

UV thrust

India shedding its small-car skew, embracing utility vehicles

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No more a small cars market

The share of utility vehicles (UVs) in the overall domestic passenger vehicle (PV) segment increased to 48% in the first nine months of fiscal 2022 from 15% about two decades ago (fiscal 2002) — a whopping 3,300 basis points (bps) jump.

This indicates a clear shift in consumer preference towards UVs, contrary to the long-held view that India is a small cars market.

Indeed, the share of small cars declined from 65% in fiscal 2012 to 45% in the first nine months of fiscal 2022. This shift was felt more so in fiscals 2021 and 2022 as income sentiments of entry level car buyers has been impacted due to Covid-19 which has also led to a spurt in UV sales share.

We take a look at aspects such as entry of new players, launch of new UV models, the increasing share of petrol variants, varying goods and services tax (GST) rates across sub-segments, and the share of UVs in international PV markets to say for sure.

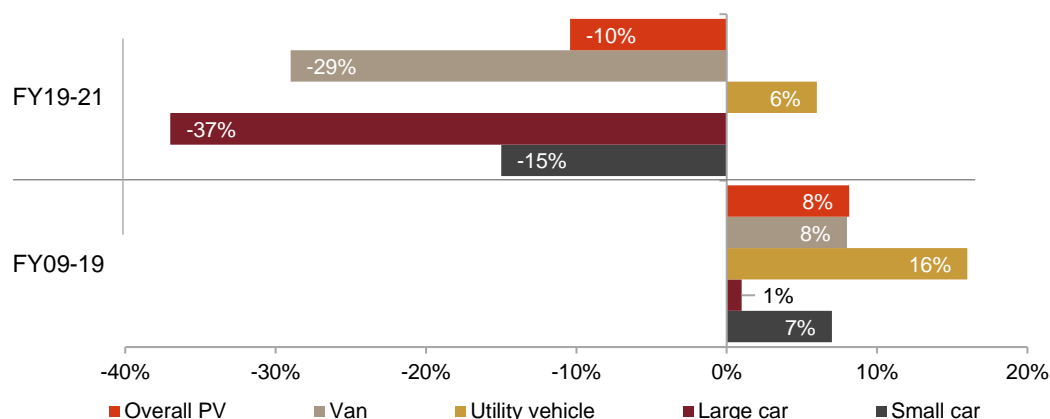
India’s booming UV segment

India’s PV market remains an underpenetrated consumption segment with 24 vehicles per 1,000 people. A growing middle class and rising per capita income make it one of the preferred target markets for auto players, leading to many original equipment manufacturers (OEMs) setting up presence here.

For long, the market has been skewed towards small car segments — including micro, mini and compact vehicles whose lengths vary from 3,200 mm to 4,000 mm — which have predictably drawn the most action from OEMs.

