

Smaller towns the next pit stop for carmakers

Rural sales growth continues to outpace urban

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Passenger vehicle (PV) sales growth in rural areas has consistently outpaced urban areas for several years, prompting original equipment makers (OEMs) to expand networks in smaller towns.

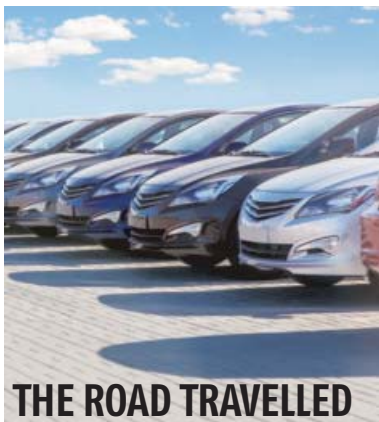
On a high base of 4.2 million PVs sold in 2023-24 (FY24), the industry projects moderate 3-5 per cent overall growth in the sales for FY25.

“Even during the pandemic years, when the urban growth was negative, rural PV sales were positive. Rural sales are now 32-33 per cent of overall PV sales at an industry level, and thus they are a significant volume that no one can ignore,” said Shashank Srivastava, senior executive officer, marketing & sales, Maruti Suzuki India (MSIL).

At MSIL, the share of rural sales stands at around 45 per cent, up from around 38 per cent in 2018-19.

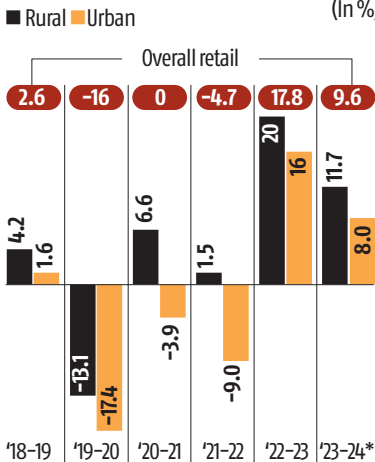
Tata Motors recorded a fivefold increase in rural sales volumes in FY24 compared to FY20, and 40 per cent of its total sales came from rural markets, Shailesh Chandra, managing director of Tata Motors Passenger Vehicles and Tata Passenger Electric Mobility, told *Business Standard*. “To get closer to our customers, we have expanded in both sales and service workshop setups. Over 800 outlets are located in nearby towns, catering specifically to our rural customers. We have also deployed 135 Anubhav vans (mobile showrooms),” Chandra said.

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THE ROAD TRAVELLED

Growth rate in passenger vehicle sales (In %)



* Estimates

Source: Industry

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He said the company was working extensively with its dealer partners on expanding sales and service networks, increasing manpower and providing more test drives for a wholesome customer experience.

Nalinikanth Gollagunta, chief executive officer (automotive sector) at Mahindra & Mahindra, said the company was looking to expand the network to ensure accessibility for customers and support future growth plans, thanks to the rapid improvement of rural roads under the Pradhan Mantri Gram Sadak Yojana. He said the company's sports utility vehicles (SUVs) continue to see demand in both urban and rural areas.

Marketing strategies are different for rural areas. "Rural areas need more personal touch; the dealerships have to do more personal targeting. Someone like a sarpanch can be a major influence in his region. OEMs do several small events in rural areas, work with regional and vernacular influencers," said Srivastava. There are 650,000 villages in India and at least one Maruti car in around 410,000 villages. Therefore, there is a potential to enter 250,000 villages with MSIL vehicles, Srivastava said.

Gollagunta of Mahindra & Mahindra said: "Our growth strategy will be underpinned by service network expansion, timely value-for-money variant launches and easily accessible financing options."

For FY25, the industry growth outlook for overall PV sales is 3-5 per cent on a high base of 4.23 million units of PV sales in FY24.

"The kharif crop output has been negative and rabi sowing is flat. But so far, there is no reason to assume that there will be any major reversal in trends in FY25 in terms of rural-urban growth rates. Overall, with interest rates for auto loans expected to go up, and a sticky inflation in FY25, we estimate a 3-5 per cent growth for the PV industry," Srivastava said. According to OEMs, the road infrastructure is improving in rural areas, leading to a better demand for vehicles.

"Hatchbacks tend to do well in rural areas where there are more first-time buyers. In entry-level and mid-level hatchbacks, the share of rural areas is relatively high, while premium hatchbacks tend to do well in urban areas. For sedans, the rural-urban split is equal, and for SUVs, the urban share is more than rural," Srivastava said. Chandra said that while all their new-generation products were well received, Nexon, Punch, and Tiago were the highest-selling products in the rural markets.

Analysts feel that while there has been a healthy recovery in rural consumption, the unemployment rates in urban areas remained high. Munish Aggarwal, managing director and head of Equity Capital Markets, Equirus, expected continued growth in rural consumption, driven by factors like improved area under cultivation, better monsoon outlook, and expected hike in minimum support prices. "On the other hand, we are witnessing a weakening of demand in urban areas as unemployment remains elevated," he said.

