US Auto Tariffs Update

MONARCH NETWORTH CAPITAL

Sector Update

Uncertain times for auto ancillary players

The US decision to impose tariffs has created an environment of uncertainty for auto OEMs and component manufacturers that have significant exposure to the US market for their exports. While we expect US OEMs to face challenges in re-aligning their supply chains, exports to the US are likely to persist. The primary impact on Indian auto players is anticipated to be margin pressure. Rising vehicle costs will make negotiations with US OEMs more challenging. Within our coverage universe of auto ancillaries, we expect SJS Enterprises and FIEM to be the least affected by the US tariffs due to their minimal exposure to the US market. On the other hand, Sundram Fasteners and Happy Forgings are likely to experience the most significant impact, and the progress of their order wins in the US market will remain a key factor. We await more clarity on i) company's plan to navigate this development and ii) a detail list of components covered under these tariffs, to determine the impact on financials and ratings. SJS's products remain out of tariff purview and continue to be our top conviction pick in the auto ancillary space.

List of auto-ancillaries under coverage

Company	Reco.	TP (Rs)	Upside
SJS Enterprises	Buy	1400	58%
Pricol	Buy	570	26%
Fiem Industries	Buy	2000	40%
Sundram Fasteners	Accumulate	1120	24%
Happy Forgings	Buy	1280	63%

Source: MNCL Research Estimates

- **What happened:** US has imposed 25% tariff on passenger vehicle imports, expected to come into effect on 3rd April'25 (US time). The order is applicable not only to finished cars but also to car components that are imported from other countries before getting assembled in the US. Automotive parts such as engines, transmissions, powertrain parts, and electrical components that are imported are within the purview of tariffs. The duties on these parts are expected to take effect no later than 3rd May, with specific HS codes to be outlined in an upcoming Federal Register notice. The exact start date for component tariffs will be confirmed in the notice.

- **Exposure and impact:** Amongst our coverage, Sundram Fasteners is expected to experience the highest impact due to upcoming deliveries of transmission sub-assemblies for EV worth Rs40bn, expected to begin from 1QFY26. The ramp-up of brake flanges and e-axles for supply to the US at Happy Forgings would also be impacted. Pricol has ~4.5% revenue exposure to the US and we expect a subdued show in the coming quarters on the exports side. SJS Enterprises and Fiem Industries are expected to be least impacted by the tariffs due to their minimal exposure to the US market as shown in exhibit 1. Going forward, SJS has large order wins in the US market, but we expect no disruptions as the US tariff does not apply to auto aesthetic components. Given the ongoing uncertainty around supply chain adjustments by OEMs, component exports are expected to persist. The components have already undergone a relevant product development cycle with Indian component makers, making it challenging to replicate this process with an alternate supplier in short term. However, the imposition of tariffs could squeeze margins for component manufacturers subject to tariff pass on, which may prove challenging, as negotiations with the US automakers could be tough amidst rising vehicle prices.

Exhibit 1: Sundram Fasteners has highest exposure to the US market

Company	US exposure as a % of revenue (FY24)
SJS Enterprises	1.2%
Pricol	4.5%
Fiem Industries	0.5%
Sundram Fasteners	22.4%
Happy Forgings*	2.6%

Source: Company, *9MFY25 exposure for Happy Forgings

- **Preference amongst our coverage: We await more clarity on i) company's plan to navigate this development and ii) a detail list of components covered under these tariffs, to determine the impact on financials and ratings.** SJS remains our top pick amongst the auto-ancillaries pact due to its very compelling story of continued outperformance over base industry, increase in share of exports & consumer segment and the upcoming cover glass opportunity. We are projecting i) Revenue/ EBITDA/ PAT CAGR of 18%/ 20%/ 24% over FY24-27E. ii) EBITDA margins at 25%+, iii) return ratios > 18%, iv) CFO/ EBITDA conversion of 60%+, v) net cash balance sheet. The stock trades at 20.5x/16.9x FY26/ FY27E PE. As the second preference in the pecking order, we prefer Fiem Industries and Pricol.

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Company	Mkt Cap - Rs mn	CAGR (FY24-FY27E)			EBITDA margins - %			ROE - %			PE Ratio		
		Revenue	EBITDA	PAT	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SJS Enterprises	27,728	18%	20%	24%	25.7	25.5	25.6	18.5	18.2	18.5	24.1	20.5	16.9
Pricol	55,340	27%	21%	22%	11.9	11.0	10.8	14.7	16.2	15.9	31.9	24.2	20.8
Fiem Industries	37,673	16%	16%	18%	13.2	13.3	13.4	20.7	20.7	20.3	18.9	16.0	13.9
Sundram Fasteners	1,90,408	11%	14%	16%	16.4	16.8	17.2	15.1	15.6	16.9	33.0	28.4	23.2
Happy Forgings	73,825	14%	15%	14%	28.7	29.0	29.6	14.3	14.2	15.2	27.5	25.0	20.3

Source: MNCL Research estimates

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