

Curious Case of Crash of the Micro Trucks

WHEN WE LOOK AT THE LAST DECADE IN INDIA'S AUTOMOTIVE HISTORY, THE MICRO-TRUCK SEGMENT STANDS OUT AS A TRAILBLAZER.

The segment has been the most game changing, revolutionising, and evocative in the automotive market. While there are segments like the Compact Crossover and Compact MPV that have started challenging the norms of the industry, we still rate Micro-Trucks higher. Analysts at EMMAAA point out that Micro-Trucks did the game changing act nearly a decade back. The significance is further enhanced by the fact that the growth of Micro-Trucks have only benefited the local manufacturers – Tata, Mahindra and Ashok Leyland – while the multinationals have all stayed away.

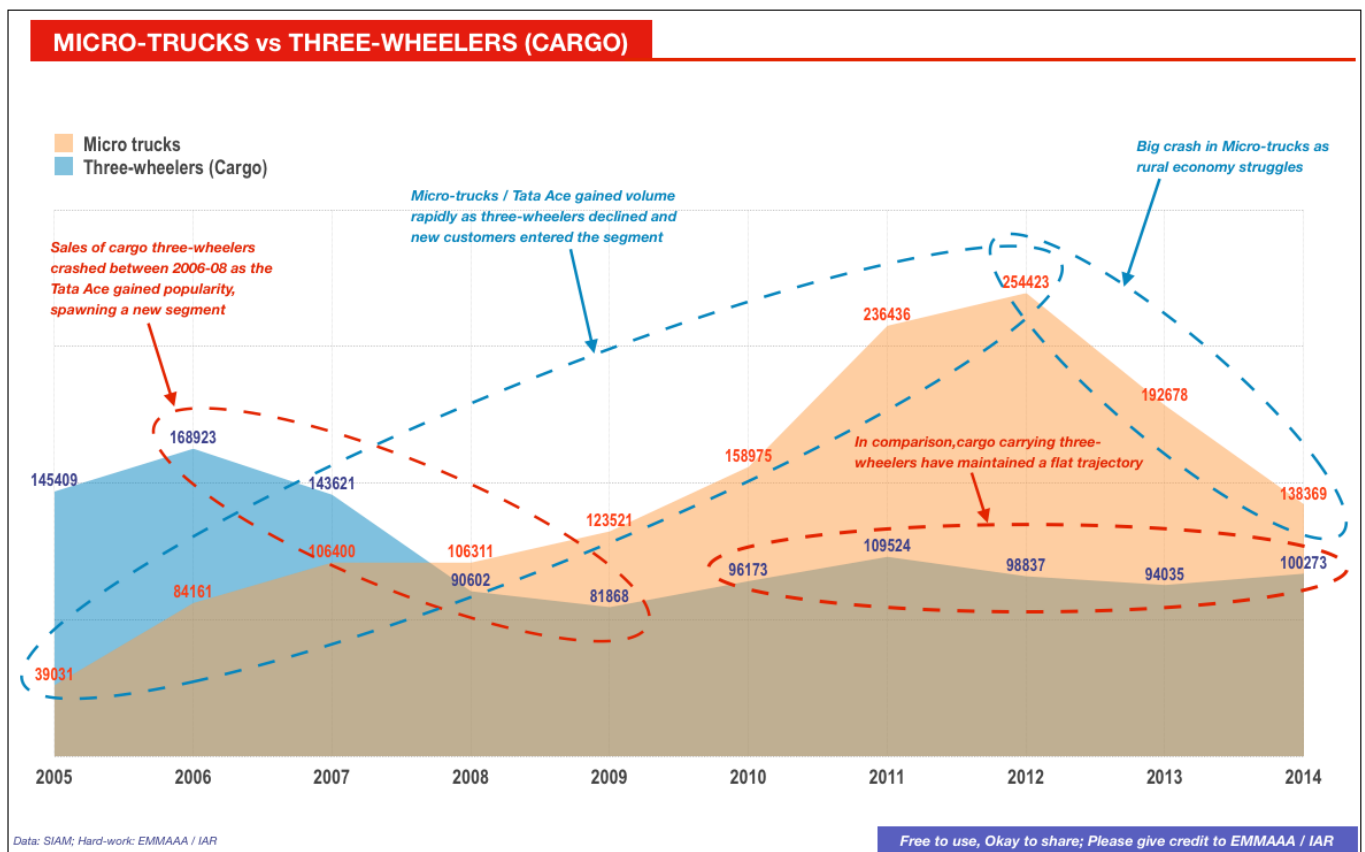
That particular aspect will change within the next 12 months as Maruti-Suzuki enters the segment.

We digressed

Micro-Trucks and their cousins Soft-Top Vans are also more significant than any other automotive segment in promoting entrepreneurship. Often the driver is the owner and fleet sizes are small, mostly limited to 2-3 vehicles. Their low acquisition costs provide a continuous opportunity for drivers to become owners and then fleet owners. The only other segment with the same potential is three-wheelers, something that we would be revisiting during this analysis.

