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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

Price hikes by automobile companies will kick in from 1 April, casting a shadow over India's already struggling passenger car market. Struggling with rising prices of key raw materials and nervous over uncertainty created by the US's new auto tariffs, carmakers have shifted focus from the mass market to the high-end segment to maintain profitability. Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Hyundai Motor India, and Kia—accounting for nearly 65% of India's passenger vehicle market—are leading the charge with hikes of up to 4%, citing rising input and operational costs.

Car price increases typically follow a predictable pattern, with manufacturers adjusting prices around January and April in abid to clear older inventory as they introduce new models. However, this year, price hikes arrive at a critical moment for India's automotive sector, which has endured a challenging year. Passenger vehicle sales grew a mere 5% in 2024. Recovery hopes for 2025 are dampened by a contraction in sales in February after growth in December and January, and the prices revisions.

Ravi Bhatia, president of JATO 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 autocrakers on their toes. Moreover, long-term hedging contracts have prompted firms to adjust prices pre-emptively to protect their profit margins.

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

Year-on-year change in passenger vehicle* registrations (%)

	2023	2024	2025
January	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]
April	0.9	1.7	
May	4.7	3.1	
June	[illegible]	[illegible]	
July	9.5	2.8	
August	9.8	[illegible]	
September	[illegible]	[illegible]	
October	1.4	[illegible]	
November	[illegible]	[illegible]	
December	4.3	4.4	

Run year 9.0 — 2023 5.2 — 2024

*includes light passenger and light motor vehicle.

Source: Vahan dashboard, Mint calculations

...as key raw materials witness an increase in price pressures

Raw material index* for passenger vehicle released to Q1 FY20=100

Rise-up in raw material prices

Q1 FY20 — Q4 FY25

*Prepared after considering prices of steel from Mall, Inc. (Pvt) Ltd. minutes, plastics (PUR) and natural rubber (NR) which are used in the manufacturing of passenger vehicles. Data for Q4 FY25 is an estimate by Crisil.

Source: Crisil Intelligence

Tariff Tantrum

LAST WEEK, US President Donald Trump announced a 25% tariff on auto imports. A Mint analysis of India's export of major auto components shows a declining share to the US, potentially insulating the domestic auto industry—India's auto components exports to the US comprised 13.8% of its total exports in April-December, down from 18.8% 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 like Samvardhana Motherson, which generates around 20% of its revenue from the US, could face challenges.

Also, the ripple effects of US tariff hikes through potential retaliatory tariffs by India or imposition of safeguard duties may lead to price pressures. India Ratings and Research estimates that the proposed safeguard duty on import of alloy and non-alloy steel flat products could raise local steel prices by up to 13.2%.

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

India's auto component exports to the US (as % of total)

10.4 — 2014-15 — 2024-25 — 13.8

Source: Commerce ministry, Mint calculations

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

Weighted average price of a new car (in ₹ lakh)

12.7

H1 FY22 — H1 FY25

Source: JATO Dynamics

Pricing Dynamics

THE INDIAN car market has undergone a shift in recent years, with consumers preferring sports utility vehicles (SUVs) and high-end variants. At the same time, overall demand has been tepid due to the declining premium once of cheaper cars. Data from JATO Dynamics shows that the average retail price of new cars has risen to nearly ₹13 lakh now from ₹9 lakh in early 2021-22.

"What companies are trying to do is optimize their profit, which they do by increasing the prices, reducing the incentives, or changing the price-value equation by changing some components in the vehicle," said JATO Dynamics' Bhatia.

While tepid growth in local passenger vehicle sales is also a reflection of weak consumption sentiment, a withdrawal of incentives and discounts could be counter-productive. Experts say the latest price hikes will primarily target top-variant models for which there is strong demand.

Premium Surge

PREMIUM SUVs and top variants have defied the overall sales slowdown, offering automakers a way out. "While rising material costs display a role, automakers are also reshaping their product mix to favour higher-margin vehicles. This strategy not only offsets cost pressures but also helps maintain profitability despite fluctuating sales volumes," said Primus Partners' Dhaka.

An analysis by Cerographical Analytics Solution of car sales across various price ranges shows that the share of cars above ₹15 lakh has increased significantly since the pandemic. The segment now commands nearly a third of the total car sales in India.

"Automakers are confronted with a strategic dilemma: either pursue a high-profit approach by targeting a niche market of high-value and premium-priced models, or prioritize expanding the overall market size," said Bhatia of JATO Dynamics.

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Automakers shift focus to high-variant car segment to maintain margins

Share (%) in total car sales, by price range

Jan 2015 — Jan 2020 — Feb 2025

Source: Cerographical Analytics Solution