Automotive sector

Dealtracker

Providing M&A and PE deal insights

Foreword

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As the automotive industry drives towards a greener future mandate, it is on the cusp of disruption - backed by sustainability, shared mobility, autonomous and connected vehicles, and seamless omni-channel consumer experience.

The deal activity in the short to medium term is expected to witness a focus on electrification, primarily governed by Battery-as-a-Service, safety systems, and digital technologies to enhance the consumer experience and optimise supply chains, in addition to the traditional investments aimed at achieving economies of scale and a wider customer base.

Steered by government focus in India, the electric vehicle (EV) market (projected to grow at a CAGR of 49% during 2022-30) and the alternative fuel technology market, such as green hydrogen cells, clean energy and mobility solutions, are expected to attract immense investor interest.

To be able to realise this vision pertaining to electric mobility, it is critical that the industry receives support in terms of market pull, regulatory push, as well as adequate infrastructure support - roughly translating to an investment opportunity of USD 180 billion (by 2030) in vehicle production and charging infrastructure, as per a study by the Centre for Energy Finance (CEEW-CEF).

The Green Hydrogen Mission, with an outlay of INR 19,700 crore and aimed at creating 0.6 million jobs and cumulative fossil fuel reduction of over INR 1 lakh crore by 2030, is set to provide a fillip to the automotive industry and is projected to garner steady investments. Additionally, the European Investment Bank (EIB) has signed a memorandum of understanding (MoU) with the India-Hydrogen Alliance (IH2A) to provide around USD 1.1 billion to facilitate the development of large-scale green hydrogen hubs within India. This will be pivotal for establishing a strong ecosystem for green hydrogen.

With electrolysers being pertinent to the green hydrogen value chain, there is an immense opportunity for their indigenous manufacturing with the increase in hydrogen capacity announcements (to electrolyser manufacturing capacity of 60 to 100 GW). This is expected to pave way for large-scale investments and mergers for enhanced efficiencies in production.

In alignment with the long-term Low Emission Development Strategy (LT LEDS) submitted by India to the UNFCCC at COP27, prepared within the framework of India's right to an equitable and fair share of the global carbon budget leading to the country's call for 'climate justice', it's imperative to prioritise climate action and a transition towards cleaner mobility solutions. Most of the investments for the automotive sector in the medium to long term are likely to be directed towards green mobility, and facilitated by ease of doing business, in order to ensure sustained growth.

Q1 2023 deal snapshot

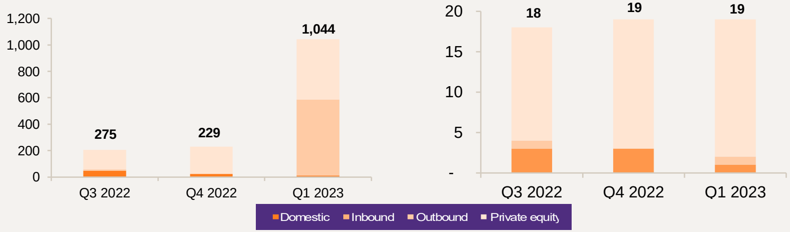
Deal summary	Volume				Value (USD million)			
	2021	2022		2023	2021	2022		2023
Domestic	1	5		1	10	72		10
Cross-border	1	2		1	20	7		578
Total M&A	**2**	**7**	↓ 71%	**2**	**30**	**79**	↑ 644%	**588**
Private equity	**11**	**15**	↑ 13%	**17**	**39**	**314**	↑ 45%	**456**
Grand total	**13**	**22**	↓ 14%	**19**	**69**	**393**	↑166%	**1,044**
Cross-border includes								
Inbound	0	1		0	0	2		0
Outbound	1	1		1	20	5		578

Q1

Three quarterly deals trend

Trend based on deal values (USD million)

