CRISIL ANALYSIS

Automobile sales losing pace

Just two years ago, automobiles were one of the better-performing sectors, having quickly got back on its feet after the pandemic to post record sales. Barring two-wheelers, all the segments recovered to near pre-Covid sales in FY23 and FY24.

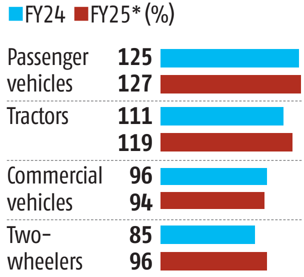
In FY25, automobile sales seem to have hit a speed bump, with the passenger vehicle (PV) segment losing momentum and a decline in government spending affecting commercial vehicle (CV) sales, among other factors. Interestingly, though, the two-wheeler and tractor segments, which depend on rural demand, are seen driving growth this financial year, clocking a 12-14 per cent and 6-8 per cent year-on-year (Y-oY) rise in sales, respectively.

Rural demand had been subdued in the past few financial years owing to low farm profitability because of erratic monsoon and the outsized impact of the pandemic on rural incomes.

The improvement in rural performance, which is predominantly farm-dependent, can be validated by the fact that agricultural gross value added (GVA), growing at 3.5 per cent in the second quarter of FY25, outpaced manufacturing GVA growth of 2.2 per cent.

NUMBER PLATE

Sales compared to pre-Covid levels



*Estimates
Source: CRISIL MI&A research

Increased rainfall, which was 8 per cent above normal levels, and heightened food inflation helped put more cash in the hands of farmers.

In FY26, two-wheeler sales are expected to grow 8-10 per cent on a low base, while tractor sales will grow 2-4 per cent, aided by a continued rural recovery.

The growth in two-wheeler sales is largely optical. That is because, in FY24, while PVs and tractors breached pre-Covid sales (125 per cent and 111 per cent, respectively) and CVs reached 96 per cent, two-wheeler sales were only at 86 per cent of pre-Covid levels.

OUTLOOK & BEYOND

AUTOMOBILES

Thus, despite a 12-14 per cent growth in FY25, they will only reach 96 per cent of pre-Covid sales, at similar levels with CVs, with PVs and tractors at 127 per cent and 119 per cent, respectively.

As for PV sales, which had continuously recorded growth for three years, rural India's ability to sustain the growth momentum remains insufficient despite improving sentiments.

Also, while newer attractive models are being launched, the industry is grappling with another issue that is causing sales to drag — the inventory levels in the PV segment stood at 57-62 days at the end of October 2024, double the usual inventory level of 30-35 days. Original equipment manufacturers (OEMs) are facing pushback from automotive dealers whose working capital has been significantly affected by the illiquid inventory.

The pent-up demand from semiconductor shortage, which had boosted sales for close to two-and-a-half years, has been nearly exhausted.

That, coupled with the OEMs' efforts to increase inventory levels, has resulted in demand returning to business-as-usual levels with a correction in inventory this financial year.

As a result, overall PV sales are expected to grow only 1-3 per cent in FY25 and FY26.

CV sales, on their part, are determined by a host of economic parameters, unlike other segments, which are driven by consumer sentiment. Overall CV sales were anticipated to be lower Y-oY this financial year owing to low volumes up for replacement. However, a delay in government spending because of the general elections, the Assembly polls in eight states, and the consequent slowdown in awarding of infrastructure projects, also impeded sales.