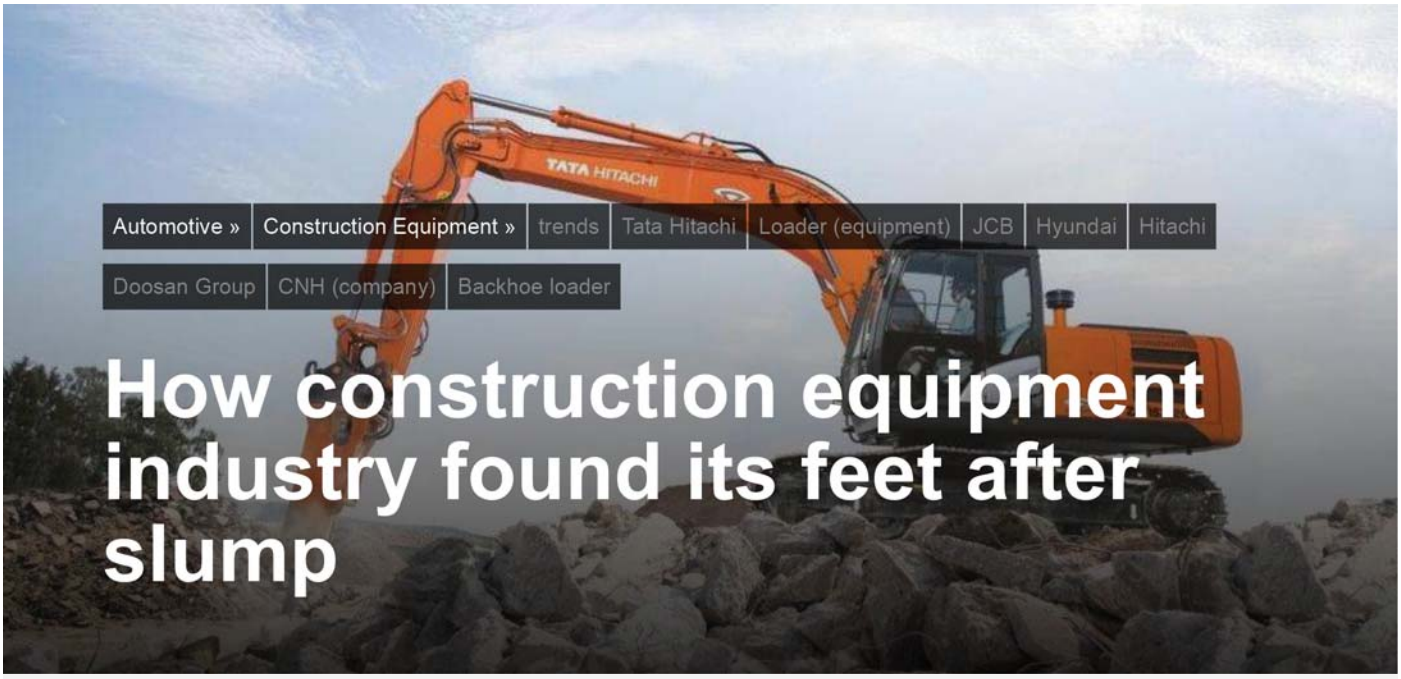


Automotive » | Construction Equipment » | trends | Tata Hitachi | Loader (equipment) | JCB | Hyundai | Hitachi | Doosan Group | CNH (company) | Backhoe loader

How construction equipment industry found its feet after slump

Given that India has an infra-deficit and needs about $7 trillion over the next 7 years, this would itself trigger a construction equipment (CE) business of around $180-200 billion at the current rate of equipment penetration over the next 10 years. For every 0.5 percent increase in mechanization, the CE demand would rise by $30-35 billion.

Winds of change are blowing across the Indian construction equipment sector. The industry that saw a reversal of fortunes post FY16 is currently piggybacking on Government's stimulants and investments to fast forward infrastructure projects primarily development of roads and highways as well as coal mining. Big ticket Sagarmala, Bharatmala and Jal Marg Vikas projects will also give a leg up to development of rural roads and rural infrastructure.

