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## Why car cos are hiking prices, going premium

### PLAIN FACTS

# Why car cos are hiking prices, going premium

BY MANJUL PAUL

**P**rice hikes by automobile companies will kick in from April, cutting a bad row over fuel already struggling passenger car market. Struggling with rising prices of key raw materials and nervous over uncertainty created by the US trade auto tariffs, car cos are being shifted from the mass market to the high-end segment to maintain profitability. Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Hyundai Motor India, and Renault are among the nearly 65% of India's passenger vehicle market—are leading the charge with hikes of up to 4%, cutting rising input and operational costs.

Car price increases typically follow a predictable pattern, with manufacturers adjusting prices around January and April in anticipation of the new financial year. However, this year, price hikes arrive at a critical juncture for India's automotive sector, which has endured a challenging year. Passenger vehicle sales grew a mere 5% in 2024. Passenger vehicle sales for 2025 are expected to be a continuation of the same. February after, growth in December and January, and the price volatility.

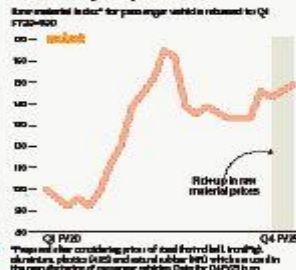
Ravi Bhatia, president of ATO Dynamics, an automotive business research firm, pointed to a pattern of significant price hikes that had contributed to market stagnation. Also, while raw material costs are down compared to their 2022 highs, they have shown signs of a pick-up in recent quarters. The rupee's depreciation and impact of the US tariff uncertainty are also keeping auto cos on high alert. Moreover, long-term hedging contracts have prompted firms to adjust prices pre-emptively to protect their profit margins.



**Price hikes by auto companies have come at a time when PV sales are struggling...**



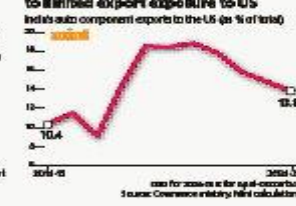
**...As key raw materials witness an increase in price pressures**



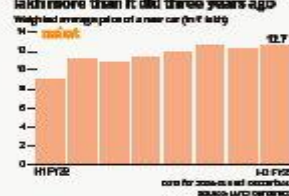
### Tariff Tantrum

**L**AST YEAR, US President Donald Trump announced a 25% tariff on auto imports. A US trade policy India's support of an auto component has been a double-edged sword to the US, potentially insulating the domestic auto industry. India's auto component exports to the US comprised 15.8% of total exports in April 2024, down from 15.8% in the same period in 2020-21. However, some firms might be impacted. Nikhil Dhaka, vice president at business advisory Primus Partners India, said companies in San Francisco, which are in a state of uncertainty around 25% of the revenue from the US, could face challenges. Also, the ripple effects of US tariff hikes through potential retaliatory tariffs by India on importation of auto goods could lead to price pressures. India Ratings and Research cautioned that the proposed safeguard duty on import of alloy and non-alloy steel flat products could raise local steel prices by up to 35.2%.

**Auto tariff unlikely to have impact due to limited export exposure to US**



**A car on average now costs nearly ₹4 lakh more than it did three years ago**



### Pricing Dynamics

**T**HE INDIAN car market has undergone a shift in recent years, with consumers preferring sports utility vehicles (SUVs) and high-end vehicles. At the same time, overall demand has been tepid due to the declining prices of cheap cars. Data from ATO Dynamics shows that the average retail price of new cars has risen to nearly ₹18 lakh now from ₹7 lakh in early 2022-23. "We had companies not trying to do so to optimize their profit, while they do by increasing the prices, reducing the incentives, or changing the price-value equation by changing some components in the vehicle," said ATO Dynamics' Bhatia. While tepid growth in local passenger vehicle sales is a reflection of weak consumption sentiment, a withdrawal of incentives and discounts could be counter-productive. Experts say that latest price hikes will primarily target high-end models for which there is strong demand.

### Premium Surge

**P**REMIUM SUVs and luxury cars have defined the overall sales slowdown, offering auto cos a way out. "While doing material cost display a role, auto cos are also pushing their product mix to favor higher-margin vehicles. This strategy not only offsets cost pressures but also helps maintain profitability despite the fluctuating sales volume," said Primus Partners' Dhaka. An analysis by Geographical Analytics Solution of car sales across various price ranges shows that the share of cars above ₹5 lakh has increased significantly since the pandemic. The segment now commands nearly a third of the total car sales in India. "Auto cos are increasingly shifting a strategic dilemma: either pursue a high-profit approach by targeting a niche market of high-value and premium-priced models, or price the expanding mass market," said Bhatia of ATO Dynamics.

**Automakers shift focus to high-variance car segments to maintain margins**

