

## Our Vision

"Provide innovative financing solutions to promote and develop world class infrastructure in India"

## Our Mission

"To adopt best practices in financing infrastructure and develop core competencies in facilitating infrastructure development; Develop a team of highly engaged employees to deliver services in a professional manner and to the satisfaction of all stakeholders"

## *From the Chairman's Desk*

It gives me great pleasure in writing this column in the first issue of IIFCL INFRA NEWSLETTER, a quarterly publication from the company. India Infrastructure Company Ltd (IIFCL) has been actively engaged in the cause of promotion and development of infrastructure in the country. India has emerged as the fifth largest economy in the world with high economic growth in the recent years. The unleashing of the growth impulses has led to high demand on infrastructure. The 11th Five Year Plan 2007-12 has estimated the investment requirements during the next five years at \$492 billion. Taking into account the need for achieving fiscal consolidation, meeting such huge investment requirements will call for much higher participation of the private sector than before. The positive experience with the Public-Private Partnership (PPP) model offers valuable lessons in meeting the infrastructure gaps and there is every need to speed up implementation of the infrastructure projects.

The PPP model has several advantages including accurate and adequate definition of contractual obligations and responsibilities; risk allocation; appropriate performance incentives; quality of project management; experience and capacity of private sector partners; limitation for scope of claims and practices for avoiding extended negotiations; and efficient procurement practices.

India is on a learning curve in respect of PPP and with more experience, the model can be fine-tuned. For instance, in the road sector where number of PPPs have been implemented,

the average size of the projects has been 100KMs plus. But what is urgently required is the speedier implementation of the projects. For instance, of the nearly 66,000 KMs of national highways, only 12% is four-laned and 50% is two-laned. 44% of India's population do not have access to electricity. In the rural areas, this is as high as 66%. Peak power shortages have ranged between 12-14%. Three-fourths of India's total freight goes through only 12 major ports. Airports in major metros like Delhi and Mumbai handle on an average 25 to 28 flights per runway per hour compared to 40 in advanced economies. The need of the hour therefore, is speedier implementation of the projects.

We at IIFCL are conscious of the fact that we should act as a catalyst of infrastructure development, providing the benefit of inclusive growth. Our task is onerous; but we are also aware that infrastructure holds the key for sustaining high economic growth. IIFCL INFRA NEWSLETTER is an attempt to highlight the need for development of world class infrastructure assets in India and the issues related thereto. The Quarterly newsletter is only a humble attempt towards this end. **In any such endeavour, there is always scope for improvement and we at IIFCL welcome feedback from the readers in respect of contents and presentation.**

**S S Kohli**

Chairman & Managing Director



"The Plan hopes to raise the total annual investment in infrastructure from 5 percent of GDP to 9 percent. Infrastructure is an important contributor to growth and public sector investment will continue to play an important role in infrastructure development. The total public investment in infrastructure including IEBR is being raised from 2.4 percent of GDP in the X Plan to almost 4 percent. At the same time, conditions have to be created to enable the private sector to play a more active role in infrastructure. The Plan intends to do this through an ambitious PPP strategy, the process for which has already begun in railways, ports, roads and airports. States need to gear themselves up to attract private investment in infrastructure sectors".

**Dr Manmohan Singh, Hon'ble Prime Minister, speaking at the 54th National Development Council to consider the 11th Five Year Plan**

## Investment requirements in Infrastructure - The opportunity

With the demands on infrastructure increasing significantly, investment in augmenting the infrastructure assets brooks no delay. The investment requirements for infrastructure during the 11th Five Year Plan (2007-2012) was earlier estimated by the Planning Commission at \$320 billion in 2005-06 prices. The Deepak Parekh Committee which was appointed to make recommendations on infrastructure financing, revised the estimate to US \$ 384 billion which at 2006-07 prices translated into \$475 billion. One impediment in arriving at a final figure is that there is no formal consensus as to what constitutes infrastructure. For instance, there are differences between the way Reserve Bank of India defines infrastructure and as defined under the Income Tax Act. There is a need to harmonize the definition to the best extent possible so that the investment requirements can also be arrived at accordingly. The Planning Commission has come out with a consultative paper on the projected investment in infrastructure during the 11th Plan period.

