

India

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Overweight (no change)

Highlighted Companies

Bharat Forge

ADD, TP Rs1110, Rs1092 close

Acceleration of sales to the defence and aerospace sector, coupled with its new plant for power electronics and aluminium forgings, can help in strong EPS growth and reduce ICE vehicle exposure.

Bosch

REDUCE, TP Rs16401, Rs19020 close

High dependence on ICE vehicle components, where there is market share erosion, is an area of concern. Order wins from the EV ecosystem being relatively weak is another cause of concern.

Samvardhana Motherson International

ADD, TP Rs115, Rs96 close

Increasing EV component order book and automobile sales recovery globally augur well for the company's organic sales growth. Easing working capital and acquisitions to drive strong profit growth.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Bharat Forge	37	125.92	53.21
Bosch	52.12	39.05	37.45
Samvardhana Motherson International	78.82	28	22.82

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Bharat Forge	7.74	7.58	5.58
Bosch	5.25	5.1	4.83
Samvardhana Motherson International	3.16	2.9	2.64

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Bharat Forge	0.5%	0.73%	0.92%
Bosch	1.1%	2.52%	1.58%
Samvardhana Motherson International	0.45%	0.56%	1.04%

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Auto & Parts - Overall

EV supply chain expert call highlights

- We hosted an electric vehicle (EV) supply chain expert who has experience in developing the supply chain for E2W, E3W and ECV segments in India.
- He feels the currently crowded EV parts supply market with new entrants will consolidate, as the OEM-led co-development model takes shape.
- For existing ICE vehicle component makers, exports and industrial segments are immediate opportunities to reduce the EV risk.

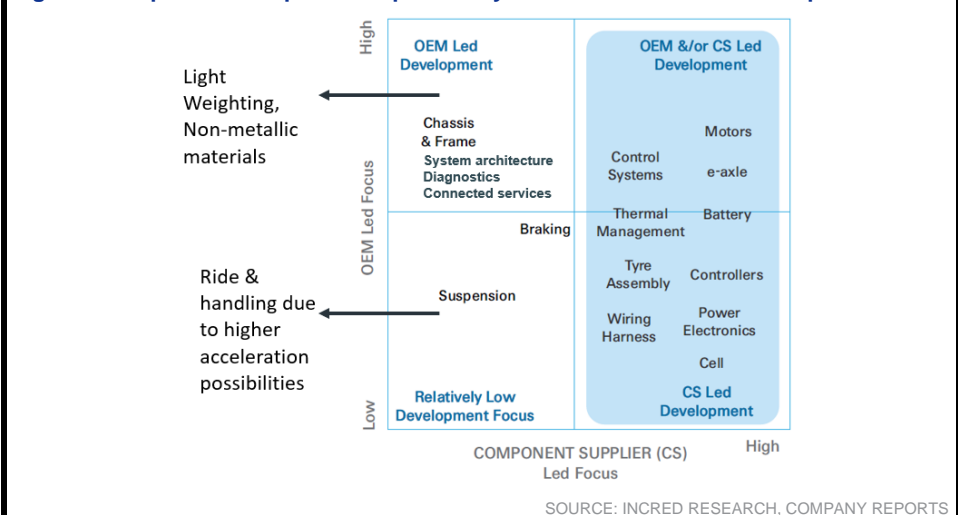
EV ecosystem beneficiary

- The EV space is getting crowded and new entrants are leading the volume, like Ola & Ather in 2-wheelers, and it's likely that new entrants would come in every segment. New business models may emerge because everything needs to be connected in the EV space, which will increase the demand for software, data, energy, and vehicles.
- Currently, the auto component sector exports ~30% of its output, which needs to be boosted further as the last man standing policy for ICE vehicle components. So, export-oriented companies & companies that can naturally transition to EVs, like SAMIL, will benefit. Auto component companies are reducing their dependency on the automotive sector (as EVs have fewer moving parts) by diversifying into defence, industrial and aerospace sectors, thereby limiting the impact and still grow, like Bharat Forge. Non-technology auto parts companies will have to move towards alternate materials as EVs have to be lighter compared to ICE or internal combustion engine-powered vehicles.
- The demand for certain raw materials like semiconductors, rare earth materials and specialty commodities like lithium, cobalt and nickel will improve significantly. It will be interesting to monitor the performance of players in such areas, like Hindustan Copper, Hindalco & Hindustan Zinc who stand to benefit.
- EV financing companies to benefit as EV prices are higher compared to ICE vehicles.

