

A PROJECT REPORT ON CREDIT FINANCING

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ABSTRACT

The Credit and Financial Management Review – often simply referred to as The Journal, is a quarterly publication from the Credit Research Foundation. This registered and renowned printed offering contains original materials from thought-provoking authors who deliver content dubbed somewhat ‘esoteric’ and essentially academically challenging to the reader. The topics range across the risk management, financial, technology and legal spectrum, and are diverse in nature and approach. The Foundation and its member community are extremely grateful for the authors’ contributions, which make this publication a must read for risk management professionals.

Keywords: Credit and Financial Management, Foundation and its member community.

1. INTRODUCTION

Credit financing is termed as an installment plan. Credit (from Latin credere translation. "to believe") is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower.

Credit generally refers to the ability of a person or organization to borrow money, as well as the arrangements that are made for repaying the loan and the terms of the repayment schedule.

Definition:

Credit Finance is an agreement between a buyer and a seller in which the buyer receives the good or service in advance and makes payment later, often over time and usually with interest.

Credit financing agreement is defined kind of transaction in which the goods are let on hire with an option to the hirer to purchase them with the following stipulations;

- Payment to be made in installments over a specified period.
- The possession is delivered to the hirer at the time of entering in the contract.
- The property in the goods passes to the hirer on payment of the last installment.

Credit Finance Transaction is structured around the following features:

The finance company purchases the equipment from the equipment supplier and lets it on hire to the hirer (seller) to use it. He is required to make a down payment of 20-25 percent of the cost and pay balance with interest in Equated Monthly Installments (EMI) in advance or arrears spread over 36-48 months. Alternatively, in place of the margin in the down payment plan, under a deposit-linked plan, the hirer has to put an equal provides the entire finance on terms repayable with interest as EMI (Equated Monthly Installments) over 36-48 months. The deposit together with the accumulated interest is returned to the hirer after the payment of the last installment. The interest component of each hire-purchase installment is computed on the basis of a flat rate of interest and the effective rate of interest is applied to the balance of the original loan amount.

Rights and Obligations of the Hirer (seller) and Hiree(buyer):

- Rights or hiree to purchased at any time with rebate.
- Rights of hirer to terminate agreement at any time.
- Right of hirer to appropriate payment in respect of two agreement.
- Assignment and transaction of hirer's or interest under credit financing agreement.
- Obligation of hirer to comply with agreement.
- Obligation of hiree in respect of care to be taken of goods.
- Obligation of hirer to give information about the goods.

2. REVIEW OF LITERATURE

The effect of credit management on financial performance of the Jordanian commercial banks

Ali Sulieman Alshatti (Jordan)

Abstract This research aims at examining the effect of credit risk management on financial performance of the Jordanian commercial banks during the period (2005-2013), thirteen commercial banks have been chosen to express on the whole Jordanian commercial banks. Two mathematical models have been designed to measure this relationship, the research revealed that the credit risk management effects on financial performance of the Jordanian commercial banks as measured by ROA and ROE. The research further concludes that the credit risk management indicators considered in this research have a significant effect on financial performance of the Jordanian commercial banks. Based on findings, the researcher recommends banks to improve their credit risk management to achieve more profits, in that banks should take into consideration, the indicators of Non-performing loans/Gross loans, Provision for facilities loss/Net facilities and the leverage ratio that were found significant in determining credit risk management. Also, banks should establish adequate credit risk management policies by imposing strict credit estimation before granting loans to customers, and banks in designing an effective credit risk management system, need to establish a suitable credit risk environment; operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring, processing as well as enough controls over credit risk, and banks need to put and devise strategies that will not only limit the banks exposition to credit risk but will develop performance and competitiveness of the banks.

Credit management system of a commercial bank in Tanzania

Marcellina chijoriya

Purpose

The purpose of this paper is to develop a conceptual model to be used further in understanding credit risk management (CRM) system of commercial banks (CBs) in an economy with less developed financial sector.

Design/methodology/approach

The paper reviews existing literature that consists mostly evidence from developed countries. A study model is proposed with amendment to fit Tanzania's environment. This is achieved through the use of both secondary (various relevant documents) and primary (interviews) information from a CB and key management officials dealing with credit management. The selected CB is active in lending, has both foreign and local characteristics in its operations and has been in operation for a relatively longer period.

Findings

The main finding of this paper is that the components of CRM system differ in CBs operating in a less developed economy from those in a developed economy. This implies that the environment within which the bank operates is an important consideration for a CRM system to be successful.

Originality/value

Tanzania, a less developed economy, provides an excellent case for studying how CBs operating in economies with less developed financial sector manage their credit risk. The paper identifies issues to be studied further in order to establish a CRM system by CBs operating in Tanzania.

OBJECTIVES:

- To understand and to obtain the knowledge of the practical difficulties faced by the third party and automobiles management.
- To know the problem faced by the third party personnel in collecting payments by customers.
- To study about Non-performing assets in the Organization.
- The study is conducted to analyze and finds the solutions to the problem of credit financing.

3. RESEARCH METHODOLOGY

Need For The Study

- Focusing on customer satisfaction and loyalty and keeping our promises.
- Using our understanding of the market to anticipate customer needs
- Delivering innovative products and services that offer high value in terms of function, price, quality, safety and environmental performance.

Scope Of The Study:

- The scope of the study is to identify the credit financing usage in the market With regard to “STAR MOTORS PVT LIMITED (TATA MOTORS)” The study was conducted for a period of 45 days only. Primary data was collected from customer. Secondary data was collected from company manuals, magazines and website and so on.
- It is aimed at enlightening the company about different steps to be taken up to increase the share of “STAR MOTORS PVT LIMITED (TATA MOTORS)” with regards other competitor and also to make the company to provide better customer services.

