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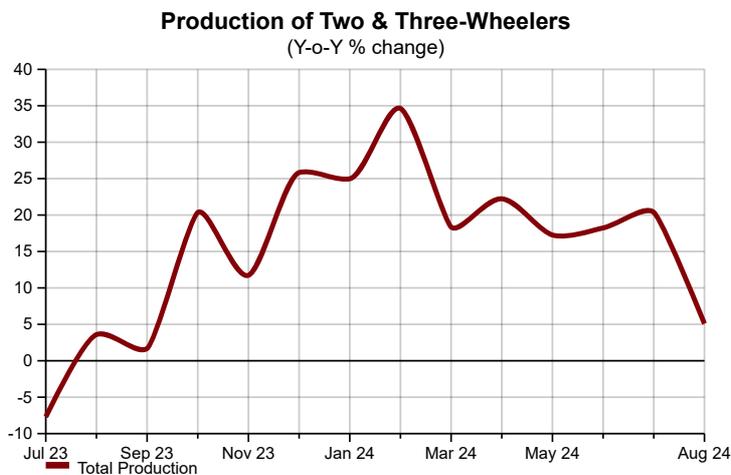
Prajwal Shinde

GPM industry to continue to report higher revenues

Traction in user industries to improve volumes

The general purpose machinery (GPM) industry is expected to continue reporting healthy growth in sales revenues for the quarter ended September 2024. The industry's sales have been on an upward trajectory since the December 2020 quarter, driven by rising demand for GPM products. The top line is projected to maintain this growth path in the September 2024 quarter, fueled by increasing demand from user industries. Higher realisations are also likely to have contributed to the rise in the industry's sales revenues.

The GPM products, which include bearings, compressors, pumps, valves and gears, derive demand from industries such as automotive, mining & construction equipment, agricultural machinery, air-conditioners & refrigerators, real estate and oil & gas.



The automotive segment, the biggest user industry, witnessed traction in its production in the first two months of the reporting quarter. The output of passenger vehicles rose by an average of one per cent during July-August 2024, over and above the healthy double-digit growth seen in the corresponding year-ago months. The production of two &

three-wheelers surged by an average of 12.7 per cent year-on-year (y-o-y) during the same period. Production of commercial vehicles is also expected to have increased in the reporting quarter owing to factors such as above-normal rainfall, continued government spending on infrastructure and strong replacement demand.

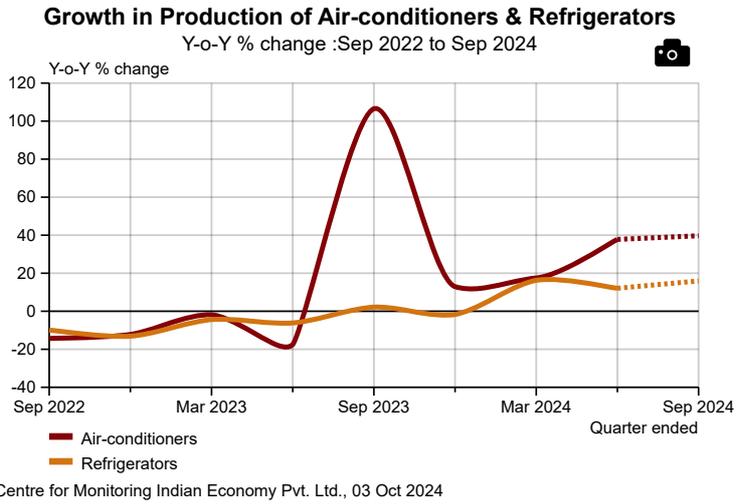
Tractor output grew by an average of 3.5 per cent y-o-y during July-August 2024.

Production of a majority of construction & mining machinery, too, increased during the first two months of the September 2024 quarter.

Traction in the production volumes of these sectors is likely to have continued in the last month of the September 2024 quarter. This will provide a fillip to the demand for bearings

and gears during the quarter.

