

# Tax relief, lower duty may aid auto sales

Experts say Budget announcements may boost sales of small as well as used cars

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Makers of two-wheelers and passenger vehicles are pinning hopes on the more than 10 million people who will enter the no-tax zone following the restructuring of income-tax slabs.

And the cut in basic Customs duties (BCD) on imported motorcycles with engine capacities of up to 1,600 cc (from 50 per cent to 40 per cent) and above 1,600 cc (from 50 per cent to 30 per cent) is expected to boost players like Harley-Davidson and Suzuki Hayabusa, and is seen as a response to the new American President's stance on tariffs. While experts indicate the tax initiative may also boost used-car sales, companies like passenger vehicle (PV) market leader Maruti Suzuki are likely to see sales of smaller cars (hatchbacks and compacts) come back on track, amid the rising craze for SUVs.

According to experts, even if an



## A SHOT IN THE ARM FOR 2W, PV FIRMS

- Maruti Suzuki's small car sales dipped 8% (April-Jan), but tax relief may improve affordability and demand
- Import duties on high-end bikes (Harley-Davidson, Suzuki Hayabusa) reduced from 50% to 40% (1,600cc)

additional 5 per cent of people opt to buy new vehicles, it may bring a huge boost to the sector. This is in addition to those who have planned to purchase and may advance them.

Maruti Suzuki India has seen an 8 per cent dip in the mini and compact car segment between April and January. The share of smaller cars (hatchbacks and compacts) is going down in recent years. "It used to hover at 45-46 per cent till 2021, and then the sudden dip happened. Now it has

come down to 23 per cent of the 4 million PVs sold in India. Has this only happened due to aspirations going up? That cannot be true. The real factor is affordability," said a senior executive of a PV OEM.

However, there is another school of thought that says the tax initiative will have a minimal impact on the sales of small cars.

Ravi Bhatia, president and director of Jato Dynamics, said cars that cost up to ₹5 lakh had less than a 1 per cent

and 50% to 30% (>1,600cc)

- Budget's declarations in infra, logistics, and EVs set to drive long-term industry growth
- Some experts say buyers may still prefer feature-rich used cars over basic new models, despite tax savings
- They see duty cut as a diplomatic gesture to Donald Trump rather than a major market driver

share of the PV market, while the ₹5-9.9 lakh segment has a 51 per cent share. "With assumed savings of ₹1 lakh, will the customer put all of it in a new car that has fewer features or go for a used car that is feature-rich and aspirational? That is the question."

A senior executive from a PV OEM feels that the affordability factor, which can be calculated by income levels (especially disposable incomes) growing vis-à-vis growth in vehicle prices, has been adverse for the mid-

dle class in the past few years, leading them to buy used cars instead.

Another factor that will bring buyers back from the used-car market to buying a new entry-level car is that, since sales of smaller cars have reduced in the past three years, availability has declined in the used car market.

S Madheswaran, professor at the Institute for Social and Economic Change, Bengaluru, said: "The move may benefit an additional 10 million people, and a good share of them are aspirational and may opt for a new car or bike." As regards the cut in BCD for two-wheelers, experts are saying this is unlikely to move the needle much, because there is no local competition. "As such, for bikes above 1,600 cc, hardly any players in India manufacture these. Therefore, the duty cut does not make much of a difference as such. It looks more like a countermeasure to please the Donald Trump administration," said the expert.

Hemal Thakkar, senior practice leader and director at Crisil, said: "The income booster (no income tax up to ₹12 lakh) will possibly help the urban economy contribute in a meaningful manner. We are hopeful that the demographic dividend will contribute to reviving consumption-related sectors."



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