

The background of the slide features a blurred, long-exposure photograph of a multi-lane highway curving through a city. In the distance, a dense skyline of skyscrapers is visible under a clear blue sky with some light clouds. The overall color palette is dominated by blues and greys, with a touch of green from trees along the highway.

**HUNT  
PARTNERS**

LEADERSHIP  
EMERGENT INDIA

# INFRASTRUCTURE SECTOR - THOUGHT PAPER

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MAY 2021

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# INTRODUCTION

As India is strongly coming out of the Covid induced recession, infrastructure sector also follows the trend, albeit a little slower than desired.

There is however no doubt that the spending will help spur economic activity along with much-desired job creation.


Nearly all the sub-sectors within infrastructure present excellent opportunities, with Highways, Ports & Airports, Piped Gas, Rail, and Energy standing out as bright spots. It is expected to have a multiplier effect on overall economic growth.





# REVIVING PRIVATE INVESTMENT IN INFRASTRUCTURE WILL BE KEY IN POST-COVID RECOVERY



A close-up photograph of a hand holding a silver pen, pointing at a bar chart on a document. The chart has several bars of increasing height. The background is slightly blurred, showing more of the document and the pen's tip.

The latest Economic Survey has assessed India's infrastructure financing needs at \$4.5 trillion by 2040. Reviving private investment flows into Infrastructure to more sustainable levels will be key to attaining this lofty target.

Currently, the quantum of private financing flowing into the infrastructure has shrunk to 20% of the total funding, for reasons including —

- i) crisis in the non-banking finance sector,
- ii) financial challenges faced by infrastructure companies, and
- iii) inadequately developed financial market for infrastructure financing.

# KEY TO SUSTAINABLE INVESTMENTS

## Risk Rebalancing of PPPs

- There is need to review risk allocation in PPP projects to ensure a more favourable ecosystem for private players as well as financing institutions to partner with government entities in the task of infrastructure creation.
- There needs to be a transition from risk allocation to risk sharing with the private sector; to make PPP framework more equitable and robust.

## Broadening of investor base and tapping into long term funds

- There is an inherent flaw in the asset-liability mismatch. To ensure sustainability of the financing landscape, refreshing institutions and policies are required for channelling long-term financing.

## Resilient policy framework

- While a robust PPP framework can address and deal with some events, there is a need for a policy-led approach for managing sector-wide events through a participative mechanism acceptable to public audit agencies

## Accelerating dispute resolution

- Delays in arbitral award and more so, inability to enforce the arbitral awards have diminished the role of alternate dispute resolution in India. With the stress induced by the pandemic and other reforms, accelerating dispute resolution is a pressing concern.

## Addressing land acquisition

- The sources of delay (and therefore cost overrun) in infrastructure projects are related to land acquisition, environmental clearances, Rehabilitation and Resettlement, removal of encroachment, shifting of utilities and availability of linkages.

## Development Finance Institution

- Setting up of the Rs 20,000 Cr DFI to promote infra financing is a welcome news. It will help mobilise Rs 100+ lakh crore required for funding of the ambitious national infrastructure pipeline.

Source: <https://www.barandbench.com/view-point/changing-trends-in-infrastructure-investment-in-india>

