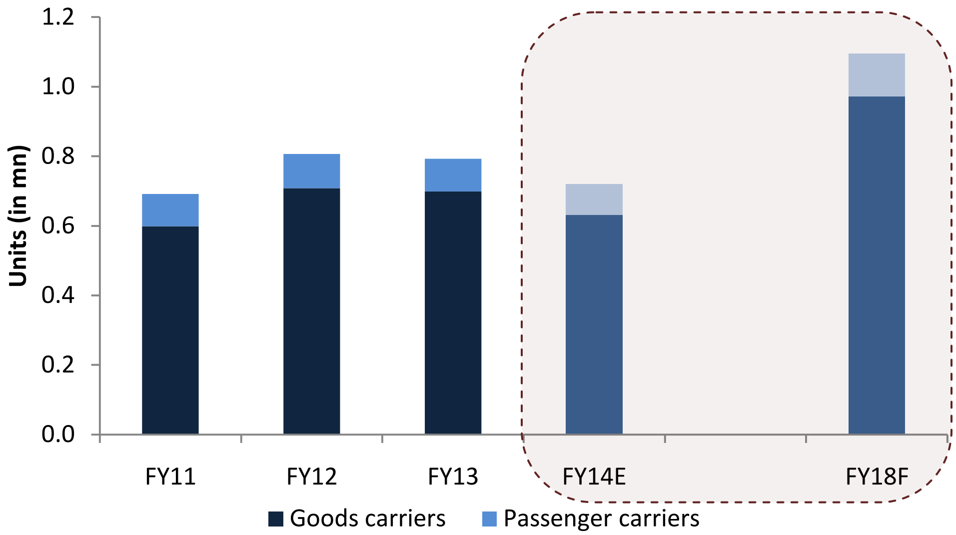
"CV sales plunge on continuing economic woes"

Significant slowdown in investments in industrial and mining activities owing to policy bottlenecks combined with sluggish growth in agriculture activities owing to below normal rainfall impacted the primary freight movement in FY13. The medium and heavy commercial vehicles goods carrier (M&HCV GC) segment that is highly sensitive to economic activities was affected the most as it observed a sharp drop of around 26 per cent during this period. Furthermore, squeezing profitability of transport operators (TOs) due to inability to fully pass on the spiralling diesel prices post partial de-regulation of diesel due to pressure on freight demand also acted as key deterrent for M&HCV GC sales. The light commercial vehicles goods carrier (LCV GC) segment witnessed healthy growth of around 16 per cent that helped to substantially negate sharp decline observed in M&HCV GC segment in FY13. Continuing growth in the redistribution demand driven by growth in organised retail and increasing urbanisation coupled with growing preference of small fleet operators for LCV GC over three wheelers fuelled the growth of these vehicles in FY13.

CARE Research believes, the GC segment has witnessed colossal fleet additions by TOs during FY10-FY12 period in anticipation of strong economic growth. However, drop in economic activities post FY12 has led to substantial dip in freight demand and has resulted in huge pile up of GCs (both M&HCV and LCV) in freight transport industry. Hence with no improvement expected in the economic activities in near term, any substantial upside for the GC segment is unlikely. CARE Research foresees, GC segment to observe a drop in demand during FY14. CARE Research believes drop in income levels owing to lower new job creation and spiralling inflation has considerably dented the non-discretionary spending of Indian consumer. This in turn has started posing pressure on redistribution demand, which is evident from the drop in LCV GC demand since the start of this fiscal.

CARE Research foresees current economy slowdown would continue to exert pressure on PC demand as well. The M&HCV PC (bus) which has been driven by demand by STUs under JNNURM scheme and inter-city private fleet operators is expected to observe drop in demand owing to tough economic environment. Moreover, constantly rising operating cost for intra-city stage carrier operators will keep the growth levels muted for LCV PC segment.

