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Riding Out a Storm, Auto Sector Secures 4th Position

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Article Content:

Despite roadblocks, the automobile sector performs well in the BT500 list, securing the fourth position on the leaderboard.

FY25 was a banner year for India's automobile industry. Despite the sector's profit after tax (PAT) falling 2.5% to Rs 1.12 lakh crore, vehicle sales rose 7.33% to 25.6 million units, spearheaded by record demand for three-wheelers and passenger cars.

Maruti Suzuki India Ltd's net rose 7.5% to Rs 14,500 crore, driven by stable domestic demand, while Mahindra & Mahindra Ltd's PAT rose 14.7% to Rs 14,073 crore, owing to blockbuster SUV sales. Tata Motors Ltd's profit, however, skidded 28% to Rs 23,278 crore, from Rs 32,453 crore in FY24, hurt by rising input costs and pressures on its UK unit, Jaguar Land Rover Ltd. Maruti Suzuki's gross sales rose 7.7% to Rs 1.55 lakh crore and Mahindra & Mahindra breached Rs 1.65 lakh crore, up 14.5%, reflecting a consumer shift towards sports utility vehicles (SUVs).

In terms of market value, Mahindra & Mahindra emerged as the star performer with its market capitalisation surging nearly 60% to Rs 361,752 crore. Bajaj Auto wasn't far behind with a 33% increase in its market value. Both Tata Motors and Maruti Suzuki recorded double-digit growth in market capitalisation. The triggers were growing popularity of SUVs, demand for premium models, rural sales and robust exports.

The boom in SUV demand didn't show any sign of slowing, expanding 11% to command nearly two-thirds of all passenger vehicle sales."FY25 saw a strong performance, driven by robust export growth and solid gains in the two-wheeler segment, with India now ranking as the world's third-largest automobile market," says Anurag Singh, advisor at management consultant Primus Partners.

The rural market proved to be a steady pillar of growth for the industry in FY25. Retail rural demand trumped urban demand, aided by commuter motorcycles and small commercial vehicles.

"Rural retail grew 7.55% YoY, outperforming urban's 5.14%, thanks to improved credit penetration and locally adapted products. Rural remains a high-volume, low-margin engine requiring tailored financing models and dealer economics to sustain," says Harshvardhan Sharma, Group Head-Auto & IT at Nomura Research Institute.

Automobile manufacturers also found a strong foothold overseas, with exports increasing 19% year-on-year to 5.363 million units as against 4.5 million units in the previous fiscal, underlining the sector's expanding footprint.

"Exports were a key counter-cyclical lever, cushioning domestic volatility. For FY26, stability will depend on tariff predictability; strategies like CKD/SKD assembly in offshore markets can mitigate risks," says Sharma. CKD and SKD are short for Completely Knocked Down and Semi Knocked Down kits, terms used to denote products shipped in parts and assembled at the destination.

After the brisk ride in FY25, the automobile industry has hit a speed bump in the first few months of FY26. In the April to June quarter of FY26, the auto sector, which contributes 10% of India's gross domestic product, reported a 7.3% decline in sales owing to weak demand, supply-chain bottlenecks and policy challenges such as export licensing on rare earth magnets used in electric vehicles and electronic appliances.

Across segments, passenger vehicle sales declined by 1.4%, though SUVs continued to attract customers. Two-wheeler sales declined 6.2% and commercial vehicle sales fell 0.6%. Three-wheeler sales remained flat.

"The first quarter has already shown signs of moderation, especially in the entry passenger vehicle and two-wheeler segments, due to falling affordability and longer replacement cycles. Global trade policy uncertainty, including proposed US tariffs of up to 50%, could indirectly impact export competitiveness and input costs. There's also a structural vulnerability around imported critical raw materials like rare earths, and rural demand remains rainfall-dependent," says Sharma.

According to Primus Partners' Singh, sales growth in FY26 is expected to be flat because of a high base and moderate economic growth, projected around 6.5%.

Rural demand has also weakened in the first few months of FY26. Partho Banerjee, Senior Executive Officer of Marketing and Sales at Maruti Suzuki, says rural growth tapered from 10% previously to 2-3% in the first quarter.

One of the biggest challenges would be a shortage of rare earth magnets. "EV powertrains using permanent-magnet motors depend on concentrated rare-earth supply. Price or supply shocks can raise costs significantly. Mitigation will involve technology substitution, local magnet processing, and strategic long-term offtake agreements," says Sharma.

EV penetration in India has surged from 2.2% in FY25 to 4.2%. A recent report by CareEdge says the share of EVs is likely to cross 7% in the next three fiscal years.

The 50% tariff imposed by US President Donald Trump is also likely to have a trickle-down impact on India's automotive industry. "The direct impact on domestic passenger vehicle sales will be minimal. But second-order effects on exports, component costs, and forex stability warrant scenario planning and export market diversification," says Sharma.

The industry is banking on the coming festive season to provide a respite. Plus, the expected cut in taxes as part of the coming GST rate rationalisation is expected to reduce prices of popular car models. "We anticipate gradual recovery in domestic demand sentiment, driven by the onset of monsoon and festive season coupled with government policy measures," Unsoo Kim, Managing Director, Hyundai Motor India Ltd, told reporters after announcing the company's first-quarter earnings.

According to Sharma, in FY26, the growth momentum is likely to be the strongest in two-wheelers, followed by passenger vehicles, while the commercial vehicles segment will trail, even as the overall industry grows in low single digits.