# INFRASTRUCTURE INVESTMENT TRENDS



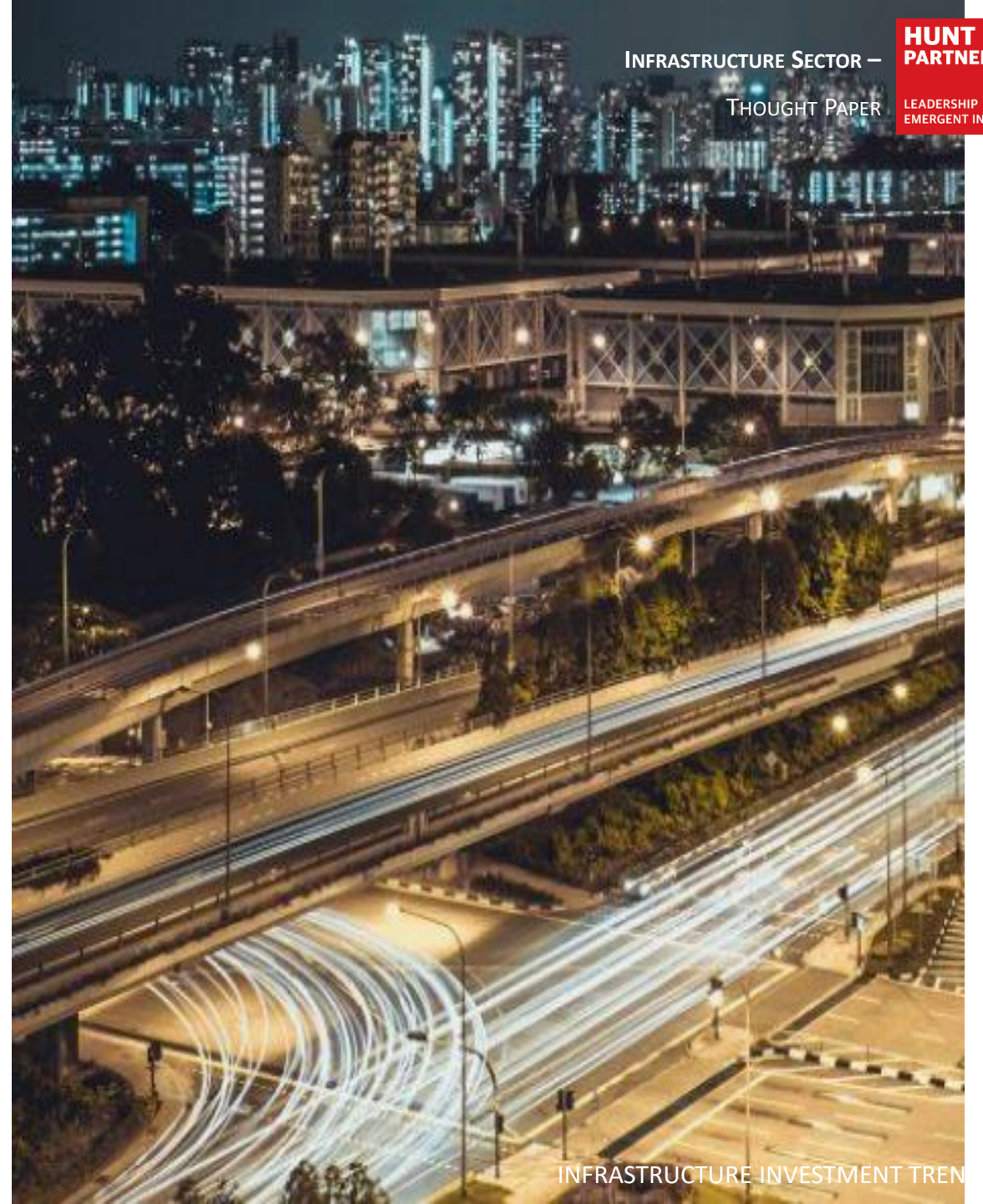


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For a project to successfully attract private capital it must be designed to match the risk appetite of the investors while assuring high returns.

The investments in the infrastructure sector traditionally focused on low-risk assets such as Toll Roads, Ports, and Utilities. With the private investment steadily increasing, while maintaining competitive pricing, it has led the investors to explore assets that are likely to yield high returns albeit with complex risk profiles.

Source: <https://www.barandbench.com/view-point/changing-trends-in-infrastructure-investment-in-india>



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## A. RECOGNITION OF FINANCIAL INSTITUTIONS AS COMPETENT BIDDERS

A good step towards encouraging private investment has come forth by recognizing the financial institutions (FI) as eligible bidders for the infrastructure projects. By allowing FIs to upfront bid for projects, instead of them passively acquiring strategic stake in such projects, serves multi-fold purpose:

- (a) cash-rich FIs are able to offer competitive yet bankable bids;
- (b) coming in as sub-contractor to an FI the project developer is released from the pressure of upfront infusion of significant equity; and
- (c) parties are better placed to assume risks suited to their strengths, where the operational risks are transferred to a project developer on a back-to-back basis.

***\*\*\* DMRC tender for the leasing of the rolling stock for the Delhi Metro used this structure***





## B. INCREASED PRIVATE PARTICIPATION IN NON-CORE SECTORS

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Annuity payment and viability gap funding had been the preferred route in the earlier concessions; however, revenue share and premium have now become the key bidding parameters. This has further diluted the restrictive caps on revenue, thus allowing the concessionaire free hand to claim revenue from the users.

***\*\* The Ministry of Railways, recently issued an RFQ for allowing private participation in the Train Operations on selected routes.***

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## C. STRATEGIC INVESTMENTS

- Infrastructure projects attract various strategic investors such as pension, debt, private equity and multilateral agencies. These strategic investors bring on board opportunistic strategies, placing a greater focus on growth, either organically or through acquisition, allowing for improvement of operations and reduction in overall risk profile of the investment to change the market's perception of the asset.
- Once complete, a strategic investor could exit the venture after effectively crystallizing the value of these improvement efforts. This transformation of course has been made possible on account of the strategic investors adopting active management of the portfolios, repositioning investments, and recruiting investment and management teams who would manage business.

***\*\*\* Actis PE Fund's creation of wind power platform 'Ostro Energy', which was eventually acquired by ReNew Power at an appreciated value, is an example of such transformation of assets.***

## D. INFRASTRUCTURE INVESTMENT TRUSTS

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InvIT's are another smart way to get investments. As of March 2021, India had fifteen infrastructure investment trusts, of which three are publicly listed.

In terms of asset classes, we have the InvIT's invested in Roads, Power transmission, Gas Transmission and Telecom Towers.

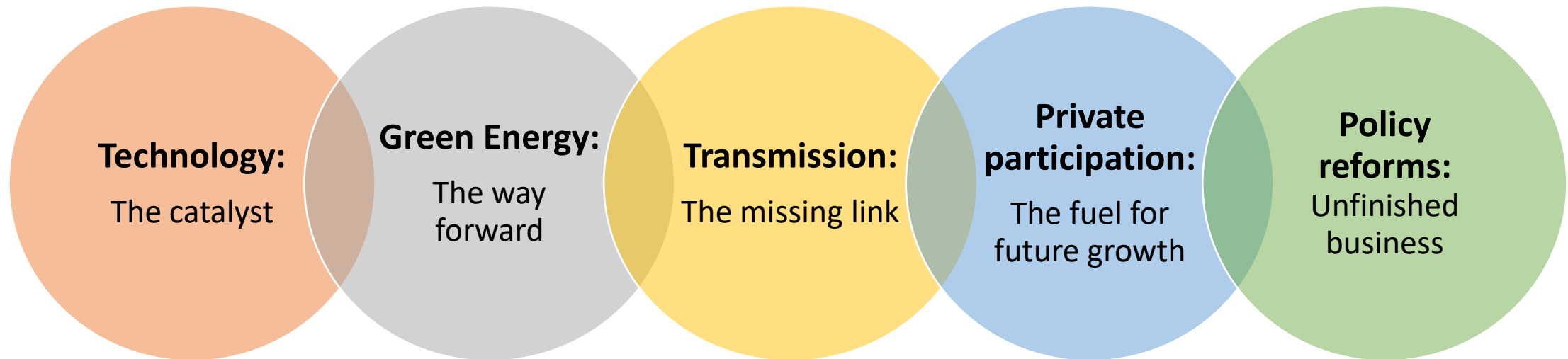




# POWER SECTOR



- In the wake of the aftermath of a global pandemic, nationwide lockdown, unprecedented collapse in country's economic activity and GDP, 2020 has also left behind a lot of learnings.
- While power demand has already started climbing back to high-single digits in tandem with GDP growth, several overarching fundamental trends are expected to drive the sector's transformation in 2021.




