

# INDIAN INFRASTRUCTURE INDUSTRY

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## Introduction

Infrastructure is the fundamental organizational and physical structure that a society or an enterprise needs to function. It can be defined as a set of interconnected structural elements that help the economy to develop and grow. The massive earnings outlook and its high valuation make the Indian infrastructure especially attractive for foreign investors. It is one of those Indian sectors which has been undershooting the market for a long time, which makes it ideal for foreign investments. In an era where India has become one of the fastest growing economies, a plethora of investment opportunities have opened up for exploitation in India's infrastructure sector.

## The Story of the Development of India's Infrastructure

Over the years since its independence, India has witnessed several bursts of infrastructure build-up, with each phase being impeded by different kinds of hindrances. However, the 1991 economic reforms opened the doors of the Indian economy to foreign investors who had always wanted to capitalize on the massive potential of the vast Indian market. Since then, the experience of the last two decades has been tangibly different from the past and infrastructure has received a significant boost.

With India becoming a part of the globalized economy and its massive population of 1.3 billion people, there is an immense need to ramp up India's infrastructure sector and give it the much-needed boost that it needs to cater to the needs of such a large population. Also, a growing economy which is expected to be the second largest economy in the world by 2050 after China has made it necessary for the Indian government to focus on boosting India's infrastructure so that it can be at par with other significant economies.

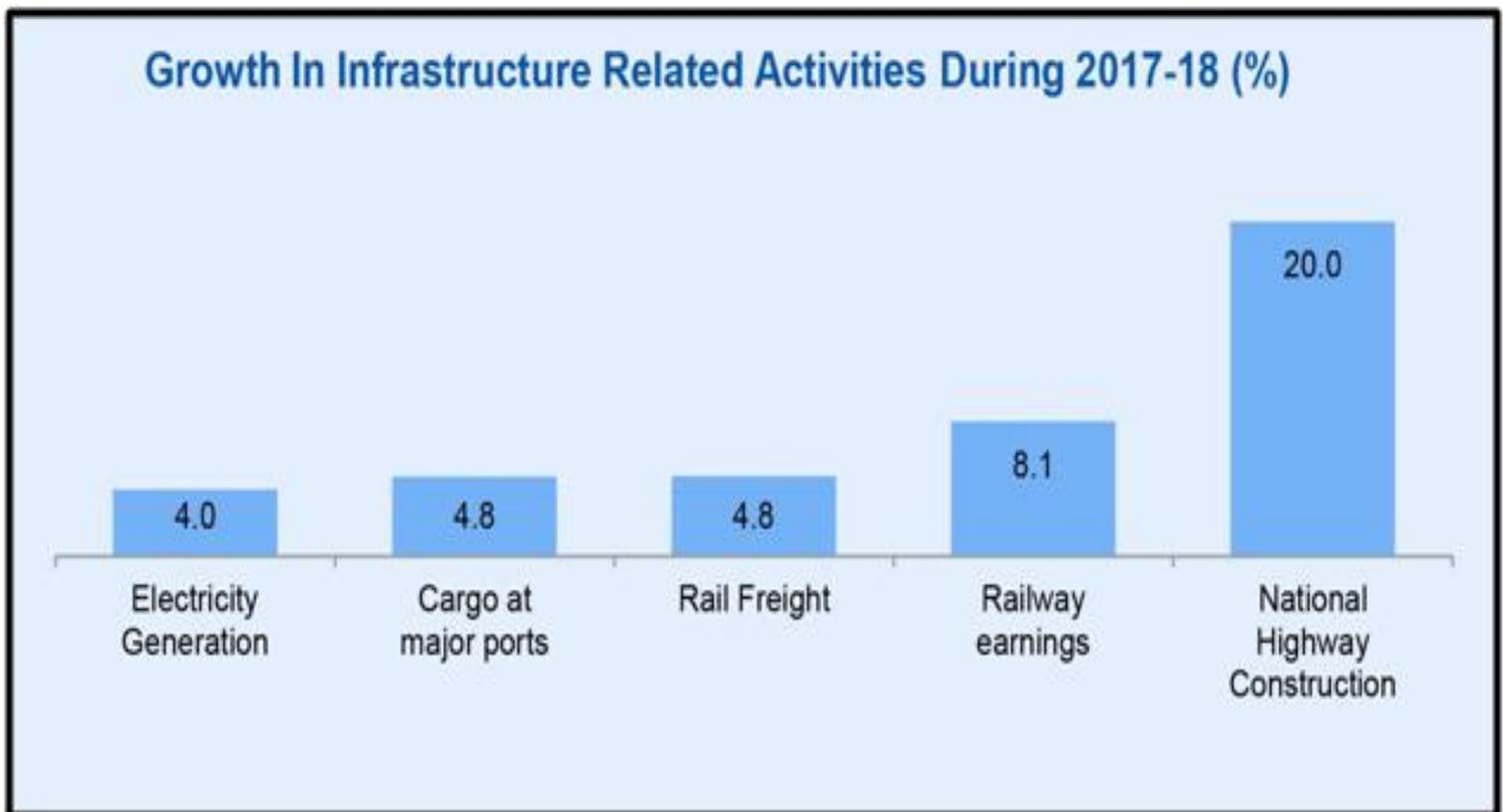
It is for this reason that the current Indian government has consistently focussed on infrastructure development ever since it came to power in 2014. While the budgetary allocation for infrastructure development was Rs 1.81 trillion for 2014-15, the 2019-20 budget saw the Indian finance minister Nirmala Sitharaman announcing an investment of Rs 10,00,000 crore (USD 1.5 trillion) for infrastructure over the next five years.

