Commercial Vehicles Likely to See 22% Volume Growth in FY23

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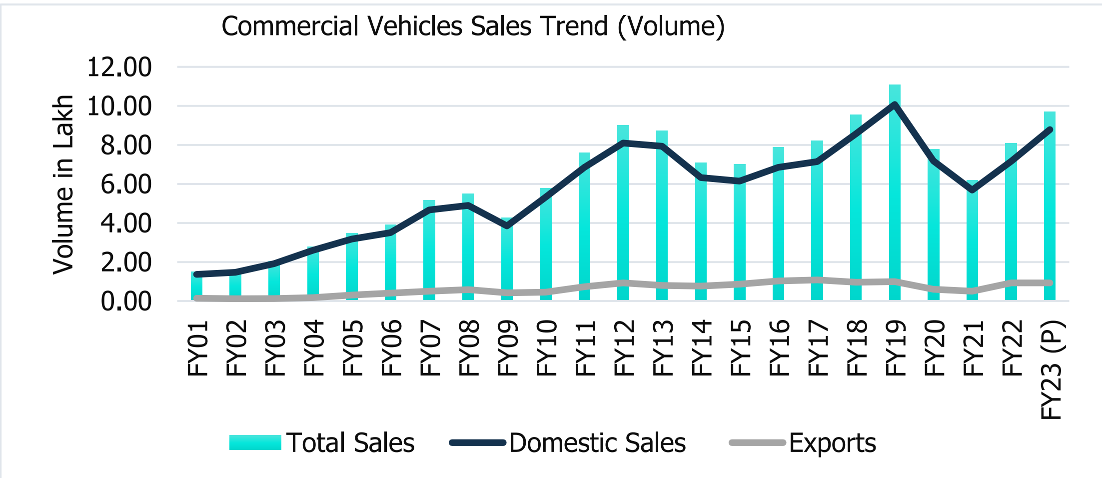
Synopsis

- After reporting a volume growth of 30.7% in FY22, the commercial vehicle (CV) industry is likely to continue on the same path and post 20-22% growth in FY23. Segment-wise, medium, and heavy commercial vehicles (MHCV) are expected to grow by 22-24% while light commercial vehicles (LCV) are likely to grow by 18-19%.
- The CV industry recorded a strong volume growth of 60.2% y-o-y in H1FY23, while year-to-date (YTD) growth (April to October 2022) was recorded at 52.3% y-o-y (top five players).
- The strong growth traction, driven by an overall improvement in economic activities, rapidly growing infrastructure development with private and public capex, higher fleet utilisation levels, the thriving e-commerce sector, and a rebound in replacement demand augurs well for the industry.
- Growth momentum could be dampened due to headwinds like increasing interest costs, a slowdown in exports, and continuing inflation pressures.

Bullish in Near Term

Post a strong year-on-year volume growth in FY22, the CV industry is set to record a volume growth of 20-22% in FY23, benefitting from the strong demand and supply cycle while cost pressure remains high.