Trend based on deal volumes



PE interest continue to drive the deal volumes in the sector

- As the auto sector witnessed multiple headwinds over the past 3-4 years owing to rising inflation and weak exports, the adoption of an advanced automobile system, as well as emerging EV space aiming to reduce the carbon footprint, has driven the deal activity in this sector. The first quarter (Q1) of 2023 recorded 19 deals worth USD 1.04 billion, with PE accounting for 17 deals and USD 456 million.
- PE investment witnessed an increasing trend in terms of both deal volumes with a 13% increase and investment values with a 45% increase when compared to Q1 2022. The heightened interest from financial investors is driven by the emergence of advanced technology-aided businesses in the sector such as electric vehicles, Mobility-as-a-Service and auto tech.
- While the M&A deal activity saw only two deals, deal values witnessed a significant increase over Q1 2022 on the back of one outbound deal (the USD 578 million deal of Samvardhana Motherson's acquisition of SAS Autosystemtechnik to enhance its presence in the global automotive supply chain and enhance its customer proximity).
- The domestic M&A activity witnessed a substantial decline Q-o-Q since Q1 2022 owing to lower rural participation due to the higher cost of vehicles on account of rising inflation, which impacted valuations.

Deal values showed a 4.6x growth in Q1 2023 compared to Q4 2022

- Compared to Q4 2022, while deal volumes witnessed no change and recorded 19 deals each in both the quarters, deal values spiraled with a 4.5x growth, driven by two high-value deals in the assembly and logistics services segment and electric three-wheeler manufacturing space together amounting to USD 724 million. While Q1 2023 witnessed these two high-value deals valued over USD 100 million, Q4 2022 and Q3 2022 did not witness such deals.

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Top deals: Q1 2023

Top deals accounted for **96% of deal** values, **constituting 53% of volumes**

Investor/Acquirer	Investee/Target	Deal type	Sub-sector	% stake	USD mn
Samvardhana Motherson International Ltd	SAS Autosystemtechnik GmbH & Co	Outbound acquisition	Assembly and logistics service	100%	578
Multiples Alternate Asset Management and its co-investors	TI Clean Mobility Pvt Ltd	PE	Automobiles	N.A.	146
International Finance Corporation	Mahindra & Mahindra Limited - Mahindra Last Mile Mobility	PE	Electric vehicles (EVs)	100%	72
Al-Abdulla Group	Kabira Mobility Pvt. Ltd.	PE	Automobiles	75%	50
BlueOrchard Finance and undisclosed investors	Tecso Charge Zone Pvt Ltd - Charge+Zone	PE	Electric vehicles (EVs)	N.A.	46
International Finance Corporation	JK Tyre & Industries Ltd	PE	Auto-components	N.A.	30
Gogoro, Goodyear Ventures, 9Unicorns, WFC, Venture Catalysts, LetsVenture, IAN, Ivygrowth, Grip and angel investors	Bycyshare Technologies Pvt Ltd-Zypp	PE	Electric vehicles (EVs)	N.A.	25
Purple Moon Ventures, Vasavi Green Tech and angel Investor	Simple Energy Pvt Ltd	PE	Electric vehicles (EVs)	N.A.	20
Sequoia Capital and existing investors	Twenty-Two Motors Pvt Ltd - Bounce Infinity	PE	Electric vehicles (EVs)	N.A.	20
B Capital, Quona Capital, Stellaris Venture Partners, Avaana Capital, Alteria Capital and InnoVen Capital	Blubble Pvt Ltd - Turno	PE	Electric vehicles (EVs)	N.A.	14

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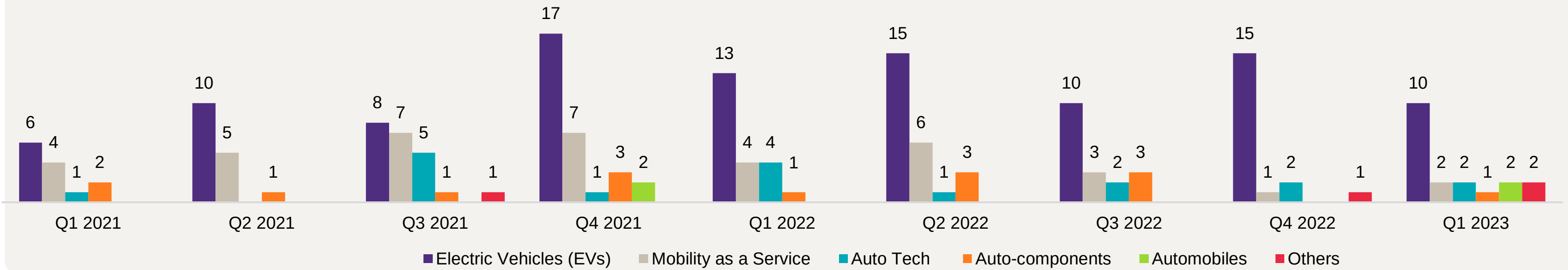
Top trends