Outlook of Commercial Vehicle industry

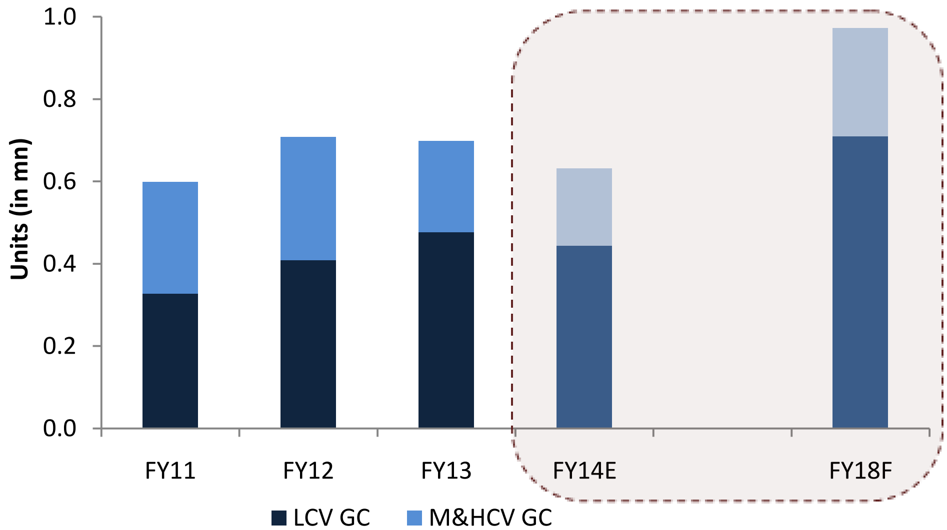


Source: CARE Research and SIAM
Note: - E:- Estimated F:- Forecasted

GC demand has been worst hit by macro-economic headwinds

The GC segment, which dominates the CV sales in domestic market, is highly sensitive to economic scenario prevailing in the country. Healthy economic environment which ensured strong growth in freight demand, coupled with stability in fuel prices and rise in investments towards infrastructure and construction activities fuelled strong rise in GC demand post economic crises of FY09. Hence, during FY10-FY12 period, GC was able to register a strong rise of around 25 per cent on CAGR basis. However, slowing economic growth since the start of FY13 pulled down the demand for GCs as it observed a drop of around 1 per cent. CARE Research foresees with no significant revival expected in the economic activities, FY14 would continue to exert pressure on demand for both M&HCV GC and LCV GC sub-segments.

Outlook on domestic GC segment



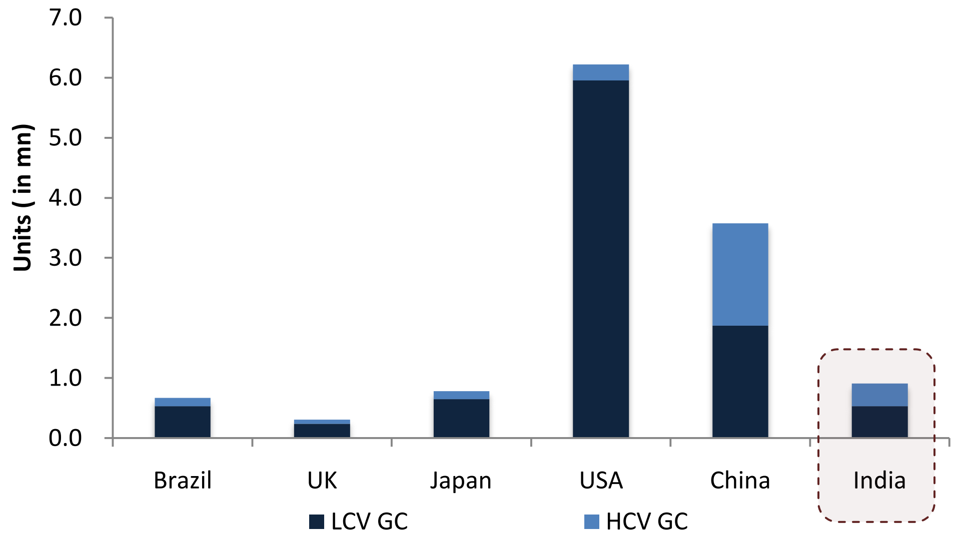
Source: CARE Research and SIAM
Note: - E:- Estimated F: Forecasted

India being a predominant M&HCV market; LCVs gradually gaining grounds...

