ICRA

PRESS RELEASE
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Domestic CV industry volumes to remain muted in Q4 FY2024; sharp industry upcycle likely to plateau in FY2025: ICRA

- ***ICRA expects the domestic CV industry to report a volume decline of 4-7% in FY2025***
- ***Aggregate operating profit margins (OPM) of the CV OEMs likely to contract to 8.5-9.5% in FY2025, on the back of lower volumes***

The volumes for the domestic commercial vehicle (CV) industry are expected to remain muted through Q4 FY2024 as the base effect catches up in addition to a perceived pause in the infrastructural activities as the model code of conduct kicks in ahead of the General Elections. ICRA estimates the domestic CV industry volumes to register 2-5% YoY growth in volumes in FY2024. Subsequently, the industry's sharp upcycle is expected to plateau in FY2025, with a decline of 4-7% in volumes.

According to **Ms. Kinjal Shah, Vice President & Co-Group Head, ICRA Ratings:** "ICRA expects the long-term demand for CVs to remain intact. The continued focus on infrastructure capex (as reiterated in the interim budget for FY2024-25), emphasis on private participation in infrastructure, construction, defence and manufacturing activities would remain a long term positive for the CV industry. The new railway corridors will result in higher last mile connectivity, which would benefit the CV industry. However, in the near term, ICRA expects the volumes to plateau on a high base, amid the transient moderation in economic activity in some sectors with the onset of the General Elections."

Among the various sub-segments within the CV industry, the **medium and heavy commercial vehicles (M&HCV)** segment is projected to witness a slowdown in volume growth in FY2024 to 3-6%, as Q4 FY2024 is expected to witness a muted rise due to the high base of the previous year. The volumes are further expected to decline by 4-7% in FY2025 amid a likely moderation in the momentum of the Government's capex in the first few months of the fiscal with the onset of the General Elections.

The **light commercial vehicles (LCV)** segment, which reported a high volume expansion of 15% and 23% in FY2022 and FY2023, respectively, is expected to witness a volume contraction of 1-4% during FY2024. The decline in FY2025 is expected to be sharper at 5-8% due to a high base effect, cannibalisation from the electric three-wheelers (e3Ws) and the slowdown seen in the e-commerce sector, which continues to have a bearing on the overall demand within this segment.

The **buses** segment is expected to register a healthy 18-21% YoY volume growth in FY2024 as the mandatory scrappage of older Government vehicles drives replacement demand over the near term. The growth is expected to moderate to 2-5% in FY2025 due to a high base effect. However, the Government's recent initiatives at addressing the payment security mechanism for electric bus operators will help in accelerating the adoption of electric buses in the near term. Overall, the domestic CV industry's ability to scale previous peaks hinges on sustenance of the macro-economic environment, improvement in infrastructure activity and increased demand for last mile transportation.

The OPM for ICRA's sample set companies [1] is expected to improve by 150-200 bps to 9-10% in FY2024, aided by operating leverage benefits and benign commodity prices. ICRA expects the OPM to contract marginally in FY2025 to 8.5-9.5% on the back of lower volumes. ICRA does not expect any large debt funded capacity expansion related capex

[1] *The sample set includes aggregated data for Ashok Leyland Limited, SML Isuzu Limited, Tata Motors Limited (standalone) and VE Commercial Vehicles Limited*

from the larger CV OEMs in the next two years, although these OEMs are expected to incur moderate capex towards their product development initiatives (especially on the electric and hydrogen fuel powered drivetrains). With better profitability and lower debt, the credit metrics are expected to marginally improve in FY2024 and remain steady in FY2025.

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