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INDIAN AUTO COMPONENT INDUSTRY

Tariff-related earnings impact for Indian auto component exporters could range between Rs. 2,700 crore and Rs. 4,500 crore

APRIL 2025

Highlights

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The auto component suppliers with whom ICRA has interacted indicate that most of the incremental costs would be passed on.

However, as in any buyer-supplier negotiation, the extent of pass-through would depend on the supplier's criticality, share of business, competition, and technological intensity of the components supplied.

The Indian auto component industry demand continues to benefit from a diversified mix of end-user segments and geographies. The US constituted only close to 8% of the overall industry revenues in FY2024. ICRA understands that the components exported from India to the US had an import duty of 2.5% earlier. A 25% tariff was imposed on imported key automobile parts (engine, transmission, powertrain, and electrical components) vide an order dated March 26, 2025 effective not later than May 03, 2025. About 65% of India's auto component export basket is estimated to fall under the 25% import tariff category. Prior to this, a 25% tariff was imposed on the import of steel and aluminium content in auto parts vide orders dated February 10 and 11, 2025, effective March 12, 2025. Subsequent to the order dated March 26, 2025, a reciprocal tariff of 26% was imposed on exports from India to the US, on which there is a temporary pause for 90 days, but with 10% ad valorem duty still applicable. Products that fall under the US Mexico-Canada Arrangement (USMCA) are exempt at present.

The steep increase in import tariff imposed by the US is estimated to burden the entire supply chain with an incremental cost of around Rs. 9,000 crore, which will need to be borne by the US consumers, US importers and Indian exporters. The extent to which the Indian auto component exporters share the cost burden will be contingent on their competitiveness and the price elasticity of the products exported.

Export of auto components to the US grew at a compounded annual growth rate (CAGR) of 15% during FY2020-FY2024. Factors like rising supplies to new platforms because of vendor diversification by global original equipment manufacturers (OEMs)/Tier-I parts manufacturers, higher value addition, and favourable forex movement, among others, have benefitted Indian auto component manufacturers, despite muted new vehicle registration growth in the US vis-à-vis pre-Covid levels.

Highlights (Continued)

ICRA expects debt metrics and liquidity to remain comfortable for most the exporters in its sample set despite potential decline in margins and increase in working capital requirements.

If, on an average, 30-50% of the incremental tariff costs are to be absorbed by the Indian auto component exporters, we estimate an earnings impact of roughly Rs. 2,700-4,500 crore, which is 3-6% of the operating profits of the auto component industry and 10-15% of the operating profits of the auto component exporters. Select entities have manufacturing facilities in the US and supplies from those units would be shielded from the cost impact of the tariff. Nevertheless, given the increased economic uncertainty, decline in automobile sales volumes and tepidness in the replacement market in the US remain the key downside risks. Pricing pressures can also arise in other export geographies such as Europe and Asia where Chinese competition would likely increase.

ICRA expects the revenue growth of the Indian auto component industry (represented by sample of 46 auto ancillaries with aggregate annual revenues of over Rs 3,00,000 crore in FY2024, accounting for around 50% of the industry) to ease to 6-8% in FY2026, against 8-10% projected earlier, if there is mid to high single-digit revenue decline in exports to the US, stemming from the tariff-related impact. Operating margins are likely to moderate by 50-100 bps against earlier estimates, to 10.5-11.5% in FY2026, in a scenario where 30-50% of the incremental costs are to be absorbed. Specifically for exporters, the decline could be higher at 150-250 bps. Nevertheless, the situation is evolving as tariff actions have been fluid and trade negotiations are ongoing. ICRA expects debt metrics and liquidity to remain comfortable for most the exporters in its sample set despite potential decline in margins and increase in working capital requirements.

ICRA believes that loss of business share with customers is unlikely in the near term as switching costs are high and product development, testing, and approval cycles are reasonably long. Further, there could be incremental opportunities for India arising from cost competitiveness vis-a-vis Chinese components (if the same level of tariff continues), albeit over the medium term. Some players have indicated additional enquiries from US importers in the last few weeks.

Agenda

1 Demand Dynamics

2 Tariff-related Impact | Immediate and Medium Term

3 Financial Forecast

4 ICRA's Channel Check

5 Trend in Credit Ratings

Demand Dynamics

Domestic demand continues to drive a large share of industry revenues; exports to US constituted only 8% of industry revenues in FY2024

Domestic demand continues to drive a large share of industry revenues

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Exhibit: Demand Sources for the Indian Auto Component Industry (FY2024)

