

# HURDLES IN 'HIRING'

Sunil Kanoria **throws light on the roadblocks for the growth of construction equipment rental industry in India**



**T**he booming Indian economy today is indicating a remarkable impact on the world map, creating an aura of being called a developed nation in the times to come. This boom in economy has also resulted in the makeover of many such industries, which are prominent for mobilising the country's growth; and among them stands the rental industry for construction equipment. The industry is in its budding stage and unorganised with a total space catering to just seven per cent of the complete construction equipment industry as compared to 35 per cent in China, 65 per cent in the US and 80 per cent in Japan. However, the sector is now experiencing a facelift and eyes a significant stand in the infrastructure industry.

## Investments and growth prospects

The coming five years will witness investments in Indian infrastructure sector to the tune of

US\$ 350 billion. Presently, construction equipment industry in India (2006-2007) is US\$ 3.5 billion and is expected to double at approximately US\$ 7-7.5 billion by the financial year 2009-2010. Out of this, rental equipment share percentage is expected to get tripled at 21 per cent by financial year 2009-2010. The growth prospect is significant. Of the total investment requirement of Rs 14,560 billion, 44 per cent is expected from public-private partnership. Both, public and private sectors, working in partnership and collaboration with development agencies, are expected to bring about significant and sustainable improvements in India's infrastructure.

Ever since liberalisation has swept the country, government has eased on various policy regulations thereby giving enough advantage to the private players to develop at a faster rate. The government has recognised 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.

### Issues and concerns

While this boom in the business of infrastructure growth, realty expansion including, is here to stay, there are certain issues, which have to be addressed to ease the operations of this new business segment. One big problem is the logistics. Unfortunately, even after initiation of globalisation, Indian economy remains fragmented largely due to different states adopting different rules governing RTO, taxes and octroi. There is a variation in the manner in which equipment is classified. Some of the rules are almost ancient. 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 equipment. Hence, a special requirement for an equipment bank in every state arises. The State Governments are taking active participation to push this concept especially for the rural road works. But the inter-state movement is becoming an issue.

As an equipment rental company, we do not get any custom duty benefits by importing the equipment even though we are assisting in the infrastructure development of the nation. Import Duty Exemption on 21 types of Road Construction Equipment as listed in List 18 (Sec. 230 of the table) under custom notification No.21/2002 dated March 1, 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) either a person who has been awarded a contract, or 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 IEBs, there will not be any loss of revenue to the government. Rather the long-term benefits to the economy will only increase. Hence, 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 per cent on the rental of plant and 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 proposed service tax (in Budget 2008) 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. In many cases, the client doesn't agree to take these costs thereby leaving the equipment rental company to bear it. Hence, this will result in lower revenues and reduced business.

Availability of trained manpower is also of utmost importance. Equipment is only efficient with an efficient operator. Once the rental business is taken seriously, equipment rental companies can join hands with vendors and also large construction companies in creating training centres for operators. Unless such facilities come up, Indian infrastructure sector will continue to lag behind advanced economies.

While some more companies are trying their best to fill up a much-needed void, it is up to the regulators and government to remove the hurdles and help the equipment rental business to grow. One must realise the key issue is sharing of infrastructure for optimum use. Sharing of equipment through rental is just the other side of the same coin and needs to be viewed as such. →

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