

Country Report 2019

INDIA

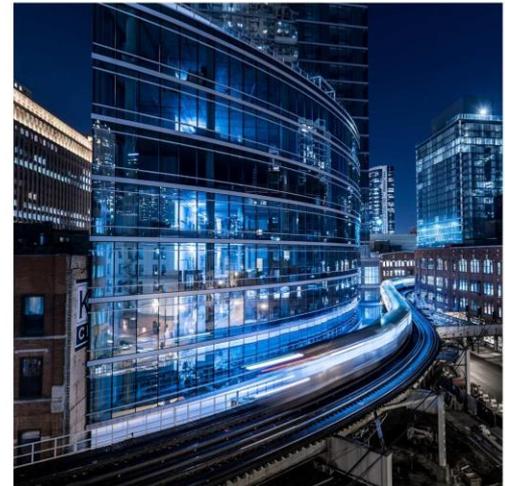


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INDIA OVERVIEW

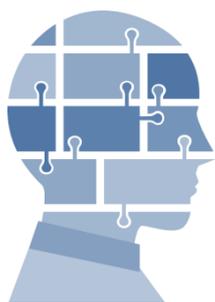
India is one of the oldest civilizations in the world with a kaleidoscopic variety and rich cultural heritage. It has achieved all-round socio-economic progress during the last 70 years of its Independence. India boasts of an immensely rich cultural heritage that includes numerous languages, traditions and people (of ethnic sub-sects). The country holds its uniqueness in its diversity and hence has adapted itself to international changes with poise and comfort. While the economy has welcomed international companies to invest in the country with open arms since liberalisation in 1990s, Indians have been prudent and proactive in adopting global approach and skills. Indian villagers proudly take up farming, advanced agriculture and unique handicrafts as their profession on one hand, while modern industries and professional services sectors are coming up in a big way on the other side.



India has become self-sufficient in agricultural production and is now one of the top industrialised countries in the world and one of the few nations to have gone into outer space to conquer nature for the benefit of the people. It covers an area of 32,87,263 sq. km (1,269,346 sq. mi), extending from the snow-covered Himalayan heights to the tropical rain forests of the south. As the 7th largest country in the world, India stands apart from the rest of Asia, marked off as it is by mountains and the sea, which give the country a distinct geographical entity. Bounded by the Great Himalayas in the north, it stretches southwards and at the Tropic of Cancer, tapers off into the Indian Ocean between the Bay of Bengal on the east and the Arabian Sea on the west.

Lying entirely in the northern hemisphere, the mainland extends between latitudes 8° 4' and 37° 6' north, longitudes 68° 7' and 97° 25' east and measures about 3,214 km from north to south between the extreme latitudes and about 2,933 km from east to west between the extreme longitudes. It has a land frontier of about 15,200 km. The total length of the coastline of the mainland, Lakshadweep Islands and Andaman & Nicobar Islands is 7,516.6 km

Demographics



India, a South Asian nation, is the seventh largest country by area, the second most populated with over 1.33 Billion people (spread across 29 states and 7 union territories) and the most populous democracy in the world.

India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is expected that, in 2020, the average age of an Indian will be 29 years, compared to 37 for China and 48 for Japan.

Huge population, mostly comprising of educated youth, is a strong driver for demand and an ample source of manpower.

ECONOMIC OVERVIEW

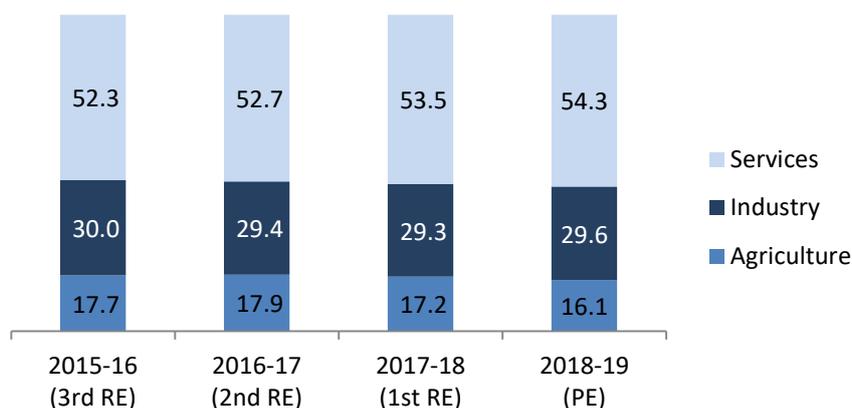
According to the Central Statistics Organisation, India (“CSO”) and the International Monetary Fund (“IMF”), India has emerged as the fastest growing major economy in the world. As per the Second Advance Estimates of GDP by CSO, the growth in GDP during 2018-19 is estimated at 6.8 percent as compared to the growth rate of 7.2 percent in 2017-18.

The improvement in the country’s economy accelerated in 2015 with the combined impact of strong government reforms and the Reserve Bank of India’s (RBI) focus on inflation, supported by benign global commodity prices. As per World Bank, India's GDP growth is expected to accelerate moderately to 7.5 per cent in Fiscal Year 2019-20, driven by continued investment strengthening, particularly private-improved export performance and resilient consumption.

Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 92.26 lakh crore INR in 2018-19. Services sector accounts for 54.40% of total India's GVA of 169.61 lakh crore Indian rupees. With GVA of Rs. 50.43 lakh crore, Industry sector contributes 29.73%. While, Agriculture and allied sector shares 15.87%.

The share of key sectors in total GVA is given in the chart below.

Overview of Key Sectors in Total GVA (%)



GDP trends

The following charts show the GDP trends in India.

Overview of GDP Trends

GDP and growth of components of Expenditure on GDP at constant (2011-12 Prices)

	2011-12	2012-13	2013-14	2014-15	2015-16*	2016-17 (2 nd RE)	2017-18 (1 st RE)	2018-19 (PE)
GDP (Rs. In crore)	8736329	9213017	9801370	10527674	11369493	12298327	13179857	14077586
Growth								
GDP		5.5	6.4	7.4	8.0	8.2	7.2	6.8
Private Consumption		5.5	7.3	6.4	7.9	8.2	7.4	8.1
Public Consumption		0.6	0.6	7.6	7.5	5.8	15.0	9.2
GFCF		4.9	1.6	2.6	6.5	8.3	9.3	10.0
Exports		6.8	7.8	1.8	-5.6	5.1	4.7	12.5
Imports		6.0	-8.1	0.9	-5.9	4.4	17.6	15.4

*: Third Revised Estimates, RE : Revised Estimates, PE: Provisional Estimates

Source: National Statistical Office.

Comparison of Indian GDP with Other Countries

Figure 3 – Overview of Indian GDP and other Countries

Growth Rate of Top Ten Economies (in Percentage)				
S. No.	Country	2018E	2019P	2020P
1	United States	2.9	2.5	1.8
2	China	6.6	6.2	6.2
3	Japan	0.9	1.1	0.5
4	Germany	1.5	1.3	1.6
5	United Kingdom	1.4	1.5	1.6
6	India	7.3	7.5	7.7
7	France	1.5	1.5	1.6
8	Brazil	1.3	2.5	2.2
9	Italy	1.0	0.6	0.9
10	Canada	2.1	1.9	1.9

Source: PHD Research Bureau compiled from IMF World Economic Outlook, January 2019 (Note: For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year)

According to the 2016 estimates by the World Bank, India is currently ranks seventh in the world in terms of GDP. India is likely to overtake Japan and Germany to become the third largest economy in the next ten years, but needs to be consistent in reforms.

Recent reforms

- **Goods and Service Tax, India's biggest Tax Reforms**

From 1 July 2017, a comprehensive Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure, which included a multitude of taxes including Excise Duty, Additional Customs Duty, Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, etc.

- **Bankruptcy Law**

The Government has in the recent past rolled out new Bankruptcy law, The Insolvency and Bankruptcy Code, 2016 (IBC) which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy.

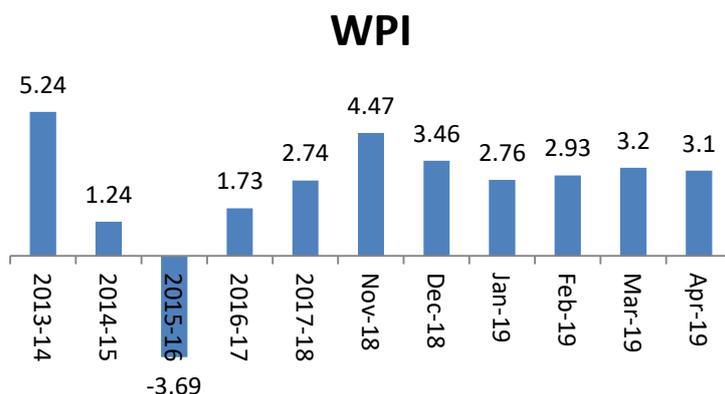
- **Ease of doing business**

Several reforms have been undertaken to improve the ease of doing business as a result of which, India has recorded a jump of 23 positions against its rank of 100 in 2017 to be placed now at 77th rank among 190 countries assessed by the World Bank (Doing Business Report; DBR, 2019). India's leap of 23 ranks in the Ease of Doing Business ranking is significant considering that last year India had improved its rank by 30 places, a rare feat for any large and diverse country of the size of India. As a result of continued efforts by the Government, India has improved its rank by 53 positions in last two years and 65 positions in last four years.

Inflation

Inflation measurement in India: There are two main sets of inflation indices for measuring price level changes in India - the Wholesale Price Index (WPI) and the Consumer Price Index (CPI). WPI, where prices are quoted from wholesalers, is constructed by Office of Economic Affairs, Ministry of Commerce and Industries. In the case of CPI (prices quoted from retailers), there are several indices to measure it like CPI for industrial labourers (CPI-IL), agricultural labourers (CPI-AL) and rural labourers (CPI-RL) besides an all India CPI.

