

Festive season may see break from price surges

Consumer firms hint at a breather as costs decline

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Indian consumers are likely to get respite from rising prices just before the festival season. Some consumer companies, including automakers, have indicated that they are planning to pause price hikes just before demand picks up in August, while keeping a close eye on volatile raw material prices.

Consumer product companies have defended steep hikes over the past year, arguing that their price increase has remained lower than the rise in commodity prices.

"At a macro level in the June quarter, our commodity price inflation was 20 per cent. Our price increase has been 12 per cent, (though) it gets accentuated in certain categories," said Sanjiv Mehta, MD & CEO of Hindustan Unilever, a subsidiary of global consumer product maker Unilever.

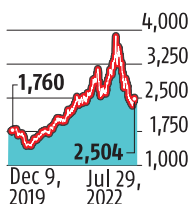
Parle Products, an unlisted food company, plans to wait for a month before taking further decisions on pricing. "If commodity prices remain low, we will give discounts on bigger packs and promotion



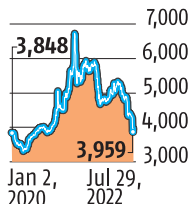
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SIGNS OF RELIEF

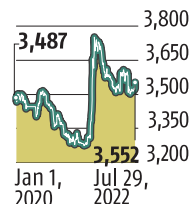
LME aluminium (\$/tonne)



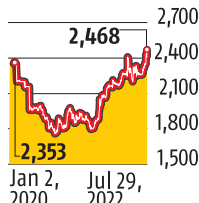
China HR steel (CNY/tonne)



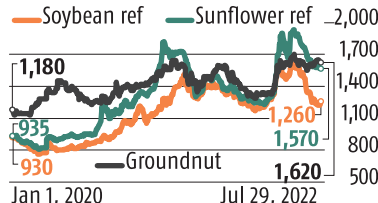
Sugar M30 (₹/qtl)



Wheat Delhi (₹/qtl)



Edible oils ₹/10 kg



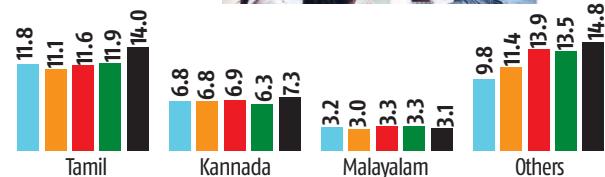
offers on smaller packs," Mayank Shah, category head at Parle Products, told *Business Standard*. But Shah said as wheat prices have started to

rise again since last week, the company has decided to wait before taking any decision on discounts or promotions.

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Festive...

According to economists, inflation is likely to ease by October as the monsoons have been progressing well with the cumulative rainfall being 9 per cent above the long-term average up to July 12. Also, global commodity prices have moderated due to increased recession risks in the US and Eurozone. If this trend continues, this will be good news for Indian consumers who are either downgrading to cheaper products or postponing their purchases.

Westlife Development, which operates American food major McDonald's outlets in south and west India, raised prices by 5 per cent in the June quarter. Jubilant Foodworks, which operates Domino's Pizza, a global food chain, in India has already taken double-digit price hikes in the past six months. Analysts said it would be difficult for the company to take another round of price hikes, even if raw material prices rise further as there is a risk of consumer pullback.

Sanjiv Puri, chairman and managing director of ITC, which runs a fledgling consumer products business, said there is some relief in commod-

ity prices but predicting the future is difficult as there are multiple factors at play. "While there will be some moderation as the signs show, for some time, inflation will remain at an elevated level," said Puri.

"We understand the stress on account of inflation and therefore, passing on or raising prices is the last lever we use. We normally try to manage it through cost efficiencies. This time, the magnitude of inflation was so high that price action was required. But whatever savings are there, there is no question it has to get passed on to the consumer," Puri said after addressing the company's shareholders.

Makers of automobiles, including two-wheelers, have indicated that as their input costs like steel prices cool down, they may not go for price hikes in the festive season. These companies, however, continue to tread with caution and steer clear of giving any guidance for the forthcoming quarters. "We are hopeful of commodity prices cooling down. It is difficult to give any fixed guidance because situations vary," said Ajay Seth, chief financial officer of India's biggest carmaker Maruti Suzuki India.

While the company has visibility regarding costs for the ongoing quarter as rates are

fixed before the start of the three-month period, the trend ahead is unpredictable, Shah told investors last week. "We definitely see prices across all commodities, including steel and other metals, being much lower than what they were in the June quarter of this year," he said, without committing to lowering prices.

Other companies echoed Seth's sentiment. Bajaj Auto said it has recovered about two-thirds of raw material cost inflation by raising prices and as commodity prices start softening, the company shall refrain from further price hikes. Bajaj Auto's overall approach has been to pass on cost increases, said Rakesh Sharma, executive director of Bajaj Auto. "Now, we're not seeing any cost increase but we will not cut prices to push demand. I don't see any reason to resort to reducing prices to stimulate demand. We will expect our new product introductions to be attractive," he said.

TVS Motor, a Chennai-based two-wheeler maker, said the overall cost impact of commodity price increases was 2 per cent in the first quarter and the company raised prices by 1.5 per cent. "In addition to the price increases, a combination of product mix and a sustained material cost reduction helped the company keep its material costs almost at the same level or slightly better than the fourth quarter," said K N Radhakrishnan, chief executive and director, TVS Motor.

Tata Motors, which makes passenger vehicles and trucks, is unlikely to increase prices any further as it has already gone for several rounds of price hikes. "Now that the commodity prices are softening, we don't need to raise prices," said PB Balaji, chief financial officer, Tata Motors.

But Vinkesh Gulati, president, Federation of Automobile Dealers Association (FADA), said he doesn't see any benefit of reduced material costs being

passed on to buyers. "If anything, auto companies will use festivals — when demand is strong and the sentiment is buoyant — to go for another round of price hike."

Electric...

Bhavish Aggarwal of Ola Electric believes all two-wheelers will go electric by 2025. The analysts at Nomura, however, are more circumspect, saying 30 per cent of all two-wheelers would be electric by 2030. Secondly, incumbent two-wheeler makers, such as Pune-based Bajaj Auto and TVS Motors of Chennai, are seen to be making inroads into what has been a largely open field so far for new-gen E2W players.

In January, E2Ws accounted for 2.6 per cent of the total two-wheeler market. Their share rose to 3.63 per cent in April, one of the best months for E2Ws, when Ola sold a record 12,702 and the overall E2W registrations shot up to 43,098. But the figure fell to 2.81 per cent in May, before recovering marginally to 3.3 per cent in June. And in July, was again at 3.1 per cent. E2W makers had hoped to sell 750,000 in 2022. However, in the first seven months, they have sold only a cumulative 250,000 to 260,000. To meet their projections for the calendar year, they need to sell 100,000 every month.

In July, Ola Electric saw a sharp reduction in its registrations fall 35 per cent from June, hitting a low of 3,816 units, as of Sunday evening. This is the third consecutive month Ola has seen its registrations fall month on month. The registrations in July account for about four days' production at the company's installed capacity of 1,000 per day. A spokesperson for Ola declined to comment "on plant maintenance" when asked the number of days the factory was closed in July the company said "production has resumed". "Ola is probably try-