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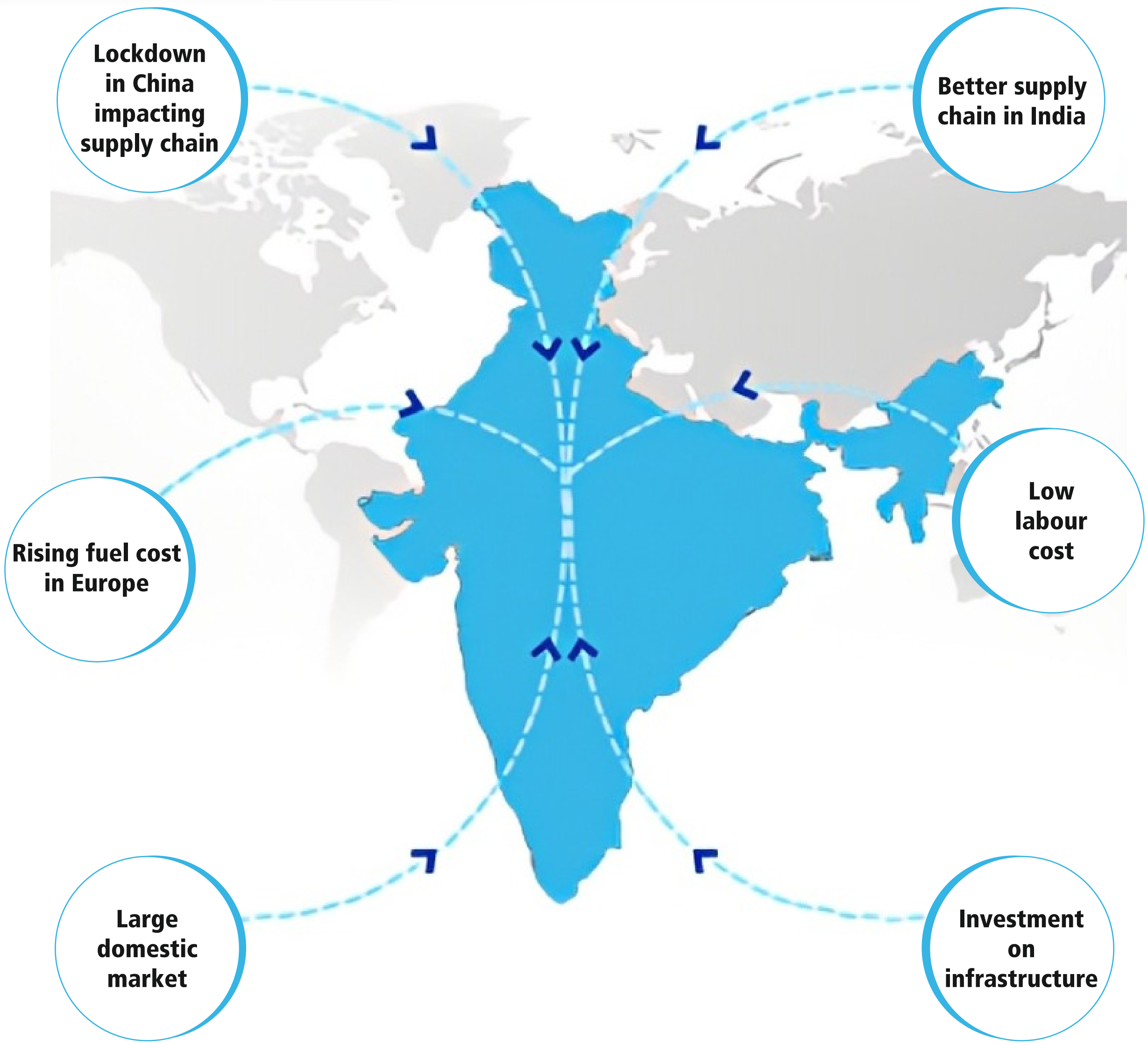
INDIA | INDUSTRIALS & AUTO ANCILLARIES | SECTOR REPORT

JM FINANCIAL

India Industrials & Auto Ancillaries

Riding the Wave: The Indian Manufacturing Exports Opportunity



Engineering exports on a rise to mature economies	Automotive sector well placed to benefit from structural shifts	Rising productions costs in Europe coupled with easing freight constraints to drive production to Asia

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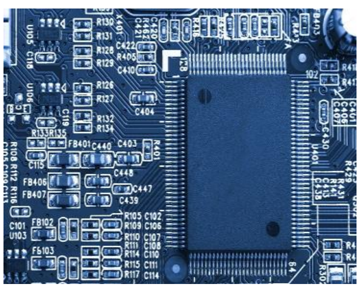

Global companies are moving away from traditional manufacturing bases to countries with similar manufacturing strengths. We believe that in industrial and automotive products, India will be a huge beneficiary due to its available supplier ecosystem, scale, competitive cost structure, and most recently government policy initiatives. This shift is likely to be accelerated by recent cost pressures (energy and labour) on European and US Industrial companies and continued lockdowns in China.

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India Industrials & Auto Ancillaries

Riding the Wave: The Indian Manufacturing Exports Opportunity

A major restructuring is underway in global supply chains following widespread disruption in recent times due to Covid and the Russia-Ukraine conflict. In an attempt to diversify their supply chain, many global companies are moving away from traditional manufacturing bases to countries with similar manufacturing strengths. This has benefited countries like Vietnam, (in electronics) and Mexico (in furnishings and appliances). We believe that in Industrial and Automotive products, India will be a huge beneficiary due to its available supplier ecosystem, scale, competitive cost structure, and most recently government policy initiatives. This shift is likely to be accelerated by recent cost pressures (energy and labour) on European and US Industrial companies and continued lockdowns in China (till recently). In this report, we present several case studies, including Cummins India, Timken India, MTAR Technologies, Tega Industries, Rolex Rings, Escorts Kubota, ZF Commercial Vehicle, and Tube Investments, to highlight these trends.

- **Engineering exports to US, Germany rising:** In Industrials, India's exports to certain countries have grown at a healthy pace. On a 5 year CAGR basis, exports to USA, Thailand and Singapore grew by 23%, 34% & 17% respectively in the industrial machinery and equipment segment, while in the electrical machinery segment exports to USA, UAE and Germany grew by 24%, 28% and 18% respectively. Categories we expect to gain more traction would be parts of internal combustion engines and bearings in industrial machinery (IM), mobile/telephone sets, electric gensets and rotary converters, valves and similar appliances in electrical machinery (EM).
- **India's automotive sector also well placed to benefit from structural shift:** In the automotive sector, several global companies are looking at export-oriented production in India. FDI inflow into the automotive sector in FY22 jumped sharply to c.USD7bn to form c.12% of the total FDI inflows into India. India's automotive exports have traditionally grown by 6-8% pre-pandemic vis-à-vis strong double-digit growth in the preceding year. Automotive exports to both North America and Europe grew over c.40% led by drive transmission, engine suspension and braking components. This growth is attributable to 1) global impetus on supply chain diversification, 2) strength of Tier 2 & 3 domestic supplier base, 3) low-cost advantage vs. developed economies and 4) government initiatives on Make in India (PLI, FAME scheme). Companies such as Hyundai-Kia, Kubota, and ZF have recently announced plans to make India their export hub or set up a global R&D base in India. These companies, with a manufacturing unit in India, will likely be the beneficiaries of the shift in global supply chain. Component manufacturers in metal forming/industrial segment and tyres will also benefit from higher sourcing from India.
- **Rising production costs in Europe coupled with easing freight constraints to drive production to Asia:** The European region has been facing headwinds from unprecedented rise in power and fuel costs, with gas prices surging multi-fold to USD 70/MMBTU in Aug'22 vs. USD 15/MMBTU in Aug'21 and USD 3/MMBTU in Aug'20, while lockdowns in China have created uncertainty in normalisation of trade activities. Several companies including Alstom, Cummins and SKF have increased their planned investments in India and are setting up global R&D centres in the country to develop products locally. The recent quarterly results highlighted that these companies have been able to offset RM inflation through price increases, but cost pressures from rising energy and freight and labour costs still continue to depress margins. Auto companies such as Hyundai, Kia, Suzuki, Denso, ZF Group, Valeo, Behr-Hella, Continental have talked about increasing their focus to make India an export hub or increase sourcing of components from India.
- **The shift towards sourcing from India is likely to sustain:** We expect current exports' shift to continue in the long run, even as normalcy is restored in China, as their cost competitiveness is impacted in post-Covid period due to higher energy and labour costs. Industrial supply chain restructuring is sticky in nature, as these products have low level of backward integration, thus requiring setup of a local supply chain infrastructure, which happens gradually over a longer period of time and cannot be reversed in short term.

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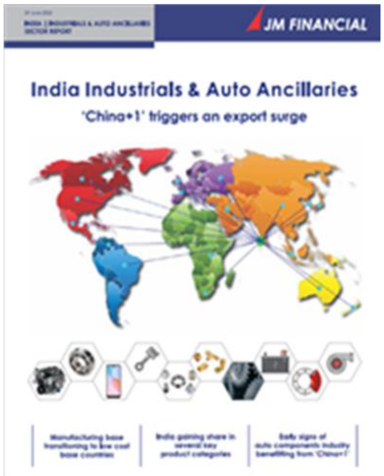
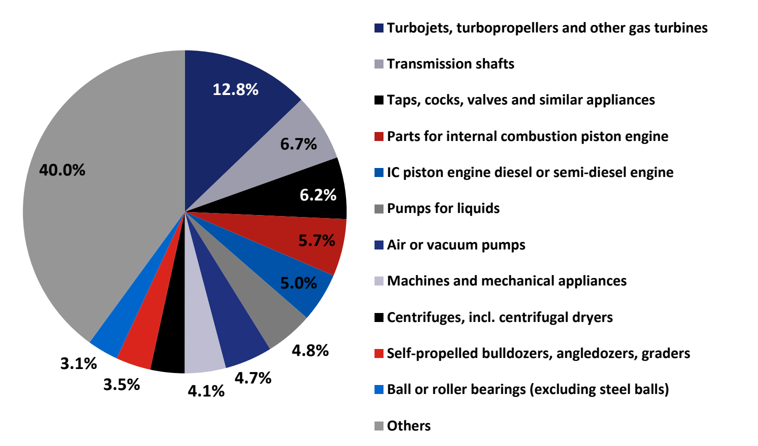


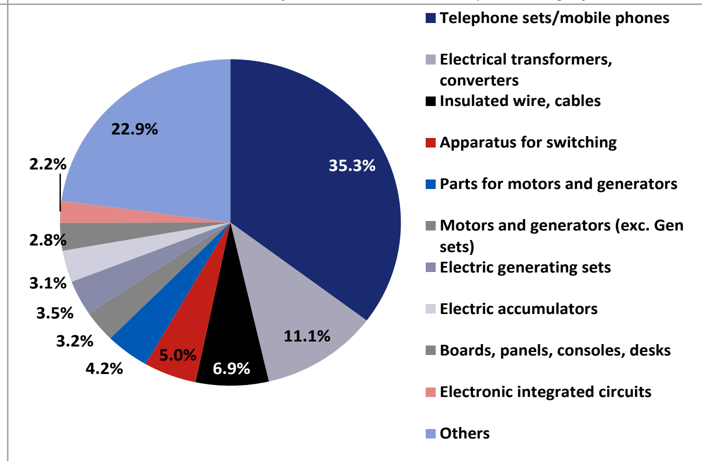
India Industrials

Exhibit 1. Key charts in Industrial Machinery (IM) & Electrical machinery (EM)

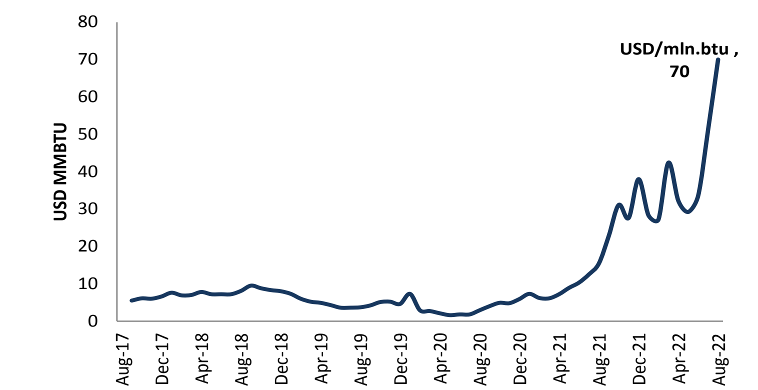
Industrial machinery (USD 25.6bn) exports category



