President's Message

Friends,

"Our nation's infrastructure needs are tremendous, and they're growing."

This saying corroborates very well with the universal truth that infrastructure is the key ingredient for propelling development and growth of any economy. The sector enjoys intense focus from the Indian Government for initiating policies to ensure time-bound creation of world class infrastructure in the country. Having said this, infrastructure deficit is a real challenge for Indian policy makers. Experts estimate that the country requires more than US$ 646 billion in the next five years for financing infrastructure.

India currently ranks 68th out of 138 countries in infrastructure in the World Economic Forum's Global Competitiveness 2016-17 Report. To improve this, the government intents to connect seven hundred thousand villages with roads by 2019 as part of a massive modernization plan. Beyond highways and roads, more funds are required for urban transport including metro railways, ports, airports, smart cities, renewable energy, clean coal technology, solid waste management, urban water supply, etc. We have a long way to go to bridge the funding gaps and hence I appeal to the national and international agencies to step in along with the private sector.

I appreciate the government's recent policy interventions that include raising long-term funding for road projects, developing a contractor rating system for incentivising early project completion, bringing about organizational reforms in railways and setting up an independent regulator to correct tariff imbalance in railways. The increased budgetary allocation of Rs. 3.96 lakh crore and high-level monitoring of infrastructure projects in the current fiscal year are indeed noteworthy steps.

However, these measures will not suffice in addressing the investment requirements. Public funding is getting impacted due to fiscal deficit, capacity limitation of state implementing agencies and the shaky condition of the Railways' financial situation. Besides this, regulatory uncertainty is a major risk perception.

I am concerned at the delay in completion of infrastructure projects due to delay in land acquisition laws, forest clearances,

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supply of equipments, fund constraints, litigations and law and order situation. In recent times, as many as 287 infrastructure projects worth Rs. 150 crores got delayed due to various reasons resulting in a cost overrun of Rs. 1.66 lakh crore.

Another area of concern are the rising non-performing assets (NPAs) of banks that have led to adverse consequences for infrastructure projects, resulting in a dramatic fall in infrastructure lending by banks. Infrastructure finance is dominated by equity investments and bank loans. To resolve this, there is an immediate need for mobilizing private capital through strengthening the municipal bond and capital market for private investments to fructify. The Regulatory Reforms Bill is an imminent reality. The National Investment and Infrastructure Fund shall subsequently play an active role in reviving private capital inflows into infrastructure.

A number of regulatory initiatives have been introduced such as Public Contracts (Resolution of Disputes) Bill, Guidelines for premeditating PPP contracts, New Credit Rating system and Credit Enhancement for infra projects to "reinvigorate" the sector.

I would like to suggest that the already existing innovative financial sources like Infrastructure Debt Funds and Infrastructure Investment Trusts should be promoted on a larger-scale for financing infrastructure projects to reduce the load on the banking sector. Since infrastructure projects have a long gestation period, Infrastructure Finance Company Limited should swallow the risk by guaranteeing banks in the first few years.

Once the project starts yielding revenue, funding could be provided by pension and insurance funds with backing of sovereign bonds. Further, projects should be rated at different life stages to assess the risks involved- at the time of signing of the PPP agreement, the bidding stage, the construction stage and at the operational stage. This will also improve the efficiency of operations and reduce the cost of funding.

From boosting infrastructure finance to a well diversified financial system, the requirement is for synergy between banks and bond financing to complement each other to enhance the efficiency of the capital allocation.

Widespread securitization of bank loans is required to diversify risks which will also assist in the development of transparent capital market instruments. Issuance of rupee denominated bonds in offshore capital markets for mobilizing resources for financing infrastructure projects in India is another alternative which may gain importance in the near future.

Now with one nation, one grid and one tax, the GST will bring in financial stability and facilitate greater investments. Nonetheless, I am slightly cautious about the launch of GST in July 2017, which will bring up execution issues. I am not sure how well prepared industries are for the eventual rollout with multiple tax rates and cesses.

Industry needs time to work out their business processes, pricing mechanism, adoption of digital technology and also be compliant with the anti-profiteering law. Earnings of companies may get impacted for a quarter or two. Having said this, I expect the Indian economy to grow in the range of 7.2 to 7.5 percent in 2017-18 and between 7.5 to 7.8 percent in 2018-19. This will augur well for the markets and foreign investors.

Keeping in sync with the Government's vision of infrastructure development, let us follow Dr Steve Maraboli's quote, "Take Action! An inch of movement will bring you closer to your goals than a mile of intention." We at the Chamber are actively exploring innovative and technologically inclusive ways for building better infrastructure for bettering the lives of the Indian people.