

# Trends in risk management | Infrastructure

Part of the sector-wise risk management series by MGC Global

In our recent webinar on industry specific risks and mitigating measures (*current & emerging*), we were fortunate to have **Mr. Satish Shenoy (Former Internal Audit Head for the Aditya Birla Group and other reputable corporates)** to provide his perspectives on specific risks relating to the infrastructure industry that were outlined by our experts. This thought leadership provides an overview of the same.

## Context

Against a backdrop of relative uncertainty in specific macroeconomic factors, enhanced societal instability, weaponized cyber capabilities, global warming and emerging geopolitical frictions, the global infrastructure industry is currently facing a myriad of unprecedented challenges.

In India, the infrastructure industry plays an integral role in propelling our country's overall development, and consequently, garners intense focus from the Government of India ('GOI'), with activities in this sector accounting for as much as 13% share of the total FDI inflows last year.

The GOI has allocated INR 111 lakh crore (US\$ 1.4 trillion) under the National Infrastructure Pipeline over the coming five years from 2019, with verticals such as energy, roads, urban and railways expected to amount to ~71% of the projected infrastructure investments in India. That being so, it is paramount for this sector to continue to see progressive and inclusive reforms with the positive impact of the same transcending across other sectors.

## Main risks

- a) **Supply chain interruptions** | The direct consequence of shortages or delayed deployment of parts/equipment and precipitating cancellations is the extension of project timelines. Inventory management (*entailing measures such as integration with vendor systems, back-up for critical materials, reassessment of reorder levels*) and usage of technology (*which is analytic driven and considers simulations with alternative construction sequencing*) for monitoring the execution of projects should be viewed as priority mitigators.
- b) **Human and capital intensive** | The industry is largely dependent on the efforts of labour, is equipment intensive and faces the risks of the variability of these costs converting into fixed expenditure. Close monitoring of labour productivity and output from equipment with its obsolescence being kept at bay with regular interventions, are some key imperatives.



# Trends in risk management | Infrastructure (cont...)

## Main risks (cont...)

- c) **Disaster dips** | Natural disasters and pandemics and other similar events can stall projects and have an adverse impact on the initial set of assumptions for project completion and monetization. While insurance can cover for some losses, it certainly cannot redo or completely reverse the ill effects. While foreseeing such events accurately is relatively theoretic, contingency planning is imperative with robust processes that trigger early warning signs to relevant stakeholders.
- d) **Stakeholder multiplicity** | The sector has a multiplicity of stakeholders, ranging from the state, to local communities to the eventual user. Organizations run the risk of lawsuits and tarnishing of their brand-image in the event of any stakeholder not being aligned through the journey of the project. Multilateral and multi-stakeholder coordination through ongoing and tactful stakeholder engagement is key, with effective communication that places emphasis on transparency and governance to build and sustain trust.



- e) **Legal aspects of the business** | Force majeure clauses may be triggered, with specific activities to be followed after such events. At the time of finalizing these clauses, it is essential to undertake an impact assessment on margins, cash flows, loan repayments in order to identify the levels of indemnity, recovery costs and other monetary implications. A related risk in this context is the management of claims and in this context, the maintenance of complete and accurate sets of records is critical.

Indian judicial pronouncements have time and again stressed on the importance of claims management. Supporting instances are as follows.

(i) The Hon'ble Delhi High Court, in *Jakki Mull v Jagdish Thakral*, upholding the decision of the arbitrator to reject claims on the grounds that appropriate books of accounts of adequate quality were not maintained; &

(ii) The Hon'ble Supreme Court of India endorsing the need for a fairly sophisticated claims management process in construction contracts. In the case of *National Highways Authority of India v ITD Cementation India Limited*, where a FIDIC standard form contract with certain changes (*conditions of particular application, or COPA*) was used, it was held that the claimant had failed to prove his claim to the expected degree of satisfaction.

# Contact us

Should you wish to discuss any of these and other risks specific to your organization, please do not hesitate to contact us at [contactus@mgcglobal.co.in](mailto:contactus@mgcglobal.co.in).

## About MGC Global

Recognized as one of the '10 most promising risk advisory services firms' in 2017, as the 'Company of the Year' in 2018 & 2019' (both in the category of risk advisory services), one of the 'Top Exceptional Companies to Work For' in 2020 and amongst the 'Top 25 Customer Centric Companies' in 2020 and 'The Consultant of the year' in 2021 (in the category of risk advisory services); MGC Global is an independent member firm of Allinial Global.

MGC Global provides services in the areas of enterprise-wide risk management, control assessments (*SOC, IFCR & SOX*), internal audits, process re-engineering, governance frameworks, IT advisory, GDPR & data protection readiness, cyber security, CxO transformation and forensic services. Our Firm has the capabilities to service its clients through its offices in Bengaluru, Mumbai, NCR; and has service arrangements with its associates in all major cities in India.

## About Allinial Global

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Allinial Global provides its member firms with a broad array of resources and support that benefit both its member firms and their clients in the key impact areas of learning and development, human resources, international outreach, technical support, knowledge-sharing platforms through its specialized communities of practice, marketing resources, information technology and best practices in practice management.