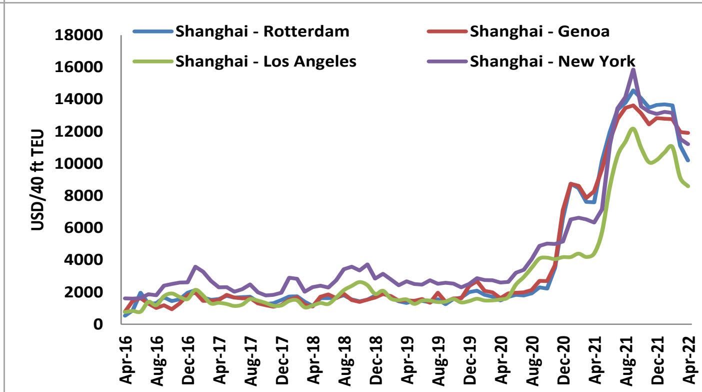
Electrical machinery (FY22: USD 20.1bn) exports category



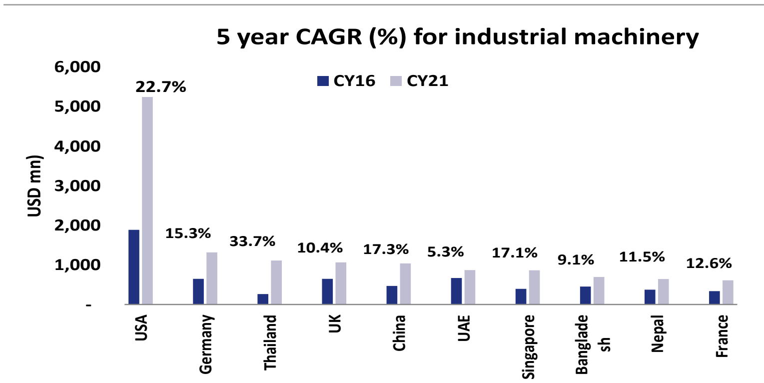
Exponential rise in natural gas prices to impact margins for European companies



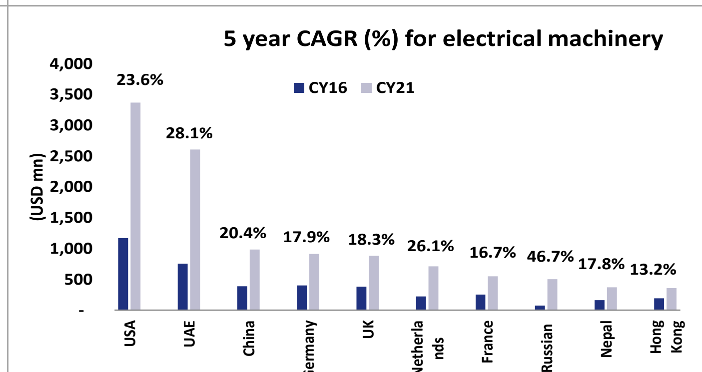
Freight cost on down trend globally



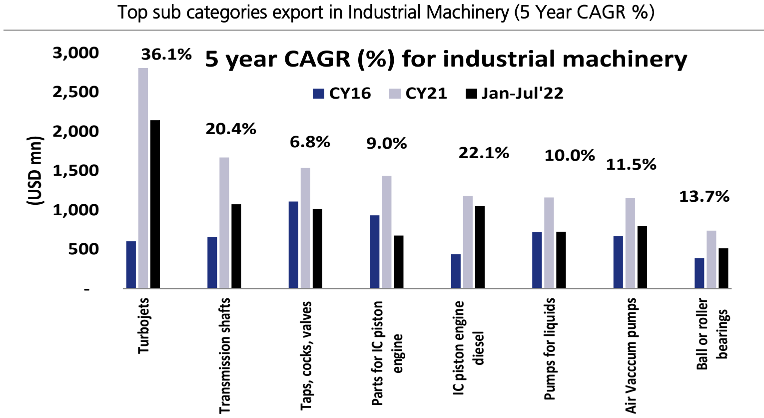
Top Industrial machinery exports destination for India



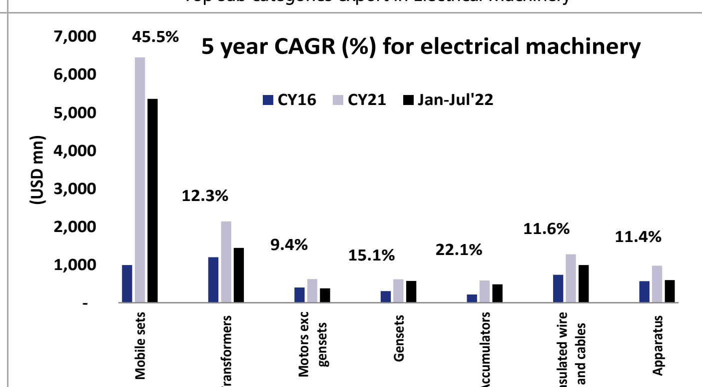
Top Electrical Machinery exports destination for India



Top sub categories export in Industrial Machinery (5 Year CAGR %)



Top sub categories export in Electrical Machinery



Source: DGCI&S, Industry, JM Financial

- **Rising production costs in Europe coupled with easing freight costs to drive production to Asia:** The European region has been facing headwinds from the unprecendented rise in power and fuel costs, with gas prices rising multifold to USD70/MMBTU in Aug'22 vs. USD15/MMBTU in Aug'21 and USD3/MMBTU in Aug'20. This has been compounded by continuing supply chain issues (a bit relaxed in comparison to the situation during the peak Covid periods) specifically emanating from China, and continuing lockdowns due to the new Covid wave. However, with the relaxation in Covid restrictions across the globe, freight costs have started moving downwards, so we believe companies operating in Europe or having imports from China would look towards alternate low-cost Asian countries (specifically India and Vietnam), in order to reduce their cost of production and reduce dependence on China as the only major source of import.

Exhibit 2. Sustaining gross margin through partial price pass-through; however, EBITDA margin impacted due to rise in power and fuel cost

Global companies	Gross Margins (%)						EBITDA Margins (%)					
	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Global Engineering co	33%	34%	33%	32%	33%	32%	16%	17%	17%	15%	16%	15%
Atlas Copco	42%	42%	42%	42%	42%	41%	26%	26%	27%	26%	27%	26%
Airbus	14%	23%	17%	18%	21%	19%	10%	18%	12%	13%	17%	13%
Caterpillar Inc	33%	31%	31%	28%	30%	30%	21%	19%	18%	16%	18%	18%
Cummins Inc	24%	24%	24%	23%	24%	26%	16%	15%	14%	11%	12%	17%
John Deere*	36%	34%	34%	31%	30%	33%	26%	26%	25%	20%	20%	24%
Metso Outotec	28%	29%	28%	27%	28%	17%	15%	15%	16%	15%	15%	14%
Sandvik	44%	44%	40%	39%	42%	40%	29%	26%	25%	23%	27%	21%
Schaeffler Global	27%	24%	24%	24%	23%	22%	18%	18%	16%	13%	14%	11%
Siemens AG	38%	36%	37%	36%	38%	34%	18%	10%	16%	14%	18%	13%
SKF Global	29%	30%	28%	27%	28%	25%	18%	20%	17%	15%	17%	14%
Timken Global	30%	29%	27%	23%	29%	30%	21%	19%	17%	12%	19%	21%
Thyssenkrupp	12%	12%	14%	13%	13%	17%	4%	5%	6%	4%	6%	10%
Philips	39%	42%	47%	39%	39%	41%	24%	17%	19%	17%	13%	11%
3M	49%	47%	46%	45%	45%	41%	29%	27%	25%	25%	27%	22%
Mitsubishi heavy industries	18%	17%	15%	17%	18%	16%	9%	5%	3%	6%	8%	3%
Denso Corp	23%	21%	20%	20%	19%	18%	12%	14%	11%	13%	13%	10%
Mitsubishi Electric	29%	30%	29%	28%	27%	27%	11%	12%	10%	10%	10%	8%
Average margins	**30%**	**31%**	**30%**	**28%**	**29%**	**28%**	**18%**	**17%**	**16%**	**15%**	**17%**	**15%**

Source: Company, JM Financial

What is global companies' take on the situation?

Exhibit 3. Key commentary from global companies

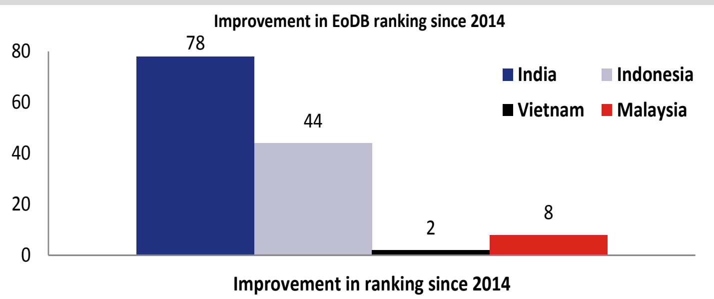
Company	Products	Comments
ABB Global	Electricity Distribution Equipment, Protection & Control Equipment, Motor Starting & Safety, Switches & Fuse gear, wiring devices & fittings, large Motors & Generators, low Voltage Motors & Services	➢ It recently announced that its E-mobility division had agreed to acquire a controlling stake in Numocity, a leading digital platform for electric vehicle charging in India. It will increase its shareholding to a controlling majority of 72 percent and has the right to become sole owner by 2026. ➢ The transaction is part of its E-mobility's overall growth strategy and will significantly improve its position across India, as well as South East Asia and the Middle East – target regions for Numocity given increasing demand for charging solutions for two and three-wheelers, cars and light commercial vehicles. ➢ "We are delighted to expand our presence in the burgeoning Indian market, while also enlarging our offering in EV charging infrastructure. Zero-emission mobility will play a key role in the Indian government's efforts to reduce carbon emissions, while the wider region is a hotbed of digital expertise," said Frank Muehlon, CEO of ABB e-mobility." –Media article
Alstom	Railway projects	➢ The company highlighted that they have developed 10 prime development sites, and nine component development centres. These sites are used to develop similar kind of products and used for leveraging given competitiveness in terms of engineering. ➢ The company is leveraging its Indian footprint and Bombardier has brought engineering workshop in India, however company is also leveraging its engineering work from Poland and Mexico. ➢ In addition to engineering, the company is also leveraging its manufacturing footprint in best competitive countries. Bombardier has brought lot of skills and capabilities in terms of best competitive countries manufacturing. The company has doubled their size in Eastern Europe and have doubled size in India. ➢ The company intends to further leverage best cost countries for manufacturing and intends to reach target of 60% by March'25 from current levels of 43%. ➢ "India is not only about providing work packages to the centre in Europe or in the U.S., but is also able to drive complete projects. Today, they are managing 12 projects, for example, the Train Maya is under the responsibility of our Indian colleagues, as well as Bucharest metro. And this is proven to be successful in terms of competitiveness."- Investor day
SKF Global	Bearings and components	➢ SKF India's share of traded goods stands highest among peers at 43% and in order to increase its localisation levels, the company will step up its annual capex intensity by 35-40% over next 3 years. Localised sales are likely to increase from 55% to more than 70% over a course of period. ➢ Group's attention to increasing regionalisation in Asia to greater than 85% from 60% would drive investments in India and other near by countries. ➢ The group CEO added "the group has strong technical capabilities, and there is a selection of several industries comparable to excessive velocity equipment, agriculture, railways and electrical motors that are of high interest. The 25,938-crore Production Linked Incentive (PLI) Scheme approved by the federal government to promote indigenous production of eco-friendly autos and parts with superior auto applied sciences particularly augurs nicely for the native trade. Further he added three global megatrends – electrification, automation, sustainability – will boost development options in India."- Media interview
Hitachi Energy	Power grid equipment	➢ Recently, company highlighted that they are looking at acquisitions and partnerships in India to foray into newer areas such as technologies for battery storage and other emerging areas in the energy space. ➢ Some the products they intend to develop are Flexible AV transmission systems, along with HVDC. ➢ In product categories company is focusing on Power electronics as a technology platform. Power electronics is in the renewable side for solar, wind, and on the consumption side like EV charging , data centres, power electronics for power quality. ➢ They do not plan to get into battery manufacturing and expect to invest in the segment going forward. Currently, company plans to invest more in technologies and capabilities that are best in class to integrate the battery storage systems. ➢ "We will expand our portfolio globally, and therefore, there is an opportunity, of course, to leverage India to expand the portfolio: Claudio Facchin CEO, Hitachi Energy"- Media interview
Royal Philips	Medical equipment	➢ "The expansion of our Chakan facility is in line with our commitment to manufacture world class healthcare equipment in India. The new facility will provide us with India-based manufacturing assets to better respond to demands from both local and global geographies. We at Philips aim to boost growth in the healthcare sector with strong collaboration between public and private entities while catering to the need for critical care equipment," said Daniel Mazon. –Media interview
Sandvik Asia	Mining and Energy equipment	➢ "We have a weak leverage, mainly because of pricing, not just off setting cost inflation. I will say, we are now, basically, offsetting the cost inflation that we saw prior to the Russian war, but the new surge of inflation that we have seen in steel prices, energy and so on, is something that we now have to, again, work on offsetting" – 2QCY22 concall ➢ Energy segment is relatively comfortable with what Europe and U.S. is facing, as investment level in that segment feels fairly well underbuilt by demand and needs. Aerospace is still below pre-COVID levels. Overall, the demand picture looks okay.
Schaeffler Global	Bearings and transmission products	➢ Seeing progressive price realization from our sales recovery activities. In the quarter, the company could only partially compensate cost inflation ➢ Trade logistic constraints are difficult so far, but not been in a situation where sales to customers have been interrupted or negatively impacted. Input cost, yes, particularly in energy and some of the freight and logistics side, are still increasing. ➢ In terms of gas, again in a situation where there is some dependency. The dependency is focused on Europe and on Germany, there is no real problem in China, there is no problem in Asia-Pacific and there is no problem in the US, but in Germany and in Europe,we have a dependency on gas – 2QCY22 concall commentary

Source: Company, JM Financial

What is working in India's favour?

