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INDIAN AUTOMOBILE INDUSTRY - PASSENGER VEHICLES

Festive season brings some relief to the dealerships; sustenance of demand crucial for further growth

DECEMBER 2024

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Highlights

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Wholesale volumes remained stable in 8M FY2025 led by steady production by automobile manufacturers. Dealer inventory holding has moderated in the past two months aided by a healthy festive season; nonetheless the inventory continues to be high.

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

ICRA's outlook on industry volume growth is 0-2% for FY2025 (growth of ~1% in April-November FY2025). Elevated inventory level have constrained industry wholesale volumes to an extent, even though the volumes have remained at steady levels.

Retail sales remain steady, aided by stable demand and high discounts being offered by the OEMs to promote sales. The inventory at dealer levels has moderated to 65-68 days at the end of November 2024 (as per Federation of Automotive Dealers Association) aided by a healthy festive season surge wherein the volumes grew by about 6% on YoY basis. Continuation of demand during the ongoing wedding season will be crucial to provide further liquidity cushion to the dealers.

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 on the other hand remains muted. The penetration of alternative fuels, such as CNG and electric, is steadily rising aided by the introduction of new models and an improving charging/fueling network.

The capex outlay for OEMs is estimated to remain high at ~Rs. 250-300 billion per annum (about 5-6% of revenues) over the next few fiscals, with the 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 help the OEMs maintain healthy margins. The credit profile of PV OEMs is expected to remain healthy, supported by low leverage, robust liquidity and/or strong parentage.

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