Strategic diversification: Unlocking new revenue horizons for automotive leaders

EY Parthenon

Shape the future with confidence

Foreword

India's automotive component industry has played a defining role in the country's rise as a global manufacturing and mobility hub. It has enabled value creation across the entire automotive ecosystem—from original equipment manufacturers (OEMs) and vehicle platforms to aftermarket services and exports. Today, however, the industry stands at the crossroads of a fundamental transformation.

Recent tariff tensions, raw material supply concerns and geopolitical developments—from trade realignments in the West to supply risks from the Middle East and East Asia—have added new layers of complexity to already stressed value chains. For auto component manufacturers, both the nature of risk and the shape of opportunity are being redefined.

In such an environment, diversification is no longer a distant strategic option—it is a current-day business imperative for a more resilient future. The ability to spread risk, tap into new revenue pools and adapt to a broader range of customers and platforms is becoming critical to long-term relevance and resilience. Diversification, in this sense, is not about doing more—it is about doing differently and doing so with intent.

EY has developed the thought leadership titled 'Strategic diversification: Unlocking new revenue horizons for automotive leaders' to serve as a guide for component manufacturers navigating this moment of transition. It is based on our experience in the sector, extensive engagement with industry stakeholders and a deep dive into performance data across specialist and diversified firms.

The report outlines various aspects of diversification and the directions it can take—across capabilities, geographies, customer channels, industries and vehicle platforms—and explores both the risks and rewards that come with such choices. Diversification rarely exists in isolation; certain types of diversification appear to reinforce others. About 91% of all companies that are capability diversified are also powertrain diversified, suggesting that capability diversification allows companies to improve their risk profile across other dimensions as well.

This paper will enable leadership teams to reflect on where their organizations stand today and what kind of choices are needed to build for tomorrow. Whether it is building a new capability, tapping into an adjacent industry or reaching customers more directly, the imperative is to act early, act deliberately and act in alignment with your long-term strategic goals.

We remain committed to working with India's auto component leaders in unlocking this next phase of sustainable and resilient growth.

Som Kapoor
Partner, Future of Mobility Leader
EY Parthenon

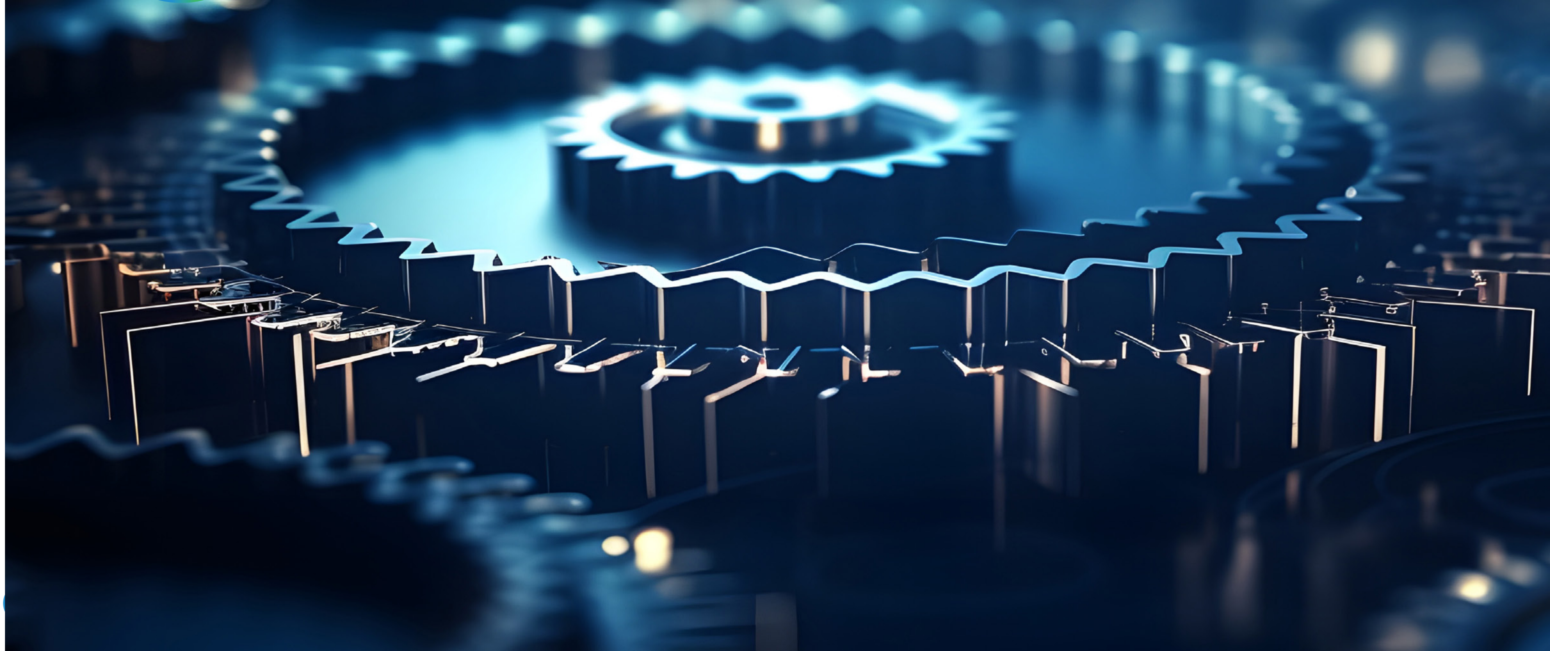


Table of Contents

Executive summary	04
Chapter 1: Importance of business diversification for the industry	06
Chapter 2: Understanding the dimensions of diversification	10
Chapter 3: Navigating uncertainty: Why diversification has become a strategic imperative	14
Chapter 4: Evidence in action: Measuring the impact of diversification	18
Chapter 5: Getting it right: Best practices for diversifying effectively	26

Executive summary

The Indian auto component sector is navigating a period of unprecedented change. From evolving powertrain technologies and policy reforms to supply chain rebalancing and shifting customer expectations, the landscape is being redrawn at a rapid pace. In this environment, diversification is no longer a growth lever; it has become a strategic necessity.

India's auto component market has grown significantly, reaching approximately US$80 billion in FY25, with exports touching US$22.9 billion[1]. However, this growth is occurring amidst rising volatility. Electric vehicle (EV) adoption is accelerating, legacy internal combustion engine (ICE) platforms are under pressure and supply chain disruptions—such as rare-earth material shortages—are becoming more frequent. Original equipment manufacturers (OEMs) are consolidating their vendor bases and demanding more integrated, tech-enabled solutions. Companies that remain narrowly focused on single customers, products or geographies risk obsolescence.

Diversification has emerged as the critical hedge.

It enables companies to spread risk, future-proof revenue and unlock new value pools. This paper presents five key diversification dimensions for component manufacturers:

1. **Capability:** Broadening technical expertise to avoid obsolescence and increase share of business per vehicle.
2. **Powertrain:** Catering to ICE, CNG, hybrid, and new energy vehicle (NEV) technologies, including powertrain-agnostic products.
3. **Geography:** Reducing dependence on domestic demand cycles and minimizing concentration in specific markets.
4. **Industry:** **Serving adjacent sectors like railways or construction equipment.**
5. **Customer or channel:** Expanding beyond traditional channels such as OEM and aftermarket to fleet, direct-to-consumer (D2C), e-commerce etc.

Each dimension mitigates a specific risk and/or adds a certain value. Capability and powertrain diversification drive high growth by tapping into emerging technologies and platforms. Geographic, industry and customer or channel diversification provide stability by shielding organizations from concentrated shocks.

To understand this better, we took a closer look at over 50 prominent automotive component companies in India. These companies were selected for analysis due to their significant market presence, innovation in technology and contribution

1. *ACMA Press Release, July 2025*

to the overall growth of the automotive sector in India. Analyzing their financial and growth metrics over the last five years allowed us to gain valuable insights into the trends and challenges faced by these companies, providing a well-rounded perspective on the automotive component industry in India. Our analysis also validates these patterns:

- **Capability and powertrain-diversified companies** demonstrate stronger revenue growth (higher CAGR), albeit with slightly more volatility.
- **Geographic and customer or channel diversification** deliver more stable revenue streams (lower coefficient of variation), even if growth is moderate.
- **Diversified firms outperform in profitability,** with higher average margins and significantly more stable return on capital employed (ROCE), especially during downturns like COVID-19.
- **Large specialist firms lag diversified peers,** highlighting that scale without spread increases risk exposure.

Importantly, **diversification works best when its capability led.** Companies that have expanded their technical base are more likely to succeed in other diversification paths. Conversely, those diversifying by industry alone often do so in a siloed manner, without enabling broader transformation.

For successful execution, diversification should be:

- **Strategic, not opportunistic:** Aligned with core strengths and a long-term vision.
- **Phased and piloted:** Tested judiciously before scaling.
- **Supported by systems and governance:** With strong internal governance, cross-functional interactions and a robust digital infrastructure.

In conclusion, diversification is no longer a choice; it is a structural pivot. The payoff is compelling—improved resilience, higher valuations and a stronger opportunity to operate in a complex, fast-moving world.

The Indian auto component industry is at a critical juncture, where it has the opportunity to leap ahead by embracing deliberate, capability-driven diversification strategies. Those who lead this shift will define the future of the sector—not just as suppliers, but as solution collaborators in the mobility ecosystem.

