

EVALUATION AND DYNAMICS OF INFRASTRUCTURE SECTORS IN INDIA

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Abstract

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. The infrastructure sector in India has evolved from purely Government funded projects to newer business models involving partial or complete ownership of the private sector. Currently, the infrastructure sector is in a state of flux, with the sector being hit by slowdown in the economy and strain being faced by various infrastructure developers. Going ahead, the sector is poised to bounce back with new opportunities. But growth of the infrastructure sector is dependent on solving some key challenges related to reducing regulatory uncertainty, developing appropriate financing mechanisms and ensuring efficient project management (from bid to execution).

Key Words: Infrastructure, Private Sector, Regulatory uncertainty & project management

1. Introduction

There has been a growing emphasis on infrastructure development in the post liberalisation era. This is in stark contrast to previous years where there was little emphasis on infrastructure asset creation, with government being both facilitator and provider of infrastructure. But this situation has undergone a change in recent years, with an increased focus on infrastructure development. The start of the last decade has witnessed increased investments in infrastructure sector, accompanied by a transformation in the business models with more proactive participation from private sector in the form of Public-Private-Partnership (PPP) projects, particularly in roads and power sector. The Gross Capital Formation (GCF) (as an indicator of investment in infrastructure) grew from 5.6% of GDP in FY07 to 6.5% of GDP in FY12. Overall share of investment in infrastructure (as a share of GDP) over the XIth Plan period was 7.1%, up from 5% in Tenth Plan. The share of private sector participation in the XIth plan, envisaged at ~ 30% at the start of the plan, was ~ 37% during the Plan duration.

2. Objectives:

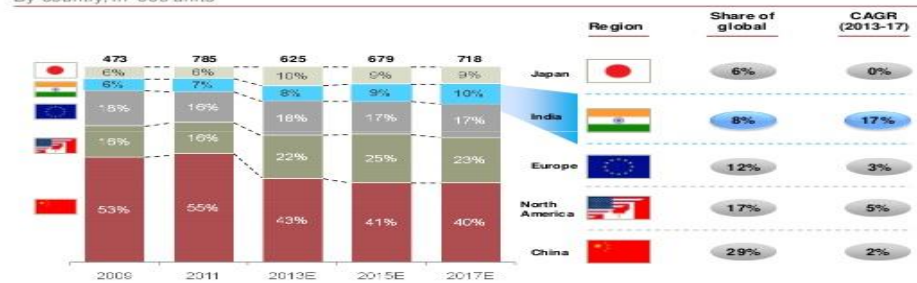
- To study the market size of infrastructure sector in India
- To study the recent development in this industry
- To study the government initiatives to promote this sector

3. Market Size

India needs Rs 31 trillion (US\$ 465 billion) to be spent on infrastructure development over the next five years, with 70 per cent of funds needed for power, roads and urban infrastructure segments

India is the 5th largest and fastest growing construction equipment market in the world

