

An Execution Noble - City of London position paper

# Indian infrastructure: going beyond the soundbytes

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\* A reality check on Indian infrastructure

- \* Four perspectives :
- The equity financier
  - The debt provider
  - The builder
  - The government

\* \* \* \* \*

**EXECUTION**  
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in association with

March 2010



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## **Indian infrastructure : going beyond the soundbytes**

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# Foreword

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India's infrastructure challenges are well documented, but in recent years they have ceased to be seen solely as problems for India to resolve: infrastructure investment and development are now regarded as major international business opportunities.

The Government of India's proactive campaign to get long-needed infrastructure development underway, and to reform the conditions for private sector investment in this area, is to be commended.

But there is still much to be done.

This paper is a 'stock take' on progress to date, and draws out the challenges and issues faced by foreign and domestic participants in Indian infrastructure development.

The issues raised centre around the supply of bankable projects, implementation, taxation and regulatory issues. Most surprisingly, not one interviewee stated a lack of capital to be a major obstacle to India's infrastructure programme.

Noticeably, these challenges face both foreign and domestic participants.

However, a number of issues were raised which are specific to foreign participants, such as the current uncertainty around the India-Mauritius tax treaty and the restrictions on the exit options for foreign financial investors. More generally, international

participants - who have a range of potential investment destinations available to them - are more likely to be deterred by an uncertain policy environment than domestic firms.

Likewise, the small size of projects at state level, lack of transparency in the bidding process and issues around dispute resolution are all identified as challenges to increasing international participation.

The City of London is committed to working with India and to continuing to strengthen and deepen ties between the UK and Indian financial and professional services sectors.

I very much hope that this paper will contribute usefully to India's development and growth, and look forward to further discussing its conclusions with stakeholders both in India and the UK.

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## Infrastructure investment and development are now regarded as major business opportunities

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But in spite of these "challenges" - and I use this word rather than "problems" deliberately - the appetite of both domestic and foreign firms to maintain and grow their participation in Indian infrastructure projects is strong.

This paper presents a series of tangible recommendations to address the challenges identified by market participants and so, we hope, increase the number of projects underway.

The authors estimate that implementing these recommendations could help increase India's annual spend on infrastructure by up to US\$30bn; in turn this could generate GDP of US\$50bn and push India's GDP growth rate well into double figures.

**STUART FRASER**  
Policy Chairman  
City of London



# Acknowledgements

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We are most grateful to the following who gave freely their time to be interviewed for this position paper :

1. Mr. Sunit Maheshwari	Chief Executive Officer	L&T Infrastructure Finance Co.
2. Mr V. Srikanth	MD, Head of Markets, South Asia	Citibank
3. Mr Shujaat Khan	Chief Investment Officer	Blue River Capital
4. Mr Shailesh Joshi	President	Feedback Ventures
5. Mr Prasad Gadkari	Principal	IDFC Private Equity
6. Mr S Venkatesh	Head-Infrastructure, India	AMP Capital
7. Mr Nainesh Jaisingh	Managing Director	Standard Chartered Private Equity
8. Mr S S Kohli	Chairman	IIFC Ltd
9. Mr J N Singh	Member (Finance)	National Highways Authority of India (NHAI)
10. Mr Krishna Chaitanya	Principal	Actis
11. Mr Richard Normington	Senior Manager	International Financial Services, London
12. Mr Praveen Sanjeevi	Project Finance	IDFC
13. Mr Rakesh Srivastava	Joint Secretary	Ministry of Shipping
14. Ms Geetu Joshi	Dy. Secretary	Ministry of Shipping
15. Mr Ramesh Bawa	Managing Director & CEO	Infrastructure Leasing & Financial Services Limited (IL&FS)
16. Mr Vinayak Chatterjee	Chairman	Feedback Ventures
17. Mr Luis Miranda	Chief Executive Officer	IDFC Private Equity
18. Mr Vasistha Patel	Chief Executive Officer	Sadbhav Infrastructure Projects
19. Mr P Chakrapani	Vice President	HCC Infrastructure
20. Mr Manish Jain	Consultant	Feedback Ventures

Another half a dozen interviewees have been not been disclosed at their request. We would also like to thank Members of UK Trade & Investment and the U.S. Consulate Mumbai for their valuable support during the preparation of this position paper.

# Executive summary

The Government of India's (Gol's) US\$500 billion targeted spend on India's infrastructure build over FY07-12 is well known. That the country will miss this target by 25-35% is also well known. On March 12, 2010 the Prime Minister said investments in infrastructure had to expand to US\$1trillion in the 12th Plan (2012-2017)

On this basis, the question of why the country is falling behind in its infrastructure building program is repeatedly asked.

This position paper summarises the recommendations of previous reports on the issue of infrastructure finance to assess progress in their implementation and to set the scene for the paper.

The paper then explores the views of foreign and domestic investors and developers involved in infrastructure projects in India through interviews with market participants.

Through analysis of these interviews and desk research, the paper presents a set of key issues facing infrastructure development in India, and recommendations to address these issues.

For most observers the easy answer to the question has traditionally been that India suffers from capital deficiency.

However, in our discussions with more than two dozen participants in the Indian infrastructure sector, the availability of funds - whether equity or debt - was not raised once as the key issue retarding infrastructure growth.

Most held the view that "viable and properly planned" projects do not

face either debt or equity financing issues at present. However, a host of other issues emerged with a strong consensus forming around the issues stated below:

1. Political and bureaucratic challenges;
2. Lack of a (meaningful) supply of bankable projects;
3. Lack of transparency in the PPP bidding and awarding processes of PPP projects;
4. Delays in regulatory and land clearances;
5. Lack of availability of the right kind of long-term debt
6. Taxation issues; and
7. Lack of an independent regulatory authority.

Since India is one of the most attractive destinations globally for infrastructure investments, the industry participants we spoke to said that if the above issues were addressed, there would be a manifold increase in the actual capital invested by domestic and foreign investors and developers.

In order to provide this much needed 'push' to private investment, we propose the following actions:

1. Create a body to develop and implement viable projects. Consideration could be given to adapting or expanding the role of existing bodies such as the Planning Commission to achieve this;

2. Incorporate the "Swiss Challenge" route to create value for large projects;
3. Improve coordination between the centre and the states (both for creation of projects and for their implementation);
4. Reduce the tax burden borne by infrastructure companies; and
5. Create an independent regulatory body governing Indian infrastructure.
6. Abolish the withholding tax (which is currently as high as 20% on bond coupons).

A simple calculation shows that the cost to the country of these action points not being implemented is substantial. Every year India is spending US\$60-70bn on infrastructure as opposed to the targeted US\$100bn. If the extra US\$30bn were spent, it would generate GDP of approximately US\$45bn (using the well accepted fiscal spend multiplier of 1.5X).

As US\$45bn equates to around 4% of GDP, this is the price India pays each year for not meeting the targets of the XIth Five Year Plan.

