

# Construction Equipment Financing

Vinod Kothari

1012 Krishna

224 AJC Bose Road

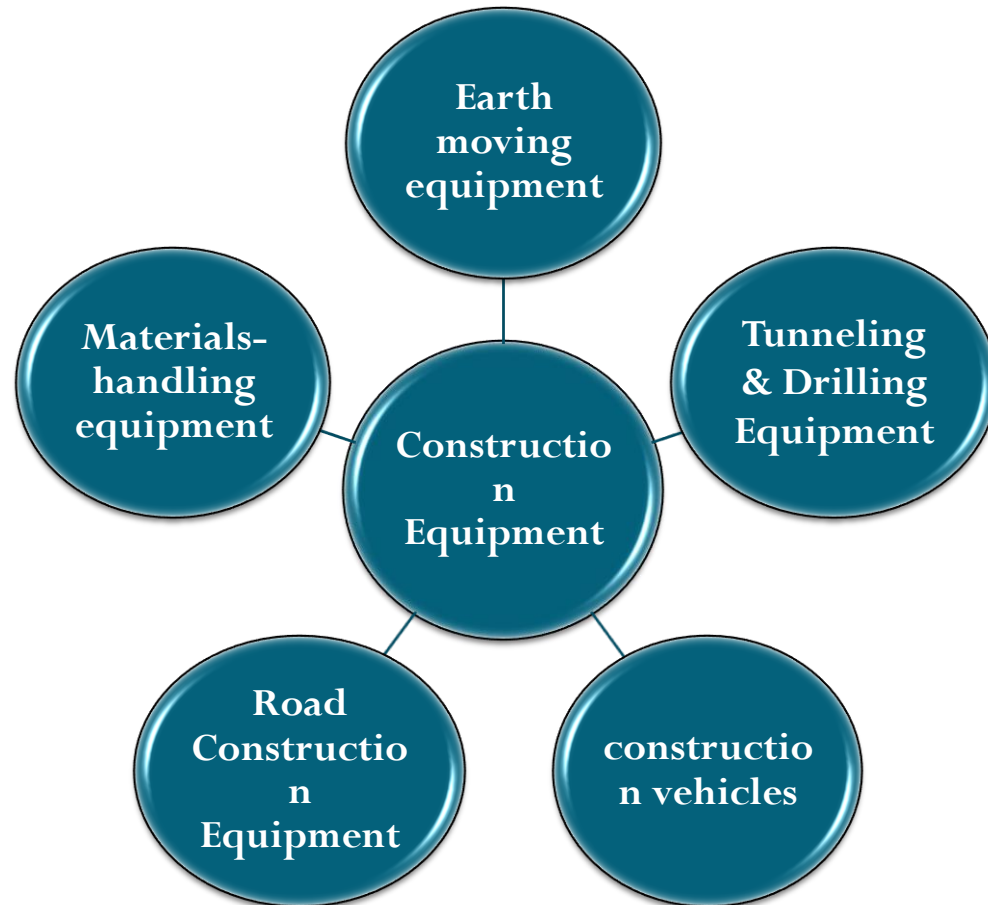
Kolkata 700 017. India

email: [vinod@vinodkothari.com](mailto:vinod@vinodkothari.com)

[www.vinodkothari.com](http://www.vinodkothari.com)

# Construction equipment

- The present size of the market is approx \$ 2.3 billion
- The construction equipment sector comprises five major segments:



# Market Share on March 2011

Manufacturer	Market Share as at Mar 2011				
	Market		Srei		SREI Share
	Qty	Value	Qty	Value	%
JCB -BHL	20,433	4,042	2,164	442	11%
JCB - Heavy Lines	1,845	830	187	61	7%
Telcon BHL	1,455	281	245	49	17%
Telcon- Heavy Lines	4,917	2,259	1,084	461	20%
L&T - Komatsu	3,300	2,190	540	408	19%
Volvo Exc and Road	1,451	620	382	242	39%
Caterpillar	2,207	730	238	109	15%
Hyundai	1,482	540	296	135	25%
Kobelco	467	205	108	52	25%
Doosan	463	208	139	56	27%
<b>Grand Total</b>	<b>38,020</b>	<b>11,905</b>	<b>5,383</b>	<b>2,015</b>	<b>16%</b>

# Market & Market Share

## Market of various Infrastructure Products :

PRODUCT	ACTUAL					% Change 2008- 2009
	2005	2006	2007	2008	2009	
Articulated Dump Truck	3	19	13	33	11	-67
Asphalt Finishers	473	687	954	879	920	5
Backhoe Loaders	9,133	13,797	21,769	16,673	16,001	-4
Compaction Equipment	1,445	2,335	3,219	2,905	2,787	-4
Crawler Dozers	325	550	599	608	562	-8
Crawler Excavators	4,522	5,904	9,606	9,897	7,944	-20
Crawler Loaders	1	3	6	5	4	-20
Mini Excavators	22	24	22	64	71	11
Mobile Compressors	1,157	1,906	2,620	2,854	2,999	5
Mobile Cranes	4,140	5,859	8,115	7,870	6,499	-17
Motor Graders	185	360	544	553	342	-38
Motor Scrapers	0	0	0	0	0	0
Rigid Dump Trucks	784	749	594	771	808	5
Rough Terrain Lift Trucks	0	3	11	6	15	150
Skid-steer Loaders	118	175	265	480	290	-40
Wheeled Excavators	0	4	5	0	0	0
Wheeled Loaders	1,312	1,879	2,364	2,540	1,902	-25
<b>Total Construction Equipment</b>	<b>23,620</b>	<b>34,254</b>	<b>50,706</b>	<b>46,138</b>	<b>41,155</b>	<b>4 -11</b>
<b>Annual % Change</b>	<b>37</b>	<b>45</b>	<b>48</b>	<b>-9</b>	<b>-11</b>	<b>-11</b>

