ROUNDTABLE

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India's infra Big Bang

Investors of different stripes tell Daniel Kemp why they're optimistic government plans to privatise assets will offer huge investment opportunities after years of promise

It's an exciting time to be involved in infrastructure investment in India: the government this year confirmed plans to monetise as much as $81 billion in state assets over the next four years; 2020's National Infrastructure Pipeline promised $1.5 trillion in government spending over five years; and the list of foreign investors and GPs entering the market continues to grow.

The covid-19 pandemic, if anything, has cemented the government's plans, as it takes a view that long-term investments in infrastructure assets will underpin its social and economic recovery from the crisis.

This is the backdrop as we convened our 2021 India roundtable, this year held over Zoom due to ongoing travel restrictions.

Participating are three investors, as well as a representative from the federal government and one from the investment promotion agency Invest India, who all agree that the future is bright for those looking to deploy capital in the country.

"India today offers a wide range of opportunities for infrastructure investors," says Raja Parthasarathy, a managing director at Morgan Stanley Infrastructure.

"All of us on this roundtable invest in different parts of the infrastructure spectrum, and it's remarkable that in a relatively short space of time we now have pools of capital focused on yielding assets, others focused on taking some level of construction risk while also building platforms, and others still, like ours, focused on growth. These options underscore the growing depth of the market."

Kalyanaraman Rajaraman, additional secretary to government, investment, IER and administration in the Department of Economic Affairs with the Indian government's Ministry of Finance, says the pandemic has highlighted the "critical nature" of infrastructure systems and services.

"The pandemic was an eye-opener to governments across the world in terms of vulnerable areas and sectors that need long-term interventions based on domestic strengths and the strong participation of domestic supply chains," he says.

"The government of India's strategy [has been] focused on strengthening economic fundamentals over the last few years.

"The pandemic helped cement its view that building long-term assets, not only across core infrastructure sectors but also across social sectors of health, education, water and wastewater, will undoubtedly underpin our economic

Kalyanaraman Rajaraman

Additional secretary to government, investment, IER and Admin, Department of Economic Affairs, Ministry of Finance
Rajaraman's responsibilities include negotiating investment protection treaties and co-ordinating the national infrastructure pipeline. He is India's director at the National Investment and Infrastructure Fund and on the boards of government-owned EXIM Bank and the Export Credit Guarantee Corporation.

Subahoo Chordia

Head, infrastructure yield strategy, Edelweiss Alternative Asset Advisors
Chordia has more than 20 years' experience in Indian infrastructure and joined Edelweiss in 2007. During the first 10 years, he helped establish the firm's infrastructure practice in India and led its corporate finance team. He founded and established the first Indian Infrastructure Yield Plus Fund at Edelweiss with an aim to generate stable yields and returns for a wide range of investors. Prior to joining Edelweiss, Chordia held roles with Axis Bank and IDBI Bank.

Kavita Saha

Managing director, infrastructure, CPP Investments
Saha leads CPP Investments' infrastructure team in India, focusing on executing and managing investments in core infrastructure. Prior to joining CPP Investments in 2018, Saha spent more than eight years working on the JPMorgan Asian Infrastructure & Related Resources Opportunity Fund, part of that firm's global alternatives group. She was responsible for executing investments in Indian roads, integrated township development and power. Before that, she spent time with Barclays, IL&FS Financial Services and the Industrial Development Bank of India.

Rahul Agarwal

Vice-president and head of infrastructure and institutional investments, Invest India
At Invest India, the Indian government's national investment promotion agency, Agarwal works with overseas investors including sovereign wealth funds, pensions and private equity capital to facilitate investments. Prior to joining the agency in 2016, he led the strategy unit at Shiv Nadar University and served as a consultant to the Indian government's High Level Committee on Financing of Infrastructure.

Raja Parthasarathy

Managing director and co-head of Morgan Stanley India Infrastructure
Prior to joining Morgan Stanley in 2014, Raja was a partner at IDFC Private Equity. He earlier worked with Jet Airways, UBS, Goldman Sachs and Lehman Brothers. Parthasarathy received an MBA from INSEAD, an MA in economics from Tufts University and a BA from Hamilton College.

and social recovery. The infrastructure interventions are expected to open up multiplier effects for the economy as well as for employment."