Chapter 01

Importance of business diversification for the industry

"In a world where disruption is the norm, staying the same is the biggest risk."

The global automotive industry has always been in motion. However, the pace and nature of change over the past two decades have been unlike anything seen before. From being a product-led sector focused on hardware, it has evolved into a complex network of technologies, software-defined vehicles, services, and ecosystems. Global suppliers, once known for a specific set of products, now deliver integrated modules spanning electronics, control systems, and even digital platforms. The supply chain has globalized, and value has steadily shifted from metal and mechanics to intelligence and energy.

The global automotive component market was valued at over approximately US$2 trillion in 2025, with about ~US$700[2] billion traded across borders. Despite its strong manufacturing base, India's share in this global trade remains a modest 3% (approximately US$20 billion)[2] –a reflection of both how far the country has come and how much potential lies ahead.

India's automotive component sector has grown within the context of this global shift. Liberalization in the early 1990s marked a turning point. The entry of international OEMs into the Indian market brought with it new demands for quality, cost, and delivery. Indian suppliers responded by investing in capabilities, scaling operations, and embracing global standards. Several of them transitioned from being single-product vendors to multi-product, multi-customer businesses. This transition was not just about growth; it was about competing with global players.

2. *"Automotive Industry: Powering India's Participation in Global Value Chains", Niti Aayog, April 2025*

Over the last decade, this evolution has been fueled by robust domestic vehicle sales, a growing aftermarket, and expanding exports. Between FY20 and FY25, the industry nearly doubled in size—reaching a turnover of over INR6.7 lakh crore (approximately US$80 billion)[3]. Exports have also gained momentum, rising to US$22.9 billion[3] in FY25 and pushing the sector into a trade surplus of US$453 million[3]—a powerful indicator of its strengthening global relevance.

Figure 1: Market size of Indian auto component industry 2015-2025 (US$ bn)[4]

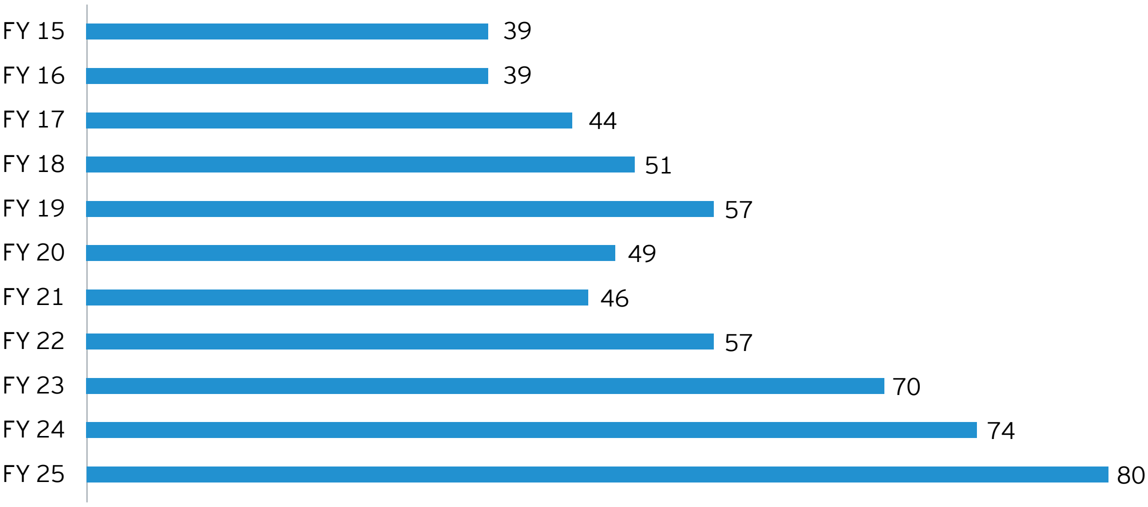


Figure 2: Evolution of Indian automotive industry

Key milestones

Early phase (pre 1991)
- 1950s-60s: Local manufacturing gathers pace; import-dependency present
- 1970s-80s: Protectionist policies; limited competition

National economic policy 1991
- 1991: Economic reforms open markets to FDI and global players
- 1993: Auto Policy encourages collaborations
- 1997: Tier wise supplier ecosystem emerges

Rapid growth (2000-2010)
- 2002: Automotive Mission Plan boosts investments
- 2006: India becomes a hub for low-cost, high-quality components
- 2008-09: Global financial crisis slows exports briefly

Maturity and challenges (2010-2020)
- 2015: "Make in India" pushes local manufacturing accompanied by other gov policies
- 2018: BS-VI norms and tech driven upgrades
- 2020: COVID-19 disrupts supply chains; 30% production drop

Recovery and EV Shift (2020-Present)
- 2021: PLI (Production-Linked Incentive) scheme
- 2023: Surge in new energy vehicles component demand
- 2025: Sector turnover reached INR 6.73 lakh crore (~US$80.2 b) in FY 25, doubling since FY 20 at 14% CAGR

3. *ACMA Press Release, July 2025*
4. *ACMA, Industry Statistics, 2025*

Diversification has played a quiet but critical role in this journey. Companies that once relied on a single customer or product line began expanding their offerings—first into adjacent categories and later into entirely new verticals. This approach helped reduce concentration risk, improve asset utilization and built resilience. It also became a pathway into global markets, as diversified players could offer more integrated solutions to OEMs looking to consolidate their supply chain.

Over time, the concept of diversification has shifted from being optional to strategic. Today, this shift is being accelerated by technology. The auto industry is undergoing a fundamental reset. The move from internal combustion to new energy powertrains, the rise of connected and autonomous vehicles, and the growing focus on lightweighting and emissions are all reshaping the component landscape. Many legacy product lines face long-term obsolescence, while others are being commoditized or replaced by software-driven alternatives.

For auto component manufacturers, this creates both a challenge and an opportunity. Those with narrow product portfolios risk being left behind. Conversely, those with the foresight to diversify—into electrification, electronics, clean technologies, or adjacent industries—are better placed to navigate the future. The global move towards electric vehicles alone may generate a US$300 billion[5] domestic market for EV batteries in India by 2030—representing a massive new value pool for suppliers willing to pivot.

EV adoption in India is also accelerating at pace—E2W penetration has risen from just 0.1% in FY20 to 6.2% in FY25[6], while E3W adoption has surged from 7.5% in FY23 to 22.6% in FY25[6] . Enabling policy frameworks such as FAME II, PLI schemes, and state-level subsidies reinforce this momentum.

Looking ahead, the Indian government aims for 30% of private car sales, 70% of commercial vehicle sales, and up to 80%[7] in two- and three-wheelers to be electric by 2030—pointing to a structural and irreversible shift away from ICE.

Several forces are pushing companies to rethink their product portfolios and explore new growth paths.

5. *"Auto Components", IBEF (India Brand Equity Foundation) report, May 2025*
6. *VAHAN Portal Data, Ministry of Road Transport & Highways, multiple years*
7. *Confederation of Indian Industry (CII) data, February 2025*

Figure 3: What is driving diversification?

Supply chain risk	Customer concentration	Global policy shifts	NEV transition	Margin pressure
Inter-cluster trade accounts for ~$595 bn–showing global OEMs are diversifying sourcing.	80% of exports come from a handful of categories and geographies–leaving firms vulnerable	US tariffs on China and India and rising EU+US trade nationalism pushing OEMs to look for new collaboraters.	BEV share in global light vehicle sales expected to grow 5x by 2035.	Advanced tech (e.g., ADAS, infotainment) to form ~45-55% of vehicle BOM by 2030, shrinking margins in conventional components

In response, many organizations are already investing beyond core mechanical systems and stepping into new domains such as embedded software, battery systems, thermal management and SaaS to name a few.

This shift is not just technological; it reflects a broader industry truth: resilience comes from diversification. Companies with exposure to multiple markets, technologies, and customer segments are more likely to withstand cycles, adapt to change, and unlock new growth. In today's context, diversification is not just about expanding business–it is about reducing risk, staying relevant and building for the long term.

As the rest of this report will show, diversification strategies in the auto component industry are taking many forms. But at the core of each is a simple idea: the need to future-proof the business in an uncertain and fast-changing world.

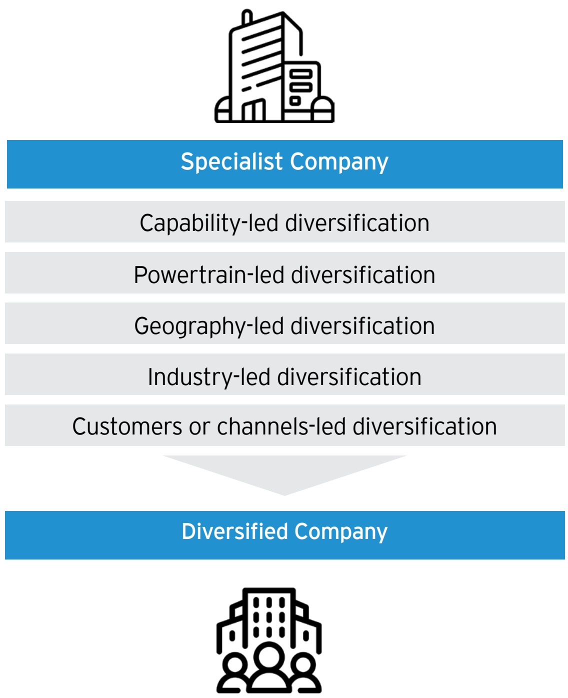
Chapter 02

Understanding the dimensions of diversification

Diversification, amongst other things, is a deliberate strategy for businesses to reduce risk and build resilience. For auto component manufacturers, it means not being overly dependent on a single capability, product, customer or market. While the word "diversification" is often used broadly, it has multiple dimensions, each addressing a different source of vulnerability or risk. A company may be highly diversified in one area while being a specialist in another.

