

INDIAN AUTOMOBILE INDUSTRY – PASSENGER VEHICLES

Industry volume growth to
moderate in FY2027

MARCH 2026



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Passenger vehicle (PV) wholesale volumes have grown by 7.8% YoY in 11M FY2026; volume growth expected to moderate to 4-6% in FY2027 on a high base.

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



The industry is expected to record wholesale volume growth of 7-9% in FY2026 (7.8% YoY growth in 11M FY2026), with the GST rate cuts driving demand. ICRA expects a moderate volume growth of about 4-6% in FY2027, backed by model launches by OEMs. However, the growth is likely to moderate on the elevated base of FY2026 and would remain sensitive to the prolonged West Asia conflict, which could result in inflationary pressures.



In 11M FY2026, retail sales grew by 9.5%, led by an all-time high festive season, prolonged positive impact of GST rate cuts on passenger vehicles and multiple new model launches by OEMs in Q4 FY2026. The industry witnessed healthy increase in volumes during H2 FY2026, which led to reduction in inventory days to 27-29 days at the end of February 2026 (as per the Federation of Automotive Dealers Association, or FADA).



The utility vehicle (UV) segment continues to expand its share in overall industry sales (67% in 11M FY2026), led by a shift in customer preferences and a slew of new model launches. Demand for the entry-car segment has shown some revival after GST rate cuts and volumes witnessed uptick in H2 FY2026. The penetration of alternative powertrains, such as compressed natural gas (CNG) and electric vehicles (EVs), is steadily rising, aided by the introduction of new models and an improving fueling/ charging network.



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 EVs.



Increasing operating leverage and cost control measures, is expected to help OEMs maintain healthy margins. The credit profile of passenger vehicle (PV) OEMs is likely to remain strong, supported by low leverage, robust liquidity and/or strong parentage.



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