Auto component makers bank on localisation, diversification amid tariff woes

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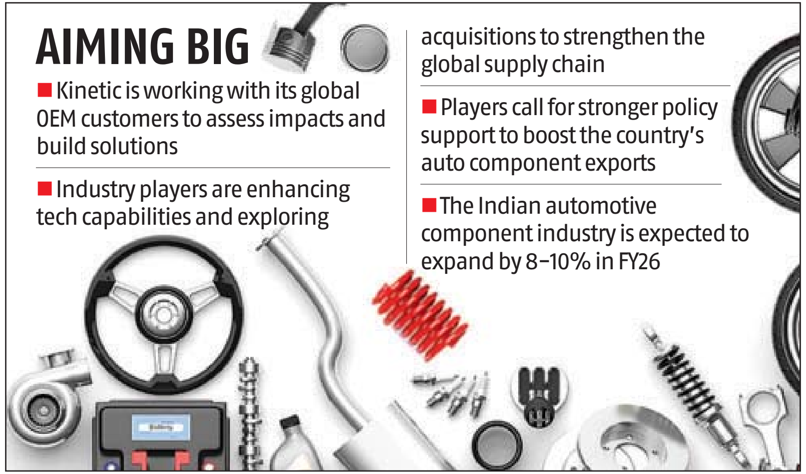

As the global trade landscape faces potential shifts with evolving tariff policies, Indian auto component manufacturers are proactively strategising to mitigate any adverse impact. From increased localisation to strategic market diversification, industry leaders are recalibrating their operations to maintain resilience in an uncertain global trade environment.

Leading players like Kinetic Engineering and Samvardhana Motherson International (SAMIL) are laying strong emphasis on localisation, long-term partnerships, and a cautious-yet-opportunistic outlook on market diversification.

Ajinkya Firodia, vice-chairman and managing director of Kinetic Engineering, said the company had long embraced localisation as a core philosophy, with over 97 per cent of its components manufactured domestically.

"Imports are limited only to highly specialised parts that are not currently available in India. As a result, the impact of potential import tariff changes on our operations is minimal," Firodia noted.

He added that Kinetic is working closely with its global OEM customers to assess potential impacts and build long-term solutions. "Auto programmes typically span seven years, involving extensive prototyping, feasibility studies, validation, and testing. This stable structure allows us to plan ahead and mitigate risks effectively," he said.

Industry players also highlighted that market diversification is integral to the industry's strategy.

"We view every challenge as a potential opportunity. Tariff changes can be a catalyst for Indian manufacturers to explore new markets and reduce overdependence on specific geographies," Firodia said, adding that India is emerging as a net beneficiary in the ongoing global trade realignment.

Kinetic is focusing on early engagement, research and development (R&D) partnerships, and platform-agnostic development to broaden its customer base, Firodia said.

Diversification is also significant for the auto component industry as the sector faces a projected revenue slowdown to 6-8 per cent this financial year and the next, driven by softening demand and sluggish global markets, which has led industry players to actively diversify their markets to mitigate the impact.

To counter this, industry players are also enhancing their technological capabilities and exploring potential acquisitions to strengthen the global supply chain.

Diversification is a gradual process due to the highly customised nature of products tailored to individual OEMs, as transitions typically take 8 to 24 months and require significant capital investment.

Industry players also call for stronger policy support to boost the country's auto component exports. "With the right incentives and trade agreements, this could be a defining moment for India's export ambitions," Firodia added.

SAMIL, one of India's largest auto component makers, said its global manufacturing footprint offers a strategic advantage in times of trade uncertainty.

"Our 'globally local' strategy ensures manufacturing units are located near customers, which helps reduce our exposure to tariff changes," said Laksh Vaaman Sehgal, director at SAMIL in an investor call for the third quarter results for FY25.

"Most materials and customer-nominated parts are pass-through items, so any changes in tariffs will likely be repriced by customers," he said.

Sehgal added that for other procurement areas, Motherson continues to push for greater localisation. "In the medium term, we can optimise production in more favourable jurisdictions and provide faster, more cost-effective solutions to customers."

However, he cautioned that the full implications of the evolving trade landscape are still unfolding. "It's early days, and we're closely watching how global agreements evolve. We'll work with our customers to find mutually beneficial solutions," he said.

The Indian automotive component industry is expected to maintain a steady growth trajectory, and expand by 8-10 per cent in FY26. The sector which saw a 14 per cent growth in FY24 is projected to witness a more moderate expansion of 7-9 per cent in FY25, according to credit rating agency Icra. This growth will be on the backs of strong export performance, increasing localisation of electric vehicle (EV) components, and rising demand in the aftermarket.

Subhabrata Sengupta, partner at Avalon Consulting, said that while concerns around tariffs are valid, the lack of clarity in policy makes it difficult to gauge the exact impact.

"India imports over $20 billion worth of auto components, with China, Thailand, Germany and Korea among the top exporters. Even if the US gets tariff concessions, it's unclear whether it can replace Chinese imports given the cost structure," he noted, adding, "It's best to wait for the official announcements before making significant shifts." As the industry awaits more clarity on tariff changes, most players are betting on localisation and operational agility to navigate the uncertainty—turning a potential disruption into a strategic pivot point.