

## Second hand car market is at an influx point

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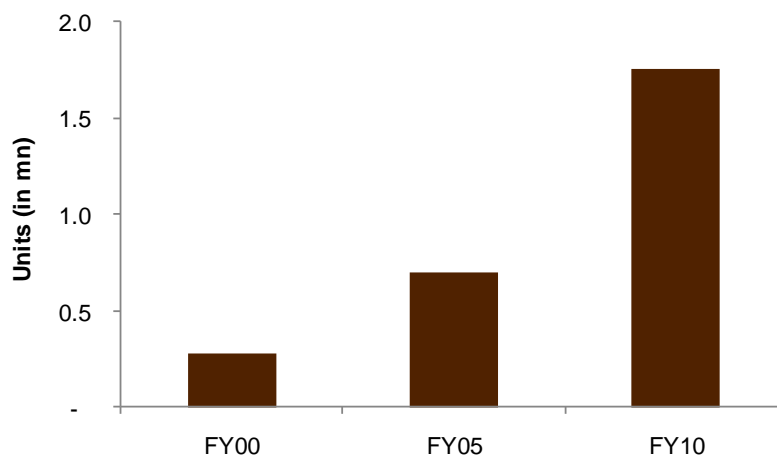
### Industry characteristics

The second hand car market has been existence in India since inception. Two decades back, a car was consider a luxury commodity which people from rich class only could afford. Second hand car was the only economical way to buy a car for aspirers from middle class population. During those times price of second hand cars was also on higher side as compared to recent period and unavailability financing options made owing a second hand car an expensive prospects as well. However, during last one decade rising income levels, easy availability of finance and wide model offerings at competitive pricing have led to spurt in the demand of new car market. Consequently, increasing affordability has also resulted in drastic reduction in holding period of the car enabling sharp spurt in second hand car market.

### The size of second hand car market has increased more than six folds

The second hand car market has almost erupted in last 8-10 years. CARE Research estimates, the size of second hand car market has increased at a CAGR of around 20 per cent during past one decade from 0.3 million units in FY2000 to around 1.8 million units in FY2010, scaling it upto the levels of new car sales. Increasing urbanization, rising income levels have also raised the aspiration of Indian middle class to purchase first vehicle as a car or to upgrade from two-wheeler to a car, even if it is a second hand car.

Growth in second hand car market



Source: CARE Research estimates

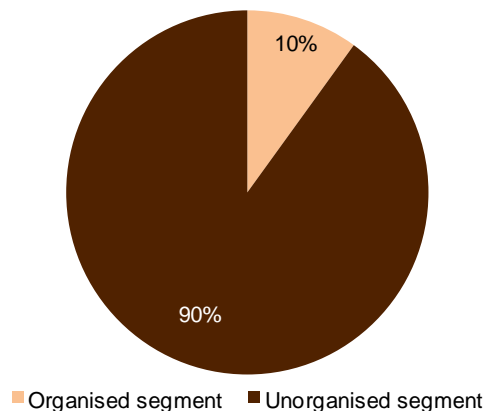
**Similar new car market, small cars dominate second hand car market as well**

Similar to new car market, small cars dominate second hand car market as well, accounting for around 60 – 70 per cent of market, with car models like Maruti’s 800, Zen, Alto, Wagon R, Hyundai Santro and Tata Indica are sold the most. In mid-size segment, Honda City, Maruti Suzuki Esteem and Hyundai Accent are the most popular cars. CARE Research believes that the popular models in new car market, commands higher buyer preference in second hand car market also. However, as compared to passenger cars the second hand market for utility segment is negligible. Being, primarily used for commercial purposes utility vehicles undergo significant wear and tear making its resale value insignificant. Also utility vehicles offer relatively low fuel economy and the households that can afford operating the vehicle on low fuel economy would typically prefer to own a new utility vehicle.

**Unorganised segment continue to second hand car market**

Second hand car market has been dominated by unorganised segment since inception. Even currently, second hand car market is dominated by the unorganised sector, contributing around 88-90 per cent of second hand car sales. As buying second hand cars involves greater degree of trust in terms of knowing genuineness of ownership or title, quality of the spare parts, transparency in any charges relating to accident etc, buyer prefer to purchase from known sellers through direct personal contacts. This has led to evolution of localized second hand car brokers. It is estimated that around half of used car deals happens through such local brokers.