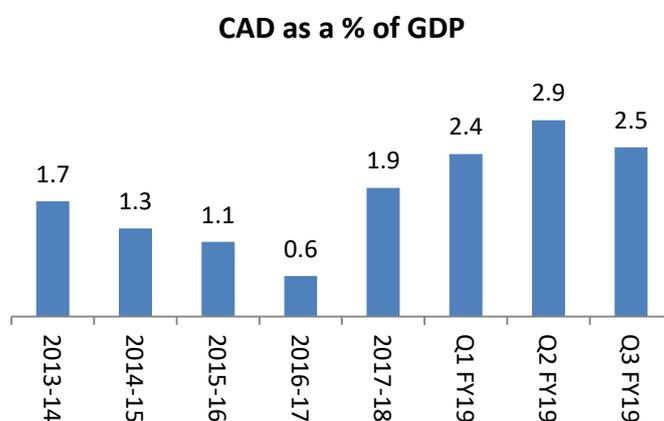
In addition, Gross Domestic Product (GDP) deflator and Private Final Consumption Expenditure (PFCE) deflator from the National Accounts Statistics (NAS) provide an implicit economy-wide inflation estimate. The graph below captures the inflation trend in India from 2013-14.



In India, the months of January through May are highly inflationary, June through September are moderately inflationary and October through December produce the lowest increase in prices and are often even deflationary. The wholesale inflation in the economy has moved in the upward trajectory after seeing a sustained decline during consecutive four months during Oct'18 to Jan'19.

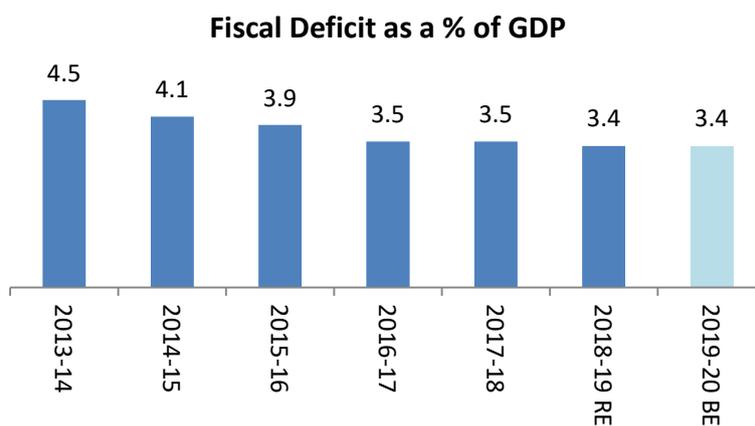
Current Account Deficit (CAD)

The CAD which had remained benign in the last four years is expected to increase to ~2.5% of the GDP for FY19 on the back of a higher trade deficit. The CAD is expected to widen slightly on account of rising oil prices but will remain in a comfortable zone. The same will not have much of an impact on the country's external situation as forex reserves are still high.



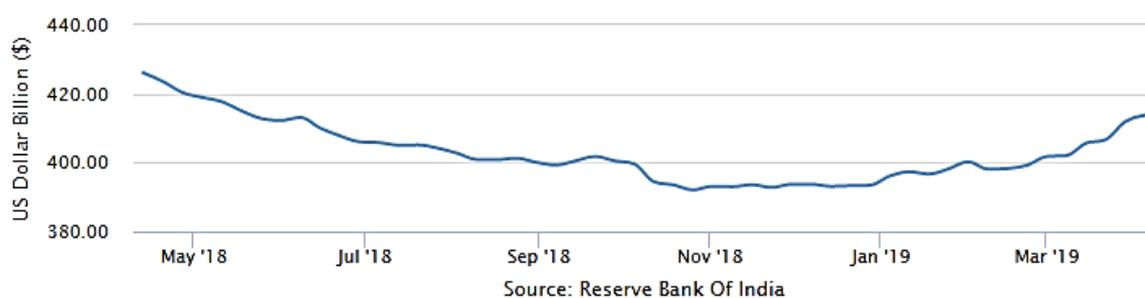
Fiscal Deficit

India's April-March fiscal deficit touched Rs 6.45 trillion, or 101.7 per cent of the budgeted target for the current fiscal year. The overall fiscal deficit for FY'20 is expected to be at 3.4% of the GDP.



Foreign Exchange Reserve

India's forex reserves had touched a life-time high of USD 426.028 billion in the week to April 13, 2018. Since then, it has been on a slide, though still being healthy. As of May 31, 2019, the reserves stood at USD 421.9 billion. The reserves stood at USD 411.905 billion in the week to March 29, 2019.



Index of Industrial Production (IIP)

During April-March 2018-19, industrial output grew at 3.6 per cent as against 4.4 per cent in the same period of the previous fiscal. Growth in mar'19, was the lowest growth rate in 21 months and significantly lower than the 5.3% growth witnessed in the comparable period a year ago.

Growth % (y-o-y)	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
General	4.5	3.8	7.0	6.5	4.8	4.6	8.4	0.3	2.6	1.7	0.1	0.1
Mining	3.8	5.8	6.5	3.4	-0.6	0.1	7.3	2.7	-1.0	3.9	2.0	0.8
Manufacturing	4.9	3.6	6.9	7.0	5.2	4.8	8.2	-0.6	3.0	1.4	-0.3	-0.4
Electricity	2.1	4.2	8.5	6.6	7.6	8.2	10.8	5.1	4.4	0.8	1.2	2.2

Financial System

Banking system – signs of improvement

The Indian Banking systems have been plagued with ballooning non-performing assets (NPAs) in the recent past. However, after a prolonged period of stress, the banking sector appears to be on course to recovery. As per the recent Financial Stability Report (December 2018) by Reserve Bank of India (RBI), India's banking sector have shown signs of improvement, even though the global economic environment and the emerging trends in financial sector pose challenges.

Credit growth of scheduled commercial banks (SCBs) has improved between March 2018 and September 2018, driven largely by private sector banks (PVBs). The asset quality of banks showed an improvement with the gross non-performing assets (GNPA) ratio of SCBs declining from 11.5 per cent in March 2018 to 10.8 per cent in September 2018. Under the baseline scenario, GNPA ratio may decline from 10.8 per cent in September 2018 to 10.3 per cent in March 2019.

Non-Banking Financial Companies (NBFCs) – minor hiccups; robust growth outlook

The Non-banking finance companies (NBFCs) are an integral part of Indian financial system. NBFCs in India are governed by the Reserve Bank of India Act, 1934 (the "RBI Act") which makes it mandatory for every NBFC to get itself registered with the RBI in order to be able to commence any of its activities. An NBFC may be registered as a deposit-accepting NBFC ("NBFC-D") or as a non-deposit accepting NBFC ("NBFC-ND"). With their strategic presence in lending segments and deeper reach, NBFCs have carved out a niche for themselves and complement the Banking system.

Some of the segments where NBFCs have a strong presence include Infrastructure Finance, Construction Equipment Finance, Loan against Property, Low-cost housing finance, Auto finance, Microfinance, Gold finance, Consumer durable finance.

In the second half of CY2018, defaults by a blue-chip infrastructure development and finance company resulted in a contagion effect on lenders confidence on the sector, temporarily impacting the liquidity profiles of NBFCs. Disbursement during Oct-Dec 2018 reduced by 20-40% in the non-retail segment as the players focused on conserving liquidity. As a result, growth in Assets under Management (AUM) of NBFCs is expected to halve to 9-10% (annualized) in H2 FY19 because of constraint in access to funding, after a strong 20% (annualized) increase in H1. The situation is still evolving and the NBFCs are expected to grow by ~15% in the medium term.

Over the last decade, growth for NBFCs has significantly outpaced the aggregate credit growth (19% CAGR vs. overall credit growth of 14%).

As per an industry report, NBFCs accounted for around 18 per cent of the overall systemic credit as of March 2018.

Economic Outlook for India in Fiscal 2020

The Monetary Policy Committee (MPC) in its review in April 2019, observed that the Central Statistics Office (CSO) has pegged India's real gross domestic product (GDP) growth at 6.8 per cent in 2018-19, revised down from 7.0 per cent in its first advance estimates. More recent high frequency indicators point to manufacturing growth slowing down, while investment demand is subdued. Credit flows to micro and small as well as medium industries remains muted, though they somewhat improved somewhat for large industries. Capacity utilisation (CU) in the manufacturing sector is running above its long-term average. There is also some improvement in business sentiment. High frequency indicators of the services sector such as sales of commercial vehicles and freight traffic indicate moderation in activity.

As per RBI, GDP growth for 2019-20 is projected at 7.0 per cent – in the range of 6.4-6.7 per cent in first half of 2019-20 and 7.2-7.5 per cent in the second half – with risks evenly balanced.

NATIONAL BUDGET 2019-20

Budget at a glance

The Interim Union Budget of India for the year 2019 was presented by acting Finance Minister Piyush Goyal on February 1, 2019. It focuses on supporting the needy farmers, economically less privileged, workers in the unorganised sector and salaried employees, while continuing the Government of India's push towards better physical and social infrastructure.

Total expenditure for 2019-20 is budgeted at Rs 2,784,200 crore (US\$ 391.53 billion), an increase of 13.30 per cent from 2018-19 (revised estimates).

(In ₹ crores; 1 Cr = 10 Mn)

	2017-2018 Actuals	2018-2019 Budget Estimates	2018-2019 Revised Estimates	2019-2020 Budget Estimates
1. Revenue Receipts	1435233	1725738	1729682	1977693
2. Tax Revenue (Net to Centre)	1242488	1480649	1484406	1705046
3. Non Tax Revenue	192745	245089	245276	272647
4. Capital Receipts	706742	716475	727553	806507
5. Recovery of Loans	15633	12199	13155	12508
6. Other Receipts	100045	80000	80000	90000
7. Borrowings and Other Liabilities²	591064	624276	634398	703999
8. Total Receipts (1+4)	2141975	2442213	2457235	2784200
9. Total Expenditure (10+13)	2141975	2442213	2457235	2784200
10. On Revenue Account	1878835	2141772	2140612	2447907
of which				
11. Interest Payments	528952	575795	587570	665061
12. Grants in Aid for creation of capital assets	191034	195345	200300	200740
13. On Capital Account	263140	300441	316623	336293
14. Revenue Deficit (10-1)	443602	416034	410930	470214
	(2.6)	(2.2)	(2.2)	(2.2)
15. Effective Revenue Deficit (14-12)	252568	220689	210630	269474
	(1.5)	(1.2)	(1.1)	(1.3)
16. Fiscal Deficit [9-(1+5+6)]	591064	624276	634398	703999
	(3.5)	(3.3)	(3.4)	(3.4)
17. Primary Deficit (16-11)	62112	48481	46828	38938
	(0.4)	(0.3)	(0.2)	(0.2)

Source: <http://www.indiabudget.gov.in>

Infrastructure focus

The Infrastructure sector remained to be a key focus area for Government in the Union Budget 2019-20. Some of the key highlights relating to infrastructure are given below:

Roads and Highways

- Budgetary support of Rs 83,016 crore to the highways sector under the interim budget for FY20 from Rs 78,626 crore (Revised Estimates; RE) in FY19.
- Under the Pradhan Mantri Gram Sadak Yojana (PMGSY), construction of rural roads has been tripled. 15.80 lakh habitations out of a total of 17.84 lakh habitations have already been connected with pucca roads and work is going on to complete the rest very soon.
- PMGSY is being allocated INR 19,000 crore in BE 2019-20 as against INR 15,500 crore in RE 2018-19.

