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Auto sector outlook positive, but recovery faces risks amid global inflation, possible semiconductor shortage

New launches in the personal vehicle and two-wheeler segments are likely to spark consumer excitement in the medium term.

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Robust demand, easing supply constraints, and dropping commodity prices are expected to provide relief to auto OEMs and ancillary companies going forward

The Indian auto industry witnessed recovery in the past two months on account of arrival of monsoons, new model launches by the OEMs along with improvement in the availability of semiconductors. However, analysts see headwinds for the industry going ahead on account of global inflationary pressure, possible semi-conductor shortage. [Care Ratings'](#) analysts expect adequate rainfall across the country along with the festive season to keep the demand sentiment positive and help keep the momentum going. "OEMs are

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restrain high inflation will make auto loans costlier. This may restrict the growth, especially in entry-level vehicle segments which have price-sensitive customers," they said.

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Meanwhile, domestic brokerage firm Sharekhan believes that the festive season is going to continue the growth momentum for the auto sector in India. Sharekhan analysts in a report said that positive sentiments and exciting new launches will keep growth momentum in the two-wheeler and personal vehicle (two- and four-wheelers) segments. Rural demand is expected to be driven by normal monsoon and government subsidies. The brokerage expects two-wheeler volumes to recover, especially in the entry and executive motorcycle segment, which has been sluggish lately and has started showing improvement in the previous months.

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New launches to spark consumer excitement in medium term

New launches in the personal vehicle and two-wheeler segments are likely to spark consumer excitement in the medium term. "We expect robust recovery in CV sales, led by increasing economic activity and improving sentiments of fleet owners at a lower cost of ownership under BS-VI vehicles and a low base. Buses and 3Ws are also expected to see recovery," added the brokerage firm.

Vinkesh Gulati, President, FADA was quoted in a PTI report saying, “We expect the festive season this year to be the best in terms of passenger vehicle sales on the back of new launches and improved production activity. The industry has been rolling out over 3 lakh units on an average in the past 4-5 months which is helping in retails.”

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Semiconductor chip shortage, inflationary pressure: Key headwinds

Sharekhan’s outlook may be impacted negatively if semiconductor chips shortage and geopolitical situation aggravates or gets delayed. Analysts at Care Rating also empahsised that auto sector recovery could also face risks amid global inflationary pressure and a possible semiconductor shortage due to Taiwan-China tensions.

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