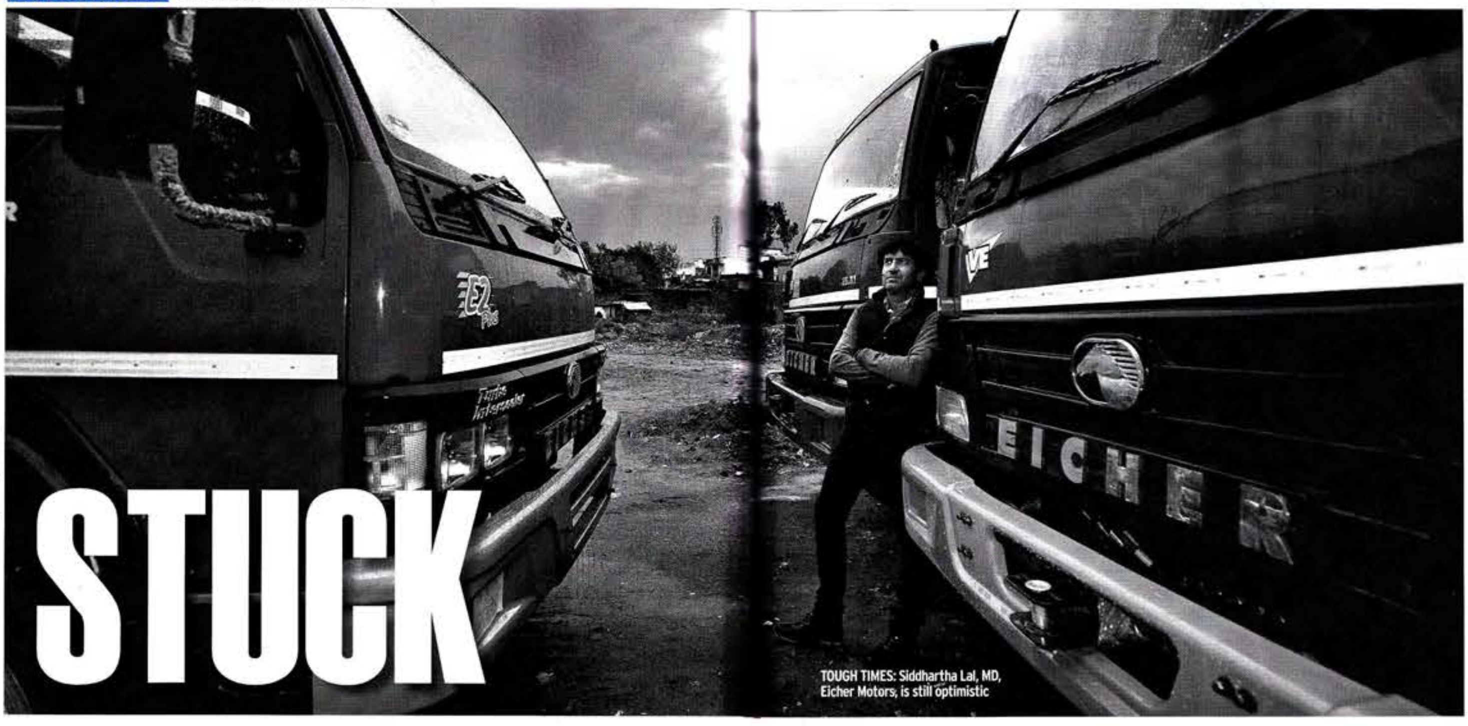
AUTOMOBILES Commercial Vehicles



STUCK

TOUGH TIMES: Siddhartha Lal, MD, Eicher Motors, is still optimistic

THE COMMERCIAL VEHICLES SECTOR IS FACING ITS WORST-EVER RECESSION. EVEN THE STIMULUS IT IS BANKING ON MAY NOT WORK.