Railways

- Budgetary support towards railways is increased to Rs 66,769 crore in FY20 from Rs 55,135 crore (RE) in FY19.
- Capital support of Rs 645.9 bn has been provided to railways in FY20 (BE), up by 21.7% from FY19 (RE).
- The Railways' overall capital expenditure programme is of INR 1,58,658 crore. The Operating Ratio is expected to improve from 98.4% in 2017-18 to 96.2% in 2018-19 (RE) and further to 95% in 2019-20 (BE).
- Launch of "Vande Bharat Express", an indigenously developed semi high-speed train.

Aviation

- Allocation reduced to Rs 45 bn in FY20 from Rs 97 bn (RE) in FY19.
- Of this, Rs 26 bn has been allocated for FY20 towards servicing Air India's debt. This is to be done by way of transfers to Air India Asset Holding Ltd, an SPV set up as part of the financial restructuring plan.

Shipping, Ports and Waterways

- Allocation towards shipping sector reduced marginally to Rs 19.03 bn in FY20 from Rs 19.39 bn (RE) in FY19.
- However, allocation towards Sagarmala project enhanced to Rs 5.5 bn in FY20 from Rs 3.81 bn (RE) in FY19.

Rural Infrastructure

- Allocation towards Pradhan Mantri Gram Sadak Yojana (PMGSY) enhanced to Rs 190 bn in FY20 from Rs 155 bn (RE) in FY19.
- However, allocation towards Pradhan Mantri Awas Yojana (PMAY) declined marginally to Rs 190 bn in FY20 from Rs 199 bn (RE) in FY19.
- The Government has set a target of creating 100,000 Digital Villages over the next five years.
- Allocation of Rs 8 bn towards Shyama Prasad Mukherjee Rurban Mission in FY20 from Rs 4.51 bn in FY19 (RE).

Social Infrastructure

- Under the National Rural Health Mission (NRHM), Rs 13.49 bn has been allocated for setting up Ayushman Bharat – Health and Wellness Centers, an increase of 35% over previous year.

Metro Projects

- Allocation towards Mass Rapid Transportation Systems (MRTS) and Metro Projects enhanced to Rs 191.52 bn in FY20 from Rs 156 bn (RE) in FY19.

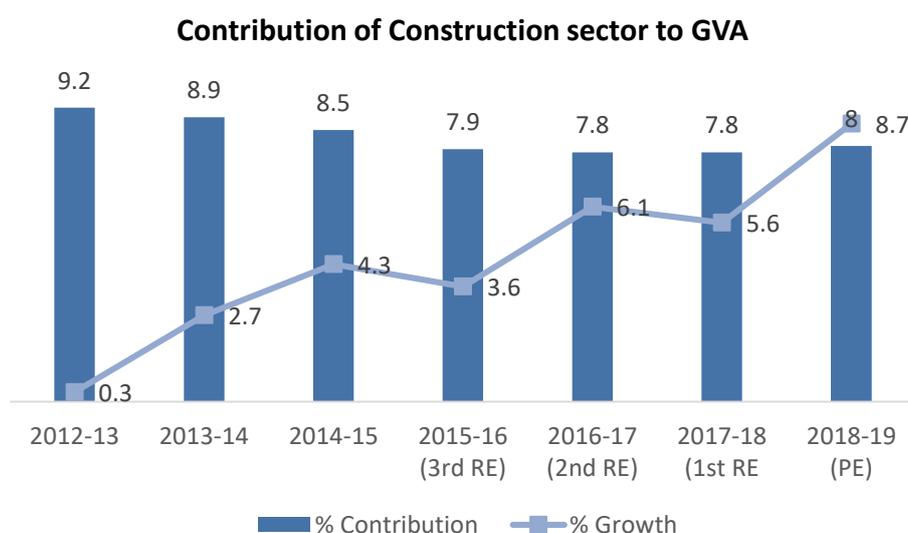
Smart Cities Mission

- Allocation towards Smart Cities Mission enhanced by 7% to Rs 66 bn in FY20 from Rs 61.69 bn (RE) in FY19.

INFRASTRUCTURE OUTLOOK

Infrastructure sector is a key driver for the Indian economy. The sector is largely responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes Power, Bridges, Roads, Railways, Airports, Sea-ports, urban infrastructure development, Irrigation.

Foreign Direct Investment (FDI) in Infrastructure Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to December 2018 stood at Rs 2,095 billion according to the Department of Industrial Policy and Promotion (DIPP).

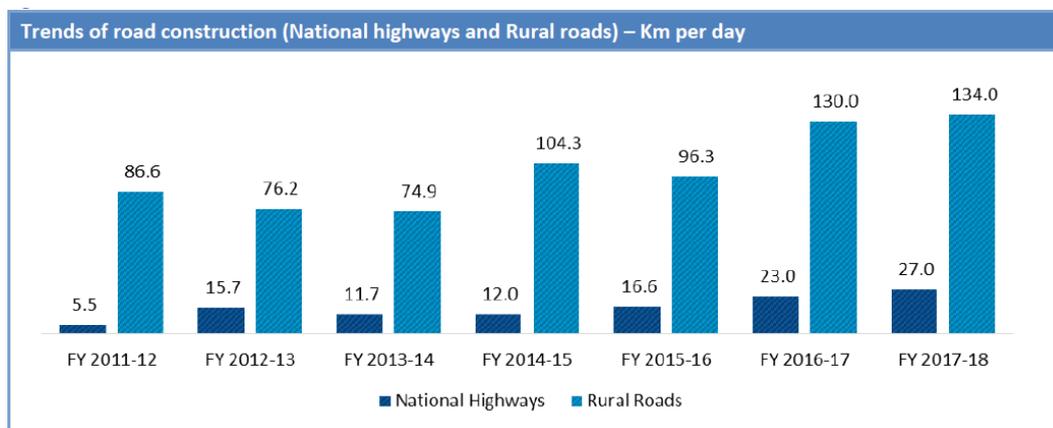


Source: National Statistical Office
 Growth Rate: GVA at constant prices
 Construction contributions to GVA at current prices
 RE: Revised Estimates
 PE: Provisional Estimates

Sectoral Overview (Key)

Roads

Indian road network carries around 65% of the total freight traffic, 80% of the passenger traffic and plays a vital role in the economic development. The country has one of the largest road networks comprising of expressways, national highways (NHs), state highways (SHs), major district roads (MDRs) and rural roads (RRs). As per MORTH annual report 2017-18, the total road length is about 5.48 million kms. of which most account for rural roads (61%) followed by MDR (20%), urban roads (9%), project roads (6%), SH (3%) and NH (2%).



Source: Ministry of Road Transport & Highways for National Highways (Annual Report (FY 2017-18)), and for Rural Roads website of PMGSY (Online Management, Monitoring & Accounting Systems)

National Highways - The government has plans to invest over Rs 4,550 Billion in the construction of national highways by 2020. To finance these projects, the strategy is to set up a road financing corporation in partnership with Japanese investors.

State Highways and Rural Roads - Many states have formed “State Road Corporations” to accelerate the highway construction within each state. Depending on the government and its focus, these states can be classified as progressive and laggards. Most progressive states are Gujarat, Rajasthan, Maharashtra, Chhattisgarh, and Madhya Pradesh. Road Construction in North East states have been taken up by the centre / NHAI under NHIDCL, a fully owned company of Ministry of Road Transport & Highways, Government of India. There have been a lot of project announcement under NHIDCL, but the progress has been slow considering the extreme conditions (Weather, Terrain, etc.)

Rural roads (rural development) are executed under the PMGSY (Pradhan Mantri Gram Sadak Yojana) scheme and has been progressing well over the last few years.

The total expenditure of the Ministry of Road Transport and Highways for FY 2018-19 is estimated at INR 710 Billion which is 16% higher than the revised estimates for FY 2017-18.

Figure: Future investment under Bharatmala project (2017-22)

Future likely investment		
Project type	Road length (kms)	Project cost (INR Billion)
Economic Corridors	9,000	1,200
Inter corridors and feeder roads	6,000	800
National Corridors Efficiency improvements	5,000	1,000
Border & International connectivity roads	2,000	250
Coastal & port connectivity roads	2,000	200
Expressways (greenfield projects)	800	400
NHDP	10,000	1,500
Total	34,800	5,350

Source: The India Story (by Mr. Arun Jaitley, Honourable Finance Minister of India)

Oct 2017

Railways

Indian Railways is the third largest globally in terms of route length. The total track length is about 119,630 Kms while the running track length is 92,081. Considering the requirements of the economy and size of the country, the expansion of the railway network has been inadequate. There are many areas like North East and Himalayan regions where limited connectivity is seen.

