Infra Outlook 2020

Year 2019 saw a slew of initiatives being announced by the government to steady the economy and push the growth in the infrastructure segment for achieving the numbers it had set for itself. With 2020 not too far away, EPC World looks at the year that went by and the hopes for the coming year in the infrastructure segment.

In the recently released Doing Business Report (DBR, 2020) by the World Bank, India has recorded a jump of 14 positions against its rank of 77 in 2019 and is currently placed at 63rd rank among 190 countries assessed by the World Bank. This sharp rise in the rankings could help to lure multi-national companies and push the wheels of growth of the country's economy. In the year 2019 and earlier, a number of infrastructure development projects initiated or accelerated in different segments.

The year 2019 also saw an increase in the total national highways length increased to 132,500 kms from 92,851 kms in FY14 at a pace of about 30 kms a day during the fiscal. Under the Sagarmala Programme, more than 574 projects costing about INR 6,000 billion have been identified for implementation for the port modernization & new port development, port connectivity enhancement, port-linked industrialization and coastal community development. A total of 121 projects costing INR 302.28 billion have been completed and 201 projects costing to INR 3,090 billion are under implementation as of September 2019.

The Government of India has realized the importance of infrastructure towards the economic and social growth and it has become the biggest focus area with an allocation of INR 4,417 billion for infrastructure development in the 2019-20 Union budgets. It is also estimated that an investment of INR 5,000 billion will be needed for railways infrastructure between 2018-30 periods. And in order to push the growth buttons, efforts are being made all across to make infrastructure the flag bearer for making the country achieve momentous growth.

Further, in continuation of its goal to become a USD 5 trillion economy by 2024, India plans to spend USD 1.4 trillion on its infrastructure in the next five years, Union Finance Minister Nirmala Sitharaman said recently. Sitharaman, while speaking at the annual meeting of the International Monetary Fund (IMF), shared that a task force has been constituted in the finance ministry and assigned the job to draw up a pipeline of national infrastructure for the next five years. "As we envisage becoming a five trillion-dollar economy by 2024-25, our focus on creating world-class infrastructure has become even more resolute. If we spent USD 1.1 trillion on infrastructure in the last 10 years (2008-17), we now are going to invest about USD 1.4 trillion in the next five years," she said.

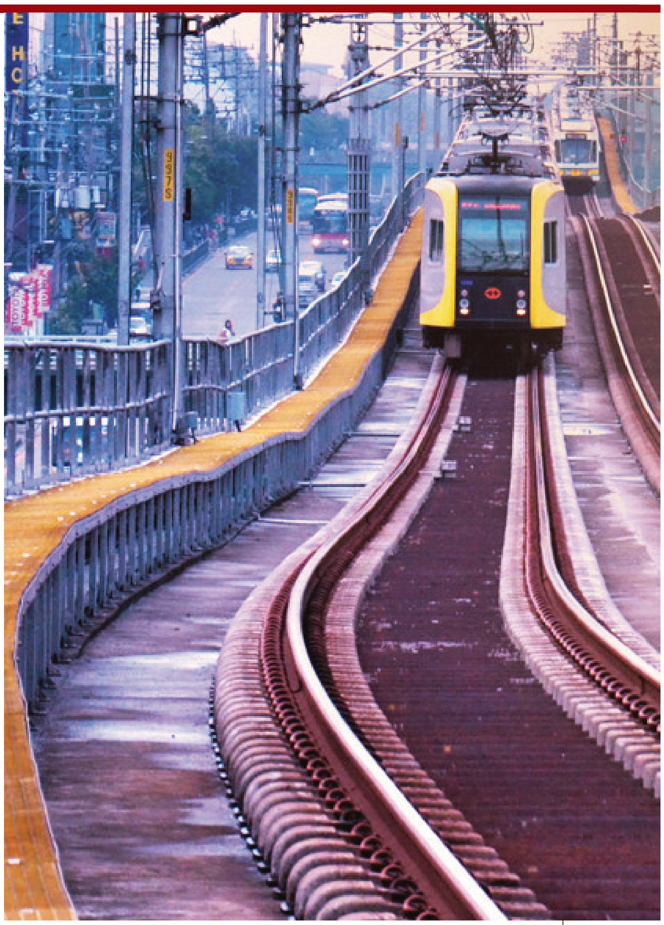
The minister also informed how the nation has taken a number of measures to enhance infrastructure investment by launching innovative financial vehicles such as Infrastructure Debt Funds (IDFs), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs) and laying down a framework for municipal bonds.