A decade ago, or even in the dark months following Lehman Brothers' demise, there were some grounds for swallowing the bitter pill of foregone national income.

However, with financing for infrastructure now readily available there is very little appetite in the country at large for paying such a high price on an annual basis.

# Approach and methodology

This position paper is the result of both desk research (to set the scene for the paper and to capture pre-existing recommendations) and structured interviews with market participants to better understand the views of practitioners engaged in infrastructure projects.

Over the past five to six years, as the Government of India (GOI) has heightened its focus on private participation in Indian infrastructure, many governmental bodies, governmental committees, consultants and international agencies have written reports highlighting challenges and proposing recommendations for Indian infrastructure development.

Rather than duplicate this long list of publications, in Section I we began by reading the large amount of literature already produced and tabulating the key recommendations made by these bodies and the status of their implementation.

This list of outstanding recommendations provides a checklist of required actions, and gives context to the interviews which inform the rest of the paper.

We subsequently interviewed the whole spectrum of market participants, domestic and foreign, ranging from financiers (we interviewed 15), to developers, to consultants and finally government officials (we met half a dozen) in the infrastructure sector in India.

For these interviews we used a set of structured questionnaires- see Appendix 3 (pg 37). These interviews have been used to

identify the key issues which market participants believe constrain the development of infrastructure in India, and to inform our analysis of these issues and our recommendations to address the challenges raised.

Sections II and III of this note encapsulate the feedback from the industry and the Government, respectively.

In section IV we have given our views on the key challenges facing the sector and then, finally in section V, we have proposed a set of practical action points to address the problems identified in the paper.

Following the launch of the draft report, the findings and recommendations were discussed by a range of Indian industry players at the City of London roundtable on 24th March, 2010 and these suggestions and recommendations have been incorporated in the paper.

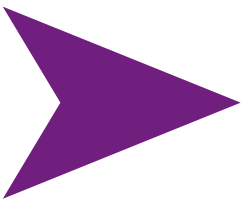
Our sincere thanks to the industry participants who generously shared their time with us.

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# Section I: A reality check on Indian infrastructure

## The government's targets and progress to date



The GoI has targeted an investment of US\$500 billion in Indian infrastructure creation over FY07-12 in the XIth five year plan and US\$1trillion during the XIIth plan (2012-2017).

This target is ambitious, and given the scale of the financing required, increasingly dependent upon private sector participation via Public-Private Partnerships (PPPs).

The plan anticipates that the private sector will account for nearly 30% of infrastructure investment as against 18% in the previous five year plan.

That in turn implies that the private sector will invest US\$150 bn over the five year period or about US\$30 bn annually.

Assuming that equity will fund 25-30% for this US\$30 bn annually, this means a US\$7.5-10 bn equity infusion each year by the private sector.

Though the primary participants are expected to be Indian infrastructure companies, global funding in various forms such as private equity, dedicated infrastructure funds, Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) will also be key sources of capital driving private investment in Indian infrastructure. Indeed in the roads sector alone, over the past year the

Minister for Road Transport and Highways of India has undertaken several international 'roadshows' to highlight this investment opportunity and encourage foreign capital flows into infrastructure.

### Where do we stand?

Mid-way through the FY07-12 plan, our discussions with a range of investors and data from various well known research bodies and consultants suggest that infrastructure investments for FY07-12 may not be more than US\$350 bn as against the planned US\$500 bn, a shortfall of 30% .

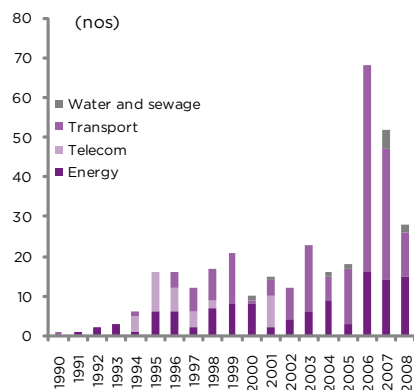
These sources highlight that both government-sponsored and PPP investments will fall significantly behind the planned expenditure.

Given that Indian infrastructure has been promoted as one of the biggest opportunities globally, what has held back actual investments in Indian infrastructure? Is the cause a lack of capital, or are there other issues?

### PPP

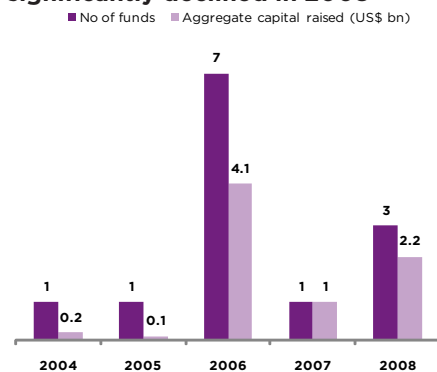
The PPP model has been in use in India for over a decade but it is only in the last five years that the majority of Indian infrastructure projects have come under the PPP ambit.

**Figure 1:**  
The number of PPP projects in India significantly declined in 2008



Source: NHAI

**Figure 2:**  
India focused infrastructure raisings significantly declined in 2008



Source: Preqin

However, participation by private players and investors during the last five years has been uneven: whilst Calendar Year (CY) 2005 and CY 2006 saw a significant rise in PPP projects, activity dropped sharply over CY2007 and CY2008.

The fact that the Public Private Participation Approval Committee (PPP-AC) – a GoI sponsored committee which approves PPP projects – approved just 40 projects worth US\$170 mn during CY2007 and a number marginally higher than this in CY2008 highlights a lack of momentum in the PPP model in the difficult financing conditions of 2008 (see figure 1 and table 1).

According to the 'PPP India database', there are 450 PPP projects worth US\$47 bn underway (refer table 1), up from 212 projects worth US\$21 bn in September 2007 (see table 1).

This implies an increase of US\$25 bn worth of projects under PPP since the beginning of the XIth plan.

Although activity improved in 2009 (see table 1) in a number of areas (especially in roads), these figures are still far behind the planned participation envisaged by the government.

We will analyse the reasons for this shortfall in the subsequent sections of this paper.

## FOREIGN INVESTMENT IN PPP

There was a significant increase in foreign money entering in India in CY2008 in the wake of elevated interest in PPP investments in CY2006 and CY2007.

This resulted in not just a jump in infrastructure FDI but also helped generate private equity (PE) interest. CY2008 witnessed India focused infrastructure fund raisings of US\$2.2 bn (see figure 2) which was over and above the PE money raised that year for Indian infrastructure.

However, this influx of foreign equity then dried up and in CY2009 only US\$1bn of infrastructure PE was raised. FDI into Indian infrastructure also rose sharply in CY2007/FY08 but then declined in FY09.

The global financial crisis and lack of meaningful projects were the two main reasons cited by industry participants for this drop in CY2008/FY09.

