PRESS RELEASE
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Domestic CV industry to witness a decline of 4-7% in wholesale volumes in FY2025 on a high base: ICRA

- ***The aggregate operating profit margin (OPM) of the commercial vehicle (CV) original equipment manufacturers (OEMs) is likely to contract by 150-200 bps in FY2025, primarily due to lower volumes***

ICRA expects the domestic CV industry's uptrend to be arrested in FY2025, with a decline of 4-7% in wholesale volumes. This follows a muted YoY growth of 1% and 3% for wholesale and retail sales, respectively, in FY2024. The healthy growth witnessed in H1 FY2024 tapered due to a slower Q4 FY2024, which saw a decline of 4% in wholesale volumes due to factors such as implementation of the Model Code of Conduct and perceived slowdown in infrastructure activities ahead of General Elections.

According to **Kinjal Shah, Senior Vice President & Co-Group Head, ICRA Ratings:** "*FY2022 and FY2023 had witnessed a very sharp growth in volume as well as tonnage terms, enlarging the base. The domestic CV volume growth momentum slowed down in FY2024 and is expected to dip in FY2025 amid the transient moderation in economic activity in some sectors in the backdrop of the General Elections. The replacement demand would nevertheless remain healthy (primarily due to the ageing fleet) and is expected to support CV volumes in the near to medium term. The long-term growth drivers for the domestic CV industry remain intact, like the sustained push in infrastructure development (evidenced by an increase in the interim budgetary allocation), a steady increase in mining activities, and the improvement in roads/highway connectivity.*"

ICRA expects the operating profit margins (OPM) of the domestic CV OEMs[1] to contract marginally in FY2025 to 8.5%-9.5% on the back of lower volumes and higher competitive pricing pressures. The OPM is estimated to have improved by 250-300 bps in FY2024, as the industry volumes were at a five-year high. In addition, lower discounting by the OEMs and benign commodity prices aided in the margin expansion in FY2024. Going forward, capex and investments for the industry are likely to increase to ~Rs. 59 billion in FY2025 against ~Rs. 37 billion in FY2024. These will be mainly towards product development, technology upgradation and maintenance-related capex.

Among the various sub-segments within the CV industry, the **medium and heavy commercial vehicles (M&HCV) (trucks)** volumes in FY2025 are expected to contract by 4-7% YoY, given the high base effect and the impact of the General Elections on infrastructure activities in the first few months. The segment closed FY2024 at 4% YoY growth, supported by the improved macroeconomic environment and the consequent higher freight availability in the early months of the fiscal, which compensated for the muted demand seen in the latter months. Within this segment, while the haulage sub-segment reported a 6% YoY volume contraction in FY2024, volumes for tipper sub-segment remained flattish for the year on a YoY basis. The tractor-trailers sub-segment, on the other hand, reported a robust 19% YoY volume growth in FY2024.

Domestic **light commercial vehicles (LCV) (trucks)** wholesale volumes are likely to decline by 5-8% in FY2025 due to factors such as a high base effect, sustained slowdown in e-commerce, and cannibalisation from e3Ws. The segment witnessed a mild decline of 3% on a YoY basis in FY2024, owing to the above factors in addition to a deficit rainfall impacting the rural economy.

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[1] ICRA *considers aggregate of Ashok Leyland Limited, SML Isuzu Limited, Tata Motors Limited (standalone) and VE Commercial Vehicles Limited*

The scrappage of older Government vehicles is expected to drive replacement demand for the **bus segment** from state road transport undertakings (SRTUs) in FY2025, supporting a growth of 2-5% on an overall basis. The segment volumes gained considerable traction in FY2024 and exceeded the pre-Covid levels.

Commenting on the alternate fuel penetration in the domestic CV industry, **Shah** further added: "*In terms of powertrain mix, conventional fuels (primarily diesel) continued to dominate the domestic CV industry with a penetration of over 90%, with alternate fuels (CNG, LNG and electric) contributing ~9% in FY2024. Relatively higher penetration of EVs was seen in buses, followed by LCV goods, with a penetration of 7% and 1%, respectively, in FY2024*."

Exhibit: Segment-wise volume growth trend and estimates (domestic wholesale CV segment)

Segment	YoY Volume Growth (%)		
	FY2023	FY2024	FY2025P
M&HCV (trucks)	40%	0%	-4% to -7%
LCV (trucks)	23%	-3%	-5% to -8%
Buses	160%	27%	2% to 5%

Source: SIAM, ICRA Research

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