

Auto Bytes

Rise in pre-owned vehicle market

December 2021



Indian pre-owned vehicle market scenario

With skyrocketing new vehicle prices, pre-owned/used vehicles are expected to increasingly become a more popular choice

Indian used vehicle market size is expected to rise to

USD 70.8 billion

by 2030,
at a

14.8% CAGR



between 2021
and 2030



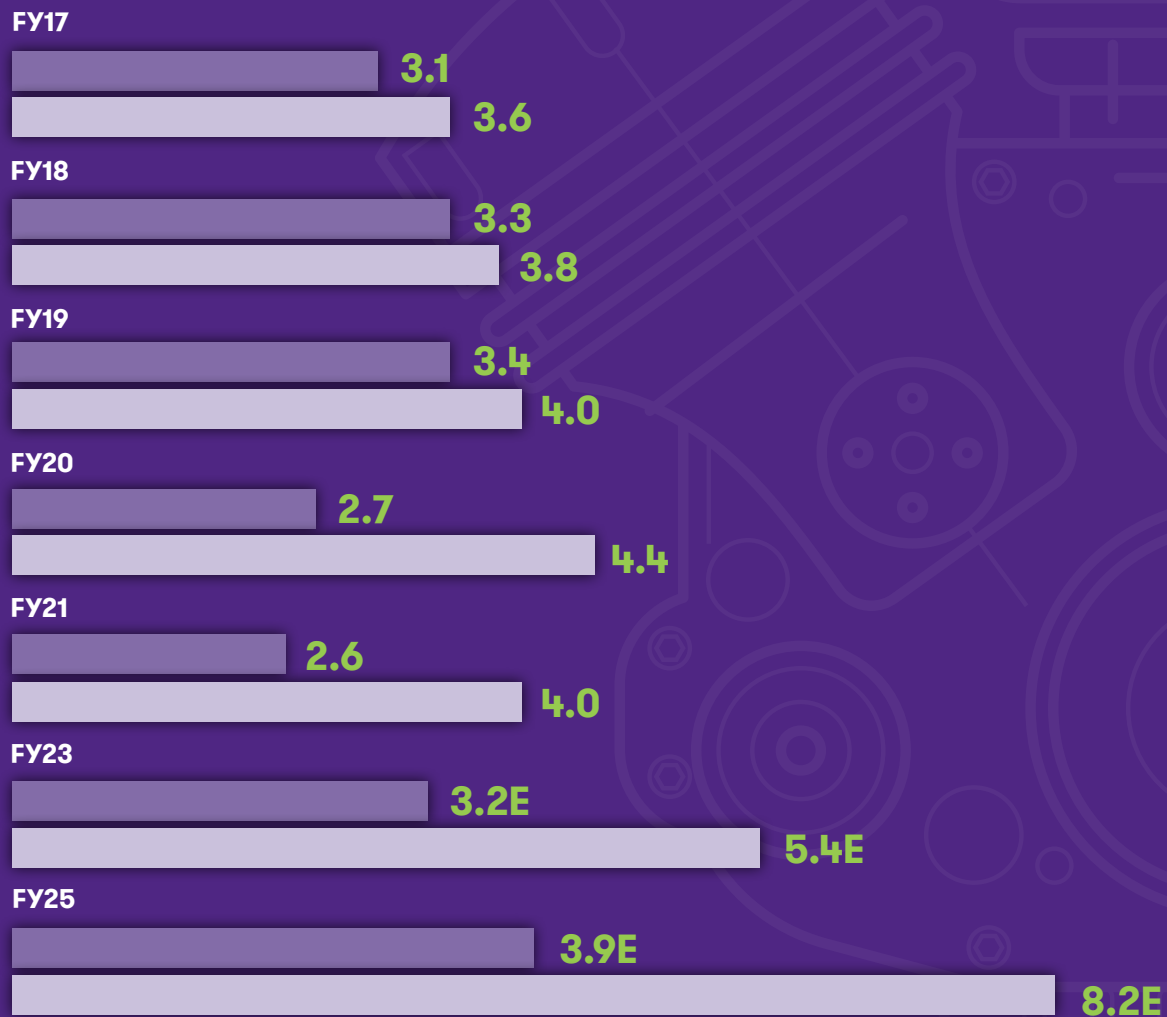
Small towns are expected to fuel the demand for used vehicles as the share of non-metro cities in used vehicle sales is **expected to rise to**