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>
> **KALYANARAMAN RAJARAMAN**
> **Ministry of Finance**

Plan to monetise infra

It is this government view that has underpinned a raft of policy announcements in recent years aimed at increasing federal and state government spending on new-build infrastructure, as well as private investment into both greenfield and brownfield assets.

The National Infrastructure Pipeline announced in 2020 is focused on greenfield projects in sectors such as railways, roads, shipping, energy, health, sports and rural development, while the National Monetisation Pipeline proposes selling off stakes in brownfield assets to private investors between 2022 and 2025, with railway assets, sports stadiums, airports and other types of assets on the block.

So, how well is India tracking with regards to its targets under these schemes?

"The FY22 Budget has seen a 35 percent increase in the government's planned capital expenditure, which is the largest capex spend in absolute terms and the largest in percentage terms in recent times," says Kavita Saha, managing director, infrastructure, at CPP Investments.

The Indian government has doubled infrastructure investment in rupee terms in every five-year period for the last 20 years, notes Rahul Agarwal, vice-president and head of infrastructure and institutional investments at investment promotion agency Invest India.

"Our strategy and the NMP is very strongly focused on reducing the cost of construction of infrastructure and increasing the secondary market for investors. Fast execution has become a major focus, as it is important for the government to demonstrate what it is doing well, as in any democracy," he adds.

Previous plans have focused on "high-level economic numbers", Agarwal says. The current strategy is different, he argues, because it is all predicated on "actual, identified projects".

"It's helpful to remember that this isn't the first attempt to monetise state-owned assets," says Morgan Stanley's Parthasarathy. "We've had PPPs and other forms of private participation, but in those earlier contexts private parties were being asked to take on not just operating risk, but also development and construction risk, which led to all sorts of poor behaviours and consequently problems for everyone involved, from equity investors to lenders and the developers themselves.

"The government has recognised that investors want to own operating brownfield assets that are substantially de-risked from the development and construction phases and is putting in place an enabling framework to make sure those projects are run well by private capital. This is a monumental step in the right direction, in my view, and we're very excited to see what comes out of it."

InvITs and creating platforms

Saha says she was encouraged by the government's willingness to engage with financial investors and other stakeholders over the creation of the NMP, which she says has "created a sustainable format for domestic long-term investors" to get involved alongside foreign capital.

This view is echoed by Subahoo Chordia, head of the infrastructure fund business, at Edelweiss Alternative Asset Advisors.

"The National Infrastructure Pipeline plan contemplates 80 percent of the investment to be done by the government and government entities and around 20 percent being done by private developers," he says.

"The overall NIP outlay is targeted at $1.5 trillion with the private sector expected to contribute $300 billion of that spending. The government will thus be doing the heavy lifting in the development and construction of infrastructure assets."

The NMP, then, is aiming to create a pipeline of operating assets by removing some of the riskier elements that come with developing large projects from scratch in a relatively unknown market – factors that have put off traditional infrastructure investors in the past with a lower tolerance for risk.

"The NMP offers visibility and allows long-term financial investors to plan deployment by creating a large visible pipeline of brownfield assets. It is trying to create a framework where foreign institutional capital can come in and participate across a growing range of sectors," Saha says.

On the latter point, Saha is referring to InvITs, or infrastructure investment trusts, which allow investors to take minority positions alongside established project sponsors in a defined governance and regulated framework, part of the solution for the shallow sponsor ecosystem that is available in India.

Saha says it is important that InvITs continue to be a platform for monetising assets in the future, rather than being seen as passive vehicles for investment.

"To set InvITs up for success and to attract best-in-class talent, the government could consider promoting future InvITs (proposed in the NMP) as platforms for long-term financial institutions to be involved as partners in their growth and strategy," she says.

