KIRTANE & PANDIT

From Ancillary to Architect

India's Auto Component Industry Rewires the Global Supply Chain

August 2026

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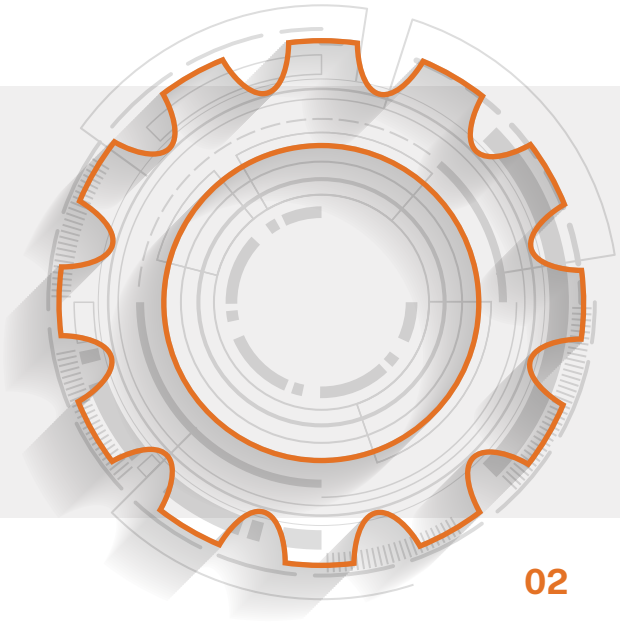


• Executive Summary

India's auto component industry has written one of the most compelling growth narratives in the country's manufacturing history. Having nearly doubled in size over the past five years, from approximately USD 42 billion in FY20 to USD 80.2 billion in FY2024-25, the sector has grown at a compound annual rate of 14 per cent, through a period of pandemic disruption, semiconductor shortages, and geopolitical turbulence, outpacing the broader manufacturing economy and cementing its position as a pillar of India's industrial ambition. These are not the statistics of a sector in cyclical recovery - they reflect a structural re-rating underway supported by resilient domestic demand, a stronger aftermarket, and steady capital deployment in localisation and technology.

The industry plays two key roles. Firstly, it forms the backbone of India's domestic automotive sector, with OEM supplies generating over half of the total revenue and supporting vehicle manufacturers across passenger cars, commercial vehicles, two-wheelers, and three-wheelers. Secondly, it is an expanding global export driver, with USD 22.9 billion in exports in FY25, serving markets in North America, Europe and Asia. Recent reports forecast auto component exports to reach USD 70-100 billion by FY30, potentially a fivefold increase from current levels, making India a major beneficiary of the global trade expected to shift across supply chain corridors by 2035. The larger significance, however, is structural. India is transitioning from a price-competitive ancillary supplier to a co-developer and global supply chain architect. This shift is driven by the China+1 realignment redirecting global procurement, the electric vehicle transition creating new component categories, and the formalisation of a previously fragmented unorganised sector.

Yet the first half of FY26 carries an important signal that deserves careful attention. Exports grew 9.3% to USD 12.1 billion, while imports grew faster, at 12.5%, to USD 12.3 billion, resulting in a trade deficit, reversing a USD 453 million surplus in FY25. This is the first time the sector has been in deficit in recent years. The cause is structural, not cyclical: the rising import intensity of EV components, particularly battery cells, power electronics, and advanced sensors from Asia, primarily China & Japan, and that the domestic component ecosystem has not yet learned to produce these inputs at scale. The same transition that represents India's greatest export opportunity is simultaneously deepening its import dependency.

The EV inflection is already visible in the data. India crossed 2.3 million EV sales in CY2025, representing 8 per cent of new vehicle registrations. EV components as a share of OEM supplies reached 4.6 per cent in H1 FY26 - up from near-negligible levels three years prior - with a 35 per cent CAGR projected through FY30. Tier-1 suppliers are actively investing in BLDC motors, high-voltage wiring harnesses, and battery management systems. The critical gap lies at the Tier-2 and Tier-3 levels, where EV localisation has barely begun and the capital required for the transition is largely absent.

The policy architecture is both substantial and directionally coherent. The PLI Scheme for Automobile and Auto Components has attracted ₹44,326 crore in cumulative investments, generated approximately 68,000 jobs, and supported production of 13.61 lakh EVs. The PM E-DRIVE Scheme is rolling out 72,300 public EV charging stations nationwide. The Union Budget 2025–26 exempted 35 capital goods for EV production from customs duty. And in a significant strategic pivot, India is developing a ₹7,300 crore incentive framework for domestic rare-earth magnet production - a direct response to China's April 2025 export restrictions on seven rare-earth elements, which temporarily disrupted component supply chains and prompted a 'wake-up call' requiring national-level action. The policy framework has evolved from reactive support to proactive industrial strategy.

The central argument of this report is that India's auto component sector is at a genuine structural inflection and the USD 200 billion target by 2030 is analytically grounded but not automatic. Realising it requires resolving three binding constraints: a national critical materials policy for rare earths and semiconductors; meaningful financing reform to enable MSME and Tier-2/3 EV localisation; and a targeted development push at the lower tiers of the supply chain that matches the momentum already visible at Tier-1. The destination is reachable. The path demands deliberate action.

2. Industry Overview and Global Context

2.1 Industry Scale and Architecture

The Indian auto components industry recorded a total turnover of Rs. 6.73 lakh crore (USD 80.2 billion) in FY25, according to ACMA, reflecting a year-on-year growth of 9.6% over FY24. Over the five-year period from FY20 to FY25, the industry posted a CAGR of 14%. In terms of its broader economic role, the sector contributes approximately 2.3% to 2.7% of India's total GDP and accounts for around 25% of manufacturing GDP, as per IBEF and Invest India estimates for 2025. The industry also supports roughly 5 million jobs through direct and indirect employment, making it one of the most significant industrial employers in the country after agriculture and construction. The scale of downstream linkage - raw material suppliers, logistics providers, testing agencies, tooling manufacturers - amplifies the sector's GDP impact considerably beyond what headline turnover figures convey. Looking at how turnover is distributed, OEM supplies account for the largest share at 54% (Rs. 5.70 lakh crore), followed by the aftermarket segment at about 10% (Rs. 99,948 crore), and exports making up roughly 19% (USD 22.9 billion) of total turnover. The architecture of the industry reflects its diversified strength.

A notable structural shift underway in the industry is the steady formalisation of what was once a largely unorganised segment. For years, this segment, concentrated in grey-market and aftermarket parts, functioned largely outside the reach of GST, quality certification, and traceability requirements. Products moved through informal channels with limited oversight, making counterfeit and substandard components difficult to track or control.

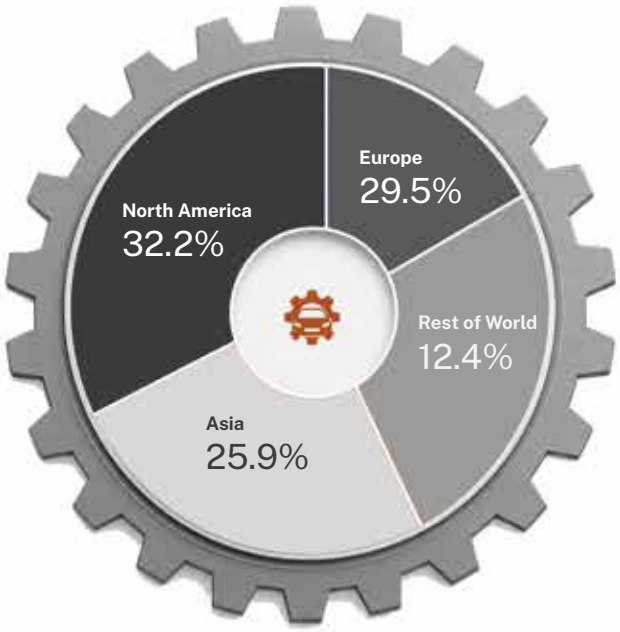
That landscape is changing. The rollout of GST, the mandating of e-invoicing, and sustained quality surveillance efforts by regulatory bodies have steadily narrowed the space available for counterfeit and non-certified parts to circulate. Formal documentation requirements have made it harder for unregistered players to operate at scale, while quality certification norms have raised the bar for market entry.
The unorganised segment has not disappeared. It continues to serve a substantial share of India's 333-million-unit vehicle parts market, particularly in servicing older vehicles and price-sensitive markets where organised players have limited reach. However, its overall share is structurally declining as organised and semi-organised alternatives extend their distribution networks deeper into tier-2 and tier-3 markets. This shift carries implications beyond market share. It points to gradual improvements in product safety, tax compliance, and consumer protection, and it signals that the formal economy is steadily absorbing activity that once sat outside its boundaries.

2.2 India's Global Positioning

India occupies a distinctive but underutilised position in the global automotive supply chain. India is the third-largest automobile market globally by both value and volume, with a manufacturing cost advantage of 10 to 25% over European and Latin American production bases.