- Manufacturing eco-system comparison: China has been the ideal manufacturing destination due to its long history and supremacy in electronics manufacturing. The electronic sector in China has expanded at three times the rate of the country's GDP. Exports account for a large portion of China's electronics manufacturing, including notebooks, mobile phones, and flat panel displays. However, the current uncertainty in China's manufacturing prowess has stemmed from the global pandemic crisis and a trade was with the US. This is leading to a shift in the supply chain in the form of re-shoring or near-shoring of manufacturing acitivities.
- China reaching saturation point: China, the world's second-largest economy, is facing a number of difficulties in accelerating economic growth, such as excess capacity issues, labour costs, and financial market weakness. On the other hand, India and Vietnam are gaining ground as alternate destinations after China in the Asia Pacific region.
- Vietnam has benefited from the US-China trade war and is aggressively investing in infrastructure, facilitating strong FDI inflows. The country has been a beneficiary due to lower wages, government incentives, lower tax rates and free trade agreements (13 FTAs with major countires including AFTA, EFTA, CPTPP, etc.). Economic zones, industrial parks and clusters, hi-tech parks, and agri-tech zones are among the sectors targeted for investment.
- China and Vietnam facing rising wages, land costs and skilled labour shortages: With increasing prosperity in China, employees' aspirations have increased and demand for high-tech jobs in China is rising, thus leaving gaps in the industrial value chain, and this lack of manpower is resulting in a labour shortage and rising costs in China. Also, a jump in manufacturing investments by MNCs has led to increased land costs in Vietnam and constrained resources such as power supply, caused skilled labour shortage, and resulted in rising pollution levels in manufacturing clusters.
- Government initiatives and tax regimes are expected to stimulate India's domestic manufacturing sector. With India taking numerous initiatives to ease the process of setting up new businesses, the country's ranking in the ease of doing business has improved significantly; India is currently ranked 62nd vs. 140th in 2014. Further, steps such as reduction in tax rates and better incentives will help attract investments into the country. Also, the logistics costs from India to Europe/US is better vs. Vietnam due to availabillity of direct trade routes.

Exhibit 4. Ease of doing business: India currently ranked 62 vs. 140 in 2014



Source: Industry, JM Financial

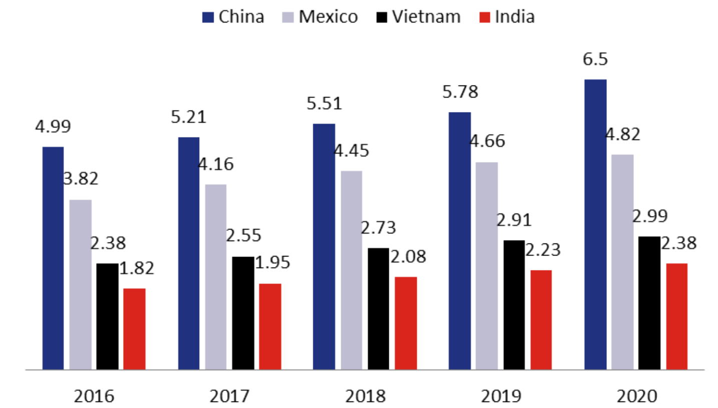
Exhibit 5. Barring Vietnam, tax rate at par with other emerging economies

Country	Corp Tax Rate (%)
India	25
Vietnam	20
Malaysia	24
China	25
Bangladesh	22.5
Indonesia	22

Source: JM Financial, Company

- Scarcity of skilled labour: In comparison to other Asian countries, India and Vietnam benefit from lower labour costs. Vietnam, with a population of less than one-tenth that of China, is experiencing skilled labour shortages as global manufacturers rush to set up shop to avoid US tariffs. It is also hampered by a scarcity of specialised supply chains. India is expected to fill this void due to its advantage in skilled and semi-skilled labour. Apart from a favorable labour environment, India has an abundance of design talent (hardware and software).

Exhibit 6. India's average wage cost lowest among countries (USD/hour)



Source: Industry, JM Financial

Exhibit 7. India: Favourable labour economics

Source: F&S, JM Financial

- Electronic manufacturing at the cusp of growth: The position of the Indian electronics sector is changing, and electronics is being recognised as a key segment for policy focus. The National Policy on Electronics (NPE), 2019 has highlighted local added value and a supportive environment has been developed. It is attracting the interest of global and domestic companies with a focus on manufacture through "Make in India" policies. These favourable developments leave India with the potential to dominate electronics manufacturing in the region, but Indian electronics manufacturers remain heavily dependent on imports for raw materials sourcing.
  - The phased manufacturing programme of the government involves a mix of local assembly import levies and incentives. Since plastic components are driven by international prices, there is no noticeable disadvantage for Indian producers. As many electronic manufacturing units are expected to undertake greater value addition, the component cost is likely to go down over the next 3-4 years.
  - Various PLI schemes across sectors are expected to address this challenge by bridging the cost gap between India and China.

Exhibit 8. PLI scheme awarded to various companies to boost manufacturing in India

PLI Scheme Awarded	Investment expected (INRbn)	Financial Outlay- over 5 year period for the sector (INR bn)
Mobile manufacturing	110	386
Telecom & Networking Products	33	122
IT Hardware	23.5	73.25
White Goods (ACs & LED)	58.7	62
Auto & auto components	748.5	259.38

Source: GOI, JM Financial

- We believe shift in exports to India is likely to sustain: We expect current exports shift to continue in the long run, even as normalcy is restored in China, as their cost competitiveness is impacted in post-Covid period due to higher energy and labour costs. Also, industry interactions indicate that industrial supply chain restructuring is sticky in nature, as these products have low level of backward integration, thus requiring setup of a local supply chain infrastructure, which happens gradually over a longer period of time and cannot be reversed in short term. India stands to benefit in terms of large domestic market, more skilled workforce, lower wage rate and digitisation in comparison to Vietnam or Mexico, in categories like industrial and automotive components.

Growth trajectory continues

- **Export across categories surpassed pre-Covid levels:** In 1QFY23, exports grew robustly across all categories, surpassing pre-Covid levels. We believe some part of this growth would be on the back of lockdowns in China leading to a shift in procurement towards India; however, most of it would be on the back of portfolio expansion by domestic companies to meet global demand and, in some cases, diversification by parent companies to India for global supplies. **Categories we expect to gain more traction would be parts of internal combustion engines, IC engine parts, bearings, etc. in industrial machinery, and mobile/telephone sets, electric gensets and rotary converters, valves and similar appliances in electrical machinery.** This would be on the back of **a)** lower labour cost, **b)** development of the local supply chain ecosystem, and **c)** technical prowess gained over the years in manufacturing complex products.

  - In **turbojet and gas turbines**, India's share has risen to 2%, while a majority of the share is held by countries like UK (20% share) and France (11% share). Mounting energy costs in the European region would likely to shift some component manufacturing to Indian companies. However, in this particular category, growth seems to have been subdued in 1QFY23, and we expect it to pick up moving forward.

  - In **IC parts and IC engines** India has gained share and now contributes 2.2% and 3.0% vs. average of 1.3% and 0.6% over CY10-15. Companies such as **Cummins** are tapping into opportunities available in Industrial segments such as Rail and Marine in regions such as Latin America, Africa, and Asia Pacific, building upon their existing presence in these regions, while **Kirloskar Oil** is likely to reap benefits in this category as it is expanding its offerings to ME, South Africa, and America. Further, companies have been developing products to meet the new CPCB norms and carrying out trial runs; post implementation, these products would be accredited as per stringent global norms, thus opening up new export markets.

  - In **bearings**, exports' growth has been robust across the board specifically for companies like **Schaeffler, SKF and Timken**. Indian factories are geared up to ramp up exports in case any regional factories in Europe face disruptions. Even in existing regions like the Asia Pacific, companies have been able to expand their reach.

  - In electrical **machinery, telephone /mobile phones** growth is robust (low base) in comparison to pre-Covid levels. The PLI scheme announced to boost domestic mobile manufacturing will further ramp up in production in this category. Large global players such as Samsung, Apple, and Xiaomi as well as their outsourcing vendors (Foxconn, Wistron, Pegatron) are setting up manufacturing facilities to cater to domestic as well as global demand. Recently, Dixon Technologies highlighted that it intends to participate in the manufacturing programme of Apple as the latter plan to begin manufacturing the iPhone 14 in India, about 2 months after the product's initial release out of China, in a move to reduce dependence on that country.
  - In **electric transformers**, India has gained share and now contributes 1.7% vs. average of 1% over CY10-15. Companies such as CG Power, Hitachi Energy, and Siemens are likely to reap exports opportunities in this category.

- **Key risk to our thesis:** Recession in large economies such as US/EU is a key transitory risk to our thesis and a shift in share of exports may not immediately be able to completely offset the absolute decline in exports. Government support to tackle inflation by high way of fiscal incentives in Europe may also lead to our thesis not playing out.

Exhibit 9. Strong trend visible across categories

Particulars	YoY (%)						Apr-Jul'22 vs			
	FY17	FY18	FY19	FY20	FY21	FY22	Apr-Jul'18	Apr-Jul'19	Apr-Jul'20	Apr-Jul'21
Industrial Machinery & Equipment (Apr-Jul'22: USD9.4bn)	**1%**	**16%**	**15%**	**-5%**	**-7%**	**40%**	**47%**	**43%**	**131%**	**22%**
Industrial Machinery like Boilers, parts, etc.	-2%	-9%	36%	-1%	-31%	6%	12%	-19%	65%	28%
IC Engines and Parts	0%	14%	15%	-7%	-2%	35%	53%	47%	130%	19%
Pumps of all types	8%	27%	4%	-4%	-8%	39%	41%	32%	117%	9%
Air condition and Refrigerators	-6%	32%	53%	-30%	-23%	37%	-16%	13%	117%	35%
Industrial Machinery for dairy, food processing , textiles etc.	0%	15%	10%	-4%	-3%	45%	60%	64%	145%	23%
Machine Tools	15%	4%	5%	-11%	-1%	56%	48%	56%	163%	22%
Machinery for Injecting moulding, valves and ATMs	0%	20%	7%	8%	-9%	21%	51%	28%	82%	30%
Other Construction Machinery (India)	-1%	35%	15%	-15%	-11%	69%	39%	49%	190%	37%
Cranes, Lifts And Winches (India)	-9%	0%	31%	13%	-15%	36%	80%	43%	164%	33%
Other Machinery	6%	14%	12%	3%	-1%	40%	61%	42%	127%	15%
Electrical Machinery (Apr-Jul'22: USD 8.4bn)	**3%**	**13%**	**36%**	**19%**	**-6%**	**42%**	**128%**	**78%**	**174%**	**52%**
Mobile/telephone sets	18%	12%	132%	81%	-9%	67%	450%	136%	447%	90%
Electrical transformers and rectifiers	2%	6%	19%	30%	-9%	27%	88%	48%	72%	23%
Electrical motors excl. gensets	-6%	19%	7%	11%	-6%	20%	36%	11%	67%	3%
Electric gensets and rotary converters	51%	9%	8%	1%	14%	67%	244%	290%	166%	133%
Electric accumulators	16%	19%	39%	8%	-3%	60%	143%	114%	287%	82%
Insulated wire and cables	1%	20%	4%	27%	-16%	42%	110%	78%	138%	56%
Electric apparatus for switching	-67%	-6%	299%	26%	-19%	35%	42%	42%	84%	9%
Others	8%	15%	20%	-11%	14%	27%	49%	44%	114%	33%
Total	2%	15%	23%	4%	-7%	41%	76%	58%	149%	35%

