

# Auto Bytes

Providing a boost to the commercial vehicle industry in India

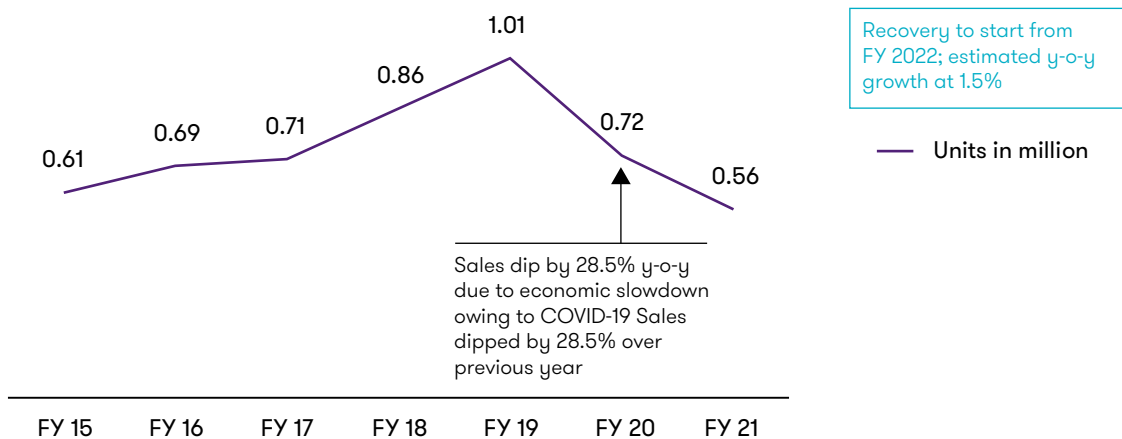
May 2021



The commercial vehicle (CV) industry experienced the toughest periods in this decade due to cyclical and economic slowdown. In the last two years, regulatory changes in the axle-loading norms led to an increase in the freight carrying capacity of the sector, reducing incremental demand, especially in the medium and heavy commercial vehicle (M&HCVs) space. The non-banking financial institution (NBFC) crisis and transition to Bharat Stage (BS)-VI increased the challenges for original equipment manufacturers (OEMs) during the two decades.

## How BS-VI migration, low domestic demand and pandemic impacted CV industry

### Impact on CV sales volume



The declined sales volume exacerbated due to the pandemic has resulted in a 20.77% y-o-y decline during April 2020-March 2021. The sales volume of CVs declined by 85% during March-June 2020 due to the nationwide lockdown. The agriculture and allied sectors have grown despite the pandemic which increased demand for tractors and other farm equipment. However, the restrictions on movements impacted the sales of CVs but it is now expected to be protracted over the next two-three years.

The sales of tractors are expected to remain robust on the back of a strong rural economy, while revival in infrastructure and mining activities may continue to drive sales of CVs.



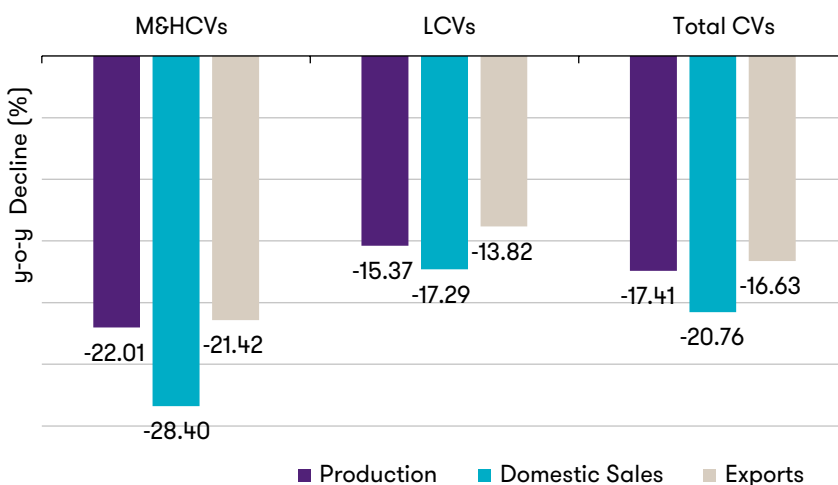
**20.77%**

Decline in CV sales exacerbated due to pandemic



**At over 20%,** tractor industry's FY21 growth highest in decade

### Y-o-y trend April 2020-March 2021



Moreover, due to fall in demand in the automobile sector and as a **result of the second COVID-19 wave**, OEMs have scaled down production at plants.

Automakers foresee challenges to supply chain, dealership activity and customer movement in the coming months.

Source SIAM



Changing contributions can be witnessed in the CV industry as small commercial vehicles (SCVs), which made up 57% of the CV industry volume YTD in 2019-20. In 2020-21, SCVs made a whopping 76% of the total volume and saw a much faster recovery in comparison to other segments. Agriculture, rural demand and related transportation would further drive SCV demand. Essential goods and FMCG products would be key factors for increased demand for light and intermediate commercial vehicles (L&ICVs). E-commerce is likely to further drive demand for SCVs, ICVs and the 19-ton M&HCV trucks.

## Steps to boost the segment

The Indian government is working on several initiatives to revive the economy, following the COVID-19 crisis. These include acceleration of several infrastructure projects that will aid in the recovery of the CV industry.