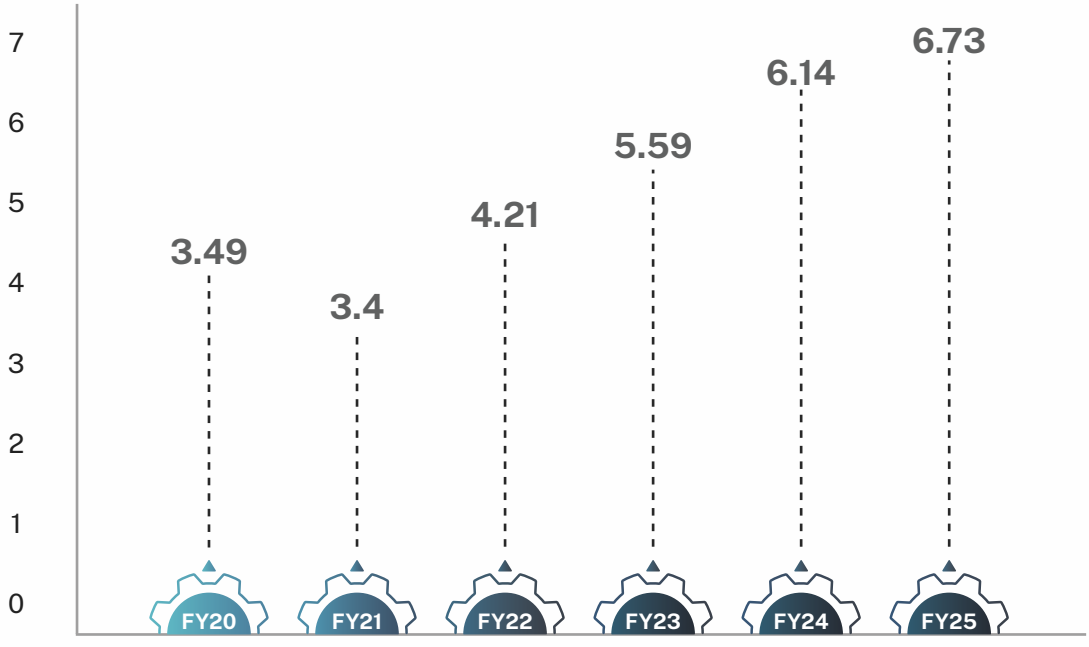
Despite this, India holds only 3 to 4% of globally traded auto components, a significant underperformance given domestic manufacturing scale. High-precision systems, electronics, and EV-specific components remain particularly underpenetrated in India's export mix.

Auto Component Export Destinations, FY25 (% Share of USD 22.9 Billion)



Source: ACMA

India Auto Component Turnover Growth (Rs. lakh crore, FY20 to FY25)



Source: ACMA

The global supply chain shift is the defining external opportunity. The McKinsey–ACMA report 'Shaping the Future of India's Auto Component Industry amid Global Trade Shifts' (September 2025) provides the most authoritative quantification of India's export potential. McKinsey estimates that USD 12 to 14 trillion in global trade will relocate by 2035, and India is identified as the primary China+1 destination for auto components. The same report projects Indian exports reaching USD 70 to 100 billion by FY30, alongside 7 to 8% CAGR in domestic component sales and a 35% CAGR in domestic EV component sales through FY30.

India's Automotive Mission Plan 2047, released by the Ministry of Heavy Industries in September 2025, sets out the government's long-term vision. It targets production of 200 million vehicles by 2047 and positions India to achieve top-two global auto producer status. Notably, the Plan designates the component sector, not just vehicle manufacturers, as the anchor for this ambition, reflecting how central component supply chains are to India's broader automotive strategy. Realising this vision, however, will require India to close a specific gap.
The country's Tier-1 supplier base is already cost-competitive and globally integrated, but the Tier-2 and Tier-3 layers lag significantly in localising EV-critical components. This localisation deficit is a structural challenge, and it is one this report examines in detail in subsequent sections.

The FY25 trade balance offers an early signal of how this transition is unfolding. For the full year, India recorded a trade surplus of USD 453 million in auto components, with exports of USD 22.9 billion against imports of USD 22.4 billion. This marked an improvement over the USD 300 million surplus recorded in FY24, suggesting strengthening competitiveness on the export side. That progress, however, eroded rapidly in H1 FY26, as imports grew 12.5 per cent, outpacing export growth of 9.3 per cent, and pushed the trade position into a marginal deficit. China, Japan, and Germany were the leading import sources, and electronics and EV-related components were the fastest-growing import categories. This pattern is telling that it is the signature of an industry where demand-side transformation, OEMs adopting EVs at scale, is moving faster than supply-side readiness, domestic EV component manufacturing scaling up to match that demand. The result is a widening reliance on imports precisely in the categories - electronics and EV components - that will define the next phase of the industry's growth. Closing this localisation lag is not a peripheral concern. It is the defining strategic task of the next five years, and the trade deficit emerging in H1 FY26 should be read as an early warning rather than a temporary fluctuation.

India's trade balance in auto components flipped from a USD 453 million surplus in FY25 to a marginal deficit in H1 FY26, driven by 12.5% import growth outpacing 9.3% export growth. Asia, primarily China, accounts for two-thirds of imports. Electronics and EV components are the fastest-growing import categories.

• 3. Market Architecture: Value Chain & Manufacturing Clusters

3.1 Component Categories and Value Contribution

The Indian auto component sector spans an exceptionally wide product range - from commodity-grade structural castings to precision-engineered electronics - each with distinct technology profiles, margin characteristics, and competitive dynamics. Understanding this product landscape is essential for appreciating both where India's export strength is concentrated and where the EV transition creates the most disruption.

India's auto component industry remains predominantly domestic in orientation, with exports forming a growing but still secondary share of overall turnover. In FY25, domestic Original Equipment Manufacturer (OEM) supply and aftermarket sales together account for roughly three-quarters of industry turnover, with exports contributing close to a quarter and rising steadily over the past decade. This indicates that the domestic market continues to anchor the industry even as the export segment expands. This domestic-plus-export structure provides the necessary base from which the composition of the export basket can be examined.

India's auto component export mix is concentrated in mechanically intensive categories. Drive transmission and steering, together with engine components, account for more than 50% of total exports, reflecting the country's established strength in forgings, castings, and precision machined parts. Electrical and electronics is now the fastest-growing category, driven by increasing EV content per vehicle, ADAS adoption, and rising sensor density. Conventional mechanical categories face a medium-term structural challenge as EV penetration raises questions about long-term demand for ICE-specific parts. The table below segments export categories along four axes: current export weight, growth momentum, EV exposure, and margin quality, offering a structural read on where value is concentrated today versus where it is likely to shift.

Component Category	FY25 Export Significance	Growth Trend	EV Opportunity	Margin Profile
Drive Transmission & Steering	Largest export category (~25%+)	Steady	Partial transition needed	High margins; R&D intensive
Engine Components	Second largest (~25%)	Slowing	High ICE obsolescence risk	Good margins; vulnerable long-term
Suspension & Braking	Third largest (~12%)	Steady	Largely transferable to EV	Commodity-intensive; moderate margins
Body & Chassis	Material contributor (~10%)	Steady	Low disruption expected	Steel-intensive; price-sensitive
Electrical & Electronics	Fast growing	Accelerating rapidly	Major EV opportunity	Improving; scale-dependent
Others (Cooling, Lighting, etc.)	Remainder	Varies	Mixed	Varies by sub-category

Source: ACMA

Component cost structures vary significantly by product type, with direct implications for investment and policy design. Body, chassis, and suspension components are commodity-intensive - steel, aluminium, and rubber inputs dominate cost structures, and these businesses are highly exposed to raw material price volatility. Electronics, powertrain, and precision-engineered sub-systems are R&D and precision-intensive, with significantly higher margins but much steeper technology access requirements. The divergence in margin profiles and in capital and technology requirements partly explains why Tier-1 consolidation is proceeding faster than Tier-2 adaptation: the investment hurdle at the upper tier is surmountable through capital markets, but at the MSME tier, it frequently is not.

3.2 Tier Structure and Supply Chain Depth

India's auto component supply chain operates through a multi-tier structure that is well-articulated at Tier-1 level but progressively less developed at lower tiers and this asymmetry is one of the key structural tensions in the industry's EV transition.

Tier	Composition	OEM Interface	EV Readines	Key Challenge
Tier-1	Largely formalised 1,100+ listed or PE-backed entities	Direct OEM supply of assemblies	Investing actively; 4.6% EV share	Working capital drag (60-90 day OEM cycles)
Tier-2	Predominantly MSMEs; some listed	Supply to Tier-1	Largely stalled	EV capex beyond balance sheet capacity
Tier-3	Micro and small enterprises	Sub-components to Tier-2	Minimal to none	Technology access and financing
Unorganised	4,000-5,000 SMEs (estimated)	Aftermarket primary focus	Disrupted by formalisation	GST compliance pressure; losing share

Source: ACMA, ICCT

GST implementation has accelerated structural formalisation across the sector. In the pre-GST era, a significant portion of unorganised component supply, particularly in the aftermarket, operated largely off the books, allowing unregistered players to undercut organised manufacturers on price without carrying the same tax compliance costs.

That advantage has steadily eroded. E-invoicing mandates, input tax credit chains, and sustained quality surveillance have closed much of this gap. The input tax credit mechanism has been particularly effective, as OEMs and organised distributors increasingly prefer GST-compliant suppliers to protect their own credit chains, pushing even price-sensitive buyers toward formal-sector sourcing over time.

As a result, the unorganised and grey-market share of the aftermarket is contracting, though it remains material. It continues to hold ground in Tier-3 cities and in price-sensitive categories such as filters, belts, and basic wear-and-tear parts, where purchase decisions are driven more by cost than by certification or brand.

