



ENGINEERING INDUSTRY OUTLOOK

26 August 2019

INDUSTRY OUTLOOK

The Indian Engineering sector has witnessed reasonable growth over the last few years driven by increased investments in infrastructure and industrial production. The engineering sector, being closely associated with the manufacturing and infrastructure sectors, is of strategic importance to India's economy. India became a permanent member of the Washington Accord (WA) in June 2014¹. The country is now a part of an exclusive group of 17 countries who are permanent signatories of the WA, an elite international agreement on engineering studies and mobility of engineers.

MARKET SIZE

India exports its engineering goods mostly to the US and Europe, which accounts for over 60 per cent of the total exports. Engineering exports for the period of FY19 were USD 81.02 billion as against USD 76.20 million in the same period previous year. Exports of electrical machinery and equipment grew at a CAGR of 7.00 per cent during FY2010-18 to reach USD 6.7 billion in FY18. The figure stood at USD 6.93 billion for April 2018-January 2019². The electrical equipment industry observed a witnessed a record seven-year high growth of 12.8 per cent in 2017-18, on the back of increase in government spending on rural and household electrification schemes and programmes to improve power distribution. Construction equipment industry of India is expected to grow over 18 per cent in 2018-19. On a cumulative basis for the entire fiscal 2018-19, engineering export recorded 6.32 percent growth over the previous fiscal while its share in total merchandise exports was 24.5 percent.

GROWTH DRIVERS

- Capacity creation in sectors such as infrastructure, power, mining, oil and gas, refinery, steel, automotive and consumer durables is driving demand in the engineering sector.
- Nuclear capacity expansion to provide significant business opportunities to the electrical machinery industry.
- Infrastructure investments are likely to provide significant boost to the production of capital goods.
- Government of India has introduced the National Policy on Capital Goods 2016 which aims to treble production of capital goods and employment opportunities in the sector.
- Various government initiatives like Pradhan Mantri Gram Sadak Yojana (PMGSY), industrial corridors, dedicated freight corridors, Bhartamala and Sagarmala projects, Jal Marg Vikas and UDAN Schemes would provide further boost to the industry.

INVESTMENTS

The Foreign Direct Investment (FDI) inflows into India's miscellaneous mechanical and engineering industries during April 2000 to March 2019 stood at around USD 3.58 billion³.

In the recent past, following are some developments in the Indian engineering and design sector⁴:

- As of December 2018, SANY India, the Indian arm of Beijing- headquartered construction equipment maker SANY Group, is planning to invest Rs 1,000 crore (US\$ 142.49 million) to expand its construction machinery production capacity to 25,000 units.
- Schneider Electric and Temasek acquired Larsen & Toubro's (L&T) electrical and automation business in May 2018.