The output of compressors, a vital component used in cooling equipment, is likely to have accelerated in the reporting quarter due to an upsurge in the usage of air-conditioners (ACs) and refrigerators amidst the above-normal temperatures across the country. We expect the production of ACs and refrigerators to have jumped by 39.7 per cent and 15.9 per cent y-o-y, respectively, in the July-September 2024 quarter.

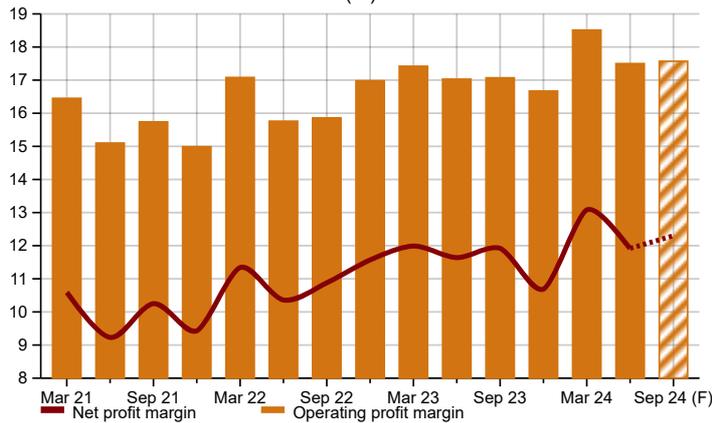


The real estate industry, a major demand driver for pumps and valves, is likely to have seen a strong project completion worth around Rs.130.7 billion during July-September 2024. Other user segments of pumps and valves, such as paints & varnishes, chemicals & chemical products and marine, are also likely to have seen an improvement in their capex activity during the said quarter.

Wholesale prices of GPM products climbed up by low-to-mid single digits on a year-on-year basis during July-August 2024. We expect the prices to continue to increase in September 2024 as well.

On the back of healthy volumes and better realisations, we expect the top line of the GPM industry to grow at a double-digit rate in the September 2024 quarter.

Profitability: General Purpose Machinery (%)



Average prices of finished steel, a key metal used for manufacturing GPM segments, fell by an average of 2.7 per cent y-o-y in the first two months of the said quarter. This fall came over and above a steeper 8.2 per cent fall recorded in the corresponding year-ago period. Higher revenues and a reduction in the prices of steel are expected to have improved the

profit margins of the industry. We expect the improvement in margins at both the operating as well as the net level to be around 20-50 basis points on a year-on-year basis in the September 2024 quarter.

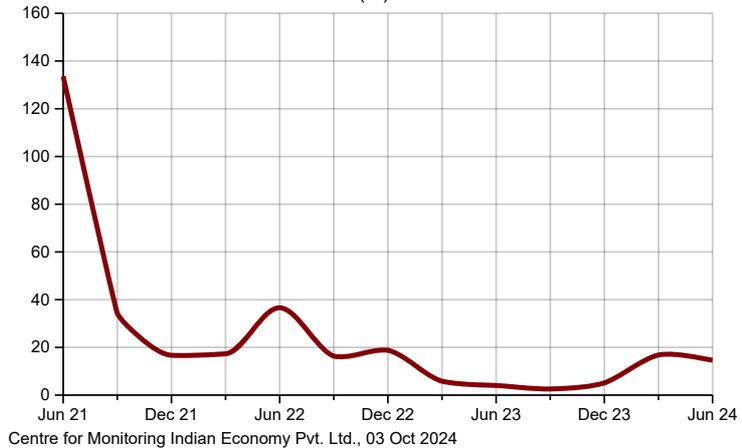
Top line of GPM industry rose by 14.7% in June 2024 quarter

Sales revenues of the general purpose machinery industry grew by 14.7 per cent y-o-y in the first quarter of the financial year 2024-25. Higher volumes as well as realisations led to the growth in the industry's top line.

Wholesale prices of air gas compressors, pumps and valves rose by a low-to-mid single-digit rate during April-June 2024. Prices of roller and ball bearings inched up by 0.6 per cent y-o-y in the same period.

