INTERVIEW

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'Don't ignore legacy automakers in the EV rush'

UTI Mutual Fund's Sachin Trivedi on the approach investors should take while investing in the Auto sector

Electric vehicles (EVs) may have captured the market's imagination but Sachin Trivedi, Senior Vice President, Head of Research and Fund Manager, Equity at UTI Mutual Fund, believes their true turning point is still some distance away.

Trivedi, who manages five schemes with a combined asset base of ₹14,800 crore including the UTI Transportation and Logistics Fund, says the EV story will unfold steadily rather than suddenly. While falling battery prices, government incentives and early adoption have set the stage, Trivedi emphasises that long-term success will depend on execution, scale and cost efficiency. In this interview, he shares why legacy automakers remain well placed to thrive, how premiumisation and regulatory shifts are reshaping the auto sector and why taking the contrarian approach and patience are key to surviving the sector's ups and downs.

EVs have been in the spotlight for a few years now. Is the hype justified, or have expectations outpaced reality?

Yes. In the initial phase, about three to four years ago, there was definitely some overhype surrounding EVs. We saw that quite clearly in global markets, where even established conventional automakers with strong balance sheets and good reported numbers faced significant de-rating. Their valuations corrected sharply simply because the narrative had shifted heavily in favour of EVs.

That said, the hype at that time did have some merit. A few successful EV models gained genuine traction and consumer acceptance improved meaningfully. Alongside that, there was substantial government support through stricter emission norms, consumer incentives and subsidies, which helped push adoption. Battery prices were also falling rapidly, which strengthened the expectation that EV penetration would rise quickly.

However, over time, the excitement has settled into a more practical phase. Governments have gradually reduced incentives, realising that pushing too hard through regulation isn't sustainable. Consumers, too, are becoming more cautious, asking questions about charging infrastructure, resale value and long-term battery life. So, what we're seeing now is a normalisation of expectations.

Despite that, I firmly believe the future lies in EVs. Most automakers' incremental R&D spend today is directed towards electrification. But the transition will be gradual, not abrupt. Globally, China is clearly leading, while in Europe, a few companies are doing well. In India, the two-wheeler space has seen some early success, with adoption rates of around 7-8 per cent. However, in passenger vehicles, penetration is still just 2-3 per cent, primarily because cost economics aren't yet fully favourable.

Valuations in EV-focused companies have skyrocketed, often without a proven track record. How do you assess such businesses objectively, without getting carried away by the story, but also without dismissing them too early?

That's a fair point. What we're seeing now is that investors are trying to price in long-term penetration assumptions, sometimes looking 10-15 years ahead, which naturally makes valuations tricky.

- A wise investing approach in EVs calls for careful diversification and measured positions in firms that execute well
- It would be premature to dismiss ICE-based OEMs. These companies not only have a strong supply chain but also a deep understanding of consumer behaviour.

Take the two-wheeler space in India, for example. A few years ago, there were around 50 EV players, many of whom were overhyped. Several early leaders have already lost relevance. Investors have now started realising that the real winners will be those companies that can consistently roll out reliable, scalable and commercially viable products.

We've also seen significant investment activity in the four-wheeler segment, including the creation of EV-focused subsidiaries by traditional automakers. While this is encouraging, the true business case will eventually be determined by product success, cost efficiency and scale.

At this stage, valuation assessment is undoubtedly challenging. The prudent approach is to diversify exposure across a few credible players and size positions carefully. Over time, the companies that can prove their execution capability and sustain profitability will stand out as long-term winners.

Given this gradual shift toward EVs, should investors still look at companies where internal combustion engines (ICE) dominate? What are some indications that one should avoid or be cautious with non-EV-heavy companies?

That's a very relevant question. There are projections that EV penetration in two-wheelers could reach about 30 per cent by 2030 and four-wheelers will also see meaningful adoption. But in my view, the gradual pace of EV acceptance has given traditional ICE players valuable breathing space.

Many of these conventional companies are now using this time to adapt, launching hybrid or EV models of their own. They also have a major structural advantage: deep, established supply chains and strong vendor relationships, which enable them to manage costs more effectively than new-age startups.

From an investor's perspective, it's important to note that most leading ICE companies are already investing in EV capabilities. It's no longer an 'either-or' situation. The

ones that fail to invest meaningfully will, of course, lose relevance and market share over time. However, those that can leverage their existing scale, distribution and supply chain to transition gradually are still very well positioned.

So yes, while EVs represent the future, investors shouldn't completely write off traditional companies. Instead, the focus should be on identifying those incumbents that are actively evolving their portfolios and allocating capital wisely toward the EV transition.

Having said that, because of the supply chain advantages that many of these established players already possess, they are necessarily investing in the EV transition. Several of them also have a strong track record of understanding consumer needs and adapting their product portfolios accordingly.

In my view, it would be premature to dismiss these legacy OEMs. They not only have the financial strength and cash reserves to support new EV initiatives but also the infrastructure, vendor ecosystem and brand trust built over decades. This gives them a significant edge compared to newer entrants that are still establishing scale and credibility.

