PV Outlook: Volume Growth expected to be around 4% in FY26

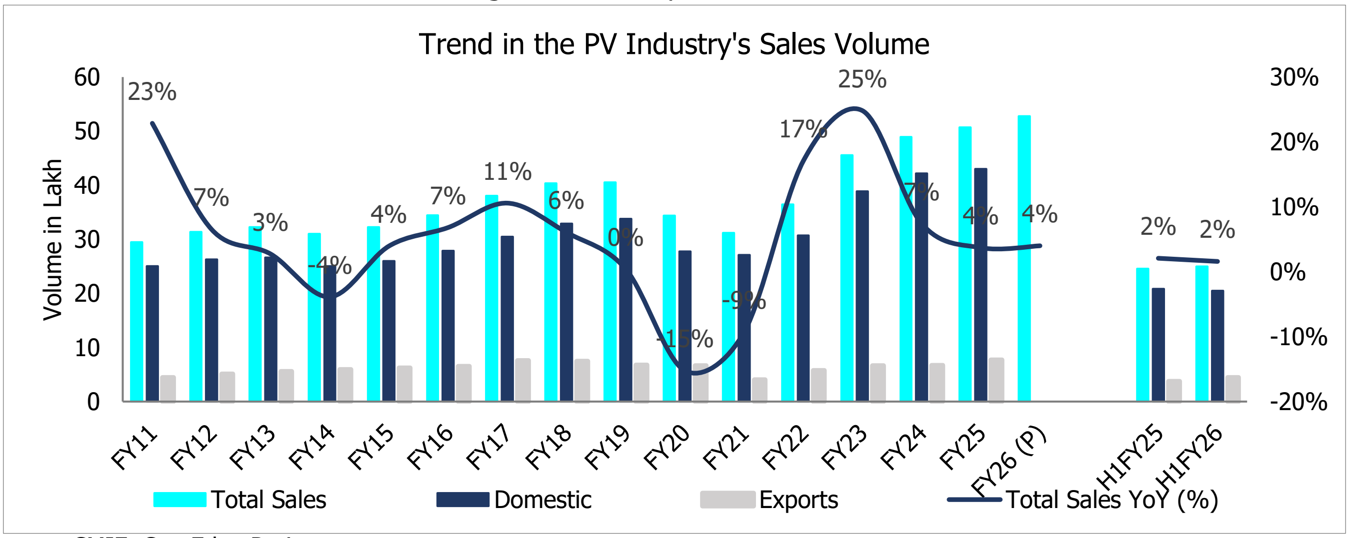
CareEdge RATINGS

Synopsis

- In line with CareEdge Ratings' expectations of volume growth of around 3-5% in FY25[1], the PV industry volume grew by 3.7% in FY25. The moderation in y-o-y volume growth in FY25 was due to the high-base effect of FY24, and persistently subdued demand for entry-level variants.
- During H1FY26, overall PV volume growth was modest at 1.8%, driven by 2.2% decline in small car sales, while SUVs grew by 3.8%. Following GST rate rationalization—reducing rates on small cars and removing cess on SUVs—volumes accelerated in YTD April–October 2025, rising 3.9% on a y-o-y basis. The decline in small car sales narrowed to 0.6%, and SUV growth strengthened to 6.2% in same period. In October 2025 alone, small car sales grew by 8.5% y-o-y, while SUVs surged 18.5%, driving overall PV volumes up by 15% y-o-y.
- CareEdge Ratings expects PV volumes to grow by around 4% in FY26, driven by GST rationalization, easing inflation, and supportive fiscal measures in the Union Budget 2025–26. The GST cut on small cars (28% to 18%) is likely to revive entry-level demand, which has been under pressure for the last few years while removal of Cess on SUVs will further boost demand.
- SUVs are expected to continue dominating the market, growing by 8–10% and outpacing overall industry growth. Meanwhile, EV penetration is likely to remain modest at 3–4% while Hybrid volumes could grow by 34-38% in FY26, reaching ~1.07–1.10 lakh units, up from ~80,406 units (registered) in FY25.

