

INDIAN AUTO AND COMPONENT INDUSTRY

Trends and outlook

March 08, 2024



Agenda



MACRO ENVIRONMENT



INDIAN AUTOMOBILE INDUSTRY – DEMAND OUTLOOK



ALTERNATE FUEL TECHNOLOGIES AND ELECTRIC VEHICLES



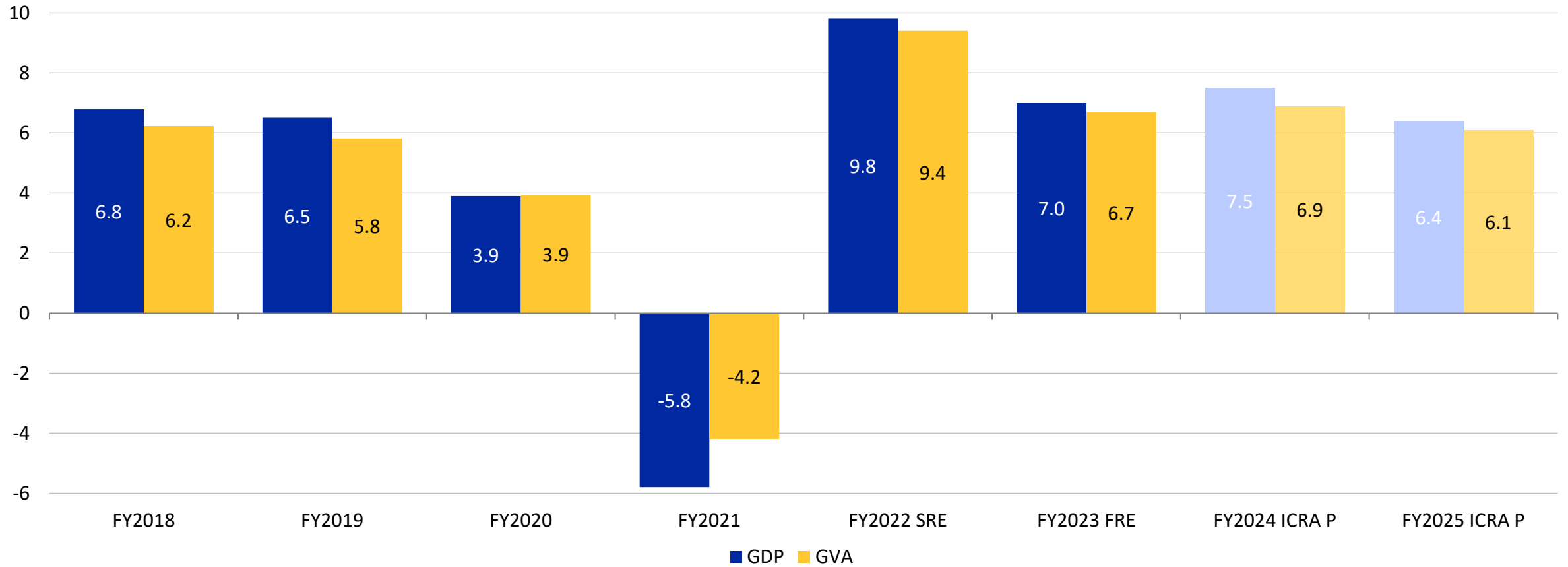
INDIAN AUTO COMPONENT INDUSTRY

Macro Environment



GDP growth projected at 7.5% in FY2024 and 6.4% in FY2025

Exhibit: Trend in GDP over the years



Source: ICRA Research, RE: Revised Estimates; PE: Provisional Estimates; P: Projected; Source: NSO; ICRA Research

Tepid rural demand likely to spill over into early-FY2025

Exhibit: YoY trends in advance estimates of kharif crop production in 2023-24

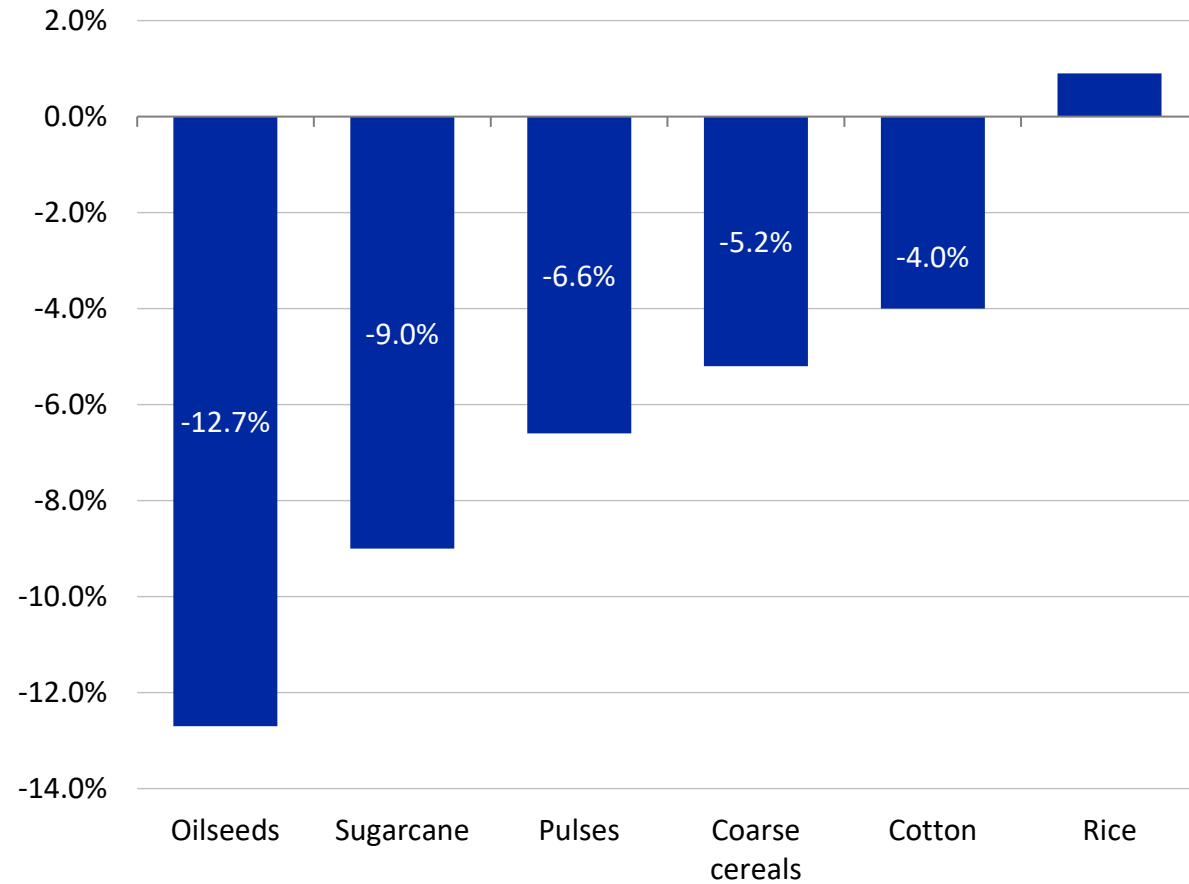
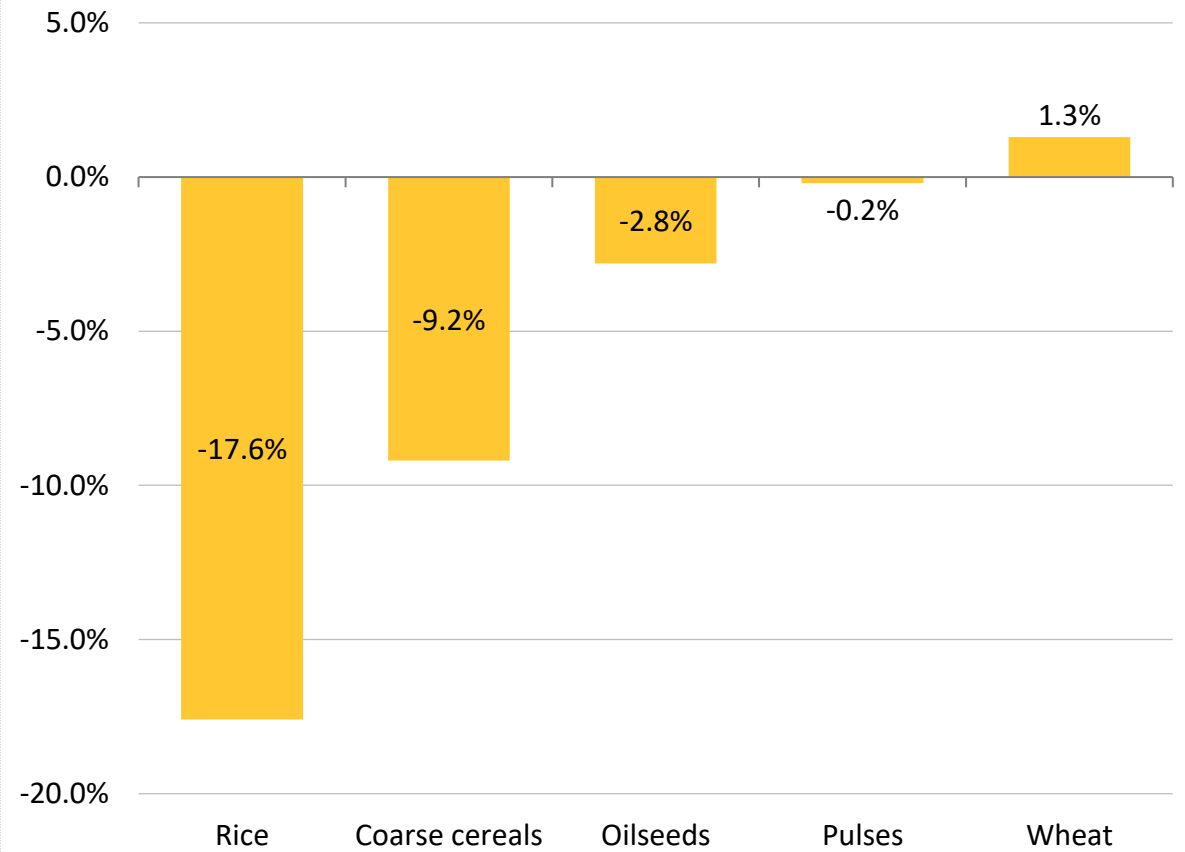


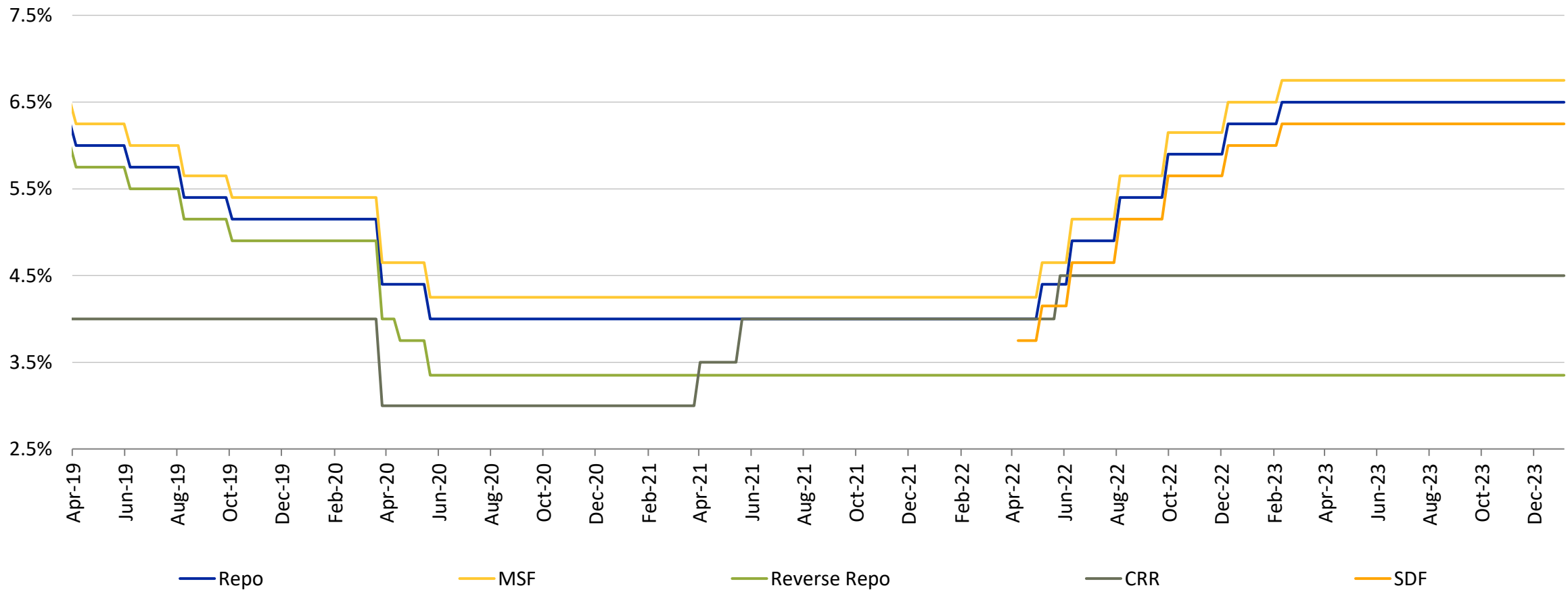
Exhibit: YoY trends in advance estimates of rabi crop production in 2023-24



CPI inflation to soften but persist above MPC's 4.0% target

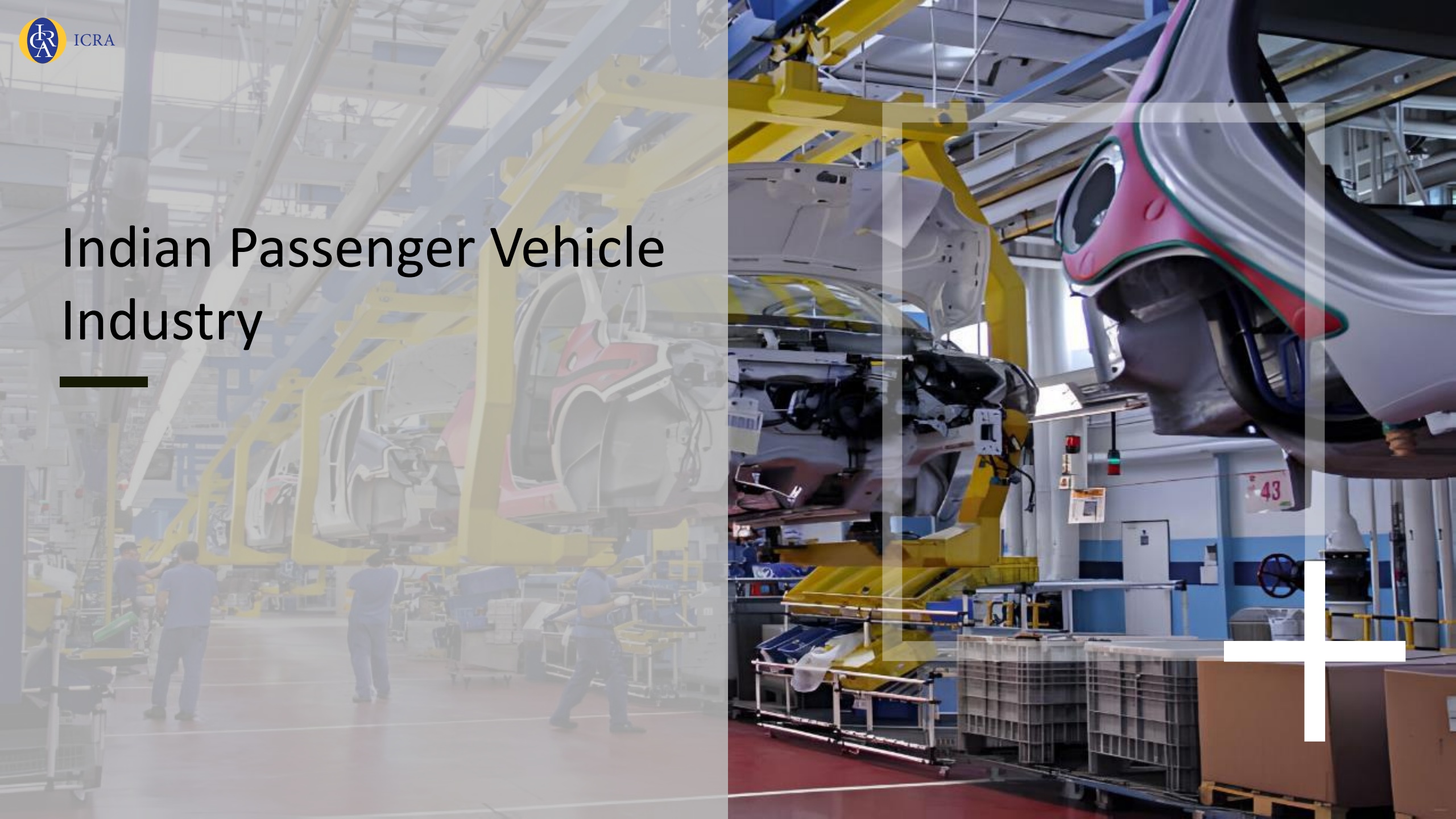
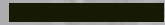


