Press release

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Domestic three-wheeler volume to scale a new peak next fiscal

Steady commodity cost, strong domestic volume to boost profitability despite weak exports

Domestic three-wheeler (3W) volume will surge 15-17% next fiscal, after an estimated 40-42% growth this fiscal, to a new all-time high of 7.8 lakh units, ~12% higher than the previous peak of ~7 lakh units logged in fiscal 2019.

The growth will be driven by strong demand for both, electric and internal combustion engine (ICE; including petrol, diesel and gas variants) vehicles, with rising passenger transportation and last-mile operations for e-commerce and consumer goods delivery services from sectors such as pharmaceuticals, textiles, retail, fast moving consumer goods, dairy and poultry.

Exports, which offer better profitability and currently comprise about one-third of the total 3W volume, will contract for the third year on the trot next fiscal. However, healthy domestic volume and steady commodity prices will drive up operating margin ~100 basis points on-year to over 16.5% next fiscal.

A CRISIL Ratings analysis of four 3W makers, which account for over 90% of the market, indicates as much.

ICE variants dominate the market with ~86% of the volume sold, while electric 3Ws make up the balance.

For the record, domestic 3W volume had nosedived ~70% in fiscal 2021 in the aftermath of Covid-19 but rebounded strongly in fiscals 2023 and 2024. The momentum is expected to continue in fiscal 2025.

Says Poonam Upadhyay, Director, CRISIL Ratings, "Half of the incremental demand in fiscal 2025 will be for traditional ICE variants, especially 3Ws powered by compressed natural gas (CNG), following increased penetration of CNG network across India. The balance incremental demand will come from electric 3Ws, with their volume seen growing 50% on-year due to low cost of ownership and financial incentives, including reduction/waiver of registration fees and road permit requirements."

In fact, the strong demand for EVs will take their share in overall volume to 19-20% next fiscal from ~14% estimated in fiscal 2024. Lower running costs make electric 3Ws economical by ~30% even against CNG-powered 3Ws.

Unlike domestic market, overseas demand will remain sluggish due to continuing inflationary pressure and economic slowdown in the key markets of Africa, Sri Lanka and Bangladesh. For the record, export volume has halved from 5.7 lakh units in fiscal 2019 (*see chart 1*).

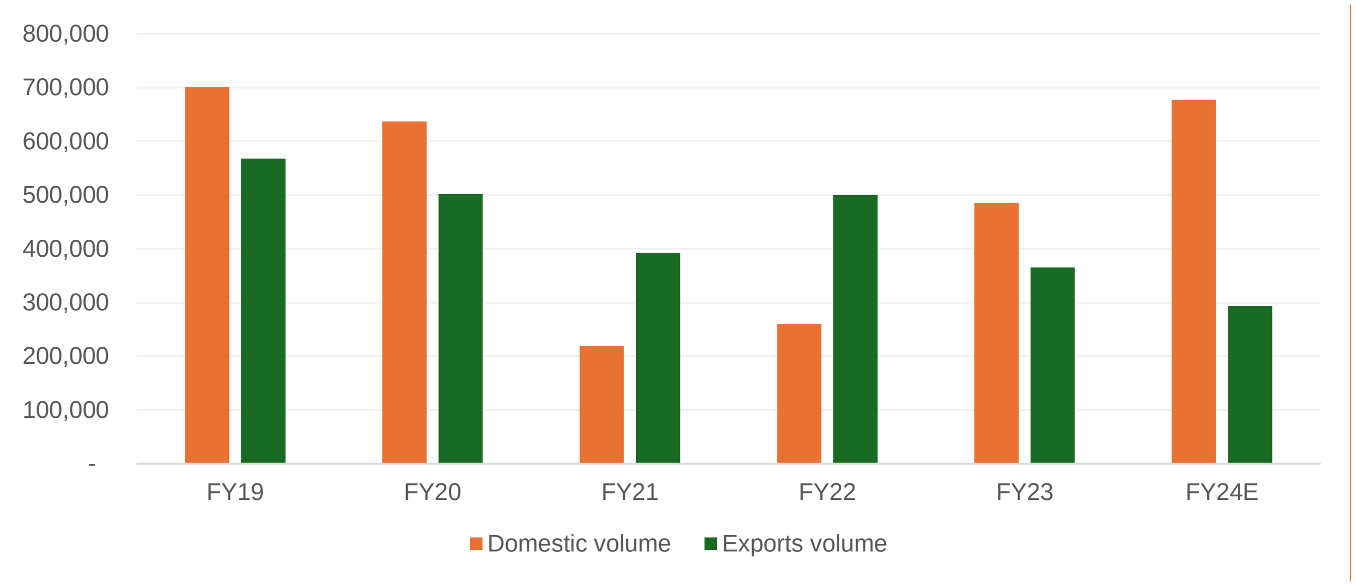
Increased domestic sale volume and soft commodity prices will enable improvement in the operating margin of 3W makers to over 16.5% next fiscal from ~15.5% expected this fiscal despite reducing share of higher margin yielding exports.

Higher capacity utilisation of over 80% next fiscal (~75% this fiscal) will necessitate capacity addition.

Says Anil More, Associate Director, CRISIL Ratings, "Better cash generation will largely suffice to meet capital spends by original equipment manufacturers, obviating the need for material debt addition. Hence, interest coverage and total debt to earnings before interest, tax, depreciation and amortisation ratios are expected to remain strong at 55-60 times and 0.20-0.30 time, respectively, this fiscal and the next."

That said, demand momentum for electric 3Ws, continuance of ongoing incentives and increasing competition from unorganised e-rickshaws in the passenger mobility segment will bear watching in the road ahead.

Annexure
Chart 1: Three-wheeler domestic and exports volume



Source: CRISIL Ratings, Society of Indian Automobile Manufacturers (SIAM) based on dispatches by OEMs, excluding tractors

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