Atmanirbhar Bharat for infrastructure - Ground level implementation check

June 24, 2020 I Ratings

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Sustained intensity of Covid-19 pandemic and lockdown has impacted various segments of infrastructure sector. Prominent issues impacting the credit profiles of the entities in infra sector include:

1. Labour migration and supply chain disruptions leading to execution bottlenecks.
2. Sharp fall in the traffic on toll roads requiring reliance on liquidity back up and sponsor support.
3. For power generators decline in demand for power and built up of overdue receivables from state DISCOMs.
4. Delay in execution of ongoing renewable energy projects.
5. Steep decline in revenue of construction companies.
6. Weakening of demand and investor sentiment for the real estate projects.

Government of India (GoI) announced various liquidity measures as a part of 'Atmanirbhar Bharat' financial package. Correspondingly, respective ministries/authorities like Ministry of Road Transport & Highways (MoRTH), National Highway Authority of India (NHAI), Central Electricity Regulatory Commission and Ministry of New and Renewable Energy (MNRE) have announced relief measures for respective sectors to address above concerns, boost liquidity and resurrect investor confidence.

CARE Ratings has made an endeavor to assess the ground level implementation of the said measures through interaction with its various stake-holders. The key findings are as below:

1. NHAI has started releasing large portion of retention money against completed work for Engineering Procurement and Construction (EPC) contractors. In the recent bills raised, retention money is not being deducted for the EPC projects. Also road developers have started raising monthly bills based on proportion of work completed as against milestone based completion.

2. While Extension of Time (EOT) issuance is applicable to all renewable and real estate projects, for road projects it is subject to site conditions. Further, process of issuance of EOT is lengthy in road projects and clarity on EOT issuance is yet to emerge from NHAI.
3. Clarity on calculation of extension of concession period to compensate for loss of income due to toll suspension is yet to emerge. Relief measures announced are less attractive mainly due to classification of toll suspension as a non-political event in place of a political event.
4. For power generators, receivables from majority of the state DISCOMs have been ballooning owing to lower collections. However, payment to renewable energy projects remained timely during lock down period barring two states.
5. Reduction in Late Payment Surcharge (LPSC) by DISCOMs has already been implemented. While rebate amount in fixed charge has been approved by boards of various central public sector generation companies. Modalities of same are being worked out.
6. Progress on liquidity injection (of Rs.90,000 cr) into DISCOMs through state guarantee backed loans by Power Finance Corporation of India Ltd (PFC, rated CARE AAA/Stable/CARE A1+) and REC Ltd (REC, rated CARE AAA/Stable/CARE A1+) is slow. Also, actual amount to be lent by PFC/REC would be limited to aggregate of unpaid state government subsidy to discom and overdue power bills of state government departments/attached offices towards DISCOMs.
7. Higher risk associated with real estate sector has resulted into pass on of limited benefits to real estate players.

The detailed findings are attached **as Annexure A.**

Annexure A: Current status of the measures announced

Sector	Measures announced	Status of implementation	Ground reality check based on interaction with stake holders
Developers and Contractors (executing NHAI and MoRTH projects)	Release of retention money for contractors on a proportionate basis for the work executed	Implemented	NHAI has started releasing large portion of retention money against completed work for EPC contractors. Many contractors expect release of retention money for work completed in June 2020.
	Retention money on the future bills raised by the contractor shall not be deducted for the bills raised for three month (may extend to six months) subsequent to the date of relief circular.	Implemented	Retention money is not deducted in the bills raised recently for EPC projects.
	Relaxation in contract terms with billing cycle changed from milestone completion to monthly billing pattern	Implemented	Contractors have started raising monthly bills in place of milestone based billing from May 2020 onwards.
	EOT to contractors/concessionaires of three to six months depending on the site conditions.	Not yet implemented	Clarity is yet to emerge on EOT and the process for the issuance of EOT continues to remain lengthy for NHAI projects. EOT is recommended by independent engineer based on project progress, location etc. It is dependent on the type and location of the projects and hence subject to dispute between concessionaire and authority.
	Extension of concession period for operating projects by a period up to the time daily collection is below ninety percent of the average daily fees to compensate the loss in collection in user fee.	Not yet implemented	Clarity on calculation of extension of concession period is awaited. Further, classification of toll suspension under Non-Political Force Majeure (FM) event, renders the relief extended to developers less attractive as it allows only extension of concession period as against immediate reimbursement towards O&M and interest under political FM event. This may result in dispute between authority and the developer.
Renewable Energy	Supply chain disruption to be considered as a case of natural calamity and FM clause may be invoked and completion timelines may be relaxed.	Implemented	SECI has provided automatic eighty four days extension for all the projects by default. This is in-line with MNRE order. Some states DISCOMs too have given extension for project completion.
	'Must Run' status for renewable energy (RE) projects to remain unchanged during Covid-19 lockdown period and that RE should not be curtailed but for grid security reasons.	Implemented	The curtailment was done for the initial few days of the lock down by states such as Andhra Pradesh and Punjab for select projects only. However, post MNRE directive of insisting on Must-Run status for RE projects, such curtailments have been stopped.
	MNRE has clarified that payments by DISCOMs to be regular to renewable projects, the moratorium period	Implemented	Payment pattern from majority of the state DISCOMs has remained satisfactory with most making payments

Sector	Measures announced	Status of implementation	Ground reality check based on interaction with stake holders
	provided to the DISCOMs for not making payment to power generators does not apply in making payment to the RE projects.		to RE players during lock down period barring one or two state DISCOMs of Andhra Pradesh and Rajasthan.
Power Generation and Distribution	Reduction in LPSC from 18% to 12% by DISCOMs on payment to generators due beyond 45 days.	Implemented	
	Lowering of LC/advance payment requirement for discom towards power suppliers under the payment security mechanism by fifty percent.	Implemented	
	Central power sector undertakings to give twenty to twenty five percent rebate in fixed charges to DISCOMs who in turn shall pass it on to the end customers	Partially implemented	Rebate amount has been approved by the boards of various central power sector undertakings but the modalities of implementation are still being worked out.
	PFC and REC to infuse liquidity of Rs.90,000 crore in DISCOMs against guarantee of state government.	Not yet implemented	Few DISCOMs have approached for the sanction of loans. Commitment by the DISCOMs to improve operational efficiency and by the state government for timely release of subsidy is crucial for enhancing lender's confidence. Reportedly, Government of Andhra Pradesh has extended guarantee to PFC and REC to clear the overdues by its DISCOMs.
Real Estate	Availability of additional funding lines to Micro, Small and Medium Enterprises (MSME) including real estate MSMEs	Not yet implemented	In view of higher credit risk associated with real estate entities, some of the lenders are of the view of classifying MSMEs engaged in real estate development as commercial real estate (CRE) in place of MSME. Thus, such dispute on MSME status has abstained real estate MSME players from availing additional funding under measures announced by GoI.
	EOT up to six months for the projects registered under	Implemented	

Sector	Measures announced	Status of implementation	Ground reality check based on interaction with stake holders
	Real Estate Regulatory Act.		

With inputs from following members of CARE Ratings team: Divyesh Shah, Hardik Shah, Jasmeen Kaur, Kunal Arora, Maulesh Desai, Naresh Golani and Sudhir Kumar

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