Exhibit: Trend in Repo, MSF, Reverse Repo, CRR and SDF over the years



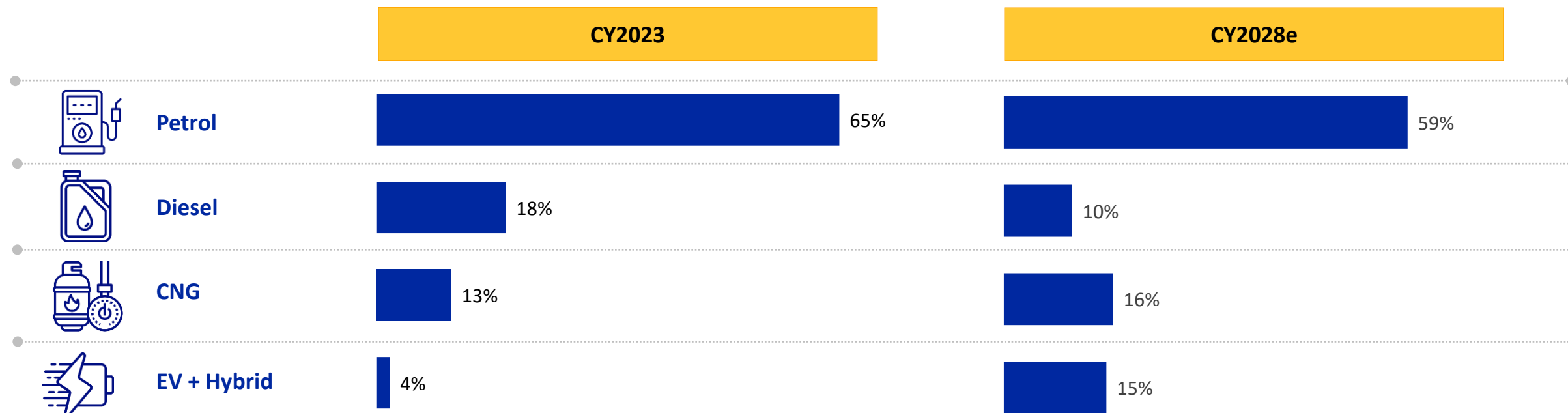
Source: RBI, DBIE; ICRA Research

Indian Passenger Vehicle Industry



Passenger Vehicle | Alternate powertrain contribution gradually increasing ICRA

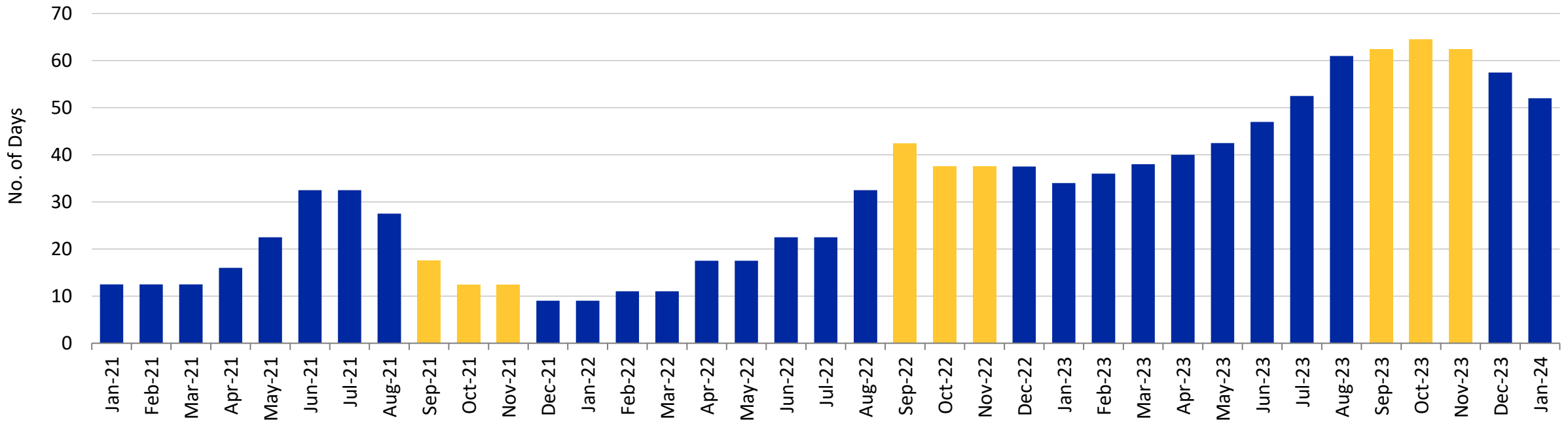
Exhibit: ICRA's estimate of powertrain mix in passenger vehicles in India



Proportion of CNG, EVs and hybrids is likely to materially increase over the next 3-4 years

Passenger Vehicle I Inventory levels across dealerships at all-time high

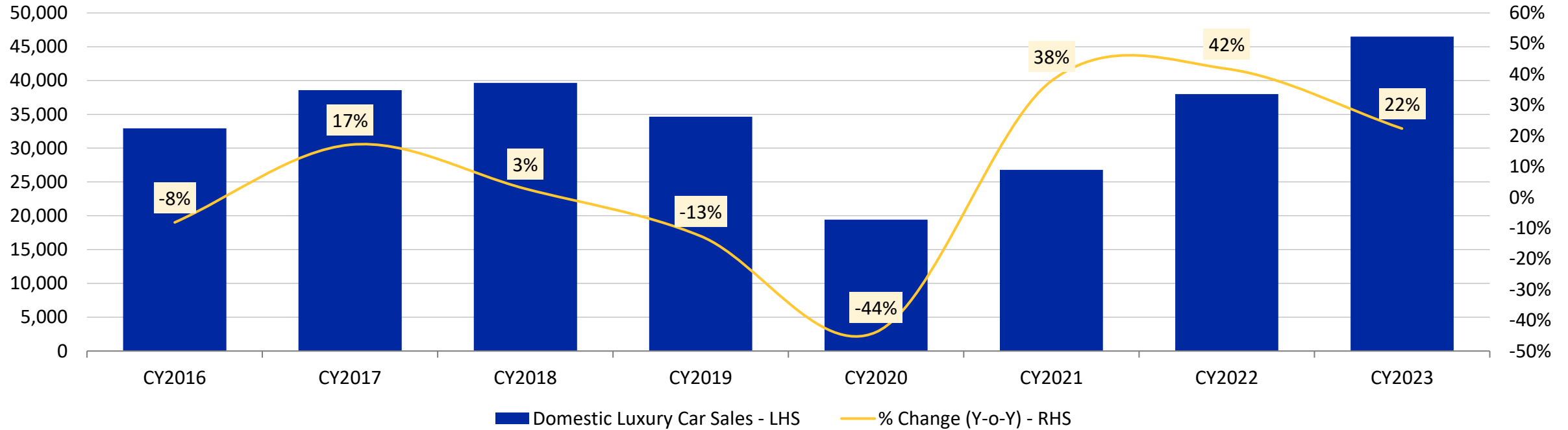
Exhibit: Trend in inventory level of PV across dealerships (In days)






Despite strong retails, the inventory levels in the industry remain high to 55-58 days (as of December 2023 end).

Passenger Vehicle | Luxury car segment poised for robust growth











Exhibit: Trend in luxury car sales



-  **Increasing per capita income**
-  **Higher aspirations**
-  **Spurt in model launches**

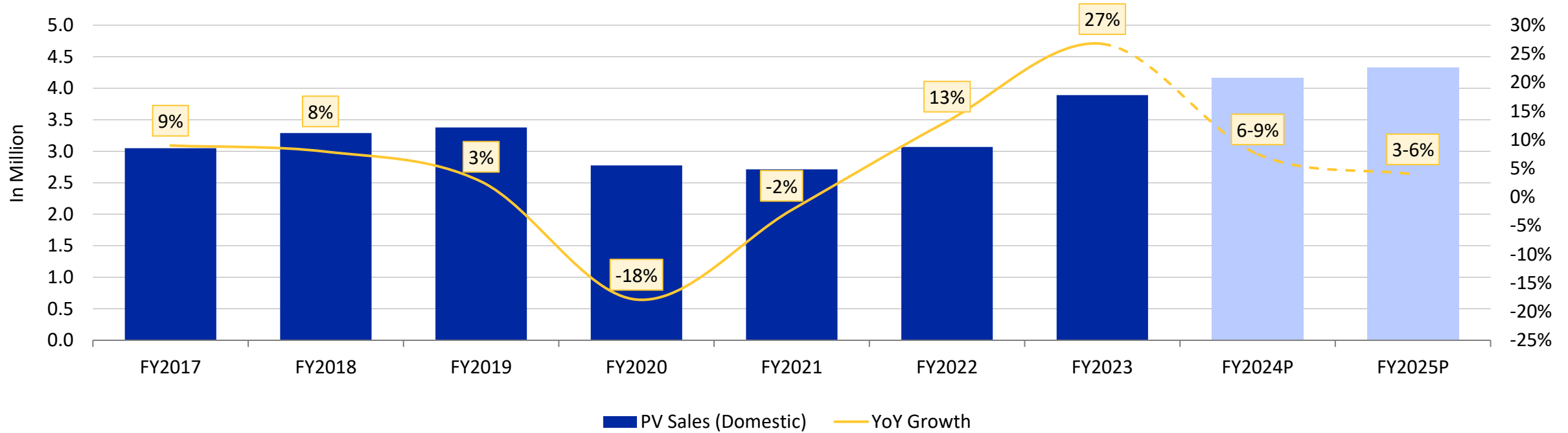
Passenger Vehicle | Key demand drivers remain favourable

Exhibit: Key demand drivers for industry

KEY DRIVERS		Trend	Remarks
	COST OF OWNERSHIP	 NEUTRAL	<ul style="list-style-type: none"> ▪ Hike in vehicle prices and lending rates have increased cost of ownership
	NEW MODEL LAUNCHES	 FAVOURABLE	<ul style="list-style-type: none"> ▪ Multiple product launches, especially in the UV segment
	DISPOSABLE INCOME	 FAVOURABLE	<ul style="list-style-type: none"> ▪ Improvement in economic activity has supported demand
	REGULATIONS	 NEUTRAL	<ul style="list-style-type: none"> ▪ Evolving regulatory standards may mandate increase in vehicle prices, even as they may support replacement demand
	SEMICONDUCTOR SUPPLY	 NEUTRAL	<ul style="list-style-type: none"> ▪ Semiconductor supplies are stable ▪ Backlog is restricted to certain OEMs owing production constraints

Passenger Vehicle I Outlook

Exhibit: PV industry market – Growth estimates



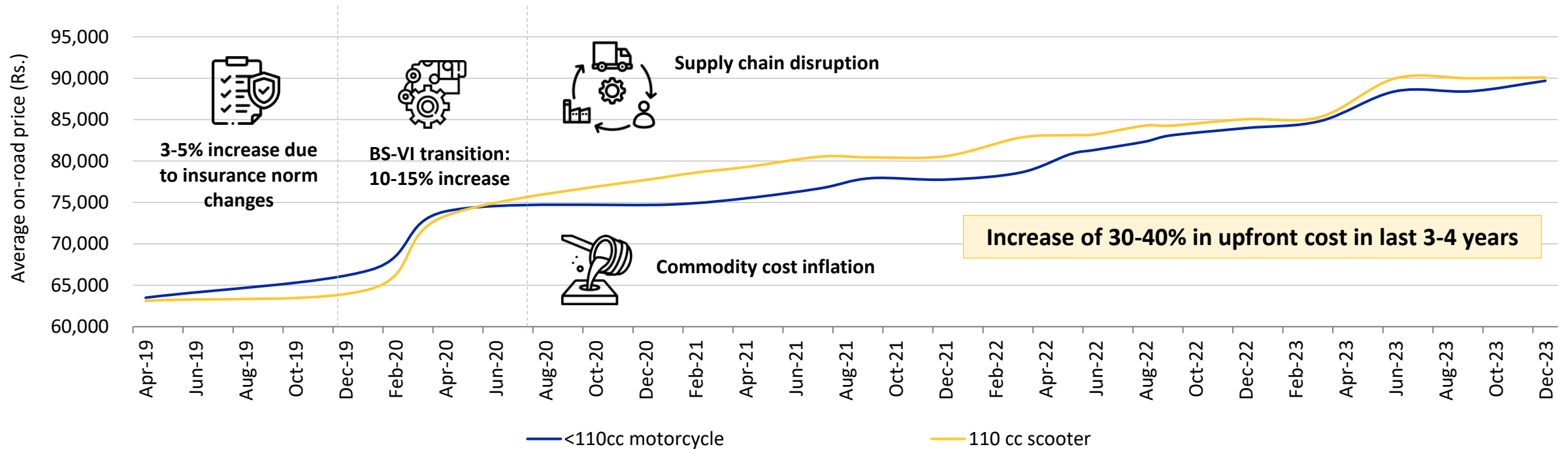
PV industry wholesale volume growth to moderate on a high base

