



Retail Vehicle Financing and Loan Processing in the Indian Automobile Sector: A Process-Based, Theory-Grounded Study of Dealership-Level Practices

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ABSTRACT

Retail vehicle finance underwrites the great majority of new-vehicle purchases in India, yet the dealership-level process by which a customer's requirement becomes a disbursed loan is rarely documented in the academic literature, which instead concentrates on macro-level credit-market theory, portfolio-level default studies, or algorithmic credit-scoring models. This paper addresses that gap through a process-based, theory-grounded study conducted at Kundan Hyundai, an authorised Hyundai Motor India Limited dealership, during May–August 2026. Drawing on nineteen sources spanning credit-rationing theory, financial-intermediation theory, loan-pricing mechanics, digital-underwriting developments and Indian financial regulation, the study documents the end-to-end sequence from customer profiling and lender-policy screening through documentation, credit and banking assessment, loan login, EMI computation, approval, disbursement and post-disbursement coordination (insurance, RTO and NACH formalities). The observed process is illustrated, for expository purposes only, with a constructed set of fifty illustrative, hypothetical finance cases that are not actual transaction records and are not presented as empirical findings. Findings indicate that documentation and credit-appraisal practices differ systematically by customer profile (salaried, self-employed and commercial/permit) and by lender type (bank versus NBFC), that turnaround time and pricing vary materially between these lender categories, and that EMI outcomes are highly sensitive to tenure and benchmark-linked spread. The paper concludes that the observed process is a coherent, theory-consistent implementation of established credit-market principles rather than an ad hoc routine, and offers practical recommendations for process standardisation alongside directions for future empirical research using genuine transaction-level data.

Keywords: retail vehicle finance; automobile loan processing; NBFC; CIBIL; EMI; credit rationing; financial intermediation; dealership finance; External Benchmark Lending Rate

1. Introduction

India is among the largest automobile markets in the world by volume; domestic passenger-vehicle wholesales reached 46,43,439 units (≈ 4.64 million) in FY 2025–26, up 7.9% over FY 2024–25 (SIAM, 2026). Because most new-vehicle purchases in India are financed rather than paid for in cash, banks, non-banking financial companies (NBFCs) and OEM captive finance arms operate in close partnership with dealerships, often through a dedicated finance desk or panel of empanelled lenders.

While the macroeconomics of vehicle-finance demand and portfolio-level default are reasonably well studied, comparatively little published research documents the dealership-level operational process through which an individual finance case moves from customer requirement to disbursement. This gap persists even in recent (2020–2026) scholarship: Muduli and Acharya (2024) study NBFC commercial-vehicle lending at the institutional level, and Wu, Liu and Zhang (2025) model CIBIL-score prediction algorithmically — neither documents the sequential, task-level process at the point of sale or situates it within credit-market theory, and this is precisely where that theory (information asymmetry, risk-based pricing, benchmark-linked lending) is translated into practice, with friction most directly affecting customer experience and dealership finance revenue. This paper addresses that gap through a process-based, theory-grounded study conducted at Kundan Hyundai, tracing the finance case from customer profiling through disbursement and interpreting each stage against established credit-market, financial-intermediation and consumer-finance theory.

2. Review of Literature

This review synthesises nineteen sources across credit-market theory, financial intermediation, loan-pricing mechanics, empirical automobile-finance studies, Indian regulation, and recent digital-underwriting developments.

Information asymmetry and financial-intermediation theory together explain why documentation-heavy screening, rather than price alone, rations credit. Stiglitz and Weiss (1981) show that raising interest rates to clear the market can attract riskier borrowers and encourage risk-taking after disbursement,

so lenders ration credit through documentation, collateral and screening; Mishkin (2019) situates this within the broader economics of banking, and Jappelli and Pagano (2002) show empirically that credit-bureau information-sharing — directly relevant to CIBIL — reduces default and expands credit access. Barro (1976) provides the classical treatment of collateral, applicable to vehicle hypothecation here. On intermediation, Diamond (1984) develops delegated monitoring to explain why intermediaries exist; Bhattacharya and Thakor (1993) extend this to liquidity transformation and risk-sharing; Petersen and Rajan (1994) show lending-relationship strength affects credit cost and availability, consistent with faster processing by empanelled lenders observed here; and Berger and Udell (2006) distinguish transaction- from relationship-based lending, mirroring the differentiated documentation this study finds for salaried versus self-employed customers.

Khan and Jain (2018) and Brigham and Houston (2021) supply the standard time-value-of-money and amortisation treatment underlying the EMI formula used here, and Rose and Hudgins (2013) detail how retail lenders combine appraisal, pricing and portfolio risk — the basis of the five-Cs framework in Section 5. Empirically, Attanasio, Goldberg and Kyriazidou (2008) show credit constraints materially affect vehicle-purchase decisions, and Agarwal, Ambrose and Chomsisengphet (2008) find that credit profile, loan-to-value ratio and tenure predict auto-loan default and prepayment, supporting the emphasis dealership staff place on CIBIL review, down payment and tenure selection. More recently, Muduli and Acharya (2024) find that NBFCs' flexible underwriting and faster turnaround drive their growing share of commercial-vehicle finance, consistent with the bank–NBFC comparison in Section 6, and Wu, Liu and Zhang (2025) apply machine learning to CIBIL-score prediction for auto loans, illustrating growing algorithmic underwriting — though at the level of score prediction rather than the dealership process documented here.

