



With government's infra push, outlook for EPC is bright

— Rishabh Sethi, Executive Director & Chief Operating Officer, SPML Infra Ltd

Q What are the typical challenges faced by EPC contractors whilst executing large projects?

India's economy registered good growth of 7.4 per cent in FY15 from 6.9 per cent in FY14 and it is expected to further increase in the current fiscal. The government has kept the target of 8 per cent for the current fiscal. With infrastructure development being the major focus of the current government, EPC sector's outlook is encouraging.

The key challenges faced by the EPC sector are many. Apart from delay in land acquisition, mandatory clearances and shortage of skilled manpower, there are pain-points for EPC contractors. Varying contracting models adopted by different clients; order book uncertainty brought small time and mostly unknown companies winning relatively large contracts and not being able to execute them; shortage of skilled manpower for managerial as well as execution staff and labour force; ambiguity in design and engineering; change of scope mid-way of execution; lack of coordination between various parties and between client and contractor; rise in the cost of raw materials; payment delays by the client; absence of practical and effective dispute resolution mechanisms; balancing speed and cost control with timely procurement; and adopting important risk management practices are among the several issues.

Q What support would EPC contractors expect from government agencies whilst executing government projects?

The value proposition offered by the EPC industry is based on



▲ 35 mld Bawana common effluent treatment plant, Delhi

the concept of risk sharing or risk transfer from the government agencies to the EPC contractors, at least to the tune of the capital cost of the project and to a limited extent to the initial operating performance of the project. For urban water supply & sanitation services, the responsibilities of ensuring these services are with the local bodies mainly municipal corporations. Government provides funding for infrastructure development, but municipalities face challenges in arranging funds for O&M, a crucial factor in urban utility services. Private funding is negligible and limited commercial funding from banks etc is unable to meet the requirement. EPC contractors are seeking cooperation from government agencies for technical support, timely clearances of mandatory requirements, transparent selection criteria, consideration for project cost or time overrun and fast track payments. It is important to consider that the client expectations and the evolving EPC business model, an EPC company takes much higher level of real and perceived risks within a project, than other service providers.

Q For developers, how does the EPC route prove better than other modes, e.g. divisible contracts?

The business environment in our country has rapidly evolved over the years. Gone are the days when the scope was restricted to engineering and procurement and the construction was done by the clients themselves as the risk perceived to be too great for the contractors. Initially, there were few contractors having adequate technical knowledge and financial strength who could take the overall responsibility of large projects. Hence, large projects used to be divided into

smaller EPC packages with a specific focus on the area of execution (e.g., for a water supply project, separate packages like pipeline, treatment plant, pumping station, distribution network, metering & billing etc.). With the passage of time, developers became financially and technically competent and they gradually expanded their presence across multiple packages and the whole work being awarded as a single LSTK (Lump Sum Turn Key) contract. SPML is executing a number of projects on EPC + O&M basis, a trend established in the industry where the developer is supposed to manage the O&M even after the execution and commissioning of an EPC project, for a given number of years. The developers prefer EPC route due to several reasons, the most important of them are: cost is known at the start of the project; contractor is protected against changing prices of materials, labor, etc. (as there are price escalation provision in the contract); better quality and financial control compared with other models; reduced stress for contractors; easy work and growth for the company and opportunity of O&M as post-commissioning services.

Other model is EPC Management (EPCM) contracts, wherein one single company having the knowledge of integration requirement of the entire project, takes the charge for the complete execution. It in turn engages separate EPC contractors to execute the projects on package basis. In such cases, EPCM Company take the obligation of the projects integration and have an overall management control of the project; though directly not responsible for the project cost and schedule, which remains with the client.

SPML is currently executing a number of water supply projects

in BOOT mode including Aurangabad, six cities in Karnataka, and Delhi among others.

Q Do you feel that Indian EPC companies are facing competition from Chinese counterparts?

India's infrastructure development companies already faced tough times because a number of financially unviable contracts were abandoned and with bad financing. It is true that a number of power projects have been bagged by the Chinese companies and it is worrisome for Indian companies working in the sector. We do not see much of Chinese competition in water and sanitation sector though, but companies from other countries are already working in India in these sectors.

Q How do you rate opportunities available for EPC contractors to groom into developers, across infrastructure segments like roads, ports, airports, power, etc?

The road, power and water sector play vital role in the economic growth of the country and will provide ample opportunities to the EPC players. We still have to implement 24x7 electricity and drinking water for all, pollution free environment through creation of green infrastructure, public transportation which is efficient and reliable, rural infrastructure, affordable housing facilities, road connectivity, and the sanitation facilities. The government has also planned special budget allocations and is encouraging various investors and companies to integrate IT services with utilities. If these steps are taken as per plan, there will be opportunities for EPC sector as well.

Q Give us an overview of SPML Infra's ongoing EPC projects.

SPML Infra has a legacy of more than three decades of managing and implementing over 600 projects. We have successfully delivered a number of EPC projects in water and wastewater, power - generation, transmission & distribution sectors over the years. Presently, SPML is executing more than 30 EPC projects for water supply and management, wastewater treatment, sewerage network and rehabilitation of pipelines, power transmission and distribution and roads & highways.

— Venugopal Pillai

In today's evolving business models, an EPC company takes much higher level of real and perceived risks within a project, than other service providers. Apart from delay in land acquisition, mandatory clearances and shortage of skilled manpower, there are several other pain-points for EPC contractors.



▲ 500 mld water pumping station, Bengaluru