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Parts maker Samvardhana Motherson to assemble cars

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Samvardhana Motherson International Ltd plans to assemble full-fledged cars by 2030, as India's largest auto component maker aims to join the tiny club of global parts makers that have ventured into automobile manufacture.

The assembly ambition is part of the Motherson Group's bid to raise its revenue to \$108 billion by the end of this decade from around \$25.7 billion in FY25, according to at least three brokerages that joined a management briefing last Friday.

The attempt by the Vivek Sehgal-led group to build cars for original equipment makers marks the third moonshot in India's auto component sector, after Sona Comstar and Bharat Forge forayed into robotics. The moves come at a time when the sector is facing multiple headwinds, including a slowdown in the western market.

"Over the past five decades, Motherson has progressed from component manufacturing to products, systems and

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Auto parts maker Motherson looks to assemble cars

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integrated assemblies. The next logical step is full vehicle assembly by 2030, enabling access to the entire automotive supply chain," analysts at Nuvama said in a note dated 6 September.

Motherson reveals its long-term targets for investors via five-year plans. In 2020, it targeted reaching \$36 billion in revenue by 2025.

It ended last year with \$25.7 billion. Although the company missed its target, analysts noted that it needs to be considered in the context of global challenges.

"While it fell short of its target, it is important to recognize that the company significantly outperformed the end market amid an exceptionally challenging five-year period from 2020 to 2025," analysts at Motilal Oswal wrote in a note on 8 September.

The company noted its evolution into a full car assembly firm as the logical step, starting as a supplier of basic components in 1983. It turned to making fully made products and systems like

rear vision systems and interior panels.

The company's presentation to investors noted that it is targeting higher content per vehicle which is running on roads in the country and abroad. Analysts expect that such a target could not only result in a full assembly of cars but also boost profitability.

Samvardhana Motherson's share price has declined by 2.7% as against a 16% gain in Nifty Auto this year. It is targeting a 40% return on capital employed by 2030.

"The company plans to achieve this by operating efficiency improvements, including expanding lifetime of assets and flexible capex,



Motherson missed reaching its \$36 bn revenue target by 2025.

higher content per vehicle, and growing contribution from non-automotive businesses such as aerospace and consumer," analysts at JM Financial wrote in a note dated 7 September.

Experts said a key reason for company's ability to target full car assembly is the transition to electric vehicles, which is gathering pace worldwide.

"The move to electric mobility is reshaping the value chain and lowering entry barriers, creating an opening for new entrants like Motherson to think beyond components and towards car assembly," Nikhil Dhaka, vice-president at Primus Partners, a consultancy said.

Very few companies globally have tried their hand at making auto parts as well as assembling vehicles. Among them are Austria's Magna Steyr and Finland's Valmet Automotive.

Although Motherson has not specified how the model will work, some clues can be taken from how Magna Steyr evolved to manufacture cars. The company acted as an engineering and production company, with capabilities to control the design and technology part as well as to help a manufacturer make cars as per its

market requirements. The Austrian contract manufacturer has worked with companies like Jaguar Land Rover, Toyota, and Mercedes-Benz.

Full assembly can also be done based on the design and technology given by customers. With the company already moving to manufacture most of the components required in a car, it can look to vertically integrate and assemble cars quickly.

This could potentially allow companies to cut their production costs and look to boost manufacturing for their products.

Motherson was founded as a trading company in 1975 by Vivek Sehgal and his late mother Swaran Lata Sehgal. The company moved from silver trading to electrical wiring, with auto components soon to follow when Maruti Suzuki kickstarted the growth of automobiles in the country. Apart from Maruti Suzuki, it now works with clients like Volkswagen, Mercedes, Audi, BMW and Maruti Suzuki.

While Motherson targets making full cars, other auto ancillary players pushed into retailing automobiles.

Murugappa Group's TI Clean Mobility, Greaves Cotton and Pinnacle Industries are among the companies which are trying their hands in the commercial and passenger vehicle segments.

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