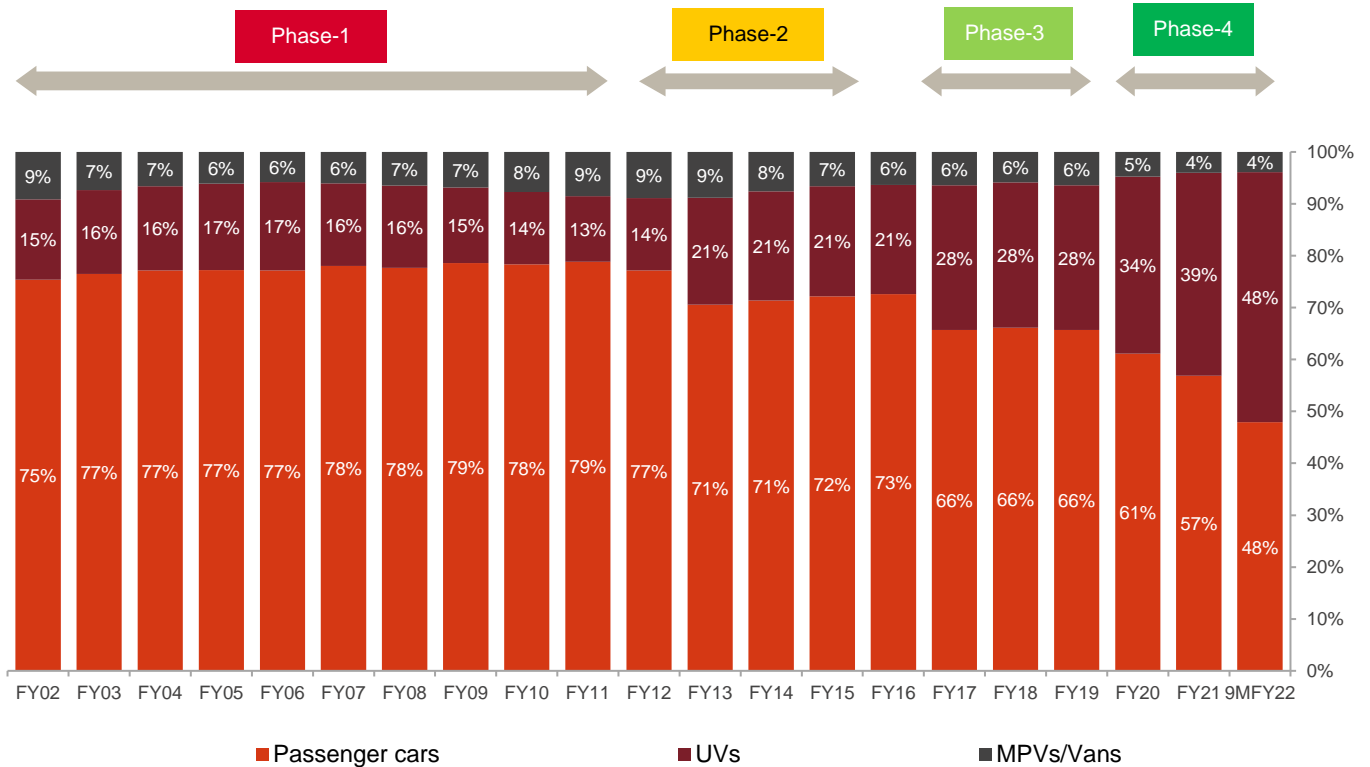
Recent years, however, have seen a major shift in consumer preference, especially in urban areas. Between fiscals 2009 and 2019, the small car segment logged a compound annual growth rate (CAGR) of 7%, while UVs — defined as either four-wheel-drive (4WD) or two-wheel-drive (2WD) vehicles having off-road capability and lengths of 3,800mm to 5,100 mm — logged a CAGR of 16%. While a part this growth is due to low-base effect, the entry of new players and launch of new models have also pushed the change in consumer bent.

UV growth has pulled ahead in the past decade



Source: SIAM, CRISIL Research

PV market share by segment



Source: SIAM, CRISIL Research

Phase 1 — Bolero, Innova, Scorpio ensure stable UV share in PV market till fiscal 2012

In fiscal 2002, the UV market had a modest six players and 11 models for sale in this segment — Maruti Suzuki (*Gypsy*), Mahindra & Mahindra (*Bolero* and *Scorpio*), Toyota (*Qualis*, *Innova* and *Prado*), Tata Motors (*Sumo* and *Safari*), Force Motors (*Trax*) and Hindustan Motors (*Pajero* and *Trekker*).

By 2010, a host of new models, including *Tavera* (fiscal 2003), *Endeavour* (fiscal 2004), *Terracan* (fiscal 2004), *CR-V* (fiscal 2005), *Xylo* (fiscal 2009), and *Fortuner* (fiscal 2010) etc. had entered the fray.

However, the UV segment did not get much traction as these vehicles were primarily used for intercity travel in the commercial segment and in rural areas due to poor road conditions. Not surprisingly, the segment’s share of PVs remained stagnant at 14-17% in fiscal 2012 compared with ~15% of in fiscal 2002.

Phase 2 – Duster, Ertiga, Ecosport and XUV500 change UV market dynamics

Mahindra *XUV 500*, which was launched in September 2011, backed by marketing, advertisement campaigns, and interactive social media platforms, was M&M’s success story of fiscal 2012. It sold ~45,000 (8% share in the UV segment and fifth-best-selling UV model) and ~30,000 (6% share in the UV segment and seventh-best-selling UV model) units in fiscals 2013 and 2014, respectively.

Maruti Suzuki, which was largely absent in this segment, launched *Ertiga* (March 2012) at an introductory price range of Rs 5.89-8.45 lakh (ex-showroom Delhi). This model was well accepted by the Indian consumers and broke into the top-three bestselling UVs within the second month of its launch and was the second-bestselling UV in its third month with a share of ~17% (in May 2012), behind only *Bolero*. *Ertiga* sold ~76,000 (~14% share in the UV segment and third-bestselling UV model) and ~60,000 (~11% share in the UV segment and second-bestselling UV model) units in fiscals 2013 and 2014, respectively.

In fiscal 2013, Renault sensed an opportunity between sport utility vehicles (SUVs) costing Rs 20 lakh and above manufactured by global players and those priced Rs 6-10 lakh by Indian companies. It launched *Duster* at Rs 7.78-11.79 lakh (ex-showroom Delhi), after nearly 41 modifications to the European variant. *Duster* broke into the top-10 bestselling UVs in the first month of its launch (July 2012) and into the top-three in its fifth month, with a share of ~11% (in November 2012). It sold ~39,000 (~7% share in the UV segment; sixth-bestselling UV model) and ~47,000 (~9% share in the UV segment; fifth-bestselling UV model) units in fiscals 2013 and 2014, respectively.

