

# Diesel price hike likely to delay CV recovery

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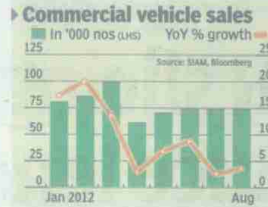
The hike in diesel price last week has come as a big setback for the commercial vehicle (CV) industry, which is already reeling under falling sales this year.

Though transporters' associations are seeking a freight hike of 12-15%, industry players said it will be difficult for fleet owners to increase rates due to competitive pressure and low demand.

CV makers said this will dampen sales in the short term as they see truckers refraining from adding to fleet.

"The hike in diesel prices is going to be a challenge for the industry. It is to be seen whether the truck operators are able to pass on the hike. But the larger worry is interest costs and availability of goods for transport," Ravindra Pisharody, executive director - commercial vehicles, Tata Motors, told reporters at the launch of new range of Prima trucks.

Medium and heavy commercial vehicle (M&HCV) sales are already in the negative zone, falling 11% during



the first half due to slowdown in the economy, according to the Society of Indian Automobile Manufacturers.

Rising interest rates, slowdown in manufacturing activity and declining freight rates are already affecting the profitability of the truck operators.

With ₹5/litre hike in diesel price, experts said the profitability of truckers will further come under stress and act as a speed-breaker for CV sales ahead of festive season.

"Historically, such a sharp increase in diesel price has led to a period of sub-par growth for the truck industry. We believe this to be an incremental negative, given the current

scenario of declining truck freight rentals and >10% decline in cargo availability. We expect that the 5% increase in rentals required by truck operators to maintain profitability will be difficult to completely pass through. Hence, this would delay recovery in truck sales, extending the period of below-par growth rate for the industry," Kaushal Maroo and Siddhartha Bera, analysts with Emkay, wrote in a September 14 note.

Despite this, some are positive about the second half, which marks the critical festive period.

"We will be passing on the hike by 12-15% and if the freight rates rise, confidence to buy additional fleet will increase within the industry," Vineet Agarwal, joint MD at Transport Corporation of India, said.

"We expect fleet operators to eventually pass this increase on to customers, even though they may currently be playing the discounting game due to lack of cargo," Mitesh Shah, vice-president - private client group at Brics Securities, said in a note.

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