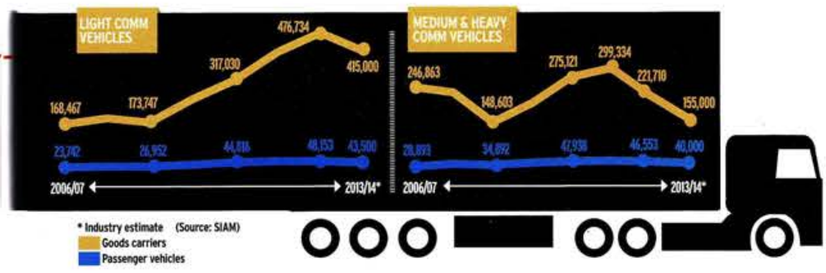
By N. MADHAVAN

Siddhartha Lal says he has never seen a slowdown such as this one in the recent history of the Indian commercial vehicles. "It has been much severe than anyone in the industry imagined or prepared for," says the Managing Director of Eicher Motors. His industry colleague Vinod K. Dasari, MD of Ashok Leyland, puts it even more dramatically: "It is a perfect storm."

India's cycle-prone commercial vehicle industry is not new to downturns. However, the present recession, which began in April 2012 in the medium and heavy truck segment, and spread to light commercial vehicles earlier this financial year, has clearly unnerved the industry.

The medium and heavy truck segment – which accounts for the bulk of the industry's load-carrying capacity – shrank 26 per cent in 2012/13 and is expected to shrink further by 29 per cent in the current year. Demand is so sluggish that the industry will be more than happy if it sells 157,000 medium and heavy trucks in 2013/14 – in other words, about as many as it sold a decade ago. These estimated sales figures are 47 per cent below the peak sales of 299,334 units in 2011/12. Other segments of the industry – light commercial vehicles and buses – are also expected to slow down by 10 to 15 per cent. Overall, the industry is expected to shrink by 19 per cent in 2013/14.

ALL FALL DOWN Sales of every kind of commercial vehicle have been declining



GLOOM AND DOOM Implications of the recession

1. Unsold stock with the industry by end-December equal to 5 months' sales
2. Trucks being sold at prices that prevailed in 2010
3. Average NPAs among finance companies at 4.4 per cent in 2013 against 1.5 per cent in 2012
4. Average discounts as high as 25 per cent
5. Truck utilisation levels at 40 per cent
6. No revival seen till third quarter of 2014

"At 22 months and counting, it is more prolonged and deeper in impact compared to earlier recessions," says Vishnu Mathur, Director General of the Society of Indian Automobile Manufacturers (SIAM).

This adverse situation has left the industry in a deep mess. Despite huge discounts, unsold stock with dealers and in company stock yards at the end of December 2013 was equivalent to five months' sales. According to dealers, discounts averaged 25 per cent, and were as high as 40 per cent in select deals. Most vehicles are being sold at 2010 prices. This has hurt industry's cash flow significantly.

"Low utilisation levels of trucks, higher operating costs due to costlier diesel, and stagnant freight rates have pushed up delinquencies," says V.R.V. Sriprasad, Vice President for Marketing, Sales and After-sales at Daimler India Commercial Vehicles. In 2012, only 1.5 per cent of the loans for buying trucks were classified as non-performing assets. Today, that figure has shot up to 4.4 per cent.

The slowing economy is the main reason for the industry's predicament. "Manufacturing is down, and so are mining, infrastructure, electricity generation and exports," says Vijay Kakade, Director, Automotive and Transportation, Frost & Sullivan. "The services sector has declined, too. Investor confidence is low, and this has hurt the capital goods sector. Poor consumer confidence has impacted purchases. All this means less freight to move."

But what the industry would not like to discuss are the internal reasons that contributed to this mess. From just two players a couple of decades ago, it now has nine. The incumbents – Tata Motors and Ashok Leyland – have adopted an aggressive pricing strategy, offering customers massive discounts, and flooding the market with their products in a bid to retain their market share and keep out new rivals. "Tata Motors and Ashok Leyland think they will be the last men standing," says an industry insider on condition of anonymity. "Funnily, every player in the industry seems to think that way."

The nature of the cycles has also changed over the years. Earlier the industry used to be small and growing at twice the rate of GDP growth. Then the cycles happened every seven years and lasted a year or two. "Now the volumes are high, there are more players, larger vehicles, and growth rates are normally four times the GDP growth. This has distorted the cycles, and they are more frequent and deep," says T. T. Srinivasaraghavan, MD at Sundaram Finance, a leading truck financing company. Growth rates of 30 per cent or more are not sustainable, considering the pace of economic growth in the country, with bulk of that coming from the services sector, he added. In mature markets, the sector grows by just six to 10 per cent a year.

