

Financing the Grid and the Highway: The Making of an Infrastructure Asset Class



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“There are moments in an economic cycle when the scale of an opportunity begins to change the architecture built around it. India may be at one such moment in infrastructure.”

The country has moved well beyond the question of whether it can build. Highways are expanding, the power system is scaling, renewable capacity is accelerating, and infrastructure is increasingly becoming the foundation for the next phase of economic growth. Public capital expenditure has risen from around ₹2 lakh crore in FY2014-15 to ₹12.2 lakh crore budgeted for FY2026-27.

But the more consequential story lies beyond the headline spending. It is about how India finances infrastructure—and whether the capital invested today can be made available to finance tomorrow’s infrastructure.

For an asset class characterized by large upfront requirements, long gestation periods and decades-long operating lives, that question is fundamental. No single pool of capital is ideally suited to finance an infrastructure asset through its entire lifecycle. Banks, development finance institutions, bond investors, private capital and infrastructure vehicles each have different risk appetites, return expectations and investment horizons.

India’s financing architecture is therefore beginning to evolve from a relatively linear model—government and banks funding projects—to a more diversified ecosystem in

which capital can enter at different stages and, importantly, be recycled as assets mature.

The emergence and strengthening of infrastructure-focused Development Finance Institutions (DFIs), including National Bank for Financing Infrastructure and Development (NaBFID), India Infrastructure Finance Company Limited (IIFCL) and other specialized infrastructure DFIs, illustrates this transition. Their significance, however, goes beyond the quantum of capital they provide. Development finance can provide the duration and risk-bearing capacity that infrastructure requires, while instruments such as partial credit enhancement can help infrastructure borrowers access a broader investor base.

The objective, therefore, is not for development finance to compete with the bond market. It is to help infrastructure graduate into the bond market.

That graduation begins with bankability. Infrastructure attracts capital when its future cash flows become sufficiently visible.

The roads sector provides a compelling example. Under the Hybrid Annuity Model, the government contributes 40% of project cost during construction, while the balance is financed by the developer and recovered through contractual annuity payments and interest. The significance of HAM is not merely that it changed procurement; it changed the allocation of risk. Compared with a traditional toll-based concession, the developer is less dependent on traffic volumes to service its investment.

For a debt investor, that distinction is fundamental. A project supported by contractual cash flows presents a very different credit proposition from one dependent primarily on uncertain demand.

The same principle is visible in power, although the sector remains more differentiated. The financial health of distribution utilities, historically one of the weakest links in the electricity chain, has improved materially. Aggregate technical and commercial losses fell from 22.62% in FY2014 to 15.04% in FY2025, while distribution utilities moved from a combined PAT loss of ₹67,962 crore to a profit of ₹2,701 crore. Legacy dues reported by 13 states fell from around ₹1.40 lakh crore in June 2022 to ₹4,109 crore by February 2026.

These developments do not eliminate regulatory, counterparty or refinancing risks. Nor should the improving distribution numbers be extrapolated uniformly across generation, transmission and distribution. But they demonstrate the broader principle: when reforms improve the visibility and quality of cash flows, the universe of capital willing to finance those cash flows expands.

And that creates the next opportunity: capital need not remain locked in an infrastructure asset for its entire economic life.

A completed highway, a transmission network or another operational infrastructure asset can become a source of capital for the next project. This is the logic behind India’s growing asset-monetization ecosystem.

TOT and InvITs are different mechanisms, but they contribute to the same broader process. Under Toll-Operate-Transfer, NHAI monetizes the operating and toll-collection rights of completed assets in exchange for upfront consideration. An InvIT provides a structure through which infrastructure assets and their cash flows can be held by investors.

The common thread is capital recycling. Under the first phase of the National Monetization Pipeline, NHAI and MoRTH have monetized around ₹1.5 lakh crore through mechanisms including ToT, privately placed InvITs and securitization. NHIT has completed four fundraising rounds, with cumulative realizations exceeding ₹46,000 crore.

The market is also broadening beyond the traditional institutional investor base. In March 2026, NHAI-sponsored Raajmarg Infra Investment Trust became India’s first public InvIT, with its issue attracting nearly 14 times subscription.

Cube Highways Trust has similarly moved towards the public market, with its ₹5,000 crore public issue launched in July 2026 as it transitioned from a privately listed to a publicly listed InvIT.

These are more than individual transactions. They signal the emergence of a financing flywheel: build, de-risk, finance, operate, monetize and reinvest.

The scale of what lies ahead makes this transition particularly important. The Draft National Electricity Policy 2026 estimates investment requirements of approximately ₹50 lakh crore by 2032 and ₹200 lakh crore by 2047 across the power sector. The numbers underscore a reality that extends well beyond power: India's infrastructure ambitions will require a financing ecosystem considerably broader than government expenditure and bank credit.

This is where the debt capital market can become part of the infrastructure itself.

The opportunity is not simply to issue more bonds. It is to create instruments that match the duration and risk characteristics of infrastructure with the needs of long-term investors—insurance companies, pension and retirement pools, mutual funds, banks, foreign investors and private capital. The same asset may require one form of capital during construction, another during stabilization and yet another once its cash flows are mature.

The policy direction is moving in the same direction. The Union Budget 2026-27 proposed an Infrastructure Risk Guarantee Fund, intended to use calibrated partial guarantees to improve lender confidence and crowd in private capital.

The larger opportunity, therefore, is not to replace public capital with private capital, or banks with bond markets. It is to make the different pools of capital work together across the life of an asset.

That is perhaps the most important evolution underway in India's infrastructure financing landscape. The first phase of India's infrastructure story was about building assets. The next phase is about giving those assets a financial life—one in which predictable cash flows can support debt, mature assets can attract new investors, and capital released from one generation of infrastructure can be redeployed into the next.

The measure of India's infrastructure-financing success will ultimately not be how much capital we deploy once, but how effectively we can make that capital circulate.

That is where the highway and the grid become more than physical infrastructure. They become part of a deeper financial architecture—one in which infrastructure is increasingly financeable, investable and recyclable, and where the depth of India's debt market can determine how continuously the country can build for the future.