Given that India has an infra-deficit and needs about $7 trillion over the next 7 years, this would itself trigger a construction equipment (CE) business of around $180-200 billion at the current rate of equipment penetration over the next 10 years. For every 0.5 percent increase in mechanization, the CE demand would rise by $30-35 billion.

The CE industry had hit a rough patch during the three years FY13-FY16 when infrastructure and road building activities were subdued. Demand for construction machinery remained bogged down pushing back utilization of production capacities to 45 percent, a far cry from the current 75 percent utilization. In the present landscape, optimum capacity utilization is expected to be achieved over the next 3-4 years.

“There is enough capacity in the industry to meet future demand, with investments likely to be based on demand,” SG Roy, secretary of the Indian Construction Equipment Manufacturers Association (ICEMA) told ETAuto.

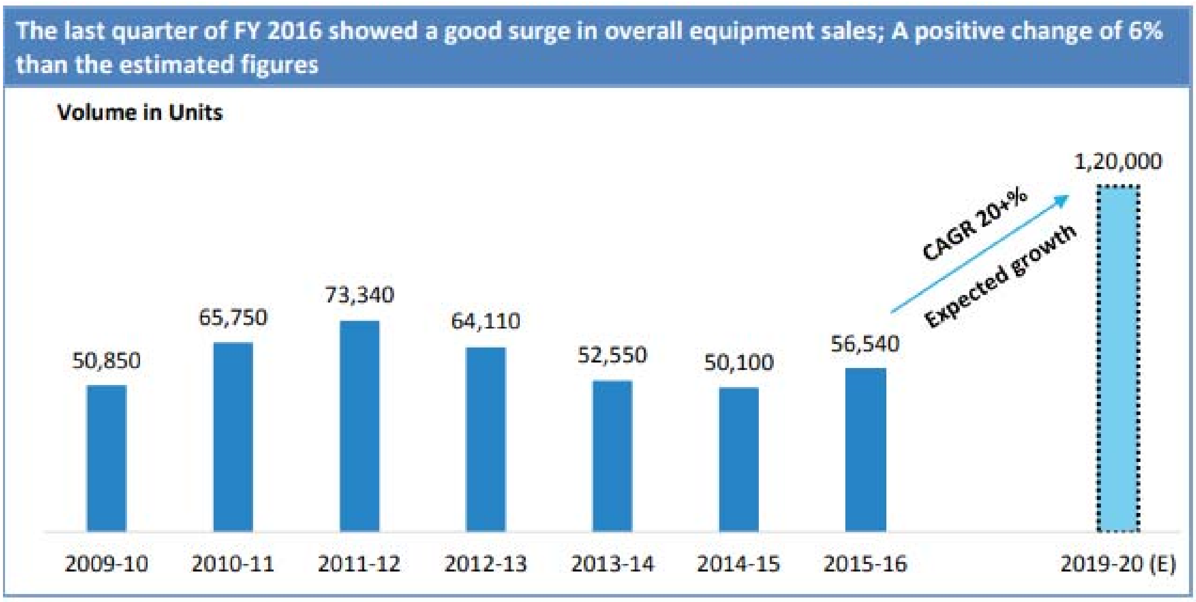
Spurred by road and highway projects, some equipment segments saw a spurt of 25-30 percent in the last 9 months. Roy is bullish of the demand sustaining over the next 3 years. Some opportunities are also emerging in railway real estate to replace ageing rail infrastructure.

Market Perambulations

The construction equipment industry is today pegged at $4.3 billion in value with the Feedback Business Consultancy report forecasting industry volumes to spike upto over 1,20,000 units by 2021 growing at a CAGR of 20 percent. The current industry volumes are close to 75000 units. Policy changes in the infrastructure segment are expected to boost the Equipment industry to an estimated $ 7.5 billion by 2020.

Loaders, excavators and compactors dominate the road sector with backhoe loaders singularly contributing the largest chunk of the sales pie- 43 percent growing 10 percent last fiscal. In China this segment chips in with 0.5 percent sales while North America accounts for just 8.5 percent.

Key players in the fray are Tata Hitachi, Kobelco, Hyundai, Case New Holland, and JCB with most of the machinery sporting a local content of 60-70 percent. However, some international players like Caterpillar and Kobelco Construction Equipment continue to import a larger component basket.



