

## **Long term outlook seems optimistic for auto component industry**

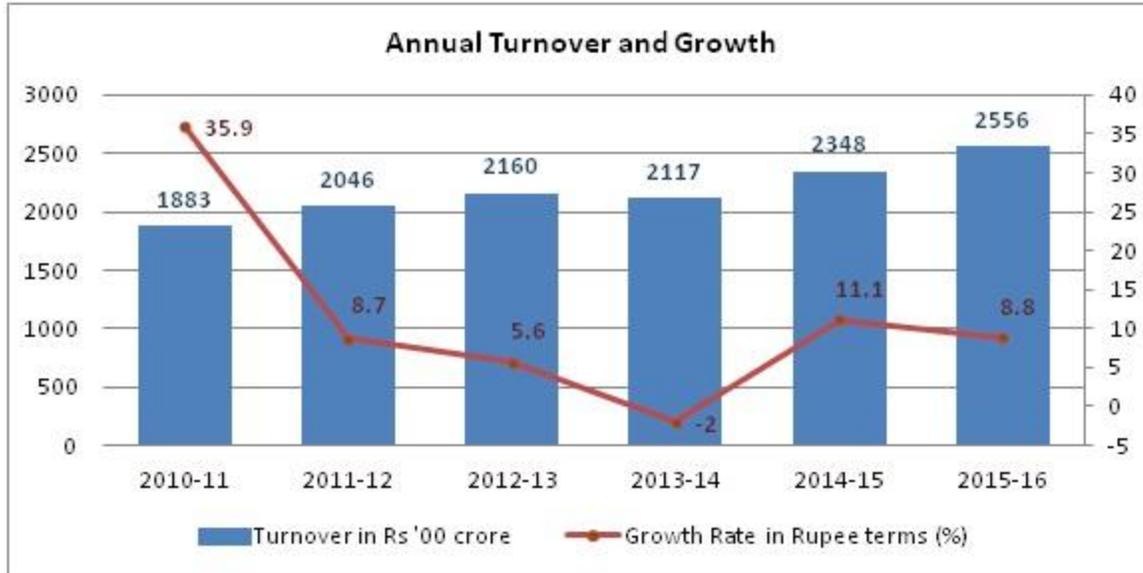
**SEPTEMBER 27, 2017**

The Indian auto-components industry has emerged as a key market in Asia as well as in the world. The auto-components industry accounts for almost 7% of India's Gross Domestic Product (GDP) and employs as many as 19 million people, both directly and indirectly. A stable government framework, increased purchasing power, large domestic market, and an ever increasing development in infrastructure have made India a favourable destination for investment.

The auto-components industry can be broadly classified into organized and unorganized sectors. The organized sector caters to the Original Equipment Manufacturers (OEMs) and consists of high-value precision instruments, while the unorganized sector comprises low-valued products and caters mostly to the aftermarket category. The auto ancillary industry can be broadly classified on a functional basis into engine parts, transmission and steering parts, suspension and braking components, electrical equipment and others.