Source: <https://energy.economictimes.indiatimes.com/news/power/five-trends-that-will-dominate-indian-power-sector-in-2021/80408633>

# ROADS SECTOR





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- In the Roads sector, India closely follows United States, with a network of rural, urban and national-state highways. The pace at which roads are getting constructed has grown significantly from 12 kms per day in 2014-15 to 30 kms per day in FY19 before it moderated to 28 kms in FY20.
  - The recent 594 km, Ganga Expressway project, running across 12 districts and 529 villages of the UP state and costing approx. INR 36,000 Cr has got interest from 11 firms including 2 global players.
  - We will continue to see M&A transactions in the sector. Recently Reliance Infra completed sale of the Delhi-Agra road to Cube Highways for Rs 3,600 crore

# AIRPORTS SECTOR



- In 2020, the Adani Group emerged as the largest player in the airports business in terms of number of projects, after it struck the deal to acquire the controlling 74% stake in Mumbai International Airport (MIAL) from the GVK Group and other partners.
- With the GVK deal and the earlier award of six airports, the Adani Group would emerge as the country's second-largest airport operator in terms of number of passengers handled after the GMR Group, which operates the Delhi and Hyderabad airports.
- While the recovery post Covid has been slow, the sector has demonstrated its inherent strength to withstand a systemic event like Covid.



# RAILWAY SECTOR



- Despite Covid-19, 2020 marked the beginning of a new era for Indian Railways, which expects to attract investment of at least Rs 30,000 crores from private entities. The move is expected to earn Indian Railways a fee for electricity and leasing its infrastructure, as well as a share of total future revenues.
- We already have Private operators in Rail freight, such as DP World & JM Baxi among others, passenger operations will be a welcome addition.
- In the coming years, possibly 100+ modern trains will be run by private players over 100+ origin-destination pair of routes across the Indian Railways network.
- The companies which have shown interest in the project include GMR group, Spanish coach and component maker CAF, Bombardier India, Sterlite Power, Cube Highways, GMR Highways, IRB Infrastructure, Gateway Rail Freight , Welspun Enterprises, L&T among others.



# RENEWABLE SECTOR





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- Renewable energy, especially Solar, has finally edged past the point of grid parity and is now cheaper than conventional energy.
  - We continue to see new players entering the Indian market. Both Wind and Solar will continue to see investments, though the state level uncertainties are a big damper including the recent developments in both Andhra Pradesh and Gujarat.
  - Recent investments made by Total (Adani Green), Orix (Greenko), Petronas(ACME), CPPIB (SB Energy), SHV (Fourth Partner), Brookfield (Susten) show a growing interest in the Indian renewables.
  - (PLI) scheme for high-efficiency solar PV modules is expected to spur investments of about ₹15,000 crore and aims to build a manufacturing capacity of 10 GW.
  - The growth in Solar Rooftop sector has been gaining momentum slowly but steadily.
  - Another development to watch out for will be Green Hydrogen, that is generating a lot of interest even among the existing renewable players.

# TRANSMISSION SECTOR



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- Power transmission sector sees continued interest with investments flowing in from foreign investors. We saw multiple deals taking place: Sterlite Power raised funding from Allianz Global Investors & AMP Capital
  - R-Infra sold stake in PKTCL To India Grid
  - The InvIT model has generated plenty of interest among the investors, including PSU players.
  - The Indian EPC players such as L&T, Sterlite and KEC are building their order pipeline for projects outside India in geographies including Africa, Americas, and Asia.



# PORTS SECTOR



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- The Sagarmala project has provided the impetus for the sector. Increasing investment and steadily increasing cargo traffic point towards a healthy outlook for the Indian Ports sector.
  - Even though we do not see too many new projects being announced, the transaction flow remains strong, JSW Infrastructure completed the acquisition of Chettinad port and Adani Ports completed the acquisition of Krishnapatnam Port.



# GAS DISTRIBUTION





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- City Gas Distribution (CGD) market in India is forecast to witness a CAGR of 10% from 2020 to 2030. Growth in the market is anticipated on account of increasing natural gas demand from automotive, industrial, commercial as well as residential end user segments.
  - Indian players are entering into strategic collaborations to tie up the back end supply chain with global gas producers.
  - Adani Gas acquired 3 city operations and Torrent Gas too made multiple acquisitions in this year to spread their network.
  - CGD being capital-intensive it takes much longer to break even, hence limiting the field to players who have the financial capacity to operate in the sector.

# HIRING TRENDS



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After the hard hitting Covid aftermath, when most companies had to slow down, and took a hard look at their business operations, the next 12 months look lot more promising and with a more positive outlook:

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## PORTS:

- While the port traffic continues to be affected due to both demand and supply side issues, container availability etc., at the same time, we see an increasing trend for the players to move toward Integrated logistics, offering complete end to end solutions to clients. Hence demand for Leaders who can build, stitch and lead complex organizations that can deliver integrated solutions including port, transport, warehousing, and last mile connectivity.
- Renewed focus on Port Operations, to reduce cost and improve efficiency, we may see some churn at the leadership level as companies look at bringing in fresh talent to drive change and achieve the productivity ratios.



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## ENERGY:

We have a few of the players looking for Listing either in India or other global Stock Exchanges, hence need for suitable Finance/Strategy professionals who can lead this important and complex process

The emphasis from the Govt continues to keep building new capacity, hence Project management & Execution talent will remain an area of focus and hiring.

With the policy changes supporting Make in India, we should also see the players in Equipment space including Solar Panels and Electrical systems to substitute for the imports, gaining larger share of orders. Hence manufacturing capacity expansion will see heightened action, including senior level hiring for operations roles for equipment suppliers.

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## ROADS:

Like the other sub-sectors, the Roads business is also getting more and more competitive and hence the increasing focus on Project execution including cost, supply chain and operations. We see opportunities for senior professionals in Project Management, Procurement & Supply Chain, as most companies will be looking to augment these functions.

