

# INDIAN PASSENGER VEHICLE INDUSTRY

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OEMs rev up capacity  
expansion plans

NOVEMBER 2022





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*OEMs have announced capacity expansion plans in excess of ~Rs. 250 billion over the next few fiscals to augment capacity.*

*A majority of the capex outlay (including new product developments) will be met through healthy cash accruals/parent funding support, apart from inorganic fund raise in some of the recently formed EV subsidiaries.*



The demand for Passenger Vehicles has remained healthy since the turn of the calendar year, aided by strong underlying demand and an easing up of semiconductor shortages (thereby enabling improved production levels across OEMs). Aided by the robust demand, PV industry wholesale volumes are expected to touch an all-time high of ~3.7 million units in FY2023 (a growth of 21-24% over the previous fiscal).



The capacity utilisation levels of the industry had been significantly impacted (most pronounced in H1 FY2022) as a result of the pandemic-induced disruptions and semiconductor shortage during the past two fiscals. With ease in supply chain constraints and semi-conductor shortage, capacity utilisation of the OEMs improved to healthy levels over the past few quarters.



Even amidst the uncertainty caused by the pandemic and the semiconductor crisis, the OEMs continued to invest in capacity augmentation and new product development, aided by their strong financial risk profiles. Factoring in the robust demand, the OEMs have now ramped up their capacity expansion plans; multiple OEMs have announced significant capex outlay towards capacity expansion for the next few fiscals.



A continuation of healthy demand trend in the industry is expected to help keep the capacity utilisation at comfortable levels (~70%) over the medium term. The capex outlay for OEMs is estimated to remain heightened (an estimated outlay of ~Rs. 650 billion over FY2023-FY2025), with the OEMs budgeting for a substantial outlay towards new product development, including development of capabilities/platforms for electric vehicles.

# Industry volumes to touch an all-time high in FY2023 aided by robust demand

## EXHIBIT: Indian PV industry: Prevailing trends



### Personal Mobility

Personal mobility preference has aided demand, resulting in strong order books for OEMs. Replacement demand has also come back strongly



### Premiumisation

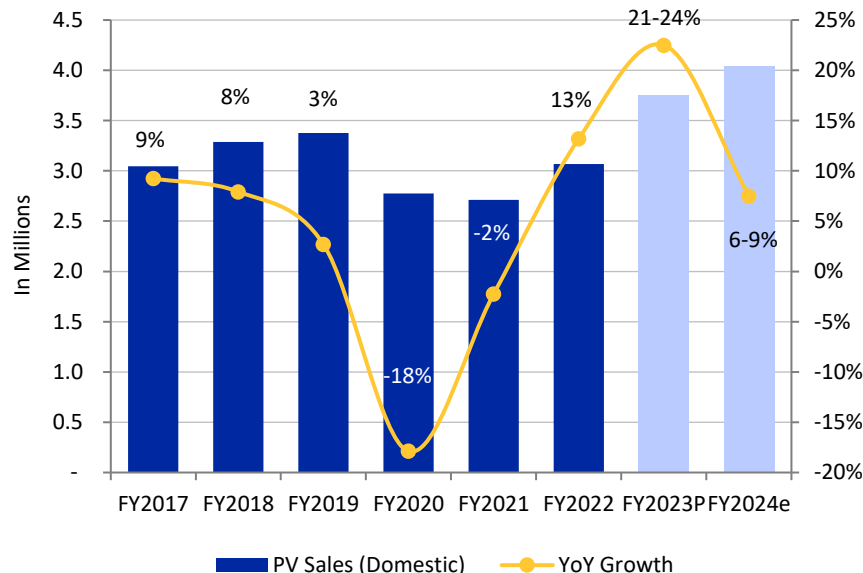
Utility vehicles have emerged as vehicle of choice, driving faster replacement



### Powertrain Mix

CNG adoption has gained traction; EV penetration remains low at present, albeit improving

## EXHIBIT: Indian PV industry – Volume growth estimates



Aided by improved semiconductor supplies and robust demand, PV industry wholesale volumes expected to touch an all-time high of ~3.7-3.8 million units in FY2023

