

# INDIAN AUTO COMPONENT INDUSTRY

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**Industry navigating tariff and supply chain related headwinds; GST 2.0 a structural positive**

**DECEMBER 2025**



## 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 & Annexures





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*The auto component industry currently faces two key risks – Import tariffs and supply constraints of rare earth magnets (REM).*

*On tariffs, auto component suppliers indicate that a majority of the incremental costs have been passed on. Yet, ICRA notes that export earnings have suffered, not because of the pricing pressures, but because of the weakness in automobile sales volumes in the US.*

*On REM, while the industry has faced disruption, alternative motor design adoption and sourcing adjustments has enabled production lines to keep humming.*

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



**Demand for auto components is driven by domestic original equipment manufacturers (OEMs), replacement market and export markets.** Domestic OEM revenues for auto ancillaries are likely to grow at 8-10% in FY2026. Increase in vehicle parc (all automotive vehicles in use at any given time), higher average age of vehicles/used car purchases, preventive maintenance and growth in organised spares, among other reasons, are likely to aid replacement market revenue growth of 9-11% in FY2026. The GST rationalisation is also expected to improve affordability and support demand for both OE and replacements.



**ICRA expects the revenue growth of the Indian auto component industry to ease to 7-9% in FY2026 against 10% 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 tariffs 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, from 9% in FY2025.



**While Indian auto component manufacturers have been navigating the US tariff situation through trade negotiations and supply chain modifications, the recently announced tariffs by Mexico is likely to pose further challenges.** However, ICRA expects near-term, large-scale disruptions to be mitigated to a large extent, given 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.



**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, where the proportion of debt funding is higher. As a result, the debt metrics of ancillaries are likely to remain comfortable over the medium term.



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