

# From volume to content: India's next automotive cycle

September 2026

## Investment thesis in a nutshell

India's appeal as a structural automotive market is well understood: passenger-car ownership remains low, two-wheelers are essential to mobility, and rising incomes should support long-term demand. Less appreciated is the extent to which future value creation may depend not only on how many vehicles are sold, but on what goes into them. Electronics, sensors and batteries account for an increasingly large share of vehicle value, much of it still imported, while localised mechanical components continue to shrink as a proportion of the bill of materials.

As vehicles become more technologically complex, long-term returns are likely to depend as much on rising content per vehicle as on unit growth. Investors therefore should look beyond volume assumptions and consider who captures the economics of that shift, particularly as the same technologies driving value creation across the supply chain are also making vehicles more expensive.

Regulatory requirements such as emissions and safety systems add cost without necessarily increasing consumers' willingness to pay, whereas superior suspension, electronics, design and other discretionary features can command higher prices and strengthen demand. The distinction matters because one form of content functions largely as a cost burden, while the other can reinforce both pricing power and market share. Original Equipment Manufacturers (OEMs) that successfully monetise discretionary content should be positioned to gain share and expand margins, while suppliers stand to benefit from the increasing value of mandatory content and from efforts to localise technologies that remain heavily reliant on imports.

These dynamics do not point to a straightforward preference for ancillaries over OEMs. Profit pools in automotive manufacturing tend to concentrate around a small number of successful OEMs, with market leaders often capturing a disproportionate share of industry earnings while weaker competitors struggle under the combined pressure of capital expenditure and pricing competition. Ancillaries generally exhibit a more evenly distributed growth profile and lower earnings volatility, although their bargaining power remains constrained by their dependence on OEM customers. Identifying the right OEM may therefore prove every bit as important as identifying the right supplier, particularly given how little investor capital appears positioned for that outcome.

Within OEMs, we favour businesses pursuing what we believe are credible premiumisation strategies, operating flexible platforms and demonstrating a clear pathway to localisation. We also see enduring resilience in the two-wheeler segment and attractive cash generation potential among established commercial vehicle manufacturers. Within ancillaries, we favour companies whose products are difficult to replace within the supply chain and those that own intellectual property linked to premiumisation, electrification and the localisation of technology.

## The real constraint is affordability, not penetration

Passenger-car ownership in India remains exceptionally low at around 34 vehicles per 1,000 people<sup>1</sup>, compared with about 148 in China<sup>2</sup>, while annual passenger-vehicle sales of roughly 4.6 million units in the financial year of 2026 (FY26) are only around a sixth of China's 30+ million<sup>3</sup>. The scale of that gap is often taken as evidence that India is approaching a China-style motorisation cycle. The comparison overlooks an important difference: India's income inflection, at roughly US\$3,000 GDP per capita, is occurring just as tighter emissions and safety standards are steadily increasing vehicle content and cost. **Regulation is loading mandated content onto vehicles faster than median incomes are rising.**

<sup>1</sup> Data For India, 'Vehicle ownership in India', ([dataforindia.com](https://dataforindia.com)), September 2024.

<sup>2</sup> Dan Zeng, Yan Dong, Huajun Cao, Yuke Li, Bernard Hon, Cuimei Ma, Chris Yuan, Michael Z. Hauschild, 'Can planned control measures for private passenger vehicles achieve China's carbon peak goal and mitigate the environmental impact?', ([sciencedirect.com](https://www.sciencedirect.com)), May 2023.

<sup>3</sup> Bloomberg, April 2026.

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A roughly 10% tax cut helped lift volumes by 20–30% over the past six months, highlighting substantial latent demand but also revealing a high degree of price sensitivity. The same elasticity works in reverse whenever new compliance requirements increase vehicle prices. Maruti Suzuki's small car volumes, for example, fell sharply between 2019 and 2025 following the introduction of Euro 6-equivalent standards.

Capacity expansion, however, continues largely unabated. Investments by Maruti Suzuki, Mahindra & Mahindra and Hyundai could lift industry passenger-vehicle capacity towards 10 million units by FY30, equivalent to roughly 8% annual growth, while two-wheeler manufacturers are also expanding production after several years of limited investment. With aggregate OEM cash balances of around US\$30 billion, financing does not appear to be the principal constraint. The greater risk lies in returns on capital should supply outpace demand, particularly in a market where automotive equities already trade at demanding valuations: passenger-vehicle manufacturers on 20–25x earnings and two-wheeler producers on 15–35x, compared with single-digit multiples for many mature global peers. The question is not how many more vehicles India sells, but how much more value sits inside each one, and who captures it.

## Content per vehicle: Three forces converging

India has often compressed decades of automotive development into just a few product cycles. The shift from sedans to SUVs happened rapidly, while emissions standards converged towards global norms without many of the intermediate steps seen elsewhere, meaning technologies and features that took years to become standard in developed markets are arriving in India over a much shorter period.

