India: Fuel price rise to hurt truck sales further

The medium and heavy commercial vehicle (M&HCV) sector, which was already reeling under weak demand, could see conditions deteriorate further due to fall in industrial demand and recent rise in diesel prices. The impact is likely to be more on the heavier vehicle segment than light commercial vehicles (LCVs) where volumes so far have been robust. While commercial vehicle segment overall has grown year-to-date (April to August 2013) due to stable LCV growth, M&HCV sales in the same period have seen a decline of 13 per cent.

Freight operators already pegged back by declining freight rates and higher costs (due to fuel) could suffer further due to the recent diesel price hike. Freight rates on key routes have fallen 10-14 per cent in September as compared to January this year, according to data from IFTRT, a freight tracking body. After the latest hike and given that fuel accounts for more than 35 per cent of costs, fleet operators will have little choice but to pass on the hike in diesel prices. While analysts had expected freight hikes of 5-8 per cent, the actual hikes have been steeper.

The All India Motor Transport Association announced increase in freight rates by 15 per cent. A Tata Motors spokesperson says, “While there will be resistance from transporters, the hike in freight rentals/fuel prices is good for the industry and the economy at large. The biggest factor impacting M&HCV sales are interest costs and availability of goods for movement.” Estimates indicate that interest payment accounts for 23 per cent of freight operators’ cost. Given muted demand, analysts believe the situation could get worse impacting volumes. Nomura in a recent report on the sector says that slowing industrial production and higher diesel costs are likely to impair demand. The brokerage expects a volume decline of 10 per cent for FY13.

Ashok Leyland

Slowing M&HCV sales is reflecting on its stock price which is down 26 per cent since the start of the fiscal. For the fiscal year-to-date, the company’s sales in M&HCV space are down 1.2 per cent. Overall volumes are, however, up 36 per cent for the same period due to the performance of its small commercial vehicle, Dost, which was introduced last year. While the company has gained market share (220 basis points in FY13) due to better sales growth in the southern markets, higher competition is likely to dent its share, going forward.

According to IIFL analysts Prayesh Jain and Naman Jain, Ashok Leyland is expected to record a fall of four per cent in M&HCV volumes. Though robust Dost sales should boost volumes, low margins on the product are likely to dampen profitability with net profit likely to decline by 13 per cent in FY13, they add. At Rs 23, the stock is trading at 11 times its FY14 estimates. Given the 12 per cent spike in stock prices this month and muted prospects, analysts say valuations have turned expensive.

Eicher Motors

The company's volumes are flat for the period April-August. ICICI Securities analysts believe that though its performance in the current year will reflect the general slowdown in the M&HCV segment, it is likely to outperform the sector. The company has gained market share of 120 basis points year-on-year in FY13 so far. Analysts have pegged volume growth (10 per cent in January-August 2012) for CY12 and CY13 at six to eight per cent as compared to earlier estimates of 14 per cent. In addition to its M&HCV venture (in which Eicher has 54 per cent and Volvo the rest), the company's motorcycle business (which contributes about 11 per cent to revenues) is likely to help it cushion the effects of the slowdown. In fact, in the June quarter, Ebitda margins from its two-wheeler business increased 230 basis points year-on-year to 15.3 per cent and is expected to move higher to about 18 per cent in CY13 (as compared to CV business margins of about eight per cent) post launch of the new plant. Most analysts have a buy rating on the stock (Rs 2,239), which is trading at seven times its FY14 earnings estimates, with a price target of Rs 2,700.

Tata Motors

The company's M&HCV sales have fallen 20 per cent year-on-year for FY13 in the first five months to August. Weak freight rates and slowing industrial production (as well as mining activities) and investments will mean that the market leader's volumes are likely to fall by five per cent year-on-year, estimate analysts. The company has lost market share in FY13 (54.6 per cent vs 59.3 per cent in FY12). While the slowdown will impact its standalone revenues, the company is buffeted to an extent as 67 per cent of its revenues come from its overseas subsidiary, Jaguar Land Rover. While its domestic business is likely to feel the pinch of the slowdown, JLR revenues are likely to be driven by Evoque and the new Range Rover expected in the second half of FY13. At Rs 272, the stock is trading at 6.5 times its FY13 consolidated estimates. Analysts have price targets ranging Rs 285-Rs 315.