We considered five core types of diversification: capability, powertrain, geographical, industry and customer or channel. These types are not mutually exclusive and companies often progress through more than one dimension. However, they should be viewed separately, as each dimension reduces a specific kind of business risk.

Figure 4: Diversified vs. Specialist firms



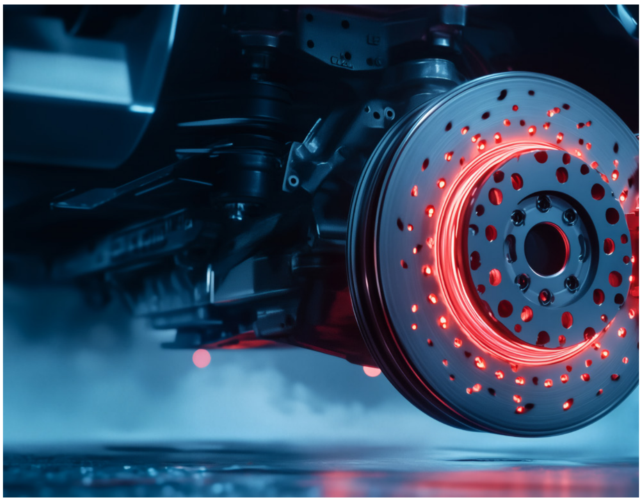
Capability-led diversification refers to the variety of technical competencies or production technologies a company possesses. If all of a company's products rely on the same underlying process, material or structure, it is considered a specialist in terms of capability.

> *For example, a manufacturer focused on aluminum die casting for engine housings, chassis brackets, and transmission covers may have a wide product catalog, but all of it is tied to one core manufacturing skill. This firm faces high exposure if casting-based components witness a structural decline. In contrast, another firm that started with HVAC systems and expanded into plastic molding, electronic control units and sensor integration building capabilities in multiple domains. Even if one capability becomes obsolete, others may continue to remain relevant. Capability diversification reduces the risk of obsolescence linked to technological shifts. It can also be motivated by a need for increased customer wallet share, leading to stronger business ties and better negotiating power.*

Powertrain-led diversification involves serving a mix of powertrains, including ICE, alternative fuels like CNG and LNG and the growing segment of new energy vehicles. The addition of powertrain-agnostic components, such as structural or electronic components, also helps insulate a company from changing trends in the industry.

> *A company with rubber and plastic molded parts in its portfolio would get impacted when powertrains shift to accept ethanol-blended fuel. In contrast, a diversified company with products and material compositions developed specifically for higher ethanol concentrations is better suited for this change in the automotive industry.*

By modifying product designs and processes, the company can adapt to different vehicle architectures. This approach spreads volume risk and allows the business to tap into newer, faster-growing segments. Powertrain diversification enables a company to avoid being tied to the fate of a single vehicle category.



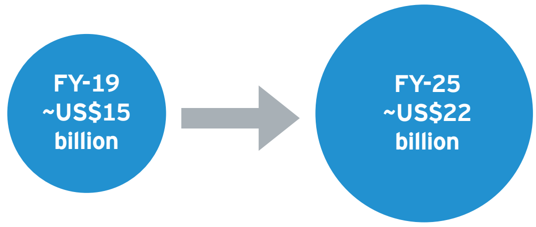
Geography-led diversification helps reduce dependence on any one country or region. Auto component companies often start by serving domestic OEMs, but as supply chains globalize, many have entered international markets.

> *For instance, a suspension systems supplier that operates solely in India may be vulnerable to domestic demand cycles, policy shifts, or currency fluctuations. In contrast, a wiring harness manufacturer that gradually expanded into Southeast Asia and the Middle East began by supplying to Indian OEMs with export programs and later built distribution channels in new markets. By doing so, it reduced exposure to any one geography and built a more stable revenue base. The company incorporated this learning into its strategy by maintaining revenue dependence on a specific market never exceeds approximately 30%, thus limiting exposure to geographic risk.*

Geographical diversification acts as a hedge against localized disruptions. Indian auto component exports touched US$22.4 billion in FY25[8],reflecting how the industry is actively diversifying geographically. Major export destinations for India include the US, Germany, Turkey, and Brazil, which together account for approximately 40% of exports.

8. *ACMA, Industry Statistics, multiple years*

Figure 5: Growth in the value of auto component exports from FY-19 to FY-25[8]



Industry-led diversification involves applying core competencies to sectors beyond automotive. For many component manufacturers, this can be a natural next step.

A firm that produces driveline assemblies for passenger vehicles may find similar demand in the tractor segment, defense vehicles or railway segment.

This move requires some degree of re-engineering, certification and customer development, but the underlying expertise remains relevant.

> *One example is a company known for high-strength fasteners that initially served only automotive customers but later expanded to serve railway and construction equipment manufacturers. The business was able to navigate multiple sector cycles and improve the utilization of its production assets.*

Industry diversification reduces sector concentration risk and creates new growth opportunities during slower periods in the automotive market.

Customer and channel-led diversification is about expanding who you sell to and how you sell. Many component manufacturers rely on a few OEMs or tier-1 customers for the bulk of their business, which creates exposure to pricing pressure, contract renegotiations, and order volatility.

> *One firm supplying dashboards and interior panels faced this challenge until it began developing direct-to-customer (D2C) aftermarket kits. It also onboarded fleet operators and logistics players with ready-fit cabin upgrade solutions. These new channels provided better margin control and a more balanced order book. By serving different types of customers and exploring new go-to-market models, the company reduced its dependency on a single channel and improved long-term stability.*

8. ACMA, Industry Statistics, multiple years

Table 1: Dimensions of diversification

Diversification type	Specialist company	Diversified company
Capability	Castings across multiple parts	HVAC + thermal electronics + plastic moulding
Powertrain	Exhaust system supplier	Exhaust and battery thermal management system supplier
Geography	Domestic-only suspension supplier	Wiring harness player in India, SE Asia, Middle East
Industry	Fasteners for passenger vehicles	Fasteners for auto, rail, construction equipment
Customer/ Channel	Supplies only to two OEMs	Mix of OEM, fleet, and D2C aftermarket

Each type of diversification mitigates a specific business risk. Capability diversification reduces the risk of being tied to one production method. Powertrain diversification guards against shifts in a single vehicle category. Geographical diversification protects itself from region-specific slowdowns. Industry diversification spreads exposure across demand cycles. Customer or channel diversification limits overdependence on a few buyers or business models.

However, diversification comes with its own complexities. It adds cost, requires cross-functional talent and demands thoughtful execution. Not every company can diversify in every way. The right path depends on market conditions, competitive strengths, and internal bandwidth. Some may choose to deepen their capabilities first before expanding into new geographies, while others may find adjacent industries more accessible than new powertrains.

What matters is that organizations should view diversification not as a buzzword but as a set of deliberate choices. These choices should align with long-term goals and be rooted in a clear understanding of where risks lie.

Chapter 03

Navigating uncertainty: Why diversification has become a strategic imperative

For decision-makers in India's auto component industry, the world today is far more volatile than it was even five years ago. The pace of disruption has increased and the sources of risk have multiplied. What were once stable growth paths are now exposed to overlapping shocks—from technology shifts and policy changes to geopolitical tensions and demand-side fragmentation.

The COVID-19 pandemic alone pushed back the industry's growth trajectory by nearly three years. Between FY19 and FY21, total industry turnover fell from INR3.95 lakh crore (approximately US$57 billion) to INR3.4 lakh crore (approximately US$45.9 billion), with exports dropping nearly 8% in FY21.[9]

More recently, China's restrictions on the export of rare-earth magnets—a critical input for EV motors and other components—triggered immediate concerns across the Indian automotive value chain. Several OEMs and suppliers were forced to explore alternative sourcing or build strategic inventories, highlighting the fragility of concentrated supply chains.

In this new environment, diversification is no longer optional; it is a strategic necessity for companies that want to stay relevant, reduce concentration risk, and build resilience. Leadership teams should proactively identify where they are exposed—by customer, market, capability or geography—and act to mitigate that risk before it materializes into disruption.

There are five powerful triggers that make this the right time for top managements to evaluate or rethink their diversification strategy.

9. *ACMA Industry Statistics, 2022*

Technology disruption in the auto sector

The most visible change is the transition from internal combustion engines to new energy powertrains. This is not a gradual evolution; it is a structural shift that is redefining what goes into a vehicle. Components linked to the engine, gearbox and exhaust systems are facing fundamental changes. Meanwhile, new categories like battery systems, thermal management, lightweight materials, and embedded electronics are growing rapidly.