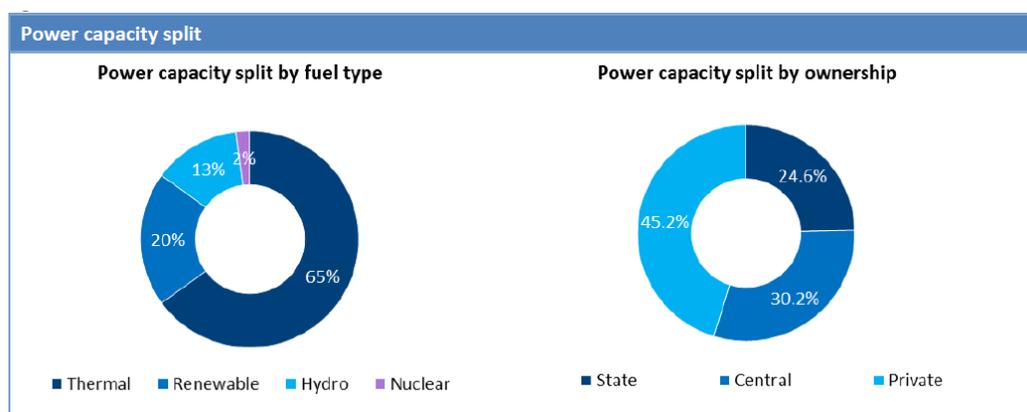
Construction of railways is recording significant growth while creating opportunities for contractors. One of the key enablers is 100% FDI for high speed rail, and railway lines from coal mines to ports, electrification and suburban corridors.

With Indian Railways (IR) targeting Rs 8,560 Billion investments from 2015 to 2020, it is set for a structural change. While high speed trains, metros and redevelopment of stations will change the travelling experience in coming days, Dedicated Freight Corridors (DFC) will revitalize the transportation system in the country. DFC has the potential to reduce ~10% of India's logistics cost. A large part of investment by Railways is also happening for metro projects.

Strengthening the railway network and enhancing Railways carrying capacity has been a major focus of the Government. Railways Capex for the year FY 2018-19 has been pegged at INR 1,485 Billion. A large part of the Capex is devoted to capacity creation. 18,000 kilometres of doubling, third and fourth line works and 5,000 kilometres of gauge conversion would eliminate capacity constraints and transform almost entire network into Broad Gauge.

Power

Power sector constitutes of 3 main areas i.e., Generation, Transmission and Distribution. India is the third largest producer and the fourth largest consumer of power in the world with an installed capacity of 344 GW, as of April 2018. The breakup of the mentioned capacity by type of fuel and ownership is given in the chart below.



Source: Central Electricity Authority (website), Ministry of Power, Govt. of India

Within thermal (223 GW), power generation by coal based plants account for 88% (~59% in the all India capacity) followed by gas based which accounts to 11.5% (~7.5% in the all India capacity) and oil-fired plants account to 0.4%. India's total power generation capacity has increased at a CAGR of 9.16% in the last 10 years (FY 2007-08 to FY 2017-18).

The current government is working towards major goals which are directed at transforming the industry:

- Target to increase the installed capacity of renewable energy based power generation to 175 GW by the year 2022. This installed capacity is expected to constitute 100 GW of solar energy, 60 GW of wind power and the rest coming from biomass and small-scale hydro power projects.
- The Ministry of Coal has been gradually ramping up its production targets, however with an assessment suggesting the current trend may not warrant pursuing the projected coal output target of 1 billion tonnes by 2020, during April 2018, the government gave an indication of revising the production target, though the revised targets have not been yet announced.
- The country currently has about 78 GW of power generation capacity under various stages of construction.

Urban Development

The urban development sector has reported high growth, especially during the 11th five-year plan (2007-2012), where achievement was more than 160% of the target. The target for the 12th five-year plan (2012-2017) has, as a result, been increased by 567% over the previous plan.

The government understands the need for Urban Development. JNNURM was a pivotal program through which the centre invested close to Rs.620 billion over a period of seven years. JNNURM was envisioned to cover a wide range of urban development components, with respective state governments listing their area of priority. One of the key programmes under the JNNURM is the smart cities mission which aimed to develop smart solutions for selected urban areas. The total outlay of the smart city mission is Rs. 1,856 billion. Four keys programmes under the JNNURM programmes are:

Schemes	
<p>AMRUT</p> <p>The Atal Mission for Rejuvenation and Urban Transformation, focussing on water supply and sewerage improvement to 500 cities. State level plans of INR 776 Bn for 500 cities has been approved. Water supply contracts for 494 projects worth INR 194 Bn and sewerage work contract for 272 projects costing INR124 Bn has been awarded during 2018.</p>	<p>Smart Cities Mission</p> <p>Smart Cities Mission aims at building 100 Smart Cities with state-of-the-art amenities. 99 Cities have been selected with an outlay of INR 2,040 Bn. These Cities have started implementing various projects like Smart Command and Control Centre, Smart Roads, Solar Rooftops, Intelligent Transport Systems, Smart Parks. Projects worth INR 235 Bn have been completed and works of INR 208 Bn are under progress.</p>
<p>Swachh Bharat Mission</p> <p>Focussed on waste management and sanitation. Under this mission, Government has already constructed more than 6 cr toilets and planning to construct 2 cr more toilets.</p>	<p>HRIDAY</p> <p>Heritage City Development and Augmentation Yojana, for addressing the development of heritage cities. Total outlay of INR 4.48 Billion. So far, 63 projects amounting to INR 4 Bn for the 12 HRIDAY Cities have been approved under the Scheme out of which INR 2 Bn has been released</p>

Source: Feedback Analysis

As per the last census, the number of towns developed in 2011 grew to 7,935 from 5,161 in 2001. In addition, urban population in India is one of the lowest in the world in terms of (%) shares, accounting for only 31% of the total population. FDI in the urban development sector has given further impetus for growth. As per the latest estimates of Niti Ayog, India’s urbanisation rates are expected to reach 60% in the next 30 years.

The Construction Industry Development Board (CIDB) of Malaysia has proposed to invest Rs. 1,920 billion in urban developments and housing projects in India. Several Chinese companies have also shown interest in urban investment opportunities.

Irrigation and Water Supply

Irrigation projects in India are classified as major irrigation, medium irrigation and minor irrigation projects. Major irrigation projects have a cultivable area of more than 10,000 hectares, medium irrigation projects have a cultivable area of 2,000 – 10,000 hectares and small irrigation projects have cultivable area of less than 2,000 hectares. Irrigation projects can be classified in to canal lining and walls, irrigation barrages, irrigational check dams, aqueducts, tube wells and wells.

The river inter-linking project, currently underway, is estimated to cost approximately Rs. 5,655 billion, of which 77% is outlined for the linking of Himalayan Rivers and the remaining 23% for the linking of the peninsular rivers. The inter-linking is expected to result in a multi-fold drive to the growth of economy, including an increase in food grain production and growth of the cement, construction and banking sector.

Mining

Coal Mining

India has coal reserves of approximately 315.15 billion tonnes. More than 90% of the coal produced in India is by government owned companies. Coal India Ltd is the largest firm in India, producing coal accounting for 84% of the total coal produced. The role played by private companies is limited, mines are owned for captive use. Companies involved in the manufacture of steel, cement, fertiliser and power generation mostly have captive mines, with power being one of the sectors that is heavily dependent on coal. Mining equipment is extensively used by all companies across regions.

Despite India's large coal reserve, some companies in India are importing coal. Approximately 20-25% of the coal demand is met through imports. The government has set a target of 1.6 billion tonnes of coal production by Fiscal 2020, which will be met through increase in the number of mines set up and reallocation of existing mines.

Iron Ore Mining

The Indian iron ore industry was once the third largest exporter globally, but is currently under pressure to fulfil domestic demand. Illegal mining and environmental degradation has led to a blanket ban of iron ore mining and exportation in several states such as Karnataka and Goa. Imports were small until last year, but increased to 15 million tonnes in Fiscal 2015 to bridge the supply-demand gap as there were no signs of the recovery of the domestic iron ore production. The following years saw an increase in production post the lifting of ban against iron ore mining. Imports also reduced gradually as a result of higher production and the commissioning of new mines.

From Fiscal 2017 onwards, several state governments planned and increased their focus on iron ore production. Odisha contributed nearly 143 million tonnes during Fiscal 2018. The government of Odisha has planned to auction around 10-12 large mines to boost supply. Demand from real estate and automotive sectors, along with an increase in infrastructure projects is expected to aid growth of steel production. The steel industry is likely to have a total installed capacity of 300 million tonnes by 2025.

Government investment in the mining sector was increased by 79% in the 12th five-year plan (2012-2017) as compared to the previous plan, amounting to Rs. 1,631.5 Billion. It provided fresh impetus to the domestic mining sector.

Ports

India has a coastline of 7,517 kms which is shared amongst nine states. Approximately 95% of India's trade by volume, and 68% by value, is moved through maritime transport.

Ports in India can be divided into two types; major ports and minor ports. At present, there are 13 major ports in India which are under the scope of central government through the Ministry of Shipping. There are approximately 200 minor ports, however only 70 of these are in operation. All of the minor ports are administered by their respective state governments.

Currently the handling capacity at major ports is 1,451 million tonnes (as of Fiscal 2018). The capacity addition at the major ports in Fiscal 2018 over previous year was approximately 44%.

The government has initiated the 'Sagarmala Programme' to promote port-led development in the country. There are 577 projects worth INR 8,762 Billion in the Sagarmala Programme. The projects identified under Sagarmala Programme are expected to mobilize more than INR 12,000 Billion of infrastructure investment, generate logistic cost savings of INR 350-400 Billion per annum, boost merchandise exports by INR 7,392 Billion and enable creation of 10 million new jobs, including 4 million direct jobs in the next 10 years.