Source: Feedback estimates & ICEMA data

According to the Off-Highway Research Indian Annual Review 2018, construction equipment sales in India grew 17 per cent in 2017-18, building on the 36 per cent upswing witnessed in 2016-17.

Going forward, the Indian construction equipment market will continue to be driven by construction, mining and other infrastructure investments. The macro economic situation, government policy and availability of funding will support this upsurge.

The government is taking action to reform procedures and policies such as the introduction of the Real Estate (Regulation and Development) Bill, along with the speeding up of environmental issues, forest clearances and land acquisition issues to boost infra development.

Crisil Research estimates project execution by the National Highways Authority of India (NHAI) at 3,070 km in FY18 and 3,300 km in FY19 from 2,625 km in FY17.

A BofA Merrill Lynch (BofAML) 2018-19 report has given a positive outlook for the highway sector with the government fixing the national highways project award target at 20,000 km for FY19 up 25 per cent over the previous year.

The Union Budget 2018-19 has allocated $ 92.22 billion for the infrastructure sector. Such a frenetic pace of execution over the next 5 years will mean a further leg up to demand for construction equipment.

Top players take competition headlong

Among the top contestants in this market, is Tata Hitachi Construction Machinery India, with a primary focus on excavators for road construction, irrigation and mining operations.

Tata Hitachi saw a robust 19 percent upswing in sales during the last fiscal and a 30 percent growth in the year earlier on a low base of the previous year.

"The current Indian government is placing a lot of emphasis and investments into road infrastructure. Many of the states have undertaken a lot of work linking rivers and canals that has helped the railways in

expanding tracks as well as in laying of new tracks that has also given us good opportunities," added Sandeep Singh, managing director of Tata Hitachi.

The company is sprinting towards an average 15 percent uptick over the next couple of years egged on after establishment of a stable government post 2019 elections. A broader 10-15 percent growth window is on the scanner across a 5 year timeframe.

The company commands a 35 percent share of the excavator market with its construction equipment ranging between 2Tto 120T. With capacity utilization peaking at 70 percent, Tata Hitachi is expanding for ushering more efficiency and for optimizing production.

Production capacity was upped 20-25 percent last year to produce an annual 10,000 machines. In FY19, it will be ramped up further to 12000 units per year to meet growing demand. The average ticket size of a construction machine is pegged at Rs 50 lakh.

A capital expenditure of Rs 80-100 crore is on the cards funded through internal accruals for launching new backhoe loaders next month that will give a fillip to sales in the following year.

Earlier Tata Hitachi was making backhoe loaders but the business did not take off. Now it is making a fresh attempt to re-enter the market with a new machine developed from scratch with the support of Tata Technologies and Hitachi. The existing manufacturing facility for the machinery will be roped in for the production.

Interestingly, the backhoe loader market is dominated by players such as Case New Holland, Caterpillar and JCB and Tata Hitachi will be up against tough competition.

Besides, the company is looking to up its indigenization level from the existing 65 percent to 75 percent over the next 3 years.

"Construction equipment is moving to Euro IV in 2019 for which we are awaiting emission standards rules from the government," added Singh. He equates Euro IV machinery to Euro V from the auto sector.

But S K Jaruhar Adviser Support Services, Kobelco Construction Equipment India, a Japanese subsidiary complained about the lack of regulations on safety and emission norms in India. He was equally eloquent about the industry being dominated by low end technology and cheaper machines. Consequently a level playing field was absent in India compared to global markets like Japan.

In Japan construction equipment machines meet Euro III emission norms.

“Our machines result in a saving of 2 litres of diesel per hour of usage. Normally machines have a lifecycle of 25000-30000 hours that will ensue in savings of 60,000 litres of diesel that is almost comparable with the cost of the equipment. Hence, lifecycle costs would be a better consideration compared to low end machines where upfront costs may be lower but may end up raising the operating costs by 50 percent,” he elaborated.

However, to ensure that we are able to sustain this growth, we need couple of more sectors to gain momentum. Sectors such as Irrigation, Ports, and Water Conservation have shown potential and we are hopeful that they will start driving demand in the coming times.

According to Vipin Sondhi, MD and CEO, JCB India the industry is working with the Government towards integration of BS-IV (CEV) emission standards for wheeled equipment which are due around October 2020.

