financing at prominent Indian banks. They discovered that the most effective methods for significantly reducing default rates are real-time risk monitoring and efficient credit scoring systems. A potential risk was identified as the company's inadequate operations. These inefficiencies include sluggish document verification, long approval times, and slow payments. Their message was unequivocal: in order to increase efficiency and reduce errors,

banks should implement digital workflows and automate processes.

Patel, S., & Mehta, R. (2024): Patel and Mehta investigated the influence of borrower behavior on loan repayment rates. They were able to identify early warning signs of default by examining factors such as demographics, repayment histories, and credit ratings. They identified early warning signs such as sudden job changes and consistently late payments. According to them, predictive analytics and machine learning can assist banks in identifying borrowers who may pose a risk. They maintained that counseling and reminders can be implemented to enhance the repayment habits of borrowers and reduce their credit risk.

Chowdhury, S., & Roy, D. (2023): Examined the numerous potential channels through which fraudulent auto loans could be obtained. Identity theft, fraudulent income, and documents comprised their most prevalent challenges. Their research demonstrated that fraudulent payments can be significantly reduced through the implementation of automated fraud detection, anomaly tracking, and centralized verification. They emphasized the importance of conducting frequent inspections and training staff to ensure that technology is functioning properly.

Rao, H., & Deshmukh, S. (2022): Rao and Deshmukh investigated the long-term trends in auto loan nonpayment. A combination of borrower education, flexible repayment options, and regular portfolio reviews was implemented to reduce the default rate. Borrowers were more likely to adhere to their loan repayment schedules following the receipt

of financial education and loan repayment reminders. Their recommendation for maintaining a robust portfolio over the long term was to remain engaged and conduct a thorough credit check.

Reddy, V., & Menon, K. (2021): Reddy and Menon's investigation focused on the financing of auto loans through IT investment. The results indicated that financial institutions that implemented scalable digital platforms experienced enhancements in portfolio monitoring, risk management, and processing times. They believed that the sole method of reducing risk in the long term was to upgrade their IT systems using cloud computing and digital dashboards.

Verma, A., & Joshi, R. (2021): Verma and Joshi conducted an analysis of cloud-based loan management systems. They demonstrated how cloud computing can assist banks in attracting additional customers, reducing infrastructure costs, and gaining a more comprehensive understanding of how customers repay loans. The findings indicated that digital platforms facilitate the timely acquisition of information, which is beneficial for the prevention of defaults and proactive risk management.

III. RISK MITIGATION STRATEGIES IN CAR LOAN FINANCING

Auto loan financing employs numerous risk-reduction strategies. One of these is data analytics for creditworthiness assessment, collateral requirements, loan protection insurance, and loan modifications for borrowers who are experiencing payment difficulties.

In order to increase the number of loans available and the pool of borrowers, lenders prioritize dealership relationships, open lending policies and limits, and state-of-the-art fraud-prevention technology.

FOR LENDERS:

Strengthen Underwriting:

Before approving a loan, verify that the borrower has a strong credit history. Utilize data analytics and AI to conduct thorough risk assessments. Diversify your investments.

It is advisable to diversify your loan portfolio among individuals with varying incomes, locations, and credit scores in order to avoid becoming overly reliant on any single borrower or vehicle type.

Require Collateral:

In the event that the borrower fails to repay the loan, the lender is legally entitled to confiscate and sell the car, a highly valuable asset. Consequently, it is an advantageous option for obtaining loans.

Implement Fraud Detection:

The detection and prevention of fraudulent applications and identity theft are facilitated by the utilization of state-of-the-art technologies such as deepfake detection and liveness detection.

Set Clear Policies:

In order for loan underwriting to be consistent and legal, loan policies must be explicitly defined. Minimum credit scores, loan-to-value ratios, and loan limits are all included in this.

Utilize Loan Protection Insurance:

Partner with insurance providers to offer loan or credit protection plans that will cover the repayment of the loan in the event of the borrower's death, illness, or unemployment.

Strategic Dealership Partnerships:



Establishing and maintaining strong relationships with dealerships enables you to leverage their expertise in vehicle valuation and establish direct connections with a greater number of borrowers.

FOR BORROWERS:

Maintain a Good Credit Score:

A borrower's credit score, which is a measure of their reliability, is the basis for the determination of interest rates and other loan terms by lenders.

Budget for EMIs:

It is imperative that you are able to continue to afford the monthly loan payment (EMI), which is allocated to expenses such as gas, repairs, and insurance.

Automate Payments:

To prevent penalties and late fees, establish automatic payments.

Make Prepayments:

To reduce interest and principal, it is advisable to pay off your loan in full as soon as possible.

Understand Loan Terms:

Ensure that you read and comprehend the terms and conditions of the loan, which disclose all fees, such as processing fees, penalties for early payment, and late fees.

Consider a Shorter Loan Tenure:

Despite the fact that the interest rate typically decreases when you choose a shorter repayment term, your monthly payments may increase.