GOVERNMENT INITIATIVES

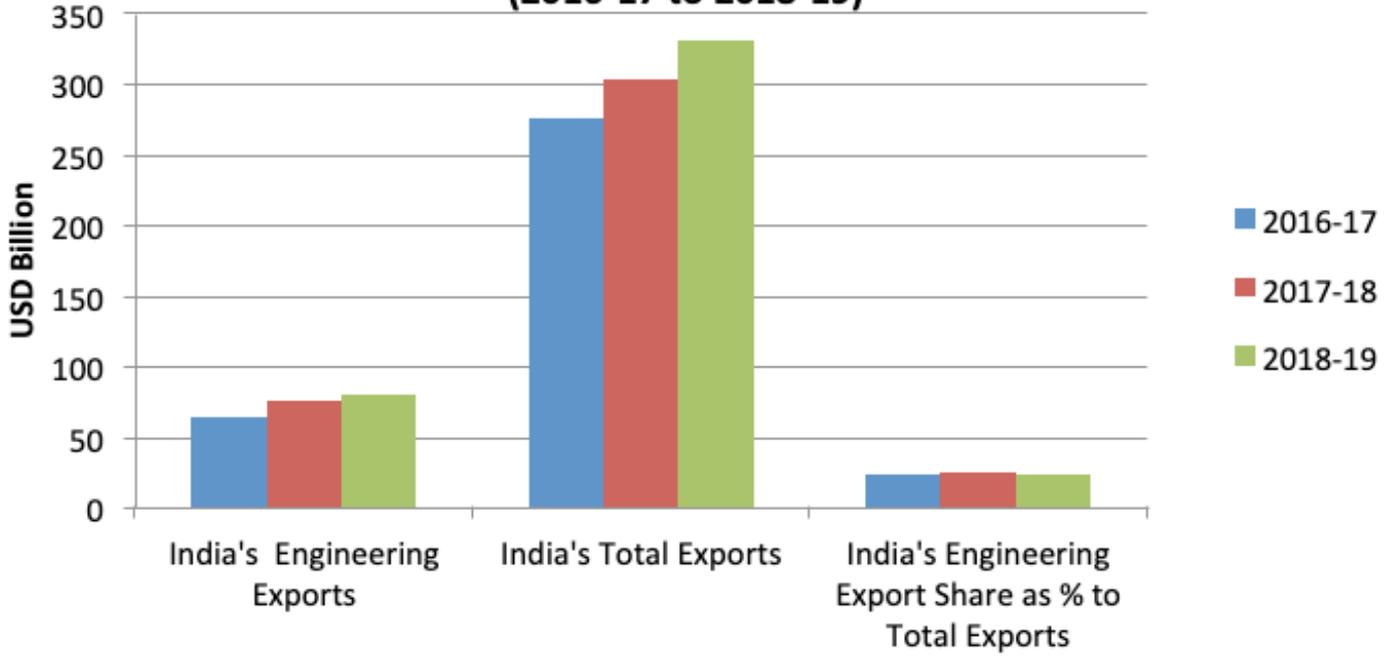
- The Indian engineering sector is of strategic importance to the economy owing to its intense integration with other industry segments. The sector has been de-licensed and enjoys 100 per cent FDI. With the aim to boost the manufacturing sector, the government has relaxed the excise duties on factory gate tax, capital goods, consumer durables and vehicles.
- Make in India policy is being pursued to achieve greater self-sufficiency in the area of defence equipment including air-craft.
- The Union Cabinet has approved incentives up to Rs 10,000 crore (US\$ 1.47 billion) for investors by amending the M-SIPS scheme, in order to further incentivise investments in electronics sector, create employment opportunities and reduce dependence on imports by 2020.
- The Government has given further push to all forms of physical connectivity through Pradhan Mantri Gram Sadak Yojana (PMGSY), industrial corridors, dedicated freight corridors, Bhartamala and Sagarmala projects, Jal Marg Vikas and UDAN Schemes. The New Metro Rail Projects for a total route length of 300 kilometers have been approved during 2018-19. Also, during 2019, about 210 kms metro lines have been operationalized⁵.

INDIA'S ENGINEERING EXPORT SCENARIO

The Government of India has appointed the Engineering Export Promotion Council (EEPC) as the apex body in charge of promotion of engineering goods, products and services from India. India exports transport equipment, capital goods, other machinery/equipment and light engineering products such as castings, forgings and fasteners to various countries of the world. The Indian semiconductor industry offers high growth potential areas as the industries which source semiconductors as inputs are themselves witnessing high demand. Indian engineering exports stood at US\$ 81.02 billion during 2018-19 by surpassing the previous high of US\$ 76.2 billion in fiscal 2017-18.