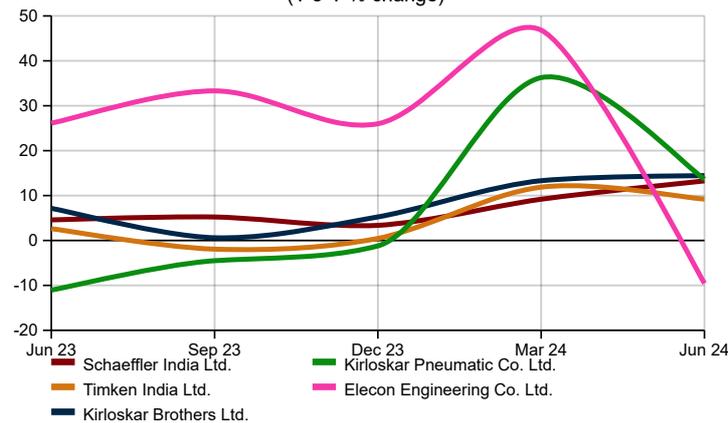
Demand for GPM products rose during the June 2024 quarter on account of an increase in production activity of user segments. Higher demand led to the growth in the industry's sales volumes.

Growth in Sales Revenues: General Purpose Machinery (%)



The bearing segment, which accounts for almost 50 per cent of the industry's quarterly sales, recorded an average growth of 8.7 per cent in the June 2024 quarter compared to the same quarter in the previous year. Schaeffler India, which holds almost one-fourth share of the industry's total revenues, registered a healthy 13.3 per cent y-o-y growth in its sales revenues in the quarter. The top line of Timken India and NRB Bearings rose, while that of NRB Industrial Bearings, Galaxy Bearings and Vishal Bearings dropped in the June 2024 quarter.

Company-wise Growth in Net Sales: General purpose machinery (Y-o-Y % change)



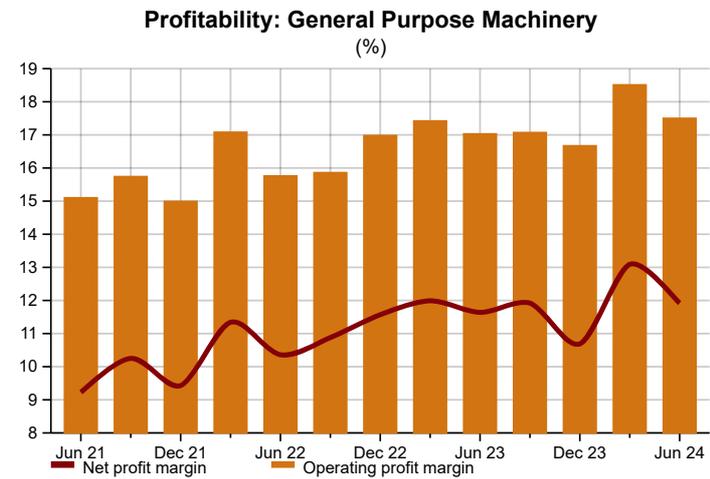
Gear manufacturers, Shanthi Gears and I P Rings, registered a top line growth, while Elecon Engineering reported a 7.3 per cent fall in its sales revenues in the same quarter. Elgi Equipment and Kirloskar Pneumatic, which are majorly into manufacturing compressors, recorded a healthy 18.3 per cent and 13.6 per cent y-o-y growth, respectively, in their top line for the quarter ended June 2024.

Pump manufacturers such as Kirloskar Brothers and KSB reported an annual top line growth of 14.5 per cent and 9.3 per cent, respectively. Shakti Pumps witnessed a robust 449.5 per cent y-o-y growth in its top line driven by accelerated execution of the existing orders in both domestic and export markets. Sales revenues of valves manufacturers,

Hawa Engineers and Chemtech Industrial Valves, climbed up by 6.9 per cent and 96.7 per cent y-o-y, respectively, in the June 2024 quarter.

