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Anniversary

Construction Industry in Revival Mode

**Economic Disruptions, Growth
Prospects, and the Way Forward**

Construction Industry

Economic Disruptions, Growth Prospects, and the Way Forward

Industry stalwarts from the CE industry – developers, contractors, consultants, manufacturers, service providers, etc. share their views on the challenges that their businesses are facing due to the nation-wide lockdown, the impact of which is being felt across all the connected industries, including the supply chain, labour shortage, and liquidity crunch. They share their optimism for the future revival of the economy and give solutions that could mitigate the problems and bring long-term growth and profitability.

While they are hopeful that government interventions with concessions and stimulus packages etc. will bring some relief to the construction



and allied industries, they also believe that the government needs to look at the critical areas for speeding up infrastructure construction, bring accountability, and strengthen project execution to stop cost overruns, delays in completion, and avoid arbitration.

The good news is that MoRTH is keen to adopt advanced technologies and equipment to expedite road construction projects and improve quality, which will drive demand for new and technologically advanced equipment. MoRTH has plans to invest ₹15 lakh crores in the next two years on roads and highways and NHAI is set to build 30,000 km of roads in the next five years.

On the downside, the OEMs are no longer confident of timely supply of critical components/parts from sources outside the country. However, given the Government's call for 'Make in India' and an 'Atmanirbhar' India, they are gearing up to meet high demand in the coming years by localizing components/parts so that the demand-supply imbalance would be minimal in times of any unprecedented crisis in the future. This could lead to making India a global manufacturing hub of high quality products for both domestic consumption and for export to world markets.

Digital transformation of the Construction Industry is also becoming apparent - from planning and designing to construction and selling/marketing. Foreseeing upcoming demand for equipment, forward-looking

companies are adding more high-tech features to their products. In fact, use of disruptive technologies is increasing and its benefits can be seen in every department and industry. In fact, adapting to the 'new normal' by digitizing construction processes and management seems to be the way forward.

While the construction industry seems to be the key to India's economic revival, major issues like unavailability of man, material, and machine (3Ms) will assail the industry. This will drive companies to adapt to the new normal by digitizing their construction processes and using technology to better manage the 3Ms. Companies that are quick to adopt technologically advanced construction equipment with the support of the OEMs will get a first-mover advantage by making up for the time lost and completing stalled projects.

In the Real Estate sector, survival is a major issue today for most of the developers and builders. No doubt, the Government has come up with a good relief package and infused some much-needed liquidity and positivity into the market, but the current calamitous situation calls for out-of-the-box thinking, and solutions that would be sustainable for the long-term.

Over and above all this, the need of the hour is a real-time collaboration between developers, contractors, OEMs, rental companies, and financial institutions for the 'revival' of projects and, most importantly, for their 'survival'.





SPML Infra Limited

Subhash Sethi, Chairman

We believe that use of digital technologies help in higher productivity with ease of operations and maintenance. Having recognised the importance of automation and digitization, we have implemented them for quick decision making and ease of doing business. SPML has an innovative approach while executing large ticket projects and is focussed on creating sustainable solutions for water, power, and sanitation projects. Our plans for the future are to maximize our strength so that we can achieve our business objectives, even in difficult times.

The long-term outlook for the infrastructure sector is optimistic and a number of projects announced earlier are getting implemented.

The infrastructure industry has suffered majorly both in terms of reduced business and inordinate delays in project execution due to the lockdown and acute shortage of labour force. The lockdown may have helped India contain the outbreak, but it has put a lot of stress on the economy.

The issue now is of limiting the damage and making use of the new opportunities that may come our way. The Government of India announced a ₹1.7 lakh crore relief package in March followed by steps taken by the Reserve Bank of India to facilitate increased lending by the financial institutions. The stimulus package of ₹20 lakh crore may help take the Indian economy towards the recovery path and will also help the infrastructure industry to rebound.

The government is working on developing the infrastructure sector with numerous projects, and plans and schemes for increasing the country's growth momentum towards becoming a \$5 trillion economy.

A recent report by Kearney suggests that there will be an investment opportunity of US\$ 575 billion (₹4.35 lakh crore) in the

transport infrastructure sector in India in the next five years, driven by investments in flagship projects such as Sagarmala, Bharatmala, dedicated freight corridor, high speed rail, and metro rail, etc. Then there is the planned investment of ₹1 lakh crore in setting up 100 new airports by 2024 to connect smaller towns by adding 1,000 new routes. The ₹3.6 lakh crore announced for Jal Jeevan Mission to supply piped water to every rural household by 2024 is another large water infrastructure development scheme that will be put to implementation.

The Atal Bhujal Yojana with an allocation of ₹6000 crore for a five-year term was announced by the Hon'ble Prime Minister with the principal objective of strengthening the institutional framework for sustainable groundwater resource management in seven States, viz. Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh. Implementation of the scheme is expected to benefit nearly 8350 Gram Panchayats in 78 districts in these states. With the above schemes and initiatives such as Housing for All, Swachh Bharat Mission and Smart Cities Mission, the government is working on developing the infrastructure sector for increasing the growth momentum towards reaching a \$5 trillion economy.

We expect that the highly technical material and services required for complex projects' execution will cost higher than the pre-pandemic period, and companies also risk exceeding budgets for construction.

The restrictions on construction activities, halted production of materials, supply chain disruptions, migrating workforce and slowing down of other related activities has had a cascading effect on infrastructure development projects. The financial stability of many companies has been challenged beyond the current fiscal with substantial downgrade in earnings and imminent challenges in the working capital management.

