



We have experienced steady growth recently. Our growth strategy primarily includes consolidating our equipment financing business through strategic business alliances and marketing initiatives, continuing to expand and diversify our product portfolio

says Mr. Devendra Kumar Vyas
CEO, Srei Equipment Finance Limited

in an interview to Infrastructure Line

Q-1. What according to you are the challenges prevalent in the equipment financing sector and could you suggest some immediate measures or policy amendments required to combat the same?

Ans. Construction equipment is a critical cog in infrastructure development. The construction equipment financing market in India is still in its development stage and continues to face various issues which act as a deterrent to growth including lack of access to finance.

Despite being an important contributor to nation building, construction equipment are not given benefit of higher depreciation rate, instead the depreciation rate for such equipment is only 15%. This negatively impacts infrastructure development. Also, to promote leasing on construction equipment, the GST on rentals of such equipment which is currently equal to the rate of GST levied on normal sales/purchase of that asset, should be lower.

The industry expects lawmakers to address certain long-standing demands including exemption from the applicability of section 194A, and allowing tax benefits for income deferral u/s.43D of the Income Tax Act. Also the rider of minimum loan ticket size of Rs.1.0 cr for enforcement of security Interest under the SARFAESI Act, applicable for NBFCs, can be done away with.

Another major challenge is lower rental penetration in India which was as low as 8% in Fiscal 2017. Used equipment and secondary sales are also unpopular in India because of lack of established trading platforms, fragmented market information, and buyback schemes from OEMs. The preference for ownership of assets also leads to lower penetration for rentals in India. India needs more platforms like Iquippo to promote equipment rentals as well used asset financing.

Repossession of equipment in case of customer defaults is another challenge faced by the finance industry due to inefficiencies in tracking of equipment movement. Asset tracking must be made compulsory through regulatory guidelines so that remote demobilisation is made possible. OEMs should share location information through their service channel and assist financiers in repossession, if required.

Lastly, there is also a need for

a proper registration process for all construction equipment (off-road equipment included) which will help to develop and sustain the organised used equipment market and assist with calculation of the residual value of equipment on resale.

Q-2. By elaborating on your offerings could you also throw some light upon the key machinery driving the demand for equipment financing industry?

Ans. SEFL is one of the leading financiers in the CME sector in India, with an approximately 32.7% market share in Fiscal 2017 (Source: Feedback Report). It provides holistic financial solutions that cover the entire value chain in the equipment life cycle by providing financing to and sustaining continuous engagement with customers across equipment procurement, deployment, maintenance, second life financing, and exit stages. Product offerings include loans, for new and used equipment, and leases.

The CME industry has witnessed a good revival since FY'16 after a three year decline (FY'13-FY'15). The overall Indian CME industry grew by 32% in Fiscal 2017 compared to Fiscal 2016. During FY'17, 83,600 units were sold, of which ~64% were earthmoving machines. Backhoe loaders and hydraulic excavators continue to be the mainstream equipment, contributing ~58% of the overall equipment unit sales. The backhoe loader is the equipment of choice as the market shifts from manual labour to mechanisation. The hydraulic excavator is usually the next machine which most customers will choose, after the purchase of a backhoe loader. The trend witnessed across most customers is that they buy a hydraulic excavator within the first 5-6 years of the purchase of a backhoe loader.

Q-3. The roll out of GST seems to have brought greater clarity on the tax structure? What has been the impact of GST on equipment financing?

Ans. Implementation of the GST is a great step forward from the viewpoint of tax reforms. However, classification of most of the CME industry under the 28% slab had set back the industry sales during the month of July and August 2017. While under the pre-GST (VAT) regime, the aggregate indirect tax incidence for CME ranged

between 14.75% and 27% across various states in India, the move to impose 28% GST had been received negatively by the industry.

In November 2017, the Central government revisited most products in the 28% slab category, considering concerns from various industries and consumers. On November 10, 2017, the government announced a revisited list of GST slabs, under which most of the products covered under the CME section were categorized under the reduced slab of 18% GST. This revision is expected to have a positive impact on the equipment sales and will boost the construction activity across sectors. This revised slab also makes options like equipment rental and leasing an attractive option to choose from. More companies are now expected to offer such innovative solutions to customers to provide them with the right solution for their needs rather than just outright purchase.

Q-4. What are the prevailing market conditions for your segment and what are your forecasts for the same?

