

Home / Industry / Banking / Shadow banks see some decline in rural demand

Shadow banks see some decline in rural demand



industry

3 min read . Updated: 28 Jun 2022, 07:29 AM IST

Shayan Ghosh

Discretionary spending off the table amid high inflation, uneven post-covid recovery

Listen to this article

0:00 / 0:00

[Close](#)

Fuel prices have remained unchanged for more than a month but have already dealt a blow to rural demand as is evident from, what industry executives are calling, consumer reluctance to buy new two-wheelers. Instead, borrowers who used to buy new two-wheelers every three to four years are repairing their existing vehicles to use them for longer, said industry experts. On 21 May, the government had reduced [OPEN APP](#) duty on petrol by ₹8 per litre and on diesel by ₹6 per litre.

“Two-wheeler demand is subdued partly because of the uneven rural recovery and also because the cost of vehicles has gone up in the last few years. That apart, fuel prices have increased and, therefore, both the cost of ownership and that of running (the vehicle), have gone up,” said Y.S. Chakravarti, managing director and chief executive, Shriram City Union Finance.

HOME LATEST MARKETS PREMIUM FOR YOU

uniform across the country but is more evident in markets where two-wheeler penetration is high such as Tamil Nadu, Kerala, coastal Andhra Pradesh, and parts of Telangana," he said.

Sales of two-wheelers and tractors are used as an indicator of rural demand. Domestic two-wheeler sales rose 9% in May over April, tractor sales were down 8% in the same period, according to data compiled by CareEdge Research.

Industry watchers also said the bottom of the pyramid has been the most impacted by covid and the subsequent runaway price rise. Some fast-moving consumer goods (FMCG) companies have recently said they are witnessing demand compression in rural areas. "This is not limited to high fuel prices, but is also because their purchasing power has contracted," said Prakash Agarwal, director and head of financial institutions, India Ratings and Research.

OPEN APP

People have seen incomes drop and, therefore, discretionary spending has come down, Agarwal said. There is a fair bit of pressure on rural demand and while the government has supported grain distribution, rural India has suffered, he said.

Rural sentiments have turned positive, but customers remain cautious, Ramesh Iyer, vice-chairman and managing director of Mahindra and Mahindra Financial Services Ltd, told analysts. Mahindra Finance is a frontline, rural-focused non-bank lender. "When I say customers are a little cautious, it is not that they do not have money.