

CRISIL Infrastructure Conclave 2019

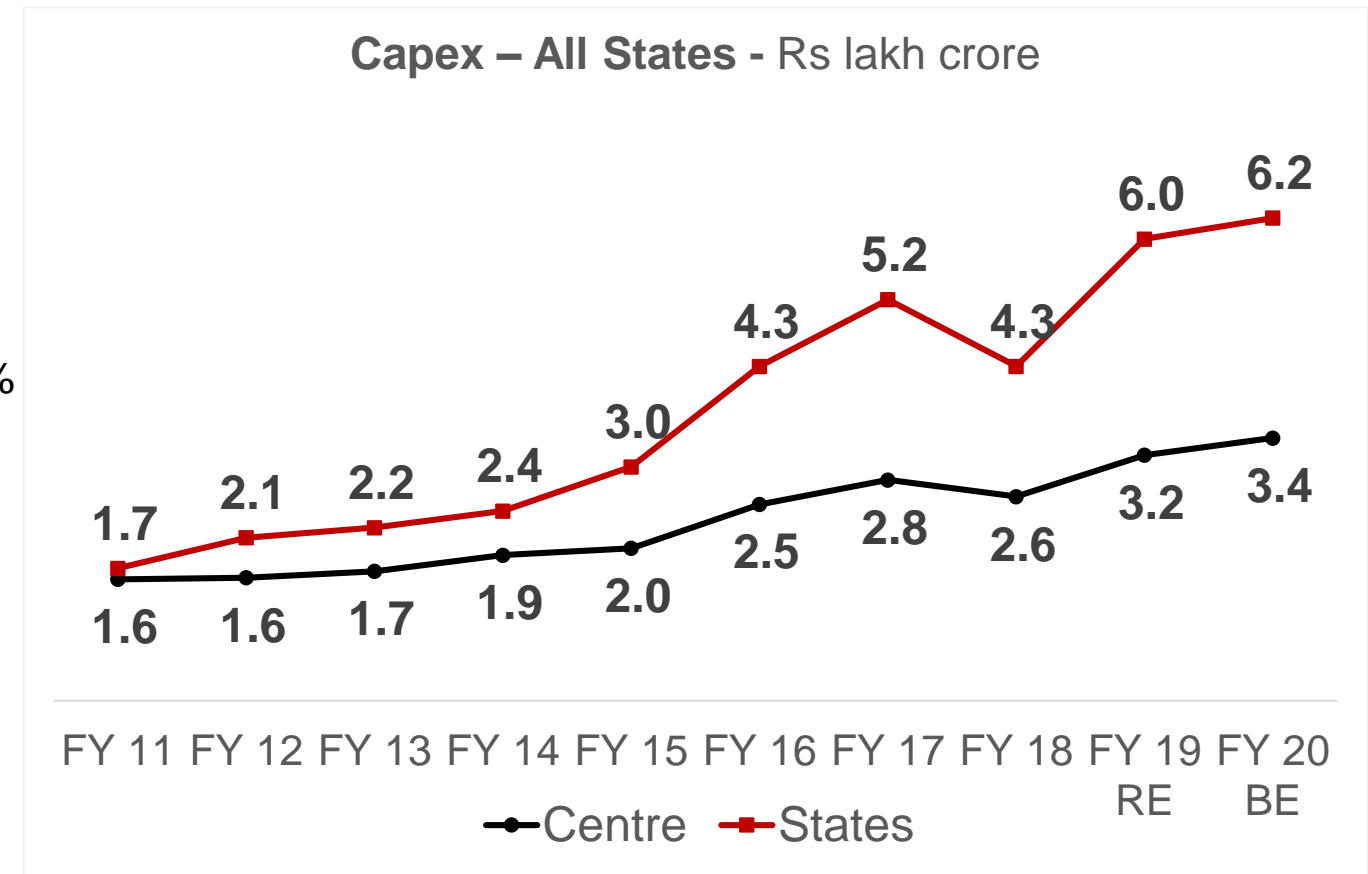
