

Passenger Vehicle Sales Volume Set to Continue Growth Momentum in FY25

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Synopsis

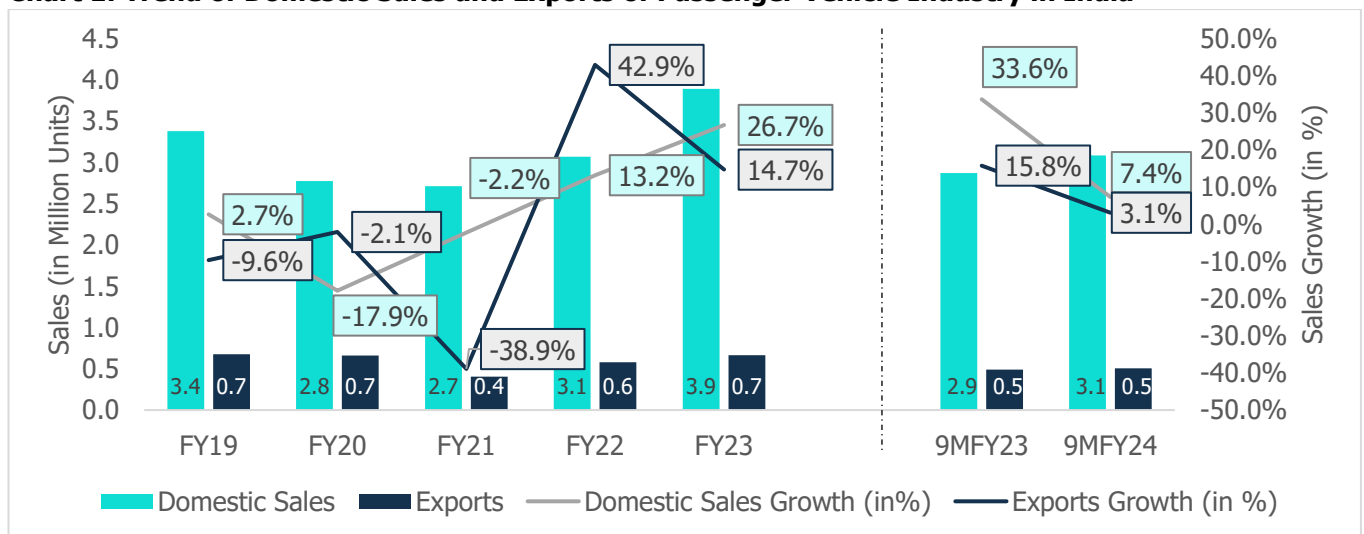
- “The passenger vehicles (PV) industry is likely to record a volume growth of around 8%-10% in FY24 as the pent-up demand levels off amid hike in vehicle prices. This growth is anticipated to moderate in FY25 owing to tapering down of pent up demand while supported by healthy order book, improvement in the supply chain, new model launches and increasing demand in the Utility Vehicles (UVs) segment,” said Tanvi Shah, Director of CareEdge Research.
- The demand for premium variants is expected to remain healthy, led by increasing demand for the luxury & premium models, while the demand for entry-level variants is expected to remain muted due to high interest rates and an inflationary environment.
- Electric four-wheeler (E4Ws) sales have grown significantly in the past few years. The E4W segment contributes approximately around 6% of the total EV market sales. Major OEMs have planned to introduce more EV models in the future, suitable for the Indian market which could boost their adoption and increase competition in the market.

Growth Momentum to Continue with the Increasing Demand for Utility Vehicles

In terms of domestic sales, the Indian passenger vehicle (PV) industry constitutes 18% of the country’s total automobile industry. The passenger vehicle (PV) industry domestic sales grew by 7.4% y-o-y in 9MFY24. The segment’s growth trajectory continued for two consecutive fiscal years with improved vehicle availability and an influx of new & refreshed models from various OEMs. This uplift was further supported by enhanced supplies and an increasing variety in the product portfolio, diversifying consumer demand.