From Stabilization to Policy-Driven Realignment

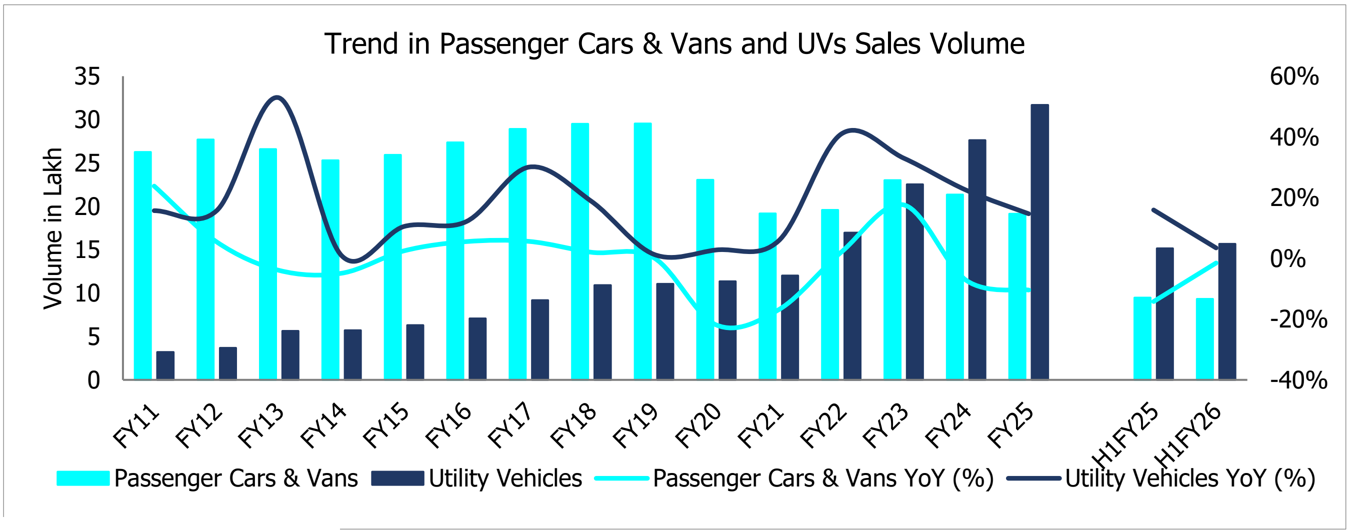
The PV industry recorded healthy growth of 7.4% in FY24, which moderated to 3.7% in FY25, in line with CareEdge Ratings' expectations. This slowdown was primarily due to the levelling off of pent-up demand, higher vehicle prices, and the high base effect of previous years. Despite these challenges, new model launches and strong SUV demand sustained overall momentum. Utility vehicle (UV) volumes grew 21.8% in FY24 and 14.0% in FY25, supported by a robust order book and rising preference for SUVs. In contrast, passenger car volumes declined 8.5% in FY24 and 11.5% in FY25, reflecting subdued entry-level demand and a structural shift toward SUVs.



Source: CMIE, CareEdge Ratings

[1] PV Sales Volumes Likely to Grow at a Moderate 3%-5% in FY25

During H1FY26, overall PV volume growth was modest at 1.8%, with small car sales down by 2.2% and SUVs up by 3.8%. Following GST rationalization—reducing rates on small cars and removing cess on SUVs—overall PV volumes accelerated in April–October 2025, rising by 3.9% on a y-o-y basis. The decline in small car sales narrowed to 0.6%, while SUV growth strengthened to 6.2% during the same period. October 2025 alone saw a sharp rebound, with small cars up by 8.5% y-o-y and SUVs surging 18.5%, driving overall PV volumes up by 15% y-o-y. This momentum reflects the positive impact of tax reforms, improved affordability, and strong festive demand, signalling recovery in entry-level segments and sustained strength in SUVs.

