

Banking on Coal Mining

While coal mining and quarrying will drive the growth of mining equipment, other mining segments will see a relatively lower growth demand for mining equipment. **Pavethra Ponniah**, elaborates more on the market trend.

Mining equipment demand is largely linked to the demand for coal, iron ore, limestone, marble, sand and aggregate production for road work (stone quarrying). Of these segments, coal mining requires the highest number of equipment of high tonnage/horse power, given the much higher coal output (vis-a-vis other mined earth commodities in India) and the higher stripping ratio in coal.

While the Indian construction equipment (CE) industry has been growing at a rapid pace over the past three years (CAGR of 17 per cent CY16-18E), demand for mining equipment has been relatively muted, growing by 5-10 per cent. However, the outlook for mining equipment from late CY19 onwards is positive. ICRA's interaction with a few mining equipment manufacturers also corroborate this outlook for mining equipment with expected demand push coming from coal and quarrying and aggregate demand for roads.



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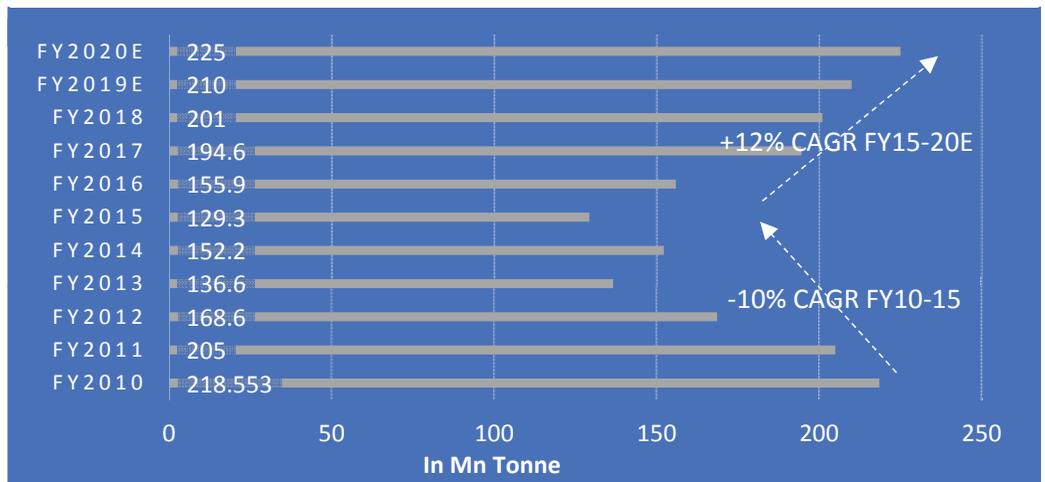
and targeted coal mining equipment like 150-190T dumpers, >300 hp dozers, >3 cu m excavators, and 280 hp graders are expected to see a sharp increase in demand from late CY2019 onwards as Coal India

replaces and scales up its equipment fleet. Coal India has floated tenders and, in few cases, started reverse auction for meeting its equipment demand. Factoring in a 9-10-month period for delivery of these