Global Construction Equipment Market¹
By country, in '000 units

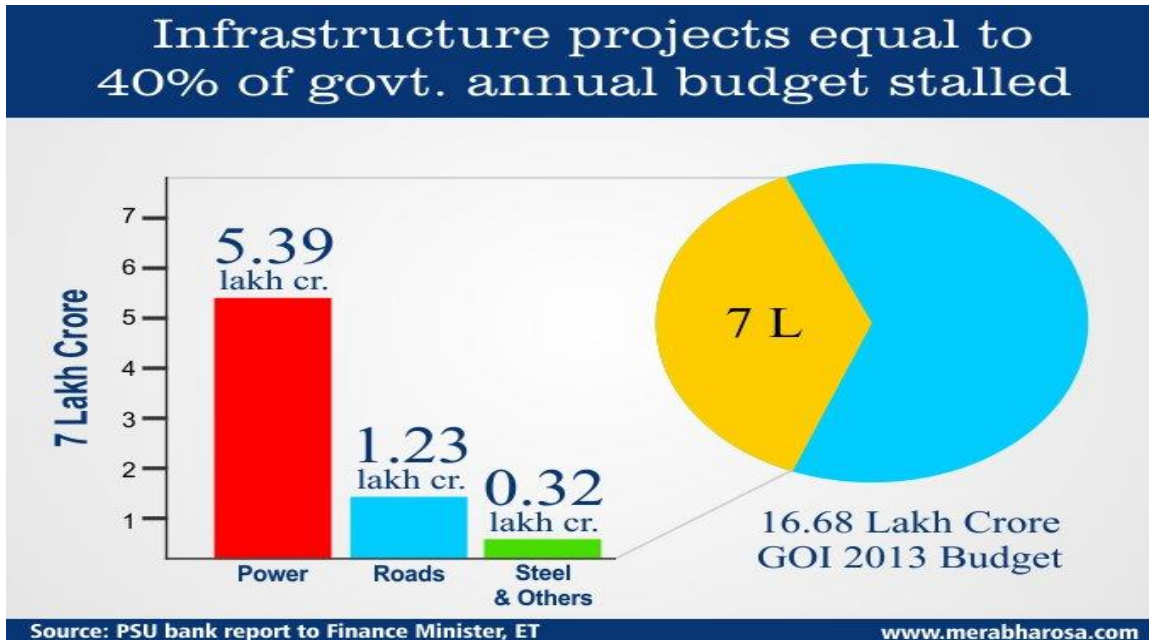


¹ Includes only China, North America, Europe, India and Japan which accounts for more than 80% of the global construction equipment market
Source: Industry reports; RedSeer Analysis
RedSeer Consulting | 1

The Indian power sector itself has an investment potential of US\$ 250 billion in the next 4-5 years, providing immense opportunities in power generation, distribution, transmission and equipment, according to Union minister of coal, power and renewable energy.

The Indian construction equipment industry is reviving after a gap of four years and is expected to grow to US\$ 5 billion by FY2019-20 from current size of US\$ 2.8 billion, according to a report released by the Indian Construction Equipment Manufacturers' Association (Icema).

Foreign direct investment received in construction development sector from April 2000 to September 2015 stood at US\$ 24.16 billion, As per Department of Industrial Policy & Promotion



4. Recent Developments

India is witnessing significant interest from international investors in the infrastructure space. Many Spanish companies are keen on collaborating with India on infrastructure, high speed trains, renewable energy and developing smart cities

- The Government of India has earmarked Rs 50,000 crore (US\$ 7.5 billion) to develop 100 smart cities across the country. The Government released its list of 98 cities for the smart cities project in August 2015.
- BNP Paribas Lease Group, subsidiary of BNP Paribas Group, has acquired 5 per cent stake in Srei Infrastructure Finance, by selling its entire 50 per cent stake in Srei Equipment Finance Limited (SEFL) to Srei Infrastructure Finance, thus allowing them to play a larger role in the infrastructure finance business.
- Private equity giant Carlyle Group is planning to invest Rs 500 crore (US\$ 75 million) in Feedback Infra, which could make the US firm a major shareholder in the Gurgaon-based infrastructure services company.
- In the month of November 2015, among various areas of infrastructure spending by the government, the roads segment led in terms of tenders issued (59 per cent of total tenders) and contracts awarded, with an increasing shift to Engineering, Procurement and Construction (EPC) type of contracts³.
- PTC India Financial Services (PFS) and India Infrastructure Finance Company Limited (IIFCL) have signed a Memorandum of Understanding (MoU) to jointly provide funding for infrastructure projects in India, particularly in the energy sector.
- France has announced a commitment of € 2 billion (US\$ 2.17 billion) to convert Chandigarh, Nagpur and Puducherry into smart cities.