Following the trend set by Renault with *Duster*, Ford launched *Ecosport* in June 2013 starting Rs 5.59 lakh (ex-showroom Delhi). This model sold ~45,000 (~9% share in the UV segment – sixth-bestselling UV model) and ~52,000 (~9% share in the UV segment – fourth bestselling) units in fiscals 2014 and 2015, respectively.

Phase 3 — Entry of Creta and Vitara Brezza

Hyundai, though a little late in the day, entered the compact SUV party with a bang. It launched *Creta* in June 2015 for Rs 8.59-13.6 lakh (ex-showroom Delhi). The impact was such that it displaced *Bolero*, India's largest selling SUV for almost a decade, in the second month of its entry (in July 2015), taking over the leadership position in this category. *Creta* was thereafter the second-bestselling UV in fiscals 2016, 2017, 2018, and 2019 with ~64,000 (~11% share in the UV segment), ~97,000 (~13% share in the UV segment), ~107,000 (~12% share in the UV segment), 124,000 (~13% share in the UV segment) units, respectively, only behind *Vitara Brezza*.

On similar lines, in March 2016, Maruti Suzuki launched *Vitara Brezza* in the sub-4 metre SUV category for Rs 6.99-9.68 lakh (ex-showroom Delhi). This model became the all-time best-selling UV in fiscals 2017 (~14% share in the UV segment), 2018 (~16% share in the UV segment), and 2019 (~17% share in the UV segment) with sales of more than a lakh each fiscal.

Phase 4 — Entry of new players Kia and MG

Kia *Seltos*, launched in August 2019 at a starting price of Rs 9.95 lakh (ex-showroom Delhi), was promoted as 'connected SUV' and 'internet SUV'. Its impact was such that it became the fourth-bestselling UV with a share of ~8% in the UV segment in the first month of its launch and the top-selling UV in October and November consecutively, with shares of 13% and 15%, respectively. This model went on to grab a share of ~9% in fiscal 2020 (fourth-bestselling UV) and ~8% in fiscal 2021 (fourth-bestselling UV).

Further, models such as *Venue* (launched in May 2019; share of 10% in fiscal 2020), *Tribes* (launched in August 2019; share of 4% in fiscal 2020), and *Hector* (launched in July 2019; share of 2% in fiscal 2020) increased the share of UVs in the PV industry to 34% in fiscal 2020 from 28% in fiscal 2019.

In September 2020, Kia launched its first sub-4m compact SUV, *Sonet*, at an attractive price tag of Rs 6.71 lakh (ex-showroom Delhi). It showed incredible resonance in the domestic market, with sales of 9,266 units in the first month of its launch and a share of 9% in the UV segment. This model recorded sales of ~63,000 (6% share in the UV segment and seventh-best-selling UV model) and ~54,000 (6% share in UV segment and sixth-best-selling UV model) units in fiscal 2021 and first half of fiscal 2022, respectively.