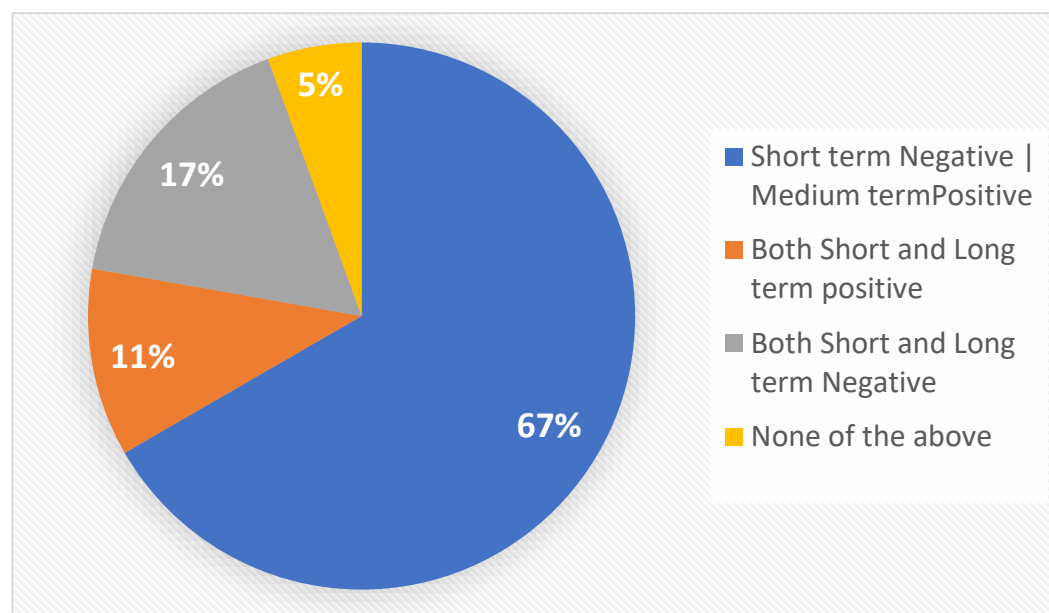
Like other Infrastructure sub-sectors, we also see opportunities for senior Corporate Finance professionals to support the massive investment that will be required to support the growth, the skills in demand being fund raising, treasury, structuring, and M&A.

# SURVEY RESULTS AND ANALYSIS



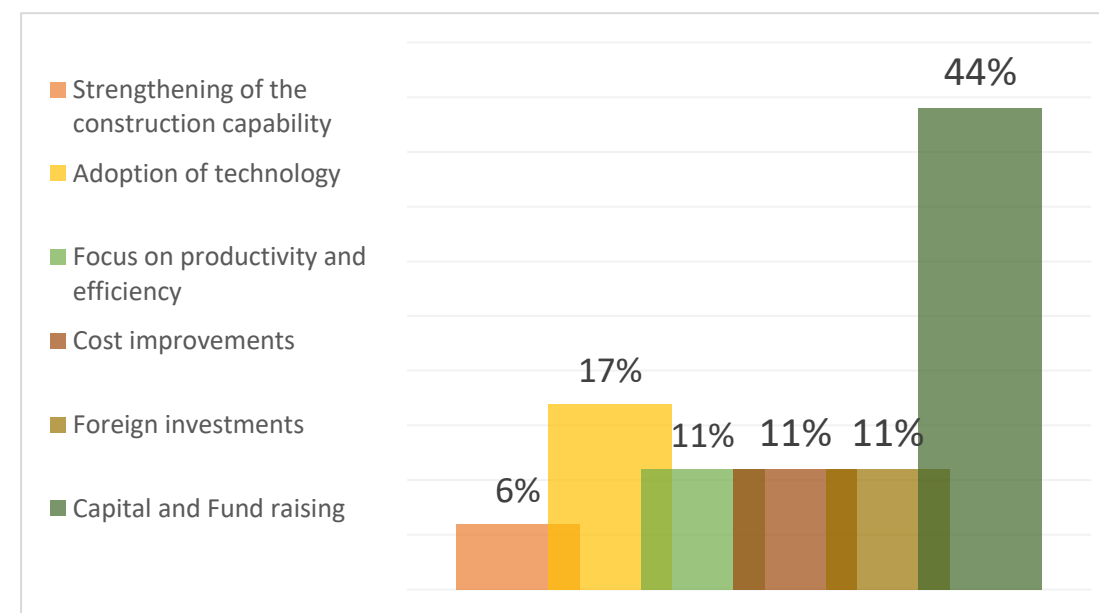
Source: Primary research conducted by Hunt Partners

## OVERALL IMPACT OF COVID ON THE INDIAN INFRASTRUCTURE SECTOR?



The overall impact of COVID for the majority set of companies (67%) in the Infrastructure sector has been negative in the short-term and positive for the medium term.

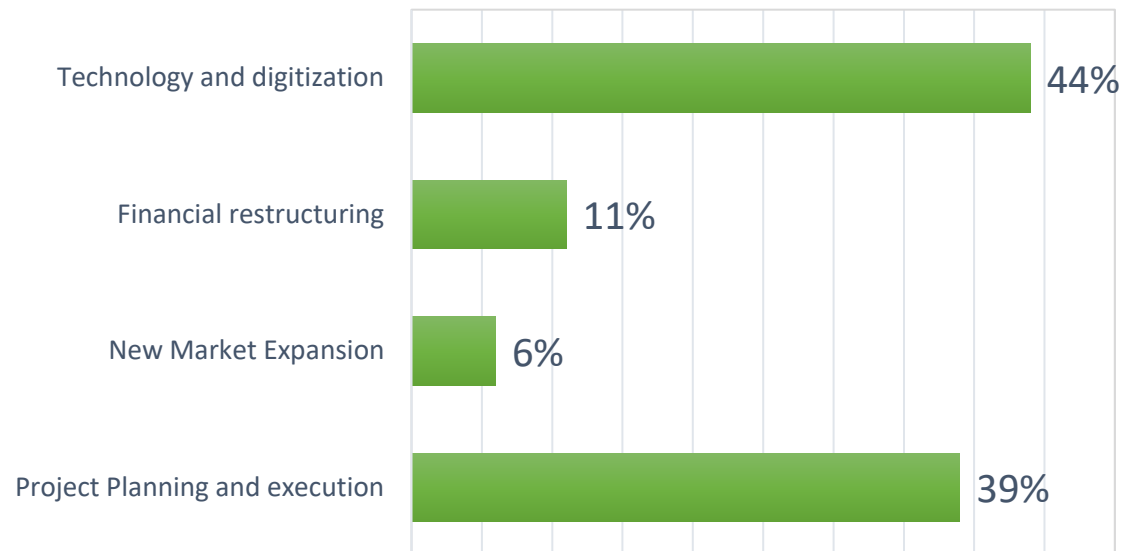
## AREAS IMPACTED BY COVID?



