



CONSTRUCTION EQUIPMENT

April 2010

Contents

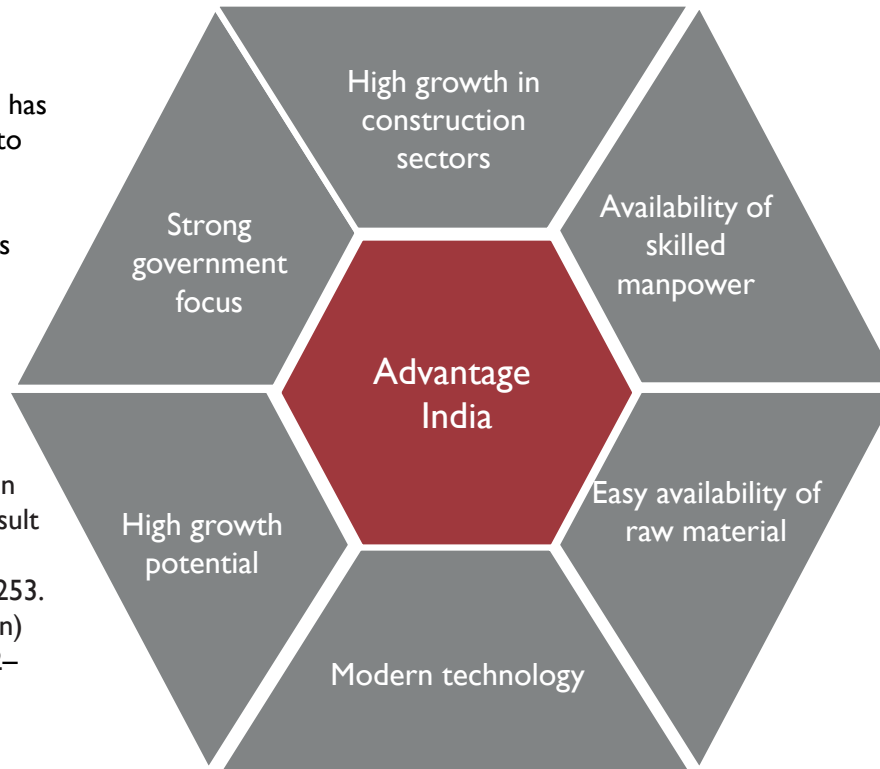
- ❖ **Advantage India**
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Advantage India

The Indian construction industry has been on a high growth trajectory for more than a decade, led by buoyancy in sectors such as real estate and infrastructure.

The Union Budget 2010–11 has allocated US\$ 36.16 billion to the infrastructure sector, reflecting the Government of India (GoI)'s strong focus on the development of India's infrastructure.

Government expenditure on infrastructure is likely to result in increased construction expenditure of nearly US\$ 253.94 billion (INR 12,189 billion) between 2008–09 and 2012–13).



India produces more than 0.4 million engineers every year. Moreover, India's cost of skilled labour is the lowest in the world, with an entry-level engineer available at an average cost of about US\$ 8,000 per annum.

India is the fifth-largest producer of crude steel in the world (2008), with a production volume of 54.5 million tonnes.

The industry has witnessed continuous modernisation and adoption of new technologies in recent years.

Source: Union Budget 2010-11; *Business Standard*, April 9, 2010, CRISIL Research, "Industry," *Cement Manufacturers' Association of India* website, www.cmaindia.org/industry.html, accessed 22 February 2010; Ministry of Steel 2008–09 annual report.

