"Indian clients today are experimenting with the EPC-LSTK mode"

Over-The-Fence (OTF), a new concept prevalent in the west, needs serious consideration in India, opines **RISHABH SETHI**, Executive Director, SPML Infra Ltd in an interview with EPC World.

The fluctuating market conditions coupled with the economic turbulence has made the raw material prices highly unpredictable. Also with the blurring of international boundaries for talent sourcing, talent management and retention is another big challenge. All this has put a huge pressure on the margins and protecting the bottom line will be nothing short of a tight rope walk. How do you compare the contracting models in India vis-à-vis global ones?

EPC is manpower run business; not a production but management integration industry. The business models are client specific, but a new trend has emerged from the conventional approach of earlier days when client had exclusive control on procurement, and a shift to EPC approach, wherein the clients go for a single-point responsible party thus reducing the interfaces and complexities. The 80s and 90s saw more of a conventional approach as clients saw merit in controlling the procurement. But as the pressure mounted on project time lines, clients started to fix total project costs at the beginning of the project thereby removing uncertainties. However, recently the trend seems to be shifting to the EPC Management (EPCM) and Open Book Estimate (OBE) approach. Each mode has its own advantages and short comings and one has to be careful to choose the right approach. Over-The-Fence (OTF), a new concept prevalent in the west, needs serious consideration in India. I can see that contracting models are going to be a mix of EPCM, OBE and EPC approach in years to come.

The raw materials market remains volatile both in India and abroad. EPC companies continue to be concerned about coping with these pricing fluctuations, and many firms are seeking new ways to mitigate risks associated with raw materials instability. Companies have a hard time in correctly judging the risk of intensely fluctuating raw material costs. The delay in project execution puts tremendous pressure on the companies as increasing raw material costs coincide with a margin squeeze. Another major challenge is finding, retaining and training the workforce. The companies can control the problem of employees quitting the organization with rewards and benefits to a great extent but can't put a complete full stop to it. Moreover, India does not have complete construction workforce to support the large and turnkey projects. The civil construction field faces 40% shortage of skilled manpower. The companies should focus on developing the required workforce as a strategy, providing training facilities to meet the increasing demand.

The EPC-LSTK mode of implementing projects is sometimes considered a more viable option for both clients and

Ramganjmandi Water Treatment Plant

contractors. Kindly elaborate.

The EPC-LSTK (lump sum turnkey) mode is common in the western countries and now Indian clients are also experimenting with it. In India, the traditional EPCM route is still prevalent where clients take the financial decisions for procurement of all the components of the plant and construction works at all stages of the project and take over the risks for schedule and project costs themselves. The EPC-LSTK mode has its own merits as the contract for engineering, supplies and construction for the complete project is signed in the initial stage itself, thereby transferring the risks for project, cost fluctuations, delays in schedule and quality issues entirely to the EPC companies. More and more clients are realizing the advantages for EPC-LSTK mode which ensures single point responsibility in the hands of the EPC contractor, and are increasingly opting for EPC-LSTK mode for timely completion of projects.

Today, there has been a dramatic change in the project finance. Equity funding for the EPC companies has been closed. Moreover, the banks are cautious of lending to EPC players; disbursements from the banks are delayed leading to project delays. In midst of these entire crisis, how difficult is it to obtain financial closure for any infrastructure project?

The global economy is again in the severe slowdown mode amidst deepening credit crunch and upsetting developmental targets of economies across the world. In the prevailing scenario, infrastructure remains a top priority for addressing developmental gaps and lifting economies out of the financial turmoil. The governments around the world are pumping money to generate demands for goods and services by creating jobs through higher spending into physical and social infrastructure. Likewise, the Indian government on its part is not lagging behind on this score and has taken concrete steps to revive the sector to regain its past glory.

The delays in payments by clients to the construction companies put tremendous pressure and results in large negative cash flows from operations. The equity funding for EPC companies has become very difficult due to changing investor perceptions and gloomy situations in the primary markets. As regards to debt funding, the cost of debt going up significantly has itself made it almost unviable. In the changed economic situation, the fees charged by banks for various bank guarantees would always increase due to increased risk perception.

How do you see the business climate in India for future investments? What steps need to be taken to accelerate the pace of project execution?

The government has initiated several measures to lift the infrastructure and construction sectors from the ongoing slowdown. The Planning Commission has announced infrastructure investments of ₹41 lakh crore during the 12th Five Year Plan (2012-2017) and the EPC sector will have its estimated investments. While the power and highways sectors are expected to continue being the Government's main investment focus areas, the urban infrastructure for water and sanitation and telecommunications sectors are also expected to witness enhanced investment. Private investment seems difficult to come, public investment can be expected to

Power Substation at Ramgarh, Rajasthan

Jaipur Water Pumping Station

35 MLD CETP at Bawana, Delhi

materialize and increase. Government needs to play a vital role in improving the pace of implementation of key projects, EPC companies are required to upgrade their project management expertise and ensure that there is adequate capacity to undertake and execute large projects on time.

There is no specific ministry to safeguard the interest of the EPC companies. A major portion of the contract value is spent on procurement of equipment and machineries, this sector also falls along with the capital goods under the Ministry of Heavy Industries. But, a separate wing in the ministry is crucial to handle issues related to the EPC contracting business. Anticipating tremendous growth in the near future, a special EPC cell in the ministry is highly recommended.

Can you throw light on the growth of the company in the last quarter and also on the company's order book?

SPML Infra has a legacy of more than three decades of managing and implementing over 400 projects; world class infrastructure for water treatment and transmission, power projects and civil infrastructure construction across twenty seven states in India on EPC (engineering, procurement and construction), PPP (public private partnership) and BOOT (build-own-operate-transfer) basis. Our project management systems include conceptualization and implementation with SAP-Enterprise resource planning applications and quality management systems to undertake all kinds of projects of any magnitude. The last quarter results are positive and we expect a good return in the coming two quarters. SPML Infra has an order book position close to ₹5000 crore at present and expect to add another ₹1000-1200 crore worth new projects in our account in the remaining part of this fiscal.

What are the projects SPML Infra is pursuing currently and the ones that are in the pipeline?

SPML has successfully delivered a number of water and waste water, power - generation, transmission & distribution projects. Presently, SPML is executing more than 30 projects for water supply and management, wastewater treatment and reuse, sewerage network and rehabilitation of pipelines, hydro power generation, power transmission and distribution, roads& highways, municipal solid waste management and coal mining. We have a very strong engineering team in place which is fully capable to handle any project of any size. We have strategic plan to increase our presence in water, waste water and SWM sectors in the next 3-5 years and make SPML as the largest player in the urban utility services in India.

What is your strategy for growth in the medium to long term, in terms of industry segments, business models and diversification?

SPML is focusing on completing the current projects on time and looking for about 10-15% top line growth in the coming years. SPML is setting up water desalination plant to cater the demands of safe water from the industries and for the drinking purposes. We will be able to offer cost effective desalinated water to power, construction, oil and gas, petrochemicals, agriculture, mining, minerals and metal processing industries among others.

We have plans to further enhance our trenchless rehabilitation of sewer and water pipeline business across India. SPML is also looking forward to use its expertise of over three decades to provide low cost housing solutions to people in association with municipalities and government bodies.

We are seriously looking at tying up with good companies from around the world for various new projects. Considering the niche position we have created for ourselves in the water segment; we intend to use it to our advantage. In essence, our business model for success would be to maximize each partner's specific strengths to achieve the overall objective.