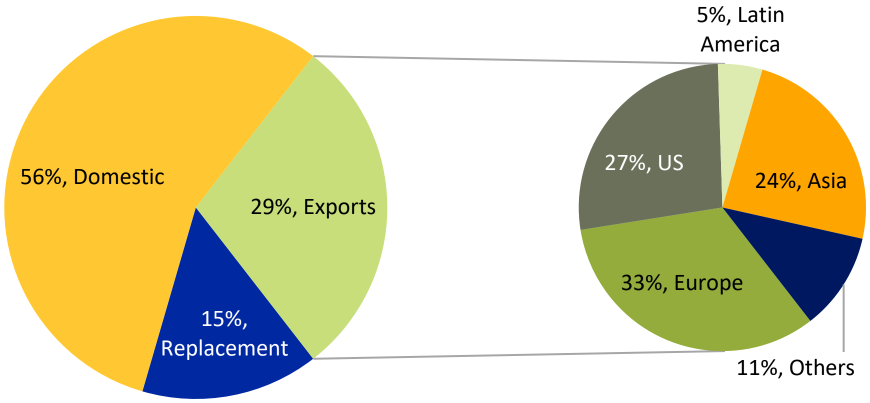
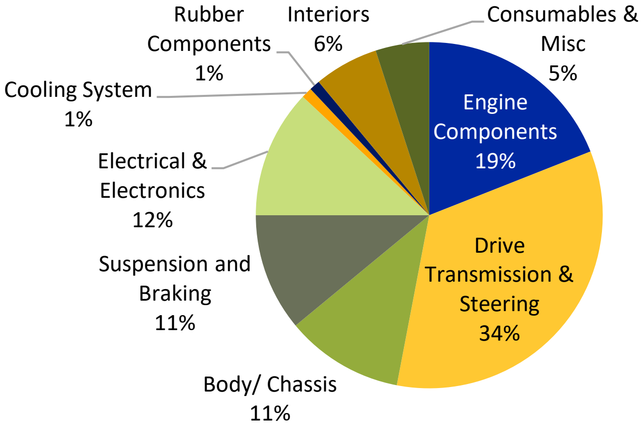


Exhibit: Export Segmentation Product-wise, by Value (FY2024)

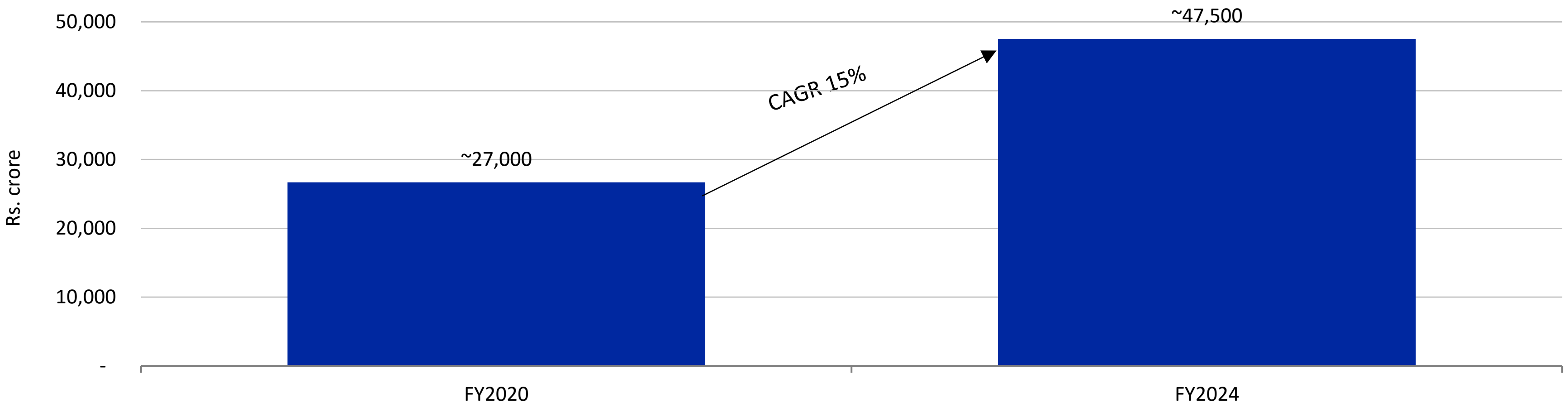


Source: ACMA, ICRA Research; excludes batteries and tyres

The Indian Auto component industry demand continues to benefit from a diversified mix of end-user segments and geographies. The US constituted close to 8% of the overall industry revenues in FY2024. Assuming that the product-wise export of auto components to the US also follows the broad trend mentioned above, about 65% of India's auto component export basket is estimated to fall under the 25% import tariff category.

Auto component exports to the US have grown at a CAGR of 15% since FY2020

Exhibit: Trend in Export of Auto Components to the US



Source: ACMA, ICRA Research; excludes batteries and tyres

Export of auto components to the US grew at a CAGR of 15% during FY2020-FY2024. Factors like rising supplies to new platforms because of vendor diversification by global original equipment manufacturers (OEMs)/Tier-I parts manufacturers, higher value addition, and favourable forex movement, among others, have benefitted Indian auto component manufacturers, despite muted new vehicle registration growth in the US vis-à-vis pre-Covid levels.