EV space continues deal activity to be future ready

- Q1 2023 continued to be dominated by investors' attention in the emerging electric vehicle space with the advancement in electric mobility solutions, smart battery cells, smart grids and EV charging infrastructure.
- As the electric mobility space evolves further, we can expect continuous deal activity in this sub-sector. Additionally, the key themes driving M&A deals in 2022 included electrification, with a sharp focus on technology, and fleet management.
- Marquee industry players such as Tata, Mahindra & Mahindra, TVS Motor and Ola, among others, ventured into the EV space to diversify from traditional product portfolios into more technologically advanced and software-enabled products.
- Q1 2023 also witnessed over USD 456 million worth of PE investments across 17 deals driven by the EV space, focusing on green mobility and EV infrastructure. Investments in the electric vehicles segment dominated both in terms of volumes and values, recording 10 deals with USD 206 million investments.
- Lately, the deal space has witnessed maiden investments from marquee investors in the auto tech, electric vehicles and Mobility-as-a-Service, as these segments exhibit promising growth in line with the drive towards a greener future mandate.
- Factors that are likely to push deal activity in the PE space are advancements in the tech-driven EV charging infrastructure, B2B delivery and shared mobility moving towards e-scooter sharing and delivery, operators of commercial vehicles switching to EVs, and a move towards e-mobility.

Sub-sector trend by deal volume



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Budget 2023-24 highlights

Sector framework

- The forward-looking approach adopted in the Budget towards this sector has been in alignment with the government's goals of promoting *Aatmanirbhar Bharat* and moving firmly towards net-zero carbon emissions by 2070.
- The larger macro economic announcements, focused on capex, manufacturing, tax regime and infrastructure, are likely to stimulate vehicle sales across categories.
- A 33% increase in capex (from the previous year) to INR 10 trillion is expected to aid growth through the multiplier effect, which will support infrastructure development and lead to an enhanced growth in the commercial vehicles segment.

Spending programmes

- The Green Hydrogen mission, with an outlay of INR 19,700 crore, is aimed at facilitating demand creation, utilisation, and the export of green hydrogen. This is expected to enable the creation of over 6 lakh jobs and a cumulative reduction of fossil fuel imports by over INR 1 lakh crore by 2030.
- There has been a 78% increase in the estimated budget allocation of the Faster Adoption and Manufacturing of EV scheme (to INR 5,172 crore)
- The Union Budget has allocated INR 35,000 crore for priority capital investments towards energy transition and net-zero objectives. These investments will not only steer the economy towards enhanced sustainability but will also pave way for newer business models and the development of globally competitive technologies.

Budget 2023-24 highlights

Tax/other proposals

The indirect taxation proposals highlighted in the budget are aimed at promoting exports, boosting local manufacturing, enhancing domestic value addition and encouraging green mobility.

- Customs duty exemption has been provided on the import of specified capital goods and machinery required for manufacturing lithium-ion cells for batteries used in electric vehicles. The concessional basic customs duty (BCD) rate is extended up to 31 March 2024 on import of lithium-ion cell for battery or battery packs of EV/hybrid vehicles, other specified parts, components and sub-parts for the manufacture of lithium-ion.
- There has been an increase in customs duty from 30% (+3% SWS) to 35% for vehicles in semi-knocked down (SKD) form, including EVs, and from 60% (+6% SWS) to 70% for completely built unit (CBU) EVs having CIF value up to USD 40,000 and other CBU vehicles having CIF value up to USD 40,000 and engine capacity up to 3,000 cc for petrol-run vehicles and up to 2,500 cc for diesel-run vehicles. This is in alignment with the government’s focus on maintaining sustained growth via indigenous manufacturing, which aids employment and reduces import dependency, providing an impetus to the Make in India 2.0 initiative.

