

Rising input costs may squeeze margins of auto, component makers

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Indian automobile and auto-component manufacturers are likely to face renewed margin pressure over the coming quarters as a sharp rise in key raw material prices offset relief from softer steel, rubber and crude-linked inputs, analysts and industry executives said.

Kotak Institutional Equities noted that the recent rally in aluminium, copper and platinum group metals re-emerged as a key cost headwind for the auto sector, even as steel, crude-linked plastics and rubber prices continue to soften. While easing steel and rubber prices offered partial relief, analysts believed this was insufficient to offset the sharp increase in base metals and precious metals, especially for segments with higher exposure to these inputs.

The prices of base metals such as aluminium and copper climbed 10-25 per cent over the past three months, driven by supply constraints, trade disruptions and stronger demand from energy transition-linked sectors. At the same time, prices of platinum group metals (PGMs) — used in catalytic converters — surged more than 50 per cent amid mine under-investment and supply bottlenecks. The spike came at a time when auto companies were already navigating a fragile demand environment, limiting their ability to pass on higher costs to consumers.

“Input cost inflation remains a potential margin risk. Over the past few weeks, base metals and PGM have rallied sharply due to supply constraints, tariff shocks and safe-haven demand,” Kotak Institutional Equities said in a December report.

“While steel and rubber prices have eased, the sharp escalation in aluminium, copper and precious metals is emerging as a significant cost headwind, particularly for two-wheeler and passenger vehicle manufacturers,” said an analyst at a domestic brokerage firm. “Net-net, the cost relief from softer inputs is getting outweighed.”

According to brokerage estimates, two-wheeler and passenger vehicle makers could see operating margin compression of 65-75 basis points from recent levels if the current spot prices sustained. Commercial vehicle (CV) manufacturers might see a relatively lower impact of around 30



Under the hood

Metal costs as a % of revenues, FY26

	2W	PV	CV	Tractors
Steel	6.7	12.0	14.0	14.0
Aluminium	4.2	3.0	2.0	2.0
Copper*	1.2	2.0	1.5	1.0
Plastic	2.0	3.0	2.0	1.0
Rubber	1.2	1.3	2.5	6.0
Precious metals	1.5	2.0	1.7	0.3
Total	16.8	21.3	22.0	24.0

*Non-ferrous metals

Source: Kotak Institutional Equities estimates

basis points, while tractor makers were expected to remain largely insulated.

The divergence stemmed from differences in material composition. Steel, rubber and plastics — whose prices have moderated — account for a larger share of input costs for CVs and tractors. In contrast, passenger vehicles and two-wheelers have higher exposure to aluminium, copper and PGMs, which have seen sharper inflation.

According to Kotak's analysis: “At current spot prices, we expect margin pressure of around 70 bps for 2W/PV OEMs and around 30 bps for CV OEMs, with tractor OEMs largely remaining unaffected.”

Auto component manufacturers also felt the pinch, particularly those supplying engine parts, exhaust systems and electronics. Several component makers operated on fixed-price or semi-fixed contracts with OEMs, delaying cost pass-through and compressing near-term margins.

“Input cost inflation tends to hit component suppliers first,” said a senior executive at a Tier-1 auto ancillary firm. “OEMs renegotiate prices with a lag, and in a competitive environment, suppliers often absorb part of the increase.”