3.3 Manufacturing Clusters

India's auto component manufacturing is geographically concentrated in a few major regional clusters, with certain emerging nodes gaining strategic importance in some other parts of India.

Pune-Nashik Corridor	NCR-Gurugram-Faridabad	Chennai-Hosur	Morinda, Punjab	Sanand-Ahmedabad	Emerging Clusters
Forging, castings, suspension, two-wheeler components. India's deepest Tier-2 ecosystem.	North India holds around 30% of total India automotive components market. Two-wheeler, commercial vehicle ancillaries, stampings.	Passenger car components, wiring harnesses, electronics. Tamil Nadu's June 2025 Automotive Future roadmap designates R&D zones.	Emerging advanced manufacturing hub. Freudenberg's USD 45 million twin-plant investment (40,700 sq.m.) inaugurated in 2025 serves domestic and export markets.	Gujarat auto corridor with multiple OEM anchor investments. Emerging EV assembly base. Growing strategic importance for western India supply chains.	Hyderabad (aerospace-au to crossover), Bengaluru (electronics and EV), and Coimbatore (pumps, compressors, precision parts) are growing in relevance.

Source: IMARC Group, ACMA, Tamil Nadu State Planning Commission

The Western cluster, anchored by Pune, Nashik, and Aurangabad in Maharashtra, is the largest and most vertically integrated in the country. Maharashtra, and the Pune region in particular, accounts for approximately 33 per cent of India's auto component output. The cluster is home to Bharat Forge (precision forgings), Endurance Technologies (two-wheeler systems), Spark Minda (switches and EV electronics), and Tata AutoComp, alongside an exceptionally deep Tier-2 ecosystem of casting, forging, and machining MSMEs. Pune's concentration of automotive engineering talent, proximity to Tata Motors and Mahindra & Mahindra OEM facilities, and strong tooling and die-making capability make it India's most advanced component manufacturing geography. Maharashtra's EV Policy 2025 and the AURIC smart industrial area near Aurangabad are designed to sustain and upgrade this position into the EV era.

The Southern cluster, centred on Chennai and the Hosur-Bengaluru corridor, is India's primary hub for passenger car components, wiring harnesses, and electronics. Tamil Nadu accounts for a significant share of OEM component supply, anchored by Hyundai, Renault-Nissan, and Royal Enfield's manufacturing operations in the state. Bosch and Faurecia run significant electronics and seating operations in this corridor, while Craftsman Automation serves both domestic and export markets in precision machining and aerospace. The Tamil Nadu State Planning Commission's June 2025 Automotive Future roadmap designated special R&D zones in the Chennai-Hosur corridor to attract EV component R&D investment. VinFast's August 2025 inauguration of a ₹16,000 crore EV assembly plant in Thoothukudi, the company's first outside Vietnam, underscores the state's ambition to position itself as South Asia's EV manufacturing gateway.

The Northern cluster, covering Delhi-NCR, Gurugram, Faridabad, and Haryana, is India's largest regional cluster by component market share, at approximately 30 per cent of the total market. The cluster has historically concentrated on two-wheeler and commercial vehicle ancillaries, stampings, and seat manufacturing. Maruti Suzuki's Manesar facility generates enormous procurement demand from this supplier base, and the Haryana state government's automotive-sector initiatives have sustained investment interest, with Tata Motors announcing a ₹7,410 crore investment to establish a third manufacturing facility in Haryana in March 2025.

The emerging Western cluster, centred on Sanand and Ahmedabad in Gujarat, has attracted significant OEM investment since 2010, with Tata Motors, MG Motor (SAIC), and Suzuki establishing or expanding manufacturing here. Gujarat's investor-friendly policy environment and logistics advantage, given its proximity to Mundra Port, make it increasingly attractive for export-oriented component manufacturing. In Morinda, Punjab, Freudenberg Group's 2025 inauguration of two advanced manufacturing plants (totalling 40,700 square metres) at an investment of USD 45 million signals growing foreign OEM interest in the northern cluster as a secondary manufacturing base. Accuron Technologies, supported by BMW, has also established an auto parts manufacturing facility in Punjab, a sign that the cluster's component ecosystem is broadening beyond its traditional specialisation.

Beyond these established hubs, a set of emerging clusters is beginning to take shape around specialised niches. Hyderabad is developing an aerospace-auto crossover capability, Bengaluru is strengthening its position in electronics and EV components, and Coimbatore continues to build relevance in pumps, compressors, and precision parts. While smaller in scale today, these clusters point to a broader geographic diversification of India's component manufacturing base, one increasingly shaped by specialised technical capability rather than proximity to a single OEM hub alone.

4. Policy and Regulatory Architecture

The policy framework governing India's auto component sector is one of the most comprehensive and financially significant in the country's manufacturing landscape. Over the past four years, the government has constructed a multi-layered policy architecture - spanning production incentives, demand stimulation, infrastructure build-out, and critical materials sourcing - that is specifically calibrated to the dual challenge of sustaining ICE-era competitiveness while accelerating EV-era localisation. It has evolved from broad FDI liberalisation into a targeted incentive architecture designed to accelerate EV transition, strengthen domestic manufacturing, and build supply chain self-reliance.

The table below outlines the key policy schemes shaping India's auto component sector, mapping each scheme's outlay or target against its measured outcomes as of January 2026. Together, these schemes span the full policy chain, from production incentives and infrastructure build-out to raw material security and FDI liberalisation, reflecting the breadth of government intervention across the sector's value chain.

Policy Scheme	Outlay / Target	Key Outcomes
PLI: Automobiles & Auto Components	Rs. 25,938 crore outlay (FY24-FY28)	Cumulative investments Rs. 44,326 crore by March 26; Rs. 2,322 crore disbursed; 13 lakh+ EVs supported; PLI jumped 5x from Rs. 604 cr (FY24) to Rs. 3,500 cr (FY25)
Advanced Chemistry Cell (ACC) Battery PLI	Rs. 18,100 crore;	40 GWh allocated to Reliance, Ola Electric, Rajesh Exports; phased localisation targets to reduce cell import dependence
PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme	Rs. 10,900 crore;	e-3W (L5) target of 2.88 lakh units achieved ahead of schedule; Rs. 2,000 crore for 72,300 EV charging stations
Scheme to Promote Manufacturing of Electric Passenger Cars in India (SPMEPCI)	FDI and tech transfer focus	Online application portal live since June 2025; targets foreign investment for EV component localisation
Other measures in Union Budget 2025-26	Revenue measures	35 capital goods for EV production added to duty exemption list; Li-ion battery scrap and critical minerals duty-free
Rare Earth Magnets Scheme	Rs. 7,280 crore (proposed)	Incentive scheme for domestic rare earth magnet productio
NATRiP	Infrastructure investment	National testing and certification infrastructure enabling Indian components to meet international OEM and regulatory export standards
FDI Policy	100% under automatic route	Cumulative automobile FDI: Rs. 2,70,230 crore (USD 40.3B) from April 2000 to March 2026; India-US/EU trade engagement February 2026

Source: PIB, Invest India, Ministry of Finance, DPIIT

4.1 PLI Scheme: Apex Fiscal Commitment

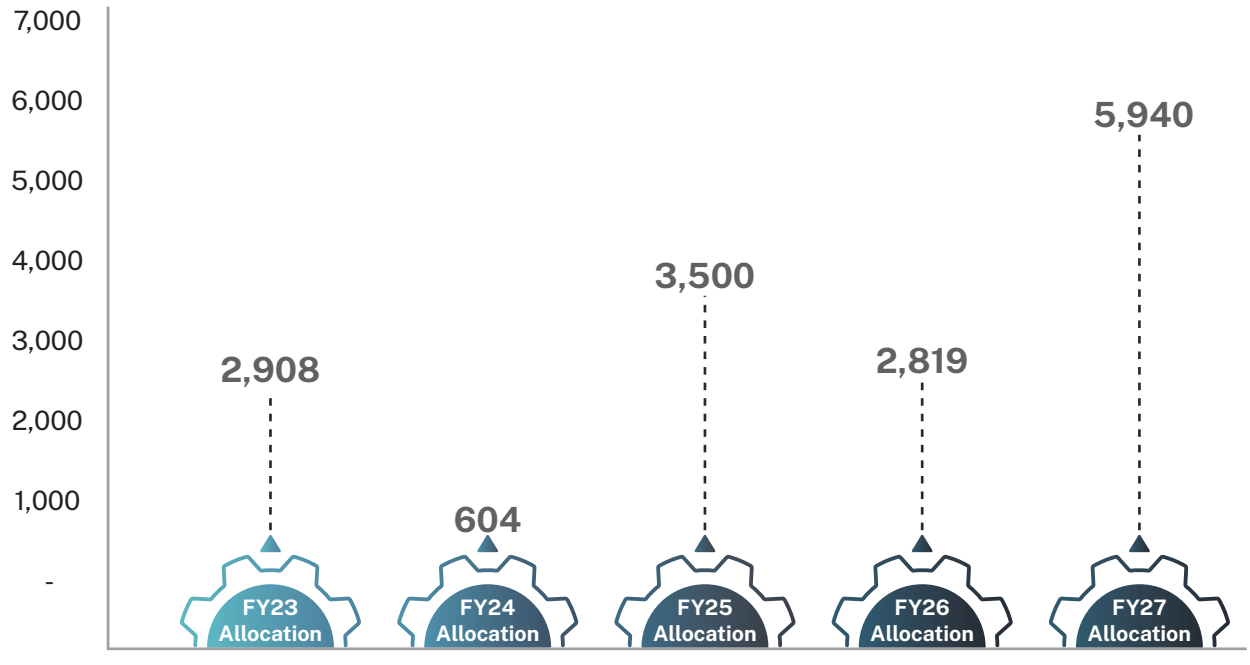
The Production Linked Incentive (PLI) Scheme for Automobile and Auto Components, approved by the Union Cabinet in September 2021 with a budgetary outlay of ₹25,938 crore, is the centrepiece of India's policy framework for the sector. The scheme was originally designed for the five-year period FY2023-24 to FY2026-27, and was subsequently extended by one year to FY2027-28 following a Ministry of Heavy Industries stakeholder review, reflecting the government's intent to give the scheme enough runway to deliver on its localisation objectives.

