Auto parts sector expects capex of ₹25,000-30,000 cr in FY26

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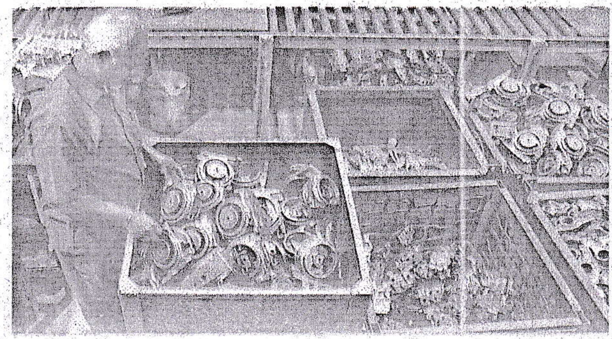

NO BACKING DOWN. Rating agency ICRA suggests that suppliers will continue investing in new products, technology development, and capacity expansion to meet demand

The auto components industry is expected to invest ₹25,000-30,000 crore in capital expenditure (capex) in FY26, focusing on capacity expansion, localisation, and technological advancements, including electric vehicles (EVs), according to rating agency ICRA.

With this plan, the total capex plan of the industry (represented by a sample of 46 auto ancillary companies, whose combined annual revenues exceeded ₹3,00,000 crore in FY24, accounting for nearly 50 per cent of the industry) is estimated at ₹50,000 crore for FY25 and FY26, indicating continued growth and investment momentum.

ICRA expects auto ancillary companies to allocate around 7-8 per cent of their operating income toward capex in the medium term, aided by the Production-Linked Incentive (PLI) scheme, which will drive investments in advanced technology and EV components.

EV OPPORTUNITIES

Currently, only 30-40 per cent of the EV supply chain in India is localised. While production of traction motors, control units, and battery management systems have seen progress, battery cells — which make up 35-40 per cent of vehicle costs — are still imported. This presents a significant manufacturing opportunity for domestic auto component suppliers. ICRA forecasts that the industry's revenue will grow by 8-10 per cent in FY26, following a projected 7-9 per cent growth in FY25. This marks a slowdown from the approximately 14 per cent growth recorded in FY24.

Vinutaa S, Vice President and Sector Head of Corporate Ratings at ICRA, stated that the industry is undergoing a transformative phase driven by sustainability, innovation, and global competitiveness.

Domestic original equipment manufacturers (OEMs), which contribute over 50 per cent of industry revenues, are expected to grow by 7-9 per cent in FY25 and 8-10 per cent in FY26, driven by premiumisation and higher value addition. Replacement demand is projected to rise by 5-7 per cent in FY25 and 7-9 per cent in FY26, supported by an expanding vehicle parc, ageing vehicles, and increased used car sales, she added.

LOW R&D SPEND

Despite slow vehicle registration growth in major global markets, export demand is expected to be bolstered by vendor diversification initiatives from global OEMs and Tier-1 suppliers. Additionally, the closure of metal casting and forging plants in the European Union due to viability issues could create new export opportunities for domestic suppliers.

ICRA suggests that suppliers will continue investing in new products, technology development, and capacity expansion to meet regulatory changes and evolving market demands.

However, research and development (R&D) spending remains low at 1-3 per cent of operating income, lagging behind global peers.

Research and development (R&D) expenses for ICRA's sample set of large Indian auto ancillaries have remained low, at an average of 1-2 per cent of operating income. Some companies in the sample set have had higher R&D expenses, at 2-3 per cent.

This is significantly lower than the global counterparts, where the average has been 8-10.5 per cent over the last few years.

While there is no notable increase expected in R&D expenses of ancillaries in the near term, it is likely to gradually improve over the medium term, as value addition and domestic manufacturing of advanced components increase, and global majors set up R&D/engineering centres in India, it noted.

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