India's economic revival has been held hostage to its infrastructure woes and obstructive politics

DSR

ET 2.11.2015

Till Debt Do Us Part

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What do Reliance ADAG, Vedanta, Essar, Adani, Jaypee, JSW, GMR, Lanco, Videocon and GVK have in common? Well, apart from being well-known corporate names, they share the dubious distinction of being among the 10 most-leveraged Indian corporates according to the Credit Suisse's 'House of Debt' report, Mark III, released late last month.

The report confirms what the International Monetary Fund and the Reserve Bank of India (RBI) have said. Indian corporates are the most overleveraged relative to emerging market peers, with debt rising sevenfold in eight years. The bad news doesn't end there. The report adds that financial stress has intensified in the last year, despite efforts by some — not all — to cut back capital expenditure and sell assets to pare debt.

Politics a Rusty Additive

Look a little closer at the names. There's something else they have in common: they're heavily into infrastructure. True, most of them got carried away in the go-go years of high growth. But what is undeniable is that many of their ills are intrinsically linked to problems in the infrastructure space, notably politicisation.

Given this infrastructure overhang, any attempt to tackle the problem of overleveraged corporates must, therefore, address the problems of the infrastructure sector. Not only for the health of the corporates themselves, but also for the health of the banking sector and, in turn, for the health of the economy. So, what is our record to date on that?

Take just two sectors, both equally critical: roads and power. Days before the Credit Suisse report, the Cabinet Committee on Economic Affairs approved a one-time fund infusion to "revive and physically complete" 50 languishing national highway projects worth ₹45,000 crore across the country. Will this suffice to get projects moving again? Unfortunately, no.

The reason is obvious: the scheme is fundamentally flawed. Instead of addressing depoliticising user charges, it gives the National Highways Authority of India (NHAI) the first charge on the toll or annuity receivables of these projects, while dues of banks and other secured lenders rank subordinate to NHAI's claims.

Why would lenders, who already have a high exposure to these projects, go along with such a blatantly partisan scheme and commit more resources? Remember, funding shortfall is only one of many reasons why infrastructure projects are in a limbo.

Other factors like getting approvals and clearances from various government agencies and politicisation of tolling, once the projects are completed, are no less important and, in many cases, have contributed to the mess. In such a scenario, if lenders' rights are kept subordinate to those of the NHAI, why would they play along? In which case, this 'one-time' fund infusion will not be the last. It will only buy (waste?) time.

The story is not too different in the power sector. The government is in the midst of designing a rescue package, third since 2002, for state electricity boards that are reportedly losing around ₹64,000 crore every year.

Who'll pick up the pieces?

The details are not known. But unconfirmed reports speak of more of the same: there is no attempt to depoliticise tariffs. Instead, dues of over ₹4 lakh crore will be taken over by state governments and bonds issued in lieu thereof with hapless public sector banks told to replace their existing dud loans to discoms with state government-guaranteed bonds.

Déjà View

So what is different about this scheme compared to the 2012 financial restructuring package? "Ah," say government officials in the know. "This time round we mean business, we'll closely monitor the implementation and ensure state governments raise tariffs and cut down on theft (euphemistically called T&C, or technical and commercial, losses)."

But what if state governments don't listen? We have the example of Rajasthan, a BJP-ruled state that is supposedly pro-reform going by its actions on the land and labour front, but is anything but reformist when it comes to tackling the mess in its state electricity board.

The RBI might try its best, from corporate debt restructuring (CDR) to strategic debt restructuring (SDR), never mind that some of it looks suspiciously like old wine in new bottles. But forcing promoters to sell assets has its flip side (of adversely impacting earnings), while changing promoters is unlikely to help unless the underlying dynamics of the infrastructure sector change and it is allowed to function like any other business — on commercial lines without political interference.

Remember, corporates are unlikely to invest as long as their finances are under stress. And for all its bravado about carrying the can till animal spirits revive, government has its limitations when it comes to finding resources for investment, especially now that one rank, one pension is a given and the Seventh Pay Commission report is due. It may tweak the public-private partnership model for all it is worth. But whether in roads or power or any other infrastructure sector, there is no silver bullet.

Unless user charges are fixed on commercial lines and collected without hindrance, unless regulators are truly independent and government maintains an arm's length, the ills of our infrastructure sector and, in turn, of corporates, banks and the larger economy will not go away.

Instead of depoliticising user charges, the scheme gives the NHAI the first charge on the toll of stalled projects, while dues of banks and others rank subordinate

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