Source: DGCI&S, JM Financial

Exhibit 10. Key categories in Industrial Machinery & Equipment

Top export categories for India		YoY (%)						Apr-Jul'22 Vs			
	% of total electrical exports	FY17	FY18	FY19	FY20	FY21	FY22	Apr-Jul'18	Apr-Jul'19	Apr-Jul'20	Apr-Jul'21
Turbojets, turbo-propellers and other gas turbines	11%	198%	155%	47%	3%	-25%	20%	-21%	-14%	-6%	3%
Transmission shafts	5%	-5%	43%	25%	1%	4%	38%	67%	48%	144%	17%
Taps, cocks, valves and similar appliances	8%	-2%	16%	7%	12%	-13%	17%	41%	16%	75%	27%
Parts for internal combustion piston engine	6%	-1%	11%	19%	-27%	1%	40%	40%	37%	160%	6%
IC piston engine diesel or semi-diesel engine	3%	25%	24%	65%	10%	-2%	43%	91%	52%	157%	22%
Pumps for liquids	5%	8%	27%	3%	-4%	-8%	40%	39%	32%	114%	8%
Air Vacuum pumps and others	5%	-10%	23%	5%	1%	5%	36%	62%	56%	151%	20%
Ball or roller bearings (excluding steel balls)	3%	-3%	39%	7%	-8%	-7%	57%	58%	51%	164%	24%

Source: DGCI&S, JM Financial

How are domestic companies performing lately?

Exhibit 11. Key commentaries from domestic companies for exports

Company	Overseas Income as a % of revenue	Export from India as a % of revenue	Products	Comments
Coverage Companies				
GMM Pfaudler	74.0	6.0	Glass lined equipment, Chemical process, systems and pressure vessels	➢ GMM will be a prime beneficiary of structural tailwinds such as a) manufacturing shift from China to India in chemicals and pharma industries; b) technology leadership due to acquisition of parent company; and c) market share gains led by top quality products as well as strong customer credentials. ➢ Sustainable manufacturing methods with infrastructural facilities to expedite specialty chemicals production coupled with IP protection rights, and strong R&D culture to promote investment in India as the next best alternative to China. This is further supported by labour arbitrage opportunity in India. ➢ "China has been the leading player in the global specialty market over the past few decades but has recently shown signs of slowing down. Tightening environmental regulations and rising labour costs have been the key factors for global chemical companies adopting the China+1 strategy."- AR FY22
Cummins India	60.0	60.0	4-6-cylinder Diesel Engine, Compression Ignition Internal Combustion Engines, Generator Sets and Component, High Horsepower Powergen engines such as K50, V28 and Q50.	➢ Strong demand for Powergen and Coolpacs was evidenced in FY22 and the same is expected to continue from Europe, Latin America, and Middle East regions. ➢ KKC is also tapping into opportunities available in Industrial segments such as Rail and Marine in regions such as Latin America, Africa, and Asia Pacific, building upon existing presence in the region. ➢ Exports contribution for the company continues to remain robust. Demand in markets like ME is strong, led by higher oil prices. ME is investing in data centres, telecom and infra etc. on the back of capital inflows given Russia Ukraine conflict. ➢ New products are being developed and in final stages of testing, which should drive exports growth in future. The Low kVA Fit-for-Market products launched in FY21 is gaining traction in the geographies of Latin America, Africa, Middle East, and Asia Pacific. ➢ The company continues to operationalize its strategy of Fit-For-Market products to strengthen its presence in different geographies. KKC have received healthy response for Fit-For-Market B3.3 and QSB7 Gensets, and K19 G-drives. –ARFY22
Kirloskar Engines	13.0	13.0	Diesel engines, generating sets, power tillers, pump sets and spare parts	➢ The Company has certain focus markets for exports. With new BS-5 norms in Apr 2024, the company will be able to serve more geographies as products would become complaint with strict emission norms. – Kirloskar Day ➢ The company intends to triple exports to INR10-15 bn and increase share from 10% to 25-30% of sales mainly focusing on South Africa, ME and America (US is small right now). - Kirloskar Day ➢ The Company will also seek to add new industrial OEMs as customers, taking advantage of the China+1 strategy which has come to focus given the global macro environment.-ARFY22
Rolex Rings	58.0	58.0	Bearing rings, shafts, spindles, CV joint parts, gear blanks and rings, bevel gears and ring gears, wheel hubs, spindles, Cam lobes, gears.	➢ The company onboarded new clients that include US based bearing rings company and European plant of an existing global bearing rings customer and a Europe based auto-component Company. ➢ Increase in adoption of EVs to further boost revenue for the companies, In FY22, the company has initiated to supply for the EV and hybrid vehicles wherein that contributes almost 7% - 7.5% from the EV and hybrid vehicles. ➢ "We are looking forward to make the most of the opportunity stemming from the 'China plus one' strategy, wherein global players are diversifying their businesses and broadening the scope of manufacturing beyond China."- ARFY22 ➢ "A paradigm shift in focus from China to India will also give opportunity to India as a major exporter of forged and machined components" ARFY22
Tega Industries	89.0	57.0	Dynaprime, Dynasteel, Dynapulp, Dynawater, tRommel, Chute.	➢ The company intends to spend INR2.5bn in capex in next three years, where it expects to triple its capacity in Chile, through a mix of brownfield and greenfield expansion, which would cater to Latin American market.. New product introduction with capacity expansion would allow company to tackle competition and grow its revenue in different geographies.
Schaeffler India	13.0	13.0	Bearings and components	➢ Company is focused on exports, largely for the industrial sector and not for the automotive sector. The reason, he pointed out, is that the auto sector across the globe prefers having localised manufacturing as OEMs expect 'just-in-time' deliveries. "This is a very common parlance across the globe and that is how it works also in the auto component sector in India where we operate in both automotive OEM as well as aftermarket which is largely localised,"- Media Interview
Dixon Technologies			Mobile phones	➢ Dixon Technologies highlighted that its mobile segment is likely to witness 2.5x growth in revenue in FY23 to INR70-75bn, where major volumes will be from Motorola, Nokia (feature and smart phones with 1.5mn/month volumes), ITEL (feature phones- 1 mn annual volumes), and Samsung (4G and 5G, phones). ➢ Further, company intends to participate in the manufacturing program of Apple as they plan to begin manufacturing the iPhone 14 in India about two months after the product's initial release out of China in a move to reduce dependence on the country. ➢ Dixon management interview: "Apple clearly wants to make India a manufacturing hub. Internationally, they want to shift some of the supply chains from outside China to India and India is a big beneficiary"-Media interview

Source: Company, JM Financial

Exhibit 12. Key commentaries from domestic companies for exports

Company	Overseas Income as a % of revenue	Export from India as a % of revenue	Products	Comments
				Non-Coverage Companies
Apar Industries	38.0	38.0	Cables, Transformer oils (T-oils), High-Efficiency Conductors (HEC), Copper Conductors, OPGW, Copper Transpose Conductors	➢ Exports reported robust growth for the company in FY22 to INR36.1bn from INR25.6bn in FY21. Major exports are in East Africa, Latin America, USA, and Australia, new opportunities are opened for FY23. ➢ Company intends to increase contribution from exports to 50% as various other markets are now viable given diversification away from China by different countries. In cable market, various approvals and discussions are happening from countries like U.S, Australia and European market which was completely shut to Indian players 5 years back. - 1QFY23 ➢ "With product approvals in place, appreciated product quality and increased acceptance. Your company is prepared to exploit the opportunity presented by the negative sentiments towards Chinese products".-ARFY22
Carborundum Universal	49.0	15.0	Bonded Abrasives, Coated Abrasives, Metal Working Fluid, Super Abrasives and allied products.	➢ Demand outlook remain healthy for minerals business due to production cutbacks in China owing to environmental concerns and leading to better realizations for the company. Besides, some of the segments are witnessing incremental growth coming from export customers wanting to de-risk their supply chains. –ARFY22 ➢ CU management highlighted despite return of China in the market, their segments will continue to perform well as China's cost competitiveness has reduced given higher raw material, energy and labour costs. -1QFY23
Elgi Equipment	47.0	47.0	Air Compressors, Automotive equipments	➢ In the UAE, company focused on driving brand awareness as part of the direct approach to the market. Increased focus on Saudi Arabia and South Africa will help the region grow significantly. ➢ In South Asia, sales grew in Bangladesh owing to strong demand and focus on building brand awareness within key sectors such as textiles. ➢ In new markets such as UK and Sweden, sales teams focused on introducing the brand and the product range to potential channel partners. ➢ "The Indian market enquiries, order conversions are still pretty strong, Europe and US are still reporting very strong enquiry levels and interest levels in the market, Australia is coming back from a very weak last previous year."- ARFY22
ISGEC Heavy	9.0	9.0	Engineering, Procurement and Construction	➢ Company is undertaking exports order from variety of products like presses, boilers, sugar machinery, castings etc. Markets are all over Southeast Asia, Africa, Central America, Europe, etc. ➢ With ease in travel restrictions company expects order to further pick up as order inquiries continue to remain strong.
Kirloskar Pneumatics	9.0	9.0	Gas systems (Oil & Gas Processing – Upstream Market)	➢ Exports to contribute materially going forward as company booked its all-time high exports order of INR1bn in FY22. Currently, exports stands at less than 10% of sales, which the company intends to increase to 15-20% in next 2-3 years – Kirloskar Day ➢ Primary addressable market for the company is Middle East and South East Asia and the company proposes to be present primarily in projects in exports markets. ➢ Currently, company is only delivering packages in the export market, however with newer products like the Khione screws they intend to target exports market with equipments as well.
KSB Ltd	17.0	17.0	Pumps and spares	➢ Geopolitical tension and and continued supply chain challenges are generating opportunities for the company in the export market. Export opportunities are largely spread between oil and gas and energy sectors. ➢ Expanding product basket will improve export opportunities for the company and it intends to increase it to 20% of sales, considering the fact that the company is growing domestic business at 18% CAGR. –Investor Day
KEI Industries	10.0	10.0	Wire and Cables	➢ The demand from our export market is also not likely to be affected by this geopolitical strife as we do not have business interests in these geographies. Instead, in the Middle East countries, where we have major business domination in the oil and gas sector, the recent surge in oil prices is encouraging investments in this area. We are also witnessing traction in demand in the Australian and African markets.-ARFY22
Triveni Turbines	30.0	30.0	Steam turbine in the range of 30.1-100 MW	➢ TRIV to focus aggressively on underserved markets such as North America and East Asia. ➢ Focus to improve aftermarket offering in international markets, recently company acquired shares of TSE Engineering to target customers in South African region and for enabling growth of aftermarket business. ➢ Strong shift from conventional energy sources to renewable power has led acceleration towards Green power. Bulk of the steam turbines demand in FY22 came from thermal renewable based power plants (including biomass, WasteHeat Recovery (WHR) and Waste to Energy (WtE). ➢ The Oil & Gas industry is another area where company sees significant opportunity for expansion in the exports market. ➢ The export business is driven by IPP (Biomass, Waste-to-Energy), followed by Pulp & Paper, Food Processing, Palm Oil, Sugar, Distillery, Steel, Cement, Oil & Gas among others, leading to growth in the enquiry book.-ARFY22
TD Power System	39.0	39.0	Gas Engine, Geo Thermal, Diesel Engine, Steam & Gas Turbine generators	➢ Inquiry pipeline from spaces like metal and other sectors remains strong; inquiry pipeline at the moment is about 30% higher. ➢ The war in Ukraine has increased the focus on renewable power, waste to energy, biomass, hydro and geothermal. We are well positioned to capture business in all these segments. At the moment, small gas engines and turbines are also very popular to avoid the current high power prices, especially in Europe. ➢ In the US, the fracking industry is staging a big revival and we hope to get more orders from the mobile power unit. We're working with both the major gas turbine manufacturers in this segment. 4QFY22

Source: Company, JM Financial

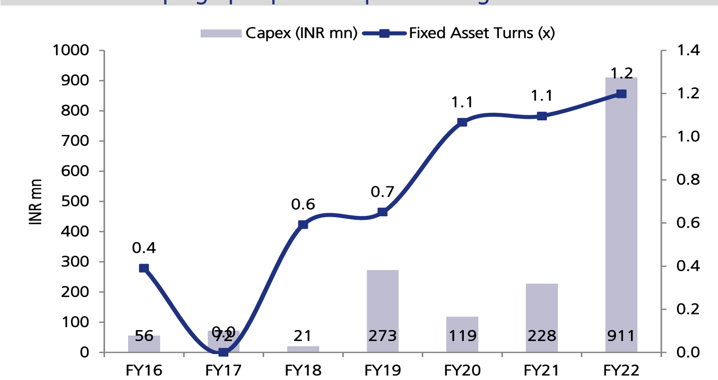
Case studies

MTAR Technologies

MTAR is focused on exports. In FY22, it added customers such Voith, and Hitachi Zosen in the clean energy segment, and it is in discussions with GE Hydro, Enercon. The company makes power units, specifically hot boxes, and develops and manufactures hydrogen boxes and electrolysers to serve Bloom Energy.

