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Requiem for the infra heroes of yesteryear

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Undoubtedly, the road sector is the beacon of infrastructure development in the country. But it has also made deep holes in the pockets of investors and developers, especially those who entered the game early. The stocks of some of these firms, heroes on the Street in the 1990s, have fallen from grace after being caught in a debt trap.

All it took was a few unviable projects for companies such as IVRCL Ltd, Madhucon Projects Ltd, Ramky Infrastructure Ltd, Hindustan Construction Co. Ltd (HCC), Gammon Infrastructure Projects Ltd (GIPL) and Lanco Infratech Ltd, which ruled the roost until a decade back, to bleed. Their shares trade below face value or marginally above it. So, will these shares ever rise to shine again? That looks unlikely in the near term.

According to Shubham Jain, vice-president and sector-head (corporate ratings) at Icra Ltd, "Double leveraging, cost and time over runs in the BOT (build–operate–transfer) portfolio and significant underperformance of majority of the operational BOT portfolio has resulted in stressed balance sheet of the above mentioned companies."

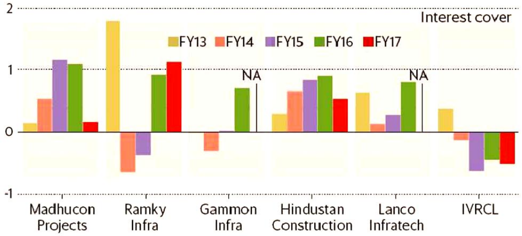
These firms are steeped in debt with operating cash flows hardly measuring up to the skyrocketing interest costs. The problem cropped up mainly in BOT road projects where the sponsors' (developers) funds got tied into non-operational assets.

For example, IVRCL came under the strategic debt restructuring plan of banks in November 2016 after it was unable to service debt. Given its dismal state where revenue fell from Rs4,495 crore in FY13 to Rs2,589 crore in FY17 and consolidated debt soared from Rs6,592 crore to Rs10,720 crore, one wonders if lenders who are now in control of management will find a new investor for the company. Similarly, the debt of Lanco Infratech has been soaring beyond recourse given its operating cash flows. Interest cover that spells the ability to service debt is below 1, both at the stand-alone and consolidated level.

So the only option is to sell existing assets to trim debt, which could bring a glimmer of hope for investors.

Falling fortunes

Over the last several years, rising debt and falling revenue have made it difficult for companies to service interest payments. For most companies interest cover has fallen below 1, which means that interest outgo is higher than the operating profit generated by the firm.



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But then, the pertinent point is why investors would want to acquire the legacy projects of existing firms, especially when there are several new orders with greater transparency being doled out by the National Highways Authority of India (NHAI). Those with strong traffic and cash flows may get lucky. For instance, Brookfield paid more than Rs600 crore to acquire nine assets from GIPL, which in turn pared the firm's debt by Rs2,400 crore.

HCC is among the rare cases where NHAI released pending claims on projects, following the government's decision to release 75% of the value in such projects.

Firms like Madhucon and Ramky have been unable to find suitors to monetize their BOT assets. According to Icra, in many cases, the sponsor (developer) and the special purpose vehicles are both under liquidity stress and in the default category. Moreover, some buyers especially pension funds, are interested only in the new offer on TOT (toll-operate-transfer) model of existing roads, as cash flows are ready through tolling projects.

In other words, although the road sector is currently the hottest infrastructure arena in terms of growth and investor returns, the early entrants were singed beyond repair. On the Street, the focus has already shifted to a new lot of developers on the fast track, who are getting orders and clocking in higher revenues and profits steadily.

No doubt the early bird catches the worm, but it is also said that the second mouse gets the cheese.