For a component manufacturer deeply tied to ICE platforms, this shift poses a significant risk. Entire product lines could become obsolete over the next decade. The opportunity in EVs is not just about switching products; it often requires new design skills, material expertise, and testing protocols. Companies that have invested in multiple technical capabilities–for example, mechanical systems, plastic molding, and power electronics–are better placed to navigate this transition.

At the same time, the vehicle itself is becoming a connected platform. Embedded software, diagnostics, and sensor integration are moving from the sidelines to the center. Component firms that do not diversify beyond traditional hardware may find themselves locked out of future supply chains.

Economic and policy shifts

Macroeconomic uncertainty has become a feature, not a phase. Inflation, interest rate volatility and commodity price swings are making input costs difficult to predict. OEMs, in turn, are passing down pricing pressure to their suppliers. This is especially challenging in a market where India already faces an approximate 10% cost disadvantage[10] (driven by raw material and logistics) compared to countries like China.

Policy changes are adding another layer of complexity. In India, schemes like the Production Linked Incentive (PLI) and Phased Manufacturing Plan (PMP) are reshaping the economics of component manufacturing. The PLI scheme alone is expected to generate INR2.31 lakh crore (approximately US$31 billion) in incremental output and attract INR42,500 crore in new investments–while also creating 7.5 lakh jobs over the next five years.[11]

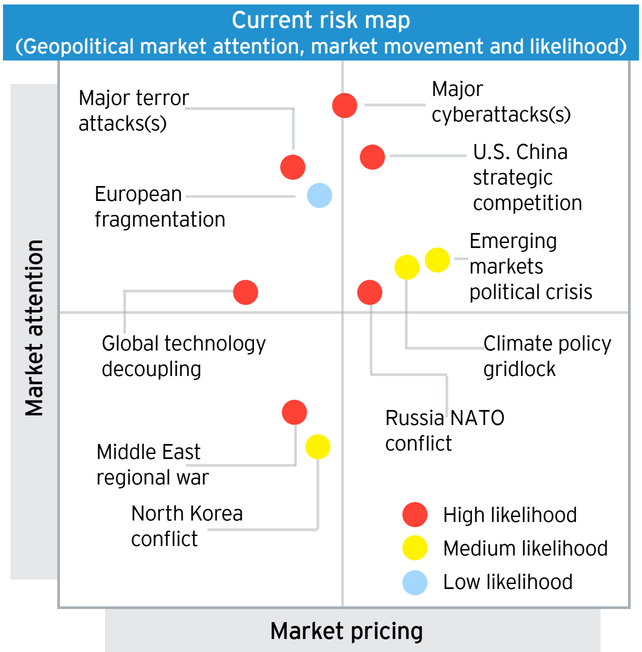
Local content rules and import substitution policies are becoming stricter. Export destinations are also introducing green norms, carbon disclosures and localization requirements. These shifts are redefining which product lines and operating models will remain viable in the long term.

Diversification helps companies navigate this uncertainty. Firms operating in multiple product categories, markets and customer channels are more capable of absorbing regulatory or cost-side shocks. Specialized companies, however efficient, may find themselves vulnerable if policy direction changes suddenly.

Geopolitical risk and supply chain fragility

The last few years have seen a sharp rise in external disruptions. COVID-19 may have been the trigger, but the risks have only grown since. The Russia-Ukraine war impacted freight corridors and disrupted input flows. Passenger vehicle production in Russia fell by 67% in 2022[12], and key rail corridors supplying components to European OEMs were severely affected. This ripple disrupted their sourcing patterns.

Figure 6: Geopolitical risk climate



10. *"Automotive Industry: Powering India's Participation in Global Value Chains", Niti Aayog, April 2025*
11. *"Centre's auto incentive scheme to create incremental output of INR 2.31 lakh crore" The Economic Times, February 2022*
12. *"Russia's car production slumped to lowest since Soviet times in 2022" The Reuters, February 2023*

Rising tensions between Israel and Iran have made the Middle East—a critical energy and logistics hub—more unpredictable. China's export restrictions on rare earth metals have exposed how concentrated global supply chains really are.

The US-China trade war continues to reshape sourcing and market access. A 25% tariff on imported auto components imposed by the US in 2025 has added pressure on India's US$6.8 billion[13] export market, especially for suppliers focused on powertrain and braking systems.

Many global OEMs are reconfiguring supply chains through a "China+1" approach, creating both opportunities and threats for Indian suppliers. At the same time, regional trade blocs and preferential sourcing rules are becoming more common, forcing firms to localize production or risk losing access.

In this environment, Free Trade Agreements (FTAs) are emerging as critical enablers of geographic diversification. India has recently signed a landmark FTA with the UK, and has trade agreements with the UAE, South Korea, Australia, etc., marking a shift toward deeper integration with key export markets. Under the UK-India FTA—signed in July 2025—car import duties will be phased down from over 100% to around 10% under a quota regime, and nearly 99% of Indian export lines will move toward zero tariffs[14]. For Indian component manufacturers, this opens a tariff-efficient route to serve UK-based OEMs.

Geopolitical risks are rarely within a company's control, but their impact can be managed through diversification. Firms that operate in multiple regions, with varied customer bases and inputs, are better insulated. Those with narrow exposure—to one country, supplier, or route—are far more vulnerable to external shocks.

Customer consolidation and channel evolution

OEMs across the world are streamlining their vendor base. They want fewer associates who can deliver more—not just in terms of volume, but also value. System integration, software compatibility, and after-sales support are increasingly being bundled into contracts.

This shift places pressure on component suppliers who have built their businesses around a single part or function. Without diversification into adjacent offerings, customer solutions, or aftermarket services, they risk becoming replaceable. In some segments, digitalization is also disrupting the traditional value chain. Online retail, direct-to-customer models, and platform-led spare parts distribution are redefining how buyers engage.

Fleet operators are another case in point. They now expect complete uptime packages—not just for parts, but also diagnostics, maintenance schedules and digital integration. Suppliers that have diversified into services or platform-based offerings are gaining strategic importance in these relationships.

For leadership, this means one thing: staying narrowly focused on B2B supply to OEMs is increasingly risky. Diversification into channels, customers, and delivery models is essential to remain competitive.

Market volatility and concentration risk

Many component manufacturers continue to depend heavily on a few customers, products or platforms. This has worked well in stable markets, but the current environment is anything but stable. A slowdown in one region, a production halt at one OEM, or a policy shift in one product segment can wipe out significant revenue if the business is too concentrated.

Even companies with healthy balance sheets are exposed if they lack diversification. What diversification offers is not just growth potential—it offers insurance. By entering adjacent industries, exploring new geographies or adding new capabilities, companies can reduce the chance of all variables turning unfavorable at the same time. Risk is not always visible until it materializes. Diversification is how businesses get ahead of it.

Table 2: Decision lens: A leadership call-out exercise, a simple list of 5 Yes/No questions

✔	✖	Are more than 50% of your products dependent on ICE platforms?
✔	✖	Is your export revenue tied to fewer than 3 countries?
✔	✖	Would the loss of your top customer impact more than 30% of revenue?
✔	✖	Have you entered any new capability areas in the last 3 years?
✔	✖	Do you have a business continuity plan in case of global logistics delays?

13. *"Trump's 25% auto tariffs cast uncertainty over India's $7 bn component exports" The Economic Times (Auto)| CRISIL, March 2025*
14. *"India-UK CETA 99% Tariff Elimination, Stronger Bilateral Trade, Catalyst for Inclusive Growth" Ministry of Commerce and Industry, July 2025*

These are not theoretical risks; they are happening in real time. The world is rewarding companies that are agile, diversified and future-ready. For boards and CXOs of Indian auto component manufacturers, this is the moment to act. Diversification cannot be a reactive decision triggered by loss; it should be a proactive strategy built on foresight.

Each company will have its own path. But the direction must be clear. The environment is shifting—and the winners will be those who are prepared for more than one future.

The implications of diversification: What leadership should expect

Diversification brings with it a range of outcomes—most of them highly positive, especially when approached with the right intent and alignment. At the same time, it requires organizational readiness to manage new complexity. Below is a balanced view of what organizational leadership can expect.

Strategic and financial benefits

Increased revenue potential

New products, markets and customer segments expand the company's addressable opportunity. Diversification also enables access to different price points and demand cycles, improving volume and topline growth.

Improved risk management

Exposure is spread across regions, customers and industries. This reduces vulnerability to local disruptions, regulatory changes, or demand shocks in a single segment.

Stronger strategic relevance with customers

Diversified companies are more likely to be seen as long-term associates. They can offer bundled solutions and platform-wide integration, increasing their influence in OEM account planning.

Cross-selling opportunities

Serving multiple customer bases allows insights to be shared across domains. Products or services developed for one segment can often be adapted for another with minimal investment.

Better utilisation of core assets

Engineering, manufacturing or sourcing capabilities developed for one line of business can often be repurposed for others, leading to better return on assets.

Greater negotiating power with suppliers

Consolidated sourcing across diverse business lines increases leverage with suppliers. This often leads to better pricing, terms, or access to scarce materials.

Acceleration of organisational learning

Exposure to different markets and customer needs pushes teams to innovate faster. This encourages agility and builds broader problem-solving capability across the organization.

Trade-offs to manage

Operational complexity

Diversification increases the number of products, platforms or geographies under management. This requires stronger coordination, governance and systems.

Upfront investment

Entering new capabilities or markets typically involves capital expenditure (capex), new talent onboarding and development time. The payback may not be immediate.