The historical trend of domestic sales and exports of PV in India is depicted below:

Chart 1: Trend of Domestic Sales and Exports of Passenger Vehicle Industry in India



Source: CareEdge Research, CMIE

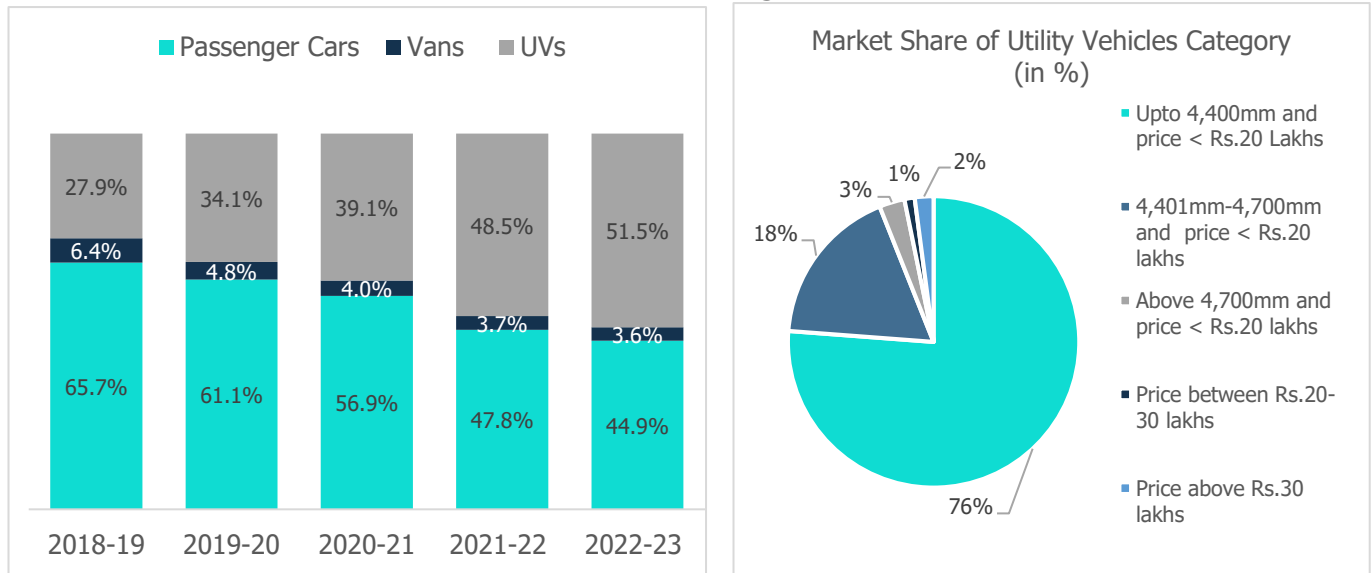
Further, the exports during 9MFY24 grew by 3.1% compared to 9MFY23 with the increasing demand from the utility vehicles and premium segments, consumer preference for cost-effective personal mobility, and the introduction of new models across various export markets, including Latin America, ASEAN, Africa, the Middle East, Saudi Arabia, and neighbouring regions. However, the ongoing geopolitical tensions across key export markets have been hindering vehicle sales. The complete recovery in exports could linger on to FY25.

Moreover, in FY23, the PV industry recorded the highest domestic sales with an annual volume growth of 27%. This segment posted the highest-ever domestic sales surpassing the previous peak of FY19. The steep growth was attributed to post-COVID’s pent-up demand in the first half of FY23, a series of new model launches, and better product availability due to the easing of the semiconductor chip supply.

At the same time, the consistent growth of utility vehicles (UVs) is flanked by the decreasing share of passenger cars and vans. Utility vehicles are becoming increasingly popular among domestic consumers given their versatility, spaciousness, and robustness. Whereas the rising disposable income is an encouraging factor for consumers with evolving preferences. Moreover, with the Indian middle-class population expanding, UV vendors have a comprehensive consumer group to cater to. This reflects a growing inclination toward UVs and the increased focus of OEMs on product development and upgrades in UVs.

Furthermore, the market showed consistent demand for luxury cars and luxury UVs, signifying a robust consumer appetite for premium segments. The segment further witnessed the benefit of a good order book and new product launches.

