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Role of govt policies in facilitating equity investments in smart infra projects

Infrastructure is the main pillar which supports all the other industries in an economy urbanisation would lead to increased demand for utilities (clean water, sustainable po efficient modes of transportation) and this would lead to even more pressure on the a stretched infrastructure.

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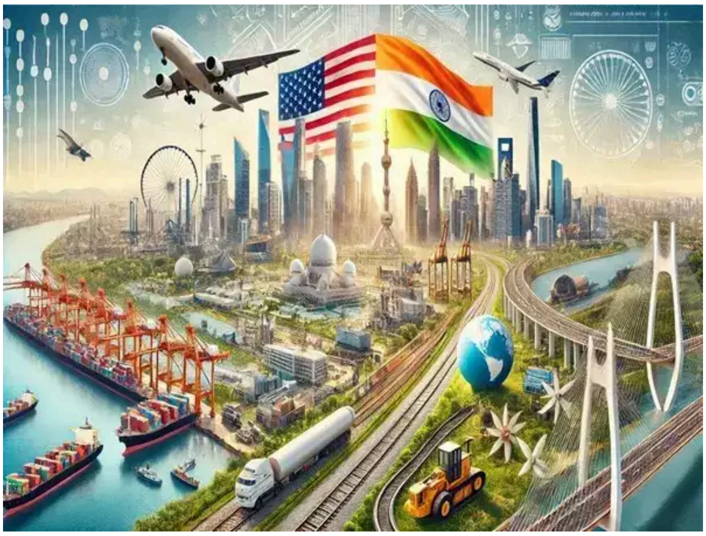
As India works towards achieving its target of a $5 trillion economy by 2025, significant enhancements are required in the infrastructure sector.



One of the most innovative and modern solutions to attract private capital is the Infrastructure Investment Trusts (InvITs). InvITs are a unique structure which allows investors to access yield from infrastructure projects.

Technology or smart infrastructure projects will play a key role in achieving this target by ensuring timely completion of projects while maintaining the prescribed quality standards and budgets. The Government of India in their interim budget for the year 2024-25 increased the capital investment outlay for infrastructure to INR 11 lakh crore, which amounts to ~3.4% of India's GDP.

The Government of India has undertaken many steps to attract private capital and private sector expertise to the infrastructure sector.

Renewable Energy

Renewable energy is also a key focus area for the Indian authorities and attracting private sector expertise to this sector has been a key policy goal. The Government of India has permitted up to 100% FDI under the automatic route to attract foreign investments (which are mostly in th form of equity) in the Indian renewable energy sector.

The government has also rolled out an ambitious centralised procurement program of bidding through the central utilities to mitigate the payment risk in this sector. Open access and third-party sale rules have also been simplified in order to allow the industrial and commercial sector to access clean energy for their requirements. A summary of key government schemes is presented below:

- **Wind Energy:** The Government has managed to garner significant interest by the private sector for investments in wind energy in states like Karnataka, Tamil Nadu and Gujarat. This was made possible by introducing initiatives such as competitive bidding, streamlined regulatory process, interest rate rebate and extending all the fiscal and financial benefits to repowering projects as well. The Government also announced the 'National Wind-Solar Hybrid Policy' in 2018 to promote large-scale wind and solar hybrid projects, in order to address the intermittency of each source of power and help improve grid stability. Under this scheme, 1.44 GW of wind-solar hybrid capacity has been installed in the country till March 2024.
- **Renewable Purchase Obligations (RPOs)**: RPOs were introduced to promote investment in renewable energy by setting up floor prices to ensure viability of the business model.
- **PLI Scheme for Solar Modules**: During 2020, the Government launched the Production Linked Incentive (PLI) Scheme for creating gigawatt-scale solar PV manufacturing capacity in India. During the Tranche-I of this scheme, 8,737 MW of fully/partially integrated solar module manufacturing capacity was set up in India. This capacity is now in the process of seriously scaling up with Letters of Award (LOA) being issued to 11 successful bidders in April 2023 under Tranche-II of the scheme, to set up solar PV module manufacturing capacity of another 39,600 MW. Out of the 11 successful bidders, 4 bidders have already commenced their manufacturing activities.

