

# CV industry scenario in India

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**C**ommercial vehicle segment is driven by a multiple of factors such as industrial growth, monsoon, and overall financial budget. The overall consideration we can allocate in the industrial sector is through demand in the large structured projects, coal, steel, cement and increase in economic contribution through MSMEs. Since the inception of industrial revolution in India, automotive industry has witnessed a potential to emerge as one of the largest in the world. Let us see the factors of push and pull for this segment below.

CV sector being a cyclical industry and panacea for this segment seems to be driven by the demand due to new infrastructure projects and fleet replacement related to the same. The budget allocation is 4.56 lakh crores for the infrastructure segment in this financial year 2019-20. The sales for tipper, construction related trucks segment in addition to mega infrastructure projects are rural roads, affordable housing and irrigation to certain extent as well.

The OEM's will find it difficult to get their proliferation of models compliant before the deadline. The rise in input costs due to BS-VI engines couldn't be passed on to the consumers and hence impact the industry as a whole. Since BS-IV engines will only be running for 3 years, any major commercial vehicle player would be apprehensive to stock supplies. The only window available to sell for the manufacturers would be the August 2019 to December 2019. The implementation of axle norm increased the freight carrying capacity of medium and heavy commercial vehicles (M&HCV) by 20 per cent leading to lower demand for new trucks. The question that hasn't been answered is whether the roads in our country have the wherewithal to handle the increase in load owing to this change.

But one can see light at the end of tunnel to a certain extent, with the implementation of BS-VI due by April 2020, the growth of the commercial vehicle segment is expected to grow due to predictions of pre-buying.

Crude oil and diesel pricing play a significant role and is one of the factors driving the commercial vehicle scope. Maybe not directly, but a spike in global crude oil prices depreciates Indian Rupee, that forges increase in the freight rates and toll taxes for CVs. The increasing fuel prices, puts pressure on the cost of operating a vehicle in the short-term. The rising fuel prices can strain India's commercial vehicle operators, who can easily pass these costs to the customers than during previous fuel-price spikes. Usually the small income operators bend towards auto loans and face distress for fuel accounts for a significant proportion of the overall costs.

We should look into segment of light commercial vehicles which can be used for last mile connectivity for transporting. A normal monsoon results in better agricultural produce that needs to be moved from the farms to the market and hence improve utilization of the existing fleet, and support freight rates. In India, LCVs contribute only 62% of the vehicles whereas globally LCVs contribute 75% of the sales. The pain points that need to be overcome are liquidity crunch at NBFC, lack of drivers and address the reduction in consumer, industrial demand due to spill over effect.

In the current situation, the demand for commercial vehicles, is driven mainly through the domestic demand. India's demand for commercial vehicles will have to be driven through an export-oriented strategy in its core industries. An export oriented strategy needs multiple levels of intervention from the supply chain and cost perspective. The government can aid the organizations be it with incentives or subsidies which will be a key determinant to the velocity of growth propensity. We need to tap into exports markets in which we have capacity surplus, to boost multiple segments of the economy including commercial vehicles.

MSME constitutes to 31% of the GDP and 45% of exports. Most of MSMEs are based in rural India, which is about 59% of all 55.8 million MSMEs. The current low rate of green field investments in MSME is an indicator that credit and supply problems of NBFCs. This needs to be addressed quickly and the loopholes filled with solid structures that bring effective solutions. Empowering the MSMEs is key to the success of the Indian economy and the gap in financing the MSMEs through a formal



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financial system constituted by the public & private banks, NBFCs and FIs. For MSMEs to thrive, transportation of their goods and products are an inherent necessity. The growth and development of this sector will improve the overall demand for commercial vehicles. We can also easily hypothesize that the benefactors in developments and growth of MSMEs may be the mid-sized commercial vehicles.

Like the Golden Quadrilateral project which fuelled the economy in 90's, linking of rivers is may play a vital impetus to the overall economy and in turn the CV industry in a very big way. CVs, mostly used for transporting freight, goods and passengers have captured short and long-haul markets of India. Ranking 13th in commercial vehicle production globally, the country is expected to emerge as the world's third-largest passenger-vehicle market by 2021. Overall, CV industry is expected to grow at 9-11% in the FY19-20 with significant support from infrastructure projects.

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