**nearly 70%
from the
current 55%
in the next four years**

PV sales in India (in millions per year)

● New car sales ● Used car sales E - estimated (SIAM)



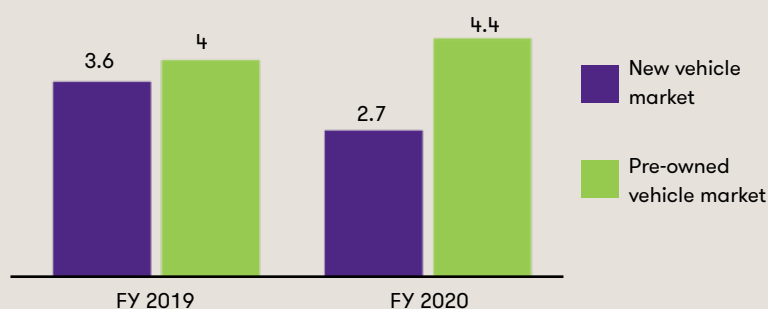
Used vehicle market to be twice as big as new vehicle segment by FY25

Affordability is the main factor influencing purchase decisions

Growth potential for the Indian pre-owned vehicle industry

The pre-owned vehicle market in India is expected to reach 8.2 million units by FY26, a two-fold increase from approximate 4 million units in FY21. India recorded a total sale of 4.4 million used vehicles as compared to 2.7 million new vehicles in FY20. However, the used vehicle market growth was only marginal as against 4 million sold in FY19, on the back of short supply. This poses a major challenge to the growth potential of this market as the new vehicle market shrinks.

PV sales in India (in millions per year)



In FY 2022 used vehicle volumes are expected to rise by 15% on the back of the increasing preference for personal mobility and the low base effect of the last fiscal. The increasing adoption of used vehicles can be attributed to affordability, availability, convenience and the high quality of vehicles present in the market. The decrease in production of new vehicles and strong demand has led to high new vehicle prices. With consumers unable to buy new vehicles, they tend to prefer the used vehicle segment.

The cost of ownership for a pre-owned/used vehicle is significantly lower in comparison to a new one. This is mainly due to high depreciation, higher taxes, RTO/registration fee, and expensive vehicle insurance policies. For instance, the cost of ownership of a new hatchback for five years costs about INR 9.60 lakhs while a pre-owned hatchback costs INR 7 lakh or lesser. The cost of ownership increases in higher segments, especially luxury vehicles.

The Motor Vehicle Act has faced challenges in the regulation of intermediary roles. Consumers have urged the Ministry of Road Transport and Highways to define vehicle intermediaries and give them temporary ownership of used cars.

The growth potential is significantly higher in the Indian four-wheeler scenario. Furthermore, as per the National Automobile Dealers Association, it is also observed that pre-owned channel has higher dealer margins than the new vehicle segment.



Vehicle ownership penetration*

Vehicle ownership penetration is the highest in the US with a car penetration of 800 per 1,000 people. For the Indian market, the penetration is extremely low with 30 cars per 1,000 people, indicating the growth potential for the Indian used-vehicle industry.



30



90



175



350



800

*approximately

The Indian market possesses tremendous potential for the four-wheeler passenger segment, particularly pre-owned vehicles.