"We are already applying Public Private Partnership (PPP) models in the country. We have adopted the Asset Recycling model to modernize existing infrastructure, like highways, while providing government with upfront capital to support new infrastructure," she said.

Her sentiments were also echoed by Union Steel Minister Dharmendra Pradhan at the Global Forum on Excess Capacity (GFEC) Tokyo. Addressing the forum, the Union Steel Minister stated that with rapid economic and infrastructural development in India, the demand of steel has seen substantial increase and is expected to increase further in the future as the country gets on in its journey to develop into a USD 5 trillion economy by the year 2024.

While the challenges lying ahead of the infrastructure sector are not new, what matters is how the policy makers must re-examine their outlook towards these pertinent issues and come up with solutions that can make a lot of difference.

"The infrastructure development industry in India is expected to record an estimated CAGR of over 15% to reach nearly INR 51 trillion by 2022. The sector is highly responsible for propelling India's economic growth and overall development of the country having strong focus from the Government with initiating policies that would ensure continuous development. With dedicated budgetary allocation for large projects like Jal Jeevan Mission, irrigation schemes, Bharatmala, Sagarmala, Smart City Mission, Pradhan Mantri Awas Yojana, new metro rail policy, Housing for All, North East Special Infrastructure Development Scheme (NESIDS), etc. will be driving the growth of India's Infrastructure sector," Subhash Sethi, Chairman, SPML Infra Limited. 100% FDI is allowed under the automatic route for urban infrastructures such as urban transport, water supply and sewerage and sewage treatment as well as in completed projects for operations and management of townships, malls/shopping complexes, and business constructions. The modified industrial infrastructure upgradation scheme has been reformulated and extended to improve industry standards by enhancing the infrastructure of the start-ups through Public-Private Partnership (PPP) to provide support for the technical upgradation for new ventures. "As the policy reforms is continuing, we expect that there will be further easing of norms and guidelines for statutory clearances related to large infrastructure development projects in the year 2020," shared Sethi.



Another initiative launched, as shared by the minister, has been the National Investment and Infrastructure Fund (NIIF). This fund is directed towards channeling investments from both domestic and international sources into infrastructure. "India's experience with such innovative modes of funding holds an important example in financing of infrastructure for other developing countries," the minister had said.

Noting that the rural economy is vital for India,

Key infrastructure projects announced in 2019

- Road network: Augmenting 1, 25, 000 km of rural roads under the Pradhan Mantri Gram Sadak Yojana (PMGSY) at a cost of INR 80,250 crore.
- Restructuring of National Highways: A comprehensive restructuring of the National Highways Programme is also on the anvil to create a national highways grid of desirable length and capacity.
- Railway infrastructure: INR 50 lakh crore have been allocated to develop railway infrastructure between 2018-2030. Proposal also made to utilise Public-Private Partnership (PPP) mode to expedite developments.
- Metro rail development: Metro rail initiatives to be enhanced by encouraging more PPP initiatives and ensuring completion of the sanctioned works. Steps will be taken to support Transit-oriented Development (TOD) to ensure commercial activity around transit hubs.
- Inland waterways: Using the PPP model to develop inland waterways to reduce dependence on roads and rail as well as provide a cost-effective mode of transport.

