

INDIAN AUTOMOBILE INDUSTRY – PASSENGER VEHICLES

**GST rate cut expected to revive
industry growth in FY2026**

SEPTEMBER 2025



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ICRA expects industry volumes to grow by 1-4% in FY2026 with a likely recovery in demand aided by GST rate cuts, notwithstanding a 2.7% YoY wholesale volume contraction in 5M FY2026.

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



ICRA expects wholesale volume growth of 1-4% in FY2026 despite a 2.7% contraction in 5M FY2026 with an anticipation of demand revival aided by GST rate cuts across segments. Continued new model launches by original equipment manufacturers (OEMs) and an expectation of healthy demand pick-up in the forthcoming festive season is expected to support volume growth for the industry. Steady model launches from the OEMs are further expected to support the industry volumes.



In 5M FY2026, retail sales remain steady, aided by high discounts by the OEMs to promote sales. With GST rate cuts on passenger vehicles, the same is expected to improve in the forthcoming festive season. The inventory at the dealer levels remains elevated around 56 days at the end of August 2025 (as per the Federation of Automotive Dealers Association, or FADA).



The utility vehicle (UV) segment continues to expand its share in overall industry sales (65% in 5M FY2026), led by a shift in customer preferences and a slew of new model launches. Demand for the entry-car segment remained muted; however, aided by GST rate cut, the volumes are expected to see some revival going forward. The penetration of alternative fuels, such as compressed natural gas (CNG) and electricity, is steadily rising, aided by the introduction of new models and an improving charging/fueling network.



The capex outlay for the 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 EVs.



Healthy operating leverage, coupled with softening commodity prices, is expected to help OEMs maintain healthy margins. The credit profile of **passenger vehicle (PV)** OEMs is likely to remain healthy, supported by low leverage, robust liquidity and/or strong parentage.



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