PRESS RELEASE
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Automotive Sector growth momentum to moderate in FY2025: ICRA

- ***Growth trends across segments expected to remain at varied levels***
- ***OEMs expected to continue with investments towards development of electric vehicle platforms, as electrification gathers pace besides continued focus towards introducing new vehicles and capacity expansion plans***

The domestic automotive industry recorded robust growth trends across segments in FY2023, aided by a low base, recovery in economic activities, and increased mobility. Following a period of robust growth and a relatively healthy base across automotive segments, the pace of growth has moderated in FY2024, and the trend is expected to continue in FY2025 as well.

Aided by a preference for personal mobility and stable semiconductor supplies, passenger vehicle (PV) industry volumes are estimated to reach an all-time high of ~4.1 million units in FY2024 (representing a growth of 6-9% over FY2023). Even as the underlying demand drivers remain supportive, the volume growth for the segment is likely to moderate to 3-6% (from an elevated base). Lower growth expectation for next year partly stems from a high base and, to some extent, by waning pent-up replacement demand, which supported the industry over the past couple of years. In addition, the build-up of inventory at dealerships at 55-58 days (as of the end of December 2023) also suggests potential moderation in demand for PVs. The commercial vehicle (CV) industry saw robust growth in volumes in FY2023. On an elevated base, the growth is expected to remain at modest levels in FY2024 (2-4% YoY), with the overall industry volumes approaching pre-pandemic highs. For FY2025, CV volumes are expected to witness a mid-single digit de-growth; inherent exposure of infrastructure activities to the model code of conduct ahead of the upcoming General elections coupled with high base effect is likely to impact the volumes in H1 FY2025. Sustenance of the macro-economic environment and improvement in infrastructure activity/last-mile transportation remain key monitorables.

In contrast to these segments wherein volumes are near or have exceeded pre-pandemic highs, the two-wheeler industry has struggled with industry volumes still below the pre-covid peak levels, with the purchasing power of the consumers at the bottom end of the pyramid being eroded by the significant rise in vehicle prices (a result of price hikes to combat inflationary pressures and meet stringent regulatory requirements). On a curtailed base, the 2W segment volumes are estimated to grow by 8-11% in FY2024; the gradual recovery to pre-pandemics highs is expected to continue with 7-10% growth in FY2025 aided by favourable structural factors like rising per capita income, urbanization, financing availability, etc. Our channel check with dealerships indicates that the demand has remained relatively stable even after the festive season, which is also reflected by stable inventory levels at two-wheeler dealerships.

Commenting on the outlook for the automotive industry, **Mr. Shamsher Dewan, Senior Vice President & Group Head - Corporate Ratings, ICRA, said**: *"ICRA expects the automotive industry demand to remain steady over the near term, with growth across segments expected to remain at varied levels in FY2025, largely attributable to varied base levels. While the two-wheeler, passenger vehicle, and three-wheeler vehicle segment volumes would continue to trend upwards, aided by supportive demand drivers, a healthy base is expected to lead to flattish volumes for the commercial vehicle industry, with uncertainty stemming from deferment in new project awards due to the model code of conduct during the general elections in H1 FY2025. However, continued thrust towards infrastructure development along with healthy demand from mining-related operations will continue to support demand for Tipper trucks. In our view, replacement demand from SRTUs and switchover to electric buses will also continue to support sales of buses during FY2025.*

Exhibit: Domestic segment-wise growth outlook

Segment	Growth Forecast (YoY)	
	FY2024(P)	FY2025(P)
Passenger Vehicles	6-9%	3-6%
Commercial Vehicles	2-4%	(4)-(7) %
Two-wheelers	8-11%	7-10%
Three-wheelers	46-49%	10-13%

Source: ICRA Research

Spurred by Government support in the form of subsidies, enhanced awareness, and increasing product launches, the electric vehicle (EV) segment has seen a material upturn in prospects over the past two years. Given the healthy subsidies available in the electric two-wheeler (e2w) segment, it accounted for the bulk of the total EV sales (excluding the e-rickshaw segment) till date. Even as hybrids are viewed as an intermediate step towards acceptance of EVs in the passenger vehicle segment, mitigating range anxiety and offering superior mileage, EV penetration is improving at a healthy pace, aided by enhanced customer acceptance. Amid the ongoing electrification transition, OEMs are expected to incur significant investments in the development of ground-up electric vehicle platforms and enhance manufacturing capacities.

The Government's thrust on the development of the EV ecosystem continued in the Union Budget, with an enhanced focus on improving the charging infrastructure, which is expected to help reduce range anxiety and promote EV adoption. The continuation of FAME II subsidies post-March 2024 (allocation of Rs. 2,670 crore for FY2024-25) is also likely to support adoption and raises hopes of continuation of subsidy support going forward. The budgeted FAME II outlay for FY2025 represents the residual allocation under the scheme, which forms part of the Rs. 10,000 crore initial allocation; timely rollout of new subsidy scheme remains key in accelerating electrification transition."

The enhanced outlay for Agriculture and Allied Activities is likely to support rural demand, a critical driver for the automotive sector. Additionally, the disbursement of funds under PLI schemes (enhanced budgeted outlays for both Automobiles/components as well as advanced chemistry cell battery storage) would support cash flows and credit metrics for the Automotive OEMs and ancillaries. With enhanced outlays, the PLI scheme aims at fast-tracking investments in technology and will also increase the localisation of auto components and accelerate investments towards a local EV ecosystem.

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