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Very low appetite for 15-20-year assets: G. Krishnamurthy

With the Indian government focussing on reviving infrastructure projects to jump-start a slowing economy, the sector's growth will be driven by an increase in electricity generation from solar and wind, improvement in power transmission lines and more roads being built, says G. Krishnamurthy, chief executive of L&T Infrastructure Finance Company Ltd. In an interview with Shubhra Tandon, Krishnamurthy says the company would continue to deepen its focus on what it does best: offering project finance for the renewable energy sector and to power transmission firms. The Mumbai-based company–promoted by L&T Finance Holdings–currently has 23% of its investments in the renewable power space compared to 13% exposure in thermal power plants. Excerpts:

Where do you see future growth coming for L&T Infra Finance, given the fact that roads, ports, and power plants are stalled?

We believe that the renewable segment—solar, wind and hydro—and power transmission are the next thrust areas. I am hopeful that roads will see some positive development. Bidding for 7000 MW of solar capacity is currently underway. While there may be questions over whether we can reach 100,000 MW of solar capacity, I think even reaching a part of that will be a mammoth achievement. In transmission, two large power projects are in the bidding stage.

What about giving loans to companies in the road sector?

We need to see how the road sector evolves, and how the hybrid annuity model works out. There are two things here—one is the pace of awards (of contracts) and the other is the lenders' appetite for financing it. We expect to see a fair amount of orders in the short-term, and then we need to see whether the lending system feels comfortable about financing those projects. That will set the next stage of growth for us.

Lenders don't seem to be keen on funding road projects via the hybrid model.

At present, even in the bond market, there is no appetite for 15-20-year assets. If you talk about placing a large volume credit paper for such a long tenure, some sort of inter-mediation is required. And these intermediaries will have to subsequently break it up and give it to different class of investors, like a mutual fund or insurance funds, whose appetites are spread across specific tenor buckets.

What are the growth and profitability prospects you see for solar projects?

I would be comfortable with renewable going up to 15%-20% of the overall grid over the next five years. Profitability is dependent on yield and credit cost. But, many lenders have failed to understand the interplay between these two. Where they have gone for disproportionate yields, the credit costs have been very poor. The renewable segment is rightly priced in the risk-reward framework, giving adequate incentives to lenders and borrowers. We are in a fine balance now.

What about the risks involved in infrastructure lending?

Yes, there are situations when the sector is growing too fast,.too many new people come in to borrow, and every lender is chasing assets. This could happen in renewable as well. Such herd behaviour has been seen many times in the country, as in the road sector, where issues have cropped up more because of the lending approach, where every project was seen as being similar, when actually they were different. In renewable too, there are high technology risks, fairly high execution risks, resource assessment risks, counter-party risks and regulatory risks, like in any other sector. Technology risk is something that most lenders do not understand.

How are you mitigating these risks?

We have been able to define our risk parameters and we stick to a disciplined lending approach. It is not just relationship-based lending, but also project based. First we have defined the set of people that we are comfortable lending to and within them pick up one or two projects where we are most comfortable. Our growth has been focused on selectivity and quality, leading to positive outcomes in terms of credit costs. We are not going by top line growth as a reason for lending or yield-based profitability calculations, which always leads you in the wrong direction.
