

# India's Used Car Finance Market Shifts Gears as Luxury Demand Surges Beyond Metros, Tier-II Cities Lead the Growth Curve

*Tier-II cities drive India's used car finance boom as luxury vehicle demand surges, supported by digital lending, rising incomes, and flexible financing.*

MUMBAI, MAHARASHTRA, INDIA, July 31, 2025 /EINPresswire.com/ -- [India's used car finance market](#) is undergoing a robust and sustained expansion, propelled by a marked consumer shift towards pre-owned luxury vehicles. According to Makreo Research, the increasing inclination toward premium vehicles and lenders offering innovative, flexible finance solutions, the landscape is transforming rapidly creating new opportunities for dealerships, digital auto platforms, and consumers alike.

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The surge in pre-owned luxury vehicle demand, especially in Tier-II cities, is reshaping India's used car finance landscape, unlocking vast growth potential for lenders and dealerships.”

*Omkar Manjrekar*



Macroeconomic dynamics, such as the Reserve Bank of India's recent repo rate cut to 6.25% has improved affordability by lowering car loan interest rates. This accommodative policy is expected to boost lending across the used car finance sector, especially benefiting banks and NBFCs focused on Tier-II and rural markets. Consequently, the India used car loan market is accelerating in diversification and penetration.

□ India Luxury Premium Pre-Owned Vehicle Market Gains Strong Traction

Traditionally dominated by budget-friendly hatchbacks,

India's used car market is now shifting noticeably toward luxury cars, which typically enter the resale segment at an average age of just 2-3 years. In comparison, mid-size and small cars

generally appear in the used car market only after 5-6 years, making premium options more attractive for buyers seeking better value and a near-new experience at lower prices.

Across India, auto dealers are reporting a robust 35%-40% year-on-year increase in demand for second-hand luxury vehicles. This surge is largely driven by an upgrade cycle where luxury car owners replace their vehicles more frequently to access newer models and advanced features. As a result, India's used luxury car market is growing at an impressive 20% CAGR, with annual sales already crossing 60,000 units.



#### □ Hatchbacks Dominate as India's Used Car Market Shifts Gears

Within the wider used car landscape, established mass-market brands such as Maruti Suzuki, Hyundai, Mahindra, Honda, Tata, and Toyota continue to dominate resale volumes. Maruti Suzuki maintains its leadership position, with models including the WagonR, Baleno, and Swift ranking as the top three best-selling vehicles in Q2. Hatchbacks constitute approximately 55% of seller inventory, underscoring their sustained appeal driven by affordability, fuel efficiency, and low maintenance costs. SUVs account for 21% of the used car supply, with popular models like the Ford EcoSport, Hyundai Creta, and Maruti Brezza leading this segment.

Petrol vehicles remain the preferred choice among buyers, representing 82% of all transactions, while the adoption of automatic transmissions is on the rise, comprising 30% of sales. Notably, female buyers now constitute 26% of customers, with Chandigarh emerging as a leader, registering over 30% female participation.

#### □ Tier I and Tier II Cities Driving Growth in India's Used Car Finance Market

Regional dynamics distinctly illustrate the ongoing transformation within India's used car finance sector. In Tier I cities, the demand for used luxury vehicles has surged sharply, outstripping supply with demand increasing by 3.8 times, compared to a 2.6 times rise in supply during the first half of 2022 relative to the same period in 2021. Concurrently, Tier II cities have emerged as crucial growth drivers, registering a supply expansion of 45%, thereby exceeding the 40% growth recorded in Tier I cities on prominent platforms such as OLX Autos.

Urban centers including Jaipur, Lucknow, Chandigarh, Indore, Coimbatore, and Kochi are pivotal contributors to the accelerating momentum of India's used car market. Data from leading

industry marketplaces like OLX Autos, Spinny, and Cars24 indicate that demand growth in Tier II cities is now outpacing that of metropolitan areas. This trend is underpinned by rising disposable incomes, significant enhancements in road infrastructure, a relative scarcity of new car dealerships in smaller towns, and increasing consumer confidence in digital channels for buying and selling vehicles.

#### □ Luxury Car Demand Surges in Tier II Cities Beyond Metropolitan Areas

Luxury automotive brands such as Audi, BMW, and Mercedes-Benz are gaining greater accessibility among India's aspirational consumers. Tier II cities including Jaipur, Coimbatore, and Kochi have recorded luxury car demand growth exceeding 30%, outpacing several metropolitan markets. This reflects a widening interest among buyers seeking more affordable avenues to premium vehicle ownership beyond traditional urban centers.

#### □ Future Outlook for India's Used Car Finance Market

India's expanding pre-owned luxury car segment, combined with wider access to auto finance, reflects a significant shift in consumer aspirations and purchasing power. For lenders, dealerships, and digital platforms, this market presents notable opportunities to grow, reach emerging regions, and serve value-conscious premium buyers.

Nearly 45% of the market remains unorganised, causing inconsistent vehicle quality, unclear documentation, and financing difficulties, underscoring the need for greater transparency and innovation.

Lower Loan-to-Value (LTV) ratios for used car loans, typically 70–85% versus up to 100% for new cars, require higher upfront payments, limiting affordability for price-sensitive buyers.

Rising vehicle loans increase credit risk, with outstanding loans reaching INR 5.09 lakh crore in May 2023, up 22% year-on-year, highlighting the need for improved risk management. Looking forward, the luxury car segment is poised to significantly influence the used car finance market. Sales are projected to more than double, surpassing 100,000 units annually by 2030, driven by rising incomes and better financing access.

#### □ Comprehensive Market Analysis and Strategic Outlook

Makreo Research's recent report, "India Used Car Finance Market Size and Forecast (2019–2030)," offers an in-depth analysis of the evolving pre-owned vehicle financing ecosystem in India. The report segments the market by Lender Type, Loan Tenure, Distribution Channel, Fuel Type, Vehicle Type, End User, and Geography.

Featuring competitive benchmarking and company profiling, the report evaluates leading financial institutions' market presence, loan offerings, and interest rate models. It further investigates industry consolidation through M&A activity, funding developments, and strategic partnerships. Offering forward-looking risk and opportunity assessments, this report equips stakeholders with a roadmap to capitalize on India's rapidly transforming used car loan market.

□ Companies Covered:

Axis Bank Limited

State Bank of India (SBI)

Mahindra & Mahindra Financial Services Limited

Sundaram Finance Limited

There are 15 players covered in this report. To know more, contact us today.

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Meetu Bhasin

Makreo Research and Consulting

+91 96196 99069

meetu.bhasin@makreo.com

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