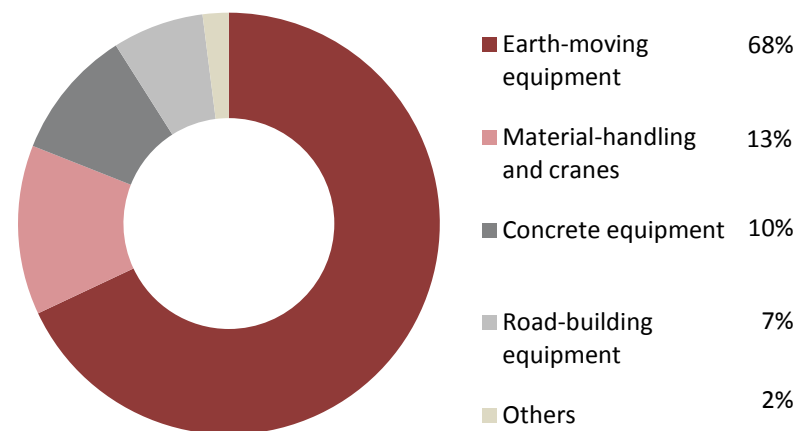
Contents

- ❖ Advantage India
- ❖ **Market overview**
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Market overview ... (1/3)

- The construction equipment market can be classified into four segments — earth-moving equipment, material-handling equipment and cranes, concrete equipment and road-building equipment.
- Until the 1960s, the domestic requirement of mining and construction equipment was met primarily through imports.
- The large-scale domestic production of construction equipment began only in 1964 with the establishment of Bharat Earthmovers Ltd (BEML), a public sector unit of the Ministry of Defence, in Kolar, South India.
- Most Indian manufacturing companies are involved in the entire gamut of activities, including design and engineering, manufacturing, erection, servicing and commissioning.

Demand Generator



Sources: Report on Indian mining and construction equipment industry, Ministry of Heavy Industries and Public Enterprises

Market overview ... (2/3)

- Companies also serve as selling agents for international players. Alternatively, they manufacture and import either complete equipment or equipment in semi-knocked down (SKD) condition from their principals abroad and market them.
- Close to 200 manufacturers cater to the Indian construction equipment market .
- Public limited companies, including public sector units (PSUs), constitute 71 per cent of the sector, while private limited companies or joint ventures, including closely held private limited companies, constitute 29 percent.
- A handful of large players dominate the market, accounting for more than 90 per cent of the industry's revenues.
- The unorganised sector contributes only about 10 per cent in value terms, although most players belong to this segment.

Construction equipment*
Backhoe loaders
Crawler dozers (up to 320 HP*)
Crawler excavators above 3.5 cubic metres
Loaders
Motor graders
Skid steer loaders
Wheel loaders below 3 cubic metres
Vibratory compactors
Dump trucks (below 35 tonnes)
Tippers
Breakers
All-terrain cranes
Asphalt pavers
Asphalt drums/wet mix plants
Fork lifts

HP*- Horsepower

*This is an indicative list.

Market overview ... (3/3)

- During 2010, the production of cranes as well as lifts and escalators is expected to rise by 20.3 per cent and 11.9 per cent, respectively.
- In 2010, equipment sales are expected to grow by 26 per cent over the previous year.
- Currently, the equipment market is largely import driven, with India importing construction machinery worth US\$ 181 million in 2009, up by 55 per cent over 2008.

Trade in material-handling equipment (US\$ million)			
	2005-06	2006-07	2007-08
Imports	113.65	323.54	240.18
Exports	16.23	25.89	41.16

Sources: Report on Indian mining and construction equipment industry, Ministry of Heavy Industries and Public Enterprises; Industry Analysis Service(IAS), CMIE

Source: Ministry of Heavy Industries and Public Enterprises, Annual report 2008-09; Industry Analysis Service(IAS), CMIE

Key players* ... (1/3)

