Commercial Vehicles - The Conundrum

By G Viswanathan

Over the years the commercial vehicles segment had been witnessing growth, but since 2019 there has been a deceleration in the sale of commercial vehicles as evident from the data given below

Year	2015- 2016	2016-2017	2017- 2018	2018 -2019	2019 -2020
Commercial Vehicles	6,85,704	7,14,802	8,56,916	10,07,311	7,17,688
SOURCE : SIAM INDIA					

commercial vehicle sales primarily comprises of the following categories namely

- Load Carriers – LCV
- Passenger Carriers – LCV
- Load Carriers – M & HCV
- Passenger Carriers – M & HCV

The commercial vehicle sales growth was primarily driven by the improving road infrastructure, growth in logistics services, increase in development activities and improved access to finance.

The advent of GST ensured that the Checkpost Raj, as it was commonly known, stood abolished and hence there was a seamless movement of goods reducing the average travel time by almost 15 percent and with that a reduction in the operational cost by almost three to four percent. The reduced travel time meant that the operations could be managed with a smaller fleet.

However, the long term solution to the problems of the commercial vehicle industry is to bring petroleum products in the ambit of GST which would reduce the operating costs to a large extent especially when the truck operators switch to payment of GST at 12 percent on forward charge basis and thereby will be in a position to avail of the credit of all expenses incurred towards procurement.

The inclusion of petroleum products into the ambit of GST is a herculean task given the fact that State revenues from the sale of petroleum products and liquor contribute as much as 30 percent of the total tax collections and states would be reluctant to part with the financial freedom given the current backdrop of nonpayment of GST compensation.

The commercial vehicle sales since 2019 had hit a roadblock primarily on account of

- Increase in operating costs (primarily on account of increase in fuel cost which contributes 50 to 55 percent of the total operating cost).
- Deferring purchase of new vehicles due to the implementation of the BS-VI norms from April 2020.
- Liquidity Issues.
- Improvement of the speed of movement of goods through rail due to the setting up of the dedicated freight corridors.

The onset of the Coronavirus has further hit this segment of the market with private consumption being subdued coupled with the lack of investment which has affected both passenger and goods movement. This trend is likely to continue at least for the next nine to 12 months.

The commercial vehicles segment is an integral part of the goods transport sector which is labour-intensive. The estimated number of persons who are employed is in the vicinity of almost five million.

Although the COVID pandemic had played initial havoc on the movement of trucks carrying goods, the situation seems to have eased on this front.

However, the driver shortage has been reported by fleet operators mainly on account of the fact that drivers were seeking health coverage and better safety equipment which would ultimately have a spiralling effect on two fronts namely declining sales of vehicles and loss of employment.

The pandemic has had a significant impact on new vehicle sales which has dropped by almost 84 percent for Q1 of the Financial Year 2020-21 compared to the previous year figures while some green shoots were visible in July 2020 with the decline being around 35 percent.

These green shoots, if they have to be sustained, requires some effort from the Government in the form of policy initiatives; some of the initiatives which can be considered to sustain the momentum are listed below:

Setting up of a dedicated INR 15,000 crore fund under the Atma Nirbhar Bharat Scheme for replacement of the ageing fleet of state transport undertakings which operate around 1,50,000 vehicles.

Upgrading the fleet of the Indian Army by induction of new vehicles given a change in the overall security environment.

Reducing GST on goods-carrying commercial vehicles by at least 10 percent to reduce the overall cost.

Reduction in the insurance rates which have been revised with effect from 1st April 2020.

Considering an accelerated 125 percent weightage on operating expenses (for private fleet operators) under the Income Tax Act for such as of those private fleet operators who operate more than ten vehicles and have a profit reportable under the Income Tax Act.

Capping the overall price of diesel at around INR.70 to INR 72 per litre by reducing the special excise duty and the cess which would reduce operating costs.

These measures, if implemented, may provide some relief to the badly hit commercial vehicles sales and the Government will still have to take steps to improve the consumption side of the economy which has been badly affected due to the pandemic.

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