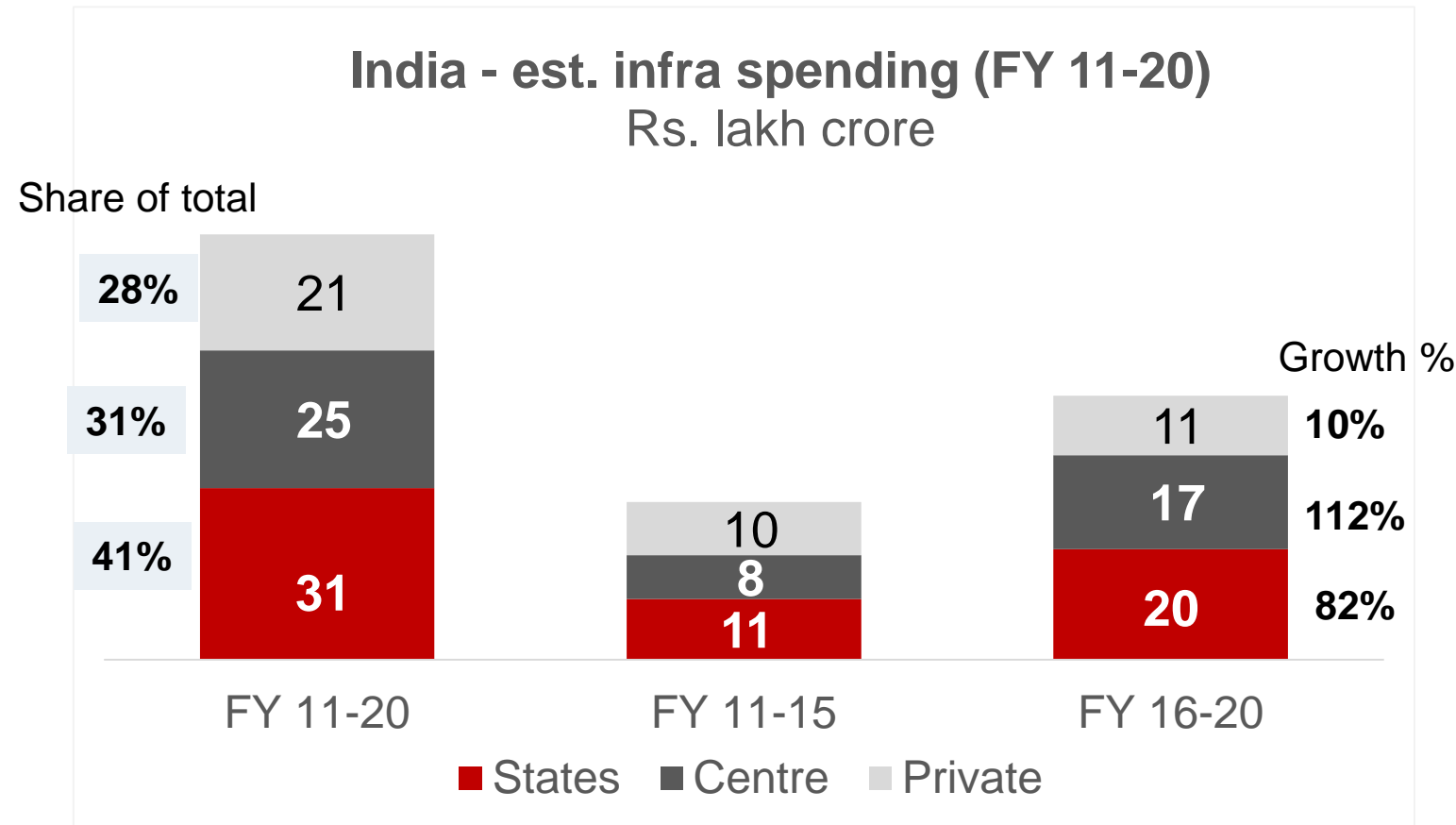
The central role of **states** in India's infrastructure build-out



