

**Glimpse of Decline in Financing of Road Sector Projects:
Study on a Government Owned NBFC**

Krishna Chaitanya Jha

Research scholar, Manipal University, Jaipur

Manvinder Singh Pahwa

Sr. Associate professor, Manipal University, Jaipur

Abstract

Company XYZ is a wholly owned Government of India Non-Banking Finance Company – Infrastructure Financing Company (NBFC-IFC). XYZ provides long terms finance to commercially viable infrastructure projects of various sectors like road, power, airport, port, urban infrastructure, railways, telecom and pooled municipal obligations etc. Its business products are direct lending, takeout finance, Refinance and Credit Enhancement etc.

A major portion of loan asset of this company belongs to Road sector. According to the available data of last four financial years (2015 to 2019), there seem to be a decline in the business of financing road sector projects by company XYZ. There may be many factors responsible for decline of such business. These factors may be internal within the company or some external factors might be impacting the said business.

The main objective of this study:

- To carry out a survey among the Human Asset, who are directly engaged to undertake business of financing road sector projects?
- Find out the Internal and external factors including factors related to quality/performance of human asset, which may be responsible for decline in the financing business of the road sector projects by XYZ Company.

This study will bring out the perspective of the human asset, who is engaged directly to undertake road sector financing business in company xyz, as to which factor in their opinion is most crucial for decline of this business. Also, this will give an insight to understand the crucial factors in long term financing of road sector projects by a Public Sector Company

Key Words: NBFC-IFC, Direct lending, credit enhancement, Human Asset

1. Introduction

Company XYZ is a wholly owned Government of India Non-Banking Finance Company – Infrastructure Financing Company (NBFC-IFC). XYZ provides long terms finance to commercially viable infrastructure projects of various sectors like road, power, airport, port, urban infrastructure, railways, telecom and pooled municipal obligations etc. Its business products are direct lending, takeout finance, Refinance and Credit Enhancement etc.

A major portion of loan asset of this company belongs to Road sector. According to the available data of last four financial years (2015 to 2019), there seem to be a decline in the business of financing road sector projects by company XYZ. There may be many factors responsible for decline of such business. These factors may be internal within the company or some external factors might be impacting the said business.

Only resources to undertake the business in said NBFC is Human Asset. The decline in the business of financing road sector project by NBFC XYZ may be result of either Human Asset Specific or External factor or intangible Internal Factor.

2. Problem Statement/Hypothesis

Problem Statement:” Cause of Decline in road sector project financing business of NBFC XYZ.”

Hypothesis

H₀= The decline in financing of road sector projects by XYZ NBFC is due to the external factors.

H₁ = The decline in financing of road sector projects by XYZ NBFC not due to external factors but due to internal factors including human asset specific factors.

To gain insight on the factor responsible for decline, a survey is proposed from the core group (Comprising of 15 Human resources) who are directly deployed to undertake this business. We may pin point following factors, which might be responsible for decline (Broadly classified as **External, Internal and Human Asset Specific**)

1. External Factor:-

I.Government policies : - This factor is about the government visioning, policy and procedures for development, financing and maintenance of road infrastructure of the country. Government policy on land acquisition, environment clearances and other clearances are of paramount importance when it comes to success of road projects of the country.

- II.** Consortium (group of more than one lender) Coordination: - Large infrastructure project like road projects are financed through consortium arrangements, keeping in view the large amount of finance requirement. This factor articulates about the coordination, understanding and cohesiveness among the consortium lending partners
- III.** Concessioneering Authority: - In India , there are two authority to undertake road projects i.e. State Authority for states and National Highway Authority of India (NHAI) for National highways, who are responsible for conceptualizing and awarding the national road projects to bidders. These projects may be awarded to bidders on Public Private Partnership (PPP) model, Annuity model, Hybrid Annuity model or any other model as may be decided by the concessioneering authority.
- IV.** Sectoral outlook: - sectoral outlook discuss about the level of conducive environment for road development in the country.
- V.** Regulatory Framework: - Reserve Bank of India (RBI) regulates all the funding of the country by all financial agencies. Accordingly, financing of infrastructure projects including road sector projects by NBFC in the country is also regulated by RBI.. The successful financing, monitoring and recovery of loan, up to certain extent, depends upon the regulatory framework under which it operates.

