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06 Jun 2024 6:02 PM,

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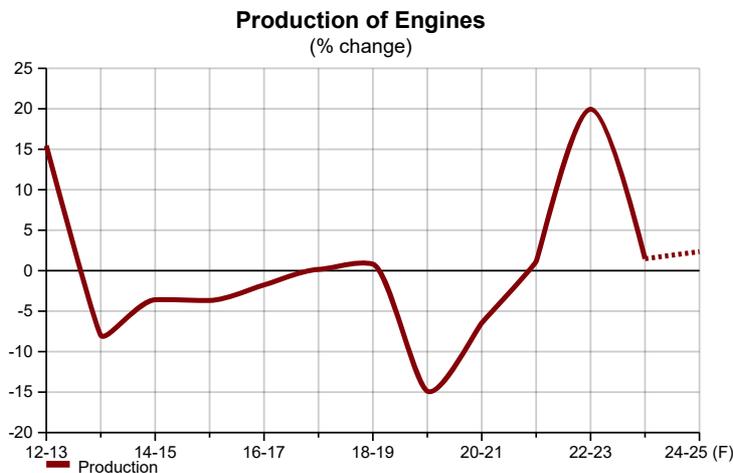
Engines production to grow for fourth consecutive year

Increased demand from user industries to aid growth

The output of engines is expected to grow for the fourth consecutive year ending March 2025. Healthy demand from user industries drove growth in engines production in the last three financial years.

Higher production activity in key user segments such as agriculture machinery, mining & construction equipment, marine and oil & gas industry is expected to increase demand for engines in the current year as well. This is likely to aid growth in engines production during 2024-25.

Demand for engines stems from both the automotive and non-automotive sectors. However, the official data includes only the production data of engines manufactured for non-automotive sectors such as agriculture machinery, marine, railways, defence, oil & gas drilling and mining & construction equipment to name a few. Most of the non-automotive sectors are expected to report a growth in their production in the current financial year. This is expected to augur well for the engines market.



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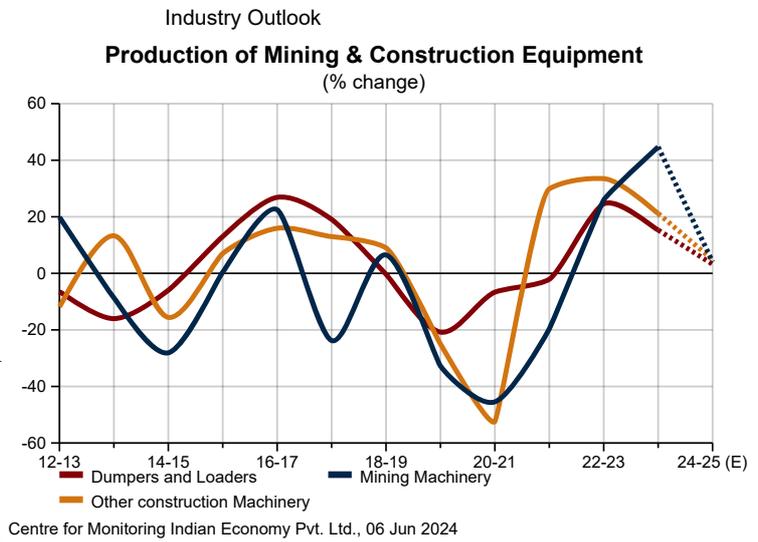
We expect engines production to grow by more than 2.3 per cent in the financial year 2024-25. This growth will come over and above a 1.5 per cent growth in the previous year.

The production activity in the agriculture machinery sector is expected to revive this year, after an expected plunge in the previous financial year 2023-24. The recovery is likely to come on account of a good rainfall which will help augment

agricultural activities during the year. India is likely to receive above-normal rainfall during June-September 2024, according to the India Meteorological Department (IMD). This is expected to improve demand for tractors and other agriculture machinery, thereby increasing demand for engines from this sector.

An upsurge in construction and industrial activities and increased completion of infrastructure projects accelerated the production of mining and construction equipment last year. This momentum is expected to continue in the current financial year. Production of most of the mining and construction machinery is expected to grow by a low-to-mid single digit in 2024-25, over and above a strong double-digit rate in the previous financial year. This is expected to augur well for engines demand.