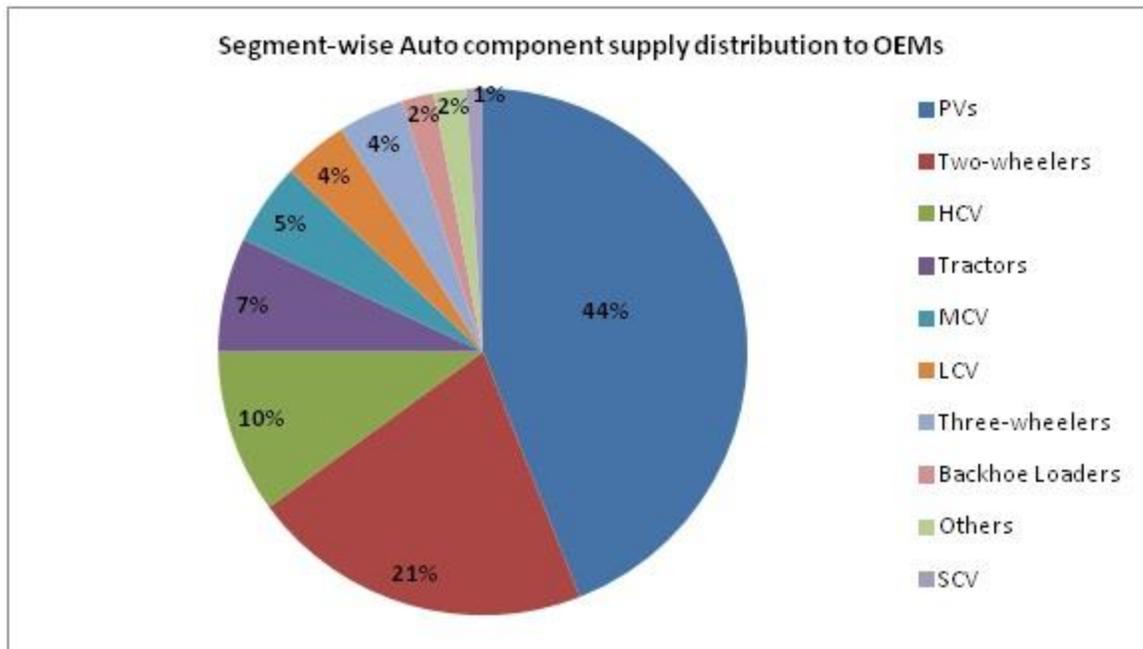
During FY2016, the Government of India, automobile manufacturers and the auto-component industry had laid down their collective vision for the next decade of automotive industry in India and has been delineated in the Automotive Mission Plan 2016-26 (AMP 2026), which sets a turnover target of \$200 billion for the auto-component industry, with exports ranging between \$70-80 billion. Clearly, to achieve these targets, much of the next ten years of the industry will be about penetrating and integrating into global supply chains. According to the Automotive Component Manufacturers Association of India (ACMA), the Indian auto-components industry is expected to register a turnover of \$100 billion by 2020 backed by strong exports ranging between \$80-100 billion by 2026, from the current \$11.2 billion.

The automobile landscape is currently undergoing a rapid change with BS-VI emission norms and Corporate Average Fuel Economy (CAFE) norms. In addition, efforts have been initiated to set higher safety system norms including provisioning for frontal and side crash tests for new vehicles from October 2017 and for existing vehicles by October 2019. These regulatory changes coupled with the increase of auto electronics in vehicles, will have a far-reaching impact on the entire automotive supply chain. The Auto Component Industry in FY2016 grew by 8.8% despite a less than expected performance in the Passenger Vehicles, Two-wheelers and Tractors segments. In 2016, India overtook Japan to become the 2nd largest producer of steel in the world & among the lowest-cost ones as well. The industry managed to surpass its target of Rs 2,07,000 crore in FY2016 by recording an overall turnover of Rs 2,55,636 crore in FY2016. Over the last decade, the automotive components industry has registered a CAGR of 14% and has scaled three times to \$39 billion in 2015-16, while exports have grown at a CAGR of 14% to \$10.8 billion. The turnover of the auto component industry stood at Rs 2.92 lakh crore (\$43.5 billion) for the period April 2016 to March 2017, registering a growth of 14.3% over the previous year and a CAGR of 7% over the last six years.