Housing

As per 2011 Census, the total population of India was about 1.2 billion comprising of nearly 246 households. As per The World Population Prospects: The 2017 Revision, published by the UN Department of Economic and Social Affairs, the population of the country is expected to reach around 1.44 billion by 2024, matching China's population, and further increase to 1.5 billion by 2030. With increase in number of households, the housing demand is expected to grow in line. Some of the other factors which will support a rising housing demand include:

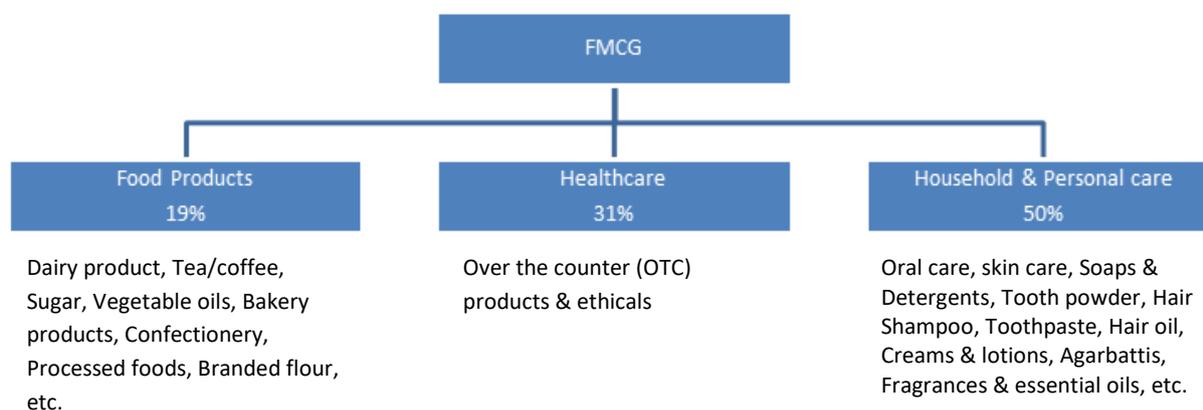
- Growing nuclearisation of families
- Growing urbanisation
- Increasing disposable income
- Tax incentives by Government
- Increase in ease of availing finance

Government Initiatives in the segment

- The Real Estate (Regulation and Development) Act, 2016, which seeks to protect home-buyers as well as help boost investments in the real estate industry
- Pradhan Mantri Awas Yojana (PMAY), with two components Pradhan Mantri Awas Yojana (Urban) (PMAY-U) for the urban poor and Pradhan Mantri Awas Yojana (Gramin) for the rural poor, is an initiative in which affordable housing will be provided to the urban poor with a target of building 20 million affordable houses by 31 March 2022
- In order to promote affordable housing, the government has granted infrastructure status to affordable housing

FMCG OUTLOOK

The FMCG sector has grown from US\$ 31.6 billion in 2011 to US\$ 52.75 billion in 2017-18. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 27.86 per cent to reach US\$ 103.7 billion by 2020 (as per IBEF). The industry can broadly be categorised into Food Products, Healthcare, and Household & Personal care. As per an industry report, Household & Personal care is the most dominant sector accounting for almost 50 per cent of the total FMCG sales, followed by Healthcare which accounts for around 31 per cent.



Under Household & Personal Care, Hair care accounts for about 23 per cent followed by Oral care at 15 per cent, Home care at 6 per cent and Skin care at 5 per cent.

Demand Drivers

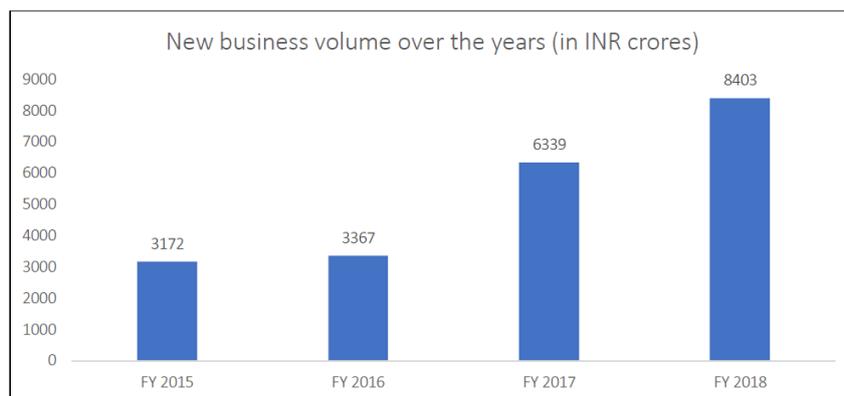
- Demographic dividend: India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. Huge population, mostly comprising of 'earning population', is a strong driver for demand.
- The industry benefits from increasing urbanisation (the urbanisation rate in India is highest among the major economies) which leads to increase in income and consequent increase in demand. It also benefits from the growing demand in the semi-urban and rural households. Rural India accounts for around 60 per cent of the FMCG demand, up from around one-third in 2008.
- Rising income levels aided by a strong GDP growth has led to increased disposable income, ultimately driving consumption of FMCG products. India's GDP per capita at current prices is expected to increase from US\$ 1,481.56 in 2012 to US\$ 3,273.85 in 2023.

Government initiatives

- Government spending and policies are increasingly focused to benefit the rural sector which accounts for around 69 per cent of the national population (2011 census). In 2016, the government had announced its ambitious target of doubling farmer incomes by 2022.
- The Government has slowly been opening up the sector to foreign players. Recently it allowed 100 per cent Foreign Direct Investment (FDI) in single-brand retail trading through the automatic route. The sector witnessed healthy FDI inflows of US\$ 14.42 billion, during April 2000 to December 2018.
- Steps taken to revamp the Consumer Protection laws with special emphasis on ensuring simple, speedy, accessible, affordable and timely delivery of justice to consumers.
- The recently introduced Goods and Services Tax (GST) is also proving to be beneficial for the FMCG industry as the companies saving a considerable amount of expenses on logistics. Also many of the FMCG products (soaps, toothpaste, hair oil etc.) have now come under a lower tax rate, benefitting the demand.

LEASING OUTLOOK

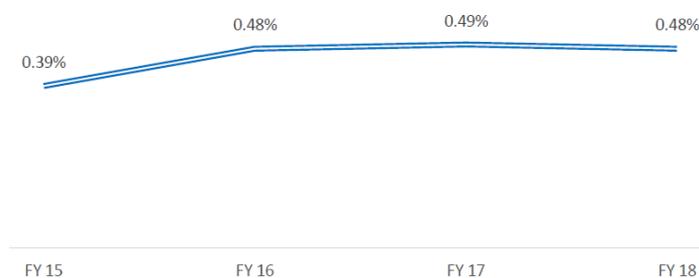
Indian leasing market is very nascent. More than 90% of the lease volumes are accounted by Indian Railway Finance Corporation (IRFC) which has a monopoly to source business for railways. The new leasing business volume (ex-IRFC) stood at around INR 8403 crores at the end of FY 17-18 as opposed to INR 6339 crores during FY 16-17 and INR 3367 crores during FY 15-16.



Source: Annual Reports, VKC Analysis

Despite being amongst the top 10 economies, the Indian leasing volume is less than 3% of global volumes. India is ranked outside the top 50 nations while its BRICS peer are all within top 20 in leasing. As per an industry report new leasing volume as per cent of total investment in the country is less than 0.5%. Loans remain the dominant source of financial assistance in the country.

LEASING PENETRATION IN INDIA



The leasing business in India earlier suffers due to a multitude of factors including multiplicity of taxes, disparity in rates between states and lack of a comprehensive legislation. However, with the implementation of GST, the scenario is expected to change.

Key Segments

In terms of asset classes, apart from construction equipment and IT equipment, leasing of medical equipment, project assets, furniture and fit outs also were major attractions during FY 18. Certain specialised assets were also tried in the market like tunnel-boring machines, business jets and several items of plant and machinery. Vehicle leasing continues to be a popular asset class currently, and there are several new players exploring this asset segment.

The table below shows the asset class wise performance during the financial years 14-15, 15-16, 16-17, and 17-18 (excluding IRFC):

Asset Class	FY15		FY16		FY17		FY18	
	Volume	Share	Volume	Share	Volume	Share	Volume	Share
Figures in INR crores								
Operating Leases:								
Plant and Machinery	182.00	5.74%	206.29	6.13%	684.45	10.80%	1592.98	18.96%
Equipment (including office and construction equipment)	273.00	8.61%	305.16	9.06%	103.84	1.64%	690.28	8.21%
Data processing and computer software	104.00	3.28%	479.31	14.24%	392.15	6.19%	489.65	5.83%
Cars/ Motor Bikes	858.00	27.05%	733.74	21.79%	1211.28	19.11%	1087.37	12.94%
Commercial Vehicles	806.00	25.41%	180.33	5.36%	840.57	13.26%	922.7	10.98%
Computers	299.00	9.43%	350.28	10.40%	338.99	5.35%	1031.86	12.28%
Furniture and fittings	227.50	7.17%	1023.68	30.40%	1034.40	16.32%	1036.38	12.33%
Other asset classes (including Windmills, ATM, Solar assets, Aircrafts etc.)	208.00	6.56%	82.68	2.46%	466.05	7.35%	109.34	1.30%
Financial leases	214.50	6.76%	5.65	0.17%	1267.50	19.99%	1443.05	17.17%

Source: Annual Reports, VKC Analysis

Scenario post GST implementation

The introduction of GST has eliminated the tax differentials which demotivated lease transactions in the past. The VAT regime had incremental and non-VATable tax burden in form of CST, and several states denying the benefit of set off to lease transactions. Under the GST law, the input taxes paid on lease transactions are full off-settable, irrespective of whether the lease is inter-state or intra-state.

Additionally, the myth about tax shelters existing in case of lease transactions has gradually vanished, with the continued reforms of depreciation rates.

Overview of leasing in CME financing

In India, construction equipment leasing is still at a nascent stage accounting for 8-10% of the overall construction equipment market as of Fiscal 2018, whereas the global average for leasing is 50-60% of the overall construction equipment business.

Leases are gaining popularity because of tax benefits. The bulk of MSMEs are opting to finance their equipment.

Market Size

The market for organised used equipment leasing is estimated at approximately 8%-10% of the overall disbursements of finance companies in the CME segment. The current value of the organised leasing construction equipment market accounts for roughly Rs.22-37.5 billion in Fiscal 2018. The market is largely dominated by heavy equipment such as excavators, motor graders, wheel loaders, dozers, self-loading concrete mixers, concrete pumps, tower cranes, all-terrain cranes, rough terrain cranes, truck cranes and pavers.

With the implementation of GST during 2017, it is expected to benefit the finance institutions in the equipment leasing space and the market is expected to reach INR 40,000 - 50,000 million by FY 2019-20, a CAGR of 15%-16%. Before GST implementation, there was lack of clarity on leasing business and the tax structure was not clearly defined which was

curbing the efficiency of the equipment leasing industry. Further the GST rate was reduced from initial 28% to 18% and the rate is now reasonable as many taxes like VAT, Excise duty and entry tax has been subsumed and credit of entire GST is available which is expected to drive the leasing industry going forward.