Since then there has been a rebound in FDI in infrastructure, and at the time of writing this paper, another US\$1.5-2bn of India focused

**Table 1: Growth in PPP projects in India picked up in CY2009 with roads and ports leading the way**

Sectors	Sep-07 (nos.)	Feb-08 (nos.)	Feb-09 (nos.)	Feb-10 (nos.)	Sectors	Sep-07 (US\$mn)	Feb-08 (US\$mn)	Feb-09 (US\$mn)	Feb-10 (US\$mn)
Airports	5	5	6	5	Airports	3,949	3,981	4,175	3,981
Energy	0	0	31	24	Energy	-	-	3,709	3,565
Ports	27	38	38	43	Ports	6,797	12,601	8,969	13,854
Roads	172	170	187	271	Roads	9,635	9,811	9,949	21,251
Urban development	5	5	35	73	Urban development	431	391	1,295	3,185
Railways & Other	3	3	3	34	Railways & Other	210	210	210	867
<b>Total</b>	<b>212</b>	<b>221</b>	<b>300</b>	<b>450</b>	<b>Total</b>	<b>21,022</b>	<b>26,995</b>	<b>28,308</b>	<b>46,703</b>
<b>Total excl. energy</b>	<b>212</b>	<b>221</b>	<b>269</b>	<b>426</b>	<b>Total excl. energy</b>	<b>21,022</b>	<b>26,995</b>	<b>24,599</b>	<b>43,139</b>

Source: Execution Noble, Indian economic surveys

NB we have used exchange rate of US/INR of Rs 48 for converting the PPP project costs to US\$

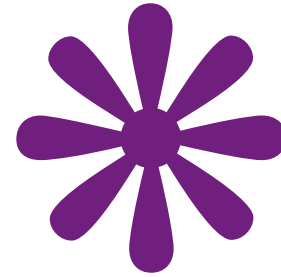
infrastructure PE is currently being raised i.e., the funds' sponsors are touring the globe trying to 'drum up' capital.

### RECOMMENDATIONS TO DATE

Over the past decade there have been a range of proposals regarding infrastructure development and financing made by multilateral bodies, consulting bodies, governmental bodies and investors.

The extent to which these recommendations have been addressed by the government has varied - some proposals have been addressed whilst others are still awaiting implementation. Appendix 2 on page 34 highlights the key papers written over the past five years and the recommendations therein.

The key recommendations, in descending order of importance, relating to infrastructure are tabulated on page 12, alongside the status of their implementation.



**Table 2: FDI flow into infrastructure (US\$ mn)**

	FY06	FY07	FY08	FY09	Apr-Nov 08	Apr-Nov 09
Power	87	158	968	985	594	1,238
Non-conventional energy	0	2	43	85	32	67
Air transport	10	92	99	35	35	14
Sea transport	54	73	128	50	30	274
Ports	1	-	918	493	485	65
Railway related components	15	26	12	18	15	25
<b>Total</b>	<b>166</b>	<b>350</b>	<b>2,169</b>	<b>1,667</b>	<b>1,190</b>	<b>1,684</b>

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**...this influx of foreign equity soon dried up and in CY2009 only US\$1bn of infrastructure PE was raised**

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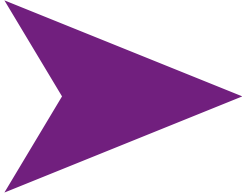
**Table 3: Private equity deals in Indian infrastructure sectors (US\$ mn)**

	Energy	Infrastructure	Telecom	Utilities	Logistics	Total
2006	751	140	370	60	130	1,450
2007	432	436	3,393	88	608	4,957
2008	1,209	80	1,175	125	289	2,878
2009	544	74	271	58	355	1,302
<b>Total</b>	<b>2,935</b>	<b>730</b>	<b>5,209</b>	<b>331</b>	<b>1,383</b>	<b>10,587</b>

Table 4: Key recommendation from past papers and our comments

Key recommendations	Status	Our Comments
Finalising Model Concession agreements (MCAs) for relevant sectors (eg: roads, ports) [MCAs are generally used to standardise the precise policy and regulatory framework under which infrastructure is developed]	✓	The roads and ports sectors have witnessed a significant improvement in their MCA documents but still certain punitive clauses (for example: if a developer defaults on a project not only his but also the debt forfeited) remain
Streamlining approval processes and expeditious awarding of contracts [Private infrastructure projects such as roads and power projects in India require a large number of clearances from central, state and local bodies before commencement of work or commercial operations]	✓	Some progress has been made but the demand by developers to bring this down to 100 days is far from being met. The feedback we received was that most projects take about six to nine months to get all approvals and letters of award
Accelerating land acquisitions [Land acquisition is a big challenge, with most tracts of land in India lacking clear title deeds, and growing opposition from farmers against use of land for industrial purposes]	✗	Although the government has been working continuously to speed up land acquisition, the lack of coordination between central bodies and states continues to delay land acquisition
Improved coordination sought between the "centre" and the states	✗	Although a number of training sessions and discussions have taken place on numerous occasions, we found that most states are not acting in a supportive manner for centre sponsored projects
Creation of special PPP unit(s)	✓	Though a separate PPP unit has been created in the Ministry of Finance and in the respective states, their capacities are limited for designing new projects
Creation of a long-term bond market	✓	After a lot of deliberation, there appears to be some activity on this front with the GoI announcing in the recent budget that infrastructure bonds will be entitled for taxation benefits and some large banks announcing plans to issue infrastructure bonds in the near term
VGF (Viability Gap Funding) [Viability Gap Funding means a one-time/deferred government grant, provided with the objective of making a project commercially viable for private participation]	✓	Well addressed through a comprehensive scheme set up by the Central Government; however, the process of deciding VGF requires further refinement, as there should not be any artificial restrictions on the quantum of VGF
Creation of India Infrastructure Finance Company (IIFCL) and enhancement of its lending capabilities further [IIFCL is a Government owned company which renders long-term financial assistance to Indian infrastructure projects]	✓✓	IIFCL was set up in 2006, since then its powers to participate in infrastructure lending have been increased by regular equity infusions and also by introducing the takeout financing scheme and provision of subordinated debt to infrastructure Special Purpose Vehicles (SPVs) and companies
Relax ECB guidelines and regulations for infrastructure sector—borrowers and lenders [The RBI through its ECB policy restricts sector wise ECB funds flow and the overall costs of these funds]	✓	In February 2010 the RBI further relaxed regulations for ECB flows to infrastructure by facilitating credit enhancements for infrastructure NBFCs (or Infrastructure Finance Companies (IFC)) which will enable them to mobilise more money for lending to the infrastructure sector
Provide tax holidays/abolish Minimum Alternate Tax (MAT) applicability to infrastructure companies [MAT is the minimum tax that Indian companies have to pay even if they are being covered by a tax holiday]	✗	Although tax holidays have been provided under 80-IA, continuous MAT applicability impacts the cash flows of infrastructure assets. Moreover anomalies such as 'no tax benefit for brownfield airports' continue to exist
Tax benefit for investors in infrastructure SPVs for sale of investments or dividend distribution [In India, long-term capital gain on sale of listed equity is exempt from taxation]	✗	No tangible steps taken
Creation of an independent regulatory body for all infrastructure investments Dispute resolution fora and/or independent regulators sought	✗	Although a few sectors have improved their dispute handling mechanisms (power through Central Electricity Regulatory Commission (CERC) and Telecom Regulatory Authority of India (TRAI), there is a need for clear and defined dispute resolution mechanisms and for appellate bodies
Harmonising the definition of 'infrastructure' across ministries and departments	✗	The definition of 'infrastructure' varies within banks, the Reserve Bank of India (RBI), tax authorities, ministries, insurance regulations and even for international fund raising regulations
Creation of Infrastructure Non-Banking Financial Companies (NBFCs) [A dedicated investment vehicle for financing infrastructure as banks are hitting sectoral and group exposure limits]	✗	Done in the last six months
Utilising foreign exchange reserves for infrastructure creation [Indian forex reserves have grown to US\$278 bn and are amongst the top 5 countries worldwide]	✓✓	In March 2010, the IIFCL chairman stated in press that it would be utilising US\$500 million in April 2010 to March 2011 for lending to the infrastructure sector

