ICRA

INDIAN ROAD LOGISTICS INDUSTRY

Fuel price increase to compress industry margins; organised players better positioned with fuel pass-through clauses and operational efficiencies

June 2026

35 Years of Unwavering Credibility

#35YearsofUnwaveringCredibility

Highlights

ICRA

Click to Provide Feedback

The Indian road logistics sector is estimated to clock revenue growth of 8-10% YoY in FY2027, led by increased freight rates.

Growth in freight volumes is expected to be constrained by the effects of likely rise in inflation and supply chain disruptions on macro-economic activities, weak monsoon, potential development of El Nino conditions and slowdown in consumption.

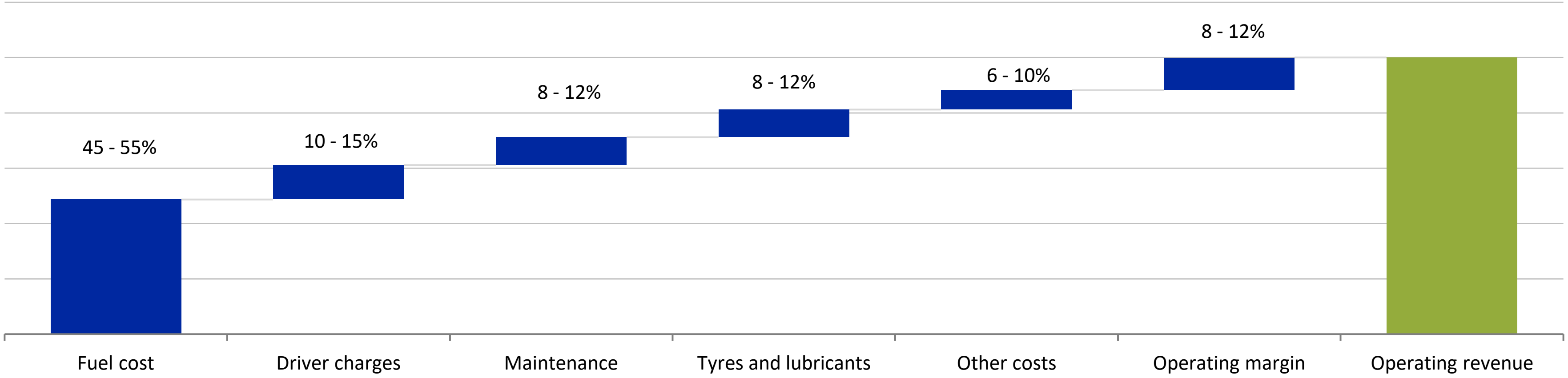
With rising costs of fuel and other inputs like lubricants and tyres, and the inherent competition, ICRA expects the operating margins (for its sample set) to contract by 150-200 bps YoY in FY2027

- **Road logistics industry is highly sensitive to the fuel cost movements.** Fuel accounts for 50-60% of fleet operators' total operating costs and constitutes around 45-55% of revenue. Accordingly, rising costs of fuel and other inputs (like lubricants and tyres) impact the profit margins and working capital cycle across the entire logistics ecosystem. Specifically, smaller fleet operators are more vulnerable.
- **Diesel and CNG prices have been increased by around 8% in May 2026** by oil marketing companies (OMCs), following the spike in crude oil prices in the last three months owing to West Asia crisis. Given the continued uncertainty around the conflict, possibility of further hikes in the near term cannot be not ruled out.
- **Organised players are relatively better positioned,** amid softening demand scenario, supported by the presence of contracts, often with clear fuel cost pass-through clauses, and the ability to offer integrated, long-haul services. But the broader industry remains fragmented and dominated by small fleet operators, which represent 75-80% of the logistics sector. Given this structure, and the predominance of spot contracting, the price pass-through tends to be relatively prompt (albeit prone to being incomplete, dependent on demand-supply of fleet in the micro-market), a reflection of competitive intensity.
- **Operating profit margin of ICRA's sample set* is likely to contract by 150-200 bps in FY2027,** assuming an increase in diesel prices by Rs. 10.0 per litre, as against the aggregate increase of Rs. 7.5 per litre in May 2026, and factoring in that 90% of the increased cost is passed on to customers. Revenue growth is projected at 8-10%, which will be largely driven by increased freight rates, while volume growth is likely to remain soft. Average freight rates were higher by 7% in May 2026 compared to that in February 2026.
- **Debt metrics are likely to moderate in FY2027,** driven by pressure on operating margins and an increase in working capital intensity, particularly as cost pass-through would likely be partial and receivable cycles may stretch. Despite the moderation, the industry's debt metrics are expected to be comfortable.

