

"Passenger vehicle industry - On the verge of yet another structural shift..."

The Indian passenger car market continues to be dominated by small and compact segment. However, de-regulation in petrol during the first quarter of FY11 instigated series of structural shifts in the industry. CARE Research observed that the small and compact car segment which had been the sole driver of the industry growth not so long back, observed a drop in demand by around 1 per cent in FY12, while the bigger midsize cars and utility vehicles (UVs) were the driver for the industry growth registering a rise of around 24 per cent and 16 per cent respectively. CARE Research observed that some of the key parameters like de-regulation of petrol, supply disruption in Maruti Suzuki, diminishing price differentials between compact and mid-size cars, and launches of affordable UVs led to the structural changes in the passenger vehicle industry during last two years.

Chart: Trend in PV Demand

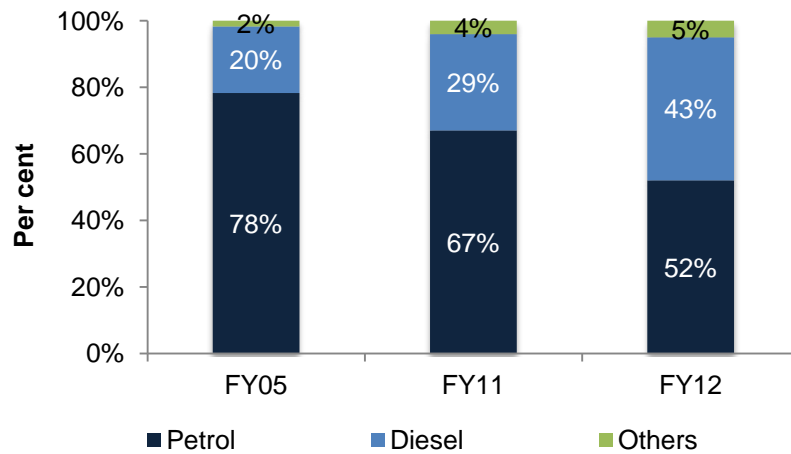
Units	FY11	FY12	Y-o-Y Growth	Apr-Nov11	Apr-Nov 12	Y-o-Y Growth
A1: Mini	761,244	716,536	-6%	425,784	401,200	-6%
A2: Compact	975,587	1,042,506	7%	630,821	668,158	6%
A3: Mid-sized	174,077	204,743	18%	124,325	133,999	8%
A4: Executive	50,085	41,102	-18%	24,739	16,687	-33%
A5: Premium	11,046	10,441	-5%	4,256	2,804	-34%
A6: Luxury	805	787	-2%	15,128	17,840	18%
Passenger cars	1,972,844	2,016,115	2%	1,225,053	1,240,688	8%
Utility Vehicles	3,15,123	3,67,012	16%	2,21,327	3,57,852	62%
Multi Purpose Vans	2,13,574	2,34,945	10%	1,52,433	1,54,019	1%

Source: CARE Research and Society of Indian Automobile Manufacturers (SIAM)

De-regulation in petrol prices, triggered a major structural change in the industry...

The last 2-3 years period has been challenging for the industry, as it had to cope with some of the most significant structural change ever to have taken place in passenger vehicle industry. De-regularisation in petrol prices has been the most substantial one, which led to spurt in the demand for diesel vehicles. CARE Research observed that the composition of diesel vehicles in overall passenger vehicle sales was estimated to be around 25 per cent in FY09 has increased to around 43-45 per cent in FY12. In the models where the option of both diesel and petrol is available, the share of diesel variants is even higher at around 80 per cent.

Chart: Diesel and petrol mix in PV industry



Source: CARE Research estimates

Note: Others include Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG) and electric vehicles

...Limited availability of diesel variants in small cars segment strained its growth momentum

The small car segment, that constituted nearly 3/4th of the industry demand witness a drop of around 1 per cent on y-o-y basis in FY12. CARE Research observed that lower availability of diesel offerings in small car segment strained its growth during the said period. The growth of this segment was also constrained by series of supply disruptions due to labour unrest at largest small car manufacturer Maruti Suzuki's Manesar plant since second half of FY12. Furthermore, small cars bore the brunt of high interest rates as buyers of this segment are highly dependent on financing. Thus small car buyers are more sensitive to interest rate fluctuations as compared the buyers of sedans and UVs who are less dependent on financing.