CVs contribute to approximately 65% of the total vehicular pollution. Introduction of the Vehicle Scrappage policy is likely to benefit the sector and provide the much-needed support for the new-age greener, safer and better efficient vehicles. Thus, in a bid to spur adoption of electrical vehicles (EVs), the proposed policy aims to encourage voluntary scrapping of high-polluting old vehicles and subsequently increasing the replacement demand. Vehicles would undergo fitness tests in automated fitness centres after 15 years in case of CVs (after 20 years in case of PVs). The scheme would potentially cover 1.7 million medium and heavy motor vehicles, which are above 15 years, and currently without valid fitness certificates.

Further, building upon the recent Production Linked Incentive (PLI) scheme, the introduction of extended PLI benefits for investments ranging in crores would support companies in India participating in Aatmanirbhar Bharat and contributing to India's exports and also attract more investments into the ecosystem, benefitting OEMs, vendor Micro, Small and Medium Enterprises (MSMEs) and the industry as the whole.

A healthy and financially strong CV industry may lead with initiatives that would help in transforming the logistics and transportation sector, which is key to India's rapid economic growth. This would further help 'Making in India' globally competitive.

Overall, the crisis has given an opportunity to redesign the business processes with an extensive use of new emerging technologies and thus paved way for innovation. In addition, digital transformation, big data, telematics and electrification are among the top trends shaping future of Indian CV industry. As digital retailing witnesses growth, OEMs and dealers will need to plan their strategy in stages for a seamless transformation.

CVs act as a critical logistical link to the economy and hence with the steps taken by the government, the sales volume is likely to bounce back in FY 2021. The market expects a substantial uptick in manufacturers' profitability, reversing the working capital stretch and restoring credit metric. Therefore, it becomes imperative to reshape the business processes in the automotive industry.

### Proposed Term:

15 years for CVs

### Incentivisation:

15-20% subsidised rates for new vehicle purchase

CVs would see an uptick with continued efforts by the government's thrust on infrastructure spending.

Top trends shaping the future of India's CV industry

- Digital Transformation
- Telematics
- Electrification
- Evolving Regulations
- IoT and Big Data
- Benchmarking Global Standards
- Higher Tonnage Vehicles
- Advanced driver-assistance systems (ADAS)

### For further information, please write to:

#### Saket Mehra

Partner  
Grant Thornton Bharat LLP  
E: [saket.mehra@in.gt.com](mailto:saket.mehra@in.gt.com)

### Author

#### Priyanka Mehra

E: [priyanka.mehra@in.gt.com](mailto:priyanka.mehra@in.gt.com)

# Contact us

To know more, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

## NEW DELHI

National Office,  
Outer Circle, L 41,  
Connaught Circus,  
New Delhi - 110001  
T +91 11 4278 7070

## NEW DELHI

6th Floor, Worldmark 2,  
Aerocity,  
New Delhi - 110037  
T +91 11 4952 7400

## AHMEDABAD

7th Floor, Heritage Chambers,  
Nr Azad Society,  
Nehru Nagar,  
Ahmedabad - 380015

## BENGALURU

5th Floor, 65/2, Block A,  
Bagmane Tridib, Bagmane  
Tech Park, CV Raman Nagar,  
Bengaluru - 560093  
T+91 80 4243 0700

## CHANDIGARH

B-406A, 4th Floor,  
L&T Elante Office Building,  
Industrial Area Phase I,  
Chandigarh - 160002  
T +91 172 4338 000

## CHENNAI

9th floor, A wing,  
Prestige Polygon,  
471 Anna Salai,  
Mylapore Division,  
Teynampet, Chennai - 600 035  
T +91 44 4294 0000

## DEHRADUN

Suite No 2211, 2nd Floor,  
Building 2000, Michigan Avenue,  
Doon Express Business Park,  
Subhash Nagar,  
Dehradun - 248002  
T +91 135 2646 500

## GURGAON

21st Floor, DLF Square,  
Jacaranda Marg,  
DLF Phase II,  
Gurgaon - 122002  
T +91 124 462 8000

## HYDERABAD

7th Floor, Block III,  
White House,  
Kundan Bagh, Begumpet,  
Hyderabad - 500016  
T +91 40 6630 8200

## KOCHI

6th Floor, Modayil Centre Point,  
Warriam Road Junction,  
MG Road  
Kochi - 682016  
T +91 484 406 4541

## KOLKATA

10C Hungerford Street,  
5th Floor,  
Kolkata - 700017  
T +91 33 4050 8000

## MUMBAI

11th Floor, Tower II,  
One International Center,  
SB Marg Prabhadevi (W),  
Mumbai - 400013  
T +91 22 6626 2600

## MUMBAI

Kaledonia, 1st Floor, C Wing,  
(Opposite J&J Office),  
Sahar Road, Andheri East,  
Mumbai - 400 069

## NOIDA

Plot No 19A, 2nd Floor,  
Sector - 16A,  
Noida - 201301  
T +91 120 485 5900

## PUNE

3rd Floor, Unit No 309-312,  
West Wing, Nyati Unitree,  
Nagar Road, Yerwada  
Pune - 411006  
T +91 20 6744 8800

For more information or for any queries, write to us at [gtbharat@in.gt.com](mailto:gtbharat@in.gt.com)



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