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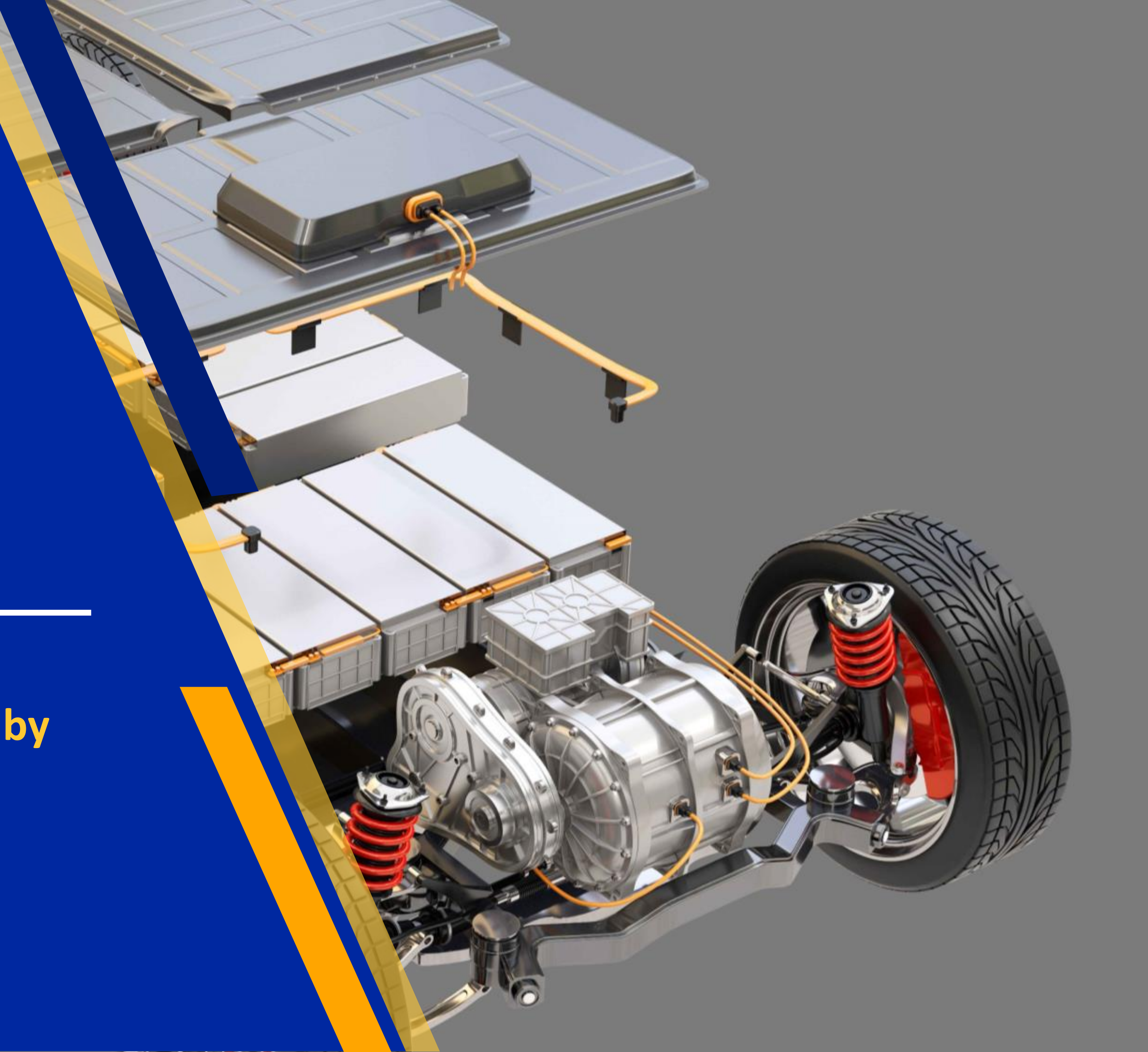
INDIAN AUTOMOTIVE INDUSTRY

Automotive demand to grow at a moderate pace in FY2026, driven by stable structural factors

APRIL 2025



Agenda

1 Automotive Industry – Structural Drivers

2 Passenger Vehicles

3 Two and Three-wheelers

4 Commercial Vehicles

5 Electric Vehicles

6 Exports

Highlights

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Structural drivers for the automotive industry remain intact.

The US Government has imposed a 25% tariff on passenger vehicles and light trucks, which comes into effect from April 3, 2025. Given that passenger vehicle exports to US constitute less than 1% of the total passenger vehicle exports, the imposition of the tariff does not have any material impact on the Automotive OEMs.

Two-wheeler (2W) industry volumes witnessed strong growth in 11M FY2025, with the industry continuing to recover from lower levels during FY2020-FY2022. The industry prospects over the past few months have remained supported by improved rural demand post a healthy monsoon precipitation. Rural demand for the industry is expected to remain healthy, with rabi sowing till date remaining healthy. A reduction in income-tax outgo post changes in tax slabs in the Union Budget is likely to support an increase in disposable income and support demand. ICRA estimates the 2W industry volumes to grow at a healthy pace of 6-9% in FY2026, following an estimated ~8-10% in FY2025.

Passenger vehicle (PV) industry volumes reached an all-time high of 4.2 million units in FY2024. In 11M FY2025, wholesale volumes remained stable led by steady production by automobile manufacturers; the industry volume growth has been modest at ~2% in the backdrop of waning replacement demand and high inventory levels. Healthy retails have helped moderate dealer inventory holding in the past few months; nonetheless the inventory continues to be moderately high. ICRA estimates the industry's growth in FY2025 at 0-2%. Most of the demand drivers for the industry (disposable incomes, new model launches, cost of ownership etc.) remain neutral or favourable. Accordingly, even as the base for the industry remains high, ICRA estimates the PV industry volumes to grow at a moderate pace of 4-7% in FY2026.

ICRA expects the **domestic commercial vehicle (CV) industry** to register a marginal growth in FY2026. Factors like improvement in economic activity, continued budgetary support towards infrastructure spend, healthy freight availability further supporting freight rates, and regulations such as scrappage policy and push towards cleaner vehicles could drive replacement demand. Mandatory scrapping of older Government vehicles and replacement demand would drive growth in buses, while growth in LCV (trucks) is expected to be lower, impacted by cannibalisation from e3Ws and slowdown in ecommerce among other factors. M&HCV (trucks), LCVs and buses are estimated to grow by 0-3%, 3-5% and 8-10%, respectively, for FY2026.

Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President and Group Head	shamsherd@icraindia.com	0124 – 4545 328
K Srikumar	Senior Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 – 4596 4318
Kinjal Shah	Senior Vice-President and Co-Group Head	kinjal.shah@icraindia.com	022 – 6114 3442
Rohan Gupta	Vice-President and Sector Head	rohan.kanwar@icraindia.com	0124 – 4545 808
Vinutaa S	Vice-President and Sector Head	vinutaa.s@icraindia.com	044 – 4596 4305
Sriraman Mohan	Senior Analyst	sriraman.mohan@icraindia.com	044 – 45964300

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!