Festival season lights up the automotive sector

GST overhaul and interest rate cuts have also played a role in giving auto sales a lift during the festive period

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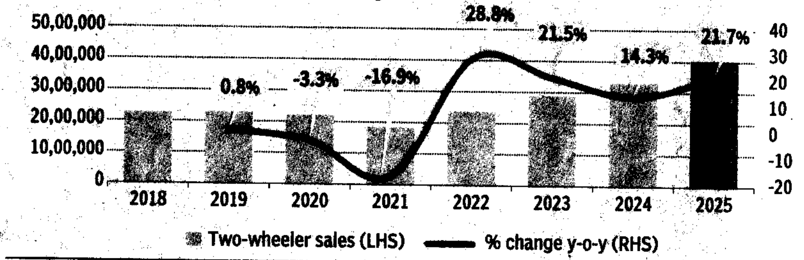
The recent festive season was more vibrant than ever for the Indian automotive industry. A confluence of factors including auspicious buying sentiments, pent-up demand, supportive rural output, policy rate cuts, conducive financing environment and, importantly, the well-timed GST reforms made the festive vehicle sales more than a seasonal one.

The rate cuts and the drop in vehicle prices have effectively unlocked the deferred demand, notably among first-time buyers and those in Tier-2/3 cities. Amidst softened global auto demand and higher US tariffs in the recent period, the strong festive demand has more than offset the effects of export headwinds.

Two-wheeler (2W) sales grew by around 22 per cent during the 42-day festive period (from September 22, 2025 to November 2, 2025). This comes after a relatively subdued performance in H1 FY26 (0.7 per cent YoY), making the uptick significant.

A 10 per cent cut in GST on scooters and motorcycles with engines below 350cc (which account for 98-99 per cent of 2W ICE market) coupled with expectations of improved agricultural output primarily contributed to the growth. The story was not different with electric 2W (e2W) with its registrations reaching record high levels in October, despite the reducing pricing gap with ICE vehicles (post GST cuts). ICRA expects the 2W wholesale volumes to grow by 6-9 per cent in FY26, driven by steady replacement demand and improving rural sentiment on the back of a healthy monsoon.

Domestic two-wheeler retail trend during the festive season over the years



Source: Vahan, ICRA Research

The festivities also brought the much-needed cheer to the passenger vehicles (PV) segment, which has been struggling from concerns on elevated inventory and subdued demand. PV sales grew by 21 per cent during this 42-day period following muted performance in H1 FY26 (-1.5 per cent YoY) with growth emanating from both urban and rural-dominated states. Out channel checks suggest that the utility vehicles (UVs) continued to be the preferred segment during the festive period, while healthy traction was also reported in the entry-level car segment.

With robust retail sales during the festive season, the inventory levels for the industry are estimated to have moderated to around 45-50 days at the end of October 2025 (as per ICRA estimates), *vis-à-vis* 60 days at the end of September 2025, as per the Federation of Automobile Dealers Association (FADA) estimates.

ICRA expects the OEMs to continue offering discounts in upcoming months for slow-moving entry-level models and the overall growth is pegged at 1-4 per cent for FY2026.

The GST rationalisation also supported the sales volumes of commercial vehicles (CVs), which witnessed double digit sales growth in the month of October 2025. As the CV demand remains closely linked to the economic activities, a structural recovery in CVs will continue to hinge on sustained economic growth. Tractor retail sales too rose by 13-14 per cent YoY in October 2025, with demand remaining supported by positive farm sentiments on the back of adequate monsoons and GST rate cut aided the improvement in affordability.

While the festive season has reinforced the strong consumption base of the country, key questions emerge on the sustainable growth as the post-festive calm sets in. Rural demand is expected to support the demand momentum following decent monsoons and firm crop prices while urban replacement demand will continue to be driven by sentiments and consumer disposable income.

In this background, the GST overhaul and interest rate cuts are seen more as a structural than interim measure and, accordingly, will favour demand prospects of the auto industry. The industry is currently at a crossroads amidst changing consumer preferences, technological advancements and focus for sustainability, and hence continued policy measures and supportive financing environment will be critical to navigate the same.

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