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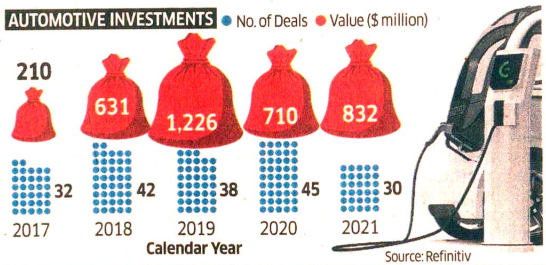
STRATEGIC, PE FUNDS WRITING LARGER CHEQUES

EVs, Growth Fuel High-Octane Auto Funding in India



World bullish on plans of Indian cos; ₹17kcr commitments in just 2 deals in last 2 mths

Lijee Philip & Indulal PM

Mumbai: Strategic and financial investments are pouring into the Indian automotive sector after a lull of nearly half a decade.

Increased electrification and aggressive growth plans by global automotive players are setting the stage for a resurgence in investor sentiment.

Earlier this week, Japanese multinational Kubota Corp said it would infuse ₹9,400 crore in the Nanda family-owned agri-machinery and tractors maker Escorts Ltd to become its majority stakeholder.

In October, Texas-based TPG Capital Management said it would invest ₹7,500 crore in Tata Motors' newly created electric vehicle (EV) subsidiary, in what could be one of the largest private equity investments in the Indian auto sector.

Large investments are flowing into specific segments and sectors, as India remains an attractive market for automobiles.

The post-pandemic investment euphoria fuelled by a liquidity-driven market rally is understood to be supporting the investment ecosystem, experts say.

"The auto sector is seeing huge investments," said RC Bhargava, chairman, Maruti Suzuki.

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"... (Investments) related to the EV infrastructure and technology space offer larger potential," said Bhargava of Maruti Suzuki, the country's largest car maker.

According to data compiled by financial market data provider Refinitiv, automotive investments more than doubled during the first 10 months of the year to $832 million, compared to the same period a year ago. Data does not include Kubota's and TPG's recently announced deals. "We will see more investments in the electrification fleets covering light commercial vehicles and buses as this will help fleet operators adopt EVs without burning (a hole in) their pockets," said Kaushik Madhavan, vice-president, mobility, at consultancy Frost & Sullivan.

India is expected to be the world's third-largest automotive market in terms of volumes by 2026. It holds a strong position in the international heavy vehicle arena — being the largest manufacturer of tractors, second-largest for buses and third-largest for heavy trucks, globally, according to Jato Dynamics, a global supplier of automotive business intelligence.

"Strategic and financial investors are bullish on the auto sector because of its attractiveness and potential growth opportunities," said Atul Mehra, joint MD and co-head, investment banking, JM Financial, which advised Escorts on the Kubota deal. "India is a major economy, and a lot of companies and private equity investors are exploring ways to invest and partner with the automotive industry players. Investors are looking to take advantage of niche technology, better R&D, lower cost of production, commitment towards reducing carbon footprint and, more importantly, stability in terms of regulations, compared to other major developing economies," Mehra added.

STARTUP WAVE

The Indian automobile industry contributes about 40% to the country's manufacturing Gross Domestic Product (GDP) and 7.5% to its overall GDP. "The industry is also facing the forces of disruption. As mobility moves to connected/autonomous and electric, a new competitive landscape is evolving, in which the link between 'big' and 'successful' appears to be weakening," said Ravi Bhatia, president of Jato Dynamics. "The investors seen to be rewarding startups at large multiples, while established players are forced to play catch up. The consequence is growth in capex and investments."

Private equity firms and venture capitalists are betting big on the automotive segment, especially EV and allied sectors, on expected higher traction for alternative fuels and a demand upswing in the country.

The automobile sector, which saw foreign direct investment (FDI) of $16.5 billion between 2000 and 2016, is expected to see $8-$10 billion in investments by 2023. This will help the domestic industry touch $300 billion by 2026 — a significant growth from $118 billion as of 2020. The increased funding has come despite nationwide lockdowns due to the virus outbreak through much of last year, which significantly hurt investment sentiment as well as demand in the auto and ancillary segments.

ELECTRIC IN FOCUS

Industry experts said the EV ecosystem in India is at an inflection point and has emerged as an attractive investment proposition. The fresh funding is primarily expected to be used to expand production capacity, in R&D and future technologies and grow international footprint.

Many startups in India are focusing on affordable driver assistance solutions (ADAS) and investments made by global tier I firms in technology incubators is supporting this cause, said Madhavan of Frost & Sullivan. EVs, especially two-wheelers, will see high growth in the ongoing fiscal, given the incentive push by the central and state governments.

According to an independent study by CEEW Centre for Energy Finance, with the Indian EV market touching $206 billion by 2030, it will necessitate $180 billion in investment to build the ecosystem.