'MISMATCHES BETWEEN ASSET LIFE AND FUNDING NEED TO BE SORTED'

Subhash Sethi, Chairman, SPML Infra Limited, presents the contractor's view of the challenges faced in procuring infrastructure finance for long-term projects

How does the 'time-gap' between the completion of work and disbursement impact your liquidity?

Delayed payments of completed construction projects are becoming more common these days, which is considered to be of significant concern. It causes severe cash-flow problems to companies and has devastating effect down the lending repayment and requirement of contractual payment. The problem could possibly lead to a formal dispute resolution such as 'arbitration' or 'litigation' and those processes are very costly and take very long time. In such cases, companies have to look for other ways to gain liquidity and improve cash flows. To meet the same, appropriate measures need to be adapted within the firm to improve liquidity and cash flow by further borrowing that concerns the working capital and cash management.

SPML Infra has been facing these problems in its projects, which has caused delays in sub-contractor and suppliers' payments and also repayment of bank loans. It also impacts the progress of other on-going projects due to delay in procurement and supply of materials that delay the project work and completion schedule. The practice of efficient and timely payment in construction projects is a major factor that contributes to the success of the project.

What are the areas that public bodies need to work on to improve the financial health of the infrastructure creation ecosystem?

Infrastructure enables trade, improves business and economy, connects people to their jobs, creates employment opportunities and protects the nation from unpredictable natural calamities. From private and public investment in telecommunication systems, broadband networks, rail and road network, energy projects, transportation, water supply,

irrigation, buildings and parks etc. Infrastructure development is the backbone of a healthy economy. Indian states and cities are facing unprecedented economic, demographic, fiscal and environmental challenges that make it imperative for the public bodies to rethink the way infrastructure are being planned, developed and maintained. The ardent need is for advanced, efficient and robust infrastructure development.

Looking at our economic growth target and infrastructure development plans, private sector having more expertise and knowledge has an advantage in executing large and complex infrastructure projects subject to the cash flow for projects apart from transparent tendering process. The lowest bidder getting the project does not always work as we have seen in many cases. Companies that do not have proper experience and expertise participate in the bidding process and quote a price much lower than the estimated costs, which has resulted in non-completion of projects that have either not started at all or been terminated before completion. Incentives and performance requirements need to be clearly set out in the contract with focus on performance that is output-based, which makes it , relatively easy to monitor the work and to make the project viable. To make financing for infrastructure projects easier we need to consider increasing public spending on infrastructure development activities and review the current financing model to make changes in order to attract investors. Learning from failures and past experiences, the public bodies need to make long-term investment and financing plans for infrastructure projects, identify revenue sources as well as the extent of financing that can be made available from financial institutions.

Are there innovative suggestions that you would like to share with providers of finance to help them serve the needs of your sector better?

India has become an attractive infrastructure development market and presents generous opportunities for companies with long-term business plans. Financing of infrastructure development project is still a key constraint, as long-term financing and instruments have been limited. Infrastructure projects except a few with bilateral funding have so far been largely financed domestically using plain vanilla debt with relatively low gearing. Commercial banks are the major source of financing with generally short period whereas financing for long term projects are difficult to get. Access to credit has become far more restrictive despite India's economic growth and its acceptance globally as a preferred destination for investment.

Apart from funding projects with short term execution schedules, financial institutions should improve the capacity to provide long term equity and debt finance for large and complex projects. Financing arrangements can be closely tailored to suit the specific project requirements. Consortium investors of different size can contribute to projects as they may not independently support or make it executable and operationalized. Investors and financial institutions should hold the debt "off-balance

sheet" for increasing the developers' capacity to further borrow for different projects. Banks and FIIs should also provide advantage of the relative ease of raising debt compared to equity for the valuable infrastructure development projects. It is clear that if the project developer's balance sheets have appropriately allocated risk factors, lenders may be willing to undertake project with more risk than they would otherwise do that will increase the credit worthiness of the developer.

In what areas of the financial ecosystem do you see room for reform to ensure better financial efficiency, reach and productivity for all stakeholders?

Banks have traditionally been providing loans for infrastructure projects. They can be supported to enable financing of large long-term projects using different capital channels and involve different financial structures and instruments. Some listed stocks and bonds that are market-based instruments with well-established regulatory frameworks, can be introduced for financing.

New financial instruments and techniques for infrastructure finance need to be developed to provide adequate loan and debt services. For example, developments in the equity market for investments in infrastructure are promising and that the creation of a liquid market for project bonds can be a good complement to syndicated loans for project finance. These efforts will help in the development of transparent capital market instruments with appropriate financing structures. Only the largest investors have the capacity to invest directly in infrastructure projects. Smaller investors require pooled investment vehicles such as infrastructure funds, but problems with high lending fees, potential mismatches between asset life and funding need to be sorted out in line with infrastructure project finance condition. Better payment terms if required against the bank guarantee should be considered and fast tracking of payment within a week to ten days after receiving the running bills of the project will help accelerate the execution work.

What financial challenges do you foresee on the horizon in the way of actualizing the ambitious infrastructural mega projects like Sagarmala, Bharatmala, and the creation of Metro network in various cities and metro rail projects?

Major challenges being faced by the developer in large and complex projects are statutory clearances and land acquisition. Design engineering approvals, planning and execution takes much longer time even after the required statutory clearances are made available. The involvement of multiple statutory bodies and regulating agencies also pose a challenge in getting numerous approvals. Long term and large projects like Bharatmala, Sagarmala, National Highways and Metro Rail and other such projects require intended considerations of the above as well as easy and faster payment terms properly articulated in the contracts and being followed consistently by the relevant development agencies and ministries. ■