Key Benefits of Leasing in CME Financing

With the current government's focus on infrastructure of the country, there was a fresh infusion of funds towards the road sector. The Indian government approved a total of 83,677 kms of roads to be constructed in the next five years. This creates requirement of capital goods on a large scale and increase in the number of contractors executing these projects.

Most of the actual implementation of project work is carried by SMEs to whom the work gets sub-contracted. They require high-value assets (such as earth-moving, road, concrete and material handling equipment) and purchasing these assets would impact cash flows of SME's. Leasing options help the SMEs to access these assets as it provides more cost effective solution vis-à-vis owning.

The penetration of leasing and equipment rental is fairly high globally. Compared to countries like the U.S., China and Japan, India's leasing and rental business is still at a nascent stage. Unfavourable tax treatment of leasing in India has been a key reason for such condition. The introduction of GST is expected to clarify the ambiguity on the tax front. The market sets to become more organised. Another major advantage of GST will be the enhanced mobility of the asset. Interstate movement of such assets and re-deployment at multiple locations on multiple projects will be easier and thereby ensuring optimal utilisation of the asset over its economic life. Leasing, as a financial tool will be key for the infrastructure growth of the country

Traditionally, India has been an outright equipment purchase market for project requirements. However, this could change. Large contractors who previously outsourced only earthwork and other non-essential activity have begun subcontracting more activities and modules. Consequently, leasing options with their associated tax benefit opportunities are becoming more attractive. There are signs among finance companies that the market is becoming more receptive to alternate financing options.

Opportunity sizing: Key segments

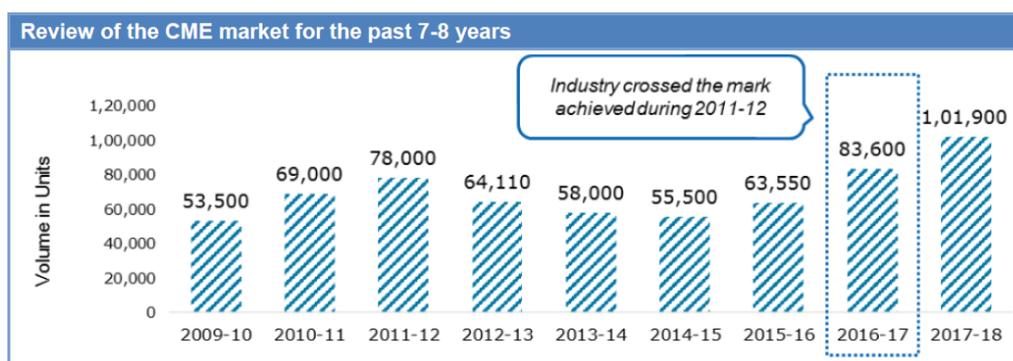
Construction, Mining and Allied Equipment (CME)

The CME industry in India can be classified into different categories based on the type of projects for which it is used. These categories are:

- Earthmoving equipment;
- Concrete equipment;
- Road equipment;
- Material handling equipment;
- Material processing equipment; and
- Warehouse equipment

The CME sector experienced a period of de-growth from Fiscal 2013 until September 2015. During October to December 2015 there was a period of flat growth, however sales increased from January 2016. The industry witnessed a slight reduction in sales numbers during December 2016 due to demonetisation and reduction in retail sales. The growth rate then increased by 7% during fourth quarter of Fiscal 2017 as compared to the third quarter of Fiscal 2017. The demand for CME grew by 22% during FY 2017-18 giving a boost to the sector which for the first time crossed over 100,000 units. The demand for CME continued to grow mainly due to the increase in infrastructure spends.

Figure – Sales of CME Equipment (Fiscal 2010-2018)



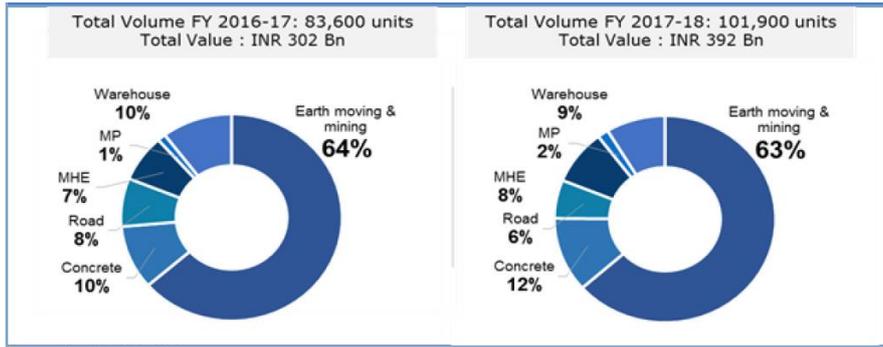
Source: Feedback Analysis

The Indian construction, mining & allied equipment industry continues to be sensitive to the demand for backhoe loaders and hydraulic excavators. The Backhoe Loader alone contributed to 37% of the overall sales by volume during FY 2017-18, a very India specific phenomenon. Backhoe Loaders in China account for hardly 0.5% of overall construction equipment sales while in North America it accounts for 8.5%. Backhoe loader is the equipment of choice as the market shifts from manual labour to mechanization. Hydraulic Excavator is usually considered as an upgrade to Backhoe Loaders by most customers. The trend noticed across most customers is that they buy a Hydraulic Excavator within 5-6 years of the purchase of a Backhoe Loader.

Recent Growth

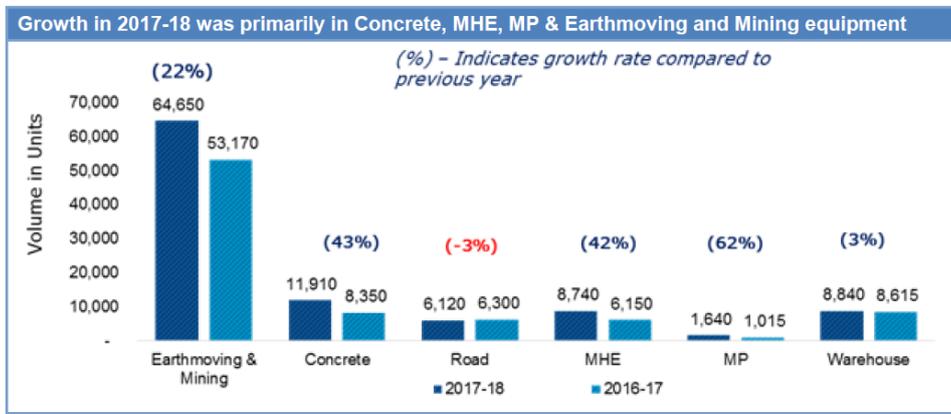
The overall Indian CME industry grew by 22% in Fiscal 2018 compared to Fiscal 2017. The last quarter of FY 2017-18 showed a surge in overall equipment sales and sales crossed the volumes of over 100,000 units.

Figure – Sale Volumes in Fiscal 2017 and Fiscal 2018



Growth in 2017-18 was primarily in Concrete, MHE, MP & Earthmoving and Mining equipment.

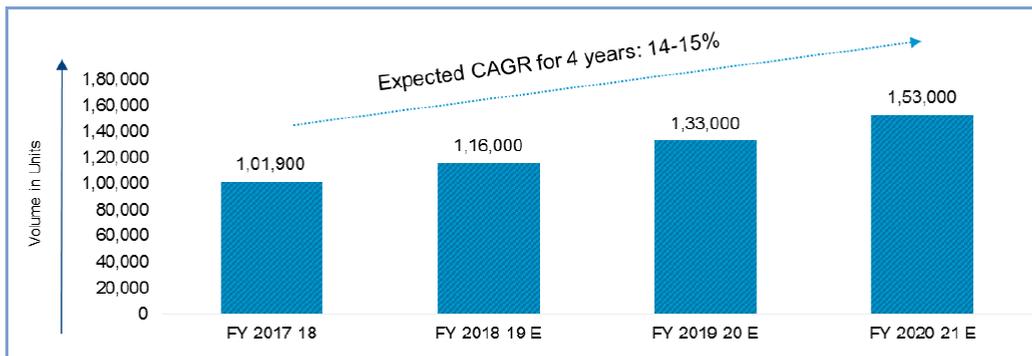
Figure 21 –Equipment Growth across Categories



Source: Feedback Analysis

Outlook on the CME Market for the next three years

Figure – Growth in the CME market for Fiscal 2018 to Fiscal 2021



Source: Feedback Analysis

The Construction, Mining and Allied equipment industry is expected to grow at a CAGR of 14-15% till FY 2020-21 to reach 153,000 units and at a CAGR of 19-20% by value to reach INR 670 billion. In the past, industry growth has slowed during central elections where spending could be more towards populist measures than on infrastructure development. But considering that most of the awarded projects, since 2017, have not yet started, the spending on these projects (from execution perspective) will continue and these projects will drive the industry during next 2-3 years.

CME Financing

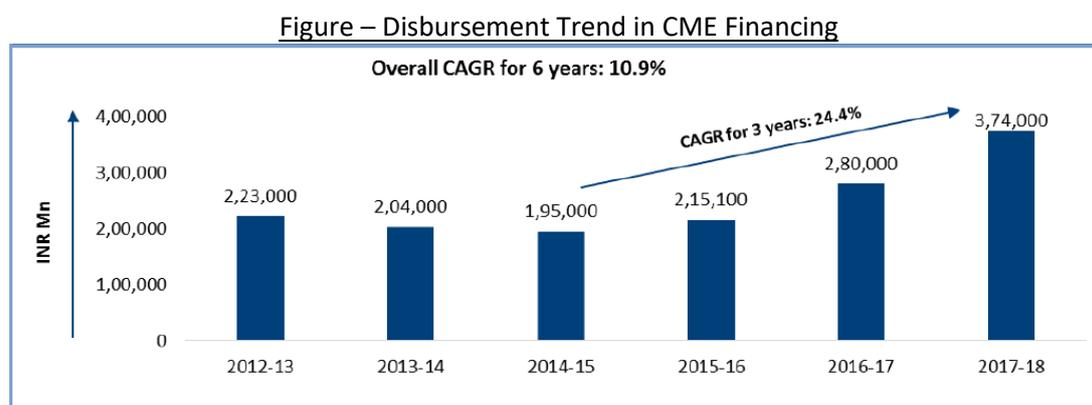
Overview of the CME Financing Segment in India

Construction equipment finance caters to all types of earthmoving, concrete, material handling, road construction, material preparation, tunnelling and drilling, and warehousing equipment. CME finance in India is offered mainly by NBFCs, banks and captive or private financiers.