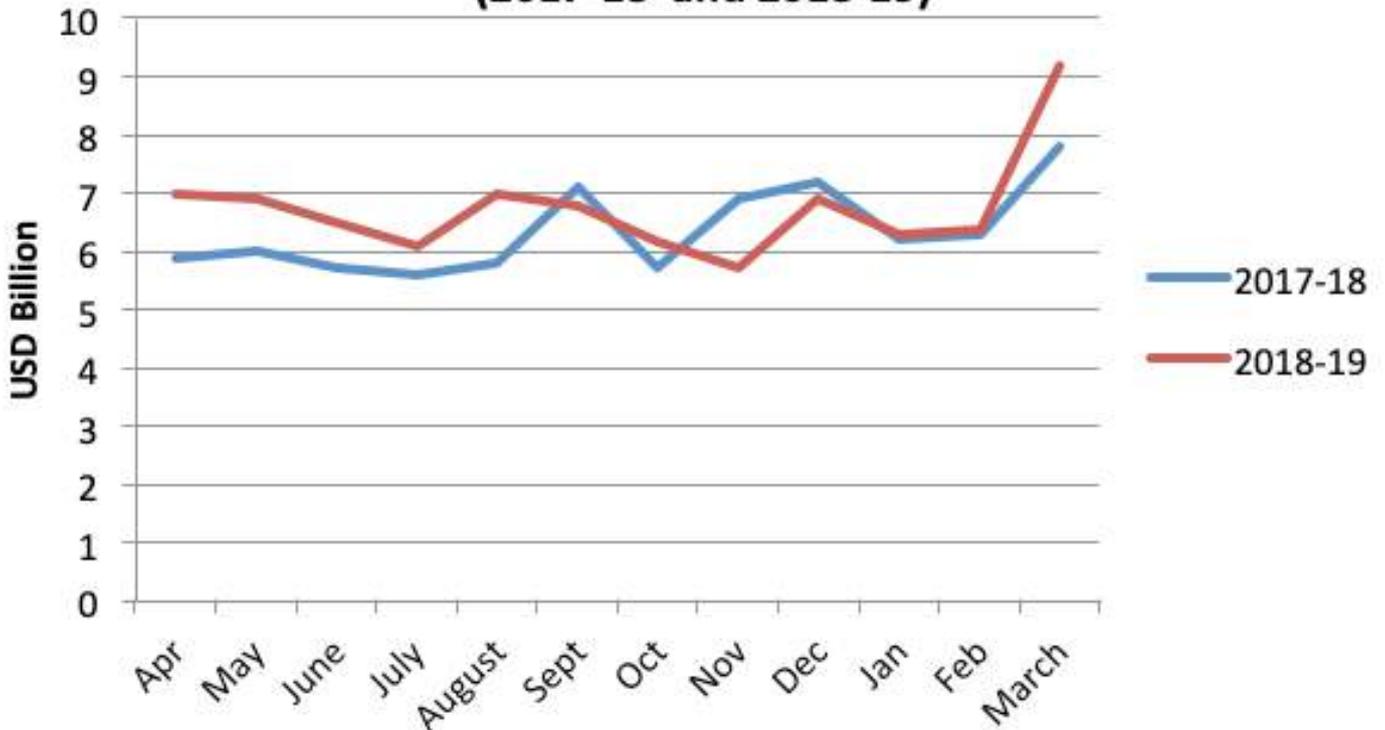


Chart 1: India's Engineering Exports as % to India's Total Exports (2016-17 to 2018-19)