Chart 2: Trend of Domestic Sales Share of Various PV Segments



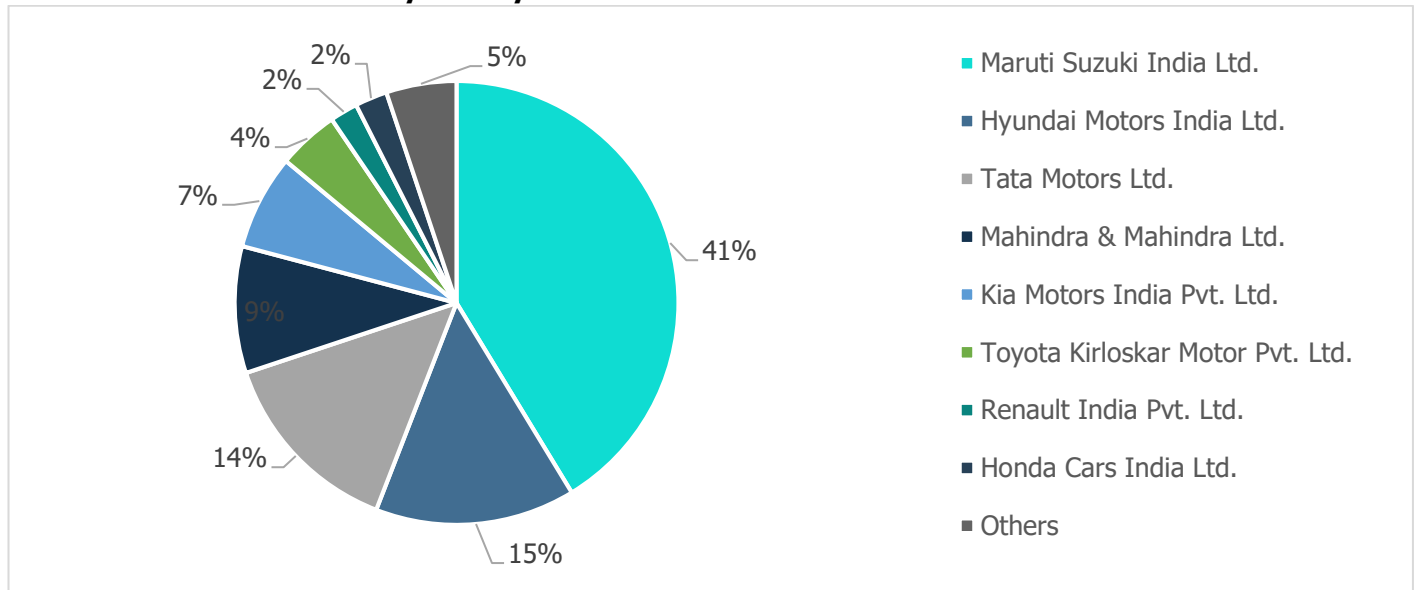
Source: CMIE

Key Players in the PV industry

Some of the major players in the PV industry include Maruti Suzuki India Ltd, Hyundai Motor India Ltd, Tata Motors Ltd, Mahindra & Mahindra Ltd, etc. The share of Indian carmakers like Tata Motors and Mahindra & Mahindra inched closer to occupying about a quarter of the industry’s sales while that of OEMs like Maruti Suzuki dipped below 50%. Due to changing consumer demand trends, new regulatory norms, and the increasing cost of vehicle acquisition, the sales of the entry-level category continued to be muted.