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India's infrastructure investment ~ **Rs. 77 lakh crore** this decade



Source: CRISIL estimates

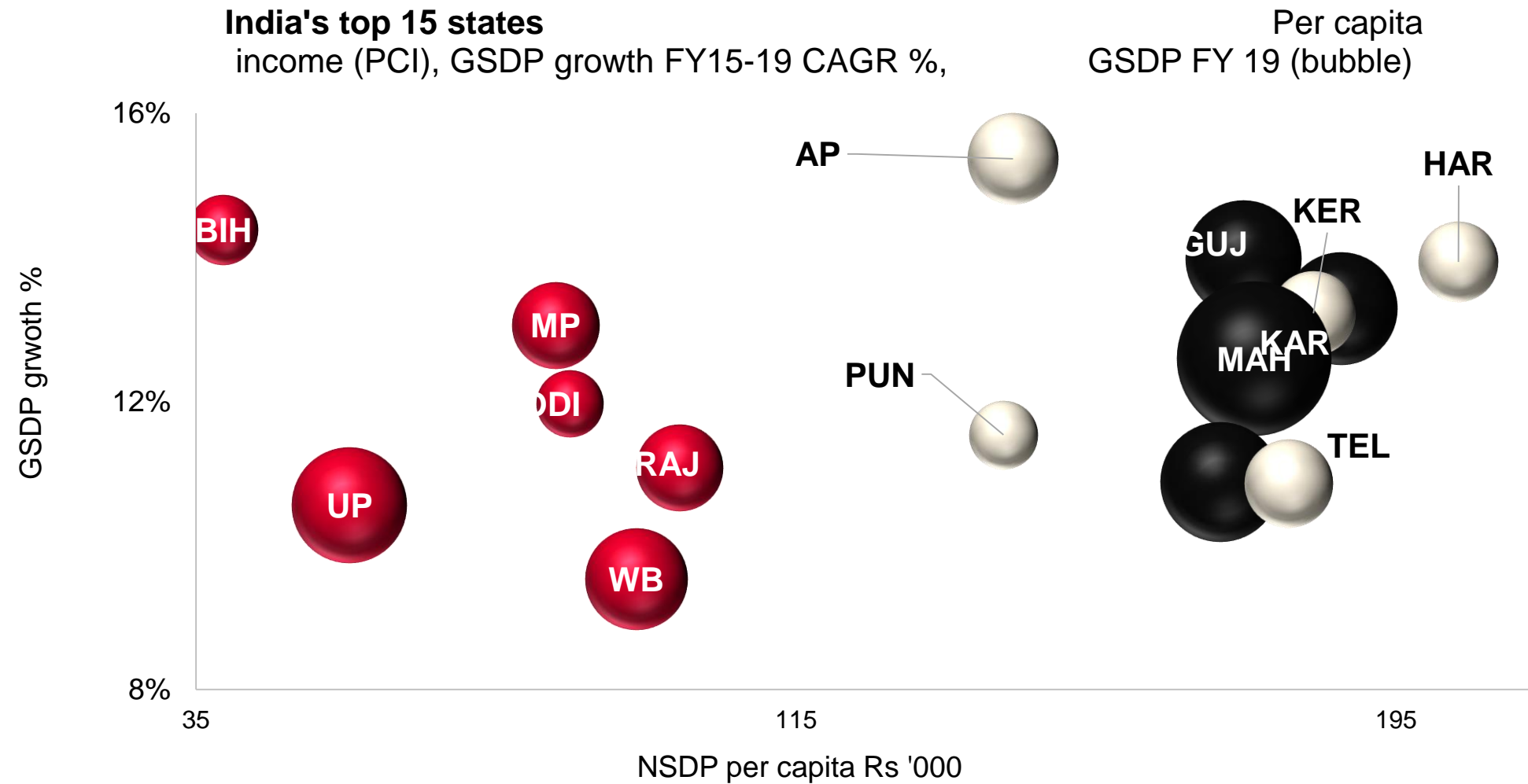
- Average GDP growth of **7.0%** and an infra. spend of ~ **5.7%** of GDP
- Heavy lifting by Centre in last five years, as private investment remained weak
- But States ~ **Rs. 31 lakh crore** (**41%** of total) dominated share of spending