**Sample set includes 10 listed logistics companies – Blue Dart Express Ltd., Gateway Distriparks Ltd, GATI Ltd., Mahindra Logistics Ltd., North Eastern Carrying Corporation Ltd., Snowman Logistics Ltd., Tiger Logistics (India) Ltd., TCI Express Ltd., Transport Corporation Of India Ltd. & VRL Logistics Ltd.*

Fuel major cost driver for road logistics industry

Exhibit 1: Cost structure of logistics player



Source: ICRA Research

- Fuel is the major cost component for fleet operators and the road logistics industry, forming 50-60% of operating costs and 45-50% of revenue. Hence, any sharp movement in fuel prices impacts the cost structure of fleet operators.
- Other major operating expenses include manpower costs (including driver costs), repairs and maintenance, consumables such as tyres, lubricants, etc., tolls, and corporate overheads.

Contractual provisions may allow fuel cost pass-through

Spot contracts

These are assignment-specific contracts.

Term contracts

Term contracts are longer tenor contracts, with tenures of 3 months to 2-5 years.

Fixed price contracts

Fixed freight rates for defined routes and specified tenors, with no scope for input cost-related price resets. These are usually short-term contracts.

Fuel cost pass-through contracts

Freight rates are indexed to fuel prices and are reset periodically based on a pre-defined formula.

In spot contracts, the impact of fuel price increases varies, as freight rates are determined by a combination of input costs and demand-supply mismatches.

Margins of logistics players are highly vulnerable to fuel price movements, especially over a short period, in fixed-price contracts. However, logistics players may renegotiate with customers depending on their relationships with clients if there are sharp price fluctuations.

Most long-term contracts have provisions for the pass-through of fuel prices to customers. Freight rates are reset periodically based on fuel price movements. Hence, margins are protected to an extent against fluctuations in fuel prices, although the readjustment happens with a lag.

Margin pressures to persist despite pass-through/indexation clauses in contracts

ICRA

Partial pass-through contracts

Contracts may allow only partial pass-through of fuel prices.

Fragmented industry

The logistics industry is highly fragmented, as the unorganised sector (with fewer than five trucks) constitutes around 80% of the industry. Small players with limited bargaining power may absorb a part of the input cost increase to support fleet utilisation.

Muted demand and healthy supply

Soft demand and healthy supply could lead customers to renegotiate freight rates, limiting a complete pass-through despite contractual provisions.

Time lag in price reset

Most contracts provide for periodic price resets (once a month, quarter, etc.). The time lag between the fuel price increase and the passing on of the same to customers would affect margins in the interim.

Pressure from spike in other input costs

Typically, contracts do not cover increased costs arising from spikes in other input costs, such as diesel exhaust fluid (DEF*), and other lubricants and consumables, which are also linked to crude oil prices.

*Source: ICRA Research: *DEF is made of urea and deionized water which is used in diesel vehicles to convert harmful nitric oxide emissions to nitrogen.*

Spot market dominates Indian logistics sector reducing the lag in fuel price pass-through

ICRA

Exhibit 2: Share of spot market in various segments

Segment	Contribution to road freight	Share of spot market	Remarks
Agriculture	25%	90 - 100%	Agriculture is highly seasonal, inherently spot-driven
MSMEs	25%	70 - 80%	MSMEs have fragmented, low-volume shipments, prefer spot
Large Corporates	50%	40 - 70%	Even in contract freight, return legs are rarely contracted and trucks rely on spot loads for utilization. This inflates effective spot share beyond contractual share

Exhibit 3: Share of spot market in various logistics services

Segment	Share of spot market
Full Truck load (FTL) industrial freight	80 - 95%
Less-than-truckload (LTL) industrial freight	30 - 50%
E-commerce	10 - 25%

- Price transmission is materially faster in the spot market than in long-term contracts. However, the eventual completeness of pass-through can sometimes be higher in contracts, albeit with a lag.
- In India, spot transactions account for most of the freight movement and act as principal mechanism for price formation. Consequently, input cost shocks, particularly fuel price movements, are transmitted into freight rates with minimal lag and limited smoothing, resulting in a more immediate and often volatile adjustment in logistics costs. This structure also reduces price stickiness and compresses the transmission chain, amplifying the responsiveness of freight rates to underlying cost and capacity conditions, while simultaneously increasing margin volatility for fleet operators and reducing the buffering role typically played by long-term contracts.

