‘Govt should speed up clearance of pending projects’

RADHIKA MERWIN

Decisive actions from the new government are imperative to kick-start projects in key sectors such as infrastructure, power and roads even if there are slippages in fiscal deficit in the near-term, says N Sivaraman, President & Whole-Time Director, L&T Finance Holdings. Excerpts from an interview:

THE BL INTERVIEW

What do you think the new government can do to revive growth in key sectors, given that reforms are critical to your infrastructure finance business?

Reforms are secondary. First, decision-making is critical to free up logjams in existing projects. In the power sector there are a number of projects that are stranded. The government should speed up the clearances. Secondly, the government must focus on the transportation and infrastructure space where almost no steps have been taken in the last 18-24 months. The government will have to find a resolution to issues of capital availability and make some judicious sacrifices to implement these projects. Considering the capital availability with private developers, NHAI should start awarding contracts on EPC basis (instead of BOOT basis). NHAI could later on convert these into BOOT projects as the environment improves.

Third area is clearance for mining activities, which has been stalled for some time.

Also, the government will have to start releasing payments from the PSUs or other departments to contractors. This will lead to corporates or developers becoming healthier. There may be disputes and inefficiencies in contractual performance, but then quick decisions need to be taken because all claims cannot be unreal.

But then this may impact the fiscal deficit?

Someone has to make a bold decision to put these growth plans in place, and accept that there may be slippages in fiscal deficit in the near-term, and at the same time reassure that the deficit will be controlled in the next two to three years.

The earlier government set a 5.2 per cent fiscal deficit target for 2012-13, but ended up delivering 4.8 per cent deficit which meant close to ₹60,000 crore not being put into the economy. Even if the fiscal deficit had slipped a bit, it would have meant ₹60,000-75,000 crore flushed into the system and we could have got the economy going.

The government could have generated better revenues in 2013-14, which could in turn have led to better fiscal deficit management. I would give the new government three quarters to get things going. I don’t expect anything before that. Our infrastructure finance book itself will see some pick up maybe towards the end of the fourth quarter of this year (2014-15).

We expect interest rates to be stable. The only risk is the currency as it could significantly appreciate on the back of strong capital flows. Rupee stability is important even as the economy recovers

N SIVARAMAN,
President & Whole-Time Director, L&T Finance Holdings

What about the telecom sector? Have things started to look better?

We are a tad less optimistic on the sector. Tariffs will have to move up so that telecom players can see some cash generation, and this will facilitate better rollout. The low frequency spectrum has already been exploited. A shift towards the high frequency spectrum will mean that the density of the towers has to be scaled up. This means that investments have to be made, which can happen if the right kind of tariffs exist. But this will take a couple of quarters.

Your expectations on the interest rate front…

We expect interest rates to be stable. The only risk is the currency as it could significantly appreciate on the back of strong capital flows. Rupee stability is important even as the economy recovers. Our view is that a stable interest rate environment and strong consumption will lead to investment rather than lower rates. Ours is a consumer rather than a credit-driven economy, and hence changes in interest rates will not rev up investments. So we do not really expect a rate cut as it will be counter-productive.

What is the way forward on the new banking licence front? Will you be applying once again?

We are disappointed that we were not granted the new banking licence. But it is not a setback. We will continue to invest, expand our reach and customer base. On the liability side, we will continue to diversify our funding base. If we are able to do this, we still have a robust business model as a non-banking entity. We will wait for further guidelines from the RBI before applying once again.