India needs to spend ~ **Rs. 235 lakh crore** on infra in next decade

Role of **states** critical to this cause

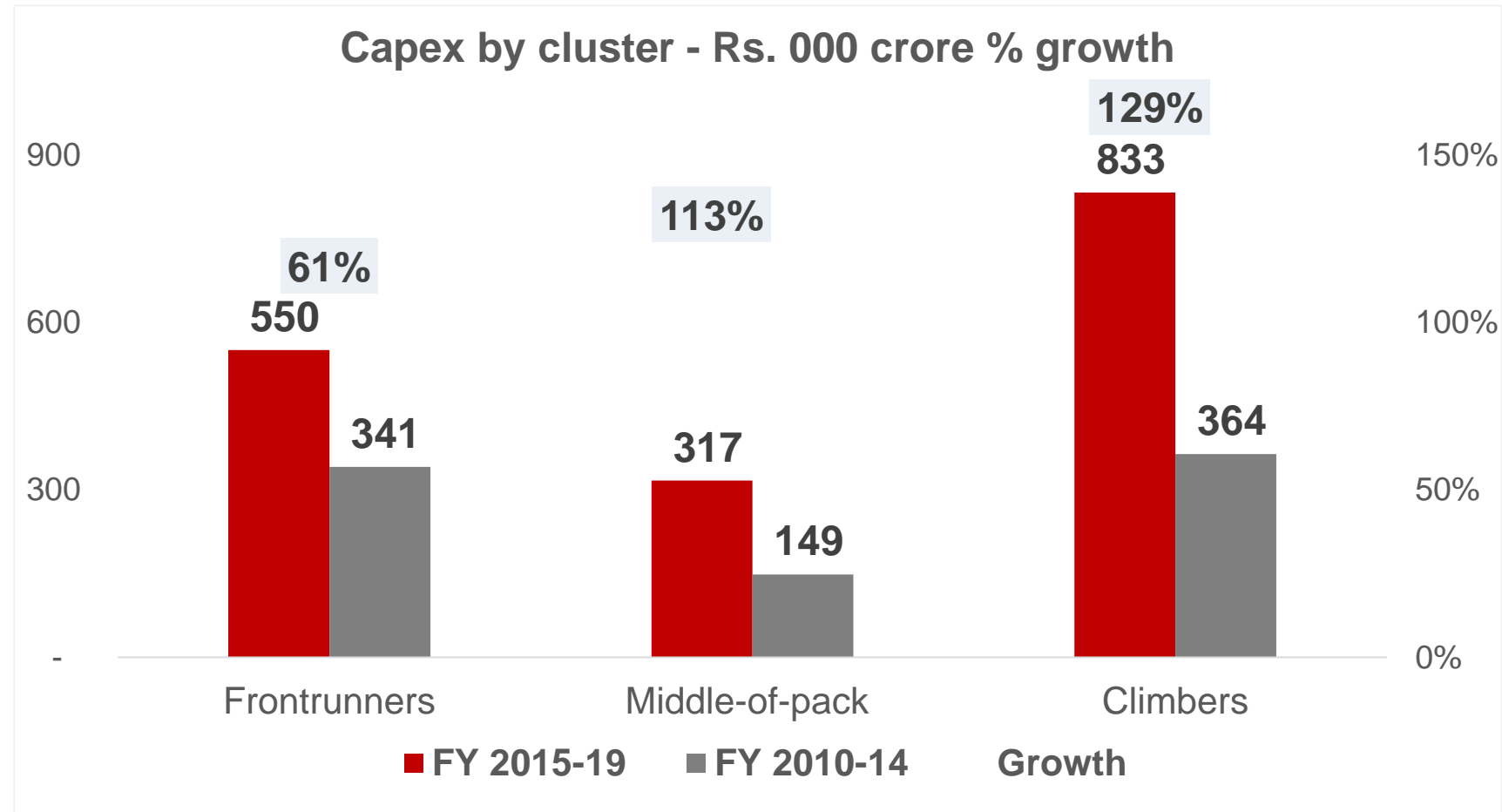
- **Large deficits persist in several key infra sectors**
 - GOI's stated target to step up spending to Rs. 100 lakh crore in the next five years
- **A threshold GDP growth of **7.5%+** with **6%** of GDP on infra investment in next decade**
 - Translates to ~ **Rs. 235 lakh crore** worth investment (or) **3X** of this decade
- **States will need to contribute **Rs. 100-110 lakh crore****
 - Deficits persistently high in sectors under states' remit viz., Irrigation, Urban services, Water & Sanitation.
 - ~ **3.5 X** vis-à-vis this decade; ~ **2X** from current run-rate