Source: Execution Noble, Sources in appendix 2 and media reports  
 NB ✗ = no action ✓ = partially implemented ✓✓ = fully implemented



**Hence the status today is that:**

- Not enough infrastructure projects are being signed off to give the country any realistic chance of achieving the laudably ambitious targets of the XIth five year plan; and
- Less than a half of the key reform recommendations put over the past five years have been implemented.

As we will highlight in the subsequent sections of this paper, the problem is not that there is a shortage of capital but that there are a number of issues deterring that capital from being invested in Indian infrastructure.

# Section II: The domestic and international investor's perspective on investment in Indian infrastructure

In order to assess the key issues facing infrastructure development in India, and then provide recommendations to address these issues, we discussed the challenges facing Indian infrastructure with two dozen industry participants including financiers - domestic and international - developers and, developers and consultants).

This section contains a summary of these discussions.

Section III focuses on the Government's response to the industry's comments.

Following our exploration in section I of both the capital requirements of India's infrastructure programme and progress towards implementing the actions identified by past reports on infrastructure development, we expected that the availability of investment capital would be a key concern highlighted by respondents.

However, the responses of market participants on this issue were very surprising; interviewees dismissed the commonly-held view that there is a capital shortage.

Not one of the debt or equity financiers, the developers or consultants regarded Indian infrastructure to be a sector short of capital. Indeed, interviewees gave the view that at present there is too much capital chasing

too few projects, an observation which explains why the targeted return from Indian infrastructure has fallen from 20% plus to 13-18% over the past three years (without a meaningful reduction in the associated risk profile).

Some 'back of the envelope' maths reinforces this point regarding the availability of sufficient capital within the country:

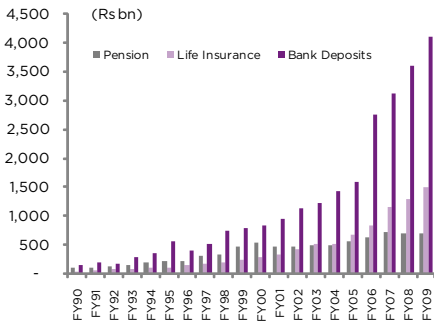
- With a GDP of US\$1.3 tn and with a savings rate of 35%, India is consistently generates US\$450 bn of savings annually. This is clearly enough to finance the Indian infrastructure build.
- Indian banks and life insurers' asset base is growing by more than US\$100-110 bn per annum. Even if 30-40% of the incremental assets went to the infrastructure sector, this would be enough to finance the sector's debt requirements.
- With the exception of the 12 months following Lehman Brothers' bankruptcy, we have not witnessed a single infrastructure stalling due to lack of financing. Our interactions with project sponsors and developers also show that

- other than the poorly planned unviable projects- most projects achieve financial closure.

Whilst we agree with the interviewees that India's domestic flow of savings (US\$340 bn p.a) has created a huge pool which can comfortably finance India's infrastructure build, it is also clear that specific regulations bar these savings from being channelled to the infrastructure sector.

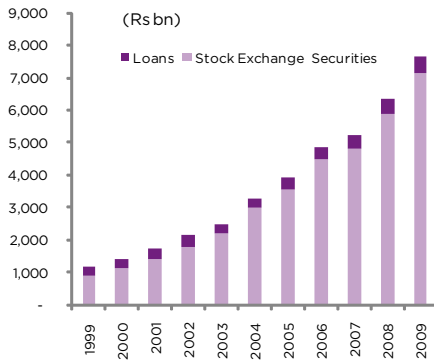
- Banks account for 55% of the household's financial savings (US\$90 bn was the incremental flow into banks as savings in FY09) but are not allowed to invest more than 15-20% in infrastructure projects due to restrictions such as group exposure limits, the classification of loans to the infrastructure sector as 'unsecured', 'prudential' exposure limits fixed by the RBI and sectoral caps set by the bank boards.
- The Life Insurance Corporation of India (LIC), India's government-owned insurance behemoth accounts for 15% of net domestic financial savings. LIC and other life insurance companies are not allowed to invest more than 15% of their assets in

**Figure 3 : There has been growth in Indian savings but it mainly flows to avenues with limitations regarding infrastructure exposure**



Source: RBI

**Figure 4 : LIC’s investments are skewed towards listed securities and not loans and bonds of infrastructure companies**



Source: RBI

infrastructure projects (whilst they can invest 50% in government securities and a maximum of 35% in stock market securities). Further these investments in infrastructure by life insurers have to be rated “investment grade” by the credit rating houses. In FY10 LIC is expected to invest US\$37 bn in total.

While lack of investment capital is not the overriding problem identified in this paper, were these obstacles to be addressed, this would further free up investment flows into infrastructure.

Likewise, work to develop a robust debt market would secure much needed long term funding for major projects.

**THE EQUITY FINANCIER’S PERSPECTIVE**

In our discussions with nearly a dozen private equity investors investing in Indian infrastructure, the consensus view was that there is potentially a very large opportunity for such investors.

However, participation in this opportunity is currently restricted by the limited number of projects available for investment by private developers and by a number of procedural issues such as environmental clearances, land acquisition and fuel linkages.

The interviewees agreed that these procedural issues can have a significant impact on the risk-reward profile of an opportunity.

The consequence of having a limited number of projects is that there are a large number of developers bidding for a handful of projects.

As a result the offer price escalates and this lowers the returns for the equally large number of private equity/infrastructure funds looking to participate in these projects with the developers.

Although certain regulations with respect to the sales in stakes in SPVs have been relaxed (for example: an exit clause has been added in the roads MCA allowing the lead partner in an SPV to completely exit the project once the construction is over), there remain a number of concerns around the dividend distribution tax levied on SPVs.