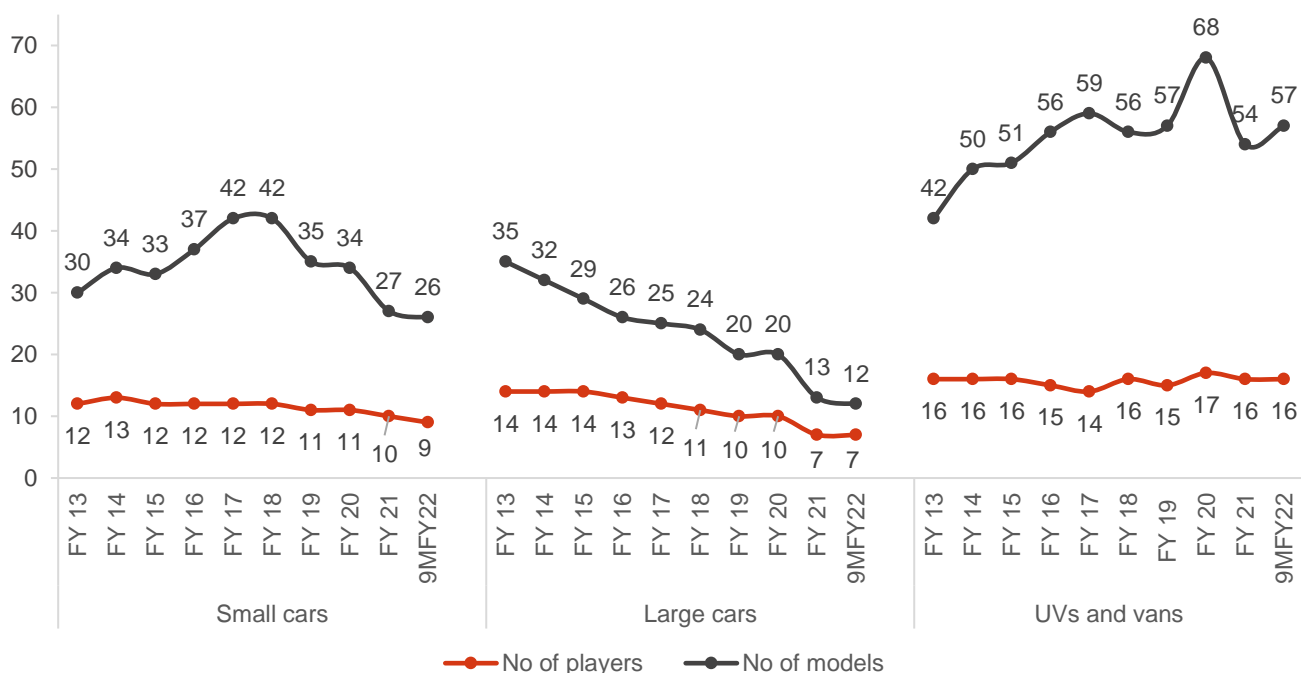
Further, models such as *Urban Cruiser* (launched in October 2020; share of ~2% in fiscal 2021), *Magnite* (launched in December 2020; share of ~1% in fiscal 2021), *Kiger* (launched in February 2021; share of ~1% in fiscal 2021), along with the continued traction of UV models launched from fiscals 2016 and 2017 onwards, increased the share of UVs in the PV industry from 34% in fiscal 2020 to 39% in fiscal 2021.

The first nine months of fiscal 2022 saw several UV models launches such as Tata *Punch*, Mahindra *XUV700*, Skoda *Kushaq*, and Volkswagen *Taigun* raising the share of UVs further to 48%.

Structural transition of UVs

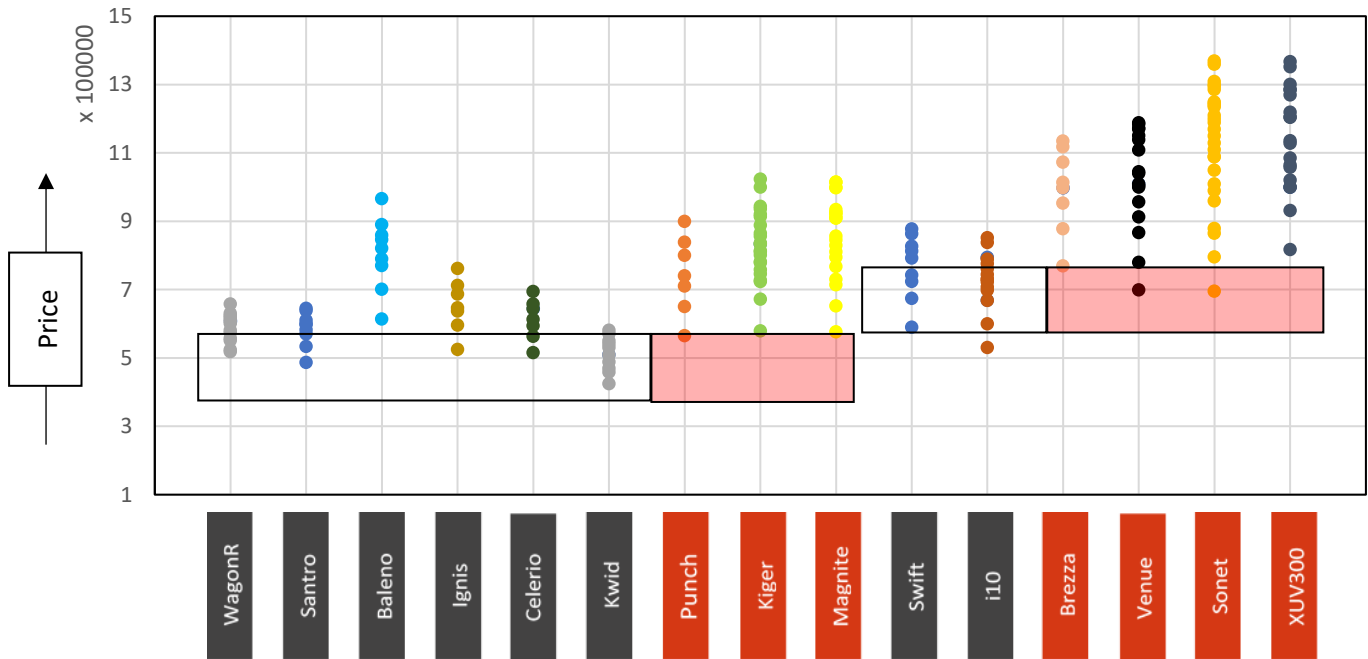
The role of UVs transitioned structurally from commercial to personal mainly over phases 3 and 4, increasing their penetration. UVs have evolved from being a typical off-road 4WD diesel vehicle with ladder-on-frame construction to an on-road 2WD/4WD, petrol/diesel vehicle with unibody architecture, driven in cities/ highways and never on muddy fields — a change that has fuelled growth.