Company	Revenue (in US\$ million)	Focus industry segments	Products
Bharat Earth Movers Ltd (BEML)	638	Mining, construction, defence, rail, metro	Crawler dozers, wheel dozers, excavators, dump trucks, loaders, backhoe loaders, pipe layers, walking draglines, rope shovels and sprinklers
JCB India Ltd	299	Construction, housing, quarrying, agriculture	Excavators, compactors and tele-handling equipment, skid steers, wheeled and backhoe loaders, telescopic handlers, engines and vibratory single-drum compactors
Mcnally Bharat Engineering Co Ltd	256	Power, steel, aluminium, material-handling, coal washing, port cranes, civic, industrial water supply	Crushing, screening and milling equipment, pressure vessels, material-handling equipment, steel plant equipment, process equipment such as flotation cell and thickeners

Key players* ... (2/3)

Company	Revenue (in US\$ million)	Focus industry segments	Products
Elecon Engineering Co Ltd	217	Power transmission, material-handling equipment	Elevators, conveyors and moving machines, gears and crushers
TRF Ltd	159	Power and steel plants, ports, fertilisers, mining	Stacker reclaimers, level luffing cranes, wagon trippers with side arm charger, rotary breakers and ring granulators
Action Construction Equipment Ltd	100	Infrastructure construction, heavy engineering, industrial projects, power projects, ports and shipyards, dams, roads, coal mines, steel	Hydraulic mobile cranes, mobile tower cranes, fixed tower cranes, back hoe and wheeled loaders, lorry loaders, forklift trucks, crawler cranes, piling rigs, vibratory rollers and tractors

Key players* ... (3/3)

Company	Revenue (in US\$ million)	Focus industry segments	Products
Gujarat Apollo Industries Ltd	56	Road construction and maintenance	Asphalt plants, paver finishers, wet mix plants, bitument sprayers, kerb pavers, compaction equipment, crushing and screening machines, road-marking machines and allied equipment
Eimco Elecon (India) Ltd	32	Mining	Side dump loaders, load haul dumpers, and blast hole and water well drilling rigs
L&T Komatsu Ltd	25	Construction	Hydraulic excavators, components and hydraulic systems

Source: Company InfoGator accessed April 15, 2010.

* This is an indicative list.

Key trends ... (1/2)

- The growth of the construction equipment industry is directly linked to the growth of the Indian economy as it receives a boost with increased investments in infrastructure and related sectors.
- The industry is in its intermediate growth phase in India and has been evolving over the years, with major global players entering the market.
- Volvo and Terex Vectra are recent entrants in the Indian market. Volvo has set up its manufacturing unit in Bengaluru, Karnataka, and Terex Vectra has set up a 36-acre manufacturing facility in Greater Noida, Uttar Pradesh.
- The past few years have also witnessed a phase of restructuring in the industry through acquisitions and joint ventures. This reflects the active interest of international majors in the Indian market.
- Many international players have also appointed selling agents for importing and selling equipment in India.

Key trends ... (2/2)

- The 2008–09 global recession affected sales in the construction equipment industry. However, the market for construction equipment is expected to gather momentum in 2010.
- Sales of material-handling equipment are expected to continue to rise at a healthy pace in future to reach US\$ 828.23 million (INR 39.78 billion) in 2010–11.
- The production of lifts and escalators is expected to rise by 11.9 per cent to 9,922 units in 2010.
- The industry has witnessed continuous modernisation and adoption of new technologies in recent times.

Sources: Report on Indian mining and construction equipment industry,
Ministry of Heavy Industries and Public Enterprises; Industry Analysis Service(IAS), CMIE

Sources: Industry Analysis Service(IAS), CMIE

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ **Investments**
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Investments

- The Govt's thrust on infrastructure development has provided considerable impetus to the construction equipment industry.
- The industry has witnessed a steady flow of investments since the third quarter of 2006. Investment in the industry at the end of the December 2009 stood at more than US\$ 616.04 million (INR 29.57 billion), spread across 22 projects. Some of the projects set to be commissioned in 2010 are:
 - Liugong India has invested US\$ 72.9 million (INR 3500 million) in Phase II of its earth-moving equipment manufacturing facility in Madhya Pradesh, which is scheduled for completion by September 2010.
 - Tractors India Ltd (TIL) is investing US\$ 52.08 million (INR 2500 million) in infrastructure equipment projects in West Bengal. These are scheduled for completion by May 2010.
 - Wirtgen India's US\$ 6.25 million (INR 300 million) compactors project in Maharashtra is expected to be complete by September 2010.
 - Autometers Alliance's lifts and elevators manufacturing facility in Uttar Pradesh is scheduled to be operational by March 2010.
 - TIL's road construction and coal handling machinery project in West Bengal is expected to be complete by July 2010.