Ans. India has emerged as the fastest growing major economy in the world. With the current government's focus on infrastructure of the country, there has been an increased allocation of funds towards the sector. As per the Union budget for FY 2018-19, the total estimated capital expenditure towards infrastructure sector stood at INR 5.97 trillion compared to INR 4.94 trillion in FY 2017-18. Sectors such as railways, and roads and highways, and housing and urban affairs have witnessed increased year-on-year (y-o-y) budget allocations for FY 2018-'19 by 22%, 10%, and 57% respectively. Recently, the Indian government has approved a total investment of Rs. 6,920 billion for the construction of 83,677 kms of roads in five years. These create requirement of capital goods on a large scale and increase in the number of contractors executing these projects.

According to Feedback Consulting, the construction, mining, and allied equipment (CME) industry has witnessed a good revival since FY'16 after a three year decline (FY'13-FY'15). The overall Indian CME industry which grew by upwards of 20% in FY'18 compared to FY'17 in terms of unit sales is expected to see heightened business activities and an estimated CAGR growth

of 14% between FY'17 and FY'20 in terms of volume in units, as the government is likely to invest heavily in infrastructure sector thereby lifting business prospects in CE sector. As 2018-19 will be the last budget year for this government's five-year term, the government should ideally accelerate the implementation of its big, ambitious schemes and projects that were announced in the last three years. These include Sagarmala, Jal Marg Vikas, AMRUT, Housing for All, the Diamond Quadrilateral for high-speed railways, river linkages, besides roads and highways. The upcoming business scenario across sectors looks buoyant for the coming year. The fact is that there remains a massive amount of construction work yet to be done in the country, which will call for large volumes of construction equipment. This in turn results in increased opportunities for equipment finance industry.

Feedback Consulting anticipates the construction equipment finance industry to grow at a CAGR of 19% between 2017 and 2020. The overall construction equipment industry is expected to reach 125,000 units by 2020 and the market for new equipment finance market will continue to have a share between 87-90% for the next three years. With the current announced projects, demand will continue for the earthmoving equipment industry, which will have a share between 68-70% of the overall CME finance market. Banks and NBFCs are expected to have an equal share in the CME finance industry for the next one to two years with the equipment leasing industry expected to grow at a CAGR of 26% for the next three years. Going forward, there may be some disruptions in the industry both from a product and service perspective. Some likely developments include growth in pre-fabricated concrete business, increase usage of specialized equipment, rising manual labour costs, and digital drive.

Q-5. What can one expect from SEFL in terms of its plans and business strategy?

Ans. We have experienced steady growth recently. Our growth strategy primarily includes consolidating our equipment financing business through strategic business alliances and marketing initiatives, continuing to expand and diversify our product portfolio, growing our operations and network across India, and expanding our

customer base across various business verticals in India.

Some of our business strategies are as below:

- In addition to providing CME financing, as part of our growth strategy, we intend to continue to expand our operations in other business verticals, in particular, used CME equipment, Tipppers, IT and allied equipment, Farm equipment, Medical and allied equipment and Other assets.

- Enter into partnerships with new OEMs and vendors and expand in equipment categories and business verticals with attractive growth opportunities. Some of the attractive growth opportunities in equipment categories and verticals that we intend to focus on include:

Tipppers: We intend to build market share in the multi-axle tipper equipment category, focussing on tipper trucks.

Material Handling Equipment ("MHE"): We aim to build our portfolio in MHE through focused coverage of our target equipment categories, including truck cranes, mobile cranes, crawler cranes, forklifts and reach stackers.

Used equipment: We have been providing financing for used equipment to our Retail and SME customers. Used equipment financing is provided for a wide range of CME equipment. We aim to create a portfolio of attractive business and add to our existing customer base. This will also help us in enabling our existing customers to exit specific equipment and thereby delivering our holistic equipment lifecycle model. We also plan to partner with OEMs and dealers for financing refurbished assets.

Spare parts: We aim to strengthen our relationships with OEMs by increasing original spare part sales. This will also help in the upkeep of our funded equipment.

Medical and allied equipment: With the classification of the healthcare sector as infrastructure for both diagnostic centres and hospitals, we believe we have an opportunity to provide financing to such businesses for their medical equipment requirements.

- Endeavour to optimise borrowings and explore alternate avenues of funding.

- Adopt newer technologies to achieve greater operational efficiency and advanced risk management processes.

- Continue to build capability through skill development and training.