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Impact analysis: Supreme Court's order on overloading

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Sections

Executive summary	1
Section one	2
- Supreme Court Ruling on November 9, 2005: The final verdict	2
- The ability of state governments and RTOs will determine the extent of implementation: A key monitorable	2
- Commercial vehicles demand — Impact of Supreme Court ruling	3
Section Two	4
- Estimation of additional M&HCV demand	4
- Assumptions for calculating additional M&HCV demand	5

The goods transport segment has finally got some respite from the problem of overloading, thanks to the Supreme Court ruling on November 9, 2005. Our interaction across the industry show that implementation of the Supreme Court order is a must and cannot be avoided. CRIS INFAC is of the view that the freight rates would reduce in the medium term from the current high levels and a one time additional demand would benefit the commercial vehicles industry within the next 6 to 8 months.

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Supreme Court's order on overloading

Executive summary

The goods transport segment has finally got some respite from the problem of overloading, thanks to the Supreme Court ruling on November 9, 2005. Subject to this ruling, nine states, which took undue advantage of the legal loopholes, had to withdraw their notifications on overloading. Accordingly, the regime of issuing golden passes or tokens has been scrapped. However, the lack of clarity on the state governments' adherence to implementation of the Supreme Court order, has led to an unexpected hike in freight rates in the last 2 months.

CRIS INFAC has assessed the situation and tried to throw light on some areas relating to the issue:

- What does the Supreme Court ruling mean?
- What challenges await the state governments and other implementing agencies like RTO? And hence the likelihood of stringent adherence to Supreme Court ruling?
- Will this translate into additional commercial vehicle volumes for 2006?

Our interaction across the industry (including transporters, corporates — original equipment manufacturers and companies with freight-intensive product portfolio, government agencies, and implementing agencies like RTO) show that implementation of the Supreme Court order is a must and cannot be avoided. But the uncertainty regarding the extent of implementation prevails and implementation is expected to vary across states/regions.

CRIS INFAC is of the view that the freight rates would reduce in the medium term from the current high levels and a one time additional demand would benefit the commercial vehicles industry within the next 6 to 8 months. We also estimate this additional demand to be in the range of 15,000-28,000 medium and heavy commercial vehicles (M&HCV's).

All qualitative aspects in relation to the issue are explained in section one and the methodology involved in projecting additional CV sales along with the assumptions are explained in section two.

Section one:

Supreme Court Ruling on November 9, 2005: The final verdict

In a significant judgement on November 9, 2005, the Supreme Court said the issuance of gold cards/tokens under notifications issued by nine state governments, allowing overloading of trucks in excess of prescribed weight limit after payment of fixed charges, was a violation of Motor Vehicles Act, 1988 and the Central Motor Vehicles Rules, 1989 and should not only be stopped immediately but also the overloaded cargo should be offloaded at the point of penalty, the cost of which has to be borne by the transporter.

The nine states which were mainly affected by this order are Punjab, Haryana, Gujarat, Madhya Pradesh, Rajasthan, Orissa, Maharashtra, Karnataka and Uttar Pradesh, who had under the provisions of Sec 200 of the Motor Vehicles Act, 1988 issued notifications permitting issue of golden passes to trucks carrying excess cargo over prescribed limits for a fixed charge per month. The Supreme Court Bench ordered strict adherence of sections 113 and 114 of the Motor Vehicles Act, 1988 and the rules made there under.

Our talk to a number of industry sources reveal that while the nine states were involved in the issue of golden passes with state government support — where income from such passes was shared by the RTO and the state governments — around five other states issued RTO based private passes which allowed trucks to carry cargo above the prescribed limit.

The country is in the midst of building national highways under the National Highway Development Programme (NHDP) entailing an investment of over Rs 1, 60, 000 crore in the next 5-7 years. The Golden Quadrilateral, East-West and North-South corridors of highways are under construction. These highways are being built with huge investments, which will last for at least 10-12 years. However, even a 10 per cent overloading of goods carriage in excess of prescribed weight can reduce the life of roads and highways by 35 per cent.

The ability of state governments and RTOs will determine the extent of implementation: A key monitorable

In the process of evaluating ground level implementation, our interaction with multiple industry sources helped us understand the practical difficulties in implementation of the SC ruling and the extent to which state governments are able to curb overloading despite these difficulties. While uncertainty is prevalent among transporters regarding the implementation by the state government, government agencies are of the view that the order is getting implemented. The intensity of implementation has been varying across states. While West and Central states have fared well on implementation, East is seeing gradual implementation and South after being strict initially seems to have loosened its grip lately.

Although the Supreme Court order emphasises on offloading additional cargo, the industry feedback indicates that offloading cargo is difficult in practice and such cases have been rare. However, this is compensated with a heavy penalty, for instance, penalty to the extent of Rs 5,000-7,000 per tonne is being levied in Maharashtra on overloaded trucks. The implementation has been quicker and much successful in Gujarat because of the electronic weighing bridge system introduced in Gujarat. Due to the lack of similar infrastructure for identifying overloading, other states have adopted the high penalty charge method to curb overloading. In terms of implementation, West, Central, North, South and East fare better in that order.

Commercial vehicles demand — Impact of Supreme Court ruling

The immediate implications of the court order (as per our conversation with a number of industry sources) and analyses of the current scenario are as follows:

- *Freight rates have gone up substantially in the last 2 months*

Industry sources feel that the increase in freight rates is temporary in nature and will be corrected. Although freight rate is expected to increase by 25-30 per cent year-on-year in the short run, it is a general feedback that this unexpected increase was instigated due to the uncertainty among transporters over the intensity of implementation of the Supreme Court order.

