PRESS RELEASE

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Domestic mining and construction equipment (MCE) industry volumes likely to decline by 12-15% YoY in FY2025, after a two-year upcycle: ICRA

- ***Operating profit margins (OPM) of the MCE OEMs likely to contract by 100-150 bps in FY2025***

ICRA projects the volumes of the domestic MCE industry to decline in FY2025 following two consecutive years of strong growth viz. 26% in FY2023 and 24% in FY2024e[1]. The reversal in this growth trend will be driven by a slowdown in the new project award activity in Q4 FY2024 and Q1 FY2025, as the Model Code of Conduct will remain in force during the Parliamentary Elections in April-May 2024 (till the announcement of results on June 4, 2024). Additionally, the aggregate revenues for ICRA's sample set[2] companies are expected to contract by 9-12% and operating margins by 100-150 basis points in FY2025.

Providing more insights, **Ms. Ritu Goswami, Sector Head, Corporate Ratings, ICRA,** said: *"Pre-election push on project execution by the Government created a strong demand momentum for the MCE industry in the last two years. However, with a likely disruption in project award activity for two consecutive quarters (Q4 FY2024 and Q1 FY2025e) amidst the Parliamentary Elections and monsoon-related impact on construction activities in Q2, H1 FY2025e is expected to see a moderation in sales. While the volumes will ramp up in H2, given the pick-up in new project awards starting Q3 and partly supported by pre-buying due to the CEV-V[3] emission norm transition in January 2025 (deferred from April 2024), ICRA expects FY2025 to see a 12-15% YoY decline (which translates into volumes of 1.14-1.18 lakh units). A similar trend was seen during the previous election periods - FY2015 and FY2020 - as well, with YoY volumes contracting in these years."*

While the near-term domestic MCE demand environment remains challenging, the industry's long-term prospects remain intact, given the continued Government focus on infrastructure development (as reiterated in the interim budget for FY2024-25). "*Increasing mining targets for coal and iron-ore (to reduce import dependency and meet the needs of growing economy) also bode well for MCE demand from the domestic market, which accounts for 90% of the volumes sold by the domestic OEMs,"* added **Ms. Goswami.**

In terms of financial metrices, with the anticipated decline in volumes in FY2025, the aggregate revenues and operating margins for ICRA's sample set companies are expected to contract by 9-12% and by 100-150 basis points, respectively, in FY2025. Relatively stable commodity prices are expected provide support to the cost structure, though any increase in the logistics cost (given the high import dependence and the ongoing Red Sea Crisis) and/or supply chain disruptions pose a downside risk to estimates. ICRA expects that the healthy order books and thrust on execution by EPC players will support equipment utilisation and keep rental yields stable on a YoY basis.

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[1] Estimated

[2] Aggregate financials for a sample of 13 large MCE players in India – JCB India, Caterpillar India Pvt. Ltd, Tata Hitachi Construction Machinery Company Private Limited, Action Construction Equipment Ltd, Sany Heavy Industry India Private Limited, Ajax Engineering Pvt. Ltd, Schwing Stetter India Private Limited, Hyundai Construction Equipment India Private Limited, Komatsu India Private Ltd, KYB-Conmat Pvt Ltd, Kobelco Construction Equipment India Pvt Ltd, Putzmeister Concrete Machines Pvt. Ltd and Volvo CE India Pvt. Ltd.

[3] CEV stands for construction equipment vehicles. The CEV emission norms in India are applicable for diesel powered engines used in non-road equipment and define emission limits on particulate matter, particulate number (CEV-V only), nitrogen oxide, hydrocarbon, and carbon monoxide.

"*The OEMs based out of India (ICRA sample) are expected to incur a capex of Rs. 1,400-1,500 crore during FY2025 towards debottlenecking, product development initiatives (e.g. CEV-V compliant equipment, alternative fuel driven powertrains etc) and localisation initiatives; however, the overall capex outlay is likely to remain modest for most industry participants in the medium term. While operating margins are expected to moderate due to under-absorption of the fixed cost, ICRA expects the credit profile of industry participants to remain stable in FY2025, in the backdrop of low leverage and comfortable liquidity of most industry participants,"* **Ms. Goswami** added**.**

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