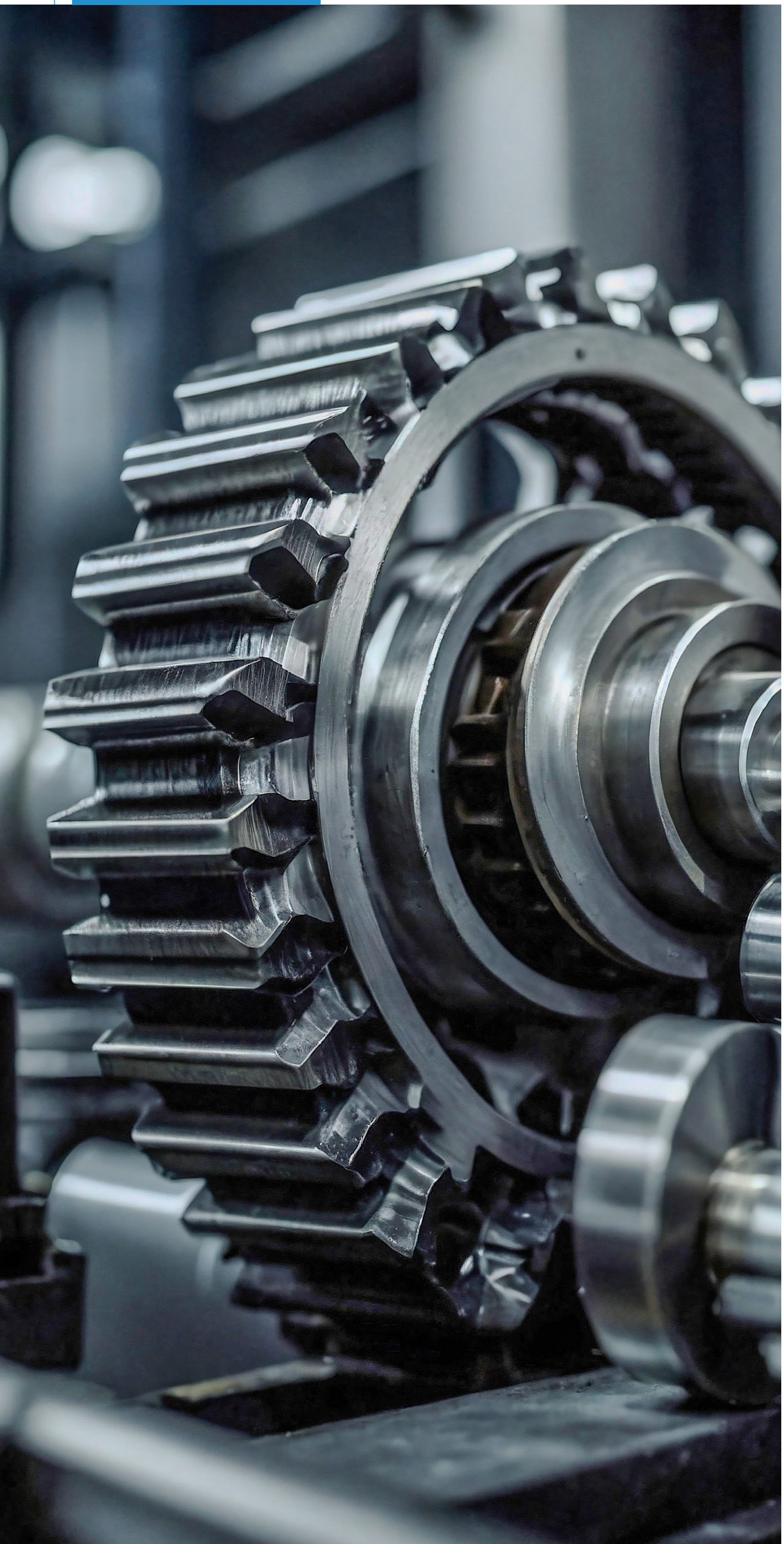
Longer gestation periods

Some diversification initiatives may take time to break even, especially in new industries or technologies. Managing expectations is key.

These challenges are not roadblocks; they are the cost of enhancing a business that is more resilient, more agile and better positioned for long-term success. For leadership teams, the role is to anticipate these implications, prepare the organization for them and stay focused on the long-term value creation that diversification can provide.

Chapter
04

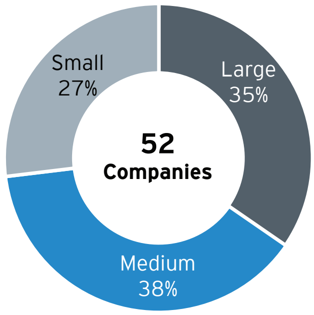
Evidence in action: Measuring the impact of diversification



Approach

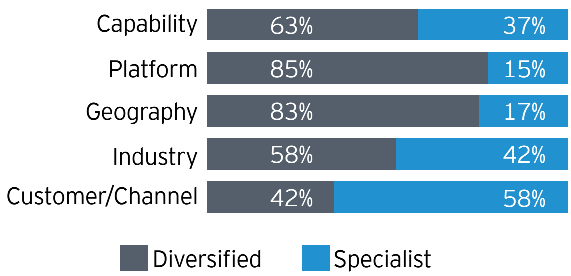
Moving beyond strategic theory to examine how diversification plays out in practice across the Indian auto component industry, the following analysis draws on a dataset of 52 companies spanning small, medium, and large enterprises[15], selected to provide a balanced cross-section of the sector (figure 7) .

Figure 7: Sample data set by company size



Each company is classified across five dimensions of diversification—capability, powertrain, geography, industry, and customer or channel—based on disclosed operations, product offerings, and market presence (figure 8). The sample includes an even split between firms that are "diversified" and those that are more "specialist" in orientation[16] (figure 9).

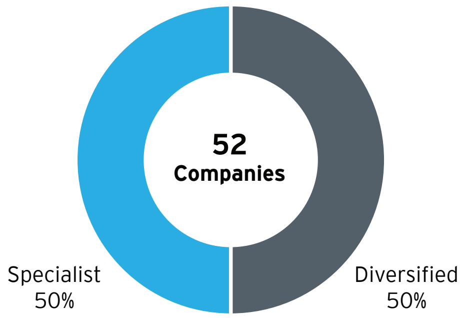
Figure 8: Sample data set by dimensions of diversification



15. Size categorization based on the following conditions: Small - <INR1,000 crore annual revenue, medium - INR1,000 - 3,000 crore annual revenue and large - >INR3,000 crore annual revenue.

16. Companies are classified as overall 'diversified' if they are diversified across 4 or more dimensions of diversification.

Figure 9: Sample data set by diversification classification



To assess the relationship between diversification and business performance, the study considers financial and operational metrics from FY-18 to FY-24—including revenue, net profit margin, return on capital employed (ROCE), market capitalization (for public companies), and debt-to-equity ratio.

A statistical measure—the Coefficient of Variation (CV)—is used to assess the relative volatility in performance over time. This allows for a more complete understanding not just of how much companies grow, but how consistently they perform (figure 10).

Figure 10: Coefficient of Variation explanation

What is the Coefficient of Variation?

*The **Coefficient of Variation (CV)** is a statistical measure used to assess the **relative volatility** of a metric over time. It is calculated as the ratio of the standard deviation to the mean, expressed as a percentage.*

CV = Standard Deviation ÷ Mean

What it tells us:

*CV indicates how much a company's performance fluctuates relative to its average. A **lower CV** suggests more stable, consistent results. A **higher CV** implies greater variability and risk.*

Insights - Topline

At a headline level, there is little difference in overall sales growth between diversified and specialist companies over the past six years. However, a more granular look across different types of diversification reveals important nuances.

Companies that are diversified in terms of **capability** and **powertrain** have on average delivered stronger sales growth than their specialist peers within these categories (figure 11). This reflects the advantages of expanding into adjacent product areas or aligning with shifts in vehicle architecture, such as the rise of electric mobility. These strategies appear to open new growth avenues. At the same time, they are associated with marginally higher variation in year-on-year sales. Although part of this variation can be explained by high growth, the high CV of sales metric suggests that such expansion can introduce a degree of operational and market complexity—though not necessarily at the cost of overall performance (figure 12).

Figure 11: Sales CAGR FY18-24 of capability and powertrain diversified companies

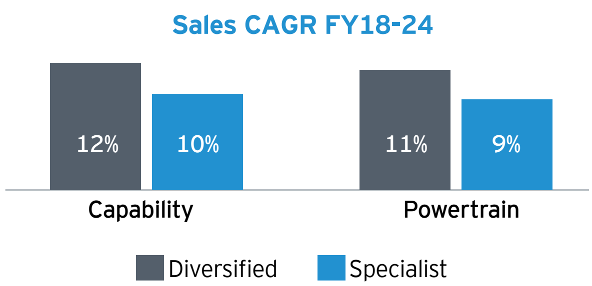
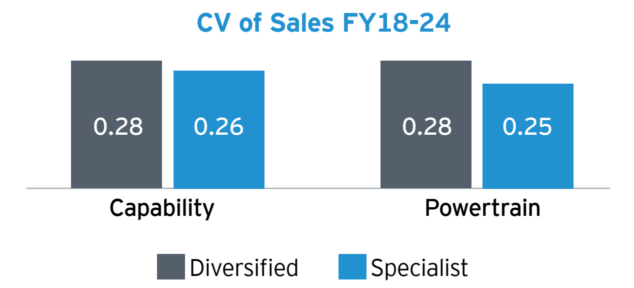


Figure 12: CV of sales FY18-24 of capability and powertrain diversified companies



Key Insight:
Companies diversified in capability and powertrain dimensions experience markedly higher topline growth, although with marginally higher volatility or risk. These types of diversifications allow companies to access new growth avenues but introduce layers of operational complexity, thereby increasing volatility.

