SECTORAL INFLOW REACHES $1.2 BILLION SINCE APRIL 2023

Auto Sector's Weight in FPI Portfolio at Multi-month High on Strong Macros

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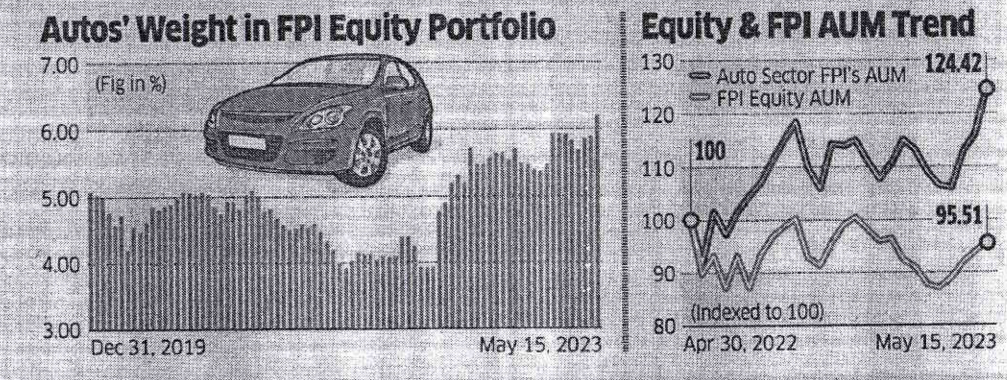

Source: NSDL, compiled by ETIG

ET Intelligence Group: Foreign portfolio investors (FPI) are stepping up their investments in Indian auto stocks when Asia's third-largest economy received the highest fund flow among the emerging markets since April this year.

The weight of the auto sector in the equity portfolio of FPIs rose to a multi-month high of 6.18% in the first fortnight of May, data from NSDL show. The long-term average of auto stocks in their equity portfolio stood at 4.87%. The auto sector received a net flow of $572 million in the first fortnight of May — the highest fortnightly inflow in more than four years — taking the total sectoral inflow to $1.2 billion since April.

Auto sector inflow accounted for 21% of the total FPI inflow of $5.4 billion from the beginning of the current fiscal year. This is the second-biggest inflow to a sector after financial services in the same period, which received one-third of the total inflows.

FPI equity portfolio value of the auto sector rose 14% since the beginning of the current fiscal year to $36.07 billion at the end of May, compared with a 9% increase in total FPI equity portfolio in the year-ago period.

Interestingly, despite the auto sector weight rising to a multi-month high, FPIs are still underweight by 30 basis points on the sector based on benchmark index weight. Overseas investors have historically maintained under-weightage of more than 100-200 basis points due to the cyclicality in business. But in the current run-up, the difference with the auto weight in the benchmark index has dropped to the lowest in more than eight years.

The auto sector has caught the fancy of investors in the last few months owing to demand resilience despite the higher base of the last fiscal year that is expected to translate into 15-20% earnings growth in FY24.

In addition, a strong product line-up and value unlocking from monetisation of EV subsidiaries may continue to bring earnings upside.

Maruti Suzuki, India's largest car maker, has an order book of around 4,00,000 cars and has guided for its volume growth to outperform industry's growth of 5-7% in the current fiscal.

Automakers' focus on cost control is also helping margins surge to new highs although volume still has not reached the pre-Covid level. For instance, Hero MotoCorp delivered a record high operating profit of Rs 8,524 per vehicle in the March 2023 quarter. This is the fourth quarter in a row the company has managed to expand its EBITDA per vehicle on QoQ basis when the industry volume growth is still 25% lower than the peak of FY19.