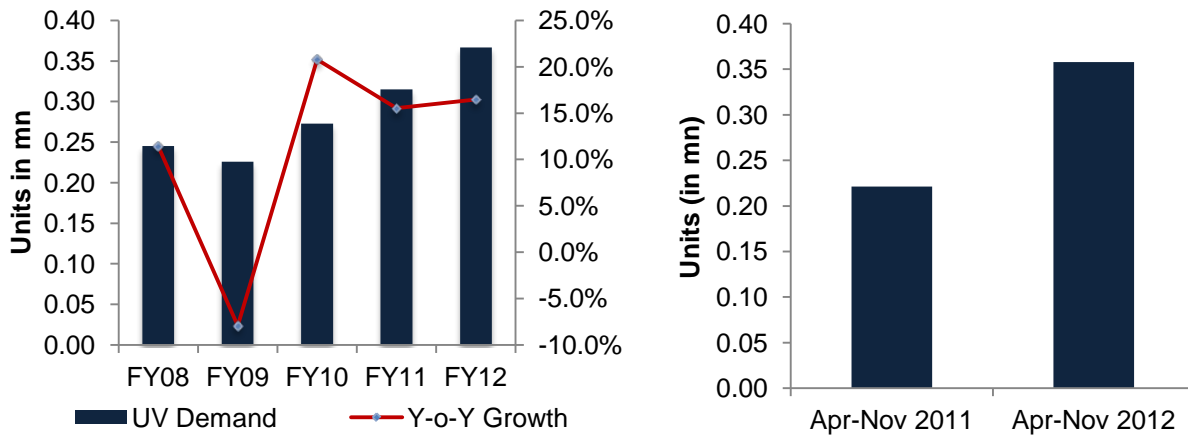
... Diminishing of price differentials between premium compact and midsize segment cars along with higher penetration of diesel variants fuelled the demand for midsize cars

CARE Research observed that, OEMs applied strategies like commonization of platform (VW Vento and Polo, Toyota Etios and Liva, Tata Indica and Indigo), product re-designing to avail concessional excise duty (Tata Indigo and MSIL Swift Dzire) or enhancing the use of local components in order to bring down product pricing. These measures led to considerable drop in average price of midsize cars in last 3-4 years, from a range of around 7-8 lakhs to around 6-7 lakhs. Further, availability of diesel variants in almost all the models in mid-size segment also helped the segment to clock the growth of around 17 per cent during FY10-FY12 period.

... Recent launches of mini UVs at affordable prices prompted a new structural shift in FY13

The utility vehicle segment has been historically dominated by diesel models. Post de-regulation of petrol, the UVs too witnessed a healthy rise in demand i.e. around 18 per cent on a CAGR basis during FY10-FY12 period. However, the major structural shift cropped up after the launch of Maruti Suzuki’s “Ertiga” in April 2012 followed by the launch of Renault’s “Duster” and M&M’s “Quanto” within next 5 months. Although mini-SUV like Premier Automobiles “Rio” was already present in the industry since last two years, these launches by top brands in passenger vehicle industry received a over whelming response from the customers.

Chart: Trend in UV demand

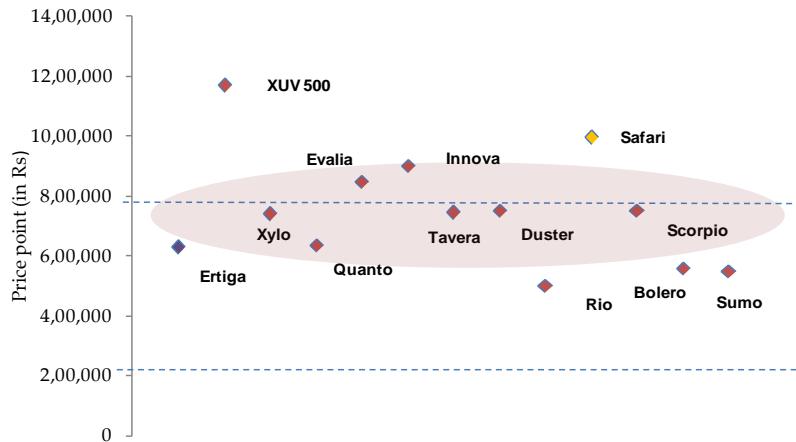


Source: CARE Research and Society of Indian Automobile Manufacturers (SIAM)

Aggressive pricing through product re-engineering led increase in the popularity of UVs

CARE Research observed that aggressive pricing of these UVs greatly influences the demand as it has considerably reduced the price differential between midsize sedan and small UVs. OEMs have been able to bring down the price either by using new generation of highly efficient lower power engines or through sharing of platforms with existing car models. For example, these recent breed of UVs are using new generation engines having a capacity of around 1000cc - 1500cc, but are able to generate power similar to the conventional engines having a capacity of around 2200cc - 2500cc. Further, greater seating space and comfort provided by these models also enabled UVs to grab significant share of demand from midsize cars. CARE Research believes that increasing popularity of small UVs has enabled the segment to record an impressive rise of around 61 per cent even during the tough times of the first nine months of FY13.

Chart: Key models in UV segment with their price points



Source: Industry and CARE Research
 Note: All prices ex showroom (Delhi) for base variants

New model launches in mini UVs would continue to keep demand for UVs strong

UVs will continue to improve their market share as they provide a variety of features over their counterparts like better power, convenience of travelling with family due to large space, comfort during long travels, better view of road, more street presence etc. Moreover, wide range of diesel offerings and host of new model launches lined up in UV segment both premium as well as mini UV segment will continue to drive growth for UVs . CARE Research observed that almost all the key manufacturers are planning to enhance their presence in the UV segment by launching new models. Some of the key launches lined up in this segment are Chevrolet Enjoy, Ford Ecosport, mini Tata Aria etc. CARE Research foresees, UV demand to remain strong and would continue to drive growth in PV industry for near to medium term period owing to healthy demand from tour operators for affordable UVs, increased preference from high income class customers with large families combined with expansion in demand for luxury UVs due to availability of wide range of models.

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