Unleashing India's infrastructure potential: EY Roundtable Insights

Building a better working world

India's infrastructure sector is poised for strong growth, with planned investments amounting to US$1.4 trillion by 2025. The government's ambitious National Infrastructure Pipeline (NIP) program outlines the injection of massive capital into various sub-sectors, including energy, roads, railways, and urban development. This unprecedented push is expected to spawn associated industries, create jobs, and stimulate the economy. Specific focus areas are the expansion of public digital infrastructure, clean and renewable energy projects, and establishing resilient urban infrastructure. This ambitious undertaking seeks to enhance India's global competitiveness and improve the quality of life across its vast populace.

On 2 February 2024, EY hosted an Infrastructure Roundtable at its Gurugram office. The session was attended by some of the top C-suite representatives of the Indian infrastructure space, who discussed and deliberated the ongoing trends and way forward for this pertinent sector. Participating companies included GMR Airports, Fortum India, Hexa Climate Solutions, EDF Renewables India, O2Power, Jakson Green, NKC Project, Enel Green Power, ib vogt and Mobility Infrastructure Projects.

The session offered a deep dive into the state of the infrastructure sector in India and various factors impacting it. Here are the key takeaways from the discussion:

Capex in Indian infrastructure

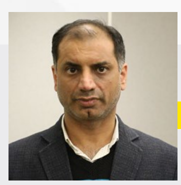
The Indian government's proposed capital expenditure has a heavy emphasis on the renewable energy and road sectors. This trend reflects in the bulk of transactions and investment activity happening currently, but highlights the importance of having a diversified focus across sectors.

Investments in renewable energy and roads drive India's infrastructure growth, paving the way for sustainable development.

Ajit Krishnan,
Partner, International Tax and Transaction Services, EY India

Buyer-seller dynamics

The balance of buyers and sellers varied significantly across sectors. For example, on highways, sellers far outnumbered buyers. In transmission, on the other hand, there were primarily buyers, indicating a possible dearth of investment opportunities. The dynamics of these relationships significantly impact return expectations and perceived value.



The construction of new highways stimulates the economy through job creation, infrastructure development, and enhanced transit efficiency.

Anil Chawla,
CFO, NKC Project

Importance of differentiating business

Given the crowded marketplace in sectors like renewable energy, differentiating businesses has become essential. Companies must endeavor to stand out in order to attract investment and buyers.

Market predictions

Projections for the future of the Indian economy showed promise. Different sectors could expect three to five times growth in the next few years. However, these projections varied greatly, with some estimates reaching 50 times growth.

Capital structure:

Companies in the infrastructure sector tended to stick to a certain capital structure, typically involving some combination of equity, shareholder loans, or senior debt. The panel encouraged companies to not be averse to playing with the capital structure to secure necessary funding or capitalize on opportunities.

“The airport sector in India is growing twice as fast as GDP; therefore, investors are eyeing a direct play in the sector.

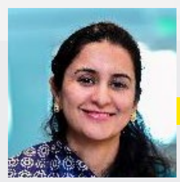
Navneet Singh,
Group CFO, Strategic Finance,
GMR Group

The role of external investors:

External investors, notably those not currently present in India, often proved to be the best partners. These investors approach the market with a "clean slate" – free from previous biases or beleaguered by past experiences, which can lead to more favorable outcomes for both parties.

Focus on exit IRR:

When negotiating transactions with investors, the focus was on the Internal Rate of Return (IRR) investors could anticipate at exit, either by listing or down selling. This practical approach recognized that no one will "sit around with an investment" indefinitely. However, the quality of infrastructure needs to find the center stage, reflected in the Hold To Maturity (HTM) IRR, which in itself will ensure a greater positive impact on exit IRRs.



“Indian infrastructure is drawing interest from a diverse range of investors, spanning both strategic and financial sectors. Deal structures encompass the entire spectrum from straight equity to structured capital and debt. Successful exits have been seen, and as the regulatory framework matures, deal sizes are also scaling up.

Srishti Ahuja,
Investment Banking Partner
(Infrastructure), EY India

Examining the GIFT City model:

The discussion also examined the Gujarat International Finance Tech (Gift) City model as an attractive option for infrastructure financing outside of India. Embedding finance companies within the Gift City could provide a useful means of lending to Indian entities and could bring down overall project costs in the long run.

“To attract more FDI, it is essential to establish certainty in the tax administration process. This enables companies to make confident investment decisions, ultimately lowering overall fundraising costs.

Anumeha Jain,
Tax Partner, EY India



Glimpse of EY Infrastructure Roundtable



Conclusion

The session provided a comprehensive assessment of the infrastructure sector in India, including market dynamics, investment strategies, and the potential impact of government initiatives like GIFT City. The conversation highlighted the importance of a diversified approach, innovative financing mechanisms, and embracing new trends, such as technology solutions.

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