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INDIAN COMMERCIAL VEHICLE INDUSTRY

Volumes picked up pace in Q2 FY2024; expected to remain on track during the rest of the year

NOVEMBER 2023

Agenda

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1 Industry Outlook

2 Domestic & Export Industry Trends

3 Trend in Economic Indicators & Underlying Demand Drivers

4 Key Takeaways from Channel Check & Financing Environment

5 Peer Comparison & ICRA Ratings

Highlights

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Demand for CVs was healthy in Q2 FY2024 and is expected to sustain in the coming months, driven by the Government's push towards infrastructure development and the overall healthy macroeconomic improvement.

ICRA estimates the domestic CV volumes to grow by 2-4% in FY2024.

The Indian commercial vehicle (CV) industry registered a growth of 7% on a YoY basis in wholesale dispatches in Q2 FY2024, supported by replacement demand, improvement in the macroeconomic environment and healthy traction in the underlying industries. This represents recovery after a YoY decline of 3% in Q1 FY2024, thereby ending H1 FY2024 with a YoY growth of 2%.

The M&HCV (Goods) segment reported a YoY growth of 15% in wholesale volumes in Q2 FY2024, supported by replacement demand and healthy traction from mining, infrastructure and construction activities, closing H1 FY2024 with a 7% YoY growth. The segment volumes are expected to grow by 3-5% in FY2024, driven by the increased freight movement during the festive period and healthy construction activity expected prior to the implementation of the Model Code of Conduct before the General Elections in 2024, post which M&HCV volumes may witness some slowdown.

The LCV segment reported flattish wholesale dispatches of 140,991 units in Q2 FY2024 on a YoY basis, primarily due to the high base effect and slowdown in e-commerce demand along with some cannibalisation from electric three-wheelers. Sequentially, volumes were supported to an extent by the progress into the seasonally strong festive period. For FY2024, the segment is expected to witness a marginal growth of 0-2% with the base effect catching up, as against a contraction of 5% reported in H1 FY2024.

Bus segment volumes continued to gain traction in Q2 FY2024, at 24,492 units, thereby reaching the pre-Covid quarterly numbers. The YoY volume growth of 33% in Q2 FY2024 was supported by the low base and increased demand from offices. The mandatory scrappage of older Government vehicles is expected to drive replacement demand from SRTUs to some extent in FY2024, aiding the YoY growth expectation of 12-15%.

Going forward, volumes are expected to gain further traction as the year progresses, supported by the healthy allocation for capital spending in the Union Budget 2023-24 which would continue to support infrastructure development in segments like roads, metros, railways etc. Furthermore, the increased focus on replacement of old vehicles and on green mobility also bodes well for the industry. ICRA expects the domestic CV industry volumes to grow by 2-4% in FY2024.

Supported by the expected improvement in volumes, credit metrics and profitability of CV, OEMs are expected to witness steady improvement over the near to medium term.

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Thank You!