## Investment Opportunities for Foreign Investors in India's Infrastructure Sector

The Indian infrastructure sector can be an excellent opportunity for private equity firms to make stable returns on their investments. These firms can invest in segments like telecom, ports, power, roads, etc. India requires an investment of about Rs 50 trillion or approximately USD 780 billion in infrastructure for the country's sustainable development. It includes mega-projects like the National Highway Development Project (NHDP). The recent Cabinet's nod to private investment in Indian Railways for the construction of new lines and plants with enhanced capacity will help foreign players to connect railways with mines, industrial plants, and ports at lower costs. Moreover, the projection of Indian Railways Vision 2020 by the Government of India, which is aimed at infrastructure-related issues, will open up doors for NRIs to invest in the Indian infrastructure sector.

According to the Department of Industrial Policy and Promotion (DIPP), the Construction Development Sector (housing, townships, construction development projects, and built-up infrastructure) received a Foreign Direct Investment (FDI) of USD 24.91 billion between April 2000 to December 2018. Some critical investments in the infrastructure sector are as follows.

- The Indian infrastructure sector saw private equity and venture capital investments of approximately USD 2 billion in 2018-19.
- The Asian Infrastructure Investment Bank (AIIB) has announced an investment of USD 200 million in the National Investment & Infrastructure Fund (NIIF).
- The Indian infrastructure sector saw M&A deals of about USD 5.4 billion in 2017.



Moreover, the Indian cabinet approved Rs 98,000 crore for a hundred smart cities to be built in India and the rejuvenation of five-hundred other cities. Aimed toward enhancing the quality of life and attracting investments in the infrastructure sector, these smart cities can set in motion a virtuous cycle of consistent growth and development. Thus, these smart cities can offer investors a great opportunity to boost the regionals and social infrastructure.

Conceptualized on similar lines of smart cities, the 'Housing for All' scheme is aimed at creating affordable houses for every Indian by 2022. Although the expenditure for the Ministry of Housing and Urban Affairs for 2018-19 was a massive amount of Rs 41,765 crore, the scheme still needs further investments to the tune of USD 1.3 trillion. Thus, this scheme has the potential to further catalyze the infrastructural advancement that the country has seen over the last decade.

