

INDIAN AUTO COMPONENT INDUSTRY

**Demand for auto components to
remain stable, despite slowdown in
exports**

SEPTEMBER 2022



1 Demand Dynamics



2 Cost Inflation



3 Quarterly Performance



4 Financial Forecast and Capex



5 Credit Rating Movements



6 Peer Comparison and Annexure



Highlights

Cost pressures ease on YoY basis, although at elevated levels despite the correction.

The margins for net importers are likely to be impacted by the rupee depreciation vis-a-vis USD.

Debt metrics to remain comfortable across most auto ancillaries.

Liquidity position remains comfortable, especially across tier-I and tier-II players.



Demand for auto components stems from domestic OEMs, replacement and exports. Domestic OEM demand is expected to remain stable in FY2023. Increase in mobility, supported partly by reopening of schools and offices, and improvement in economic activity and freight movement are likely to aid replacement volumes in the near term.



The export orders have slowed down in the last few months, impacted by the economic gloom, geopolitical tensions and supply-chain issues. While it remains in the positive zone on a YoY basis currently despite the slowdown, partly aided by delivery to some new platforms because of China+1, this would remain a monitorable.



For FY2023, ICRA expects revenues to grow by 8-10% supported by stable demand and easing of supply-chain issues, despite the export headwind. Over the long term, premiumisation of vehicles, focus on localisation, improved exports potential and EV opportunities (aided by higher content per vehicle) will translate into healthy growth for auto component suppliers.



ICRA expects YoY improvement of 50-75 bps in operating margins in FY2023, with the easing of commodity inflation and supply-chain issues. The margins for net importers are likely to be impacted by the rupee depreciation vis-a-vis USD. The operating margins for the ex-tyre sample are likely to return to pre-Covid levels of 10.5-11% in FY2023.ues.



ICRA Research expects auto component suppliers to gradually increase their capex/investment outlay to 6-7% of operating income in FY2023. The incremental investments will be primarily towards capability development i.e. new product additions, product development for committed platforms, and development of advanced technological and EV components.



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