**OEM demand**

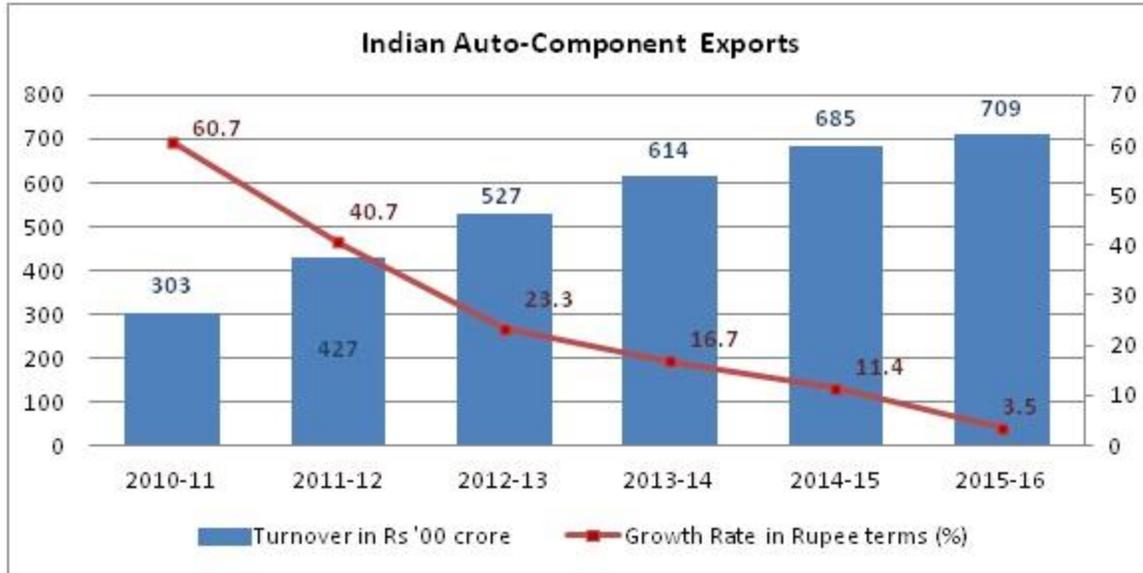
The OEM market for auto components is characterized by cyclicity in line with end-user automobile industry. In India amongst OEM customers, auto-component products are used highest for passenger vehicles with a share of 44%; this is followed by 2-3 wheelers who have a share of 25%; commercial vehicles right across the spectrum from SCVs to HCVs consume 20%; while farm and construction equipment consume the remaining 11%.



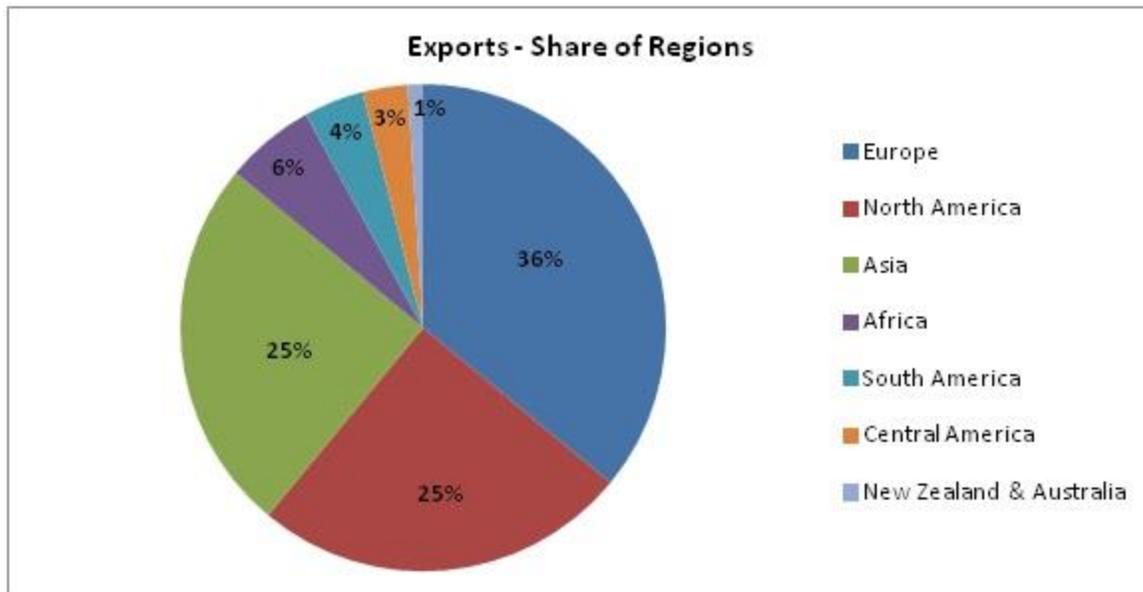
**Export**

In a difficult year, exports of auto components grew by 3.5% from \$11.2 billion in 2014-15 to \$10.8 billion in 2015-16, registering a CAGR of 18% in last six years. Exports of auto

components grew by 3.1% to Rs 73,128 crore (\$10.90 billion) from Rs 70,916 crore (\$10.81 billion) in 2015-16, registering a CAGR of 11% over a period of six years. The key export items included engine parts, transmission parts, steering parts, chassis, bumpers, rubber products etc.