# Capacity utilisation reverted to healthy levels post easing of chip shortage

Exhibit: Annual capacity utilization trend

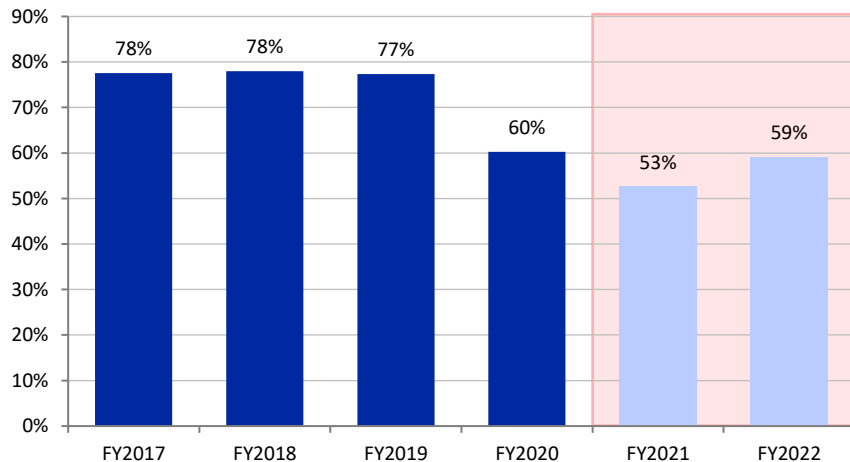
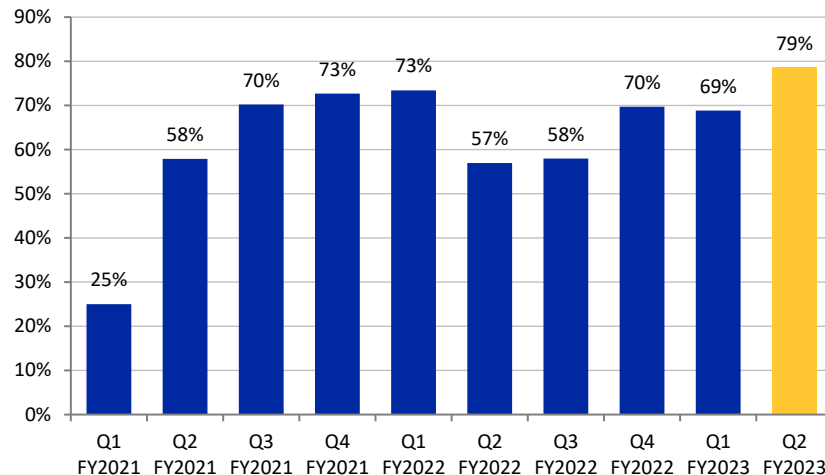


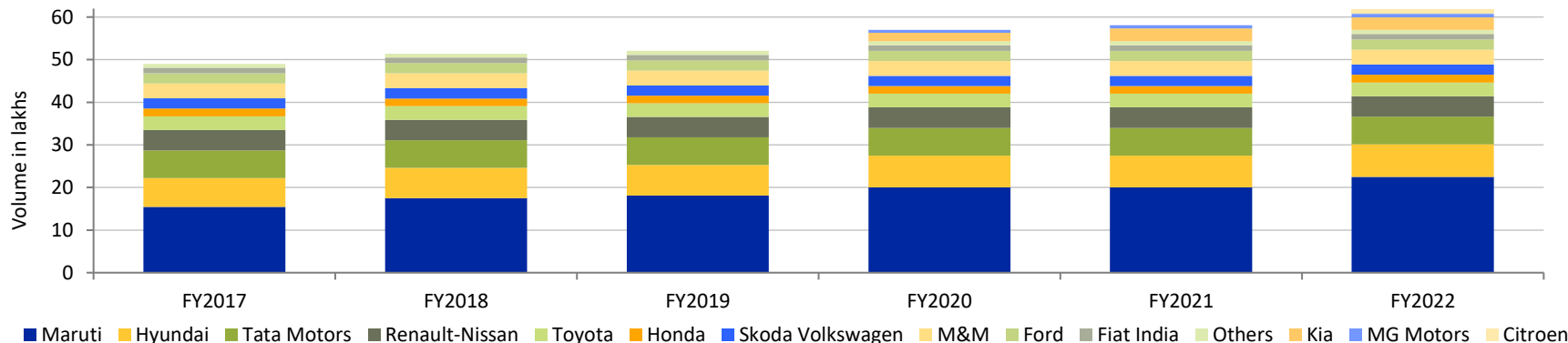
Exhibit: Quarterly capacity utilization trend



- The capacity utilisation levels of the industry had been significantly impacted (most pronounced in Q1 and Q2 FY2022) as a result of the pandemic-induced disruptions and semiconductor shortage during the past two fiscals.
- With ease in supply chain constraints and semi-conductor shortage, capacity utilisation of OEMs improved to healthy levels; the same has aided the OEMs in ramping up production levels leading to operating leverage benefits for the industry.