Coal mining

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Heavy tonnage

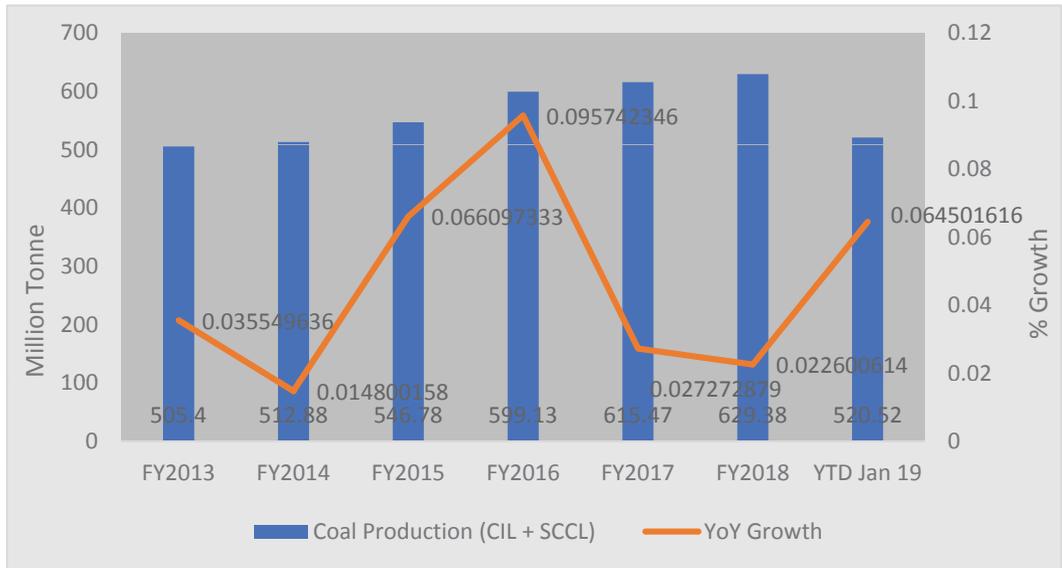


equipment, sale of mining equipment should increase in CY2020. This includes pent-up demand of the past three-four years, when ordering was delayed due to some procurement hurdles. Coal India has sizable capex plan of ~Rs 95 billion for FY2019; however, the company has spent only ~30 per cent of the

proposed capex during YTD November 2018.

Hence, timelines of Coal India's actual order procurement will be key to monitor for forecasting mining equipment demand.

Private mining of coal, which was expected to be a game changer for technology adoption in Indian mining, supported by large global players like Rio Tinto and Vale, has not taken off despite the February 2018 approval of the auction methodology for commercial mining for the private sector. The expectation that the mine developer-cum-operator (MDO) model of mine operations would lead to heightened focus on efficiency and safety, and consequently demand for higher tonnage mining specific equipment has also not panned out in a big way, barring in case of a few large MDOs. Higher capacity vehicles deployed in mines could reduce machine and manpower movement, leading to lesser number of accidents. Smaller companies continue to operate on tight budgets and have used lower capacity equipment—sometime using on-highway equipment for mining requirements. Unless the agreement mandates specific off-highway equipment—like in the case of Singareni Colliers, demand for more specialised mining equipment from MDOs will stay moderate.



Iron ore mining

Unlike the coal industry, demand for iron ore mining equipment comes largely from the private sector. Following the May 2014 closure of several mines in Odisha, iron ore production in the country contracted sharply. However, with the enactment of the 'The Mines and Minerals (Development And Regulation) Amendment Act, 2015' in March 2015, mining leases which had expired after their first renewal were automatically extended till March 31, 2020 (for merchant miners), and till March 31, 2030 (for captive miners). Consequently, iron ore mining is expected to ramp up in Odisha over the next 12 months, prior to the March 2020 lapsing of mine leases for merchant producers (Odisha accounts for almost half of India's iron ore production). However, the overhang post March 2020—uncertainty on mining lease renewals, could tamper demand for mining equipment from this segment.

Lignite mining

Mining equipment demand from the cement sector largely ranges in the 60-100T dumper, and the appropriately sized wheel loaders, excavators (3-6 cu m), dozers and motor graders. Demand for these

equipment comes from private cement players and a few lignite-cum-power producers. Replacement cycles from this industry are longer at 15-20 years, given the relatively limited usage. ICRA expects domestic cement demand to grow by 7 per cent during FY2019, followed by 8 per cent in FY2020, driven primarily by rural and affordable housing, and continued focus on infrastructure segments like roads.

Aggregates and stone quarrying

The pace at which road construction activity has panned out over the last few years, has ramped up demand for blue metal and stone quarrying. This has been a demand driver for excavators, dumpers and allied equipment in several states. With high equipment abuse and utilisation, the replacement cycle for equipment in this segment is rapid at 2-4 years; this is a strong demand driver for relatively lower capacity mining equipment.



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