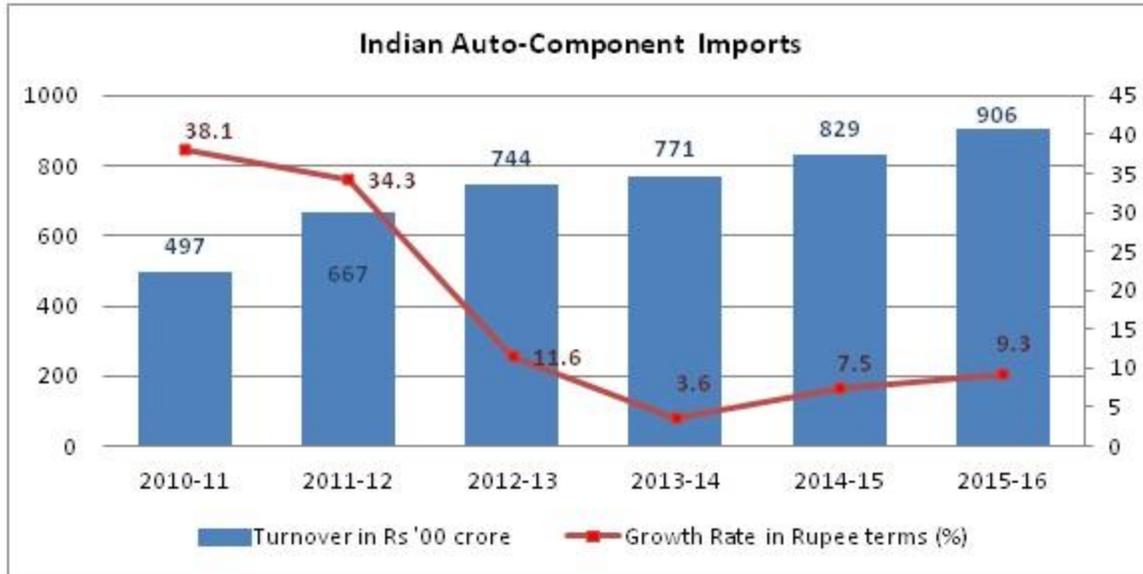
Europe accounted for 35% of exports followed by Asia and North America, with 27% and 26% respectively. Exports to Asia increased by 4.6% followed by Europe with 2.6% whereas, exports to North America decreased by 3.8%, as exporters concentrated to regions with rising export demand.



### Import

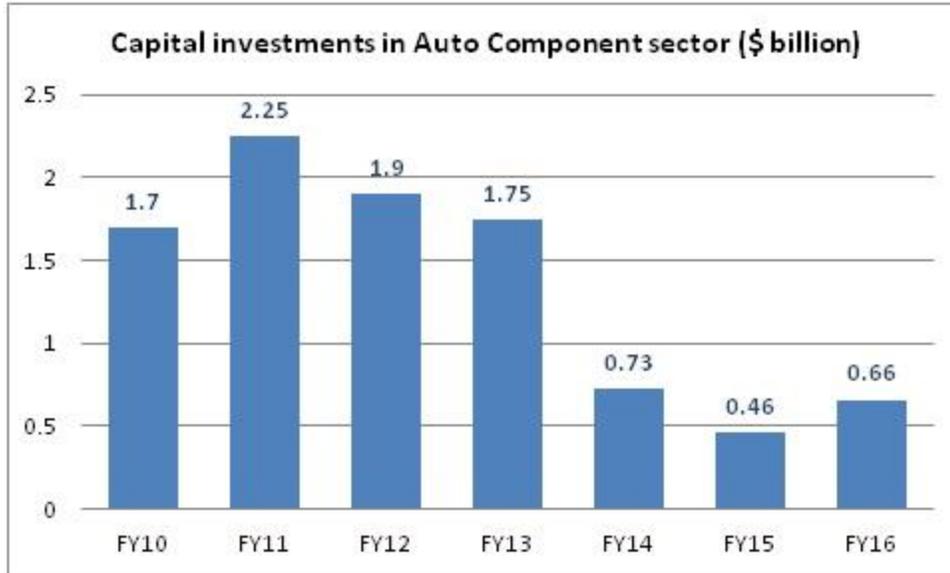
Imports of auto components increased by 9.3% from \$13.58 billion in 2014-15 to \$13.82 billion in 2015-16; Asia and Europe contributed to 58.6% and 30.9% of the imports respectively, while North America accounted for 7.9%. Imports of auto components decreased by 0.1% from Rs

