Achintya Securities Limited

From Local Suppliers to Global Power

The Transformation of India's Auto Component Industry

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Introduction

The Indian auto component industry is undergoing a historic metamorphosis. For decades, it was perceived primarily as a localized support system for domestic vehicle manufacturers. Today, however, it is rapidly embedding itself into the very core of the global automotive supply chain. Driven by a potent combination of the "China Plus One" global sourcing strategy, highly competitive manufacturing costs, and a massive upgrade in engineering capabilities, Indian tier-one suppliers are actively expanding their footprints across Europe, North America, Latin America, and beyond.

What was once an industry dominated by traditional mechanical forgings and castings is now aggressively pivoting towards highly sophisticated electronic clusters, advanced driver-assistance systems (ADAS), and electric vehicle (EV) powertrains. Let us deeply dissect the metrics, the strategic shifts, and the immense investment opportunities brewing within India's auto component revolution.

The Quantitative Leap:
Sizing the Growth Engine

The sheer mathematical scale of the industry's expansion is a testament to its global competitiveness. Despite macroeconomic headwinds and volatile commodity cycles, the sector has consistently outperformed broader manufacturing indices.

Looking at the trajectory:

- In **FY25,** the industry's production value stood at ₹6.73 lakh crore (approximately $80.20 billion), marking a solid 9.6% year-on-year growth.
- Between **FY20 and FY25,** the sector logged a remarkable Compound Annual Growth Rate (CAGR) of **14%**.
- By **FY26,** the turnover aggressively scaled to ₹7.60 lakh crore (approximately $85.9 billion).

To project the near-term future, the Automotive Component Manufacturers Association (ACMA) expects the industry to grow by 8% to 10% in FY27. Let's calculate the median projected scale for the next financial year with assuming a median growth rate of 9% for FY27:

Projected FY27 Turnover = 7.60 Lakh Crore * (1 + 0.09) = 8.28 Lakh Crore (Approx.) . This consistent expansion is heavily supported by export momentum. In FY26, total automobile exports from India touched a record 66.40 lakh units, registering a 24% annual growth the fastest in seven years. When global Original Equipment Manufacturers (OEMs) buy more Indian vehicles, the underlying validation of Indian components skyrockets.

Geopolitical Pivots:
Export Diversification & the European Surge

Historically, North America was the unchallenged primary export destination for Indian auto parts. However, in FY26, exports to the US remained largely flat, stifled by persistent trade restrictions, geopolitical friction, and higher interest rates dampening US auto sales.

In response, Indian manufacturers masterfully pivoted to new geographies:.

- **Europe:** Surged by 9% to hit $7.36 billion, dethroning the US to become the largest export destination for Indian components.
- **Latin America:** Emerged as a high-growth frontier, with exports jumping 12% to $1.54 billion.

This pivot is highly strategic. Many European OEMs (like Volkswagen, BMW, and Stellantis) are actively looking to de-risk their supply chains from China. Indian suppliers are filling this void. Furthermore, the industry is eagerly anticipating the India-European Union Free Trade Agreement (FTA). Once operationalised, the reduction in tariff barriers will act as a massive catalyst for Indian companies already entrenched in the European market. Interestingly, the UK currently accounts for only 3% of exports, signalling a massive untapped market for the future.

The Technology and Regulatory Supercycle

The next massive wave of revenue generation will not just come from selling more parts, but from selling smarter, higher-value parts. Global and domestic regulatory frameworks are forcing a technological Supercycle.

During the transition to BS-6 (Bharat Stage 6) emission norms, the auto ecosystem collectively invested over $18 billion. Now, a new alphabet soup of regulations is driving fresh capital expenditure and R&D:

- **BS-7 (Upcoming Emission Norms):** Will demand real-world emission compliance and advanced exhaust after-treatment.
- **CAFE-III (Corporate Average Fuel Economy):** Forces automakers to improve fleet-wide fuel efficiency, driving the need for extreme lightweighting (using aluminium and composite plastics).
- **TREM-V & CPCB-IV+**: Stringent emission norms for tractors and generator sets, opening new verticals for component makers.

Suppliers are heavily investing in PGM (Platinum Group Metals) reduction to lower the cost of catalytic converters, improving acoustic dampening for quieter EV cabins, and building thermal management systems for battery packs.

The Import Dilemma:
The Achilles Heel of Growth

Despite the celebratory export data, a structural vulnerability persists: import dependence.

As vehicles become "computers on wheels," the demand for semiconductor chips, advanced displays, and specialized EV battery cells has skyrocketed. Because India lacks a deep, mature electronics manufacturing base, imports surged by 13% in FY26.

