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INSIDE



## THE BIG INTERVIEW

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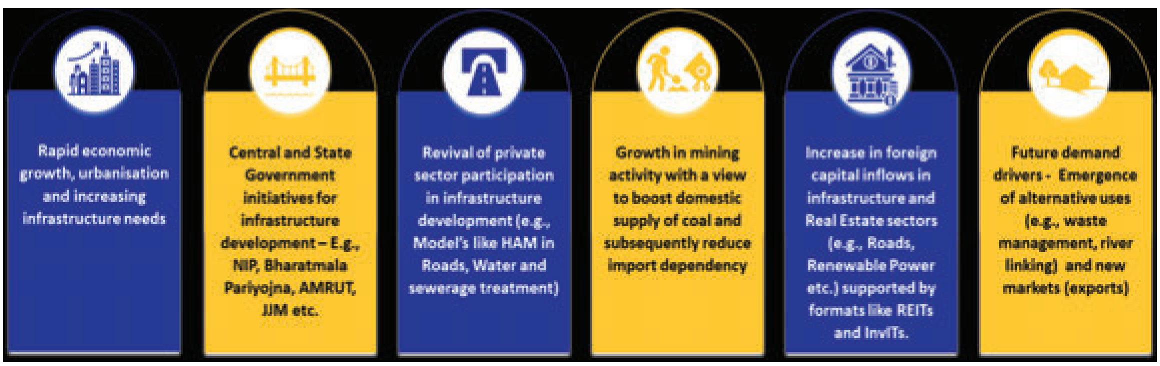
# ROADS & BRIDGES
## Paving the Way

# Sustained focus on infrastructure development keeps industry's long-term prospects healthy

The Indian mining and construction equipment (MCE) industry is not only growing in volumes, but also simultaneously responding to the changing global demand and supply scenario and its shifting priorities The shifting landscape has led to the emergence of several trends globally, and the Indian industry is at various stages of adoption in each of these areas.

In the last decade (FY2015-2024), the Indian mining and construction equipment (MCE) industry has witnessed a robust 12% compounded average growth rate (CAGR), overtaking Japan as the 3rd largest global MCE market (in volume terms). The industry set a new high for the 2nd consecutive year with 1.36 lakh units sold in FY2024 (a 26% YoY growth). As it derives over 90% of its sales volumes from the domestic market, of which ~70% comes from various infrastructure projects, the phenomenal growth in the recent years has primarily been led by the infrastructure push in the Indian market. With its so-called 'multiplier effect' on economic growth, consistent and increasing investments in infrastructure development has been the focus area for the Government of India (GoI) over the past decade.

It has been working on several initiatives to attract investment and strengthen India's position as a



favoured global manufacturing hub, which requires availability of a world-class infrastructure. The capital expenditure of the public sector has increased to over three-fold to ₹11.1 trillion in FY2025 (as per the Budgetary Estimates) from FY2015. The improvement in the quality of spending is also reflected in the rise in the share of capex spending in the total expenditure to ~25% in FY2025 (as per the Budgetary estimates) from ~13% in FY2019. Sizeable budgetary allocations together with policy stability, financial sector reforms, taxation structure changes (like GST implementation) and simplified regulations, have resulted in a phenomenal pace of infrastructure development over the last decade, driving growth for the MCE industry.

## Technology and production trends keeping pace with global standards

The Indian MCE industry is not only growing in volumes, but also simultaneously responding to the changing global demand and supply scenario and its shifting priorities – eg, technological advancements such as digital technologies, Internet of Things (IoT) and alternate fuel powertrains. The shifting landscape has led to the emergence of several trends globally, and the Indian industry is at various stages of adoption in each of these areas.

With forthcoming transition to commercial equipment vehicle (CEV) V norms w.e.f. January 1, 2025, the Indian MCEs (excluding non-roadable/ off-highway equipment) will come at par with European Union's (EU) Stage V norms. These will represent a significant upgrade in emission standards for non-road CEVs and will apply to a broader range of engines and impose stricter limits on hazardous emissions like particulate matter, nitrogen oxides, hydrocarbons, etc. Consequently, production of older vehicle models will cease, and new models will be introduced. In addition, safety features are also being mandated, which will also add to the cost of select equipment categories.

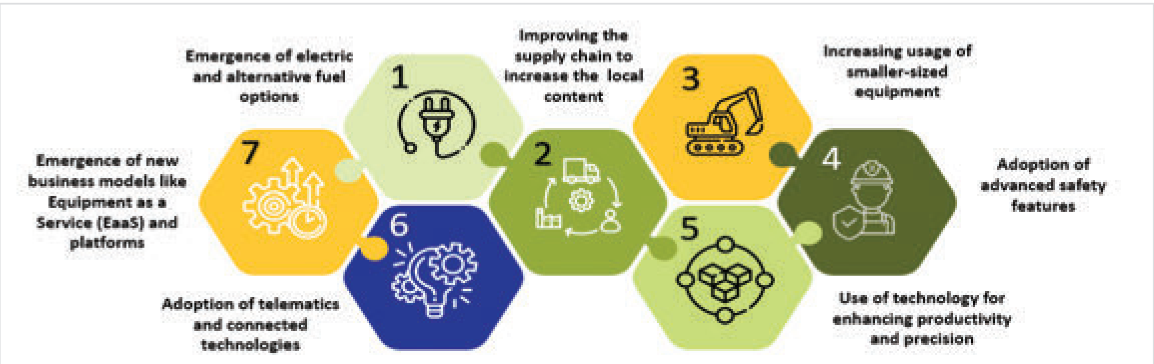
ICRA expects that this will affect the prices (and hence the sale) of new equipment in the near term (major impact expected in FY2026). However, the transition will help boost Indian exports to more mature markets – like Europe and North America – in the medium term, as it would harmonise the production for domestic and export markets.

