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INDIAN AUTO COMPONENT INDUSTRY

Industry to benefit from higher content per vehicle; to grow by 8-10% in FY2026

MARCH 2025

Agenda

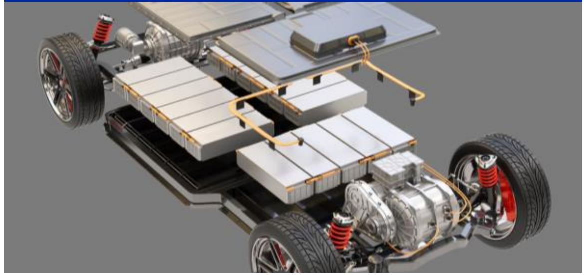
1 Demand Dynamics

2 Commodity Prices

3 Quarterly Performance

4 Financial Forecast and Capex

5 Opportunities from Electrification



6 Trend in Credit Ratings, Peer Comparison & Annexure

Highlights

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The amendment in US import tariff will increase the cost of the affected parts imported into the US significantly. While auto component suppliers ICRA has interacted with post the development have indicated that majority of the incremental costs would be passed on, ICRA believes that the extent of pass-through would be negotiated based on the supplier's criticality, share of business, competition and technology intensiveness of the components supplied, among other factors. The situation is evolving and ICRA will continue to monitor developments on this front closely.

Demand for auto components is driven by domestic original equipment manufacturers (OEMs), replacement and export markets. Domestic OEM revenues for auto ancillaries are expected to grow at 8-10% in FY2026. Increase in vehicle parc, higher average age of vehicles/used car purchases, preventive maintenance and growth in organised spares, among other reasons, are likely to aid replacement demand.

New vehicle registrations in Europe and the US are estimated to remain tepid in CY2025, impacted by the economic gloom and geopolitical tensions. However, factors like rising supplies to new platforms because of vendor diversification initiatives by global OEMs/Tier-Is and higher value addition, among others, augur well for Indian auto component suppliers. Of India's auto components exports, about 27% was to the US in FY2024 and the absolute value stood at ~Rs. 47,500 crore. This proportion has ranged from 25-28% since FY2020. The absolute value has increased by 75-80% in FY2024 since FY2020. The impact of the recent tariff amendment to US import, on revenues/margins of Indian exporters, remains a key monitorable.

Notwithstanding any revenue impact from the recent US import tariff amendment, **ICRA expects the auto component industry revenues to grow at 8-10% in FY2026**. Apart from base demand, increasing premiumisation and higher localisation resulting in higher content per vehicle, will aid industry growth.

Notwithstanding any impact from the recent US import tariff amendment, **ICRA anticipates operating margins to remain range-bound at 11.5-12% in FY2026**, supported by benefits from operating leverage, higher content per vehicle and value addition, while remaining vulnerable to any significant unfavourable movements in commodity prices and foreign exchange rates.

ICRA's interaction with large auto component suppliers indicate continued capex in FY2025. The industry is expected to incur Rs. 15,000-20,000 crore in FY2025 and Rs. 20,000-25,000 crore in FY2026. Capex is likely to hover around 7-8% of operating income (OI) over the medium term, funded largely through internal accruals, except for large projects (like battery cell localisation), which would initially be funded primarily through debt. As a result, the debt metrics for ancillaries are likely to remain comfortable over the medium term.

Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President and Group Head	shamsherd@icraindia.com	0124 – 4545 328
Srikumar K	Senior Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 – 4596 4318
Vinutaa S	Vice-President and Sector Head	vinutaa.s@icraindia.com	044 – 4596 4305
Sriraman Mohan	Senior Analyst	sriraman.mohan@icraindia.com	044 – 4596 4316
Nilesh Kumar Jain	Senior Analyst	nilesh.jain2@icraindia.com	044 – 4596 4312

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!