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INDIAN AUTOMOBILE INDUSTRY – COMMERCIAL VEHICLES

Volumes continue to recover; demand likely to be on fast track as the year progresses

OCTOBER 2023

What's Inside…

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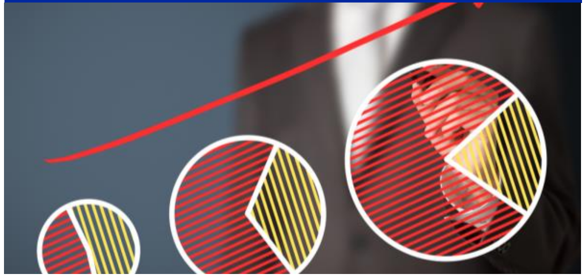
1 Trends In Domestic Commercial Vehicle Industry

2 Segment-wise Domestic Sales Trend

3 Trends in Market Share



4 ICRA Ratings in the Sector

Highlights

Demand for CVs was healthy in September 2023 and is expected to sustain in the coming months, driven by the Government's push towards infrastructure development and the overall healthy macroeconomic improvement.

The Indian commercial vehicle (CV) industry registered a growth of 5% in retail sales volumes on a YoY basis and 7% on a sequential basis in September 2023, with volumes continuing to recover over August and September 2023 after four months of sluggish demand, post the transition to the BS6 2.0 emission norms from April 1, 2023.

In the medium & heavy commercial vehicle (M&HCV) segment, retail volumes grew by 10% sequentially and by 11% YoY in September 2023, supported by replacement demand and healthy traction from mining, infrastructure and construction activities. Going forward, the momentum is expected to sustain, given the conclusion of the seasonally-weak monsoon period, construction and mining activities and increased freight movement during the festive period.

In the light commercial vehicle (LCV) segment, retail volumes grew by 5% sequentially; however, they contracted by 2% on a YoY basis due to the high base effect, slowdown in e-commerce demand and some cannibalisation from electric three-wheelers. The sequential growth was supported by progress into the seasonally strong festive period.

Overall, the domestic CV industry has faced mixed dynamics so far in H1 FY2024, with a marginal growth of 3% YoY in retail volumes and 2% growth in wholesales, brought in by sub-par monsoon, transition to tightened emission norms, supply chain issues and elevated interest rates on the one hand, and infrastructure development and replacement demand supporting volumes on the other hand.

Despite the lacklustre volumes in the first few months of the fiscal, sales are now gaining traction and are likely to continue as the healthy allocation for capital spending in the Union Budget 2023-24 will continue to support infrastructure development in segments like roads, metros, railways etc. which augurs well for the CV industry volumes. Furthermore, the focus on replacement of old vehicles and on green mobility also bodes well for the sector. ICRA expects the domestic CV industry volumes to grow by 2-4% in FY2024.

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Thank You!