ICRA

ICRA RESEARCH SERVICES

INDIAN ROAD LOGISTICS INDUSTRY

GST drives efficiency gains for truckers, but overcapacity plays spoilsport amidst economic slowdown

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Industry Analysis

Removal of state-level VAT check posts post GST implementation resulted in 18-20% improvement in truck turn-around time

GST implementation since July 2017 has improved Truck Turn Around Time (TAT)

The implementation of unified tax regime, Goods and Services Tax (GST) from July 1, 2017, has had a significant impact on fleet owners and their operations, and has been a positive for the overall road logistics sector. The abolition of state-level VAT check-posts has resulted in faster turnaround for trucks, and the increased compliance requirements is triggering a gradual shift towards organized players. ICRA's channel check with transport companies pan India indicates that, in line with expectations, the removal of inter-state check-posts has resulted in significant reduction in waiting/idle time for trucks, thereby improving their TAT and efficiencies. As per ICRA estimates, there has been about 18-20% improvement in turnaround time because of GST. The impact has been more pronounced in a few states such as Kerala, West Bengal, Maharashtra, Madhya Pradesh and Bihar, which were earlier known for high waiting time spent at their inter-state borders.

Exhibit 1: Most truckers reported reduction in truck TAT post GST

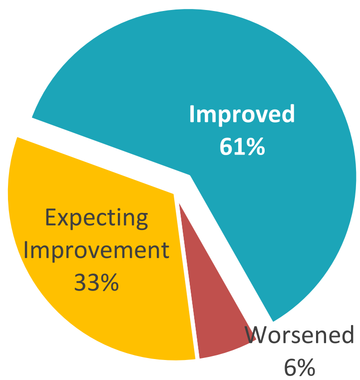
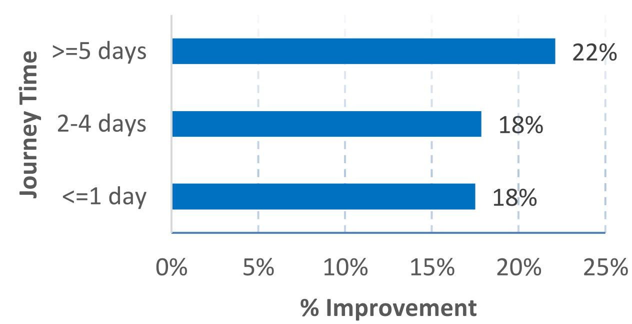


Exhibit 2: About 18-20% reduction in TAT was observed



Source: ICRA research – Based on Channel Check with 50 transport companies

E-way bill implementation has also contributed to efficiency gains for truckers

Faster truck TAT post GST and E-way bill implementation resulted in increased capacity of CV parc, …

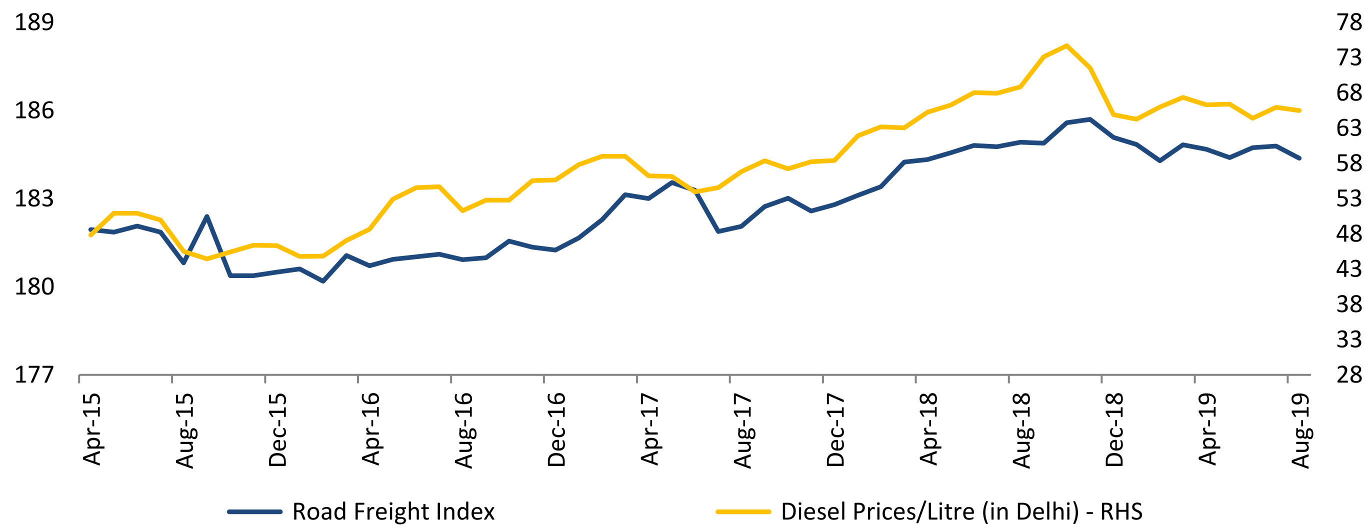
E-way bill, which got implemented from April 2018, has also streamlined operations to some extent for the transporter community, with savings in time and paperwork reduction due to the digitization of processes. Although there have been difficulties due to teething problems like technical glitches, limited awareness etc. the overall response to E-way bill has been positive. The improvement in truck TAT post GST implementation, coupled with E-way bill implementation and the associated efficiency improvement, have contributed to an increase in capacity for the existing CV parc, and contributed to lower demand for new trucks.

