Case Study 2

ABC Auto Components – Reinventing Itself in the Age of Electric Vehicles

Introduction: A Traditional Manufacturer Navigates an Electric Disruption

By FY2022, India's automotive sector had entered a phase of aggressive electrification, driven by policy reforms such as **FAME-II subsidy**, stricter **BS-VI emission norms**, and state-level **EV incentives.** For conventional suppliers to internal combustion engine (ICE) vehicles, this shift posed an existential threat. **ABC Auto Components Ltd.**, a mid-sized Indian manufacturer specializing in ICE transmission systems and engine parts, found itself grappling with the effects of rapid obsolescence.

Amid a **40% revenue drop**, a **debt-to-equity ratio of 2.5**, and mounting inventory of unsold ICE parts, ABC was inching toward insolvency. Additionally, unresolved **GST input credit claims**, **FEMA non-compliance in foreign vendor payments**, and lapses in **board-level governance** raised regulatory red flags. With the specter of bankruptcy under the **Insolvency and Bankruptcy Code (IBC)**, the company launched a bold turnaround.

This case study maps ABC's transformation through the lens of **Strategic Financial Management (SFM)**, **Cost & Management Accounting**, **Capital Budgeting**, **Regulatory Compliance**, and **Risk Management**, illustrating how legacy manufacturers can reposition for survival and growth in the EV era.

Phase 1: Financial Restructuring and Liquidity Revival (2022–2023)

The first step was to stabilize liquidity and reduce financial stress. ABC successfully renegotiated terms with lenders, obtaining a **moratorium on principal repayments** and converting short-term borrowings to long-term loans. A dormant plant in Pune was sold, unlocking **₹75 crore in capital**. Simultaneously, a **₹200 crore rights issue** was launched, bringing in equity to deleverage the balance sheet and reduce the **debt-equity ratio from 2.5 to 1.1**.

These moves significantly improved the company's **Weighted Average Cost of Capital (WACC)** and solvency profile. From a working capital perspective, ABC liquidated outdated inventory, implemented **Just-in-Time (JIT)** inventory practices, and leveraged **bill discounting facilities** to ease pressure on cash flows. A **Voluntary Retirement Scheme (VRS)** reduced the workforce by 15%, yielding **₹12 crore in annual savings**, all contributing to a margin recovery from 8% to 18% in just two years.

Phase 2: Strategic Pivot to EV Components (2023–2024)

The cornerstone of ABC's revival was its pivot from ICE to EV-compatible parts. Based on **Discounted Cash Flow (DCF)** and **Internal Rate of Return (IRR)** analysis, the company invested in four core product lines: **electric drivetrains**, replacing gearboxes with EV-ready e-axles; **Battery Management Systems (BMS)**, via a tech partnership with a German firm; **lightweight die-cast aluminum components**, reducing vehicle weight and improving range; and **power electronics**, including onboard chargers and inverters, co-developed with an IIT-incubated startup.

The company committed **5% of annual revenue toward R&D**, up from 1.5% previously, and established an **EV Innovation Lab in Bengaluru**. These capital investments, supported by the **Production Linked Incentive (PLI)** scheme, were vetted using rigorous budgeting techniques. In each case, **payback period**, **net present value**, and policy-linked cost incentives were considered to ensure long-term viability.

Phase 3: Strengthening Governance and Compliance Systems

With increased scrutiny from regulatory authorities, ABC's leadership initiated reforms to resolve historic compliance issues. A **dedicated compliance cell** resolved a **₹25 crore GST dispute** by filing revised returns and aligning its export procedures with the **RoDTEP** framework.

On the foreign exchange front, delayed vendor payments and licensing agreements triggered **FEMA violations**. ABC obtained **RBI approvals** and regularized all overdue remittances. Governance improvements followed—**independent directors** were appointed to the board, and the **audit committee** was restructured, strengthening financial oversight in accordance with the **Companies Act, 2013** and **SEBI LODR norms**.

Phase 4: Risk Management and Strategic Expansion (2024 Onwards)

Transitioning to EVs introduced new risks—technological obsolescence, raw material price swings, and demand uncertainty. ABC developed a **comprehensive risk register** and implemented the following measures: **supply chain diversification** by adopting a **dual-sourcing strategy** for critical imports like semiconductors; **currency hedging** by hedging **50% of forex payables** using forward contracts; **product diversification** by entering the **energy storage sector** as a secondary revenue stream; and **strategic valuation planning** adopting a **blended valuation model (DCF + EV/EBITDA)** ahead of a planned **₹1,000 crore IPO by FY2027**.

The company also began evaluating Southeast Asian markets, particularly Vietnam, as a base for future manufacturing expansion. This aligned with its long-term objective of becoming a regional Tier-1 EV component supplier.

Conclusion

1. ABC Auto Components Ltd. successfully transformed from a distressed ICE parts supplier to an emerging EV component player through **financial restructuring, technology investment, and governance reforms**.
2. **Capital budgeting discipline, cost control, and regulatory compliance** formed the foundation of this strategic realignment.
3. Risk management, including **forex hedging and supply chain diversification**, built resilience in an uncertain market.
4. The company's path to a **₹1,000 crore IPO by FY2027** reflects effective long-term planning and investor readiness.
