Research

CRISIL
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SectorVector

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Reading the topical trends

Million rupee+ cars, UVs sell 5x faster than lower-priced ones

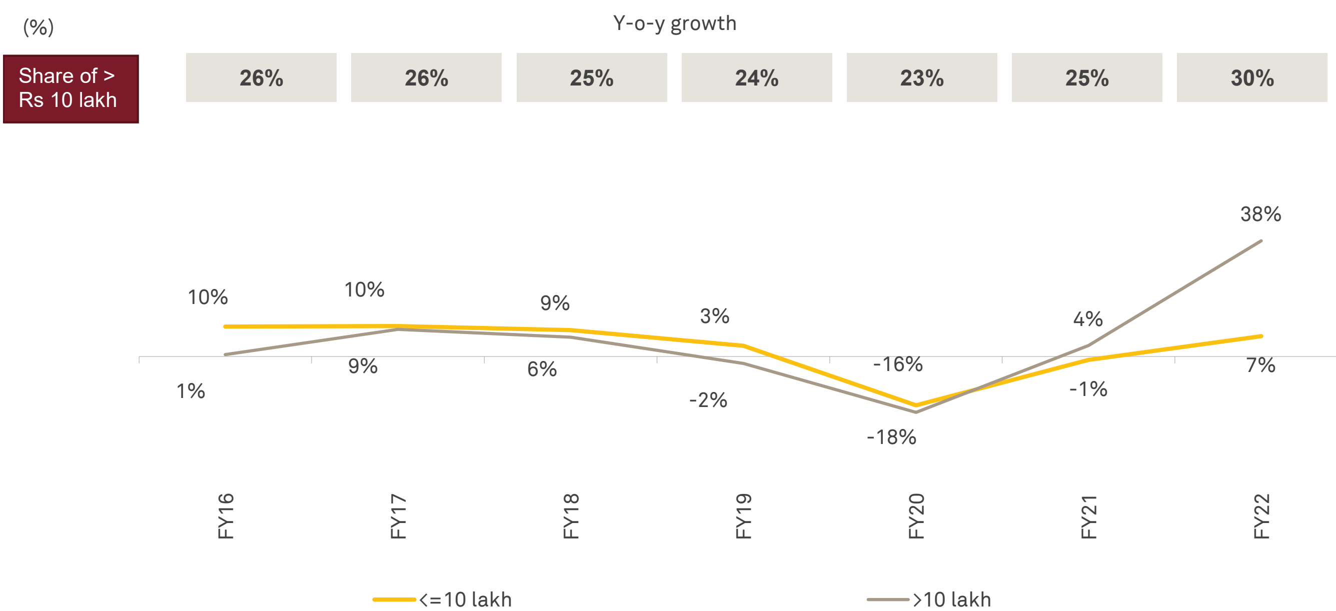
Over the past two fiscals, the Covid-19 pandemic has changed the dynamics of many an industry. The passenger vehicles segment is one such.

While supply-chain issues have affected a raft of vehicle manufacturers, counterintuitively, models priced higher than the entry level have continued to find buyers.

Last fiscal, cars priced above Rs 10 lakh (or the premium segment) sold 5x faster than those with lower sticker prices, and notched up ~38% on-year growth compared with ~7% y-o-y growth for the latter.

Consequently, the market share of premium cars rose 500 basis points (bps) to ~30% last fiscal, compared with ~25% in fiscal 2021.

Market share and on-year growth of premium vs lower-priced cars



Note: Vans are excluded from the above assessment. Models are categorised as per ex-showroom price of base model
Source: SIAM, CRISIL Research

The key reasons for this were a stark difference in income sentiment of the respective target consumers, a sharper rise in the prices of lower-end cars, fewer options (some manufacturers exited the segment), and a slew of new launches that have increased the preference for higher-priced cars.

In India, typically, lower-priced cars are bought by first-time users or those upgrading from used cars.

With the pandemic impacting the income sentiment significantly for entry-level car buyers, purchases and upgrades have been getting postponed.

CRISIL Research estimates the employee cost of large and medium companies — a proxy for income sentiment among affluent buyers of higher-priced car — has increased way more than those of small and medium-sized companies, which typically account for a larger proportion of lower-priced car buyers.

The income effect

	Large and medium companies	**Small and MSME companies**
Total revenue category	(> Rs 500 crore)	(< Rs 500 crore)
Increase in employee costs since fiscal 2019	20-25%	0-10%

Source: Company reports, CRISIL Research

On top of muted income sentiment, there has been a 15-20% cumulative increase in the sticker price of lower-end cars over the past 4 fiscals due to increased stringency of safety regulations (mandating ABS, front-row airbags, speed warning alarms, seatbelt reminder, rear parking sensors, crash test norms) and the transition to BS-6 emission norms. These have been a drag on sales.

To boot, consumer preference has been gradually shifting from low-priced models that did well previously to similarly priced UVs. Some are even preferring to buy a used car in the costlier segment than spend an equivalent amount for a lower-segment car.

