

Infrastructure Sector - Poised for Big Leap



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GUEST ARTICLE

Q. How you view the progress of urban infrastructure and construction sector in India?

Infrastructure and construction sector is the key driver for the growth of Indian economy. The sector is mainly responsible for propelling India's overall development. It also has intense focus of the government that in the past four years has initiated several schemes and policy reforms that would ensure time-bound creation of world class infrastructure in the country. Apart from new schemes, a number of installed projects were approved. The commitment to improve India's infrastructure continued and resulted in economy achieving its fastest growth boosted by strong performance in infrastructure development, manufacturing and service sectors.

Apart from new construction projects, the government also recognized the need to upgrade the aging infrastructure of water supply, roads, bridges, dams, ports, airports, telecommunication, power transmission & distribution, and other urban infrastructure. During this government's tenure, several ambitious plan for urban and rural transformation like Smart City Mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Housing for All, Water Supply and Irrigation Projects, Roads & Highways, Metro Rail, and specific power sector schemes like Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Ujwal Discom Assurance Yojna (UDAY), Integrated Power Development Scheme (IPDS), Unnat Jyoti by Affordable Lighting for All (UJALA), Sahaj Bijli Har Ghar Yojana (Saubhagya) towards the development of power transmission, distribution and rural electrification has in fact created good infrastructure for the country.

These schemes along with government's determined approach for better infrastructure by allocating

funds for the sector in union budget 2018-19 has given a massive push to the infrastructure sector. The relaxing of FDI norms for construction and infrastructure activities has conceded good results. We expect that the sector will gain further momentum in the remaining months leading to the general election as more funds will be allocated for large infrastructure development projects.

Q. What role can the private sector play in implementing urban infrastructure projects? What are the key challenges?

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The last few years has witnessed increased investments in infrastructure sector, a transformation in the business models with more proactive participation from private sector in the form of hybrid annuity and PPP projects. Large investment is needed to develop new infrastructure and another thousand crores of rupees are needed to maintain and improve the existing infrastructure. The investment requirements are huge and cannot be met by the government alone and hence, private sector investment is critical. The private player brings knowledge and expertise much needed

for the development and management of urban infrastructure with modern technology, whereas public sector can bring in land, funds and facilities.

There are many challenges that need to be addressed including investment gaps, funding issues, land acquisition and environmental clearance, lack of coordination between various government agencies, inappropriate structuring of projects, lack of proper dispute resolution mechanism, payment and execution delays, old methods of construction and lack of adoption of innovative technologies etc. It is also possible that some of the projects may fail or may be terminated prior to the project term for a number of reasons including changes in government policy, failure by the developer or the government to perform their obligations or indeed due to other external circumstances.

Q. What is required to attract private sector investment into India's infrastructure development?

As the Infrastructure sector directly affects the economy of the country and it is important that private sector must be attracted in a big way to contribute. Central and state governments and private sector have to work together in a collaborative manner to examine infrastructure development's challenges and find the solutions for reliable and successful projects.

While there has been considerable progress in sectors like power, telecom, roads and railways, there has been very limited movement in water and sanitation sector. While new small and mid-size construction companies have entered, many of the pioneering big-scale developers are out of the game or holding stressed assets.

There are some weaknesses for which solutions have to be found for making infrastructure development projects successful:

- Strong political support at every level of central, state and local governments
- Policies and regulations have to be improvised or developed to make any project attractive to the private sector
- Financial institutions has to prepare adequate instruments and must have the capacity to meet the requirement of long-term equity needed for infrastructure projects with easy funding mechanism
- Reasonable and viable projects cannot turn bad and terminated. Comprehensive feasibility studies are a must before any coercive action
- Private sector has to develop its capacities in

order to fully meet the challenges of investing in large number of projects which can be diversified

- Stressed asset resolution and arbitration of infrastructure projects must be resolved with broader perspective
- Alternative sources of financing should be identified and effected, among others..

Q. PPP has transformed infra sectors like roads and power. Why is it that it has not caught to that extent in water?

The PPP projects in urban water supply in India or even globally aren't very successful as these are expensive projects and requires high investment. Due to the long-term nature of PPP projects and the complexity associated, it is difficult to identify all possible risk points during project development and issues may arise that were not anticipated at the time of the contract. This lead to project failure or may be terminated prior to the projected term.

Despite some successful implementation of PPP projects in airports, ports, roads and bridges, we could not get the same success in water supply as in India it is heavily subsidized, and the political opposition to private ownership and control of water remains strong. The municipal bodies and water utilities also feel that they will lose control of water supply to private companies due to long contract periods.