The market share of different players in FY23 is depicted below:

Chart 3: - Market Share of Key PV Players in FY23



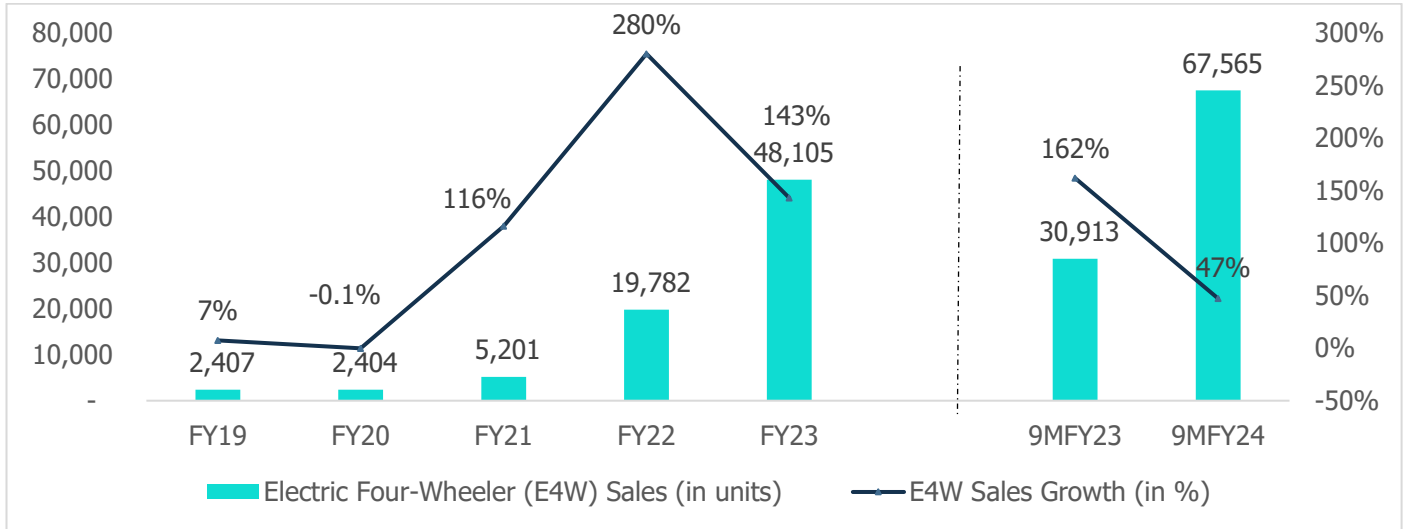
Source: - SIAM

Electric Four-Wheeler Shows Growing Penetration Rate in Overall PV Sales

Electric four-wheelers (E4Ws) are an important segment of the electric vehicle market in India, with increasing interest among consumers and growing government support for electric mobility. Electric four-wheeler (E4Ws) sales have grown significantly in the past few years. The sales of E4W during 9MFY24 grew by 47% on a y-o-y basis. Further, major OEMs have planned to introduce more EV models in the future, suitable for the Indian market which could boost their adoption and increase competition in the market. However, the EV adoption in the four-wheeler segment has been low with E4W penetration in the total Indian four-wheeler market at a low of 2% in 9MFY24. The E4W segment contributes approximately 6% of the total EV market sales.

While electric cars were initially priced higher than their petrol and diesel counterparts, the cost of ownership has come down significantly in recent years due to various government incentives and continuous advancements in battery technology for cost reduction, increased battery capacity, and tax exemptions. Further, the Government of India has planned to achieve 100% e-mobility by 2030 in smart cities. This will facilitate a huge market for EVs. Accordingly, the growing interest in sustainable transportation alternatives among consumers and the increasing availability of affordable E4Ws is expected to drive further growth in the coming years.