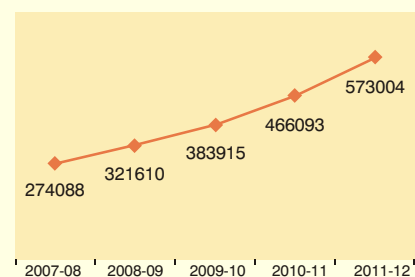
### In what follows, the highlights of the paper are presented.

Projections of investments in infrastructure have been done in two ways. Under the "top-down" approach, estimates have been derived from the government's GDP growth targets. Under the "bottom-up" approach, detailed analysis of the past trends alongwith the strategic and financing plans of each sector has been taken to arrive at the final projections.

With an average rate of 9 per cent growth in GDP during the plan period, the Gross Capital Formation in infrastructure as percent of GDP has been projected to increase from 5 per cent in 2006-07 to 9 per cent by 2011-12. This results in a total GCF of Rs 20,01,776 crore or \$488.24 billion during the Plan period.

The 'bottom-up' approach yields an investment requirement of Rs23,74,952 crore or US \$ 579 billion and assuming that 15% of such investments will spill over to the 12th Plan, the investment requirements are estimated at Rs20,18,709 crore or US \$492 billion.

### Projected investment in Infrastructure during the 11th Plan (Rs crore)



### Some of the Physical targets during the plan are:

- ▶ Additional power generation capacity of about 70,000MW
- ▶ Six-laning of 6,500 KMs of national highways
- ▶ Four-laning of 12,109 Kms of National highways
- ▶ Developing 1,000 KMs of expressways
- ▶ Constructing 16.5 lac KM of new rural roads
- ▶ Dedicated freight corridors between Mumbai-Delhi and Ludhiana-Kolkatta
- ▶ Capacity addition of 485 million MT in major ports, 345 million MT in minor ports
- ▶ Modernisation of 4 metro and redevelopment of 35 non-metro airports
- ▶ Construction of 7 greenfield airports
- ▶ Achieving telecom subscriber base of 600 million
- ▶ Developing 16 million hectares through major, medium and minor irrigation works

## Sector-wise investments

Sector	Rs crore	\$ billion	Share (%)
Power	6,16,526	150.37	30.5
Roads	3,11,816	76.05	15.4
Telecom	2,67,001	65.12	13.2
Railways	2,55,000	62.20	12.6
Irrigation	2,17,722	53.10	10.8
Sanitation	1,99,127	48.57	9.9
Ports	73,941	18.03	3.7
Airports	34,697	8.46	1.7
Storage	22,378	5.46	1.1
Gas	20,500	5.00	1.0
<b>Total</b>	<b>20,18,709</b>	<b>492.37</b>	<b>100</b>



Considering that infrastructure development will remain a thrust area during the 12th Plan, the investment requirements have been forecast at US

\$ 989 billion during this period (2012-2017). A ten year Vision for investment in infrastructure, therefore, envisages a total

investment requirement of US \$ 1483 billion or Rs60,82,404 crore. No doubt, the opportunity for investments in the infrastructure sector is huge.



The financing of the projected investment during the 11th Plan indicates that while budgetary support could be to the tune of Rs2,00,000 crore, private sector investment in infrastructure could be Rs6,01,959 crore or US \$ 147 billion. This combined with the Internal and Extra Budgetary Resources (IEBR) of both the centre and states will amount to Rs14,06,388 crore or US \$ 343 billion. Assuming that 30% of this will be in the form of equity, internal resources and other non-debt sources, the total debt component is envisaged at Rs9,84,472 crore or US \$ 240 billion. The sources of the debt would be domestic credit from banks, non-banking finance companies, pension/insurance companies and external commercial borrowings.

