INDIAN AUTOMOBILE INDUSTRY - PASSENGER VEHICLES

Bumper-to-bumper: Festive surge key to drive down elevated inventory

SEPTEMBER 2024

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1 Industry Outlook

2 Key Recent Trends in PV Sector

3 Capacity Expansion

4 Macroeconomic Environment

5 Segment-wise Analysis

6 Market Share Analysis

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Highlights

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Wholesale volumes remained stable in 5M FY2025 led by steady production by automobile manufacturers. Dealer inventory holding remains high despite steady retails. The pace of growth is expected to moderate in FY2025.

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

The domestic passenger vehicle (PV) market is estimated to record modest growth of about 3-6% in FY2025 on an all-time high base of 4.2 million units in FY2024. Even as the underlying demand drivers remain supportive, volume growth for the segment is likely to moderate due to waning pent-up replacement demand as well as heightened inventory across dealerships.

Retail sales remain steady, aided by stable demand and numerous discounts being offered by the OEMs to promote sales. The inventory at dealer levels has risen to an all-time high of 70-75 days at the end of August 2024 (as per Federation of Automotive Dealers Association) despite heavy discounts from the OEMs. Liquidation of inventory during the upcoming festival period will be a critical monitorable.

The utility vehicle (UV) segment continues to expand its share in overall industry sales, led by a shift in customer preferences and a slew of new model launches. Demand for the entry-car segment on the other hand remains muted. The penetration of alternative fuels, such as CNG and electric, is steadily rising aided by the introduction of new models and an improving charging/fueling network.

The capex outlay for OEMs is estimated to remain high at ~Rs. 250-300 billion per annum (about 6% of revenues) over the next few fiscals, with the OEMs budgeting for substantial outlay towards new product development, including enhancement of capabilities/platforms for electric vehicles.

Healthy operating leverage, coupled with softening commodity prices, is expected to help the OEMs maintain healthy margins. The credit profile of PV OEMs will remain healthy, supported by low leverage, robust liquidity and/or strong parentage.

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