As the capital outlay is high, close to 80-85% of the total equipment sold in the country, are financed. Most financing is through loans and leasing is still a distant second option. Within equipment categories, close to 80-85% of earthmoving construction equipment users who opt for finance are Micro, Small & Medium Enterprises (MSMEs) with transaction sizes varying between INR 2 million for a Backhoe Loader to INR 4.2 million for a Hydraulic Excavator. Typically, cost of Construction equipment is ~10-30% of the cost of the project, hence the role of CME financiers is critical, in helping to execute the project with the right and productive equipment.

Review of Trends in Disbursements in CME Financing in Last Six Years

The total disbursement for Construction, Mining & Allied equipment finance for FY 2017-18 was estimated at INR ~374,000 million. The disbursements to the sector have grown at a CAGR of 10.9% over the last 6 years, but from the recovery observed in FY 2014-15 onwards, the industry has clocked a growth rate of 24.4%



Source: Feedback Analysis

Earthmoving and mining equipment contributed 68% of the overall amount disbursed to the CME segment, Concrete equipment 10%, Road construction equipment accounted for 7%, Material Processing /preparation equipment 6%, Material Handling equipment 6% and warehousing equipment 3% in FY 2017-18. During FY 2017-18, disbursements to the Earthmoving & Mining equipment sector increased by 34% and concrete equipment by 144% compared to the previous year (FY 2016-17).

Over the last 5 years, disbursements to the Earthmoving and Mining equipment industry have grown by 14.8%, Concrete equipment by 32%, Road Construction equipment by 22%.

The government's initiative to improve infrastructure in India has caused a surge in demand for road construction equipment, thereby increasing the disbursement to the segment. Government focus on building concrete roads (on national and state highways) has boosted the demand for concrete and material processing equipment, though the slowdown in the real estate sector continues.

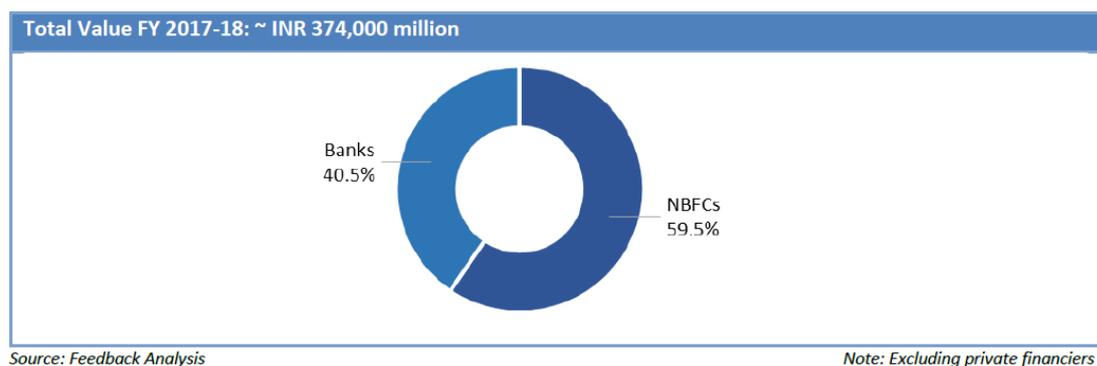
Market Breakdown by Lender Category

The lender category consists of Banks, NBFCs and private financiers. Data for private financiers is not recorded and therefore is not publicly available. Analysis is limited to Banks and NBFCs participating in the industry. Private financiers are estimated to account for approximately Rs.15-20 billion.

Among the NBFCs and Banks, NBFCs account for 59.5% of the overall CME finance market. Though the share of NBFCs have declined over the last few years, market leaders like SEFL benefitted by increasing their presence in the industry.

NBFCs who had exited during the market downturn are now re-entering the segment due to the revival of the construction equipment segment.

Figure – Market Breakdown by Lender (Banks and NBFCs)



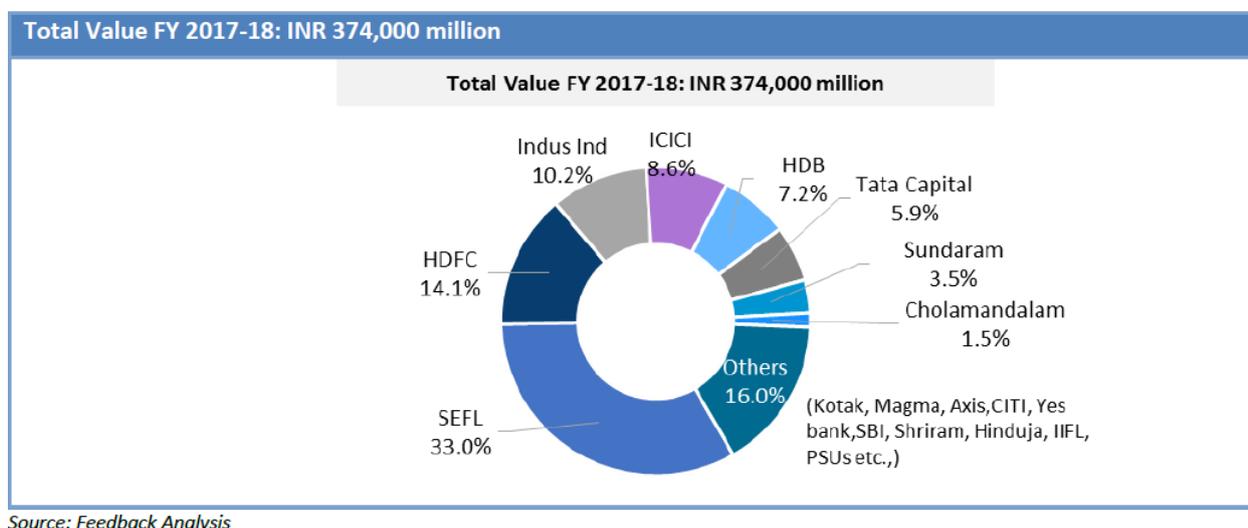
NBFCs currently have the majority of the market share. Historically banks have tended to cater for the needs of large companies and have started to focus on the retail segment, whereas NBFCs fulfil the fund requirements across the market.

Overview of Competition in the Industry

Currently the equipment finance industry has approximately 20-25 organised companies (NBFCs and banks) offering various products and services for the infrastructure equipment segment.

Top 5 companies account for ~ 73.1% of the overall CME finance market. Among the top 5 companies, 3 are private banks and 2 are NBFCs.

Figure – Market Share in CME Equipment Finance Market



SEFL leads the construction equipment finance market with a market share of approximately 33% in Fiscal 2018 followed by HDFC. Over the years, the market share of banks such as HDFC and Indus Ind in the retail finance segment has increased. The market share of HDFC bank has increased from 10% in Fiscal 2014 to 14.1% in Fiscal 2018.

IndusInd focuses largely on retail customers for backhoe loaders, excavators and pick and carry cranes, offering better interest rates than NBFC and are core competitors in the retail segment. After SEFL, HDFC is the second largest finance institute in the retail industry.

Currently, SEFL is the only end to end solution provider across the entire CME value chain, from asset acquisition through to deployment, management and resale of the asset, and managing the customer relations across the entire asset life cycle. SEFL offers customised financial solutions to their customers and has partnerships with OEMs and

dealers. SEFL has demonstrated clear market differentiation through its holistic approach to providing equipment financing solutions.

A study conducted among various customers across key states of India revealed that faster turnaround time, less paper work and one point stop for all equipment financing needs, attractive schemes offered and innovative solutions to customers to clear bad debts are the key positives of SEFL. SEFL offers innovative financing solutions to equipment purchasers under these arrangements, which are relatively new to the Indian equipment financing market.

Information Technology (IT) equipment

In the last decade, India has witnessed a significant rise in the use of IT equipment, due to rising disposable incomes and reduced prices due to rapid innovation in technology. Growth is expected to continue due to economic development and household income growth, which will result in a large expansion of the retail hardware market.

Indian IT Equipment is categorised into these major segments:

Figure – Categories of IT Equipment by Segment

Indian IT Equipment Industry	
Key Segment	Major Products
PC (Personal computers)	This segment includes desk-top computers, laptop & notebook
Servers	This segment includes servers x86 and non-x86 server versions
Storage	This segment includes hard disks (internal and external) and SSD (solid state drive)
Enterprise Networking	This segment includes switches, routers and wlan

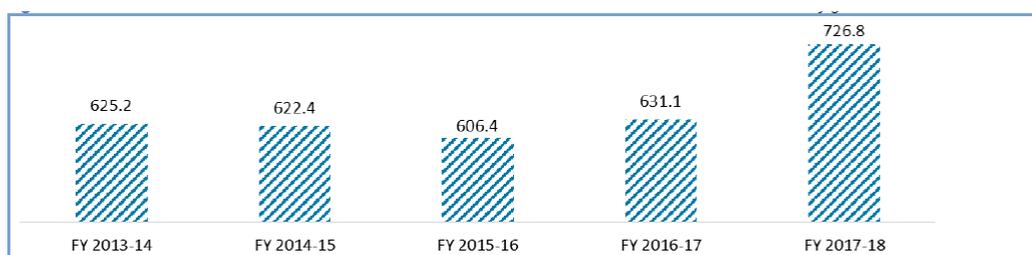
Source: Feedback analysis

The total market size by revenue for Fiscal 2018 was estimated at Rs.726.8 billion. The market has grown at a CAGR of approximately 3.8% over the last five years.

The chart below shows the growth of the IT equipment market from Fiscal 2014 to Fiscal 2018.