We did not have good experience with PPP in water supply projects. We started experimenting with it in Latur where SPML Infra Limited demonstrated that efficient management, along with proactive operation and maintenance can enhance the services as water supply in the city was improved significantly from once a week to alternate days. But lack of support and coordination between the government agencies with respect to their contractual obligations has been the main reason for the project being put in abeyance. With some exception, all other PPP projects in water supply also suffered the same fate of contract termination.

Q. What is the sector's outlook for the next 1-2 years?

India has an investment requirement of worth INR 50 trillion (US\$ 720 billion) for infrastructure by 2022 to have sustainable development in the country. Sectors like power transmission, water infrastructure, roads & highways and renewable energy will drive the investments in the coming years. Private equity and venture capital investments in the infrastructure and real estate reached INR 265 billion (US\$ 3.8 billion) with



29 deals during the first half of 2018. The government is also working on improving power infrastructure in the country and investment opportunities worth INR 20,400 billion (US\$ 300 billion) will be available in the sector in the coming 10 years.

Infrastructure and construction sector is the key driver for propelling India's economic growth.

The development schemes and continued interest from foreign investors will help infrastructure sector to grow at a healthy pace. The government has also initiated a number of measures to increase the speed of construction. The growing emphasis on infrastructure development is in line with the growth plans, government has fixed for themselves. The proposed investment in several new schemes will see the healthy growth of infrastructure sector. Newer opportunities are also expected in the area of urban infrastructure, such as development of smart cities, large urban transport, sanitation, and water supply projects.

Going ahead, the sector is poised to rebound with new opportunities. But growth of the infrastructure sector is dependent on solving some key challenges related to reducing regulatory uncertainty, developing appropriate financing mechanisms and ensuring efficient project management.

Q. What are your views on the allocation of funds for infrastructure projects in the interim budget?

Despite being an interim budget presented with a short term view till the full term budget is presented post the general election, the allocation for infrastructure development projects have been praiseworthy.

The government has proposed some path breaking announcements with the vision on social infrastructure for a USD 10 trillion economy and to provide well-thought reforms to enhance the human development and standards of living. The ten dimensional visions for the next decade show the confidence to transform India to the next level with strong and sustainable growth having focus on inclusive and overall infrastructure development of the country. The announcements highlight the Government's vision to strengthen both the physical and social infrastructure. Increase in allocation to INR 64,587 crore for capital expenditure in railways would not only modernize it but will also give an impetus to Make in India programs and create employment opportunities.

Proposed allocation of INR 19,000 crore for the road development under Pradhan Mantri Gram Sadak Yojana will promote the development of infrastructure and rural connectivity. The proposal to increase allocation for the north eastern areas by 21% to INR 58,166 crore

will lead to further improvement of infrastructure development to the region. Flagship programs of Bharatmala and Sagarmala will further boost infrastructure development along the coastlines and new smart cities would come up. The digitalization of one lakh villages in the next five years would enhance speed of the economy and bring much needed change at the grass root level. We are sure that the final budget will have more focussed allocation in segment such as water supply and irrigation, wastewater treatment and reuse, river cleaning and waterways, highways and metro rail, power transmission and distribution and renewable energy development among other infrastructure development.

Q. Being one the leading player, what is your experience with infrastructure development in India and are you prepared for the large scale infrastructure projects?

SPML Infra Limited is among a very few infrastructure development companies surviving for almost forty years now with impeccable record. Several big companies came into existence and disappeared during the period. With wealth of experience of executing over 600 infrastructure projects in power, water, irrigation and sanitation sectors, SPML Infra has individual capability in executing large scale water and power projects. Our expertise in large diameter (above 3,000 mm dia) and length beyond 100 km pipeline projects will help us in executing high value irrigation projects. We have the capability of bidding for up to INR 12,000 million value single water supply projects. In power transmission and distribution sector, SPML Infra has the experience of executing 220 kV GIS Substation and 400 kV - 500 MVA Autotransformer that will help us to bid for 400 kV and 765 kV substation projects. The experience of electrifying more than 20,000 rural villages will be helpful in future rural electrification projects.

SPML Infra is firmly placed with expertise to receive and execute large scale infrastructure projects and the company is already part of some of them including Saurashtra Narmada Avtaran Irrigation (SAUNI Yojana) to provide drinking water facilities to 39 million people across 132 towns and 11,456 villages along with provision of water for irrigation for 1.8 million hectare land in Gujarat. The 24X7 urban water supply projects in Delhi and 6 cities in Karnataka are helping 1.5 million people with clean drinking water facilities. Among the large power distribution projects, SPML Infra is executing 16 nos of 132/33 kV power substation projects in Tripura being funded by the World Bank. SPML Infra is also looking forward to complete the smart city development project in Ujjain, Madhya Pradesh; a project under the Delhi Mumbai Industrial Corridor scheme. SPML Infra is indeed prepared with innovative approach to receive and execute large ticket projects with focus on creating sustainable solutions for water, power and sanitation. ■