PRESS RELEASE

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Revenues of domestic auto dealership industry to expand by 11-13% in FY2024: ICRA

- ***Operating margins expected to be 40-70 bps higher than pre-Covid levels, despite some moderation on a sequential basis***
- ***Financing environment remains stable; however, hardening interest cost remains a worry for auto dealers***

Following an estimated expansion of 27-30% in FY2023, ICRA projects the revenues of the domestic automobile dealership industry to grow by 11-13% in FY2024, aided by 6-9% volume growth and an increase in vehicle prices. Factors like improving consumer sentiments, as seen through a continued preference for personal mobility and rising disposable income, easing supply-side constraints, better features in the new product models, change in product-mix with increasing skew towards high-priced vehicles, etc., are expected to favourably support the sales growth in the consumer segment. In the commercial segment, improving economic activities, rising spends in infrastructure and mining activities stable financing environment shall support the growth. Potential headwinds could arise from adverse monsoons or the occurrence of the El Nino and its impact on rural demand, supply-related issues, general inflation, and further hardening in financing rates.

Segment-wise, demand for commercial vehicles (CV) is expected to be supported by replacement demand, pick-up in mining, infrastructure construction activities, and overall healthy fleet utilisation levels. In the passenger vehicle (PV) segment, underlying demand trends remain stable, although supply-chain related factors, increase in the cost of ownership, and monsoon performance are key monitorables. With the PV segment, demand remains buoyant in the segments like special-utility vehicles and luxury cars. In the two-wheeler (2W) segment, headwinds like elevated ownership costs, inflation, and high financing costs remain a challenge, although demand is expected to recover gradually.

Ms. Nithya Debbadi, Assistant Vice-President and Sector Head – Corporate Ratings, ICRA Limited, says: *"Margins in the automobile dealership industry are thin, inherent to the distribution nature of the business. While operating margins in FY2021 and FY2022 were favourably supported by strong pent-up demand and relatively lower discounts amidst supply-related challenges, the operating and net margins in FY2023 are expected to have compressed by ~30-50 bps. Factors like reduced waiting periods, an increase in operating costs amidst general inflation and competition, a rise in interest costs due to an increase in interest rates, and a rise in working capital loans amidst elevated inventory levels are expected to weigh on the margins in FY2024. Nevertheless, the industry's operating margins are expected to be better than the pre-Covid levels."*

In the last two years, the inventory levels for automobile dealers declined, given the impact of semiconductor chip shortage issues, especially in the PV segment. However, with semiconductor availability improving gradually, inventory levels increased over the past two quarters. ICRA expects inventory holding levels to increase as compared to the last two years, and normalise gradually to ~40-45 days, going forward. The cash flows and credit metrics of the industry players improved in the past two years, supported by better margins, lower debt (on account of low inventory), and faster working capital cycle. The industry debt metrics (interest coverage and Total Debt/OPBITDA) are expected to remain superior to the pre-Covid levels despite some moderation in the near term.

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