US consumer sentiment remained weak even prior to the additional import tariff

Exhibit: US Class 8 Truck Retail Sales Volume – Quarterly Trend

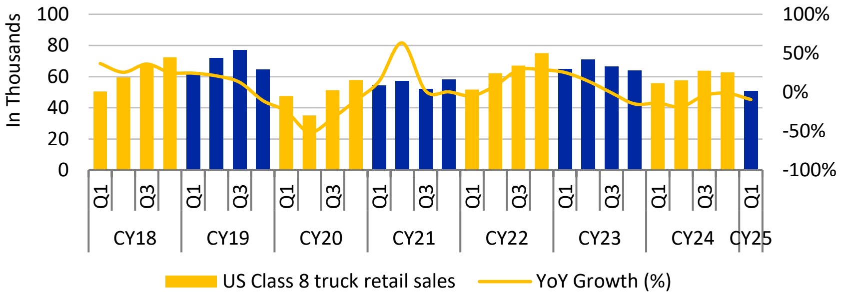


Exhibit: US Class 8 Truck Order Book

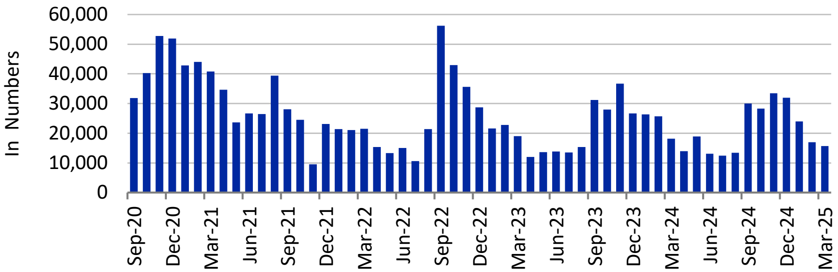
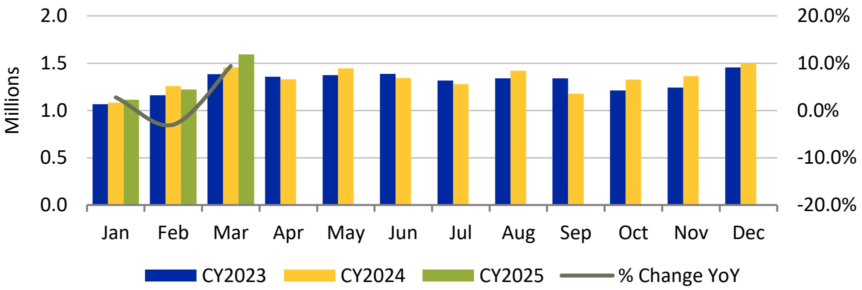


Exhibit: US PV Retail Sales Volume



- US light vehicle sales witnessed only modest YoY growth of 2.2% in CY2024 and 3.4% in Q1 CY2025. In absolute terms, they are expected to go back to pre-Covid levels only over the medium term.
- Compared to the peak in CY2019, US Class 8 truck retail sales was lower by 3.6% in CY2024. On a YoY basis, they declined by 9.7% in CY2024 and 9% in Q1 CY2025.
- The Class 8 truck order book also declined ~19% YoY in Q1 CY2025 after a growth of 4.5% in CY2024, indicating that macro-economic headwinds could impact truck production in CY2025.

Source: Bloomberg, Marklines, FTR Transport Intelligence, ICRA Research

Tariff-related Impact | Immediate and Medium Term

While the situation is evolving, India could be a beneficiary over the medium term; industry liquidity adequate to handle near-term impact on accruals and receivables

Imposition of incremental tariff could weaken export demand further

Exhibit: Summary of Recent Announcements on Incremental Import Tariff for Auto and Auto Components to the US

February 10 and 11, 2025

25% tariff on import of steel and aluminium content in auto parts effective March 12, 2025

March 26, 2025

25% tariff on imported passenger vehicles (sedans, Sports Utility Vehicles (SUV), crossovers, minivans, cargo vans) and light trucks, effective April 03, 2025

March 26, 2025

25% tariff on imported key automobile parts (engine, transmission, powertrain, and electrical components) effective not later than May 03, 2025

April 02 and 09, 2025

Reciprocal tariff of 26% imposed on exports from India to the US; temporary pause for 90 days but with 10% ad valorem duty still applicable; covered those components/ automobiles not covered in the previous orders.

Products that fall under the US Mexico-Canada Arrangement (USMCA) are exempt at present. The situation is evolving as tariff actions have been fluid and trade negotiations are ongoing.

Source: The US White House release dated February 10 and 11, March 26, April 02 and 09, 2025; ICRA Research

Earnings impact for exporters in a scenario where 30-50% of the incremental costs are to be absorbed could range between Rs. 2,700 crore and Rs. 4,500 crore

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Exhibit: Tariff-related Cost Impact for Indian Auto Component Exporters

In Rs. crore	FY2024A	FY2025E	FY2026P
Total export of auto components from India (pre-tariff)	175,960	188,000-192,000	203,000-213,000
ICRA's auto component export growth estimates		7-9%	8-11%
Percentage of auto component exports to the US*	27%	27%	27%
Proportion of components at 25% #			~65%
Proportion of components that are covered by other tariff orders @			~35%
Earnings impact in a scenario where 30-50% of the incremental tariff costs are to be absorbed by the Indian auto component exporters ^			**Rs. 2,700 – 4,500 crore**
Earnings impact as a percentage of operating profits of Indian auto component industry			**3-6%**
Earnings impact as a percentage of operating profits of Indian auto component exporters			**10-15%**

ICRA understands that the components exported from India to the US had an import duty of 2.5% earlier. The steep increase in import tariffs is estimated to burden the entire supply chain with an incremental cost of around Rs. 9,000 crore, which will need to be borne by the US consumers, US importers, and Indian exporters. The extent to which the Indian auto component exporters share the cost burden will be contingent on their competitiveness and the price elasticity of the products exported.