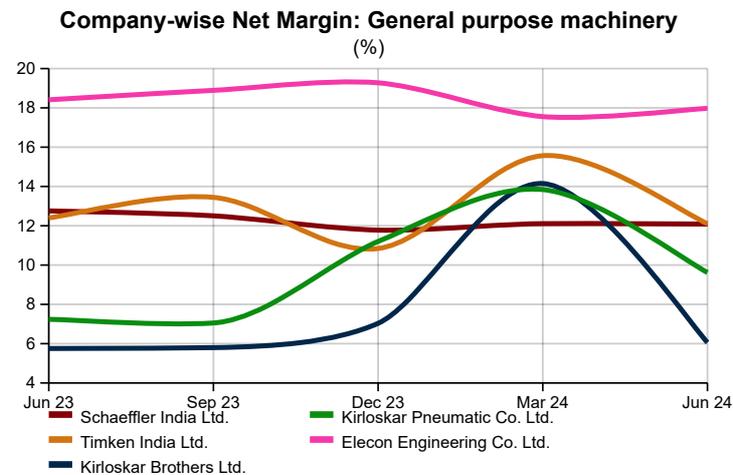
Raw material expenses, which account for more than half of the industry’s total expenses, increased by 11.6 per cent y-o-y in the quarter, owing to an increase in the production activity of GPM products. The proportion of raw material expenses in sales revenues, however, contracted by 118 basis points to 46 per cent in the same quarter as the prices of steel fell. The average prices of steel dropped by 4.9 per cent during April-June 2024, over and above an 18 per cent fall recorded in the corresponding year-ago period.

Salary expenses and other operating expenses rose by 10.3 per cent and 13.7 per cent on an annual basis, respectively, and subsequently, the operating expenses corresponding to the goods sold rose by 14 per cent y-o-y, still slower compared to the growth in net sales. As a result, the operating profit of the GPM industry rose by 18 per cent y-o-y in the April-



June 2024 quarter. The profit margin at the operating level expanded by 47 basis points to 17.5 per cent due to higher revenues when compared to the rise in operating expenses.

Non-operating expenses such as interest expenses, depreciation and tax expenses, which account for almost eight per cent of the industry’s total expenses, rose by 15.5 per cent y-o-y in the quarter. Other income increased by 4.9 per cent y-o-y. The net profit of the industry rose by 17.4 per cent y-o-y and the net profit margin improved by 28 basis points to 11.9 per cent in the June 2024 quarter.



The net profit margin of Schaeffler India shrunk by 67 basis points to 12.1 per cent. Elecon Engineering Co. And Timken India, too, recorded a contraction in their net profit margin by 43 basis points and 29 basis points, respectively. The net profit margin of top compressor manufacturer, Elgi Equipment contracted by 107 basis points to 15

per cent, while that of Kirloskar Pneumatic expanded by almost 240 basis points to 9.6 per cent in the June 2024 quarter. Kirloskar Brothers and Shakti Pumps’ net profit margin

expanded by 31 basis points and 12.1 percentage points to 6.1 per cent and 16.2 per cent, respectively.

Quarterly Financial Performance: General Purpose Machinery

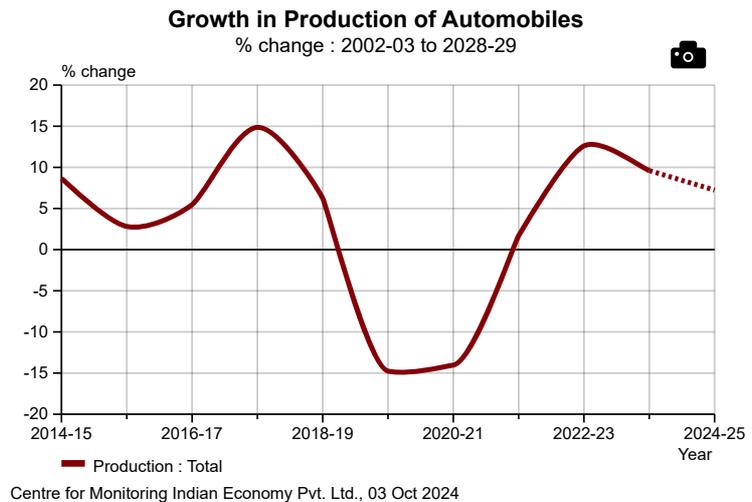
Quarter	Total income	Net sales	Operating profit	Net profit	Operating profit margin	Net profit margin
	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	%	%
Jun 2023	4.50	4.02	11.40	16.45	17.03	11.64
Sep 2023	3.00	2.57	9.56	11.99	17.07	11.92
Dec 2023	5.32	5.12	2.46	-3.31	16.67	10.69
Mar 2024	16.90	16.81	24.17	27.61	18.51	13.09
Jun 2024	14.45	14.65	17.98	17.40	17.50	11.92

