

Field day for construction equipment makers

The construction equipment industry in India is growing at a blistering pace of 30 per cent annually, driven by growing investments in the infrastructure sector. International majors are setting up plants, gearing up to meet the expected surge in demand. A **Team India Now** report

THE construction equipment sector in India has been growing at a scorching pace of over 30 per cent annually, driven by the huge investments being made by the government and the private sector in infrastructure development.

With Prime Minister Manmohan Singh projecting investments of \$320 billion in the infrastructure sector over the next few years, prospects for the construction equipment industry appear to be dazzling.

Not surprisingly, international majors have unveiled ambitious plans for India, and leading Indian firms are also strengthening their existing operations, and even foraying abroad.

Last year, for instance, when the Confederation of Indian Industry (CII) organised the third edition of its Indian Construction Equipment and Construction Technology Trade Fair (EXCON 2005) in Bangalore, the show attracted 40 international companies from 10 countries, besides 130 domestic firms.

John Patterson, managing director and CEO, JC Bamford Excavators Ltd (JCB) of the UK, noted that India had emerged as one of the key international markets for construction equipment firms. It will rank among the top 10 markets for construction equipment, and is likely to overtake countries like Spain and Italy.

JCB set up a presence in India in 1979, and has so far invested nearly \$125 million

in the country. According to Vipin Sondi, managing director, JCB India Ltd, the company wants to make India an export hub to cater to the Middle East and South East Asian regions.

JCB India has a turnover of about \$335 million and has two plants, in Ballabgarh in Haryana and Pune in Maharashtra. The Pune unit is expected to roll out heavy equipment, including 14-tonne excavators for the mining sector, early next year. Sondi says the company is growing by

between 25 and 30 per cent annually.

Another international construction equipment major that is witnessing brisk growth in India is Volvo, the Swedish giant. "Volvo Construction Equipment is drawing up plans to locally manufacture some of its currently imported models in India within the next 2-3 years," explains Mritunjaya Singh, vice-president of the division.

Singh says the industry "is growing at a blistering pace of 30 per cent annually



BRISK GROWTH: India is emerging as a key international market for construction equipment



HEAVY DUTY: Demand for construction equipment is expected to exceed 10,000 units

primarily driven by investments made by the government, through internal accruals and external borrowings, or by private enterprises through the PPP (public-private partnership) model and/or as an investment (in power, ports, bridges, toll ways, etc.)."

The Volvo executive points out that the quantum of job work opportunities in India will shortly see all major and medium-level construction houses having their hands full, and resources stretched to capacity. "This will give rise to a host of new entrepreneurs in the small contractor segment which will be new focus area of equipment manufacturers and financiers," adds Singh.

There is also some evidence of construction equipment majors moving down to small machine offerings to meet the spiralling demand from this segment of customers, notes Singh. Financiers are also segmenting their sales organisation into strategic (large customers) and retail (small customers) base.

With global players displaying machines of top-class quality, the Indian customer

It is the customer who will push domestic manufacturers to seek partnerships with international players.

has also become more aware about global developments. Many customers visit international fairs to find out the latest offerings by manufacturers.

"This breed of customers is pushing domestic manufacturers to match quality levels of international counterparts," says Singh. "It is the customer who will push domestic manufacturers to seek partner-

ships with international players. On the other hand, international equipment majors have a ready option for quickly participating in the local market through marketing or production ventures with domestic manufacturers. Obviously, the fast growing market is polarising the two sides for all round benefits," he adds.

Asked about the potential for exports, Singh said the Indian capital equipment industry has the advantage of high technical talent base, established component vendor base, low labour rates, all ingredients for a competitive product. This creates opportunities to export products to South Asian countries.

"If we can fix issues relating to consistency in quality of components supplied by vendors, spend resource in understanding job applications and statutory requirements of a target country, we can export to any country in the world," he adds.

Volvo currently imports construction equipment into India, but considering the growing demand, it has plans to put up a



EXCAVATING NEW AVENUES: India's construction equipment sector has a market size of around \$2 billion

manufacturing unit in the country. The Swedish auto major already has a \$60 million factory near Bangalore, where it produces trucks and buses.

The Indian construction equipment sector expects demand to exceed 10,000 units this year. Of these, 4,500 units comprise excavators. With massive infrastructure projects being taken up all over the country, demand for excavators is growing at almost 50 per cent annually.

The construction equipment sector comprises four major segments: earth moving equipment (excavators, backhoes, loaders, bulldozers, etc); construction equipment (road rollers, concrete mixers, hot mix plants, road making machines, stone crushers); construction vehicles (dumpers, tippers, tankers and trailers); and materials-handling equipment (mobile cranes, gantry cranes, hoists, forklifts, etc).

