



Filling the Fund-Gap

With the need for infrastructure only scaling up, the demand for construction equipment is on a constant rise. Adding to this are the big-ticket face-lifting infra- projects. Equipment Financiers look upon these building infra-requirements as factors broadening the scope of opportunities. Veena Kurup takes a closer look...

Infrasturcture remains as the core determinant of development for any nation. But, to ensure and realise such measures, availability of hassle free fund flows is a must. With the Indian Government remaining gung ho over its ambitious array of big-ticket and face-lifting projects, the opportunities expected from the construction segment is immense. The evolving infra-constructional development has given an optimistic cheer to the equipment and allied sectors.

While roads and highways continue to hold the major share in pulling the equipment demand index, the opening up of mining sector has

broadened the scope of opportunities. Adding to this are the urban rejuvenation programmes, tier-II and tier-III upliftment measures, irrigation and water conservation projects that has opened a new spectrum for the equipment manufacturers. Despite these opportunities the industry had to face its fair share of slowdown owing to the market and economic volatilities – in turning limiting the hassle free flow of funds.

The Funding Need

As per a recent study released by the China-led Asian Infrastructure Investment Bank, the cost of infrastructure financing in India is anticipated to

scale up over the next one year. Global economic conditions, higher borrowing rates and geopolitical volatilities were pointed as the areas of concern affecting the investors while chipping in finance for the infra and allied sectors.

The market experts see the construction equipment industry today at a value of USD 4.3 billion. Feedback Business Consultancy in its report forecasts the industry volumes to spike up to over 1,20,000 units by 2021, growing at a CAGR of 20 per cent. 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 USD 7.5 billion by 2020. A study by the Off-Highway Research Indian Annual Review 2019, construction equipment sales in India grew 17 per cent in 2017-18, building on the 36 per cent witnessed in 2018-19.

Projecting the need for infra-constructional investments the Asian Development Bank recently in a media disclosure stated a requirement of \$270 billion every year in India. However, in the present scenario only half of such investments is being flown into the sector. The 12th Five Year Plan had projected infrastructure development at ₹ 65 lakh crore to be equally met from budgetary resources and from debt and equity participation by commercial banks, international agencies, National Bank for Agricultural and Rural Development (Nabard), Non-Banking Financial Companies (NBFCs), financial institutions, mutual funds, and other large strategic investors. Wherein, the public sector has taken the lead in infrastructure financing.

To realise such mega face-lifting opportunities and for implementing an infra-constructional transformation easy flow of funds is a must – thereby scaling up the opportunities for the financiers.

The Growth Curve

“CE rental, financing and after sales have emerged as a differentiator in providing a holistic view of the overall CME sector. Construction rental and financing services caters to the capital financing needs of almost all types of earthmoving equipment. As the segment requires



large capital expenditure, financing accounts to a total of 80-85 per cent of equipment purchased. Over the last six years disbursements to the sector have grown at a CAGR of 10.9 per cent and are further expected to grow at a rate of 20-21 per cent for the next three years until 2021 fiscal. On the other hand CE business gives a major advantage of cutting on higher equipment cost, protection from market fluctuations, eliminating storage and transportation issues. Currently the business accounts to 7-8 per cent and is expected to grow rapidly,” opines **Puneet Vidyarthi, Brand Leader, CNH Industrial Capital.**

According to **Ramesh Iyer, VC & MD, Mahindra Finance**, “Infrastructure demand is the primary factor driving CEQ growth, and India’s need for new infrastructure is substantial. With the new push from infra EPC (Engineering, Procurement & Construction) projects, mining, and real estate, the demand for road equipment across types and capacities is projected to have robust growth in the next 5 years. Especially in the case of mining, the government’s focus on doubling metals and minerals’ production will increase opportunity for India’s excavator market. The mining sector is currently making a big push towards mechanisation which in turn will churn up robust demand for mining excavators with higher capacities. CEQ financing industry is definitely prone to customer demand dynamics. Starting from CEQ product to asset cost, demand changes based on work order to be performed by the client.”

Agreeing on the lines of infrastructure as a major growth puller **Devendra Kumar Vyas, MD, Srei Equipment Finance Ltd** expresses, “Personally I believe that infrastructure projects would continue to be the focus area of the government and hence equipment sale and financing would definitely witness an upsurge. I remain to be an optimist and hope to see the revival in the near future.”





The Transformation

While the funding connoisseurs see the opportunities emerging and evolving with each infra-constructional progress, they also point out a noteworthy change in the customer mindset. Commenting on similar lines Iyer points out, “The whole debtor-creditor relationship has undergone a massive change – resulting in improved credit culture of the country and ultimately improving the ease of doing business. Customer demand for greater flexibility and convenience will augment the use of non-standard financing agreements. Shifts in customer preference for managed services (bundling equipment, services, supplies and software), pay-per-use leases and alternative financing will encourage equipment finance companies to find innovative ways to meet the demand.”

He further adds, “Current equipment financing takes anywhere between 5-30 days before the machine is handed over to the customer. Equipment financing companies need to move to the automation route, to sustain and survive in this technology-led market. A major differentiator could be transparency with a process to manage documentation, including, for example, equated monthly installments.”

“The equipment financing segment in itself is at such a nascent stage, it is still trying to establish itself in the market. The demand definitely is more towards the rental side than new. Construction equipment rental business is the recent on-going trend for the manufacturers. The current rental market is said to be around 7-8 per cent and it is growing rapidly. Customers mostly go for rental because it helps them in cutting down on equipment acquisition cost, protection from market fluctuations, eliminating storage and transportation issues. Equipment finance has also

helped the acquisition of equipment on easy terms and enabled regular cash flow and avoids business cycle fluctuations for customers,” shares Vidyarthi.

Creating Opportunities

On the verge of evolving opportunities adding to the wave of optimism is the much awaited and largest construction equipment industry trade show Excon 2019. With preparations in full swing stakeholders eagerly look forth to explore the platform and utilise its immense business and knowledge sharing potentials.

“The timing of Excon 10th Edition couldn’t be better. Being South Asia’s largest exhibition for construction, mining and allied equipment, it has the potential to attract all important stake holders of the industry, including all government agencies, and hence will expectantly provide a fillip to the muted market,” believes Vyas.

While looking onto the strategies outlined for Excon Vidyarthi shares, “CASE will be showcasing its entire gamut of products at Excon 2019 and we expect the same would draw visitor’s attention to our booth. CASE India is planning some exciting launches in this Excon.”

With the opportunities ever evolving in the construction sector and the need for infrastructure only scaling up, financiers maintain an optimistic approach on the period ahead. The year 2019 ending with the largest industry tradeshow is being considered as another boon to bring in the required boost for the sector. The year 2020 with immense infra-opportunities and plans in basket and Government’s infra-focused growth agenda being grabbing the spotlight, financiers believe each such project to only benefit the sector’s growth and strengthen its root further into the Indian mainland.

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