

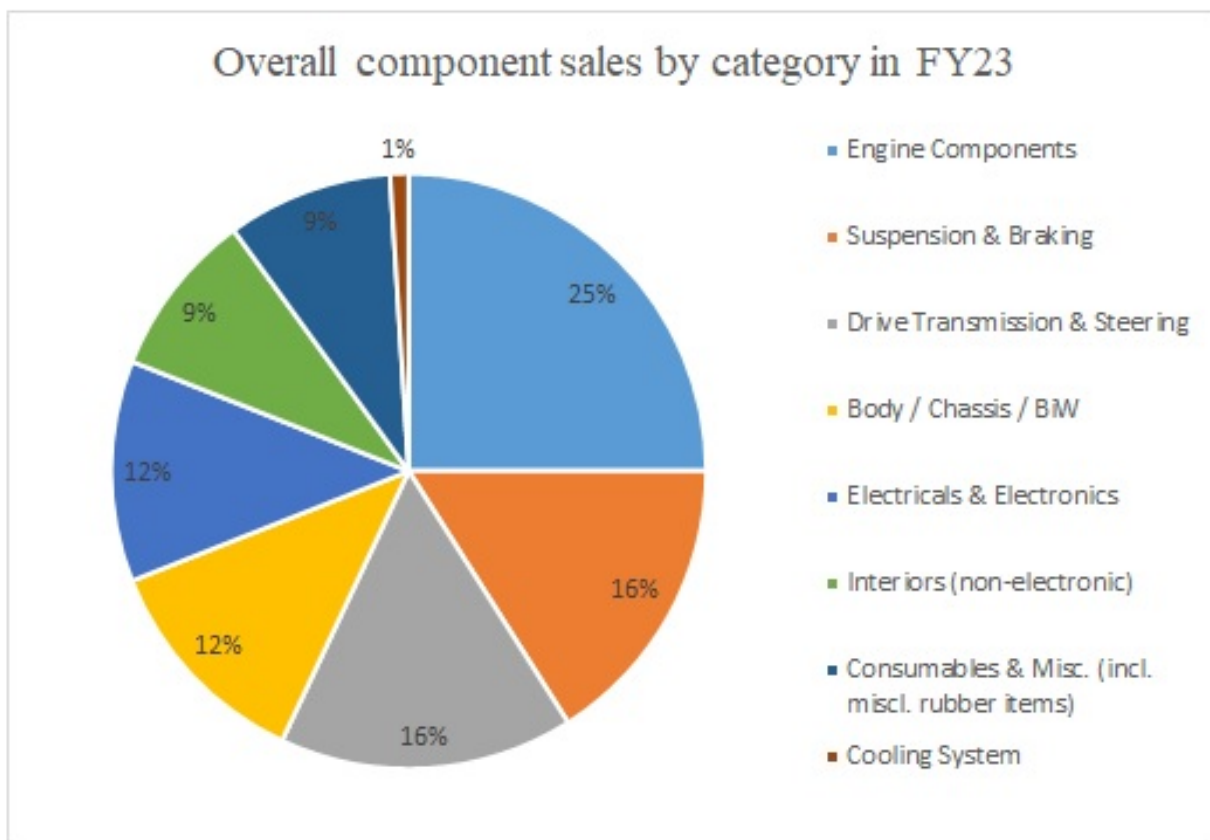


INDIAN AUTO COMPONENTS INDUSTRY ANALYSIS

OCTOBER - 2023

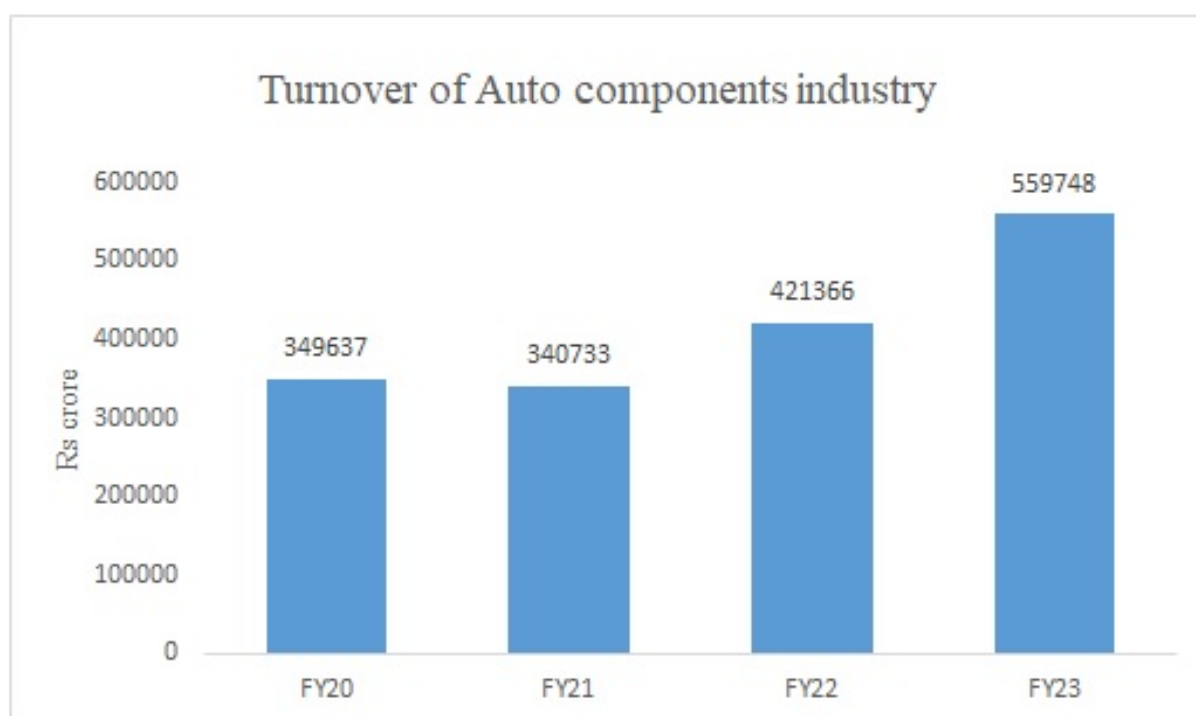


Indian auto components industry is an important sector driving macroeconomic growth and employment. The industry comprises players of all sizes, from large corporations to micro entities, spread across clusters throughout the country. The Automobile components industry in India is composed of organized and unorganized sector. The organized sector refers to original equipment manufacturers (OEMs) and is engaged in the manufacture of high-value precision instruments. Whereas, the unorganized