In India companies are required to pay 15% dividend distribution tax upon dividend payment. This makes it inefficient for SPVs to return capital (to their investors) which can be used by these investors for new projects. Other than taxation and the supply of projects from the Government, the other issue that worried investors was the total lack of a long-term bond market in India. Whilst bank finance is relatively easily available for good infrastructure projects, only a deep long-term bond market can provide the 20-25 year funding that infrastructure projects typically need.

Distinct from the issues highlighted above, foreign investors raised some

**Lack of investment capital is not the overriding problem...**

**Table 6: Infrastructure loans account for a small proportion of loans sanctioned by Indian banks**

	FY04	FY05	FY06	FY07	FY08	FY09
Non-Food Gross Bank Credit (Rs bn)	7,284	9,998	14,051	18,012	2,029	26,023
yoy growth (%)		37%	41%	28%	22%	18%
Infrastructure loans (Rs bn)	513	790	1,088	1,434	2,051	2,700
yoy growth (%)		54%	38%	32%	43%	32%
Infra loans as % of total bank credit	7.0%	7.9%	7.7%	8.0%	9.3%	10.4%

Source: RBI

specific issues which impact them more than the domestic investors (who are accustomed to these issues):

- (a) **Uncertain taxation policy.**  
Dividend distribution taxation at the SPV

level leads to double taxation. Furthermore, there is uncertainty around the India-Mauritius tax treaty. This arises because of the mooted Direct Tax Code which could make capital gains taxable for Mauritius-

**Table 5: LICs loans and debentures to infrastructure are short in duration and dominated by power and housing (Rs bn)**

Loans and debentures advanced to various entities for infrastructure & social purpose				
	FY06	FY07	FY08	FY09
Power	85	96	70	67
Housing	45	40	39	67
- Loans to State Government for housing	5	20	5	1
- Loans to Apex Co-operative Housing Finance Societies & others	0	1	13	1
- Debentures , Bonds etc. to Housing Finance Companies.	39	19	22	65
Water Supply & Sewerage Schemes	0	1	0	1
Transport	1	6	0	2
Other Infrastructure	8	30	57	80
<b>Total</b>	<b>139</b>	<b>173</b>	<b>168</b>	<b>218</b>

Source: LIC Annual reports

**Table 7 : Comments by leading infrastructure investors**

Source of quote	Abbreviated quote
<b>Fund Manager, leading foreign Infrastructure fund</b>	<i>"India is a high risk-high return market...Addressing implementation road blocks, which can be tackled at the planning stage, and removing tax and regulatory bottlenecks can increase participation multi-fold in Indian PPPs."</i>
<b>Ex-Fund Manager of a listed European infrastructure fund</b>	<i>"...[the] Government should work towards the following for supporting private equity: consistent availability of long-term debt, ability to refinance [debt], global bond raising and [the] possible creation of an infrastructure bank. Further, laws should be consistent and should not change with the head of [the] ministry changing with the elections. Moreover exit strategies should involve lower incidence of tax."</i>
<b>Fund Manager, leading foreign PE fund</b>	<i>"If [a] project is good, then money will find a way. Although it appears to outsiders that private equity participation will be a challenge, we don't think so. Delays in commencement of power plant and road construction will also keep equity requirements lower. Moreover, there needs to be a government policy on related infrastructure, for example a balanced development of coal policy and transmission/generation projects for the large number of generation assets coming up."</i>
<b>CIO, leading Indian infrastructure PE fund</b>	<i>"Money is not a constraint for India's infrastructure ambitions... it's the government's incapability to design and present bankable projects. [A] bond market is necessary but it is an enabler and can impact [the] costs of projects. The Government has to improve the bidding processes further and should have a strong legal framework and regulatory body in place. If the internal issue of project planning is addressed, then one can start worrying about the external issues."</i>
<b>Principal, leading Indian infrastructure PE fund</b>	<i>"India must have central machinery in place that conceives, structures, and creates a continuous shelf of marketable PPP projects. There should also be a way to deal with infrastructure projects proposed unilaterally by private sector entrepreneurs."</i>

Source: Execution Noble

based entities upon sale of equity investments in India.

**(b) No option to enter into upfront sale agreements if an exit is not available when the project matures.**

Financial investors usually prefer to determine the terms of exit on an upfront basis. Other than listing infrastructure Special Purpose Vehicles (SPVs) on the stock market (which is a tricky task), the exit options for financial investors are significantly restricted in India.

Unfortunately, the current RBI regulations do not allow financial investors to enter into put options (i.e. an option to resell the stake back to the project sponsors at a future date with the project sponsors at the outset of the project).

**(c) The lack of a stable policy environment.**

Indian policies are often changed, which moves the goal posts for investors. Recent examples are: the new clause created by National Highways Authority of India (NHAI) relating to barring further bidding by developers (if a developer has three or more roads pending financial closures), higher Minimum Alternate Tax (MAT) provisions and a possible cancellation of tax exemption for Mauritius based entities with no clarity on retrospective or prospective application.

**THE DEBT FINANCIER'S PERSPECTIVE**

Our discussions with several debt providers (ranging from government funded IIFCL, to NBFCs such as IDFC, L&T Infrastructure Finance, Infrastructure Leasing & Financial Services (IL&FS) and with global banks such as Citibank and Standard Chartered) suggested that their concerns are very similar in nature to those of the equity investors.

In addition the concerns of the debt financiers interviewed centred on:

- **The government's policies on the debt/bond market.** Despite a reasonable corporate bond market for AAA rated corporates and Public Sector Undertakings (PSUs), the size of the corporate bond market remains small in India. Globally, infrastructure bond markets and municipal bond

markets have provided long-term bond financing for infrastructure.

Cumbersome primary issuance guidelines, the high costs of listing, the lack of credit enhancement instruments, the non delineated supervisory roles of the RBI, the Securities Exchange Board of India (SEBI) and the Ministry of Finance (MoF) and investment reactions on insurance and provident funds are some of the key issues which negatively impact bond market development in India.

- **The supply of bankable projects.** A project is called 'bankable' if all the risks associated with the project are clearly identified and equitably allocated to parties willing to assume the risk.

Most of the time the developer is faced with land acquisition, environmental and design risks. Equity flow from international funds and banks could increase substantially if bankable projects become available and implementation risks are controlled.

- **Increased coordination between the 'Centre' and the states.** In India with the exception of a few infrastructure segments such as telecoms, most of the sectors (such as roads, power and ports) are governed by Central as well as local bodies, which has an impact on the size of the projects as well as their implementation and governance.