A government stimulus programme helped turn the industry around after the last recession in 2008/09, which lasted for six months. The industry has been clamouring for a package to overcome the present crisis. The government has announced that 10,000 buses will be funded in a fresh programme under the Jawaharlal Nehru National Urban Renewal Mission. "This will definitely help, but in a limited way," says Mathur of SIAM. So the industry is pushing for a fleet modernisation programme.

> "FOR ANY REVIVAL, ECONOMIC FUNDAMENTALS NEED TO IMPROVE, FREIGHT AVAILABILITY MUST INCREASE PUSHING UP TRUCK UTILISATION LEVELS, AND DISCOUNTS SHOULD FALL"
>
> V.R.V. SRIPRASAD/VICE PRESIDENT/ DAIMLER INDIA COMMERCIAL VEHICLES

Under the scheme, trucks that are more than 10 years old will be replaced with new ones, and the government will offer incentives by halving excise duty and sales tax. This will effectively cost the government ₹1.2 lakh per vehicle. SIAM wants the scheme to be rolled out first in seven states (Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal) where there are 3.9 million old vehicles that qualify. The benefits of the scheme are multi-pronged (see: *The Steroid*). "The scheme helps the nation as a whole," says Mathur. "It will reduce pollution, save diesel consumption and improve road safety, apart from boosting demand for trucks."

Although the government is keen to kick-start the economy – and according to SIAM, the automotive sector accounts for 22 per cent of the country's manufacturing GDP – it is not clear if it will cough up the thousands of crores that this scheme will entail, considering the fiscal deficit targets it has set for itself.

Some even question the workability of the scheme in the Indian context. "Almost 80 per cent of the trucks on the road are run by non-fleet operators, and most of them are single-truck owners," says Srinivasaraghavan of Sundaram Finance. "Under the current conditions, they will not be able to raise the funds to replace their truck, even considering the government subsidy. Only fleet operators will benefit from this scheme, and they anyway replace trucks every few years."

For the scheme to succeed, the government should clearly lay down rules for taking old trucks off the road and strictly enforce them. But this would cause heartburn across the country, and the UPA government would have to worry about the electoral fallout. A study by the Brookings Institution, a think-tank based in Washington, DC, on a $2.85-billion US government scheme in 2009 called "Cash for Clunkers", found that its impact on GDP was "small and short lived", and generated fewer jobs. The cost per tonne of carbon-dioxide reduced was far higher than other available means, the study noted.

So when can the industry expect a revival? "We don't see a turnaround in 2014," says Srinivasaraghavan. Some say there could be a revival in sentiment after the general elections. "A stable government will revive demand from the third quarter of 2014," says Kakade of Frost & Sullivan. But he warns that a fractured mandate could make things worse. Ashok Leyland's Dasari says: "There is huge pent-up demand, and that will get released once sentiment improves." But Sriprasad is more realistic. "For any revival, economic fundamentals need to improve, freight availability must increase, pushing up truck utilisation levels, and discounts should fall," he says. Eicher Motors's Lal is hesitant to make a prediction. He says his last two attempts failed. Goad him and he says: "2014 will be better than 2013. I can't see it getting worse." The industry is with him in hoping that he is not third time unlucky in his prediction. ◆

THE STEROID
What SIAM's truck fleet modernisation programme will mean:

TASK
- Replacement of a part of 3.9 million vehicles, which are over 10 years old, across 7 states
- Incentives of about ₹1.2 lakh for each vehicle replaced

COST
- It could run to a few thousand crore depending on number of vehicles covered

BENEFITS
- Carbon monoxide emissions alone will decline by 67,673 tonnes per annum
- 4,487 million litres of diesel will be saved annually, thus saving ₹2,47,000 crore in fuel bill
- Reduction of government's diesel subsidy
- Government can earn up to ₹48,093 crore through levies on new vehicles bought
- Improved road safety
- Low road maintenance costs

*Benefits are based on replacement of 3.9 mn vehicles

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