# Contd....

	FORECASTED					
PRODUCT	2010	2011	2012	2013	2014	% Change 2010-2014
Articulated Dump Truck	20	30	40	50	60	200
Asphalt Finishers	1,150	1,350	1,500	1,600	1,650	43
Backhoe Loaders	23,000	25,500	27,000	28,500	30,000	30
Compaction Equipment	3,400	3,800	4,200	4,500	4,800	41
Crawler Dozers	700	800	900	1,000	1,050	50
Crawler Excavators	10,500	13,500	16,500	19,500	22,500	114
Crawler Loaders	5	5	5	5	5	0
Mini Excavators	100	150	200	300	400	300
Mobile Compressors	3,400	3,700	4,000	4,300	4,500	32
Mobile Cranes	8,000	9,000	10,000	11,000	11,500	44
Motor Graders	600	700	800	900	950	58
Motor Scrapers	0	0	0	0	0	0
Rigid Dump Trucks	900	1,000	1,050	1,100	1,150	28
Rough Terrain Lift Trucks	35	70	100	150	200	471
Skid-steer Loaders	350	450	550	650	750	114
Wheeled Excavators	5	5	5	5	5	0
Wheeled Loaders	2,500	3,200	3,700	4,200	4,700	88
<b>Total Construction Equipment</b>	<b>54,665</b>	<b>63,260</b>	<b>70,550</b>	<b>77,760</b>	<b>84,220</b>	<b>54</b>
<b>Annual % Change</b>	<b>33</b>	<b>16</b>	<b>12</b>	<b>10</b>	<b>8</b>	<b>54</b>

# CE Financier's Market Share on March 2011

Amount in ₹ Crores

Financers	FY 09-10		FY 10-11	
	Market	Share %	Market	Share %
<b>SREI BNP</b>	<b>5500</b>	<b>32%</b>	<b>7824</b>	<b>33%</b>
HDFC Bank	2350	14%	3000	13%
L&T Finance	1450	9%	1900	8%
Tata Capital	1425	8%	1800	8%
Magma Fincorp	1415	8%	1200	5%
Kotak Mahindra Bank	675	4%	1250	5%
Indus Ind Bank	575	3%	1150	5%
Reliance	450	3%	600	3%
Citi Bank	400	2%	300	1%
Religare	300	2%	500	2%
Shriram Equipement Finance			700	3%
Bajaj Capital			700	3%
ICICI BANK			750	3%
Others	2,500	15%	2,000	8%
<b>Total</b>	<b>17040</b>	<b>100%</b>	<b>23674</b>	<b>100%</b>

# Acquiring construction equipment

- Owning option
  - Own with equity
    - CE business is capital intensive – substantial investment needed in both fixed assets and working capital
    - If equity is invested, equity quickly gets blocked in business, leaving business dry of working capital
    - Hence, leverage is well accepted norm in the business
  - Borrowing option
- Medium term rental option
- Short term rental option
- Leasing option

# Key features of construction equipment financing needs

- Medium term financing
  - pay-back period for most equipment would be 3-5 years
  - Generally speaking, an operator earns from the asset to pay for it
    - Asset-backed financing with cash outflows connected with cashflows from the asset is the norm in the business
- Disposal of assets after a few years
- In case of small operators, advisory support on choice of equipment may also be necessary

# Providers of CE financing

- Banks
- NBFCs
  - Asset finance companies
  - Infrastructure finance companies
- Leasing companies
- Equipment renting companies
- External commercial lenders
  - Supplier's credit
  - Buyer's credit
  - ECB
- Cross border leasing option
  - Operating lease from out of India
  - Financial lease from out of India

# Forms of financing

- End-to-end solution providers
  - From acquisition, to provision, to training, to maintenance, to buyback of used equipment
  - Ideal for leading suppliers/vendors
- Term loan
- Hire purchase
- Financial lease
- Operating lease
- Conditional sale
- Equipment rental
  - Presently only about 2-5% of the market, but expected to grow significantly
  - Some estimates expect it would reach 35% by 2013
- Supplier's credit
- Buyer's credit

# Devising a proper funding plan

- Do understand that default is very costly
- Therefore, the funding plan should ensure the cashflows from the asset will be sufficient to pay the instalments
- Other free cashflows is often a myth
  - Hence, cashflows from the asset most relevant
- Two important parameters for every funding plan
  - LTV ratio
    - Yes, it is important to conserve equity, but a higher LTV ratio means more EMIs, putting burden on the DSCR ratio
  - Debt service coverage ratio
    - Function of
      - LTV ratio
      - Funding tenure
    - Don't agree to aggressive payback periods –ensure at least a DSCR of 1.33 -1.25