

# INDIAN AUTO COMPONENT INDUSTRY

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Industry to incur capex of around Rs.  
20,000-25,000 crore in FY2026

August 2024





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*R&D expenses for ICRA's sample set have remained low at an average of 1-2% of OI. This is significantly lower than the global counterparts, where the average has been 8-10.5% over the last few years.*



**Domestic OEM demand constituted 56% of revenues for the industry in FY2024, while exports made up 29%** for the same period. Most domestic auto sub-segments reached or exceeded pre-Covid volumes in FY2024 and ICRA expects them to grow at a moderate pace in FY2025. Ancillaries are investing in capacity enhancements, new products and product development for committed platforms for the domestic market.



**Exports from India, though less than 10% of the global auto component market, have grown in the last few years** at a sharp CAGR of 14% between FY2020 and FY2024, and there is potential in auto component export, as India gains spotlight in the global arena. Factors like rising supplies to new platforms because of vendor diversification by global OEMs, higher value addition partly stemming from higher outsourcing by global Tier-1s and OEMs, aftermarket demand potential, increasing cost competitiveness and opportunities for casting/forging players from plants in EU shutting due to viability issues augur well for auto ancillaries.



**Gradual increase in usage of advanced components that are unavailable in India led to increased imports.** Absence of technology has been a key impediment in localising advanced components, and there is significant scope for localisation and development of vendor ecosystem for the same going forward. With premiumisation and periodic changes in regulatory norms, the demand for these components has gone up. Further, the proportion of alternate powertrains is expected to increase going forward, and only about 30-40% of the EV supply chain is currently localised. Ancillaries are working on these areas, and schemes like the production linked incentive scheme (PLI) are a step in the right direction for this.



**These factors are likely to drive capex for auto ancillaries over the medium term.** ICRA's interaction with large auto component suppliers indicates sizeable capex in FY2025. The industry is likely to incur around Rs. 15,000-20,000 crore in FY2025 and Rs. 20,000-25,000 crore in FY2026. Capex is expected to hover around 7-8% of operating income (OI) over the medium term, funded largely through internal accruals, except for larger projects (like battery cell localisation) which would be funded primarily through debt initially. As a result, the debt metrics for ancillaries are likely to remain comfortable over the medium term.



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