IV. FEATURE AND BENEFITS OF CAR LOAN

The following are a few of the numerous advantages of reliable lenders offering affordable vehicle loans:



Instant Loan Approval

Instantaneous monetary transfers are feasible subsequent to the submission of online auto loan applications. The process of crediting borrower accounts is no longer a time-consuming process. Finnable guarantees a smooth process by disbursing funds for vehicle loans within six hours of document approval.

Tenure Flexibility

Borrowers are provided with a variety of repayment options to accommodate their unique requirements. Loan providers typically provide repayment terms that span from one to seven years in order to accommodate the diverse financial circumstances of their borrowers.

The interest rates of secured loans have decreased.

Lower Interest Rates for Secured Loans

Interest rates for personal loans and other types of unsecured loans are frequently higher than those for vehicle loans guaranteed by collateral.

Ownership of a Vehicle without Immediate Full Payment:

A car can be purchased with an auto loan, which allows you to amortize the cost rather than paying it in full at once. This simplifies financial management due to the fact that costs are dispersed over a longer period of time.



V. RESULTS

Axis Bank Car Loan Eligibility Criteria For New Car Loans

Criteria	Details
Age (Applicant-Salaried)	Minimum: 21 years at time of application.
	Maximum: 60 years at loan maturity.
Age (Applicant-Self-Employed)	Minimum: 18 years.
	Maximum: 75 years at loan maturity.
Minimum Net Annual Income – Salaried	₹4,00,000 per annum (for all approved models). For "other" (non-approved) models, minimum ₹6,00,000 p.a.
Minimum Net Annual Income – Self-Employed	₹3,50,000 per annum (for approved models). For others, ₹6,00,000 p.a.
Employment / Business Vintage	Salaried must have at least 1 year of continuous employment. Self-employed: typically 3 years in the same line of business.
Documentary Proof Required	Latest salary slips, Form-16, proof of business income (ITRs), bank statements etc.

Borrower Credit Score Distribution

Credit Score Range	Number of Applicants	Average Loan Amount (INR)	Default Rate (%)	Risk Level
750-850	1,200	12,00,000	0.5	Low
700-749	2,500	10,50,000	1.2	Low-Medium
650-699	3,000	9,00,000	3	Medium

Loan Tenure Vs Default Rate

Tenure (Months)	Number of Loans	Average EMI (INR)	Default Rate (%)	Risk Assessment
12	500	1,00,000	0.8	Low
24	1,200	55,000	1.5	Low-Medium
36	2,000	36,000	3.2	Medium
48	1,800	28,000	5	Medium-High
60	1,500	22,000	7	High

Vehicle Type Risk Analysis

Vehicle Type	Number of Loans	Average Loan Amount (INR)	Default Rate (%)	Risk Level
Sedan	2,500	9,50,000	3	Medium
SUV	1,800	12,50,000	2.5	Medium-Low
Hatchback	2,200	6,50,000	5.5	High
Luxury	600	25,00,000	1	Low
Commercial	400	15,00,000	4	Medium

Interest Rate Risk Impact

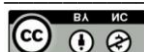
Interest Rate Type	Number of Loans	Average Loan Amount (INR)	Default Rate (%)	Notes
Fixed	3,500	9,00,000	2.8	Stable EMI
Floating	3,000	10,50,000	4	Higher risk during rate hikes

Income Bracket Vs Loan Default

Monthly Income (INR)	Number of Borrowers	Average Loan Amount (INR)	Default Rate (%)	Risk Level
>2,00,000	1,200	12,00,000	1	Low
1,00,000-2,00,000	2,500	9,50,000	2.5	Medium
50,000-1,00,000	3,000	7,50,000	5	High
<50,000	1,000	5,00,000	10	Very High

Loan-To-Value (Ltv) Ratio Vs Risk

LTV (%)	Number of Loans	Average Loan Amount (INR)	Default Rate (%)	Risk Level
<60	1,200	10,00,000	1.5	Low
60-70	2,000	9,00,000	3	Medium
71-80	2,500	8,50,000	5	High
81-90	1,800	7,50,000	7.5	Very High
>90	500	6,00,000	12	Critical





VI. CONCLUSION

Finally, Axis Bank is exposed to risks from its own operations, as well as from the markets and borrowers, when it comes to financing auto loans. A borrower's vehicle's gradual deterioration, new regulations, and interest rate fluctuations are common market variables that contribute to defaults. However, inadequate credit evaluations and income fluctuations also contribute. Operational issues, such as fraud or inaccurate documentation, can also have a detrimental impact on portfolio quality. External factors, such as fuel price increases and economic downturns, influence our ability to repay car loans. In order to address these issues, Axis Bank must implement robust credit appraisal systems, continuous loan performance monitoring, and effective risk management strategies. The bank can maintain its financial stability as long as it responsibly expands its auto loan portfolio.

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