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After GST-led surge, car sales growth likely to decelerate in FY27



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Article Content:

India's passenger vehicle (PV) industry growth is expected to moderate in 2026-27 (FY27), following a strong rebound in the second half of FY26 (H2FY26) driven by goods and services tax (GST) rate cuts, as geopolitical tensions in West Asia cast a shadow on demand sentiment and outlook.

Industry volumes rose sharply in FY26, with total PV wholesales touching around 4.7 million units, marking an 8.3 per cent year-on-year (Y-o-Y) increase, largely due to a robust recovery in the latter half of the fiscal. "FY26-particularly H2- has been exceptionally strong for passenger vehicles, with sales exceeding 4.7 million units and growth of 8.3 per cent on an already high base," said Anurag Singh of Primus Partners.

The sharp uptick in H2FY26 was underpinned by GST-led price reductions, pent-up demand and favourable rural sentiment.

"The current fiscal has unfolded as a tale of two halves... the second half is seeing a strong recovery on the back of policy support and healthy rural demand," said Srikumar Krishnamurthy, senior vice president at Icra.

However, as the industry transitions into FY27, multiple headwinds are expected to temper growth. Hemal Thakkar, senior director at Crisil Intelligence, highlighted that while the second-half momentum was expected to carry into early FY27, evolving geopolitical risks have altered projections. "The ongoing West Asia crisis has led to a sentimental impact across various automobile segments thereby leading to a drop in forecasts across categories," Thakkar said.

He added that the growth outlook remains contingent on the first half performance. "The growth in FY2027 will remain challenging if the first half doesn't see reasonable growth as the high base effect in the second half will weigh in on the overall fiscal growth," Thakkar noted. Crisil Intelligence has consequently trimmed its PV growth estimate to 3-5% for FY27, down from an earlier expectation of 5-7%.

Icra has similarly flagged a moderation, estimating PV volume growth at 4-6 per cent in FY27, compared to 7-9 per cent in FY26. "Although demand sentiment remains optimistic, volumes are reaching levels that would weigh on the potential for outsized growth in FY27," Krishnamurthy said.

The moderation is also attributed to the absorption of pent-up demand after the GST rate cuts. "A significant portion of pent-up demand following the GST reduction has already been absorbed. As a result... matching the headline performance of FY26 will be challenging," Singh said.

Automakers, too, remain cautious. Shailesh Chandra, MD and CEO of Tata Motors Passenger Vehicles, said, "The industry witnessed a strong rebound in the second half, posting double-digit growth, supported by GST 2.0 implementation and a robust festive season." However, he cautioned.

that "the industry will need to closely monitor geopolitical developments to mitigate potential supply-side risks."

Partho Banerjee, senior executive officer, Marketing & Sales, Maruti Suzuki India Ltd, estimated that the PV industry could grow by around 5 per cent in FY27, "with a possible one percentage point variation," but warned that "a prolonged conflict could alter this trajectory."

Despite near-term headwinds, structural drivers remain intact. Rising premiumisation, increasing adoption of SUVs and alternative powertrains, and improving affordability are expected to support the medium-term outlook. Singh pointed out that "the average selling price of PVs continues to rise, driven by improvements in quality, safety, features, and technology," while GST cuts are "enabling a new cohort of first-time buyers."

Overall, while FY27 is likely to mark a phase of normalisation after an unusually strong FY26, the industry's underlying demand drivers and financial resilience are expected to keep growth on a stable, albeit slower, trajectory.

The outlook

FY26 volumes at 4.7million units, up 8.3 per cent year-on-year

FY27 growth seen at 3-6 per cent against 7-9 per cent in FY26

SUVs, premiumisation to support medium-term outlook