Sources: Report on Indian mining and construction industry, Ministry of Heavy Industries and Public Enterprises; Industry Analysis Service(IAS), CMIE

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ **Policy and regulatory framework**
- ❖ Opportunities
- ❖ Industry associations

Policy and regulatory framework

- The GoI has permitted 100 per cent FDI in construction and development projects to attract more investment. Some of the key specifications are
 - US\$ 2 million limit on lump sum payments under the automatic route.
 - Royalty to be levied as 5 per cent on domestic sales and 8 per cent on exports, net of taxes.
 - The depreciation on general plant and machinery is proposed at about 15 per cent.
- Specific initiatives by the GoI that positively impact the engineering sector are
 - Tariff protection on capital goods has been removed.
 - Various initiatives are focussed on infrastructure development and construction.
 - The GoI has also introduced initiatives to increase power generation and improve the quality of power supply.
 - Custom duties on various equipment have been reduced.

Sources: Union Budget 2010–11; CII report on Indian Engineering Industry; Department of Industrial Policy and Promotion website

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ **Opportunities**
- ❖ Industry associations

Opportunities ... (1/2)

- The construction equipment industry in India has evolved with growing domestic demand.
- The roads and bridges sector will continue to be a major demand driver for the construction equipment industry, with the National Highway Development Program (NHDP) expected to generate orders worth US\$ 55 billion over the next five years.
- In addition, the maintenance of national and state highways and other roads is likely to create demand for road construction and maintenance-related equipment.
- Increased government focus on the development of greenfield ports and airports and capacity expansion at existing ports is expected to maintain a consistent demand for construction equipment.
- Other demand drivers include water and irrigation projects, urban infrastructure development, urban transportation projects, and water supply and sanitation projects.

Opportunities ... (2/2)

- Capacity expansion in the steel, cement, oil refining and power sectors to meet growing infrastructure investments in India, is also expected to generate demand for construction equipment.
- The equipment rental business is another opportunity driver, with the industry expected to double in size to 16 per cent by 2015.
- The export opportunity is expected to grow on the back of rising cost pressures on developed countries and due to the emergence of low-cost competitive suppliers and original equipment manufacturers (OEMs) in India.

Sources: www.iecial.com, Indian Earthmoving & Construction Industry Association Ltd; Ministry of Heavy Industries and Public Enterprises; Industry Analysis Service(IAS), CMIE

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ **Industry associations**

Industry associations

Indian Earthmoving & Construction Industry Association Ltd
23, 26 Institutional Area, Lodhi Road,
New Delhi –110003
INDIA
Phone: 91-11-24682225
Fax: 91-11-24682226
Website: www.iecial.com

Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$ 1 = INR48

DISCLAIMER

India Brand Equity Foundation (“IBEF”) engaged Ernst & Young Pvt Ltd to prepare this presentation and the same has been prepared by Ernst & Young in consultation with IBEF.

All rights reserved. All copyright in this presentation and related works is solely and exclusively owned by IBEF. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this presentation), modified or in any manner communicated to any third party except with the written approval of IBEF.

This presentation is for information purposes only. While due care has been taken during the compilation of this

presentation to ensure that the information is accurate to the best of Ernst & Young and IBEF’s knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

Ernst & Young and IBEF neither recommend nor endorse any specific products or services that may have been mentioned in this presentation and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this presentation.

Neither Ernst & Young nor IBEF shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this presentation.