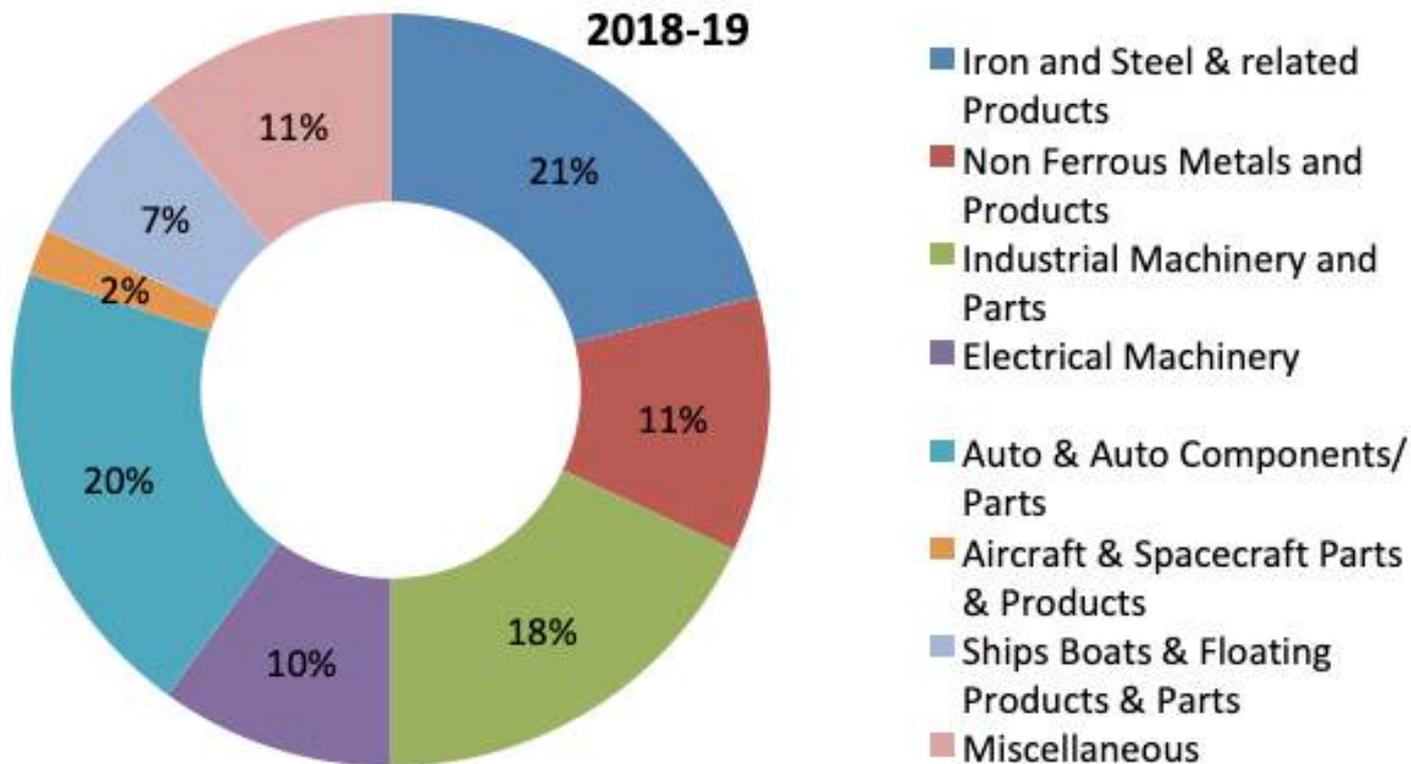
Source: Engineering Export Promotion Council <https://www.eepcindia.org/download/EEA-190422162856.pdf>

Chart 2: Monthwise Engineering Exports (2017-18 and 2018-19)