2. Human Asset Specific:-***

- VI.** Lack of Knowledge and Skill of sectoral Expertise of Human Asset:-NBFC operates in service sector and is a type of knowledge based organization (KBO). Its success is mostly dependents on its skilled human asset. Human asset deployed to undertake financing business in infrastructure financing NBFC must possess requisite knowledge and skill set for appraisal (technical, financial and legal), monitoring, follow ups and recovery. Absence of these knowledge and skill sets of human asset in Infrastructure Financing NBFC may lead to decline or unsuccessfulness of their business,
- VII.** Performance of Human Asset deployed to undertake the financing business: - There may be instances, where despite NBFC having skilled and knowledgeable human asset inventory, it may run an unsuccessful financing business. This may be due to underperformance of their human asset. Lack of performance by human asset may be due to low morale or demotivation of the human asset.

*** Hypothesis of this paper has been built on these factors.

3. Intangible Internal Factor

VIII.Company's credit policy: There may be slippages in internal loan/credit policy of the NBFC, which might be responsible for declining financing business.

IX.Organization Culture: - Organization culture and value system of the organization plays a vital role for any organization for their success.

4. Any Other factor (specify) - may be external, internal or human asset specific, as per respondents' opinion.

3. Objective

The main objective of this study:

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4. Review of Literature

Infrastructure plays a crucial role in economic development of a country. In India, Infrastructure development is a critical aspect of our growth strategy. As per 2012 census (Ref 1) India has a third highest road network(4.1 million kilometres) behind USA (4.3 million kilometres) and China(4.24 million kilometres) One of the major factors responsible for infrastructure development is financing of such projects.

There are many challenges/issues faced by infrastructure sector which has lead to decline in infrastructure growth in India. According to a study (Ref: 2), planning oriented issues, land acquisition and various clearances have been seen as major obstacle in the field of infrastructure development. Lack of Coordination among the various stakeholders like Government, regulator, concessioning authority, developer and financier etc. and lack of proper dispute resolution among them has been seen as another obstacle in the field of infrastructure development of the country. At times, equity by developer, lack of proper implementation and execution of the projects by developers has also been seen as obstacles for infrastructure development. There are a few researches which show that the infrastructure in India is going through many difficulties and challenges which directly and indirectly lead to declining growth of infrastructure sector. (Ref:3), Unavailability/ delayed availability of funds and resources, Lack of strong environmental and social issues like resettlement &

rehabilitation policies, deforestation etc. are impacting the development of infrastructure projects. Cost overrun, indirect taxation, long gestation periods and disrupted cash inflows have always been a major problem in Infrastructure project financing. At times, geographical challenges and cultural differences are also seen as bottlenecks in infrastructure development in the country.

The problems/challenges being faced by infrastructure sector of the country including road sector probably brings lack of confidence among the Financial Institutions, funding such types of projects. Commercial viability is not anticipated in such type of environment and financing agencies anticipates a greater risk in funding such projects.

Further, on analysing of trends of financing roads sector projects by NBFC (Ref 4), it shows a decline in the financing of road sector projects. Listed below is four year data pertaining to net sanction and disbursement of road sector projects by NBFC XYZ.

| Financial Year | Net Sanction (in Crore) | Loan Disbursed (In Crore) |
|----------------|-------------------------|---------------------------|
| 2015-2016 | 2256 | 1619.27 |
| 2016-2017 | 2645 | 1377.79 |
| 2017-2018 | 872 | 138.39 |
| 2018-2019 | 3060 | 0 |

Note: As regard to above data, it is pertinent to mentioned that, it is the disbursed loan amount which may be seen as actual business of the entity. Loan disbursement of road sector of NBFC XYZ has declined over the period of four financial years. Net sanction has increased from 2256 crore in year 15-16 to 2645 crore in year 2016-17, whereas the disbursement has declined in the corresponding year. As regard comparison between FY 2016-17 and 2017-18, Net sanction and disbursement both has declined considerably. From FY 2017-18 to FY 2018-19, the net sanction has taken a quantum jump but nothing could have been converted into disbursement till end of FY 2018-19.

