

Look outside “pure” infrastructure. One theme that runs through the whole of our analysis of India infrastructure is that politics plays a major role in determining what happens. Indeed, many of our suggestions highlight ways investors can manage the inevitable risks that Indian politics pose for infrastructure investments. The nature of this risk, though, is not so much that the spending will not take place, but that the returns to the private partner in a given project may be adversely affected by political bottlenecks.

One of the easiest ways investors can minimise political risk is to invest in companies that benefit from infrastructure spending but are not directly involved in infrastructure projects themselves. We refer here to the many private Indian companies that supply machinery and equipment and other essential inputs and services to the government and to the private firms who actually carry out the infrastructure spending. Such firms should experience rapid growth, and while they are not entirely free of political risk, they are less exposed than those with direct exposure in infrastructure projects.

Ranking the opportunities

As an introduction to the individual sector chapters that follow, the following tables rate the relative attractiveness of investment by sector. We recognise that such an exercise is by nature subjective, especially at this level of aggregation. As a first cut, though, we hope readers will find the relative rankings helpful in highlighting where to begin a more detailed examination of investment opportunities.

We rank direct investment opportunities against the following four broad criteria:

- **Critical urgency:** How important is a sector to meeting the government’s overall infrastructure goals?
- **Absence of bottlenecks, both political and bureaucratic:** Will investments in a given sector be relatively free of non-economic bottlenecks, due to political, bureaucratic or environmental factors?
- **Acceptance of private involvement and profit:** Is private involvement in a given sector already accepted, or will it face government or popular opposition? Can

investors expect to earn profits without fear that politicians will attempt to claw back some of their rewards?

- **Clear investment model and framework:** Is there a clear and transparent model for private investment in a given sector?

Turning to a ranking of investment opportunities for portfolio investors, we selected the following four criteria:

- **Scale of investment:** How large is the total investment, which will, in turn, create large orders for local and foreign firms?
- **Potential spillovers to the broader economy:** How significant are the secondary and tertiary demand impacts of investment in a given sector?
- **Opportunities for listed firms:** Will investments in a given sector flow to listed firms or fall to smaller local and family operations?
- **Absence of labour and/or capacity bottlenecks:** Can increased orders for an enterprise be met without encountering significant labour and capacity constraints?