Source: ANAROCK Property Consultants

which depends heavily on agriculture, she said the country has achieved high food grains production but returns in the sector are somewhat subdued due to a dip in agricultural commodity prices globally and depressed food prices domestically.

"To provide relief by way of income support to the farmers, the government has announced the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) this year...nearly 145 million beneficiaries in total will stand covered under this scheme," she said. It was also shared that the country is adopting Zero Budget Natural Farming model to promote the use of organic seeds and natural fertilizers by farmers. "This will reduce their expenditure and remove their dependence on credit. Such a step would contribute to our goal of doubling farmers' income by 2022," the minister had averred.

The country is also trying to develop brownfield assets as a separate asset class for infrastructure investment, the finance minister had added. "One way to address adequate financing for infrastructure is by developing brownfield assets as a separate asset class for infrastructure investment. These assets are considered de-risked as they are already operational and have land, forest and environmental clearances. This makes brownfield assets attractive for institutional investment from pension, insurance and sovereign wealth funds," shared Santhosh Kumar, Vice Chairman - ANAROCK Property Consultants. He further added how the adoption Toll-Operate-Transfer (TOT) model has been a successful example of developing brownfield assets as a separate asset class. "Existing toll roads are being auctioned to private operators on thirty-year leases, giving them the right to collect tolls. On their part these private operators have to maintain the roads and transfer them back to the government after 30 years. A similar monetisation of government assets needs to be scaled up in the future. It has taken place to some degree in the case of airports and should be extended to railways, power plants, dams, ports and other infrastructure assets. This step can help raise adequate finance to develop new infrastructure," averred Kumar.

The clear advantage of a brownfield asset is that the required acquisition and clearances are already available that substantially reduce the time and start-up costs. "In many cases, with brownfield asset already been created, time devoted to construction can be avoided and infrastructure facility is ready to use from day one. Going ahead with this idea, the government could put up some operating brownfield assets, such as ports, airports, power plants, roads etc. for investors to get low risk project options to invest. These low risk projects will also attract international wealth funds and lenders who are willing to bring in long term funds into India for such projects," said Sethi.

While issues may have plagued the Indian infrastructure story, all hopes have not been dashed. In some positive development coming in, Beijing-based Asian Infrastructure Investment Bank (AIIB) is evaluating loans worth over $2.2 billion for funding power transmission and distribution projects in Assam, metro rail projects in Chennai, Mumbai and rural water supply system in Karnataka, the multi-lateral lender's vice-president and chief investment officer DJ Pandian has said. AIIB has also started preliminary discussions with the Indian government to fund electric vehicle charging stations in the country along with the World Bank and the Asian Development Bank, Pandian said.

"Amid slowdown and a gloomy economic scenario, the development of infrastructure projects is vital to revive the economy. Quality infrastructure can pave the way for broad-based and inclusive growth and achieve the GDP target of $5 trillion by 2024-25. While several infrastructure projects covering road, rail and metro were announced this year their timely implementation and completion is essential. The setting up a task force to identify key infrastructure projects as well as monitor their progress is a step in the right direction," said Kumar.

Low on Energy?

The Indian renewable energy sector is said to be the fourth most attractive renewable energy market in the world and we ranked 5th in installed RE capacity. Despite all of the above, the pace of capacity addition in the renewable energy sector has slowed down. "In the year 2019, we have only commissioned about 8.6 GW of solar and wind projects against 11.3 GW and 11.8 GW in 2017 and 2018 respectively. This indicates a drop of 30-40% in the capacity additions. To add to this, one can say that wind as a sector has gone through the worst year ever with minimal capacity addition and marginal interest in all the auctions that have come up. Solar, on the other hand, continues to keep going along and we are seeing a minor upward revision in the tariff rates at these auctions. However, this upward revision still does not give enough

confidence as to whether these rates are going to be sustainable over the next 25 years. It is important to see how the projects built at record low tariff prices perform financially. Another key take away in 2019 is that we have seen a lot of regulatory actions in terms of projects with government PPA's. One such example is of Mr. R K Singh, where he came down heavily on the payment delays by the DISCOMS. Because of the attention bought to this problem, we've finally observed some improvement and noticed that letters of credit are being allotted to power generators. But it is saddening to say that on the policy front, we have seen unfortunate developments that will prove to be detrimental to the rooftop sector," said Animesh Damani, Managing Partner – Artha Energy Resources.

