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INDIAN AUTO COMPONENT INDUSTRY

Industry to witness moderate revenue growth of 5-7% in FY2025, after a strong FY2024

June 2024

Agenda

1 Demand Momentum

2 Commodity Prices

3 Quarterly Performance

4 Financial Forecast and Capex

5 Opportunities from Electrification

6 Trend in Credit Ratings, Peer Comparison & Annexure

Highlights

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Demand environment remains stable.

Debt metrics and liquidity to remain comfortable across most auto ancillaries over the medium term.

Only 30-40% of the EV supply chain is currently localised, and there is strong potential for EV components over the medium to long term. The EV policy 2024 for e-4w would also help generate incremental demand for component makers, because of the domestic value addition mandated.

Demand for auto components is driven by domestic original equipment manufacturers (OEMs), replacement and export markets. Domestic OEM revenues for auto ancillaries are expected to grow at a moderate pace of 5-7% in FY2025. A confluence of factors, including healthy personal mobility and freight movement/economic activity are expected to benefit replacement demand.

New vehicle registrations in Europe and the US are expected to remain tepid in CY2024, impacted by the economic gloom and geopolitical tensions. 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 casting and forgings because of many plants closing down in EU due to viability issues. Ageing of vehicles and increased sale of used vehicles in global markets would aid in exports for the replacement segment.

ICRA expects the auto component industry revenues to grow at 5-7% in FY2025. While demand is expected to remain stable, increasing premiumisation, changes in regulatory norms and higher localisation resulting in higher content per vehicle, will also aid growth for auto component suppliers.

ICRA expects YoY improvement in operating margins of 11.5-12% in FY2025 (~50 bps expansion YoY) for the sample set. Margins for FY2024 improved by 80 bps YoY benefitting from operating leverage, with easing of cost pressures and improvement in supply chain scenario. Margins in FY2025 would further benefit from operating leverage, higher content per vehicle and value addition. However, any significant forex volatility could have a bearing on the margins for net importers.

ICRA's interaction with large auto component suppliers indicates a capex upcycle in FY2024. The industry has incurred a capex of over Rs. 20,000 crore in FY2024 and is estimated to spend Rs. 20,000-25,000 crore in FY2025. The incremental investments are towards new products, product development for committed platforms and development of advanced technology and electric vehicle (EV) components, apart from capex for capacity enhancements and upcoming regulatory changes.

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