Mind Boggling Growth followed by Catastrophic Decline

We meant to start with the usual statistics to make an argument. The Micro-Truck segment (Light Commercial Vehicles with GVW less than 2.0-tonnes as per SIAM classification) took off in 2005 when Tata launched the Ace. The initial response was magical and the year accounted for segment sales of 39031 units. In the next seven years, segment sales had crossed 250,000 units per annum. This represented a CAGR of nearly 31%, mind boggling whichever way you may look at it.



In retrospect, the segment sales performed even better than investments in highly speculative real estate buys in some pockets of India.

However, things hit a speed bump in 2013 and sales started declining. Since then the fall has been catastrophic with 2013 volumes dropping by 24.3% and 2014 volumes declining by a further 28.2% over previous year.

In 2014, the segment accounted for 138369 units, slightly more than half of 2012 numbers.

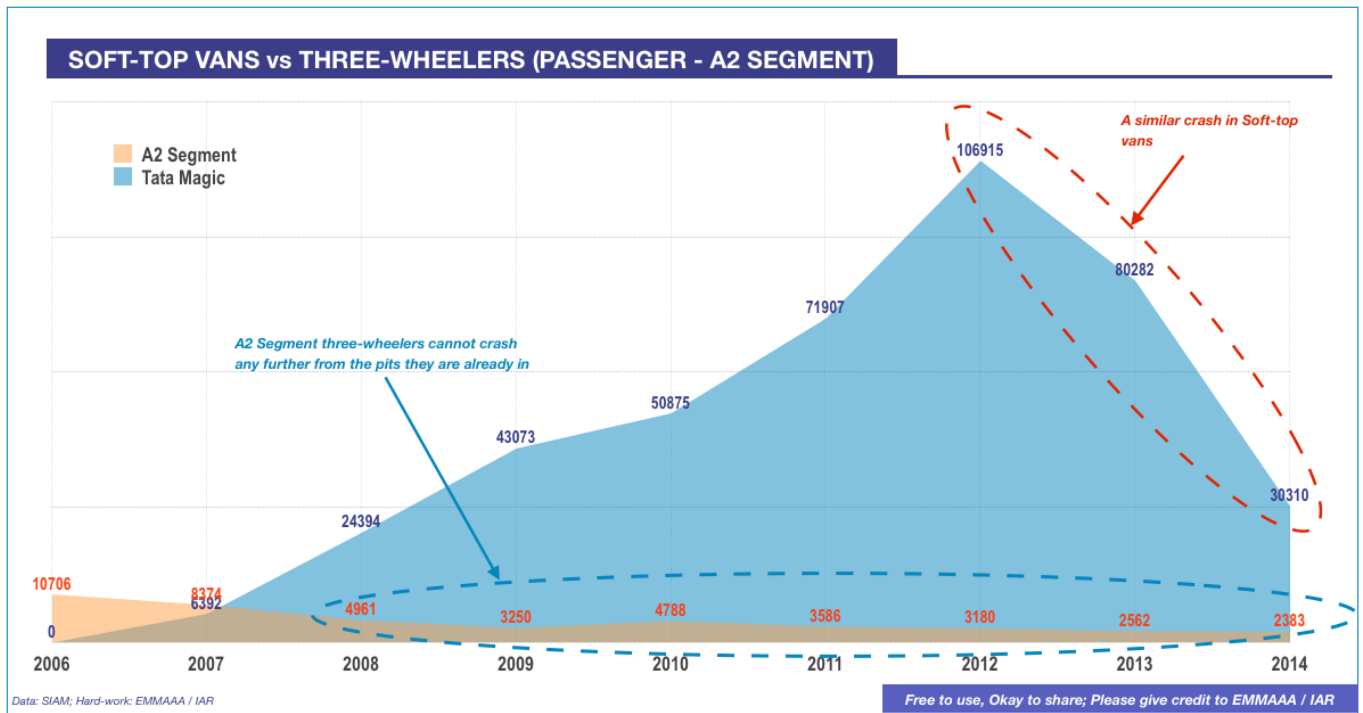
And the decline hasn't stopped yet. While the M&HCV segments have started making a recovery, the Micro Truck segment is still firmly in the negative growth zone. The segment had started declining much later than the M&HCV segments and recovery is also lagging behind.

Soft-Top Vans – Same, but with a Canvas Roof

We digress some more and talk about soft-top vans. This is the segment dominated by the Tata Ace Magic and Mahindra Gio van. These are essentially people movers based on micro-truck underpinnings normally used as shared taxis. The Magic seats eight and the Gio van seats four under theoretical conditions, which are often abused in the practical world. Most of these Soft-Top Vans are used in semi-urban areas and rural areas as shared taxis. A complete lack of public transport in these areas means that these vehicles enjoy a strong demand.

Till now, that is.

Like Micro-Trucks, the Soft-Top Vans segment has also crashed in recent quarters. The segment came into existence in 2007 when Tata Motors launched the Ace Magic. Sales were a modest 6392 units. However, the Ace Magic soon spread like wildfire, fuelled by a complete lack of direct competitors and a paucity of public transport. Drivers and entrepreneurs, till now running (relatively) costly Mahindra and Force Motors utility vehicles, switched eagerly to the Ace Magic. Tata's soft-top van was easy to run, smaller in size to navigate narrow roads, cheaper to service and lower cost.