The renewable energy sector in India received FDI inflow of ~USD 18 bn during FY21 to FY24. There are numerous schemes, incentives and other investment facilitating conditions being executed by the government for this sector. We have added 64 GW of Renewable Energy capacity in the last 5 years and nearly all this capacity has been added by the private sector at an estimated investment of INR 32,000 crore.

Roads

'National Monetisation Pipeline' was introduced in August of 2021 and aimed to monetise INR 6 lakh crore through monetising some of the core assets of the Central Government Ministries and Public Sector Enterprises.

Roads has been one of the most successful performers under this scheme with the Ministry of Road Transport and Highways (MoRTH), raising ~INR 40,000 crore in FY24 and over INR 1.1 lakh core in the past 7 years. For FY25, NHAI has released an indicative list of 33 road assets (totalling to 2,750 km across 12 states) up for monetisation with a cumulative annual toll collection INR 4,931 crore. NHAI has set a target to raise INR 54,000 crore in FY25.

The comprehensive implementation of FASTag has been one of the biggest success stories in Indian infrastructure. Stable and higher toll collections are imperative to NHAI's strategy of monetising its assets on a large-scale.

These toll collections also help infrastructure developing companies to monetise their own road assets, thus increasing the overall investment into the sector. During Q1FY25, FASTag toll collections grew ~6% YoY in volume and ~10% YoY in value. Till 31st March 2024, 8.81 crore FASTag have been issued with a penetration rate of 98.5% in toll collection and a daily average toll collection of ~INR 191 crore.

Smart Cities

India's Cabinet Committee on Economic Affairs approved 12 new smart city projects during August 2024. These projects are estimated to attract USD 18 bn in investments from large industries and MSMEs.

These cities will have modern and sustainable infrastructure through the use of concepts like 'plug-and-play' and 'walk-to-work'. A commitment by Hyundai to establish an automobile hub on 450 acres of land has already been made for one of the smart cities.

Aviation

With the rise in the per capita income and middle-class demography, demand for aviation is expected to increase enormously. India is expected to have 220 operational airports by 2025. The Government has approved development and upgradation of 19 airports, out of which seven are going to be developed on a Public-Private Partnership (PPP) model with an estimated investment of ~USD 42 bn.

There has been a growing trend in private sector participation in the Indian aviation industry. Currently there are about 14 airports being operated under the PPP model and the Airport Authority of India has selected another 25 airports for leasing to private players. This sector is expected to witness investments worth USD 25 bn by 2027.

Attracting retail and foreign capital to infrastructure yield

One of the most innovative and modern solutions to attract private capital is the Infrastructure Investment Trusts (InvITs). InvITs are a unique structure which allows investors to access yield from infrastructure projects.

In a market which has limited avenues for international and domestic investors to invest in high yield debt kind of instruments, InvITs have found strong interest from both domestic retail as well as international investors. As of May 2024, 25 SEBI registered InvITs have raised approximately INR 1.11 lakh crore.

Infrastructure is the main pillar which supports all the other industries in an economy. Rapid urbanisation would lead to increased demand for utilities (clean water, sustainable power and efficient modes of transportation) and this would lead to even more pressure on the already stretched infrastructure.

The Government of India's policies would be crucial for improving the overall standard of the infrastructure, which can only be done by active participation and investment by the private sector and foreign investors.

(The author is CEO of Impact Infracap; Views are personal)

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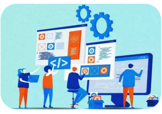
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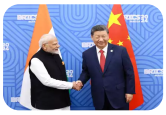
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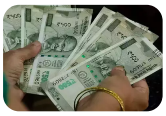
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