“We believe the new standards will lead to considerable technological advancement in the product placing us at par with other advanced markets such as USA and Europe. It will also contribute to the enhancement of the overall value chain of the product in terms of development, research and the percolation of this technology in the supply chain.”

Availability of 10ppm fuel is essential for the roll out of these emission norms and the fuel is expected to be available pan India by 2020.

Meanwhile, Kobelco though well positioned in the construction equipment market, has been constrained by the inability to match demand with supply. With a current market share of 10 percent it is into excavators that rake in a 20,000 unit market volume for multiple applications.

The excavator market is expected to beef upto 30,000 units across 5 years when Kobelco is bullish of scaling up its market share by a few percentage points. Though earlier its localization stood at 40 percent it scaled back as right quality components could not be developed in India.

Foreign vendors could not achieve economies of scale as volumes remained small. Kobelco sells 2000 machines annually and instead prefers to import many of the parts.

It is currently beefing up its production capacity at its Sri City, Andhra Pradesh facility to 2500 units over the next 3 months and to 3000 units in the medium term.

Bad debts pose a challenge

Optimistic against the backdrop of the impetus received from the government's infrastructure push, Escorts Construction Equipment foresees a major challenge emanating from mobilization of funding requirements for the government projects.

Large bank NPAs arising as projects run into problems and turn into bad debts have prevented contractors from accessing fresh funds for development projects. Machines are also becoming more advanced and require trained operators to man them.

While the Government is working on skilling operators and providing them subsidy for taking up training programmes, ICEMA has also joined hands for conducting certified courses. Escorts has also set up a separate not-for-profit company, Escorts Skill Development for imparting skilling initiatives to operators.

"The private sector needs to be given the required comfort for their active participation. Some positive initiation has already been taken by the government through HAM (hybrid annuity scheme), and of FDI and we are sure much more will be done to bring back the interest of the private sector in the Infrastructure projects," clarified Ajay Mandahr, CEO of Escorts Construction Equipment.

The company’s Vision 2022 includes benchmarking aftersales wherein Internet of Things (IoT) will be proactively leveraged as a tool to service the needs of the machines.

JCB is also harnessing digital technologies in CEs through the integration of IoT and Big Data through an advanced telematics technology called JCB Livelink.

Escorts is betting on entering new product categories as well as new product platforms. R&D investments are being enhanced to develop products supported by in-house expertise, foreign associations and technical tie-ups.

”You can expect 2-3 new product launches every year from Escorts for the next 4-5 years,” confirmed Mandahr. “In FY’19, you will see a few innovative and disruptive after sales initiatives getting implemented.”

Escorts recently forayed into excavators, wheel loaders and dumpers with an exclusive distribution agreement with CE major Doosan Infracore of S.Korea. Its heavy duty machine Jungli 4X4 model will soon see the launch of the 2WD option. Safety features such as anti-toppling, anti-lifting and operator sensing technologies available in City series of cranes will soon span the entire portfolio of cranes as an option.

Predominantly domestic market driven

While the story of the CE industry is essentially of domestic consumption, commodity prices like steel have seen a hardening over a short to medium term and stabilization over the long term. With the tailwinds of demand blowing in favour of the sector, all major players in the reckoning are optimistic of its positive impact.

Of late, the sector’s exports were under strain as companies competed to meet domestic demand. For Kobelco, exports till 2015 constituted 30 percent of the total product basket mainly to South East Asia –Myanmar, Indonesia, Malaysia, West Asia, East Africa, Jordan, Saudia Arabia, Ethiopia and Tanzania. At present, the export share has dwindled and become negligible as no spare capacity is available in the Indian plants.

Hence exports have been shifted to global facilities.

For JCB India, exports rose from eight countries in 2011 to over 90 in 2018. With most world markets coming back on the growth path, the company feels that its exports from India will only rise going forward.

Further, Tata Hitachi exports to Middle East and Africa as well as neighbouring countries with a key global trend being modern machines and connectivity. According to Singh, 30 percent of the machines are fitted with telematics on site that could ascertain fuel efficiency, health check of the engine, transmission, how the machine has worked, and access all information online. This telematics trend is set to capture the Indian market in a couple of years giving competition to Europe and Japan.