

India Used Car Financing Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The Indian used car financing market was valued at USD 7.95 Billion and is projected to grow at the value of USD 14.87 Billion at a CAGR of around 11% during the forecast period (2022-2027).

Major consumers across the country are facing financial issues due to the pandemic surge in the selling of newer cars. This is likely to witness major growth for the market. Rising consumer preference for owning a vehicle and avoiding public transportation is also a key factor for the used car market across the country. Ownership of cars, which used to be a status symbol long ago, has become a necessity in recent times. The automotive industry has witnessed exponential growth since its inception. Consumers are looking at used cars ever more than before, and some are even preferring them over two-wheelers.

Nowadays, the majority of customers opt to purchase an automobile, depending on some type of financial assistance. The current rate of financing for used cars is just around 13-15% and offers a tremendous opportunity for manufacturers as well as financial institutions alike. Currently, the used car industry is around 1.3 times the new car industry in India which is likely to create an opportunity for the market.

With BS-VI rolling out in the country from the year 2020 and subsequent mandates for necessary safety features, the cost of new cars is expected to grow up. Also, few manufacturers are phasing out their diesel portfolio, and consumers who prefer diesel cars for their durability and mileage figures are also looking toward the used car space. These factors are again expected to drive used car financing.

India Used Car Financing Market Trends

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Burgeoning Used Car Industry Subsequently Driving the Financing Market

The used car business in India has been picking up pace over the past few years. In 2016, roughly 3.3 million used cars were sold, and in FY2019, the number breached the 4 million mark, with pre-owned cars registering more sales than new cars. In FY2021, around 4.4 million used cars were sold in India, which is likely to create an opportunity for the used car financing market.

Growing digitization and startup with new business models is promoting the used car financing market. Digitization helps to store, retain and retrieve data. Almost all information is in digital format. This reduces the capital resources required and reduces the problem of storing documents. An increase in digitization in auto finance will extend end to end, including e-signatures and digital loan documents have an opportunity to gain an advantage over the market. For instance,

In February 2022, Kuwy launched end to end digital lending platform for online car sellers. The platform allows car manufacturers, dealers, aggregator platforms, and lenders to offer digital retailing to their customers.

The rise in shared mobility services across the country is likely to be a key factor for the used car financing market. Also, the revision of the GST rate on used cars from 28% to 12 - 18% is also acting as a driver of the market. With companies gradually focusing on reducing the production of diesel cars, for instance, Maruti Suzuki's decision to exit the diesel car segment by April 2020 is also expected to increase the demand for compact diesel cars (mainly due to their higher mileage figures) in the used car market, unless there is a backlash against diesel cars.

The major presence of OEMs, including Maruti Suzuki, Tata Motors, and others, are attracting consumers for used cars and offering better financing options owing to which the demand for used cars is increasing. Even luxury car makers, including Audi, also entered the used car market, which increased the sale of used premium cars. The demand for luxury cars is also witnessing a continual increase, with nearly 50,000 units sold in 2018 compared to around 40,800 in the previous year. Until a few years ago, owning a luxury car used to be a dream for numerous consumers, owing to financial hurdles, but this is gradually changing, as the consumers can easily buy pre-owned luxury vehicles, as the market is becoming more organized with easy access to financing options, annual maintenance contracts, and lower entry prices.

NBFC's inclined towards funding used cars to recover from market slump

Non-Banking Financial Companies (NBFCs) are witnessing an increase in demand for financing for used vehicles post-Covid. Leading NBFCs such as Mahindra Finance, Shriram Finance, and Magma Fincorp have been forced to struggle with the rising cost of funds amid a liquidity squeeze that was sparked by the default by Infrastructure Leasing & Financial Services (IL&FS). Even financiers have tightened screening of borrowers and are now going slow on the relatively higher risk segments. In lieu of this situation, several lenders have turned to fund used cars to protect their margins. For instance,

Cholamandalam Investments & Finance Company (Chola) witnessed a share of used vehicle finance in FY21 and FY22 was 27%, an increase of 1% over FY20. In Q4 last fiscal (FY22) alone, the number of used vehicles that were financed rose to around 57,000, a jump by 17,000 vehicles, when compared with the corresponding fourth quarter of FY21.

Anticipatory volume recovery led by BS-VI pre-buying and easing of the liquidity situation is expected to provide further opportunity to the used car financing sector. Cars24, a leading online platform that facilitates buying and selling of cars, is now venturing into the financing business. The company acquired NBFC license from the Reserve Bank of India in July 2019 and is

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aiming for disbursement of nearly US\$ 25 million in its maiden year.

India Used Car Financing Market Competitor Analysis

The market for used car financing in India is on the fragmented side. The presence of many organized and un-organized players has created such a market scenario. Also, most auto manufacturers, apart from offering their own financing, have tie-ups with banks and other financial institutions to offer a wider choice for their customers. But the relatively easier procedures to procure a loan from various NBFCs are expected to tilt the market in their favor. Maruti Suzuki Limited, Mahindra Finance, Poonawalla Fincorp, Sundaram Finance, Bluecarz, TSM Cars, etc., are some of the major players in the market. Major OEMs are partnering with the NBFCs to provide loans for the consumer. For instance,

In August 2021, Tata Motors partnered with Sundaram Finance to offer exclusive offers to customers opting to purchase its range of passenger cars. Under the partnership with TATA Motors, Sundaram Finance would offer six-year loans on the new 'Forever' range of cars, and with 100% financing, that would require a minimal down payment.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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