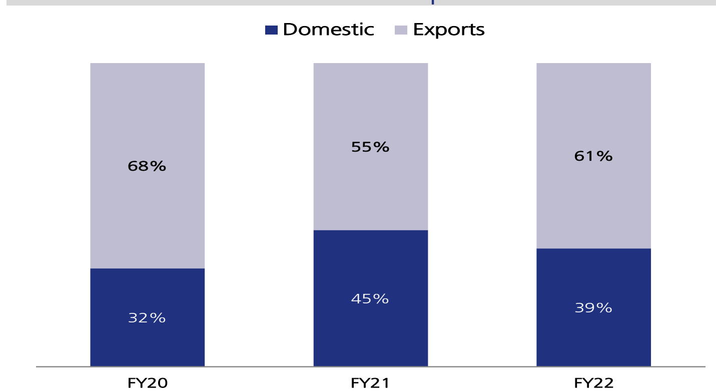
- Expanding wallet share with Bloom Energy to boost revenue: MTAR Technologies has expanded its product basket for Bloom Energy including: a) Keylocko Hotboxes: The Yuma variant hotboxes will transition to Keylocko variant during CY23 (1600 units expected in CY23), b) Electrolysers: where it expects to deliver 400 units in CY23, c) ASP assemblies (import substitution): expects INR 1.0bn revenue in 2HFY23, which will be ramped up in FY24 and d) Enclosures and Sheet metal assemblies: expects to deliver revenue of INR 2bn (USD 25mn) from these in CY23. Besides, the company is indigenising its imported components including bellows, ceramics and heaters (all are part of hotbox revenue), which will reduce costs by 3-5%, even after passing through the benefits to Bloom Energy.
- Foray into fastest growing missile launch category to boost exports revenue: ISRO plans to outsource manufacturing of SSLVs (80% of the global launch market), but it's a different technology (liquid propulsion and 2-stage) as compared to ISRO's in-house capabilities (3/4-stage and solid fuel propulsion). MTAR has received in-principle approval from the board for exploring the concept and designing SSLVs, and ISRO will handhold the private sector to develop these capabilities by supplying avionics and launch pads on cost basis.
- Necessary capex to capture new growth areas: The company has incurred cumulative capex of INR1.6bn over FY18-22 and incurred INR 400-450mn in FY23 towards enhancement of hotbox manufacturing capacity as it expects 9,000 hotboxes order in CY23. Also, it will be completing the bulk of Adibatla facility capex in FY23, although certifications for its welding facility will come by 1HFY24. The management has guided that annual capex intensity will cool off to INR350-400mn in FY24 and beyond.

Exhibit 13. Ramping up capex to capture new growth areas



Source: Company, JM Financial

Exhibit 14. Revenue contribution from exports and domestic



Source: Company, JM Financial

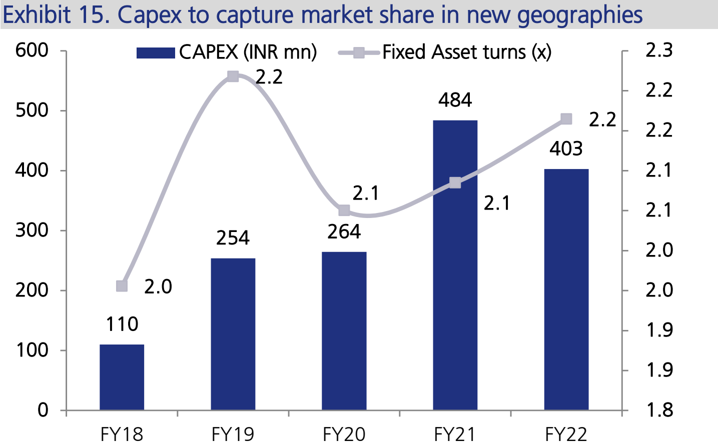
Tega Industries

Overseas business contributes significant proportion of revenue

Tega Industries (TEGA IN) is the second-largest manufacturer of polymer-based mill liners, and it derives 89% of its sales from outside India (including overseas subsidiaries income). We believe Tega is well positioned to outpace industry growth due to a) introduction of new products – its DynaPrime liner range has opened up the USD 900mn metallic liner market for conversion, b) a sticky customer base as 75%+ sales comes from repeat orders, c) de-risked business model due to low customer concentration (top 10 customers: 34% of sales) and a diverse manufacturing base (in India, Chile, South Africa and Australia).

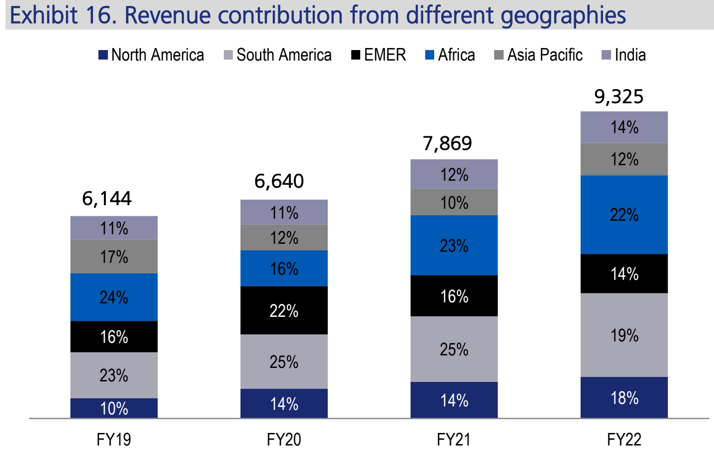
- Dynaprime to aid in market share gains in new regions: The company expects Dynaprime (24% of sales) to be the key growth driver. Given its significant market penetration potential (USD 900mn of addressable market), the company hopes to deliver 25-30% CAGR during FY22-24. This is a new market for Tega in addition to the existing US$ 400mn rubber and PM liner market.
- Capacity expansion to enhance reach: The company intends to spend INR 2.5bn in capex in the next 3 years, with much of it being spent in the next 2 years. With incremental capacity expansion, the company plans to penetrate deeper into LatAm markets as 40% of global copper production and 8% of global gold production output reserves are available in this region. It expects to triple its capacity in Chile through a mix of brownfield and greenfield expansion and would require capex of USD 20mn, which would cater to the Latin American market. At peak utilisation, this facility can generate additional revenue of USD 70mn, vs. c.USD 30mn currently for its Chilean subsidiary.
- Margins to further improve: Since mineral processing sites ordinarily refrain from switching and remain with an existing approved supplier, Tega has the flexibility to maintain high margins throughout the period of association with a mineral processing site. Further, liners typically forms 3-15% of the total operating costs, providing significantly leeway to the company to pass on cost escalations to customers. The management expects EBITDA margin to sustain at 21-22% given continuity in volume growth trajectory coupled with further reduction in logistic costs.
- The mill liner industry is expected to grow at c.6% CAGR over the next 10 years driven by greater demand from gold/copper and depleting ore grades. <u>We forecast sales/EPS CAGR of 16%/20% over FY22-25E, as we expect penetration in its Dynaprime range to drive growth, and see margins improving to 21-22% by FY24-25 (vs. 19.2% in FY22).</u> Maintain BUY with TP of INR630, based on 22x Sep'24E EPS.

Exhibit 15. Capex to capture market share in new geographies



Source: Company, JM Financial

Exhibit 16. Revenue contribution from different geographies

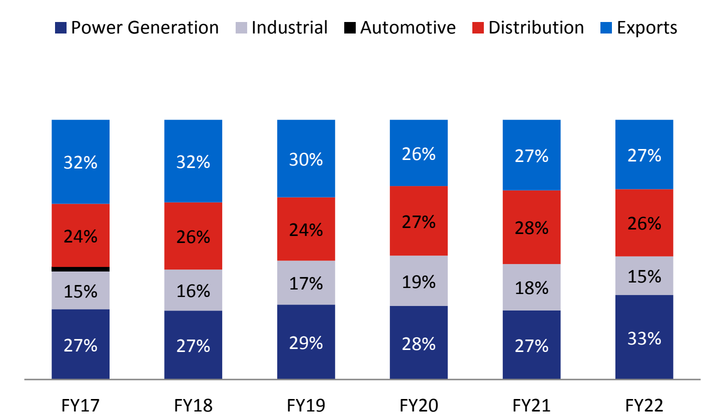


Source: Company, JM Financial

Cummins India

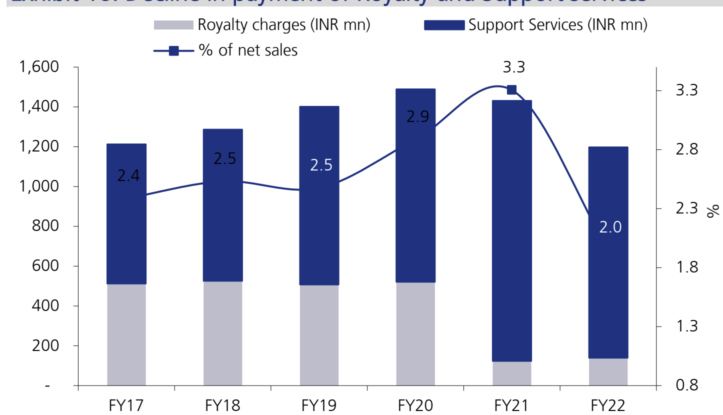
- **Strong performance in exports:** The company is ramping up new product launches in exports markets, as India's cost competitiveness continues to improve vs. other geographies. In FY22, exports' contribution remained robust, growing at 40% YoY to INR 16.1bn. Demand in markets like ME and LatAm and Asia is strong, led by higher oil prices. ME is investing in data centres, telecom and infra, etc. on the back of capital inflows, given the Russia-Ukraine conflict.
- **Technology sourcing from parent at reasonable costs:** KKC pips its competitors on the technology front, thanks to strong technical support from its parent. KKC spent INR 654mn in FY22 as R&D expense and INR 1.4bn in royalty payments to Cummins Inc. As emission norms get stricter over the next 2 years (introduction of CPCB-IV and BS-V across India), we believe KKC will be better placed than its competitors as these technologies have already been developed by its parent and minimal expenditure will be incurred to localise these engines as per domestic customer requirements. Further, post implementation of the new norms, the company's products would be compatible with global emission norms and widen the market for it.
- We bank on Cummins and expect the company to deliver a robust CAGR of **16%/21% in sales/EBITDA over FY22-25E** led by strong volume growth as supply chain constraints ease, gross margin recovers through sustained price hikes, new products are launched in export markets, and market share rises post CPCB-4 implementation, as we believe Cummins India has an edge over its competitors. We maintain BUY with a revised SOTP-based TP of INR 1,400, implying PE multiple of 32x Sep'24E EPS.