Indian Two-Wheeler Industry



Two-wheeler | Significant rise in cost of ownership constrained demand

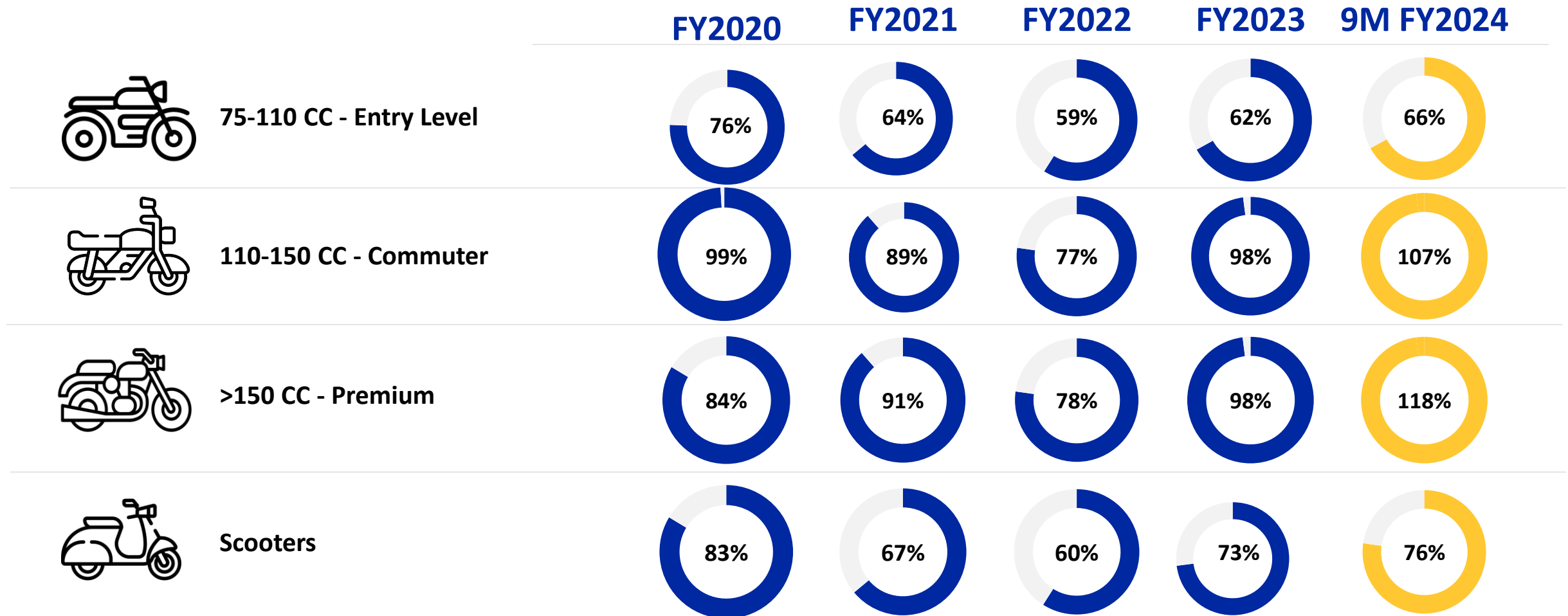
Exhibit: Trend in on-road prices of 2W



 **Material increase in vehicle cost coupled with hike in petrol prices led to spike in cost of ownership**

Two-wheeler | Premiumisation trend gathering pace

Exhibit: Trend in recovery of entry-level, commuter, premium motorcycles and scooter segments (as a percentage of FY2019 volumes)



Two-wheeler | Moderate penetration provides scope for growth

Exhibit: Comparison of per capita incomes and 2W penetration

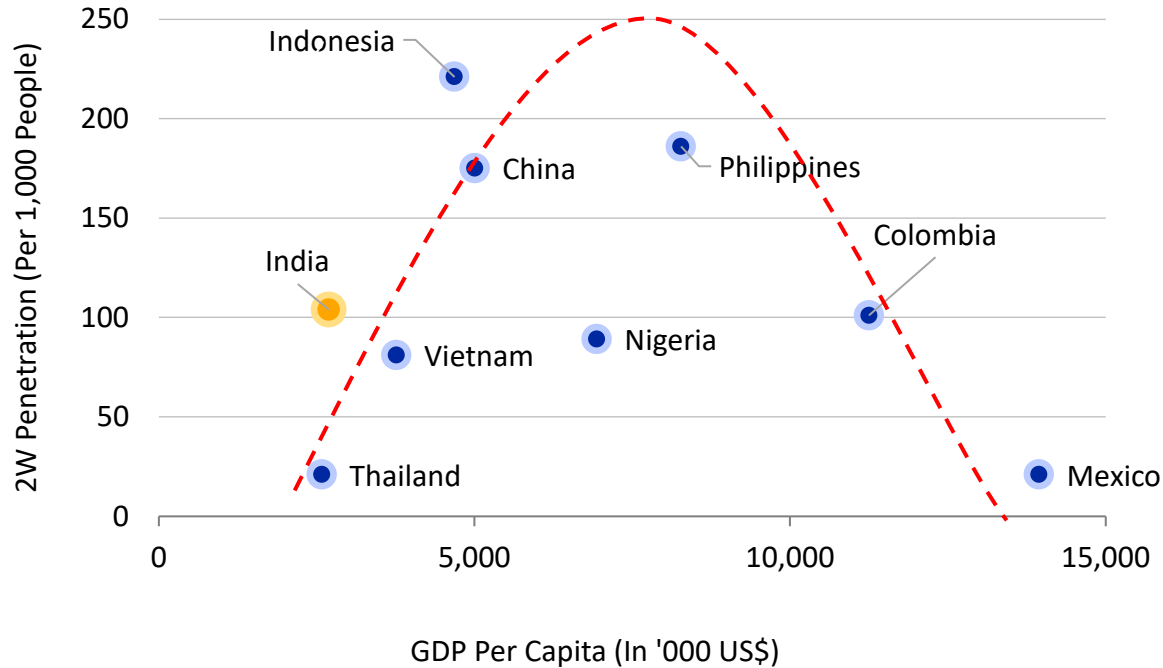
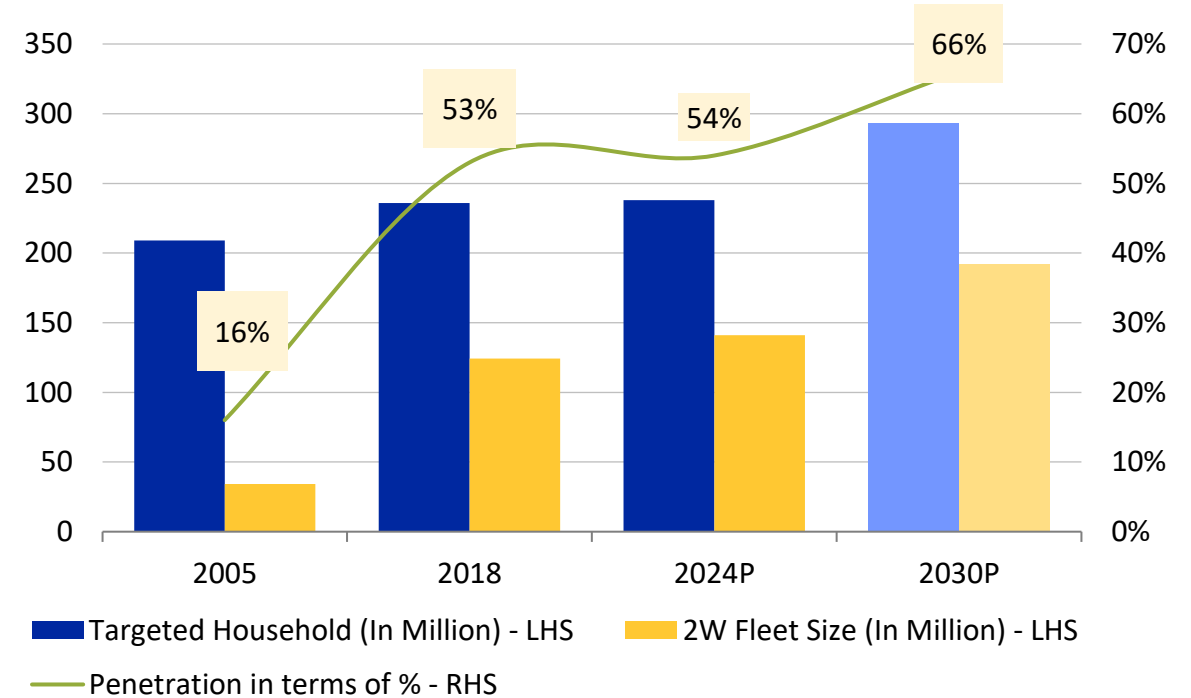












Exhibit: Trend in Two-wheeler Penetration



 **Structural demand drivers (rising per capita income, urbanization, financing availability) remain favourable**

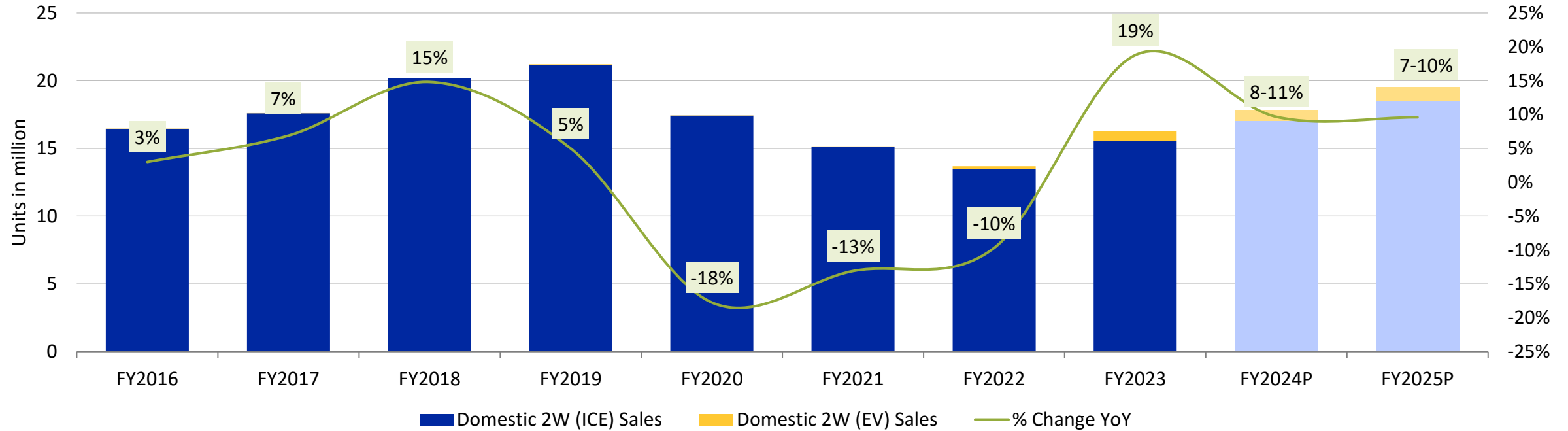
Two-wheeler | Gradual recovery to pre-pandemic high to continue

Exhibit: Key demand drivers for industry

KEY DRIVERS		Trend	Remarks
	FINANCING ENVIRONMENT	 NEUTRAL	<ul style="list-style-type: none"> Improving 2W financing penetration aiding retail sales, even as repo rate has increased
	COST OF OWNERSHIP	 NEUTRAL	<ul style="list-style-type: none"> Commodity price softening to limit price hikes
	SUPPLY CHAIN ISSUES	 NEUTRAL	<ul style="list-style-type: none"> Semiconductor chip supplies remain stable
	RURAL DEMAND	 NEUTRAL	<ul style="list-style-type: none"> Channel check indicates improvement in rural demand; Impact of uneven monsoon precipitation on farm cash flows monitorable
	ECONOMIC OUTLOOK	 FAVOURABLE	<ul style="list-style-type: none"> Government and private capex to support economic growth/disposable incomes

Two-wheeler | Outlook

Exhibit: PV industry market – growth estimates



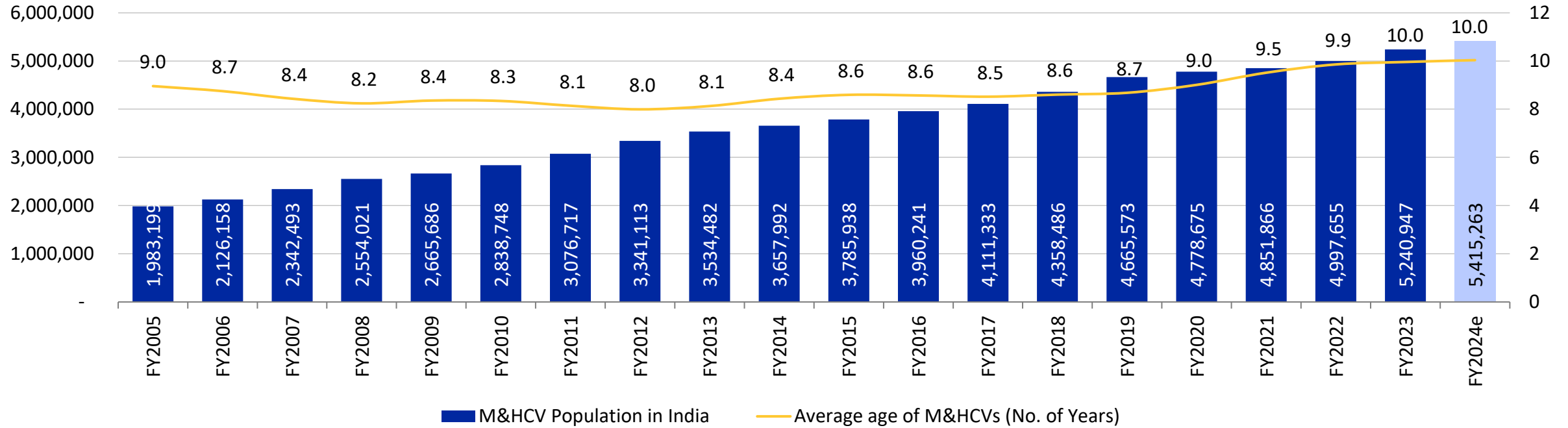
Domestic volumes to grow at a moderate pace on a curtailed base

Indian Commercial Vehicle Industry



Commercial Vehicle | Replacement demand to support M&HCV sales

Exhibit: Trend in domestic M&HCV population and average age



 As per ICRA estimates, average age of M&HCVs increased to ~10 years in FY2023, the highest in past two decades

Commercial Vehicle | Increasing preference for heavier trucks

Exhibit: Comparison of YoY growth in volumes and tonnage of M&HCV (Trucks)

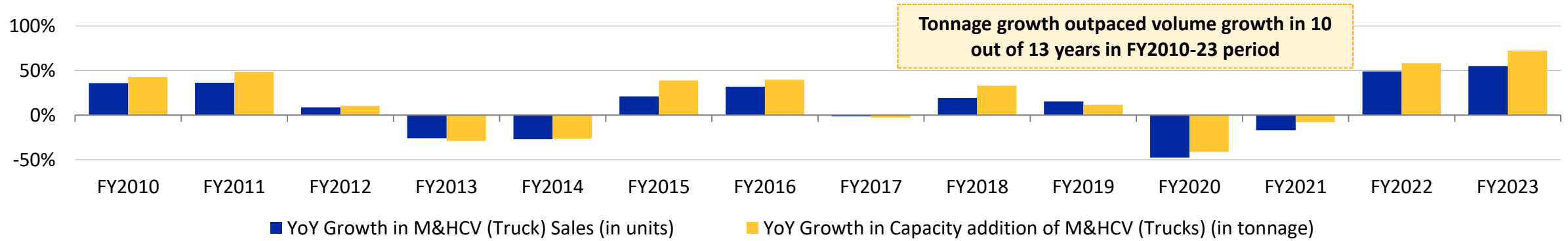
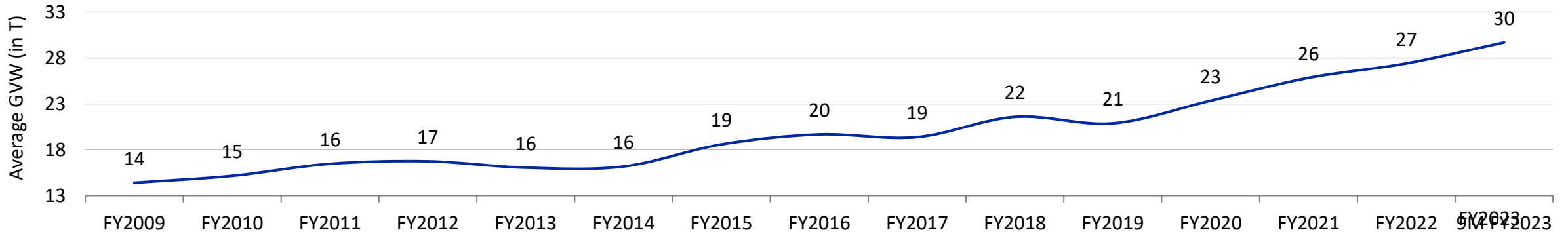
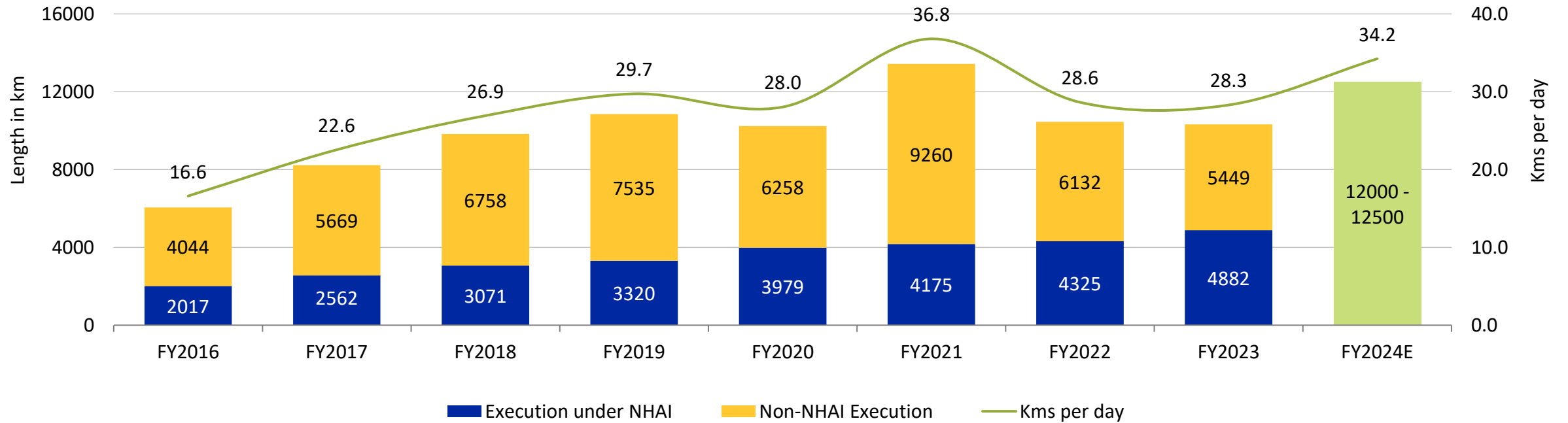


