

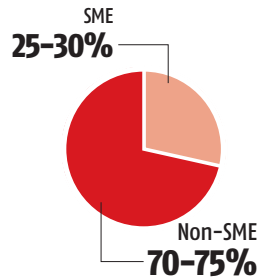
CRISIL SME TRACKER

Rewing up: Outlook, opportunities for auto component SMEs in 2024

After a robust 16–18 per cent growth fuelled by strong demand from automobile original equipment manufacturers (OEMs) in financial year 2023, SMEs in the auto component sector anticipate an 8–10 per cent growth in fiscal year 2024. Domestic demand from passenger vehicles will continue to rise, building upon the all-time highs of fiscal year 2023. Commercial vehicles are set to exceed pre-Covid levels, while two-wheelers will continue to recover but remain below their 2019 highs. Despite facing several challenges, export demand in 2024 is expected to show moderate growth, buoyed by a modest increase in demand from the US, Germany, Italy, and Japan. OEMs are exploring new sourcing opportunities to enhance the diversification of their supply chains. This shift is driven by improvements observed in vital

components like engines, gearboxes, and transmissions. Tight global conditions prevent further expansion. The replacement market is expected to modestly increase in 2024, following its improvement in 2023, driven by higher sales in FY19. SMEs in the sector account for approximately 25–30 per cent of the total industry turnover, mainly in suspension, braking, and body/chassis segments. Auto component makers are categorised into tier-1, tier-2, and tier-3. Most Indian OEMs source components from tier-1 manufacturers, who, in turn, have tier-2 suppliers, followed by tier-3 manufacturers in their supply chains. Margins for auto component manufacturers are expected to improve due to correction in raw material costs, improved offtake leading to higher capacity utilisation.

SHARE OF MSMEs IN THE SECTOR



Source: CRISIL MI&A Research