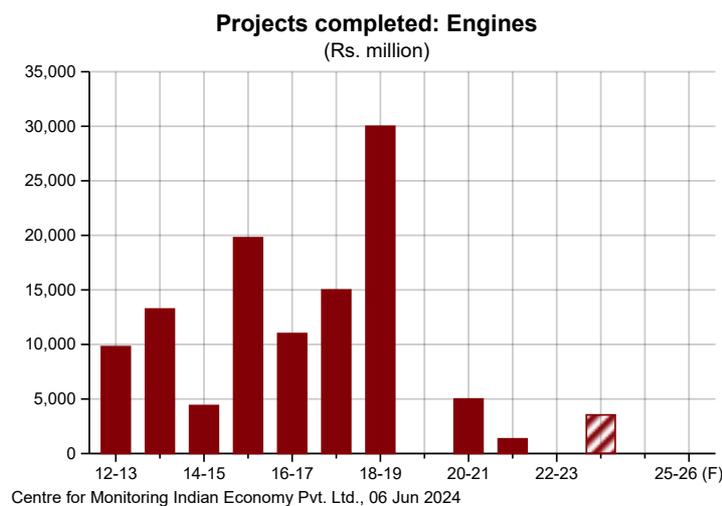
Traction in other user segments such as oil & gas and marine is expected to support growth in the production of engines. The oil & gas industry is expected to witness healthy project completions during 2024-25. Meanwhile, the marine industry is expected to witness a growth in shipbuilding activities owing to an increase in financial assistance from the government. The central government, which provided 20 per cent of funds for all vessels built by the industry, is now providing 30 per cent of the project cost to incentivise the construction of vessels running on alternative fuels.



Project completions to fizzle out

The engines industry is expected to witness zilch project completions in the current financial year 2024-25, according to CMIE’s capex monitoring machinery. There are no projects scheduled for completion in the next financial year as well. Engine manufacturers are refraining from adding capacities as the already installed capacities are likely to be enough to meet the current as well as future demand for engines.

Capacity utilisation of Cummins India, one of the largest engine manufacturers, stood around 60-70 per cent in the past year. Even if the company doubles its sales, it will still fail to surpass 100 per cent capacity utilisation, said Cummins India’s managing director Ashwath Ram. Meanwhile, the managing director of Greaves Cotton, Arup Basu, said that the company has created a fair amount of additional capacities through debottlenecking and expansion of capacity utilisation internally, which are expected to cater to the next tranche of growth.



The industry witnessed robust capacity additions during the 13-year period starting from 2006-07 till 2018-19. Projects worth an average of Rs.16.3 billion were commissioned each year between 2006-2019. These projects increased the industry’s total production capacity by 4.3 million units. Post this robust capex spree, investments in the industry dropped significantly during the Covid-19 pandemic outbreak in 2020-21

till the financial year 2023-24.

The average project completions in the last five years (2019-2024) was somewhere around Rs.2 billion, which is significantly less than the average project completions of Rs.16.3 billion during 2006-19. New project announcements also dropped during the same period. The industry witnessed only a couple of

project announcements every year during 2019-24, as against an average of 3-4 new project announcements seen during 2006-19.

Project completions and new project announcements in the industry declined as ample capacities were already added in the past in order to cater to the existing demand for engines. Capacity additions in the engines industry are likely to remain weak in the current year as well as in the next few financial years.

Investments: Engines

Year	Projects announced		Projects completed		Investments stalled		Projects outstanding	
	Cost	Count	Cost	Count	Cost	Count	Cost	Count
	Rs. million	Numbers	Rs. million	Numbers	Rs. million	Numbers	Rs. million	Numbers
2017-18	4,200.0	3	15,000.0	2			74,968.8	10
2018-19	7,750.0	6	30,000.0	2			52,718.8	14
2019-20		1		1			13,618.8	10
2020-21			5,000.0	1			5,600.0	5
2021-22		1	1,350.0	2			1,250.0	3
2022-23							1,250.0	3
2023-24	3,542.8	2	3,542.8	2			1,250.0	3

Industry's top line to continue to improve in June 2024 quarter

The engines industry is expected to report double-digit top line growth for the third consecutive quarter ending June 2024. The acceleration in sales revenues is likely on the back of healthy volumes and better realisations.