Source: ICRA Research:

Fleet with diesel trucks most impacted by fuel price increase

	Powertrain		
	Diesel	**CNG**	**EV**
Fuel cost*	45 - 55%	40 - 50%	20 - 25%
Other operating cost*	35 - 45%	35 - 45%	40 - 50%^
Operating margin (OPM)	8 - 12%	15 - 20%	30 - 35%^
Impact of 1% increase in diesel / CNG cost on OPM assuming that fuel cost increase is not passed on to customers and other costs are unchanged	**Down by 45 - 50 bps**	**Down by 40 - 45 bps**	**No impact**

Exhibit 4: Year-wise powertrain mix of new M&HCV vehicles sold

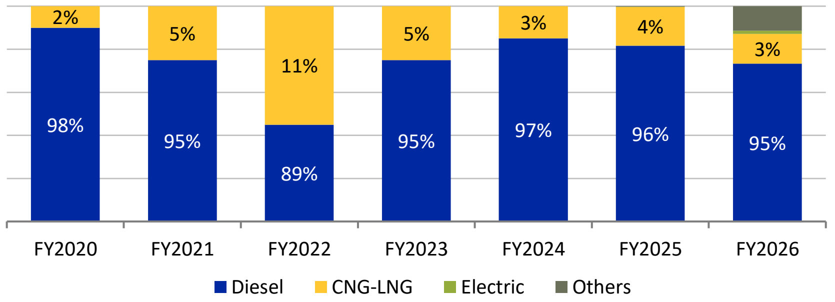
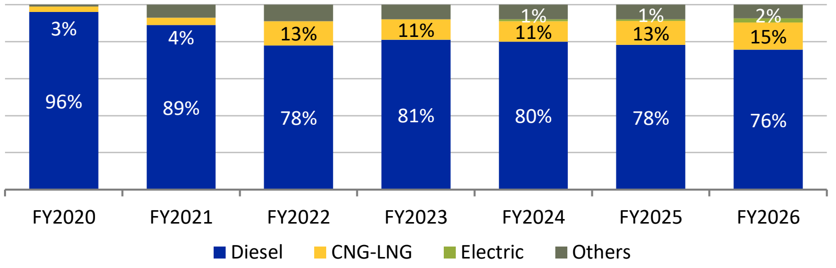


Exhibit 5: Year-wise powertrain mix of new LCV vehicles sold

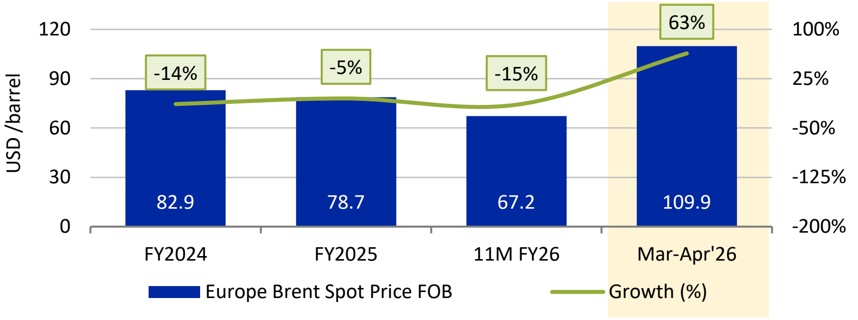


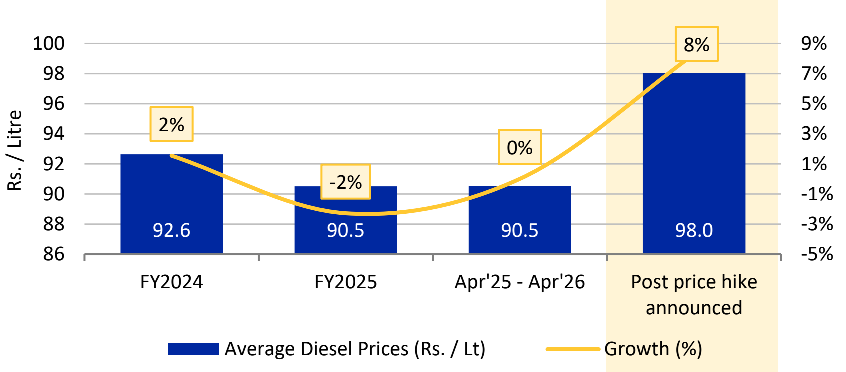
*Source: Vahan, ICRA Research; *Cost as a percentage of revenue; ^includes battery replacement cost assumed as once over the lifetime of the vehicle*

Further fuel price hikes in the near term cannot be ruled out amid uncertain geopolitical environment

