

**ICRA RESEARCH SERVICES**

**Corporate Ratings**

Subrata Ray

+91 22 6179 6386

[subrata@icraindia.com](mailto:subrata@icraindia.com)

Pavethra Ponniah

+91 44 4596 4314

[pavethrap@icraindia.com](mailto:pavethrap@icraindia.com)

Ashish Modani

+91 20 6606 9912

[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

Vinutaa S

+91 44 4596 4305

[vinutaa.s@icraindia.com](mailto:vinutaa.s@icraindia.com)

**February 2017**



**Indian Auto Components Industry**

**Industry reported growth of 6% during Q3 FY2017 despite demonetization impact; headwinds from steady increase in commodity price**

1. **Overview**
2. **Trend Analysis: Alloy Wheels**
3. **Types of Alloy Wheel**
4. **Alloy Wheels: Market penetration and key suppliers in 2W segment**
5. **Alloy Wheels: Market penetration and key suppliers in PV and CV segment**
6. **Growth outlook for the segment**
7. **Update: Industry Performance**
8. **Trends in domestic OE demand**
9. **Automotive demand trends in key exports market**
10. **Update: Commodity price**
11. **Trends in commodity prices**
12. **ICRA’s outlook on key ferrous and non-ferrous commodities**
13. **Impact of commodity prices on OEMs input prices**
14. **Update: Quarterly Performance**
15. **Trends in Revenue and profitability**
16. **Trends in RM cost and employee cost**
17. **Trends in Capital structure and coverage indicators**
18. **ICRA Outlook**
19. **Revenue growth & profitability**
20. **Capex plans**
21. **Coverage Indicators**
22. **Peer Comparison**
23. **Financial comparison of large Tier I suppliers (annual revenue exceeding Rs 30 billion)**
24. **Financial comparison of mid-size Tier I suppliers (annual revenue between Rs 10 billion and Rs 30 billion)**

**WHAT’S INSIDE?**

1. **ICRA’s Credit Rating Trends**
2. **Trend in median financials**
3. **Trend in credit rating movement**
4. **Company Section**
5. **Amara Raja Batteries Limited**
6. **Banco Products (India) Limited**
7. **Bharat Forge Limited**
8. **Bosch Limited**
9. **Exide Industries Limited**
10. **Gabriel India Limited**
11. **Lumax Industries Limited**
12. **Mahindra CIE Automotive Limited**
13. **Motherson Sumi Systems Limited**
14. **Munjal Showa Limited**
15. **Sona Koyo Steering Systems Limited**
16. **Suprajit Engineering Limited**
17. **Wabco India Limited**
18. **ZF Steering Gear (India) Limited**

**Annexure**

1. **India’s key macroeconomic indicators**
2. **List of ICRA rated auto ancillaries**
3. **Quarter wise automobile production trend**

**INDIAN AUTO COMPONENTS INDUSTRY**

**Summary February 2017**

# FY2017: Steady increase in commodity prices a concerning factor for auto component industry profitability

**Industry Factsheet**

**Size:** Rs. 2.55 Trillion (FY2016)

**Share of OE Demand: FY2016**

Source: ACMA

* **Demonetization impact short lived; industry to recover fully by Mar-17:**Domestic automotive demand came under pressure during Q3FY2017 post cash crunch created by demonetization related measures. Some segments like two wheeler (2W) and light commercial vehicles (LCV) were severely impacted due to dependence on rural economy (where cash transaction are high) whereas performance of other segments like passenger vehicle which already has high level of financing penetration were less impacted. Domestic medium & heavy commercial vehicle (M&HCV) demand also remain subdued. The impact of demonetization has eased substantially in Jan-17, and industry participants are expecting full recovery by Mar-17. The silver lining in Q3 was automotive exports, which supported overall production volume. During Q3FY2017, PV and M&HCV production grew by 11.8% and 4.2%, respectively despite much weaker domestic wholesale volume. Consequently, despite weakness in domestic demand, overall volumetric demand from OE segment remains positive for auto component industry.