Sales touched a peak of 106915 units in 2012, a CAGR of 75.66%. This is an unheard and unparalleled growth rate for any automotive segment in the Indian market and Tata Motors reaped most of the benefits of the growth.

Things changed after that. In the last two years the segment has fallen dramatically. In 2013, sales declined by 24.9%. Year 2014 was even worse and sales plummeted 62.24% from 2013 levels to a little more than 30,000 units. In two years, the segment has undone the growth of four years.

Reasons for Slowdown?

Both Soft-Top Vans and Micro-Trucks address the same kind of markets – small towns, connected to even smaller outskirts and villages, all heavily dependent on these vehicles for the transport of goods and people. Nearly all of these vehicles are financed by banks and financial institutions so a high interest regime does lead to a slowdown in sales.

The decline in sales has also happened due to a slowdown in

economy over the last three years. The slowdown may be reversing but for the effects to percolate down to the grassroots level will take time.

Is NREGA to Blame?

However, the analysts at EMMAAA believe that more than the slowdown, it is the intensity of the slowdown that is of concern. The intensity indicates that the markets had also hit some sort of saturation and further growth was a challenge. In a way, this is linked to macro-economic factors where a lack of growth is leading to business slowdown and fleet operators decide to delay the purchase of new vehicles.

Government run schemes like the National Rural Employment Guarantee Act (NREGA) also have a negative impact. The Act promises employment to every individual in villages and underdeveloped areas for at least 100 days. While aimed at promoting employment, the Act ends up ensuring that people, who would have normally gone out and earned a living, stay in their villages for about a third part of the year.

That's a third of the year written off for the local rural economy, something that hurts the sales of Micro-Trucks and Soft-Top Vans.

What About Three-Wheelers?

We digress (it's a habit) again and look at Three-Wheelers. Across the automotive spectrum, Three-Wheelers are a segment that rivals Micro-Trucks and Soft-Top Vans. Historically, they don't get along well with each other. Going back to 2005, the launch of the Tata Ace was a sort of game changer for the three-wheeler industry. For long three wheelers had enjoyed a free-run in the intra-city-movement-of-cargo segment. However,

the Tata Ace, provided fleet owners an option. The Ace was more capable, possessed better ergonomics and could travel longer distances. It also 'lived' longer. The downside was the slightly higher acquisition price.

A large part of the Ace's (and other micro-trucks) success has been due to erosion in sales of the cargo carrying three-wheelers. The Tata Ace has been joined in recent years by competitors like the Mahindra Maxximo, Piaggio ape Truk, HM Winner and Force Trump, even though the Tata truck still accounts for a majority of sales.

Further pressure on three-wheeler cargo-carriers came due to the introduction of the half-ton GVW trucks like the Mahindra Gio and Tata Ace Zip. This niche segment originated in Oct 2009 with the launch of the Gio.

In 2014, goods carrying three-wheeler segment accounted for sales of around 100,000 units, a 6.6% rise from 2013 sales of 94,000 units. This is surprising considering that in the same time-frame, sales of Micro-Trucks had collapsed.

A reason for this contrasting sales performance may be due to factors difficult to fathom. In a market where overloading is a norm, not an aberration, it is often the size of the load bay, and not the payload capacity, that is the deciding factor. That is where the Ace triumphed over the Mahindra Pick-ups and that is where the ubiquitous three wheeler still scores at par with the Ace.

Only the three-wheeler is cheaper.

An almost similar scenario is visible in the Passenger Carrying segment. Here the Ace Magic has eaten into the A2 segment of three-wheelers, once dominated by the SIL Vikram. Once a 10000 units per annum segment, the A2 segment of three wheelers has now crashed to just above 2000 units. A further collapse may be difficult, even though the Ace Magic segment of Soft-Top Vans has crashed vertically.

Domestic Manufacturers Still Gung-ho

Even with the sharp slowdown in both the segments, it is unlikely that domestic manufacturers would ease on their efforts. These are high margins, low competition, low technology segments, something that appeals a lot to Tata and Mahindra. Tata has just launched a new variant of the popular Super Ace truck while Mahindra is readying new generations of the Gio and Maxximo trucks and maybe another truck that would go above the Maxximo.

Meanwhile, global carmakers have traditionally shied away from these segments. Most of the times, the underwhelming engineering means that the Koreans would rather choke on their kimchi than design a micro-truck.

However, Maruti-Suzuki, a manufacturer becoming more-and-more Indian with each passing day, is planning to enter the segment in a big way. Suzuki has been selling the Super Carry 2-tonne GVW truck in ASEAN markets and it now appears that some version of the Super Carry, sporting a twin cylinder diesel engine would be offered in India.

This is the company's first adventure outside the passenger vehicles space and the first few quarters may be written off as learning experience. However, considering MSIL's huge sales network and its strong grasp on the rural market, the Carry may end up upsetting the Ace's party.