INDIAN COMMERCIAL VEHICLE INDUSTRY

3-5% YoY growth in volumes expected in FY2026 after a flattish FY2025

FEBRUARY 2025

Agenda

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5 Financing Trends

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Highlights

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ICRA expects the domestic CV industry volumes to register a 3-5% growth on a YoY basis in FY2026, following a couple of years of flattish volumes. An improving economic environment, coupled with resumption of construction and infrastructure activities after the General Elections, replacement demand due to ageing fleets and Government mandates are the key driving factors behind the projected volume growth in FY2026.

ICRA expects the Indian commercial vehicle (CV) industry wholesale volumes to see a modest YoY growth of 3-5% in FY2026, post a 0-3% in increase estimated for FY2025. Resumption of construction and infrastructure activities after the General Elections, steady rural demand along with replacement demand stemming out of ageing fleets and Government mandates are the likely driving factors to propel the said volume growth towards the end of FY2025 and through FY2026.

The domestic medium and heavy commercial vehicle (M&HCV) (trucks) wholesale volumes are expected to grow 0-3% YoY in FY2026 after posting a flat or marginally negative growth in FY2025, following a high base effect and the impact of the elections on infrastructure activities, resulting in a 6.6% YoY decline in volumes in 9M FY2025. The segment is expected to recover in the final months of FY2025, supported by an improved macroeconomic environment, increased demand from construction and mining sectors, and consequently higher freight availability.

Domestic light commercial vehicle (LCV) wholesale volumes are likely to grow 3-5% YoY in FY2026, after posting flattish or marginally negative growth in FY2025 due to factors like high base effect, sustained slowdown in e-commerce and cannibalisation from electric three-wheelers (e3Ws). The domestic LCV (trucks) wholesale volumes, therefore, reported a 2.9% YoY decline in 9M FY2025, although they demonstrated a 3.4% YoY growth in Q3 FY2025, highlighting the underlying recovery.

The bus segment reported a decent 15.6% YoY growth in 9M FY2025, aided by replacement demand. ICRA estimates the bus segment to post an 8-10% growth in FY2026 after posting a decent 11-14% growth in FY2025, aided by the scrappage of older Government vehicles, which will drive replacement demand from the State Road Transport Undertakings (SRTUs), as well as steady demand anticipations from schools and offices.

Highlights

The credit metrics of domestic CV industry is expected to remain stable over the near term, with a 40-60 bps improvement in operating profit margin envisaged for FY2025, aided by price hikes undertaken by the CV original equipment manufacturers coupled with benign commodity prices.

In terms of powertrain mix, conventional fuels (primarily diesel) continue to dominate the domestic CV industry with a penetration of ~88%, while alternative fuels (CNG, LNG and electric) accounted for ~12% in YTD FY2025*. Relatively higher penetration of electric vehicles (EVs) has been witnessed in buses, followed by LCV (goods), with a penetration of 5% and 1%, respectively, in YTD FY2025*.

ICRA expects credit metrics of the domestic CV industry to remain stable, as indicated by Total Debt/ OPBDITA estimates of 1.2-1.4 times as on March 31, 2025 and March 31, 2026, with a 40-60 bps improvement in operating profit margin (OPM) anticipated in FY2025, aided by price hikes undertaken by key original equipment manufacturers (OEMs) in the CV industry and benign commodity prices.

as on February 24, 2025; Note: CNG – Compressed Natural Gas, LNG – Liquified Natural Gas

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Thank You!