

Sustainable Market for Trucks

Pick up in infrastructure spending and construction activity, especially in roads and highways, irrigation and affordable housing segment, will continue to support demand for construction trucks. **Subrata Ray** and **Shamsher Dewan** elaborate more on the market trend.



After a year of strong growth in FY 2018, the domestic Commercial Vehicle (CV) industry continued its growth trajectory during the current fiscal as well, with a strong growth of 31 per cent in domestic CV sales till 8m FY2019 over the corresponding period in the previous year. Although supported to some extent by the low base of the previous year when GST-led disruptions and supply constraints (post BS-IV implementation) had impacted the sales significantly in Q1 FY2018, the demand for CVs during the current

year has also been favourably supported by pick-up in construction sector (as reflected by strong demand for tipper trucks) as well as healthy demand from consumption-driven sectors [for Intermediate Commercial Vehicles (ICVs) and Light Commercial Vehicles (LCVs)].

While the growth momentum remained intact till October 2018, the adverse impact of tightening financing environment, and weakening viability of Small Fleet Operators (SFOs) because of sharp increase in diesel prices along with subdued freight rates have started

showing its impact on CV sales from November 2018 onwards. The road transportation segment is currently witnessing surplus capacity in the CV parc: Because of significant capacity addition over the past 5-6 quarters and Revision in axle load norms from July 2018 onwards, which has led to approximately 12-18 per cent increase in capacity of existing fleet of trucks. This along with faster turnaround of vehicles post the implementation of GST and E-Way Bills has contributed to surplus capacity.

As a result, freight rates have remained relatively flat during the

current fiscal, while operating costs led by rise in diesel prices and EMIs have risen sharply. This has significantly impacted the viability of fleet operators, especially SFOs, as large fleet operators are able to withstand such pressures owing to better bargaining power with their clients and asset-light operating model (higher dependence on contracted fleet). Given these trends, the financing environment has also turned cautious as reflected by tighter lending norms being implemented by financiers.

Break-up of M&HCV truck segment

The M&HCV (truck) segment can be broadly divided in three segments based on Gross Vehicle Weight (GVW): Intermediate Commercial Vehicles (ICV) (7.5-12T), Medium Commercial Vehicles (MCV) (12-16.2T) and Heavy Commercial Vehicles (HCV) (16.2-49T). Based on application, the HCV segment can be further classified between Multi-Axle Vehicles (MAVs), Tractor Trailers and Tipper Trucks. MAVs account for approximately 50 per cent of HCV (truck) sales in India, while the balance market is almost equally split between Tractor Trailers and Tipper Trucks.

Haulage trucks – MAVs and tractor trailers

In terms of applications, MAVs are used for numerous applications, however, the Tractor Trailer, which

Table 1: Trend in M&HCV (Truck) sales

In Units	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Domestic M&HCV (Truck) Sales	221,776	161,909	195,918	258,488	255,257	304,664
Growth (%) – YoY	(25.9%)	(27%)	21%	31.9%	(1.2%)	19.4%

Source: SIAM Data, ICRA research

accounts for ~25 per cent of HCV (truck) sales in India and primarily finds application in transportation in specific segments/sectors like container cargo, automobiles, finished steel products, and cement. During 10m FY2019, the Tractor Trailer segment has witnessed a decline of 11 per cent in volume terms. However, in comparison, the MAV segment has grown by 16 per cent. The MAV segment can be broadly divided between 25T, 31T and 37T trucks. While over the past few years, the 37T segment was the key growth driver within MAVs, during the current fiscal, the 25T segment has registered higher growth, primarily because of revision in axle load norms from July 2018, which has shifted the demand back in favour of 25T trucks (or commonly known as 10-wheel trucks).

Within the HCV (truck) segment, tipper trucks, which are primarily used for construction and mining activities account for almost 26 per cent of total industry volumes. The segment has registered a growth of 55 per cent during 10m FY2019 aided by pick up in demand from construction and mining sector.

Factors driving demand for heavy duty trucks

Indian CV industry has witnessed a greater preference for higher tonnage trucks over the past decade. The demand has gradually shifted from 16T to 25T and is further shifting in favour of 31T and 37T trucks over the years. In ICRA's view, this trend has been supported primarily by: Superior economics of higher tonnage models; Improving road infrastructure; Dearth of experienced drivers; and Stricter implementation of overloading norms.