Chordia agrees that investor participation in shaping the pathway of InvITs will be vital if they are to achieve their full potential and help the Indian government achieve its goals.

"One approach that is being followed by [a] few sponsors is using InvITs as mere monetisation vehicles for their own assets. We believe that a more sustainable approach is to create them as investment vehicles which will not only provide regular yield, but growth as well by aggregating assets from the market," he says.

"There needs to be clear alignment of interest between the InvIT manager and the investors. InvITs must be professionally managed and independent, and they have to look for growth through buying third-party assets and not just depend on the sponsors. For such InvITs, investor involvement in the strategy will be key."

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RAJA PARTHASARATHY
Morgan Stanley Infrastructure

Increasing options

For the government's part, Rajaraman says: "The government understands that an inclusive approach is required for both its economic and social infrastructure sectors, especially taking note of the need for access, affordability and use by vulnerable sections of [the] population. While commercial infrastructure assets are viable based on user charges, some critical sectors, such as health and water, require support through budgetary financing of projects, as well as viability gap financing."

The other thing all the roundtable participants agreed was a positive step is the level of diversity available in the projects identified in both the NIP and the NMP. With highways and power transmission dominating previous monetisation efforts, the ability to invest in new types of projects has been welcomed.

"The monetisation pipeline will ensure a large and regular flow of operating assets for yield investors. This will also bring efficiency in managing these, resulting in improved productivity for India," Chordia says. "This plan is more inclusive, rather than focusing on just a few sectors, and gives a lot of clarity to investors that there will be investable projects and a pipeline that is not just talk. The number of subsectors within infrastructure is going to increase, and size and scale is going to go up.

"We estimate this opportunity to invest in infrastructure assets to be over $300 billion by 2025, thus making it a large secular opportunity for investors with long-term capital looking for yield and stable returns. We can act as a gateway for such investors who want to participate in this opportunity."

Parthasarathy says it is "incredible" to now be talking about railway assets, sports stadiums and even warehouses as being up for grabs in the monetisation pipeline, as well as other assets that might not even fall under traditional definitions of infrastructure. "That kind of progressive thinking really encourages us," he says.

And Chordia says he is happy to see the central government take on board lessons from Australia's Asset Recycling Programme, providing the potential for infrastructure investment incentives to state governments that opt to monetise more assets. "The government has acknowledged that, to invest more capital, they need to monetise assets – the successful model in Australia has been quoted by the government and the expectation is that they will adapt this model to the Indian environment."

Roads and energy still relevant

All this change is not to say that the traditional powerhouse sectors of private participation in Indian infrastructure, highways and energy, have diminished in importance. In fact, they are just as relevant as ever.

On highways, CPP Investments has built a substantial portfolio of 23 toll roads in the country, and its "remarkable resilience" during the pandemic has confirmed the investor's positive outlook.

"Highways are of particular interest to us as a long-term investor because of their close correlation to macroeconomic trends," says Saha. "Roads have strong correlation to GDP, and an investment in highways has a multiplier effect on local growth, so it is like creating a virtuous cycle every time you invest in a highways project. We see roads as a long-term story and we look through short-term disruptions such as a pandemic leading to a one- or two-year reduction in traffic."

Edelweiss Alternative Asset Advisors' Infrastructure Yield business is also a significant investor in Indian roads, and Chordia says that assets in India have shown stronger resilience than comparable assets in countries like the US and Canada.

"One of the primary factors in that has been that most traffic on Indian roads is freight, not passenger traffic. Because of local demand and India's size, the demand for manufacturing and consumption came back very

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SUBAHOO CHORDIA
Edelweiss Alternative Asset Advisors

strongly, which led to more movement of cargo on the road," he explains.

"The other interesting and low-risk opportunity for investment in this sector is availability-based models like national highways with annuity contracts. The cashflows for the asset owners in annuity roads are pre-defined and with very low counterparty risks."

Meanwhile, in energy, the big story is renewables, where the government had a goal of installing 175GW of renewable generation capacity by 2022 and 450GW of capacity by 2030.