sectors comprise of low-valued products catering to after-market services. Various sub-sectors of the Automobile components industry in India are engine parts, drive transmission & steering parts, body and chassis, suspension and braking parts, equipment, electrical parts and others such as fan belts, die-casting and sheet metal parts. This industry generated direct employment opportunities for around 1.5 Million individuals. The Automotive Mission Plan (2016-26) projects to provide direct incremental employment to around 3.2 million by 2026.



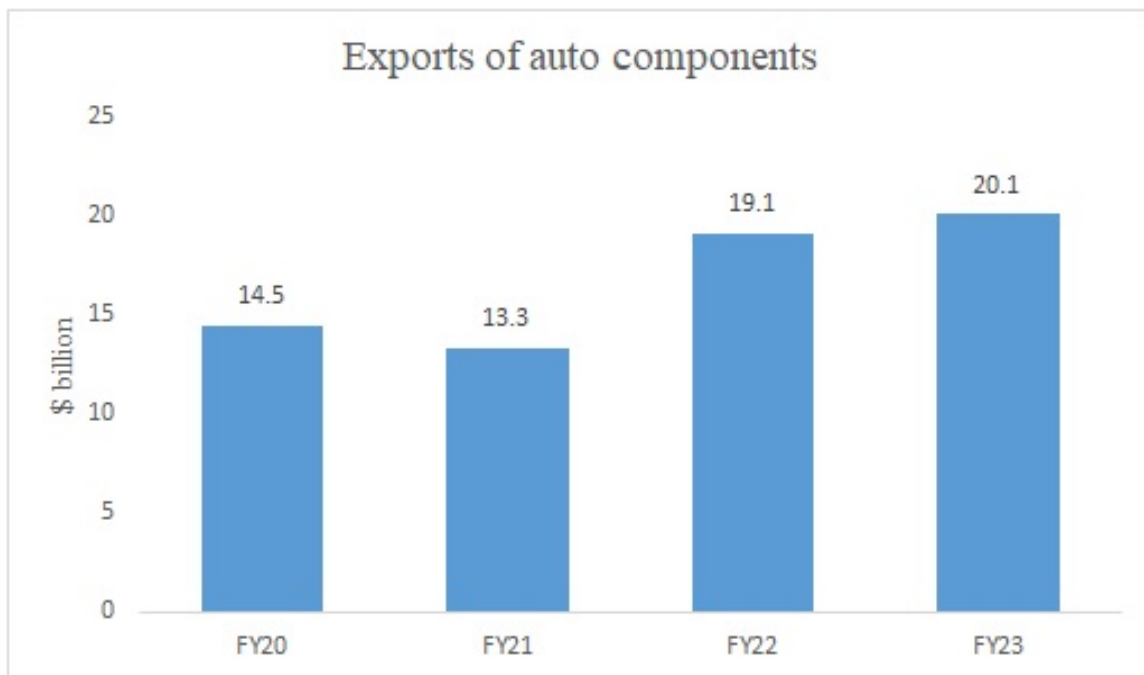
Rising turnover of Auto components Industry