Methodology

Source of data:

The sources of the data are through the price reports given by Tata Motors. Through conducting the interview to the various employees in Tata motors office.

Research Type:

It is an analytical research, already available facts and Information is used to analysis problem in other words, the main data used in the secondary

Tools and techniques for data collection:

The primary information was collected by distributing the questionnaires and by performing surveys. On the basis of tables, the facts are presented in the form of piecharts.

4. DATA ANALYSIS & INTERPRETATION

TATA SUMO GOLD **Price list of Products:** (May 1st, 2023) (Price in rupees)

	1.4 Duratec			1.6Duratec	1.4 duratec
Petrol	Exi	Spl.Elitepack	Zxi	Sxi Abs	With alloys
Ex- Show room	5.86.500	5,86,500	6,32,200	7,18,200	7,18,200
Insurance	21,570	21,570	23,170	29,325	29,325
Life Tax	52,900	52,900	57,020	64,760	64,760
Registration	2500	2500	2500	2500	2500
T/R Charges	500	500	500	500	500
Exi Warranty(2yrs)	5,500	5,500	5,500	5,500	5,500
Incidental charges	5,000	5,000	5,000	5,000	5,000
Essential Pack	2,340	38,000	2,470	2,470	22,470

	1.4 Durates				
DISEL	E xi	Spl-Elite pack	Sxi Abs	Z xi	Sxi Abs (A)
Ex- showroom	6,96,500	6,95,500	8,02,200	7,42,200	8,02,200
Insurance	25,450	25,450	29,155	27,050	29,155
Life Tax	62,800	62,800	73,320	66,920	29,155
Registration	2,500	2,500	2,500	2,500	2,500
T/R Charges	500	500	500	500	500
Exi Warranty(2yrs)	5,500	5,500	5,500	5,500	5,500
Incidental charges	5000	5,000	5,000	5,000	5,000
Essential Pack	2,340	38,000	2,470	2,470	22,470
On Road price	8,00,590	8,36,250	9,19,645	8,52,140	9,39,645

Tata Sumo Gold	5,87,500.00
Ex-Showroom price	4,99,375.00
Finance amount	88,125.00
MARGIN AMOUNT	21,630.00
INSURANCE	70,620.00
LIFE TAX @12%	500.00
T/R CHARGES*	2,500.00
REGISTRATION*	5,500.00
EXT WARRANTY (2 nd yr)	5,000.00
INCIDENTAL CHARGES	2,340.00
ESSENTIAL	
O.S STAMP DUTY (on finance)*	24,968.75
Processing fee*	3,500.00
TOTAL (A)	224,683.75
INSTALLMENT AMOUNT (12 moths)	44,224.65
(13.5% int); 8856/-per lakhs (B)	
INSTALLMENT AMOUNT (36 moths)	
(13.5% int); 3356/-per lakh (C)	23,595.00
INSTALLMENT AMOUNT (13.5% INT)	16,759.03
3356/- per lakh (D)	
EQYATED AMOUNT INSTALLMENT	
DOWN PAYMENT for 12 months =(A)+(B)	268,908.40
(1 st installment)	
DOWN PAYMENT for 24 months = (A)+(C)	248,279.22
(1 st installment)	
DOWN PAYMENT for 36 months =(A)+ (D)	241,442.78
(1 st installment)	
FINANCE AMOUNT- PAYMENT MADE BY CUSTOMER	
AFTER PERIOD	
12 MONTHS	31,320.80
24 MONTHS	66,916.25
36 MONTHS	103,949.90

TATA SUMO GOLD

FOR 12 MONTHS					
TOTAL 6,87,110			Simple Compound interest 9% interest 9%		
MONTH	PAYMENT	REMAINING			
1	2,68,908.40	4,18,201.60	3,136.51		3,316.51
2	44,224.65	3,73,976.95	2,804.83	3,77,113.46	2,828.35
3	44,224.65	3,29,752.30	2,473.14	3,32,557.13	2,494.18

4	44,224.65	2,85,527.65	2,141.46	2,88,000.79	2,160.01
5	44,224.65	2,41,303.00	1,809.77	2,43,444.46	1,825.83
6	44,224.65	1,97,078.35	1,478.09	1,98,888.12	1,491.66
7	44,224.65	1,52,853.70	1,146.40	1,54,331.79	1,157.49
8	44,224.65	1,08,629.05	814.72	1,09,775.45	823.32
9	44,224.65	64,404.40	483.03	65,219.12	489.14
10	44,224.65	20,179.75	151.35	20,662.78	154.97
		20179.75+			
	24,044.9				
	44,224.65				
TOTAL		TOTAL int	16,439.30	16,893.94	

Normal loss is 31,320.80

Actual loss is 16439, in Simple interest

Actual loss is 16893.94, if it is compound interest

INTERPREATION OF TATA SUMO GOLD

1. The Ex-show room price of the car is (5, 87,500.00)
2. In the price finance available only 85%, (499,375.00)
3. Show room price deducted to the finance amount its means margin money.
4. The stamp required on the finance amount at 5%

5. CONCLUSION

As this is a case study related to credit financing of motor vehicle. I came to know about financing methods issued and suggested some valuable points to the buyers of four wheeler and making them to know about pros and cons of the method. I felt glad when, I'm analyzing this thing for customers and my profound thanks to fortune for company for giving me this opportunity and making me knowledgeable in four wheeler segment. Data was collected and analyzed and it was found that the customers are willing to buy the Cars by Credit financing methods.

6. REFERENCES

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