

# \$30 trillion economy seems possible

Government funding has to be complemented by private sector investment. By 2018 to 2020, assets which were created in the early phase were completed and started earning revenue to become an asset class of its own. So that has again evinced interest of investors, says **Padmanabhan Raja Jaishankar, Managing Director, India Infrastructure Finance Company.**

## What are the different types of infrastructure projects that IIFCL typically finances? Which sectors do you finance?

India Infrastructure Finance Company (IIFCL) was set up in 2006 during the process of setting up the Public Private Partnership (PPP) model. This kind of an entity was required because long-term finance was essential those days. We needed to source and supply long-term funds. That was the essential purpose with which this entity was set up. Multilateral organisations became the major source of funding for such initiatives. IIFCL's first line of assistance was to fund infrastructure projects which were greenfield and for creation of the infrastructure facility. This majorly happened in the roads sector, followed by the power sector. It was only after the first decade of the new millennium that other sectors also started following this model. And gradually it got to other sectors as well - airports, ports and various other new sectors coming into play. So now it is more or less an order of private investments which needs to complement the public investment to set the sector going. It all depends upon the momentum that each sector has set for itself. And all the programmes and concessions that have been put in place in each of the sectors, that actually will make it happen.

So far government funding has been the major push for the infrastructure sector. Obviously the GDP growth aspirations are there and in order to meet the aspirations of GDP growth we need to put together a world-class infrastructure that needs to be really robust and funded quickly.

The experience of the last 14-15 years has been quite good as far as the concessions and various structural reforms are concerned.



**Padmanabhan Raja Jaishankar, Managing Director, India Infrastructure Finance Company.**

## What are the sources of funds for IIFCL?

About 40-42 per cent is through multilaterals. This is mainly advantageous to the infrastructure sector because of its very long-term nature - 20-25-year cost effective funds. That is the major source of long-term funds. We also rely on the banking system and the bond market. All our borrowings are 100 per cent market oriented. We have an equity of about ₹100 billion from the government. Our net worth is about ₹135 billion.

## Where is India in the cycle of reforms?

In 2006, we were at the bottom of the

learning curve. We had a lot of success because of on-the-job learning, particularly in the roads sector. A lot of road projects came up very well. Then we saw the airports happening and many power projects as well. We had a lot of hiccups and had some issues and challenges as well. Because of the first-time execution, we needed to understand a lot of things very well - for example land acquisition, approvals, dispute resolutions, safeguards and credit enhancements.

After 2014, many of these experiments have stabilised and we now have regularities in many aspects such as single window approvals for many of the sectors and faster resolutions. The arbitration mechanism has become much faster. We now have the Insolvency and Bankruptcy Code (IBC) and the National Company Law Tribunal (NCLT), and have also put the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) in place. Investors have been very active and showing a lot of interest because of the promise that the sector holds. In the learning curve, we have now advanced far ahead and in this advancement have been complemented with financial sector reforms as well. A number of new-age instruments such as Infrastructure Investment Trusts (InvITs), Infrastructure Development Funds (IDFs), Masala Bonds and a number of other credit enhancement mechanisms. The bond market is very active now.

More importantly, I think what we started in 2006 have started yielding results now. So now more fund flow is happening, especially from 2018-2020 because all the assets which were being constructed till then in the asset creation phase were immediately followed by the completed assets and earnings phase.

Today ₹29 trillion is the loan book of the banks and the NBFC IFCs. Of which approximately 40 per cent are completed assets. About ₹13 trillion is the potential new age asset class which is up for churning. This ₹13 trillion can be a source of capital for doing more business without additional capital. So, these are all very good developments which are in addition to the National Infrastructure Pipeline (NIP). This was only going to add to the investment base, and it is good for the country.