"We have just crossed 100GW of renewable capacity against the FY22 target. I think the overall goal of 450GW by 2030 may be achievable through proper policy support, timely approvals, and a focus on allied infrastructure development like transmission infrastructure," says Saha, adding that renewables has been a "key area of focus in real assets" for CPP Investments in India outside of highways.

Agarwal says that more than 100GW of renewable energy is already installed and another 77GW is in various stages of development. He emphasises that the 2030 target offers enormous opportunities for investors.

"The 450GW target seems very, very large today, but if you look at per capita power consumption, India's is relatively small – we're one fourth of consumption in China and one thirteenth of consumption in the US. It has started to show changes, and month-on-month electricity consumption is rising," he says.

"When things become economically viable, there is rarely a country that is better than India in executing. Solar and wind have both become affordable for emerging economies, so we have been able to replicate these projects again and again. In my view, we are one of the most aggressive emerging economies in cutting down our emissions – we've promised to cut 33-35 percent of our emissions by 2050, and the entire 450GW target is testament to that."

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RAHUL AGARWAL
Invest India

Parthasarathy says India has an opportunity to take a leadership position on renewable energy, and climate policy more broadly, thanks to the country's position as a "laboratory for climate change".

"In India, we see everything from melting glaciers to excessive rain and the ensuing floods, to droughts and desertification, to coastal erosion. There are so many climate change themes playing out simultaneously in India, and we therefore have a unique opportunity to imprint on each of our infrastructure solutions an environmental damage-mitigation objective.

"I think this government has really taken the climate change bull by the horns. Private investors are also very focused on sustainability – each of us here is asked hard questions about how specific investments are contributing to sustainability, more efficient use of resources and so on. I'm encouraged by the direction this dialogue is taking, and the very real impact that it will

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> **KAVITA SAHA**
> **CPP Investments**

have on infrastructure development in India."

Where does India rank in comparison to other emerging economies now?

Saha says there are still "a number of sectors yet to attain scale" sufficient to attract certain types of institutional investors. "In certain sectors, India is very comparable to the leading emerging economies, but there are others – like water, for example – where there aren't scalable opportunities. That is where the NMP can help to open investment, by providing a clear commercial framework and visibility."

Agarwal adds that sectors where privatisation began much earlier, such as roads and renewables, do "stand out" currently, but that the NMP should help in other sectors within the next two to three years. "Compared to other emerging economies, I believe we've done well in these areas, which is why the valuations we've seen in roads and renewables compare well to developed economies," he says.

"Over the last decade, India has constantly gained traction with institutional capital. Last year, we received private equity investments of more than $60 billion, which is 10 times the number we attracted 10 years ago.

"We are constantly speaking to investors to understand what they want, what risks we can pass on to them and what risks we can manage on our own. We are committed to doing better in other sectors, too, and offer more opportunities for global investors to deploy capital in India."

Room for improvement

Chordia says the NMP offers a chance for investors to not only invest in assets, but to improve them too – and thus help India's growth accelerate further.

"These assets are currently being managed by government entities. We've seen this in Australia – government monetisation there wasn't just about raising capital, but also about making assets more efficient with the private sector managing them.

"This requires local expertise and strong asset management capabilities, by having an independent platform in India with robust processes and a technology mindset. I hope the NMP will create an ecosystem for the same in India."

Meanwhile, Parthasarathy concludes by emphasising that we only have to look at the list of investors making their first forays into India's infrastructure to see how attractive the opportunity has become.

"Capital is highly mobile, and it tends to move based on where it sees the greatest opportunity, either in potential for sizeable deployment or where the risk-return trade-off is well balanced. I don't think any of the investors on this roundtable actually had large teams on the ground 10 years ago, deploying capital into infrastructure in India.

"Today you see new names and new firms setting up in India all the time. That to me is the greatest measure of whether India is firmly on the radar of international infrastructure investors, whether they be strategic investors, sovereign wealth funds, or pension funds.

"There is such a variety of opportunities for capital deployment into Indian infrastructure and I'm encouraged to see that the list of infrastructure investors grows every year." ■