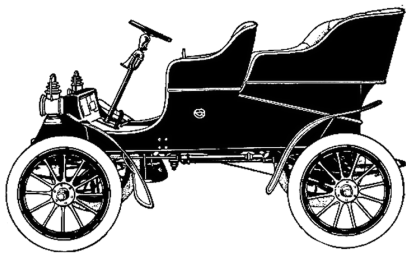


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E **NSIGHTS**

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Discretionary spends in India

Can India's discretionary spending ever reach like that of the USA or even China? And more importantly how far is that?

To understand this, let's go back in time. "The Year 1908". The first-ever affordable vehicle ever in the history of automobiles was launched in 1908 by Ford.

THE UNIVERSAL CAR. "Ford Model T".

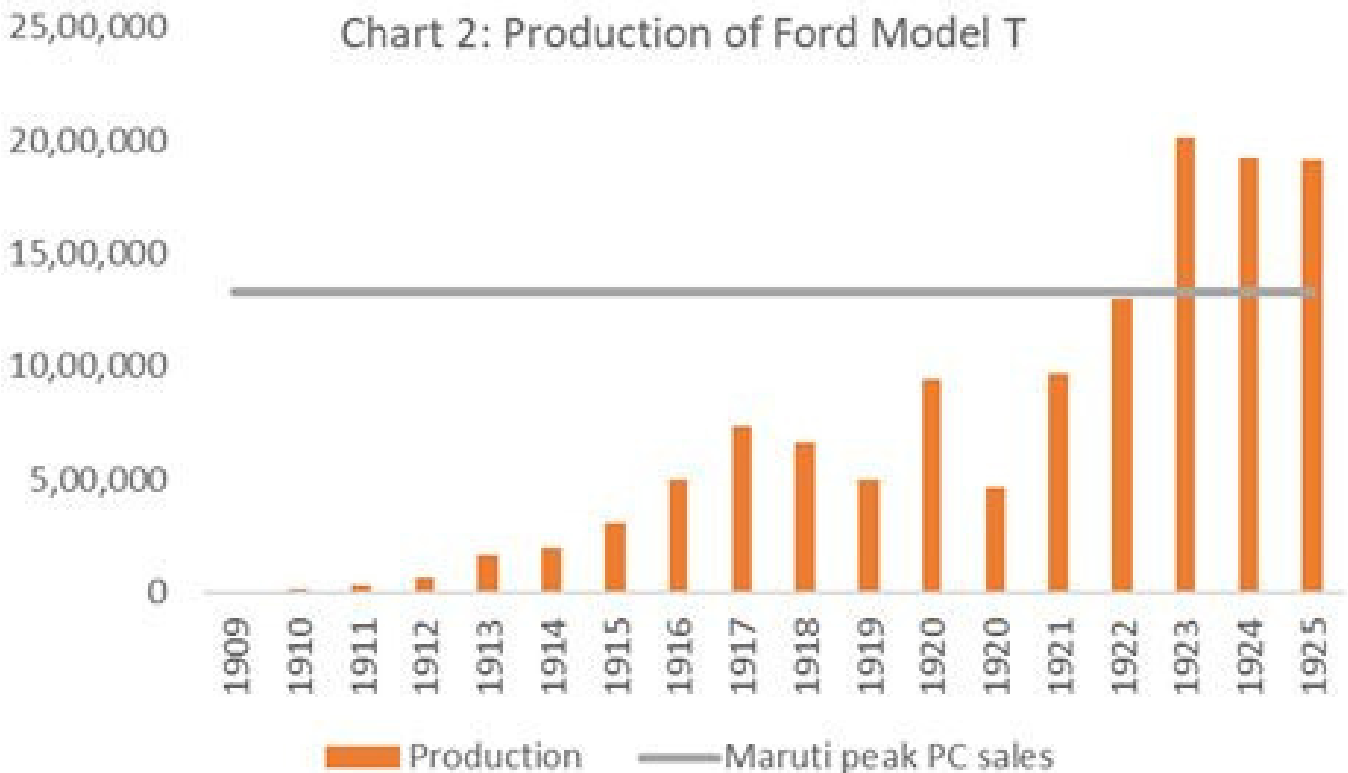
In the year 1910, its cost was \$900, or the equivalent of 19 months of industrial wages. Ford sold only about 19000 units of the same.



Go Further

The Ford model takes root

As the mass production started, in 1915, the cost came down to \$390, the “affordability” improved to just about 5.2 months of wages. Ford sold about 3.08 lakh units (chart 2). That is higher than passenger cars (ex-UVs) sold by Hyundai in India in FY22.