Exhibit 17. Exports picking up



Source: Company, JM Financial

Exhibit 18. Decline in payment of Royalty and Support services

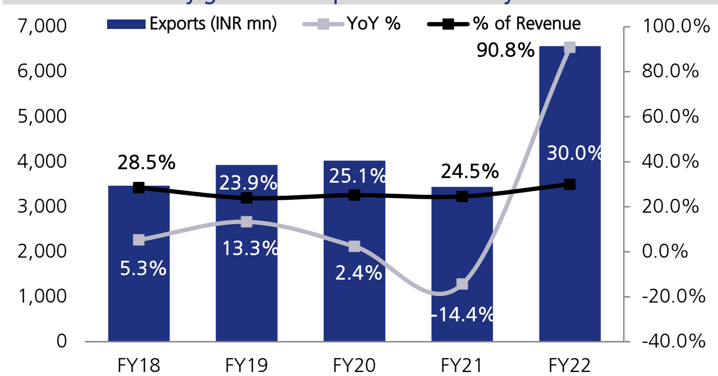


Source: Company, JM Financial

Timken India

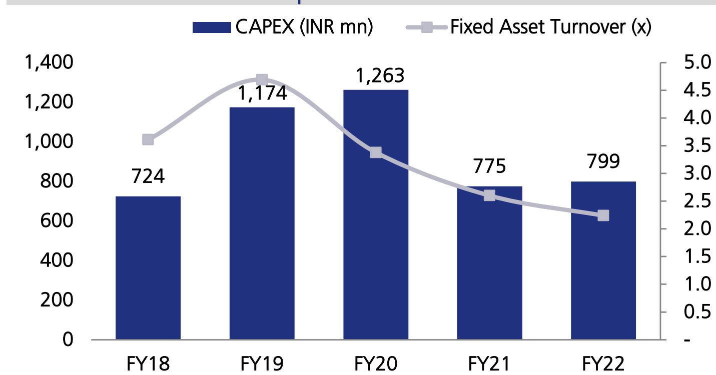
- **Exports can see continued traction as capacities are shifted to India from other global plants:** Exports rose 90% YoY to INR 6.7bn in FY22 and formed 30% of sales (vs. 25% of sales) in FY22 as products from the company's Bharuch factory have qualified under Timken's global supply chain. Major supplies were to Africa, China and Russia as well, largely fragmented with no concentration. The company highlighted that with China being impacted by Covid, and the war situation in Europe, companies are looking to diversify their supply chain, which could provide growth opportunities to India, as it remains one of the lowest-cost manufacturers in the Timken global supply chain.
- **Ramp-up at Bharuch plant (acquired from ABC) can sustain higher margins:** Timken acquired the plants of ABC Bearings and boosted capacity utilisation from ~40% to 60%+, led by exports. We believe increased capacity utilisation can help drive operating leverage benefits, as was the case in FY22, thus protecting the company against margin shocks.

Exhibit 19. Healthy growth in exports in last few years



Source: Company, JM Financial

Exhibit 20. Sustenance in capex



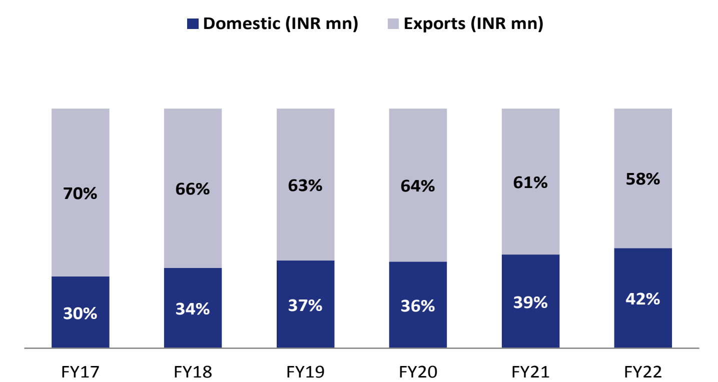
Source: Company, JM Financial

Rolex Rings (Not Rated)

Rolex Rings has a comprehensive portfolio of products and offers a diverse range of hot forged and machined alloy steel bearing rings. The company reported robust revenue growth (+65% YoY) in FY22 to INR 10bn, on the back of a strong bounce-back in exports, coupled with a cyclical recovery in the domestic market.

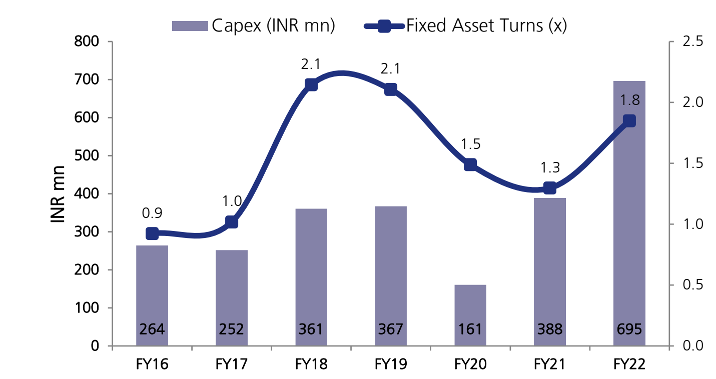
- **Increasing wallet share from existing customer base:** Rolex Rings is a leading supplier across the top bearing companies and is also a Tier-I and Tier-II auto-component supplier. The company has supplied products to almost 17 countries. By its very nature, the industry requires a long validation process from its prospective customers. The company plans to increase its wallet share by broadening the portfolio of its products, increasing engagement with existing customers, investing in manufacturing infrastructure, and continuing to engage with customers for new product development.
- **China+1 pegging new orders for the company:** Global players are considering the China+1 sourcing strategy to reduce their dependence on China-based suppliers. The company highlighted that improving its strong precision and engineering capabilities will help it to benefit from outsourcing by major bearing players. Also, shifting of capacities from other global plants and the China+1 strategy of global customers is likely to drive more volumes to India, keeping the sales mix favourable.

Exhibit 21. Strong growth in exports over the years



Source: Company, JM Financial

Exhibit 22. Capex to build capacity



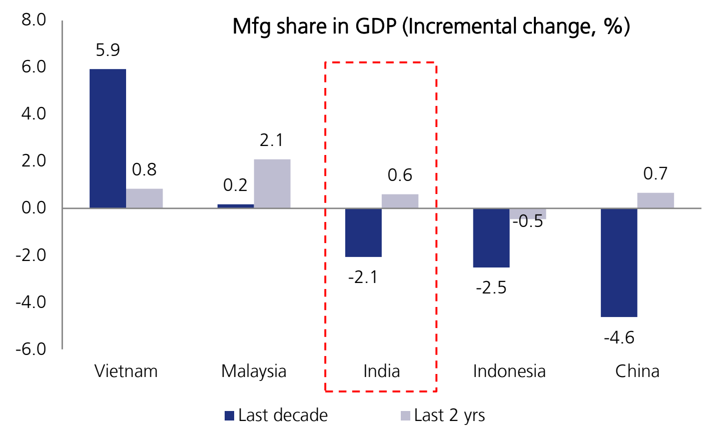
Source: Company, JM Financial

Auto & Auto Ancillaries

India well placed to capitalise on structural shift

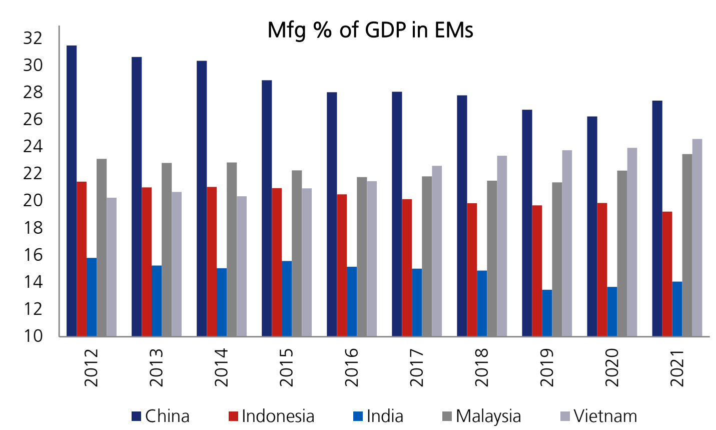
Over the last decade, Vietnam's focus on manufacturing, given that it has a similar cost advantage as India, led to its share of manufacturing as a percentage of GDP rise by up to c.6%. Over the last 2 years, India's share of manufacturing as a percentage of GDP has increased by 0.6%, and manufacturing contributes c.14% to India's GDP, but it is still among the lowest vs. Asian peers.

Exhibit 23. India: Share of Mfg. in GDP rose by 60bps in the last 2 years; still lags other Asian peers



Source: World Bank, JM Financial

Exhibit 24. India's manufacturing share in GDP lowest among emerging markets



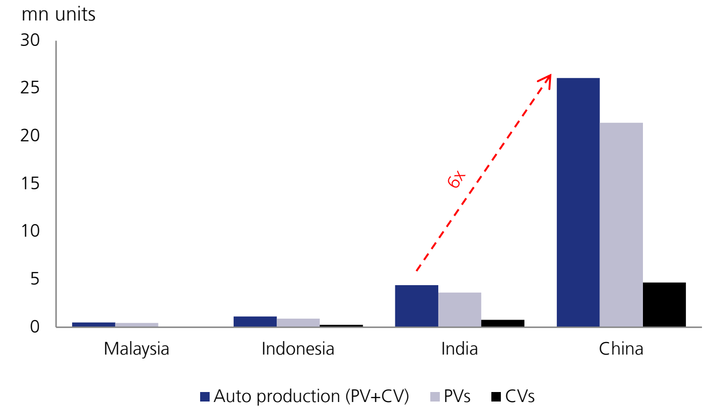
Source: IMF, JM Financial

India is on the cusp of a structural shift in the global exports/manufacturing sector. Recently, it surpassed UK to become the fifth-largest economy in the world, contributing to 3.4% of global GDP. However, India's export contribution to global trade is c.2.3%. The government's robust policy thrust, like Make-in-India and PLI initiatives, to promote local manufacturing, post pandemic global supply chain diversification, and India's cost advantage, energy stability, deep supplier base, strong R&D and manufacturing capabilities are driving the surge in exports in recent months. With high impetus on supply chain diversification, leading global players are setting up or expanding their manufacturing bases in the country. Globally, inflationary pressure and lack of labour availability is making manufacturing unviable. And, with government policy support in India, the country is emerging as one of the favoured destination for global companies to source products/components.

India's manufacturing exports grew by c.40% YoY in FY22 to USD 418bn and was c.27% higher than the pre-pandemic peak of FY19 when manufacturing exports stood at USD 328bn. Strong growth in exports has been enabled by global supply chain diversification as well as specific policy initiatives to promote exports.

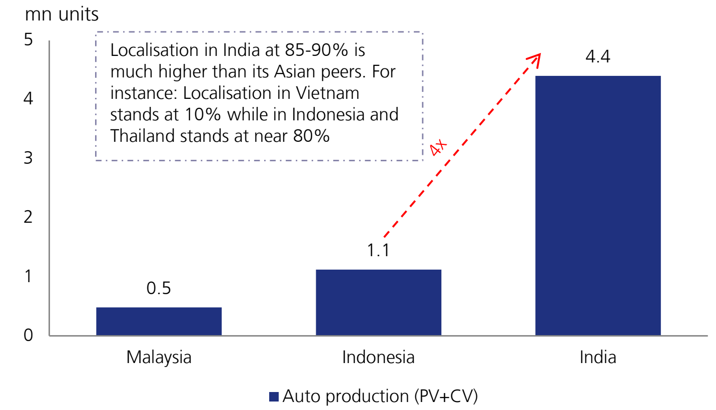
In the last 2 years, while big Asian economies like Japan began looking towards India as an alternative to China for sourcing their requirements, American companies considered India among the top four destinations (India, Vietnam, Thailand & Indonesia) for relocation of operations. Moreover, in 2021, CO_2 emissions in China were 6% (almost 500 metric tonnes) above 2019 levels while India's emissions were 1.4% (30 metric tonnes) above 2019 levels, helping companies shift to India to comply with environmental, safety, and health standards.#

Exhibit 25. While the size of China's automotive market is ~6x Indian automotive industry (ex.2Ws)….



Source: Industry, JM Financial

Exhibit 26. ….Outside China, India is the only low-cost automotive market with large operating scale and high localisation



Source: Industry, JM Financial

In the automotive sector, several global companies are looking at export-oriented production in India because of the country's cost advantage over the US and Europe and strong manufacturing capabilities. 100% FDI under the automatic route for auto components sector and PLI scheme for Auto and Auto components are expected to result in capex of INR 750bn (USD 9.5bn) in the next 5 years. FDI inflow in automotive sector in FY22 jumped sharply to USD 6.99bn to form c.12% of total FDI inflow in India for FY22 **(Refer Exhibit 28)**.