The current rooftop target is to build 40 GW solar plants by 2022. "As a country, we are only at 4 GW which is only 10% of the actual target. Despite this, low achievement, states are establishing policies for solar rooftop where they are moving away from net metering to net billing or gross metering. Removal of net metering defeats the financial viability and case of setting up a solar rooftop plant making it unattractive to commercial and industrial users. The overall takeaway has not been very positive for the sector," adds Damani.

For the coming futre, Damani adds that it will be important to observe how the SECI auction of

There are a few points that individually affect the entire RE sector on an individual level

- **Capacity addition:** In 2020 a lot of clarity will come on the actual capacity auctioned and how much of it is actually set up under the existing low tariff regime. Moreover, we will get to see how they are performing on a financial and technical basis. This will indicate whether these low tariff rates were viable to build or not and if yes, then how well have they performed which will be a lesson for the sector as a whole. We are really looking forward to that data!
- **Government intervention:** With regard to the wind sector, we are hoping for some government intervention in terms of a repowering policy or a more lucrative tariff rate for the sector. If the government doesn't intervene, we might see even companies like Suzlon evaporate or restructure and shrink in size.
- **Regulatory perspective:** the rooftop solar market will undergo more policy changes making it unattractive to set up rooftop plants.
- **National Electricity Plan:** Lastly, we are all looking forward to the national electricity plan to see what the final verdict is and what are its implications for the sector

Source: Artha Energy Resources

the Badla project auctioned at record low rate of 2.44 will fair. "Or more accurately, how will these projects be built and how they'll perform on technical and financial parameters. This will help the entire ecosystem to either stand proxy that projects can be built at such low prices or will turn out to be a learning lesson for future auctions," shared Damani. He also shares that certain examples which can be adapted to enable a push in the sector include:

- Sticking to net metering.
- Tariff rates to be established considering the project viability
- Stringent policies to enable timely payment from the DISCOMS
- Separation of carriage and content business of DISCOMS
- Privatization of the distribution sector

The Government is looking for new ways to raise funds for infrastructure financing by setting up Credit Guarantee Enhancement Corporation, deepening the market for long term bonds and permitting investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund. "After the successful implementation of the TOT model in some states, it needs to be extended to other parts of the country. Other infrastructure assets such as airports, railways and ports must also be monetised to raise capital. Going forward, systemic changes need to be made fund infrastructure without burdening the taxpayer and also keeping a tab on the fiscal deficit. More PPP initiatives will also go a long way in pushing the growth of infrastructure in the future," said Kumar.

Industry is hopeful for a better 2020 in the infrastructure segment. It is projected that India will become the third largest construction market globally by 2022 and there will be an investment requirement worth INR 50 trillion in infrastructure. "Sectors such as water supply and irrigation, power, roads, metro rail, airport and renewable energy will drive the investments in 2020 and beyond. The major projects that will be leading the investment and execution during 2020 will be Jal Jeevan Mission, Renewable Energy Generation, Delhi-Mumbai Industrial Corridor Scheme, Sagarmala & Bharatmala Pariyojana, Roads & Highway projects and Industrial Corridor schemes, Wastewater treatment projects under Clean Ganga Mission," said Sethi. The Swachh Bharat Mission Urban, Housing for all and Smart City Mission will also be fueling the growth of urban infrastructure and construction development. "We expect more new schemes to be launched during the year for the dedicated freight corridor, international trade corridors, airport and railway station development and revamp and commercial & industrial township projects," he added further.

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