# OEMs continued to invest in capacity expansion even during period of uncertainty

Exhibit: Trend in capacity expansion over the years



- Amidst the uncertainty caused by the pandemic and the semiconductor crisis, the OEMs continued to invest in capacity augmentation, aided by their strong financial risk profiles.
- The capacity addition over the past two years (~3.5-4.0 Mn vehicles) was driven by commencement of a third line at Suzuki Motor Gujarat and commencement of assembly operations of Citroen India (in collaboration with CK Birla Group's production facility in Tamil Nadu). Prior to that, Kia India and MG Motors had commenced operations in FY2020.
- With a view to building up capacity to cater to the ongoing robust demand and expectation of healthy volume growth going forward, the OEMs are now ramping up their capacity expansion plans.

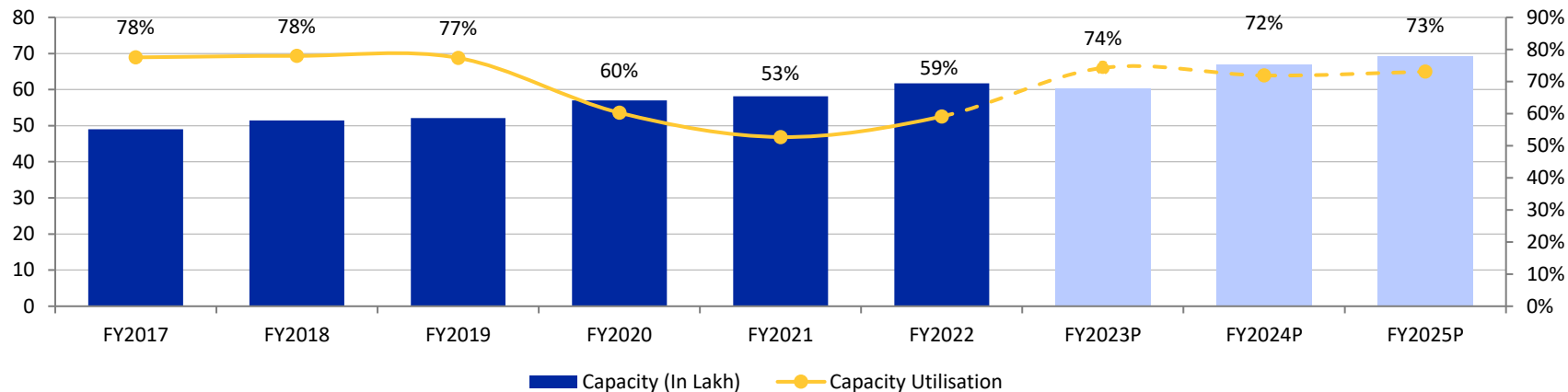
# Significant outlay announced towards capacity expansion across OEMs

Company		Capacity Addition (In Units)	Outlay (In Rs. Crore)	Comment
				
Maruti Suzuki		1,00,000 (FY2024 end) 2,50,000 (FY2025 end)	~Rs. 7,000 crore in FY2023	Manesar plant production capacity to increase by one lakh units to cater to the enhanced demand before its Sonipat facility commences operations in 2025
Mahindra & Mahindra		1,20,000 (FY2024 end) 1,20,000 (FY2025 end)	Rs. 7,900 crore over three years ending FY2024	M&M, which remains upbeat on its diesel powertrains, has said that it is ramping up total SUV capacity to nearly 6 lakh units a year over the next 12-15 months.
Tata Motors		~3,00,000-3,50,000 (FY2024 end)	~Rs. 6,000 crore (PV/CV capacity) ~Rs. 725 crore (Ford plant)	TML plans to spend ~Rs 6,000 crore in upcoming years towards enhancing capacity; further capacity expansion would happen once its Sanand plant (acquired from Ford) goes on stream
Hyundai India		~90,000 (Added in FY2022)	~Rs. 1,475 crore in FY2022	Hyundai Motor India ramped up capacity to ~8.5 Lakh units by end of FY2022; the entity also plans to invest ~Rs. 4,000 crore as part of its plan to introduce electric vehicles by 2028
Kia Motors		1,00,000 (FY2023 end)	-	Kia Motors to increase production in India to 400,000 units by end of FY2023, largely aided by efficiency enhancement rather than new production line addition
MG Motors		~2,25,000 (FY2023 end)	~Rs. 4,000 crore	MG Motor announced an investment of Rs. 4,000 crore to increase production capacity to 3 lakh; in addition to enhancing capacity at existing plant, new plant being set up

