PRESS RELEASE
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Auto component industry's revenues to expand by 8-10% in FY2026: ICRA

- ***Operating margins to remain range-bound at 11-12% in FY2026***
- ***Industry likely to incur capex of Rs. 25,000-30,000 crore in FY2026***

ICRA expects the revenue growth of the Indian auto component industry (represented by a sample of 46 auto ancillaries with aggregate annual revenues of over Rs 3,00,000 crore in FY2024, accounting for close to 50% of the industry) to ease to 7-9% in FY2025 and 8-10% in FY2026, from the highs of ~14% in FY2024. Operating margins are expected to remain range-bound and hover at ~11-12% in FY2025 and FY2026, supported by benefits from operating leverage, higher content per vehicle and value addition while remaining vulnerable to any significant unfavourable movements in commodity prices and foreign exchange rates. The disruption along the Red Sea route has resulted in a surge in ocean freight rates by 2-3 times in CY2024 compared to CY2023. Any further sharp and sustained increase in ocean freight rates could also have a bearing on margins for auto component suppliers having significant exports/imports. ICRA estimates the auto component industry to incur a capex of Rs. 25,000-30,000 crore in FY2026 towards capacity expansion, localisation/capability development and technological advancement (including EVs), among others.

At present, only 30-40% of the EV supply chain is localised. There has been substantial localisation in traction motors, control units and battery management systems over the years, while battery cells, which constitute 35-40% of vehicle cost, are still entirely imported. The relatively low localisation level gives rise to manufacturing opportunities for domestic auto component suppliers.

Giving more details, **Vinutaa S, Vice President and Sector Head – Corporate Ratings, ICRA Limited,** said: *"The domestic auto component industry is in a transitory phase with the automotive players increasingly focusing on sustainability, innovation and global competitiveness. Demand from domestic original equipment manufacturers (OEMs), which constitutes over half of the industry revenues, is estimated to grow by 7-9% in FY2025 and 8-10% in FY2026. Part of the growth would stem from premiumisation of components and higher value addition. Growth in replacement demand is pegged at 5-7% in FY2025 and 7-9% in FY2026, driven by increase in vehicle parc, higher average age of vehicles/used car purchases, preventive maintenance and growth in organised spare parts, among other reasons."*

"Exports, which account for close to 30% of the industry's revenues, are likely to be impacted by subdued vehicle registration growth in the target markets. However, factors like rising supplies to new platforms because of vendor diversification initiatives by global OEMs/Tier-Is and higher value addition, partly stemming from increase in outsourcing, augur well for Indian auto component suppliers."

Further, there would be opportunities for Indian players in metal castings and forgings because of closure of plants in the European Union (EU) due to viability issues. Ageing of vehicles and sale of more used vehicles in global markets would aid in exports for the replacement segment. The impact of any import tariffs on Indian auto component exports remains monitorable. Electric vehicle (EV)-linked opportunities, premiumisation of vehicles, focus on localisation, and changes in regulatory norms would support growth for auto component suppliers over the medium to long term.

On investments by auto component suppliers**, Vinutaa** added**,** *"ICRA's interaction with large auto component suppliers indicates that the industry is estimated to spend Rs. 15,000-20,000 crore in FY2025 and another Rs. 25,000-30,000 crore in FY2026. The incremental investments would be made towards new products, product development for committed platforms and development of advanced technology and EV components, apart from capex for capacity enhancements and upcoming regulatory changes. R&D, though, is still at an average of 1-3% of operating income, significantly lower than the global counterparts. ICRA expects auto ancillaries' capex to hover around 7-8% of operating income over the medium term, with the PLI scheme also contributing to incremental capex towards advanced technology and EV components."*

Most of the auto ancillary players rated by ICRA are in the investment grade and rating upgrades have been significantly higher than downgrades in the last 2-3 years, indicating improvement in the credit profile. ICRA expects coverage metrics and liquidity for the sector to remain comfortable going forward, aided by healthy accruals and relatively low incremental debt funding.

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