Exhibit: Trend in average tonnage per truck (M&HCV) in India



Commercial Vehicle | Road construction progress remains healthy

Exhibit : MoRTH Annual Execution



 Road construction progress expected to pick up ahead of the general elections and support demand

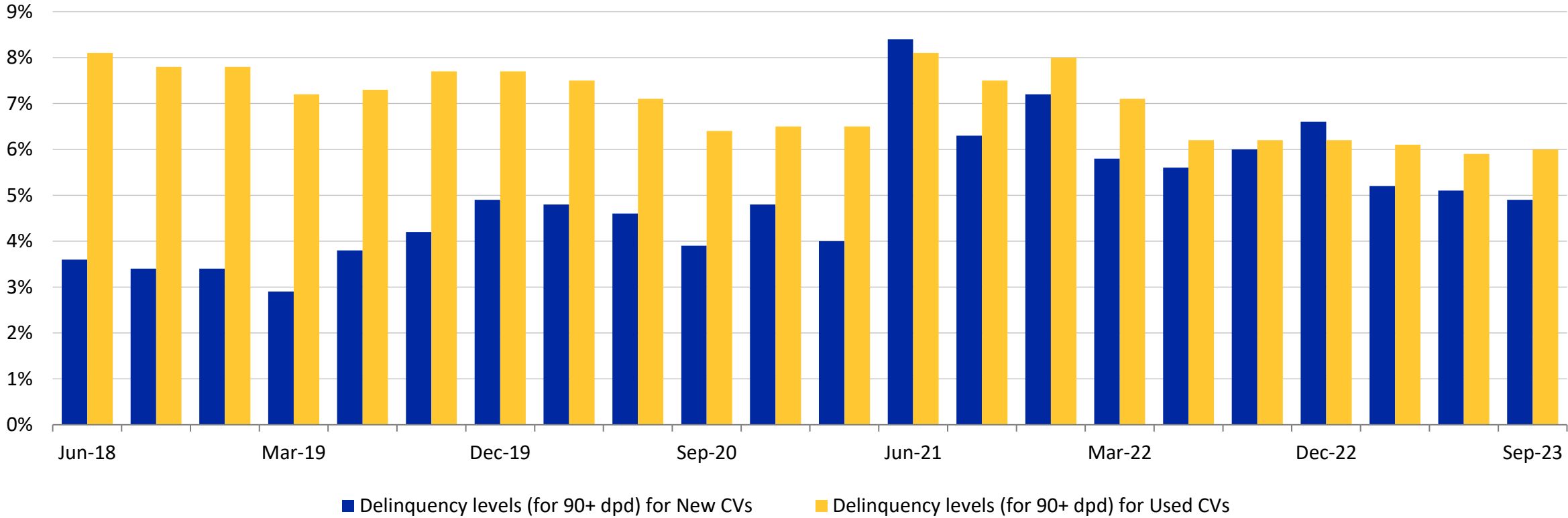
Source: ICRA research, MoRTH, NHAI

Commercial Vehicle I Delinquency trends steady



Delinquencies for both new and used CV portfolio remained steady in Q2 FY2024 at 4.9% and 6.0%, respectively.











Exhibit: Trend in delinquency levels (for 90+ dpd) in CV segment



Source: ICRA Research

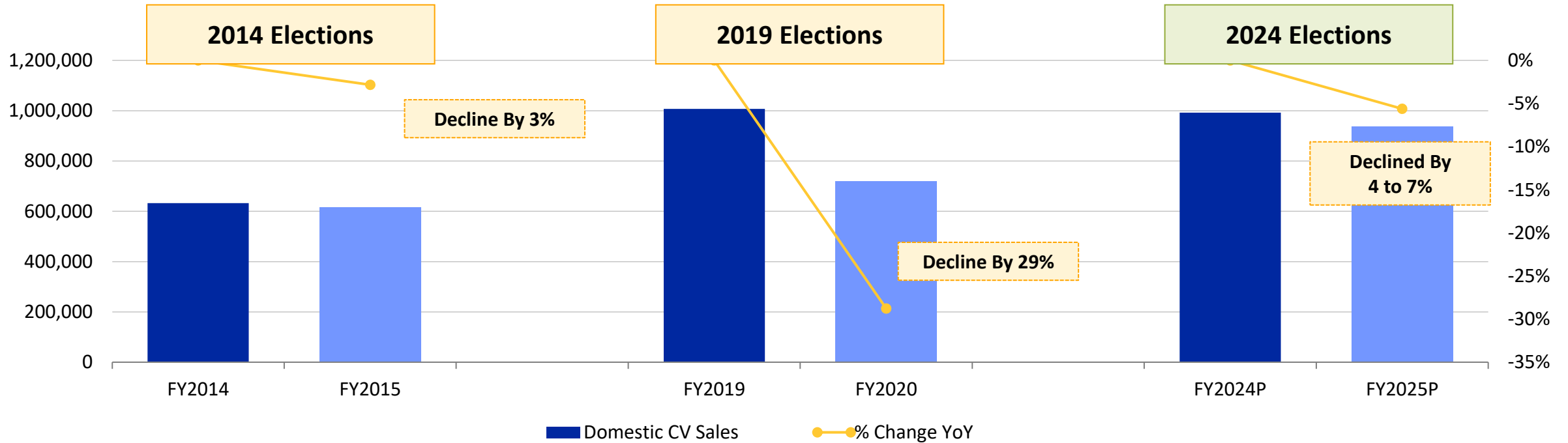
Commercial Vehicle | Key demand drivers continue to be supportive

Exhibit: Key demand drivers for industry

KEY DRIVERS		Trend	Remarks
	ECONOMIC OUTLOOK	 FAVOURABLE	<ul style="list-style-type: none"> Improvement in economic activity to support demand
	INFRASTRUCTURE	 FAVOURABLE	<ul style="list-style-type: none"> Projects in transportation segment witnessing increased traction aided by healthy push by the Government
	FREIGHT	 FAVOURABLE	<ul style="list-style-type: none"> Freight availability remains healthy supported by the uptick in economic activity
	REGULATIONS	 FAVOURABLE	<ul style="list-style-type: none"> Regulations such as scrappage policy and push towards cleaner vehicles driving replacement demand
	COST OF OWNERSHIP	 NEUTRAL	<ul style="list-style-type: none"> Repo rate hikes have led to increase in cost of ownership

Commercial Vehicle I Sales exposed to impact of model code of conduct




Exhibit: CV domestic sales comparison over the last few elections.



Restriction on award of new tenders in infrastructure space could constraint CV sales in H1FY2025

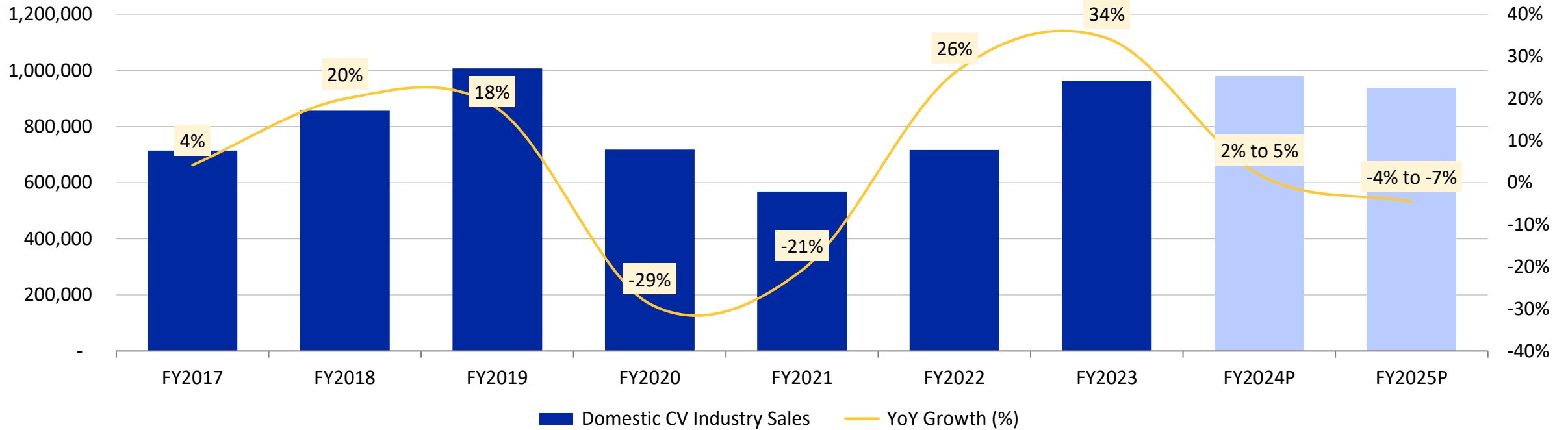
Commercial Vehicle I Outlook

Exhibit: Segment-wise growth estimates

Segment Wise	FY2022	FY2023	FY2024E	FY2025E	Near-term Growth Drivers/Challenges
 M&HCV (trucks)	49%	40%	3% to 6%	-4% to -7%	<ul style="list-style-type: none"> Steady economic environment Replacement demand Pick-up in construction, mining activities
 LCV (trucks)	15%	23%	-1% to -4%	-5% to -8%	<ul style="list-style-type: none"> Steady economic environment Cannibalization from e3Ws Slowdown in ecommerce High base effect
 Buses	64%	160%	18% to 21%	2% to 5%	<ul style="list-style-type: none"> Mandatory scrapping of older Government Vehicles Replacement demand

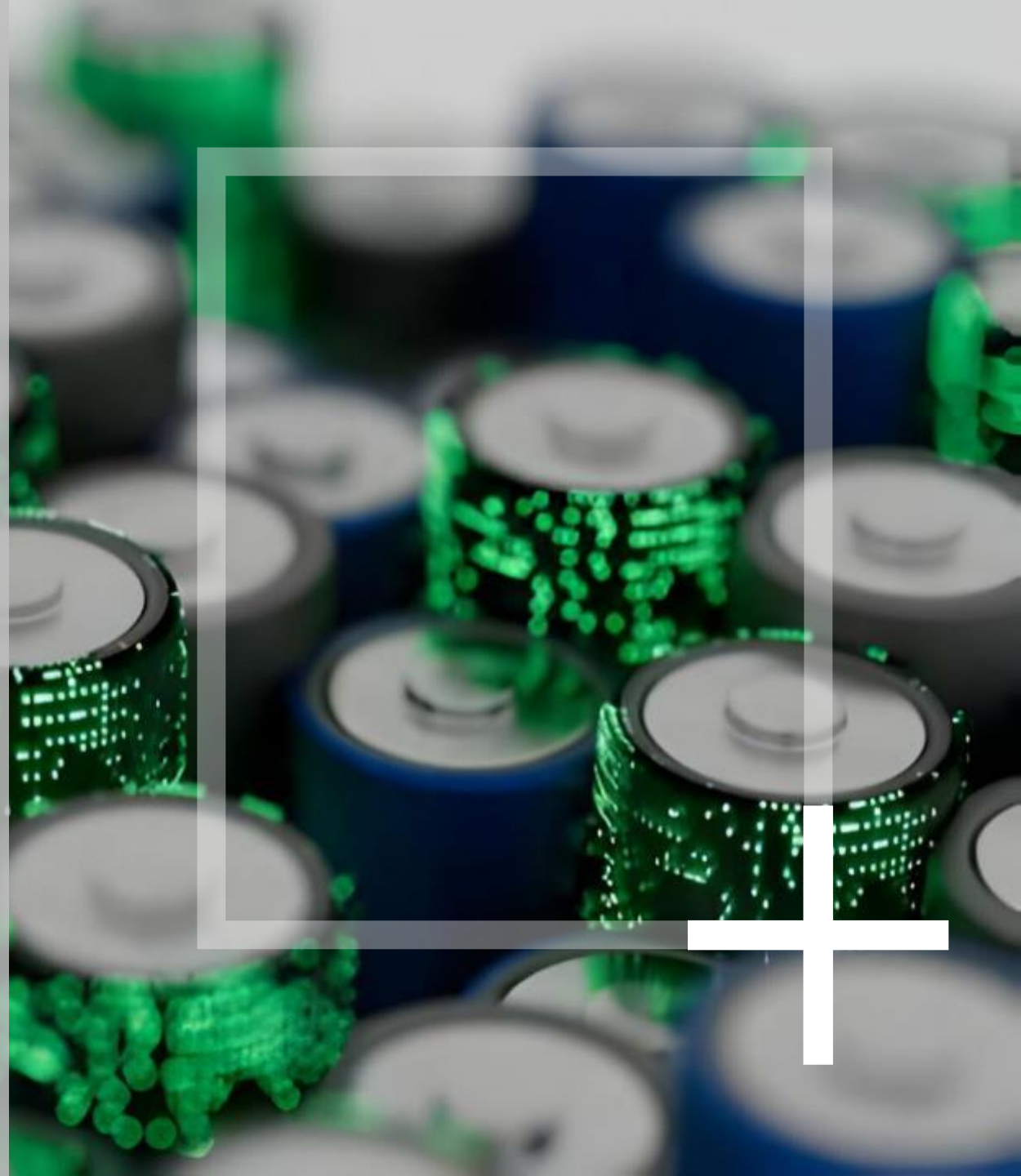
Commercial Vehicle I Outlook

Exhibit: Domestic CV industry growth



 Sustenance of macro-economic environment and improvement in infrastructure activity/last-mile transportation key

Alternate Fuel Technologies and Electric Vehicle



Multiple alternate powertrain options available for lowering emission

Exhibit: Alternate powertrain options



Electric and hybrid vehicles



CNG vehicles
























Vehicles running on biofuels (flex fuel and ethanol blending)



