

INDIAN PASSENGER VEHICLE INDUSTRY

**Despite inflationary pressures,
demand remains stable;
semiconductor chip supply
continues to be the key monitorable**

JUNE 2022



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An improved chip supply vis-à-vis the previous year is estimated to help the industry record a growth of 9-12% on YoY basis in FY2023

Semiconductor shortage is now expected to extend well into 2023; the impact of the ongoing Russia-Ukraine crisis and the lockdowns in China on chip supplies remains a monitorable



ICRA expects industry to grow by 9-12% in FY2023, aided by improvement in semiconductor supplies vis-à-vis the previous fiscal. The underlying demand trends for the industry continue to remain stable; inventory restocking at dealerships is also likely to cushion wholesale dispatches against any moderation in demand on account of increase in cost of ownership/borrowing costs.



OEMs continue to work towards ensuring a relatively stable production trend over the near to medium term, with shortage of semiconductors expected to persist over the near term. Chip supplies were impacted by the lockdowns in China towards the start of the fiscal; any incremental lockdowns in key geographies has a potential to adversely impact the industry's prospects.



The UV segment continues to expand its share in the overall industry sales, led by a shift in customer preferences. The demand for the entry-car segment remains muted with the purchasing power of middle-class consumers affected by the adverse impact of the pandemic on the economy and the significant increase in vehicle prices necessitated by inflationary pressures.



The increase in fuel prices (diesel/petrol) coupled with improved CNG dispensing infrastructure and CNG-powered model launches by OEMs continues to aid an increase in the share of CNG powertrains in the overall sales. Despite the increase in CNG prices over the past few months, the differential in terms of the running cost for CNG (vis-à-vis diesel and petrol) continues to be substantial.



Amid stiff competition, the pricing flexibility remains limited with OEMs. Even as OEMs have resorted to steady price hikes to pass on the hike in commodity prices to an extent, the profitability margins are expected to remain under pressure even in FY2023. Nevertheless, the credit profile of PV OEMs will remain healthy, supported by low leverage, strong liquidity and/or strong parentage.



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