Infrastructure will continue to draw most investment: Rakesh Singh

ET Q&A

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'Infrastructure Will Continue to Draw Most Investment'

The investment cycle has started turning with power transmission, roads and renewable energy sectors showing up, said Rakesh Singh, group head for investment banking, capital and commodity markets, HDFC Bank, which has leapfrogged to the second spot in the debt capital market league table. In an interview with **Saikat Das** and **Baiju Kalesh**, he said that with bank rates falling, the spread or gap between loan and bond markets has narrowed, but corporates will continue to raise funds through a combination of both serving different purposes. Edited excerpts:

How do you see the investment cycle turning around?

Investments are largely happening in three sectors. Firstly, it is the transmission sector. Look at PowerGrid's earnings and you will see the change. PowerGrid is awarding a fair number of contracts. Second is the roads sector, both under hybrid annuity model (HAM) and EPC model. On the road side, they are trying to speed up a lot of things. We are syndicating and participating in financial closure of four HAM projects. We expect acceleration in award of HAM projects next year. The third is capital expenditure in renewable power – solar and wind. Significant capex is happening in this space. Investment will continue to be largely in infrastructure across the country.

Which are the laggard sectors?

The cement sector is also operating at 55-60% capacity in the South and a little higher in other parts of India. The steel sector will take time to undertake any capex or expansion. Brownfield projects are coming up in the sector but no greenfield projects yet. Capex is also needed in the office space and warehousing sector. Further, investment in metal will be calculated, not massive. Investment in building materials will progress but in a measured pace. We see more consolidation in these two domains as weaker players may sell and move on.

Will the HAM structure see any change with expanding road infrastructure?

Debt in HAM projects will not remain in the current format. It will remain in loan format during construction, but post completion, the whole HAM asset portfolio may actually move to InvITs, as these cash flows are predictable. As an InvIT investor, you could expect 11% yield while bond investors would get 8% returns.

With bank loan rates falling, will the bond market remain relevant?

Rates are getting cut down in the loan markets due to which the differential between bonds and loans have also narrowed. In bonds, companies fix rates for a longer period of time. In opting for MCLR regime, there is a possibility to benefit if rates go down. Eventually, you will see a mix of loans and bonds in all assets. A country starved for long-term infrastructure funds cannot ignore bond markets. Top-rated corporates are already in the commercial paper market, and CPs are preferred over borrowing from the bank market. The differential was fairly significant. Now, it has narrowed down.

What will trigger bank credit when corporate bonds are deepening?

Corporates need more of working capital. The bond market is not a solution for it. The bond market is a preferred mode when you need funds to meet capex requirement or make an acquisition. The corporate bond market is beginning to like credit. When it comes to less than top-rated categories, investors are trying to delve deeper into credit before investing. More fund flows are coming to these segments, earlier seen highly illiquid. We are excited to see this and this is as a significant step in development of India's bond markets.

NEW COMBINATIONS

Companies will raise funds through mix of loans and bonds

BHARAT CHANDA

Why are deals shifting to domestic banks from foreign banks?

Foreign banks want to devote their energy on large-fee and marquee businesses. As a result, they are leaving large debt and equity market for us to serve. They have a high fee threshold for deals. Today in the Indian context, we are delivering the exact quality and service which foreign banks used to deliver. So, they are bound to lose as they go along.

So, what is the secret sauce?

Our client interactions are more intermittent and knowledge of their needs is better. We are able to serve the client quicker and offer value for money. We have a strong balance sheet and the ability to be with clients for a longer duration. Moreover, when you are closer to the ground, your understanding of risk is sharper, while it is time consuming for foreign banks as they have to be in alignment with their offshore headquarters. Ultimately, risk is local and understood better by local bankers.

HDFC Bank has climbed the ladder in the debt capital markets. Will you be able to maintain the second rank?

DEBT & GROWTH

Domestic markets are brimming with opportunities as many large cos are expected tap the debt market

Bonds is now regular business for us. This is the fifth year running for the investment bank. We will further improve our rank as we aspire to be among the top. We are also strengthening our team as we tap talent pool in the market. Also, client service is an important factor. We are focusing more on that as we aim to gain more clients while retaining the existing ones. We think, the domestic markets are brimming with opportunities as many large companies are expected tap the debt market.

Why are you lagging in the ECM (equity capital market) table?

We have chosen a certain path. Our bank is one of the most respected brands today. We would like to associate ourselves with issuers of certain pedigree and quality. The brand is extremely valuable to us. That's why you are seeing us carefully selecting IPOs where we want to associate ourselves. We have to ensure that we live up to the expectation of our bank's stakeholders, who want the bank to do quality assignments.

What is happening on your M&A transaction front?

We are also running seven M&A transactions. We are currently associated with nine to 10 equity transactions now. We are doing Avenue Supermart, Shankara Buildpro, GR Infra, NSE, AU Financiers. We just closed the rights issue of Orient Paper.

Will you consider arranging overseas issuances?

Not in the near future.