Auto component makers fear US tariffs will hit their revenues

RIPPLE EFFECT. 25% tariff may dent the operating margins by 120-150 basis points

Aroosa Ahmed
S Balachandar
S Ronendra Singh
Mumbai/Chennai/New Delhi

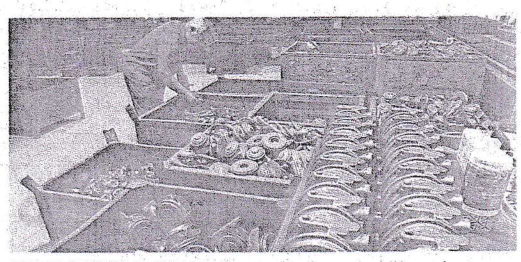
US President Donald Trump's proposed 25 per cent tariff on auto parts imported into the US is set to impact Indian auto component manufacturers significantly, given their strong exposure to the American market.

Industry experts warn that the tariffs, expected to take effect from May, will compress operating margins and revenues, as exports form a crucial part of the sector's earnings.

US, A KEY MARKET

"The tariff is expected to dent the operating margins of auto parts makers by 120-150 bps. Approximately one-fifth of India's auto component sector revenue is derived from exports. Of this, 27 per cent is to the US market alone," said Anuj Sethi, Senior Director of Crisil Ratings.

In FY24, India exported automobiles and auto components worth $2.6 billion to the US, with auto parts accounting for a chunk of $2.1 billion, said Prabhudas Lilladher in a note.



MAJOR HUB. In FY24, India exported automobiles and auto components worth $2.6 billion to the US

Prominent among those that will be affected the most is Sona BLW, which gets 43 per cent of its revenues from the US, and Bharat Forge with 38 per cent, according to CLSA. Samvardhana Motherson gets 15 per cent of its revenue from the US but may see a lesser impact as it has manufacturing facilities in the US.

A senior executive from a leading Indian auto parts company, which exports to the US, noted that previous tariffs on steel and aluminium, imposed on March 12, impacted only select components based on the Harmonised System of Nomenclature (HSN) codes. The full extent of the new tariffs is expected to become clearer on April 2, determining whether a broader range of parts will be affected.

BIG HIT FOR TAMO

In the automobile sector, Tata Motors is seen having a major impact, as its luxury brand subsidiary Jaguar Land Rover (JLR) has one-third of its sales coming from North America.

For JLR, the US is a key market to which it exports from its manufacturing facilities in the UK and other international locations. "Close to 31 per cent of JLR's retail sales come from the US and models are made in the UK, thus it would be exposed to the higher duty, though the US in the past has been a relatively lower-margin market for JLR," said CLSA.

"The US is a key market for Indian auto components, with exports valued at $1.5 billion annually. Increased tariffs could reduce demand for these exports, pressuring Indian suppliers to find alternative markets," said Nikhil Dhaka, Vice-President, Primus Partners. "India's passenger car exports to the US are negligible, accounting for only $8.9 million in 2024, or 0.13 per cent of India's total global car exports. This minimal exposure makes the tariff largely irrelevant for Indian automakers," he added.

Prabhudas Lilladher put it in perspective; observing from a macro lens, even under an extreme-case scenario where $2.6 billion of auto exports are fully tariffed at 25 per cent, the theoretical export loss to India would be $650 million, a mere 0.09 per cent of India's total merchandise exports, and 0.02 per cent of GDP.

INDIRECT HIT

The tariff will also impact indirect suppliers that ship materials to other countries, which then export them to the US.

Ashim Sharma, Senior Partner at Nomura Research Institute Consulting & Solutions India, said that Indian manufacturers supplying US-bound vehicles indirectly — via other countries — could also feel the squeeze. Companies with operations in Mexico may face hurdles, depending on the tariff application.

Saurabh Agarwal, Tax Partner, EY India, said the timing of the tariff announcement is significant, as India and the US are currently engaged in discussions to finalise a bilateral trade agreement, aimed at expanding trade between the two countries, with a target of $500 billion in trade by 2030. This makes the upcoming negotiations an important space to watch for potential tariff adjustments or new trade terms.