Hydrogen-powered vehicles

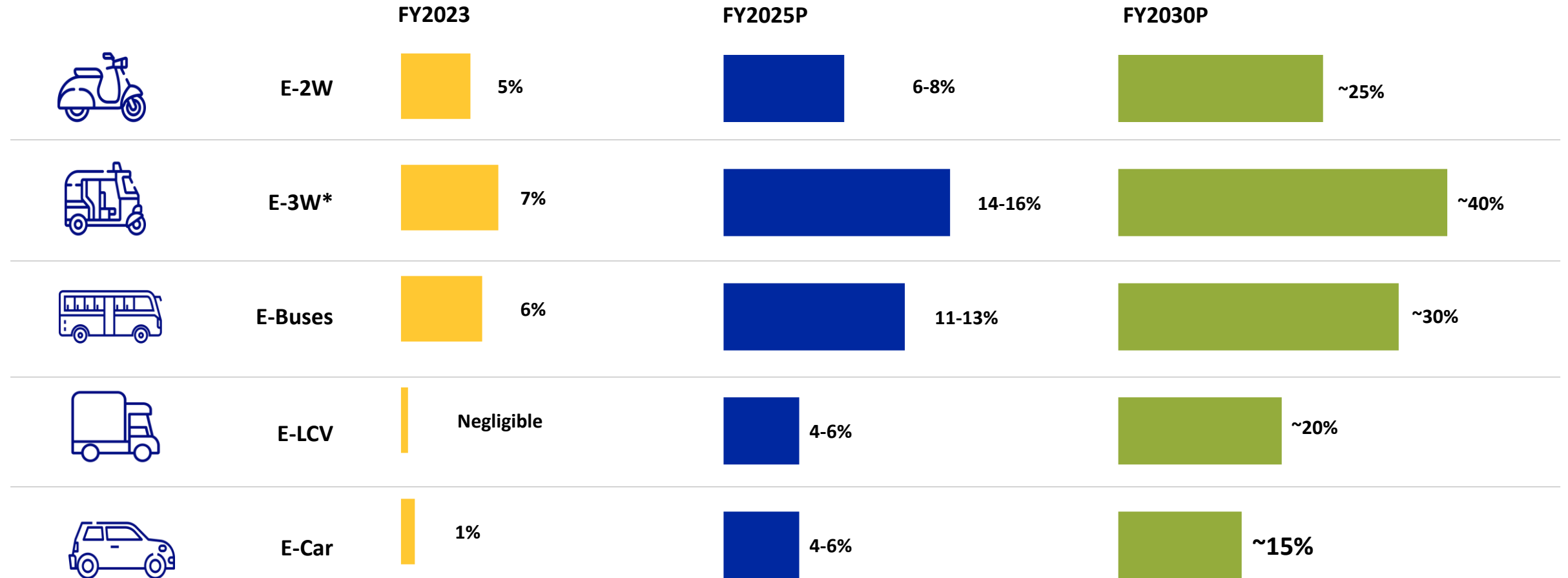
Confluence of factors to support EV adoption over the medium term

Exhibit: Key Growth Drivers for Electrification across All Segments

E-3W	E-2W	Electric Bus	Electric Car	E-LCV
				
 <p>Improving technology/ product portfolio</p>  <p>Lower ownership cost</p>	 <p>Government subsidies</p>  <p>Price parity with ICE 2Ws</p>  <p>Improving technology/ product portfolio</p>  <p>Commercial Usage/Lower dependence on charging infra</p>	 <p>Government Subsidies</p>  <p>Demand aggregation by govt backed entities</p>  <p>Lower ownership cost</p>	 <p>Improving charging infrastructure key to reduce range anxiety</p>  <p>Decline in battery prices key to lower upfront price</p>  <p>Lower running cost</p>  <p>Improving technology/ product portfolio</p>	 <p>Improving technology/ product portfolio</p>  <p>Lower running cost</p>  <p>Decline in battery prices</p>

Penetration across segments to increase exponentially

Exhibit: Trend in electrification across all segments








Source: ICRA Research; Note – Penetration measured in terms of new vehicle registrations

*Excludes e-rickshaw segment, which is already electrified to a large extent

Electric Vehicle | Profitability for EV OEMs expected to take time

Exhibit: Key factors which will determine profitability

 Continuation of FAME II Subsidy	<ul style="list-style-type: none">▪ Uncertainty regarding the continuation of FAME II beyond FY2024 still continues
 Economies of Scale	<ul style="list-style-type: none">▪ Ramp-up in volumes would aid in reducing material cost through vendor renegotiation/discounts
 Battery/Electronics Cost	<ul style="list-style-type: none">▪ Battery constitutes ~35-40% of the overall vehicle cost; battery cost expected to gradually decline
 Localisation	<ul style="list-style-type: none">▪ Enhanced localisation levels likely to aid in bringing down cost of production
 Research & Development	<ul style="list-style-type: none">▪ OEMs continue to work on various value engineering initiatives to aid profitability

 **Timely fund raise to support the capital structure/competitiveness of start-up players remain key**

CNG vehicles will continue to gain traction

Exhibit: Alternate powertrain options



01

**Favourable
operating
economics**



02

**Improving fueling
infrastructure**



03

**New model launches
by OEMs**

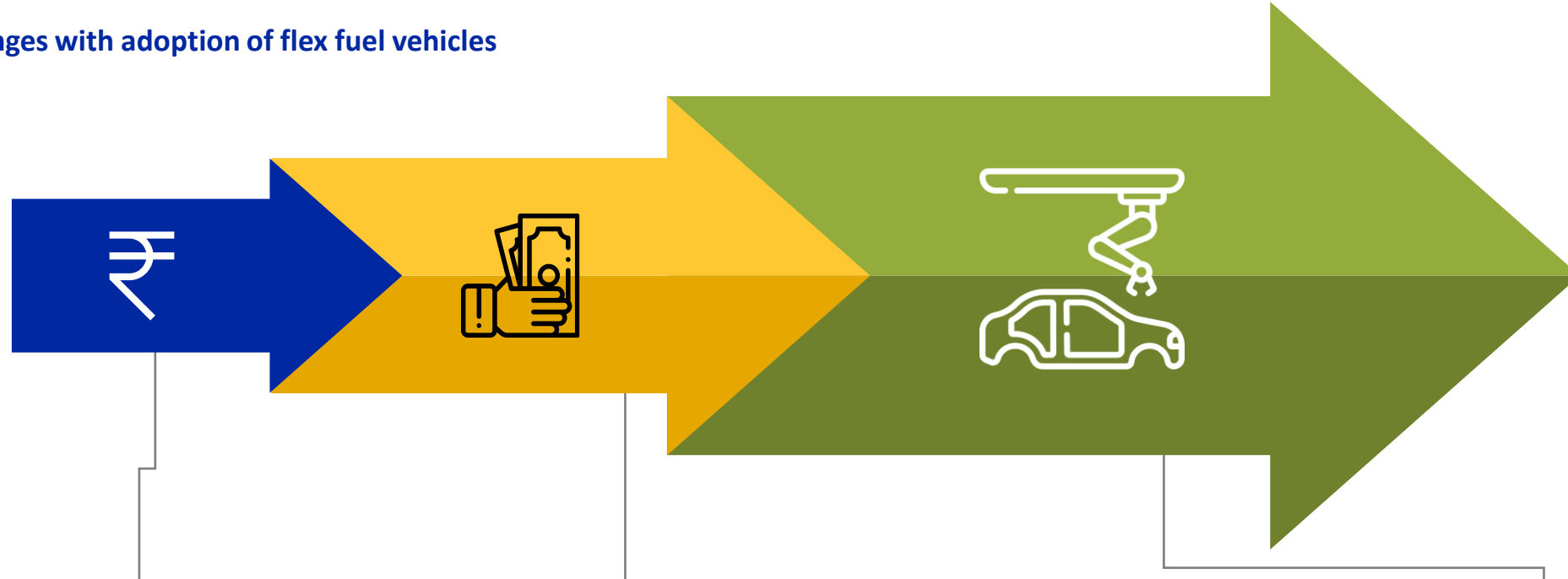


04

**Reduced emission
which will help in
meeting CAFÉ
norms**

Meaningful adoption of flex fuel vehicles still some time away

Exhibit: Challenges with adoption of flex fuel vehicles

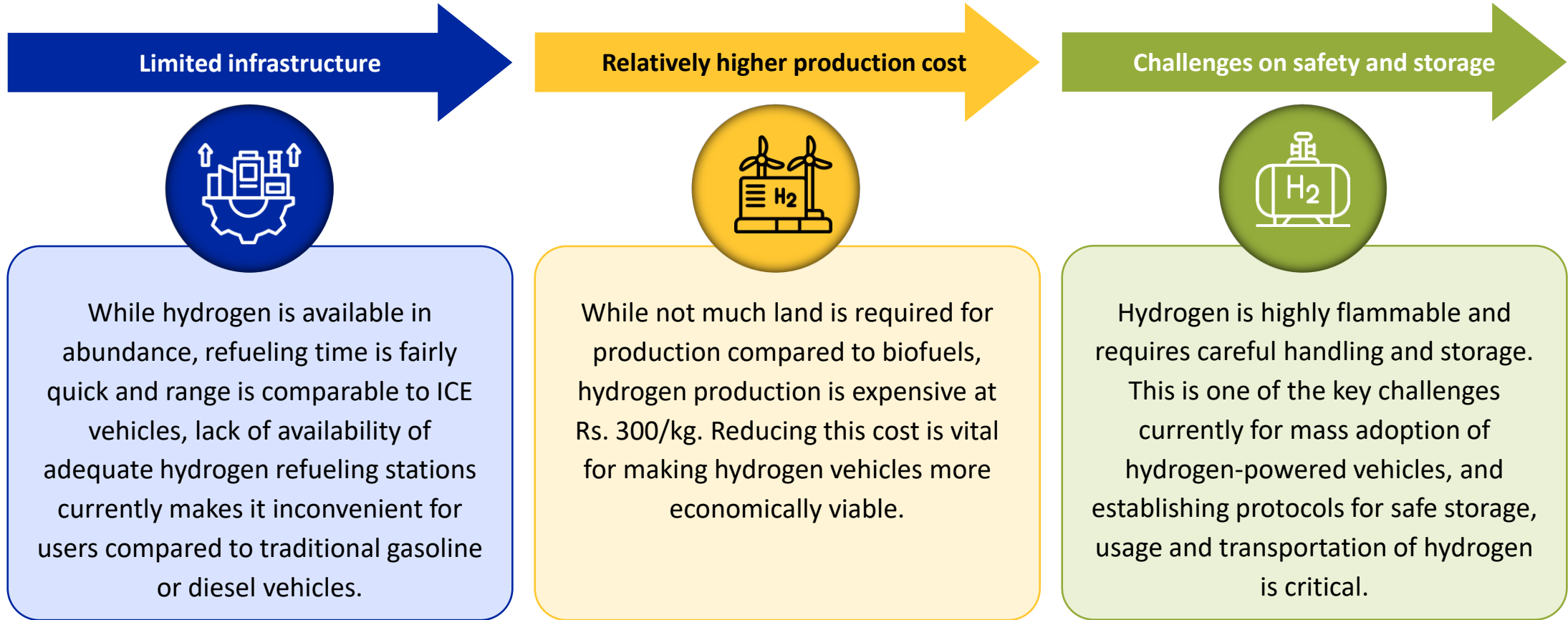


Significant technology and design changes will be required. Further, ethanol availability will have to ramp up substantially.

Running cost of flex fuel-based vehicles will be higher by ~30% compared to gasoline vehicles owing to lower fuel efficiency.

Limited flex fuel models are available at present.

Hydrogen fuel adoption is still at a nascent stage



Key challenges for adoption of hydrogen-powered vehicles

Demand for Auto Components from Exports and Replacements



Europe vehicle registrations expected to report muted growth in CY2024

Exhibit: Quarterly PV Registration Trend in Europe

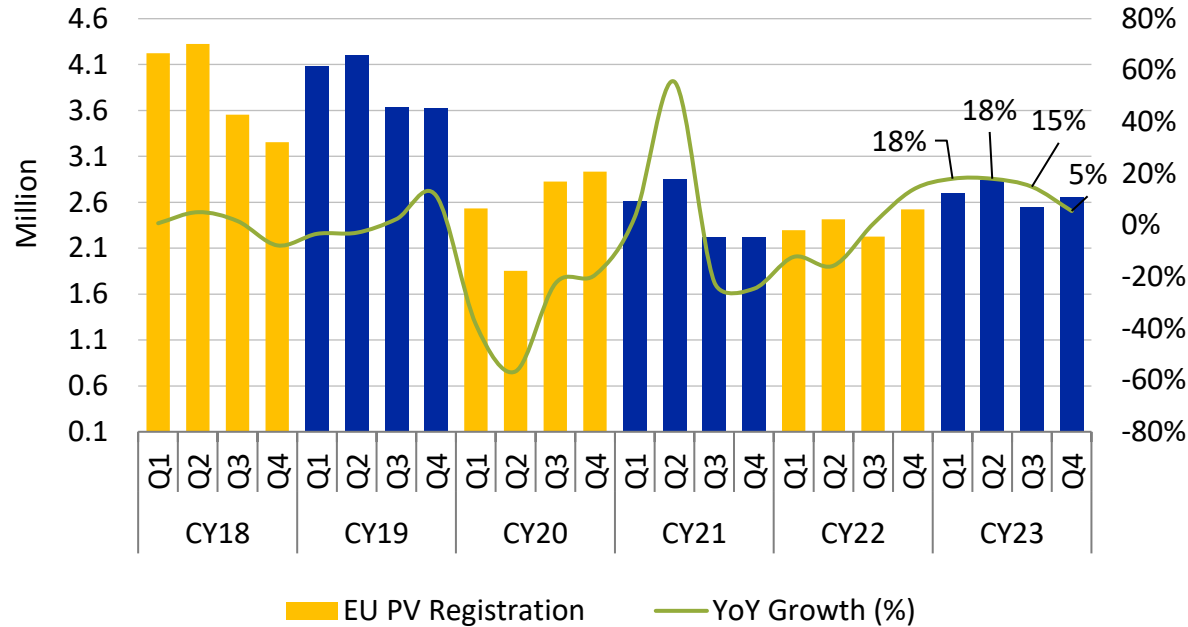
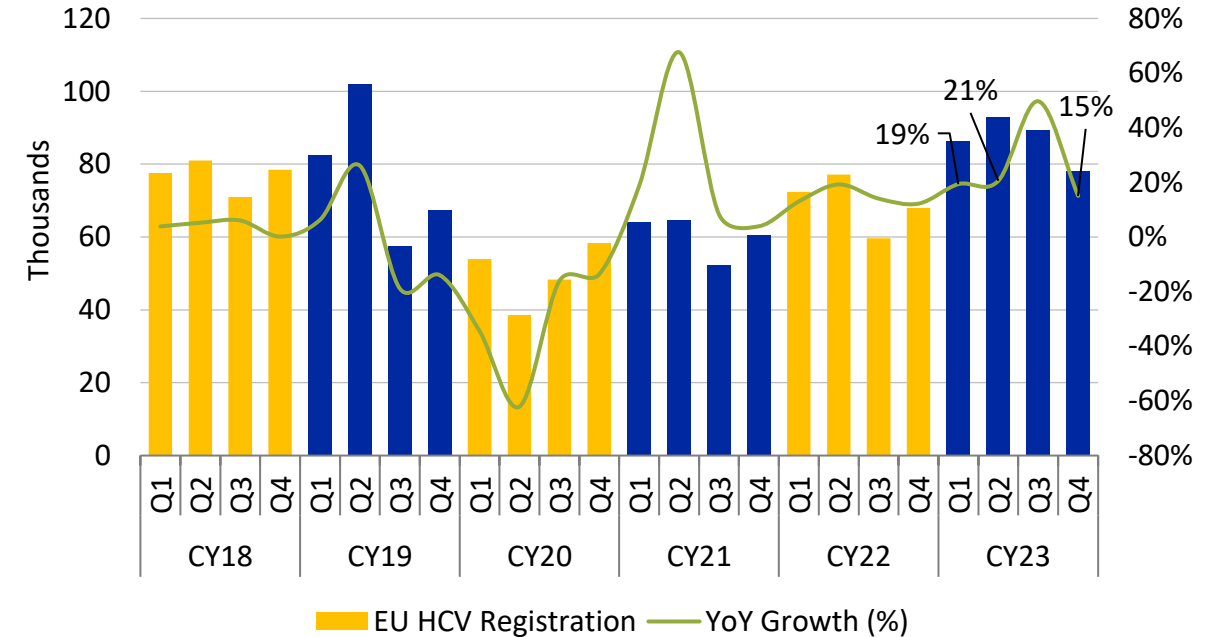


Exhibit: Quarterly HCV Registration Trend in Europe



🔍

- Europe PV registrations for CY2023 grew by 14% on YoY basis because of the low base in CY2022. However, growth has slowed down in Q4 CY2023 to 5% on YoY basis and is expected to remain tepid in CY2024, impacted by the economic gloom and geopolitical tensions.
- HCV registrations in Europe grew by 25% on YoY basis in CY2023. While YoY growth remained healthy in Q4 CY2023 as well at 15%, it was lower than the previous quarters. HCV registration growth is also expected to slow down in CY2024.

