

Replacement demand, GST reset may boost MHCV sales

SOHINI DAS

Mumbai, 4 January

India's medium and heavy commercial vehicle (MHCV) segment appears to be entering a fresh upcycle after several years of uneven growth. This is mainly on the back of improving freight economics, an ageing fleet profile, regulatory tailwinds and a reset in goods and services tax (GST)-driven distortions.

Brokerages say the recovery, while still freight-rate dependent, is becoming more structurally grounded than previous false starts. This is a view increasingly echoed by industry executives. Volumes (419,000 units) remain below the FY19 peak for MHCVs, underscoring how deep and prolonged the downturn has been. But conditions on the ground are improving.

Nomura, in a recent note on the sector, said the MHCV industry is entering early stages of an upcycle. It has forecast volume growth of about 8 per cent in FY26 and closer to 10 per cent in FY27 as utilisation improves and replacement demand gathers pace. As a result, Nomura estimates MHCV volumes at 404,000 units for FY26; 444,000 units for FY27 and 466,000 units for FY28.

One of the biggest changes has been in fleet operator economics.

Lower upfront vehicle costs following GST cuts — estimated at around 8 per cent — have eased equated monthly instalment (EMI) burdens, while freight rates have stabilised after years of oversupply. This has improved cash flows for transporters, particularly small and mid-sized operators, who had largely stayed away from the market.

Tata Motors' managing director (MD) and chief executive officer (CEO) Girish Wagh acknowledged this shift during the company's Q2 FY26 post-results call. "We are seeing early signs of stability in the MHCV market," Wagh said.

He added, "Fleet utilisation has improved and operator cash flows are better than what they were a year ago. That is important for replacement demand to come back."

He was careful not to declare a full-fledged recovery. "It's not a sharp bounce yet, but the direction is positive," Wagh added, noting that demand continues to vary by region and application.

And, mining and infrastructure-linked segments are holding up better than long-haul freight. Brokerages say the current phase looks structurally different from previous false starts.

Antique Stock Broking pointed to a major shift in market behaviour following the recent GST recalibration.

Over the past few years, tax distortions had encouraged large fleet operators to buy trucks aggressively to optimise input tax credits, even when freight demand was



Structural changes in CV demand and supply

Pre-GST scenario (Prior to July 2017)

- Fleet operators paid excise duty, VAT on vehicle purchases, and service tax on freight services
- There was no comprehensive input tax credit (ITC) framework, leading to more demand aligned vehicle purchases
- Small fleet operators (<10 trucks) constituted nearly 70-80% of the MHCV market

Post-GST scenario

- Introduction of:
 - 5% GST under Reverse Charge Mechanism (RCM), or
 - 12% GST under Forward Charge Mechanism (FCM) with eligibility to claim ITC.
- Post-Covid, large fleet operators overwhelmingly opted for 12% FCM, claiming 28% ITC on truck purchases
- This created tax-driven incentives to buy trucks irrespective of freight demand

Consequences

- Large fleet operators: Expanded owned fleets aggressively. Reduced dependence on hired trucks (largely small operators)
- Market outcome:
 - Fleet size increased, but freight demand did not keep pace
 - Freight rates declined due to oversupply and intense competition
 - Smaller owner-operators were crowded out (<40%)

Source: Antique Stock Broking

weak. This led to excess supply, pressure on freight rates and the marginalisation of small operators.

That distortion is now fading. With GST on new commercial vehicles cut to 18 per cent and the forward-charge mechanism rate raised, "irrational, tax-driven buying has largely stopped," Antique said in a recent note.

It added, "Purchases are increasingly being driven by utilisation and replacement needs rather than tax arbitrage."

Replacement demand, in particular, is emerging as a key theme.

Nomura estimates the average age of trucks on Indian roads at close to 10 years, significantly higher than the historical norm of 7-7.5 years.

Many vehicles bought in 2015-2017 — ahead of the GST and emission norm changes — are now nearing the end of their economic life.

Ashok Leyland MD and CEO Shenu Agarwal reflected this view in his comments after the company's Q2 FY26 results. "We believe the MHCV cycle is close to the bottom," Agarwal said.

He added, "Replacement demand is

slowly coming back as fleet operators see better freight availability and improvement in operating economics."

He said while demand recovery remains uneven, the medium-term outlook is improving.

"As ageing fleets need to be replaced and new regulations come in, the replacement cycle should support volumes over the next couple of years," Agarwal said.

Regulatory changes could add to this momentum. New safety and braking norms slated for FY27-FY28 are expected to push up truck prices, potentially triggering pre-buying ahead of the implementation. Antique estimates the incremental cost at ₹70,000-80,000 per vehicle, a meaningful sum for cost-sensitive operators. Concerns that the Dedicated Freight Corridor (DFC) could hurt road freight demand appear overstated, at least for now. Nomura said non-bulk cargo will continue to depend on road transport due to first- and last-mile constraints. Wagh echoed that view, saying rail and road are "complementary rather than competing modes", particularly as logistics chains become more time sensitive.