**Regulation** is steadily adding cleaner engines, Anti-lock Braking Systems (ABS), Advanced Driver Assistance Systems (ADAS) and other mandated technologies, while **powertrain fragmentation** across petrol, diesel, Compressed Natural Gas (CNG), hybrid and battery-electric vehicles requires distinct electronics, thermal management and battery management architectures. Alongside this, **premiumisation** continues to push content intensity higher, with SUVs accounting for around 66% of passenger-vehicle sales<sup>4</sup> and premium motorcycles steadily gaining share.

Together, these three forces are raising vehicle costs and increasing affordability pressures in entry-level segments. OEMs have also stepped up investment to make assembly lines more flexible across powertrains and model mixes. The impact is already visible in the margins of some manufacturers, while creating opportunities for suppliers exposed to rising content intensity, localisation and technology ownership.

## Capturing the economics: OEMs or suppliers?

OEMs face large, lumpy and difficult-to-reverse investments in capacity, platforms, technology and brands, while simultaneously supporting multiple powertrains without knowing what the eventual market structure will look like. Higher regulatory and technology costs must ultimately be recovered through pricing, product mix or scale, yet affordability constraints limit pricing power and rapid capacity expansion raises the risk of lower utilisation. **Winning OEMs will still emerge, but the bar for success is rising.** Hyundai India and Mahindra & Mahindra illustrate what getting that balance right could mean for profitability, with both historically generating higher margins than Maruti Suzuki despite Maruti Suzuki retaining roughly 40% market share.

Many investors have responded by favouring suppliers over manufacturers, reflecting the view that content per vehicle will continue to rise and that suppliers will capture a growing share of industry value. That opportunity is already well recognised. India's auto-ancillary sector, with revenues around US\$86 billion, trades on demanding valuations of roughly 30–50x one-year forward earnings<sup>5</sup>, implying that much of the content growth story is already reflected in share prices.

Experience from more mature automotive markets suggests investors should be selective. Content per vehicle increased steadily across developed markets, yet supplier margins often remained under pressure as dual sourcing, annual price negotiations and OEM purchasing power constrained returns. The relationship between Denso and Toyota offers a useful illustration: the two stocks remain highly correlated, but Toyota has outperformed over the past three years despite the long-term increase in vehicle content.

Premium valuations are therefore most justified, in our opinion, where suppliers occupy genuinely defensible positions through proprietary technology, intellectual property or difficult-to-replicate logistical advantages, rather than across the ancillary sector as a whole. Current valuations are also benefiting from exposure to industrial and defence upcycles, particularly among metal-

<sup>4</sup> Society of Indian Automobile Manufacturers (SIAM), 'Auto Industry Sales Performance of June 2025 and Q1 (April–June 2025)', ([siam.in](https://siam.in)), July 2025.

<sup>5</sup> The Economic Times, 'India's auto component industry targets \$200 bln turnover by FY30 amid rising risks: BCG-ACMA', ([economictimes.indiatimes.com](https://economictimes.indiatimes.com)), September 2026.

processing businesses, whereas longer-term value is more likely to be determined by sticky automotive supply chains and recurring aftermarket revenues.

The key consideration is not simply whether content per vehicle is increasing, but whether a supplier is sufficiently embedded in the value chain to retain pricing power as that content grows. We believe that companies that successfully localise EV supply chains, including batteries, rare earth motors, cathodes, anodes and electronics that are currently imported from China, are particularly well positioned to command valuation premiums.

## India: Becoming globally competitive?

**Protection provides time, not immunity.** Indian OEMs have generated strong returns on capital thanks to a protected domestic market and considerable scale, but those advantages create investment capacity rather than guaranteeing long-term competitiveness. The experience of European manufacturers shows how quickly established positions can come under pressure when lower cost rivals enter the market with competitive products.

The more important question is whether capital is funding capacity or capability. Expanding production may support growth, but sustaining competitive advantage increasingly depends on investments in product quality, platform flexibility, premiumisation, electronics, batteries and software. Japanese and Korean-owned manufacturers benefit from being able to access many of these capabilities through their parent companies, making the challenge particularly relevant for domestic players.

- **Maruti Suzuki** has expanded both capacity and its model range, although much of the underlying R&D remains within Suzuki and is compensated through royalty payments, while battery localisation is expected to come through the Toyota-Suzuki-Denso joint venture.
- **Mahindra & Mahindra** has established strong product and premiumisation credentials through investment in new platforms, although key EV hardware remains externally sourced.
- **Tata** has demonstrated the greatest ambition around vertical integration through Agravas' battery gigafactory programme and Tata AutoComp's e-axle joint venture with Bosch, although that strategy also carries the highest capital intensity and execution risk within the passenger-vehicle market.

