PRESS RELEASE

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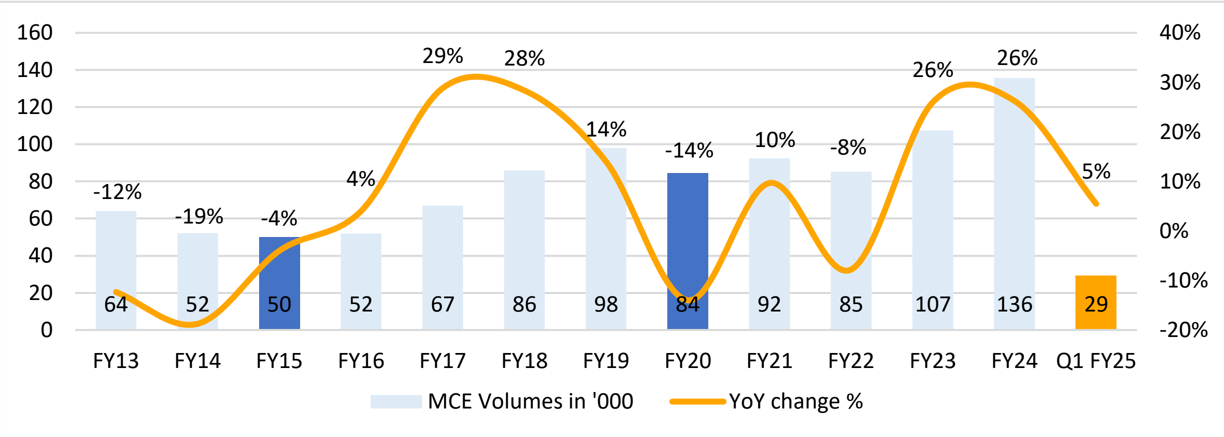
Domestic mining and construction equipment industry bucks the trend to post 5% YoY growth in Q1 FY2025: ICRA

- ***5-7% YoY decline expected in volumes in FY2025; pick-up in new award activity remains crucial***
- ***Input cost pressure will weigh on margins in FY2025e***

The Indian mining and construction equipment (MCE) industry has reported a 5% YoY growth in volumes in Q1 FY2025 as per the initial data released by the Indian Construction Equipment Manufacturers Association (ICEMA). While this growth has been modest, compared to the 20% YoY expansion seen in Q1 FY2024, the industry was, in fact, bracing for a contraction in domestic demand in H1 FY2025. This expectation was in line with the previous election cycles, driven by a slowdown in the new project award activity (due to the Model Code of Conduct in place on account of the Parliamentary Elections in April-June 2024) and the monsoon-related impact on construction activities in Q2 FY2025. Nonetheless, the performance in Q1 reflects customer optimism over the Government's sustained focus on infrastructure development and the consequent impact on MCE demand.

Exhibit: Trend in Indian MCE Industry Volumes



Source: ICEMA, ICRA Research

Providing more insights, **Ritu Goswami, Sector Head - Corporate Ratings, ICRA,** said: *"While the road construction activity remained weak in Q1 FY2025, relatively strong activity in mining and real estate sectors provided some support to the overall volume growth. With renewed confidence regarding policy stability towards infrastructure-fuelled economic development, the new project award activities (and MCE volumes) are expected to ramp up faster than previously anticipated in H2 FY2025."*

In Q1 FY2025, the growth in domestic sales (+5% YoY) was driven by the earthmoving and concreting equipment segments, which saw 5% and 8% YoY growth, respectively. The road (+1% YoY), material handling (+1% YoY), and material processing equipment (-2% YoY) segments reported flattish volumes.

Road construction drives 35-45% of MCE sales in India followed by mining (20-30% share), real estate (10-20%), and others. The trends seem to have been mixed across the sectors in Q1 FY2025. The execution data from MoRTH reflects a decline in road execution by 14% YoY in Q1 FY2025. In contrast, mining of coal (+8% YoY production as per Coal India Limited), iron ore (+4% YoY in Apr-May), and limestone (+2.6% YoY in Apr-May) reported continued traction, indicating strong demand momentum in the user industries like energy, steel, and cement. Healthy residential real estate demand supported concreting equipment volumes while YoY growth seen in port cargo traffic and rail freight is likely to have aided the demand for material handling equipment.

Going forward, the pace of awarding activity in the road sector has remained muted over the last 15 months due to the pending Cabinet approval for the revised cost pertaining to the Bharatmala Pariyojna-I plans; receipt of the same will be crucial for pushing up the pace of awards in the current fiscal. In other segments – healthy outlay in Budget FY2024-25 for the Jal Jeevan Mission, the PM Gram Sadak Yojana, and the PM Aawas Yojana – schemes which have been among the major drivers for new equipment demand – is a positive. While a pick-up in state government capex could yield a faster turnaround in construction activity/MCE volumes, given the severity of the monsoons in several states so far, the same will be more ascertainable only after a few months.

"While ICRA expects the construction sector gross value added (GVA) to ease to 4-4.5% in Q1 FY2025 (Vs. 8.6% in Q1 FY2024), the same is estimated to expand by ~7.0-7.5% (Vs. 9.9% in FY2024) in FY2025, supporting the demand for MCE in the second half of the fiscal. An adequate order book of construction entities and their thrust on execution will support equipment utilisation levels. Some pre-buying due to the CEV-V emission norm transition in January 2025 should aid the volume offtake in H2 FY2025. Given the better-than-expected Q1 FY2025 performance, ICRA expects a relatively moderate 5-7% volume contraction in FY2025. The rental yields have softened in Q1 FY2025 compared to Q4 FY2024 levels and are expected to remain flattish on a YoY basis for the full fiscal. A material improvement in road sector awarding activity remains crucial and a key monitorable, **Goswami** added**.**

In terms of financial metrices, given the anticipated decline in volumes, the aggregate revenues and operating margins for ICRA's sample set companies are expected to moderate in FY2025. On the cost front, steel prices have been trending upward since the first week of April 2024. In addition, container freight rates nearly tripled in Q1, owing to continued disruptions in the Red Sea region. With high import dependence (~45-50% by value), the domestic MCE industry is likely to track the Red Sea crisis, as it could further push up commodity and other input prices, thereby impacting OEM margins. However, despite the moderation, ICRA expects the credit profile of OEMs to remain stable in FY2025, in the backdrop of low leverage and comfortable liquidity with most players.

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