Source: Media Articles, ICRA Research

# Favourable demand outlook to help maintain healthy capacity utilisation levels

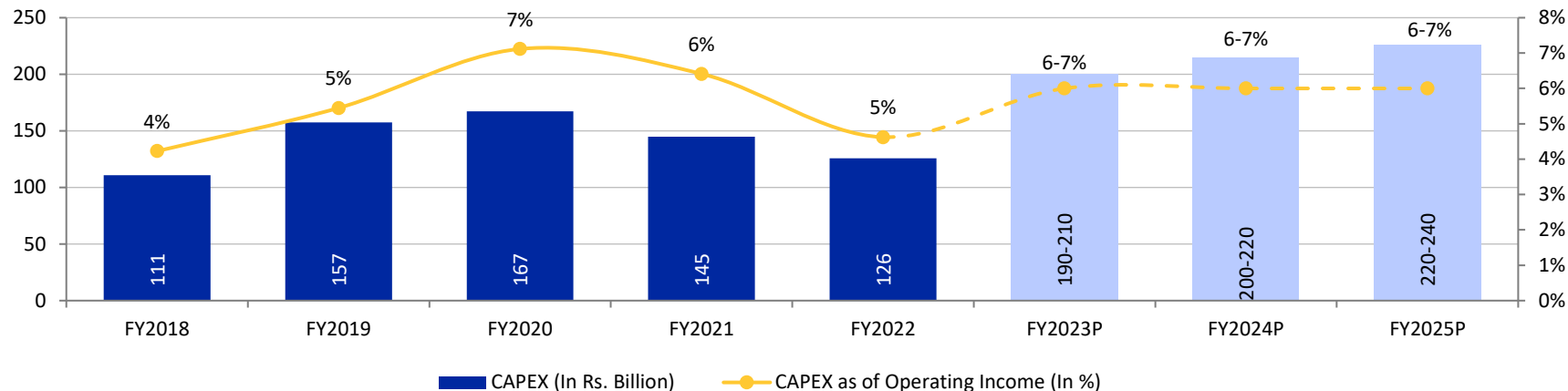
Exhibit: Annual capacity utilization trend



- The industry's capacity utilisation had fallen between FY2020-FY2022 as result of weakening demand, disruption caused by the pandemic and the supply-chain crisis. Aided by pent-up demand and easing availability of electronic components, the production levels have improved considerably during the current fiscal.
- While addition of new capacities will marginally moderate the capacity utilisation levels over the next few years, given the healthy demand environment, the utilisation is likely to remain at comfortable levels (i.e. around 70%). Besides capex by the OEMs, auto component manufacturers are also expected to scale-up their investments to support their customers.

# PV industry likely to spend ~Rs. 650 billion between FY2023-FY2025

Exhibit: Trend in Capital Expenditure by PV OEMs\* (in Rs. Billion)



- ICRA expects capital expenditure (sample set of 6 OEMs) to be nearly Rs. 200-230 billion per annum over the next 3-4 years. Apart from capacity enhancement, the OEMs would also dedicate capex towards new platform development and requirements to comply with the upcoming emissions (i.e. OBD-II, CAFÉ-II and ethanol blending) and safety norms.
- Several OEMs have also scaled-up their investments to develop electric vehicles (EV) including hybrid platforms. While initial EV launches were based on the existing ICE platforms, the OEMs are now developing greenfield platforms for EVs to accommodate optimum battery capacity and ensure light weighting.
- While capex outlay is likely to increase significantly, a majority of it will be met through healthy cash accruals and parent funding support, apart from inorganic fund raise in their recently formed EV subsidiaries (i.e. Tata Motors, M&M). Thus, increase in leverage is unlikely for most of the OEMs.

Source: ICRA Research, SIAM; \*Sample set of 6 leading PV OEMs





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