The rising urbanization levels and growth in organized retail are some of the key drivers for LCV GC growth in India. In order to understand the sensitivities of these factors, CARE Research analyzed the scenario in some of the key developed and developing countries as listed in the chart below. CARE Research observed that the proportion of LCV GC sales in overall GC market in these selected countries is more than 80 per cent. High urbanization levels has led the organized retail sector to flourish in these economies much earlier than it has been in India, which in turn developed the concept of hub and spoke model for transportation and better logistics infrastructure for improving efficiency. Increasing usage of hub and spoke model also created demand for more LCV GCs per HCVs in order to effectively redistribute freight from the nodal points to different end users. Furthermore, better cost economics in redistribution freight, greater manoeuvrability in cities, and regulatory restrictions over the entry of HCVs in cities has fuelled the growth of LCV GCs in these countries.

CARE Research observed that, as Indian economy is translating from rural to urban, the structure of CV industry in India is moving in the lines of some of the key global economies has witnessed in the past (i.e. turning into a LCV dominated market). As it is evident from the changing proportion of LCV GCs which was around 39 per cent FY05 has gradually increased and reached to 58 per cent in FY12 in overall GC market. However, India still lags behind developed economies where the proportion of LCV GCs is around 80 per cent of the overall GC market. Growth in retail sector has been the key driver for rising LCV GC demand in overall CV sales in last few years. Moreover, LCV GC growth was also fuelled by increasing usage of hub and spoke model along with creation of new warehousing hubs as a part of on-going government initiatives to improve logistics infrastructure in last few years.

Country wise HCV/LCV proportion in GC sales in 2012

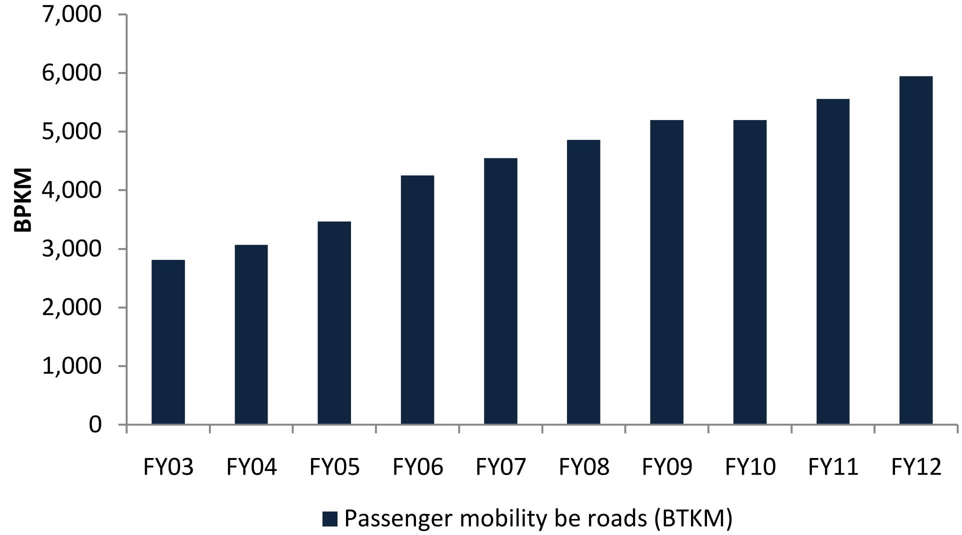


Source: CARE Research, OICA, Japan Automobile Manufacturer Association

Rising urbanization has fuelled growth in passenger mobility during last one decade

Rising urbanization and growing number of suburbs and satellite cities the passenger mobility both inter-city and intra-city has expanded significantly during last one decade. CARE Research estimates the passenger mobility has increased at a CAGR of 20 per cent from 2,413 Billion Passenger Per Kms (BPKM) in FY02 to around 5,900 BPKM in FY12. Public transport means like railways, metro rail and buses dominates the share of passenger mobility in almost all the major cities; however this proportion varies across the cities. Geographical landscape, demographics and state of public transport infrastructure are the key factors that influence the proportion of various modes of passenger mobility.

