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An alumnus of Delhi college and a post graduate from XLRI Jamshedpur. He has worked in blue chip organizations such as Ashok Leyland, Force motors TAFE, Cholamandalam Finance Ltd, OTE muscat – ISUZU trucks, Sonalika tractors & till recently as head of TVS & Sons P Ltd.

VALUATION OF COMMERCIAL VEHICLES – CHALLENGES & ALTERNATIVE PRACTICES

I write on a subject which is close to my heart more as a passion besides a career spanning more than 25 years. For the uninitiated, let me start posing questions and answering them so that it is interesting.

What exactly is a commercial vehicle (CV)?

Any type of motor vehicle used for transporting goods or paying passengers is a commercial vehicle.

Why is a commercial vehicle important?

For the purpose of simplicity, I will restrict myself here to goods commercial vehicles. A farmer produces vegetables, pulses, grains or milk by rearing cattle. Factories produce steel, chemicals or in short goods. These need to be transported in India or abroad. The choices are dictated by accessibility and cost and are done by Air, Ship, and Railways or by Commercial Vehicle Trucks. Now in India more than half of the freight movement across the country is via roads. Thus, commercial vehicles are pillars for freight movement and more importantly their production is a growth driver of the Indian economy.

Domestic Sales FY 23 vs. FY 22 Q1			
Categories	Q1 FY 23	Q1 FY 22	% CHANGE
2 Wheelers	3724533	2413608	54.30%
Passenger vehicles (cars)	910431	646276	40.90%
Commercial Vehicles	224512	105800	112.20%
3 Wheelers	72013	23823	202.30%
Sub Total	296525	129623	128.76%
Grand Total	4931489	3189507	54.61%

Source: CareEdge Research, SIAM

Current Challenges faced by the CV Valuer

1. Domain Knowledge

- Range – In India the CV range starts from the ubiquitous 3-wheelers to the large trucks fitted with multiple axles – 10/12/14 wheelers. Specialized vehicles are available for construction and for over dimensional cargo like Boilers, Windmill components.
- Number of manufacturers - In the early 80s – there were only 2 players. TATA & AL. With Globalization came in companies such as MTBL, Eicher, AMW, Bharat Benz, Swaraj Mazda and others in the 3W/LCV space.
- Technical Specifications – The core of the CV is the engine, drive train besides the suspension. The Engine Specification has undergone rapid changes from the Bharat Stage III to VI owing to emission norms mandated by the Government of India. (Please read my article page 78 in Motor India April 2021 issue). The drive train is designed to carry heavy loads and overloading is a common phenomenon. Thus, there is a range of vehicles designed for load and road operating conditions.

- D. Cargo Truck Bodies and Cabins – Trucks are produced as chassis and the customer fits a cargo body and cabin made from steel, aluminum, wood + steel or containers. There are also specialized bodies made for carrying chemicals, milk, water etc. Nowadays OEM's supply full built trucks as an option.
- E. Fuel/Additives – With stringent emission norms, rising costs of fossil fuels there is concerted effort by OEMs like AL and TML to look at alternatives. Girish Wagh, ED at Tata Motors says in ET DT. 06.09.22 – “Not only will the flexible modular platform be cost effective but they would be versatile too to ensure that they meet a specific requirement of the consumers. The world is moving towards electrification and our new architecture is flexible to accommodate multitude of power train options.”
He further adds that the path towards complete electrification has to go through a critical bridge of gaseous fuels.

2. Value for whom?

The sales chain in the buying of a CV

Manufacturer – CV Dealer – Financier – Customer
Seller Distributor - Banks/NBFCs – End User

2(i) Customer/End User

a. Cargo Carriers – Trucks

The end user decides the nature/type of the customer. Pure cargo carriers carry goods from Point A to Point B. The majority of customers belong to this category for whom the transportation is a business which needs to make profits. Profit is a function of the initial investments and expenses on the truck. Thus, lesser the purchase cost and operational expenses, more the profits. A seasoned operator knows that 60% of the expenses is due to fuel + diesel exhaust fluid cost, followed by cost of tires and then maintenance, i.e., less investment – less expenses = more profits.

b. Special Application Trucks

Trucks such as tankers, construction equipment, drilling rigs, and mobile cement mixers are used by customers who need to complete a project and need these to execute different stages. Thus, the business profits are received by completing the project and not entirely by the trucks which have special attributes.

