FreightSigns

What is the goods traffic, and the free cash flow of fleet operators, telling us?

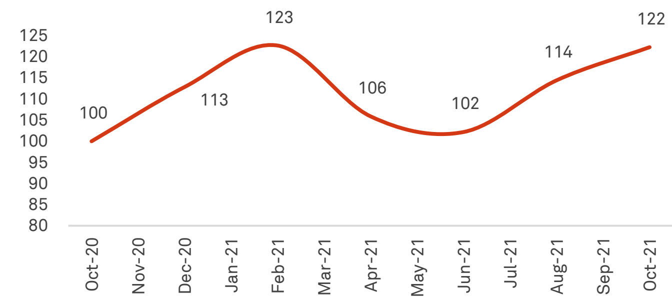
Issue 1 | November 2021

Freight rates perk up some more, but diesel singes margins

With the monsoon withdrawing, consumption recovering, and infrastructure activity picking up, freight rates saw a sequential recovery in October. However, with diesel prices ruling high after a scorching run-up, the overall profitability of transporters remains below levels seen in the closing quarter of last fiscal.

CRISFrex

The CRISIL pan-India freight index



Broad-based recovery

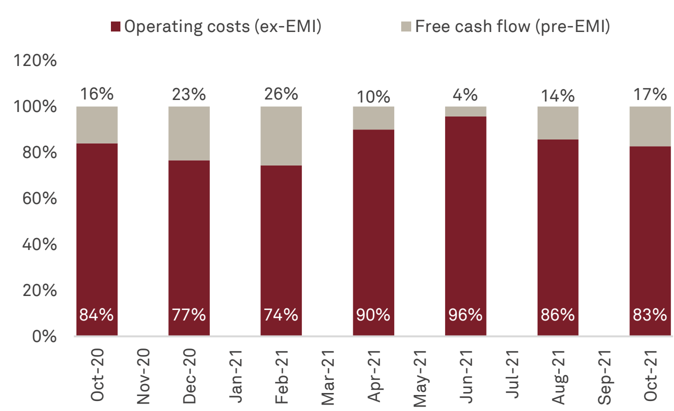
(No of combinations)

	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21
Increase in freight rates	115	129	20	66	147	132
Decrease in freight rates	44	30	138	93	12	15
Similar to previous month	0	0	1	0	0	12
Total	**159**	**159**	**158**	**159**	**159**	**159**

CRISFrex captures changes in freight rates on a sequential basis. What makes it first-of-its-kind in India is that it also tracks the free cash flows, or FCF (pre-EMI) of transporters on an ongoing basis. Higher FCF would typically lead to higher demand for commercial vehicles.

The recovery has been broad-based, with most route-commodity combinations seeing an increase in freight rates. In October 2021, ~80-85% of the combinations saw an improvement in freight rates over August 2021, while ~15-20% were unable to pass on the diesel price hikes due to demand-supply considerations.

Freight rates and FCF improve sequentially



FMCG/FMCD segment most resilient to shocks
(October 2020 pan India average =100)

Commodity	Oct-20	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21
Agri-products	106	114	127	111	105	119	128
Auto-carriers	83	105	105	88	90	96	102
Cement	105	135	154	119	116	128	142
Container	83	103	106	90	87	95	99
FMCG/ FMCD	135	131	143	128	116	138	141
Market load	101	111	119	109	109	121	128
Mining products	88	121	136	114	103	118	131
Parcel/ loose goods	116	122	136	118	111	132	139
Petroleum tankers	86	102	100	85	82	88	101
Steel	85	102	112	88	94	97	104
Textiles	84	105	116	99	92	99	111

*Note: The above freight analysis is based on CRISIL's proprietary assessment of 159 unique application combinations across 32 different routes and 11 different commodity types; Operating costs include fuel, driver, toll, maintenance and tyre costs; *FMCG – fast moving consumer goods; FMCD – fast moving consumer durables*
Source: CRISIL Research

Freight rates for haulage of industrials such as cement have been relatively firm.