As of March 2026, the scheme has attracted cumulative investments of ₹44,326 crore, exceeds the original investment attraction target of ₹42,500 crore well ahead of schedule, signalling strong industry uptake and confidence in the scheme's incentive structure. The scheme has also generated employment for approximately 68,000 workers, underscoring its role not just as a capital attraction tool but as a direct driver of industrial employment.

On the production side, a total of 13.61 lakh EVs have received incentives under the PLI-Auto scheme till December 2025. This includes over 10 lakh electric two-wheelers, 2.38 lakh electric three-wheelers, approximately 80,000 electric four-wheelers, and around 1,400 electric buses. This distribution shows that the scheme's impact has been strongest at the two-wheeler and three-wheeler end of the market, where EV adoption has moved fastest, while four-wheeler and bus electrification remain comparatively nascent but growing categories.

A defining structural feature of the scheme is its requirement of a minimum 50 percent Domestic Value Addition (DVA) on all incentivised products. This threshold is deliberately designed to deepen localisation rather than incentivise the assembly of imported sub-components, ensuring that the scheme builds genuine domestic manufacturing capability rather than merely subsidising import-dependent assembly operations. In this sense, the PLI scheme functions as much as an industrial policy instrument for supply chain depth as it does a production incentive.

PLI Allocation Trend: Automobiles and Auto Components (Rs. crore)

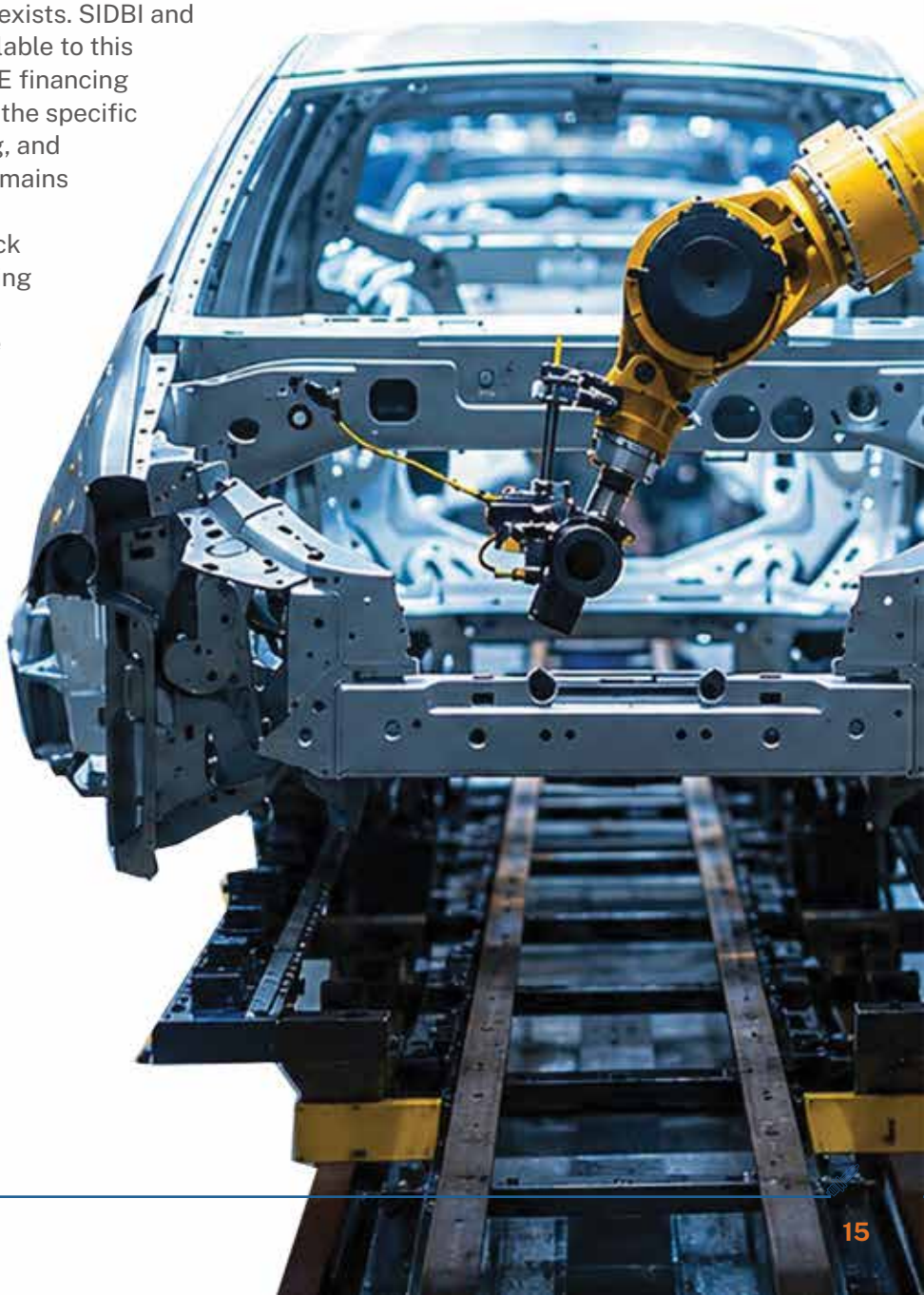


Source: PIB,

4.2 The Financing Gap in Policy Design

Despite the progress, a structural gap remains in policy design. The PLI scheme and ACC Battery PLI have worked well at the OEM and Tier-1 level, where companies have the balance sheet, technology partnerships, and regulatory familiarity to participate. Tier-2 and Tier-3 manufacturers have largely been unable to access these instruments. SIDBI and MUDRA channels exist for SME financing in this space but are significantly underutilised relative to need. Bridging this gap is a prerequisite for achieving meaningful supply chain depth in EV components.

The scale of fiscal commitment behind the PLI scheme has grown, but its reach has not broadened at the same pace. Allocation for auto components has risen gradually over the years, and cumulative private investment attracted under the scheme, at Rs. 44,326 crore, already exceeds its total budgetary outlay of Rs. 25,938 crore, which is a clear signal of industry confidence in the policy direction. Yet as of November 2025, only 82 companies held approved-applicant status under the PLI-Auto scheme, and actual incentive disbursement remained concentrated in just five of them. The scheme's design, built around Domestic Value Addition thresholds, sales targets, and compliance capacity that only larger, better-capitalised firms can readily meet, means its benefits have accrued overwhelmingly to a narrow set of Tier-1 and OEM players, even as its headline numbers suggest broad-based success. For the much larger population of Tier-2 and Tier-3 manufacturers, no comparable instrument exists. SIDBI and MUDRA remain the principal channels available to this segment, but both aregeneral-purpose SME financing tools rather than instruments calibrated to the specific capital intensity of EV component retooling, and take-up among auto component MSMEs remains low relative to the scale of the transition underway. The result is a widening two-track system: a well-capitalised Tier-1 base drawing confidently on PLI incentives to scale EV component production, and a Tier-2/3 base that supplies the bulk of India's manufacturing employment but has no dedicated financing route to make the same transition. Left unaddressed, this gap risks concentrating the benefits of the EV transition at the top of the value chain while leaving the base of the supply pyramid structurally exposed precisely the imbalance a genuinely resilient USD 200 billion sector cannot afford.



The PLI allocation for auto components grew fivefold in a single year, from Rs. 604 crore in FY24 to Rs. 3,500 crore in FY25. Cumulative private investment of Rs. 44,326 crore already exceeds the scheme's total outlay of Rs. 25,938 crore, confirming genuine industry confidence in the policy direction.

• 5. Key Players and Investment Landscape

5.1 Listed Tier-1 Companies: Financial Profile

India's listed auto component universe ranges from global-scale multinationals (Bosch India, Motherson Sumi) to focused domestic champions (Bharat Forge, Endurance Technologies, Spark Minda). It provides the clearest window into the sector's financial health, strategic priorities, and capital allocation patterns, reflecting both the sector's structural strength and the near-term pressures from commodity costs, global demand softness, and the technology investment imperative.

Profitability across the Tier-1 supplier base varies considerably by specialisation. General-purpose component manufacturers typically operate at EBITDA margins of 10 to 14 per cent, while specialists in precision forgings, niche machining, or high-value sub-systems command significantly higher margins, ranging from 18 to 28 per cent. This spread reflects the degree of technical differentiation and pricing power each segment holds relative to OEM customers.