In contrast, firms that are diversified by **geography, industry** or **customer or channel** tend to post slightly lower sales growth than their specialist counterparts—though with greater consistency (figure 13 and 14). The dip in sales growth is partly attributed to the complexities involved in adding new markets, channels and customer groups to the business mix. These changes require time to navigate and post results. However, the Coefficient of Variation is lower in these categories, indicating more stable topline outcomes over time. These forms of diversification offer a natural hedge against volatility, helping firms smoothen demand shocks and maintain predictable revenue flows, particularly in an environment marked by supply chain fluctuations and uneven end-market recovery.

Figure 13: Sales CAGR FY18-24 of geography, industry and customer or channel diversified companies

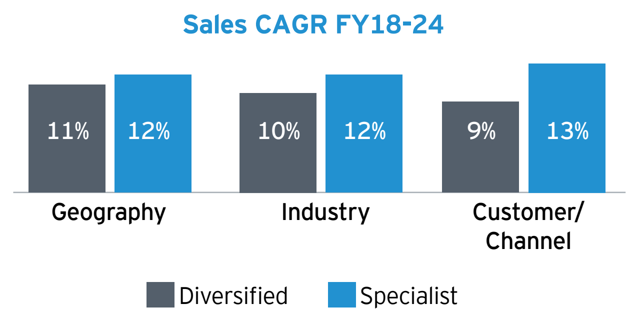
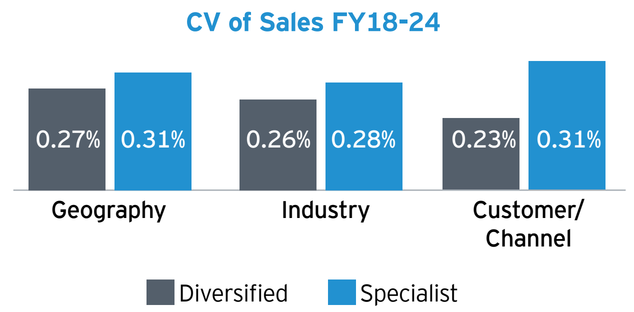


Figure 14: CV of sales FY18-24 of geography, industry and customer or channel diversified companies



Key Insight:
Companies diversified in geography, industry and customer or channel dimensions experience more stable revenue growth (lower CV), although at a slower pace. They provide a natural hedge against market cyclicity and demand shocks.

Taken together, the data suggests that different types of diversification serve different strategic purposes. **Capability** and **powertrain** diversification support **expansion and future readiness,** allowing companies to participate in a broader set of opportunities. **Geography, industry** and **customer or channel** diversification, meanwhile, play a more **protective role,** strengthening a firm's ability to navigate short-term uncertainties without necessarily altering its growth trajectory. Both sets of approaches carry value—the key lies in how they align with the company's broader priorities and stage of evolution.

Insights - Profitability

From a profitability lens, diversified companies appear to have an edge. On average, these firms report slightly higher net profit margins (6%) than their specialist counterparts (5.5%), suggesting that a more balanced business mix may help in achieving better operational efficiency and cost control across cycles (figure 15).

This advantage extends to stability to an even greater extent. Diversified firms not only deliver stronger margins but also report significantly lower volatility in profitability (approximately 23% lower), as measured by the CV (figure 16).

Figure 15: Average net profit margin FY18-24

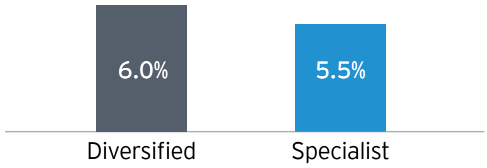
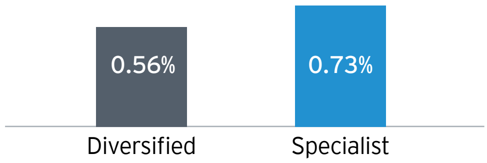


Figure 16: CV of net profit margin FY18-24

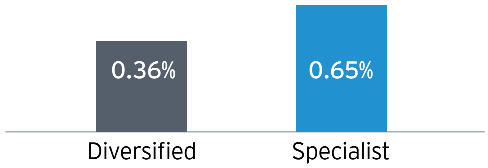


Key Insight:
Diversified companies experience marginally higher average net profit while also posting more consistent returns, as diversification helps them access new, profitable markets, improve operational efficiency and hedge against demand. volatility.

The difference is particularly striking in the case of Return on Capital Employed (ROCE)—a key global indicator of business health and efficiency. While the average ROCE is broadly similar across diversified and specialist firms, the CV of ROCE is significantly lower among diversified companies, suggesting greater consistency in generating returns across business cycles (figure 17).

CV of ROCE is increasingly used by financial analysts, investment managers, and credit rating agencies as a proxy for business risk, especially when market-based risk metrics like beta are unavailable or unreliable. Credit rating agencies often monitor the stability of ROCE over multi-year periods to assess a company's financial resilience. By capturing the volatility of return generation over time, it offers a grounded view of how resilient a company's core operations truly are—and in this case, highlights the stabilizing effect of diversification.

Figure 17: CV of ROCE FY18-24



Key Insight:
Coefficient of Variation (CV) of Return on Capital Employed (ROCE) – a key metric to measure business risk – is significantly lower for diversified companies, suggesting a much lower risk profile. This adds significant value when read in conjunction with a higher net profit and lower risk profile of the organizational topline.

The practical value of this resilience becomes clearer when examining the COVID-19 period. During the ensuing economic disruption of FY21, specialist companies experienced a much steeper decline in both profit margin and ROCE (figures 18 and 19). The sharper impact may reflect their narrower operating scope, which left them more exposed to downturns in specific customer segments or product categories.

Figure 18: Net Profit Margin Over Time FY18-24

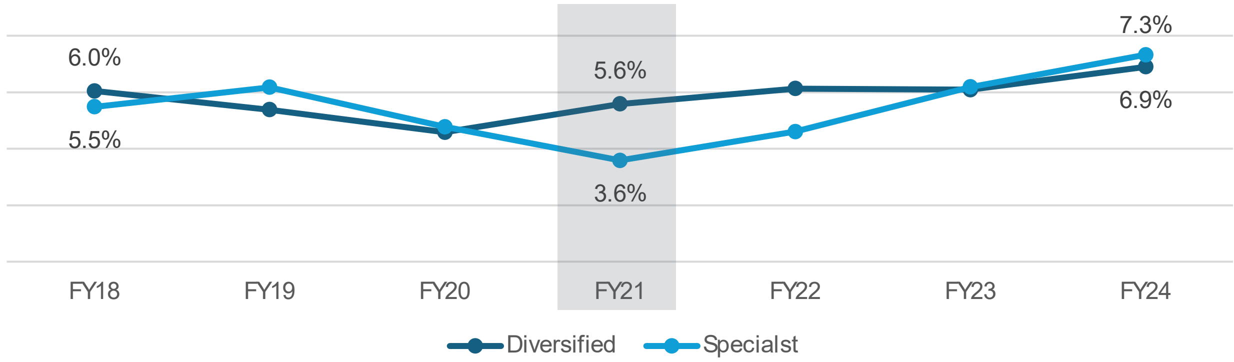
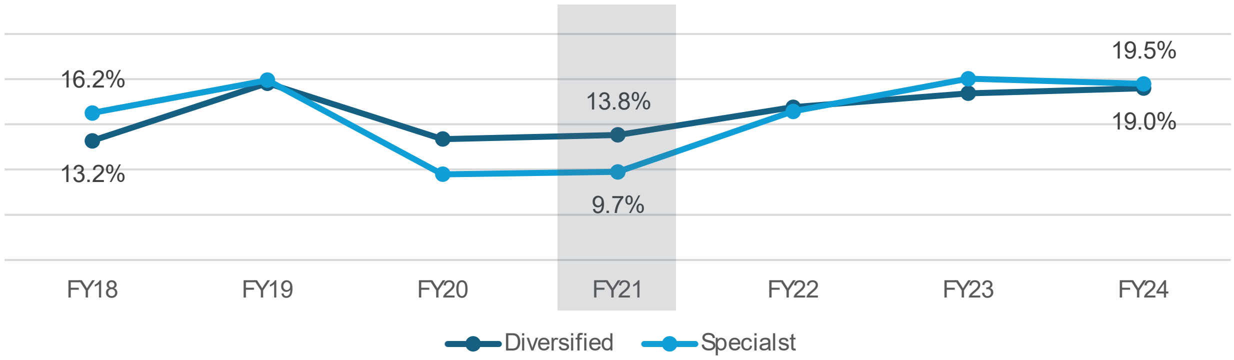


Figure 19: ROCE over time FY18-24



Key Insight:
The lower risk profile of diversified firms can clearly be seen during the impact of the COVID-19 pandemic. The differential of both average net profit margin and average ROCE between diversified and specialist firms is at its peak during FY21, as diversified firms are better equipped to handle such market-wide disruptions.