Weak consumer sentiments **remain** a headwind in the US as well

Exhibit: US Class 8 Truck Retail Sales - Quarterly Trend

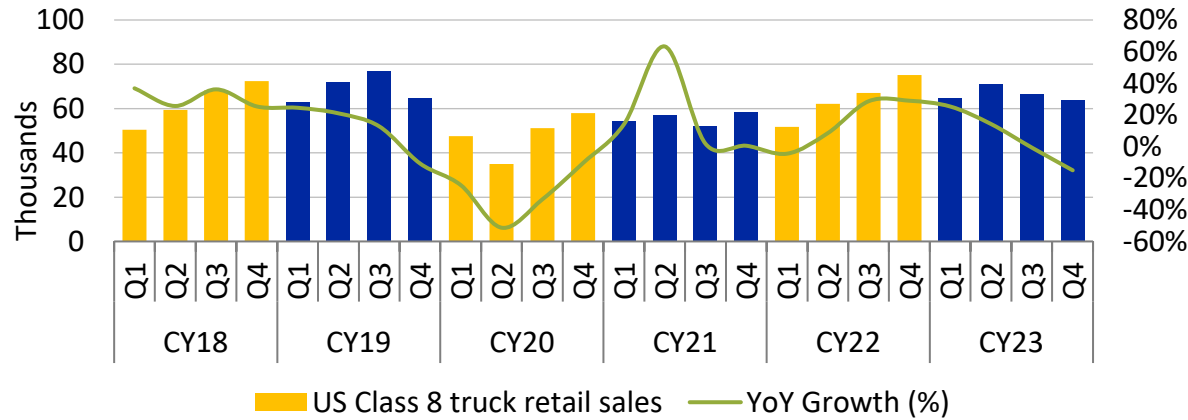


Exhibit: US Passenger Vehicle Retail Sales

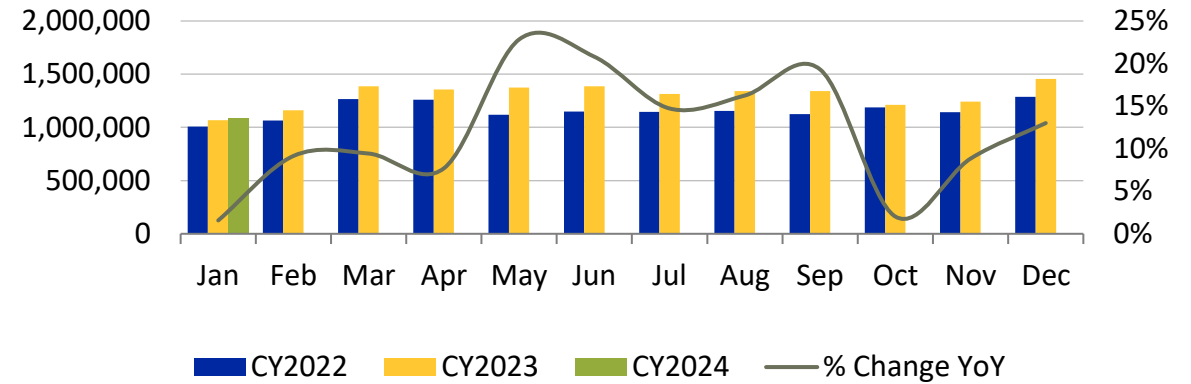
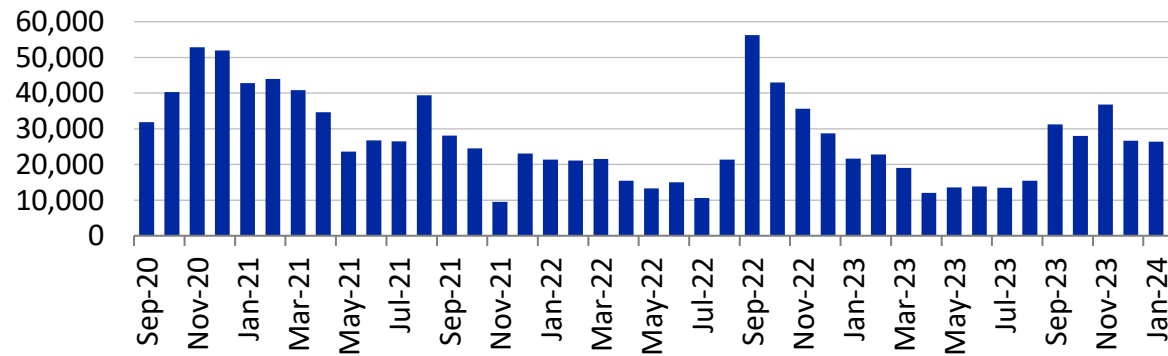


Exhibit: US Class 8 Truck Order Book

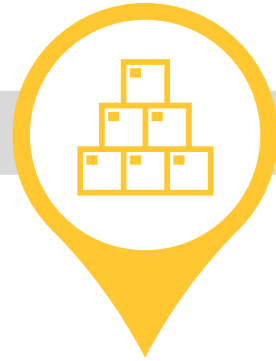


- US light vehicle sales witnessed a 12.5% YoY growth for CY2023. However, it is expected to go back to pre-Covid levels only over the medium term.
- US Class 8 truck retail sales grew by 4% on YoY basis for CY2023 because of the low base in CY2022. However, it has declined on a YoY basis in the Q3 and Q4 CY2023. The Class 8 truck order book has also witnessed a YoY decline of ~20% for the period Aug 2023 to Jan 2024, indicating that macro-economic headwinds could impact truck production in CY2024.

Several factors to drive growth for Indian auto component exports



Supplies to new platforms because of vendor diversification initiatives by global OEMs



Increase in value addition and higher content per vehicle driven by premiumisation of components



Increase in outsourcing by global Tier-1s and OEMs



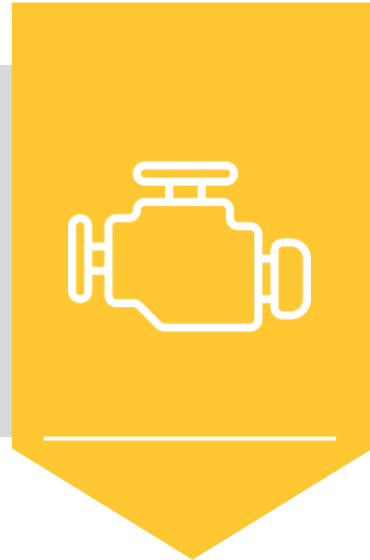
Higher aftermarket potential in global markets with ageing of vehicles and increased sale of used vehicles

Multiple favourable factors point to healthy replacement demand

Exhibit: Aftermarket Revenue Drivers



Increased mobility and higher freight movement



Vehicle parc increase; higher average age of vehicle population and used vehicle purchases



Reduced imports, lower offtake from unorganised segment and growth in proportion of branded parts



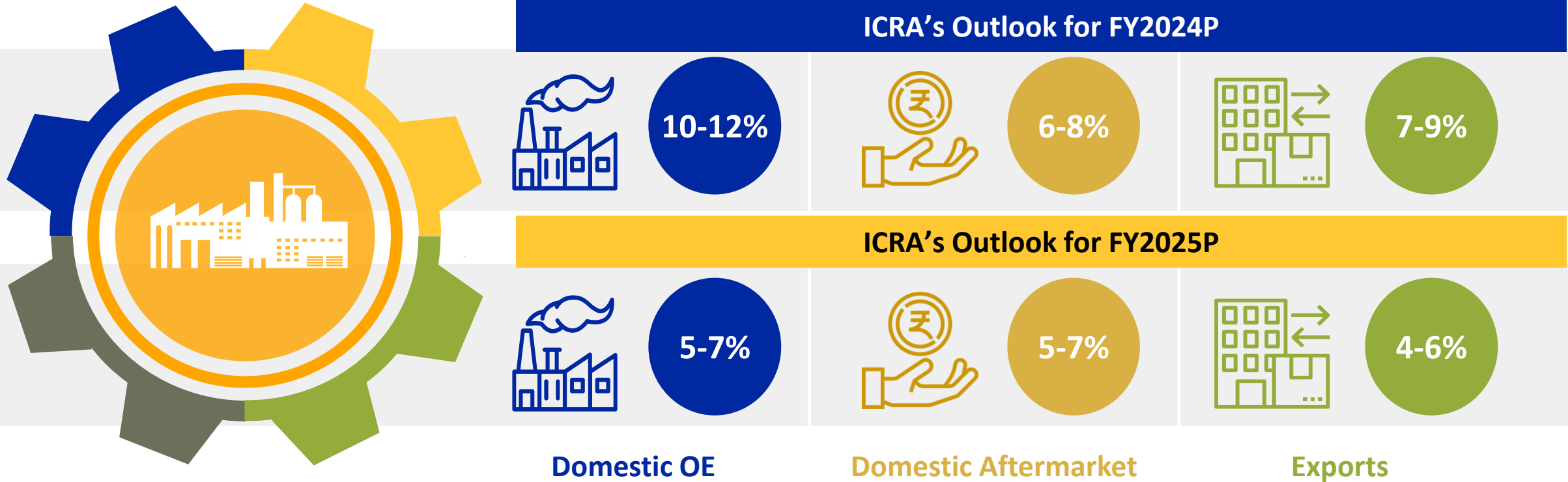
Deeper penetration in rural/semi-urban regions



Better awareness among consumers about vehicle safety and importance of periodic maintenance

Moderate revenue growth expectations for FY2025

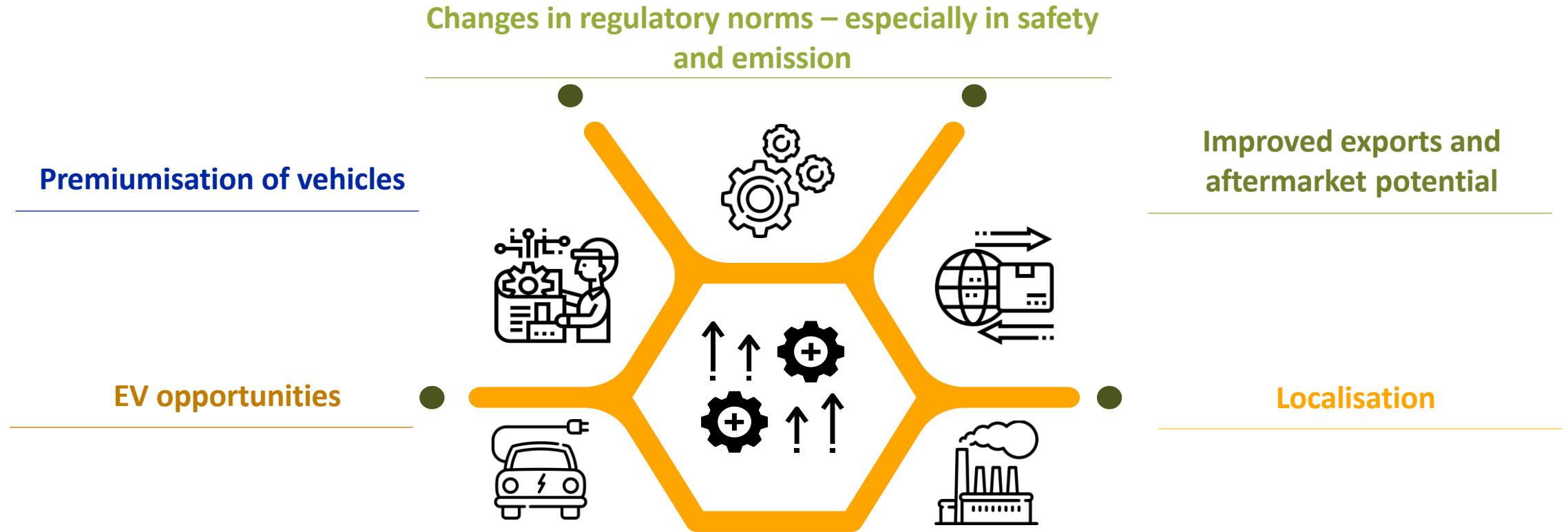
Exhibit: ICRA's Outlook for the Indian Auto Component Industry for FY2024 and FY2025



ICRA expects the auto component industry's revenues to grow at 9-11% in FY2024 and 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 translate into growth for auto component suppliers.

Emerging trends to drive growth for ancillaries over the medium term

Exhibit: Medium-Term Revenue Drivers



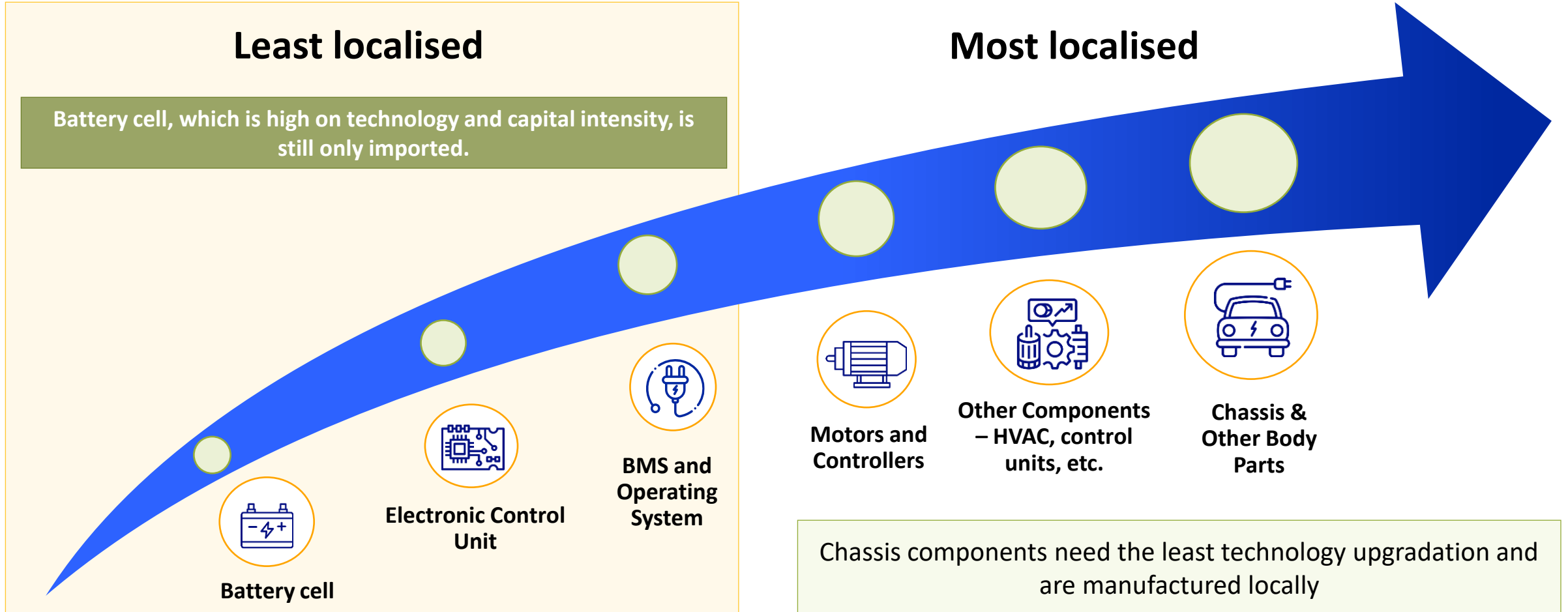
All of these would result in higher content per vehicle and translate into healthy revenue growth for auto ancillaries over the medium term.