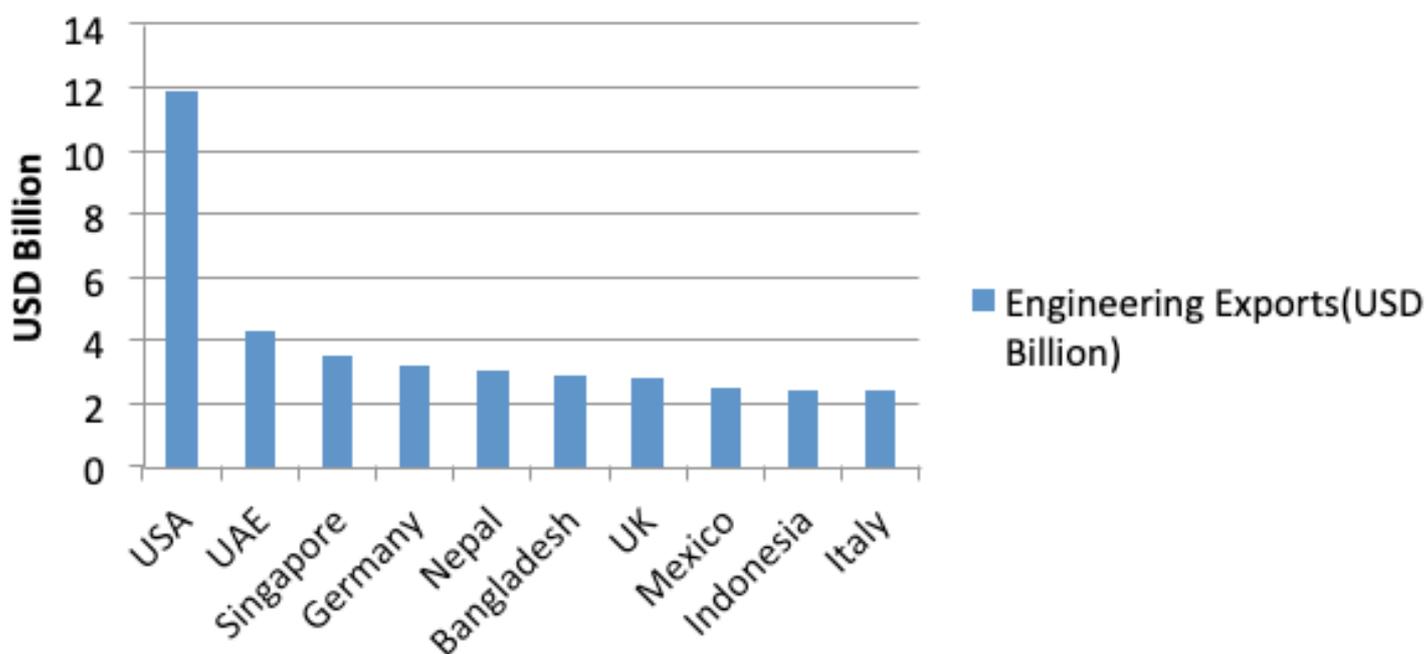
Source: Engineering Export Promotion Council <https://www.eepcindia.org/download/EEA-190422162856.pdf>

Chart 3:Export Share (%) of Major Engineering Products in 2018-19



Source:Engineering Export Promotion Council <https://www.eepcindia.org/download/EEA-190422162856.pdf>

Chart 4:Top Ten Engineering Export Destinations of India (USD Billion)



Source:Engineering Export Promotion Council <https://www.eepcindia.org/download/EEA-190422162856.pdf>

According to the latest June 2019 EEPCC report, the monthly engineering figures for 2019-20 vis-à-vis 2018-19 is as follows:

Table 1: India's Engineering Exports and Growth in 2019-20 vis-à-vis 2018-19 (%)

Month	2018-19	2019-20	Growth (%)
April	7020.54	6477.51	-7.73
May	6928.08	7242.49	4.54
June	6512.31	6361.98	-2.31
April-June	20460.93	20081.98	-1.85

Source: : EEPCC June 2019 Report on Engineering Products

An analysis of Engineering Panel wise exports for the month of June 2019 vis-a-vis June 2018 shows the following trends:

- Exports of engineering goods in June 2019 declined by around 2.31% to US\$ 6361.98 million compared to USD 6512.31 million in June 2018.
- Year on year decline was witnessed in 16 out of total 33 engineering panels. These include some of the key panels such as iron and steel, non-ferrous metals, electrical machinery, aircrafts, spacecraft and parts and several panels under industrial machinery.
- The cumulative total of this fiscal (April to June 2019-20) also exhibited a decline from the same period last year. In cumulative terms too, 15 out of 33 panels exhibited a year-on-year decline.
- Iron and Steel figures continued to drop by 11.2 percent during June 2019 with an overseas shipment recording USD 653.72 million from USD 735.48 million in the same month last year.
- The fall in major segments in the Non-Ferrous metal is one of the major features of June 2019. Heavyweight segments like Copper, aluminium, zinc and lead recorded more than 15% decline in June 2019 over June 2018. In cumulative terms too, five out of seven non-ferrous panels experienced a decline in June 2019 when compared to June 2018.
- Industrial machinery panel also exhibited a decline in both monthly and cumulative terms. Four out of six panels exhibited decline in June 2019 when compared to June 2018. 32.18% growth was witnessed in 'Industrial Boilers' making it the highest recorded y-o-y growth within the broader panel in June 2019. 5.82% growth was also witnessed in 'Machinery for injecting moulds, valves and ATMs'. Maximum decline in June 2019, occurred in air-condition and refrigerators.

- 'Electrical Machinery and equipment' which generally exhibits rise and is a major export for India also experienced a decline of 3.30% in June 2019 when compared to June 2018.
- The panel 'Automobiles' recorded 6.6 percent negative growth during June 2019, moving down from USD 1356.98 million in June 2018 to USD 1267.28 million in June 2019. The decline was accounted for by the drop in y-o-y exports of 'Motor vehicles/cars' by 8.9 percent and 'Two and three wheelers' by 15.03%.
- Exports of 'Aircrafts and Spacecraft parts and products' recorded decline in both monthly (42.9 percent drop) and cumulative (40.70 percent drop) terms. On the other hand, 'Ship, Boats and Floating Bodies' exhibited a significantly high growth in exports in both monthly (104.41 percent rise) and cumulative (18.90 percent rise) terms.

IMPORT SCENARIO OF ENGINEERING PRODUCTS

India's Engineering imports during January 2019 were valued at USD 9236.01 million compared to USD 8959.49 million in January 2018 registering 3.1 percent in dollar terms. The share of engineering imports in India's total merchandise imports is estimated at a higher 22.5 percent in January 2019 as against 21.8 percent in January 2018.

It is noteworthy to mention that during March 2019, certain engineering products witnessed decline; one of the main reasons for the falling engineering exports is the sharp decline in exports in both ferrous and non-ferrous primary products. Some heavy ticket exports products which have shown drastic fall both monthly as well as on cumulative basis are⁶:

- Exports of primary steel under Chapter 72: fell by 10.6% in March 2019 and 13.2% during April-March 2018-19.
- Exports of Copper and Copper products under Chapter 74: fell by 60.8% in March 2019 and 69.4% during April-March 2018-19.
- Exports of Zinc and products: fell by 43.3% in March 2019 and 31% during April-March 2018-19.

Table 2:Major Players

Sl No.	Company	Products
1	Larsen and Toubro	Engineering and construction, cement, electrical and electronics. L&T Hydraulics manufactures and markets a wide range of high pressure hydraulic products, hydrostatic transmissions and customised hydraulic systems. 1!
2	Bharat Heavy Electricals Ltd.	Power generation, transmission, transportation
3	ABB India Ltd.	Transformers, switch gears, control gears
4	CG Power and Industrial Solutions Ltd	Power generation and transmission equipment
5	Engineers India Ltd	Highways and bridges, mass rapid transport systems construction, specialist materials manufacturing
6	Kirloskar Oil Engines Ltd	Engines, engine bearings and valves, grey iron casting
7	Cummins India Ltd	Power generation, construction and mining equipment, fire pumps and cranes, compressors
8	Thermax Ltd	Boilers, heaters, air pollution and purification, absorption cooling
9	BGR Energy Systems Ltd	Boilers, turbines, generators