Many construction companies in India are facing liquidity crunch with pending payments and mismatch in fund inflow and outflow. As the focus of the government has shifted to the welfare and safety of citizens in the wake of the pandemic, infrastructure investment has been deferred. The high level of migration of labourers to their native places has made the situation grim at construction sites and the working cost is bound to escalate. The input cost of raw materials may also see an impending increase due to short supply from abroad and closure of manufacturing for a long period in the country. We also expect that the highly technical material and services



Sripad Sagar Lift Irrigation Scheme, Telangana

required for complex projects execution will cost higher than the pre-pandemic period. Regardless of the contracting methodology, the companies risk exceeding budgets for construction.

We are monitoring the emerging business scenario due to the liquidity crunch and mismatch of cash flow and taking every possible step to mitigate the crisis.

We have started our project execution with utmost care after the lock down situation eased. There is more stress

now on the safety and well-being of our employees with very strict protocol related to regular health check-ups, cleaning and disinfection of work places, maintaining proper distance between each employee, thermal checking and wearing face masks at all times.

In business terms, we are monitoring the supply chain to ensure availability of material at our project sites, getting the workforce back, monitoring the emerging business scenario due to liquidity crunch and mismatch cash flow and taking every possible step to mitigate the crisis.

The State governments have been asked to use the Building and Construction Workers Welfare Fund to provide relief to construction workers and relief under the Pradhan Mantri Kisan Yojana will be reaching over 87 million farmers for their sustenance during the period.

The government and RBI are working to combat the slowing GDP growth and help the construction sector as it forms the backbone of several other sectors. We are hopeful that the government will come out with more relief measures for distressed businesses including a long-term moratorium on debt repayments and redefinition of non-performing assets for giving an opportunity for distressed businesses across sectors. We also expect that the government and development agencies should increase the spending on infrastructure projects as soon as the situation becomes normal to reinvigorate the industry and regain the momentum of the economy.

Infrastructure issues need timely intervention and proper solution to move ahead from the declining curve.

In India, litigations are the main cause of delay in construction projects due to various reasons. Then there are other pain points that need attention and fast remedial actions. The major bottlenecks are delay in



2074 Million Litre Raw Water Reservoir, Sindhanur, Karnataka



19 MLD Water Treatment Plant, Gagreen

land acquisition, litigation and arbitration, clearances from authorities, local agitation, execution delays by the contractor, poor project planning and monitoring, geological surprises, and inadequate funding and estimates. All these issues need timely intervention and proper solution to move ahead from the declining curve.

The pandemic has presented an opportunity for the infrastructure sector to transform with digitization and automation of project execution and with greater use of disruptive technology. We expect, that in the next three to five years there will be a good integration of digital technologies in the construction industry.

The construction industry is considered to be the least digitized in comparison with other industries but with this pandemic creating widespread disruptions; the world of construction too will undergo a transformation. It is estimated that within the next three to five years there will be a good integration of digital technologies including Internet of Things (IoT), Cloud Computing, BIM, Machine Learning, 3D Printing and Robotics in infrastructure development projects.

The construction equipment too will not only provide safety features, but also automation would now become an essential feature of the fleet. The next wave of digitization is coming through newer technologies, including general ledger technologies like block chain and smart artificial-intelligence (AI) that will revolutionize the construction

industry and I believe that we are not far away from using these in our projects as, post the pandemic, there will be a greater desire for contact-less working with lesser human intervention. Drone technology would become necessary for remotely monitoring the projects' progress.

A study by Ministry of Statistics and Programme Implementation suggest that out of 1,698 central infrastructure development projects worth ₹150 crore and above, 578 projects have reported delays, 400 projects reported cost overruns, and 202 projects reported both time and cost overruns with respect to their original project implementation schedules, while 374 are on schedule, as in November 2019.

It is a distressing situation that most of the large infrastructure development projects get delayed because of several reasons that sometime may also be attributed to lack of automation and technology. The government's efforts in addressing project delays are becoming increasingly proactive and it should also make advanced technology and automation as an integral part of the projects that can deliver business benefits.

An efficient infrastructure is the biggest enabler for growth and India is set to become the fastest construction market in the world by 2030.

For any large project to be successfully accomplished, collaborative approaches are vital for achieving performance

improvements. The construction industry is so specialised that no single firm can provide all the specialisms; in fact, several associated firms with fine expertise continue to work together to meet the industry's varied and complex demands. A collaborative approach amongst project participants is an appropriate way to overcome problems and improve the overall performance. In this age of a complex and ever-changing business world with fierce competition, reduced profitability, financial constraints, and ever emerging issues, failing to collaborate means failing to survive.

A confluence of all vital players for a range of implements in any large project is necessary to increase business and profitability.

Halt in construction activities, invocation of bank guarantees, revocation of contracts, late payments, labour crunch, and severe working capital pressure are the nightmares for any infrastructure company. In such a scenario further influenced by the economic ambiguity, a good collaboration is indeed required for efficient business management and increasing productivity. Collaboration fuels development and can effectively eliminate the occurrence of several issues that hinders the infrastructure sector

FY 2019-20 projects in hand & order book.

SPML Infra Limited, a leading infrastructure development and management company, is providing drinking water facilities to over 50 million people in the country. Our 24x7 urban water supply projects in Delhi and in 6 cities of Karnataka are helping 1.5 million people with clean drinking water. With an order book of more than ₹4000 crore, the company is hopeful of getting new projects under the Jal Jeevan Mission and other water supply and irrigation projects. Our power division is executing 16 power substation projects in Tripura, which are being funded by the World Bank, apart from a number of projects under the Eastern Region Strengthening Scheme for augmenting substations to 400 kV capacity in 7 districts of West Bengal, Jharkhand and Odisha.