- The Construction Industry Development Board (CIDB) of Malaysia has proposed to invest US\$ 30 billion in urban development and housing projects in India, such as a mini-smart city adjacent to New Delhi Railway Station, a green city project at Garhmukhteshwar in Uttar Pradesh and the Ganga cleaning projects.
- The Government of India has unveiled plans to invest US\$ 137 billion in its rail network over the next five years, heralding Prime Minister Narendra Modi's aggressive approach to building infrastructure needed to unlock faster economic growth.
- The Government of India has announced highway projects worth US\$ 93 billion, which include government flagship National Highways Building Project (NHDP) with total investment of US\$ 45 billion over next three years.
- International Finance Corporation (IFC), part of The World Bank group, plans to invest at least US\$ 700 million in existing transport and logistics infrastructure projects in India.
- The World Bank has approved a US\$ 650 million debt funding for a part of the eastern arm of the Dedicated Freight Corridor (DFC) project in India.
- Indostar Capital Finance Limited and Reliance Capital Limited have invested Rs 200 crore (US\$ 30 million) in Alliance group, a real estate company. The consortium of institutions has invested in the holding company of Alliance group, Alliance Infrastructure Projects Private Limited.

5. Government Initiatives

The Government of India is taking every possible initiative to boost the infrastructure sector. Some of the steps taken in the recent past are being discussed hereafter.

- Prime Minister of India Mr Narendra Modi indicated that the government has rolled out stuck projects worth Rs 4 lakh crore (US\$ 60 billion) in the past six months (ending November 2015), while stating that infrastructure development is the government's top priority in order to improve economic growth.
- The Union Cabinet has approved several reforms such as allowing National Highways Authority of India (NHAI) to extend the concession period for current incomplete projects in build-operate-transfer (BOT) mode.
- Government of India plans to launch the National Infrastructure Investment Fund (NIFF) with an initial corpus of at least Rs 40,000 crore (US\$ 6 billion).
- The Ministry of Urban Development has approved an investment of Rs 19,170 crore (US\$ 2.88 billion) for improving basic urban infrastructure in 474 cities in 18 states and Union Territories (UTs) under Atal Mission for Urban Rejuvenation and Transformation (AMRUT) for 2015-16.
- Department of Industrial Policy and Promotion (DIPP) has set up an online monitoring system for on-going projects under the Industrial Infrastructure Up gradation Scheme (IIUS).
- The Ministry of Urban Development has decided to allow the use of construction & demolition waste up to 20 per cent in construction of load bearing items and up to 100 per cent for non-load bearing

purposes. This provision is expected to significantly help in reuse of such waste, in line with ongoing efforts under Swachh Bharat Mission (SBM).

- The central government has approved amendments to 'The National Waterways Bill, 2015' which will provide for enacting a central legislation to declare 106 additional inland waterways, as the national waterways.
- The Government of India plans to award 100 highway projects under the public-private partnership (PPP) mode in 2016, with expectations that recent amendments in regulations would revive investor sentiments in PPP projects in the infrastructure sector.
- The Reserve Bank of India (RBI) has notified 100 per cent foreign direct investment (FDI) under automatic route in the construction development sector. The new limit came into effect in December 2014.
- The Government of India has relaxed rules for FDI in the construction sector by reducing minimum built-up area as well as capital requirement. It has also liberalised the exit norms. In fact, the Cabinet has also approved the proposal to amend the FDI policy.
- In the Budget 2015-16, the capital outlays for roads, and railways have been increased by Rs 140.3 billion (US\$ 2.11 billion) and Rs 100.5 billion (US\$ 1.51 billion) respectively.
- India and the US have signed a memorandum of understanding (MoU) in order to establish Infrastructure Collaboration Platform. The document showcases the relationship between both the Governments which intend to facilitate US industry participation in Indian infrastructure projects to improve the bilateral relationship and benefit both economies. The MoU's scope envisages efforts in the areas of Urban Development, Commerce and Industry, Railways, Road Transport and Highways, Micro Small and Medium Enterprises, Power, New & Renewable Energy, among others.

6. Conclusion

Indian port sector is poised to mark great progress in the years to come. It is forecasted that by the end of 2017 port traffic will amount to 943.06 MT for India's major ports and 815.20 MT for its minor ports.

Along with that, Indian aviation market is expected to become the third largest across the globe by 2020, according to industry estimates. The sector is projected to handle 336 million domestic and 85 million international passengers with projected investment to the tune of US\$ 120 billion. Indian Aviation Industry, which currently accounts for 1.5 per cent of the gross domestic product (GDP), has been instrumental in the overall economic development of the country. Given the huge gap between potential and current air travel penetration in India, the prospects and possibilities of growth of Indian aviation market are enormous.

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