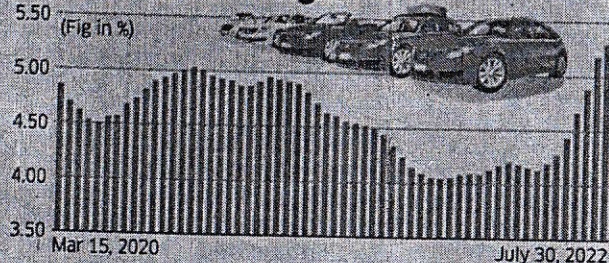


**CORNER SPEED** FPI allocation at multi-year high of 5.5% in July with their auto sector AUM up 17% since Jan to \$31 billion; Local funds' exposure at near 4-year high of 7.7%

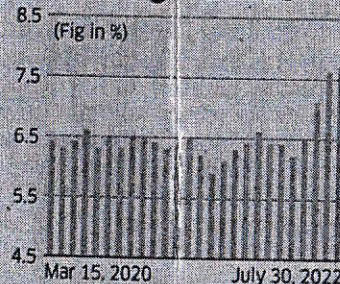
# FIs Raise Wagers on Auto Stocks Amid Improving Volume Visibility

**FPI Auto Sector Weight**

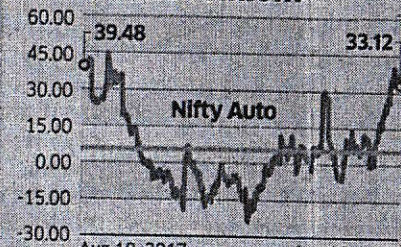


Source: NSDL, compiled by ETIG

**Auto Weight at MFs**



**Valuation Premium**



Source: Bloomberg, compiled by ETIG

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**ET Intelligence Group:** Institutional investors have increased allocation to the automobiles sector driven by improving demand and softening commodity prices that are expected to margins. Foreign portfolio investors' (FPIs) allocation to the sector touched a multi-year high of 5.5% in July, data from NSDL show.

Local funds remained equally bullish on the sector with a nearly four-year high allocation of 7.7%. July was the fifth month in a row when local funds increased the sector weight.

Auto has caught the fancy of investors over the past few months thanks to

strong volume visibility for passenger vehicles, a spate of new launches, and value unlocking from monetization of the electric vehicle (EV) subsidiaries. Maruti Suzuki and Mahindra and Mahindra have an order book of 3.5 lakh and 2.4 lakh units, respectively. Management commentary of auto companies suggest that operating margins should improve from the third quarter of the current fiscal year as benefits of lower commodity prices start kicking-in. Gross margin of the auto companies had dropped to 9% in the March 2022 quarter.

Automobile stocks have contributed over 200 points to the 564-point gain of the Nifty since the beginning of 2022, according to Bloomberg data. Their

premium to the Nifty 50 based on the price-book multiple is at 33% on average.

Overseas investors have historically been underweight on the auto sector by 100-200 basis points due to the cyclicality of the business. The gap has reduced in the current run-up to the lowest in over five years. Their equity assets under management (AUM) for the sector increased by 17% to \$31 billion between January and July 2022 compared with 11% fall in their total equity AUM.

Local funds are currently 190 basis points overweight on the auto sector compared with its weight in the BSE 200 index. The sector has the third-largest weight after private banks and technology sectors.