- **The China Factor:** China's share of total auto component imports rose to a commanding 36%. Germany, Japan, and South Korea made up the rest.
- **The Trade Deficit:** Because import growth (driven by high-value electronics) outpaced export growth (driven by traditional mechanical parts), the sector recorded its highest-ever trade deficit of $1.37 billion in FY26.

Bridging this gap is the industry's ultimate challenge over the next decade.

Policy Push: The PLI Scheme Catalyst

To combat this trade deficit and localize high-tech manufacturing, the government's Production Linked Incentive (PLI) scheme has been instrumental.

- **Initial Budget:** ₹25,938 crore (launched September 2021).
- **Investment Realised:** By November 2025, it attracted investments worth ₹35,657 crore, generating incremental sales of ₹32,879 crore.
- **Budget 2026-27 Allocation:** A fresh tranche of ₹5,940 crore was allocated to keep the momentum going.

This policy specifically incentivizes Advanced Automotive Technology (AAT) products, directly encouraging domestic players to manufacture airbags, radar systems, and EV powertrains locally rather than importing them from China.

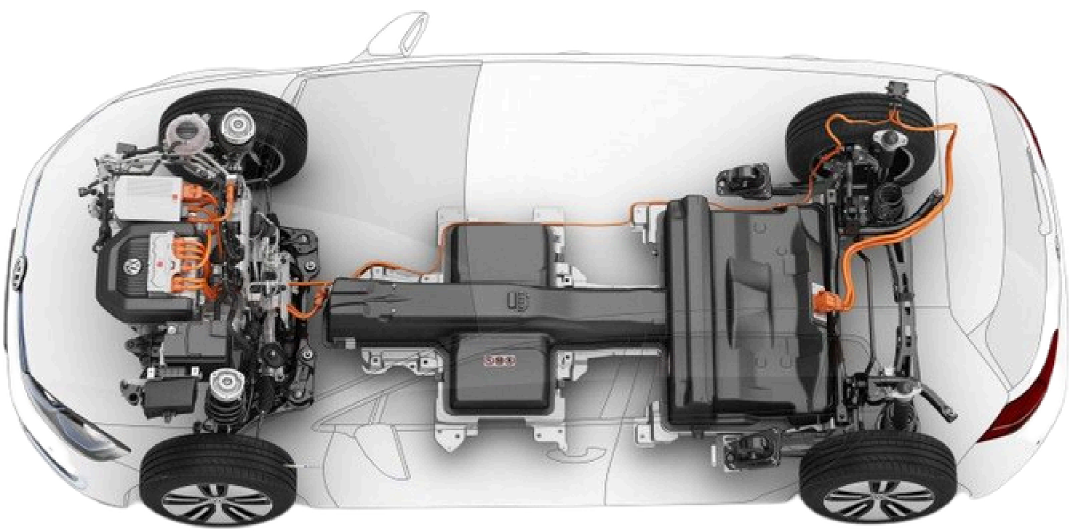
What Does This Mean for Investors?

For investors, the auto component sector offers a "picks and shovels" play on the global mobility transition. Rather than betting on which car brand will win the EV race, investors can back the suppliers who sell parts to all of them.

However, a selective approach is crucial. The market will heavily reward companies exhibiting the following traits:

- **Global Diversification:** Companies with manufacturing footprints or strong order books in Europe and Latin America, thereby insulating themselves from domestic cyclical downturns.
- **M&A Agility:** Indian Tier-1 suppliers that successfully acquire distressed European or American firms to instantly acquire advanced R&D and local customer relationships.
- **High Content Per Vehicle (CPV):** As the industry shifts to EVs, traditional engine parts become obsolete. Investors should target companies pivoting to EV-agnostic parts (tires, glass, wiring harnesses) or those aggressively building EV-specific parts (thermal management, telematics).

Companies overly reliant on traditional two-wheeler internal combustion engines (ICE) with no EV transition plan will likely face severe valuation de-ratings.



What’s Next?

As we look toward FY27 and beyond, the narrative for India's auto component makers is no longer just about offering "cheap labour." The future relies on offering frugal engineering at world-class quality.

The companies that will dominate the next decade are those actively investing in deep R&D, forging global joint ventures for technology transfer, and leading the charge in localizing automotive electronics. If the industry can successfully reduce its reliance on Chinese electronic imports while expanding its footprint in Europe, India will permanently cement its position as the indispensable nervous system of the global automotive world.

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