

Inflation pinch: Price rise worries build up across FMCG, auto and white goods

On one hand, food inflation is on the rise and on the other, commodity-prices linked inflation is leading to an increase in raw material costs. A combination such as this could effectively impact the topline in Q3.

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Typically, consumer durables firms effect price rises only at the beginning of the calendar year.

If you are beginning to notice that the prices of household goods like rice, cooking oil, television - even replacement tyres for vehicles - are seeing a steep rise, it is not an exception. It's pretty much the rule.

With the steady rise in consumer inflation across sectors, companies which were holding on to the cost hits are slowly passing it on to customers.

The Consumer Price Index-based inflation (CPI) for the month of May came in at 6.30 percent, much higher than April's 4.23 percent, and outside the Monetary Policy Committee's (MPC) inflation targeting range of 4 (+/-2) percent for the first time since November 2020.

The higher inflation month-on-month (MoM) was primarily at the back of a substantial hardening of food prices.

According to the Consumer Food Price Index (CFPI), food inflation was 5.01 percent in May compared to 1.96 percent in April, official data showed.

On one hand, food inflation is on the rise while on the other, commodity-prices linked inflation is leading to an increase in raw material costs.

The impact? A price rise across customer-facing sectors like FMCG (fast moving consumer goods), white goods and automobiles.

The increase ranges from 2-5 percent for FMCG products to 10-12 percent for appliances.

Appliance prices see steady upward movement

Among the worst hit categories due to the inflation pinch is the consumer durables/appliances sector.

Due to state lockdowns across India to contain the COVID-19 spread, sale of non-essential items, including consumer durables, had been temporarily suspended in April and May, while commodity prices continued to surge.

Appliance makers had already increased prices in February due to shortage of key components and rise in metal prices globally. Now, sales too have been hit due to lockdown-like restrictions across the country.

Categories like televisions and air conditioners are among the worst affected, with the rise in component prices and added import duties.

Neeraj Bahl, MD & CEO, BSH Home Appliances, says that anticipating that the Second Wave of COVID-19 was going to hit the industry badly, the company ramped up production in the first quarter itself. It is now helping them tide through the Second Wave smoothly - up till now.

"Currently our focus area is the premium segment rather than mass segment. Prices of almost everything have shot up; especially freight charges have been hit the worst. They have increased by 12-14 percent above the normal rates. Spares and component costs are all up, but this increase of cost cannot be passed on to consumers as prices would go up by at least 25 percent," he adds.

However, Bahl points out that while the company will have to take some impact; the rest will be passed on to customers in a phased manner.

According to the India Strategy Report of Motilal Oswal Financial Service, global commodity prices have seen a surge in 2021 with the CoreCommodity CRB Index rising 70 percent on a year-on-year (YoY) basis in April 2021.

Gurmeet Singh, Chairman and Managing Director, Johnson Controls-Hitachi Air Conditioning India, believes that inflation has, undoubtedly, put added pressure on businesses, which has been further amplified by the lockdowns during the pandemic.

"Usually price appreciation in the electronic appliance market is implemented during the first quarter of the calendar year. But before this could be realised properly, another wave of COVID-19 hit the country and hampered the season sales, especially the air conditioner market. Most electronic appliance brands have had to increase their prices by 3-7 percent. This unprecedented crisis has put brands through a tough test and pricing strategies have to be carefully formulated to sustain operations," he states.

Singh adds that at Hitachi Cooling & Heating India, they have increased the price of air conditioners by 3-4 percent since the month of February.

Despite this, his company's performance was better than 2020 in the first five months of the calendar year, he points out.

In total, a 12-13 percent hike in appliance prices was undertaken against the 20-21 percent hike in commodity prices, says Kamal Nandi, Business Head and Executive Vice President, Godrej Appliances.

According to him, as the raw material prices hardened, its cumulative impact was felt in Q4 of FY21.

Also, material shortages were reported in conjunction with the rise in raw material prices, particularly in the case of resins, steel, aluminum wires, glass, paper and chemicals, among others.

Freight charges are also on the rise. Nandi says that shipping container freight rates soared by three times amid the export boom and container shortages, along with an 8-9 percent increase in domestic freight rates.

The commodity and logistics cost inflation had a severe impact on the input costs.

"Commodity prices are expected to soften in the second half of this year, according to our forecast. To boost demand, brands are not implementing any price hikes this month. However,

if the commodity prices continue to show an upward trend, brands will be bound to partially offset the increase by implementing market price corrections," adds Nandi.