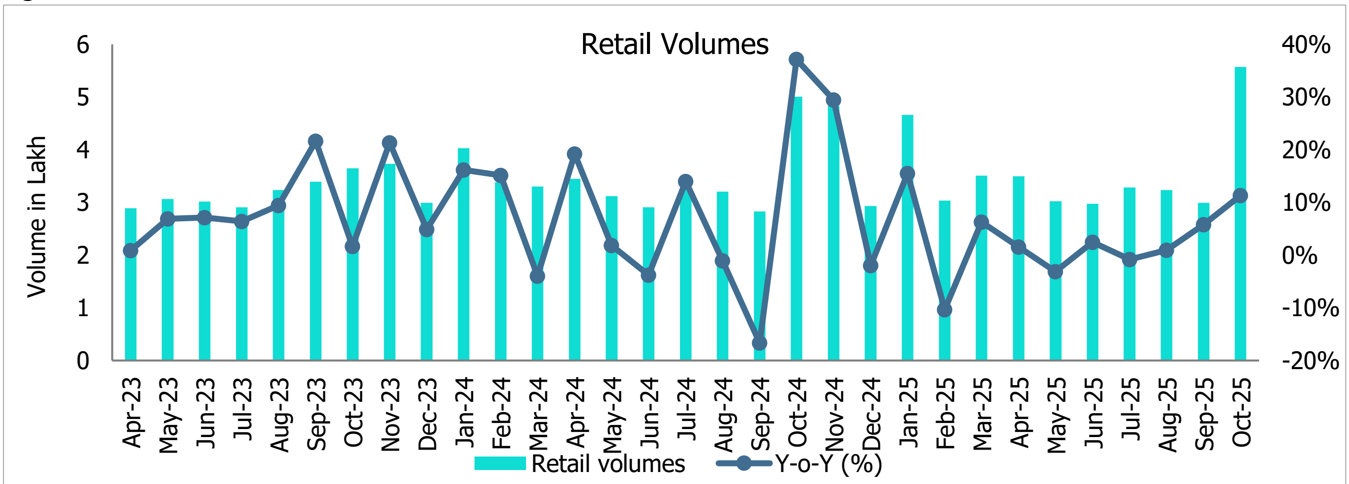


Source: CMIE, CareEdge Ratings

Further, exports have consistently contributed around 14–15% of overall PV sales over the past few years and are expected to remain at similar levels, supported by strong demand from South Africa, Chile, and Peru, along with expansion into new markets which will support the volume growth in FY26.

FY26 Outlook: PV Volumes to remain moderate

For FY26, CareEdge Ratings envisages PV volumes to grow at around 4%, driven by easing inflation, low finance cost given the multiple rate cuts announced by RBI in FY25-FY26, a full tax rebate for individuals earning up to Rs.12 lakhs under the new tax regime in the Union Budget 2025-2026 and sustained demand for SUVs. The GST rate reduction on small cars—from 28% to 18%—is a significant affordability boost and is already showing early signs of revival as seen from chart below.



Source: FADA, CareEdge Ratings

During April to August 2025, retail PV volume growth remained muted at 0.2% Y-o-Y. However, in September and October 2025, retail volumes grew by 9.3% Y-o-Y on account of GST rate rationalisation coinciding with festive demand. As a result, in April to October 2025, retail volumes grew by 3.2% Y-o-Y. While SUVs remain aspirational and continue to dominate with a 66–68% share of PV sales, tax benefit for small cars could drive a gradual resurgence over the next 12–24 months.

SUVs are expected to remain the structural growth driver in FY26, supported by premiumization and new model launches. Volumes in this segment are expected to grow at 8–10% during the period, outpacing overall industry growth. Entry-level cars, on the other hand, are likely to see a slow recovery, aided by fiscal and regulatory incentives but constrained by strong consumer preference for SUVs. EV penetration remains modest at 2–3% of PV sales, reflecting infrastructure gaps and range anxiety. EV sales, which had doubled in FY24, grew by only 11% in FY25 to reach 1.11 lakh units. However, growth is projected to pick up in FY26. Meanwhile, strong hybrids are also gaining traction as a compliance-friendly alternative.

