

FEATURE

EPC

Power of one

With a target to add more than 150 GW in next 10 years, the power sector does stand a chance of revival, and the capacity addition is likely to help the EPC sector.

An increasing emphasis on single-point responsible party with minimum alleys of interference has been a boon for the Engineering, Procurement and Construction (EPC) sector in the country. According to industry reports, the EPC sector in India is likely to take leaps and make major advancements over the 12th FYP in India; given the planned infra investment for the period is estimated to be Rs 40.9 trillion and the EPC sector, with its estimated opportunity size of Rs 17.1 trillion is expected to be the largest beneficiary of investments. The sector has witnessed consistent changes over the past few years, with increasing project sizes, scale and market maturity.

With the government targeting capacity addition of 88.5 gigawatt (GW) under the 12th Five-Year Plan (2012–17) and around 100 GW under the 13th Five-Year Plan (2017–22), the power sector does hold a key position in the infrastructure arena. With such extensive plans for capacity addition in the power sector, the EPC sector in the country stands to benefit a great deal.

TREND

The power sector is expected to see private players get a boost, giving a big impetus to the infrastructure linked EPC sector in the country. The Indian EPC sector has witnessed consistent changes over the past few years, with increasing project sizes, scale and market maturity. Riding on India's infrastructure requirements over the next five years, the EPC sector is likely to make major advances. To this, Ravi Kathpal, CEO - Energy Consulting Services, Feedback Infra, says, "The sector is also attracting an increased interest from global majors, Indian conglomerates, as well as infrastructure developers."

According to a recent Ernst & Young report, the EPC industry has come a long way in the last one decade from being a handful of large and complex projects and a multitude of small packages and subcontracts. The report further adds that today, there is no dearth of high value and complex projects being executed by the Government and private players. The increasing

size and complexity of projects has, however, led to a growing reliance on contractors' capabilities and project management skills.

CHALLENGES

However, some major concerns remain that are vital to be ironed out for the benefit and smoother functioning of the EPC sector in the country. Industry players believe that the government needs to play a vital role in improving the pace of implementation of key projects, while EPC companies should upgrade their project management expertise and ensure that there is adequate capacity to undertake and execute large projects on time. Also, there is the absolute slow pace of development due to drying up of funds to the projects which puts cash flow pressures not only on developers but also on contractors.

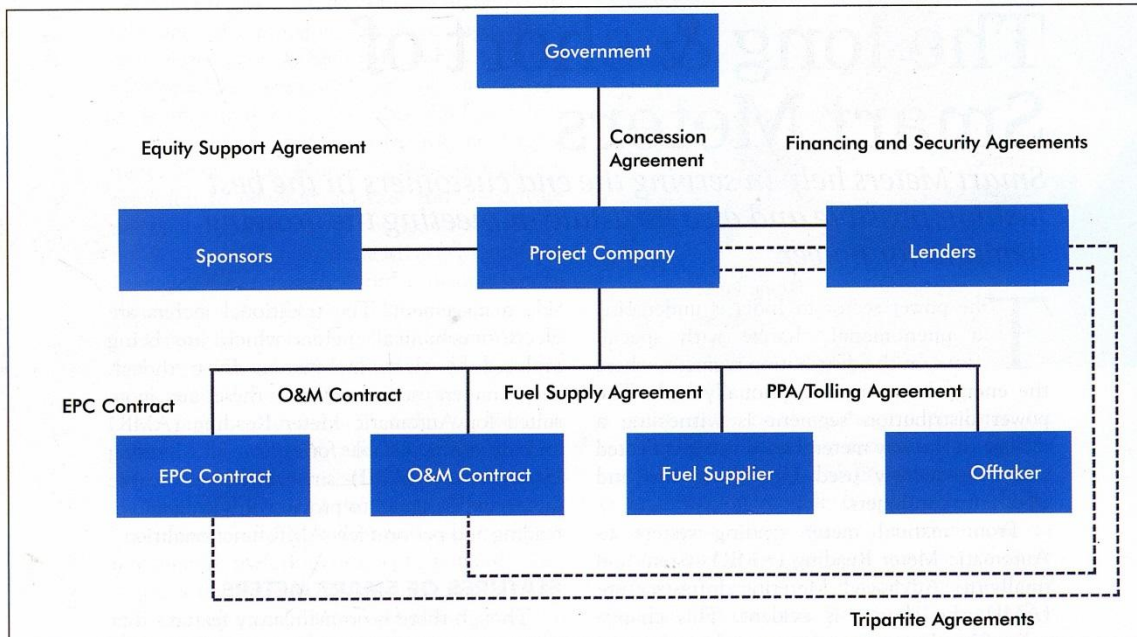
"This is followed by currency fluctuations especially in case of lump sum contracts," says Kathpal. He along with other industry analysts are optimistic that with the formation of the new Government at the Centre more number of projects are expected to come into the fray as the bottlenecks especially at the level of environmental clearances are seemingly being removed and this will provide tremendous opportunity in the medium term.

For some, cases of delayed regulatory clearance, land acquisition, lender approval, disbursement of funds from the banks, etc., lead to massive cost escalations which further affect the cash flow of the project which the promoters/lenders are not willing to recognise and pay.

But according to Sivasubramanian Natarajan, Managing Director, ThyssenKrupp Industries India, lack of transparency and clarity in the tax structure, uncertainty in availability and fluctuation of cost of local materials like aggregate, sand, water etc., makes it a challenging affair for an EPC player.

Almost all large power projects use an EPC contract, with contractual structures varying on a project-to-project basis. From a dearth of skilled manpower and labour problems,

BASIC FEATURES OF A POWER PROJECT



unhealthy competition resulting in low quality projects and execution delays to the larger issues of land availability, power EPC contractors are facing huge cost overruns lately.

RENEWED FOCUS

According to PwC, with regard to business opportunities in the EPC solar sector, it is viewed that with a large number of projects expected to come up in a short span of time, the demand for EPC services will skyrocket. Early mover advantage would be highly profitable. However, the solar sector comes with its own set of specific woes.

“Solar EPC in present times of unreliable REC sales has put tremendous pressure on EPC players to constantly innovate at all levels of the supply chain to keep the costs down,” says Nidhi Gupta, Director, Rays Power Experts.

Gupta further adds that another factor that adds to the complexities of the entire model is the standardisation benchmark imperative to get government clearances. “Amid all these challenges there exists a bright future in solar due to increase in power deficit with each day. We are highly optimistic on the sector with the new Government formation at the Centre,” says Gupta.

To this, Dr Arul Shanmugasundram, EVP Projects & CTO, Tata Power Solar adds that though the market size dropped last year from

the previous year, the solar power sector and the opportunities for the EPC sector should be better this year.

Because of JNNURM mission Phase II and several solar power programmes coming up in MP and Karnataka, the scenario should be better this year. Tata Power Solar did perform better than the overall market performance but Shanmugasundram adds that availability of projects in the overall power sector is a big concern. “Project availability has been stalled across the board along with other factors like raw material availability, land issues, exchange rate fluctuations etc having affected the growth of the market in general. Power sector reforms have to happen which will see investors and more projects coming in,” adds Shanmugasundram.

With a stable government in place, the players are optimistic over a better future with reforms taking centre-stage. “In order to meet the energy demand caused by industrial growth, need for reliable power and growing aspirations of our people, large investment in power generation is essential. As the potential for capacity addition is huge, there is enough opportunity for the power generation EPC business. There is also need for value engineering and optimisation and the need for equal focus on both capex and opex,” says Natarajan. **PT**

- GARIMA PANT