Funds for infra sector should come from PFs, insurance cos

Among the several sectors that has been severely impacted by the slowdown and policy logjam is the non-banking finance companies (NBFCs). For the sector, which provides funds for infrastructure projects and equipments that go into building of power, roads, bridges, highways, ports and airports, avenues for raising funds continue to be restrictive, besides shrinking investment opportunities.
Hemant Kanoria, chairman and managing director, Srei Infrastructure Finance, tells Sumit Moitra that it's time to bring in some common sense into the policies that guides the industry.

The previous regime took steps like relaxing external commercial borrowing (ECBs) norms and encouraging infra debt funds. Do you think those steps have helped infra-finance sector? Do you expects more such steps in the coming budget to relax lending and investment avenues?
For the NBFC sector, ECBs are practically not allowed. It is allowed only for importing equipments. Today, most of the infra equipment makers like Caterpillar, Hitachi or Komatsu are manufacturing within the country. So not many equipments are imported. The regulator is perfectly right in addressing the foreign exchange risk associated with ECBs. But it should also realise that NBFCs should be allowed to tap ECBs to bring down their cost of funds. The forex risk can be easily addressed by the regulator by ensuring that the exposure is hedged.

Srei has been demanding that different types of NBFCs like asset finance companies and infrastructure financiers like you should be treated separately. Why do you want that?
There are many different types of NBFCs classified for justified reason. But the regulators and the government should be aware of the needs of the each type of NBFC and separate regulations needed to facilitate their individual needs.

Infrastructure bonds carrying tax benefits were a good source of funds. Do you want that instrument to be reopen again?
Sure. In fact, there was no reason why the tax benefits on such bonds were removed two years back. Such bonds helped us to raise long-term funds. That should be revived again. An infrastructure finance company like us need long term funds at low rates. For this, such companies need access to pension provident and insurance funds.

What are the issues involved in fund raising in the infrastructure sector?
There are four critical issues. One is on the funding side -- from where the fund will come an d what is its cost. It's important for the government to ensure that fund flows come from provident funds, pension funds and insurance companies in the infrastructure sector. These new sources of funding are important as most of the banks are now at the threshold of their exposure norms for this sector so they can't increase it anymore. There is also a need to develop the bond market which is virtually dead thanks to the new Companies Act.
If bonds are issued there are stiff regulations about creating redemption reserves and some illogical regulation like putting some amount of the proceeds into the government bonds. Why would a company raise money by issuing bonds in the first place if it has to invest a part of it in the government bonds? The equity route would continue to remain a difficult

choice as I still don't see too many people coming from overseas and investing into equity of infrastructure sector till for about an year maybe.

Srei group has direct exposure in power and road sector among others. What are the issues that are concerning you?

In power, fuel availability is a big question. In case of coal, its relatively easy to address the supply issues. We hope the new government is in a position to do that. There are meetings between ministers and industry captains that are happening where logical decisions are taking place. In generation, the government should have a simple policy that anybody setting up a power plant should get fuel linkage from the nearest mine.

In case of distribution, the government should encourage public private partnership and stop funding sick state government-owned entities. Bringing in the private sector through distribution franchisees or issuing parallel licenses can be explored. Budget may announce specific incentive packages for both generation and distribution side issues.

In roads, there are cases where the concessioner is not able to complete the project on time. In such cases the funding agency should be allowed to change the concessioner. The government needs to encourage innovative financing mechanisms which can address the mismatch between shorter loan tenure and concession period. For BOT (build, operate and transfer) projects, the budget may propose a financing structure where the repayment schedule is such that 50% of the total debt is repaid during the loan period and balance 50% is to be repaid by way of bullet payment at the end of the tenure.

Uday Mohite DNA