Sales of best-selling low-priced vehicles such as Maruti's Alto, Swift, Baleno, Vitara Brezza, Celerio, and Dzire; and Hyundai's i10 and i20 (which cumulatively accounted for ~56% of the lower-priced cars sold in fiscal 2019) have been on a decline for three fiscals now.

The upshot: there were only ~39 models of lower-priced cars available last fiscal versus ~54 in fiscal 2016. Additionally, the lower-priced cars segment had little to show with new launches since fiscal 2020 contributing to only ~15% of volume share within lower-priced cars in fiscal 2022.

But the drive was different for higher-priced cars. Best-selling models such as Hyundai Creta, Maruti Ertiga and Ciaz, Mahindra Bolero and Scorpio, Honda City, Ford Ecosport and Toyota Innova (which cumulatively accounted for ~68% of the higher-priced cars sold in fiscal 2019 have witnessed a decline in sales since fiscal 2019.

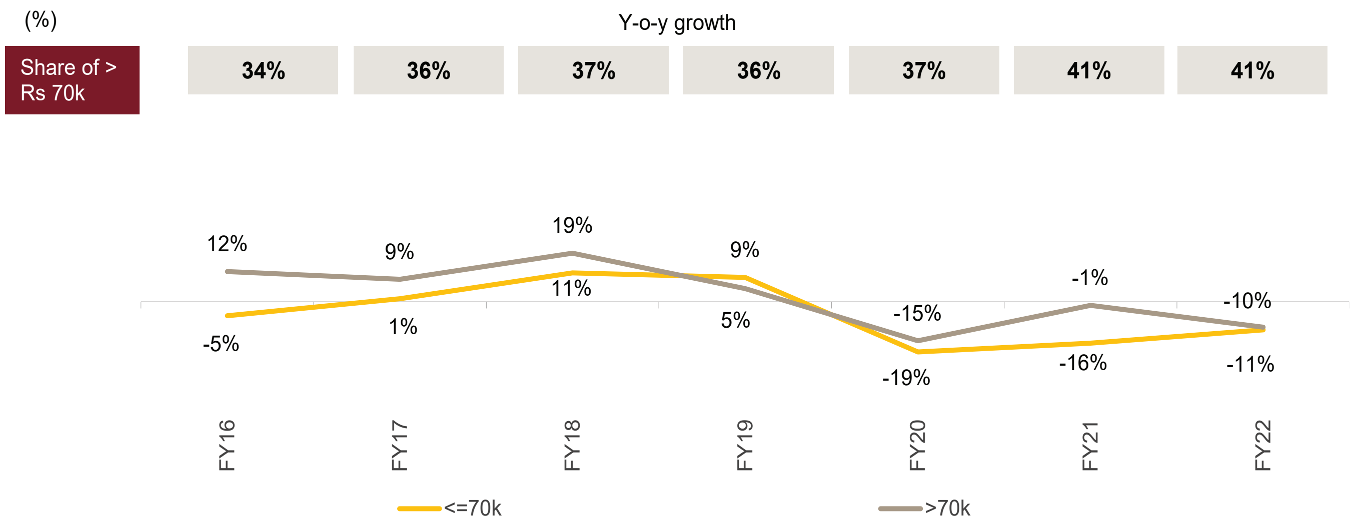
However, the new launches have outperformed filing in the gap, though number of models available was stable at 53-55, new launches since fiscal 2020 contributed significantly to the overall sales volume in the segment. As many as 19 of them racked up ~32% of volume share within higher-priced cars in fiscal 2022. The higher-priced new models doing well are Kia Seltos, Maruti XL6, MG Hector, Mahindra XUV700 and Hyundai Alcazar.

Similarly, over the past 5-6 fiscals, two-wheelers priced over Rs 70,000 have consistently sold more than those that cost less. The reasons for this are a 40-45% increase in the cost of ownership and a 50-55% increase in the cost of acquisition since fiscal 2015.

The cost of ownership has risen significantly because of tighter regulatory norms (safety and BS-VI) and price hikes by vehicle makers to offset higher input costs. This has materially dampened consumer sentiment and offtake of lower-priced two-wheelers.

Vehicle makers have also been focusing more on the higher-priced segments because of changing consumer preference. In fiscal 2015, the lower-priced segment had 29 models; today, it has 12. On the contrary, models in the higher-priced segments have risen from 71 in fiscal 2015 to 93 last fiscal, propelling sales.

The ride of pricier two-wheelers



Note: <=70k – lower-priced two-wheelers and >70k – higher-priced two-wheelers. Models are categorised as per ex-showroom price of base model.
Source: SIAM, CRISIL Research

Going forward, we expect the share of higher-priced cars to remain higher at ~30% versus ~25% previously due to resilient incomes of affluent buyers and traction for new models.

Similarly, the share of higher-priced two-wheelers will remain above ~40% because of increasing consumer preference and the availability of more models.

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