**Table 8 : Comments by leading debt providers**

Source of quote	Abbreviated quote
CEO, leading Indian infrastructure NBFC	"India needs equity and not debt; there [are] enough savings available in the domestic market which should be channelled as long-term debt funding into infrastructure projects. Further, a long-term infrastructure bond market should be created and takeout financing should be allowed for external commercial borrowings (ECBs). Most importantly, there should be an improvement in "centre" and state coordination."
Managing Director, leading global investment bank	"...there is a large gap between [the] Government of India's (Gol's) plans and deliveries and we think there are more execution issues rather than policy issues; Financing is an issue but not that bad; there is [a large] enough pool of savings in India, but the transmission of savings into infrastructure financing is not taking place. The government should address some exposure norms of Life Insurance Corporation (LIC)IC/ private sector insurance companies and also try to address the loan and bond distinction, which could solve a lot of issues in debt funding."
Senior banker, leading global bank	"There is a lack of projects with clear visibility on equity returns... Hence participation in PPP projects is poor. Exposure limits in the banking sector restrict the availability of [the] right kind of debt for long duration assets. Implementation delays also worry debt providers especially the banks. The Government needs to develop more long-term lending institutions and an implementing governing body. [The] NHAI has been a success story for contractual agreement formulations, hence why not follow the same principles in other sectors."
CEO, leading Indian financial institution	"The Government should take some bold steps in reforming the bond market and the functioning of large financial institutions such as Life Insurance Corporation of India (LIC), possibly using some part of the forex kitty. If LIC can invest in National Thermal Power Corporation (NTPC) and Rural Electrification Corporation Limited (REC) then why not in infrastructure projects under PPP? Either banking exposure to infrastructure should be increased or [a] bond market (through tax-free bonds) should be developed."

Source: Execution Noble



Moreover, often the Central body sponsored/promoted projects are dependent upon the state bodies for providing land, clearances and also the accompanying connectivity and resources.

Due to sub-optimal coordination between Central and state bodies and lack of standardised state support agreements for sectors such as roads and ports, a number of projects either get delayed or perform inefficiently.

Whilst developers - from small to large - seem to be upbeat about the opportunities in the PPP space, they all highlighted that the paucity of projects is their key concern.

The other major concerns for the developers; are: inconsistent changes in policies; the lack of taxation benefits for infrastructure projects; the lack of long-term debt with tenors comparable to the concession periods; and the lack of pure project; finance with no recourse to the borrower.

Whilst most of the concerns raised by developers have been addressed under other participants' concerns, the issue of project finance is discussed below.

**THE DEVELOPER'S PERSPECTIVE**

Developers (such as GMR, GVK, IRB, Isolux, John Laing, IJM (India) Infrastructure and Madhucon) which develop PPP projects are a new class of companies in the country, with relatively limited experience.

**Table 9 : Comments by developers operating in India**

Source of quote	Abbreviated quote
CEO, leading Indian infrastructure NBFC	<i>"Whilst creating bankable projects is of the utmost importance, the respective governmental bodies should also fast pace the approval processes for the existing projects..."</i>
Vice-President, leading Indian infrastructure company	<i>"Although there are a multiple reasons hindering private investment into Indian infrastructure, we think the most troublesome are: (a) inefficient risk allocation where the private developer is asked to assume risk which it cannot bear; (b) inability to honour the sanctity of the Design, Build, Finance, Operate and Transfer (DBFOT) contract by not requiring multiple approvals despite complete independence promised in the DBFOT contract; and (c) instability of working policies in the Government and the contract awarding bodies. Though these issues will improve the interest and economics for a developer, a long-term bond market for increasing duration of concessions will not only help developers but also bring down the user (public) charges as costs of short duration loans and resets are not front loaded."</i>
Director, Asian infrastructure developer	<i>"Despite the large opportunity in the Indian infrastructure segment, the small size of projects has kept the global developers at bay. However, as the project sizes are becoming bigger, there are other issues such as: (a) lack of a long-term bond market in line with increasing concession periods, (b) bureaucratic/political issues in obtaining clearances, (c) lack of stable regime in policies and procedures and (d) lack of bankable projects."</i>
Director, European infrastructure developer	<i>"The size of projects is one of the biggest issues in India. Large size PPP projects should be put out for bidding after obtaining mandatory clearances and approvals ... as was recently done in the case of the Ultra Mega Power Projects (UMPPs). Further information flow on PPP in the country on projects under development or implementation should improve so that developers are aware of projects under development. Lastly, true long-term project finance should be made available."</i>

Source: Execution Noble

**Lack of 'pure' project finance.**

India lacks a long-term debt market for pure project finance. Most of the loans that developers currently raise are 10-15 year loans for concessions running for more than 20-25 years. Moreover, these long-terms loans have regular resets which undermine the essence of long-term bank funding.

Further, whilst project financing is globally on a "non-recourse" basis, in India project finance companies do not operate in this way: lenders want additional guarantees and support from the sponsors or developers. The right kind of project finance covering the majority of the concession period continues to be unavailable, despite the concession periods becoming longer.

Foreign developers from Europe and Asian countries shared similar concerns as the domestic developers but also added:

- a) **The small size of projects**  
This restricts the interest of the foreign player, as the foreign players' returns from a project are limited to investments, whereas the local player can make money from the construction element also. State governments in particular break up projects into several smaller components.

For large foreign developers, these small projects are not financially viable. At the national level however, the project size is not an issue.

- b) **Lack of transparency in the bidding process.** This is a critical factor that dissuades foreign participation and currently it is the Indian

**Table 10 : Foreign participation in Indian PPPs is very small**

Investor Type	Total investment (Rs bn)	% of total number of projects	% of total project cost
Ports	9	4	24%
Roads	9	3	15%
Airports	4	11	61%
<b>Total</b>	<b>22</b>	<b>17</b>	<b>100%</b>

Source: PPP India Database

**Table 11 : Sector-wise break-up of foreign investor participation in PPP**

Sector	No. of Projects	Investment (Rs bn)	% of total project cost
Foreign Investor	17	7%	1%
Indian Private Investor	1,341	93%	99%
<b>Total</b>	<b>1,359</b>	<b>100%</b>	<b>100%</b>

Source: PPP India Database

- c) **Inconsistency and regular changes in policies.** Recent changes in MAT rates and the inclusion of new clauses in the MCA documents are examples of Government driven changes which impact the costs and economics of projects.
- d) **Inefficient dispute resolution.** In most of the sectors in India there is no separation between regulatory, monitoring and adjudicating authorities which leads to frequent disputes between the Government and the concessionaires.  
  
Many Indian infrastructure projects are plagued by disputes; for example the NHAI currently has more than Rs80 bn worth of disputes outstanding.

According to PPP India database, foreign multinationals have direct equity participation in just 21 PPP projects in a sample of 300 contracts.

Malaysian companies with six projects are the leading investors in PPP projects in India.

Following Malaysia is the UK (four), Mauritius (three) and France, Germany, United Arab Emirates and the Philippines with two each and the United States with one project.

**THE CONSULTANT’S PERSPECTIVE**

Whilst limited in number, specialised consultants focusing on Indian infrastructure have been vociferous in proposing recommendations to the Government which could increase the volume of PPP investments.

The consultants interviewed for this study were of the view that while

the government has ‘set the ball rolling’, it has not effectively followed up in terms of creating and offering bankable projects.

Moreover, after a successful initiation of PPP projects in 2005 and 2006, India has lagged behind in terms of a good pipeline of projects which can create interest amongst investors

Although recently the situation has improved (particularly in sectors such as roads), there is still no clarity on the pipeline of projects in key sectors such as ports, power and urban infrastructure.