India's top 15 states ~ 88% of GDP and ~ 83% of capex



Three clusters – Front runners, Middle of the Pack and Climbers

States dominated capex; Climbers' showed faster growth



Front-runners High base, second-order challenges → **Intrepid reforms** crucial to lift growth
Middle-of-pack Need reform agility, fiscal vibrancy to push ahead → Emerge **growth leaders**
Climbers Upfronting institutional capacity, building fiscal endurance → Raising **incomes**

Overall, states face three **constraints**

Actions on three vectors needed to steer the transformation

1. A **fiscal** squeeze

2. **Institutional** drags

3. Over-reliance on **public outlays**



Expand **Fiscal capacity**

- Stabilise GST for income buoyancy | Unlock asset monetisation
- Medium-term expenditure plans | directed subsidies



Enhance **State capability**

- Credible counter-party institutions | Innovative financing | PPPs and Project development rigour



Engender **policy coherence** and **regulatory dexterity**

- **Structural** – Land, Labour, Investment climate
- **Sectoral** – Energy, Urban, Water, Transport

CRISIL Infracvex

(unique index to track ability of a sector to attract private capital)

CRISIL **Infracrev** – assessing drags & drivers on a scale of 1 to 10

- **Scorecard scale and interpretation**

- The CRISIL Infracrev is a 10-point index with ‘1’ reflecting least investment attractiveness and sector maturity, and ‘10’ reflecting highest investment attractiveness and sector development maturity.