Number of models for both small and large cars has seen a reduction over years, in contrast UVs have seen a sharp increase



As shown above, the majority of players and models operate in the UV and vans segment. The number of models in this space increased to 68 in fiscal 2020 from 42 in fiscal 2013. In contrast, the small car segment models declined to 26 in the first nine months of fiscal 2022 from 42 in fiscal 2017.

Price overlap between premium hatchbacks and lower-end compact UVs



Source: CRISIL Research

Legend:

Passenger Car
UV

As indicated in the above graph, there is a clear overlap in prices between the small car segment and compact UVs. For example, small cars *Swift*, *Baleno*, and *Ignis* are in the same price bracket as some of the compact UVs such as *Punch*, *Magnite* and *Kiger*. There is also an overlap between upper end of small cars and the lower end of compact UVs such as *Sonet*, *Venue*, and *XUV 300*. Thus, consumers have a variety of options across segments at different price points.

Top 25 PVs by sales across four phases

Rank	Model	Share (FY12)	Model	Share (FY14)	Model	Share (FY19)	Model	Share (FY21)	Model	Share (9MFY22)
1	Alto	12%	Alto	10%	Alto	8%	Swift	6%	WagonR	6%
2	Swift	6%	Swift	8%	Dzire	8%	Baleno	6%	Swift	5%
3	WagonR	6%	Dzire	8%	Swift	7%	WagonR	6%	Baleno	5%
4	i10	5%	WagonR	6%	Baleno	6%	Alto	6%	Alto	5%
5	Dzire	4%	Bolero	4%	Brezza	5%	Dzire	5%	Creta	4%
6	Indica	4%	Eon	3%	i20	4%	Creta	4%	Ertiga	4%
7	Bolero	4%	Amaze	3%	i10	4%	Eeco	4%	Nexon	4%
8	Omni	3%	i10 Grand	3%	Creta	4%	i10	4%	Brezza	4%
9	Indigo	3%	Omni	3%	WagonR	3%	Brezza	3%	Eeco	4%
10	i20	3%	i10	3%	Celerio	3%	Venue	3%	Dzire	4%
11	Nano	3%	i20	2%	Tiago	3%	Seltos	3%	Venue	3%
12	Figo	3%	Ertiga	2%	Eeco	3%	Ertiga	3%	Seltos	3%
13	Santro	3%	Innova	2%	Omni	3%	i20	3%	i10	3%
14	Ritz	2%	Indica	2%	Amaze	3%	S-Presso	2%	Sonet	3%
15	Eeco	2%	Scorpio	2%	Innova	2%	Sonet	2%	Altroz	2%
16	Innova	2%	Duster	2%	Bolero	2%	Tiago	2%	i20	2%
17	Eon	2%	Verna	2%	Ertiga	2%	Nexon	2%	Tiago	2%
18	Iris	2%	Ecosport	2%	Kwid	2%	Celerio	2%	S-Presso	2%
19	Scorpio	2%	Santro	2%	Nexon	2%	Altroz	2%	Innova	2%
20	Beat	2%	Iris	2%	Santro	1%	Bolero	2%	XUV300	2%
21	Etios	2%	Eeco	2%	Scorpio	1%	Triber	2%	XL6	1%
22	Verna	2%	City	1%	Ecosport	1%	Kwid	2%	Bolero	1%
23	Polo	2%	Figo	1%	Ciaz	1%	Amaze	2%	Honda City	1%
24	City	1%	Ritz	1%	WagonR	1%	Innova	1%	Scorpio	1%
25	Vento	1%	Etios	1%	City	1%	XUV300	1%	Magnite	1%

Source: SIAM, CRISIL Research

Legend:

Passenger Car
UV
Multi-Purpose Vehicle/Van

It is also evident that the number of UVs in the top 25 bestselling models increased to 13 in the first nine months of fiscal 2022 from just three models in fiscal 2012.

Low prices of recently launched compact SUVs

GST is applied on cars depending on body length, fuel type, and usage.

