

CRISIL SME TRACKER

OEMs to drive 16-18% rise in auto-part MSME revenue

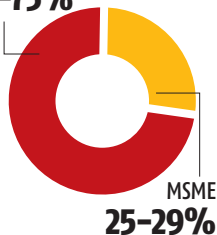
CRISIL Research expects the auto-components industry's revenue to grow 19-21 per cent year-on-year (YoY) in the current fiscal year (FY23), driven by four tailwinds: strong demand from the original equipment manufacturer (OEM) segment, with sales of passenger vehicles (PVs) expected to surpass pre-Covid levels and resilience in tractor demand; sales of commercial vehicles (CVs) and two-wheelers recovering from the pandemic-driven slump over FY21 and FY22; improving exports triggered by the supply-chain derisking strategy of global OEMs; and demand from the after-market segment. Micro, small and medium enterprises (MSMEs) in the automotive components sector should see higher growth as well, but will lag average industry revenue growth owing to lack of vertical integration. Improving rural incomes and re-opening of schools and colleges are expected to drive two-wheeler sales, while improving transporter profitability, rising freight demand and healthy construction activities will drive CV growth.

Revenues of auto-component MSMEs, which account for a fourth of the industry, rebounded strongly in FY22 after plunging in FY21, and are expected to grow 16-18 per cent YoY in FY23 on demand recovery for Tier-1 suppliers catering to OEMs. Replacement demand, the other major source of revenue, continues to grow owing to increased vehicular movement. Exports are seen sluggish owing to the global economic slowdown. Softening of commodity prices, like steel, aluminium and plastic, coupled with increased demand, is leading to a positive operating leverage, which in turn will result in margins improving by 20-40 basis points YoY to 7.5-8.5 per cent. We expect MSME clusters in Pune to grow by 14-17 per cent, and Pantnagar and Aurangabad by 19-22 per cent.

AUTO-PARTS INDUSTRY REVENUE SHARE

Non-MSMEs

71-75%



Source: CRISIL Research