

BANKING

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Rising demand for used CV financing

We recently interacted with industry players for a perspective on economic activity revival and potential fallout from the renewed lockdown in Maharashtra. Key takeaways:

Vikesh Mehta

research@bobcaps.in

Economic activity improving gradually: Our checks suggest that freight operator business has been picking up MoM. Consumption cargo remained flat in Q4FY21 as Q3 saw festive demand, but bulk cargo has picked up QoQ. Operators fear that the current lockdown in Maharashtra will affect last-mile delivery due to timing restrictions, though movement of goods originating from the state would be only marginally affected. Also, the adverse impact on business may not be as severe as the first lockdown initiated in Mar'20.

Fleet utilisation back at pre-Covid levels: Average fleet utilisation in Q4FY21 has reached the pre-Covid levels seen during Jan-Feb'20, as per one of the largest truck load companies in the country. The industry has taken a freight rate hike of ~20% in Q3 and 4-5% in Q4, thereby preserving margins in the face of higher fuel prices. However, operators' working capital is wearing thin due to delayed customer payments.

Demand for used CVs gaining traction: CV demand has been gradually improving, especially for used CVs, given the improvement in fleet utilisation and rise in economic activity. However, apprehensions over extension of the lockdown to other states amid a second wave of the pandemic have instilled a degree of uncertainty among vehicle buyers.

Taxis, school and private staff buses still under stress: Small fleet operators are facing a liquidity crunch but are collaborating with larger players to bring their fleet into use. However, if movement restrictions impede business activity in Q1 and Q2FY22, these operators could come under significant pressure. Lenders are currently taking a softer approach towards repossessing vehicles on profitable truck routes and are extending support if they find operator cash flows improving. Segments such as taxis, school and private staff buses continue to reel under stress as they await reopening of offices and schools.

Our view: Large banks are best placed in the current environment as they are well provisioned and adequately capitalised. **ICICI Bank** (TP: Rs 675, BUY), **HDFC Bank** (TP: Rs 1,800, BUY), and **State Bank of India** (TP: Rs 475, BUY) remain our top picks in the sector.



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