ICRA

INDIAN AUTO COMPONENT INDUSTRY

Indian auto component sector navigates tariff and supply chain related headwinds

SEPTEMBER 2025

Agenda

ICRA

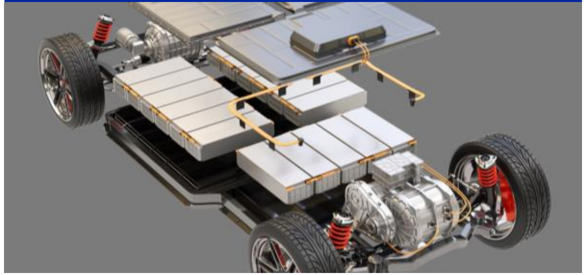
1 Demand Dynamics

2 Commodity Prices

3 Quarterly Performance

4 Financial Forecast and Capex

5 Opportunities from Electrification



6 Trend in Credit Ratings, Peer Comparison & Annexure

Highlights

ICRA

Click to see full report

The auto component industry currently faces two key risks - one arising from the US import tariffs and the other relating to the supply of rare earth magnets from China.

On tariffs, the auto component suppliers indicated that majority of the incremental costs would be passed on, however, ICRA believes that the extent of pass-through would be negotiated based on the suppliers' criticality, share of business, competition, and technological intensity, among others.

On the matter of rare earth magnet supplies from China, the issue is more geopolitical than economic and warrants monitoring.

The recent GST rationalisation measures are a structural positive for the automotive demand and auto components sector.

Demand for auto components is driven by domestic original equipment manufacturers (OEMs), replacement and export markets. Domestic OEM revenues for auto ancillaries are likely 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 revenue growth of 7-9% in FY2026. The GST rationalisation is also expected to improve affordability and support demand, both OE and replacements.

ICRA expects the revenue growth of the Indian auto component industry to ease to 6-8% in FY2026 (against 9% in FY2025), if there is mid to high single-digit revenue decline in exports to the US, stemming from the tariff-related impact. Operating profit margins are likely to moderate by 50-100 bps to 10.5-11.5% in FY2026, given that a part of the incremental costs due to tariff would be borne by Indian auto-component exporters. Nevertheless, the situation is evolving as tariff actions have been fluid and trade negotiations are ongoing. New vehicle registrations in Europe and the US are estimated to remain tepid in CY2025, impacted by the economic challenges and geopolitical tensions. Given these uncertainties, ICRA expects the export revenue growth to ease to 3-5% in FY2026.

While the additional tariff cost will be split among 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. The longer lead-time associated with product development and validation in the automotive industry, and safety-critical nature of products supplied by some auto component exporters are expected to protect the industry's business to a large extent from any tariff disruptions.

ICRA's interaction with large auto component suppliers indicate continued capex in FY2026. The industry is expected to incur 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), that are seen to 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
Jitin Makkar	Senior Vice-President and Group Head	jitinm@icraindia.com	0124 – 4545 368
Srikumar K	Senior Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 – 4596 4318
Sruthi Thomas	Vice-President and Sector Head	sruthi.thomas2@icraindia.com	080 – 4332 6430
Sriraman Mohan	Assistant Vice President	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
Sai Krishna	Head – Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
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 – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.Kulkarni@icraindia.com	022 – 61693365
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

Thank You!