

# ALL SET TO MEET INFRA GROWTH DEMAND

Despite many pitfalls over the years, the infrastructure sector has shown a steady growth, promising a strong future for the infrastructure equipment market.

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**A**ggressive infrastructural development is imperative to the overall economic welfare of a country. If the economy is likened to a wheel, its infrastructure sector is most certainly the central hub that supports all the other sectors in the form of spokes and keeps the wheel spinning smoothly and efficiently. In other words, a robust infrastructure is the very foundation of a thriving economy.

Understandably, today infrastructure is at the forefront of the government's multi-pronged efforts to revive the economy and usher in the next golden age of growth and development. However, this is also the one sector that was in troubled waters not so long ago. So let us begin by taking a fleeting look at what really went wrong with Indian infrastructure. As recently as in 2014-15, major infrastructure projects had remained in limbo,



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pending sovereign clearances. Stalled projects hurt the liquidity and debt servicing ability of developers, which in turn prompted new investors to shy away from the ailing sector and made lenders hesitant to disburse fresh loans. Roads and highways sector was perhaps the worst hit. A subsequent slowdown in the automobile industry

led to a decline in road traffic operational BOT projects and impacted toll revenues. Uncertainty over land acquisition was a major impediment. The new Land Acquisition Act of 2013 caused costs to soar, in some cases, to manifold the original estimates. Consequently, private sector interest was at its weakest.





**In the material handling segment, an increased demand for higher capacity mobile cranes is expected.**

### Government's forward-looking measures

Against this dismal backdrop, the sector began a gradual but assured turnaround. Banks and NBFCs were encouraged by the Reserve Bank of India (RBI) to extend long-term loans to the infrastructure sector with flexible structuring to absorb potential adverse contingencies. Special incentives were announced for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) to pool the much needed investment from both foreign and domestic sources, with mutual fund linkages.

The National Industrial Corridor Authority was established to coordinate the development of industrial corridors – a whopping 100 Smart Cities to be set up around seven approved industrial corridors. To revive the roads and highways sector, the government even considered rolling out of a shelf of pre-approved construction-ready projects – to be bid out with an approved set of forests and environmental clearances. The government tried out several modes of awarding projects – the BOT mode (build, operate, transfer); the BOT (annuity) mode where the government shoulders a part of the project cost; the EPC mode (engineering, procurement, construction), which is financed almost in its entirety by the government; and the HAM (hybrid annuity model), which is basically a

combination of EPC and BOT (annuity). Slowly, but surely, the situation began to improve.

### Major projects that change equations

In 2016, India jumped 19 places in the World Bank's Logistics Performance Index (LPI) to rank 35<sup>th</sup> amongst 160 countries. In 2017, our country jumped 30 places in the World Bank's Ease of Doing Business Rankings to join the top 100 nations club (rank 100) in terms of business friendliness.

Today, we bear witness to an arsenal of big-ticket infrastructure projects that promise to transform the landscape of India. The government's optimism, especially in the roads sector is evident in the fact that the highways construction target for 2017-18 was doubled to 15,000 km as against the previous fiscal. In October 2017, the Cabinet approved an outlay of Rs 6.92 lakh crore for building 83,677 km of roadways over the next five years, the largest-ever outlay for road construction undertaken in India. The Indian ports and waterways sector is also up for a major facelift soon. The Indian Railways have targeted an aggressive expansion plan that includes 80 per cent track renewal, total electrification, railway station modernisation and addition of new tracks.

Some of the biggest infrastructure projects underway include – the

Sagarmala Project, aimed at revolutionising the 7,500 km long coastline of India, estimated at around Rs 8 lakh crore over 20 years; the Bharatmala Project, a five-year project worth around Rs 5.35 lakh crore that will crisscross India from west to east, with economic corridors, feeder routes, border connectivity roads, coastal connectivity roads, expressways and NHDP roads for a total length of around 34,800 km; the Chardham Highway Project, around 900 km of national highways at an approximate cost of Rs 12,000 crore to improve connectivity between the Char Dham pilgrimage centres in Uttarakhand; the Inland Waterways Development Project, aimed at providing logistics providers in India with an efficient alternative to rail and road transportation; the Setu Bharatam Project, worth Rs 50,800 crore, to ensure highways without railway crossings by 2019; the Mumbai Trans Harbour Link to connect Mumbai's eastern suburbs with the mainland, at a cost of around Rs 18,000 crore; and finally the expansion plans of the Indian Railways with a proposed plan outlay of Rs 1.46 lakh crore for 2018-19.

### Meeting the construction demands

With projects like these underway and more on the anvil, it is evident that the demand for infrastructure equipment/construction equipment (CE) will pick up substantially in the days to come. About 35 to 40 per cent of the outlay on a typical infrastructure project is on account of the equipment employed. Going forward, employing the right equipment for the right application will be paramount for productive asset utilisation and timely completion of projects. Therefore, productivity and efficiency parameters of an equipment will be crucial in the selection of an equipment. There will be a clear preference for mobile, modular and compact with high uptime and performance. In the road



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construction sector, with respect to crushing and screening equipment, we are seeing a shift in contractor preference from stationary unit equipment to mobile crushing and screening plants, which have faster deployment, greater inter-site mobility, superior productivity and better quality of output. In the material handling segment, we are likely to witness increased demand for higher capacity mobile cranes – 100 tonne and above.

Equally important as the equipment selection is the maintenance of these machines. Any infrastructure equipment presents a sizable investment to the developer with regards to its share in the overall project outlay. Therefore, ensuring the maximum machine uptime and optimum productivity by way of prompt complaint response and quick problem resolution is of utmost importance. Going forward, the emphasis will be on preventive and predictive maintenance, which are tailored to the needs of the customer,

regardless of the machine, its age or application.

In effect, merely providing the optimum equipment solution to the customer will not be enough. It will be equally critical to prevent machine breakdowns and increase machine efficiency in order to help the customer achieve the lowest cost per unit of production.

### **New challenges**

Sluggish activity in the infrastructure space and subdued demand for equipment have been the primary challenges over the last few years. Now with the improvement in the growth enablers, a positive correction has begun. However, what must be borne in mind is that all of this optimism is contingent on the clear availability of capital. Global institutional investors, construction companies, developers and fund managers must invest equally to reduce the burden on the National Exchequer.

In the Union Budget 2017-18, the

government had allocated almost Rs 4 lakh crore to the infrastructure sector. International investors too have evinced significant interest in the Indian infrastructure space in recent years. FDI received in the construction development sector from April 2000 to September 2017 stood at Rs 1.66 lakh crore, and in infrastructure activities at Rs 70,000 crore, as per DIPP. However, while public expenditure and foreign investment are kicking in, private investment is yet to pool in with the same degree of enthusiasm. Increased public spending may partially plug the infrastructure deficit in India. But in order to realise the full growth potential of the sector, an increase in Public Private Partnerships (PPP) is indispensable. While PPPs have existed for a long time, they are yet to take off in a significant way. The government needs to quickly revive PPPs by speeding up dispute resolution, releasing funds locked in arbitration, fast-tracking sovereign clearances and, most importantly, by setting up a level playing field for private investors. 