INDIAN AUTOMOBILE DEALERSHIP INDUSTRY

High discounts and increased interest costs squeeze margins and cash flows of auto dealerships in FY2025

DECEMBER 2024

Agenda

1 Automotive Demand – Trends and Outlook

2 Automobile Dealerships – Survey Findings

3 Outlook

4 Rating Distribution

Highlights

Click to see full report

Domestic auto dealerships are seeing pressures on earnings growth and cashflows in FY2025, despite a healthy improvement in revenues.

ICRA's sample set of auto dealerships is estimated to post a revenue growth of 8-10% in FY2025, aided by better product mix, higher realisations and a moderate rise in volumes. Demand for PVs and CVs is likely to remain muted, while that of 2Ws has been strong.

The operating margins are seen to moderate by 40-70 bps owing to higher discounts. For PV dealers, increased interest costs (amid elevated inventory holding) are further impacting their earnings and liquidity profile.

- The domestic auto dealership industry is witnessing a blend of growth and challenges in the current fiscal (FY2025). ICRA expects the industry to witness 8-10% improvement in revenues in FY2025, supported by a favourable product mix and better realisations. This comes on the back of a strong expansion of ~37% in FY2023 and ~15% in FY2024, driven by factors like pent-up demand across segments, enhanced consumer sentiments, preference for personal mobility and an improved product mix. However, the earnings and liquidity profile of auto dealers have been under pressure in FY2025 amid subdued demand in most segments (barring two-wheelers – 2W) and elevated inventory levels (especially passenger vehicles - PV).
- Segment-wise, PV are expected to clock muted growth of 0-2% in FY205, while commercial vehicle (CV) volumes are likely to be flat. The impact of the General Elections and the extended heat waves on infrastructure activities, a slowdown in e-commerce activities and competition from e-three wheelers have kept CV demand low, while elevated dealer inventory and a high base effect have been the key headwinds for the PV segment. ICRA pegs 2W demand to increase by 11-14% in FY2025, led by favourable consumer sentiments, better replacement demand and recovery in rural demand.
- ICRA's survey, with ~30 domestic auto dealerships across the PV, CV, and 2W segments in rural, semi-urban and metro areas, reveals expectations of stable revenue growth, a better supply situation resulting in lower waiting periods, higher inventory levels, sustained discounts (especially in PV segment) and a stable financing environment for auto dealerships in FY2025.
- Evolving consumer preferences and regulatory requirements have supported better realisations with the rising share of vehicle premiumisation in most segments. Nevertheless, factors like higher discounts and minimal price hikes amid a slowing auto demand and elevated inventory levels are impacting the operational cash flows of auto dealers (especially PV) for a longer period than envisaged.
- ICRA projects the industry's operating margins to moderate by 40-70 bps in FY2025, and the interest coverage ratio to hover at ~2.5 times (against ~3 times in FY2024). A timely correction in the inventory holding remains critical for an improvement in profitability and overall debt metrics.

Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President	shamsherd@icraindia.com	0124- 4545 328
K. Srikumar	Senior Vice-President	ksrikumar@icraindia.com	044 - 4596 4318
Nithya Debbadi	Assistant Vice-President	nithya.debbadi@icraindia.com	040 – 6939 6416
Etikala Ravi Teja	Senior Analyst	etikala.teja@icraindia.com	040 - 6939 6418

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

Thank You!