

The road sector is witnessing growth



■ *Devendra Kumar Vyas*

To build a nation you build its roads. Roads can aptly be called the veins of a country's anatomy. Roads are the primal last mile connector as they facilitate transport of even the basic of amenities. India has one of the largest road networks in the world of around 5.4 million kms, second only to USA. Yet there is a lot desired in terms of qualitative and quantitative improvements. India's highways carry about 40% of the freight and passenger traffic but form less than 2% of the total roads network.

Indian roads' capacity to support its population isn't high. India has around 4kms of road per 1000 people compared to around 21 kms per 1000 people for USA and around 15 kms per 1000 people for France. The quality of the roads is also something to be desired and a high percentage of Indian roads seems like roads that should be less travelled. Currently, highways which are four laned or more, form about a quarter of overall highways. Only about 60% of Indian roads are paved. The equation is further worsened considering the urban population explosion over the last two decades. Presently about a third of the population lives in urban areas which contribute to more than half the nation's GDP. As per a McKinsey report, it is estimated that there will be 69 cities with population of more than 1 million by 2025, and nearly 600 million people will be living in cities by 2030 – which is almost twice the population of USA.

As per estimates, 85% of our GDP is expected to come from the urban population by 2030. Historically, our overall efforts in roads developments haven't been encouraging and hence increased public spending on infrastructure, especially roads and highways, is the key to revive the investment cycle and influence economic growth.

Appreciatively, in the past two years, development of the road sector has been a priority area for the government and has witnessed enhanced public investment. Many reforms have been initiated in the roads sector. There have been marked improvements in the pace of projects being awarded and their execution efficiencies. Huge bottlenecks, be it political, regulatory, financial or any other have been tackled simultaneously. In FY16, a record highway construction was achieved, a little more than 6000 kms. This is a result of the emphasis the current government has put on the construction of roads. The pace of highway construction at the end of FY16 was more than 16 kms per day. The government's target is to increase the national highway network to 2 lakh kms. It is not just the national highways that are gaining momentum. Rural roads too are being constructed at a healthy pace under the Pradhan Mantri Gram Sadak Yojana. The pace of our rural road construction is about 139km/day. As per Crisil Research, rural road construction grew at a CAGR of 49% in the last two years. For the next five years it

rural roads are expected to be constructed upwards of 70,000 kms per year. From FY12 to FY16, the total investments in the roads sector were about ₹4.7 trillion. For the next five years (from FY17 to FY21) the total required investments is predicted to be more than ₹9 trillion.

A part of these huge investments are required for the road construction equipment industry. Almost one – fifth of the cost of a road project goes into the road construction equipment. With incremental growth in road construction activity, the effect on the construction equipment sales too has been positive. This year we are witnessing numbers which are reminiscent of the time around 2011-12, when the sales of equipment sector were at an all-time high.

As per a report titled 'Revival of Indian Construction Equipment Industry' by Indian Construction Equipment Manufacturers Association, the construction equipment industry is expected to grow at a CAGR of more than 20% (primarily driven by the road projects). The total equipment sales by FY20 should reach about 1,20,000 units as compared to about 56,500 units in FY16. The primary equipment types used in road construction are earthmoving equipment and road equipment. Earthmoving equipment (Backhoe Loaders, Hydraulic Excavatorsetc.) forms the major bulk of the construction equipment industry forming around 65% of the total equipment industry sales (in units) in FY 2016. Earthmoving equipment sales should be north of 55,000 equipment by 2020 as compared to current sales of about 34,000 equipment. Backhoe loaders and excavators, two mainstays of the earth moving equipment industry have seen a remarkable turnaround this fiscal. For the first half of FY17 both backhoe loader and excavator sales increased by more than 50%. Backhoe Loader sales in H1FY17 were more than 13,800 units as compared to 9,100 units in the corresponding period last year. Hydraulic excavators' sales in H1 FY17 were 7884 units as compared to 5172 units in H1 FY16. Road equipment (Vibratory Compactors, Asphalt Pavers, Hot Mix

Plant, etc.) too saw a healthy growth in unit sales. By 2020 the road equipment industry is expected to grow at a CAGR of 15%-18%.

Srei has been part of this road ecosystem in various capacities. We are one of the leading highway concessionaires, with execution experience of about 5,500 kms of highways. Currently our portfolio has seven road projects totalling a length close to 2450 kms of highways. We also enjoy a strong presence in the road equipment solutions space. Srei Equipment Finance Limited enjoys a market share of about 30% in this sector. We also have Quippo under the Srei umbrella, which provides asset rental and maintenance services among other activities.

Srei Equipment Finance – Asset Management Business Model

SEFL assist clients across the life-cycle of assets from procurement, deployment, maintenance to final disposal. For asset acquisition, we assist our customers in asset purchase and provide customised financial solutions like asset loans, leasing or rentals. For asset deployment we provide the host of services like fetching captive contracts and improving deployment of assets during downtime by leveraging our relationships with major infrastructure players. For asset management, we provide asset maintenance and equipment refurbishment services at our yards, thus improving the residual value during disposal. For asset disposal we provide services like inspection, valuation and also advise clients on resale options.

Recently we launched iQuippo – India's first comprehensive digital marketplace for construction equipment and services. This initiative will facilitate buyers and sellers to interact, negotiate and close transactions in a timely, transparent and cost-effective manner. The platform will offer total solutions for all types of construction and mining equipment and will also provide value added services like asset certification, valuation, parking, maintenance, logistics, spare parts and manpower. ■