…which coupled with capacity addition post axle load norm revision, adversely impacted CV demand

Surplus capacity in the system, coupled with subdued freight availability has kept freight rates suppressed

Apart from improvement in turnaround following the implementation of GST, the sharp slowdown in CV demand over the past 2-3 quarters has also been contributed by revision in axle load norms, tight liquidity situation within the financing ecosystem as well as overall economic slowdown resulting in lower freight availability. In ICRA's view, the upward revision in axle load norms for Trucks (above 16T GVW), which came into effect from July 2018, resulted in almost 15-20% increase in load carrying capacity of CV parc and exerted pressure on freight rates. Thus, despite rise in operating cost for fleet operators on back of higher fuel cost, EMIs and other overheads, the freight rates had remained flat till September 2018 and started declining from November 2018 onwards owing to low freight availability and surplus capacity, in addition to the softening of fuel prices.

Exhibit 3: Trend in Road Freight Index and Diesel Prices



Source: Transport Corporation of India (TCI), IOCL Website, ICRA research

Viability of small fleet operators have come under pressure over the past few quarters

Increased operating costs, coupled with subdued freight rates and freight availability exerting pressure on SFOs

Given the subdued freight rates, low freight availability and increased operating costs, the viability of fleet operators has come under pressure over recent quarters, which has also contributed to lower demand for CVs. ICRA expects that small fleet operators (SFOs) have borne the brunt of the pressure, while performance of larger organized fleet operators indicate expansion in volumes, thereby implying gains from smaller operators. This has also been driven partially by the implementation of GST and E-way bill, wherein smaller operators found it more difficult to pass on the increased compliance costs to its customers.

Delinquencies on the rise for CV portfolio leading to tightening of credit norms by financiers

Tighter liquidity situation within financing ecosystem also hampered CV sales

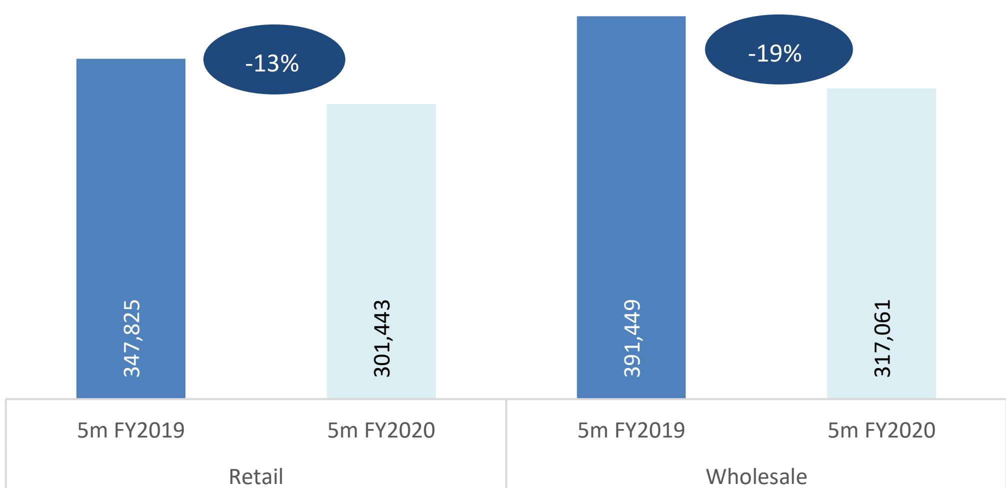
Following the tight liquidity scenario, the financing environment has also turned cautious. Our interactions with financing institutions suggest that delinquency levels have been inching upwards given the pressure on cash flows of fleet operators. There is also an increasing trend among fleet operators to request for loan restructuring. In select segments, the financiers have also tightened the LTVs, interest rates and credit appraisal process. Furthermore, collection efforts have been stepped up as customers are deferring EMI payments.

Wholesale dispatches contracted sharply in July-August 2019 as OEMs engage in rationalization of dealer inventory

CV OEMs engage in production shutdowns to rationalize inventory levels at dealers

Our interactions with CV dealers also paint a relatively dismal picture. Dealers are expecting limited impact of pre-buying ahead of the roll-out of BS-VI emission norms (from April 2020) and the recent revision in depreciation rates. Furthermore, the inventory levels among CV dealers continue to remain at elevated levels. As per FADA's latest release, the average inventory for CV ranges between 55-60 days. Because of these factors, CV OEMs have continued to resort on production cuts to address high inventory levels in the system.

Exhibit 4: Trend in Commercial Vehicle Wholesale & Retail Sales for YTD FY2020



Source: VAHAN Database, FADA Research, SIAM, ICRA research

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