Capital requirement has gone up significantly, however as the environment has stabilized, it has become less critical. Whereas the use of Technology gained momentum.

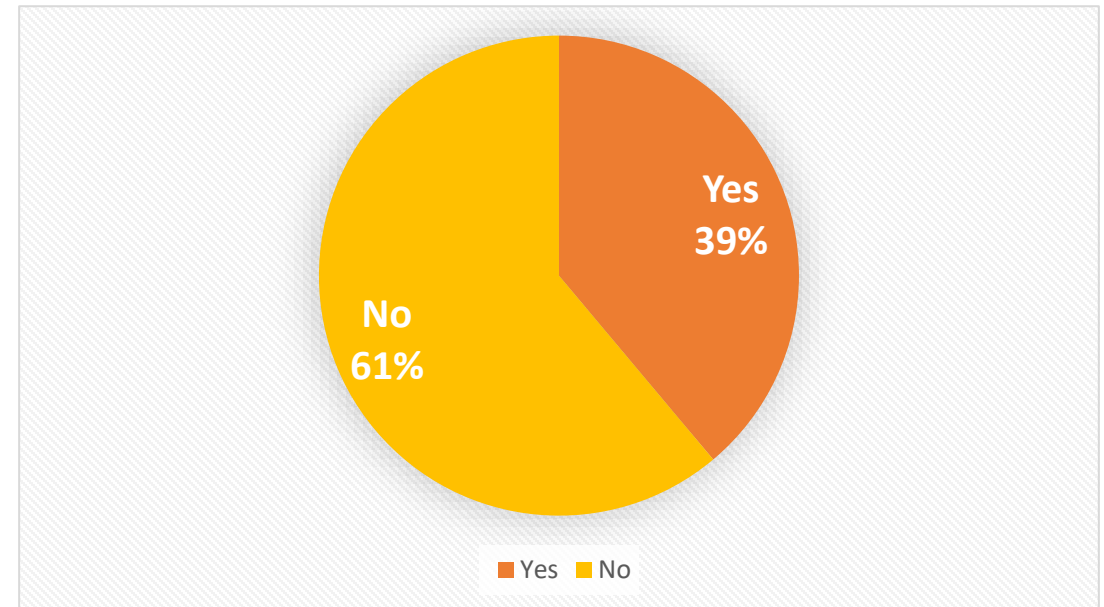


## HOW ARE YOU PREPARING YOUR BUSINESS FOR A POST COVID WORLD?



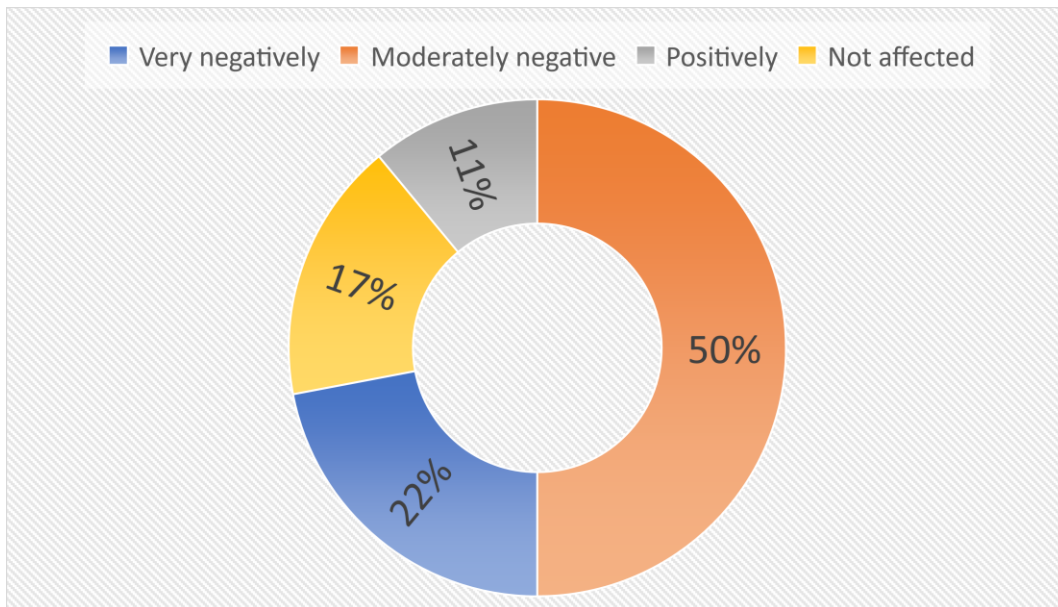
Digitization is the first choice, by far and closely followed by emphasis on Planning and Execution. The focus has narrowed down to the implementation of smart technologies. This will help transform the seemingly traditional, manpower-heavy sector into a smarter, more efficient machine.