**Proportion of organised and un organised segment in used car market**



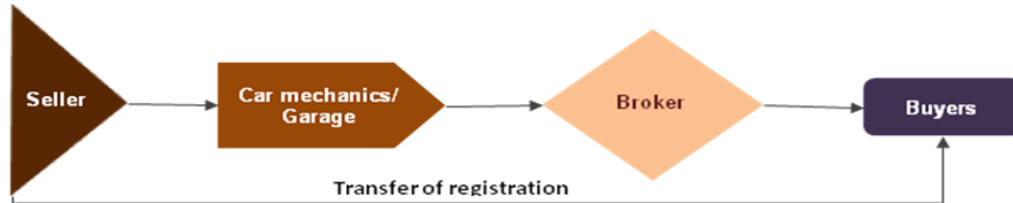
**Source: CARE Research estimates**

**Broker are critical component in the value chain of un organized market**

Local brokers are the most important party in value chain to un organised segment. CARE Research believes a medium size broker closes nearly 8-10 models per month and charges commission around 2-3 per cent per deal from both buyer and seller. These brokers also provide

services like insurance, registration of transfer of title in the Regional Transport Office (RTO). In some case these brokers also own workshops, whereby they provide refurbishment of used car.

**Value chain in unorganised segment**

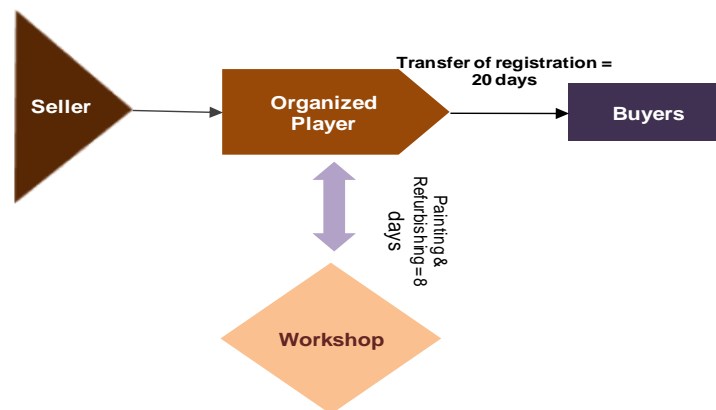


Source: CARE Research

**Organised market has been gaining momentum**

Huge potential of second hand car market had influenced almost all major passenger car OEMs to venture in used car business. Maruti True Value and Mahindra First Choice were among the early entrants in this market. Initially second hand car business was used as a tool by the OEMs to sell their own vehicles by offering attractive exchange offers. However, as the awareness about the organised second hand car market has increased the response of the buyers have been very encouraging. That has led OEMs to consider used car business as high potential business.

**Value chain in organised segment**



Source: CARE Research estimates

Some of the major used car business ventures of the OEMs are listed below:

- True Value (Maruti Suzuki)
- First Choice (Mahindra, in joint venture with HDFC and Sah & Sanghi)
- Assured (Ford)
- Advantage (Hyundai)
- Auto Terrace (Honda)

### Online portals is a fast emerging concept

Online portals are a fast emerging concept in used passenger car market. Vast coverage has attracted many buyers and sellers to register their cars through these portals. However, the conversion ratio through these portal are very low as trust factor between buyer and seller is missing which is very important criteria in any used car market.

### Financing scenario

The entry of organized players in the second hand car market attracted many financial institutions to this market. Some of the major private and public sector banks and financial institutions currently finance second hand car purchases, include Kotak Mahindra Prime, HDFC Bank, ICICI Bank, State Bank of India and Punjab National Bank. Currently, the maximum tenure offered for loans is 60 months and up to 70-85 per cent of the deal value is financed depending upon the profile of the buyer and usage of a car. However, these players have restricted themselves to finance used cars purchased through organized segment. The rate of interest for pre-owned car finance is around 300-400 basis points higher than that for new car finance.

