

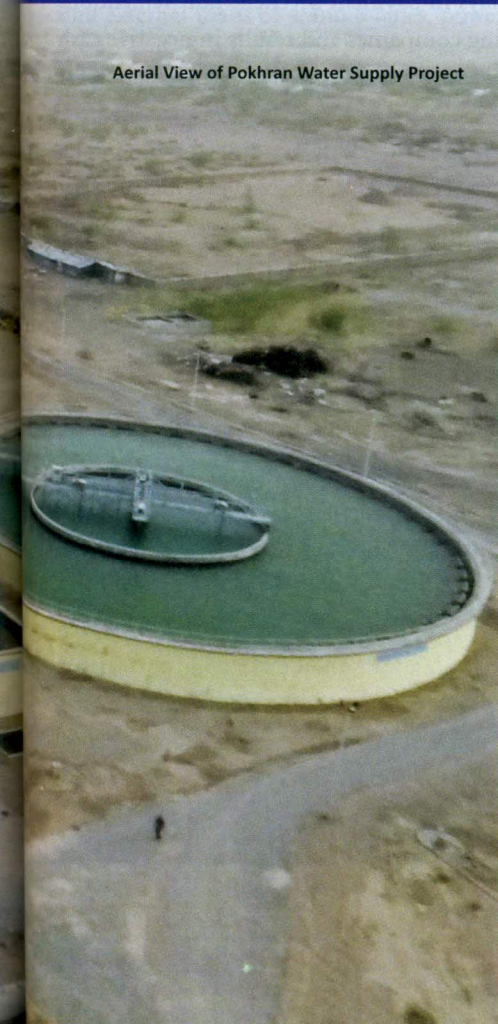


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**The Indian EPC
sector has emerged
stronger with
changing dynamics**



Rishabh Sethi, Executive Director, SPML Infra Limited believes EPC industry is certainly going to witness tremendous growth with the current government's focus on infrastructure development

Aerial View of Pokhran Water Supply Project



The concept of EPC has been evolving over the last few years and has emerged as a preferred form of contracting by clients. What are the merits of this model?

EPC industry has come a long way in the last decade from only large projects to all size and segment. The Indian EPC sector has emerged stronger with changing dynamics with more than 100 companies and many stakeholders today. The EPC companies have carved out a sector focus niche for themselves and have developed reputation based on their operations. The opportunities are enormous in this sector as the focus of Indian government is shifting back from PPP to EPC again.

EPC is primarily a manpower run business; not a production but management integration. The business models are client specific, but a new trend has emerged from the conventional approach of earlier days when clients 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. But 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 shortcomings and one has to be careful to choose the right approach. Over-The-Fence (OTF) is also a new concept which is prevalent in the west, needs serious consideration in India.

The EPC-LSTK (Lump Sum Turn Key) mode is common in the western countries and now Indian clients are also experimenting with it. 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 company. 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.

How do you see the opportunities of EPC business in India?

EPC industry is certainly going to witness tremendous growth with the current government's focus on infrastructure development. The government has initiated several programs that will boost the infrastructure and construction sectors in India. The ambitious 100 Smart City development, the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme for development of infrastructure for drinking water, sanitation, and transport in 500 towns and cities, the Swachh Bharat Mission for clean and affordable sanitation facilities, National Mission for Clean Ganga (NMCG), Roads & Highway development projects, Power and Railway Projects with dedicated budgets will contribute to the growth of EPC business. These initiatives along with



200 MLD Water Treatment Plant, Surajpura, Rajasthan

determined plan to make the policy favorable and ease of doing business with a number of reforms undertaken and planned for future are the steps taken by the government in the right direction.

The EPC sector is currently facing headwinds from several directions, hampering its growth. Could you please shed some light on the challenges facing by the sector today?

The performance of the EPC sector is primarily interlinked with infrastructure investments. With committed infrastructure investments assuming a position of prime importance, the EPC sector is indicating clear signs of positive growth. The new models have changed the clientele base, from government authorities to a mix of public and private clients. EPC growth will be driven by power, water, public health schemes, roads and highways, railways, and oil and gas sectors.

The sector is not without its set of problems that include inordinate delays in land acquisition, regulatory bottlenecks, statutory clearances (particularly environment and forest clearance), acute shortage of skilled workers and materials, difficulty in getting long-term and working capital funds. Availability of competent project management personnel is also an area of concern. On the rising incidence of cost overruns, fluctuating input prices like that of steel and cement

are the major contributors to the problems faced by EPC contractors apart from project delays.

The inordinate delays in payment by client put tremendous pressure in executing companies and results in negative cash flows from operations. Fund-raising is a key challenge for EPC sector in the backdrop of market turmoil and fears of a global slowdown. 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.

Tell us about your ongoing/upcoming projects?

SPML Infra has a legacy of more than three decades of managing and implementing over 600 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. The rich experience of developing sustainable water infrastructure and providing drinking water facilities to millions of Indians every day; has made SPML as the only Indian company to be featured into World's Top 40 Private Water Companies as per Global Water Intelligence.

SPML is executing a number of urban water supply project for improvement in water distribution networks in Delhi, Karnataka and Maharashtra that involves rehabilitation and development of water distribution network, construction of treatment plants, reservoirs, house service connection, non-revenue water management, installation of AMR & Non AMR water meters, 24x7 consumer care centre, metering, billing including operations & maintenance. Our semi urban and rural water supply schemes are covering major population of Rajasthan with the aim to provide sustainable source of clean drinking water. The integrated sewerage network in Mira Bhayander, Maharashtra is first of its kind in India, designed completely as a decentralized system having separate collection and treatment facilities in 10 zones. The new sewerage system implies closure of existing septic tanks and drainage through storm water drains thus improving overall hygiene and living standards.

SPML is developing a Smart City, called as "Vikram Udyogpuri" in Ujjain, Madhya Pradesh, a Delhi Mumbai Industrial Corridor (DMIC) project. The city will have 24X7 water supply system, complete sewerage network, storm water drainage system, solid waste management system, internal and external roads of 4 and 6 lanes, power transmission and

distribution system, domestic gas distribution system, street lighting, CCTV and SCADA system, safety and security system, information and communication technology (ICT) network with peripheral, boundary walls. This is first of its kind of a smart city which will have all utilities connected with smart technology for seamless services.

SPML has also indigenously developed Integrated Management Information System (IMIS), designed as per Indian conditions for smart management of utilities. It is highly scalable and capable of handling the Metering, Billing, CRM, Network Analysis, Demand Forecasting & Management, Asset and Inventory Management, HR and Finance Management, Business Intelligence, and Operation & Maintenance of the entire network. After implementing this system, the water loss has been considerably reduced and revenue increased in water utilities in Delhi and Karnataka.

With a number of projects under different stage of execution and tendering, we have strategic plan to increase our presence in water, wastewater and smart city development and make SPML as the largest player in the urban utility services in India. ■