The Reserve Bank of India's (2016) master direction on NBFCs and its (2025) master direction on co-lending arrangements together govern the bank–NBFC panel structures dealerships rely on. Post-2020 developments are reshaping this landscape further: the RBI's (2022) Digital Lending Guidelines tightened conduct and data-handling rules for digital loan-login and verification workflows, and Ranjan, Dhillon and Negi (2025) find that India's Account Aggregator framework substantially cuts loan-processing time and cost where lenders move to consent-based, cash-flow underwriting — directly relevant to the turnaround-time compression discussed in Section 6 and the future directions in Section 8. Together, these nineteen sources confirm that the dealership-level financing sequence implements well-established theory, yet none documents that sequence task-by-task at the point of sale — the gap this paper addresses.

3. Research Objectives

Building on the gap identified above, and numbered to align with the corresponding findings in Section 6, the study was designed around four objectives:

1. To examine customer profiling, documentation, CIBIL and banking assessment, and the variation in policies followed by different banks and NBFCs.
2. To analyse the practical finance concepts applied in vehicle financing — finance amount, EMI, interest rate, tenure, the External Benchmark Lending Rate (EBLR) and its Repo Linked Lending Rate (RLLR) variant, and spread.
3. To characterise the coordination required among the customer, dealership, banks/NBFCs, the RTO, the insurer and the NACH system in completing a finance case.
4. To document the end-to-end retail vehicle financing process, from customer requirement to approval, disbursement and delivery, and to characterise turnaround-time variation across that sequence.

4. Research Methodology

The study follows a qualitative, process-based, single-site design combining direct observation with guided interaction, appropriate because the objectives concern the sequence and interdependence of operational steps rather than the statistical distribution of outcomes across a large sample. Primary data were collected over a twelve-week period (15 May–15 August 2026) at Kundan Hyundai through: (i) direct, non-participant observation of finance-department activity, following individual cases through the nine-stage sequence in Table 1; (ii) semi-structured interaction with finance personnel on document purpose, lender-policy variation and turnaround-time drivers; and (iii) review of the dealership's process documentation and lender-empanelment structure. No confidential customer, lender or dealership record was extracted or reported; secondary sector data were drawn from SIAM, Mordor Intelligence, IMARC Group and RBI publications, cited individually where used.

Section 7 additionally constructs an illustrative dataset of fifty hypothetical finance cases, built on the parameter ranges observed during the study rather than on actual customer records, and labelled as illustrative throughout; it must not be read as an empirical result. The study is confined to one dealership, one OEM brand and one geography (Pune, Maharashtra); its findings are analytically generalisable to similar dealership-finance settings rather than statistically representative of the national market, and it does not use actual customer-level credit data at any point.

5. Theoretical Framework

Building on Section 2, four theoretical strands frame the analysis. The five-Cs framework (Character, Capacity, Capital, Collateral, Conditions) structures creditworthiness assessment, mapping at the dealership level onto the CIBIL check (Character), income/ITR documentation (Capacity), down payment

(Capital), vehicle hypothecation (Collateral) and lender-specific policy (Conditions). Information-asymmetry theory (Stiglitz & Weiss, 1981) explains why documentation and screening substitute for pure price rationing. Loan-amortisation mathematics gives the standard EMI relationship:

$$EMI = [P \times r \times (1 + r)^n] / [(1 + r)^n - 1]$$

where P is the finance amount, r the monthly interest rate (annual rate ÷ 12 ÷ 100) and n the tenure in months. Finally, benchmark-linked lending theory holds that, since October 2019, floating-rate retail loans in India are priced under the External Benchmark Lending Rate (EBLR) regime — most commonly its Repo Linked Lending Rate (RLLR) variant, tied to the RBI repo rate — plus a lender-specific spread reflecting cost of funds and risk; this benchmark-plus-spread mechanism is the channel through which monetary-policy changes reach a customer's EMI.

6. Findings and Discussion

The observed process is a nine-stage sequence (Table 1), discussed below by objective; each discussion integrates how the finding relates to the theory in Sections 2 and 5.

Stage	Activity	Primary Actor(s)
1	Customer requirement and vehicle selection	Customer, Sales team
2	Customer finance requirement assessment (On-road cost – contribution = proposed finance)	Sales, Finance team
3	Customer profiling (salaried / self-employed / commercial)	Finance team
4	Profile-wise documentation and lender-policy screening	Finance team, Customer
5	CIBIL and banking (ABB/ABD) assessment	Finance team, Lender
6	Loan login and lender-side verification	Finance team, Lender
7	Finance amount and EMI calculation (rate, tenure, spread)	Finance team, Lender
8	Approval and disbursement	Lender
9	Insurance, RTO and NACH formalities; vehicle delivery	Finance team, Insurer, RTO, Lender

Source: Compiled from process documentation and observation at Kundan Hyundai (2026).