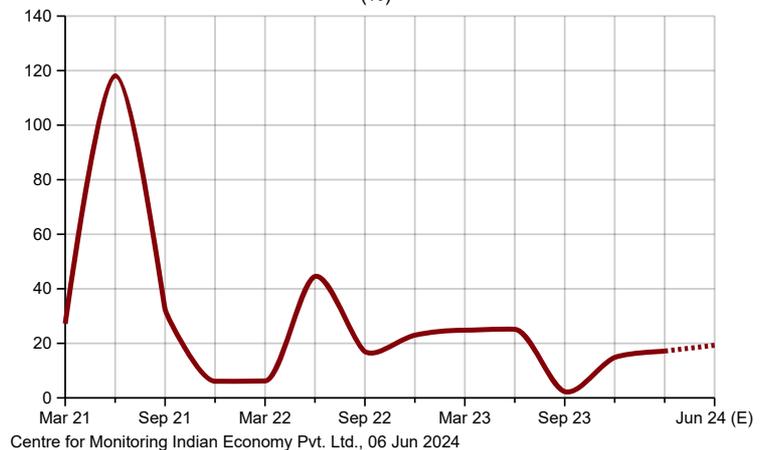
The industry records the financials of companies that sell engines to both the automotive as well as non-automotive user segments.

Production of passenger vehicles and two & three-wheelers surged by 11.1 per cent and 22.2 per cent, respectively, during April 2024, according to data published by the Society of Indian Automobile Manufacturers (SIAM). The production activity in the industry is expected to

continue to grow on a year-on-year basis in the remaining two months of the June 2024 quarter, owing to healthy demand from domestic and international markets.

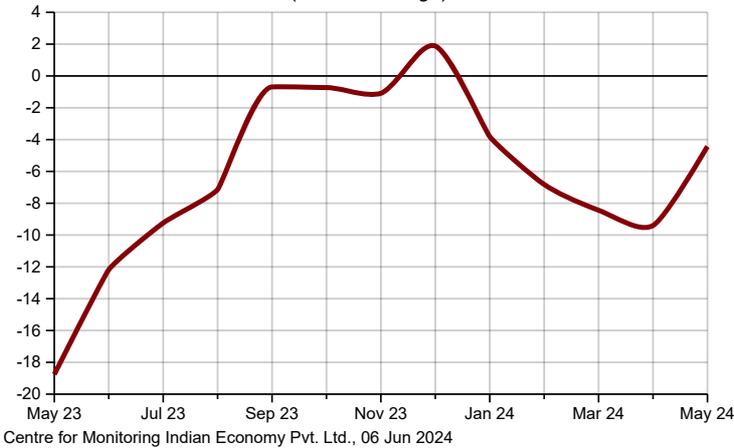
Output of mining machinery and various construction equipment surged during the March 2024 quarter, due to a spike in construction activities. This momentum is expected to continue in the June 2024 quarter as well. Higher production in user industries is expected to improve sales volumes of the engines industry.

Growth in Sales Revenues: Engines
(%)



Furthermore, the Central Pollution Control Board (CPCB) permitted the sale of CPCB II-based engines and gensets till 30 June 2024, against the purchase orders issued on or before 30 June 2023. This will be in addition to the sale of high-priced CPCB IV+ compliant engines.

Average prices of finished steel
(Y-o-Y % change)



Sales realisations are likely to be better during the June 2024 quarter compared to the corresponding year-ago quarter due to the roll-out of CPCB IV+ emission-compliant engines, which are priced around 20-30 per cent higher than the CPCB II products.

Average prices of finished steel, one of the primary metals used during the production of engines, dropped by 9.4 per cent and 4.4 per cent y-o-y in April and

May 2024, respectively. These prices are likely to continue to ease in June 2024 as well.

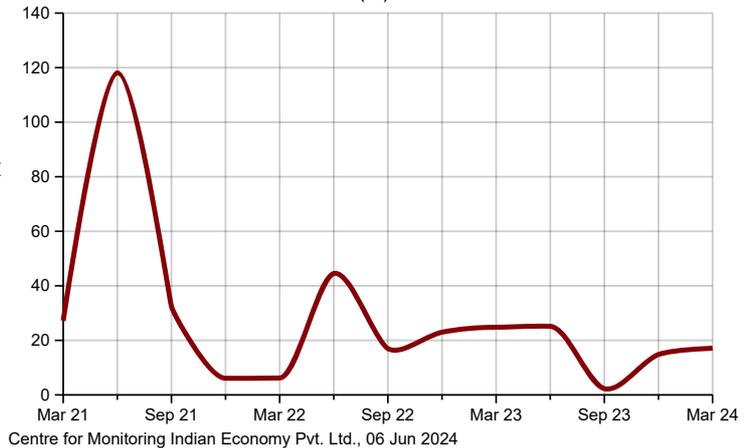
Higher revenues and subdued input costs are likely to improve the industry’s profit margins during the quarter. The improvement in margins is likely to be around 30-80 basis points at both the operating as well as the net level in the June 2024 quarter.