Figure 20: Average ROCE of large companies FY18-24

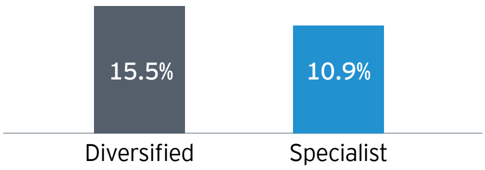
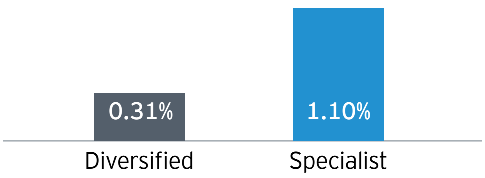


Figure 21: CV of ROCE of large companies FY18-24



An additional insight emerges when focusing on large-sized specialist firms. Among bigger players, the lack of diversification appears to have a more pronounced effect–these companies show materially weaker performance on profitability metrics compared to large, diversified firms (figures 20 and 21). As larger firms scale, they face more intense competitive pressures and greater capital deployment requirements, making the absence of diversification more costly. This trend is also reflected in their market capitalization, where specialist large companies significantly lag their diversified peers.

Key Insight:

Large specialist firms are lagging large-diversified firms in nearly all financial metrics. The average ROCE of large-diversified firms is significantly higher, with a much lower risk profile, highlighting the importance of diversification when pursuing scale.

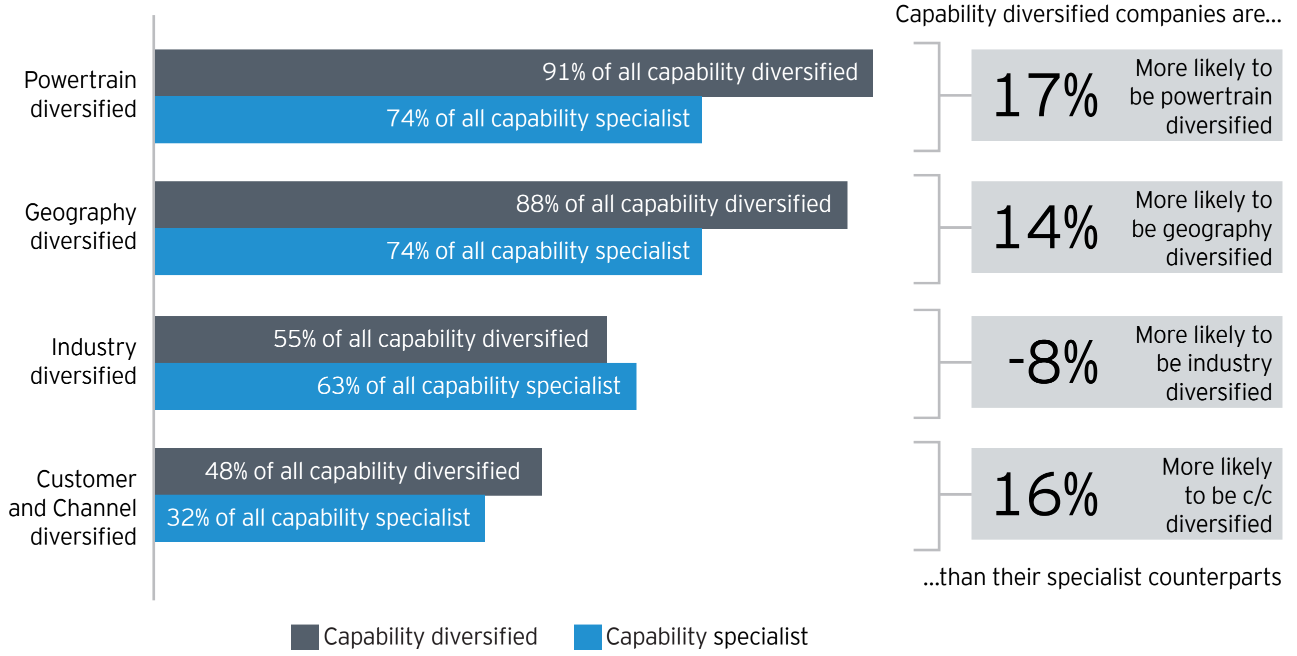
These patterns suggest that diversification is not only about unlocking topline growth—it also plays a crucial role in increasing and stabilizing profitability, especially during periods of economic stress. For larger firms in particular, strategic diversification appears increasingly important in maintaining investor confidence and long-term financial strength.

Synergies between diversification categories

Diversification rarely exists in isolation. Certain types of diversification appear to reinforce others—forming a network of strategic synergies that enable firms to scale more effectively.

For instance, organizations that diversify by capability—by adding new processes, technologies or product competencies—are significantly more likely to be diversified across other dimensions as well (figure 22). Capability diversification equips firms with the foundational tools needed to enter new powertrains (e.g., EVs), serve new geographies, engage with different industries or build relationships across varied customer segments. In that sense, it acts as a launchpad for broader diversification, reducing the cost and friction of expanding into new domains.

Figure 22: Other types of diversification of capability diversified/specialist companies



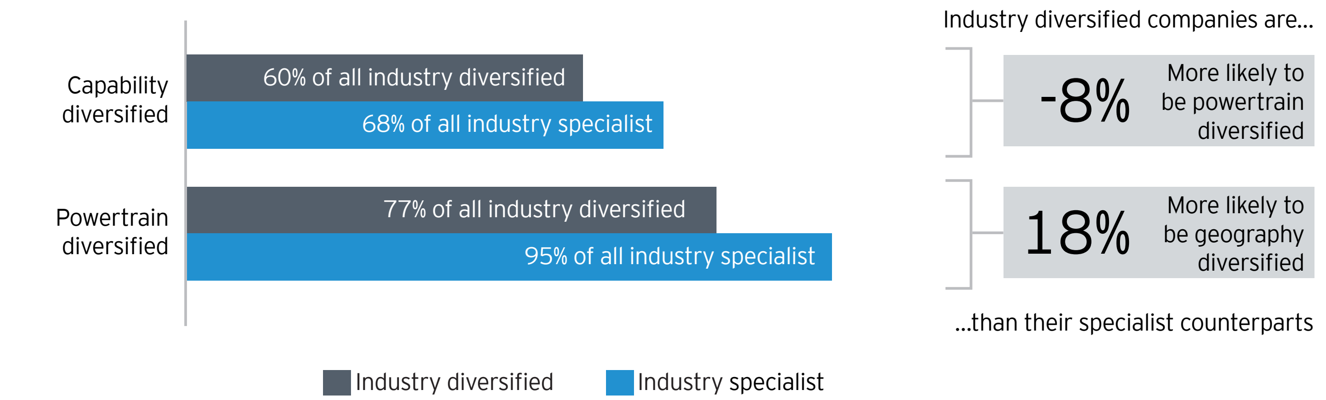
How to read the graph:

Taking the first example, 91% of all companies that are capability diversified are also powertrain diversified, whereas only 74% of capability specialist companies are powertrain diversified. A similar trend is seen in geography and customer or channel diversification.

In contrast, companies that are industry-diversified—meaning they serve end markets beyond automotive—tend to be less diversified in other categories (figure 23). This may reflect strategic focus: firms stepping outside the core industry often do so through specialized verticals or carved-out product lines, which do not necessarily require broader powertrain, customer, or geographic diversity. In such cases, diversification is more about insulating from automotive cyclicality than expanding reach within it.

Key Insight:
Capability diversified firms are more likely to be powertrain, geography and customer or channel diverse. This suggests that capability diversification allows companies to improve its risk profile from the ground up, laying the groundwork for other dimensions of diversification.

Figure 23: Other Types of diversification of industry diversified/specialist companies