*Source: ACMA, ICRA Research; excludes batteries and tyres; * FY2024 is based on actual data, while FY2025 and FY2026 are based on ICRA's assumptions; # Computed based on best available information, applies to components that fall under the order dated March 26, 2025; @ Includes components that are covered under orders dated February 10 and 11, 2025 and April 02 2025; ^Does not segregate between freight on board (FOB)/ delivered duty paid (DDP) and number represents overall cost impact*

Immediate impact on Indian auto component exporters can be multifold

Demand slowdown in the US

Given the increased economic uncertainty, decline of automobile sales volumes and tepidness in the replacement market in the US remain the key downside risks.

Incomplete pass-through of incremental cost

While the auto component suppliers with whom ICRA has interacted indicate that most of the incremental costs would be passed on, however, as in any buyer-supplier negotiation, the extent of pass-through would depend on the supplier's criticality, share of business, competition, and technological intensity of the components supplied.

Pricing pressures for other export geographies

Pricing pressures can also arise in other export geographies such as Europe and Asia, where Chinese competition would likely increase. Even if prices for Indian suppliers to the US are ex-freight, there could be some pricing pressure from customers because of added costs at their end.

Margins

Sharing part of the incremental costs for US exports from India or pricing pressure in other geographies can have a cascading impact on margins.

Receivables

In cases where the billing cost includes freight, there will be incremental receivables stemming from the higher costs, even in case of complete pass-through.

Source: ICRA Research

However, several positives stand out over the near term

A large part of the industry demand comes from the domestic market; thus, the impact of the recent development would only be for entities deriving a sizeable share from the US.

Loss of business share with customers is unlikely as switching costs are high and product development, testing, and approval cycles are reasonably long. Other cost-effective options may also be limited currently. The typical lead time from discussion commencement to order delivery is 12-18 months.

Where cost is inclusive of freight, negotiations on pass-through have commenced for several exporters. A few have even received revised purchase orders as on date. Any bilateral trade negotiations resulting in lower tariff for India, will also be a positive.

Exports routed via Brazil/Mexico, if any, would have lower tariff-related impact. The same applies to components manufactured in Mexico as well. Select entities also have manufacturing facilities in the US and supplies from those units would be shielded from the cost impact of the tariff.

ICRA expects debt metrics and liquidity to remain comfortable for most of the exporters in its sample set despite potential decline in margins and increase in working capital requirements.

Source: ICRA Research; Based on 46 large auto ancillaries with aggregate annual revenues of over Rs. 3,00,000 crore in FY2024, accounting for about 50% of the industry

India could be a beneficiary over the medium term; risk mitigation strategies being worked on as well to brace medium-term impact, if any

Exhibit: Positive Factors/Risk Mitigants for the Indian Auto Component Industry over the Medium Term

There could be incremental opportunities for India arising from cost competitiveness vis-a-vis Chinese components (if the same level of tariff continues). Any concessional tariff for India, if implemented, also could be beneficial to auto component suppliers.

Vendor diversification by global OEMs/Tier-Is or higher outsourcing to Indian ancillaries, which existed pre-tariff, would continue.

Auto component suppliers dependent on the US are trying to diversify their revenue base across other geographies (including Asia). Measures to improve value addition and optimise costs are also being worked upon.

Companies could explore setting up manufacturing facilities in the US/Mexico/Brazil and capture incremental share of business that could come from lower tariff/setting up local manufacturing. There is nothing in the pipeline currently though, because of viability issues.

Source: ICRA Research; Chinese auto parts falling in engine, transmission, powertrain, and key electrical components have been imposed an incremental tariff of 25% in addition to the earlier 20% vide order dated March 26, 2025 effective not later than May 03, 2025. A reciprocal tariff of 125% is applicable for other Chinese auto components.

Financial Forecast

Revenue growth could drop by 200 bps while margins could dip 50-100 bps for industry and 150-250 bps for exporters against earlier estimates; debt metrics to remain comfortable

Tariff-related revenue impact for the industry in FY2026 to be ~200 bps

Exhibit: Annual Revenue Forecast for ICRA's Sample Set (Assuming No Significant Demand Impact Because of the Tariff)

