

Bricks to chips

Sunil Kanoria breaks new ground in equipment finance

The Kanorias have shown themselves as past masters in recognising new business trends. The Srei-promoted Quipo, a large financier of earth-moving and construction equipment, found that repayment on idle equipment falters; so Quipo chairman and managing director Sunil Kanoria came up with Quipo Infrastructure Equipment Ltd in 2002, with equipment banking and rental for the high-growth verticals of construction, telecom, oil and gas, and energy.

From there to setting up a subsidiary, Quipo Telecom Infrastructure Ltd (QTIL), was a logical step. The company currently owns 1,200 cell phone towers, rented out to up to half a dozen operators on a single tower on a straightforward monthly rental basis. Quipo will increase these 'real estate' operations to 6,000 towers this year at a cost of Rs1,100 crore, funding Rs250 crore from equity.

Sharing of telecom towers is common worldwide but QTIL is the first mover - and market leader - in India. "It was tough to get around the walls created by telecom operators. Fortunately, Dayanidhi Maran, former Union minister for communications and IT, realised that setting up individual towers at a cost of over Rs25 lakh each is a economic waste; and the industry figured out the benefit of sharing," says Kanoria. Besides setting up the towers, accommodating local elements for the land was straining corporate governance norms of these

foreign-funded companies.

"This change is welcome. Sharing brings financial benefits for both, infrastructure provider and users. We can now focus more on our core business activity," says Prakash Nanani, CEO, Spice Communications. "At present, only 22 per cent of the 150,000 towers in India are shared but numbers will double in the next three years and this share will grow rapidly. Many of the new areas are marginally profitable for the cell operators but critical to uninterrupted network coverage." "If two operators share a tower, it brings down equipment cost by half," concurs Pradeep Shrivastava, chief marketing officer, Idea Cellular. "And with independent global tower companies coming in, our investment becomes zero."

Sensible move

QTIL's tower at Dhansa in Delhi, for instance, is being used by four GSM and two CDMA operators. "Presently, this is the only tower in India shared by six operators," Kanoria says. Telcos are expanding at 60 per cent each year and unlocking funds tied up in 'real estate' makes eminent sense.

The company has competition from GTL infrastructure and Essar in the passive telecom infrastructure business. Each tower comes with all infrastructure including manpower - and the telcos just plug in their antenna and are immediately in business. Rentals vary between Rs40,000

and Rs80,000 a month. "Passive infrastructure sharing is on the rise. The role of infrastructure providers like Quipo will grow further once 'active infrastructure sharing' is also put into practice," says R.N. Prabhakar, member, TRAI. "We have sent the recommendation for approval." In active sharing, he explains, operators can share the same antenna, feeder cable and the base station and then bifurcate to individual frequency with foolproof security.

Quipo, a cluster of closely held companies, all in the infrastructure business, has a long line of blue-blooded investors - IDFC Private Equity, GIC Singapore, Netherlands-owned FMO, Swedfund International - all of which are among the world's leading multilateral funding agencies with focus on developing world infrastructure development. The Kanoria-owned Srei, a non-banking finance company, is similarly funded by a host of development agencies. QTIL is now set to hive off 20 per cent equity at \$20 million to hedge fund DB zwim of the US.

While the telecom business is without doubt the star, Quipo has been growing in gas-based generator pay-by-use rentals to factories. It also rents out oil and gas rigs to exploration companies operating. But the mainstay remains construction equipment rental. Construction activity which accounts for about 50 per cent of India's development plan outlay, contributing 9 per cent of India's GDP and employing more than 31 million people. "At the moment, we are the market leader but rapid growth in the sector will attract some more players," says, Arun Kapur, chief executive officer, Quipo.

Quipo targets an asset base of Rs1,600 crore by the end of the current fiscal, up from the current Rs500 crore, with an estimated income of Rs250 crore. It has an inventory of 1,500 items of construction equipment that it rents out at an average 5 per cent return, varying from Rs50,000 a month for an air compressor to Rs12 lakh for a piling rig. With 12 equipment yards near major cities, the company achieves a deployment rate of over 70 per cent.