Auto street set for rough ride

India calculating impact of 25% duty on cars, auto parts; firms see hit on margins

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Mumbai/New Delhi, 27 March

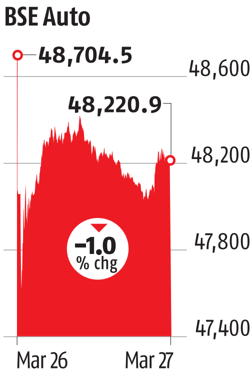
In a latest twist in the trade war, United States President Donald Trump has announced a sweeping 25 per cent tariff on automobile and automobile parts with effect from April 3.

While the European Union (EU) and Japan, among others, are gearing up for retaliation, India is doing its own math to calculate the impact of the additional tariff. In India, even as the impact on completely built vehicles may not see a major impact, auto components exports may take a hit, according to the government's preliminary analysis. "Looks like automobiles exports may not take a major hit since Indian carmakers don't cater to the US market," a senior official said. However, that's not the case for automobile component exports.

Industry representatives and analysts shared the view. The operating margins of Indian automobile component exporters would likely compress by 125-150 basis points due to the Trump administration's decision, according to market analysts. Their operating margins are now in the range of 12-12.5 per cent.

RIPPLE EFFECT

India's auto stocks declined 1% on Thursday after US President Donald Trump announced a 25% tariff on auto imports from April



THE LAGGARDS

(As of Mar 27)

	Close (Share price in ₹)	1-day chg %
Tata Motors	668.6	-5.6
Sundram Fasteners	906.2	-4.0
Ashok Leyland	208.7	-2.9
Samvardhana Motherson Internat	132.0	-2.2
UNO Minda	915.6	-2.1

Source: Bloomberg; Compiled by BS Research Bureau

The share prices of major auto component makers fell sharply on Thursday. Sona BLW Precision Forgings dropped 5.89 per cent to ₹467.15, while Samvardhana Motherson International fell 2.62 per cent to ₹131.4. Tata Motors also saw a 5.47 per cent drop, closing at ₹669.5. The US is a key market for Jaguar Land Rover (JLR), Tata Motors' luxury car unit. North America accounted for nearly one-third of JLR's global sales in 2024, with the US alone contributing 22 per cent.

JLR had predicted in its Q3 earnings call that the market would become both challenging and unpredictable. Richard Molyneux, Chief Financial Officer of JLR, had said tariffs and a progressive breakdown of global free trade were a concern. While most Indian carmakers, except Tata Motors, have limited exports to the US, the scenario is starkly different for auto component manufacturers. For them, the US has been the number one export market for many years. According to the Automotive Component Manufacturers Association of India, the industry exported auto components worth $11.1 billion globally in the first half of 2024-25. Of this, nearly 28 per cent—valued at $3.67 billion—was shipped to the US.

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Trump's tariffs stun America's automaker allies

Trump's new tariffs may drag foreign automakers' earnings. They will likely have far-reaching and damaging effects on the economies of the US' North American neighbours and key allies in Europe, Asia.

MOST CARMAKERS STAND TO LOSE AS TARIFFS SPREAD PAIN P8

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Indian auto firms have advantage of low-cost manufacturing: Experts

RSB Global, one of India's largest automobile component manufacturers with a production facility in the US, told *Business Standard* that the tariff could ultimately suppress demand for vehicles in the US.

Rajnikant Behera, executive director, RSB Global, stated: "It's too early to accurately analyse the impending impact of the recent US tariff, but we anticipate that they might lead to a temporary dip in vehicle demand, making cost management more challenging for end customers." This uncertainty could also prompt some companies to reconsider or delay their expansion plans in the US and Mexico region, he said.

A recent Moody's report reflected the ground scenario. It said that SAMIL generates around 20 per cent of revenue from the US, which includes revenue from job work locations like Mexico. "SAMIL will likely seek to pass on tariff-induced cost increases to its customers. It is also pursuing a diversification strategy to ensure no single component, customer or country accounts for more than 10 per cent of its revenue," it added. The US move to impose 25 per cent tariff on components such as engines, transmissions, powertrain parts, and electrical parts, would compress the operating margins of Indian component manufacturer-exporters by 125-150 basis points from the current 12–12.5 per cent range, assuming full absorption of the tariff, according to estimates of Crisil Ratings.

Anuj Sethi, senior director, Crisil Ratings stressed that about a fifth of the revenue of India's auto component sector is derived from exports. Of this, 27 per cent is to the US market alone. The operating profitability of indirect suppliers – who supply to Tier I suppliers or OEMs in other countries with end destination in the US – would also be impacted, he said. However, select automotive component players, with US-based manufacturing facilities may see some offsetting gains from better capacity utilisation, he said,

Industry watchers believe that cost increases will be passed on as Indian companies have the advantage of low-cost manufacturing. For instance, Ravi Bhatia, president, Jato Dynamics, said that most of the components are built on design from OEMs, and so the cost increases will be passed through. "The latency of creating capacity in the US to substitute this locally will take time to come up," he said.

Mrunmayee Joglekar, auto and FMCG research analyst at Asit C Mehta Investment Intermediates, stated that companies like Sona Comstar—which derives nearly 43 per cent of its revenue from North America—and SAMIL could face a greater impact, as the tariff target components such as engines, transmissions, powertrains, and electrical parts.

Automakers such as Maruti Suzuki and Kia Motors are increasingly focusing on exports as a key growth strategy. While earlier shipments were largely directed at Africa, Latin America, and South Asia, Indian-made vehicles are now reaching developed markets like Japan, highlighting their rising global competitiveness.

"When it comes to the United States specifically, the export exposure remains relatively limited. According to the United Nations COMTRADE database, India exported motor cars and vehicles worth just $37.11 million to the US in 2023. Given this small share, the direct impact of US tariff hikes on Indian automakers is expected to be limited," said Naveen KR, Smallcase manager and senior director at Windmill Capital.

Moreover, India's growing trade partnerships — including recent free trade agreements with Australia, the UAE, and the European Free Trade Association (EFTA) — are opening up new markets and are expected to further bolster the country's automotive export momentum.

As for components makers, Naveen felt that India's relatively low import duty structure — ranging between 5 and 15 per cent for auto components — allows for greater price flexibility and resilience in a retaliatory tariff scenario. Indian suppliers could still remain cost-effective compared to countries like Mexico or China, where cost structures are often higher or less predictable due to geopolitical factors."

According to a report by Global Trade Research Initiative (GTRI), any lowering of import duty to avoid tariff on passenger cars would be counterproductive since India's exports of cars to America is limited. As much as $8.9 million or only 0.13 per cent of passenger cars from India are exported to the US. However, it said that in the case of automobile parts, exports of auto components to the US — at $2.2 billion with a 29.1 per cent share — initially appear concerning but a closer look reveals a level-playing field.

"The US imported $89 billion worth of auto parts globally last year, with Mexico accounting for $36 billion, China $10.1 billion, and India just $2.2 billion. Since the 25 per cent tariff apply across the board, all exporting countries face the same hurdle," GTRI said.