We are seeing infrastructure as a very bright destination for investors in this new-age asset class. We are now seeing big funds - the provident, superannuation and insurance funds, globally seeking to invest in infrastructure projects. Airports have led the way to even greenfield investments. These funds have started investing in greenfield projects and other

areas such as expansion of airports. Foreign Institutional Investors (FIIs) have also started investing. The game is just beginning. And I see a great future and bright investment opportunity for many investors in infrastructure.

### What are the risks?

In infrastructure, the main risk is construction risk which comprises many components - land acquisition, approvals, inter-ministerial and inter-departmental coordination. During the process of construction, one has to face legal and contractual issues. These are all the normal risks that an infrastructure project would face. And again it depends on the sectors - to what extent they have been able to put in place the concessions, to have control over their systems and processes.

The roads sector has advanced quite well. We are seeing a number of new developments. The National Highways Authority of India (NHAI) has started putting in place a number of new systems. From 4-5 km a day, a decade ago, today the pace of development is 20-25 km a day, with an aspiration to reach up to 100 km a day. It is not just about greenfields any more, they have put in place, monetisation mechanisms - the InvITS, the Toll-Operate-Transfer (TOT) model. They also have a good technological base to support all this.

The airports sector has advanced quite well. We have the finest airports in the world. They have consistently been bagging awards for best airports in the world over the years in different areas.

We have the ports sector developing. We

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also have new areas such as renewable energy which has been a very big advancement with our Prime Minister announcing the net zero by 2070, and then followed by the kind of investments in infrastructure in the budget and announcement to reach the 500 gigawatt in renewable energy. The energy mix itself - it is going to have a big shift from fossil fuel-based energy to non-fossil fuel energy. That is going to be a big booster and I think in this space we are leading the world in generation in the way we are trying to achieve reduction in carbon emissions.

Then we have the other sectors such as data centres and space. Space is becoming a very big potential sector, it will attract a lot of investment from the kind of vision that we have got from the Indian Space Research Organisation (ISRO). IIFCL is also supporting ISRO in consultancy and advisory assignments for satellite transfers into a Special Purpose Vehicle (SPV).

We are also seeing telecom and other sectoral revolutions. In the social infra, education and healthcare post-Covid have been big. It has been a big revolution in agriculture, agricultural markets and rural connectivity. I would say holistically the rural infrastructure base has been kick-started. All these things only support the aspirations.

The aspirations of the government are driven by the aspirations of the people. It is what a common citizen aspires for - good transport, an air conditioned bus and smooth travel on the roads. A farmer wants to take his produce and easily transport it to some rail head or export base. That connectivity is very important and

the expectations lead to aspirations and that kind of drive is now being seen in infrastructure. It is all driven by the aspirations of the people that are contributing to all this. It has just started and it is going to become a very big opportunity and this is definitely going to lead to very fast-paced GDP growth. The platform has been set and we have a long way to go. The pace is catching up. I think the GDP growth will also happen. We have set for ourselves not the \$5 trillion or the \$10 trillion goal but the 2047 goal of achieving \$30 trillion is also going to be quite possible.

### **Do we have enough checks and balances in the system? Will there be vagaries?**

Checks and balances need to always be there in order for any sector or nation to progress soundly and I can confidently say that every aspect of this development has been done with a lot of conservatism and a lot of deliberations, discussions. Obviously it has all been led by the government. Otherwise it would not have been possible. Financial institutions like ours - we have also been playing a role. I think it has been a collective wisdom of regulators, the market and the government which has been pushing the checks and balances. Regulators on one side are looking at how capital and debt can really support this kind of development and on the other side the technological revolution is being ushered in by the government to keep pace with the growth. And the market is prepared to accept that it has the capacity to absorb. It is a matter of how you steer the pace of growth in the future. We are in the driver's seat but have to shift gears and regulate speed. The regulatory props both from the financial and real estate sector regulators and the government is good enough to oversee this kind of growth.