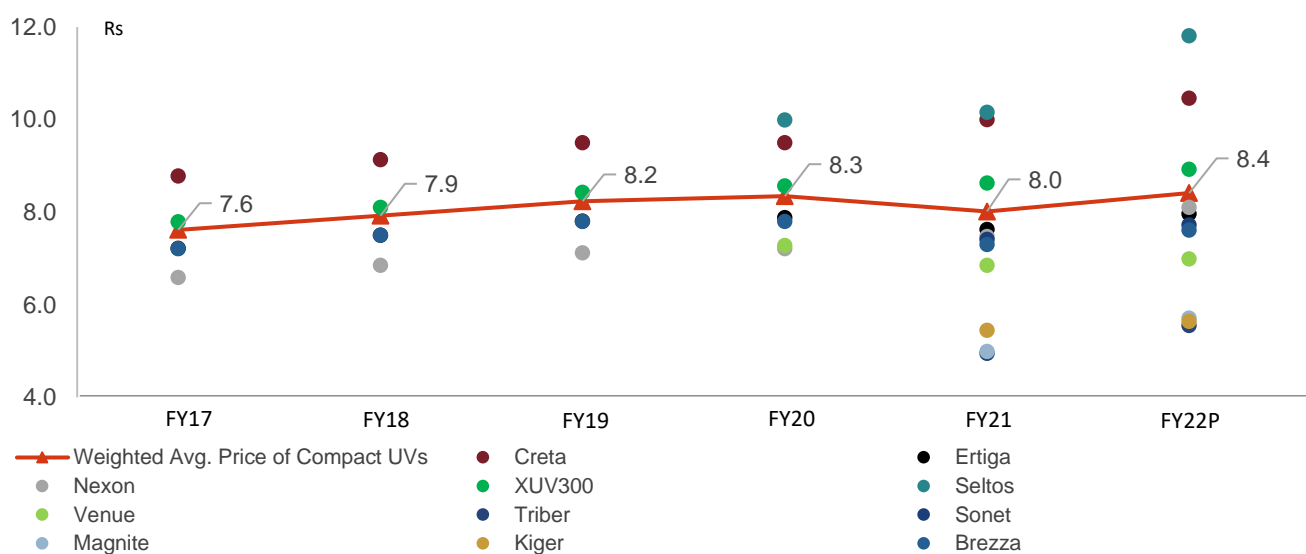
In the sub-4m segment, cars with petrol engine displacing less than 1.2 litre are the most popular category in the Indian market and attract GST plus cess equal to 29%. Cars with diesel engine displacing less than 1.5 litres attract

GST plus cess equal to 31%. Cars with petrol engine displacing more than 1.2 litre and diesel engine displacing more than 1.5 litre attract a GST plus cess equal to 43%.

All other categories — petrol and diesel variants of SUVs and non-SUVs larger than 4m — attract GST plus cess equal to 45-50%.

Weighted average price of top performing sub-compact UVs

Weighted average prices of UVs decreased in fiscal 2021



Source: CRISIL Research

The above graph indicates the weighted average price of top-performing sub-compact UVs in the country — *Brezza, Creta, Ertiga, Nexon, XUV300, Seltos, Venue, Triber, Sonet, Magnite, and Kiger* — which constitute 70-80% of India’s UV segment. As indicated above, the weighted average price of compact UVs increased ~4% in fiscals 2018 and 2019. Further, after a meagre ~1% increase in fiscal 2020, the weighted average prices of compact UVs decreased ~4% in fiscal 2021 primarily because of two reasons:

Launch of petrol-only models such as Nissan *Magnite* (December 2020 at Rs 4.99 lakh), Renault *Triber* (August 2019 at Rs 4.95 lakh), *Kiger* (February 2021 at Rs 5.45 lakh), and *Sonet* (September 2020 at Rs 6.71 lakh - petrol) at low prices on par with hatchbacks