Movement of consumption-related goods such as FMCG/FMCD* and agri-products has been relatively firm as well.

Applications such as textiles (especially readymade garments) have been struggling as demand may take another few months to revive to pre-pandemic levels.

After the rough terrain

Over the past 2-3 years, the domestic road freight transportation industry ran into many speed-breakers.

The axle load norms caused a discernible drop in fleet utilisation levels in fiscal 2019, while the BS-VI norms led to a 10-15% increase in the prices of new trucks in fiscal 2020. Then came the Covid-19 pandemic and the sharp economic contraction.

In the first quarter of fiscal 2021, fleet utilisation rates plunged with most consumption and demand centres locked down. A sequential recovery was visible with a gradual reopening of the economy over the next three quarters.

Amid all this, freight demand recovery was sporadic across segments; FMCG/FMCD recovered faster than discretionary segments such as readymade garments/textiles, and other consumer durables. Even within states, recovery varied based on the pandemic caseload and unlocking levels.

In such scenarios, transporters, logistics service providers, original equipment manufacturers and financers need to know the predicament of freight users, taxonomised by sectors, routes, applications and platforms.

CRISIL, which has been tracking freight rates and operator cash flows (pre-EMI) across 32 key routes in India on a bi-monthly basis since October 2020, will now deliver the data signals every month.

CRISFrex and FCF signals

FreightSigns finds, consumer essentials such as agri-products and FMCG/FMCD are the most resilient and stable segments driving the trucking industry, even in the current context. In fact, many large fleet operators (35+ tonne GVW) have shifted focus from bulk commodities to lighter applications in the past 2 years.

Two, the industry is showing signs of improvement in terms of the freight index and EMI serviceability across route-commodity combinations despite a jump in diesel prices. That's because freight rates increased relatively higher compared with the increase in diesel prices over June-October 2021. Furthermore, utilisation in terms of the average monthly running or the number of trips done has also improved across most of the 159 route-commodity combinations tracked by CRISIL.

However, despite improvement in the index in October 2021 to 122 (similar to February 2021 levels), the FCF still continues to be at a level (17%) comparable with October 2020 (see chart on Page 1). This is one of the key reasons that financiers are still not comfortable in funding small fleet operators.

How have the freight signs flashed over the past one year or so?

By the third quarter of fiscal 2021, freight rates for cement, steel and auto-carriers had materially improved. The first two segments benefited from the government's infra push, while increase in demand for passenger vehicles fuelled by preference for personal mobility boosted auto-carriers.

In February 2021, freight rates peaked with CRISIL Research's CRISFrex touching 123 (October 2020=100). Parallelly, the spread between freight rates and diesel prices recorded a near-term high resulting in buoyant sentiments for CV sales as well. Replacement demand (from cement and steel segments) also contributed during the quarter.

Although the pandemic's second wave led to a sharp correction in freight rates, the impact at an aggregate level was not as severe for truckers as the first lockdown because the restrictions this time were more localised.

While the extension of the Emergency Credit Line Guarantee scheme did help some of the organised players tide over liquidity crunch, the smaller fleet operators felt the heat as FCF to EMI ratios tracked by CRISIL at route-commodity level dropped to new lows in the absence of a moratorium and increase in input costs.

Methodology

CRISIL incorporates views of 100-150 transporters to understand freight dynamics as well as operational aspects such as the number of trips done and key cost heads (fuel, driver, toll, tyre and maintenance).

This exercise is conducted on a closed sample of 159 route-commodity combinations spanning 32 routes, 11 commodity types and 5 truck platforms with differing load bodies depending on the commodity carried.

Our analysis depicts an aggregated view of the inputs collected to arrive at a holistic picture pertaining to the overall trucking scenario in India.

CRISIL Research analytical contacts

Hemal N Thakkar
Director
hemal.thakkar@crisil.com

Mihir S Patil
Senior Research Analyst
mihir.patil@crisil.com