### **How do moves like Gati Shakti help?**

Gati Shakti is coordination - how you have data, how you can deal with data and get the information flow right across various actors in the system, how each actor can absorb that information to strategize his role and the way in which he can contribute to the growth story. Gati Shakti is a platform. Predecessors to Gati Shakti would be the National Infrastructure Pipeline (NIP) and National Monetisation Program (NMP) where so much information flow is happening. Gati Shakti is all about how you use the existing data to take the entire system to the next level.

### **Do we have enough trained manpower or is that going to be a challenge?**

Whenever a nation is developing at such

speed and with such aspirations, obviously we do some things a little ahead of time. Skill sets we have, but the existing level of skill sets definitely need to go up. We need to scale up. From the university level to technical and vocational levels. More capacity building would be required as multidisciplinary aspects take over. In 2006-07 roads used to be the only major infrastructure projects. ₹4-5 billion used to be a very big project size. Today there are a number of other sectors - mass rapid transit, ports and airports and all are multi-disciplinary. There is engineering interplay, architectural interplay, IT and digitisation and scaling up of many of technological innovations. With all those, the idea is to have a more comfortable and better facility for better efficiency.

So the unit cost and the sizes of projects have increased and at the same time to deal with multi-disciplinary issues - be it legal, financial or technological, India needs better capacities from the universities to actually adapt to that. We need to do a lot more.

**Has India started documenting the range of skill sets - finance, legal, tech, project execution, supervision and so on? Like you have done with projects in the NIP, have you documented skill sets?**

The ministry of education is doing a number of things and capacity building is a very important aspect for them. With industry interface they want the industry prepared for the next phase of infrastructure growth. We have already crossed two phases. The first phase was asset creation, the second phase was the new asset class with revenue generation. The third phase would be innovations - the technological innovations. We need to actually be prepared for all that, both from the education and financing side. I think the government is seized of all that. Industry interface with academia is very important. We need to have specialised courses, universities coming up with curricula which incorporate these multidisciplinary aspects so that the new professionals are well prepared to handle the challenges and opportunities that the infrastructure sector possesses. Capacity building is a very important stage and unless we have the capacities coming up from the university levels to handle such challenges, the soundness for getting into the next scale will not be there. This is the kind of focus that each university needs to have, with the Education Ministry as the central regulatory body. We are fortunate to have a stable government. The last 8-9 years has seen such a stability, that the

momentum is going to go on.

**Railways is a huge arm of infrastructure with huge allocations. Where is India in that - modernisation, upgrade, expansion and so on? Where do the railways fit in with your lending propositions?**

Rail connectivity has historically and traditionally been very active and vibrant. Roads still occupy a dominant position. Air and inland waterways are also picking up. Railways modernisation is on and so far it has been the government which has been driving it. Even today the government is the main engine.

Private investments need to more aptly complement and supplement the process. The first private development of a railway station - Rani Kamalapati in Habibganj has already happened. It is quite a successful model. We are the lead banker for that. This has to be followed by many other railway stations. Then there are the signal systems, the platforms, the rolling stock, and so on. There is ample scope for ushering in the PPP model. To the extent the immediate requirements are concerned, budgetary support is there. Scaling up will only happen if private sector participation is ushered in. I think that has to be the strategy for the railways.

There is tremendous scope and potential for scaling up private partnerships. Because you have signals, platforms, high speed tracks, railway stations and services and the adjoining value capture that can happen because of all these things can be tremendous. It will all be a great booster for the GDP because everything is contributing to that. Today, roads are playing a great role. Railways can supplement this in a big way. Roads have some limitations because the capacities and tonnage they can take are limited. Railways can play a very big role in terms of tonnage and speed, with which it can bring great affordability into it. Today there are few airlines that are operating in the goods sector, railways can stabilise this and bring affordable pricing.

But for that they have to scale up. We need to also look at how the railway resources can be professionalised better. Ushering in the PPP mechanism is the key to scaling up the railways. As long as private investments supplement the government investments, you can leverage development with that. That's good for the system in the sense that fiscal deficit will be under control, overall rupee strength will increase and ratings will improve.



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