Chart 4: Electric Four-Wheeler Sales in India



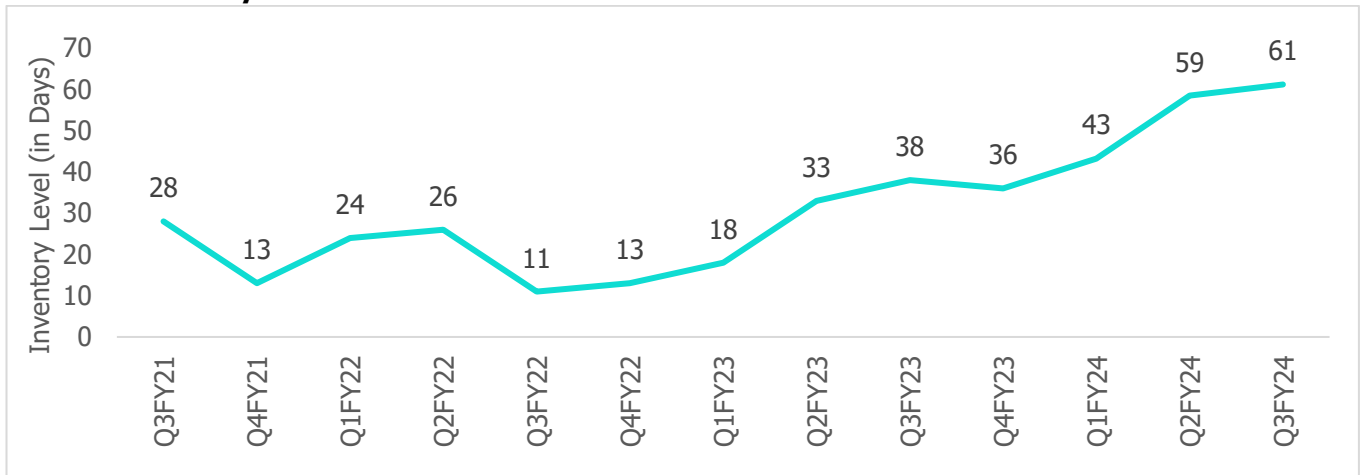
Source: Society of Electric Vehicles Manufacturers (SMEV)

In Anticipation of Continued Healthy Offtake OEMs are Pushing Inventory at the Dealer Level thus Resulting in Higher Inventory

The passenger vehicle category had a strong recovery as the market saw better vehicle availability and a surge of new & updated models from different manufacturers. This was supported by improved supplies and a wider product range, responding to a diversified consumer demand. Luxury and UV segments continued to be in high demand, with SUVs being the most sought-after vehicles. In the changeover from BS-VI to Phase II, PV OEMs had to sell off their inventory. The accumulation of certain car models, especially in the entry-level passenger vehicle segment, has led to an increase in inventory.

Despite offering discounts on entry-level cars to clear the stock, there has been a slowdown in retail sales. This can be attributed to high inflation, financing costs, and fuel prices. During the transition to BS-VI Phase II, automakers had to sell off their inventory. The inventory level for passenger vehicles is thus a concern, as OEMs are pushing further dispatch, which is keeping the inventory at near all-time high levels. Inventory pressure and the right model availability can be a challenge going forward.

Chart 5: Inventory levels of PV



Source: - Federation of Automobile Dealers Associations (FADA)

Shifting Consumer Preferences and Increasing UV Demands Likely to Drive Growth

CareEdge Research expects the passenger vehicles (PV) sector to witness a volume growth of approximately 8%-10% in FY24, as the pent-up demand stabilizes amid the rising vehicle prices. This growth is expected to moderate in FY25 while supported by a healthy order book, enhancements in the supply chain, new model launches, and an increasing interest in the utility vehicle (UVs) segment.

The growth rate of the passenger vehicle industry may moderate due to a strong base effect of the last fiscal as well as macro factors including high interest rates, inflation, and cost impact from new regulatory norms. Though the commodity prices have softened, players continue to hike prices to recover earlier surges in raw materials.

Further, the Indian passenger vehicles market faces hurdles in terms of preference for FY24 manufactured vehicles and a notable slowdown in demands & bookings post-festivities. The current PV inventory, still above 60 days, underscores the need for OEMs to strategically reduce dispatches of slow-moving vehicles, especially in the entry-level category.

The passenger vehicle OEMs must navigate through a complex landscape of consumer preferences, high inventory in the PV category, and external economic factors, including potential inflation impacts on vehicle sales in the near term. At the same time, opportunities exist in terms of new product launches in the UVs category.

The robust EV segments are facilitating more investments by OEMs in the EV space. Whereas the demand for personal vehicles remains strong with the strengthening trend of electrification. Going forward, the demand sentiment is expected to improve owing to investments from the PLI scheme, new launches of vehicles, and a strong order book. Also, India's improved manufacturing capabilities will help support the passenger vehicle industry demand over the long term.

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