

INDIAN AUTOMOBILE INDUSTRY – PASSENGER VEHICLES

Industry continues strong
momentum in Q1 FY2027; growth
expected to moderate in near term

JUNE 2026



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Passenger vehicle (PV) wholesale volumes have grown by 8.6% YoY in FY2026; volume growth is expected to moderate to 4-6% in FY2027 on a high base.

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



ICRA expects wholesale volume growth of 4-6% in FY2027 (about 26% growth in 2M FY2027), constrained by a high base and increasing vehicle prices. Further, a weak monsoon could dampen rural sentiments and adversely impact volume growth in FY2027. Electric vehicle (EV) penetration has grown to around 6% in 2M FY2027 over 4.6% in FY2026, partly driven by rising fuel prices.



In 2M FY2027, retail sales grew by a strong 28% YoY, supported by traction of newly launched models, an extended summer wedding season and the sustained positive impact of the revised Goods and Services Tax (GST) rates. Volumes in 2M FY2026 had remained impacted by heightened geopolitical tensions in northern India. The inventory days remained modest around 31-33 days at the end of May 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 (68% in 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 saw an uptick from H2 FY2026. The penetration of alternative powertrains, such as compressed natural gas (CNG) and EVs, is steadily rising, aided by the introduction of new models and an improving fueling/ charging network.



Capex outlay for original equipment manufacturers is estimated to remain high at Rs. 250-300 billion per annum (about 5-6% of revenues) over the next few fiscals, 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 PV OEMs is likely to remain strong, supported by low leverage, robust liquidity and/or strong parentage.



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