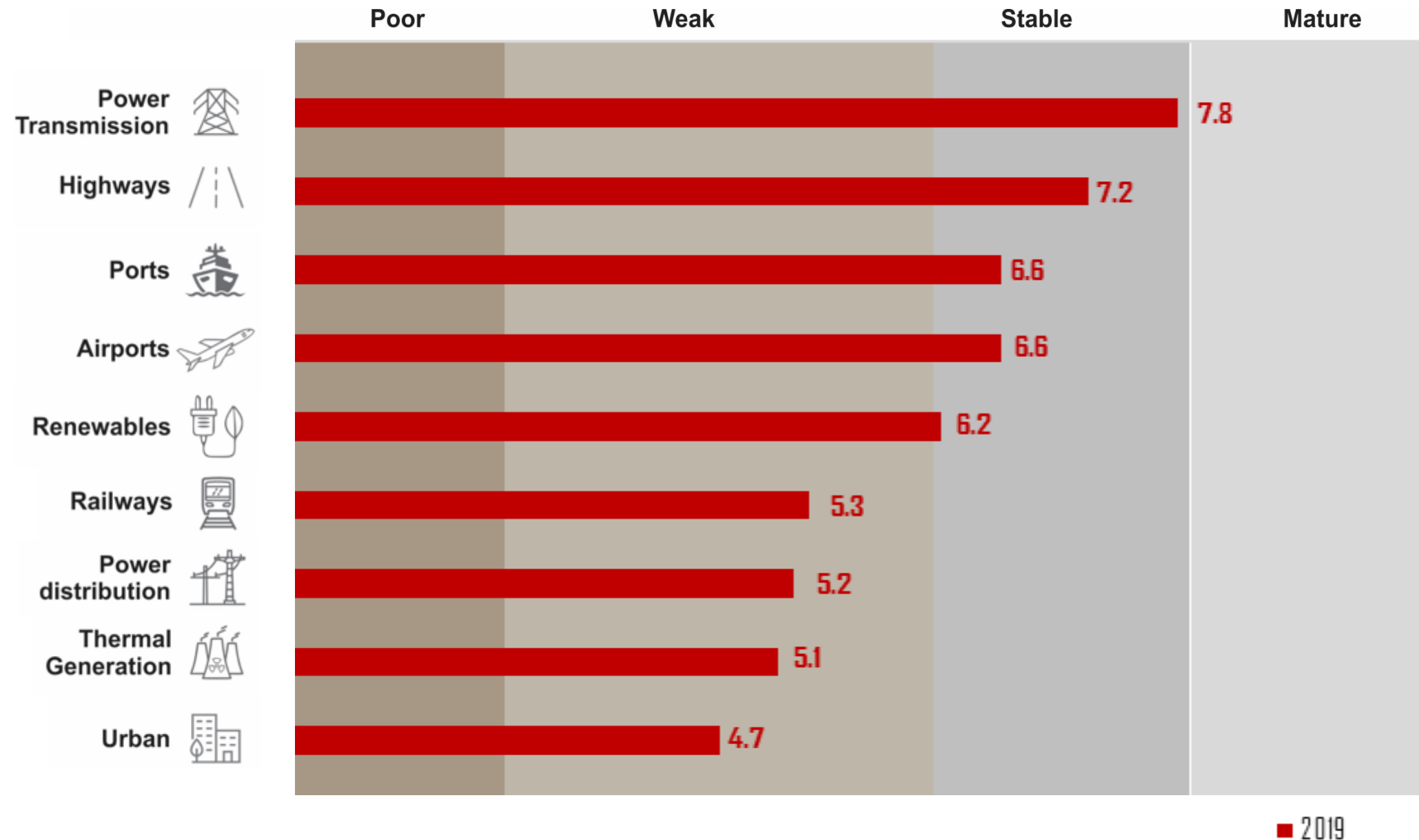
1-3	: Poor
3-6	: Weak
6-8	: Stable
8-10	: Mature

- **Drivers and drags underscore the favourable and unfavourable factors impacting each sector’s investment attractiveness**

Parameter	Drivers	Drags
Policy direction	↑	↓
Institutional maturity and strength	↑	↓
Financial sustainability	↑	↓
Implementation ease	↑	↓