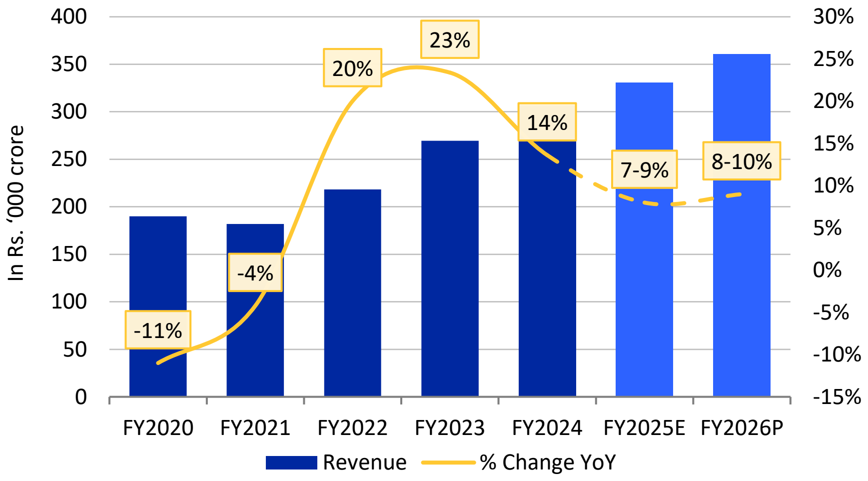
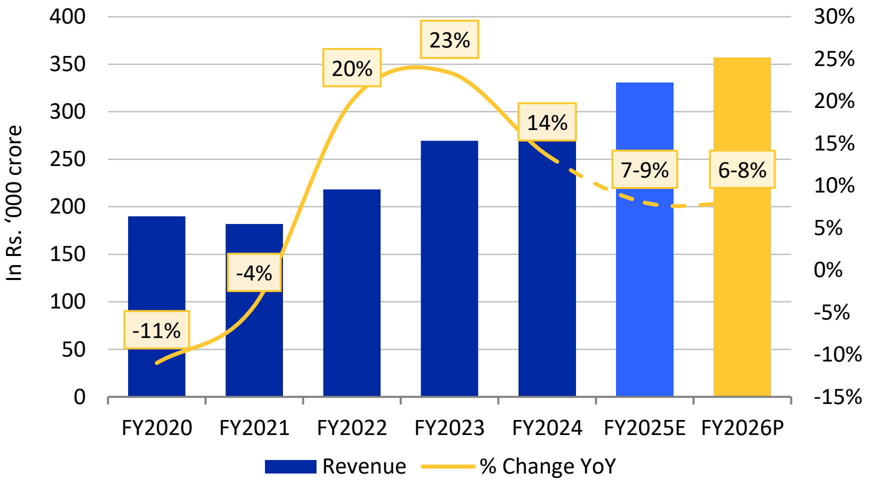


Exhibit: Annual Revenue Forecast for ICRA's Sample Set (Assuming Significant Demand Impact in the US Because of the Tariff)

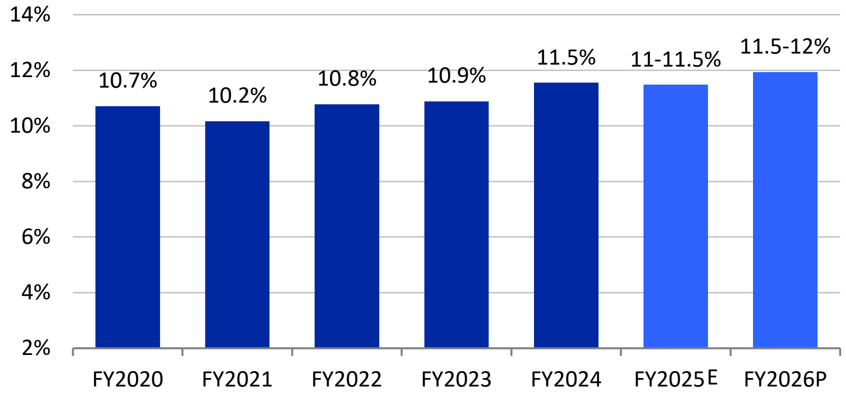


ICRA expects the revenue growth of Indian auto component industry to ease to 6-8% in FY2026, against 8-10% projected earlier, if there is mid to high single-digit revenue decline in exports to the US, stemming from the tariff-related impact. For those companies focused on exports to the US, the revenue impact could be significantly higher.

Source: ICRA Research, Ace Equity; Based on 46 large auto ancillaries with aggregate annual revenues of over Rs. 3,00,000 crore in FY2024, accounting for about 50% of the industry

Industry margins expected to decline by 50-100 bps in a scenario where 30-50% of the incremental costs are absorbed

Exhibit: Annual Operating Margin Forecast for ICRA's Sample Set (Assuming No Significant Demand Impact Because of the Tariff)



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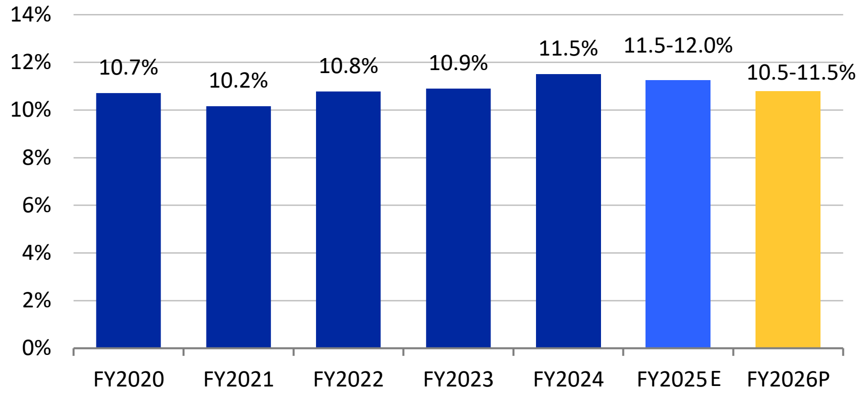
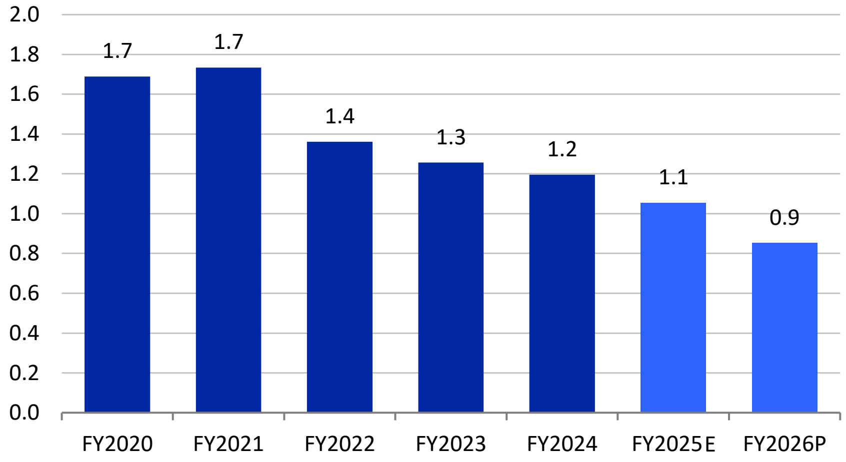