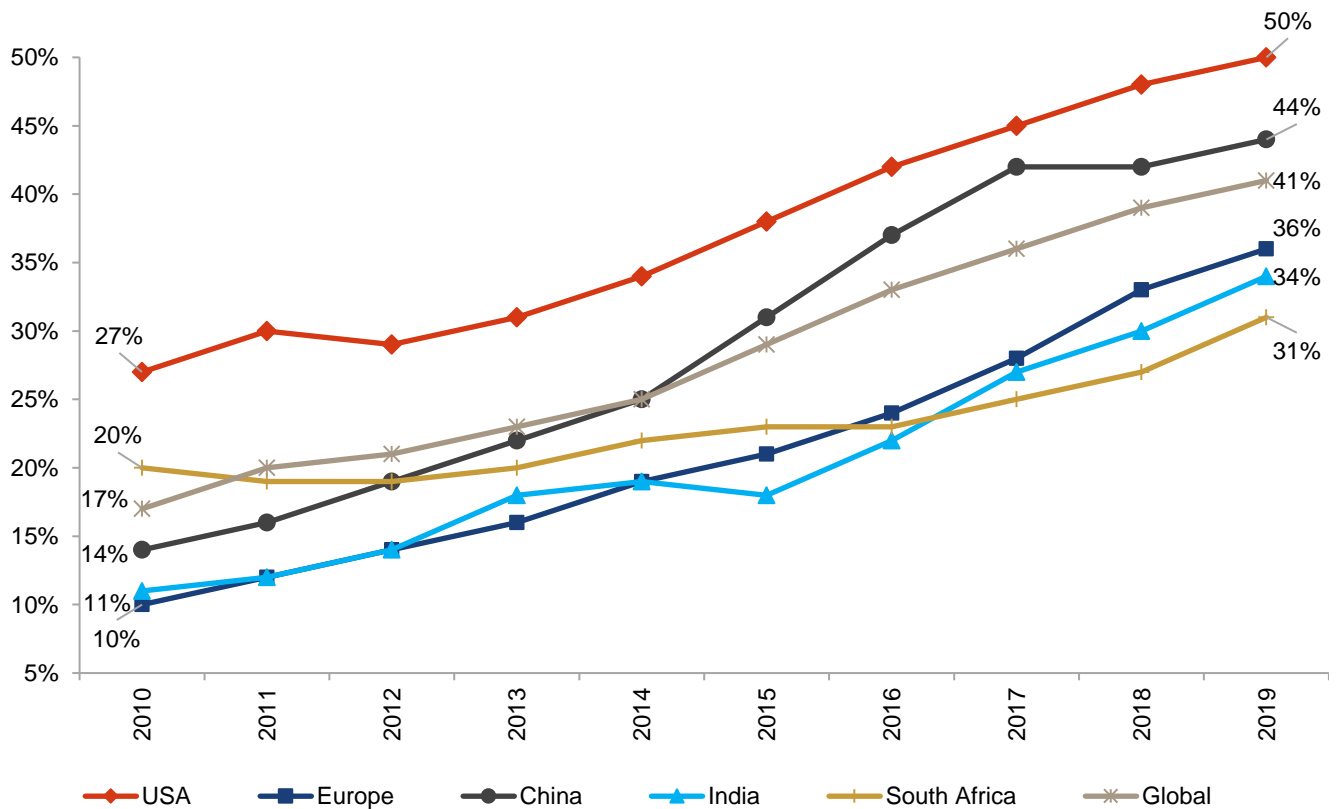
Maruti Suzuki stopped selling diesel-powered vehicles (typically priced 10-20% higher than petrol variants) from April 2020 because the cost to meet Bharat Stage VI (BS VI) emission norms would widen the price difference with petrol run vehicles. While diesel is still cheaper and delivers more km/litre, the higher cost required to make vehicles to meet BS VI emission rules will negate much of the advantages, more so in the small-vehicle segments that are the bread and butter for Maruti Suzuki. This has also played a part in increasing the share of petrol vehicles to 72% in fiscal 2021 from 58% in fiscal 2020

There is a price overlap between premium hatchbacks, entry-level sedans, and the compact SUVs, which indicates there is cross-consideration and more choice for customers.

In the context, consumer preference has shifted towards SUV-type design — aspirational purchase before migrating to a larger SUV, taller driving stance, a more upright and sheer road presence, higher ground clearance, larger tyres, and the flexibility and maximisation of space, etc.

Further, with increasing personal mobility amid safety concerns due to Covid-19, more trips/vacations via own vehicles rather than buses have resulted in aspirational buyers opting for a UV rather than sedan or a hatchback, as it offers better off-roading capability.

