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# ‘Our core strength lies in renewable energy sector’

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Stalled projects in the infrastructure space may finally get a leg-up, as many initiatives planned by the Government are implemented over the next one or two quarters, says G Krishnamurthy, Chief Executive, L&T Infrastructure Finance. He also sees huge potential in the renewable energy sector, where the company has built its core strength. Excerpts from an interview with BusinessLine:

Now that some of the issues pertaining to financing of long infrastructure projects have been tackled — allowing banks to issue infra bonds as well as setting up of Infrastructure Debt Funds (IDFs) — can we expect significant recovery in the infrastructure sector over the next one to two years?

Yes, we believe so. The Government has done a lot to kick-start the projects in this space. For instance, they have announced the coal auction and they are working towards ensuring coal for all plants that are coming up in the next couple of years. There are a number of other initiatives, such as gas pricing policy, that have been announced.

Apart from this, what really needs to be done — and the Government is working towards it — is to kick-start all stranded projects in the coal, thermal and road sectors, for instance. These initiatives will translate into action in the next one to two quarters, and the impact on the broader economy will take a couple of more quarters to be felt. So in a one- to two-year timeframe we will definitely see stalled projects picking up and generating cash flows. New capex cycle or new projects will gain traction after a lag.

And within the infra space, which sectors are likely to see some activity first?

Things will move fastest in road construction. Many of the issues are not policy issues, but administrative ones, and we have seen NHAI resolve some issues recently. Issues relating to the thermal power sector are slightly more complicated. One is the issue of coal availability, which the Government has started addressing. We should see coal auction in the next couple of months and increase in coal supply by Coal India. The other issue in the thermal power sector is the financial position of State electricity boards. They are the largest buyers of power. So, even if we get the power plants to start generating power, they will have to sell and realize money for it. These issues are slowly coming to the table and policy resolutions there will take a longer time.

So, while problems related to road projects can be sorted out in six-months to one-year timeframe, coal power projects could take longer.

The gas sector is even more complex. Even though gas pricing has been announced, its allocation to various sectors such as power, fertilizers and other sectors that consume gas is another issue. Also, with the new gas pricing, projects will not be viable. So the Government is working on a tariff mechanism which will partly enable gas projects to kick-start. Gas-based projects are going to take longer to pick up.

Renewable energy is one area where there are no such issues and we are seeing a lot of traction, and that is where L&T Infra Finance’s core strength lies.

What is your exposure to the renewable sector?

We have about 20 per cent exposure to renewables. Our exposure to thermal plants is 14 per cent. This is in contrast to other financiers in this space who have larger exposure to thermal projects. We took a conscious decision a couple of years ago to focus on renewables because there are no fuel risks and the projects have shorter gestation periods.

As these projects take only six months to a year to become operational, 45 per cent of our assets are operational under the L&T Infra Finance portfolio.

What kind of projects do you finance in the wind energy sector?

In the wind sector, we finance utility scale players or independent power projects (IPP). There are two sets of players in this sector. One is the high net worth investors or firms who invest to make use of the tax advantage. We do not fund these investments. We finance utility scale players who would like to have a portfolio of say 500-1,000 MW wind assets. Currently, there are about 10 such groups in India that are building assets in wind, solar and hydro. Equity infusion has not been an issue in these sectors, because these are considered green investments and private equity and foreign investments have been easy to come by. In India, wind energy sites have a huge potential.

What about solar?

Initially, Gujarat Government came up with a scheme in 2011, where they awarded 950 MW of projects in the solar space. We decided to go aggressive, and financed about 150 MW of projects, taking 15 per cent of the market share. Subsequently, the Jawaharal Nehru National Solar Mission Phase-II Batch-I awarded 750 MW of projects. Fifty per cent of this is called open category, where you can import the solar panels from anywhere in the world. The rest is domestic. Of this 750 MW, we are financing about 200 MW.

These are projects where the Government provides viability gap funding, and the power generated is sold for ?5.45 a unit. This tariff is competitive when compared with power generated from other sources. For instance, coal thermal-generated power is sold to the SEBs at about ?4.5 per unit.

This is paid by a Government entity called the Solar Energy Corporation of India (SECI), and the counter party risk is low.

Also technically, in a solar project the variability of solar radiation is very low at about 5-8 per cent, and hence the predictability of output is better than in other renewable sources.

The potential in solar is huge and State Governments are also coming up with projects. As opposed to wind, wherein the wind energy sites in India are in about five to six States, solar projects can be set up almost everywhere across the country.

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