1. Customer profiling, documentation and lender-policy variation. Customer profile determines the applicable documentation set: salaried customers provide PAN, Aadhaar, address proof, salary slips, Form 16 and bank statements; self-employed/business customers additionally provide ITRs, computation of income and Balance Sheet/P&L; commercial or permit-linked cases require business-registration and licence documents, often with a co-applicant. This differentiated structure mirrors Berger and Udell's (2006) transaction-versus-relationship distinction and confirms information-asymmetry theory's prediction that documentation and CIBIL review substitute for pure price rationing (Stiglitz & Weiss, 1981). Eligibility criteria, CIBIL thresholds, down-payment norms, rates, tenure and charges vary meaningfully across the dealership's bank/NBFC panel — consistent with Muduli and Acharya's (2024) finding that NBFCs' flexible underwriting shapes lender routing — so profile and lender policy must be evaluated jointly.

2. Finance amount, EMI, rate, tenure, EBLR/RLLR and spread. The finance amount (on-road cost less contribution) combines with rate and tenure to determine EMI via the amortisation relationship in Section 5. Because pricing follows a benchmark-plus-spread mechanism, two customers with identical loan amounts and tenures can face materially different EMIs purely from the lender's spread over the EBLR/RLLR, reflecting cost of funds and risk assessment — consistent with risk-based pricing theory, and, per the illustrative figures in Section 7, mechanically explained by the amortisation formula.

3. Coordination among customer, dealership, lenders, RTO, insurer and NACH. Disbursement depends on parallel completion of motor insurance, RTO registration/hypothecation and NACH mandate registration. The dealership finance desk functions as the coordinating node across these otherwise independent processes — the clearest instance in this study of Diamond's (1984) and Bhattacharya and Thakor's (1993) view of intermediaries as cost-reducing, information-aggregating nodes operating in practice.

4. The end-to-end process and turnaround. Lender-side verification (post-login) and disbursement-condition completion are the two stages most sensitive to turnaround-time variation. Digital, near-paperless processing — e-KYC, Account-Aggregator data sharing and AI-assisted underwriting — is compressing this window at scale (Ranjan et al., 2025; RBI, 2022), though the extent varies by lender. Taken together, the four objectives support this paper's central claim: the dealership-level process is not an arbitrary set of habits but a structured, theory-consistent implementation of credit-market

principles, and the main practical friction — turnaround-time variation and inconsistent documentation communication — arises from the coordination burden across stages rather than any single step. Standardised, profile-wise documentation checklists and a simple lender-comparison reference for finance staff could therefore meaningfully reduce processing delay without requiring any change to individual lenders' underwriting policy.

7. Illustrative (Hypothetical) Data Analysis

The figures below are constructed for academic demonstration only, are not actual dealership transaction records, and must not be read as empirical results. They summarise an illustrative set of fifty hypothetical finance cases, built on the parameter ranges observed during the study: a customer-profile mix of roughly 60% salaried, 30% self-employed/business and 10% commercial/permit cases; a lender mix of roughly 55% banks and 45% NBFCs; illustrative interest rates of 9.0–9.5% p.a. (banks) versus 10.5–11.5% p.a. (NBFCs); a modal tenure of 60 months; average turnaround of 4–6 days (banks) versus 2–4 days (NBFCs); and an EMI on an ₹8,00,000 loan at 9.5% p.a. ranging from ₹25,200 (36 months) to ₹12,500 (84 months). The bank–NBFC rate gap and the inverse tenure–EMI relationship follow mechanically from the theory in Section 5 rather than from any dealership-specific pattern, and are offered only to show how the process documented in Section 6 would be analysed with genuine transaction data (Section 8).

8. Limitations and Conclusion

As a single-dealership, single-brand, qualitative study, the findings are analytically rather than statistically generalisable, and the quantitative illustrations in Section 7 are constructed, not empirically observed. Future research could replicate this process documentation across multiple dealerships and OEM brands, obtain anonymised transaction-level data to convert Section 7's illustrative analysis into a genuine empirical study — potentially extending Wu, Liu and Zhang's (2025) machine-learning approach to dealership-sourced data — and examine how Account Aggregator data (Ranjan et al., 2025) and AI-assisted underwriting under the RBI's (2022) digital-lending framework are changing the information-asymmetry dynamics documented here.

This paper has documented and theoretically situated the retail vehicle financing process at an authorised Hyundai dealership in India, addressing a gap between macro-level credit-market theory and the operational reality of an individual finance case — a gap that persists even in recent (2020–2026) scholarship on Indian vehicle and NBFC finance. Drawing on nineteen sources across credit-rationing, financial-intermediation, loan-pricing, digital-underwriting and Indian regulatory literature, the paper showed that the observed process — profiling, documentation, credit and banking assessment, loan login, EMI calculation, approval, disbursement and coordination with insurer, RTO and NACH — is a coherent, theory-consistent sequence rather than an ad hoc routine, offering both a rare process-level academic account and concrete, low-cost recommendations for practitioners: standardised documentation checklists and a lender-comparison reference to reduce processing friction at the customer-facing point of sale.

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