PRESS RELEASE
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Moderate 3-6% volume growth expected across various automotive segments in 2026-27: ICRA

Rating agency ICRA expects the Indian automotive Industry to witness a normalisation of wholesale volume growth in 2026-27 following a period of elevated growth in the second half of 2025-26, which was driven largely by post-GST reform-led factors and favourable rural demand sentiments. Key emerging trends in the sector like premiumisation and transition in powertrain mix reflect a structural shift in consumer preferences and technology adoption.

The domestic Passenger vehicle (PV) volumes are estimated to grow by 4-6% YoY in 2026-27, supported by sustained demand momentum while the domestic two-wheeler (2W) industry is likely to expand by 3-5%, with growth moderating on an improved base. Commercial vehicle (CV) volumes will continue to remain driven by economic activities and healthy prospects for bus segment, leading to an overall growth of 4-6% YoY in 2026-27.

Commenting on the industry outlook, Srikumar Krishnamurthy, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA, said: "*The current fiscal has unfolded as a tale of two halves for the Indian automotive industry, with the first half witnessing subdued demand while the second half is seeing a strong recovery on the back of policy support and healthy rural demand. Industry sales volumes have been robust over the past few months, aided by the GST rate cut, pent-up demand, supportive rural output, and conducive financing environment. Although demand sentiment remains optimistic, volumes are reaching levels that would weigh on the potential for outsized growth in 2026-27*."

Domestic wholesale volumes in the passenger vehicle (PV) segment are expected to grow by 5-7% in 2025-26, supported by improved affordability following GST rate cuts, healthy replacement demand and sustained preference for personal mobility. Utility vehicles continue to outperform, aided by changing consumer preferences and multiple new model launches. The share of alternative powertrains (CNG, hybrids and electric vehicles or EVs) has been rising steadily, reflecting both regulatory push and evolving customer preferences. While demand fundamentals remain supportive, growth in wholesale PV volumes is expected to moderate to 4-6% in 2026-27, given the higher base and relatively elevated system-level inventory.

The two-wheeler (2W) industry continues its gradual recovery with estimated growth of 6-9% in 2025-26, aided by healthy agricultural output, better financing availability and improved affordability. The growth is, however, expected to normalise to 3-5% in 2026-27. Premiumisation has been playing out in the 2W industry as well, with entry-level motorcycle demand remaining under pressure, reflecting higher vehicle prices and affordability constraints at the lower end of the consumer pyramid. In contrast, premium motorcycles and scooters have seen a sharp recovery. Electric 2W penetration is expected to steadily increase even as supply-side challenges, such as rare earth magnet availability, remain monitorable.

Wholesale volumes in the commercial vehicle (CV) segment are expected to expand by 7-9% in 2025-26, led by the uptick in demand in the light commercial vehicle (LCV) and bus segments. Regulatory interventions over the past decade, including successive emission norm upgrades and safety mandates, have resulted in a consistent increase in vehicle prices, impacting affordability. While replacement demand, infrastructure activity and steady economic conditions remain supportive, regulation-led price hikes can constrain higher growth in the near term, particularly for trucks. Wholesale volume in the CV segment is estimated to grow by 4-6% in 2026-27, within which Medium and Heavy commercial vehicles (M&HCV) and light commercial vehicles (LCV) are seen growing 5-7% and 3-5%

respectively. Bus volumes are likely to remain relatively better with 7-9% growth, aided by healthy replacement demand from State Road Transport Undertakings.

EV penetration across segments is projected to increase meaningfully by FY2030, led by strong adoption of electric 2Ws, three-wheelers and buses, while penetration in electric passenger cars and LCVs is also expected to rise steadily from a low base. Continued policy support, improving charging infrastructure and declining total cost of ownership are expected to underpin this transition.

"*The Indian automotive industry is currently at crossroads amid changing consumer preferences, technological advancements and focus on sustainability. ICRA expects the growth trajectory to continue in 2026-27 even as growth is likely to remain modest across segments. Over the medium term, vehicle electrification is expected to be a key structural theme, with EV penetration rising steadily across segments*", **Krishnamurthy** added.

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