One of the key reasons cited by all the consultants for poor supply and lack of bankable projects was limited capacity in the public sector in terms of designing projects. Lack of clear objectives, lack of performance appraisals, unclear responsibilities and the ‘wrong’ mindset amongst mid level managers were seen as the key factors affecting the public sector’s capacity to create projects.

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# Lack of objectives, lack of performance appraisals, unclear responsibilities, and the wrong mindset amongst middle managers...

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**Table 12 : Comments by consultants operating in India**

Source of quote	Abbreviated quote
<b>CEO, leading Indian infrastructure advisory firm</b>	<i>“Whilst the issues are numerous, we think the biggest challenge is at the fountainhead itself: there are not enough bankable projects for private equity to participate in! The Gol lacks the projectization capabilities due to the limited bandwidth of the people designing the projects, coordinating with other ministries/departments and then monitoring the implementation. Political lethargy and lack of clarity on objectives are one of the key reasons keeping private capital low.”</i>
<b>CEO, Private Equity consulting firm</b>	<i>“From the Government’s perspective one of the challenges is to speedily evolve the mindsets and promote PPP project development skill building among public managers to conceive, design, develop and execute infrastructure projects.”</i>
<b>Consultant, Transportation sector, leading Indian Infrastructure consulting firm</b>	<i>“Over the last few years there have been a number of positive developments in the Indian infrastructure space in the context to rules/regulations/MCAs but still a lot more needs to be done. Inefficient dispute resolution mechanisms and lack of independent regulatory mechanisms need to be addressed. ... we need streamlining of responsibilities/objectives in governmental departments so as to improve execution of projects.”</i>

Source: Execution Noble

# Section III: The government's perspective

Following these interviews with private investors, developers and consultants, we met with representatives from relevant government departments such as roads, ports, infrastructure finance and planning.

Most of the government officials were aware of the issues that the investors and developers raised (as detailed in section II).

Whilst the key government personnel showed awareness of the concerns raised by the industry participants, they were also keen to stress that a number of changes and reforms have been undertaken over the past three to five years.

Interviewees highlighted that the biggest change has been the finalisation/standardisation of MCAs in sectors such as ports and roads.

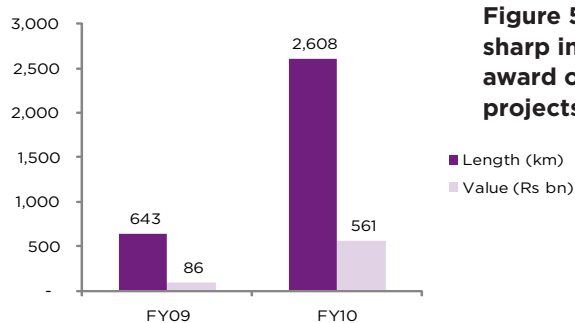
These MCAs have been a driver of renewed private sector developer interest.

Those interviewed identified coordination with the states, land acquisition, early processing of bids and dispute resolution as the biggest challenges facing PPP investments.

As with private sector financiers, none of the government interviewees identified a shortage of funds as a concern.

**Table 13 : Comments by government officials in India**

Source of quote	Abbreviated quote
<b>Ministry of Shipping</b>	"The biggest challenge our department/ministry faces is the time [required] to award jobs and dispute resolution despite creating one of the best Model concession agreements (MCAs) amongst the various infrastructure sectors... the coordination with states is also the next biggest challenge."
<b>Ministry of Road Transport and Highways</b>	"Over the last 2-3 years, we have come a long way in terms of investor interest but [we] still suffer from issues which will be addressed as time goes [by]. PPP in India is evolving and we will learn and adapt to new things. Recently appointed committees have bought significant changes in PPP procedures and the next level of recommendations will iron out further policy and procedural issues such as disputes. Even if we are able to achieve partial success in our ambitious plans, it will mean a lot of private participation. We do not foresee funding as a challenge to our ambitious plans as visible by the bids and also the interest of foreign investors/players in various meetings."
<b>Chairman and MD of a Government sponsored infrastructure debt provider</b>	"Though PPP is supposed to be the biggest driver of private investment in Indian infrastructure, there are many issues which need to be addressed—planning of projects, award of projects, clearances required, funds availability and taxation issues. Currently, financial closures have become an issue and the biggest challenge could be for the Power sector as the banks hit [their] exposure limits to [the] Power sector within their overall infrastructure exposure. The industry requires longer duration funds as concession agreement durations increase. IIFCL is doing its bit but more capital and [more] credit enhancement is required. There are certain states which have done much better than the Centre in terms of PPP in infrastructure due to lower political issues (example Punjab, Gujarat)."
<b>Senior bureaucrat</b>	"Private investments, although touted as the biggest driver will remain a smaller participant in comparison to the expectations. Worldwide private participation has not reached the level of 25-30%. Moreover, with India being such a vast region, there will be a lot of political and social challenges involved in infrastructure development by private players. Co-ordination between states and "centre", various ministries and limited bandwidth in the bureaucracy are the real challenges apart from the well known red-tapism. Funds are not the issue, funds are there, just that a few of the recommendations regarding utilisation of India's saving pool have to be adopted."

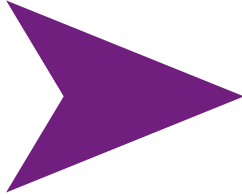


**Figure 5: There was a sharp increase in the award of road PPP projects in FY10**

Source: Execution Noble, NHAI

# Section IV: Our views on the issues facing Indian infrastructure

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Contrary to expectations, this paper has clearly shown that the sector does not face an immediate funding challenge in access to investment capital. Rather, financing issues mainly centre on the availability of long term debt.

Based on our review of the many reports published on Indian infrastructure over the past five years and our discussions with two dozen industry participants and several government interlocutors, we have listed below the key issues facing investors in Indian infrastructure.

We have then in the next chapter provided action points to address the issues raised in this chapter. Before identifying these issues, and making recommendations, it is necessary to acknowledge a number of political and bureaucratic issues impinging upon the infrastructure sector.

## CHALLENGES IN POLITICAL AND BUREAUCRATIC IMPLEMENTATION

We found that in a number of PPP fora, foreign investors have repeatedly stated that the biggest issues facing international investors are political and bureaucratic challenges especially at the state government level.

The majority of participants interviewed for the study (and some government interlocutors) also acknowledged the 'capacity' and 'knowledge' related challenges facing the administrators of infrastructure projects across the country. Specific

areas identified are:

- i) The establishment of stable and efficient regulatory frameworks;
- ii) The standardisation of concession contracts and the bidding process and clarity about the rights and obligations of the agency awarding the project versus the rights and obligations of the concessionaire;
- iii) The ability to expand PPP cells' capabilities and capacities over time; and
- iv) Credible mechanisms for dispute resolution;
- v) Transparency in award of contracts.

These overarching problems are too broad to be included in our list of key issues or to be the subject of our recommendations, which target specific problems and actions to address them.

