

FreightSigns

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

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Freight rates flat in line with diesel; utilisation up

Freight rates were unchanged on-quarter in January 2022, tracking largely flat diesel prices. The close correlation of freight rates with diesel prices is because the fuel contributes 50-60% of the input cost of transport operators.

Utilisation levels improved on-quarter for bulk goods such as mining (driven by coal and iron ore mine dispatches) as well as for industrial goods such as cement and steel driven by revival of construction activities. However, for consumption goods, utilisation was range-bound due to the rapid spread of Covid-19 infections.

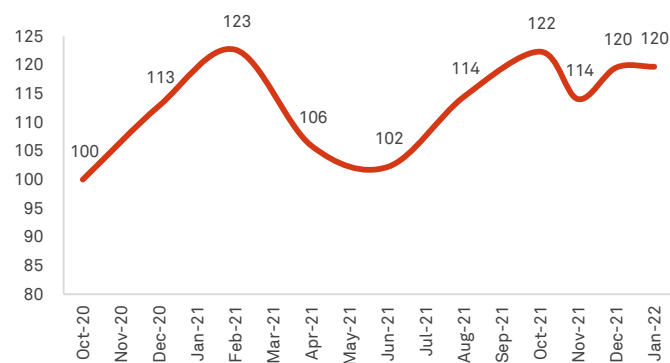
Trend in freight rates

No of routes	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21	Nov-21	Dec-21	Jan-22
Increase in freight rates	115	129	20	66	147	132	32	109	91
Decrease in freight rates	44	30	138	93	12	15	124	49	51
No change in freight rates	0	0	1	0	0	12	3	1	17
Total	159	159	159	159	159	159	159	159	159

While there was a marginal uptick in freight rates on most routes, aggregated increase in rates was less than 1% on-quarter. Also, there was no change in freight rates on 10-15% of the routes.

CRISFrex

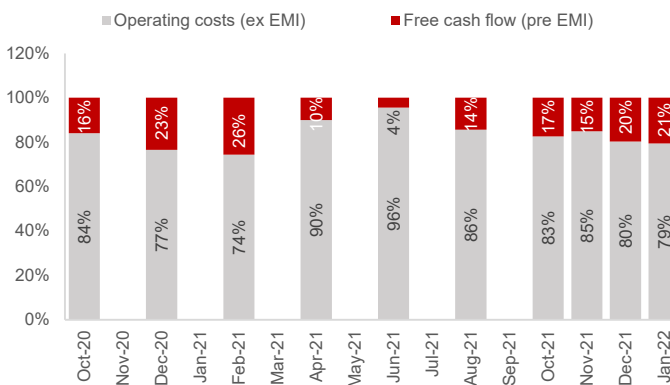
The CRISIL pan-India freight index



Source: CRISIL Research

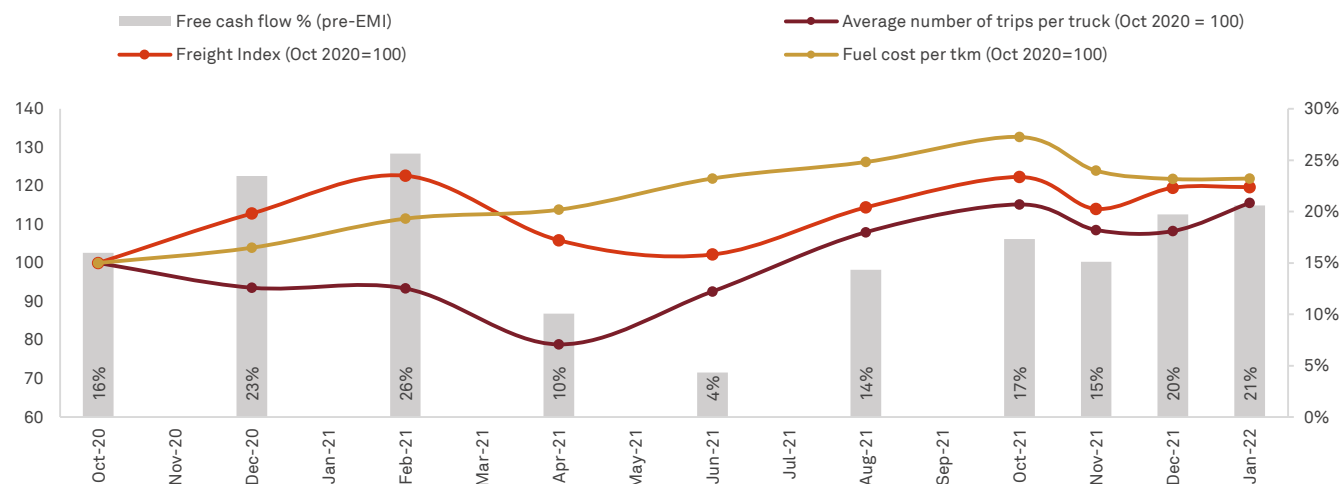
CRISFrex captures changes in freight rates in India on a sequential basis. It also tracks free cash flow (FCF; pre-equated monthly instalment) of transporters on an ongoing basis, making it the first of its kind. Higher FCF typically translates to higher demand for commercial vehicles.