## HAS YOUR BUSINESS RECOVERED TO THE PRE-COVID MONTHLY RUN RATE?



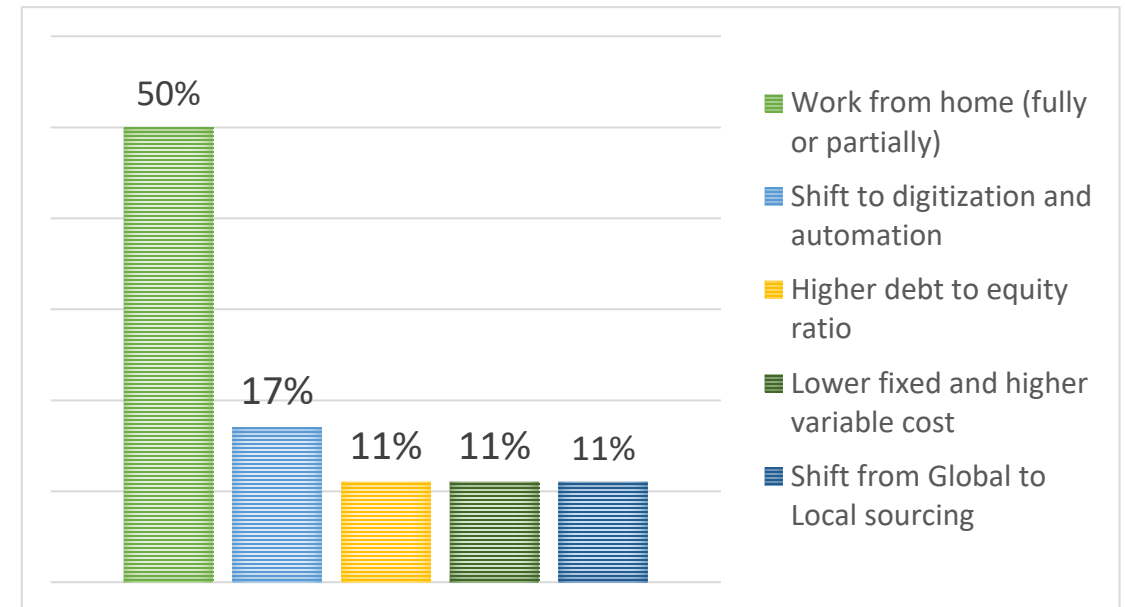
61% of the companies in the Infra sector have so far failed to return to their pre-covid monthly run-rate. Major infra projects that had been brought to standstill during the initial months of the pandemic are gradually returning to normalcy.

## HOW DO YOU SEE FRESH INVESTMENTS INTO THE SECTOR GETTING AFFECTED ?



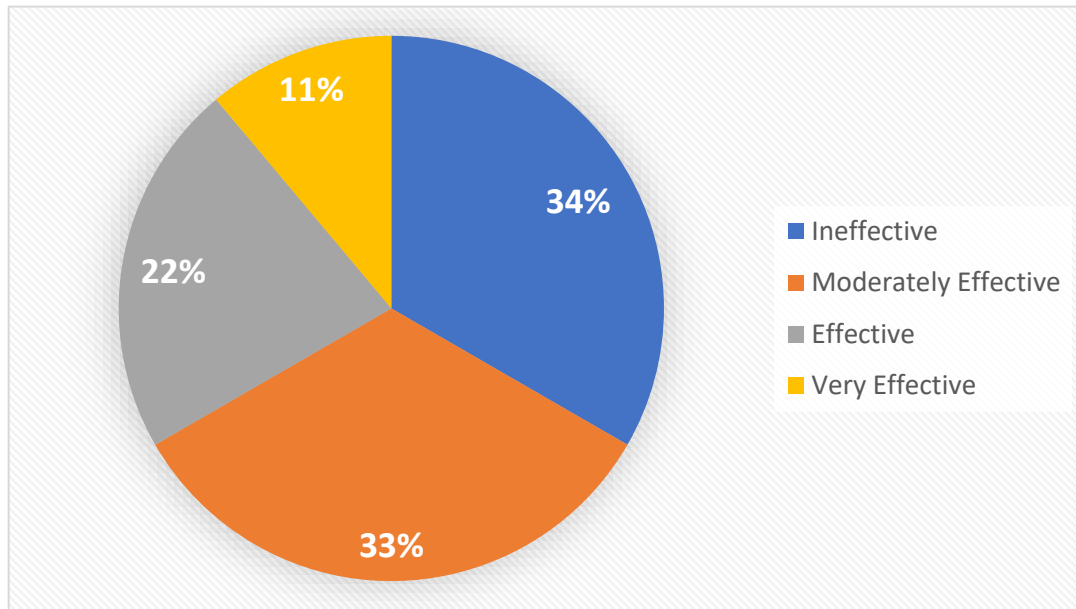
Almost 2/3rd of the respondents expected new investment horizon to be somewhat negative. Except for the government support, the expectation does not bear a positive outlook.

## WHAT CHANGES YOU EXPECT TO BECOME PART OF THE NEW NORMAL?



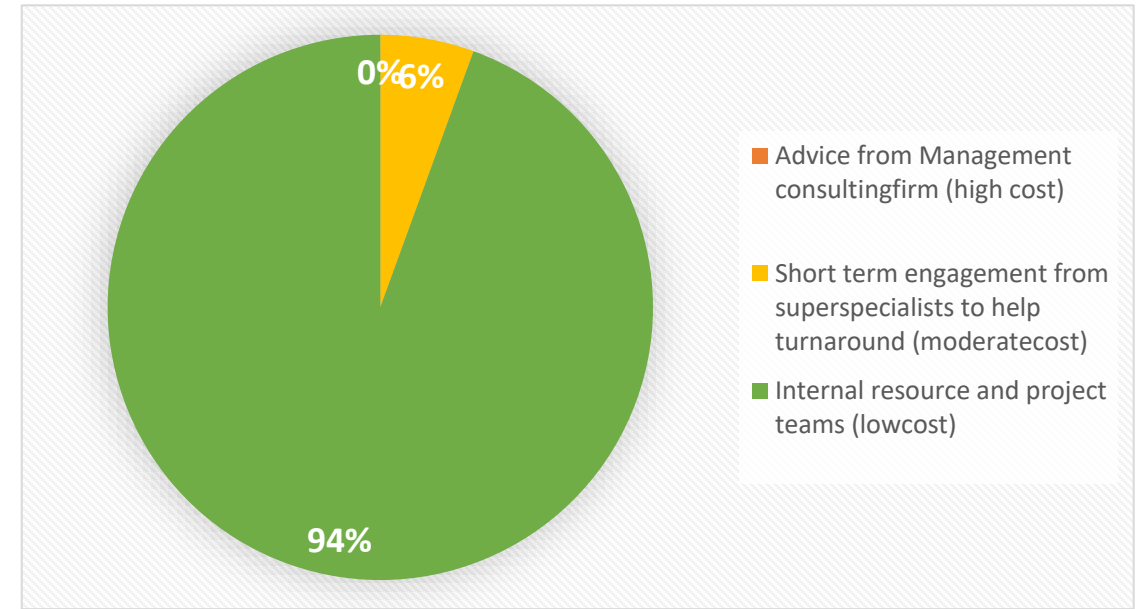
The full or partial work-from-home model will likely continue in the post-covid era, with most companies having adopted the same for corporate functions. The impact of the pandemic on supply chain has resulted in the shift for the procurement from global to local sourcing.

