

SYNOPSIS

The commercial vehicle (CV) industry faced challenging times in 2008-09 - reduction in cargo and passenger traffic, lower freight rates, difficulty in availability of vehicle finance, stricter appraisal norms for financing - all on the back of the global financial crisis.

The domestic CV sales dropped by 21.7 per cent over the previous year. The Goods Carrier (GC) segment witnessed a decline of 24 per cent, while Passenger Carrier (PC) segment witnessed sales drop by 7.1 per cent over the same period previous year. The exports too declined by 27.7 per cent in 2008-09.

The profitability of the manufacturers came under pressure in 2008-09 – in the first half due to high input prices and in the second half due to huge reduction in sales volumes. The operating profit margin declined to 5.7 per cent from 9.2 per cent in 2007-08.

The stimulus packages announced by the government like a) excise duty cut from 14 per cent before December 2008 to 8 per cent (now rolled back to 10 per cent) b) implementation of the fleet modernisation program of the State Road Transport Undertakings [SRTU] under the Jawaharlal Nehru Nation Urban Renewal Mission (JNNURM) and c) accelerated depreciation at the rate of 50 per cent of the annual allowance for vehicles purchased between September 30, 2008 and September 30, 2009 ensured a revival in the sector in 2009-10.

Although the exports for the industry still have not come out of the woods, the domestic sales managed to revive, with recovery being more pronounced post September 2009 with growth rate for CV sales for the period September - December 2009 standing at 92.6 per cent y-o-y as compared to 19.1 per cent for April - December 2009. The sector was also helped by reduction in commodity prices during the first half of FY10. The prices of both steel and rubber reduced by around 20 per cent, translating into improved margins of the CV industry.

Various launches were made during April - December 2009 owing to the revival in the CV demand. In Light Commercial Vehicle (LCV) GC segment, Tata Motors launched 'Super Ace' and 'Ace EX'

under ≤ 3.5 tonnes sub-segment. In Medium and Heavy Commercial Vehicles (MHCV) GC segment it launched a new range of premium 'World Truck' in the 10 to 75 tonnes. Ashok Leyland launched its 31 tonner Multi Axle Vehicle '3116'. Mahindra and Mahindra launched the 0.5-tonne 'Gio' in competition to Tata Motors sub-one tonne 'Ace'. The company also launched Maxi truck CNG and a mini truck 'Maximmo' during the said period. Thus, the competition level is rising in the CV industry.

CARE Research has developed a detailed statistical model that attempts to forecast the domestic commercial vehicle sales separately for goods and passenger use on the basis of interaction with the industry and analytical acumen. The GC segment sales are forecasted on the basis of GDP growth and thereby the growth in cargo, the existing fleet capacity and its utilisation rate, while the PC segment sales are forecasted on the basis of growth in population, the per capita travel depending on the income levels and the split of travel between public and private modes of transport. Other qualitative factors like macro-economic outlook, government actions, consumer confidence, willingness of vehicle financiers to finance purchases, actions of OEMs like launches, aggressiveness, sales push techniques, dealer network, etc. have also been quantitatively built in demand forecasting model.

CARE Research foresees healthy growth of commercial vehicles in the next 4 – 5 years as the economy has resumed its buoyancy. According to **CARE Research**, LCV sales are likely to outpace the MHCV sales in terms of units and overall GC segment growing at a faster rate as against the PC.

Abundant and low cost labour coupled with local availability of raw materials like steel, aluminium and natural rubber, coupled with healthy demand outlook and 100 per cent FDI has made India an attractive destination for foreign players that are eyeing for a share in the pie either through joint venture with an Indian partner or on a stand-alone basis.

All Rights Reserved. No part of this report may be reproduced or transmitted in any form without prior written permission from CARE

DISCLAIMER

This report is prepared by CARE Research, a division of Credit Analysis & REsearch Limited [CARE]. CARE Research has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Research operates independently of ratings division and this report does not contain any confidential information obtained by ratings division, which they may have obtained in the regular course of operations. The opinion expressed in this report cannot be compared to the rating assigned to the company within this industry by the ratings division. The opinion expressed is also not a recommendation to buy, sell or hold an instrument. CARE Research is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this product. This report is for the information of the intended recipients only and no part of this report may be published or reproduced in any form or manner without prior written permission of CARE Research.

Published by Credit Analysis & REsearch Ltd. 4th Floor Godrej Coliseum, Off Eastern Express Highway, Somaiya Hospital Road, Sion East, Mumbai – 400 022. Tel:+91- 22-6754 3456 Fax:+91-22-6754 3457