In our opinion, India's automotive industry now has a relatively narrow window in which to build globally competitive suppliers through ownership of technology and intellectual property rather than capacity expansion alone. Japan and Korea developed internationally competitive component champions alongside their OEMs, whereas India continues to rely heavily on joint ventures that transfer know-how but not necessarily ownership. Suppliers that control critical technologies and can scale independently therefore stand to capture a disproportionate share of long-term value creation.

The same principle applies across the EV ecosystem. Localising batteries, rare earth motors, cathodes, anodes and power electronics would strengthen supply chain resilience, but we believe that the greater prize lies in owning the underlying technologies and capabilities rather than simply manufacturing them. China's automotive sector demonstrates the value of combining scale with supply chain control, while Japan has increasingly focused on retaining ownership of higher-value software and control systems. For Indian manufacturers, the next phase of value creation is therefore likely to depend as much on strategic adjacencies and technology ownership as on vehicle production itself.

## Portfolio implications

Our approach is not to back a single theme, whether premiumisation or electronics-focused suppliers. The future shape of the market cannot be forecast with precision, which makes valuation just as important as the underlying investment case. Strong fundamentals are necessary, but not sufficient; we also need to identify situations where those fundamentals are not fully reflected in share prices. That combination of conviction and valuation discipline allows us to distinguish genuine changes in industry economics from short-term market noise.

### Passenger vehicle OEMs

The margin performance of Hyundai India and Mahindra & Mahindra relative to Maruti Suzuki reinforces our preference for businesses benefiting from premiumisation rather than relying primarily on volume growth. Both have delivered higher margins despite Maruti Suzuki retaining a substantially larger market share, suggesting that product mix and positioning increasingly matter as much as scale.

Whether that advantage is already reflected in market valuations is the next important investment question. In Hyundai's case, much of the premiumisation story appears well understood. In Mahindra & Mahindra's case, we believe the market continues to underappreciate both the strength of its automotive franchise and the value embedded within its broader conglomerate structure, including businesses such as aerospace that receive limited attention in the listed valuation.

## Two-wheelers

Two-wheelers have increasingly become the market's preferred defensive automotive exposure, supported by premiumisation trends and expectations around electrification. That optimism is reflected in valuations, with Eicher and TVS trading on roughly 30–40x earnings and even Bajaj and Hero commanding premiums to many passenger-vehicle manufacturers.

As valuations rise, the more compelling opportunities may sit elsewhere in the value chain. Suppliers exposed to increasing content per vehicle can benefit from many of the same structural themes, while avoiding some of the risks associated with aggressive market expectations.

Several emerging technologies are also developing first within the two-wheeler ecosystem. Sedemac's Electronic Control Units (ECUs) business continues to gain traction, while Larsen & Toubro is investing in traction motors for a major two-wheeler manufacturer. If India eventually develops its own equivalent of Denso, the process is arguably more likely to begin in two-wheelers than passenger vehicles. That creates scope for possible alpha generation within two-wheeler suppliers, particularly among companies such as Belrise that are moving beyond traditional sheet metal manufacturing into higher value components.

## Commercial vehicles

Commercial vehicles remain attractive because competitive advantage is rooted in distribution, service networks and customer relationships that are difficult to replicate. Despite those structural strengths, Tata Motors' commercial vehicle business continues to be valued more like a cyclical manufacturer than a business with an enduring competitive moat.

## Ancillaries

Within ancillaries, the key distinction is not simply whether content per vehicle is increasing, but whether a supplier occupies a genuinely difficult-to-replace position within the value chain. Technology owners, intellectual property holders and specialised process manufacturers, in our view, are likely to capture a greater share of long-term value than commoditised suppliers competing primarily on cost.

We remain open to both EV- and Internal Combustion Engine (ICE)-linked suppliers, particularly those with adaptable portfolios and exposure to adjacent industrial markets. Opportunities tied to robotics and automation are also beginning to emerge, as illustrated by Sona Comstar's growing humanoid robotics order book. Even so, valuation discipline remains essential. Rising content intensity can support growth, but the suppliers sustaining premium valuations are those most likely able to translate technological differentiation, localisation and customer stickiness into durable pricing power.

## Conclusion

India's automotive market offers significant volume growth potential, but affordability pressures and rising capacity suggest that future returns may depend less on vehicle penetration alone and more on increasing content per vehicle and localising high value components, particularly in EV supply chains.

This favours suppliers with genuine technological advantages, intellectual property and difficult-to-replicate capabilities, alongside OEMs with differentiated products, flexible platforms and credible localisation strategies. Premium two-wheelers remain structurally attractive, while commercial vehicles offer resilient, cash generative exposure supported by strong distribution and service networks.

Over the longer term, the greatest opportunities may lie with companies that capture an increasing share of the electronics, software and control systems embedded within vehicles, while extending those capabilities into adjacent technologies such as robotics.



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