5. Data Collection, Methodology, Interpretation and analysis

i. Sample Type: Non Probability sampling (Purposive sampling, covering total population size): Keeping in view that the study is concentrated on declining business of road project financing of a specific entity which is engaged in such business, the purposive sample (Non Probability) has been chosen based on appropriateness of the study

ii. Sample size: 15 (Fifteen)- Complete population or Human asset engaged in the entity (NBFC XYZ) to undertake the road financing business

In the survey question to the respondents (Appendix A), we propose to solicit rank assignment of the probable 9 factors responsible for decline in business. The individual respondents were asked to assign rank 1 and so on to the most crucial factor in their opinion. In case, respondents felt that some other factor other than in the questionnaire, they have specified the same at factor no. 10 and have assigned the rank accordingly. Respondents were asked to assign similar rank to two or more factor, in case he or she feels so and accordingly, in some of the responses it has been seen that one or more factors have been assigned same ranking. The summary of ranking of the factors is attached (Appendix B). The responses were based on the individual human asset perspective, fully confidential and independent of each other among the respondents.

Summary of the responses has been depicted below at Table A.

Table A

| | rank 1 | rank 2 | rank 3 | rank 4 | rank 5 | rank 6 | rank 7 | rank 8 | rank 9 |
|-------------------------|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| EXTERNAL FACTORS | Number of Responses | | | | | | | | |
| Government policies | 1 | 6 | 4 | 2 | 2 | 0 | 0 | 0 | 0 |
| Consortium Coordination | 1 | 1 | 1 | 4 | 1 | 4 | 1 | 0 | 2 |
| Concessions authority | 7 | 2 | 2 | 1 | 2 | 0 | 1 | 0 | 0 |
| Sectoral outlook | 3 | 0 | 2 | 2 | 2 | 0 | 1 | 1 | 3 |
| Regulatory Framework | 2 | 5 | 1 | 1 | 2 | 0 | 0 | 2 | 1 |

INTERNAL FACTORS

| | | | | | | | | | |
|-------------------------|---|---|---|---|---|---|---|---|---|
| Company's credit policy | 0 | 0 | 2 | 3 | 4 | 0 | 2 | 3 | 0 |
| Organisation Culture | 1 | 0 | 0 | 2 | 3 | 2 | 3 | 2 | 1 |

HUMAN ASSET SPECIFIC

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Lack of Knowledge and Skill of sectoral Expertise of Human Asset | 0 | 0 | 2 | 1 | 0 | 4 | 1 | 2 | 2 |
| performance of Human Asset deployed to undertake the financing business | 0 | 0 | 2 | 1 | 1 | 4 | 1 | 2 | 0 |

OTHER FACTORS AS PER RESPONDENTS

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Demotivation in officers | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Not paying attention to leverage and free cashflows of sponsors | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Borrowing company's performance | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non uniform financing structures | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Interpretation

On analysis of the responses following can be interpreted:-

(1) Out of 15 (Fifteen) responses, in the opinion of 14 respondents , External factors have been ranked number 1 as the factors responsible for declining road project financing by NBFC XYZ. Only one respondent each has placed internal factor i.e. Organisation culture and other factor i.e. Non Uniform financing structure at Rank 1.

(2) In total, out of 15 respondents, 16 responses are Rank 1 (14 to External factors) due to one respondent has given rank 1 to two factors (Details at Appendix B).

(3) Out of 14 rank 1 to External factors, the following is the details of individual external factor:-

| Factors | Number of Rank 1 |
|--------------------------------|------------------|
| (i) Concessioning Authority :- | 07 (Seven) |
| (ii) Sectoral outlook:- | 03 (Three) |
| (iii) Regulatory Framework- | 02 (Two) |
| (iv) Government Policies :- | 01(One) |
| (v) Consortium Coordination:- | 01 (One) |

Total 14 (Fourteen)

The above data indicates that concessioning authority has been viewed as the most crucial external factor (seven respondents ranked 1) for declining the subject business as per respondents' perspective.

(4) Respondent, who has allotted rank 1 to organization culture (Internal factors), rank 2 to Demotivation of Human Asset (other factors) and rank 3 to Performance of Human Asset (Human Asset Specific factors) belongs to senior management who has responsibility to lead the team. (Details at Appendix B).

Findings

Due to clear cut responses i.e. almost all respondents (14 out of 15) allotting rank 1 to external factors, we do not envisage any further statistical analysis and accept our Null Hypothesis i.e.