ICRA

Exhibit 6: Trend in Brent crude and Indian average diesel prices





Source: ICRA Research, Petroleum Planning and Analysis Cell, U.S. Energy Information Association

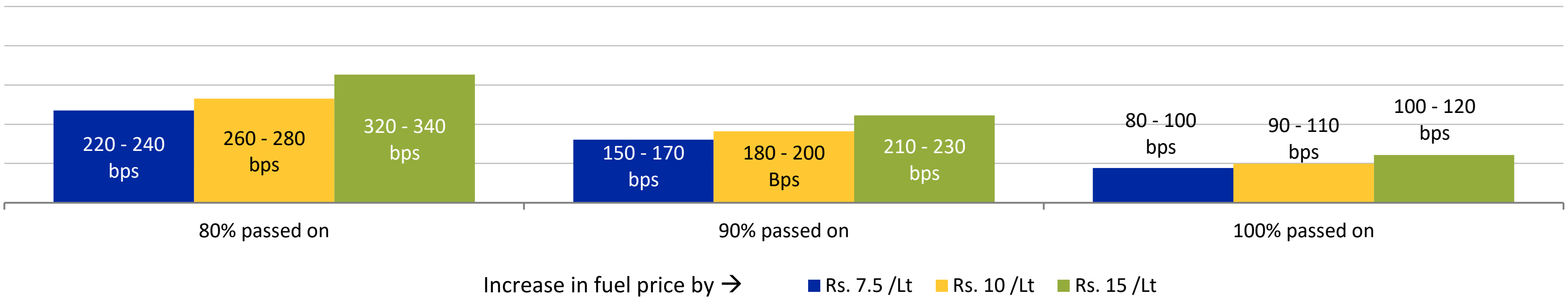
Exhibit 7: Recent announcements

Diesel	▪ Diesel prices have been increased four times since May 15, 2026, aggregating to Rs. 7.5/lt (around 8%) by state-run OMCs.
CNG	▪ CNG prices have also been increased four times in May 2026, aggregating to Rs. 6/kg (around 8%), by state-run OMCs.

- Crude oil prices had risen sharply since February 28, 2026 owing to the West Asia conflict, which disrupted crude oil supply chain and availability. Although prices have eased in the recent sessions, uncertain geopolitics would keep them at elevated levels. As a result, further fuel price hikes in the near-term can not be ruled out.
- Domestic fuel prices (petrol, diesel, and CNG) were not increased in the first two months following the start of conflict, and the higher crude oil prices were absorbed by the Government and OMCs.
- In May 2026, Diesel and CNG prices were increased by Rs. 7.5/lt, and Rs. 6.0/kg respectively.

Operating margins to witness contraction in FY2027

Exhibit 8: Estimated erosion in operating margin for various fuel price increase and pass-through scenarios



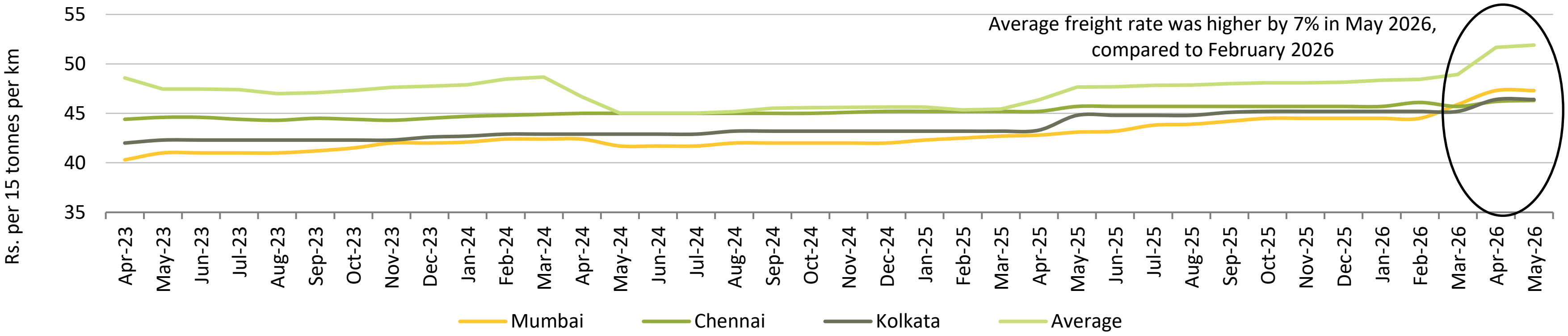
1. *At stable fuel prices, operating margin is assumed at 10 - 12%.*
2. *Increase in fuel price is assumed from the base price as on May 14, 2026, before the price increase cycle began. Crude-linked operating costs (include tyres, DEF, and other lubricants, accounting for approximately 10% of revenue) are assumed to increase by 50%*
3. *Operating margins would arithmetically decline even if full pass-through of costs happens and the absolute operating profits are preserved.*