Share of UVs in PV markets globally

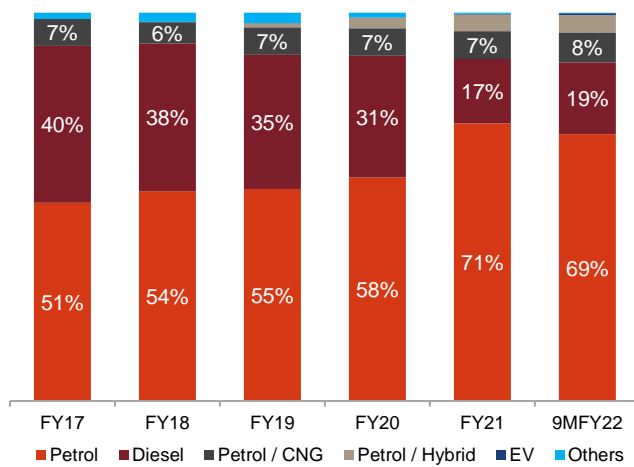


Source: IEA, CRISIL Research

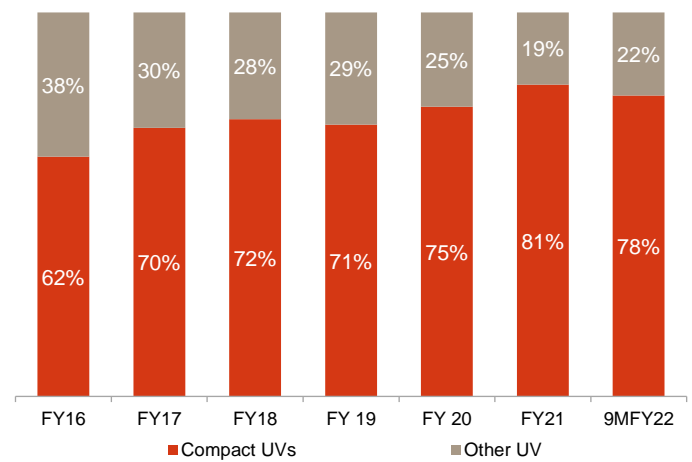
As indicated in the above graph, the rising share of UVs in the Indian PV market mirrors the trend in international markets. The share of UVs in the domestic market increased to 34% in CY2019 from ~11% in CY2010 vis-à-vis an increase to ~41% in 2019 from ~17% in CY2010 in global automobile markets. The US and Europe have leading shares of UVs in the global PV market.

Hence, GST differential among different sub-segments which led to increased model launches in the sub-4m/compact UVs category of PVs, launch of UVs at comparable prices, changing consumer preference and decrease in weighted average UV prices in fiscal 2021 have boosted the share of UVs increasing to 39% in fiscal 2021 and to 48% in the first nine months of fiscal 2022.

Share of petrol-only models on a rising trend



Share of compact UVs on an increasing trend



Source: SIAM, VAHAN, CRISIL Research

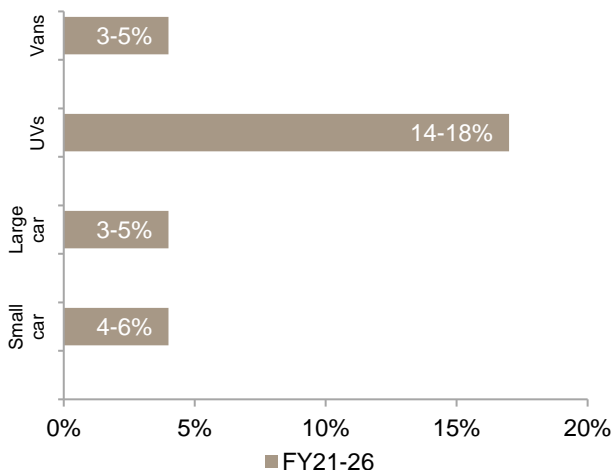
Note: Fuel share in the above graph to the left is for the entire PV industry

Conclusion

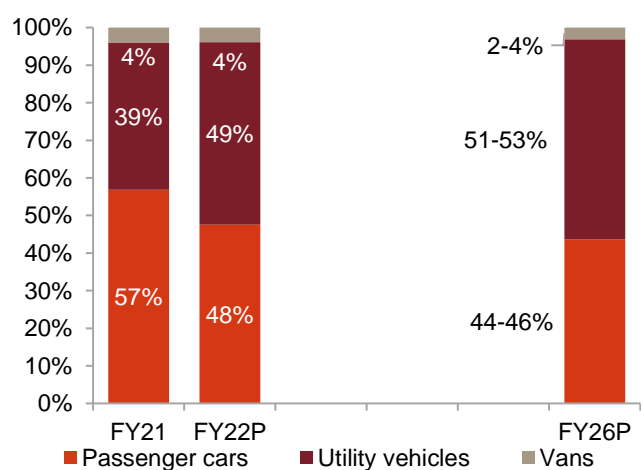
The share of UVs in the PV market has risen steadily over the past decade, riding on new launches at attractive price points, GST differential leading to increased sales of sub 4m compact UV and changing consumer preferences. Lately, the semiconductor shortage that has impacted production of small car market leader Maruti Suzuki, has also led to an optical decrease in the share of small cars and increase in the share of UVs. The uptick in the segment is expected to continue in the near term given all the major upcoming launches are in this segment.

Between fiscals 2021 and 2026, we expect UVs to outperform other segments and log a CAGR of 14-18% compared with just 4-6% in small cars. We also expect the share of the UV market to increase gradually to 51-53% in fiscal 2026 from ~39% in fiscal 2021.

UVs to grow at 14-18% CAGR over FY21-26



Share of UVs to reach 51-53% by FY26



Source: CRISIL Research

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