Press Release

August 27, 2019 | Mumbai

For autocomps, revenue growth to halve in next two fiscals

However, tighter safety and emission norms for OEMs to provide some respite

CRISIL expects the Rs 3.5 lakh crore automotive components sector to log a 5-7% compound annual growth rate (CAGR) over fiscals 2020 and 2021, down from 12% in the preceding two fiscals, due to a steep decline in domestic vehicles sales.

Production volume of original equipment manufacturers (OEMs) is estimated to either degrow or log low single-digit growth at best in the next two years. Higher insurance costs, lower availability of finance and low growth in rural wages is affecting off-take in fiscal 2020.

Vehicle demand is also expected to be impacted by the new safety norms for passenger vehicles and two-wheelers, applicable in fiscal 2020, and the Bharat Stage (BS) VI emission norms, which come into effect from April 1, 2020, as these will drive up vehicle prices across categories.

These factors are affecting new vehicle sales and in turn causing a telling impact on the automotive component sector, as OEMs account for 65% of component demand.

That being said, the new safety and emission norms do offer a ray of hope to component manufacturers as these will increase the component content in vehicles.

Says Hetal Gandhi, Director, CRISIL Research, "The upcoming safety and emission norms will boost demand for components such as air bags, engine systems, exhaust management systems, and electronic and electrical parts. These new regulations alone are expected to account for 25-30% of the incremental demand for automotive components in the next two fiscals. Indeed, growth in fiscal 2020 and 2021 would be even lower, but for the higher component intensity resulting from the regulatory changes, besides steady aftermarket sales and healthy exports."

Aftermarket demand (~16% of sector revenue) is expected to maintain the trend of 7-8% growth.

Exports (~19% of sector revenue) are likely to grow at 10-12% in fiscals 2020 and 2021, well below the 18% seen in the preceding two fiscals, because of lower demand in traditional markets such as the US and Europe. Exports will still be healthy, with players expanding beyond these traditional markets. Besides, BS-VI compliance will allow them to penetrate deeper into geographies with similar regulatory requirements

Operating profitability, however, is likely to decline 100-150 basis points to ~11% over the two fiscals following lower revenue growth and rising employee, power and freight costs.

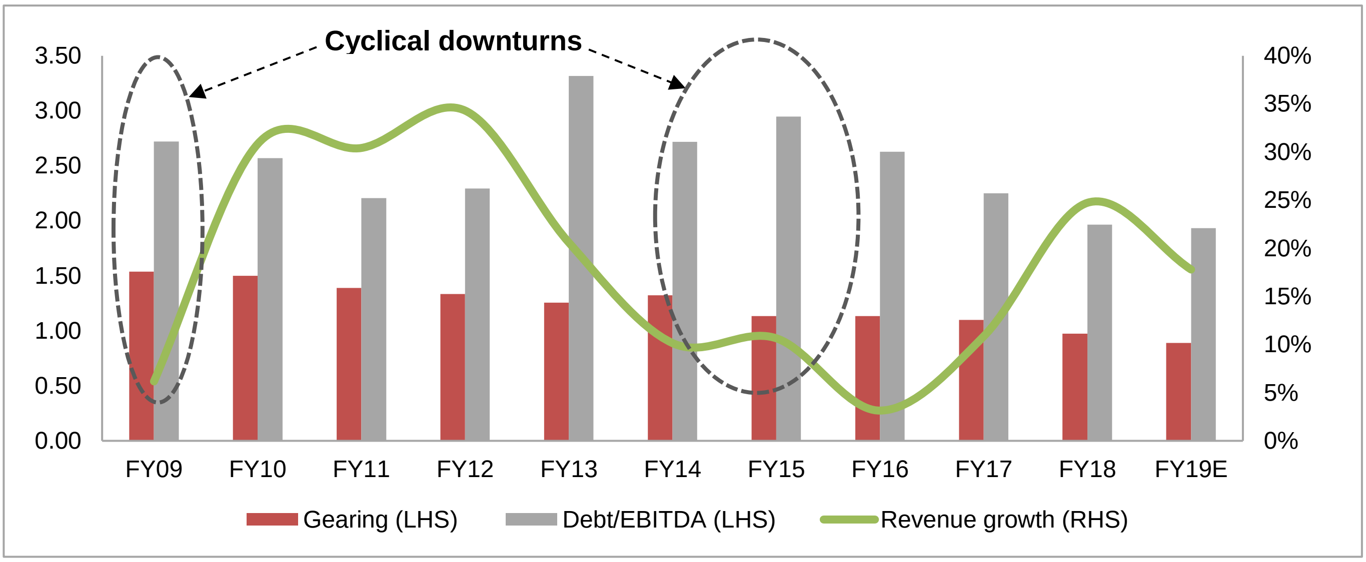
Nevertheless, credit quality for most automotive component firms is expected to be supported by lower capital spending and improved balance sheets.

As they navigate the challenging business environment, component firms are likely to prune capital expenditure (capex). An analysis of ~300 CRISIL-rated component firms, which account for almost 40% of the industry's revenues, reveals that capex spend will be discretionary and could be ~15% lower at Rs 12,000 crore in fiscals 2020 and 2021, compared with the preceding two fiscals.

Says Aparna Kirubakaran, Associate Director, CRISIL Ratings, "Most component firms have strengthened their balance sheets significantly in the past 3-4 years, and average gearing (debt/ net worth) stood at around 1 time in fiscal 2019, the lowest in a decade. That, coupled with lower capex spend, will limit material impact on credit profiles." "However, credit profiles of firms with limited segmental and geographical diversification, or those highly dependent on single customer segments, are likely to be vulnerable, more so if they have recently undertaken large debt-funded capex, added Ms. Kirubakaran.

Annexure

Low leverage to help sustain cyclical downturn pressures



Source: CRISIL Ratings

Note: Above analysis for ~110 players with CRISIL ratings since fiscal 2009

For further information contact:

Media relations	**Analytical contacts**	**Customer service helpdesk**
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com	**Hetal Gandhi** Director - CRISIL Research **CRISIL Limited** B: +91 22 3342 3000 hetal.gandhi@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com
Naireen Ahmed Media Relations **CRISIL Limited** D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com	**Sameer Charania** Director - CRISIL Ratings **CRISIL Limited** D: +91 22 4097 8025 sameer.charania@crisil.com	

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 110,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.