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INDIAN PASSENGER VEHICLE INDUSTRY

Industry volumes touch all-time high; demand expected to moderate marginally

MARCH 2023

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Highlights

Steady demand is estimated to help the industry continue to record a moderate growth in volumes in FY2024, post reaching an all-time high in FY2023.

Semiconductor supply shortage is expected to fully resolve by end-2023; impact of ongoing geopolitical conflicts on chip supplies remains a key monitorable.

The demand for passenger vehicles in India remained healthy since the commencement of CY2022, aided by strong underlying demand and an easing up of semiconductor shortages. Aided by the robust demand, PV industry wholesale volumes are expected to touch an all-time high of ~3.8 million units in FY2023 (a growth of 21-24% YoY) and thereafter grow at a moderate pace of 6-9% YoY in FY2024.

Retail sales remained steady; demand during the festive and marriage seasons had led to a spurt in retails in October-November 2022. Post a slowdown in offtake during the end of the calendar year, the offtake again ramped up in January 2023. Even as the offtake sequentially declined in February, the trend in the same remains monitorable amid increase in borrowing costs.

The availability of chips to support the desired production levels of OEMs remains monitorable, with new fabrication capacities to be operational only by end CY2023. Select OEMs have indicated that a shortage of electronic components continues to constrain production levels.

The UV segment expanded its share in the overall industry sales, led by a shift in customer preferences and slew of new model launches. The demand for the entry-car segment, despite showing some signs of improvement during the festive season, remains impacted. Given the range anxiety concerns and lack of EV variants, EV adoption is expected to only gain pace gradually.

The OEMs resorted to steady price hikes to pass on the hike in commodity prices; improving operating leverage will aid an expansion in margins going forward (EBIDTA margin to range between 9-11%). The capex outlay for the OEMs is estimated to remain heightened, with the OEMs budgeting for capacity expansion and new product development. Nevertheless, the credit profile of PV OEMs will remain healthy, supported by low leverage, strong liquidity and/or strong parentage.

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