THE ECONOMIC TIMES | Industry
English Edition | E-Paper

Domestic auto components industry to see 15-17 pc revenue growth this fiscal: Report

PTI | Last Updated: Jan 21, 2022, 12:03 AM IST

Synopsis

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The domestic auto components industry is expected to see a revenue growth of 15-17 per cent this fiscal and 10-12 per cent in the next financial year on the back of recovery in automobile sales after having remained subdued in the last couple of years, according to a report. **Brickwork Ratings on Thursday said the pent-up demand and a preference for personal mobility due to safety concerns led the recovery in automobile sales post relaxations in the lockdown.**

A pick-up in economic activity augurs well for commercial vehicle sales and in addition, the scrappage policy and strict inspection of Pollution Under Control (PUC) certificates would boost the aftermarket of the auto component industry, it said in the report.

The industry may again see double-digit growth in FY23, given that the impact of the Omicron variant is limited and that there is no further risk of new variants, it added.

The industry is facing challenges such as an unprecedented shortage of semiconductor chips, high costs as well as the unavailability of raw materials and logistical issues related to exports.

This may restrict the growth momentum to a certain extent, the report said, adding that on the other hand, the export market, which was expected to gain momentum, may again face some pressure owing to the unprecedented impact of the Omicron variant in Europe and North America.

In FY22, the rating agency said it expects the profitability of auto component players to decline on account of high raw material prices.

Auto component suppliers generally pass on price hikes to OEMs. However, in the current scenario, it will take some time, and auto component players will have to take a hit on their profitability to safeguard volume growth.

According to the report, decline in the sales of automobiles in the past couple of years due to the economic slowdown in FY19, price hike and anticipation of BS-VI in FY20 as well as the coronavirus pandemic, among other factors, had a severe impact on the auto components industry.

In the first half of the current fiscal, automobile sales recovered strongly on account of pent-up demand and a preference for personal mobility. This led to an increase in demand for auto components during the same period, it said.

However, there has been a setback on the supply side, with the shortage of semiconductor chips hampering the production schedule of OEMs, thereby restricting recovery in the overall automotive value chain.

Also, renewed concerns around the pandemic will further act as a speed-breaker for recovery in the industry, the report said.

Noting that domestic automotive companies mainly export items such as engine components, transmission and steering, body and chassis, suspension and brake, the report said that export for the auto components industry in FY21 saw a 4 per cent y-o-y degrowth.

Europe, the largest export destination for the Indian auto components industry and accounting for 32 per cent, witnessed a 4 per cent fall y-o-y in FY21. Similarly, North America and Asia, accounting for 30 per cent and 26 per cent, saw a 7 per cent and 8 per cent dip y-o-y, respectively.

In the long term, the rating agency expects growth to increase as with the new investment under the Production Linked Incentives (PLI) scheme, the supply chain of the Indian automotive industry would improve.

This would allow the industry to explore new markets by taking advantage of the prevailing anti-China sentiments and given the fact that India is the second largest steel producer globally. However, the growth projections will hold true only if there is a limited and short-term impact of omicron and no major disruptions happen worldwide on account of pandemic, the report stated.

The Indian auto components industry is active in three major regions -- the western region (Mumbai, Pune, Nashik and Aurangabad), southern region (Chennai, Bangalore and Hosur) and northern region (Delhi and Gurgaon).

In FY22 and FY23, demand for auto components is likely to increase on the back of an expected rise in demand for automobiles after degrowth in the last two years. However, auto component manufacturers are finding it challenging to bridge the gap between demand and supply,. as per the report.

The report also stated that while the shortage of chips is the major concern for the industry, other auto components made of natural rubbers are facing a raw material crisis. Apart from tires, natural rubbers are used in the production of air bags, rubber floor mats, rubber seal, rubber bumper and dust cover.

Therefore, due to the 4,40,000 tonnes of demand-supply gap of natural rubber, the production of these auto components is disrupted. While supply-chain issues are expected to continue in the short term, government support and incentives may bring in fresh capex in the auto components space, thereby reducing the dependence on imports and in turn, reducing the gap, the report said.