## HOW EFFECTIVE IS WORK FROM HOME FOR INFRASTRUCTURE SECTOR OVERALL?



1/3rd of the companies have listed the Work from home model as ineffective and an equal percentage has listed as moderately effective.

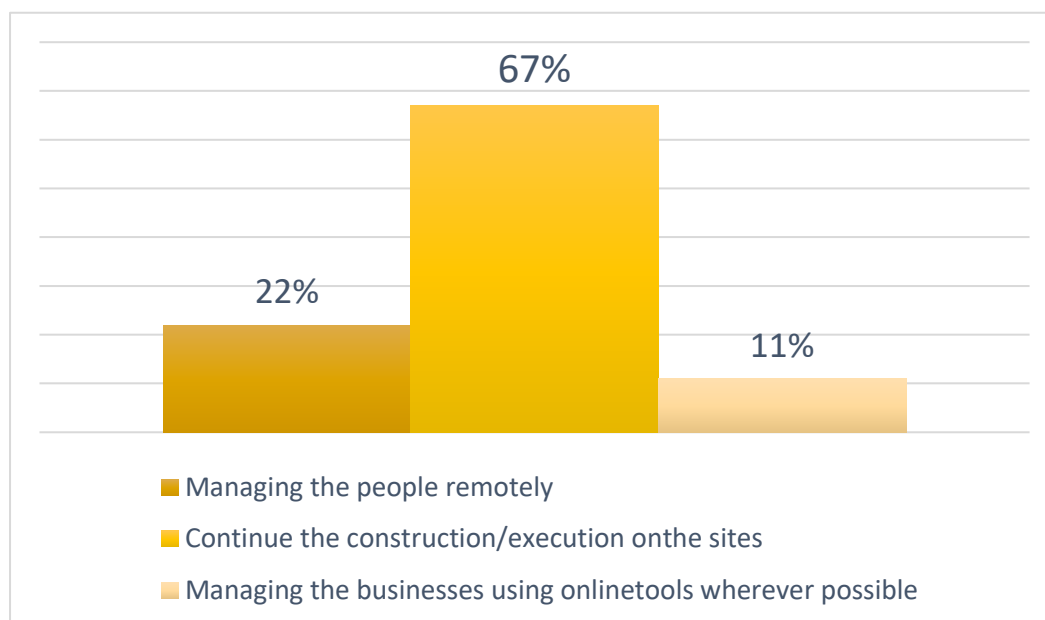
## TO HELP OVERCOME THE COVID INDUCED ISSUES/CRISIS, WHAT APPROACH HAVE YOU USED?



The immediate measure taken to overcome COVID induced issues/crisis was to use internal resources and Project teams to lead initiatives. Seeking advice/services from Management consulting firms, was almost negligible, cost being the challenge.

