

"Equipment Rental: The Mantra For Successful Partnership & Growth"



The fundamentals of Indian growth story are sound. The economic crisis may have resulted in a slowdown of the construction sector due to the fact that infrastructure sectors like power, highways, civil aviation etc. have been significantly hit. However, the demand for infrastructure project activity continues to be strong in sectors like telecom, urban infrastructure, oil & gas etc.

With the decline in the growth rate of most construction and engineering companies, the Indian infrastructure equipment market estimated to be around US \$ 3.1 bn has also witnessed a slowdown. Equipment sales have taken a hit as new equipment purchases have reduced due to the economic slowdown since October 2008.

In such a scenario, the equipment rental industry is

expected to witness a sharp growth and importance. Prior to the crisis, it was pegged at around 7-8 percent of the total construction equipment industry revenues. The unorganized sector of the industry contributes over 99% by value. The equipment rental industry in India has leap-frogged from a market size of US\$ 25 mn to US\$ 250-400 mn in the last five years. World over, the construction equipment rental market at over US\$ 80 bn is quite near to the reach of the equipment sale market at over US\$ 100 bn. Of total value of the construction equipment market this year, around 70 percent comprises earth moving and road construction equipment. Tunneling and drilling equipment constitute another major portion comprising around 13 percent, followed by material



Mr. Sunil Kanoria, Vice Chairman & Managing Director of Quippo Infrastructure Equipment Ltd.

Mr. Sunil Kanoria is the name behind bringing a revolution in infrastructure sector by setting up India's first infrastructure equipment bank under the brand name "Quippo."

As Vice Chairman & Managing Director of Quippo Infrastructure Equipment Ltd. (QIEL),

Mr. Kanoria has spear headed Quippo-into country's largest infrastructure equipment rental company, servicing the high growth verticals of Construction, Oil & Gas, Telecom and Energy.

Mr. Kanoria is also the co-founder and Vice Chairman of one of the leading infrastructure finance institution, Srei Infrastructure Finance Ltd. Under the dynamic leadership of Mr. Kanoria, Srei has grown leaps & bounds and today has assets worth over US\$ 1 billion. Mr. Kanoria takes active interest in the developments of the international financial world.

He has travelled extensively overseas and his networking skills have helped Srei & QIEL in attracting investments from multilateral and international funding agencies like

IFC - Washington, DEG - Germany, FMO - Netherlands, BIO - Belgium, Finfund - Finland, IDFC Private Equity, GIC Special Investments, Swedish International - Sweden, US Exim, Opusden Venture Capital Trust etc.

Mr. Kanoria's keen business acumen has led Quippo to diversify into key sectors including Construction, Mining, Oil & Gas, Telecom and Energy. He has been instrumental in establishing strategic tie ups for the company, notable among them being JV with Henry Bucher, Schindlerberger, MI Swiss, L&T & RICO.

Mr. Kanoria has been the voice of the industry and to this end he has been actively associated with various industry associations. He is a governing board member of Construction Industry Development Council (CIDC) and he is also on the managing committees of all-India institutions like Associated Chambers of Commerce & Industry of India, Finance Industry Development Council, Construction Technicians Training Institute etc.

Mr. Kanoria also held the prestigious post as Member of the Working Groups on Construction for the Tenth & Eleventh Five Year Plans of Planning Commission, Government of India. An ex-student of La Martiniere, Kolkata, Mr. Sunil Kanoria holds a Fellowship of Chartered Accountancy (FCA) from the Institute of Chartered Accountants of India.

handling, equipment and concreting and material preparation equipment comprising the remaining 17 to 18 percent of the market.

To keep up on the fast track of infrastructure development, a developer needs three critical things - money, manpower and equipment. While there are institutions that take care of the first and a highly populated country like India will always find plenty of manpower, the last becomes critical as it requires heavy investments and a great deal of maintenance. The fact remains that most equipment requires trained personnel to make qualitative use of the same.

Developed countries which have developed their infrastructure to keep pace with their development, have been relying on equipment renting. In India, Quippo came up with the equipment rental solution for the growing infrastructure sector.

The advantages of equipment rental are many. A builder does not require all the specialised and costly equipment for long. It is cost effective if they are able to hire these on a short notice for the duration of the work. Even for large construction companies who normally procure such equipment, additional work pressure necessitates use of additional equipment. They prefer companies which offer equipment along with trained manpower. Thus the rental option has filled a much needed vacuum in the construction business. This has also given rise to the concept of Equipment bank in India.

