FreightSigns

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

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Diesel price cut, moderation in goods transport after pre-festive rush soften freight rates

While the Centre and some state governments have cut taxes on diesel, there was a decline in the movement of freight in November because of slower industrial activity.

The quantum of freight moved was flat to negative on-month after the pre-festive buzz in October.

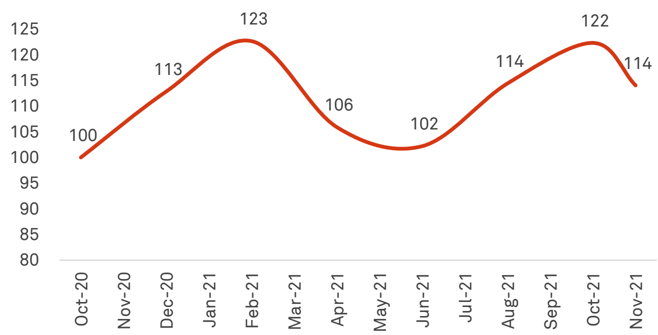
The matrix

No of combinations	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21	Nov-21
Increase in freight rates	115	129	20	66	147	132	32
Decrease in freight rates	44	30	138	93	12	15	124
No change in freight rates	0	0	1	0	0	12	3
Total	**159**	**159**	**159**	**159**	**159**	**159**	**159**

The correction seems broad-based with most combinations seeing a drop in freight rates. November saw freight rates declining in 70-75% of the combinations, while about 20-25% of the routes clocked flat to positive growth.

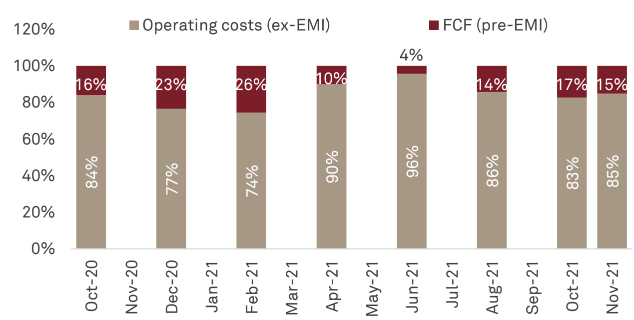
CRISFrex

The CRISIL pan-India freight index



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

Despite lower diesel price, margins shrivelled on-month in November as freight demand fell



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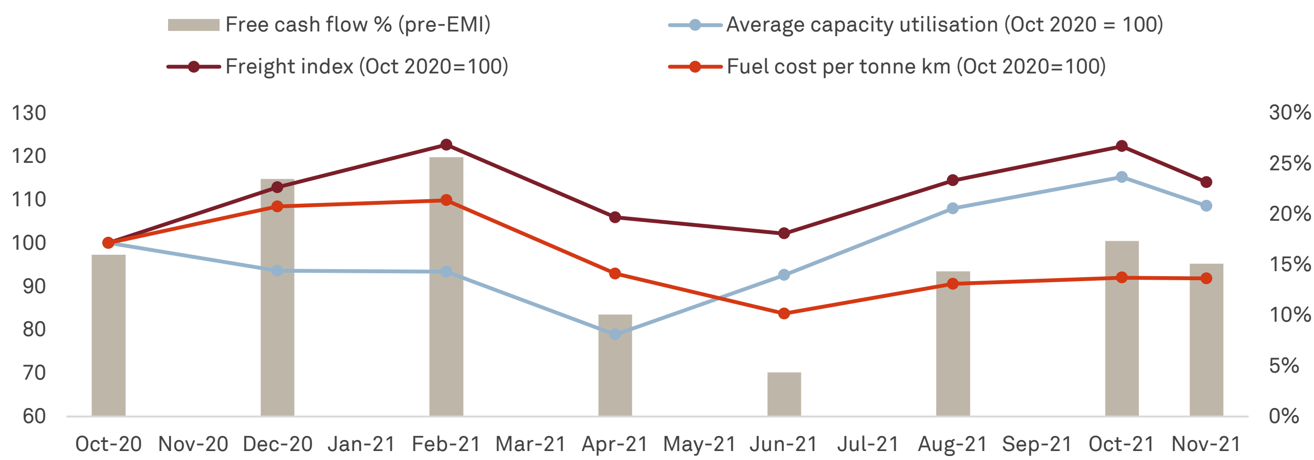
Utilisation levels moderating slightly after the pre-festive surge in October



FMCG/FMCD most resilient to shocks (Oct 2020 pan-India average =100)

Commodity	Oct-20	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21	Nov-21
Agri products	106	114	127	111	105	119	128	119
Auto carriers	83	105	105	88	90	96	102	94
Cement	105	135	154	119	116	128	142	130
Container	83	103	106	90	87	95	99	93
FMCG/FMCD	135	131	143	128	116	138	141	137
Market load	101	111	119	109	109	121	128	119
Mining products	88	121	136	114	103	118	132	122
Parcel/Loose goods	116	122	136	118	111	132	139	130
Petroleum tankers	86	102	100	85	82	88	101	95
Steel	85	102	112	88	94	97	104	92
Textiles	84	105	116	99	92	99	111	101

Note: The freight analysis is based on CRISIL's proprietary assessment of 159 unique application combinations across 32 routes and 11 commodity types. Operating costs include fuel, driver, toll, maintenance and tyre costs.

Freight rates for haulage of essentials such as FMCG/FMCD have remained relatively resilient in November. After the festive stock-up, freight rates for discretionary goods such as auto carriers and textiles are seeing more pressure compared with other sectors

Mining, cement and steel freight rates have also seen some correction as infrastructure-building activity was a wee subdued on-month. But this correction is not significantly more than the fall in diesel price in the case of cement. The situation needs to be monitored for the next 1-2 months

The CRISFrex and FCF signals

In the first week of November, the central government announced a Rs 10 per litre reduction in the Central Excise applicable on diesel. A few states followed suit by announcing additional cuts in state taxes (VAT) on diesel.

Ceteris paribus, this may seem to augur well for the profitability of transporters. However, the freight industry is very dynamic and competitive, so demand-supply factors also play a material role in freight rates.

The excise duty cut translates to a 3-5% reduction in the cost structure of a transporter. Add the cropping of VAT rates by a few states, and the reduction would be 4-6%.

FreightSigns finds that 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. This was seen in November also, when haulage of FMCG/FMCD saw the lowest correction among all the commodity types tracked by FreightSigns.

Discretionary goods such as automobiles and textiles are seeing the highest correction in freight rates — about 10% —because dispatches have been under pressure.

Industrials such as mining products (coal, iron ore, limestone), cement and steel are seeing a slight moderation in freight rates relative to the diesel price cut.

In adjacencies, slack freight demand for mining/construction aggregates, cement and steel haulage is reflecting in the lack of interest among transporters to buy new tippers and high-tonnage tractor-trailers typically used in these segments.

All this has resulted in the CRISFrex Index dropping to 114 in November 2021 from 122 in October.

But the on-month decline in margins has been relatively less because FCF (pre-EMI) — as assessed by CRISIL Research — are estimated to be ~15% of the freight earnings, compared with ~17% in October. The margins, nevertheless, remain slightly above August levels.

Methodology

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

The 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.

Based on these inputs, FreightSigns offers an aggregate, holistic view of the trucking scenario in India.

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About CRISIL Limited

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CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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