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BK CHOUDHARY
MD, Bharat Road Network Ltd

What are the key continuing challenges Roads & Highways sector post easing out of lockdown in stages?

As the economy and the infrastructure sector attempts to crawl back to normalcy from disruptions caused by Covid-19, avoiding debt defaults would be a major challenge for most of the infrastructure players. The loan deferment and interest moratorium may have helped in providing momentary relief to the sector as it made it easier for many companies to address the short term liquidity challenges in meeting up the operational expenses. But the real challenge would be in executing structural reforms for a long term sustainable solutions.

While addressing the short term cash flow concerns, the relief measures have seemingly failed to take cognizance of the long-term repercussions of the disruptions caused by the pandemic. Covid-19 loan for stressed infrastructure developers and extension of concession period as compensation for the loss during the tolling suspension doesn't really help in resolving the long term crisis looming large for the infrastructure companies. Looking at a typical BOT-Toll project, it becomes quite apparent that free cash flow in the project is mostly rear ended whereas the upfront debt obligations are always on the higher side. This often leads to serious asset-liability mismatch in the structuring of the project which can even affect the commercial viability of the project.

Amid this scenario, the decision to extend concession period to make up for the losses incurred at present due to the lockdown, doesn't really make any commercial sense as the compensation if computed on NPV basis turns out to be miniscule in comparison to the actual losses incurred by the project. It is therefore always a better approach to stick to compensation strategy adopted during demonetization period. Upfront compensation to meet up operational cost and the debt repayment obligations is far more rational approach towards the survival of the industry.

Additionally, with the toll collection improving and almost reaching back to pre-covid normalcy, it would now be prudent to look at one time restructuring without asset reclassification to help the businesses in achieving a sharp recovery.This would essentially mean that the repayment of the original debt would effectively be getting spread out over the entire concession period for the project.

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What has been the impact of the stimulus packages / and RBI's rate cuts on the cash flow in the system?

The lack of clarity in policy guidelines may have taken some sheen off from the Covid relief packages announced so far but its positive impact on the economy need to be duly acknowledged. The slew of measures announced by RBI has helped considerably in tackling the temporary challenges and helped in alleviating the immediate hardships. But the long term repercussions still needs to be attended. The industry may have survived the immediate blow to its cash flow but the road to recovery is still long and tedious. There is need for sector specific relief packages which no 'one-size-fits-all' solutions could ever achieve.

We do therefore hope to see Government coming up with clearer guidelines on Covid loan, upfront cash compensation for the toll loss and also allow one-time restructuring and realignment of the cashflow for undoing the wrong of the past and preventing an asset from turning bad merely due to cashflow mismatch.

Has the unlocking had a positive impact on your company's order book?

The government has rightly focussed on pushing through its infrastructure development programme under BharatmalaPariyojana, National Infrastructure Pipeline and Atmanirbhar Bharat to provide a major impetus to the economic growth in the nation. After a momentary lull during initial phases of lockdown, project awarding has picked up pace and there has been an active interest among the infrastructure players to ramp up their order book.

We have also participated in the bidding process and have been successfully added another project in our portfolio.

We do believe that infrastructure sector has a bigger role to play in the post Covid road to economic recovery. While the global economy is seemingly affected by uncertainties emanating from the pandemic induced crisis, the infrastructure sector could act as the stimulus for achieving the USD 5 trillion economy target within 2024-25.

What further reforms do you expect from the concerned authorities?

Structural reform across the infrastructure value chain should now be the key focus area of the government. We are not looking at any major overhaul but a streamlining of system and processes based on the past mistakes and learnings. The decision making of the authority, for instance, needs to be fast tracked. While the infrastructure sector has already been buckling under severe stress, the perennial problems on land acquisition, dispute resolution are continuously compounding the problems of the industry due to lack of pace in decision making by the authority. To address these issues, we may also explore how operating mechanism of NHAI could possibly be shifted from merely a regulatory body and align it more as an infrastructure asset manager with inept understanding of asset valuation.

Also the liquidity issues also need to be addressed through structural realignment of cash flows. We are therefore aggressively advocating for one-time restructuring without any asset reclassification so that the asset liability mismatch inherent to the existing PPP projects may exterminated from the system.