Source:Engineering and Capital Goods (January 2019) India Brand Equity Foundation (IBEF) https://www.ibef.org/download/engineering-and-capital_goods-jan-2019.pdf

Table 3: Merger & Acquisition (M & A) Deals

Sl No.	Acquirer	Target	Type	Acquisition Date
1	Shinryo Corporation	Suvidha Engineers India	Acquisition	October 2018
2	Schneider Electric and Temasek	Larsen & Toubro's Electrical & Automation business	Acquisition	May 2018
3	Adani Transmission	Reliance Infrastructure (Mumbai Power business)	Acquisition	March 2018
4	Axiscades	Mistral Solutions	Acquisition	November 2017
5	ABB Group	GE Industrial Solutions	Acquisition	September 2017
6	Hero Electronix	Spectrum Integrated Technologies and LynxemiPteLtd	Acquisition	August 2017
7	Warburg Pincus	Tata Technologies Ltd.	Minority Stake	June 2017
8	Havells India	Lloyd Electricals – consumer durables unit	Acquisition	February 2017
9	Birla Corp. Ltd.	Reliance Cement Company Pvt.Ltd.	Acquisition	July 2016
10	Fairfax India Holdings Corp. and	Bangalore International Airport Ltd.	Minority stake	March 2016

Source: Engineering and Capital Goods (January 2019) India Brand Equity Foundation (IBEF) https://www.ibef.org/download/engineering-and-capital_goods-jan-2019.pdf

INDUSTRY RISK

Slowdown in global trade demand has been a major reason behind poor performance by engineering exports. World Bank predicted in June 2019 report on 'Global Economic Prospects' that the global trade growth in 2019 would only be 2.6%, slightly lower than what was witnessed during 2015-16 global slowdown. Trade tensions, economic slowdown among major economies are posing further challenges. Renewed financial turmoil in several emerging markets is likely to depress global demand and make recovery slower. Negative export trend has been witnessed in a number of economies including US, Japan, EU, etc. China is also witnessing an overall sluggish trade due to the on-going tariff war with USA. Withdrawal of India from US- GSP benefits is also expected to show negative impact on India's exports given that USA is a major export destination. Experts opine that while India may have had opportunities of capturing key US market on the side-lines of the US-China trade war, withdrawal from US-GSP may have negative impact on that scope.

Some heavy ticket exports products which have shown drastic fall both monthly as well as on cumulative basis are⁸:

- Exports of primary steel under Chapter 72: fell by 11.12% in June 2019 and 12.29% in April-June 2019.
- Exports of Copper and Copper products under Chapter 74: fell by 21.38% in June 2019 and 24.39% in April-June 2019.
- Exports of Aluminium and its products under Chapter 76: fell by 22.88% in June 2019 and 18.11% in April-June 2019.
- Exports of Zinc and products: fell by 28.52% in June 2019 and 36.14% in April-June 2019.
- Exports of Lead and its products: fell by 40.33% in June 2019 and 22.41% in April-June 2019.

The cumulative impact of the fall in the above five product lines is USD 253.42 million for June 2019 and 714.94 million in April-June 2019⁹.

FOOTNOTES

1. 'Engineering Industry in India (March 2019) India Brand Equity Foundation (IBEF) <https://www.ibef.org/industry/engineering-india.aspx>
2. ibid
3. Engineering Industry in India (March 2019) India Brand Equity Foundation (IBEF) <https://www.ibef.org/industry/engineering-india.aspx>
4. Engineering Industry in India (March 2019) India Brand Equity Foundation (IBEF) <https://www.ibef.org/industry/engineering-india.aspx>
5. Budget 2019-2020 Speech (5 July 2019).
6. 'Analysis of Indian engineering exports and imports for March 2019'(17th April 2019)EEPC India.
7. The hydraulic products are manufactured at Bengaluru, India.
8. Engineering Export-Import Monitor' (June 2019) EEPC Report.



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