Typically, consumer durables firms effect price rises only at the beginning of the calendar year. However, 2021 was in stark contrast, with price rise being implemented multiple times.

B Thiagarajan, Managing Director, Blue Star told CNBC-TV18 that there was a slowing down in room ACs and commercial refrigeration sales from the third week of April, though it was not a washout like the summer of 2020.

"We had to increase prices by 7-8 percent. In April, there was another price rise by 3-5 percent," he points out.

At present, bringing in a finished product is expensive since the government has imposed a 20 percent import duty on completely built units (CBUs) that are brought in from other countries.

With import being ruled out as a temporary option to mitigate the dearth of products in the market, price rise is the only option left.

FMCG consumers at the receiving end

Inflation in commodities such as palm oil and copra have led to a price hike by the fast moving consumer goods companies, leading to buyers shelling out considerably more out of their pockets on daily essentials.

For instance, palm oil, a key ingredient for making soaps and other personal care products, have witnessed a 30-40 percent price jump in the last six months. And hence, companies have hiked soap prices by 7-18 percent in the last one year.

"Increase in commodity prices, especially that of palm oil and crude derivatives has witnessed steady rise over the last six months, which has necessitated price hike by FMCG manufacturers in the soap and detergent segment," explains Shamsher Dewan, Vice President & Group Head - Corporate Ratings, ICRA Limited.

According to experts, the logistics cost has also increased in the backdrop of a rise in diesel prices.

Essential products see price hike

CATEGORY	PRODUCT	VARIANT	APR-20	MAY-21
Rice	Raw Rice	SM Gold quality	52	59
	Jeera Rice	Barkath	37	39
Sugar	Sugar	S30	33	35
Dal	Toor Dal	1 Kg	81	107
	Urad Dal	1 Kg	80	98
Oil	Ruchi Gold	1 Ltr	120	170
	Sunpure	1 Ltr	125	195
	Fortune	1 Ltr	135	215
Soap	Santoor	100gms	27	29
	Lifebuoy	125gms	22	27
	Lux	100gms	22	28
Shampoo	Clinic Plus	175ml	45	49
	Chik	175ml	89	99
	Himalaya	baby 100ml	85	90
Toothpaste	Colgate	100gms	52	54
	Dabur Red	100gms	50	55
	Closeup	150gms	82	85
Detergent	Surf Excel	Easy wash 1kg	120	128
	Tide	J&R 1Kg	106	110
	Henko	SC 1Kg	112	124

Over the last one year, the consumption pattern has undergone a change, but the demand for essential products has not suffered in spite of the inflation.

Points out Amit Sharma, Co-Founder and CEO of online business-to-business (B2B) platform ShopX: “Despite the price hike, the sale of these products has seen a growth. However, as consumers are spending more on essentials, the spending on non-essentials has gone down.”

Automobile sector keeping a close watch

Says Tarun Garg, director (sales and marketing), Hyundai Motor India: "There is always the pricing pressure on us. We have a cost cutting effort underway, which manages the surge in costs. We are holding prices for now and we will see how the situation unfolds later."

Michelin in the Africa India and the Middle East region will push up its tyre prices by up to 6 percent on passenger car, light truck and motorcycle replacement tyres as well as up to 8 percent on both on- and off-road commercial tyres due to increase of raw material cost, global transportation costs and the prevailing market dynamics.

This increase was effective from June 18 for India.

Truckers say prices of tyres have gone up by 6-8 percent since the June 1 hike in diesel rates, which rose from Rs 85.01 to Rs 87.5.

Likewise, truck rentals have shot up by 9-14 percent since June 1, post the lifting of the lockdown and hike in tyre prices, according to data shared by the Indian Foundation of Transport Research and Training (IFTRT).

Will pricing pressures continue?

It is not just CPI inflation that is on the rise. The data for Wholesale Price Index-based inflation showed that **WPI inflation touched 12.94 percent in May**, the highest on record.

This was due to the constant rise in the cost of fuel, including petrol, LPG and high-speed diesel, which percolated down into the economy and a low base effect.

Consumer-facing sectors are on tenterhooks with the inflation blues continuing. Unless raw material and commodity prices stabilize, buyers will continue to face the price pinch.

With the onset of the festive season just eight weeks away, price hikes could play dampener for consumer demand effectively impacting the topline in Q3.

<https://www.moneycontrol.com/news/business/companies/inflation-pinch-price-rise-worries-build-up-across-fmcg-auto-and-white-goods-7061951.html>