Working capital management remains a persistent structural challenge across the supplier base. OEM payment terms typically run 60 to 90 days, while suppliers are often required to settle their own payables on much shorter cycles. This mismatch creates a structural cash-conversion drag that is most acute for smaller Tier-2 players, who lack the balance sheet depth to absorb extended receivable cycles without straining liquidity. For many Tier-2 and Tier-3 manufacturers, this working capital gap, rather than a lack of technical capability, is the binding constraint on their ability to scale or invest in new capacity.

Commodity exposure adds a further layer of margin volatility. Steel, aluminium, and copper dominate input cost structures for most manufacturers, and prices for these inputs can move sharply within a quarter. OEM price revision mechanisms, typically operating on a quarterly or semi-annual cycle, tend to lag these input cost movements. As a result, suppliers frequently absorb short-term margin compression during commodity up-cycles, with pricing relief arriving only after a lag, by which point a portion of the cost increase has already been absorbed rather than passed through.

Together, these three pressures - margin compression from generic positioning, working capital strain from payment term mismatches, and commodity-driven cost volatility - help explain why scale and specialisation matter so much in determining which suppliers can sustain reinvestment in EV-related capability, and which remain constrained to lower-margin, cash-strapped operations.

5.2 Financial Metrics and Investment Themes

The table below compares key financial indicators between Tier-1 and Tier-2 suppliers, spanning profitability, receivables, leverage, and capital investment. Read across each row to see how the same structural pressures - OEM pricing power, extended payment cycles, and commodity exposure - translate into a widening gap in financial resilience between the two tiers, with Tier-2 players consistently operating with thinner margins, weaker balance sheets, and more limited access to growth capital.

Financial Indicator	Typical Range for Tier-1	Tier-2 Reality	Key Driver
EBITDA Margin	10% to 14%	6% to 10% (often lower)	OEM pricing discipline and scale
OEM Receivable Days	60 to 90 days	Often longer	OEM payment terms; limited negotiating power for Tier-2
Debt / Equity	Moderate; most Tier-1 well-capitalised	Often stretched for Tier-2	EV capex pressure on MSME balance sheets
EV Capex (FY25)	Rs. 15,000-20,000 crore (sector total)	Limited access to growth capital	Balance sheet constraints at Tier-2/3
OEM Capex Cascade	Rs. 650 billion (OEMs, 2023-25)	Flows to Tier-1 primarily	Tier-2 benefits are indirect and delayed
Commodity Input Exposure	High (steel, aluminium, copper dominant)	Same or higher	OEM price revision cycles lag market by quarters

Source: ICRA, NSE/BSE Annual Filings

Tier-1 companies typically post EBITDA margins of 10% to 14%, while Tier-2 margins are often lower, ranging from 6% to 10%. This gap is attributed to OEM pricing discipline and scale advantages held by Tier-1 players. On working capital, Tier-1 OEMs' receivable days typically range from 60 to 90 days, but for Tier-2, this is often stretched longer, driven by OEM payment terms and Tier-2's limited negotiating power. While Tier-1 companies generally maintain moderate debt/equity ratios and are mostly well-capitalised, Tier-2 firms are often more stretched, a result of EV capex pressure on MSME balance sheets.

Sector-wide EV capex for FY25 is estimated at Rs. 15,000-20,000 crore, but Tier-2 has limited access to this growth capital due to balance sheet constraints. Relatedly, the broader OEM capex cascade is pegged at Rs. 650 billion (across OEMs, 2023-25), but this flows primarily to Tier-1, with Tier-2 benefiting only indirectly and with delay. Finally, on commodity input exposure, both tiers face high exposure dominated by steel, aluminium, and copper, with Tier-2's exposure being the same or higher than Tier-1's, since OEM price revision cycles lag market movements by quarters.

5.3 Foreign Investment and Strategic Entries

International interest in India's auto component sector has accelerated in 2025. The combination of China+1 procurement diversification, India's growing domestic market, and the government's FDI-friendly policy environment is drawing both OEM-linked and independent investment. India's auto component sector has attracted cumulative automobile sector equity FDI of ₹2,70,230 crore (USD 40.3 billion) from April 2000 to March 2026 - approximately 5 per cent of total FDI inflows into India over this period (DPIIT, March 2026)

Below are some of the recent important foreign investments in this sector -

Investor / Company	Investment	Nature and Significance
Freudenberg Group (Germany)	USD 45 million	Two advanced manufacturing plants in Morinda, Punjab (40,700 sq.m.); inaugurated 2025; serves domestic and export markets
Accuron Technologies / BMW	New plant in Punjab	Auto parts manufacturing; signals OEM-linked supply chain development in North India
Inalfa Gabriel Sunroof Systems	Chennai plant at full capacity	1.3 lakh sunroofs produced in 2024; specialty components at full utilisation
Toyota, Honda, Suzuki (combined)	USD 11 billion across India	Manufacturing expansion and EV localisation commitment; cascades procurement demand to Tier-1 and Tier-2
Total Auto Sector FDI (cumulative)	Rs. 2,70,230 crore / USD 40.3B	April 2000 to March 2026; 100% FDI under automatic route; steady long-term confidence

Source: IBEF, DPIIT FDI Statistics

5.4 Private Equity, M&A, and Consolidation

The investment landscape in auto components has also attracted significant private equity attention - a development that reflects institutional conviction in the sector's structural growth story and, increasingly, in the consolidation opportunity created by the EV transition's capital requirements. The Carlyle Group launched a USD 400 million acquisition vehicle in 2025 specifically targeting Indian auto component companies. The rationale is straightforward: EV-era investment requirements increasingly exceed what Tier-2 MSMEs can finance from their own cash flows, creating consolidation opportunities for better-capitalised acquirers.

Kitara Capital invested over Rs. 100 crore in the MyTVS garage network, a bet on organised aftermarket penetration. Raymond Group committed Rs. 943 crore to a new Andhra Pradesh facility spanning auto components and aerospace manufacturing. Carraro India listed on BSE and NSE in December 2024. Ola Electric's Rs. 8,500 crore IPO was the first auto company listing in over two decades, demonstrating capital market appetite for the sector at scale.

Investment Themes and Attractiveness for FY26-FY30 (Indicative Interest)

VERY HIGH

EV Component Localisation
BMS, PMSM motors, power electronics, high-voltage harnesses

Export-Oriented Tier-1 Suppliers
China+1 beneficiaries — forgings, casting, precision machining

HIGH

Wiring Harnesses & Electronics
ADAS, sensors, connectors — dual ICE and EV relevance

Organised Aftermarket Enablers
Digital parts platforms, certified service chains, formalisation plays

Tier-2/3 EV Localisation Targets
Sub-components for EV assembly; M&A and PE consolidation plays

SELECTIVE

Legacy ICE Specialists
Catalytic converters, complex gearboxes, fuel systems

Source: McKinsey, ICRA

Investor appetite across the sector is not uniform, and the chart above maps this variation across six thematic investment categories for the FY26-FY30 period, ranked by indicative interest score. Categories rated "Very High," EV component localisation and export-oriented Tier-1 suppliers positioned as China+1 beneficiaries, represent where capital is currently most concentrated, reflecting confidence in structural, multi-year demand. Wiring harnesses and electronics, organised aftermarket enablers, and Tier-2/3 EV localisation targets follow as "High" interest categories, offering strong but somewhat more selective opportunities. Legacy ICE specialists sit at the bottom of the ranking as "Selective," reflecting investor caution toward business models that require a clear and credible transition strategy to remain viable. Read together, the chart suggests that capital is flowing toward categories tied to EV transition and export competitiveness, while flowing more cautiously toward those exposed to structural ICE decline.

• 6. Beyond OEM Supply: The Aftermarket and EV Frontiers

For most of its history, India's auto component sector defined itself by what it supplied to OEMs - the percentage of a car or two-wheeler that it built, and at what price. That frame is no longer sufficient. Two forces are now creating substantial value outside the traditional OEM supply relationship, each on its own logic and timeline. The aftermarket, long treated as a margin stabiliser, has emerged as the sector's fastest-growing segment in H1 FY26 - a structurally large, high-margin business that rewards incumbency, distribution reach, and brand rather than OEM contract leverage. The EV transition, meanwhile, is not simply a technology upgrade to existing OEM supply - it is a demand realignment that is rendering entire component categories obsolete while creating entirely new ones. Together, these two forces are expanding the sector's value creation map well beyond the OEM relationship that historically defined it.

6.1 The Aftermarket Opportunity

Scale and Growth

The aftermarket closed FY25 at Rs. 99,948 crore (approximately USD 12 billion), growing 6% year-on-year. In H1 FY26, aftermarket turnover reached Rs. 53,160 crore, growing 9% year-on-year and outpacing OEM supply growth of 7.3% for the first time. This is a structural signal: India's vehicle fleet is ageing, ownership is deepening into smaller cities, and replacement demand is becoming a more powerful force than new vehicle supply growth. Despite being a large, rapidly formalising industry, with margin profiles that significantly exceed the OEM supply business, it is one of the most structurally underappreciated revenue streams in the country's manufacturing economy.

Component Mix and Demand Structure

Engine components are the single largest aftermarket category at approximately 24% of turnover, driven by their high wear rate and replacement frequency. Suspension and braking, at approximately 15%, reflect demand driven by India's road conditions and rising safety awareness. Drive and emission parts at approximately 14% are supported by the large ageing ICE vehicle parc. The electrical and electronics category is growing rapidly as the vehicle fleet becomes more electronics-intensive. These are categories where India's established Tier-2 MSME base has deep competency and competitive pricing which is why the aftermarket has historically been the domain of the unorganised and semi-organised sector.