Passenger mobility through roads

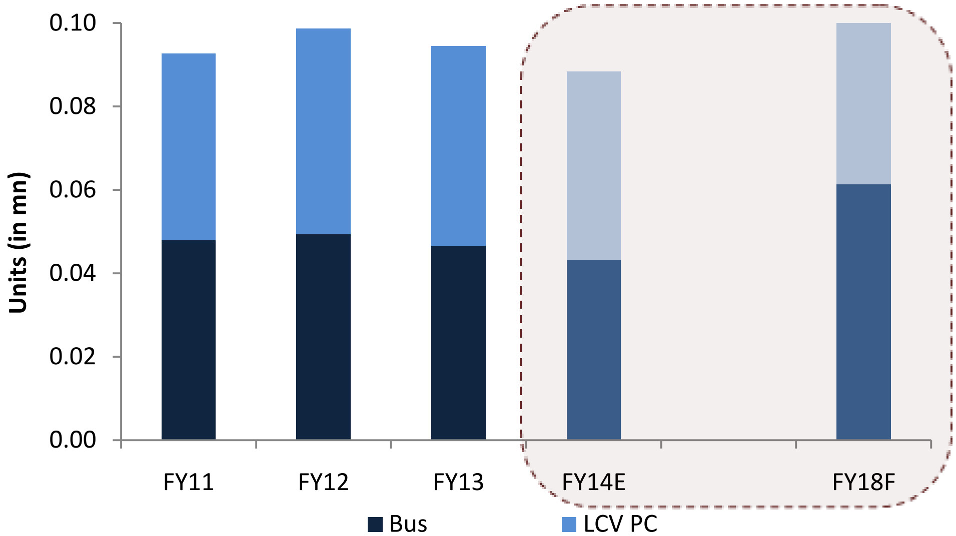


Source: CARE Research and Ministry of Road Transport and Highways

Investments in transport infrastructure coupled with rising fuel cost would push the demand for PC segment

Government initiatives to improve public transport infrastructure under JNNURM coupled with rise in institutional buying (i.e. corporate and educational institutions) and demand from private fleet operators fuelled the growth in bus demand during last 4-5 years. The demand for LCV PCs has been driven by its increasing usage as stage carriers in rural areas and emerging cities. CARE Research believes rising demand from STUs under government initiatives like JNNURM II combined with increasing usage of public transport vehicles by working population in medium term will fuel demand for PCs. However, CARE Research foresees not much relief is expected for bus demand this fiscal citing delay in government allocation of funds towards purchase of 10,000 new buses under JNNURM as announced in Union Budget of FY14. Hence, even though there might be small portion of purchase in the second half of this fiscal, it is not expected to provide much relief to the ailing bus demand this fiscal.

Outlook on domestic PC industry



Source: CARE Research and SIAM
Note: E: Estimates F: Forecast

Investments of around Rs 3,000-3,500 crore are expected in next 2 years

Strong CV demand during FY10-FY12 period, led almost all major manufacturers to expand their manufacturing capacities. As per CARE Research estimates around 15 per cent of the manufacturing capacity was added during FY10-FY12 period. However, slowdown in demand post FY12 forced many players to check the capacity expansion plans CARE Research estimates investments of around Rs 3,000-3,500 crore is lined up by the industry towards new product development and capacity expansion in the next 2 year period. Furthermore, significant portion of these investments is expected by newer entrants in the industry like Bharat Benz, Navistar, Scania, Volvo, etc.

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