But not all companies can afford to invest in construction equipment, or have

A number of key infrastructure development and construction companies have started resorting to hiring heavy-duty equipment to meet their requirements.

the time or the wherewithal to do so. In 1999, SREI International Finance Ltd, a leading non-banking financial institution focussing on the financing of construction

equipment and infrastructure projects (with the assistance of the Construction Industry Development Council), established the Indian Infrastructure Equipment Ltd (IIEL).

IIEL, with its brand, 'Quipo,' established the concept of equipment service provider (ESP) in India. Quipo is an end-to-end equipment rental company, providing state-of-the-art equipment to clients, who can focus on their core competence. IIEL's partners include foreign investors like FMO, Netherlands, an institution promoted jointly by the Dutch government and private banks, and Swedfund International AB, a Swedish government organisation.

Says Sunil Kanoria, chairman and managing director, Quipo Infrastructure Equipment Ltd: "Quipo is a pioneering effort in developing equipment rental businesses in India. The response to Quipo therefore, is decidedly upbeat. A number of key infrastructure development and construction companies have started resorting to hiring a number of heavy-duty equip-



SMOOTH ROAD AHEAD: Contractors are acquiring sophisticated equipment

ment to meet their requirements.”

Kanoria is bullish about the prospects for the construction equipment sector in India. The \$320 billion likely to be invested in the infrastructure sector over the next five to 10 years - in power, roads, bridges, city infrastructure, ports, airports, telecommunications - would provide a huge boost to the construction industry as a whole, he says.

“The huge expansion in infrastructure development activities will undoubtedly foster the need for rapid advancements in construction technologies, which in turn will drive joint ventures with the more technologically advanced companies in the developed countries,” points out Kanoria.

All sectors in the infrastructure space are seeing exponential growth rates. While domestic requirement is driving the growth rates in the construction equipment industry, exports today are relatively low, avers Kanoria. “However, factors such as increase in manufacturing outsourcing to low cost countries and improvement in technology and product range are expected to boost exports in the foreseeable future,” he adds.

India's construction equipment sector has a market size of \$2 billion, a fraction of the global market of over \$75 billion. But the global industry is growing at a measly 5 per cent, whereas in India growth averages around 30 per cent annually.

The opening up of the Indian economy

and the booming infrastructure and real estate sectors attracted international giants including JCB, Volvo, Terex, Caterpillar and Hitachi. There are about 200 domestic manufacturers (small, medium and large).

Terex Corporation of the US floated a joint venture with the UK's Vectra Ltd, an NRI group, to set up Terex Vectra Equipment. The company has invested about \$12 million in a facility in Greater Noida to produce backhoe loaders, skid steer loaders, vibratory compactors and midi excavators.

Terex and Vectra also acquired the 150-year-old Czech heavy truck maker Tatra, and established Tatra Trucks India Ltd at Hosur in Tamil Nadu, for manufacturing high-capacity mining tipper trucks. R.K. Rishi, who owns the Vectra group, recently acquired full control of Tatra A.S., from Terex, together with some private equity investors.

The Tatas, India's premier industrial group, also have a significant presence in the construction equipment business. Telco Construction Equipment Company (Telcon), the largest manufacturer of hydraulic excavators in India, is a joint venture with Japan's Hitachi Construction Machinery Company.

Hitachi last year doubled its stake in the joint venture to 40 per cent, paying Tata Motors \$44 million for the additional 20 per cent stake. Hitachi's move reflects its confidence in the fast-growing market in

The opening up of the Indian economy and the booming infrastructure and real estate sectors attracted international giants.

India. The Japanese giant wants to make Telcon “a global manufacturing and design hub.” The company has manufacturing facilities in Jamshedpur and Dharwad.

Another firm, Action Construction Equipment (ACE), plans to make ambitious forays abroad. The company, which has a manufacturing plant at Ballabgarh in Haryana, has tie-ups with several European and Asian construction equipment majors.

According to Sorab Agarwal, managing director, the company is in the process of acquiring an East European firm. Earlier this year, ACE had raised over \$13 million through an initial public offering (IPO).

India's booming infrastructure sector is fuelling demand for all kinds of construction equipment. Before the opening up of the Indian economy, and the entry of international majors, much of infrastructure development and construction in the real estate sector was done manually.

But with the infrastructure and construction sectors undergoing dramatic changes — with 60-storeyed sky-scrapers being built in cities like Mumbai, and thousands of kilometers of expressways and highways being laid across the sub-continent - builders and contractors are acquiring sophisticated equipment to execute the multi-million-dollar projects.

For the construction equipment sector, which has adapted rapidly to the changed scenario, this is indeed good news, as it paves the way for an exciting future. 🌱