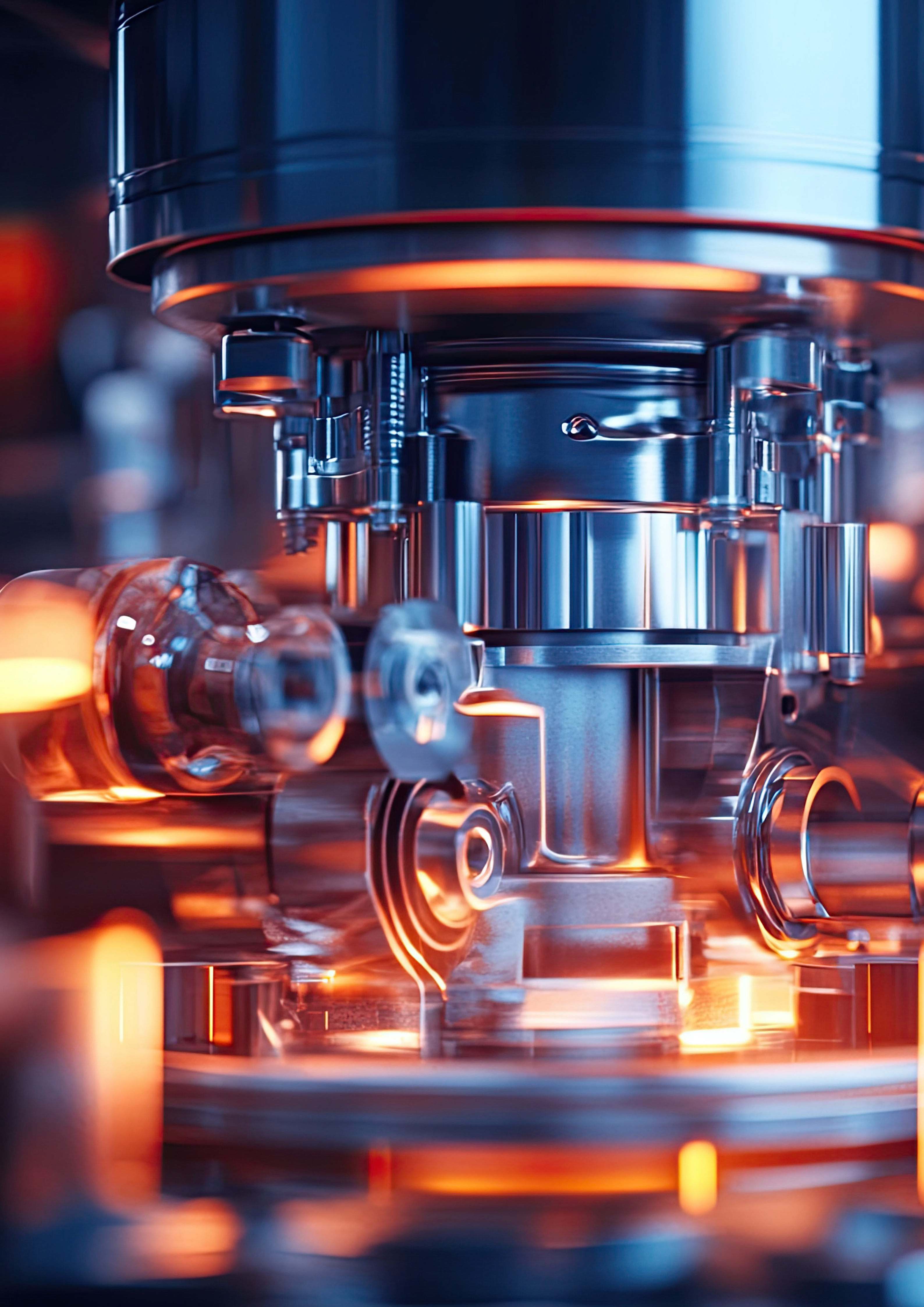
Key Insight:
Industry diversified companies are less likely to be capability, powertrain and customer or channel diversified. This suggests that although industry diversification can hedge against the cyclicity of the automotive industry, it does not in itself support diversification across other dimensions like capability diversification.

These patterns suggest that diversification is not a uniform strategy but a set of interlinked decisions. For many firms, capability expansion acts as a foundational move that unlocks further growth and risk mitigation opportunities. Others may adopt a more focused form of diversification, depending on their long-term strategic intent and resource allocation.

Insights: Summary

Diversification plays a central role in shaping both the growth trajectory and financial resilience of auto component companies, though its impact differs across types. Capability and powertrain diversification are most closely associated with faster topline growth, while geographic, industry and customer diversification tend to offer more stability by reducing exposure to external shocks. Profitability outcomes also skew in favor of diversified firms, which show stronger margins and significantly lower volatility—especially evident during disruptive periods like COVID-19.

One of the most striking patterns is the underperformance of large specialist firms, which face greater downside risks when competing with diversified peers at scale. This highlights that size alone is not a buffer—diversification becomes increasingly important as firms grow. Overall, the findings reinforce that diversification is not just a defensive strategy, but a critical enabler of sustained performance and long-term competitiveness in a rapidly evolving industry landscape.



Chapter 05

Getting it right: Best practices for diversifying effectively

Best practices and strategic imperatives for diversification

For India's auto component manufacturers, the last decade has redefined what it means to be competitive. Scale and cost leadership are no longer sufficient. The industry is being shaped by technological transitions, policy shifts, demand fragmentation, and rising external shocks. In this context, **diversification is no longer an optional growth strategy – it is a core pillar of risk management and future readiness.**

But not all diversification creates value. Done reactively, it can fragment resources and dilute focus. Done strategically, it becomes a source of resilience, margin stability, and sustained growth. For boards, promoters, and CXOs, the path forward lies in structured, capability-led diversification.

Five principles for effective diversification

Start with capability, not trend

Diversification works best when it extends what a company already does well. New businesses should be rooted in core engineering, manufacturing or material strengths—not just with market momentum.

Map risk, then spread exposure

The objective is not to do more—it is to reduce exposure. Leadership must first identify where their current risk lies: Is it product concentration? Customer dependency? Geographic exposure? Diversification should directly address those vulnerabilities.

Test, learn, then scale

Not every diversification bet will work. Pilots, technical partnerships or JV-led entries can help validate markets without large up-front investments. Treat diversification like R&D—experimental, data-led and iterative.

Invest in systems, not just markets

More product lines or regions mean more decisions. Companies that succeed at diversification have strong internal systems: cross-functional teams, clear governance and flexible supply chains. Operational maturity often determines whether diversification scales or stalls.

Let strategy also lead, not just opportunity

Diversification should serve the long-term vision. Chasing short-term demand blurs focus. Strategic discipline—in timing, target market, and execution—makes the difference between value creation and distraction.

Enablers that make diversification work

Successful diversification requires more than just intent—it requires execution muscle. Organizations are using a variety of strategic levers to enter new domains effectively:

- Technical collaborations and acquisitions to access capabilities quickly
- Customer co-development to reduce risk and facilitate product market fit
- Talent redeployment to seed new verticals with domain know-how
- Digital platforms to open direct-to-user channels or capture aftermarket demand

These enablers reduce execution risk, build organizational agility, and help keep diversification anchored in capability.

Final note: Building the future-ready supplier

India's component industry is at a crossroads. With rising global interest, policy support and supply chain rebalancing, there is immense upside potential – but only for companies that are ready to evolve. **The future belongs to suppliers who are not just efficient, but resilient. Not just capable, but adaptable.**

Diversification, when done with clarity and discipline, becomes the bridge to this future. It ensures that companies are not locked into a single market, a single customer or a single trajectory. It builds room to maneuver—and room to lead.

List of figures

Figure 1: Market size of Indian auto component industry 2015-2025 (US$ bn)....7
Figure 2: Evolution of Indian automotive industry 7
Figure 3: What is driving diversification? 9
Figure 4: Diversified vs. Specialist firms....10
Figure 5: Growth in the value of auto component exports from FY-19 to FY-258 12
Figure 6: Geopolitical risk climate 15
Figure 7: Sample data set by company size....18
Figure 8: Sample data set by dimensions of diversification 18
Figure 9: Sample data set by diversification classification....19
Figure 10: Coefficient of variation explanation 19
Figure 11: Sales CAGR FY18-24 of capability and powertrain diversified companies 19
Figure 12: CV of sales FY18-24 of capability and powertrain diversified companies 20
Figure 13: Sales CAGR FY18-24 of geography, industry, and customer or channel diversified companies 20
Figure 14: CV of sales FY18-24 of geography, industry, and customer or channel diversified companies 20
Figure 15: Average net profit margin FY18-24 21
Figure 16: CV of net profit margin FY18-24....21
Figure 17: CV of ROCE FY18-24 21
Figure 18: Net profit margin over time FY18-24....22
Figure 19: ROCE over time FY18-24....22
Figure 20: Average ROCE of large companies FY18-24....22
Figure 21: CV of ROCE of large companies FY18-24....22
Figure 22: Other types of diversification of capability diversified or specialist companies 23
Figure 23: Other types of diversification of industry diversified or specialist companies 24

List of tables

Table 1: Dimensions of diversification....12
Table 2: Decision lens: A leadership call-out exercise, a simple list of 5 Yes/No questions....16

Our Team

Mobility Leadership

Vinay Raghunath
Partner & Automotive Sector Leader
vinay.raghunath@in.ey.com

Som Kapoor
Partner, Future of Mobility Leader
som.kapoor@parthenon.ey.com

Pratik Shah
Partner, Automotive & Mobility
pratik.s@parthenon.ey.com

Key contributors

- Aneesh Ajayan
- Amit Punjani
- Pratyush Chandra Parki
- Sujan Karegoudar
- Varun Khattar
- Harshit Rastogi
- Shaurya Munjal

Support team

- Tarun Tangri
- Sushmita Yadav
- Samridhi Chaturvedi
- Shweta Sharma
- Saloni Jain

Our offices

Ahmedabad
22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Bengaluru
12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar
8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha - 751024
Tel: + 91 674 274 4490

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai
6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: +91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur
9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No 301
Building No. 1
Mindspace Airoli West (Gigaplex)
Located at Plot No. IT-5
MIDC Knowledge Corridor
Airoli (West)
Navi Mumbai - 400708
Tel: + 91 22 6192 0003

Altimus, 18th Floor Pandurang
Budhkar Marg Worli,
Mumbai - 400 018
Tel: +91 22 6192 0503

Pune
C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Taluka Haveli
Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst Young Global Limited, each of which is a separate legal entity. Ernst Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses.

From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122003,
Haryana, India

EYIN2508-028
ED None

SJ

ey.com/en_in

@EY_India EY EY India

EY Careers India @ey_indiacareers