

In the slow lane, small cars' market share may shrink further

VARUN SINGH

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THE MARKET SHARE of the entry-level car segment, which is already facing headwinds due to the relatively high ownership costs, is expected to be hit further. The introduction of the mandatory six-airbag regulation and the preference of original equipment manufacturers (OEMs) for sport utility vehicles (SUVs) and higher-priced models is likely to impact the segment.

While the entry-level car segment accounted for 11% of the passenger vehicle (PV) market in FY20, its share fell to 7.8% in FY22. During the same period, the SUV segment's share jumped from 26.3% to 40.1%.

All the PVs manufactured in India after October 1 will have to be compulsorily fitted with six airbags. At present, the regulations require them to have at least two airbags. Industry experts *FE* talked with said that increasing the number of airbags from two to six will lead to a hike of ₹15,000 to ₹20,000 in the prices of the vehicles.



LOSING THE RACE?

- Entry-level car segment's market share declined from **11% in FY20 to 7.8% in FY22**
- The SUV segment's share jumped from **26.3% to 40.1%**
- Six-airbags regulation to impact volumes of entry-level cars as costs are likely to go up
- No new entry-level model launched yet in India in CY22

S&P Global mobility director Suraj Ghosh said since the entry-level car segment is highly price-sensitive, any impact on the total cost of ownership dynamics reflects directly on the demand. "It will be further elevated by the introduction of mandatory six-airbag regulation. Unless a taxation relief is provided, it is unlikely for this segment to

regain lost share or see growth," he added.

Besides, the focus of OEMs in CY22 has either been on SUVs or models with a higher price tag as they fetch better realisations. There has been no addition to the entry-level car segment in this calendar year as of now.

In CY22, SUVs like Maruti Suzuki's Brezza and Grand Vitara, Hyundai Venue

and Tucson, Mahindra Scorpio and Toyota Urban Cruiser Hyryder have been introduced. Also, MPVs such as Maruti Suzuki XL6 and Kia Carens, and sedans like Honda City hybrid, Skoda Slavia and Volkswagen Virtus have entered the market. Maruti's Alto K10 will be the first entry-level hatchback to be launched this year on August 18.

"The market share of entry-level cars could stagnate or fall marginally in the road ahead, as most OEMs are preferring to launch higher-priced models and SUVs, which is the preferred choice. Also, the number of models at entry level is being gradually reduced across OEMs and refreshes, too, are lower than earlier," Anuj Sethi, senior director, Crisil Ratings, said.

The entry-level car segment currently includes models like Maruti Suzuki's Alto and S-Presso and Renault Kwid. These cars have seen their prices rise significantly over the years. The base variant of Alto, which was available for ₹2.97 lakh (ex-showroom) in CY2019, now costs ₹3.39 lakh. The price of S-Presso's base variant has gone up from

₹3.69 lakh (ex-showroom) in CY19 to ₹4.25 lakh now. A customer could get the base variant of Kwid for as low as ₹2.67 lakh (ex-showroom) in CY19, but now the car starts at ₹4.64 lakh.

Crisil Ratings' Sethi said softer interest rates and ease of finance, increased availability of affordable models (mainly SUVs with better features and aesthetics), and uneven rural income which impacted sales in the rural markets led to the decline of entry-level cars between FY20 and FY22. "Another factor is the higher cost of entry-level cars due to BS6 norms and other safety regulations, which also impacted sales, again in rural and semi-rural areas," he added.

On the growth of the SUV segment, S&P's Ghosh said it has expanded mainly due to customers' preference for vehicles looking like SUVs but with drivability, manoeuvrability and fuel economy comparable with cars. He also said the SUV segment is a bit misleading sometimes as many small cars with bulkier or "SUV-ish" exteriors are categorised and offered as SUVs by carmakers.