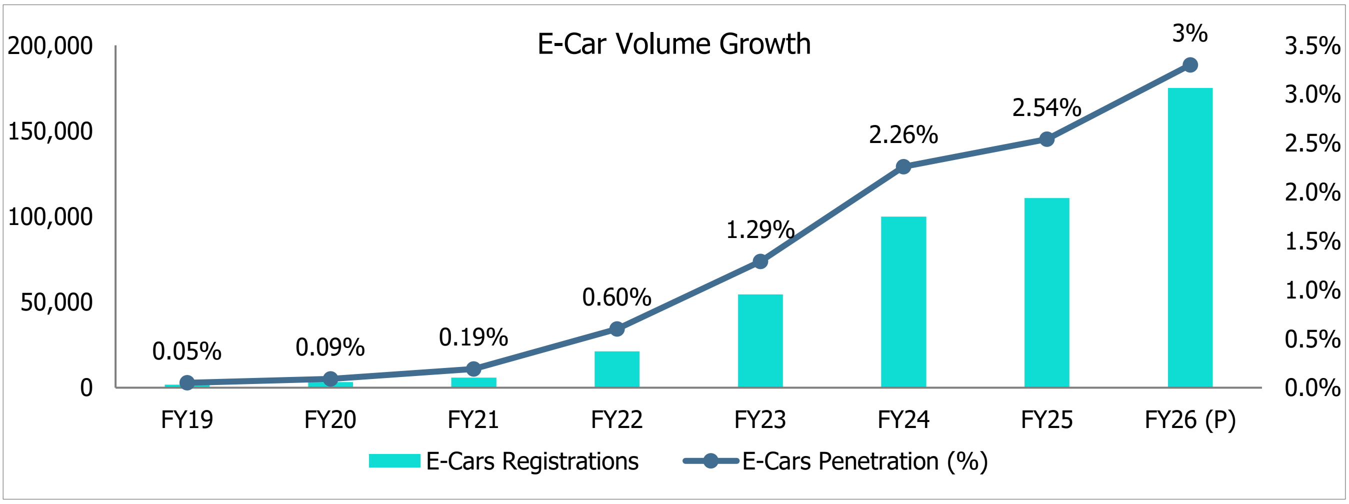
UVs: Continue to Surge

UVs, which contributed 20% of total passenger vehicle sales volumes until FY12, grew at a CAGR of 14% between FY13 and FY25 as consumer preference shifted towards UVs that offer better and innovative designs, new models, technological, functional and safety features. For the past decade, the UV segment has consistently outperformed the PV industry growth rate. UVs accounted for 66% of all new PV sales in FY25 as compared at 60% in FY24 and its share in overall PV sales is expected to further rise over the medium term.

EVs: Scaling up

In FY23, e-car sales reached approximately 0.54 lakh units, accounting for 1.29% of total passenger vehicle sales (compared to 0.60% in the previous year), reflecting a remarkable year-on-year growth of 157%; albeit on a low base. This positive trend continued with e-car sales growing by 83% in FY24 and 11% in FY25 reaching 1.11 lakh units in FY25. With an improving penetration rate, electric car volumes, in the PV segment, are likely to clock sales volume of around 1.75 lakh for FY26.

Demand for Electric Vehicles (EV) is driven by a shift in consumer preferences towards options with lower fuel costs, reduced maintenance, and lower servicing requirements compared to internal combustion engine (ICE) models. Inadequate charging infrastructure is a significant barrier for electric vehicles penetration. As of March 2025, India has 26,367 public charging stations across the country.