Opportunities for Auto Component Industry from Electrification



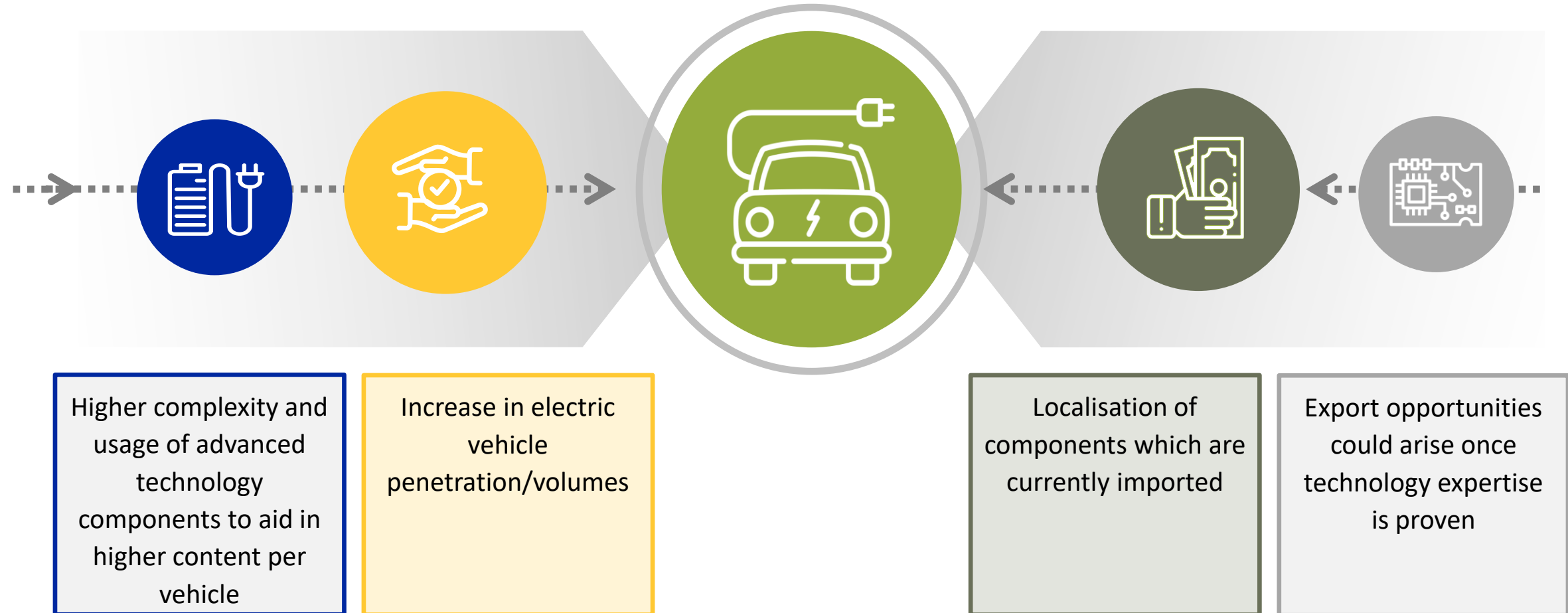
Only 30-40% of the EV supply chain is currently localised

Exhibit: Extent of Localisation of EV Components



Several factors to aid increase in revenues from EV components

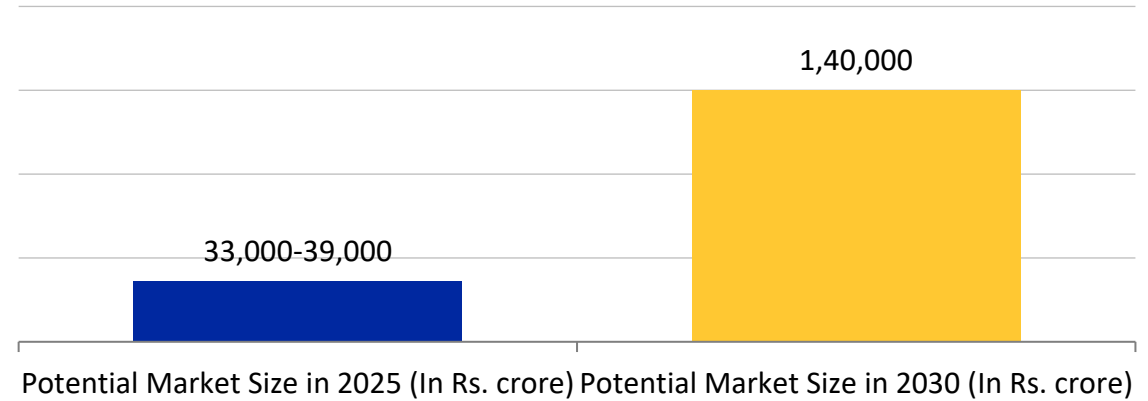
Exhibit: Supporting Factors for Growth in EV Component Revenues for Auto Ancillaries over the Medium Term



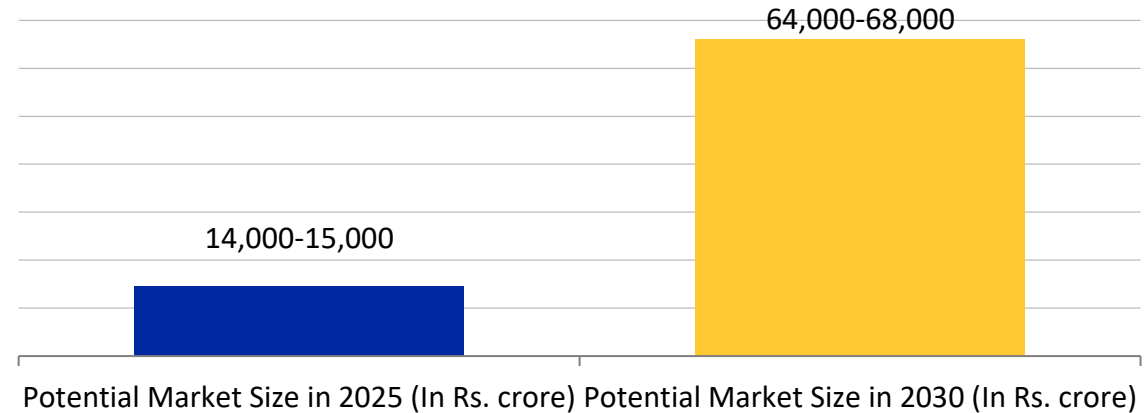
E-2W and e-PV components to lead electrification for ancillaries

Exhibit: Potential Market Size of Key Component Segments for E-2Ws and E-PVs

E-2W



E-PV



Alternative revenue streams to compensate for the potential revenue loss



- Supply of components to industrial applications, aerospace, Defence, etc



- Expansion of product portfolio to EV/EV agnostic products



- Exports to countries where EV transition is expected to take longer than India



- Temporary opportunity to supply ICE components to developed countries, as production becomes unviable at relatively modest scales for these economies, with substantial EV penetration

Financial Performance



Industry to benefit from stable demand and higher content per vehicle over the medium term

Exhibit: Annual Revenue Forecast for ICRA's Sample Set

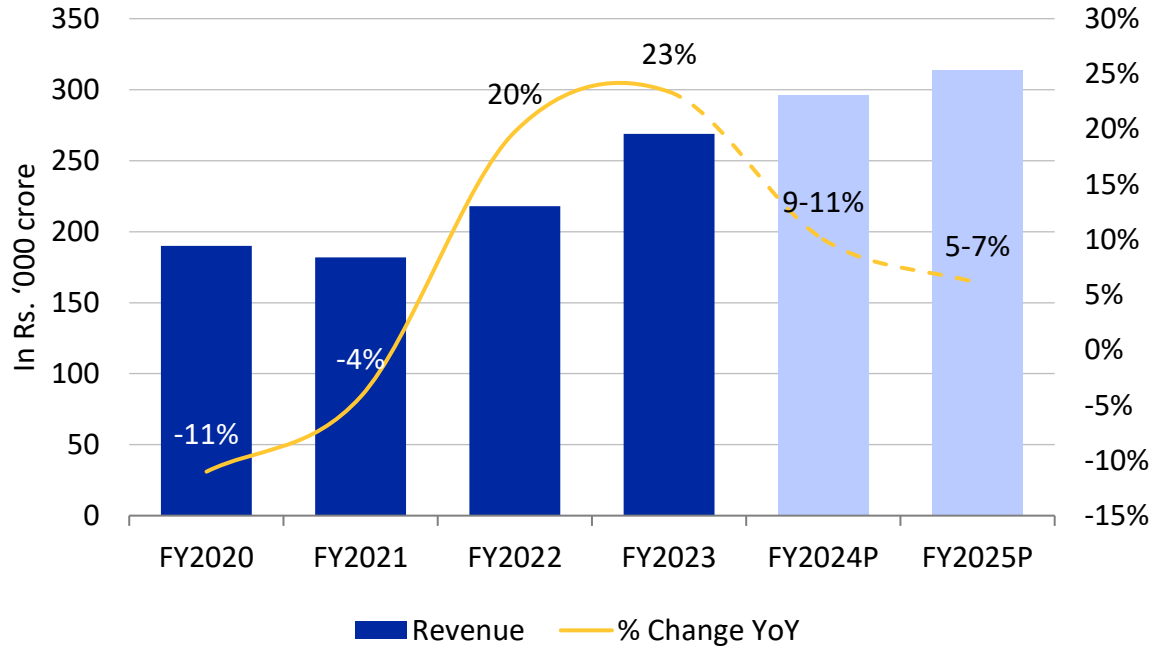
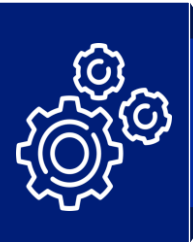
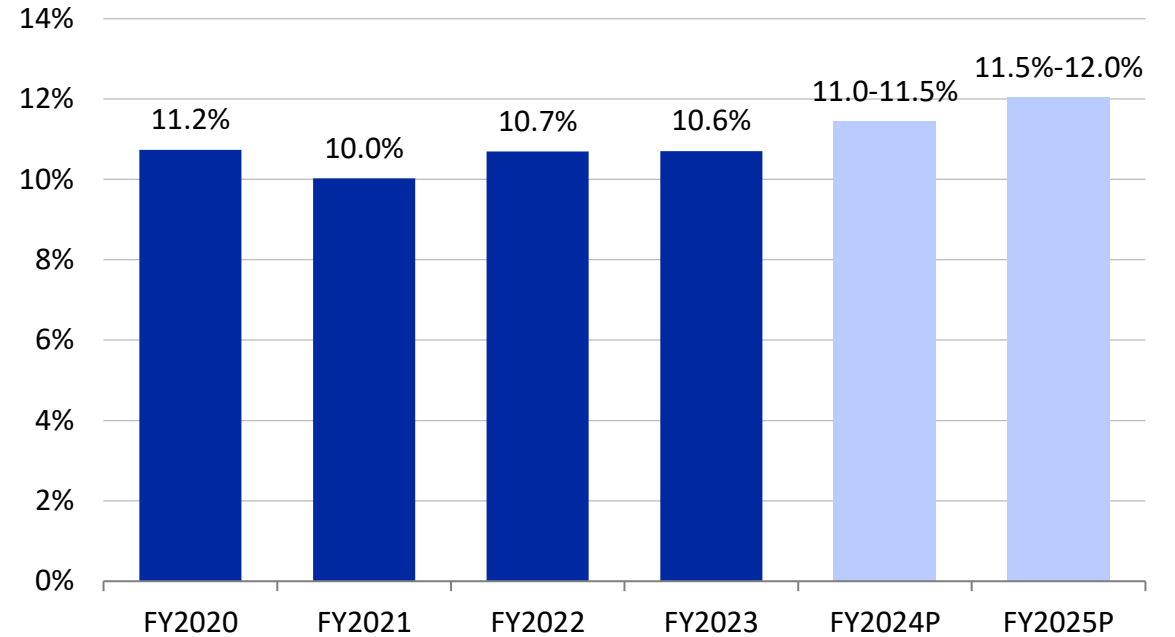


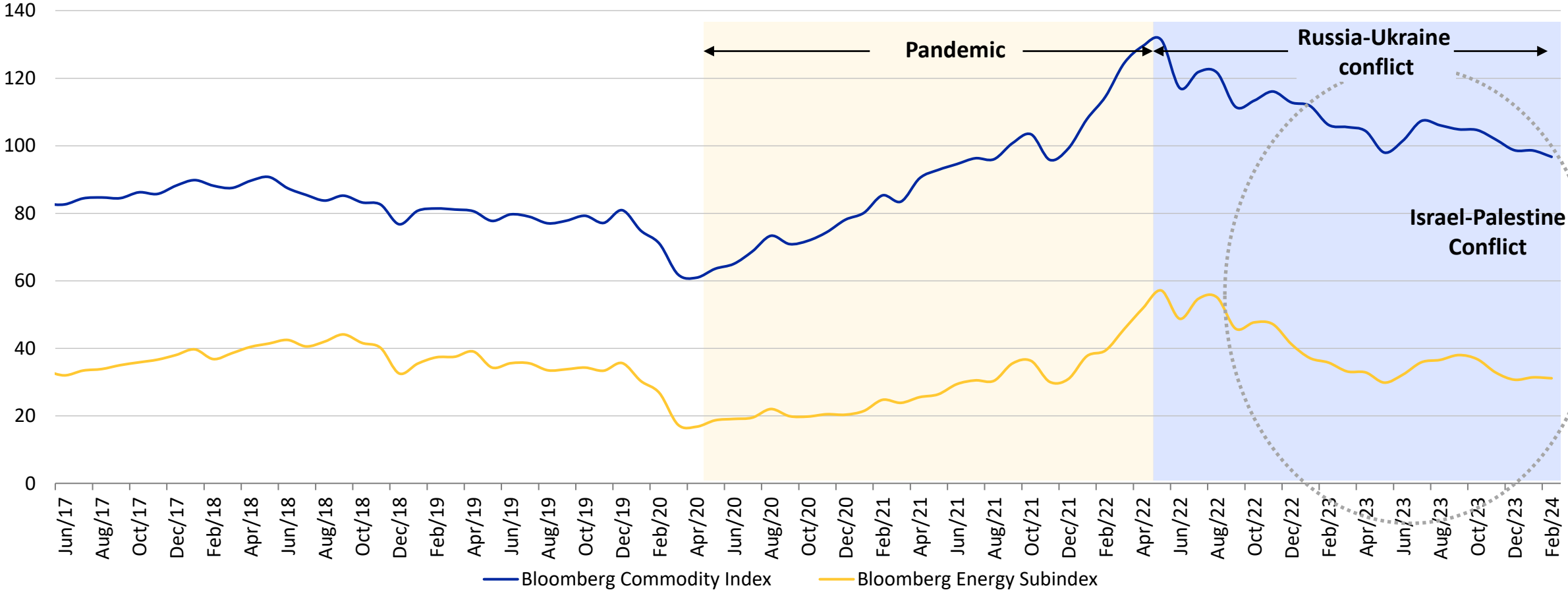
Exhibit: Operating Margin Forecast for ICRA's Sample Set



Margins for FY2024 are likely to benefit from operating leverage, with easing of cost pressures on YoY basis and improvement in supply-chain scenario. FY2025 margins would further benefit from operating leverage, higher content per vehicle and value addition. However, margins for net importers could be impacted by the forex volatility.

