Automobile industry planning ₹ 58,000 crore capex in 2 years

The ₹ 58,000 crore capex plan of India's automobile industry is a 30% jump from the previous two comparative fiscal years, says Crisil

Last Published: Mon, Aug 06 2018. 04 00 AM IST

Mumbai: Auto makers in India are set to spend up to ₹58,000 crore in capital expenditure (capex) over the next two years—the highest in a decade—underscoring healthy demand prospects in the local market and impending safety and emission norms.

The figure will mark a 30% jump from the previous two comparative fiscal years, ratings agency Crisil said in a June report. The ratings agency studied investment plans at 18 auto makers, who comprise about 90% of total industry volume. The auto makers are ramping up investments on new products and capacity to tap growing demand. They also need to make their vehicles compliant with new safety and emission norms which will come into force over the next two to three years.

India's automobile industry is one of the most capital-intensive sectors with a big appetite for re-investment in capex and research and development at regular intervals, according to a January report by BNP Paribas India. While other industries such as retail, and oil and gas have an average investment cycle of about two decades, the auto industry has one of the shortest at about four years, it said. To make matters worse, operating profit margins in the auto sector exceed only those of airlines and telecom, the report added, highlighting intense competition among firms.

Mahindra and Mahindra Ltd's managing director Pawan Goenka said on Tuesday that it is **"becoming more and more challenging"** for local auto makers to launch products profitably as investments must grow to comply with more regulatory norms while product life cycles concurrently become shorter. Starting this fiscal, Mahindra intends to spend a record ₹15,000 crore until 2020-21, including ₹10,000 crore on capital expenditure.

The usual practice was to spend ₹ 10,000 crore every three years.

The higher figure signals a robust demand and investment cycle, said V. S. Parthasarathy, chief financial officer of the Mahindra Group, in response to queries from *Mint*.
Most of Mahindra's capex would go towards product and technology development, apart from capacity expansion as the sport-utility vehicle and tractor maker prepares to fight rising competition. It will include spending on luxury car brand Automobili Pininfarina, the off-roader Roxor being developed for the US, new tractors, and compliance with Bharat Stage VI emission norms in India, Goenka told reporters in May.

Meanwhile, Maruti Suzuki India Ltd, the largest passenger vehicle maker, intends to spend ₹5,000 crore this fiscal year, nearly 50% more than last year's ₹3,400 crore.

Bulk of the figure of ₹4,000 crore will go towards product development and capacity expansion, Kenichi Ayukawa, managing director and chief executive at the local unit of Japan's Suzuki Motor Corp., told reporters in April.

Crisil estimates 70% of the ₹ 58,000 crore to be spent by car and SUV makers as companies try to outdo each other in the fight for market share.

"New model launches and investment in product development, including electric vehicles, will also be necessitated due to intense competition," said Anuj Sethi, senior director at Crisil.

However, going forward, capex in the passenger vehicle market will be driven more by capacity addition as the top two companies in the passenger vehicle segment—Maruti Suzuki and Hyundai Motor India Ltd—are operating at close to optimal levels and are even resorting to reducing exports to meet robust demand locally, according to Crisil.