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INDIAN COMMERCIAL VEHICLE INDUSTRY

GST rationalisation and festive demand to maintain growth momentum in H2 FY2026, closing year with 3-5% volume growth

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Agenda

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Highlights

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After reporting a 0.4% YoY decline in wholesale volumes in Q1 FY2026, the domestic CV industry witnessed an 8.8% YoY increase in Q2 FY2026, with GST rate rationalisation supporting demand towards the end of the quarter. With this, the domestic wholesale CV volumes reported a 4.2% YoY growth in H1 FY2026.

ICRA expects the domestic CV industry volumes to register 3-5% growth on a YoY basis in FY2026, following a couple of years of flattish volumes.

ICRA forecasts the Indian commercial vehicle (CV) industry wholesale volumes to see a modest YoY growth of 3-5% in FY2026, following a marginal 1% YoY decline in FY2025. The domestic CV wholesale volumes expanded by 4.2% in H1 FY2026 (4.5% YoY in 7M FY2026) supported by progress in execution of infrastructure projects and steady demand from logistics activity. The moderate volume growth momentum is likely to be maintained in H2 FY2026, aided by uptick in demand from rural and semi-urban regions due to rationalisation of the Goods and Services Tax (GST) to 18% from 28% with effect from September 22, 2025.

The domestic medium and heavy commercial vehicle (M&HCV) (trucks) wholesale volumes reported a marginal 1.3% YoY increase in H1 FY2026 and are expected to grow by 0-3% YoY in FY2026 after posting a 4% YoY decline in FY2025.

Domestic light commercial vehicle (LCV) wholesale volumes reported a 5.3% YoY growth in H1 FY2026. Although the early onset of monsoon impacted demand in Q1 FY2026, the GST rate rationalisation supported volumes in the final week of September 2025. The domestic LCV (trucks) wholesale volumes are likely to demonstrate a moderate YoY growth of 3-5% in FY2026.

The bus segment reported a modest 6.1% YoY growth in H1 FY2026, aided by healthy intracity and intercity demand. ICRA forecasts the bus segment to post 8-10% growth in FY2026. The scrappage of older Government vehicles, which will drive replacement demand from the State Road Transport Undertakings (SRTUs), along with steady demand from educational institutes, are expected to remain the key driving factors.

Highlights

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The credit metrics of the domestic CV industry are estimated to improve gradually over the near term, aided by controlled debt and consistent profitability.

In terms of powertrain mix, conventional fuels (petrol and diesel) continue to dominate the domestic CV industry with a penetration of around 88% in YTD FY2026*, while alternative fuels (CNG, LNG and electric)* contribute the balance. Hydrogen internal combustion engine (ICE) and hydrogen fuel cells are upcoming technologies in this space. 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 FY2026*.

While the domestic wholesale CV volumes are expected to register a 3-5% YoY growth in FY2026, translating into a moderate 6-8% YoY revenue growth, the increasing competitive intensity is likely to have some bearing on profitability despite the operating leverage benefits. Thus, the operating profit margin (OPM) of the domestic CV industry is expected to remain range-bound at 10.5-11.5% in FY2026. ICRA expects the credit metrics of the domestic CV industry to improve. While Total Debt/ OPBDITA^ is estimated to remain in the range of 0.6-0.8 times as on March 31, 2026, over 0.7 times as on March 31, 2025, steady profitability and containment of finance costs will result in an improvement in the interest coverage ratio to 12.0-13.0 times in FY2026 from 11.1 times in FY2025.

**Note: CNG – Compressed Natural Gas, LNG – Liquified Natural Gas; as of October 15, 2025; ^Operating profit before depreciation, interest, taxes and amortisation*

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Thank You!