Industry’s top line grew by 17.2% in March 2024 quarter

The engines industry reported a smart 17.2 per cent y-o-y growth in its sales revenues for the quarter ended March 2024. This growth was driven by healthy volumes and better realisations.

Production of automobiles and construction equipment increased by a healthy double-digit rate during January-March 2024. Strong growth in user industries’ production drove a 4.5 per cent growth in the production of engines, thereby aiding growth in sales volumes. An increase in the adoption of high-priced CPCB IV+ products supported growth in the industry’s sales realisations.

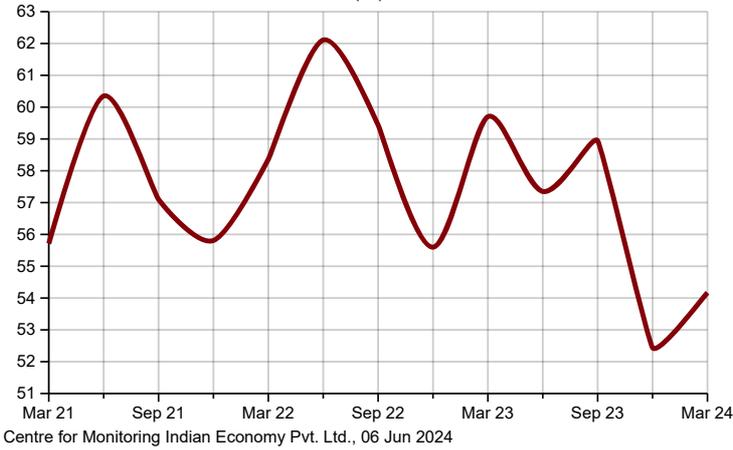
Growth in Sales Revenues: Engines
(%)



Cummins India, which accounts for almost 50 per cent of the industry’s total sales revenues, registered a top line growth of 20.3 per cent y-o-y in the reporting quarter. Kirloskar Oil Engines and Greaves Cotton’s sales revenues grew by 20.7 per cent and 10.2 per cent, respectively. Meanwhile, Swaraj Engines, which is primarily engaged in the business of selling diesel engines to the tractor division of Mahindra & Mahindra, reported a 2.5 per cent fall in its sales revenues in the March 2024 quarter against the same quarter in the previous year.

Raw material expenses, the largest cost head of the industry, increased by 6.3 per cent y-o-y in the March 2024 quarter, slower compared to the revenue growth. Higher production led to a rise in raw material expenses. Prices of primary metals such as steel and aluminium ingots, however, fell by 6-8

Raw Materials, Stores & Spares as % of Net Sales: Engines
(%)



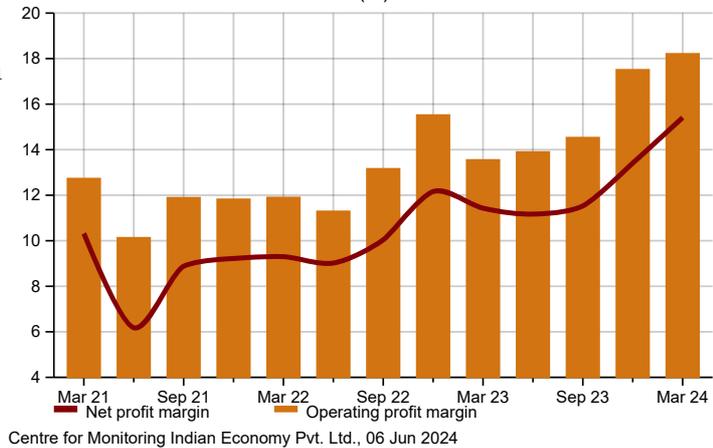
per cent y-o-y during the quarter. Thus, the proportion of raw material expenses in net sales contracted by more than 550 basis points to 54.2 per cent in the quarter.

This restricted the increase in operating expenses corresponding to goods sold to 10.8 per cent y-o-y, slower compared to the 17.2 per cent growth in net sales. As a result, the operating profit of the industry grew by a strong 57.5 per cent in the

March 2024 quarter over and above the strong 42.1 per cent growth seen in the corresponding year-ago quarter. Operating profit margin improved by 466 basis points to 18.2 per cent, on the back of healthy revenues.

Non-operating expenses, such as depreciation, interest and tax expenses rose by 42.3 per cent on an annual basis in the quarter. However, they account for less than eight per cent share in the industry’s total expenses. Other income was up by 41.3 per cent y-o-y. The net profit of the industry increased by an impressive 59.3 per cent y-o-y and the net profit margin improved by almost 400 basis points to 15.4 per cent in the March 2024 quarter.