90,662 crore (\$13.82 billion) in 2015-2016 to Rs 90,571 crore (\$13.50 billion) in 2016-2017. The imports from Asia increased by 2.4% but decreased from North America and Europe by 14.6% and 7.3% respectively. Technological collaboration of Indian players with global majors, OEMs' focus on localization to improve cost competitiveness are some of the factors of reducing imports trend.



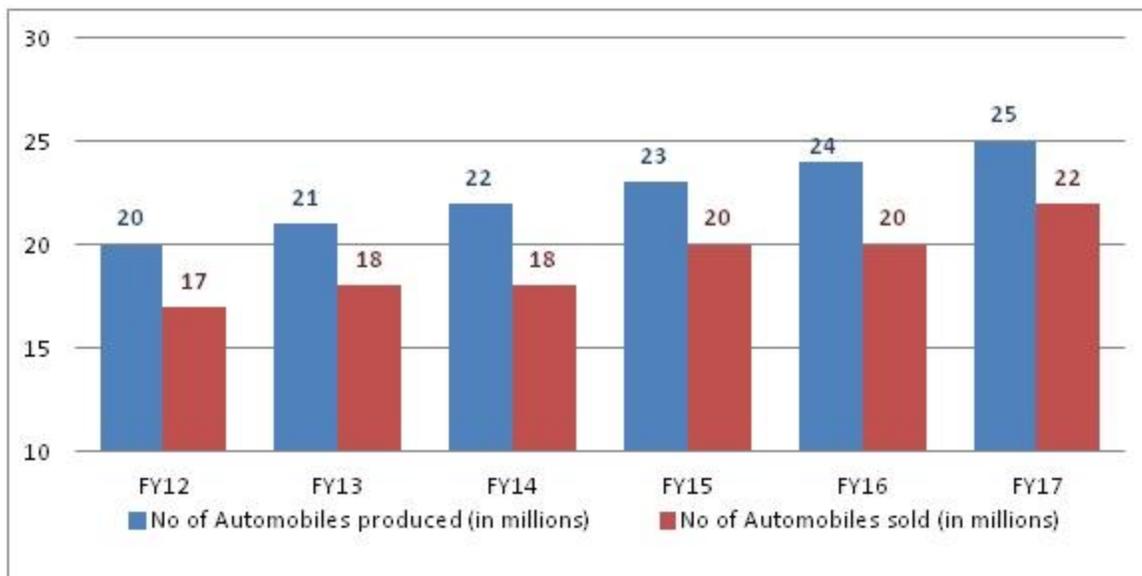
**FDI**

The cumulative Foreign Direct Investment (FDI) inflows into the Indian automobile industry during the period April 2000 - September 2016 were recorded at \$15.80 billion. Private equity investment in the automobile component sector rose 607% to \$90.2 million in the first five months of this calendar year, over the same period last year. Merger and acquisition (M&A) deals in the sector were up 170% to \$254.8 million. During fiscal 2015-16 an estimated capital investment of around \$0.44 - 0.66 billion was witnessed in the auto component sector, which was better than \$0.33 or 0.46 billion in FY15, representing a whopping growth of around 45 percent. Still it remained little lower than growth in FY14 at \$0.53 - 0.73 billion.



