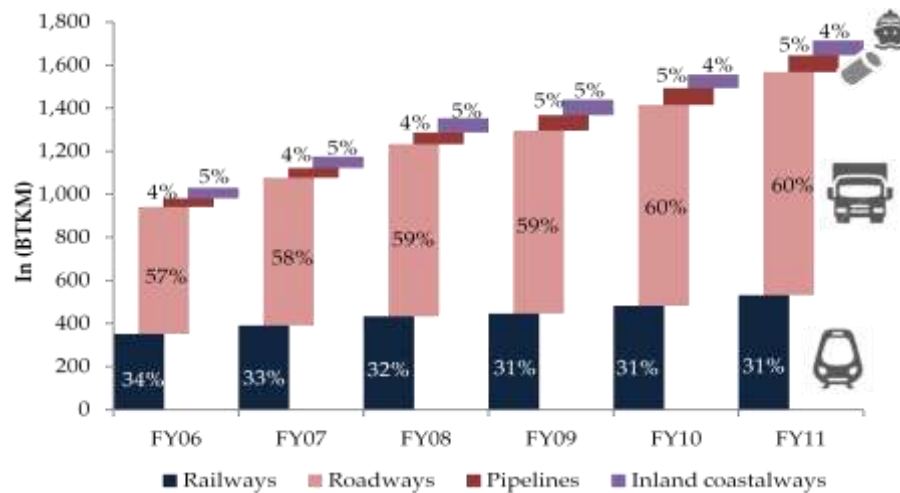


Road freight transport industry, front runner among Indian freight services.

With the economy growing at a healthy pace of more than 7 per cent for major portion of the last decade, the domestic freight transport industry got a significant boost during this period. Freight movement both domestic as well as imports witnessed a considerable rise, and roadways on the back of its wide connectivity and flexibility could reap the benefits. On contrary, railways which once constituted major share in freight transportation continued to witness drop in market share because of factors like inflexible freight norms, limited connectivity, capacity constraints, etc.

Trend in modal share in freight movement



Source: CARE Research

CARE Research foresees, roadways would continue to dominate the freight transport industry and its share in freight transport industry is expected to increase in the next five years. In spite of renewed focus to develop railway infrastructure and increase its share in freight transport industry through projects like DFC, CARE Research believes delay in implementation of projects would not help in improving the supply constraint situation for railways.

The road freight transport industry has grown leaps and bounds since independence and especially since liberalisation. It is estimated that road freight industry is currently of around Rs 3,800 bn. However, the road freight transport industry is highly fragmented and unorganised. According to Ms. Revati Kasture, Head - CARE Research, CARE Ltd, "Around 85 per cent of the road freight transport industry consists of

small transport operators who own less than 5 trucks. The industry will continue to be dominated by small operators owing to low entry barriers and low seed capital requirements.”

The road freight transport industry can be classified based on the haulage viz. short hauls, medium hauls, long hauls and redistribution where the short hauls distances less than 300 kms, medium hauls within 300-800 kms, long hauls are distances more than 800 kms, whereas redistribution is within the periphery of same city or adjoining areas. As per CARE Research estimates, freight movement at medium haul dominates the overall freight movement accounting for around 56 per cent currently, whereas long hauls comprises of around 23 per cent. As per Mr. Vishal Srivastav, Team leader (Automobiles)-CARE Research, the share of long and medium haulage in total freight movement will increase significantly on account of quality improvements and network enhancement of national highways and expressways in a time period of 2-3 years.

Irrespective of growing freight demand over the years, the transporters find it hard to attain profit margins in double digits. The transporters profitability depends on various factors like fuel cost, freight rates, changes in regulatory scenario, vehicle utilisation, vehicle mix, broker commission, etc. Any unfavourable change in the aforesaid factors leads to escalation in cost of operations. However, due to the fragmented structure of the industry and high level of competition, the transport operators find it difficult to pass on the price hike to the customers immediately. CARE Research expects freight rates to be more or less stable in FY13 with a potential of marginal increase in case of fuel price hike.

CARE Research believes long-term macro factors like high GDP growth, increased government spending on infrastructure coupled with enhancement in technology will see industry growing in the future. However, given the low entry barriers, the increased business will be shared with the new entrants preventing profit margins to improve from the present levels. Mr. D. R. Dogra, MD and CEO – CARE Ltd. says, “In the Twelfth Five Year Plan the investment in the road sector will be more than Rs.6,000 bn, almost 2.2 times over that in the Eleventh Five Year Plan which will result in road freight demand growth and improvement in operational efficiency of the road freight Industry .”

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