

Auto ancillary stocks set for fast lane, say analysts

Easing commodity prices & supply snags, and new car launches to aid sector

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New Delhi, 8 September

A turnaround in the margin pressure faced by auto ancillary companies may begin by the second half of the 2022-23 financial year (H2FY23), analysts say, as they expect the industry to reap the benefit of softening commodity prices, and easing supply snags with a lag. However, higher inventory costs may continue to dent the financials in the near-term.

"Despite minor relief in margins due to a cool-off in commodity prices, we expect margins to remain subdued in Q2FY23 due to higher inventory costs. We expect profitability to be visible from Q4FY23 onwards," said Ricky Kirpalani, lead sponsor, First Water Capital Fund (AIF).

So far in 2022, key raw materials used in automobile manufacturing like steel, iron ore, aluminum, nickel, and rubber have dropped in the range of 16 per cent to 45 per cent. The decline, Nishit Master, portfolio manager, Axis Securities, said, could support margins of related companies, coupled with higher utilisation levels, and easing of semi-conductor shortages.

New order-book, EV push

Meanwhile, a bevy of car launches ahead of the festive season is expected to brighten



fortunes of auto ancillary products. While Maruti Suzuki is scheduled to launch Grand Vitara this month; Mahindra and Mahindra, too, will see the XUV300 rolling out in September 2022. As per reports, around 10 to 15 new passenger vehicles are set to hit the roads later this year.

According to AK Prabhakar, head of research, IDBI Capital, auto-ancillary stocks like Sundram Fasteners, Bharat Forge, Timken, and Mahindra CIE may rally around 20-25 per cent in the short-to-medium term, benefitting from a healthy order book and demand upsurge.

"Tyre stocks, too, are

expected to see some relief as Brent Crude oil slumps to \$90 per barrel," said Prabhakar.

That apart, auto ancillary companies involved in manufacturing of crucial safety equipment, may benefit from the government's renewed push towards road safety, provided over-regulation doesn't hamper sales, analysts said.

Union Transport Minister Nitin Gadkari, at a Business Standard event on Tuesday, said that the government will make it mandatory for car-makers to provide at least six airbags in an eight-seater vehicle from October onwards, in order to reduce road accident fatalities.

ON YOUR MARK...

(As on Sep 8)	CMP (₹)	YTD (% change)
Schaeffler India	3,507.9	99.5
Timken India	3,401.6	71.1
Minda Corporation	232.3	37.7
SKF India	5,002.5	33.6
Sundaram-Clayton	4,672.3	23.2
Jamna Auto Industries	124.5	20.8
ZF Commercial Vehicle Control	10,035.7	18.1
Varroc Engineering	386.8	16.6
Exide Industries	169.8	1.0
Bosch	17,259.3	0.3
Sensex	59,688.2	2.5

CMP: Current market price
Compiled by BS Research Bureau

Source: Bloomberg, exchange

From electric mobility perspective, Gaurang Shah, investment strategist, Geojit Financial Services said Exide Industries and Amara Raja Batteries stand to benefit as both the companies have invested heavily to build battery manufacturing facilities.

On the bourses, shares of auto ancillary companies like Automotive Axles, Bosch, Fiem Industries, Gabriel India, GNA Axles, Lumax Industries, and Varroc Engineering have surged up to 36 per cent so far this year, shows ACE Equity data. In comparison, the S&P BSE Sensex and Nifty50 have gained over 1 per cent, during the same period.