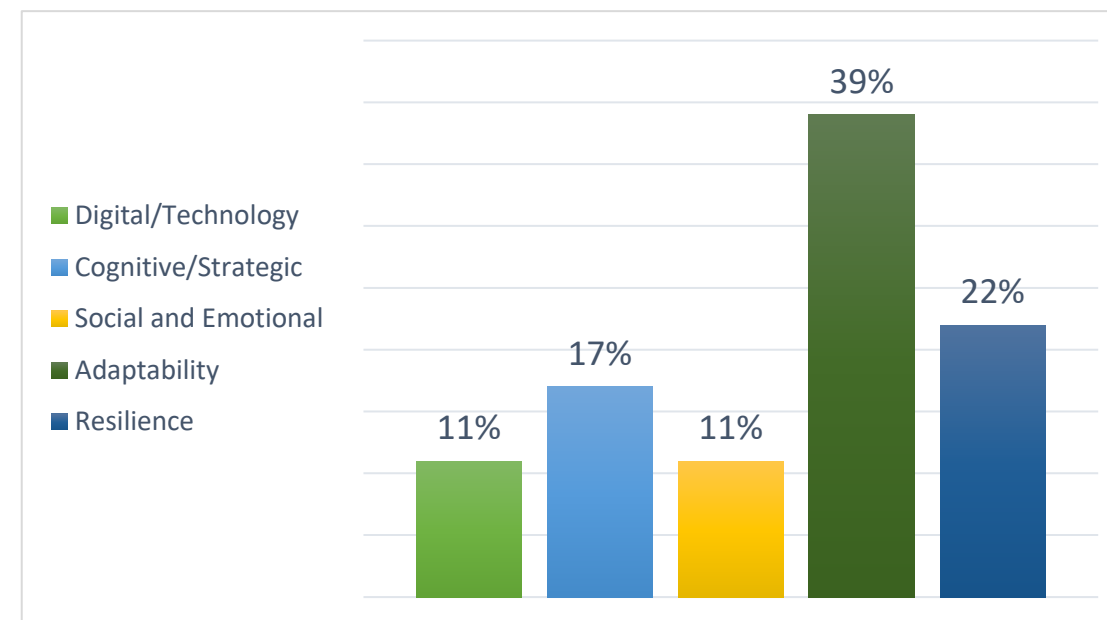


## APART FROM CASH FLOWS WHAT HAS BEEN A CRITICAL CHALLENGE FOR YOU IN THE LAST 6 MONTHS?



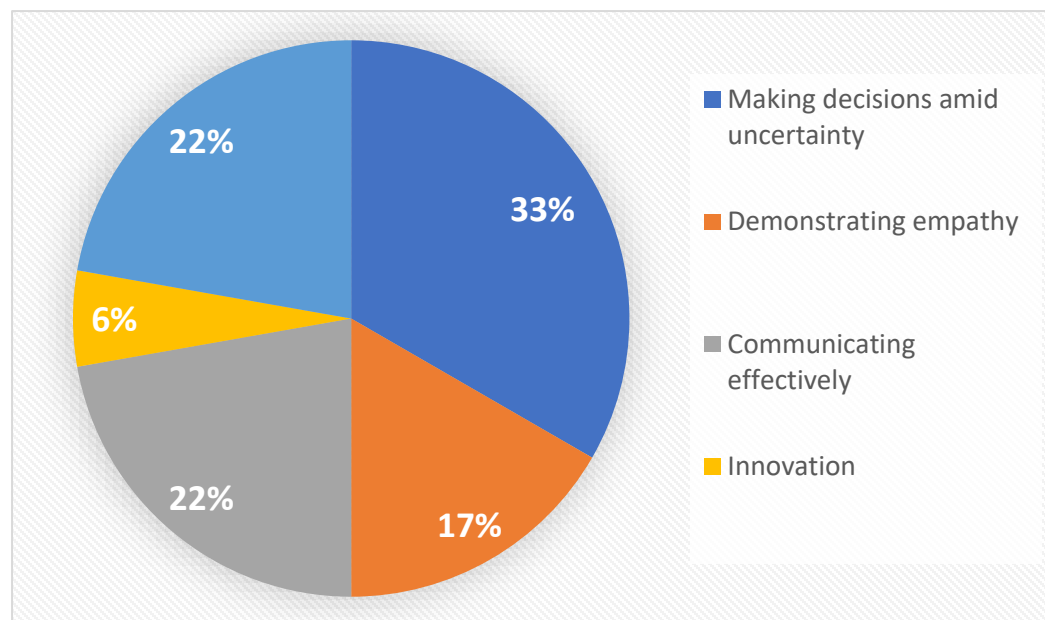
To keep the construction/ execution at the project sites going, is of utmost importance.

## SKILLS LIKELY TO BE AT THE CORE OF YOUR 'TALENT STRATEGY', MOVING FORWARD?



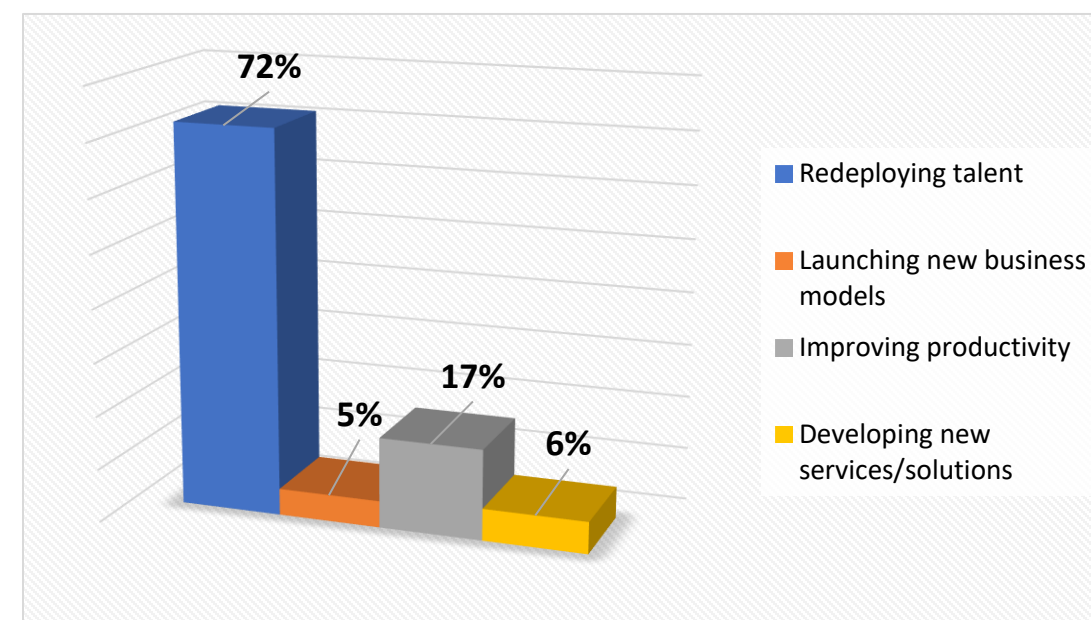
'Ability to adapt' during uncertain times is of utmost importance, (39%) followed by 22% for 'Resilience'.

## WHAT TRAITS ARE CORPORATE LEADERS EXPECTED TO DEMONSTRATE TO MAKE AN IMPACT?



“Making decisions amid uncertainty” scores as the #1 trait. The next two competencies people are looking for in leaders, are “Leading people and getting them aligned to shared vision” along with “Effective Communication”.

## WHICH OF THE FOLLOWING APPROACHES SUITS YOUR BUSINESS NEEDS THE MOST?



The best approach to suit business needs has been listed as “Redeploying talent” (72%), highlighting the changed business environment and finding the right talent for the redesigned roles, new business models and diverse set of challenges.

An aerial photograph of a city skyline at sunset, with a large body of water in the background. Overlaid on the image are various digital security icons, including shields and padlocks, connected by glowing blue and yellow lines that form a network across the city. A semi-transparent white rectangular box is centered over the image, containing the text "THANK YOU" in a blue serif font, with a horizontal blue line underneath it.

THANK YOU

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