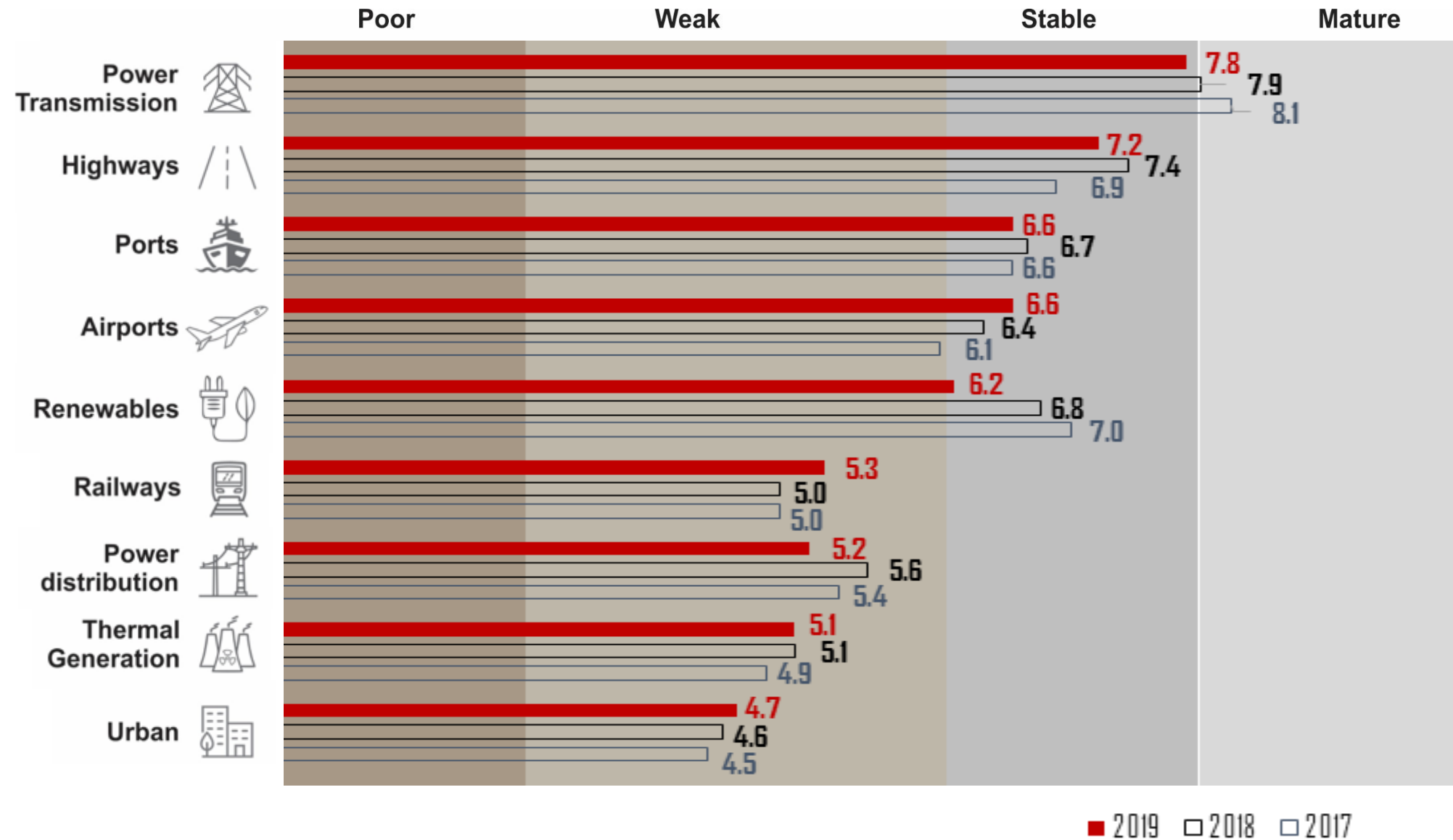
CRISIL **InfraInvex** Scores 2019

Power transmission, highways are leading 'stable' sectors; urban scores the lowest



Bottom 4 require facilitation for attracting private investment

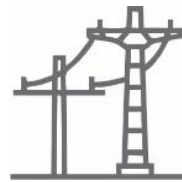
CRISIL InfraInvex (FY19 vis-à-vis FY18 & FY17) – Airports and railways saw improvement, renewables a considerable drop



Power distribution remain weak link impacting the entire power sector. Urban sector remains the least attractive.

Resolving key challenges to improve investability

Power



- Accord highest policy priority to eliminate ACS-ARR gap by fiscal 2021
- Regulatory overhaul including regional & state benches appointed by center
- Explore PPPs, asset monetisation in transmission and retail & supply separation

Renewable



- Assuring sanctity of contract, faster arbitration and options for sale outside
- Come out of low tariff cap and let market decide

Road and Highway



- Capacity augmentation, core road network, and land acquisition
- Explore capital-generating financing instruments

Port



- Implement amendment of New Major Port Authorities Bill
- Undertake regulatory strengthening and enhance approval/ clearance processes

Aviation



- Curate a project prioritisation list for both brownfield and greenfield airports
- Reduce airlines' cost by bringing ATF under GST

Railway



- Expedite the process for creating an independent regulator and establishing the right pricing model
- Develop a clear programme for rolling out various routes for operations

Urban



- Strengthen state finance commissions and implement a stable formulaic devolution transfer regime
- Expand property tax revenue base to at least 0.75% of GSDP

Thank you

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