The Infrastructure boom –Opportunity or Mirage?

India's Infrastructure spending is slated to reach $ 1 Trillion during 2012–17. Each segment – Project Promoters, Equipment Suppliers, Service Providers and Users of Infrastructure - has to evaluate the emerging situation and find ways to compete and win in an uncertain environment, say ***Raju Bhinge***, CEO, Tata Strategic Management Group

It is widely expected that investment will become the key driver of India's gross domestic product (GDP) growth in future years. Investment as a component of GDP is likely to increase from around 34% in fiscal 2010 to around 38% by fiscal 2015. During the 12th Plan (2012-17), infrastructure is expected to absorb about $1 trillion of investment. This will be used for roads, seaports, airports, power, telecom, railways, water, and irrigation infrastructure.

At first glance, this presents a huge opportunity for all types of players: project promoters, equipment suppliers, service providers and users of infrastructure. But what is the reality on the ground?

In recent weeks, there has been a spate of reports about delays or reversals in approvals for various projects. Changes in rules (regarding forest use, environment protection, land acquisition, tribal habitat and so on), or the way these are interpreted, can further stall projects. Several high profile infrastructure projects have come under a cloud – airports, expressways, rail links, highways, thermal power, coal mining, and hydro-electric generation. For project promoters, such situations, if they drag on, can turn an attractive opportunity into a nightmare.

At the same time, there have been many success stories. The Mahindra SEZ (Chennai), Adani and Pipavav ports, ultra-mega power projects, Dhamra port, and Delhi and Mumbai airports are examples that would inspire any promoter or investor.

For promoters of major projects, the market demand is evident. But implementation issues, especially relating to land, environment and forests, are a major risk factor that can make the returns elusive. As new legislation for mining and land acquisition gets enacted, uncertainty and delays will hopefully reduce.

Equipment suppliers are anticipating huge requirements for a wide spectrum of equipment, covering earth moving, power, construction, telecom, mining, material handling and so on. As demand from projects in India accelerates, large-scale imports, especially from China, are being reported. Backed by an undervalued yuan, Chinese imports have made serious inroads in power generation and telecom. Recently, a large Indian group announced an $8 billion order for power equipment from China. At least 30GW of power capacity has already been contracted to Chinese suppliers.

Indian companies need to gain insights into how customer needs are evolving, upgrade their offerings and evaluate the addressable market for their range of products. They must also enhance their ability to compete, especially with Chinese suppliers and their attractive price points and faster delivery times.

Services for the infrastructure sector cover project management, engineering, procurement, construction as well as financial, legal and other business services. Already, there are reports of specialized construction packages being awarded to Chinese and other foreign players. Also, the tendering process and definition of work packages may evolve to reflect global practices. This will bring more global competition into India, especially as contract sizes keep growing. All players need to study these trends, continuously upgrade/refine their offerings, define the verticals, customer segments and packages that form their addressable market, and identify where they are best positioned to compete.

Firms that are users of infrastructure have been waiting for enhanced availability so that their operating and transaction costs improve, and there is a reduction in delays and inefficiency owing to various infrastructure related bottlenecks and shortages. Unfortunately, barring telecom services, there has been little net improvement in other infrastructure services. Even with GDP growth pegged to cross 8% in fiscal 2011, the backlog in infrastructure persists. Industrial units are facing delays in obtaining land for greenfield expansion since most existing industrial zones are full. For chemical units, the problem is amplified since pollution and environmental clearances for new chemical zones/ industrial parks are often delayed.

For such firms, the immediate option available is to pursue brownfield expansion at their existing locations. Also, all efforts should be made to enhance throughput from current facilities. This may provide the breathing time to pursue greenfield sites. Even here, firms may need to consider alternative locations along with fallback plans to safeguard future growth.

Clearly, India is poised for an investment boom driven by a surge in infrastructure building. This has the potential to create huge opportunities for all types of stakeholders. While the pipeline is very large, projects getting the final green light are still a trickle relative to the backlog. This poses serious risks and uncertainties for promoters. Also, for projects that do reach the implementation stage, new competition, especially from China, is redefining prices and delivery times, creating new challenges for suppliers of equipment and services. Users of infrastructure face ongoing bottlenecks and will have to get more out of their existing facilities while greenfield locations take time to materialize. In such an uncertain environment, each firm has to evaluate opportunities and find ways to compete and win.

Firms that make a hard-headed assessment of these factors and craft their moves will gain from this emerging opportunity. Others will be left chasing a mirage.

About Tata Strategic:

Tata Strategic Management Group is the largest Indian Owned Management Consulting Firm. Set up in 1991, Tata Strategic has completed over 500 engagements with more than 100 Clients across countries and industry sectors, addressing the business concerns of the top management. Today more than half the revenue of Tata Strategic Management Group comes from working with companies outside the Tata Group. We enhance client value by providing creative strategy advice, developing innovative solutions and partnering effective implementation.

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About the Authors:

Raju Bhinge is the Chief Executive of Tata Strategic Management Group. He has wide experience dealing with corporate level strategic issues and has consulted with numerous organizations on key strategic issues like growth, divestments and review of business portfolio. He has a keen interest in Economy & Policy issues and has also been involved in negotiating joint ventures and setting them up. He continues to serve on the board of several companies across sectors as diverse as technology, auto components and retail.

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