

Used cars: A market waiting to be tapped by organised players

Puja Aggarwal Gulati

The size of the used car market, both in India and globally, is surprisingly larger than that of the new car market. Furthermore, it is projected that the used car industry will grow at a faster rate than the new car market. A decade ago, the unorganised sector dominated the Indian used car market.

However, in 2001, Maruti established the country's first organised used car dealership, 'Maruti True Value.' The share of the organised sector in the used car market grew from 4 per cent in 2007 to 15 per cent in 2017. This coincided with the rise of e-commerce, which facilitated the entry of online platforms in the used car market. Various players, including Cars24.com, Droom Technology, Carnation Auto, Cardekho.com, Carwale.com, Cartrade.com, and Olx, have entered the used car e-commerce segment. The organised sector accounted for 20 per



USED MARKET. Good prospects

cent of the used car segment in 2021-22. The used car industry is projected to grow at a CAGR of 12.7 per cent (estimates made by Indian Blue Book 2021-22), while the new car market's CAGR is pegged at 7 per cent over the next five years or so.

The main advantage of used cars is they are more affordable.

Additionally, the depreciation rate on used cars is slower, and insurance costs are also lower. Also millennials urge to change cars frequently makes used cars

a feasible option. The potential for organised players in the used car market is vast. In FY22, 44 lakh used cars were sold in India, out of which only 8.8 lakh were sold through organised channels (Indian Blue Book).

The share of the organised sector in the used car market is expected to increase from 20 per cent to 45 per cent over the next five years.

Furthermore, the overall car penetration rate in India is significantly lower than in other countries worldwide.

This leaves ample room for the used car segment to expand.

The supply of used cars in metro cities is significantly higher than the demand, while the reverse is true for non-metro cities. Organised players can play a significant role in filling this gap.

The organised sector in the used car market can be divided into two categories. The first category comprises players backed by original equipment manufacturers (OEMs), such as Maruti

True Value, Mahindra First Choice Wheels, and Hyundai H Promise. The second category includes online players like Cars24, Cardekho, and OLX Auto.

While the first category players enjoy advantages like brand loyalty, attractive exchange policies, established service centers, and solid infrastructure, the online players have made significant inroads in the market.

They are offering high prices for old cars and capturing market share by utilising a valuation model based on the expected growth of the used car segment. However, this model may be unsustainable and may need a rethink.

Although many of these online players have achieved 'Unicorn' status, profitability is vital for long-term success.

Organised players must adopt a sustainable approach to remain relevant.

The writer is Associate Professor, Finance and Accounting at IMT Ghaziabad.