

## Component firms buckle up for tech shift

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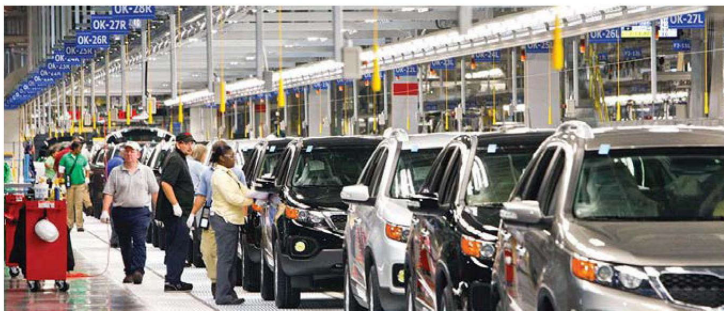
The auto component industry is bracing for the tectonic shift in the automobile sector from the expected exit of diesel cars and arrival of electric vehicles. Though most manufacturers have begun the process of aligning their capacities and capabilities to the emerging scenario, certain component suppliers for turbochargers and fuel injection component would be hard hit, according to industry captains and auto analysts.

Three weeks ago, Maruti Suzuki, the biggest diesel car maker, announced it would stop making diesel vehicles from April 1, 2020 when the new BS 6 fuel emission norms will be introduced. Mahindra, the third biggest passenger vehicle maker, and Tata Motors also joined in.

The high cost of upgrading existing diesel engines to the BS 6 norms has prompted the automakers to take the hard decision. Moreover, diesel cars meeting BS 6 fuel emission norms would be costlier by Rs 2 lakh to Rs 3 lakh.

At present diesel cars at Maruti, which sells one car out of two bought in the country, account for almost a third of its sales.

"Shift of diesel in passenger vehicles has already declined from 58 per cent in



FY2013 to 36-37 per cent in FY2019, and the decline will be even steeper post-BS VI transition," Subrata Ray, Senior Group Vice President at ICRA rating firm told FC.

He said in April 2018, ICRA has estimated that diesel share in passenger vehicles will decline below 25 per cent by FY2022.

Ray said component manufacturers are already aware of underlying changes in the industry and they are aligning their capacity accordingly.

"Casting & forging suppliers will not be significantly impacted, as loss of diesel business can be compensated by gain in petrol – assuming they are supplier for both engine platforms," he said.

However, certain component suppliers for turbochargers and fuel injection component may witness some impact on their

revenue and profitability, Ray pointed out.

"Most automotive manufacturers in India are well-prepared to meet the BS 6 emission regulations from 2020 as they have been exporters of vehicles/automotive components to countries where Euro 6 standards exist," Prashanth Doreswamy, Market Head at Continental India and MD at Continental Automotive India, said.

"As India moves towards reducing carbon emissions significantly in the years to come, we believe there will be further opportunities beyond diesel/gasoline vehicles and others," he said, adding that he expects the compact car segment to accelerate towards petrol engines, to begin with.

Vinnie Mehta, Director General of the Automotive Component Manufacturers

Association of India, or ACMA, said while the component makers have had a great run with the diesel category, there is another opportunity of catering to huge vehicle parc (a European term for total number of vehicles in use) in the country which needs repairing and maintenance.

"After market supplier service is big business and component manufacturers have the existing market to supply spare parts," he said, admitting that the industry was facing tough challenges even as diesel car costs would increase 15-20 per cent post BS 6 emission norms.

Specific component firms manufacturing products for turbochargers, fuel injection, diesel filters and a few engine components (diesel power train typically has more content than petrol engines) would

be more impacted than process capabilities companies, Pavethra Ponniah, Vice President and Sector Head, Corporate Sector Ratings at ICRA, said.

Some companies like Schaeffler India have mentioned the impact of this in their recent quarterly calls, she pointed out.

However, diversified companies across products and segments, such as passenger vehicles, commercial vehicles, two-wheelers and tractors, would be more insulated from such shocks, Ponniah explained.

On transition to electric vehicles, Ray said it is still sometime away and hence, it is unlikely to have any material impact on component-makers performance over the next five years.

BorgWarner, German auto component major, said it was constantly developing technologies to help companies, as the automotive industry is characterised by constant changes. Its spokesman said the demand for hybrid and electrical architectures will increase in order to comply with the new emissions regulations.

Doreswamy also expects opportunities to develop in the hybrid vehicles. "The transition from combustion engine to e-mobility will massively pick up speed between 2025 and 2030," he said.