### Increasing demand for low cost cars – A key challenge for second hand car market

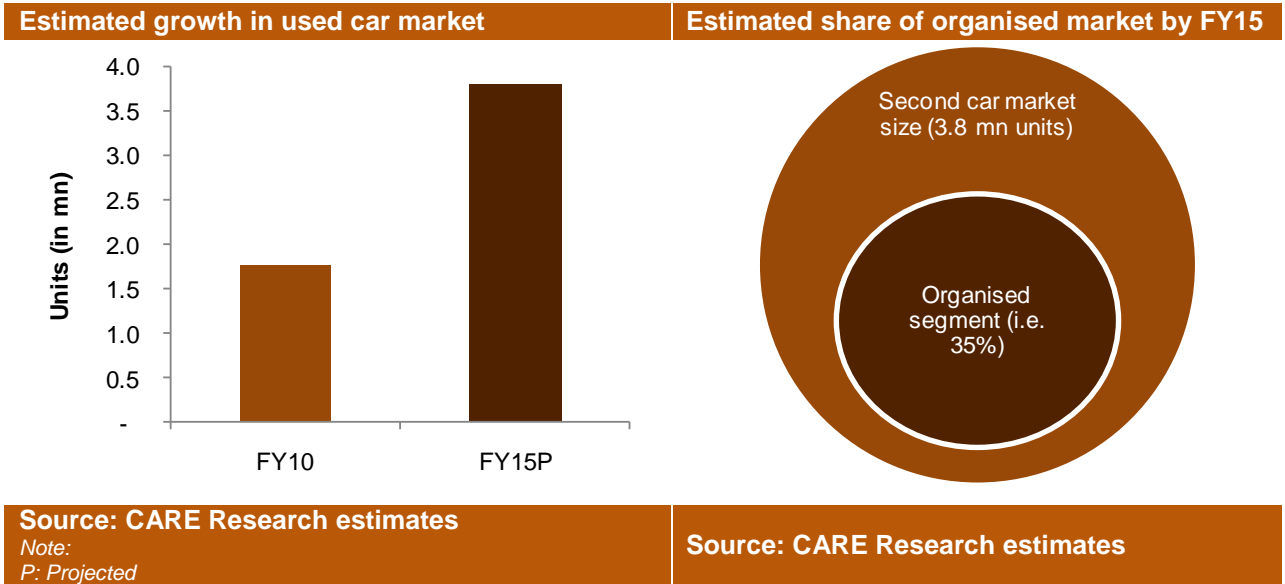
The pre-owned car market faces competition from new car market as well as relishes benefits from it. New launches in the low cost segment like mini and entry level compact take away many aspirants from the used car market. It also has a negative impact on the resale price of the pre-owned vehicles. Similar scenario was observed during the launch of Tata Nano. However, new launches in higher-end mid-size, executive and premium segment and owners upgrading to these cars by selling their existing cars, fuels growth in second hand car market.

| Cost comparison between new and used cars |             |             |                  |
|---|-------------|-------------|------------------|
|   | Tata Nano   | New Santro  | Used Car- Santro |
| Purchase Value (PV)                       | 2,10,000    | 4,00,000    | 2,30,000         |
| Loan - To - Value (LTV)                   | 85%         | 85%         | 85%              |
| Down payment (DP)                         | 31,500      | 60,000      | 34,500           |
| Loan Amount                               | 1,78,500    | 3,40,000    | 1,95,500         |
| Interest rate (%)                         | 13%         | 13%         | 17%              |
| Tenure (In Months)                        | 60          | 60          | 60               |
| EMI                                       | Rs. 4,061.4 | Rs. 7,736.0 | Rs. 4,858.7      |
| <b>Source: CARE Research</b>              |             |             |                  |

### Second hand car market to grow at CAGR of 18-20 per cent till FY15

CARE Research believes second hand car market is at influx point. It estimates, the size of second hand car market to increase at a CAGR of around 18-20 per cent in next five years growing from 1.8 million in FY10 to around 3.8 million by FY15. Rising income levels, huge base of two-wheeler owners upgrading to used cars and healthy financing scenario would be key

factors that would determine growth in domestic second hand car market. CARE Research also foresees that organised segment to dominate industry growth. With increasing number of OEMs venturing into second hand car market the share of organised segment would rise to substantial 30-35 per cent in next five year period.



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