The industry's margins have remained range-bound at 10.5-11.5% in the last few years, with benefits from operating leverage, value addition and higher content per vehicle, largely being offset by cost inflationary pressures. However, within the industry, margins for players have varied depending on product profile and diversification. Operating margins are likely to moderate by 50-100 bps against earlier estimates, to 10.5-11.5% in FY2026, in a scenario where 30-50% of the incremental costs are to be absorbed. Specifically for exporters, the decline could be higher at 150-250 bps, on an average. Nevertheless, the situation is evolving as tariff actions have been fluid and trade negotiations are ongoing.

Source: ICRA Research, Ace Equity; Based on 46 large auto ancillaries with aggregate annual revenues of over Rs. 3,00,000 crore in FY2024, accounting for about 50% of the industry

Coverage indicators to remain comfortable, despite potential decline in margins and increase in receivables

Exhibit: Trend in Total Debt/OPBITDA (Times) for ICRA's Sample Set (Assuming No Significant Demand Impact Because of the Tariff)



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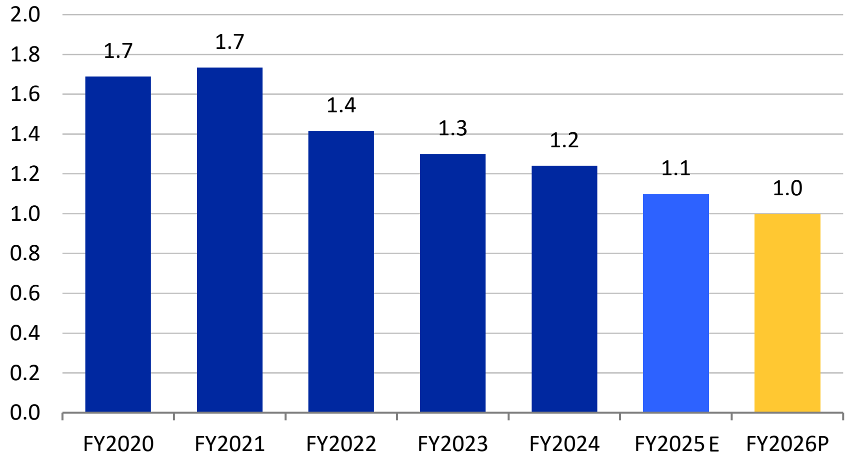


Despite potential decline in margins and increase in working capital requirement (In cases where the billing cost includes freight), ICRA expects coverage metrics for the sector to remain comfortable going forward as well, aided by healthy accruals and relatively low incremental debt funding. ICRA expects debt metrics and liquidity to remain comfortable for most the exporters in its sample set , thus providing cushion to absorb the incremental costs (beyond pass-through)/working capital requirements, as the situation evolves.

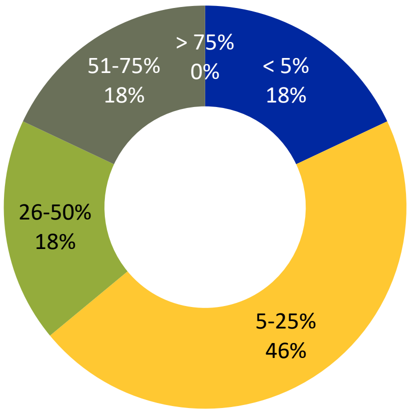
Source: ICRA Research, Ace Equity; Based on 46 large auto ancillaries with aggregate annual revenues of over Rs. 3,00,000 crore in FY2024, accounting for about 50% of the industry

ICRA's Channel Check

Price renegotiations have commenced for several companies; exporters to continue to service from India as it is unviable to set up factories in the US given the cost structures

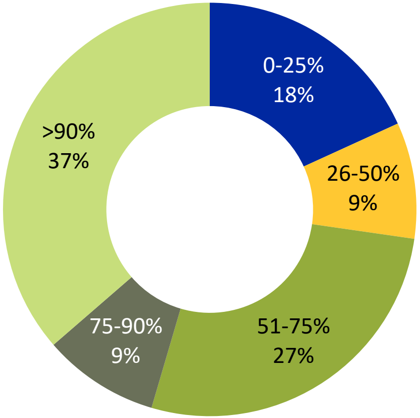
Channel Check| Ability to pass through a sizeable part of the incremental costs will result in less than 100-bps margin impact for the overall industry

Exhibit: Proportion of Sales to the US – Ex-freight/FOB



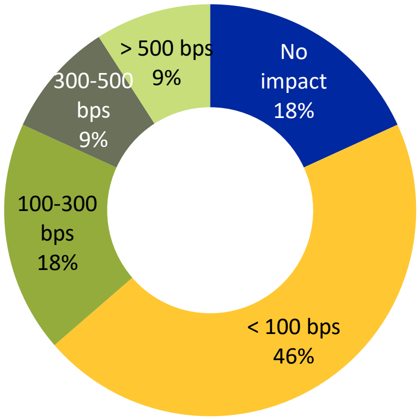
Majority of shipments are billed by including freight charges. This would necessitate negotiations for pass-through and additional working capital requirements even after pass-through as the billing would be higher.

