BAJAJ MUTUAL FUND

BUSINESS CYCLES IN AUTO AND AUTO COMPONENTS

Expansion, peak, contraction and trough in the Indian market

THE EQUITY COMPASS EDITION 27

The last edition explored why sectors move at different speeds. Within auto, vehicle makers and component suppliers share a broad cycle, but its turns reach them at different times. The cycle can repeat as incomes, borrowing costs and replacement needs change.

HOW THE BROADER AUTO CYCLE WORKS

Expansion: More vehicle purchases lift production and component orders; busier factories can improve profits.

Peak: Demand reaches a high before slowing; new capacity and dealer stocks may build up.

Contraction: Purchases weaken, vehicle makers cut output and suppliers receive fewer orders.

Trough: Sales and production reach a low before confidence and replacement demand begin to return.

THE INDIAN CYCLE IN NUMBERS

FY2019 marked a high before the downturn. Sales then fell, with the annual low arriving in FY2021 for most segments and a year later for two wheelers. By FY2026, all four had moved above their FY2019 volumes.

CYCLE MARKER	TWO WHEELERS	PASSENGER VEHICLES	COMMERCIAL VEHICLES	THREE WHEELERS
Previous high FY2019	211.80	33.77	10.07	7.01
Contraction FY2020	174.16	27.74	7.18	6.37
Annual trough	135.70 FY2022	27.11 FY2021	5.69 FY2021	2.19 FY2021
Expansion FY2026	217.06	46.43	10.80	8.36
Jul to Sep 2026 annual growth	15.2%	30.7%	28.7%	23.6%

Volumes are domestic wholesale sales in lakh units, rounded. Troughs are annual lows in the cycle shown. Passenger vehicles include cars, utility vehicles and vans.

TWO WHEELERS: THE HOUSEHOLD AFFORDABILITY CYCLE

Expansion: Better incomes and affordable instalments bring first purchases and replacements.

Peak: Buying reaches a high as many households complete their planned purchases.

Contraction: Higher ownership costs or income pressure make households delay buying.

Trough: Purchases reach a low; improving affordability can release postponed demand.

India reading: Expansion after a longer recovery. Sales regained the old FY2019 high only in FY2026. Within the July to September 2026 growth, scooters rose 27.7% while motorcycles grew 7.4%, showing different speeds even within two wheelers.

PASSENGER VEHICLES: THE FAMILY UPGRADE CYCLE

Expansion: Income confidence, easier finance and new models encourage family upgrades.

Peak: Sales reach a high; fresh demand becomes harder to sustain.

Contraction: Bookings and purchases fall; unsold dealer stock and discounts may rise.

Trough: Demand reaches a low before postponed upgrades begin to return.

India reading: Domestic expansion. July to September 2026 sales rose 30.7%, while exports fell 5.2%. Utility vehicles accounted for 68% of domestic sales, showing how changing preferences shape the recovery.

COMMERCIAL VEHICLES: THE FREIGHT AND INVESTMENT CYCLE

Expansion: More freight and construction work keep trucks busy and encourage fleet additions.

Peak: Fleet purchases reach a high; earlier additions start meeting available demand.

Contraction: Less work leaves trucks idle, so operators postpone new vehicles.

Trough: Buying reaches a low; freight recovery and ageing fleets can restart replacement.

India reading: Renewed expansion, with a split inside the segment. Annual sales fell from 10.07 lakh in FY2019 to 5.69 lakh in FY2021, then reached 10.80 lakh in FY2026. July to September 2026 sales grew 28.7%. But October retail sales rose 28.95% for heavy vehicles and fell 9.57% for light vehicles. Different freight and local business needs can pull the two apart.

THREE WHEELERS: THE SMALL OPERATOR INCOME CYCLE

Expansion: More passengers and local deliveries improve earnings and encourage purchases.

Peak: Vehicle buying reaches a high; competition for passengers or deliveries may increase.

Contraction: Lower daily earnings make a new vehicle harder to afford or finance.

Trough: Buying reaches a low; returning trips and deliveries can rebuild confidence.

India reading: Expansion from a deep low. Sales fell from 7.01 lakh in FY2019 to 2.19 lakh in FY2021 before reaching 8.36 lakh in FY2026. July to September 2026 sales grew 23.6%. October retail sales rose 3.97%, with electric vehicles accounting for about 63% of the segment. The recovery is also changing the type of vehicle operators buy.

AUTO COMPONENTS SHARE THE CYCLE BUT HAVE THREE DEMAND SOURCES

NEW VEHICLE PRODUCTION	REPLACEMENT PARTS	EXPORTS
Orders from vehicle makers rise or fall with factory production.	Vehicles already on the road need maintenance and repairs even when new vehicle sales slow.	Orders depend on demand in overseas markets, which may move differently from demand in India.

India reading: FY2026 component turnover rose 12.7% to ₹7.59 lakh crore, while supplies to vehicle makers grew 16.3%. Exports reached US$24 billion. These figures point to expansion in components too, although sales growth need not translate into the same profit growth for every supplier.

ONE SECTOR, DIFFERENT STAGES OF THE CYCLE

Different parts of the auto sector can be at different stages of the cycle at the same time. In FY2022, passenger vehicle sales began to recover while two wheeler sales were still falling.

The same applies to component suppliers. Demand for replacement parts can hold up as vehicles already on the road need repairs, even as orders for parts used in new vehicles slow. A recovery in one part of the sector can therefore coexist with weakness in another.

WHAT THE PHASES TELL US NOW

Vehicle sales and component turnover point to broad expansion. The pace differs across vehicle types and supplier markets. A new sales record alone does not establish a peak.

Monthly figures also need context. October 2026 total retail sales were 23.8% below a year earlier but 25.05% above September. The shift of Diwali from October in 2025 to November in 2026 affected the comparison; that monthly fall alone does not establish a new contraction.

WHAT THIS MEANS FOR MUTUAL FUND INVESTORS

- Look beyond the auto sector weight. Two equity funds may have similar allocations to auto but hold different mixes of passenger vehicle makers, two wheeler makers and component suppliers.
- Vehicle makers can be at different points in the cycle. A recovery in passenger vehicle sales may affect a fund with more exposure to carmakers differently from one with more exposure to two wheeler makers.
- Component suppliers can have different sources of demand. Some depend more on orders from vehicle makers, while others get more of their sales from replacement parts or exports. The fund's portfolio holdings help you see which businesses it is exposed to.

Sources: SIAM, FADA, Internal Analysis

The auto cycle turns when people buy, businesses expand and older vehicles need replacing. Each turn reaches vehicle makers and component suppliers at a different pace.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.