



INDIAN MINING AND CONSTRUCTION EQUIPMENT INDUSTRY

**Pre-election demand pick up and
softening of commodity inflation to
support OEMs margins**

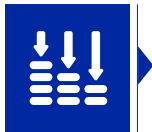
SEPTEMBER 2022



The outlook for the industry remains stable, supported by expectations of pre-election demand pick-up and elevated enquiries level at dealers. Softening of commodity inflation to support OEM margins in the medium term.



- ICRA's channel checks suggests that enquiries are improving, indicating the industry is expected to witness handsome growth in the coming quarters as construction activities are expected to witness substantial ramp-up in run-up to elections in 2024.



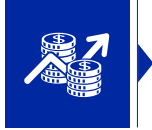
- MCE volumes are expected to grow by 10-12% YoY in FY2023; however, on calendar year basis, the growth rate is expected to be sub-5% for CY2022 because of exceptionally strong Q1 CY2021. For FY2024, the volumes are expected to grow by almost 5%.



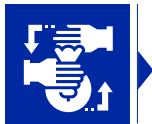
- While the rentals (Rs. per hour) have improved on a YoY basis, the rental yield continues to remain subdued, given the high cost of ownership and increase in equipment and fuel cost, thereby impacting cash flows of CE operator. ICRA's channel check suggests equipment utilisation levels remaining in the range of 65-80%.



- In the backdrop of 15-20% increase in new equipment prices, there is also improvement in demand of used equipment and service and spares income for the OEMs, as users tend to invest in used assets instead of buying new machinery.



- Profitability of OEMs was at multi-year lows during FY2022. However, with softening of the commodity inflation in the recent past, the margins are expected to sequentially improve in FY2023e, but will remain below pre-Covid levels. Given sizeable imports, recent rupee depreciation will partly offset the operating leverage benefit.



- Overall delinquency in the sector remains stable and lower than previous year. Private banks play a crucial role, especially after a key NBFC has moved out of business. The door-to-door tenure has increased to around 5 years compared to around 3 years earlier, considering the increase in the equipment cost.

Note: MCE volumes have been captured on a calendar year basis, while performance of majority MCE players have been captured on a financial year basis.

Agenda

1 Economy



2 Industry Outlook & Demand



3 Trend in Input Costs



4 Funding & Delinquencies



5 Demand Drivers



6 Channel Check



7 MCE Industry Financial Performance



8 Operational and Financial Comparison



9 ICRA Ratings in the Sector





ICRA

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