

# Rising commodity prices dent carmakers' margin

Firms offset 8-10% rise in raw material costs by raising prices by 2-4%

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A near double-digit increase in prices of raw materials used in the manufacture of automobiles has pushed carmakers in the country to hike vehicle prices and cut down on discounts.

In January, major players like Tata Motors, Maruti Suzuki, Hyundai Motors and Toyota announced price hikes. Shortly after, Ford, Volvo and Honda Cars said they were considering raising prices of their vehicles from April. While a Honda spokesperson said a decision on the issue was still under consideration, the other two carmakers could not be reached for comment.

The increase in car prices has been in the range of two to four per cent. Commodity prices, on the other hand, have risen substantially over the last one year, especially the prices of key components for the automotive industry.

Subrata Ray, group head, corporate sector ratings, ICRA Ltd, says, "Commodity prices have increased substantially over the last one year, with some commodities like rubber and HR (hot rolled) coil witnessing a double-digit growth in average realisation during FY17. Other commodities like copper and aluminium have also witnessed sequential growth in realisation over the

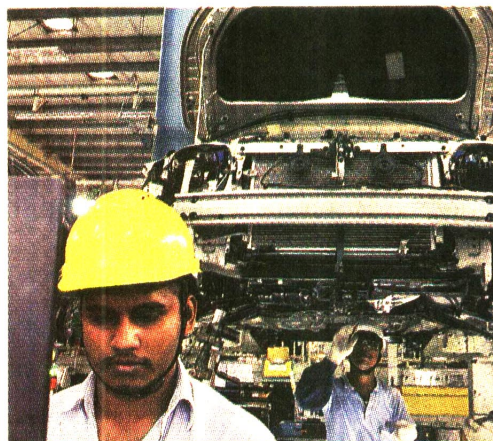
last two quarters."

Overall, the cost of raw materials for the industry increased by 8-10 per cent during the last financial year, he adds.

Shekar Viswanathan, vice-chairman, Toyota Kirloskar Motor, says every manufacturer will act to protect margins. "As such there would be no erosion of margins. For fast-moving models, margins would always be protected. One may sacrifice margins slightly for slow-moving models," he says.

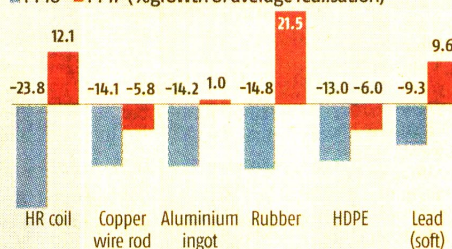
For example, the country's largest passenger carmaker, Maruti Suzuki India Ltd, saw its gross margins fall from 33 per cent in the second quarter of 2015-16 to 30.8 per cent in the third quarter of 2016-17. Analysts estimate the company's gross margins to be around 31 per cent in the fourth quarter of the last financial year.

ICRA's Ray feels the rise in costs of raw materials was partially offset by the price hike by carmakers and lower discounts. The rest, he adds, is getting absorbed or neutralised by improved operational efficiency. Average discount on a car, which ranged between ₹15,000 and ₹16,000 in the October-December quarter, has fallen to ₹10,000-12,000 at present, according to a Delhi-based analyst. Viswanathan, however, points out that discounts and premiums always vary based on the model and its demand in the market.



## KEY COMPONENTS

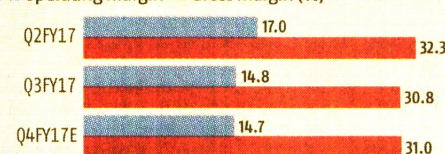
■ FY16 ■ FY17 (%growth of average realisation)



Source: HDFC Securities

## Maruti Suzuki India

■ Operating margin ■ Gross margin (%)



Sources: CMIE, Rubber Board, ICRA research