

Interview

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We go to places where we can make a difference

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Illustration: P. Manivannan

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Afcons Infrastructure Ltd., a Shapoorji Pallonji Group company, has carved out a niche for itself in the infrastructure space with several projects in India and abroad. It is involved in the construction of some of the critical projects in metro, marine and road infrastructure in India.

*In an interview with **The Hindu**, Afcons Vice-Chairman & Managing Director **K. Subrahmanian** reveals how the 'circus strategy' of removing the tent after completion of a project to repeat the show elsewhere has paid rich dividends for the company.*

Excerpts:

What is your overall assessment of the Indian economy?

The economy is under a slowdown since 2009. The infrastructure sector, for sure, has taken a beating. At Afcons, we had foreseen this sometime back, and, therefore, we were not totally dependent on the Indian market. Even when the Indian market was booming, we started going to overseas markets since 2006. Today, 35 per cent of our revenue comes from overseas. During the slowdown, some sectors remained unaffected, and these included metro and technology projects such as oil and gas. By working on technology-oriented initiatives and in overseas markets, we dealt with slowdown effectively.

Which segments have seen the maximum impact?

Road projects. In fact, the government kick-started the economy with Golden Quadrilateral project, and that has completely come to a standstill. The port sector has also slowed down. The private sector used to invest a lot of money. Now, most projects are put on hold. Oil and gas sector is performing reasonably well. It should have performed still better.

What are the major challenges faced by the companies like Afcons?

Since 2010, there have been fundamental changes in the market, which have had a deep impact on us. Some of the key challenges include increasing competitive intensity — the number of bidders has increased dramatically since 2005.

In some of the projects in India, we have about 20 bidders. Such competition has, at times, led to desperation with bids being drastically less than even the employers'/ client's estimates.

Second, governmental indecision is leading to delays. Barring a few entities, the focus on execution has decreased in India. There have been delays at multiple levels due to land acquisition and environmental clearances. The same emanates from inability to take key decisions at project and policy levels. The aforementioned delays bring on a double impact on firms as the working capital requirements increase, and, with the high interest rates, profitability takes a hit. So far, Afcons has been able to defy the same, and we have been able to maintain our profitability.

Also, given the current equity market status, firms have not found it easy to raise money through primary or secondary markets.

Availability of capable manpower has not kept pace with the growth in infrastructure in India. Hence, today, we are in a situation where for major projects we have to import talent.

The issue of capital availability is on two fronts. The current financial health of major infrastructure developers has limited the scope for further investment in PPP (public-private projects) projects in the near future. Second, banks have, in certain segments such as power, reached high levels of exposure, and are now being very selective in project funding.

The key question that will emerge once the infrastructure takes off again is: where will the funds required for \$1 trillion investment come from?

When will things improve?

People say when the government changes, things will change but my assessment is that it will take two years. When a new government comes, it can't press a button and that will kick-start the economy that has suffered damage.

According to experts, policy paralysis affected our economy and the new government may be no different as no single party will have the numbers for a stable government. What is your assessment?

Even things can be managed with a stable leader. Narasimha Rao's Government was a minority one, but he initiated economic reforms. Even Vajpayee, because of his stature, could take everybody along. It is more a question of leadership. And if that happens, people will fall in line. Naturally that person will be committed to the economy.

Non-performing assets (NPAs) have caused concern in the banking sector, and many banks have stopped lending to ongoing projects. How will it affect infrastructure projects?

At one stage, both the promoters and banks were rushing into projects. The necessary amount of due diligence was not gone through. Now due to the negative swing, both the promoter and banks will take some hit. Now banks will critically evaluate the projects and put their money into good projects which are still there.

How are you affected by competition from China?

China is no doubt very cost-competitive. But they are here to stay. I have two choices.

One, I don't operate where they are. So, I avoid Chinese competition. In the alternate, I take them head on. In a difficult project in Madagascar, everybody thought Chinese will win, but we won. We need to deal with Chinese competition.

Afcons came into the SP Group fold in 2000. How has it helped?

SP Group was mainly into building and real estate. By acquiring Afcons they could get into the infrastructure space.

The takeover gave us lot of credibility and credence among clients and particularly in the financial markets. We could organise funding quite easily. SP Group also brought in their own business practices of transparency, fairness and work culture to Afcons.

So, here you have the combination of a company with technological prowess taken over by a group which has respectability and good command on the financial markets.

The combination worked well for the advantage of both.

It is more than one year since Cyrus Mistry has moved to head Tata Group. How has been the transition?

Cyrus was our chairman till he moved out as Tata Group's deputy chairman. Even during his time or otherwise, this group selects an operating management and leave everything to them. It is for me to go to them whenever I want something. To that extent, his exit has not made an impact. I do miss my intellectual exchanges with him. Since I was associated with Cyrus for almost 10 years, I miss an association.

How is the performance of the company?

We are growing at a CAGR (compounded annual growth rate) of 20 per cent, and have order book position of around Rs.9,000 crore.

Last year, our turnover was Rs.3,080 crore with profit before tax at Rs.151 crore. We are targeting to close this year with a turnover of Rs.3,500 crore.

How many projects you have under implementation?

28 projects are under execution with the total contract value of about Rs.1,400 crore. We have projects in the areas of marine and industrial, surface transport, metros and railways, tunnel works, LNG re-gasification and oil & gas.

Which are your overseas markets and what about overseas expansion?

We are mainly in the Middle East and Africa. We are evaluating more regions such as CIS (Commonwealth of Independent States) countries. Wherever there is mad rush, we don't go there. We go to places where we can make a difference. We expect strong demand for infrastructure EPC in the Middle East and Africa.

What is your target for the future?

Afcons today carries respect for delivering projects on time. Therefore, when the markets boom, naturally we would be a key player in this sector. One of the corner stones of our strategy has been project selection. We pick our projects and go all out once we choose. When the market is stagnant we are growing. When the market will grow, our growth will be definitely better.