

# Rental growth

As bigger international players enter the Indian construction equipment industry, there will be more and better offerings of new applications and services. The development of a market for services like equipment renting and financing will go on to stimulate the demand of equipment through increased penetration of mechanisation in the construction industry.

Currently, the rental market is at a nascent stage in India. Moreover, it is very unorganised and dominated by small players. However, as construction and infrastructure boom continues, the rental market will expand in future. At present, the rental penetration in India is estimated to be less than 5 per cent of the total equipment sales as against 40-50 per cent in developed countries.

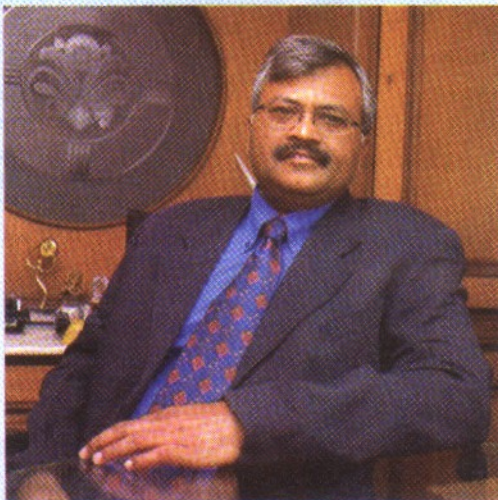
"The domestic rental market is yet to take off," says Vikram Raje, vice-president, Telcon. "But there is a huge potential for this market in the fast evolving equipment business." Besides enhancing the penetration of mechanisation, renting also mitigates the technology risk. With technology making rapid progress, improved versions of the same equipment are being introduced into the market at regular intervals. In such a scenario, owning equipment whose newer versions have already hit the market, puts the asset owner at a distinct disadvantage.

"Only when a developer has a series of projects lined up, can equipment be re-deployed and used optimally over its life period. Renting offers an immense value proposition, especially for sub-contractors who undertake limited number of projects. Owning the asset and keeping it idle after use in one or two projects will only lead to obsolescence," states an expert.

Currently, the business is dominated by smaller regional players. In the organised sector Quipo Infrastructure Equipment has been actively engaged in the rental business for over five years now. Earlier a division of the Kolkata-based Srie Group, Quipo is now a 50:50 joint ven-

ture between the Srie Group and BNP Paribas. For a 50 per cent stake in this venture, BNP Paribas is infusing a corpus of Rs775 crore.

"The entry of BNP Paribas into this rental business through Quipo shows the



*Kanoria: optimistic about business*

huge opportunity in the rental market. In the coming years, we may see many more players entering this business through different routes," says an industry analyst who projects the domestic rental market to scale up to 20 per cent of the total equipment market in the next five years.

"Keeping in mind the inherent advantages, I am sure renting will become very popular in India over the next few years. The size of the rental market will certainly multiply manifold," says Sunil Kanoria, vice-chairman and managing director, Quipo Infrastructure Equipment, which is likely to end the 2007-08 fiscal with an asset base of over Rs1,200 crore from about Rs500 crore in 2006-07.

Seeing the potential, equipment manufacturers too are planning to explore this market in a very big way. Recently, global giant Caterpillar has set up two rental stores. Gremach is another player that is active in the rental business. Sanghvi Movers and ABC are into crane renting for sometime now.

"As the domestic equipment market matures, for most equipment manufacturers diversifying into rental space as a separate vertical will be a natural progression," states Raje. In fact, Swedish equipment major Volvo is also firming up its plan for a rental foray. "Apart from manufacturing, we will also look at the emerging opportunities in the Indian rental business," says Mrityunjay Singh of Volvo.

In an emerging economy like India, renting and hiring will boost additional equipment sales as it encourages equipment use for one-time applications as well as for shorter durations. The rental market can expand faster by better financing processes and systems. According to the McKinsey & Co. report, catalysing services like rental and financing could result in 10 per cent increase in equipment sales to new customers, translating into additional potential of \$0.5 billion by 2015.

At present, Srie Group is the only dedicated player in the equipment financing business in the country. Some banks are also active in this space.

However, the future of rental and financing business will depend upon as to how the hurdles like logistics and taxation are handled. Poor logistics and multiple taxation are going to be a big challenge for this business. Equipment needs to be re-deployed in different project sites in different states from time to time. Restrictions on inter-state movement of equipment are a major impediment to the growth of the rental industry. Many a time repossession of assets becomes problematic due to legal issues.

"There is lack of awareness about the efficacy of rental and financing of equipment in the country. Multiple taxation is virtually killing these services. Policy makers are yet to figure out whether leasing is a sale transaction or a service and are imposing both VAT as well as service tax," states Kanoria.