

Growth Prospects Intact, India's a Big Opportunity

Arguably the most bullish foreign investor for Indian assets, Brookfield is upping its game. In the past one year, it has bought Mukesh Ambani's gas pipeline, Jio's telecom towers as well as Hotel Leela venture. Its media-shy India head took time out to explain why he is going after cash flow-generating assets in an interview with **Reghu Balakrishnan, Indial PM and Arjit Barman**. Excerpts:

You have deployed \$16 billion in India so far, a lion's share of which in the last six years. In 2019 alone, the figure is \$8-billion-plus. What gives you this confidence when the India story is under pressure?

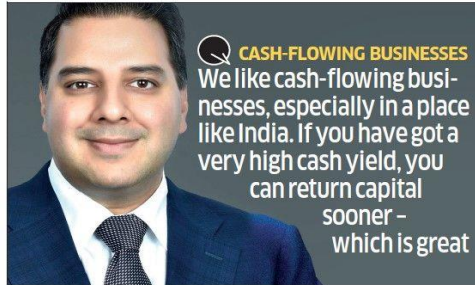
It's a combination of things. We have now developed real operating capability on the ground across our various businesses. For example, we have developed over 5 million square feet in the last few years, which is comparable to some of the biggest developers of the country. In all, our operating platforms employ over 4,000 people in India. That level of operating capability gives us a lot of confidence because we better understand business on the ground, as well as the risks and opportunities. We also agree with Prime Minister Modi's vision of a \$5-trillion economy. The government has gotten stronger, they are engaged, and the long-term trends are pretty spectacular. Add to that, India is one of the few countries where the central bank still has the ability to cut rates.

But what about the short term? That's where the pain seems to be?

In the short term, you have a situation where there is limited credit availability but that is actually helping investors like us who are long-term oriented. At this point, we have the capital and the actual operating capability to buy assets or businesses and operate them. So it's a pretty unique situation. I guess the proof of the pudding is in the eating and we have been deploying capital and doing deals.

Is the current slowdown more cyclical or structural in nature? And do you accordingly rework your strategy?

The credit markets have had challenges for some time, even if they are more evident today. It just takes time to work through the issues. PSU banks today are burdened by NPAs and while the mergers are a good thing, they may prolong the situation. Some like SBI have done a phenomenal job of recognising where to fix issues and finding ways to still provide capital. The private banks were smart by focusing on retail but it left room for the NBFCs to fill a gap and do a lot of things that banks can't do - such as lending against shares or for a dividend recap or against land etc. However, as NBFCs don't take retail deposits, many never formed a real liability franchise... which led to a natural asset-liability mismatch and the problem that we are seeing today.



While it is a big problem, we don't think it is catastrophic and it can be solved - it is just how you solve it in a way that is politically correct and doesn't incentivise any bad behaviour. Frankly, I already think some of the right steps are taking place.

So, India still remains one of your favourite destination?

Yes. We have a lot of confidence in the country. India is now a once-in-a-lifetime opportunity, where you have long-term growth but a short-term dislocation of capital... However, these days we are choosing businesses that are more defensive in nature. Sectors such as energy - for example, our gas pipeline. It is an extremely safe investment with a fantastic counterparty. Or telecom towers, which provide critical infrastructure for data, which is the life blood of India going forward.

\$16 billion in six years... So are we to expect doubling of capital deployment in the next five years?

When we first entered India, we planned to be present in all of our businesses - real estate, power, infrastructure, private equity and credit. Five years ago, we were focused on real estate but today we are actually present in all the businesses. Our infrastructure business is our biggest now. Our private equity business is active in residential developer financing where we have around ₹2,500 crore. And our power business now is over half a gigawatt and growing. I think overall we will grow the Brookfield footprint over the next two years. Our investments are performing well and we have started to generate returns out of India which is what is most important.

You also have a team in place for growth equity investments in non-real estate. It's new. How is that shaping up?