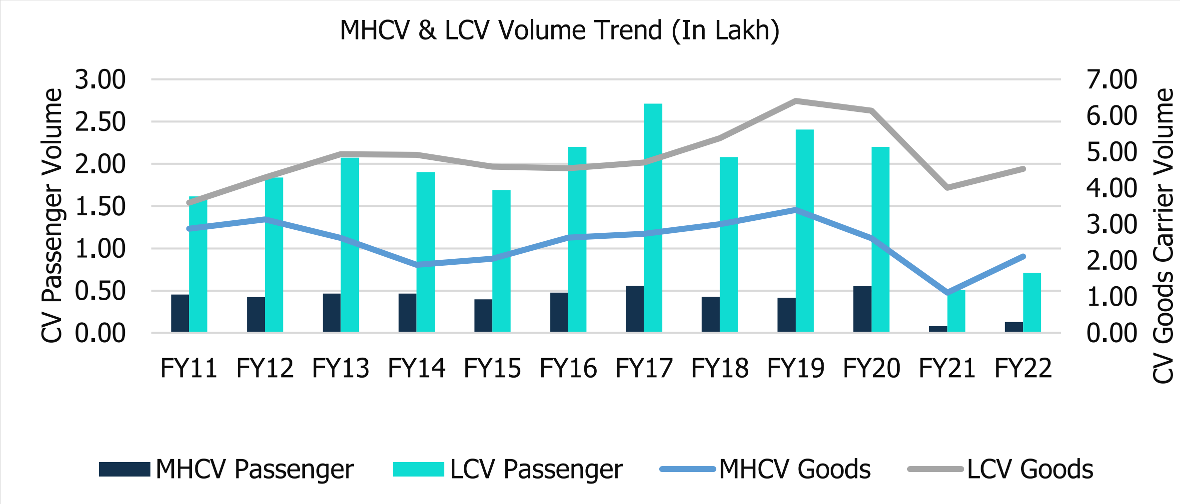


Source: CMIE and CareEdge

Post recording the highest volume growth in fiscal 2019 since fiscal 2001, the CV industry went into a downturn, recording a sharp volume de-growth of around 29.7% and around 20.4% in FY2020 and FY2021, respectively. The demand was dented by multiple headwinds like the non-banking financial company (NBFC) liquidity crisis, easing of axle norms, increased vehicle cost (BS-VI transition and higher insurance premium), high fuel prices, and economic contraction. Making it worse, the COVID-19 pandemic hit the last nail, resulting in the lowest volume in FY20 over the last decade.

A similar trend was seen in CV exports, which declined by 39.6% in FY20 and 16.6% in FY21, before recovering by 83.4% in FY22. With the receding effect of COVID and recovery in the economy, the CV industry recorded a strong growth of 30.7% in volume in FY22.

The growth momentum continues as the sales volume in H1FY23 grew by 60.2% y-o-y with demand across all segments staying strong.



Source: CMIE and CareEdge; Based on registered vehicles.

The CV passenger segment (which contributed 20-22% of CV sales volume pre-COVID) was the worst hit during the pandemic, given the work-from-home norms and travel restrictions. The bus segment had the steepest fall of 78% due to the pandemic. With a rebound in demand with COVID fading and the back-to-office/school trend, demand in the CV passenger segment will support the overall CV volumes in FY23.

Sales Volume (Nos.)	H1FY22	H1FY23	Y-o-y Growth (%)
MHCV goods	79,812	139,977	75
MHCV passenger	2,827	15,358	443
LCV goods	179,929	278,679	55
LCV passenger	9,483	22,185	134

While the LCV segment continued to sustain the growth momentum with an increase of 59% in volumes on a y-o-y basis in H1FY23, the MHCV segment recorded a substantial growth of 88% with improving industrial and infrastructure activities and higher fleet utilisation. Significant volume recovery in the MHCV passenger and LCV passenger, which grew by 443% and 134%, respectively, in H1FY23, led to growth traction. Overall, on a YTD basis (April-October 2022), the CV segment recorded growth at 52.3% y-o-y (top five players). Recovery in MHCV, especially in the passenger carrier segment and sustained growth in the MHCV goods carrier segment along with LCV demand augur well in FY23, supporting the volume growth.

Further replacement demand, which contributes 30-35% of the volume of sales in the CV industry, was impacted in the past few years due to deferred purchases given the multiple headwinds. However, with a recovery of economic activities, the pent-up replacement demand would boost volumes over the medium term. Furthermore, with the implementation of the scrappage policy from April 2023 onwards and with more than 50-55% of the existing vehicles above the age of 10 years in MHCV, replacement demand would be buoyant.

Hiccups on Highway

The CV industry is also going through challenges that include higher input prices and fuel costs, increasing interest costs, a slowdown in exports with the global recessionary trend, along with continued inflation dampening the growth momentum. CareEdge believes that the high pent-up replacement demand and robust growth in end-user industries like infrastructure and e-commerce would offset headwinds such as high-interest rates and commodity inflation. Profitability for OEMs is also expected to expand with healthy volume sales and improved operating leverage backed by softening of input cost.

CareEdge View

With strong tailwinds like spurring economic activities, increased infrastructure spending and a continued boom in e-commerce, the CV industry will continue to maintain its growth momentum in FY23 with volume growth of 20-22%. Exports are likely to remain subdued for the next couple of quarters, although post the monsoon quarter, domestic CV replacement demand is recovering well.

"Bullish demand would translate to higher revenues and overall improved operating leverage would result in improved profitability, supported by price hikes by original equipment manufacturers. During Q1FY23, the industry reported an operating profit of 4.6% as compared with an operating loss of 1.6% y-o-y. An improvement in margins is expected to continue in Q2FY23 with ease in input prices. The H2FY23 margins are expected to revive moderately as compared with H1FY23, with an expected decline in raw material prices and the planned price hikes by OEMs," said Arti Roy, Associate Director, CareEdge.

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