Truck firms seen sustaining growth on economic revival

Sales of medium and heavy goods carriers grew 19.4% to 304,664 units in FY18

Arushi Kotecha
arushi.k@livemint.com
MUMBAI

Piggybacking on the government's increased focus on infrastructure and a broader recovery in economic growth, original equipment manufacturers (OEMs) of medium and heavy commercial vehicles (M&HCV) such as Tata Motors Ltd and Ashok Leyland Ltd, and their vendors, expect the segment to sustain the momentum it gained in FY18 for another two to four years. This would indicate that sales of medium and heavy commercial vehicles may expand long enough to be considered a peak in the segment's invariably cyclical nature.

Sales of medium and heavy goods carriers, made up by trucks and tippers, grew 19.4% to 304,664 units in FY18, as compared to a marginal fall of 1.2% to 255,257 units in FY17, according to data provided by the Society of Indian Automobile Manufacturers (Siam).

Truck sales are largely considered to be an indicator of economic activity.

Tier-I vendors such as Mumbai-based Setco Automotive Ltd, which claims to be the largest manufacturer of clutches deployed in medium and heavy commercial vehicles in India, are bullish on the segment for the next three to five years on the back of the government's infrastructure push, expecting growth of close to 15% each fiscal, according to Udit Sheth, vice-chairman at the firm.

Setco will invest ₹60 crore in upgrading plant and machinery before end-FY19, up from about ₹35 crore every fiscal so far, to double capacity at its Kalol plant near Vadodara in Gujarat.

An additional ₹120 crore will be invested over the next two fiscals in Setco's foundry, which manufactures castings for the firm's clutch systems, Sheth said.

The utilisation rate at the foundry is expected to rise to 80% this fiscal, up from 50% last year, Sheth added.

"The upcycle is on its way. The emission norms and scrappage policy in 2020 will lead to a vacuum, so the upswing will continue for the next three to five years," Sheth said.

A Pune-based maker of drive shafts and axles has seen a "more than doubling of orders" for its M&HCV parts from players such as Tata, Ashok Leyland and Volvo Eicher Commercial Vehicles Ltd in the past two quarters, said an executive on condition of anonymity.

The company expects order inflow to be strong over the next two to three years on the back of "macro factors such as stricter implementation of overloading norms, infrastructure development and broader economic growth", this person said, while adding that capacity constraints in the face of relatively higher demand make it a "seller's market, where only a faster ramp-up of capacity will help".

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OEMs such as Ashok Leyland and Tata are positive on the segment, having set aside ₹1,000 crore and a bit over ₹1,500 crore as capex for the fiscal. Rajesh Kaul, product line head of M&HCV at Tata Motors, estimates "growth to continue unhindered in the coming months" on the back of "demand from infrastructure projects, including road construction and irrigation, smart cities, SEZ projects, and the growing e-commerce segment and housing projects across the country", in addition to a rebound in the cement and mining sectors.

However, Kaul said he expects "a slight slowdown" in the first half of the fiscal as the monsoon sets in, but estimates "a major spur in demand" during the second half.

The implementation of the goods and services tax has led to a consolidation of warehouses and a more sophisticated hub-and-spoke model for retailers, which makes "a lot of sense for hub-to-hub transportation by M&HCVs", Girish Wagh, president of the commercial vehicles unit at Tata Motors had said on 25 April.

Wagh also added that the supply chain has not been de-bottlenecked entirely, which should happen by the end of the fiscal.

Analysts are positive on the sector as well, but do not expect large volume growth this fiscal owing to the large base of FY18.

Subrata Ray, senior group vice-president, corporate sector ratings at ratings agency Icra Ltd, estimates volume growth this fiscal of 4-6%, while expecting sales to accelerate by 10-11% in FY20.

"In M&HCVs, the capacity typically builds up too fast, with a correction happening subsequently", Ray said, adding he remains positive on the segment on the back of underlying economic factors, but conceded that factors such as rising interest rates, oil prices and import duties may play spoilsport.

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Sales growing at full throttle

Truck sales, which picked up pace in the second half of FY18, are expected to break their inherent cyclical pattern this year

Fiscal year ending	Units	Growth year-on-year (in %)
2018	3,04,664	19.4
2017	2,55,257	-1.2
2016	2,58,488	31.9
2015	1,95,918	21
2014	1,61,909	-27
2013	2,21,776	-25.9

Source: Siam