Figure – Growth of IT Equipment Market (Fiscal 2013-2017)

(in Rs billion)



Source: Feedback analysis

In Fiscal 2016, slowdown in GDP growth was a reflection of the negative investment growth and slowing private consumption. The demonetisation drive announced on 8 November 2016 resulted in weak consumption and low expenditure growth. As a result, the overall IT equipment industry in the retail segment was adversely impacted.

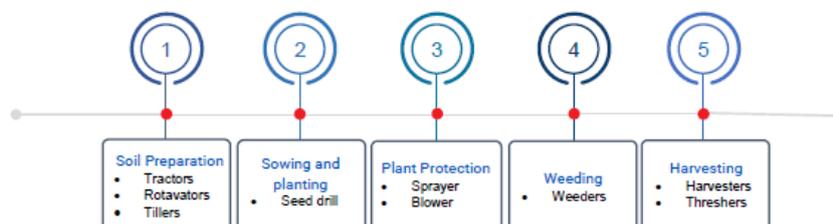
Outlook for Growth of IT Equipment Industry over the Next Three Years (Fiscal 2018 to Fiscal 2021)

The IT equipment market is expected to grow at a CAGR of approximately 5.6% over the forecast period from Fiscal 2018 to Fiscal 2021 and valued at Rs.855.9 billion in terms of revenue in Fiscal 2021.

Farm Equipment

India's farm equipment industry has a diverse product portfolio which can be segmented as:

Figure – Product Portfolio in Indian Farm equipment

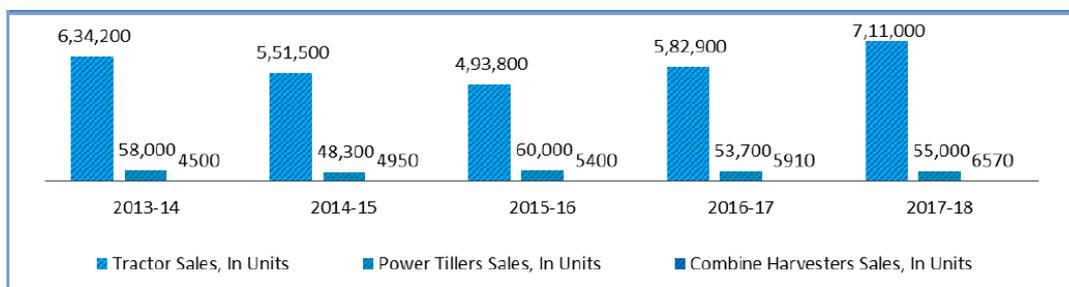


Tractors have the major share of the farm mechanisation market in India. However, the density of tractors in India is lesser than the world average (specifically with respect to developed countries). Hence, there is room for sufficient growth with India being an agriculture-based economy. Power tillers are in demand for paddy cultivation of small land holdings.

Overview of the Farm Equipment Industry for the Past Five Years

The total market size by volume of farm equipment for the year FY 2017-18 is estimated at 772,570 units. The sales of Tractor were 711,000 units, Power Tillers were 55,000 units and Combine Harvesters were 6,570 units. The Power Tillers market has seen a decline about 1.3%, while Tractor and Combine Harvester market has grown about 2.9% and 9.9% respectively in the last 5 years.

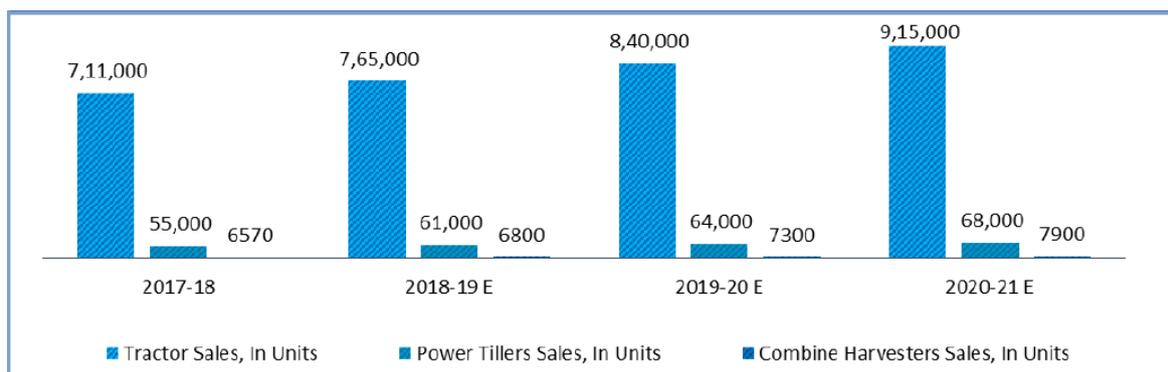
Market Size of Farm Equipment by Volume



Source: Feedback Analysis

In the past two Fiscal 2015 and Fiscal 2016, there have been reported double-digit de-growth due to failed monsoons and wilted farm sentiment. The Tractor industry witnessed positive growth during FY 2016-17 and FY 2017-18. The healthy south west monsoon not only augured well for Kharif production but also restored the reservoir levels that supported Rabi sowing in spite of weak winter monsoon.

Figure – Outlook for Growth of Farm Equipment Industry (Fiscal 2018-2021)



Source: Feedback Analysis

Increasing tractor penetration in small and marginal farmers and decreasing ownership cost of less than 20 HP tractors is likely to drive the demand. Sales of small HP tractors (less than 30 HP and 31 to 40 HP), which are primarily meant for agricultural activities, will grow at 13% during the forecast period. The 41 to 50 HP tractors segment is likely to grow by 10%. While the government is providing an impetus for increased farm mechanisation by subsidising tractor prices which is expected to enhance sales in the less than 30 HP segment, the shift in increased usage of several agricultural implements will probably lead to further increase in market size for high HP tractors in the long term.

Further, government initiatives such as National Rural Employment Guarantee Act (NREGA) and increased usage of tractor in industrial activities such as haulage in construction and infrastructure projects will further increase demand of tractors. Long-term drivers of the tractor industry look positive and the industry is expected to grow at a volume CAGR of 9-10% in the medium term.

Following the increasing support for farm mechanisation and subsidies by the government and reduction in the conventional practices for crop sowing and reaping, the combine harvester is projected to grow at a CAGR of 6-7% in Fiscal 2018 – Fiscal 2021 period and expected to reach an annual sales volume of 7,900 units. The power tillage is expected to grow at CAGR of 7% reaching the sales volume of 68,000 units.

Automobiles

As per CARE Ratings, Automobile industry witnessed a y-o-y sales growth of about 8.2% and exports grew by over 15% during FY19 (Apr - Feb). In terms of sales, the sharpest growth of over 18% was witnessed in commercial vehicle sales followed by a 9% growth in two & three wheelers. Passenger vehicles registered a meagre growth of about 0.9% y-o-y in sales during the period.

Key Drivers – Passenger Vehicles	Key Drivers – Commercial Vehicles
<ul style="list-style-type: none"> ▪ Rural sales to enhance share of small cars. ▪ With cost of ownership likely to decline, first time buyers and increasing Proportion of rural sales shall drive demand for small cars. ▪ Shift in consumer preference resulting in sedans losing market share to compact UV/ premium hatchback 	<ul style="list-style-type: none"> ▪ Hub-spoke model, improved infra to drive sale of higher tonnage vehicle ▪ ICV expected to grow at faster pace aided by e-commerce demand. ▪ Tipper sales to prop up with improvement in mining/ construction in longer term ▪ Growth in Pick-ups to outpace sub-one tonne vehicles with higher flexibility in usage and transporter needs ▪ Tourism followed by schools to drive demand of Buses. Shift seen from ICV buses to LCV

Automobile Sales & Export (April – February)

(Numbers)	Auto Sales			Auto Exports		
	FY18	FY19	Growth (%)	FY18	FY19	Growth (%)
A. Passenger vehicles	3,664,940	3,698,011	0.9	677,081	612,091	(9.6)
Passenger cars	2,509,066	2,502,501	(0.3)	526,124	461,891	(12.2)
Vans	175,755	200,295	14.0	1,677	3,505	109.0
MUVs	978,698	990,957	1.3	147,859	142,717	(3.5)
Quadricycles	1,421	4,258	199.6	1,421	3,978	179.9
B. Commercial vehicles	834,080	985,117	18.1	85,893	89,441	4.1
M&HCVs	334,308	391,219	17.0	39,336	44,177	12.3
LCVs	499,772	593,898	18.8	46,557	45,264	(2.8)
C. Two & Three Wheelers	21,936,711	23,914,903	9.0	2,915,668	3,539,445	21.4
Two-wheelers	21,024,141	22,761,100	8.3	2,566,331	3,020,373	17.7
Three-wheelers	912,570	1,153,803	26.4	349,337	519,072	48.6
Total (A+B+C)	26,435,731	28,598,031	8.2	3,678,642	4,240,977	15.3

Note: MUVs - Multi utility vehicles, M&HCVs – Medium & heavy commercial vehicles, LCVs – Light commercial vehicles

Source: CMIE

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"Srei Equipment Finance Limited is proposing, subject to receipt of requisite approvals, market conditions and other considerations, an initial public offering of its equity shares and has filed a Draft Red Herring Prospectus dated November 28, 2017 with the Securities and Exchange Board of India ("SEBI"). The Draft Red Herring Prospectus is available on the websites of SEBI and the book running lead managers to the Offering, i.e. ICICI Securities Limited, Srei Capital Markets Limited, CLSA India Private Limited, Credit Suisse Securities (India) Private Limited, Haitong Securities India Private Limited, IIFL Holdings Limited, Motilal Oswal Investment Advisors Private Limited and Nomura Financial Advisory and Securities (India) Private Limited at www.sebi.gov.in, at www.icicisecurities.com, www.srei.com, www.clsa.com, <https://www.credit-suisse.com/in/en/investment-banking/regional-presence/asia-pacific/india/ipo.html>, www.htisec.com/en-us/haitong-india www.iiflclap.com and www.motilaloswal.com and www.nomuraholdings.com/company/group/asia/india/index.html respectively. Investors should note that investment in equity shares involves a high degree of risk and for details refer to the Draft Red Herring Prospectus, including the section titled "Risk Factors" on page 15 of the Draft Red Herring Prospectus. Potential investors should not rely on the Draft Red Herring Prospectus for making any investment decision."