**Automobile Industry performance**

India's automotive industry is one of the most competitive in the world. The industry accounts for 7.1% of the country's Gross Domestic Product (GDP). The sector has witnessed a tremendous growth owing to a growing middle class and a young population. The growing interest of the companies in exploring the rural markets further aided the growth of the sector. The total production volume grew at a CAGR of 5.56% between FY12-17. The automobile Industry is coping up with the GST regime. The Goods and Services Tax (GST) Council has raised the cess on mid-sized to large cars and SUVs in the range of 2-7 percentage points but kept the tax burden lower than pre-GST levels, also the small cars and hybrid vehicles were spared from any additional cess.



**Government initiatives**

## **Automotive Mission Plan (Phase II - 2016 to 2026)**

AMP 2026 is the collective vision of the government of India and the automotive industry that sets the targets for the automobile industry and auto component industry for the next decade i.e. 2026. AMP 2026 envisages creation of an additional 50 million jobs along with an ambitious target of increasing the value of the output of the sector to up to Rs 1,889,000 crore (\$282.65 billion). By 2026, it is expected that this sector's contribution to the GDP will reach \$145 billion due to the government's special focus on exports of small cars, multi-utility vehicles (MUVs), two and three-wheelers and auto components. Separately, the deregulation of FDI in this sector has also helped foreign companies to make large investments in India.

### **FAME India**

The government is planning to implement Faster Adoption and Manufacturing of (Hybrid & Electric Vehicles India (FAME India) till 2020 which would cover all vehicle segments, all forms of hybrid & pure electric vehicles. It was implemented with effect from April 1, 2015, with the objective to support hybrid/electric vehicles market development and Manufacturing eco-system. The scheme has 4 focus areas i.e. Technology development, Demand Creation, Pilot Projects and Charging Infrastructure. The FAME India Scheme is aimed at incentivizing all vehicle segments i.e. 2 Wheeler, 3 Wheeler Auto, Passenger 4 Wheeler Vehicle, Light Commercial Vehicles and Buses. The scheme covers Hybrid & Electric technologies like Mild Hybrid, Strong Hybrid, Plug in Hybrid & Battery Electric Vehicles. To keep pace, the Indian auto component manufacturers will be required to develop capabilities for in-house design, harness frugal engineering and create product differentiation through innovation.

### **Conclusion**

Over the years, the auto component industry has adapted well to the changing environment and customer needs. To keep pace, the auto components manufacturers will be required to develop capabilities for in-house design and create product differentiation through innovation. The Government of India with its focus on Make in India continued to be supportive for the industry.

Indian automotive industry will undergo a significant transformation in the coming decade driven by needs of safety, fuel efficiency, sustainability and customer preferences. The industry is also actively focusing on delivering enhanced quality and technology products with looming changes in the regulatory environment and the changing needs of the OEMs. The auto ancillary industry could gain momentum in the coming days and is likely to register decent growth with increase in performance of the automobile industry. The overall thrust on infrastructure development including roads and power, education, skilling, infrastructure development, ease of doing business and attracting investments provides the right environment for growth of the industry over longer period of time.

**Companies Financial Data In Industry**

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Sharda Motor Industries Ltd.	2553.25	1518.25	505.97	0.49	104.30	24.48
Wabco India Ltd.	5989.40	11360.44	696.27	0.12	102.17	58.62
Wheels India Ltd.	1471.00	1769.95	393.39	0.88	47.92	30.70
Sundaram-Clayton Ltd.	4649.85	9407.62	300.42	0.68	44.65	104.14
ZF Steering Gear (India) Ltd.	1163.85	1056.00	367.31	0.69	44.36	26.24
Steel Strips Wheels Ltd.	852.10	1325.55	324.09	0.35	44.26	19.25
Rane Brake Lining Ltd.	1144.00	905.47	220.16	0.52	39.85	28.71
India Nippon Electricals Ltd.	1017.60	1150.98	266.36	0.98	34.98	29.09
Automotive Axles Ltd.	838.05	1266.46	257.20	0.95	33.36	25.12
Harita Seating Systems Ltd.	750.45	583.03	116.07	0.67	32.44	23.13
Automobile Corporation of Goa Ltd.	724.85	465.47	315.27	2.41	31.92	22.71
Talbro Engineering Ltd.	593.00	150.52	175.80	0.00	31.06	19.09

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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