As vehicle's tonnage increases, the truck's economics also improves, especially over longer distances, as cost of operations is not directly proportional to vehicle's payload or revenue generation. For instance, the cost of operating a 35T is approximately 35 per cent lower vis-a-vis a 16T truck when compared on cost/tonne/km basis. We believe that these factors along with implementation of GST which is driving consolidation of warehousing network across industries will continue to drive demand for heavy-duty trucks going forward and mirror market structure of more mature markets like

Table 2: Segment-wise break-up of M&HCV (Truck) sales (in units)

By Tonnage	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	CAGR (%)
ICVs (7.5-12T)	57,436	41,434	37,521	44,230	44,235	57,056	(0.1%)
MCVs (12-16.2T)	48,151	32,363	32,784	44,361	45,122	35,176	(6.1%)
HCVs (16.2T-49T)	116,189	88,112	125,613	169,897	165,900	212,432	12.8%
Growth (%) - YoY							
ICVs (7.5-12T)	(14.4%)	(27.9%)	(9.4%)	17.9%	0.0%	29%	
MCVs (12-16.2T)	(20.9%)	(32.8%)	1.3%	35.3%	1.7%	(22%)	
HCVs (16.2T-49T)	(32.2%)	(24.2%)	42.6%	35.3%	(2.4%)	28%	

Source: SIAM Data, ICRA research



Within the HCV (truck) segment, tipper trucks account for almost 26 per cent of total industry volumes.

the US and Europe. Product development initiatives by OEMs, coupled with improving road infrastructure have also made these changes viable.

In ICRA's view, consolidation of warehouses has also provided a further fillip to HCV sales as it is expected to lead to higher amounts of goods to be moved between manufacturing location and warehouse, which will lead to increased demand for higher tonnage vehicles. Post GST, the trend towards consolidation has already begun across most of the consumer-oriented sectors like FMCG, consumer durables, pharmaceuticals, building materials and other allied sectors. This trend is likely to drive greater use of heavy-duty trucks.

Market outlook

M&HCV (Truck) sales to contract in the near-term; Outlook for FY 2020 supported by potential pre-buying ahead of BS-VI norms and construction-led demand

While liquidity pressures are expected to ease in the near-term, ICRA expects the demand sentiments to remain weak in the near-term, which along with higher than usual inventory levels in the system will exert pressure on CV sales over the next few quarters. The M&HCV

(Truck) sales led by the HCV segment had declined by 11 per cent in November 2018 on YoY basis and are likely to further contract in the near-term. As a result of these factors, ICRA has revised the growth outlook for M&HCV (Truck) sales to 9-11 per cent for FY2019. However, the outlook for FY 2020 remains supported by potential pre-buying ahead of the implementation of BS-VI emission norms (from April 2020 onwards). As vehicle prices are expected to increase by approximately 10-12 per cent (post new norms), the industry is likely to witness pre-buying in FY2020.

In addition, pick up in infrastructure spending and construction activity, especially in roads and highways, irrigation and affordable housing segment, will continue to support demand for construction trucks. This trend has been visible during the current year as well. For instance, while cargo trucks have started seeing volume contraction for the past few months, the demand for tippers has remained resilient and been growing between 14-15 per cent per annum during the current fiscal.

Within the M&HCV (Truck) segment, the ICV trucks (7.5-12T) have also been the fastest growing segment so far in YTD FY2019. This trend has been supported by healthy

demand from e-commerce sector, increased rural consumption and to some extent by new product introductions by select OEMs. In comparison, the 35T and above segment has started seeing contraction in demand ever since the revision in axle load norms. As per our channel check with dealers, the demand has started shifting in favour of 10 and 12 tyre trucks (31-35T) as compared to 14 tyre (37T), a trend which has defined the industry landscape over the past many years. However, even as revision in axle load norms will alter the preference of fleet operators, over the long-term, the share of bigger trucks (37T and above) will continue to rise gradually aided by superior vehicle economics, improving road conditions and customised solution offerings by OEMs.



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