Exhibit: Expected Pass-through of Tariff to Customers



About 37% of the respondents believe that over 90% of the impact would be passed through. Another 36% believe that 50-90% of the impact would be passed through.

Exhibit: Impact of Tariff on the Industry's Operating Margins

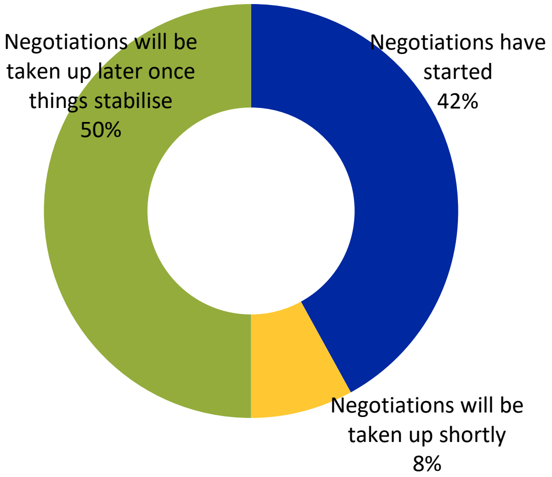


Nearly half of the respondents believe that the impact of the tariff on the industry's operating margins will be sub 100 bps.

Source: ICRA Research; Based on 43 responses from Indian auto component suppliers

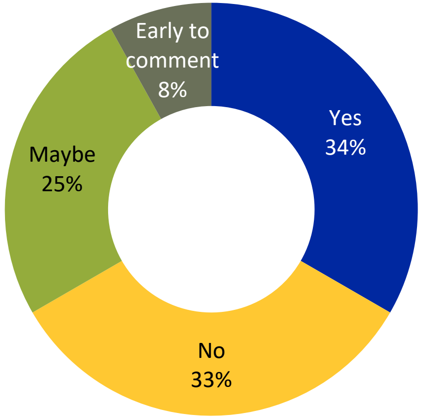
Channel Check| Adequate liquidity buffer for most players to absorb incremental costs

Exhibit: Commencement of Negotiations for Revised Purchase Orders



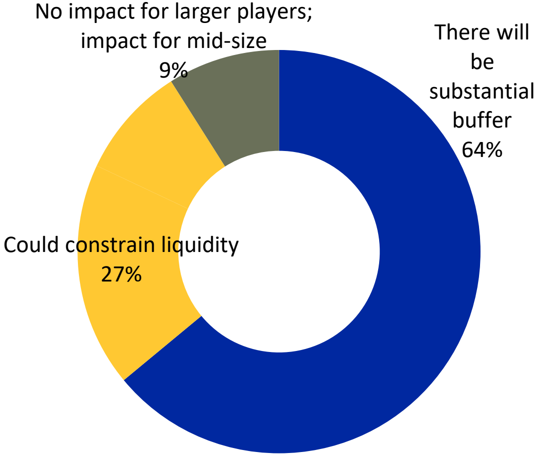
Over two-fifths of the respondents have indicated that negotiations have started for revised purchase orders. On the contrary, the remaining have indicated that customers are waiting for things to stabilise.

Exhibit: Is Material Increase in Receivables Expected due to Incremental Tariff?



The materiality of incremental receivables for companies would depend on proportion of exports, billing mechanism (FOB/including freight) and ability of Indian exporters to renegotiate terms.

Exhibit: Liquidity Cushion

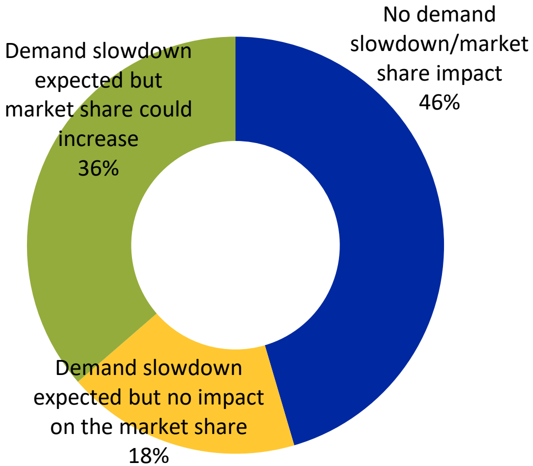


Despite potential decline in margins and increase in working capital requirements, the liquidity cushion to absorb the same is likely to be comfortable for majority of the players.