- ICRA expects operating margins to come under pressure as the rise in input costs may not be passed on completely to customers owing to intense competition and soft demand. Organised players are likely to be relatively better placed to pass on fuel price increases to customers, given their ability to offer integrated services and cater to pan-India destinations over longer routes. They are also expected to cushion themselves with better technology adoption and operational efficiencies.
- ICRA projects operating margins to contract by 150-200 bps YoY in FY2027 for its sample set of logistics players, assuming an overall increase in fuel prices by Rs. 10 per litre and that 90% of the overall cost increase is passed on to customers. The scenarios for different levels of pass-throughs and rise in fuel prices are captured in the above graph.

Source: ICRA Research

Competitive dynamics constrain road freight rates

Exhibit 9: Trend in truck freight rates per km from Delhi to various cities in India



Source: CMIE, ICRA Research

- Fuel prices were relatively stable in the last few years, which resulted in stable freight rates, thereby limiting overall growth. Moreover, intense competition within the Indian logistics sector has significantly constrained pricing power. Additionally, excess capacity in certain segments has compelled operators to prioritise fleet utilisation over margin expansion. As a result, logistics companies have largely absorbed minor cost increases instead of passing them on, keeping freight rates broadly stable.
- However, average freight rates (from Delhi to various cities in India) were higher by 7% in May 2026 (diesel prices went up by around 8.3% in May 2026 post four price hike announcements), compared to that in February 2026, owing to cost inflation.

Macro economic challenges to weigh on volume growth in FY2027

Growth factors

Road transport remains the primary mode of transportation in India, accounting for most of the freight movement. Healthy medium-term growth prospects for the Indian economy augur well for the road logistics sector.

Improving road infrastructure and the Government's strategic policy initiatives, such as Bharatmala Pariyojana, PM Gati Shakti, and the National Logistics Policy aimed at enhancing logistics efficiencies, would support growth.

Growing e-commerce is a positive for road logistics, as it has been driving improvements in turnaround times, last-mile connectivity, and supporting the growth of integrated logistics services.

The organised sector is expected to benefit from increasing demand for integrated services. Established client relationships and long-term contracts provide it with an edge over small fleet operators.

Challenges

The challenging macroeconomic environment, characterised by fuel shortages, supply chain disruptions, and inflation, is likely to impact industrial activity and consumption, thereby affecting demand in the logistics sector.

The probable emergence of El Nino would affect rural demand, thereby impacting sectors such as tractors, two-wheelers, and FMCG.

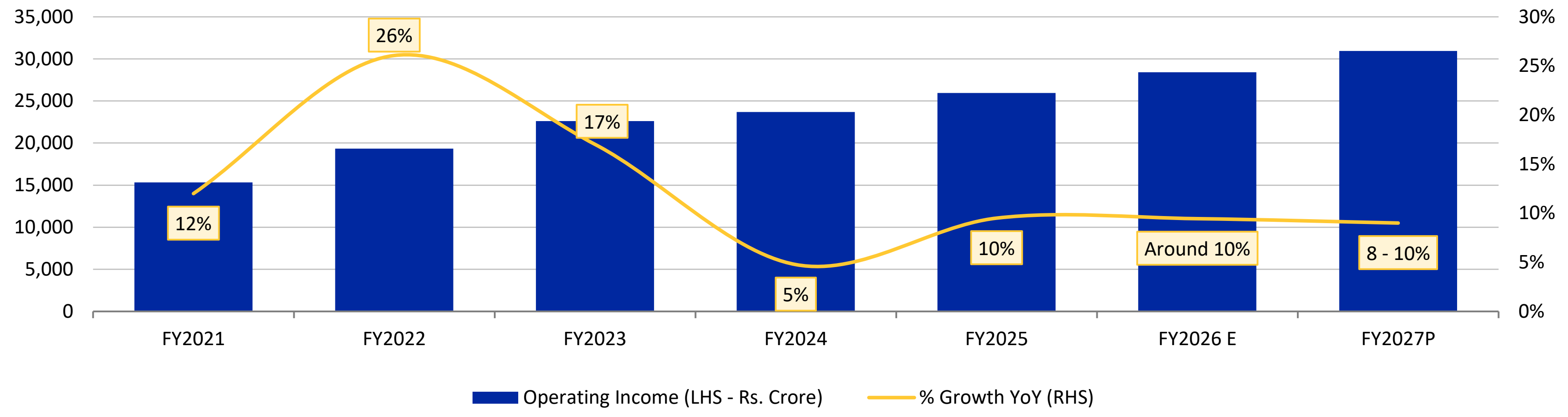
Soft demand and excess supply would affect pricing power, thereby impacting revenue growth. Moreover, limited pricing flexibility amid high input costs will affect the financial profile of logistics players.

