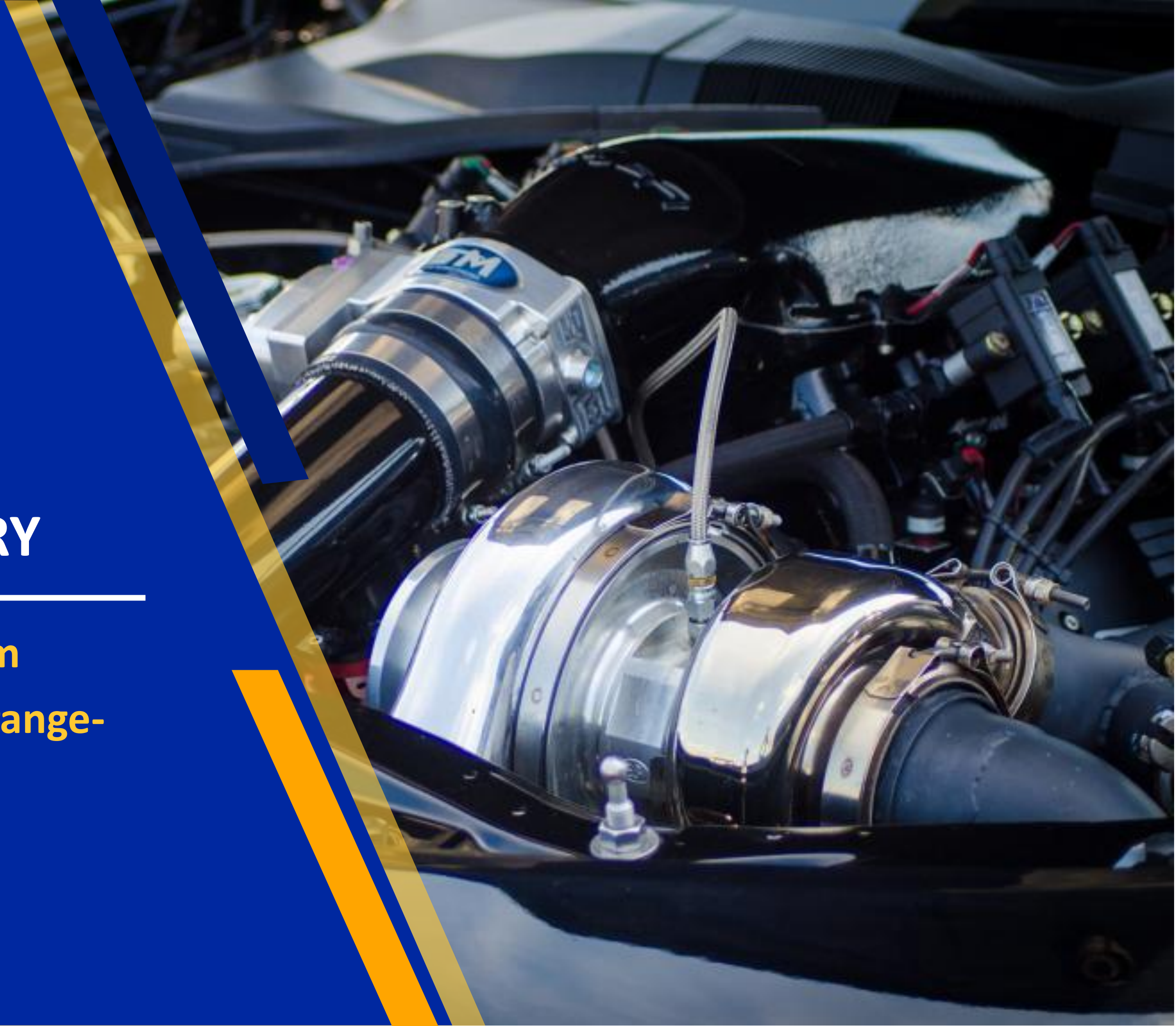
ICRA

INDIAN AUTO COMPONENT INDUSTRY

Auto ancillaries to benefit from stable domestic demand and range-bound input prices in FY2024

JUNE 2023



AGENDA

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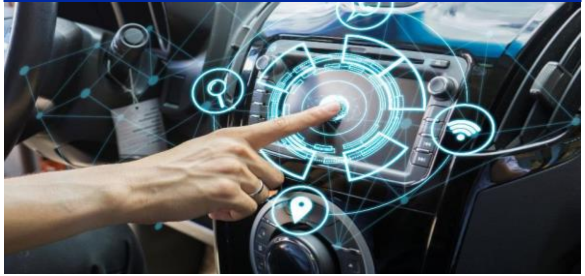
1 **Demand Momentum**

2 **Commodity Prices**

3 **Quarterly Performance**

4 **Financial Forecast and Capex**

5 **Opportunities from Electrification**



6 **Trend in Credit Rating, Peer Comparison and Annexure**

Highlights

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

Only 20-30% of the EV supply chain is currently localised, and there is strong potential for EV components over the medium to long term.

Demand for auto components is derived from domestic OEM, replacement and export demand. Domestic OEM demand is expected to remain stable in FY2024. Apart from improvement in personal mobility with reopening of schools and offices, healthy freight movement/economic activity and postponement of new vehicle purchases due to inflationary pressure, there are other structural drivers, which are expected to benefit replacement demand in FY2024.

The export orders slowed down in the recent months, impacted by the economic gloom, geopolitical tensions and supply-chain issues. Given the uncertain environment, exports are likely to remain weak in the next 6-9 months, although favourable forex movement is likely to benefit Indian ancillaries that are net exporters. Over the medium term, ancillaries will benefit from supplies to new platforms because of vendor diversification initiatives by global OEMs.

ICRA expects revenue growth of 5-8% for auto ancillaries in FY2024. While demand is expected to remain healthy, increasing premiumisation, higher share of electronics and changes in regulatory norms will translate into healthy growth for auto component suppliers. Demand will largely stem from the domestic market, amidst a weak export environment.

ICRA expects YoY improvement in operating margins in FY2024 to 11-11.5% for the sample set, stemming from operating leverage benefits, rise in content per vehicle, easing of cost pressures on YoY basis and improvement in supply-chain scenario. Margins for net importers could be impacted by forex volatility.

ICRA's interaction with large auto component suppliers indicates a capex upcycle in FY2024 due to demand growth and technological developments. The industry is likely to incur capex of over Rs. 20,000 crore in FY2024 with incremental investments. These are towards new product additions, product development for committed platforms and development of advanced technology and EV components, apart from capex for capacity enhancements and upcoming regulatory changes.

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Thank You!