Automotive Component Manufacturers Association of India (ACMA) has said that India's auto components sector is expected to grow around 10-15 percent in ongoing financial year (FY24) as compared to last financial year, as demand is expected to remain robust. With significant mitigation in the supply-side issues of availability of semiconductors, input raw-material costs and logistics, the vehicle industry is expected to continue to perform well in FY24, which augurs well for the auto components sector. The industry achieved a remarkable turnover of Rs 5.6 lakh crore in FY23, marking a 33 percent increase from the Rs 4.2 lakh crore recorded in FY22. Turnover of industry rose mainly on account of robust demand from domestic original equipment manufacturers (OEMs) and the aftermarket despite fears of recession in major markets of U.S. and Europe. Auto component sales to OEMs, in the domestic market, grew by 39.5 percent to Rs 4.76 lakh crore as compared with the previous year. On the back of significant vehicle sales in the country, a robust aftermarket and steady exports, the auto components industry demonstrated its best-ever performance in FY23.



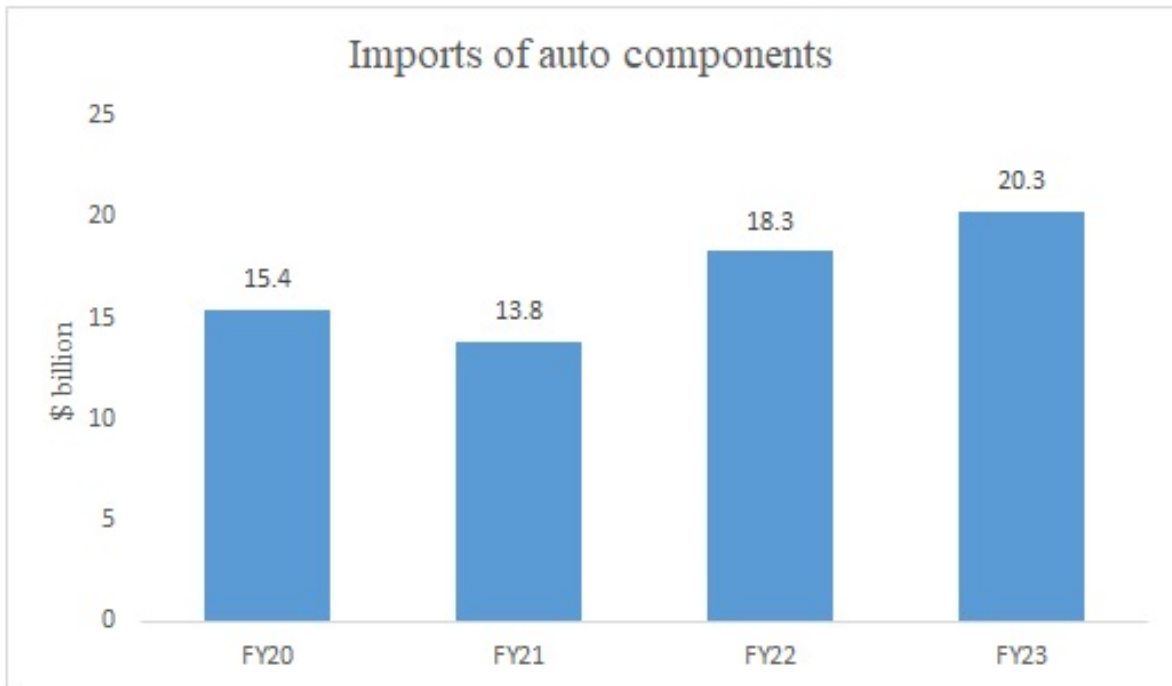
EXPORTS OF AUTO COMPONENTS INDUSTRY:

Exports of Indian Auto components industry rose by 5.24 percent from \$19.1 billion in FY22 to \$20.1 billion in FY23. There has been steady growth in exports despite recessionary trends in Europe and the U.S. which are key export destinations for the auto- components industry. Almost two third of the exports by the auto component players are made to Europe and North America. However, exports of auto components from India are expected to increase in coming times as the industry is investing heavily in new technology. Therefore, it has an opportunity to supply to the world.



IMPORTS OF AUTO COMPONENTS IN INDIA:

Imports of auto components in India grew to Rs 1.63 lakh crore (\$20.3 billion) in FY23 from Rs 1.36 lakh crore (\$18.3 billion) in FY22. Region-wise, Asia accounted for 66 percent of imports followed by Europe and North America at 26 percent and 6 percent respectively. China still accounts for the majority of automotive component imports in India with its share coming at 30 percent in the last financial year (FY23). Strong rebound in vehicle sales in the domestic market also led to a sharper rise in imports. Imports are an integral part of the auto components industry, especially with the increase in electronics and advanced technology components. While a gradual increase in usage of advanced components unavailable in India has contributed to import increases over the years.



TAILWINDS FOR INDUSTRY:

- **Domestic Vehicle demand continues to be strong in FY24**

The domestic automobile industry's sales volume is expected to grow by 9 percent during FY24. The growth momentum is expected to continue after the robust demand seen in FY23, supported by favourable demand sentiments and various government initiatives for rural and urban development. Passenger vehicles and commercial vehicles are expected to drive demand, while two and three-wheelers will gradually increase sales and cross the pre-pandemic level. However, inflationary pressure and the mandatory implementation of BS-VI Phase II regulation from April 2024 may lead to steep price hikes across all vehicle segments, potentially affecting demand. The industry produced a total of 2,59,31,867 vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers, and Quadricycles in April 2022 to March 2023 (FY23), as against 2,30,40,066 units in April 2021 to March 2022 (FY22). Total Passenger Vehicle Sales increased from 30,69,523 to 38,90,114 units. Sales of Passenger Cars also increased from 14,67,039 to 17,47,376, Utility Vehicles from 14,89,219 to 20,03,718 and Vans 1,13,265 to 1,39,020 units, in FY23, compared to the previous year. The overall Commercial Vehicles sales increased from 7,16,566 to 9,62,468 units. Sales of Medium and Heavy Commercial Vehicles increased from 2,40,577 to 3,59,003 units and Light Commercial Vehicles increased from 4,75,989 to 6,03,465 units, in FY23, compared to the previous year. Sales of Three Wheelers increased from 2,61,385 to 4,88,768 units, in FY23, compared to the previous year. Two Wheelers sales increased from 1,35,70,008 to 1,58,62,087 units, in FY23, compared to the previous year.

• **China plus one strategy**

The 'China+1' de-risking strategy of OEMs augurs well for the country to become a global manufacturing hub for automotive components. The China plus one strategy is a business approach that encourages companies to diversify their operations by expanding outside of China while still maintaining a presence in the country. For the past three decades, Western businesses have heavily invested in China due to its low labour and manufacturing costs, as well as its growing consumer market. However, this has led to an over-reliance on China for their business interests, which can be risky given geopolitical tensions and unforeseen disruptions. The China plus one strategy presents a significant opportunity for India to enhance its manufacturing capabilities and attract more foreign investment. With China's rising labour costs and the geopolitical tensions with the West, multinational corporations are looking to reduce their reliance on China and diversify their supply chains. India, with its large population and strategic location, can benefit from this shift. Current market size of Indian Auto components industry is just around 10 percent of China. The market size of India's auto components industry is around \$56 billion, while market size of China's auto components industry is around \$550 billion. China's exports of auto components stand around \$200 billion, India's exports of auto components are around \$20 billion. This offers a huge opportunity for Indian auto components industry.