“The decline in financing of road sector projects by XYZ NBFC is due to the external factors”.

6. Assumption/Limitations

- (i) Study is limited to one entity i.e. NBFC XYZ.
- (ii) Small Sample Size, which is appropriate due to purposive sampling.
- (iii) Responses were completely the respondents' perspective.

7. Further Studies

(i) This paper was aimed to have a glimpse of declining financing business of an individual entity, wherein perspective of human asset, who are directly involved to undertake the business was envisaged. The purposive sample of limited size of 15 was taken, which was appropriate for study limited to one entity. The sample covered complete population, who are directly deployed to undertake the business. **This study can be taken up further in a comprehensive way covering countrywide scenario of infrastructure financing business and human asset specific factor responsible thereof. .**

(ii) Infrastructure financing as a whole, being a service sector business, accordingly, a comprehensive study can be undertaken to find out that up to what extent Human Asset is responsible for fall or rise of this business.

References

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- KPMG report for project management Institute < Government of India (year 2012)

- MIS report of NBFC XYZ

Appendix A

Survey: Declining business by financing entity to Quality Road Sector Assets.

1. There has been a phenomenol decline in financing of quality road sector projects by financing entity particularaly IIFCL. There may be several probable factor, which may be responsible for such decline.

2. Given below are some of such probable factors (total 9). Kindly prioritise the factors in ranking order 1 to 10 in your opinion;-

- I.**Government policies Ranking -----
- II.**Lack of Knowledge and Skill of sectoral Expertise of Human Asset Ranking -----
- III.**Performance of Human Asset deployed to undertake the financing business Ranking -----
- IV.**Consortium Coordination Ranking -----
- V.**Concessioning authority Ranking -----
- VI.**Sectoral outlook Ranking -----
- VII.**Regulatory Framework Ranking -----
- VIII.**Company's credit policy Ranking -----
- IX.**Organisation Culture Ranking -----
- X.**Any Other factor (specify) Ranking -----

NOTE: The identity of the respondents is not necessary to be disclosed and the response will be purely confidential.

In case in the opinion of respondent none of the factor is relevant then, the respondent may ignore the non-relevant factor and assign ranking to the relevant factors.

Appendix B

| Factors/Respondents | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|----------------------|---|----------------------------|---|---|---|---|---|---|---|---|----|----|----|----|----|----|
| | | Respondents Rank allotment | | | | | | | | | | | | | | |
| External Factors | Government policies | 2 | 2 | 5 | 2 | 3 | 3 | 4 | 2 | 2 | 2 | 3 | 5 | 4 | 1 | 3 |
| | Consortium Coordination | 9 | 9 | 6 | 4 | 5 | 2 | 6 | 4 | 4 | 7 | 6 | 4 | 6 | 3 | 1 |
| | Concessioning authority | 1 | 1 | 7 | 1 | 4 | 1 | 1 | 1 | 2 | 1 | 5 | 5 | 3 | 2 | 3 |
| | Sectoral outlook | 7 | 4 | 8 | 4 | 1 | 2 | 5 | 3 | 3 | 9 | 1 | 9 | 1 | 5 | 6 |
| | Regulatory Framework | 8 | 8 | 5 | 5 | 2 | 3 | 1 | 2 | 1 | 4 | 2 | 9 | 2 | 2 | 6 |
| Internal Factors | Company's credit policy | 3 | 3 | 4 | 8 | 7 | 5 | 5 | 5 | 8 | 8 | 4 | 7 | 5 | 4 | 2 |
| | Organisation Culture | 4 | 5 | 1 | 9 | 6 | 4 | 8 | 7 | 7 | 5 | 7 | 8 | 0 | 6 | 5 |
| Human Asset specific | Lack of Knowledge and Skill of sectoral Expertise of Human Asset | 6 | 7 | 9 | 3 | 0 | 4 | 3 | 6 | 0 | 6 | 9 | 8 | 8 | 0 | 6 |
| | performance of Human Asset deployed to undertake the financing business | 5 | 6 | 3 | 6 | 8 | 6 | 2 | 6 | 0 | 3 | 8 | 8 | 7 | 0 | 4 |
| Other factors as | Demotivation in officers | | | 2 | | | | | | | | | | | | |