Exports accounts for 28% of demand for auto components in India. Indian auto component export has a high exposure on the USA and EU markets, which together accounted for 60% of total auto component exports from India. Slowdown in US as well as European market will have a bearing on Indian auto component exports; though higher order share and market share expansion could counter it to an extent. Aftermarket segment, which accounts for ~17% of domestic auto component market was however impacted during Q3 (post demonetization), customer deferred discretionary spending owing to cash crunch as aftermarket segment has high level of cash transaction at end customer (garage/spare parts shop) level.

Our sample of 48 auto ancillaries, which constitutes around 25% of the industry’s turnover, grew by 6% (revenue) during Q3 FY2017 as against the 4% growth of the previous quarter. Revenue growth was primarily driven by higher realization in the backdrop of steady increase in commodity prices, whereas volumetric growth remains in the low single digit. During Q4FY2017, pre-buying ahead of nationwide BS IV emission norm implementation will propel M&HCV demand. Mandatory heating, ventilation and air-conditioning (HVAC) system in M&HCV from Apr-17 is another positive for domestic auto ancillaries, especially for HVAC suppliers, if it gets implemented though automotive OEMs are expecting deferment in deadline for HVAC implementation.

* **Commodity price started pinching profitability:** In FY2016, operating margin of auto ancillaries benefitted from soft commodity prices; however, these benefits were eventually passed on to the OEMs with a lag of a quarter or two. The benefits of commodity prices had peaked out in Q3 FY2016 and RM expense (as % of sales) have started increasing sequentially since then.

# FY2017: Overall credit profile remain stable

# 

**Short-Term Growth Drivers**

* + Sustained growth in the PV and 2W industry
  + Stable aftermarket

**Long-Term Growth Drivers**

* + Domestic automotive demand given low vehicle penetration in India
  + Increasing localisation by OEs in structural components
  + Increasing content per vehicle
  + ‘Make in India’ initiative – Developing India as export hub for auto-components and small cars/UVs

**Key Challenges**

* + Regulatory & infrastructure bottleneck
  + Low R&D spending and dependence on global suppliers for technology knowhow
  + Rising imports from China; Chinese competition in the global market
  + Fragmented industry, with only one player in the global top 50 auto ancillary list

Source: ACMA; \*exclude tyre & batteries

Certain commodities like Steel, Rubber and Copper have witnessed sharp jump in prices over the last 12 months. Auto ancillaries have to absorb these increased costs in the immediate term, though it will be gradually passed on to the OEMs with a lag of quarter or two. During Q3FY2017, tyre companies are amongst the worst impacted due to sharp increase in rubber prices (over last 12 months) which resulted in steep 300+bps correction in contribution margin for major tyre companies. Battery manufacturers like Exide and Amara Raja also witnessed sharp increase in RM cost, on account of higher lead prices. Our sample of 48 auto ancillaries witnessed steep 166 bps YoY decline in operating margin to 13.8%, mainly on account of RM cost pressure as well as higher sticky costs (employee and SG&A expenses). With likely improvement in volume off-take during Q4, operating margin are likely to expand sequentially (QoQ) during Q4; however, given that RM benefit have peaked out, we expect operating margin to witness YoY moderation over the next few quarters.

* **Credit profile remains stable**: Given surplus capacities, the industry has been on a consolidation mode over the last two years, taking steps towards deleveraging their balance sheet. However, select OEMs are exploring inorganic growth entailing fund raising. Ancillaries continue to focus towards moving up the value chain to mitigate profitability and competitive pressure in the intensely competitive industry. Incremental investments by auto ancillaries are primarily towards new order/platform related requirement or debottlenecking of existing capacity. Supported by healthy cash accruals, gearing as well as coverage indicators for the industry have improved considerably over the past two years; ICRA expects industry-wide credit trends to remain stable, supported by robust demand from the OEM segment in the near term.
* **Outlook:** Considering the increasing content per vehicle due to various technological advancement as well as regulatory measures (emission, safety regulations), the growth in the auto component industry will be relatively higher than the underlying growth in the automotive industry in the medium to long term. We maintain our 10-12% long term CAGR expectation for Indian auto component industry.

Over the medium to long term, growth in the auto component industry will be higher than the underlying automotive industry growth, given the increasing localisation by OEMs, higher component content per vehicle and rising exports from India. Operating margin in FY17 are likely to ease around 14.9%-15% level from 16% level in FY16. We maintain our medium term margin outlook of ~13.5 as compared to earlier ~12% level witnessed prior FY2012 owing to a richer product mix, and rising revenues from the profitable aftermarket segment.