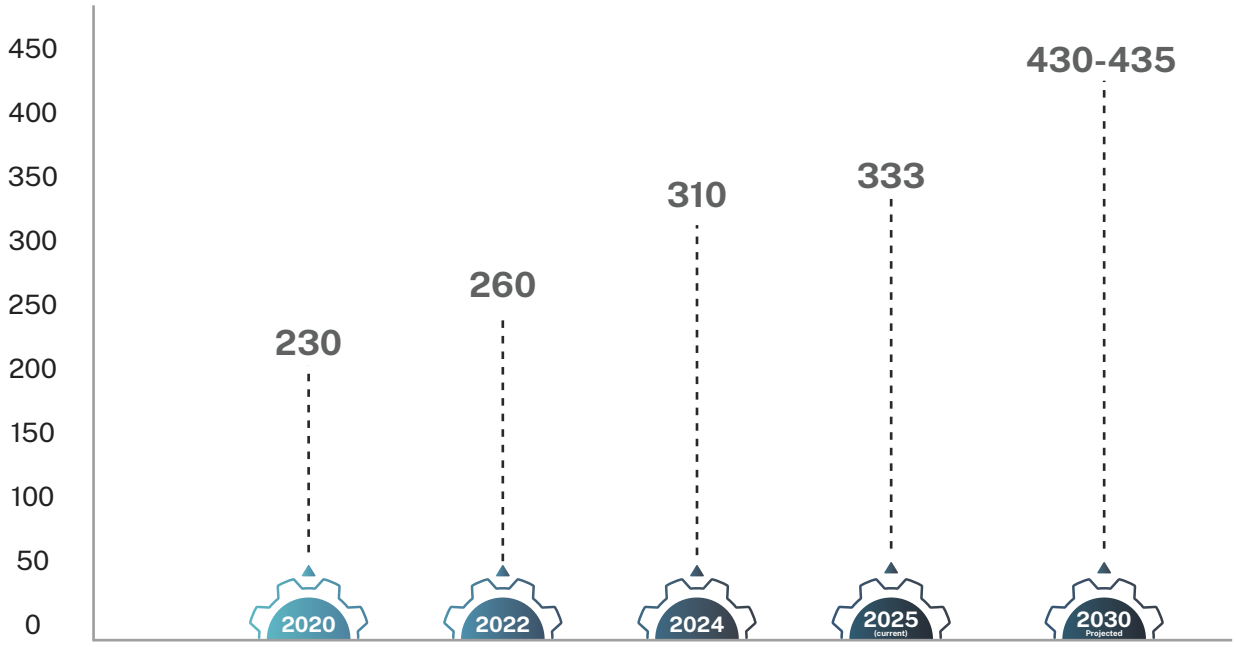
Body and accessories hold a significant share, driven by accident repair and personalisation demand, with a stable outlook that is expected to grow alongside fleet size. Cooling and HVAC make up the remainder of the aftermarket, driven by climate conditions and ageing vehicles, with a steady growth outlook.

The aftermarket's superior margin profile compared to OEM supply reflects its pricing architecture. Aftermarket parts carry a premium over OEM supply prices — typically 15–30 per cent — because they are purchased individually rather than in high-volume OEM contracts, and because the supply chain is shorter (manufacturer to distributor to retailer) with less price pressure than the OEM sourcing dynamic. For component manufacturers, particularly those in engine and powertrain categories, maintaining a strong aftermarket brand — through quality assurance, packaging, and distribution — is a strategic priority that pays sustained margin dividends.

Demand Drivers: Fleet Size and Vehicle Age

India's total vehicle parc stands at 333 million units in 2025, expected to reach 430 to 435 million by 2030. This growth in absolute fleet size is one structural tailwind. The other is average vehicle age: as vehicle ownership deepens into Tier-2 and Tier-3 cities, the average age of the fleet is rising, which directly increases replacement part demand. For component manufacturers, the aftermarket provides a higher-margin, counter-cyclical revenue stream that partially insulates revenue from OEM production schedule volatility.

India Vehicle Parc Size (Millions, 2020 to 2030 Projected)



Source: IBEF

Formalisation and Its Effect on the Unorganised Segment

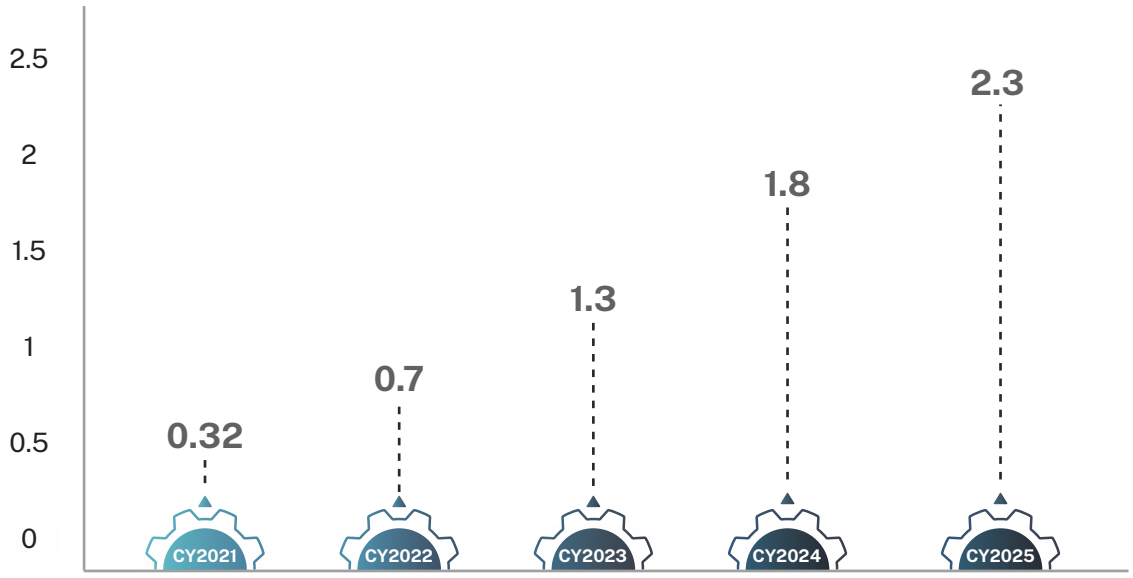
GST implementation and the e-invoicing mandate are structurally compressing the unorganised aftermarket. Counterfeit and grey-market parts, while still material, are losing share to certified supply channels, organised service chains, and digital parts marketplaces. The 4,000 to 5,000 SME manufacturers primarily serving the aftermarket from clusters in Ludhiana, Rajkot, and Faridabad face increasing competitive pressure from organised players. This formalisation trend will accelerate over the next three to five years as digital procurement platforms extend their reach into smaller cities and fundamentally restructure the aftermarket's competitive landscape.

The penetration of organised service chains — BOSCH Car Service, Mahindra First Choice, TVS Eurogrip, and the emerging MyTVS network (backed by Kitara Capital) — is drawing vehicle owners toward certified, quality-assured service environments. E-commerce platforms for auto parts — Amazon, Flipkart, and dedicated platforms like SpareParts24 — are extending organised supply to geographies previously dominated by local grey-market supply. This structural shift is compressing the counterfeit and non-certified share of the aftermarket while expanding the addressable market for organised manufacturers.

A forward-looking consideration is how the EV transition will affect the aftermarket over the medium term. EVs have fewer moving parts than ICE vehicles no engine oil, spark plugs, transmission, or catalytic converter leading to reduced wear-and-tear part demand as EVs grow. However, the transition will be gradual: ICE vehicles will dominate for 15–20 years, supporting strong demand in engine and exhaust parts. Meanwhile, a new EV-specific aftermarket is emerging battery replacement, reconditioning, high-voltage wiring, and electronics creating new revenue for EV-capable component makers. Overall, aftermarket economics will likely be broadly neutral, with category-level disruption creating winners and losers.

The aftermarket's durability rests on the ICE vehicle parc that will dominate India's roads for the next two decades. The EV transition, however, is already reshaping what OEMs will procure next - and it is to that shift, and its consequences for India's component makers, that this section now turns.

India EV Sales Volume Growth (Million Units, CY2021 to CY2025)



Source: IBEF

6.2 EV Transition and Component Realignment

The electrification of India's vehicle fleet is no longer a future scenario - it is an active structural transformation that is already reshaping component demand, investment priorities, and supply chain configurations. India sold 2.3 million electric vehicles in CY2025, representing 8% of all new vehicle registrations. EV penetration reached 8.36% of total auto sales in Q1 FY26. Two-wheelers and three-wheelers account for 91% of EV sales volume, meaning the disruption is concentrated in the mass-market, cost-sensitive segments where many Tier-2 component manufacturers are most exposed. Passenger car EV penetration remains lower but is growing from a higher value base.

New Component Categories

For the auto component sector, EV adoption operates through two simultaneous mechanisms: it creates entirely new component categories, and it systematically renders existing combustion-era categories obsolescent. The table below profiles the emerging EV-critical component categories, assessing each by its relevance to conventional vehicle architecture, the scale of EV opportunity it presents, the Tier-2/3 supply risk involved, and the timeline over which this transition is expected to unfold.

