

Auto firms have foot on price pedal, even as commodity costs tail off

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Automotive (auto) majors like Maruti Suzuki India (MSIL), Tata Motors, Kia India, and Hero MotoCorp have continued to hike prices, even as commodity costs have eased during the past several months. This is being done to recover earlier surges in raw material costs and prepare for the anticipated real driving emission (RDE) norms, said industry sources and experts.

MSIL announced it was increasing the prices of its models by 1.1 per cent from Monday due to increased cost pressure, driven by overall inflation and recent regulatory requirements.

Between March 31 last year and January 13 this year, the prices of raw materials, such as aluminium, copper, and tin, have decreased on the London Metal Exchange by 28.3 per cent, 11.9 per cent, and 35.5 per cent, respectively.

Hyundai Motor India had on December 15 said it would raise the prices of all its models from January, citing rising input costs.

Hero MotoCorp increased the prices of its motorcycles and scooters by up to ₹1,500, with effect from December 1, due to inflationary cost pressures.

Kia India has hiked the prices of its models by up to ₹1 lakh in January.

Mitul Shah, head of research at Reliance Securities, said the recent price hikes by auto companies are “to cover past underrecoveries since earlier price hikes were not sufficient to offset cost escalation”.

“Considering stable commodity cost, the price hike for the coming months would be minimal to cover higher energy cost and other inflationary cost pressures. The pace of price increase in 2023 would be much lower than the past two years,” added Shah.

Puneet Gupta, director-mobility, S&P Global, said the recent cost hikes by auto companies are primarily due to regulatory changes like RDE norms.

“There is a cost implication to upgrade, especially diesel vehicles, due to these norms. On petrol vehicles, the price increase is expected to be about



PRICE CHANGE OF RAW MATERIALS

	Unit	Mar 31, '22	Jan 13, '23	% Change (FY23)
LME Index	Index	5,174	4,273	-17.4
Zinc	\$/tonne	4,260	3,302	-22.5
Lead	\$/tonne	2,433	2,215	-9.0
Nickel	\$/tonne	33,400	27,175	-18.6
Aluminium	\$/tonne	3,503	2,511	-28.3
Copper	\$/tonne	10,337	9,107	-11.9
Tin	\$/tonne	44,200	28,530	-35.5
Brent crude spot	\$/BBL	107	84	-20.8
RubberspotKottayam	₹/Qtl	17,500	13,900	-20.6
China HR steel Avg price	CNY/tonne	5,267	4,198	-20.3

Note: CNY - Chinese Yuan; Source: Bloomberg; Compiled by BS Research Bureau

₹20,000. On diesel vehicles, the price increase is ₹65,000-70,000. So, original equipment manufacturers (OEMs) will absorb some impact. Some will be passed on in phases (January and April) to minimise the psychological impact on consumers,” he added.

Commodity prices are likely to drop further by another 10 per cent by the middle of 2024, he added.

“The Indian consumer is price-sensitive. Once this pent-up demand due to the pandemic is over, OEMs will realise that the demand is not as strong as it is visible today. By the second half (H2) of 2023, companies may have to offer discounts to sustain customer

interest,” said Gupta.

RDE norms, under which auto companies have to install a self-diagnostic device in their models to monitor emissions real-time, will be implemented in April this year.

Auto companies will have to incur significant costs to update their models to install these devices.

The country’s largest commercial vehicle maker — Tata Motors — said in mid-December that it would implement a 2 per cent price hike from January 2023, alluding to overall input cost rise.

“The company has been absorbing a significant portion of the increased costs, but a steep rise in overall input

costs has compelled it to pass on some proportion through this minimal price hike,” the company had said in its statement.

As for the passenger vehicle (PV) segment, Shailesh Chandra, managing director, Tata Motors Passenger Vehicles and Tata Passenger Electric Mobility, had indicated last month that the PV segment could see a price hike.

Sharekhan analysts said that the consolidated earnings before interest, tax, depreciation, and amortisation margins of Tata Motors will improve 630 basis points quarter-on-quarter to 9.7 per cent in the third quarter (Q3) of 2022-23, on the back of operating leverage and the benefit of a fall in key raw material prices.

Mahindra & Mahindra (M&M), meanwhile, has announced a price hike of up to ₹1 lakh for its ScorpioN sport utility vehicle launched six months ago. The price hike ranges between ₹15,000 and ₹1 lakh.

Chola Wealth analysts said in their report in December that M&M took a price hike of 1.5-2 per cent in auto and 1-2 per cent in tractors, thereby increasing its margin sequentially.

“The next leg of margin improvement in the auto segment would be driven by a gradual transition from promotional pricing to competitive pricing in combination with falling raw material prices,” they said.

Meanwhile, a report released by Chola Wealth in the last week of December showed that while steel prices were down 16 per cent year-on-year (YoY) in November 2022, on a month-on-month (MoM) basis, they were up 3.1 per cent.

For rubber, prices were down 20.57 per cent YoY, but up 6.2 per cent MoM in November.

For aluminium, too, prices were up 4.2 per cent MoM.

Steel prices witnessed an increase of ₹5 per kilogram (kilo) in the first quarter. However, they were down ₹10 per kilo in the second quarter. The benefit from commodity cost softening will, therefore, flow in from H2.

Rohan Kanwar Gupta, vice-president and sector head-corporate ratings, ICRA, said commodity prices have started to ease.

“Depending upon how the commodity cycle pans out, OEMs may have to resort to further price hikes,” said Gupta.

OEMs have been increasing vehicle prices over the past 12-15 months to pass on raw material price hikes, with a view of protecting their profitability margins, he said.

“While numerous price hikes have been undertaken over the past year, OEMs have generally been hiking prices at the start of the calendar year over the years,” he noted.