The resource requirements as projected above poses a challenge in mobilization. The large debt requirements suggest that debt service obligations will also huge which can be met only if public sector improves its efficiency, economise on costs and rational user charges are levied to improve revenue streams of the infrastructure projects. At the same time, private sector investments will also have to increase substantially and its share in total investment should be around 30%. In sectors like ports and airports, private sector investment will have to be higher and Public-Private Partnership (PPP) could offer a viable solution, by providing infrastructure services on commercial principles.



"The Planning Commission has estimated that the total investment in infrastructure in the 11th Five Year Plan must increase from 4.5% to around 8% of the GDP. Under the governing rules of fiscal management in the FRBM regime, budgetary deficits are being strictly monitored, restricting the scope for unlimited fiscal expansion. Hence, the solution to the challenge of infrastructure is partly located in public-private partnerships, which not only bridge the gap in resources but also bring in private sector expertise and efficiency in the operation and maintenance of assets. During a decade of experience with PPPs in India, some sectors like ports and roads have shown greater progress than others. The Government of India has taken several initiatives like viability gap funding, Public Private Partnership Appraisal Committee (PPPAC) and India Infrastructure Finance Company Ltd. (IIFCL) to promote PPPs".

**Shri P Chidambaram, Hon'ble Finance Minister, speaking at the Annual Economic Editors' Conference 2007.**



## India Infrastructure Finance Company Ltd - A Profile

The strong economic growth India has achieved in the recent years has put pressures on existing infrastructure facilities. The Hon'ble Finance Minister while presenting the Union Budget 2005-06 remarked "The importance of infrastructure for rapid development cannot be overstated. The most glaring deficit in India is the infrastructure deficit. .... there are many infrastructure projects that are financially viable but, in the current situation, face difficulties in raising resources. I propose that such projects may be funded through a financial Special Purpose Vehicle ..... The SPV will lend funds, especially debt of longer-term maturity, directly to the eligible projects to supplement other loans from banks and financial institutions.



Government will communicate the borrowing limit to the SPV at the beginning of each fiscal year"

Government of India approved a Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Company Ltd, broadly

referred to as SIFTI. Following this, the India Infrastructure Finance Company Ltd (IIFCL) was incorporated on January 5, 2006 under the Companies Act 1956 as a wholly government owned company. The authorised capital of the company is Rs1000 crore and Paid-Up Capital at present is Rs300 crore. Apart from equity, IIFCL can raise long term rupee debt from the domestic market, debt from bilateral or multilateral institutions like World Bank and Asian Development Bank and foreign currency debt including external commercial borrowings. The borrowings of the Company are backed by sovereign guarantee. IIFCL funds commercially viable infrastructure projects by way of long term debt, refinance to banks and

financial institutions for loans with tenor of more than 10 years lent by them and any other method approved by the government. IIFCL lend to projects



implemented by public sector companies, private sector companies selected under a Public-Private Partnership (PPP) initiative and a private sector company which has undertaken a project where the service provided is regulated or the project is being set up under an MoU arrangement with central or state government or a public sector undertaking. IIFCL would generally rely on the project appraisal by the lead bank and not normally carry out any independent appraisal of the project. Financial assistance by IIFCL to any project company shall not exceed 20% of the total project cost. IIFCL provides assistance to projects in sectors like roads, ports, airports, power, urban infrastructure, gas pipelines, international convention centres and tourism related infrastructure.

During the short span of its operation since April 2006, the company has provided loan approvals in 77 projects to the tune of Rs17,046 crore involving a total project cost of Rs1,23,510 crore. The company is mobilizing resources from the market and from multilateral agencies like World Bank, ADB, KfW and JBIC. Besides, IIFCL has signed MoU with 23 banks/institutions for deal flows, appraisal, syndication and related services.



**"In the medium and long term, one of the biggest challenges is to effectively sustain the high pace of growth witnessed in recent years. This requires development of diverse, regionally balanced, physical and social infrastructure. The investment requirements for infrastructure are humungous and we must find ways and means to mobilise these resources and complete the infrastructure projects without cost or time overruns".**

**Shri P Chidambaram, Hon'ble Finance Minister, speaking at the Annual Economic Editors' Conference 2007.**