2(ii) Financier –Banks/NBFCs

The investment cost of a truck ranges from 15 lakhs to 60 lakhs. Thus banks/NBFCs play an important role in the acquisition of the truck. Financiers on their part have various products such as (i) New Vehicle Purchase – Purchase of a new truck. (ii) Repurchase loan – finance to customers for buying pre-owned trucks. (iii) Refinancing loan – Finance for your Business or Personal needs on existing vehicle as an asset. (iv) Balance Transfer/Take over facility – Switch over your existing vehicle loan from A to B Financier. (v) Third Party Purchase – Finance to buy the vehicle from another customer which is under loan.

For financiers the value is basis the realizable value when it is sold in the open market. Thus they have a grid for financing basis the OEM/Product/Customer Profile.

3. The Approach to valuation

As Valuers, we know that the value to whom and purpose of valuation should be the basis for arriving at the value of the CV. However today, the CV is valued on a mass valuation technique. This is by filling up a template containing

1. Registration details
2. Vehicle condition – Engine/Transmission/Load body and accessories
3. Comparison from a value data base of previously sold trucks of similar make model year and kilometers run.

This is the procedure followed be it for the customer or the Financier.

This is akin to the famous quote of Mr. Henry Ford -“Any customer can have a car painted in any colour that he wants so long as it is black.

4. Recommendations

(i) Data Base of Sale of CV in previous instances.

The data which is available today is endemic to a region, and specific to the person who collects it locally. There is no Red Book or Blue Book in India unlike other countries.

Sales of pre-owned trucks/ Exchange of trucks by OEMS like TATA OK; AL; Eicher; and by Shriram Auto Mall is regularly done in the market. SIAM an industry body which represents the OEM's can collate this data and give access to those who desire like the Production and Sales data releases which it does now.

This authentic and realistic data will be available and OEM's will be motivated to ensure that their resale value rises in line with technology changes. Customers and financiers will benefit by more value realization.

(ii) Total Cost of Ownership.

Customers are educated by the OEM'S and thus are comparing the TCO over the life cycle of the truck before finalizing a purchase. The OEM's using their connected trucks data can calculate the expenses in maintenance; Diesel consumption etc. to and shares it to valuers for use. The valuers can also source this data from the customers as many are using software – fleet data for managing their large number of trucks efficiently.

Thus, this can be the basis for arriving at the value – Investment value of truck/ value in Use. Infact in the web site of TATAOK you can see them declare: *GET THE ADVANTAGE OF A TRUCK WITH HIGHER EARNING POTENTIAL*”

(III) Financiers Data base.

Today CIBIL Score is widely used for checking on the repayment track records of customers when they take a loan. This is basis data given by the Banks/NBFC'S. In a similar fashion these institutions can pool the data of the vehicles sold by them after a lease transaction in ordinary course or in the event of distress sales like surrender or repossession from the customer.

(IV) Methods of Valuation.

Customers who use trucks during the course of business for earning profits require a specific process of valuation and as per current mass valuation procedures. It definitely should be basis Investment value / Special value basis or the value in existing use. Mr. Kirit P. Budhbhattii in his book the “Valuation of Plant & Machinery (Theory & Practical) says Quote

“In market approach the similarity of machinery may be deceptive. We must investigate to find differences of attributes between even similar looking machinery’.

Thus, in conclusion I recommend that the valuer has to ascertain Who will be the end user of the Report. He can even if is a financier prove basis reasoning and evidence that the customer will earn more profits and so the financing LTV can be increased and not go by the market value of a similar CV truck basis data of sales of pre-owned trucks which is unverified in any case!

The valuer therefore plays an important role and should be a domain expert and arrive at the right method of valuation instead of the current mass value procedure.