Commodity index has moderated, yet to reach pre-pandemic levels

Exhibit: Trend in Bloomberg Commodity Index and Bloomberg Energy Subindex



Source: Bloomberg, ICRA Research

Other initiatives by auto ancillaries to also support margins going forward

Exhibit: Key Cost Optimisation Measures



Increase in value addition



Increase in localisation



Increase in usage of power from renewable sources and energy-efficient machinery



Freight optimisation

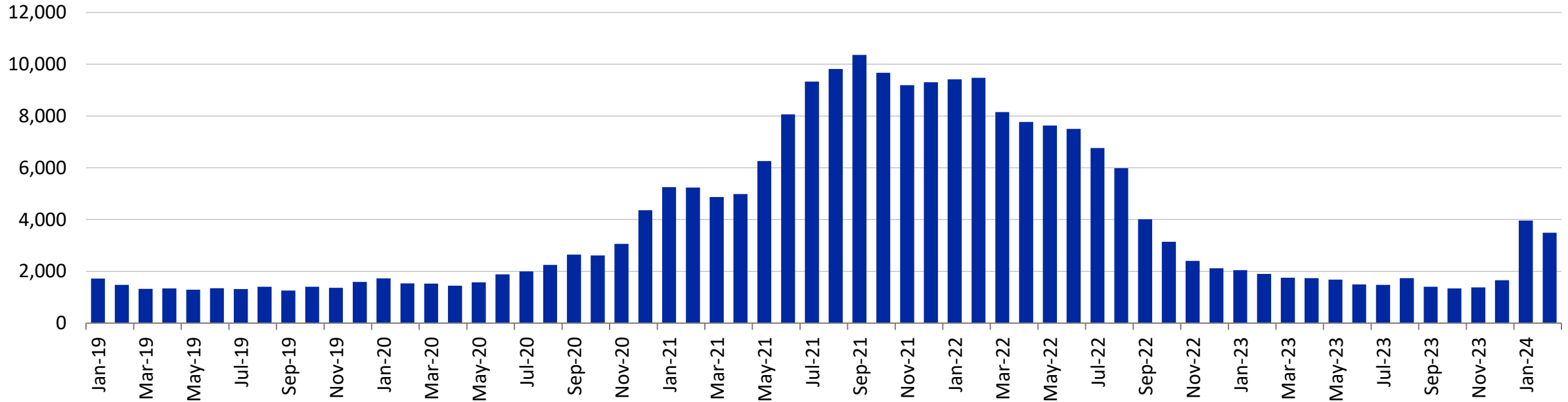


Factoring arrangement for working capital requirements

Source: ICRA Research

Increase in freight rate remains a headwind

Exhibit: Trend in Freight Cost per 40-inch Container (\$)



Container rates have jumped up by 2-3x in Jan 2024 because of the Red Sea Crisis, while shipping time has also increased by ~2 weeks. Given that close to two-third of auto component exports are to North America and Europe, and one-third of imports is from the two regions, increase in freight could have a bearing on margins.

Coverage indicators to remain comfortable across most auto ancillaries

Exhibit: Trend in Return on Capital Employed (RoCE) for ICRA's Sample Set

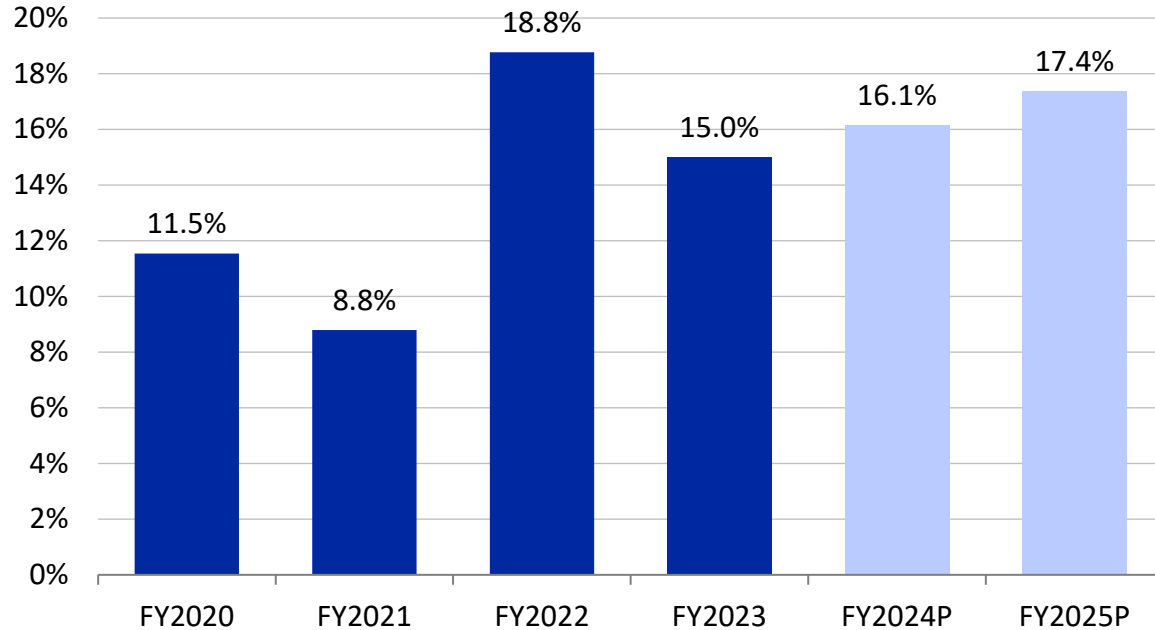
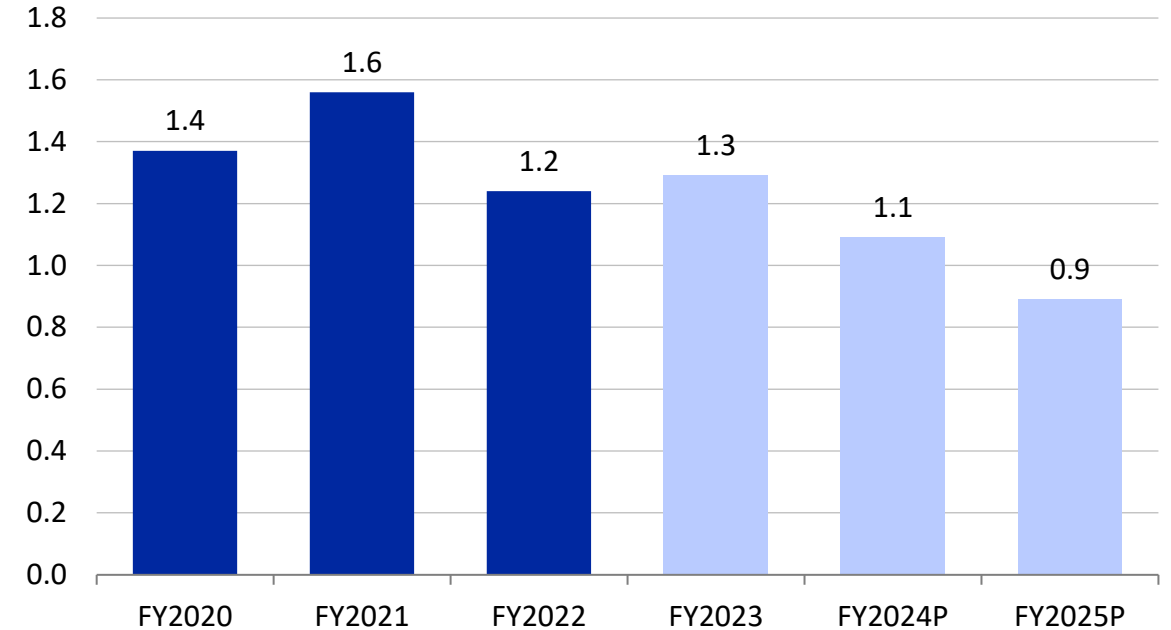


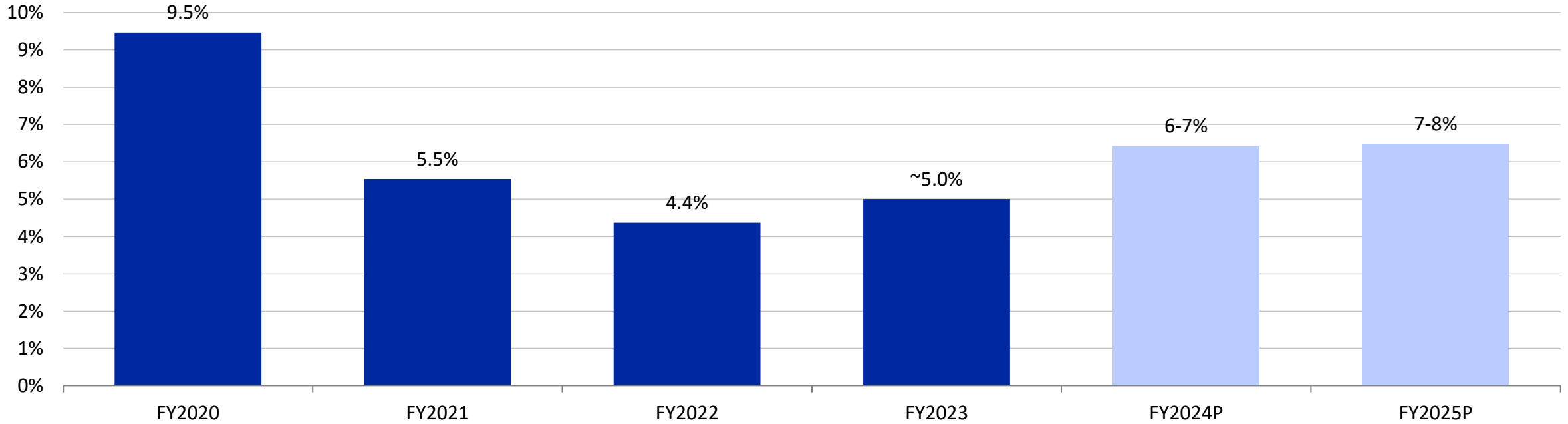
Exhibit: Trend in Total Debt/OPBITDA for ICRA's Sample Set




- Liquidity position remains comfortable, especially across tier-I and tier-II players.
- ICRA expects coverage metrics for the sector to remain comfortable going forward as well, aided by healthy accruals and relatively low incremental debt funding.

Capacity enhancements and technological developments drive capex upcycle

Exhibit: Capex (as % of sales) for ICRA's Sample of Large Auto Ancillaries



New product additions & product development for committed platforms



Capex towards upcoming regulatory changes



Development of advanced technological and EV components/ localisation



Capacity enhancement

Trend in Credit Ratings



Most rated auto ancillaries in investment grade, reflecting healthy credit profiles

Exhibit: ICRA's Ratings in the Auto Component Industry

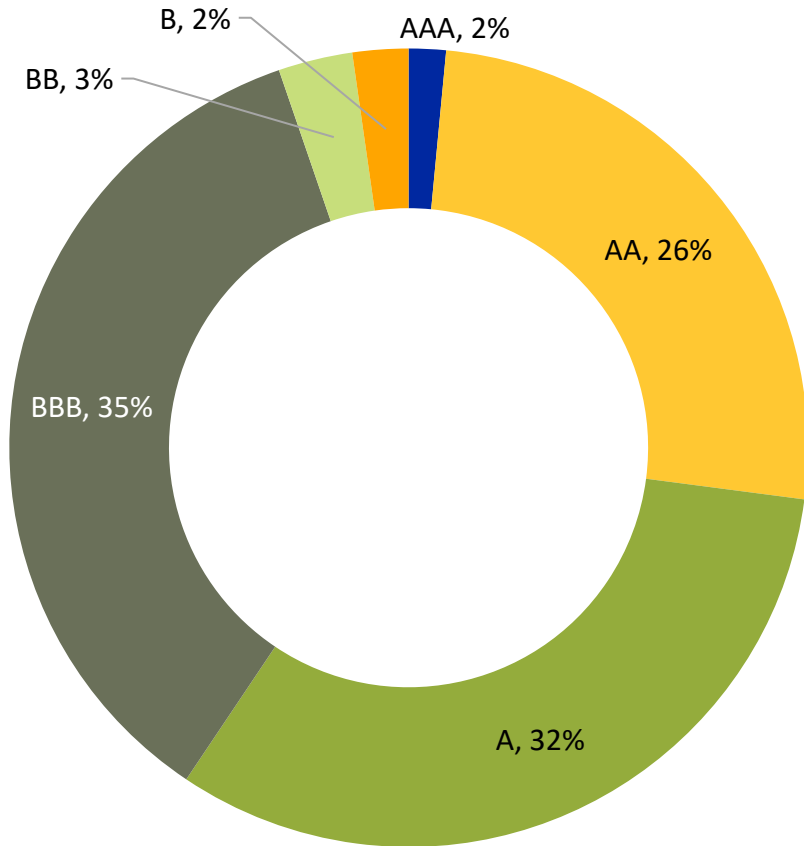
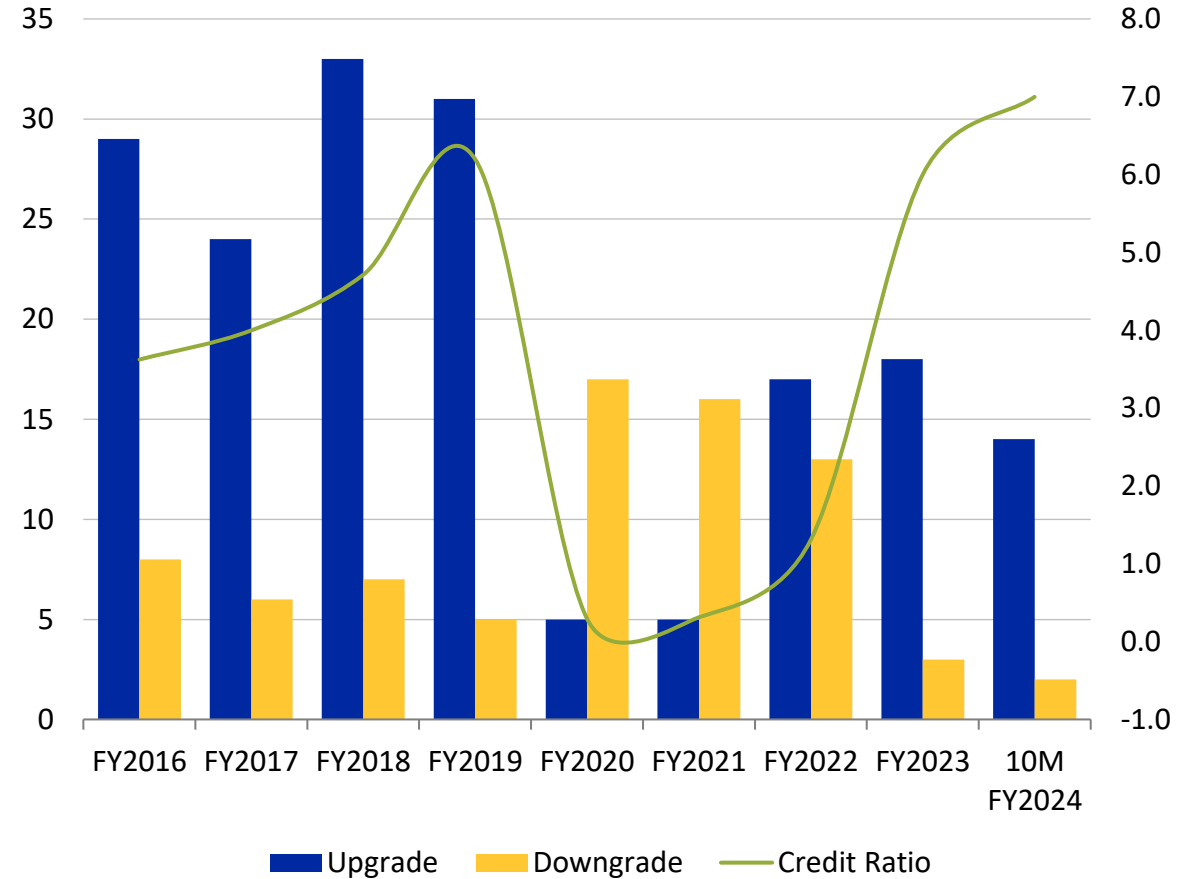


Exhibit: Rating Movement in ICRA's Portfolio of Auto Component Companies



Source: ICRA Research; as on Feb 21, 2024, and does not include INC cases

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