## Government Initiatives to Promote Foreign Investment in India.

The Indian Government has allowed a hundred percent FDI under the automatic route for infrastructure development in the power industry. The private sector is allowed a hundred percent FDI under the automatic route in infrastructure related to natural gas pipelines, petroleum products, and petroleum refining. For the Public Sector Undertakings (PSUs), forty-nine percent FDI is allowed under Government route in petroleum refining. A few sectors like oil, telecommunication, irrigation, and gas storage, have also been allowed for viability gap funding under the “Support to PPP in Infrastructure” scheme to attract private and foreign investment.

The Indian Government is expected to invest highly in urban transport, telecom, renewable energy, and highways, which is clear from some of the following announcements that were made in the Union Budget 2019-20.

- Allocation of Rs 4.56 lakh crore for the infrastructure sector.
- Allocation of Rs 66.77 billion to the Indian Railways.
- Dispensation of Rs 3899.9 crore to boost the capacity of the Green Energy Corridor Project along with solar and wind power projects.
- Allocation of Rs 38,637.46 crore to the communication sector for the development of post and telecommunications departments.
- Allocation of Rs 83, 015.97 crores to road transport and highway.
- Allotment of Rs 8,350 crore to boost the telecom sector.



## What makes India the preferred destination for Investments?

Some of the critical economic reforms carried out by the Indian Government like the implementation of GST in 2016 and Insolvency & Bankruptcy Code in 2018 have made India the preferred choice for investments (Sehrawat and Dhanda, 2017). Along with it, the following trends have further contributed to attracting investments.

- Increase in the length of national highways from 92,851 km in 2014 to 1,22,434 km in 2019.
- Improvement of 23 ranks from 100 in 2017 to 77 in 2018 in the World Bank's 'Ease of Doing Business' rankings.
- Reduction of energy deficit from 4.2% in 2014 to 0.7% in 2019.



Major companies operating in India in the infrastructure sector

Company	Background
<b>IRB Infrastructure Developers Limited</b>	IRB Infrastructure Developers Limited mainly operates in road infrastructure projects and is concerned with the development and operation of roadways. With a diverse portfolio of more than 20 road BOT projects, it has managed to secure big clients which include various government agencies such as NHAI and state road development authorities.
<b>GMR Infrastructure</b>	The GMR Infrastructure Group is amongst the fastest growing infrastructure companies in India. With a rich and diverse experience that spans over three decades, this company has played a leading role in developing projects in high growth areas like transportation, energy, airports, and urban infrastructure. Its rich expertise places it ideally to build state-of-the-art projects in sectors of critical importance.
<b>Reliance Infrastructure Limited (RInfra)</b>	RInfra is one of India's largest infrastructure organizations that develops projects in various high growth sectors like the airport, metro rail, roads, and power. It is credited for its role in building the metro rail project in Mumbai all on its own. Through its wholly-owned subsidiary company, it has successfully installed 441 MW of power capacity which is used by over 40 lakh consumers in Delhi.
<b>Leighton Welspun Contractors</b>	It is a major international construction company that has been operating in India since 1998. It is a part of the Leighton Holdings Group, which is leading mining, construction, and project development company in Australia. It operates in India from its offices in Delhi, Mumbai, and Chennai and deals in a wide range of sectors including mining, infrastructure, oil, and gas.
<b>Samsung Engineering Company</b>	The Korean-based Samsung Engineering Company has been operating from its first global engineering center- Samsung Engineering India set up in New Delhi in 2006. The Indian branch has been dealing in various power, refinery, and petrochemical projects, both in India and overseas.

## Conclusion

India's urban population of approximately 450 million is slated to go up to almost 600 million by 2030. Therefore, the need to enhance India's infrastructure in some of the premier cities like Delhi, Bangalore, Mumbai, and Kolkata is especially acute. Also, by 2030, there shall be around 68 cities with over 1 million residents in each one of them. Such a rapid rate of urbanization would also warrant massive investments in everything ranging from water and power sector to efficient metro systems and affordable housing. With investments picking up and reform-driven Modi government returning to power for a consecutive term, the infrastructure spending too shall receive a significant boost, consequently making India the preferred choice for private players looking for big opportunities.



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**With Best Regards,**

**Team JPC**

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