Our view

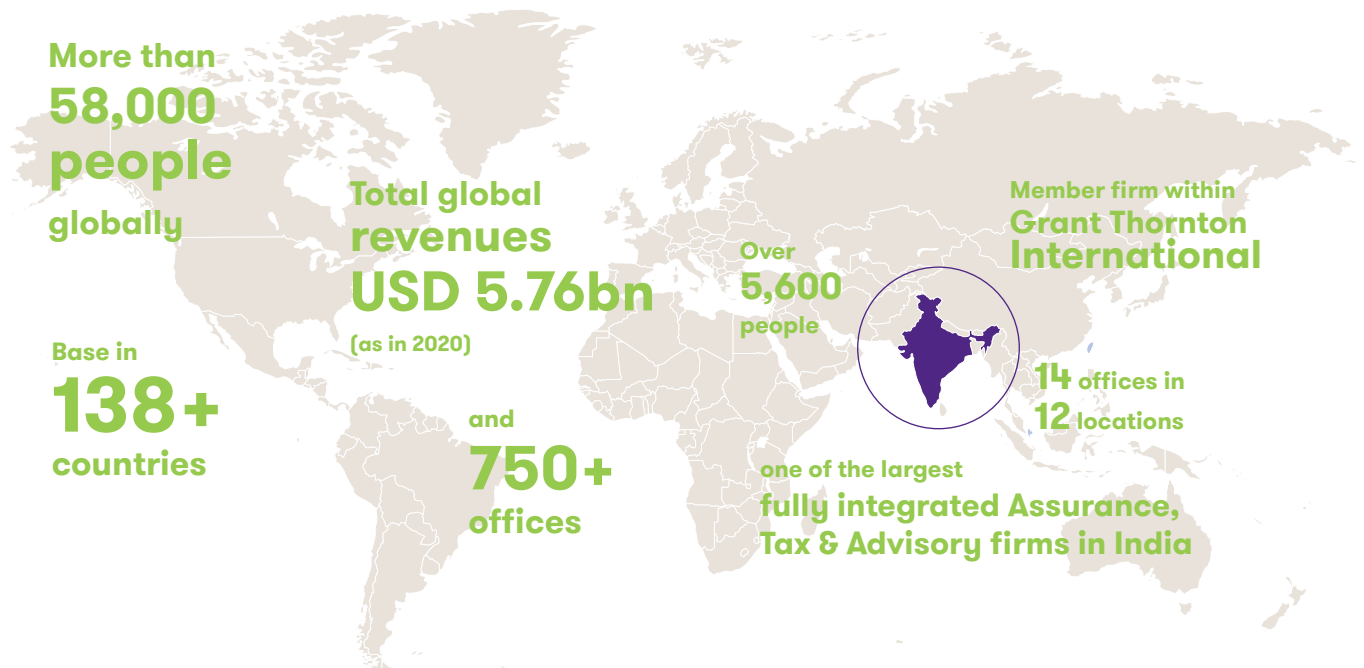
2021 has witnessed many transitions impacting the financial health of new vehicle ecosystem in the short term. During the same time, the transition and change in consumer preferences has fast-tracked the pre-owned vehicle market on the path to growth. The buyer is now more open to owning a used vehicle than ever before.

With the entry of start-ups in India, the pre-owned vehicle market received a fillip. The companies have brought a clear disruption in India's second-hand vehicle market; however, they face a policy vacuum. The new-age start-ups having online presence as well as offline outlets across India are able to increase their customer base, not only in metro cities but also in tier 2, tier 3 and tier 4 cities. The vehicles are convenient to browse and enable customers to buy used vehicles after due inspection.

As an alternative to buying a new vehicle, the vehicle subscription model too is poised to see growth in the forthcoming years due to multiple OEM initiatives that are now actively promoting leasing and subscription. These vehicles would act as a regular supply for used vehicles in the market, thereby lowering the average ownership cycle of the vehicle.



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Acknowledgement

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Ministry of Heavy Industries | SIAM | ET Auto | IndianBlueBook

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