Grant Thornton Bharat sector case studies

Client profile: Apex body representing interest of the Indian auto component industry, with a member base of more than 800 manufacturers contributing > 85% of the auto component industry's turnover in the organised sector

Situation and problem statement

The objective of the engagement was to help the Indian auto industry identify opportunities for import substitution, make recommendations for the industry to increase the local manufacturing and global value-addition, and make recommendations for the state government to promote the automotive electronics manufacturing ecosystem in India.

Our solution

Basis our initial hypothesis, extensive primary research (OEMs, auto component manufacturers, industry associations) and secondary research (through credible databases for the auto sector) were conducted that enabled us to baseline the relevant product categories, understand existing and potential market estimates for the global/domestic market and determine the key trends/regulations that will drive and shape the future ecosystem.

The impact and value addition

This engagement enabled in answering the following key questions:

- Which automotive electronic products are most relevant for the Indian automotive market considering India's current regulations and other demand trends?
- Which automotive electronic products need to be prioritised to save on the import bill, while considering operational and financial factors such as manufacturing complexity, technology requirement, capex need, etc.?
- What are the manufacturing targets that could be considered for the short term (i.e., 2027) and medium term (i.e., 2032) basis products prioritised, and what are the steps that can be taken by different stakeholders within the industry to realise those targets?.

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Grant Thornton Bharat sector case studies

Client profile: A multinational group with solutions ranging across the automotive value chain, and a sharp focus on green technology and energy-conservation systems

Situation and problem statement

- Evaluation of eligibility criteria for incentive under the Production Linked Incentive (PLI) scheme for the client.
- Assisting in collation and filing of application.
- Regular follow-ups with ministry officials for obtaining approval letter.
- Post-approval PLI support, such as filing of quarterly review report (QRR), annual disbursement claims and support for disbursement of funds.

Our solution

- Understanding the scheme and the eligibility of the clients' products for incentive under the scheme.
- Understanding the eligibility of expenditure on fixed assets for its consideration as eligible investment under the scheme.
- Collation of requisite documents required for filing of application under scheme and continuous handling of queries raised by the project management agency (PMA).
- Liasioning with the ministry officials since the manufacturing capacity is based out in Chennai while the ministry persons/PMA operate from Delhi.

The impact and value addition

Our outreach activities with the ministry officials, coupled with prior experience in similar schemes, helped us immensely. We drafted the project implementation plan of the client in such a way that it increased their chances of selection under the scheme. In under a week's time, our team prepared, reviewed and filed the application.

We prepared an approach note capturing the methodology to be followed, along with regular coordination with the project management agency to receive timely inputs on specific issues for the smooth execution of the project. This is a true example that shows we #GoBeyond for our clients.

Smart collaboration, responsiveness, investment of the leadership's time to address queries, and a solution-oriented approach were key to winning this approval letter for incentive.

Grant Thornton Bharat sector case studies

Client profile: Leading Tier 1 supplier of auto-components and solutions to original component manufacturers (OEMs) globally

Situation and problem statement

- Coverage of all business verticals once a year for internal audit as against once in two years.
- Horizontal deployment of best practices for diversified business verticals across the group.
- Assistance on implementation of various recommendations as identified during the internal audit process.
- Increase reliance on automated controls and technology and to address complex governance issues.
- Strengthen existing policies and procedures.

Our solution

- Focus on smart collaboration by forming a team with representation from risk advisory, ERP advisory, technical resources and tax professionals. This helped structure a comprehensive coverage of scope and operations of the group.
- Regular sessions with the promoter group, independent directors, business CEOs and functional heads to understand their expectations from internal audit function and understand their focus areas.

The impact and value addition

We assisted in strengthening the controls and horizontal deployment/implementation of best practices across the group. This has brought in consistency in business processes across various business verticals. Additionally, we assisted the group in the identification of significant cost-saving opportunities and arresting areas of possible leakages across various geographical diversified locations.

We assisted the management in meeting the objectives of related-party governance by successfully integrating technology (SAP) to address their challenges of complex group structure and SEBI regulations.

Over the years, we have also helped the client in rationalising their internal financial control framework to meet dynamic business needs and the cost of compliance.

Acknowledgements

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