EV ecosystem challenges

- India is still dependent heavily on China for EV technology and core technology is still developed by USA and European countries, which is then moved to India. Vehicle engineering and mechatronics are the kind of skills/ technologies that are in demand.
- OEMs will focus on vehicle control unit specialty, while parts specialists align to meet OEM demand. Exclusive co-development is taking place between OEMs and Tier-1 component makers with a 3/5-year timeframe exclusivity, as in VW-Bosch E-axes.
- Bosch seems to be losing its early entry benefit in E2Ws, as its EV division head office in China seems to be not keen on allocating resources for India. Bosch seems to be fine in missing the early innovation cycle in India and play catch-up in the next growth phase.
- Motor manufacturing in India is still trailing. Magnet-free motors are yet in early-stage development and may take a long time to commercialize. If the government allows mining of rare earth materials, the expert feels EV adoption in India could accelerate.
- Lithium-ion cell capacities are booked in advance for a period of 5-7 years globally. With Indian OEM demand being small relative to global demand, the trade terms are adverse.

Figure 1: EV parts development responsibility shared between OEMs and parts makers



Who can have an edge over others:

Solution integrators:

- Battery pack, BMS, thermal management, PDU, connector and HV harness makers.
- Motor, controller, transmission, drive shaft makers.
- Makers of brake, ABS, air-compressor, motor, controller, kneeling and other active suspension system for buses.
- Traction cooling system and battery cooling system manufacturers.

Figure 2: Typical ICE-based passenger car component industry's revenue share (%)

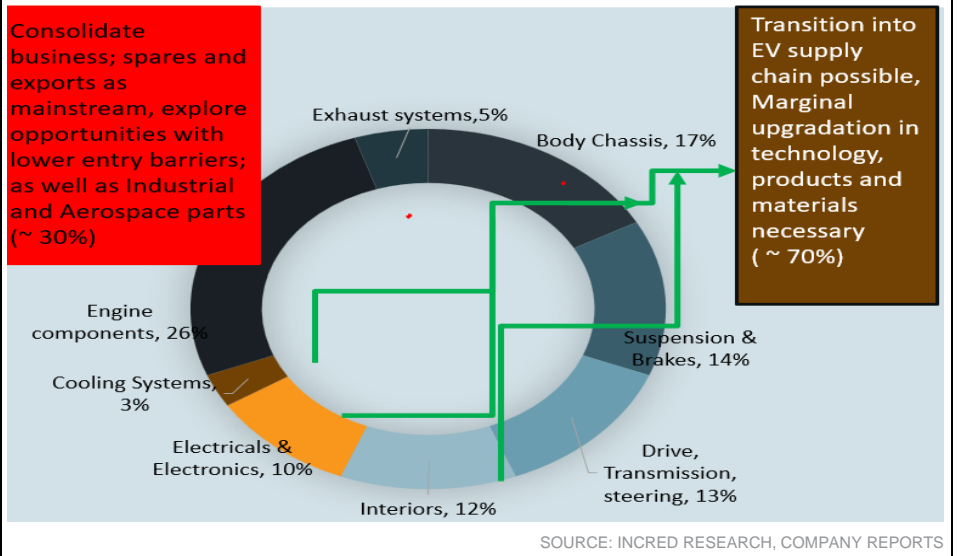


Figure 3: EV component ecosystem In India

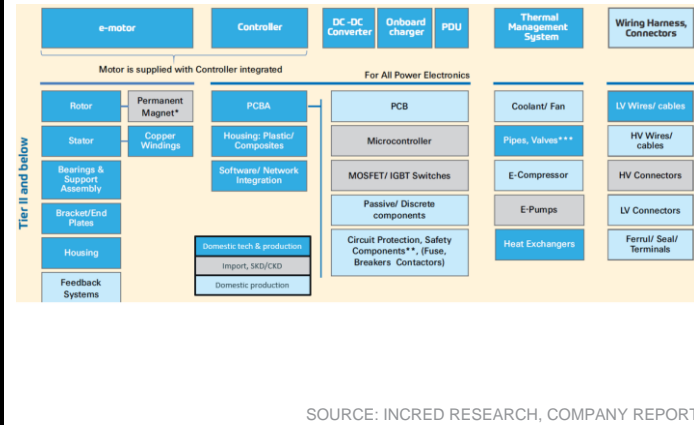
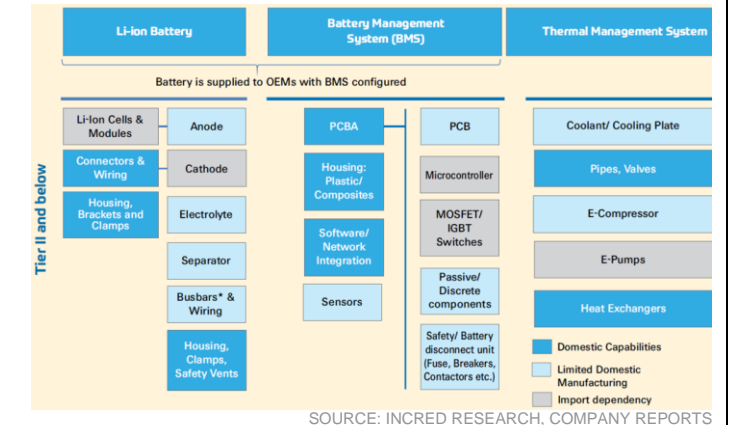


Figure 4: Battery and BMS ecosystem



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