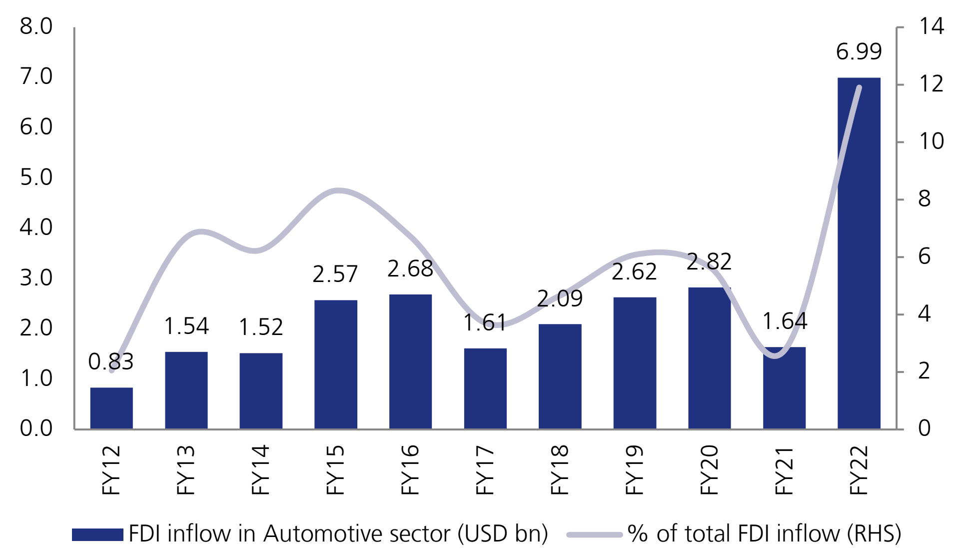
Exhibit 27. Key commentary from Auto and Auto Component companies on their strategy for India

Company	Commentary
Auto Component companies	
ZF Group	"Exports are a key growth area and will expand for mechanical systems from here to other ZF entities. We will do everything to help our global parent from India," says Kaniappan. – news article As part of its Refresh India strategy plan, EUR38-billion ZF Group plans to double its component sourcing from India to EUR2 billion as part of its China-plus strategy to ensure reliable supplies. "India will become the most dynamic economy in the world - in terms of GDP grow - and ZF has all enablers in place to participate in this growth." – news article
Denso Corp	Suzuki Motor Corp., Toshiba Corp. and Denso Corp. plan to turn their joint manufacturing facility for lithium-ion (Li-ion) cells in Gujarat into a global export hub. – news article Takashi Nagata, managing director, Denso International India, said: "Make in India has great relevance for our India operations. We will continue to expand on the front of powertrain products for the ICE engines. Making India our global manufacturing hub by 2025 is my dream." "We plan to invest about Rs 900 crore in phases – news article
Behr-Hella Thermocontrol Gmbh	The company plans to tap into the growing domestic market and use it as a critical sourcing base for EVs. "The new facility will cater to the growing demand in the country but will also be a key strategic export hub for our thermal management system and automotive displays or Human Machine Interface solutions," Michael Jaeger, CEO.– news article
Continental auto components	Continental will produce premium surface materials for car interiors, including electric vehicles, and seats for two-wheelers, catering primarily to the domestic market as well as exports. "Growing our business in the Asia-Pacific region is one of our main strategic pillars. Amongst others, India will play a major role to strive for our goal. That's why we continue to invest into our Indian locations. Thus, we will remain close to our customers maximizing value creation", said Philip Nelles, Member of the Continental Executive Board and Head of Group Sector ContiTech at the inauguration ceremony of new Rs200crore plant in Pune. – media release
Valeo	Valeo's counter-strategy to steer past the slump in the domestic market had the company, in 2020; enter new territories such as South America, the Balkans, SAARC nations and the ASEAN countries. Establishing its business in new territories, VFMI was able to achieve a significant milestone of 145 per cent growth in exports. – news article

Auto OEMs	
Hyundai	"For Hyundai, India will play a bigger role when it comes to supply of parts to destinations in South America and Eastern Europe like Brazil, Slovakia and others. India is already one of the regional headquarters and, post-covid, it will be a regional hub for procurement of parts for other countries," – media article
Kia	Kia is witnessing a huge demand for India-made vehicles in the domestic market as well as abroad, said Hardeep Brar, Vice President for sales & marketing at Kia India. – news article Kia India said it exported Seltos and Sonet to 91 countries in the Middle East, Africa, Central and South America, Mexico and Asia pacific. – news article Park Tae Jin, managing director and CEO, Kia India said in a prepared statement, "India is a strategic geography for Kia Corporation, not only in terms of sales but also in terms of developing India as a manufacturing and export hub." – news article
Suzuki	Suzuki plans to export more cars from India to other emerging markets in collaboration with Toyota Motor Corp. with whom it has a partnership for the Indian market since 2017. "The Indian government's intent to promote exports and manufacturing from India in the next decade has enthused the likes of Suzuki, Hyundai and others. The covid pandemic has also shown the need to have multiple sources. If Suzuki finally decides to make India the sole hub for production (of Swift), then exports of Maruti is expected to benefit immensely. Also, given its production capacity in India, financially it will make sense as well," the person said. – media article Maruti Suzuki's parent firm, Suzuki Motor Corporation, has announced that it will invest Rs 10,440 crore in India to set up an electric vehicle manufacturing facility and an EV battery plant in India. The company signed a memorandum of understanding (MoU) in this regard with the state of Gujarat on March 19 at the India-Japan economic forum. This vehicle should be co-developed by Toyota and may spawn a Toyota derivative as well. This expansion will make Suzuki's Gujarat facility a global manufacturing hub for its and Toyota's low cost EVs. – news article
Toyota	1.Toyota Motor Corporation is planning to make India its production centre for EV (electric vehicle) parts for both domestic and export markets. The company will export EV components to Japan and some ASEAN (Association of Southeast Asian Nations) countries. – media news

Source: Company, Industry, JM Financial

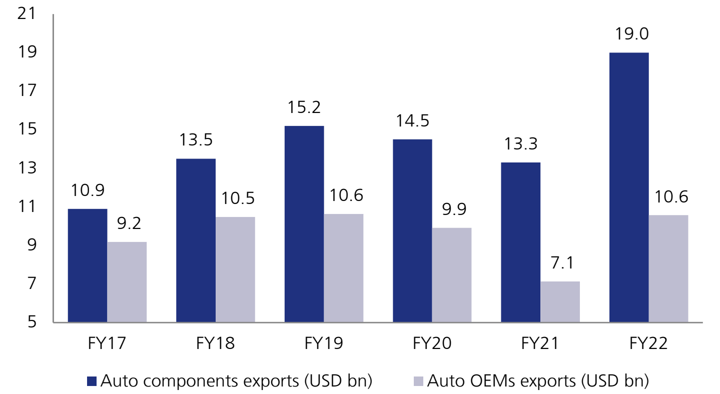
Exhibit 28. Supply chain diversification and government policy support drove record FDI inflows into India's automotive industry in FY22



Source: Industry, JM Financial

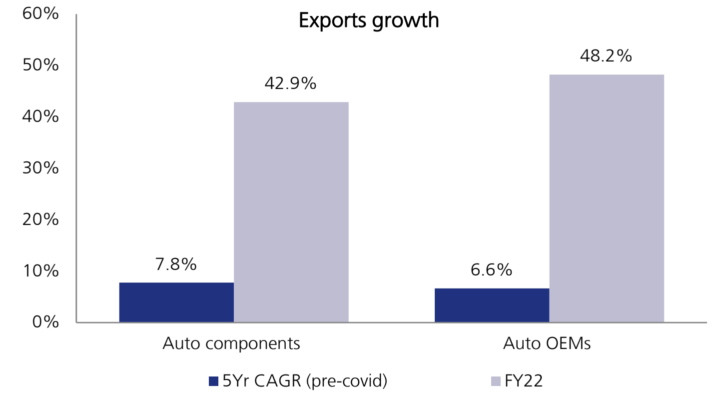
India's automotive exports have traditionally grown by 6-8% pre-pandemic. The sharp c.45% rise in automotive exports in FY22 is attributable to 1) global impetus on supply chain diversification, 2) deep Tier 2 & 3 supplier base, 3) low-cost advantage vs. developed economies, and 4) government initiatives on Make in India (PLI, FAME scheme etc.). India's automotive exports are expected to grow at a CAGR of 15-18% to USD 45bn-USD 55bn by FY28.#

Exhibit 29. Trend in exports of Auto and Auto components from India



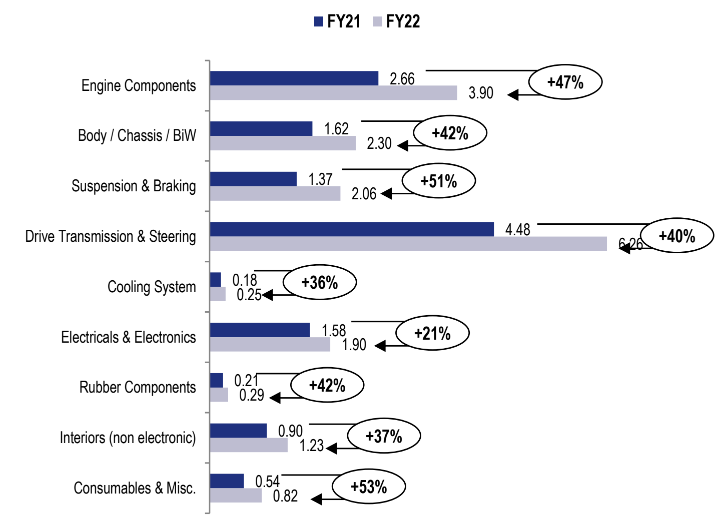
Source: Industry, JM Financial

Exhibit 30. Accelerated growth led by strategic rise in India sourcing



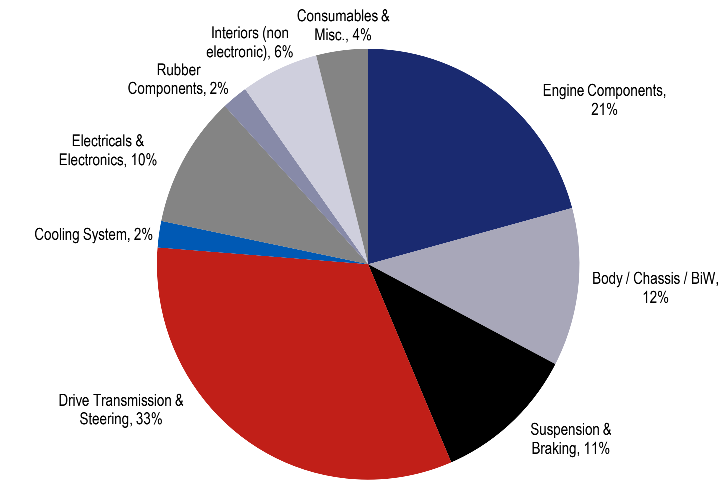
Source: Industry, JM Financial

Exhibit 31. Exports by component type – Growth



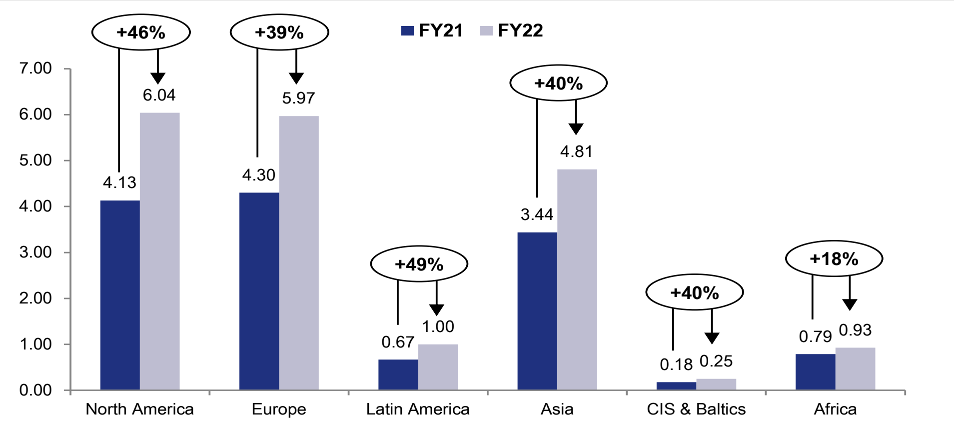
Source: ACMA, Industry, JM Financial; values in USDbn

Exhibit 32. Exports by component type mix – FY22



Source: ACMA, Industry, JM Financial

Exhibit 33. Region-wise auto components export growth



Source: ACMA, Industry, JM Financial; values in USDbn

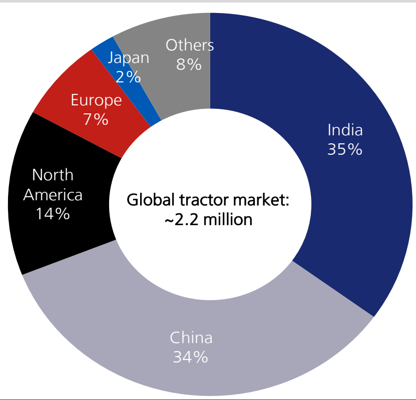
- as per an industry manufacturing report (Bain & Company)

Case Study - Escorts Kubota Ltd (Not Rated)

Escorts Kubota Ltd (formerly Escorts Ltd) is an Indian multinational conglomerate that operates in agricultural machinery, construction machinery, material handling, and railway equipment. The company is the fourth-largest tractor manufacturer in India with c.14% market share. Kubota Corp's (Kubota) investment (joint promoter with 44.8% stake) has opened multiple growth opportunities for the company in both domestic as well as export markets. This partnership is expected to address the current gaps in its product offerings and enable it to take advantage of the growing farm implements segment in the domestic market. Additionally, Kubota plans to make Escorts Kubota Ltd a global hub for manufacturing and exporting tractors to developed markets like EU and North America. While the peaking tractor cycle is likely to restrict growth in the domestic market in the near term, the benefit of sourcing tractors for global markets from India is expected to more than offset the industry cyclicality for the company in the medium to long term.

