kotak Institutional Equities

Automobiles & Components

India

Sector View: **Cautious** NIFTY-50: **24,336** **April 30, 2025**

US auto tariffs: Localization wins

The revised US auto tariff policy incentivizes by exempting highly localized vehicles and offering partial relief to domestically assembled models while imposing 25% tariffs on imported vehicles. We believe domestic-focused automakers are relatively better positioned to gain share. For Indian companies, JLR and commercial/industrial suppliers continue facing status quo exposure without new relief, while PV component makers such as SAMIL and SONACOMS gain partial benefit through the offset mechanism.

New auto tariff policy provides strong incentives for domestic localization

The revised US auto tariff policy introduces three major relief mechanisms for the OEMs—(1) vehicles achieving 85% or higher US content are fully exempt from the tariff, (2) US-assembled vehicles below this threshold can offset the 25% parts tariff through a 3.75%/2.5% credit against the vehicle's MSRP during the first/second years and (3) the new structure consolidates previous steel, aluminum and parts tariffs, ensuring no stacking of multiple duties on the same vehicle. The policy aims to incentivize deepening local production without instantly destabilizing the supply chain. The offsets are retrospective from April 3, when the auto tariffs took effect.

US-focused players may gain as importers may face margin pressures

For OEMs, the impact will vary depending on production footprint and sourcing strategy. OEMs with a high US manufacturing footprint and moderate imported parts (such as Tesla, Ford, GM and Stellantis) are relatively shielded. Those relying heavily on imported finished vehicles (BMW, JLR, Mercedes, Volvo and Porsche) will face higher tariffs. These companies will have to localize additional production and sourcing. In the near term, OEMs will be required to find a balance between passing costs to consumers and absorbing margin pressure.

50% of the USA car market will still be impacted by 25% tariff

Currently, about 50% of vehicles sold in the US are assembled domestically, while the remaining 50% are imported from regions such as Mexico, Canada, Germany, Japan and South Korea. All imported vehicles will face the full 25% tariff, without access to the offset mechanism. This directly impacts a significant portion of the US auto market, particularly in the luxury and compact SUV segments, where imports are concentrated.

Expecting price increases in car market along with competitive reshaping

Despite the relief pressures, we expect the overall transaction prices in the US car market will rise. Theoretically, the average car price increase could be in the range of 11-13% based on import share and full pass-through of tariffs. Even if we factor in partial cost absorption and consumer shifts toward US-built models, the effective average price increase is likely to be 6–8%, which will have a negative impact on demand trends. The policy will pressure premium import sales and benefit the domestic-focused brands, structurally reshaping the competitive landscape of the US auto sector over the next few years.

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No relief for JLR & CV/industrial suppliers; Samvardhana Motherson & Sona Comstar to get some relief

Indian companies exposed to the US auto sector will face mixed outcomes under the new tariff structure. Tata Motors, through Jaguar Land Rover (JLR), sees no major change as its vehicles remain imported and continue to face a 25% tariff, with no new offset relief available. Among suppliers, Bharat Forge, Timken India and Balkrishna Industries, focused on commercial vehicles, off-highway vehicles, railways and aftermarket tires, also face a status quo scenario—continuing to bear existing tariffs without benefit from the new offset policy. In contrast, Samvardhana Motherson, Sona Comstar and PV exports of Bharat Forge, which primarily supply to locally assembled passenger vehicles and EV programs, will gain partial relief through the 15% offset mechanism, improving their relative positioning. Overall, JLR and industrial suppliers face continued headwinds, while PV/EV-focused suppliers are comparatively better protected. However, we would like to note that a slowdown in US PV market demand will eventually have a negative impact on suppliers, which are directly impacted by the tariffs.

Cars that are manufactured in the US and with 70% imported content of parts will be levied duty of 13.75% in Year 1 instead of 17.5% under older tariff rule

Exhibit 1: Duty structure under the new tariff policy

	Scenario 1: 30% imported parts	Scenario 2: 70% imported parts	
	Year 1		Comments
Final vehicle MSRP (USD)	100,000	100,000	Sales price of the vehicle
Imported parts value (USD)	30,000	70,000	Value of the imported parts
Tariff on imported parts - 25% (USD)	7,500	17,500	25% duty on imported parts
3.75% offset credit on MSRP (USD)	3,750	3,750	Offset to the tune of 3.75% of MSRP
Net duty payable (USD)	3,750	13,750	
Duty as a % of vehicle value (%)	**3.8**	**13.8**	
	Year 2		
Final vehicle MSRP (USD)	100,000	100,000	
Imported parts value (USD)	30,000	70,000	
Tariff on imported parts - 25% (USD)	7,500	17,500	
2.5% offset credit on MSRP (USD)	2,500	2,500	Offset to the tune of 2.5% of MSRP
Net duty payable (USD)	5,000	15,000	
Duty as a % of vehicle value (%)	**5.0**	**15.0**	

Source: Commerce Department of USA, Kotak Institutional Equities estimates

Luxury OEMs will continue to face higher tariffs given lower production in the US

Exhibit 2: Domestic versus local production % of various OEMs in the US

	Domestic car production (%)	Car imports (%)	Parts localized including USMCA in domestic car production (%)
Tesla	100.0	—	80-90
Rivian	100.0	—	60-70
Ford	82.0	18.0	60-70
Stellantis	60.0	40.0	70-80
General Motors	52.0	48.0	60-70
Toyota	45.0	55.0	60-70
BMW	45.0	55.0	50-60
Hyundai	40.0	60.0	50-60
Mercedes	40.0	60.0	40-50
Volkswagen	20.0	80.0	70-80
Volvo	10.0	90.0	50-60
JLR	—	100.0	—

Source: NHTSA, Kotak Institutional Equities estimates

JLR continues to be worst impacted owing to auto tariffs

Exhibit 3: Impact on Indian players

	Segment focus	Tariff relief status	Net impact of auto tariffs/reciprocal tariffs
Tata Motors (JLR)	Luxury vehicles	No offset, 25% tariff	Severe negative
Samvardhana Motherson	PV components (local footprint)	3.75%/2.5% offset benefit	Direct impact of tariffs remain minimal
Sona Comstar	PV and EV components (exports)	3.75%/2.5% offset benefit	Partially mitigated given their largest customer will be the most benefitted
Bharat Forge	CV, PV and industrial components (exports)	3.75%/2.5% offset benefit to PV segment	Negative for CV and industrial segments
Timken India	CV and railway bearings	No offset - auto tariffs/reciprocal tariffs	Negative
Balkrishna Industries	Off-highway tires	No offset - reciprocal tariffs	Negative

Source: Kotak Institutional Equities estimates

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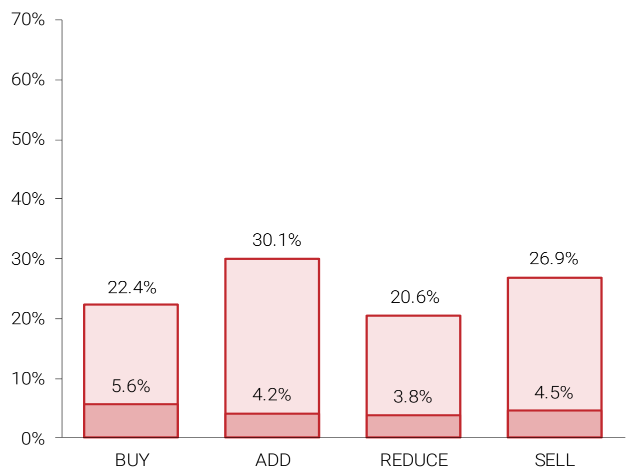

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