

Interview with Rajiv Mundhra

“The PPP model has not been as successful in India compared to the EPC model”

The construction industry is expected to witness significant opportunity in the coming years. The government is planning to spend \$60 billion on infrastructure in the current fiscal year. Given the strong government spending, companies are seeing robust growth in their order books with enhanced construction in sectors such as metro rail, affordable housing, roads, irrigation, etc. In an interview with *Indian Infrastructure*, Rajiv Mundhra, executive chairman, Simplex Infrastructures Limited, talks about the current state of the construction sector, the issues and challenges being faced, as well as the achievements and plans of the company. Excerpts...

What has been the operational and financial performance of the company during the past one year?

The company has been able to maintain profitability and a strong diversified order book in the backdrop of a challenging and competitive environment. The order book, as on June 30, 2017, stood at around Rs 160 billion. Of this, about 28 per cent is accounted for by the building and housing sector, followed by power (25 per cent), urban infrastructure (20 per cent) and roads (9 per cent). The company envisages that the urban infrastructure and industrial segments will have greater shares of the bid pipeline in the coming years.

In terms of financial performance, Simplex Infrastructures' turnover was around Rs 57.4 billion in 2016-17, a marginal decline of about 5 per cent from Rs 60.52 billion in 2015-16. The company is targeting an annual revenue growth of over 10 per cent in the near term.

Going forward, the company's top priorities are to ensure a healthy top line growth with improved profitability, enhance implementation capability, improve the working capital cycle and optimise finance costs.

What is your perspective on the new arbitration guidelines? What has been their impact on the construction industry?

The Arbitration and Conciliation (Amendment) Act, 2015, is indeed a very welcome move, paving the way for cost-effective and expeditious disposal of disputes under arbitration. Amend-



ments/Substitutions in Sections 17, 29A, 34 and 36 will make arbitration the preferred alternative dispute redressal mechanism.

The impact of the new arbitration guidelines on the construction industry has generally been very positive. In synergy with the amen-

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ded arbitration act is the Cabinet Committee on Economic Affairs' approval of NITI Aayog's suggestions for the revival of the construction industry. The think tank has recommended the payment of 75 per cent of the arbitral award to the contractor, if any government department/public sector undertaking appeals against an arbitral award under Section 34. While organisations like the National Highways Authority of India and NHPC Limited are following these guidelines, many others are fighting shy, on grounds of lack of clarity. It will be a great boon to the construction industry if similar directives are made applicable to all state government bodies.

What have been the other key reforms undertaken by the government during the past year to expedite the implementation of construction projects?

The government introduced a slew of measures to further infrastructure development in the country.

- Infrastructure status for affordable housing and interest rate subvention to low-cost housing has given a great boost to construction companies involved in housing.
- The Ministry of Shipping plans to undertake the development of 37 national waterways (NWs) (of the 111 NWs declared under the National Waterways Act, 2016) in the next three years, which will have a positive impact on the reduction of overall logistics costs.
- The Union cabinet has recently approved a new policy for expanding and regulating

metro rail services in cities across India.

- The Government of India has allowed state government agencies to borrow money from bilateral agencies in other countries to fund infrastructure projects, in a bid to improve funding options for these projects.
- The Ministry of Urban Development has approved an investment of Rs 28.63 billion (\$433 million) in six states under the Atal Mission for Rejuvenation and Urban Transformation for improving basic urban infrastructure during 2017-20.
- The monetisation of 75 publicly funded highway projects valued at Rs 356 billion (\$5.32 billion) via the toll-operate-transfer mode will fetch funds adequate to finance the construction of 2,700 km of roads.
- Indian Railways (IR) plans to set up a \$5 billion Railways of India Development Fund (RIDF), which will serve as an institutional mechanism for IR to arrange funds from the market to finance various railway infrastructure projects.
- The Ministry of Housing and Urban Poverty Alleviation launched 352 affordable housing projects worth Rs 380 billion (\$5.9 billion) in 53 cities across 17 states for building over 200,000 houses at an average cost of Rs 1.8 million (\$27,948) per house.

How do you think the public-private partnership (PPP) model has fared versus the engineering, procurement and construction (EPC) model for implementing infrastructure projects in the country?

The PPP model has not been successful in India as compared to the EPC model owing to various factors. Land acquisition and environmental clearances have been delayed leading to cost escalations, delayed execution and thus a delay in the start of revenue receipts. There is a lack of independent regulators in sectors where the PPP model is being used extensively. Also, improper allocation of risks between the project owner and the PPP operator has disincentivised private participation in the infrastructure space.

Segment-wise sales (%)						
Segment	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (April-June)
Piling and ground engineering	6	6	6	8	12	7
Industrial	10	12	16	12	13	13
Building and housing	18	26	28	33	38	33
Power	32	22	12	10	10	19
Marine	1	1	3	5	4	1
Roads	8	15	15	5	4	5
Railways	2	2	2	2	4	4
Bridges	12	6	8	9	3	3
Urban utilities	11	10	10	16	13	15
Total	100	100	100	100	100	100
Turnover (Rs million)	59,214	56,154	56,605	60,517	57,340	15,386

Source: Simplex Infrastructures Limited

What are some of the biggest challenges being faced by the construction industry in India? What are your key recommendations to address these?

The construction industry is facing certain challenges which are making it difficult for the sector to realise its full potential. Some of the key issues are highlighted below.

- Shortage of qualified workers: Construction companies are facing a significant shortage

of qualified workers and professionals. Construction companies will need to invest in large-scale training schemes so that workers can be trained in the specialised requirements of the company.

- Project complexity: Construction projects are becoming more complex in both design and execution. Therefore, firms need to be selective to ensure that the projects they choose can be completed in time and within budget. Further, information technology solutions for effective project management need to be implemented for managing complex projects.
- Technology adoption: New construction technologies have to be adopted to reduce both cost and implementation time for projects. For companies, it is a challenge in terms of increased capital costs and acquiring skilled workers who can implement the new technologies.
- Support from the government: The construction industry requires support from the government as there are several clearances required for the implementation of each project. Both the state and central governments have to be proactive in expediting clearances for speedy implementation of projects. ▀

