"Prospects for infrastructure sector will certainly look even better"

Srei Infrastructure Finance Ltd, a Kanoria Foundation entity, is one of India's largest holistic infrastructure institutions, constantly and consistently delivering innovative solutions in the infrastructure sector. An interview with Sameer Sawhney, the CEO of the company. **Excerpts:**

What are the prospects for the infrastructure sector in India over the coming years?

In order to sustain the growth momentum and to create jobs, the government has been proactively spending on infrastructure creation. An estimated budgetary and extra budgetary expenditure of ₹5.97 trillion (USD 92 billion) has been finalised for 2018-19.

If we look at the sector-wise plans, a stimulus package of ₹7.8 trillion (USD 120 billion) has been planned for roads & highways and rural roads over the next 5 years, another ₹35.3 trillion (USD 540 billion) is to be spent on modernisation of railways till 2032 and another ₹1.42 trillion (USD 22 billion) has been envisioned for modernisation of ports till 2035.

Other than these, the government has initiated a number of sector-specific reforms to attract private investments in power, mining, oil & gas, airports, affordable housing and special economic zones.

While the government is taking the lead in infrastructure investments, we must not forget that India is one of the few countries where PPP has played a major role in infrastructure creation.

But presently, except for a few sectors, the private players are mostly in a wait-and-watch mode when it comes to infrastructure projects. This is because some of the earlier PPP projects ran into trouble due to some errors in judgment.

But the lessons from those have been learnt and course correction is in progress. So, once the private sector's appetite revives, the prospects for infrastructure sector will certainly look even brighter.

Do you see continued growth in demand for infra financing in India?

A thumb-rule says that infrastructure must grow at 2xGDP growth rate. Thus, if India's GDP has to grow at more than 7% every year, we are looking at a minimum 14% annual growth in infrastructure investments.

Thus, demand for infra financing will be there. I cannot predict an exact timeline on when we can see private investments starting to pour into infra projects. But what is visible now is a healthy pick-up in demand for infra equipment, and this is usually seen as a precursor to a pick-up in project financing.

The question we need to ask is where from will the funding come. Banks, especially public sector banks, have been the predominant source of loans for infrastructure projects so far.

But now with the banking system saddled with bad loans, banks might not want to increase their exposure to infrastructure. The NBFC's, especially the Infrastructure Finance Companies (IFC's) have been playing an increasing role in financing of infra projects and I expect the same to continue.

With the quantum of funding that will be required, there is a need to explore alternative fund sources, especially long term funds like pension funds and insurance funds, both domestic and foreign, as they are looking for long term cash generating assets and Infra projects do need long tenor funding.

There is also lot of liquidity in the global markets that is looking for attractive yields and I do see private debt funds, both domestic and international, being willing to invest in the India infra story if they get the right USD return and some of their concerns around regulatory risk can be mitigated.

What are the challenges that an infrastructure sector lender faces in today's economic environment in India? Are there any changes in the laws that infra financiers are looking at?

I feel perhaps it is worth reviewing the definition of NPAs. It defies logic why the same yardstick for NPA classification should apply for a car loan, a home loan and a loan for an infrastructure project. The asset classes are vastly different.

The variables affecting an infrastructure loan are more in terms of number and complexity vis-à-vis the other two asset classes. Thus, if the risks associated with each asset class are different, by that logic the criteria for NPAs should also differ from asset to asset.

Infra lenders often become victims of adverse changes in market conditions and sudden changes in policies and regulations. It is the second category which is avoidable.

For example, rules regarding land acquisition or environment-related clearances, once changed, can render many a project unviable. The government would need to ensure that infra lenders do not become victims of such policy changes.

Other than these, each infrastructure sector has its own set of variables and therefore its unique set of challenges. For example, a power generation project may become unviable due to shortcomings on the distribution side.

Thus, for each sector a lot of thinking through is needed during policy formulation. Also, an independent regulator and a dispute redressal mechanism is a must for each sector.

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Sameer Sawhney
CEO, SREI Infrastructure Finance Ltd

Could you tell us about your overall exposure to the sector in India?

The company has been playing a significant role in nation-building for nearly three decades, both in urban and rural India. Currently our Assets Under Management (AUMs) stands at around ₹17,000 crore as on 31st December 2017, which is distributed amongst sub-sectors like Road, Aviation, Ports, SEZs, Hotel, Warehousing, Power and Other Infra Sectors.

SREI Equipment Finance Limited is one of the leading financiers of Construction and Mining equipment and had an AUM of around ₹28,500 crore as on 31st December 2017.

So SREI group today supports infra financing starting from equipment financing for the projects right up to project financing of the entire project itself, making us one of the largest infrastructure financing groups in the country.

With India's trade and business relations with the rest of Asia expanding rapidly, do you see good potential to service this market?

We are always on the lookout for opportunities. There are markets in Asia where we feel we can replicate our Indian experience. But we will zero in on any such market only after doing thorough homework on the existing rules and regulations of the land and a proper analysis of the scope and potential of the market. •