## With increasing risk of global supply chain disruptions, focus on localising supply ecosystem is critical

Following the pandemic, the geo-political dynamics has been evolving rapidly. On the other hand, with sluggish domestic demand prospects in several developed markets, global OEMs are on the lookout to diversify their sales and supply chains outside China. This presents an opportunity for India. Coupled with the GoI's thrust on increasing local manufacturing, India could significantly increase its share in the global MCE manufacturing value chain, where it is currently a marginal player (<2%).

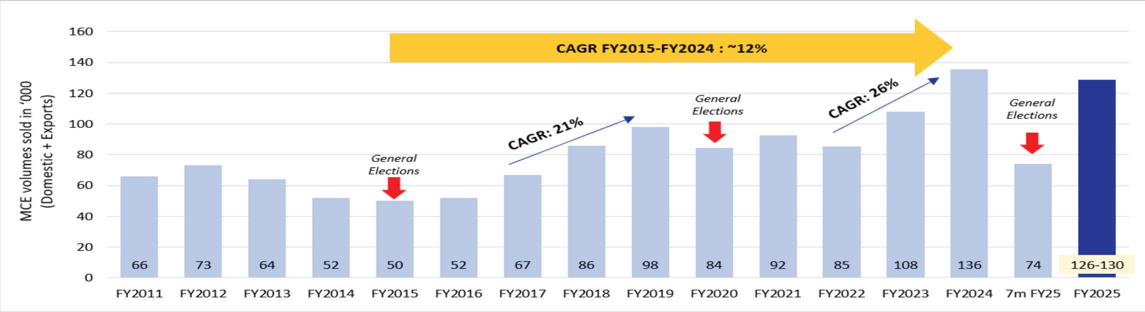
Nonetheless, a key challenge faced by the industry is its high import dependence for critical components (like undercarriage, precision hydraulics and electronics) and availability and cost-competitiveness of key raw materials (speciality steel and alloys). While the import content varies widely - from <10% in backhoe loaders to over 80% in complex/high-tonnage machinery (eg, piling rigs) - it exposes the OEMs to fluctuations in forex and international freight costs. It also elongates their working capital cycle, due to higher inventory maintenance requirement, thereby impacting their pricing competitiveness (especially for exports). With increasing domestic demand and export opportunities, addressing this persisting issue has become crucial to enable the Indian MCE industry to become a strong global player in the coming decade.

### Exhibit: Prevailing trends in the MCE industry




**Source:** *ICRA Research*

### Exhibit: Indian MCE industry – Volume trend




**Source:** *ICEMA data, ICRA Research*

## Contracting financing environment represents a near-term challenge

With most MCE purchases in India (85-90%) relying on external funding, the financing environment plays an important role in supporting demand. In India, the MCE financing market is well established, represented both by banks as well as non-banking finance companies (NBFCs). Additionally, some OEMs also have captive finance companies. In recent quarters, several regulatory measures and tightening in the funding conditions in the domestic markets for banks and non-banking financial companies (NBFCs) has been observed. With limited (and/or higher cost) funds available with NBFC's to allocate across their portfolio, this could have repercussions – in the form of reduced loan disbursals, decrease in loan-to-value (LTVs) or increase in rejection rates - especially for first time buyers of MCE and could pose a challenge for industry demand in the near-term.

## Intense competition continues to weigh-in on OEM profitability; benign steel prices provide some respite

Intense competition – with numerous domestic and international players – has kept competition high in the Indian MCE industry. This pressure leads to price undercutting (as witnessed in case of most Chinese players in past decade to gain market share) and reduced profit margins, making it difficult for manufacturers to maintain profitability while investing in innovation and quality. While higher leverage levels and deteriorating debt coverage metrices (mainly due to long-credit periods extended to customers) forced few of these OEMs to focus on margin improvement in recent years, overall industry margins continue to remain subdued. Moreover, geo-political developments (and trade measures from time-to-time) keep the commodity prices volatile, especially for key raw material – steel, which can have a material impact on an MCE OEM's profitability. Given favourable steel prices, due to surplus availability (on account of cheaper imports from China, Vietnam) in YTD FY2025, the domestic MCE manufacturers are expected to benefit, as this will help offset some impact of expected decline in volumes.

## Notwithstanding marginal dip in FY2025, medium term growth outlook remains strong

Like the trend seen in the past, the pre-election infrastructure push drove a phenomenal 26% CAGR over the last three years. However, despite modest YoY growth in H1, ICRA expects a YoY contraction in volumes in FY2025 given the slowdown in new project award activity (especially in Road sector, which drives 35-45% of overall MCE demand in India) and tightening financing environment. With CEV-V emission norms getting implemented w.e.f. January 2025, some pre-buying activity is expected in January-June 2025, however, in case the same is fag-ended (depending on project awarding momentum in H2 FY2025), the volume offtake in H2 FY2025 will be impacted.

Notwithstanding the usual industry cyclicality, the industry's healthy growth momentum is expected to continue over the medium to long term, led by a strong pipeline of infrastructure projects, both currently underway and targeted to commence in the coming years, increasing size of the projects (several mega projects coming up like high-speed rail, river linking projects, etc) and adoption of more mechanised techniques and technologically advanced equipment by construction companies to improve efficiency, reduce labour cost and ensure timely project implementation. EPC World

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