Equipment bank is a pioneering project in India. It was basically formulated to cater to the growing need for the right equipment at the right time for the developing infrastructure industry. In today's scenario, the rationale for Equipment pooling is based on multiple factors like large investment requirements for buying and equipment. An equipment bank provides a facility for contractors to pay by usage rather than lifetime value which permits them to

bid for larger projects. Another factor is the Technology Upgradation as an equipment pool mitigates technology risk (obsolescence and management) for contractors. OEMs can also use the bank as a channel to introduce new products and educate contractors on usage and demonstrate economics. Another major factor which makes equipment bank a very useful business proposition is that existing stock of equipment which is lying unutilized can be selectively deposited in the pool and can help improve the economic of the contractors. Optimal Asset utilization of contractor's equipment when not in productive deployment also adds to the kitty of the contractor thereby making it a win-win situation for both. Reduction in unproductive deployment of manpower & conservation of scarce capital resources are an additional benefit can also be offered by such equipment banks. Contractors opt for equipment renting instead of spending a large sum to buy equipment for occasional use. To rent or not to rent? That's the question many contractors ask when they need construction equipment for a variety of reasons. These days, the contractors

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know how to proceed with adding to their equipment fleet and the answer is not always buying new equipment. Rental stores hire or subcontract equipment maintenance to keep their fleet in working shape. They are freed from the tension of maintenance charges as well as high cost charges. Equipment rental has increased steadily depending on the location and construction job needs. But rental is here to stay and, unless the economy slides, more and more contractors will rent equipment at some point in their projects. This model can be significantly structured to address rental business opportunities.

With the boom in the business of infrastructure growth, realty expansion including, the government has recognized the significant role of the private partnership and this is

very encouraging for the equipment rental industry. However, there are still various policy issues which still suffer from severe lacunae.

One such issue is of the logistics. In India, different states adopt different rules governing RTO, taxes and Octroi. There is a variation in the manner in which equipment is classified. Some of the rules are not applicable in today's scenario. Smooth operation of pan-Indian equipment rental is possible only when the rules are uniform and there is no roadblock for inter state movement of the equipment.

An equipment rental company does not have any custom duty benefits by importing the equipment even though it may be required in the public infrastructure development of the nation. Import Duty Exemption on 21 types of Road Construction Equipment as listed in List 18 (Ser. 256 of the table) under custom notification No.21/2002 dated 1st March 2002, is allowed on payment of NIL import duty/ additional duty/ countervailing duty, provided the goods are imported by:

- (a) The Ministry of Surface Transport; or
- (b) (i) A person who has been awarded a contract; OR
- (ii) A person who has been named as a sub-contractor in the contract.

- For the purpose of construction of roads in India by or on behalf of the Ministry of Surface Transport, by the National Highway Authority of India, by the Public Works Department of a State Government or by a road construction corporation under the control of the Government of a State or Union Territory.

If this facility to import road construction equipment as mentioned in the notification is also extended to the IEDs, there will not be any loss of revenue to the government. Rather the long-term benefits to the economy will only increase. Thus, government should not discriminate among

parties regarding exemption of import duty for import of road construction equipment.

Under section 194I, the applicable TDS of 10% on the rental as well as the corresponding service tax of plant & machinery is hitting the cash flow of equipment rental companies. Keeping in view the competitive margins that the industry is operating on, this will further impact the business negatively.

Similarly the service tax on the supply of tangible goods, including machinery, equipment and appliances for use where there is no transfer of right of possession and effective control will result in an increased outgo for equipment rental companies. The infrastructure projects will have to bear the brunt of any additional taxes. These would eventually be passed on to end users, jacking up project costs thereby impacting the markets negatively.

Another problem affecting the use of equipment is availability of trained manpower. Equipment is as efficient as the operator. Once the rental business is taken seriously, equipment rental companies can join hands with vendors and also large construction companies in creating training centers for operators. Unless such facilities come up, Indian infrastructure sector will continue to lag behind advanced economies.

There are some organizations who are trying to provide solutions in this space, but the support of the regulators and government is necessary to remove the roadblocks in the growth of the equipment rental business.

India is emerging as a high potential market for equipment rental. In this scenario of global crisis, rental equipment has become one of the leading end-use markets for construction and industrial equipment. Future prospects of this industry are directly linked to the Indian economy and the Indian economy will do well in future.

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