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

Healthy demand to improve production of general purpose machinery

Output of general purpose machinery such as bearings, compressors, pumps and valves is expected to grow in the ongoing financial year 2024-25. This growth is likely driven by healthy demand from user sectors.

Bearings are used for numerous applications in various industries. The majority of its demand comes from the automotive sector as all moving parts of a vehicle require bearings to bear heavy loads and reduce friction. Output of automobiles is expected to increase by over seven per cent in 2024-25, primarily driven by the two-wheeler segment.



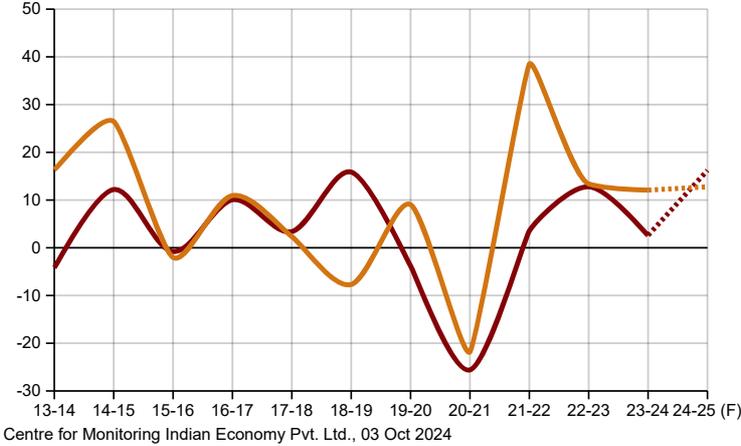
Railway segment is also expected to perform well due to an increase in funding for the expansion and modernisation of the railway network expansion. The central government has announced a record capacity expenditure of Rs.2.6 trillion for Indian Railways in the Union Budget of 2024-25. Indian Railways will be manufacturing 4,485 non-AC coaches in the current financial year, as part of the plan to produce a record number of over 5,300 general coaches in the year 2024-25 and 2025-26. This will augur well for the bearings market.

Construction & mining equipment, agriculture machinery, railways and aviation industries require specialised bearings that can withstand high speeds, high loads and misalignment. An expected increase in construction and agricultural activities will support

growth in the production of construction & mining equipment and agriculture machinery, respectively, in the current financial year.

We expect bearings output to grow by 4.8 per cent in 2024-25, over and above a smart seven per cent growth seen in the previous year.

Production of Refrigerators & Air-conditioners
(% change)



Demand for compressors is expected to spur this year following a spike in the production of its key user segments - air-conditioners (ACs) and refrigerators. Output of ACs and refrigerators is expected to surge in the ongoing financial year as the country experienced a prolonged heatwave and record-breaking temperatures this summer. The

production volumes of ACs and refrigerators are projected to grow by a healthy 12.8 per cent and 16.2 per cent, respectively, in the year 2024-25. With this, we expect the production of compressors, too, to grow by a healthy double-digit rate this year.