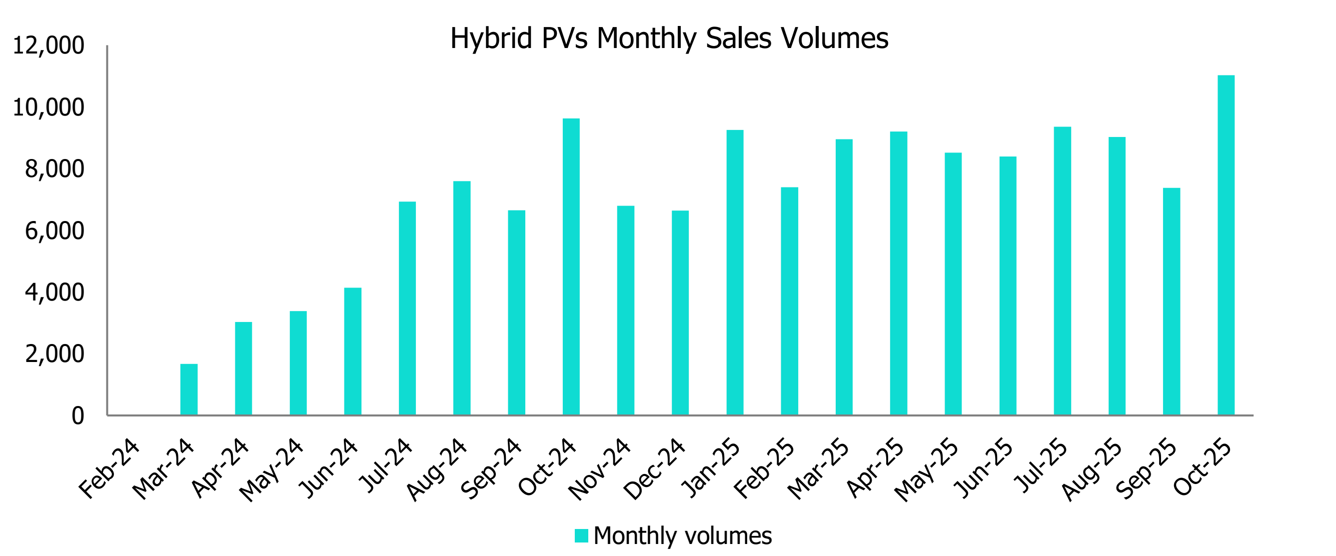


Source: Vahan Dashboard, Open Source Telangana, CareEdge Ratings

Rising Adoption of Hybrid Vehicles

Hybrid vehicles continue to gain traction as they offer a compelling balance of reduced emissions and improved fuel efficiency compared to conventional ICE vehicles, while avoiding the range limitations currently associated with electric-only models. The outlook for hybrid passenger vehicles remains positive, supported by stringent emission norms, rising consumer preference for fuel-efficient options, and the practical advantage of not being fully dependent on battery charging infrastructure.

Over the past 18 months, hybrid vehicle sales have shown an upward trend, signalling growing adoption. Looking ahead, hybrid sales volumes are projected to increase by 34–38% in FY26, reaching approximately 1.07–1.10 lakh units, up from around 80,406 registered units in FY25.



Source: CMIE, CareEdge Ratings

Revised Policy Impact

The revised Bureau of Energy Efficiency (BEE) norms under CAFE-3 and CAFE-4, effective from FY28, are set to reshape India's automotive landscape. These norms mandate progressive tightening of fleet-wide CO_2 targets, reducing fuel consumption benchmarks from 3.726 L/100 km in FY28 to 3.013 L/100 km by FY32. The introduction of Carbon Neutrality Factor (CNF) provides emission discounts for vehicles running on E20–E30 petrol blends (8%), CNG (5%), and flex-fuel hybrids (up to 22.3%). Additionally, super-credits for EVs (counted as three cars), strong hybrids (two cars), and flex-fuel hybrids (2.5 cars) will incentivize technology adoption. Relief for small cars through an additional 3 gm/km CO_2 deduction is expected to revive interest in compact models, which have been losing share to SUVs in past few years. This signals a balanced approach, favouring a multi-technology pathway rather than an EV-exclusive strategy. Combined with GST rationalization, these measures could realign the market towards compact cars and hybrids, while SUVs continue to dominate in the near term. Furthermore, anticipated cost increases from compliance with CAFE norms from April 2027 may prepone purchase decisions, providing a demand boost in FY27 as buyers advance purchases to avoid higher prices later.

CareEdge Ratings' View

"GST rate cut coinciding with robust consumer sentiment in the festive season led to PV registrations reaching an all-time monthly high in October 2025. GST rate cut led to improved affordability, especially for the first-time PV owner. Also, robust growth in retail sales was observed across rural and urban markets. Going forward, with the end of festival season, PV sales is expected to normalize, however, growth momentum is expected to sustain due to upcoming harvest season boosting rural demand along-with seasonal demand from weddings" said Madhusudhan Goswami, Assistant Director, CareEdge Ratings.

"CareEdge Ratings expects the passenger vehicle industry to post around 4% volume growth during FY26, following a high base in previous years. The growth will be supported by regulatory and fiscal tailwinds, including easing inflation, income tax relief, and repo rate transmission that lowers financing costs. Additionally, GST 2.0 reforms, which have reduced tax rates and improved affordability, will further aid the demand. Recent rise in consumer preference for hybrid vehicles will act as an additional positive driver for the industry. The above-normal monsoon in FY26 is expected to boost rural incomes and consumer sentiment, providing incremental support to entry-level and compact segments. However, the pace of growth will depend on OEM pricing strategies, product refresh cycles, and sustained improvement in macroeconomic conditions," said Arti Roy, Associate Director, CareEdge Ratings.

Contact

Ranjan Sharma	Senior Director	ranjan.sharma@careedge.in	+91 - 22 - 6754 3453
Hardik Shah	Director	hardik.shah@careedge.in	+91 - 22 - 6754 3591
Arti Roy	Associate Director	arti.roy@careedge.in	+91 - 22 - 6754 3657
Madhusudhan Goswami	Assistant Director	madhusudhan.g@careedge.in	+91 - 80 - 4662 5558
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

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