Component Category	Demand Outlook	EV Opportunity	Tier-2/3 Risk
BLDC / PMSM Motors	Not Applicable	Core EV need	**Opportunity**
Battery Management Systems	Not Applicable	Core EV need	**Opportunity**
Power Electronics	Minor	Core EV need	**Opportunity**
High-Voltage Wiring Harnesses	Minor	High growth	**Opportunity**
Thermal Management	Moderate	Core EV need	**Opportunity**
Suspension and Braking	Core	Largely same	Low Risk
Body and Chassis	Core	Transferable	Low Risk
Catalytic Converters	Core	Minimal	**High Risk**
Complex Multi-Speed Gearboxes	Declining	Very limited	**High Risk**
Fuel Injection Systems	Declining	Minimal	**High Risk**
Exhaust Systems	Declining	Minimal	**High Risk**

Source: ACMA, ICCT, McKinsey

The EV transition is creating an entirely new set of component requirements. Permanent Magnet Synchronous Motor (PMSM) and Brushless Direct Current (BLDC) motors, battery management systems (BMS), power electronics, high-voltage wiring harnesses, and thermal management systems are all categories where India currently has limited domestic manufacturing depth. EV components as a share of OEM supplies reached 4.6% in H1 FY26, up from near-negligible levels in FY22. Industry projects this growing at a 35% CAGR through FY30. Industry-wide EV-specific component investment was Rs. 15,000 to 20,000 crore in FY25, with Rs. 25,000 to 30,000 crore projected for FY26.

The ICE component categories facing the steepest obsolescence risk are concentrated precisely in the segments where India's Tier-2 and Tier-3 manufacturers are most entrenched. Catalytic converters, complex multi-speed gearboxes, fuel injection systems, and exhaust assemblies have long formed the backbone of the unorganised and semi-organised MSME component base. As OEM production progressively shifts toward EVs over the next 10 to 15 years, demand for these categories is set to decline in both volume and value. Recent industry research identifies this as the most acute transition risk in India's EV supply chain, not for Tier-1 companies, which have the capital and strategic capacity to adapt, but for the Tier-2/3 ecosystem that supplies them.

Battery Supply Chain and the Localisation Gap

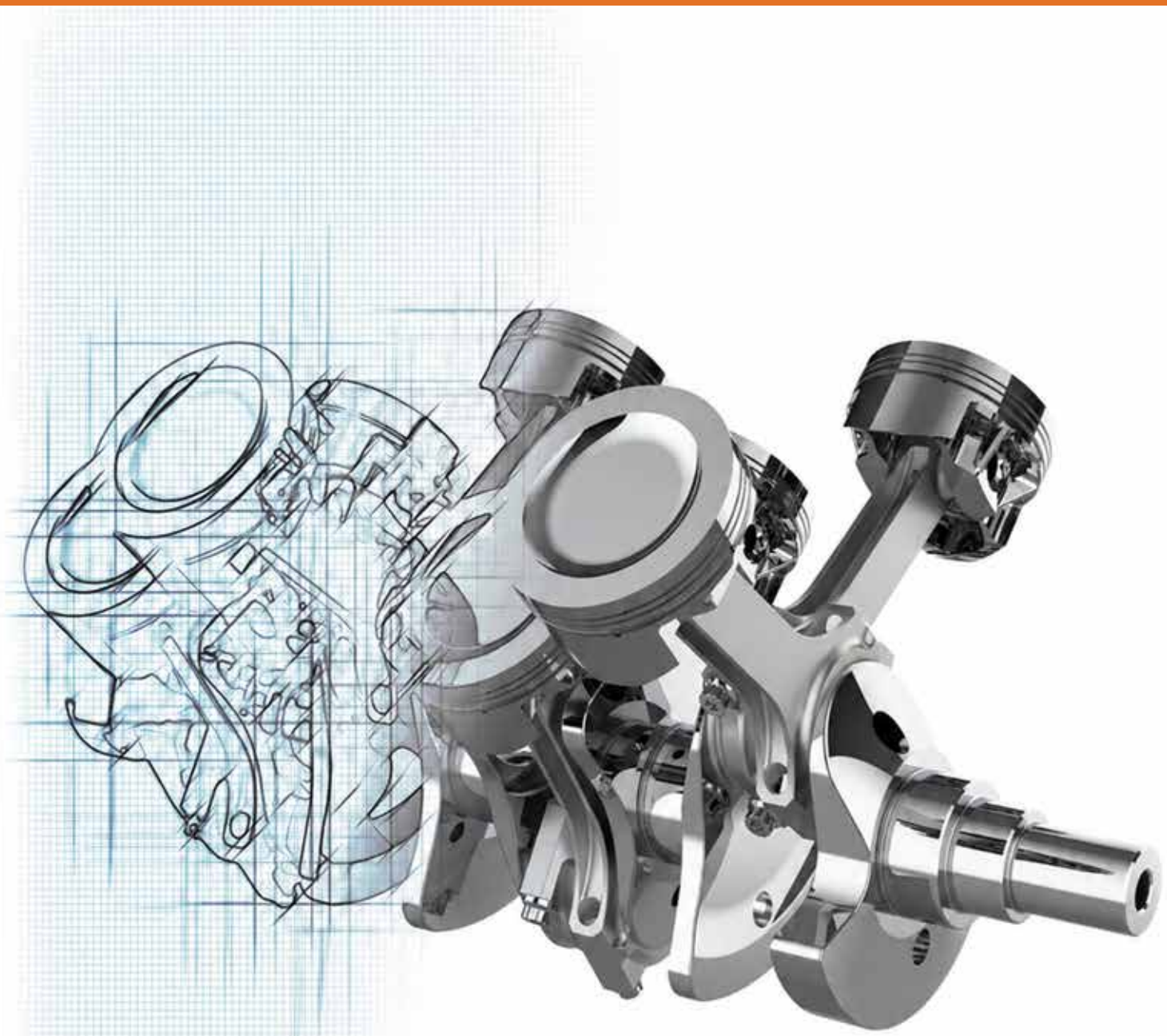
Battery cells remain the most critical import dependency in India's EV supply chain. The ACC PLI, with Rs. 18,100 crore allocated toward 50 GWh of domestic cell manufacturing capacity, is structurally addressing this, but it will take several years for meaningful domestic supply to come online. Indian automakers have planned Rs. 85,420 crore (USD 10 billion) in aggregate EV and battery capital expenditure, which will create substantial downstream procurement demand through the supply chain.

The localisation gap is most acute at Tier-2 and Tier-3. Tier-1 suppliers are actively driving EV component adoption, as reflected in the 4.6% OEM supply share in H1 FY26. But sub-OEM localisation of battery hardware and power electronics is insufficient, as ICCT noted in its September 2024 analysis. Without deliberate intervention, the gap will widen as EV volumes scale; hence, Battery supply chain localisation is the most urgent near-term challenge.

Rare Earth Dependency

EV motors require neodymium magnets derived from rare earth elements. China controls more than 85% of global rare earth refining, creating a supply chain vulnerability that becomes more acute as India's EV volumes grow. This is a growing concern requiring a national critical materials strategy in the FY25 performance review. When export licensing restrictions were imposed in April 2025, Indian EV manufacturers found themselves with 4–6 weeks of inventory and no credible alternative supply source. The Chinese government began issuing limited export licences to select Indian companies — including Jay Ushin and Continental AG's Indian units — from around December 2025, providing partial relief. But the episode demonstrated that India cannot build a sustainable EV component industry on a foundation of concentrated critical material dependency.

'The only solution for us is to be Atmanirbhar. India's incentive scheme for domestic rare earth magnet production is a direct policy response currently in preparation. Alongside this, the Union Budget 2025-26 waived duties on lithium-ion battery scrap and critical minerals to reduce input costs for domestic manufacturers.



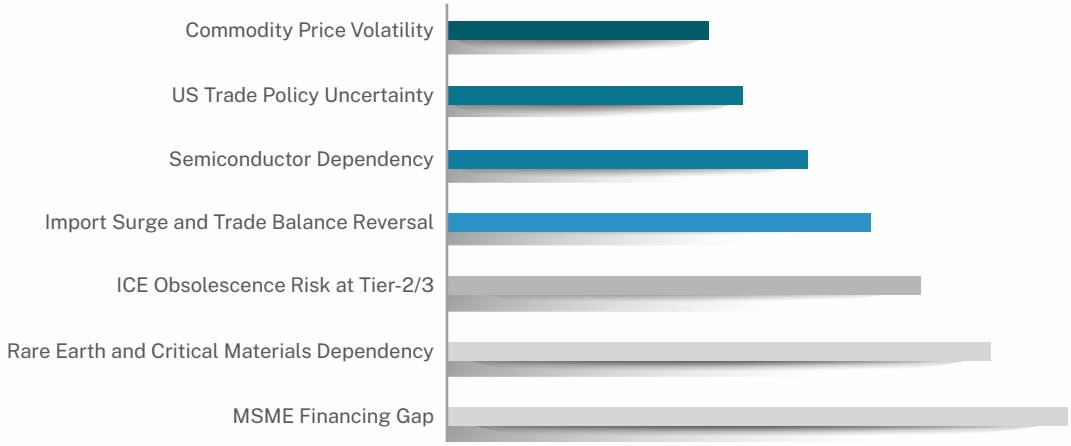
EV-specific component investment by Indian auto component makers reached Rs. 15,000 to 20,000 crore in FY25 and is projected at Rs. 25,000 to 30,000 crore in FY26. Indian automakers have separately committed Rs. 85,420 crore (USD 10 billion) in aggregate EV and battery capex, which will cascade demand through the supply chain.

