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# Mining new growth

Riding on the back of a growing Indian economy, the mining equipment industry is poised for an impressive growth.

The mining industry in India started its journey long back in 1774, when the East India Company permitted an English company to undertake mining activity in the coalfield in Raniganj followed by gold mining in Kolar Goldfields in 1880. It was only after independence that the mining sector in India experienced a phenomenal increase in the growth rate. Despite an early start, the mining industry in India is still in an emerging phase. With the current emphasis on the mining sector, the mining equipment industry in India is also poised for an impressive growth. With the ongoing infrastructure boom, the construction sector is witnessing rapid growth and the construction equipment sector is also witnessing tremendous growth.

Prior to the 1960s, domestic requirements of mining and construction equipment were entirely met by imports. Domestic production started in 1964. Subsequently, the advent of a number of foreign manufacturers, who are technology leaders, has resulted in vibrant growth of this sector. The size of the total construction equipment industry is estimated at around US\$4.6-billion (as on 2007-08) and is growing at a CAGR of around 35-40 percent. The domestic market spending on construction equipment and earthmoving equipment (including mining) is likely to be cumulative \$40-billion between 2007 and 2015. The key sectors which will drive demand will be roads (eight billion dollars), irrigation (eight billion dollars), urban and residential construction (five billion dollars) and mining (five billion dollars).

The growth will be primarily triggered by price-focussed and value-focussed customers. As many as

70-80 percent of customers fall in this category since small and medium contractors are the majority of construction players. This augurs well for the flourishing of the rental industry, which is still at a nascent stage in India. Unlike in developed nations, which are marked by high rental penetrations, the rental industry here is much small and remains an unorganised business. Equipment rental business is currently pegged at around 7-8 percent of the total construction equipment industry.

Construction and mining equipment rental industry cover a variety of machinery such as hydraulic excavators, wheel loaders, backhoe loaders, bull dozers, dump trucks, tippers, graders, pavers, asphalt drum/wet mix plants, breakers, vibratory compactors, cranes, fork lifts, dozers, off-highway dumpers (20T to 170T), drills, scrapers, motor graders, rope shovels etc.

Supply-demand dynamics for different types of construction and mining equipment is primarily determined by the nature of construction-related projects and level of mining activity. The Indian economy is in a growth phase where demand will continue to outstrip supply for several years to come. Equipment manufacturers will have a great time. However, with entry of more number of manufacturers, they have to bank on their service, distribution networks, quality, features and price to differentiate themselves in an increasingly competitive market.

Penetration of rentals is bound to increase in the coming years as this market gets more organised. Immature market, non-availability of new machines and lack of trained operators clearly outlines that the rental industry holds huge potential, specifically for

smaller equipment and also for small to medium size contractors. Gradually, users are waking up to the benefits of renting and also realising how cost-effective this option is vis-à-vis actual owning of the equipment. Contractors also realise that renting allows them to bypass the problem of technological obsolescence. In today's age, where technology plays a major role and upgraded versions of equipment with higher levels of productivity hit the market at regular intervals, renting makes much more sense than owning. Availability of international standard equipment on rent will further add to the growing demand of the rental industry.

The rental period can last for just a few hours to tide over the peak demand and this explains the flourishing

unorganised market for equipment rentals. Usually larger equipments are rented out for longer duration as

compared to smaller capacity equipment, which are rented for comparatively shorter duration.

Though the construction equipment rental industry has been there for a while in India, mining equipment rental is a new sector. Essentially driven by demand-supply gap for mining equipment, it is beginning to take shape here. Globally, the mining industry is in a boom and major manufacturers are tight on production allocation leading to specific products touching 15~24 month delivery lead time.

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in an attempt to increase output as sought by their client).

With the residual value market or the used equipment market still not in a mature phase in India, the rental business model is gaining prominence. There are certain regulatory issues for the construction and mining equipment rental industry, which have to be addressed.

One of the major impediments to the popularity of equipment rental model is logistics. Transporting equipment between the states poses problems regarding the disparity in the rules governing the RTO, taxes and octroi. Also, the equipment rental industry does not get any custom duty benefits by importing the equipment even though it may be the latest and most viable solution on the block for the capital-intensive infrastructure industry. Another problem affecting the use of equipment is availability of trained manpower. Equipment is as efficient as the operator. The equipment rental companies need to join hands with vendors and also large construction companies in creating training centres for operators. Unless such facilities come up, this Indian industry will see slow growth as compared to that of the advanced economies.

Keeping in mind the growth potential of this sector, many private players are expected to jump on the bandwagon of opportunity and enter the construction and mining equipment rental segment. This will not only boost usage of high-end equipment, but will also result in time-efficient and cost-effective construction and mining activities. ●

## Core areas

Mining equipment rental touches three primary areas, namely:

- Startup filler (wherein the rental equipment kicks starts the mining operation till the new equipment arrive).
- Production boosters (wherein the rental equipment helps to maintain production target in case of shortfalls due to either of productivity mismatch or higher downtime).
- Core rental (wherein the contractor or customer has a short contract, upto 2~3 yrs,

