

# Auto components sector revenues to see 15-18% dip in FY21: Brickwork Ratings

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By:FE Bureau

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The revenues of the domestic auto components industry would witness 15-18% decline in FY21 on account of lower income levels and continued weak sentiments. Export revenues are set to decline as well in FY21 as more than 50% of the exports are to markets in Europe, the UK and the US. Demand from these markets is expected to decline amid the Covid-19 outbreak, besides postponement of model launches or deferment and cancellation of orders, said Brickwork Ratings (BWR) in its latest auto components industry analysis. In FY20, auto components players' revenues declined 8-10% after a y-o-y increase until FY19 due to shrinking of order book from original equipment manufacturers (OEMs) because of lower automobile sales in the country during this period. After a complete washout in April 2020 and minuscule sales in May 2020 due to the lockdown in the country, BWR expects auto components players will be affected adversely in Q1FY21, and to some extent, in Q2FY21.

However, a gradual recovery in sales is expected H2FY21 onwards due to pent-up demand, an improvement in OEMs' production activities and the easy availability of credit from financial institutions. Additionally, demand for two-wheelers and passenger vehicles is expected to rebound faster due to the preference for personal mobility over shared mobility or public transport on account of safety concerns in the pandemic situation. Furthermore, rural demand will continue to remain strong owing to a normal and well-distributed monsoon.

Decline in the domestic sales of automobiles in FY20 has been the sharpest in the past 11 years on account of weak consumer sentiments arising from the slowdown in the economy, and exports having seen only a modest increase in FY20. The sales of automobiles are expected to decline in FY21 due to the postponement of model launches, reduced production levels, supply-chain disruptions and the slowdown in new capacity additions, according to BWR. India exports around 27% of its automotive components production. US, Germany, UK, Italy, Turkey, UAE and Thailand are the largest export markets for auto components globally. Over the past few years, India has emerged as the sourcing hub for many OEMs globally due to its cost effectiveness in production and favourable geographical positioning to key markets such as the US, Europe and the West Asia.

However, due to Covid-19, exports have been impacted due to the cancellation or deferment of new orders, delay in shipments at ports and more than 50% of exports being transported to markets in Europe, the UK and the US, which have been the most impacted by the virus. The domestic market has also been impacted due to the shutdown of dealership and OEMs until mid-May 2020, labour shortage, the shortage in raw material availability, lower-income levels and weaker consumer sentiments. Overall, Covid-19 has a negative impact on both domestic, as well as export markets, it said.