Source: ICRA Research; Based on 43 responses from Indian auto component suppliers

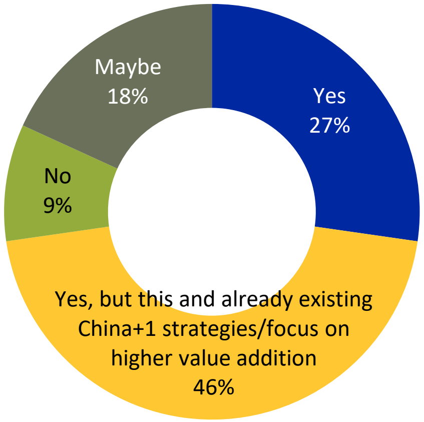
Channel Check| Tariff could aid in market share gains over medium term; no weakening of market position anticipated in the near term

Exhibit: Near-term Impact



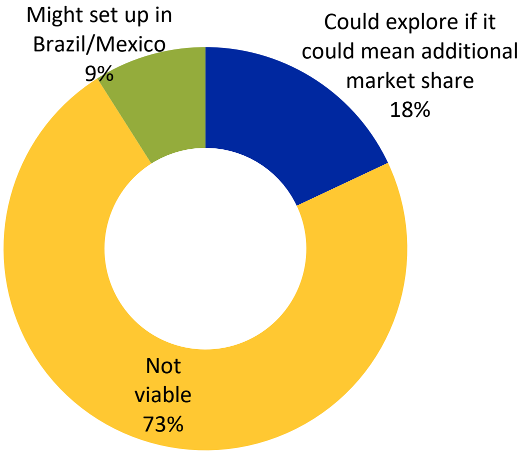
There is consensus that India's market position will not weaken in the near term. On the contrary, some respondents feel that there could be market share gains in the next 6-12 months driven by vendor diversification by global OEMs.

Exhibit: Does the Tariff Provide Opportunity for India to Gain Market Share Over the Medium Term?



Despite various challenges at present, if the relatively lower tariff rate for Indian auto components vis-à-vis China continues over a reasonably long period, it could result in market share gain for India.

Exhibit: Setting Up Plant in the US/Latin America



The cost of setting up a plant in the US is unviable because of the high operational costs. Some ancillaries have indicated that a significant level of automation in operations is required for it to be viable for mid-sized players.

Source: ICRA Research; Based on 43 responses from Indian auto component suppliers

Trend in Credit Ratings

Upgrades have exceeded downgrades since FY2022

Most rated auto ancillaries are in investment grade category

Exhibit: ICRA's Ratings in the Auto Component Industry

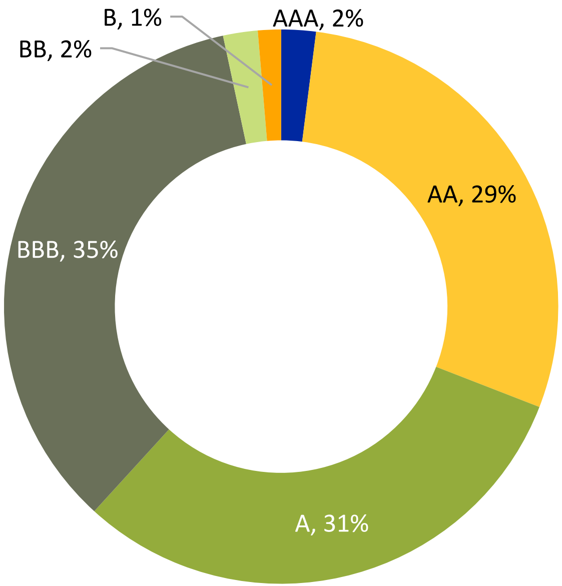
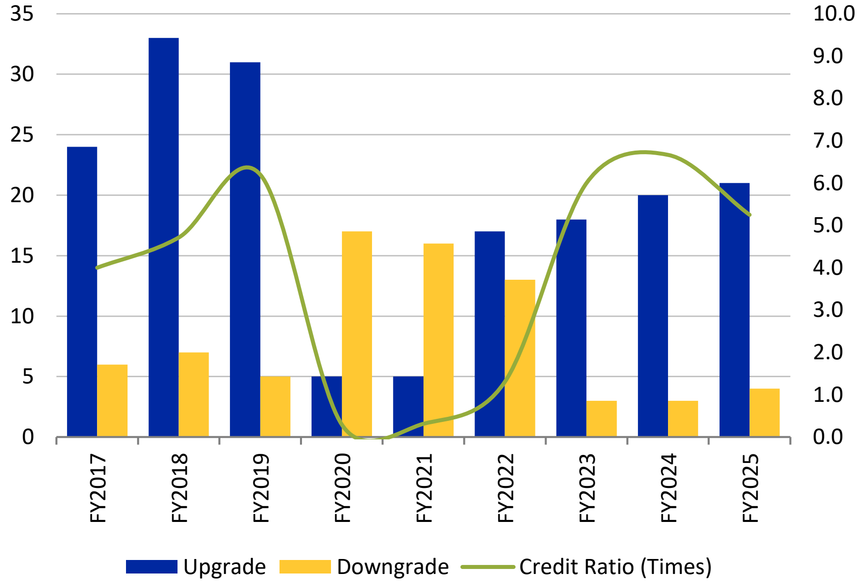


Exhibit: Rating Movement in ICRA's Portfolio of Auto Component Companies



ICRA rates about 144 auto ancillaries currently

Source: ICRA Research; As on April 21, 2025, and does not include INC cases

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Thank You!