PRESS RELEASE

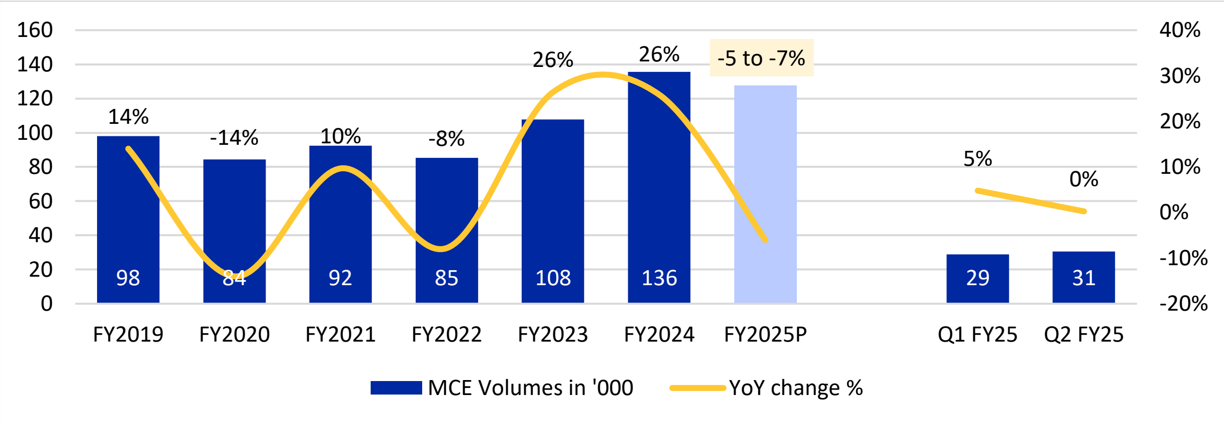
October 17, 2024

Slow project awarding and tight financing environment remain key challenges for Indian MCE industry in FY2025: ICRA

- ***Sales volume likely to decline by 5-7% in the current fiscal***
- ***Industry OPM and coverage metrics to moderate marginally; lower commodity prices to partly offset the impact of volume contraction***

ICRA expects the sales volume of the Indian mining and construction equipment (MCE) industry to fall by 5-7% in FY2025 on a YoY basis, against the earlier estimates of a 12-15% decline. This follows better-than-expected domestic sales in H1 FY2025 (up 2% on a YoY basis), despite slowdown in infrastructure activities during the General Elections in the first quarter and monsoons in the second quarter. The likely lower decline of MCE sales volume in the current fiscal also reflects customers' optimism about sustained policy focus on the infrastructure development. However, slow project awarding and tightening in the financing environment remain concerns, which may constrain demand in the second half of the current fiscal.

Exhibit: Trend in Indian MCE industry volumes



Source: ICEMA, ICRA Research

Providing further insights, **Ritu Goswami, Sector Head, Corporate Ratings, ICRA,** said: "The project awarding activity in the road segment (the major driver for domestic MCE sales) has remained weak during the last 15-18 months. While a surge in the Government capex is expected in H2 (given the pending budgetary outlay), ICRA estimates that the annual awarding by the Ministry of Road Transport and Highways (MoRTH) in FY2025 to be similar to the level of FY2024 and significantly lower than FY2021-FY2023 levels. Given the lead time between project awarding and commencement of work, equipment purchasing by road developers may be deferred till next year. Demand from other user industries will only partly offset this gap. Additionally, tight financing scenario by way of lower loan to value ratio, greater scrutiny of loan applications or higher loan rejections may result in deferral of new equipment purchase by first-time (retail) buyers and constrain offtake for the full year."

Road construction accounts for 35-45% of MCE sales in India, followed by mining (20-30%), real estate (10-20%) and other sectors (railways, water supply, power etc.). In H1 FY2025, the growth in domestic sales was driven by the earthmoving and material processing equipment segments, which saw a 5% and

1% YoY growth, respectively. Road construction (-9%), material handling (-7%) and concreting equipment (-4%) segments reported a decline in volumes in H1 FY2025 on a YoY basis.

The performance trend was mixed across the major sectors in H1 FY2025. In the road construction segment, data from MoRTH reported a decline in execution by 7% and awarding by 34% in 5M FY2025 on a YoY basis. In contrast, despite the impact of monsoon on the mining activities in Q2, coal production (up 5.8% on a YoY basis in H1 FY2025, as per provisional data from the Ministry of Coal) and iron ore production (up 8.9% on a YoY basis in 4M FY2025, as per data from the Ministry of Mines) reported growth, indicating healthy demand momentum in the user industries like energy, steel and cement. In addition, the ongoing real estate upcycle supported the overall MCE sales.

Commenting on the medium-term industry outlook**, Goswami** added: "With Construction Equipment Vehicle (CEV) - V emission norms getting implemented from January 2025, which may entail price hikes, some pre-buying is expected towards the end of FY2025 and Q1 FY2026. Strong focus towards improving transportation infrastructure (roads, railways and airports), with healthy budgetary outlays for the Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Awas Yojana and Jal Jeevan Mission, have been among the key growth drivers for new equipment demand in the recent years. Sustenance of these initiatives, coupled with continued focus on energy security (as reflected in increased coal mining targets/reduced imports) and rising mechanisation across infrastructure projects reflect a favourable demand outlook for the MCE industry over the medium term."

The aggregate revenues for ICRA's sample set of companies[1] are likely to contract by 0-5% in FY2025, partly supported by higher average realisations, better product mix and improving after-sales service revenues. The operating profit margin (OPM) is expected to contract by 50-100 bps to 8-9% on the back of lower commodity prices, even though freight cost remains a headwind owing to continued disruptions in the Red Sea region. ICRA maintains a Stable outlook for the sector, despite a transient moderation in performance expected in FY2025 on a YoY basis, given the low leverage and comfortable coverage metrics of most players.

"ICRA expects the industry's credit metrics to moderate in FY2025 on a YoY basis (though the same will remain comfortable), with a marginal contraction in OPM and increase in year-end debt level due to higher inventory, which will include transient build-up of CEV-IV compliant equipment[2]. The industry's leverage and coverage metrics are expected to moderate marginally, with the impact likely to be more prominent for small and mid-sized original equipment manufacturers, which have relatively leveraged capital structure,*"* **Goswami** added.

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[1] *ICRA's sample set - Aggregate financials for a sample of 13 large MCE players in India, accounting for bulk of the industry (Tata Hitachi, ACE, Sany, Ajax, Schwing Stetter, Hyundai, Caterpillar, JCB, Komatsu, KYB-Conmat, Kobelco, Putzmeister, Volvo)*

[2] *As per Government guidelines, while production must be stopped before the transition date to CEV norms, registration of MCE is allowed for six months after the respective implementation date. In case of CEV-V, which is coming into effect from January 1, 2025, the sales of CEV-IV compliant equipment will be allowed till end-June, 2025.*

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