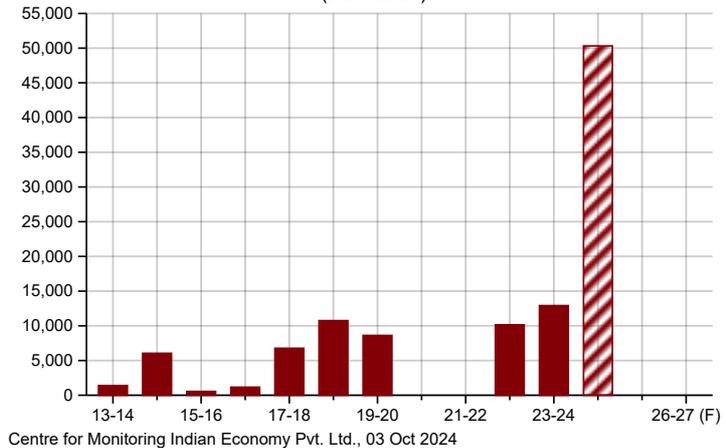
Compressors output is projected to grow by 11.8 per cent in the current financial year.

Pumps and valves are commonly used in infrastructure and building construction sectors for water and wastewater distribution. In 2024-25, the real estate industry is expected to witness project completions worth around Rs.773.4 billion, which is significantly higher compared to the project completions seen in the previous financial year.

Pumps and valves are also used in liquid handling segments such as agriculture/irrigation, marine, crude oil & natural gas, paints & varnishes, chemical & chemical products and sewage water management. Some of these sectors are likely to witness a strong growth in their capex activity this year.

The paints & varnishes industry is expected to witness its highest project completions worth around Rs.50.3 billion in the current financial year 2024-25, according to CMIE’s capex monitoring machinery. Capacity additions in the chemicals and petroleum products sector are expected to be higher this year compared to the previous

Projects completed: Paints & Varnishes
(Rs. million)

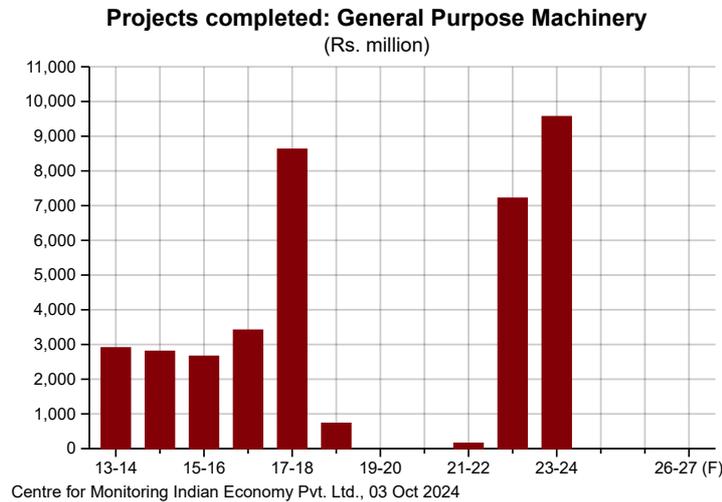


financial year. Shipbuilding activities are also expected to gain traction as the government

is working on a new scheme that would incentivise Indian shipyards. These factors are likely to fuel demand for pumps and valves.

Increased project completions across user segments are expected to aid growth in the production of pumps and valves. We expect pumps and valves output to grow by 7.7 per cent and 9.9 per cent, respectively, in the ongoing financial year.

Project completions to drop this year



Project completions in the GPM industry are likely to drop in the ongoing financial year 2024-25, after touching a decadal high in the previous financial year. Up until now, there are two projects which are scheduled to be completed this year. The total investment outlay of these projects could not be ascertained. The details of these

projects are mentioned below:

- Supreme Industries is setting up a ball valves and industrial valves manufacturing factory in Malanpur, Madhya Pradesh. This project is nearing completion and is expected to be commissioned by September 2024.
- Nexsteer Systems is establishing a gears manufacturing unit in Ahmadnagar, Maharashtra. This project is scheduled to be completed by the end of the ongoing financial year 2024-25.

