

CEMENT



Indian construction: On a roll

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INDIAN CONSTRUCTION: ON A ROLL

Indian construction firms are on a roll in the global market and the key players now manage impressive global order books. According to the Overseas Construction Council of India, the value of overseas construction projects executed by Indian companies has nearly trebled from about US\$ 656 million in 2001 to US\$ 1.73 billion in 2004. These projects were executed by around 40 Indian companies across 43 countries.

- Mumbai-headquartered Patel Engineering Ltd (PEL) has an order book of close to US\$ 750 million, with many projects across the world including the US.
- Gammon India recently secured a contract worth US\$ 146 million from Oman's Ministry of Housing, Electricity and Water. Larsen & Toubro (L&T) has a US\$ 19 million order from the Oman Cement Company.
- Shapoorji Pallonji constructed the Palace Complex of the Sultan of Muscat. Hindustan Construction Company (HCC) has bagged a contract valued at 130 million Saudi Riyals to reconstruct the piers at the naval base in Jubail, Saudi Arabia. It has also constructed a US\$ 40 million Cyber Tower in Mauritius.
- Larsen & Toubro's (L&T) construction division has bagged a US\$ 160 million order from China. It is looking at a business of US\$ 200-250 million in Africa in the near future.
- PEL has handled Platanovrissi Dam and Hydro Electric Project in Greece, Hunting Run Dam and Bluestone Lake Dam project in US. HCC has executed projects in Tanzania.

With Indian construction firms getting their act together, global financiers have smelt funding opportunities. This in turn has helped shore up capital base to enable firms to bid for large projects. Recently, Citicorp Venture Capital International (CVCI) forked out about US\$ 22 million to take a 10 per cent stake in PEL. The company pulled in about US\$ 181 million in revenues in a year but has an order book that is four times that size. Without doubt, CVCI's fund infusion could be the beginning of a much larger exercise.

Inauspicious start

Today's boom is in stark contrast with the situation in the previous decade. At that time, there were hardly any truly global players among Indian

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construction companies. Sure, a few were involved in projects in Iraq but that didn't count for much, since after the UN imposed sanctions in Iraq, post 1991, prospects here evaporated. Many were hit by unrealised dues which crippled their ability to undertake further overseas projects. It appeared that even the toehold of an opportunity that Indian firms got in the global construction market would disappear.

The oft-cited reasons for the inability of Indian firms to compete for global orders were the concerns over quality of project management, environment awareness and timely completion of projects. Also, since these projects were cash guzzlers, the Indian companies were to seen to lack the required capital base to be able to compete successfully.

Acquiring class

In the new millennium, not only are Indian companies making a mark in outside geographies, they are also making a mark in the domestic market by putting together world class construction projects.

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Take the swank ICICI Bank building in the Bandra-Kurla business district in Mumbai. The 12-storey glass and steel tower that cost over US\$ 46 million to construct, was designed by Mumbai-based Raja Aederi, a student of globally renowned architect Frank Lloyd Wright, and was executed by L&T's construction division. Many experts rate it to be among the best commercial towers in Asia.

Growing infrastructure capabilities

This is also true of infrastructure and development projects such as roads, dams and bridges. The longest river bridge in the world, across the river Ganga in Patna, was constructed by an Indian firm, Gammon India. A decade ago, this project would have been handled by an overseas firm, either by itself or as a joint venture with an Indian firm. Gammon India has also constructed tunnels in the treacherous mountains on India's western coast to enable the laying of a new railroad (Konkan Railway). Mumbai-Pune Expressway, an 8-lane global class toll highway was constructed by L&T.

The domain experience gathered from these projects has increased overall confidence levels, and Indian firms are now ready to compete against some of

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the biggest global names. Consider the proposed US\$ 892 million, 22.5 km, six-lane trans harbour sea link project in Mumbai. It will connect the mainland directly with the island city's commercial district. Local companies L&T, Gammon India, Shapoorji Pallonji and IL&FS are in the fray along with international heavyweights such as Hyundai, Bouygues, Italthai and China Harbour for the prestigious project.

Now, Indian firms are using these capabilities to bid abroad. In September, an 11- member delegation from Indian construction firms went to Qatar, at the invitation of the Public Works Authority of Qatar for discussions on Qatar's upcoming construction projects worth US\$ 6.85 billion.

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Advantage of Low Wages

What is also working in the favour of Indian construction companies is the nature of the business: projects are intensely labour intensive, and wages (especially white collar wages) form a substantial proportion of costs. This is where Indian firms have an edge. According to an Asiaweek report, an Indian civil engineer commands a salary of about US\$ 1016 while his counterparts in the US, Japan, Taiwan and Hong Kong command four times or more. In countries like Malaysia, Singapore and Korea too, which compete with India for global construction projects, wages for civil engineers and architects are substantially higher.

The global construction market is worth about US\$ 3.4 trillion and Indian companies have only just started making inroads. If they retain the advantages that have worked for them till now, it is only a matter of time before they capture a sizeable chunk of this global opportunity.

The India Brand Equity Foundation is a public - private partnership between the Ministry of Commerce, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

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