From an investment standpoint, it makes perfect sense to keep these existing OEMs within our consideration set, especially those that are actively investing in innovation, expanding their EV offerings and utilising their existing cash flows to fund future growth.

Beyond EVs, what other trends within autos look interesting to you right now? Things like ancillaries, premiumisation or exports—where do you see the better risk–reward?

I believe there are two or three structural trends within the automotive sector that have clearly emerged over time and they're likely to persist because that's where OEMs continue to invest.

The first is the shift towards SUVs and premiumisation. An increasing number of product launches are happening in this segment. This is important because while overall volume growth might appear modest, SUVs and higher-end vehicles come with better realisations and higher profitability. So, companies that are successful in this category are likely to see stronger earnings momentum.

Secondly, within the two-wheeler segment, there's a similar shift toward higher engine capacity segments. Consumers are gradually shifting away from entry-level 100-110cc bikes towards the 125cc and even the 350cc range. These models command better margins and have a more aspirational pull, which makes them an interesting area of focus.

Of course, EVs continue to remain a key theme, particularly in the two-wheeler space, where penetration is already better than in passenger vehicles. However, beyond EVs, another significant trend is emerging in the auto ancillaries sector, where regulatory changes are driving structural growth. There's strong momentum in safety-related components and emission technologies. For example, ABS implementation in two-wheelers, new CAFE III norms in PV (passenger vehicles) and tightening standards in the tractor and commercial vehicle segments. Ancillary companies with a technological edge and the right product positioning will benefit from these regulatory shifts.

Input costs and pricing power can swing sharply in this sector. What indicators do you track to gauge which companies can sustain margins across cycles?

Historically, we've seen how sensitive this sector can be to both input costs and operating leverage. For instance, after the BS-III to BS-VI transition, many leading automakers saw a meaningful decline in gross profit margins. When demand is strong, operating leverage helps absorb costs. However, when the cycle turns, the same leverage works in reverse, hurting profitability.

So, we pay close attention to product cycles and pricing power. If a company doesn't have at least one or two strong products in its portfolio, it is often forced to offer steep discounts, which hits both gross and EBITDA margins. That's why, for OEMs, it's critical to track the product pipeline and market share trends.

For auto ancillaries, the situation is slightly different. They typically operate on a pass-through model, where raw material costs are largely passed on to OEMs. The key variable for them is operating leverage—how efficiently they manage fixed costs through the cycle. Companies that maintain cost discipline and efficient capacity utilisation tend to sustain better margins, even when the cycle weakens.

Autos are inherently cyclical, and timing that cycle is difficult. How do you approach this in your fund? And for the average investor, what's a sensible way to navigate the sector's ups and downs?

For us, since nearly 90 per cent of the fund (UTI Transportation and Logistics) is invested in autos, the key is to stay disciplined. During challenging phases, we focus on market leaders—companies with strong balance sheets, a healthy track record and management that have been consistent in driving growth and maintaining cash flows. Market share leadership is critical because, in most auto sub-segments, the top one or two players capture the bulk of profits, while challengers often struggle.

When the cycle turns positive, challengers may offer higher short-term upside, but when the tide reverses, they suffer the most. Therefore, our approach is to remain invested in quality leaders throughout the downcycle and avoid overexposure to smaller, more vulnerable players.

For an average investor, I always suggest a simple thumb rule: when margins and growth are at their peak, it's usually a good time to start trimming exposure. Conversely, when pessimism is at its maximum and the news flow is negative, that's often the right time to enter. The Auto sector, by nature, rewards contrarian timing and long-term patience.

- During downturns, quality leaders hold firm. Smaller, vulnerable players may rally briefly but suffer much more when the cycle turns.
- On top of P/E and P/B, we also consider EV/EBITDA to ensure earnings discipline. For ancillaries, we focus on diversified portfolio and revenue sources.

Finally, what valuation framework do you follow for the auto space? Do you use different lenses for different segments and how do you spot contrarian opportunities when market sentiment is one-sided?

As far as OEMs are concerned, we primarily use traditional valuation metrics such as P/E and P/B, but we focus on core earnings rather than headline numbers. Many auto companies sit on large cash balances and it doesn't make sense to assign a full multiple to that cash or other income. That's where EV/EBITDA becomes an additional lens as it provides a cleaner view of the underlying business performance. We assign higher valuation multiples to companies that are gaining market share, generating strong return ratios and have a prudent capital allocation framework. Conversely, we avoid valuation traps, which are companies that appear optically cheap but lack visibility into growth or have a poor track record.

For auto ancillaries, our approach is slightly different. We prefer diversified companies: those with exposure across multiple products and geographies over monoline players, who have limited runway once a specific cycle peaks. We also favour ancillaries that are proactive in pursuing joint ventures or technology tie-ups as developing advanced tech independently is still challenging in the Indian context.

From a contrarian standpoint, when the valuation gap within the sector becomes too wide, with only one or two names trading at premium valuations while others with decent fundamentals remain overlooked, we see scope for re-rating opportunities. Similarly, companies with strong upcoming product pipelines that are trading at depressed valuations often make for the most attractive contrarian bets. ☑