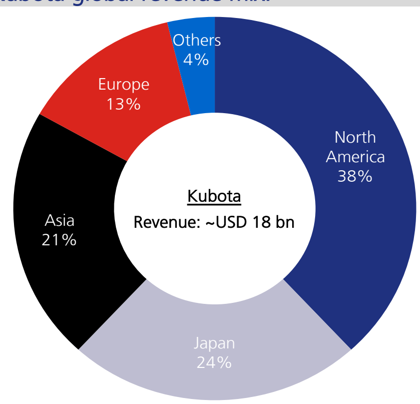
- India to become global hub for sourcing Kubota Tractors: The global tractor market size is 2.2 million p.a. with India and China being the largest markets followed by North America and Europe. Nearly 2/3rd of Kubota's revenue (over USD 18bn) comes from markets outside Japan and it has manufacturing operations across the globe. Recently, Kubota shared its vision to expand its Indian operations to grow into a global manufacturing hub. The company intends to establish a global R&D base in India, utilising Escorts' frugal engineering and Kubota's world-class systems and processes to create highly competitive future products. It hopes to use the market-in approach developed at Kubota to strengthen Escorts' export business. As in India, customers in Latin America and African countries are looking for heavy-duty tractors that can tow heavy loads at a lower price, rather than Kubota's specialty lightweight, compact products. Capitalising on Indian automotive industry's advantage of strong supplier base with high localisation and low cost skilled workforce availability, Kubota intends to make India its global manufacturing hub for exporting tractors all over the world.

Exhibit 34. Global tractor market size



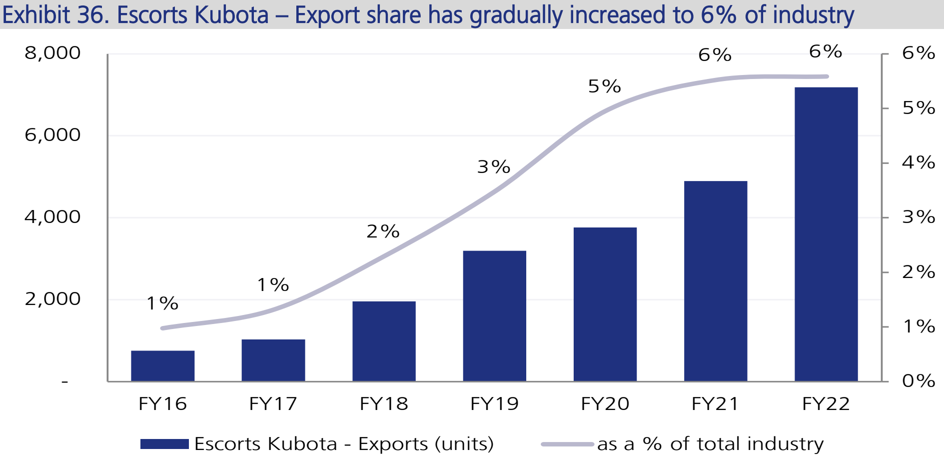
Source: Industry, JM Financial

Exhibit 35. Kubota global revenue mix.



Source: Industry, JM Financial

Exhibit 36. Escorts Kubota – Export share has gradually increased to 6% of industry



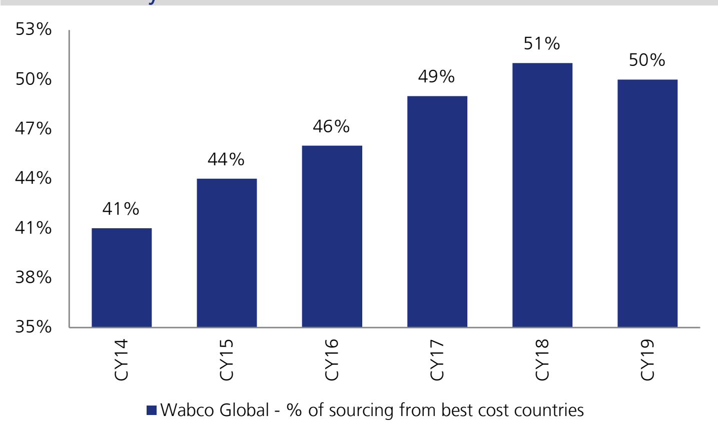
Source: Company, JM Financial

Case Study - ZF Commercial Vehl Cntrl Sytm India Ltd (Not Rated)

ZF Commercial Vehl Cntrl Sytm India (ZFCV; erstwhile Wabco India) is the market leader in the domestic CV braking segment with diversified exposure across OEMs, after-market, and exports. The expected multi-year growth cycle in the domestic commercial vehicle industry and rise in content per vehicle led by gradual adoption of new electronic and smart products (due to government regulations or otherwise) will drive growth in the domestic market. ZFCV generates half of its revenue from exports and has been a key sourcing hub for the parent company due to cost advantage along with proven technology and engineering capabilities. Following supply chain disruptions globally, ZFCV is expected to play a much bigger role in global component sourcing. The company is operating at near full capacity utilisation currently for its exports operations, and the new manufacturing facility at Orgaddam is expected to be operational by Oct'23 and will help improve exports as well as revenue from PLI eligible components.

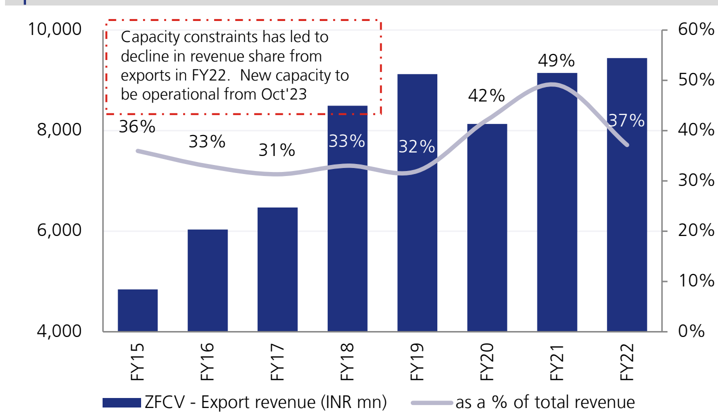
- Higher global sourcing from the best cost location: ZFCV generates half of its revenue from exports and has been a key sourcing hub for the parent company due to cost advantage along with proven technology and engineering capabilities. ZFCV has positioned itself as the best cost location globally in few products and is becoming more competitive. ZF group has set a target to grow its CV division in india by 2.5x to EUR 1bn by the end of the decade. ZF group expects India to be a strong contributor to its growth going ahead and expects a lot more components sourcing given the supply chain disruptions globally. Additionally, its direct exports of advanced suspension products to BMW has witnessed strong growth. In the recent quarter, the company showcased a vast array of products in advanced techologies (in automonous, connected and electric domain) that it plans to introduce in the Indian CV market as well as for exports. Content per vehicle opportunity from these products is higher than the existing products it supplies in the Indian market. Currently, the company is operating at near full capacity utilisation for its exports operations and has invested in a new manufacturing facility at Orgaddam that is expected to be operational by Oct'23.

Exhibit 37. WABCO global – sourcing from best cost countries has risen over the years



Source: Company, JM Financial

Exhibit 38. Exports revenue share to increase once new capacity is operational



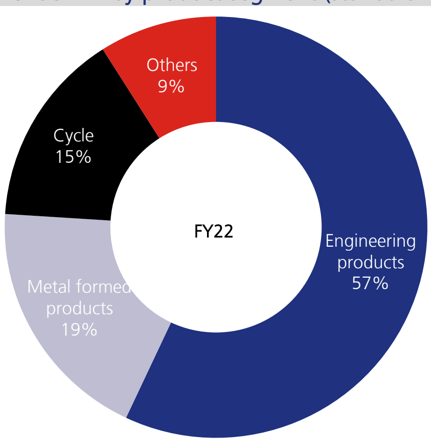
Source: Company, JM Financial

Case Study – Tube Investments Ltd (Not Rated)

Tube Investment Ltd (TI), a flagship company of the Murugappa group, is a leading automotive and engineering company in the manufacture of engineering products (precision steel tubes and strips, tubular components etc.), metal forming products (automotive and industrial chains, car door frames etc.) and bicycles. It has a leadership position in segments like precision tubes (c.60% mkt. share), Bicycles (c.25% mkt. share), 2W and industrial chains. The company has laid a framework to: a) deliver 25% profit CAGR over the long term, and b) diversify from being an auto component supplier only. The underlying philosophy is to invest in cashflows of existing businesses where it has strong leadership position (TI-1) (and does not need capital from growth) to: a) seed several new platforms for long-term growth (under TI-2; e-3Ws, e-tractors, Optic lens, TMT bars and Truck body building), and b) acquire stressed assets to diversify (under TI-3; acquired CG Power in Nov'20). The company's core business (TI-1) witnessed strong traction in exports (+141%) during FY22 led by geographical and product portfolio expansion. It intends to capitalise on shift in the global supply chain and alternative sourcing opportunities from global OEMs and is developing OEM partnerships and distribution channel in EU and US after-market. Exports will continue to be the company's key growth driver, enabled by a sharp focus on offering differentiated products and niche applications.

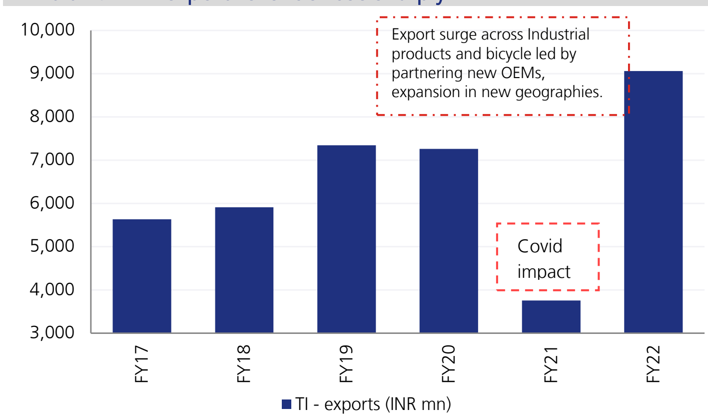
- Exports surge across Industrial and metal forming products: During FY22, the company's export revenue surged by 140%+ with exports constituting 20%/40% of engineering / Industrial chain business. In the engineering segment (exports grew 98% in FY22), the company is working with global OEMs to develop new-gen tubular products and solutions, using new grades of steel and innovative process design to address emerging demands in light-weighting and fuel efficiency and has expanded its global footprint in North America, EU, and Asean markets. Capitalising on the opportunities in the micro mobility vehicle and fitness space in overseas market, TI's cycle exports grew +23% in FY22. TI has expanded its manufacturing capacity as it expects strong bicycle demand from newer geographies.To capitalise on shift in global supply chain and alternative sourcing opportunities from global OEMs, it is developing OEM partnerships and distribution channel in EU and US aftermarket and expects exports to be a key growth driver for the company.

Exhibit 39. Revenue mix by product segment (standalone)



Source: Company, JM Financial

Exhibit 40. TI – export revenue rose sharply in FY22



Source: Company, JM Financial

APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

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