

Mid-size car, everyone's desire...

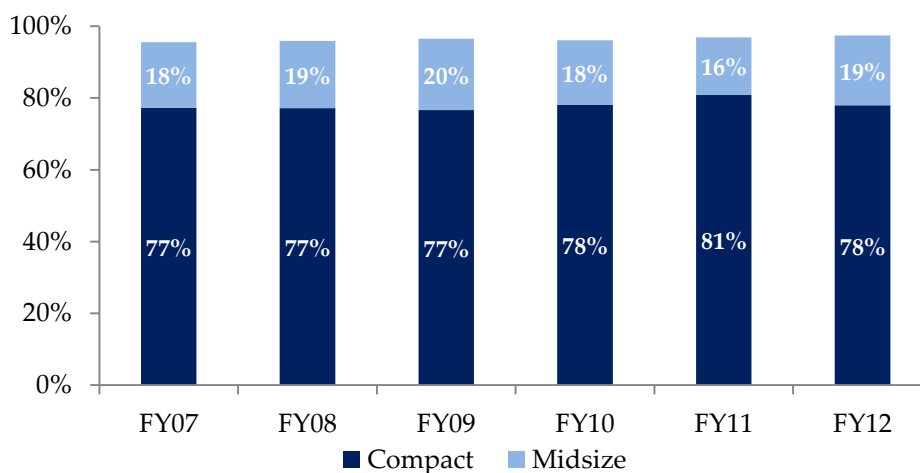
'Diminishing price gap between mid-size and compact cars pushing demand for mid-size sedans'

The domestic passenger car industry in contrast with the situation a decade ago, when it used to be led by “Maruti 800”, “Ambassador” is now flooded with number of models from a “Nano” to the “Rolls-Royce”. The buyers in the present market are spoilt for choice to select among the various brands, segments and variants. Every now and then OEMs are coming up with novel innovations to offer new variants and in some instances an entirely new segment is created to lure the customers.

Compact car still continues to remain the preferred segment

India has been predominantly market for compact cars since the introduction of Maruti 800 in 1984. Maruti Suzuki India Ltd (erstwhile Maruti Udyog Ltd) understood the psyche of Indian customers well and introduced small economical passenger car models which required low maintenance cost. Replicating this strategy also benefited some of the new entrants like Hyundai and Tata Motors during the late 90's, which also announced their entry by introducing small economical cars. For almost one and half decades, the small car segment in India has contributed almost 3/4th of the domestic passenger car demand. Even in FY12, the small car segment formed around 78 per cent of the domestic passenger car sales. Rise in income levels, ease in finance availability has been the primary driver for the growth in small car sales during last one decade. Further, factors like narrow roads, lack of proper parking infrastructure at public places, etc has led customers favouring small cars over bigger cars.

Chart: Trend in share of compact and mid size segment



Source: CARE Research

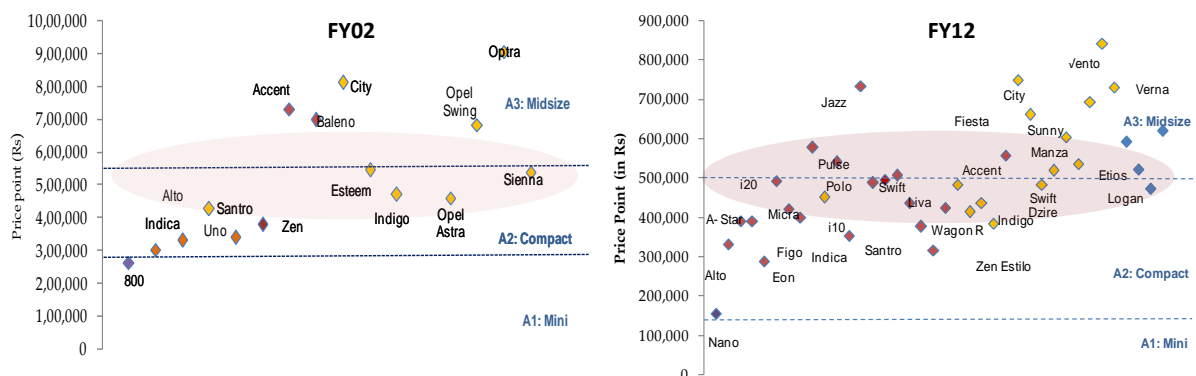
New launches at regular intervals triggered the growth in small car segment

The small cars are mainly targeted to entry level buyer. Being a large market, OEMs upgrade their product offerings by launching new models or variants regularly, In 2006, the launch of MSIL Swift led to the emergence of new sub-segment widely known as premium compact segment in small cars. This successful launch was followed by flurry of new launches like Hyundai i20, Ford Figo, Skoda Fabia, Honda Jazz, New Indica Vista, Fiat Punto etc in this segment in next 3-4 year period. These models were priced between conventional compact cars and mid-size (i.e. in a price bracket of around Rs 4.5 – 6.5 lakhs). While some models succeeded, others failed to lure customers owing to either over pricing or limited distribution.

Redesigning product technology and commonization of platform has enabled OEMs to bring down the prices of mid-size cars

Pricing is one of the most important parameters that influence the demand for passenger cars significantly. Being a highly competitive industry, it is important for the manufacturer to price their products appropriately. Almost a decade back the mid size segment mainly comprised of high end models like Hyundai Accent, Maruti Baleno, Honda City, Mitsubishi Lancer, Opel Astra, etc which were priced in a range of 7-10 lakhs. The success of economical mid-size car Indigo, OEMs tried different strategies like commonization of platform (VW Vento and Polo, Toyota Etios and Liva, Tata Indica and Indigo), redesigning the product to avail concessional excise duty (Tata Indigo and MSIL Swift Dzire) or increasing indigenisation levels in order to bring down product pricing. These measures led to considerable drop in average price of midsize cars from a range of around 7-8 lakhs to around 6-7 lakhs in last 3-4 years. Further, the availability of diesel variants in almost all the models also provided a push to the demand for mid-size cars recently.

Chart: Diminishing price gap between compact and mid size segment



Source: CARE Research

Note: The prices mentioned are ex-showroom Delhi

...Leading to diminishing of price differentials between premium compact sub-segment and midsize segment cars

CARE Research has observed that some of the economical mid-size cars that have been successful in the industry are enhancement of their premium compact cousins. As these cars are built on the platform of their premium compact car variants, OEMs have been able to price them at much lower range as compared to the conventional mid-size cars. For example 7-8 years ago, the price difference between compact cars and mid-size cars was around Rs 3-3.5 lakhs, which has now reduced to around Rs0.5-1 lakh. Further, with the availability of easy financing option, the EMI for economical mid-size cars currently is less than Rs1,000 as compared to a premium compact car, that consequently has led to sharp rise in the sales of economical mid-size cars.

Marginal Difference in EMI		
	Swift Vxi	Swift Dzire Vxi
On Road Price	5,88,000	6,42,000
Down payment	1,17,600	1,28,400
Loan Amount	4,70,400	5,13,600
Tenure (months)	60	60
Interest Rates (%)	11.5	11.5
EMI	Rs. 10,345.32	Rs. 11,295.40
Difference		Rs. 950.08

Source: CARE Research

CARE Research estimates that demand for mid-size cars will continue to witness a healthy growth in FY13. Narrowing price difference between premium compact and midsize cars along with shifting preferences of the upper middle class population towards this segment because of greater power, comfort, space and wide offerings in diesel segment would fuel this growth.

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