Profitability: Engines
(%)



Net profit margins of Cummins India, Kirloskar Oil Engines and Swaraj Engines expanded by 591 basis points, 283 basis points and 31 basis points to 21.5 per cent, 8.4 per cent and 9.9 per cent, respectively. Meanwhile, the net profit margin of Greaves Cotton contracted by 91 basis points to 8.3 per cent in the March 2024 quarter.

Quarterly Financial Performance: Engines

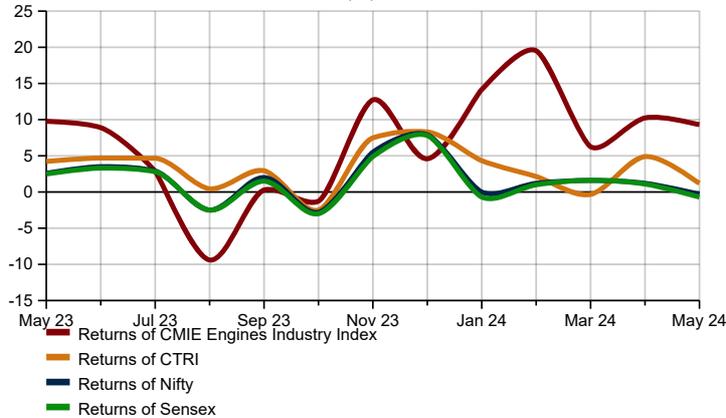
Quarter	Total income	Net sales	Operating profit	Net profit	Operating profit margin	Net profit margin
	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	%	%
Mar 2023	25.95	24.82	42.10	54.74	13.55	11.43
Jun 2023	24.85	25.14	54.04	54.60	13.90	11.17
Sep 2023	3.55	2.30	12.93	18.93	14.53	11.53
Dec 2023	14.66	14.82	29.55	26.48	17.51	13.41
Mar 2024	18.12	17.16	57.50	59.26	18.21	15.41

Note: All income and profit figures are net of prior period and extraordinary transactions.

Index yields 9.3% returns in May 2024

The CMIE Engines Index, comprising all listed engine companies, increased by 9.3 per cent in May 2024. This was the seventh consecutive month to report positive returns. The index performed better than Nifty and Sensex by 9.7 percentage points and 10 percentage points, respectively. It also beat the broader market, represented by the CMIE Total Returns Index (CTRI) by 8.1 percentage points in the reporting month.

Monthly returns on bourses: Engines
(%)



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The index was trading at a price-to-earnings (P/E) multiple of 53.4 times in May 2024. It traded lower compared to the P/E multiple of 54.2 times in the previous month April 2024. Trading volumes soared up to Rs.93.9 billion in May 2024 from Rs.41.8 billion in April 2024.

Share prices of Cummins India, the largest listed engines manufacturing company in the index, increased by 8.4 per cent in May 2024. Kirloskar Oil Engines yielded a double-digit return of 21.9 per cent in the same period. Meanwhile, Greaves Cotton delivered a negative return of 13.9 per cent during the month. Share prices of Swaraj Engines fell marginally by 0.1 per cent during May 2024.

The market capitalisation of the index peaked in May 2024, surpassing the Rs.1 trillion mark for the third straight month. It rose to Rs.1.2 trillion from the preceding month's Rs.1.1 billion market capitalisation. The market capitalisation of Cummins India rose to Rs.984.4 billion in May 2024 from Rs.908 billion in April 2024, while that of Kirloskar Oil Engines rose to almost Rs.180.7 billion in May 2024 from 148.2 billion in the previous month.

Performance on bourses: Engines

Month	Index	No of cos in Index	Mkt Cap.	P/E	Trading Volume	Liquidity	Returns
	Numbers		Rs. million	Times	Rs. mn	Mn shares	Times
Nov 2023	31,861.88	4	673,168.7	35.99	27,864.8	37.9	0.65
Dec 2023	33,323.80	4	704,065.0	37.64	35,062.1	70.6	0.63
Jan 2024	38,045.11	4	803,829.8	40.24	40,101.6	98.2	0.57
Feb 2024	45,470.94	4	955,180.3	47.82	68,410.8	86.4	0.52
Mar 2024	48,318.09	4	1,015,019.4	50.81	41,484.7	52.6	0.50
Apr 2024	53,265.99	4	1,118,999.1	54.19	41,817.4	45.0	0.47
May 2024	58,232.65	4	1,223,341.7	53.42	93,917.4	60.9	0.46