Shortages in fuel availability would disrupt the operations of fleet operators, increase transit times, and affect volume growth. However, persistent supply shortages would improve the pricing power of logistics players.

Source: ICRA Research

Outlook | Revenue growth driven by freight rates

Exhibit 10: Trend in revenue and operating margins for ICRA's sample set



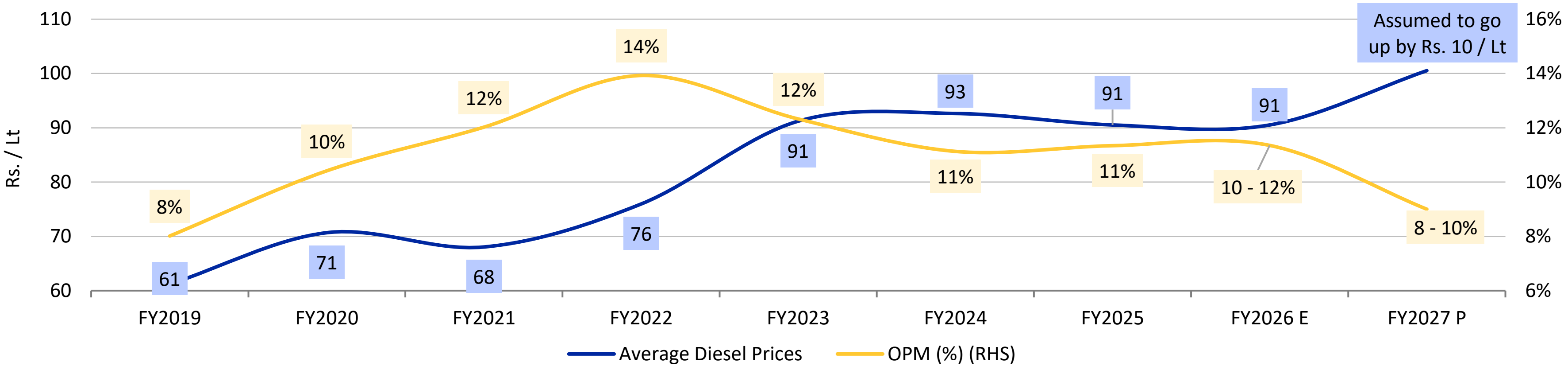
Source: ICRA Research

- In FY2026, revenue grew by around 10% over FY2025, supported by volume growth across segments and improved throughput. The growth was aided by demand from e-commerce, FMCG, and industrial sectors. However, the pace was partly offset by high base effect, stabilisation in container availability, and steady freight rates. The industry is estimated to report revenue growth of 8-10% in FY2027, driven by increased freight rates, while volume growth is expected to remain muted, as high inflation and supply chain disruptions impact economic activity and El Nino affects rural cash flows.

Outlook | Operating margins to contract by 150-200 bps, in contrast to the trend seen during Covid-19 pandemic

ICRA

Exhibit 11: Comparison of trend in operating margin of ICRA's sample set and average diesel prices in India