Post gradual opening-up, how do you see the impact on the investment scenario in infrastructure sector?

Covid-19 has compelled the major infrastructure developers to realign their financial model based on the revised operational and financial forecasts. There is a need to make necessary adjustments in capital structure factoring the revised revenue projections in the post covid scenario. It is expected that the economic disruption caused by Covif would now give a boost to various small to medium infrastructure player to accelerate their efforts to skim off the BOT assets from their portfolio and focus more towards cash contracts under EPC mode. As such need based M&A gains momentum, we do hope to see a lot of portfolio churning in the market and this would eventually lead to re-pricing of infrastructure assets.

We could therefore see a very healthy growth in activities in both primary and secondary market as on one hand government would continue to push their infrastructure development programme to stimulate the economy and on the other hand the demand for alternative capital would help in picking up pace in the secondary market.

The challenge though would remain in execution of such ambitious growth plans in both primary and secondary market. Unless the inherent issues in the execution mechanism

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and decision making processes are streamlined, the growth engine would continue to have a stuttered pace.

What is the impact on job creation/loss from your company's perspective?

It would be too early to comment on job creation especially when the focus remains predominantly on arresting the job losses in the industry. We have so far been fairly successful in manoeuvring our financial and human resources efficiently to protect both our business interest as well as the interest of our manpower. It could be made possible because of our financial engineering capabilities and asset management expertise developed over a decade of our experience in infrastructure development in India. Similarly, our recruitment policies are driven by the principle to empower local communities and hence the dependency on migrating labourers is minimal.

> It is imperative to lay down a road map for attracting global sovereign and pension funds for investing in the sector.

Post pandemic era how do you envision the transformation of design / construction processesespecially with the advent of disruptive technologies?

Technology advancements in the roads and highways sector have been under various stages of implementation for a long time. A systematic approach to adopt technological interventions in road safety, highway construction, operation and maintenance was increasingly becoming popular over the past few years. Hence, it would be unfair to attribute any such technological advancement to the current pandemic. Although it is also a matter of fact that the compulsion to go digital was never felt as hard as during the Covid crisis. What appeared as business need for operational excellence earlier, has now started to assume significance as survival strategy. We do therefore hope to see a lot more companies now adopting a robust framework for technological approaches at both the construction as well as operational stage of the project.

What is your take on the government's move encouraging the financial institutions (FIs) as eligible bidders for the infrastructure projects?

We have started off remarkably through asset monetisation programme under Toll Operate Transfer (TOT) model but the bottlenecks in execution and operation of projects need further strengthening. We need to further streamline the exit mechanism for BOT assets to facilitate the transfer of ownership of existing operational assets to foreign institutional investors who are willing to acquire cash flow generating assets to mark their entry into the sector. The exit clause for operational road projects therefore need to be further streamlined and approval process for such stake sale and transfer need to be made time bound to encourage more private participation. The risk-averse global players would not keep their interest intact on Indian market unless we could comfort them with favourable regulatory regime facilitating their asset evaluation and acquisition process.

The government is also planning to scale down the bidding criteria, especially in road sector so as to encourage more number of bidders. What is your take on this?

Any initiative to encourage a healthy competition among the infrastructure player would be appreciated by the industry. But we are apprehensive that the same should not be done by overlooking execution and asset management capabilities of the companies. Taking a cue from the history of aggressive bidding from small fringe infrastructure players who sometime become too overzealous to build up order book and come up with absolute untenable business projections, the policymakers should now look beyond the L1 bidding criteria and rather award the projects to the bidder who are the closest to the median of the bidding amount submitted by various bid participants. This would bring much more rationality in bidding and ease out the project hurdles due to execution inefficiencies.

Additionally, we would also expect the government to focus on the judicious mix of project execution between BOT (Toll), BOT (Annuity), HAM and EPC so that infrastructure players may focus on their expertise and opt only for the projects aligned to their business interest and goals.

While EPC projects with public funding will keep order book flowing for the EPC contractors, projects under BOT (Toll) and HAM would attract investments from private players looking at value accretion leveraging asset management skillset. CT