At present, there are no projects scheduled for commissioning in the next 1-2 years, according to CMIE's capex monitoring machinery. However, we expect the scenario to change and the industry to witness some project completions in the next three years. This will be backed by a strong pick-up in new project announcements. New project announcements in the industry surged during 2021-24 owing to an increase in demand for most of the GPM products. The industry witnessed nine new project announcements in 2021-22, 14 new project announcements in 2022-23 and nine new project announcements in the previous year 2023-24. This is much higher compared to 2-6 new project announcements seen each in the preceding four years. With these project announcements, the total outstanding projects in the industry more than doubled from 14 projects in 2020-21 to 30 projects in 2023-24. We expect some of these projects to be completed in the next two to three years.

Investments: General Purpose Machinery

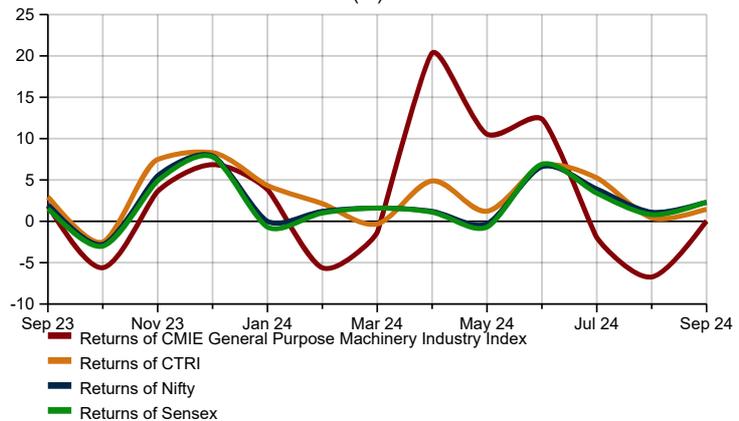
Year	Projects announced		Projects completed		Investments stalled		Projects outstanding	
	Cost	Count	Cost	Count	Cost	Count	Cost	Count
	Rs. million	Numbers	Rs. million	Numbers	Rs. million	Numbers	Rs. million	Numbers
2018-19	6,350.0	6	725.0	5	200.0	1	32,510.0	18
2019-20	500.0	2		6			33,010.0	14
2020-21	6,600.0	4		2			28,720.0	14
2021-22	12,014.5	9	150.0	2	3,500.0	1	36,446.4	19
2022-23	4,487.8	14	7,210.0	4			33,112.3	29
2023-24	9,161.0	9	9,560.0	7			31,613.3	30

Index underperforms benchmark in September 2024

The CMIE General Purpose Machinery Index, comprising all listed general purpose machinery companies, remained at its year-ago level in September 2024 quarter, after delivering negative returns in the previous two months. The index underperformed compared to the benchmark indices Nifty and Sensex by 2.3 percentage points each. It also underperformed the broader market, represented by the CMIE Total Returns Index (CTRI), by 1.4 percentage points in September 2024.

The index was trading at a price-to-earnings (P/E) multiple of 60.7 times in September 2024. It traded slightly lower compared to the P/E multiple of 60.8 times in August 2024. Trading volumes plummeted to Rs.49.8 billion in the reporting month from Rs.71.1 billion in August 2024.

Monthly returns on bourses: General Purpose Machinery (%)



Centre for Monitoring Indian Economy Pvt. Ltd., 03 Oct 2024

The market capitalisation of the index slightly rose to Rs.2,117.8 billion in September 2024 from Rs.2,117.5 billion in the preceding month.

Out of the 30 companies in the index, half of the companies delivered low-to-mid single digit negative returns, while the other half yielded positive returns in the same range. Share prices of Schaeffler India, the largest listed company in the index, fell marginally by 0.7 per cent during September 2024. Timken India and Elgi Equipments' also witnessed a drop in their share prices by almost 2.2 per cent each.

Latteys Industries yielded the highest returns of 74.2 per cent during the reporting month. Share prices of Kirloskar Brothers, Honda India Power Products and Elecon Engineering increased by 2.7 per cent, 5.4 per cent and 12.7 per cent, respectively, in September 2024.