Margins improved as utilisation levels ticked up



Source: CRISIL Research

Utilisation levels are regaining the momentum lost a couple months ago



Source: ????

Freight rates relatively flat on-quarter in January 2022
(Oct 2020, pan-India average =100)

Commodity	Oct-20	Dec-20	Feb-21	Apr-21	Jun-21	Aug-21	Oct-21	Nov-21	Dec-21	Jan-22
Agri-products	106	114	127	111	105	119	128	119	125	125
Auto-carriers	83	105	105	88	90	96	102	94	100	98
Cement	105	135	154	119	116	128	142	130	138	137
Container	83	103	106	90	87	95	99	93	99	97
FMCG/FMCD	135	131	143	128	116	138	141	137	136	138
Market load	101	111	119	109	109	121	128	119	126	125
Mining products	88	121	136	114	103	118	132	122	130	134
Parcel/Loose goods	116	122	136	118	111	132	139	130	133	134
Petroleum tankers	86	102	100	85	82	88	101	95	94	100
Steel	85	102	112	88	94	97	104	92	102	103
Textiles	84	105	116	99	92	99	111	101	110	110

Note: 1) The freight analysis is based on CRISIL's assessment of 159 unique application combinations across 32 routes and 11 commodity types.

2) Operating costs include fuel, driver, toll, maintenance, and tyre costs.

Source: CRISIL Research

CRISIFrex signals flat start to 2022

Freight rates were flat sequentially in January 2022, largely because of relatively unchanged fuel prices over the past two months. This led to stabilisation of the freight market.

The flat freight rates were despite utilisation levels improving on-quarter for bulk goods, such as mining products, cement, etc. Dispatches for consumer goods, though, were flat on-month, slightly impacted by rapidly rising Covid-19 infections. That said, the rise in infections had relatively marginal impact on consumer goods dispatches compared with the sequential plunge during the second wave.

On the dispatches front, there was improvement in mining products, such as coal, iron ore, limestone, etc, vis-à-vis a lull over the previous two months. Relatively better dispatches for retail as well as industrial petroleum derivatives also led to better realisations for tanker operators.

In fact, this time around, the buoyant bulk and industrial goods segments offset the inertia faced in utilisation levels in the consumption goods segment.

All this translated into the CRISIFrex Index remaining flat on-quarter in January 2022, at 120. Although, improving utilisation levels (especially in the bulk segment) have resulted in the industry's overall margins inching up to ~21% vis-à-vis ~20% in the previous month.

But given the unpredictable nature of the pandemic, it is imperative to observe the freight rates as well as utilisation levels for the next 1-2 months as market dynamics could change rapidly.

Methodology

CRISIL incorporates views of 100-150 transporters to understand freight dynamics as well as operational aspects, such as number of trips undertaken 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 five truck platforms with differing load bodies, depending on the commodity carried.

CRISIL's analysis provides an aggregated view of inputs collected to arrive at a holistic picture pertaining to the overall trucking scenario in India.

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