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INDIAN AUTOMOBILE INDUSTRY - PASSENGER VEHICLES

Inventory at heightened levels; volume growth to remain modest

JUNE 2024

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Highlights

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Steady demand helped the industry record an all-time high volume of 4.2 million units in FY2024. Dealer inventory holding remains high despite strong retails. The pace of growth is expected to moderate in FY2025.

Credit profile of PV OEMs is expected to remain healthy, supported by improved profitability, low leverage, healthy liquidity and/or strong parentage.

The domestic passenger vehicle (PV) market is estimated to record modest growth of about 3-6% in FY2025 on an all-time high base of 4.2 million units in FY2024. Even as the underlying demand drivers remain supportive, volume growth for the segment is likely to moderate due to waning pent-up replacement demand as well as heightened inventory across dealerships.

Retail sales remain healthy, aided by steady demand. However, sales declined materially in May 2024 due to extreme heat conditions and general elections, impacting walk-ins at dealerships. Retail sales had remained strong throughout CY2023, barring July, when severe monsoons and flood-like situations impacted the sales, especially in North India.

The utility vehicle (UV) segment continues to expand its share in overall industry sales, led by a shift in customer preferences and a slew of new model launches. Demand for the entry-car segment remains muted. The penetration of alternative fuels, such as CNG and electric, is steadily rising aided by the introduction of new models and an expanding network.

The capex outlay for OEMs is estimated to remain high at ~Rs. 250-300 billion per annum (about 6% of revenues) over the next few fiscal years, with OEMs budgeting for substantial outlay towards new product development, including enhancement of capabilities/platforms for electric vehicles.

Healthy operating leverage, coupled with softening commodity prices, is expected to aid in margin expansion going forward. The credit profile of PV OEMs will remain healthy, supported by low leverage, robust liquidity and/or strong parentage.

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Thank You!