PE so far has been focused on real estate financing but the team has been actively evaluating other businesses - financial services, consumer, health care, education. Globally, we have \$60-billion AUM in private equity. One challenge in India is valuations because it is a high-growth market. When public markets offer great multiples, it is sometimes hard for private capital to co-exist. But that being said, being such a wide space, there's always some sectors like financial services where you can

find interesting opportunities, or there may be some promoters we can partner with and help. Today, consumer and healthcare look very expensive but in real estate and infrastructure-linked businesses and financial services where we have unique expertise, we can offer interesting solutions.

You have invested in toll roads, gas pipelines and telecom towers of Reliance Industries. How do you exit?

We like cash-flowing businesses, especially in a place like India. If you have got a very high cash yield, you can naturally return capital sooner - which is great. Exits depend on the specific business but we are patient. I think INVITs are a phenomenal model for infrastructure and we created India's first special purpose acquisition INVIT with our gas pipeline. We are following the same model in telecom towers... INVITs are the right product for capturing the global appetite for yield since they have to own operating assets and are a tax-efficient vehicle. So when you have the best assets coming into a vehicle that provides a tax-efficient stream of income, all of a sudden passive capital can get interested, which is a great thing from an exit perspective. However, these assets need to be managed by a good institutional owner with operating expertise.

So will you convert your infra platforms InVITs or REITs for real estate? Will they also acquire more assets and bulk up?

We understand REITs and INVITs globally very well and we've been a part of this journey in India. We believe Sebi and the Ministry of Finance have done a phenomenal job. Almost all of our \$16-billion of assets in India could fit into an INVIT or a REIT. We will continue to look for inorganic opportunities to scale these platforms.

How are your older investments performing?

We are very pleased with our performance to date. In a couple of our early investments, we caught a declining interest rate cycle and we were able to actively manage these businesses leveraging our operating teams. We improved the property assets, building on our work-live-thesis by bringing in a lot of retail elements to make it more attractive

for our clients. Our roads, both toll and annuities, are doing well as per our expectations. What's great is through these acquisitions, we're able to build strong relations with the government and regulatory bodies, including the NHAI.

Government spending on infra has slowed down considerably. Do you see yourself taking greenfield risks?

On the real estate side, we have already been doing some development. In renewable power, where the development cycle is shorter, we could look at it. For roads, I think is a bit of a stretch as the timeline is much longer. It really comes down to the asset class. Predictability is key here which is difficult in a large gas pipeline or toll road, and development carries a risk premium.

In renewables, we have seen some state governments like AP looking at renegotiating contracts. That has spooked several investors...

Sanctity of contracts obviously are paramount. The good news is we're long-term investors, so we take a long-term view of any changes in a micro market.

What made you buy Leela?

The assets are phenomenal and so is the brand. In India, the market is really dominated by a handful of brands that are all Indian. At the same time, those brands have not had a ton of global exposure. There's clearly an opportunity... Compared to Bangkok's 20-million or Dubai's 16-million visitors, India attracts only 8 million. Tourism will be a big play and domestic travel will grow. So we believe in hospitality. And if you can play the hospitality angle with a strong brand like Leela, there is real growth possible in India and even abroad. Shangri-La came from Singapore, Mandarin Oriental from Hong Kong, Jumeirah from West Asia, and Four Seasons from Canada. Why can't Leela come from India?

You don't feel the AirBnBs and Oyo's disrupting the entire segment?

We still believe hotels have their place. It's not that you don't factor in the online lodging marketplaces. There is an impact on rooms but hotels are more than just rooms - especially in India, where F&B, banqueting, etc. make up a big chunk of revenues. Secondly, the segment we're in is luxury, which isn't generally where the disruptors are active.

So broadly speaking, what are the big investment themes or you?

For private equity, we are interested in financial services and situations where there is a balance sheet which we can enhance. On infrastructure, INVITs have impressed us and we will continue to invest in energy and data infrastructure through that structure. On real estate, rentals used to mean commercial but can be many things, including residential. There are opportunities to expand what a rental yield traditionally means.