• 7. Challenges, Risks, and Strategic Imperatives

India's auto component sector enters the FY25–30 period with considerable momentum but faces a set of structural challenges that, if unaddressed, could constrain the realisation of the USD 200 billion ambition. These are not incidental or merely cyclical headwinds that will resolve as conditions improve; they are structural gaps requiring deliberate policy, financing, and industry action to close before they compound.

The auto component sector faces the following principal risk areas, each varying in severity and in the extent to which current policy has kept pace.

Strategic Risk Severity



Source: Industry analysis based on ACMA, IEA Critical Minerals 2025, McKinsey September 2025

Rare Earth and Critical Materials - High Severity

China controls approximately 85% of global rare earth refining, and neodymium magnets, essential to EV motors, currently have no domestic alternative at scale. The government's response includes a Rs. 7,280 crore magnet scheme under preparation and critical minerals duty exemptions introduced in Budget 2025-26; however, a comprehensive mineral security strategy has yet to be formulated.

Semiconductor Dependency - High Severity

Auto-grade chips are sourced predominantly from Taiwan and South Korea, with domestic capacity still years away. While a Semiconductor PLI scheme exists, its auto-grade focus remains nascent, and a clear timeline for auto-grade production capability is yet to emerge.

Import Surge and Trade Balance - High Severity

Imports grew 12.5% against export growth of 9.3% in H1 FY26, with Asia (principally China) accounting for two-thirds of imports, resulting in the first trade deficit in recent years. This swing from a USD 453 million trade surplus in FY25 to a marginal deficit in H1 FY26 is the clearest near-term warning signal in the sector data, and it happened in a single six-month period. The cause is specific and traceable: the rising import intensity of EV components, particularly battery cells and power electronics sourced from Asia, primarily China. This is not yet a structural problem, but it will become one if EV penetration accelerates without a matching acceleration in domestic EV component manufacturing if EV penetration doubles from 8% to 16% of new vehicle sales over the next three years and import intensity per EV remains at current levels, the trade deficit in auto components will widen materially. Localisation pressure and an ongoing review of the duty structure represent the current policy response, but it remains unclear whether local supply can respond quickly enough to the pace at which EV components are driving import growth.

US Tariff and Trade Policy - Medium-High Severity

Shifts in US trade policy, including tariff actions targeting specific product categories and preferential trade arrangements that favour regional partners such as Mexico under USMCA, pose a recurring risk to India's exposure in the North American market. India-US trade engagement remains an active channel of policy response, but the outcome of ongoing negotiations and their eventual impact on component-level duties remain uncertain.

ICE Obsolescence for Tier-2/3 - High Severity

This is arguably the most acute social and industrial challenge embedded in the EV transition. Catalytic converters, complex multi-speed gearboxes, fuel injection systems, and exhaust components face a 10 to 15 years sunset, and Tier-2 manufacturers are heavily concentrated in these categories. Unlike Tier-1 companies with diversified portfolios, technology partnerships, and access to capital markets, these manufacturers typically have limited ability to self-finance the retooling required to enter EV component categories. The capital constraint is the core problem: a Tier-2 manufacturer making catalytic converters for ICE vehicles faces a known demand curve declining over 10 to 15 years, and pivoting into battery thermal management or power electronics requires technology investment, new quality certifications, and often new machinery, none of which can be financed from declining ICE revenues. No targeted transition scheme currently exists, leaving thousands of Tier-2 manufacturers exposed to structural displacement without the capital to pivot; without one, the likely outcome for many of these businesses is closure or distressed sale rather than successful transition.

MSME Financing Gap - High Severity

This risk arises from the mismatch between EV-related capex requirements and Tier-2 balance sheets, compounded by limited bank credit availability relative to need. SIDBI and MUDRA channels exist to support financing, but these remain severely underutilised, with access and awareness barriers persisting.

Commodity Price Volatility - Medium Severity

Steel, aluminium, and copper are dominant input costs, with OEM price revision cycles lagging market movements by several quarters. Hedging and diversified sourcing serve as the current mitigation approach, but the ability to pass through costs remains limited, resulting in margin compression during up-cycles.

Weighing the Risks

Weighed by impact and reversibility, the MSME financing gap and rare earth and critical materials dependency stand out as the most severe of these risks, followed closely by ICE obsolescence at the Tier-2/3 level and the import surge and trade balance reversal. Semiconductor dependency and US trade policy uncertainty carry somewhat lower but still material severity, with commodity price volatility the least acute of the seven.

Strategic Imperatives

Taken together, these risks point to a common conclusion: India's current policy toolkit is partial, indirect, or still nascent relative to the scale of the structural challenges it faces. Five strategic imperatives follow from this gap:

- **National Critical Materials Policy- bilateral mineral supply agreements, strategic reserves, and domestic recycling infrastructure. The only tool currently available is the proposed Rs. 7,280 crore magnet scheme; a comprehensive strategy is not yet in place.**
- **MSME EV Transition Financing- a dedicated credit facility supporting Tier-2/3 EV component investment, along with technology access support. SIDBI and MUDRA schemes exist but remain underutilised, and access barriers are unaddressed.**
- **Tier-2/3 EV Localisation Scheme- a PLI-equivalent incentive targeted at sub-Tier-1 EV component manufacturing. No such policy tool currently exists, making this the most significant policy gap in the sector.**
- **Trade Balance Management -accelerated local content targets for EV components and an import monitoring framework. The existing ACC (Advanced Chemistry Cell) PLI scheme addresses cells but not the broader component ecosystem, and there is no explicit localisation mandate for EV component sub-systems.**
- **Auto-Grade Semiconductor Development- a dedicated program within the semiconductor PLI scheme for automotive applications. The current effort is nascent, and the timeline to achieve auto-grade domestic supply remains unclear.**

Policy Response So Far

Across all seven risk areas, the pattern in India's current policy response is consistent: meaningful first steps exist, but none yet amount to a comprehensive answer. Budget 2025-26's critical minerals duty exemptions, the proposed Rs. 7,280 crore magnet scheme, the Semiconductor PLI's nascent auto-grade push, SIDBI and MUDRA's MSME credit lines, the ACC PLI for battery cells, and active India-US trade engagement each address a piece of the problem, but they remain partial, underutilised, or insufficiently targeted at the sub-Tier-1 level where the risk is most concentrated. Closing that gap particularly through a dedicated Tier-2/3 EV localisation incentive and a scaled-up MSME transition financing facility is the central policy task for the FY25–30 period.

• 8. Conclusion

The story this report tells has a duality at its core, and it deserves honest acknowledgement rather than convenient resolution. The same half-year that delivered strong export growth also saw imports rise faster, quietly turning an earned trade surplus into a marginal deficit. The same EV transition that is opening genuine opportunity for Tier-1 companies is placing existential pressure on the thousands of Tier-2 and Tier-3 manufacturers built around catalytic converters, fuel injection systems, and multi-speed transmissions. And the same China+1 momentum pulling global procurement toward India sits uneasily alongside India's own dependence on Chinese rare earth refining and battery cells for the very EV future meant to reduce that dependence. None of this diminishes the opportunity ahead of the sector; it simply means the opportunity has to be earned rather than assumed.

The sector's two clearest growth frontiers - a high-margin, structurally resilient aftermarket and an EV component opportunity that could represent a 35 per cent CAGR through FY30 - are not abstractions. The aftermarket crossed ₹99,948 crore in FY25 and is already outpacing OEM supply growth. EV components reached 4.6 per cent of OEM supplies in H1 FY26 from near-zero three years prior. Both are in motion. The challenge is ensuring that the structural constraints identified in this report do not cap the pace at which India can capture them.

Getting there rests on three things coming together in the right order. A national critical materials policy that goes beyond the initial rare earth magnet scheme to cover bilateral supply agreements, stockpiling, and domestic refining and recycling capacity because trading oil dependence for rare earth dependence would undo much of what the EV transition is meant to achieve. A financing architecture built specifically for the Tier-2 and Tier-3 transition, since the SIDBI and MUDRA channels that exist for this purpose are significantly underused, and a dedicated credit facility with real technology-access support would do more for the sector's resilience than its modest fiscal cost suggests. And a localisation push for Tier-2 and Tier-3 suppliers modelled on what the PLI scheme has already proven works at the Tier-1 level evidence that well-designed incentives generate returns well beyond their fiscal outlay, and that the same logic, extended downstream, addresses the supply chain's biggest gap and its biggest opportunity at once.

The title of this report, From Ancillary to Architect, is meant to capture where the sector is headed, not where it has been. India's component industry has the scale, the cost base, the manufacturing depth, and the policy tailwind to become a genuinely global export industry within this decade. What it has not yet built is depth at the layer that will actually decide the outcome the Tier-2 and Tier-3 base, where the real supply chain is made and where the EV transition's risks and rewards are most concentrated. A sector responsible for roughly a quarter of India's manufacturing GDP and some five million livelihoods was never a peripheral one. It is, and has always been, load-bearing. The question the next five years will answer is not whether the ambition is justified, but whether the pace of the response matches the pace of the change.

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