Freight rates (Rs/tonne)

From	To	Freight rates (Rs/tonne)				Year-on-year growth rates (%)				Month-on-month growth rates (%)		
		Oct-05	Nov-05	Dec-05	Jan-06	Oct-05	Nov-05	Dec-05	Jan-06	Nov-05	Dec-05	Jan-06
Calcutta	Chennai	1,588	1,575	1,768	2,275	-6.6	-8.7	2.5	33.0	-0.8	12.2	28.7
	Delhi	1,738	1,750	1,699	1,860	0.7	-2.8	-5.6	1.6	0.7	-2.9	9.5
	Mumbai	2,113	2,125	2,238	2,415	17.4	16.4	22.6	32.3	0.6	5.3	7.9
Chennai	Calcutta	2,125	2,150	2,224	2,389	2.7	14.4	18.3	26.4	1.2	3.4	7.4
	Delhi	2,188	2,175	2,326	2,778	-10.6	-4.2	2.4	20.8	-0.6	6.9	19.5
	Mumbai	1,388	1,375	1,503	1,833	-2.1	12.7	23.2	30.9	-0.9	9.3	21.9
Delhi	Calcutta	1,770	1,795	2,158	2,028	5.4	-6.9	8.9	5.4	1.4	20.2	-6.0
	Chennai	2,970	3,020	3,137	3,305	-5.4	-5.3	9.1	14.6	1.7	3.9	5.3
	Mumbai	1,520	1,578	1,601	1,655	-0.3	0.5	5.7	12.2	3.8	1.5	3.4
Mumbai	Calcutta	2,722	2,888	2,933	2,916	1.5	7.7	-2.2	12.6	6.1	1.5	-0.6
	Chennai	2,083	1,972	2,077	2,322	4.2	8.0	16.8	30.4	-5.4	5.4	11.8
	Delhi	2,055	1,972	1,902	2,000	2.8	11.1	10.5	26.6	-4.1	-3.5	5.2
Average		2,021	2,031	2,130	2,315	0.3	2.9	8.4	19.8	0.5	4.9	8.7

Source: Business Line

- *Annual contracts have increased pressure on spot freight rates*

Annual contracts were made by transporters at competitive rates, taking overloading into consideration. The Supreme Court ruling and adherence to the same by states has led to huge losses for transporters who have entered into long-term contracts. The sudden upsurge in freight rates is also attributed to transporters trying to make up for these losses by hiking spot freight rates. CRIS INFAC estimates that transporters who have entered into long-term contracts would buy additional trucks immediately to cope up with their fleet shortage and fulfill their existing commitments.

- *Better capacity utilisation of existing stock*

In the short run, there can be supply constraints, as the number of trucks would carry lesser load than before due to zero overloading, leading to an increase in freight rates. However, in the long run, CRIS INFAC expects better capacity utilisation with more trips between the routes.

CRIS INFAC estimates the impact of the Supreme Court ruling to have a substantial impact on the commercial vehicles segment. While the part of this impact will be absorbed by better capacity utilisation of existing fleet and the shift of some specific commodities to rail, the remaining would translate into a one time additional demand of commercial vehicles. The additional demand in M&HCV segment would benefit high tonnage vehicles like trailers and multi axle vehicles. The M&HCV segment would see an upward trend of 15,000-28,000 additional units assuming that on an average there would be 50 per cent overloading and 50 per cent implementation of the court order across India, with varying intensities in different regions.

Section Two:

Estimation of additional M&HCV demand

Additional MHCV stocks: Sensitivity analysis

		Average implementation rate							
14,684		30%	40%	50%	60%	70%	80%	90%	100%
Current overloading	10%	1,737	2,337	2,937	3,537	4,137	4,736	5,336	5,936
	20%	3,474	4,674	5,873	7,073	8,273	9,473	10,673	11,873
	30%	5,211	7,010	8,810	10,610	12,410	14,209	16,009	17,809
	40%	6,948	9,347	11,747	14,147	16,546	18,946	21,346	23,745
	50%	8,684	11,684	14,684	17,683	20,683	23,682	26,682	29,682
	60%	10,421	14,021	17,620	21,220	24,819	28,419	32,018	35,618
	70%	12,158	16,358	20,557	24,757	28,956	33,155	37,355	41,554
	80%	13,895	18,694	23,494	28,293	33,093	37,892	42,691	47,491
	90%	15,632	21,031	26,431	31,830	37,229	42,628	48,028	53,427
	100%	17,369	23,368	29,367	35,367	41,366	47,365	53,364	59,363

Source: CRIS INFAC

Impact on CV demand forecasts

(nos.)	CY 2005	CY 2006-Sc1	% grwth	CY 2006-Sc2	% grwth
Trucks	315,783	350,423	11.0	365,106	15.6
LCVs	135,181	154,999	14.7	154,999	14.7
M&HCvs	180,602	195,423	8.2	210,107	16.3
Buses	55,591	59,563	7.1	59,563	7.1
CVs	371,374	409,986	10.4	424,669	14.4

Sc1 refers to forecasts without factoring overloading impact;

Sc2 refers to forecasts factoring overloading impact

CY: Calendar year

Assumptions for calculating additional M&HCV demand:

- Overloading prevalent on trunk routes (45 per cent share in total cargo movement across country)
- On the round-trip: Overloading (on an average about 50 per cent) assumed to be on forwardway and return way. Overloading assumed to be nil
- SC ruling to first result in improvement in utilisation of the existing stock. This could be because of the reduction in idle time or increasing the distance travelled per day.
- While the implementation rate will vary across regions/states, we have assumed it to be 50 per cent.