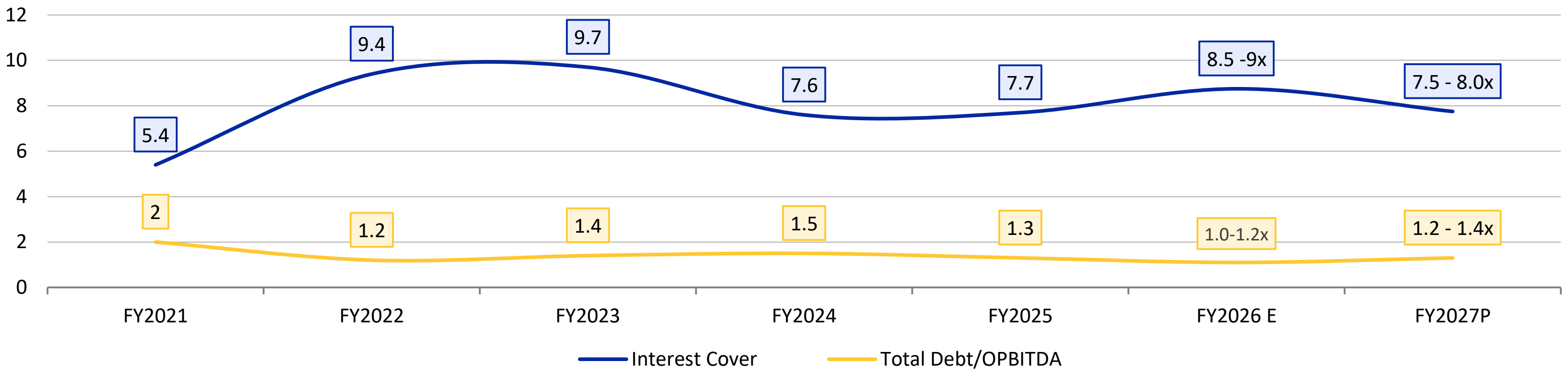


Source: ICRA Research

- In the previous fuel price hike cycle, which was during the Covid-19 pandemic (i.e., FY2020 to FY2023), operating margins of ICRA's sample set of logistics players improved. Despite an increase in input costs, strong demand (aided by pent-up demand during FY2021 to FY2023), which outpaced supply, improved pricing flexibility and supported margin expansion
- Unlike the trend witnessed during the pandemic, industry is likely to move from relative equilibrium in demand – supply to supply outpacing demand in the fuel price hike cycle which would impact the pricing flexibility of the industry, resulting in contraction in operating margin by 150 -200 bps.

Outlook | Credit metrics expected to remain healthy despite a moderation

Exhibit 12: Trend in debt metrics



Source: ICRA Research

- Debt metrics are likely to moderate owing to the contraction in operating margins and higher working capital requirements with revenue growth outpacing the earnings growth. However, despite the moderation, they are expected to remain comfortable. Fleet operators are likely to slow down fleet expansion plans given the muted demand outlook, which will keep debt levels in check. Nevertheless, transition to EV trucks is likely to accelerate given diesel shortages and elevated fuel prices.
- While a prolonged fuel cost rise is a negative for the sector from the margins and working capital standpoint, there can be structural positives for the sector. This includes accelerated conversion of unorganised to organised trade, focus on efficient route optimatisation (like AI-driven), higher penetration of electric vehicles in the logistics ecosystem etc.

Guidance on impact of fuel price increase on demand and margins by a few listed logistics players

Company Name	Sub-segment	Management commentary on demand	Management commentary on operating margin
VRL Logistics Limited	Full truck load (FTL), less than truck load (LTL), courier service, priority cargo and passenger transport by air, third-party logistics provider (3PL), and warehousing services	▪ Volume growth is likely to be affected because of supply chain disruptions in certain segments such as plastics and other crude derivatives. ▪ However, increase in fuel rates will not affect volumes adversely. ▪ Management is optimistic of gradual recovery in demand on the back of company-specific initiatives.	▪ Historically, diesel price increase were passed on by the industry players albeit with some time lag. Hence, it is expected to be passed on. Moreover, fuel surcharge clauses in contracts support the margins. However, the extent of premium pricing may vary. Hence, absolute operating profit will remain at similar levels although there could be correction in operating margin by a few basis points.
Mahindra Logistics Limited	3PL provider. Contract logistics, cross border logistics, Express logistics, last-mile delivery and mobility solutions.	▪ While demand in freight forwarding segment has been impacted, demand in other segments has been stable.	If fuel price increase is steep, say by 10-15%, it will be passed on to customers immediately.
Allcargo Logistics Limited	Express logistics, warehouse and storage, transportation management, in-plant management, distribution and inbound logistics, Ecommerce order fulfilment.	NA	Being a strong B2B player and given the tight contracts and transparent fuel price pass-through mechanism with customers; pass-through of increase in input costs to customers should not be a challenge.

Source: ICRA Research; Earnings call transcripts of listed entities

Credit ratio remained stable in FY2026

- ICRA rates 13 companies in the logistics sector. Around 91% of the rated companies are in the investment-grade category, while the rest are non-investment grade.
- Most of the debt ratings are in the [ICRA]A and [ICRA]BBB categories, which comprise about 45% and around 36% of the total rated entities, respectively.
- In FY2023, there was one upgrade vis-à-vis one downgrade. In FY2024, there were two downgrades and two upgrades. The credit ratio stood at 1.0 times in FY2023 and FY2024.
- In FY2025, one company was upgraded owing to an improvement in its scale of operations. One company was placed on a negative outlook owing to pressure on its profitability and delays in the expected deployment/ramp-up of operations.
- In FY2026, one entity was upgraded on the back of an improved operational and financial profile following the hive-off of a loss-making segment and equity infusion. There were no rating downgrades during the period.

