PRESS RELEASE
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Domestic wholesale volumes for the commercial vehicle industry to grow at 0-3% in FY2025: ICRA

- ***The upward revision in industry volume estimates for FY2025 stems from better-than-expected offtake in Q1 FY2025 and anticipation of a continued uptick in demand in H2 FY2025***

ICRA expects the domestic CV industry's wholesale volumes to witness a nominal YoY growth of 0-3% in FY2025, against the earlier estimated decline of 4-7%. This follows a better-than-expected volume growth in 4M FY2025 and expectations of a marginal uptick in demand in the second half of the fiscal. FY2025 will be the second consecutive year of muted growth after a 1% and 3% YoY growth in wholesale and retail sales, respectively, in FY2024.

According to **Kinjal Shah, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA:** "A *range of factors such as the slowdown in infrastructure activities during the General Elections, as well as extreme heatwaves across the country, had some bearing on demand in Q1 FY2025. However, volumes in this period exceeded ICRA's expectations. Looking ahead, ICRA expects a recovery in volumes in H2 FY2025 aided by a back-ended Government capex, some pick-up in private capex across manufacturing sectors, and an improvement in rural demand, following visibility around the Kharif crop output and farm cash flows. The replacement demand would also remain healthy (primarily due to the ageing fleet) and is expected to support the industry volumes in the medium term."*

"The long-term growth drivers for the domestic CV industry remain intact, like the sustained push in infrastructure development (evidenced by retaining the higher infrastructure capital outlay in the July 2024 budgetary allocation), a steady increase in mining activities, and the improvement in roads/highway connectivity."

Among the various sub-segments within the CV industry, the **medium and heavy commercial vehicles (M&HCV) (trucks)** volumes in FY2025 are expected to report a nominal growth of 0-3% YoY, given the high base effect and the impact of the General Elections on infrastructure activities in the first few months of the fiscal. The segment had ended FY2024 with flattish volumes. Within this sub-segment, while the tipper volumes reported 4% YoY contraction in Q1 FY2025, the haulage sub-segment showed a modest 3% YoY growth for the quarter. Tractor-trailers reported a modest 7% YoY volume growth in Q1 FY2025.

Domestic **light commercial vehicles (LCV) (trucks)** wholesale volumes are expected to show a tepid YoY growth of (-1)% to 2% in FY2025 due to factors such as a high base effect, sustained slowdown in e-commerce and cannibalisation from e3Ws. The segment had 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. Increased total cost of ownership of LCVs has also led to a rising preference for pre-owned vehicles by the small fleet operators, which may impact the demand, going forward.

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 YoY growth of 8-11%. The sub-segment volumes gained considerable traction in FY2024 and exceeded the pre-Covid levels.

In terms of powertrain mix, conventional fuels (primarily diesel) continue to dominate the domestic CV industry with a penetration of over 90%, while alternative fuels (CNG, LNG and electric) had driven ~9% sales in FY2024. Relatively higher penetration of electric vehicles (EVs) has been witnessed in buses (as e-buses were covered under

FAME-II subsidies but not the other sub-segments), followed by LCV goods, with a penetration of 7% and 1%, respectively, in FY2024.

ICRA expects the operating profit margin (OPM) of the domestic CV **original equipment manufacturers (OEMs)**[1] to remain range bound in FY2025 to 9.5%-10.5% on the back of muted volumes and higher competitive pricing pressures, although factors such as cost improvement, favourable raw material costs and better product discipline are expected to lend some support to the profitability. The OPM in FY2024 had improved by almost 300 bps to 10.7% supported by operating leverage benefits and better product mix. In addition, lower discounting and benign commodity prices aided in the margin expansion in FY2024. The capex and investments for the industry are likely to increase to ~Rs. 56-58 billion in FY2025, against ~Rs. 34 billion in FY2024. These will be mainly towards product development, especially in the areas of alternate powertrains, technology upgradation and maintenance-related activities.

Shah further added: "*ICRA foresees the credit metrics of the industry to remain stable in FY2025 even as margins may contract marginally and capex outlay is anticipated to increase. The continued strong operating performance is expected to support the coverage metrics of the industry, with Total Debt / OPBITDA projected at 1.2-1.4 times as on March 31, 2025, against 1.5 times in as on March 31, 2024 and interest coverage at 6.8-7.2x in FY2025, against 7.2 times in FY2024.*

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

Segment	YoY Volume Growth (%)				Earlier Growth Estimates (%)
	FY2023	FY2024	Q1 FY2025	FY2025P	FY2025P
M&HCV	40%	0%	3%	0% to 3%	-4% to -7%
LCV	23%	-3%	-1%	-1% to 2%	-5% to -8%
Buses	160%	27%	28%	8% to 11%	2% to 5%

Source: SIAM, ICRA Research

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

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