

INDIAN COMMERCIAL VEHICLE INDUSTRY

Replacement demand emerging as a
key driver for CV sales

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Highlights

Average fleet age for M&HCVs and LCVs stood at record high levels during FY2022, signifying an ageing and inefficient CV population.

CV sales over the near to medium term would be driven to a large extent by pent-up replacement demand.



The domestic commercial vehicle (CV) industry has witnessed deferral of purchases over the past two to three years due to a multitude of factors such as revision in the axle-load norms, macroeconomic slowdown, spread of the Covid-19 pandemic etc. However, ICRA believes that the pent-up replacement demand would play a key role in spurring CV sales over the near to medium term.



The average age of the medium and heavy commercial vehicles (M&HCVs) as well as light commercial vehicles (LCV) fleet is currently trending at historic highs of ~9.9 years and ~5.4 years, respectively. Further, ICRA estimates that more than half of the M&HCV population is aged more than 10 years and two-thirds of the LCV population is aged older than five years, signifying some inefficiencies in the fleet, which would need to be renewed sooner rather than later.



Factors such as restrictions on plying of older vehicles and in certain cities and implementation of the scrappage policy would mandate fleet operators to replace their older vehicles necessarily. Additionally, many entities are increasingly mandating fleet operators to deploy newer, cleaner and technologically superior vehicles, which also pushes the case for replacement of their older fleet.



In addition, better operating economics of new truck models vis-à-vis old trucks also acts as an enabler for replacement of old trucks. As per ICRA estimates, the running cost of older trucks would be 10-20% higher than that of new trucks due to the lower mileage and higher maintenance costs. Additionally, better load-carrying capacity and technology of new trucks boosts their potential, resulting in superior viability vis-à-vis their older counterparts.



Accordingly, ICRA believes replacement demand is likely to remain healthy over the near to medium term. Coupled with the overall improvement in the economic scenario, post the waning of the pandemic, and demand from increased infrastructure spending, mining activities and demand for last-mile transportation, the CV industry is expected to grow by 18-20% in the current fiscal.



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