Exhibit 13: Rating distribution by number of entities rated

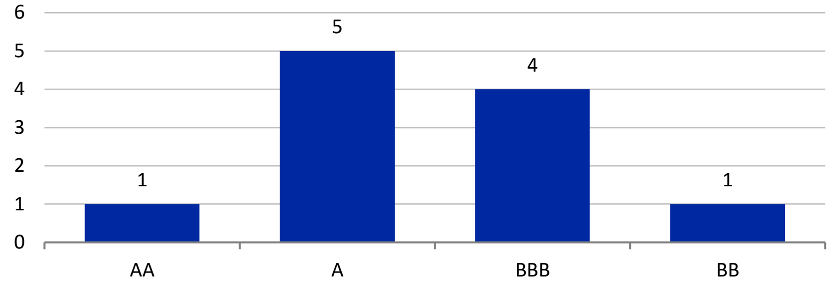
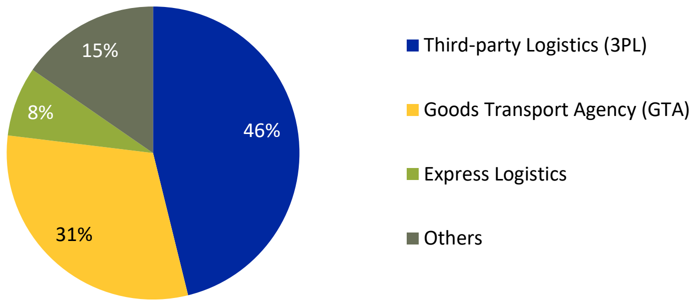


Exhibit 14: Segment-wise distribution of ICRA-rated portfolio



Source: ICRA Research

List of ICRA-rated entities in the logistics sector

ICRA

Exhibit 15: Ratings of key logistics companies rated by ICRA

Company	Rated Amount (in Rs. mn)	Long-term Rating	Short-term Rating	Outlook	Last Rating Action
Associated Road Carriers Limited		[ICRA]A+		Stable	Ratings reaffirmed
Blue Dart Express Limited	2,000.0	[ICRA]AA	[ICRA]A1+	Stable	Ratings withdrawn
Blue Dart Aviation Limited	1,450.0	[ICRA]AA	[ICRA]A1+	Stable	Ratings withdrawn
Camions Logistics Solutions Pvt Ltd	100.0	[ICRA]BBB-		Stable	Ratings reaffirmed; Outlook revised to Stable from Negative
Capricorn Logistics Private Limited	1,038.9	[ICRA]BBB+		Stable	Ratings reaffirmed
Crown Worldwide Private Limited	2,200	[ICRA]A		Stable	Ratings reaffirmed and assigned
Express Roadways Private Limited	1,979.0	[ICRA]BBB+	[ICRA]A2	Stable	Ratings assigned
Mahindra Logistics Limited	4,500.0	[ICRA]AA	[ICRA]A1+	Stable	Ratings reaffirmed
Transport Corporation of India Limited	2,000.0	[ICRA]AA	[ICRA]A1+	Stable	Rating assigned / reaffirmed
TCI Express Limited	250.0		[ICRA]A1+		Rating reaffirmed
VRL Logistics Limited	4,820.7	[ICRA]A+		Positive	Ratings reaffirmed; Outlook revised to Stable from Positive
Ritco Logistics Limited	3,817.5	[ICRA]BBB+		Stable	Ratings withdrawn
Sugam Parivahan Private Limited	200	[ICRA]BBB+	[ICRA]A2	Stable	Ratings reaffirmed
Boxco Logistics India Private Limited	227.3		[ICRA]A4		Ratings downgraded

Click to Provide Feedback

Analytical Contact Details

Name	Designation	Email	Contact Number
Jitin Makkar	Senior Vice-President and Group Head	jitinm@icraindia.com	0124- 4545 368
K. Srikumar	Senior Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 - 4596 4318
Nithya Debbadi	Assistant Vice-President and Sector Head	nithya.debbadi@icraindia.com	040 – 6939 6416
Roshan Dugar	Senior Analyst	roshan.dugar@icraindia.com	020 – 6606 9924
Rakesh Thakur	Deputy Manager	rakesh.thakur2@icraindia.com	0124 – 4545 325

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head – Research Sales and Investor connect	Sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

Years of Unwavering Credibility

Thank You!

#35YearsofUnwaveringCredibility