**Please contact ICRA to get a copy of the full report**

|  |  |  |
| --- | --- | --- |
| **CORPORATE OFFICE**  **Building No. 8, 2nd Floor,**  **Tower A, DLF Cyber City, Phase II,**  **Gurgaon 122002**  **Ph: +91-124-4545300, 4545800**  **Fax; +91-124-4545350**  **REGISTERED OFFICE**  **1105, Kailash Building, 11th Floor,**  **26, Kasturba Gandhi Marg,**  **New Delhi – 110 001**  **Tel: +91-11-23357940-50**  **Fax: +91-11-23357014** | **CHENNAI**  **Mr. Jayanta Chatterjee**  **Mobile: 9845022459**  **Mr. P Kalaivanan**  **Mobile: 9894204551**  **5th Floor, Karumuttu Centre,**  **498 Anna Salai, Nandanam,**  **Chennai-600035.**  **Tel: +91-44-45964300,**  **24340043/9659/8080**  **Fax:91-44-24343663**  **E-mail: jayantac@icraindia.com**  **p.kalaivanan@icraindia.com** | **HYDERABAD**  **Mr. M.S.K. Aditya**  **Mobile: 9963253777**  **301, CONCOURSE, 3rd Floor,**  **No. 7-1-58, Ameerpet,**  **Hyderabad 500 016.**  **Tel: +91-40-23735061, 23737251**  **Fax: +91-40- 2373 5152**  **E-mail: adityamsk@icraindia.com** |
| **MUMBAI**  **Mr. L. Shivakumar**  **Mobile: 9821086490**  **3rd Floor, Electric Mansion,**  **Appasaheb Marathe Marg, Prabhadevi,**  **Mumbai - 400 025**  **Ph : +91-22-30470000,**  **24331046/53/62/74/86/87**  **Fax : +91-22-2433 1390**  **E-mail: shivakumar@icraindia.com** | **KOLKATA**  **Ms. Vinita Baid**  **Mobile: 9007884229**  **A-10 & 11, 3rd Floor, FMC Fortuna,**  **234/ 3A, A.J.C. Bose Road,**  **Kolkata-700020.**  **Tel: +91-33-22876617/ 8839,**  **22800008, 22831411**  **Fax: +91-33-2287 0728**  **E-mail: Vinita.baid@icraindia.com** | **PUNE**  **Mr. L. Shivakumar**  **Mobile: 9821086490**  **5A, 5th Floor, Symphony,**  **S. No. 210, CTS 3202,**  **Range Hills Road, Shivajinagar,**  **Pune-411 020**  **Tel : +91- 20- 25561194,**  **25560195/196,**  **Fax : +91- 20- 2553 9231**  **E-mail: shivakumar@icraindia.com** |
| **GURGAON**  **Mr. Vivek Mathur**  **Mobile: 9871221122**  **Building No. 8, 2nd Floor,**  **Tower A, DLF Cyber City, Phase II,**  **Gurgaon 122002**  **Ph: +91-124-4545300, 4545800**  **Fax; +91-124-4545350**  **E-mail: vivek@icraindia.com** | **AHMEDABAD**  **Mr. Animesh Bhabhalia**  **Mobile: 9824029432**  **907 & 908 Sakar -II, Ellisbridge,**  **Ahmedabad- 380006**  **Tel: +91-79-26585049/2008/5494,**  **Fax:+91-79- 2648 4924**  **E-mail: animesh@icraindia.com** | **BANGALORE**  **Mr. Jayanta Chatterjee**  **Mobile: 9845022459**  **'The Millenia', Tower B,**  **Unit No. 1004, 10th Floor,**  **Level 2, 12-14, 1 & 2, Murphy Road,**  **Bangalore - 560 008**  **Tel: +91-80-43326400,**  **Fax: +91-80-43326409**  **E-mail: jayantac@icraindia.com** |



ICRA Limited

*An Associate of Moody's Investors Service*

CORPORATE OFFICE

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300; Fax: +91 124 4545350

Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2556 1194/0195/0196, Fax + (91 20) 553 9231

© Copyright, 2017 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.