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INDIAN COMMERCIAL VEHICLE INDUSTRY

Volumes to remain muted in Q4 FY2024; and sharp industry upcycle likely to plateau in FY2025

FEBRUARY 2024

Agenda

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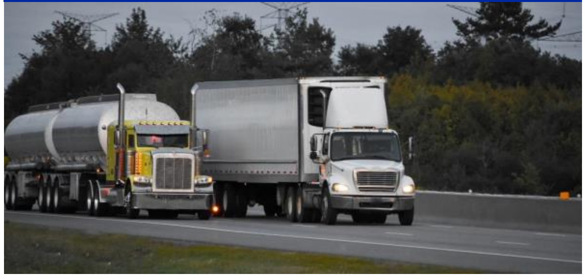
1 Industry Outlook

2 Domestic & Export Industry Trends

3 Trend in Economic Indicators & Underlying Demand Drivers

4 Key Takeaways from Channel Check & Financing Environment



5 ESG, Peer Comparison & ICRA Ratings

Highlights

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Demand momentum for CVs somewhat moderated in Q3 FY2024, with signs of a slowdown in demand visible towards the end of the quarter following the strong festive sales. Volumes are expected to remain subdued for the rest of the year on a YoY basis, driven by the high base effect and a pause in infrastructure activities as the model code of conduct kicks in.

ICRA expects the domestic CV industry's sharp upcycle to plateau in FY2025, with a marginal decline of 4-7% in volumes.

The volumes for the domestic commercial vehicle (CV) industry are expected to remain muted through Q4 FY2024 as the base effect catches up, and also with a perceived pause in the infrastructural activities as the model code of conduct kicks in ahead of the General Elections. ICRA estimates the domestic CV industry volumes to register 2-5% YoY growth in FY2024. The industry's sharp upcycle is expected to plateau in FY2025, with a marginal decline of 4-7% in volumes.

The domestic CV industry registered a growth of 4% on a YoY basis in wholesale dispatches in Q3 FY2024, aided by replacement demand, improvement in the macro-economic environment and healthy traction in the underlying industries. YoY growth was restricted to 2% for 9M FY2024, given the 3% YoY decline in Q1 FY2024.

The medium & heavy commercial vehicle (M&HCV) (goods) segment reported a YoY growth of 4% in wholesale volumes in Q3 FY2024, supported by replacement demand and healthy traction from mining, infrastructure and construction activities, closing 9M FY2024 with a 6% YoY growth. The segment volumes are likely to grow by 3-6% in FY2024, as Q4 FY2024 is expected to witness a muted growth due to the high base of the previous year. The M&HCV volumes are expected to decline by 4-7% in FY2025, given the high base effect, and the impact on the momentum in the Government's capex in the first few months of the fiscal with the onset of the General Elections.

The light commercial vehicle (LCV) segment reported flattish wholesale dispatches of 134,163 units in Q3 FY2024 on a YoY basis, primarily due to the high base effect and slowdown in e-commerce demand along with some cannibalisation from electric three-wheelers (e3Ws). It reported a contraction of 3% in 9M FY2024 and is expected to witness a decline of 1-4% in FY2024. The decline in FY2025 is expected to be sharper at 5-8% due to a relatively high base effect continuing for FY2025.

Highlights

Bus segment volumes continued to gain traction in Q3 FY2024, at 19,636 units, thereby demonstrating a YoY growth of 21%, supported by the low base and increased demand from the State Road Transport Undertakings (SRTUs), Schools & Colleges and office segment. The mandatory scrappage of older Government vehicles is expected to drive replacement demand from SRTUs (with EVs gaining traction) over the near term. The growth is expected to moderate to 2-5% in FY2025 due to a high base effect, as YoY volume growth expectation for FY2024 stands at 18-21%.

The operating profit margin (OPM) is expected to improve by 150-200 bps in FY2024 due to benefits of operating leverage and benign commodity prices. ICRA expects the OPM to contract marginally in FY2025 to 8.5-9.5% on the back of lower volumes. Accordingly, with better profitability and lower debt, the credit metrics are expected to improve in FY2024 and remain steady in FY2025.

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Thank You!