• **Increasing demand for electric vehicles**

The rise in the demand for electric vehicles is expected to increase the sales of the components used in electric vehicles, such as motors, batteries, DC-DC converters, power inverters, etc. EV components such as batteries, drivetrains, electronics and others present an opportunity for auto component makers to diversify their revenue base beyond Internal Combustion Engine (ICE) vehicles. The sales of electric vehicles (EVs) in the country witnessed a surge in recent years. While 48,179 EVs were sold in 2020-21, the figures increased to 2,37,811 in 2021-22 and 4,42,901 in 2022-23 (till December 9). The government has implemented a scheme titled 'Faster Adoption and Manufacturing of Electric Vehicles in India Phase II' (FAME India Phase II) to promote adoption of electric/hybrid vehicles in the country. As on December 9, 2022, 64 original equipment manufacturers (OEMs) of electric vehicles have been registered and 7.47 lakh EVs under FAME India Phase II have been sold. Under FAME India Phase-II, demand incentive/subsidy is given to consumers (buyers/end users) in the form of an upfront reduced purchase price of hybrid and electric vehicles to enable their wider adoption, which is reimbursed to the OEMs by the government of India.

- **Indian economy likely to perform well in current fiscal year**

There is expectation that the Indian economy continues to perform well and remains the fastest growing Asian economy, and one of the fastest growing in the world. According to RBI, India's GDP is expected to grow 6.5 percent in current financial year FY24. It said domestic economic activity is maintaining resilience. The recovery in kharif sowing and rural incomes, the buoyancy in services and consumer optimism should support household consumption. Growth will also be supported on the back of domestic demand, government capex and improved investment activity.

- **Production of advanced chemistry cell batteries in India may start by January 2024**

Union Minister of Heavy Industries Mahindra Nath Pandey said that Production of the first set of advanced chemistry cell (ACC) batteries in India is likely to commence by January 2024. In May 2021, the government approved the PLI (Production Linked Incentives) scheme for manufacturing ACC (Advanced Chemistry Cell) batteries at an estimated outlay of Rs 18,100 crore. ACCs are the new generation advanced energy storage technologies that can store electric energy, either as electrochemical or chemical energy and convert it back to electric energy as and when required. All the demand for the ACCs is currently being met through imports in India.

HEADWINDS FOR INDUSTRY:

- **Recessionary trends in Europe & U.S.**

Europe and the U.S. which are key export destinations for Indian auto components industry. North America and Europe account for over 60 percent of the exports of auto components from India. India's auto components exports with North America accounting for 33 percent and Europe for 30 percent. In April 2022 to March 2023, Passenger Vehicle Exports increased from 5,77,875 to 6,62,891 units while Commercial Vehicle Exports decreased from 92,297 to 78,645, Three-Wheeler Exports decreased from 4,99,730 to 3,65,549 and Two Wheelers Exports decreased from 44,43,131 to 36,52,122 units over the same period last year.

• High GST rates on auto components

On the auto components, there are two GST rates - one is 18 percent and the other is 28 percent. Around 60 percent of what industry produce is taxed at 18 percent and the remaining 40 percent is at 28 percent. Auto components that attract 28 percent GST include engine and light parts. A substantial part of these components used in the service and repair markets are spurious or counterfeit. This not only leads to tax evasion but also poses a serious challenge to road safety. The Auto component industry has urged the government to levy a uniform 18 percent GST on all the auto components.

Outlook

Outlook for Indian auto components industry is looking positive in coming future owing to rising domestic demand for automobile. The industry has strong tailwinds behind it to drive future growth. This includes India's economy is likely to perform well in current fiscal year and continued strong domestic vehicle demand. Domestic OEM demand constitutes almost 50 percent of sales for the Indian auto components industry. This is likely to remain healthy in current fiscal. The replacement demand is seen rise in FY24 supported by the increase in mobility, economic activity and healthy freight movement. Besides, the industry is also expected to benefit from rising demand for electric vehicles. EV components such as batteries, drivetrains, electronics and others present an opportunity for auto component makers to diversify their revenue base beyond ICE vehicles. However, the growth of export orders is likely to be muted in current fiscal, on account of economic gloom in U.S. and Europe, geopolitical tensions and supply-chain issues.

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