

# Challenges and opportunities in BS-VI migration for CVs

By Mr. Harish Lakshman, Vice Chairman, Rane Group

Volumes in the domestic commercial vehicle (CV) segment soared to all-time high in the fiscal year 2018-19. This was supported by the medium and heavy commercial vehicles (M&HCV) segment's growth of 28.4%, which can be attributed to buoyant demand from the infrastructure industry and benefit of lower base on transition to BS-IV previous year (2017-18). However, there was a sharp decline in the M&HCV segment due to liquidity crunch amid NBFC crisis and volume alignment post axle load norms.

## Key challenges

### Leap-frogging and crunched timeline

The impending migration to BS-VI emission norms by April 2020 is a major challenging exercise that the industry has been working upon for smoother transition. As opposed to other countries, India has to accomplish this major task in just about three years; in comparison, Europe took close to nine years of transitional time. Also, India will leap-frog BS-V and move directly to BS-VI regime.

### Cost dynamics

As there would be significant reduction in emission standards under BS-VI, vehicle technologies are likely to witness significant upgradation, with major changes in engine design and after treatment systems. For instance, to meet stringent BS-VI norms, fuel burn efficiency will have to improve, which will entail engines to withstand greater pressure. This will require certain changes in engine design and more specifically materials that will be used for manufacturing. To control tail pipe emissions (i.e., NOx, PM), diesel particulate filter (DPF) hitherto not present in vehicles will become mandatory besides components for selective catalytic reduction (SCR) and Exhaust Gas Re-circulation (EGR). These changes will result in significant price increases (10-15%) for CVs and vary depending on the kind of technology.

### Inventory

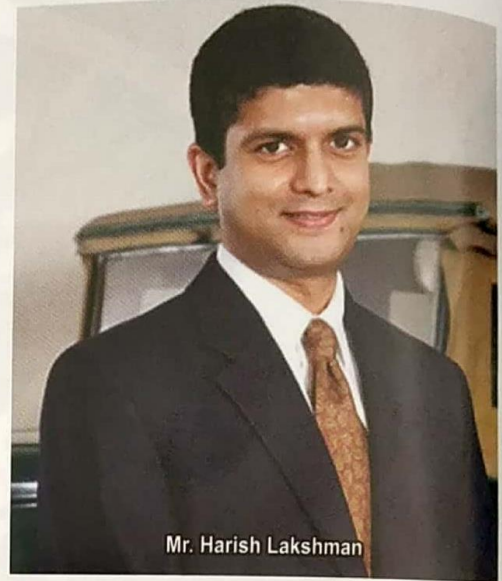
The challenge of BS-VI is that each variant will have to undergo changes. Given the clear mandate by the Supreme Court on the transition to BS-VI, the key problem is to regulate BS-IV vehicle production while managing supply of BS-VI compliant vehicles. This will either lead to unsold inventory or loss in market share for OEMs. The supply chain will also have to gear up to manage the fluctuating schedules accordingly.

### BS-VI fuel cost

The oil refiners have also invested in producing BS-VI compliant fuel and it is expected that the cost of fuel will go up as the refiners have to recover the investments made. The price increase is likely to be up to Rs. 2 and charged in the form of a special cess or duty.

### Sluggish demand

The auto industry has invested significantly to upgrade the models to BS-VI compliant. The current volume decline is unprecedented and adds significant pressure to manage the transition. With the revised axle load norms and the faster growth of higher tonnage vehicles resulted in significant addition to fleet capacity. The anticipated pre-buy of vehicles as seen during BS-IV transition



Mr. Harish Lakshman

maybe muted considering the macroeconomic factors, credit availability, excess fleet capacity, etc. The customers are likely to wait and postpone their purchases rather than saving Rs. 2-3 lakhs and end up with idle fleet capacity. We see 15% decline in commercial vehicle segment in fiscal year 2019-20.

## Opportunities

The auto component manufacturers in the exhaust treatment space along with players in engine and electrical/electronic system are likely to benefit on migration to BS-VI. Despite the preference for petrol vehicles instead of diesel which is imminent in the passenger vehicle (PV) segment, the role of diesel vehicles in the CV segment is going to remain intact.

The auto industry has made representation to the government regarding tax-cuts and ease liquidity in the system to spur demand. The reduction in GST can offset the price increase on account of BS-VI migration. Also, auto industry is waiting for clarity on vehicle scrap-purchase policy, which will support in addressing the environmental pollution by modernization of fleets. These reforms can neutralize the cost impact and help in demand generation.