



Talk to Experts - 20

Author

Long period of revenue collection

Long period of revenue collection is said to be another reason for the NHAI languishing practice while the project debt tenure is about 10 to 15 years. It means the concessionaire has to service debt in 10 or 15 years; but to pay back the debt from the revenue generated is impossible since the revenue generation is spread over 20 to 30 years. Without depending on the revenue generation totally, the concessionaire must be financially strong enough to discharge debt service.

Generally it is not common since the revenue generated for the extended period will not provide adequate returns for the finance invested in the facility, fulfilling debt service within the specified period. It actually proves money invested with no fair returns. The project becomes unsustainable.

A project cannot proceed without adequate financing that will meet the cost incurred by the general contractor and the material supplier. And it is not generally expected that the concessionaire will have adequate

finance to meet the total cost of the construction without seeking considerable revenue generated out of that facility. Anticipation of revenue generation is not actual revenue generated; therefore, for the extended period of revenue generation, current immediate access to finance remains inadequate. The situation turns all the more difficult and complex if the concessionaire is engaged in more than one project at the same time. All the contractors must get their payments whether the project is complete or not; it is the responsibility of the concessionaire to pay the contractors in time irrespective of revenue generation.

In essence, the problem is to get funds to bridge the time between making expenditures and obtaining revenues. Overdraft from the banks is one of the common practices to access funds; but, without repaying capacity, the banks already weighed down with NPAs would not come forward to give loans to such projects.

Economic recession adds another dimension to the crisis in finance. In effect, delayed revenue generation becomes diminished revenue generation.

All this goes to prove that project finance is a very critical aspect of project management. Ineffective project management yields itself to inadequate project finance which in turn leads the projects to languish.