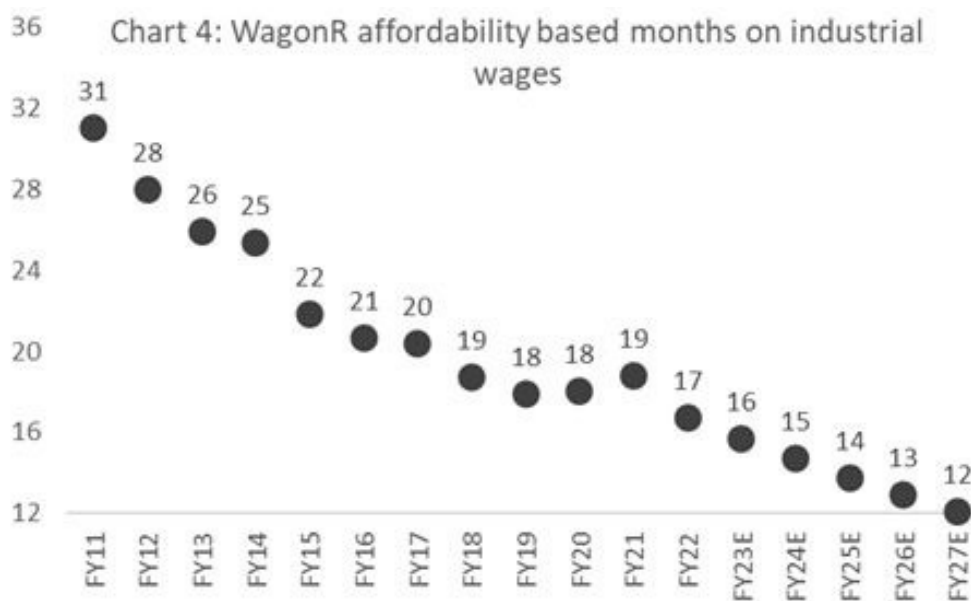




India's Ford Moment

Now let's understand where is India right now?

In 2011, Maruti WagonR LXi model (it is highest selling model currently), cost Rs4.26lakhs (Mumbai, on-road), or equivalent of 79 months of income (chart 3) for average Indian (based on per capita GDP). In terms of industrial wages, it was equal to 31 month of wages (chart 4). This was way higher than 19 months at which Model T in fact started.



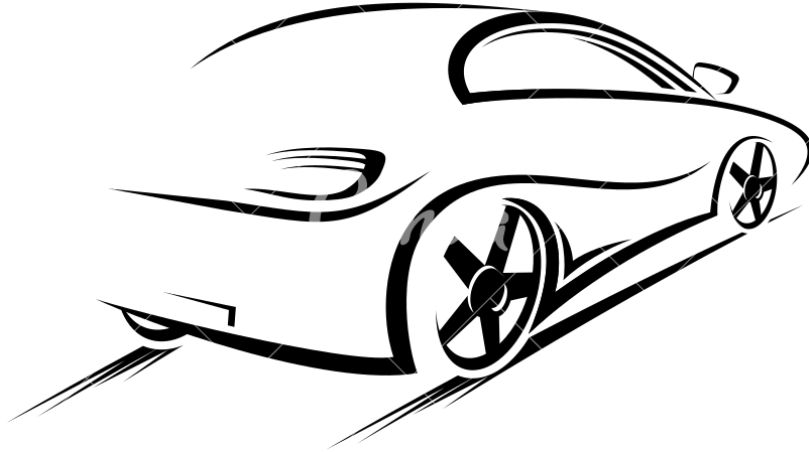


The impending rise of Auto sector

In 2022, the cost rose to Rs5.83 lakh (Mumbai, on-road), or equivalent to 19 months of industrial wages (chart 4). In FY22, it was still equal to where Ford started in 1908. But that is commendable progress, given that today auto loans are freely available and also that the industrial wages grew much slower single digit between 2014-20.

Now imagine 2027!! If industrial wages grow at 10-11% for the next five years, the affordability index comes down to 12 months of wages (chart 4). That is just about a year's wages. That along with the availability of auto financing could do wonders like it happened to Model T.

Can history repeat itself ?



One could argue that that time is already here given that in 2022, we sold 1.5mn UVs, almost equal to as many passenger cars sold. But then at a total market of 3mn, India's car market pales in comparison to its own population and also compared to 2mn vehicles sold of just one model in 1925.

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Source for Model T statistics: Wikipedia Ford Model T
Source for Model T statistics: "Numbers Don't Lie, Vaclav Smil"
Source for Wagon R LXI, on-road price, Mumbai: Autocar India
Source for income: Annual survey of Industries, Labour
Buearue, Ministry of Labour and MOSPI



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