## SPECIFIC ISSUES FACING PRIVATE PARTICIPATION IN INDIAN INFRASTRUCTURE DEVELOPMENT

### 1) Lack of a meaningful supply of bankable projects

A major impediment to the successful commercialisation of projects in India has been the absence of rigorous project development. Without a steady supply of projects where the key risks and expectations are clearly defined, investment cannot be scaled up. A change in the mindset of government officials in procuring

PPP contracts is required; currently infrastructure development contracts are processed in the same manner as construction contracts. A number of participants stated that many of the projects offered for bidding are inadequately structured and unsuitable for a PPP model.

The absence of a robust pipeline of bankable PPP projects can also be attributed to an insufficient ability of the PPP-sponsoring public entities to identify, implement and execute PPPs.

Capacity deficit is a crucial bottleneck in achieving a steady flow of successfully negotiated PPP deals.

The government needs to enhance central and state capacity to manage the PPP procurement process. This could be in terms of model contract documents or 'handholding' support for designing PPP projects.

Poor planning and engineering design in the tendering phase also lead to delays in projects. Some projects have been rendered unviable because the cost estimates on which they were launched became obsolete by the time the project was tendered or awarded.

## **2) The lack of transparency in the bidding and awarding processes of PPP projects**

The need to maintain transparency in the whole PPP project cycle and in stakeholder interactions is a key factor in determining the success of PPPs.

The private sector players we spoke to urge the central and state governments and other public sector project sponsors to be cautious in the 'selection by nomination' procedure, which is not the same as transparently awarded PPP contracts (since in selection by nomination an expert panel or committee directly

awards the contract to a person or party). Specifically in the power sector, there is a lack of transparency in allocating coal blocks due to the lack of a framework for the bidding process. As a result sometimes these blocks are allocated to sub-optimal players. To date, the majority of coal blocks have been allocated to companies who not only lack expertise in coal mining but also have no end use specified for these coal mines. Coal mines are often used by the awardees purely as a rent-seeking operation (for onward sale of licenses rather than for the establishment of power plants).

## **3) Delays in regulatory and land clearances**

In all infrastructure PPP projects offered by the central or state governments, it's the responsibility of either the respective government or the project awarding body (for example: NHAI in case of roads) to provide the land required for the project implementation.

In most of the cases either project commencement or project execution is delayed for want of land clearances.

In addition to land clearances most of these projects also require multiple clearances for "utility shifting" i.e. moving pipelines, electricity poles, telephone lines, moving religious structures, et cetera.

Recently (in March 2010) a report tabled in the Rajya Sabha highlighted that as many as 140 out of 211 road projects were delayed due to factors such as increases in construction material prices, delays in land acquisition, utility shifting, delays in obtaining clearances from forest or environment, poor performance of contractors and law and order problems in some states.

Another Rajya Sabha report tabled in early 2009 stated that of 909 infrastructure projects (worth Rs4,200 bn), 346 projects were running behind schedule.

Power plants in particular face severe delays on account of forest clearances, environmental clearances and land acquisition.

According to most of the developers and financiers we spoke to, it can take four to six years for coal production to start from the date when the coal mine is allocated. Major constraints faced by coal mine allottees are delays in land acquisition, including forest land and resettlement and rehabilitation (R&R)

This is an issue on which much has been written elsewhere; it is the result of a range of factors including the constraints put on life insurers’/provident funds’ investment portfolios, the absence of a well-developed pension fund system in India, the mandatory obligations imposed on Indian banks to hold a high quantum of government bonds and the taxes imposed on the interest income earned by foreign investors from corporate bonds.

India also lacks a pure project finance . Most of the loans that the developers are currently raising are 10-15 year loans for concessions running for more than 20-25 years. Moreover, these long-terms loans have regular resets which undermine the essence of long-term bank funding.

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## Lack of clarity on applicability of the new Direct Tax Code raises concerns for sponsors ...

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issues and environmental clearance (including ‘no objection certificates’ from the local Panchayats (local government at the village level)), forest clearance and the grant of prospecting licenses and mining leases.

The state governments have a key role to play in all of the above.

### 4) The lack of availability of the right kind of long-term debt

A long standing issue in Indian infrastructure finance has been the lack of availability of 20-25 year long debt. This is obviously linked to the absence of a deep and robust long-term corporate bond market in India.

Further, whilst project financing is globally on a ‘non-recourse’ basis, in India project finance companies do not operate in this way as lenders want additional guarantees and support from the sponsors or developers.

The ‘right’ kind of project finance - covering most of the concession period - continues to be unavailable, despite the concession period becoming longer. It is not just long-term debt but also short-term mezzanine and subordinated debt that is missing.

### 5) Taxation issues

Domestic tax laws in Mauritius do not tax capital gains. Therefore, any transaction on account of the transfer of shares in an Indian company by a Mauritius holding company is a tax free transaction both in India and Mauritius.

For this reason a number of private equity companies and infrastructure companies are present in India via

Mauritius. The new Direct Tax Code 2009 (which is under consideration) could affect India's existing double taxation avoidance agreements.

This includes the Indo-Mauritius tax treaty: India has a tax treaty with Mauritius providing that gains on any transfer of shares in an Indian company by the Mauritius holding company shall not be taxable in India but in Mauritius as per the domestic tax laws in Mauritius. Lack of clarity on the retrospective or prospective applicability of the new Direct Tax Code raises concerns for the sponsors of these PE funds and infrastructure companies.

## **6) Lack of an independent regulatory authority**

In any sector with 'public good' characteristics and heavy upfront investments, there are multiple stakeholders with conflicting interests. For example, the developer of an inter-state highway will want to impose high tolls, while the public will want tolls to be as low as possible. Disputes are therefore almost inevitable. However, with the exception of TRAI in telecoms and CERC in power, India does not have an 'independent' infrastructure regulator to take a dispassionate view of the conflicting priorities of the developers, the government and the public.

In the next section we provide recommendations to tackle these issues.

# Section V: Our six recommendations

## 1. Create a body to develop and implement viable project.

This body would have three distinct roles: (1) creating bankable projects, (2) putting them to tender and selecting the winning bid, and (3) helping the bidder get the range of clearances and resources required to implement the bid.

*Specific action points:*

a) The greatest challenge to the creation of a new independent body would be the reluctance of a range of ministries and state governments to cede control over India's infrastructure building efforts. Therefore any such decision could only be taken at the highest

levels of the Government i.e. the Prime Minister's Office and the Cabinet. Interested parties such as developers, financiers and trade bodies therefore need to clearly focus their lobbying efforts on this issue.

b) The review of the planning commission provides an opportunity to take on this area as a second work area for major projects. Two UK bodies set up in 2009 provide potentially helpful reference points for India. 'Infrastructure UK' was set up to co-ordinate the funding and delivery of the UK's important

infrastructure projects. The Infrastructure Planning Commission decides application for nationally significant infrastructure projects. It would be valuable to establish what synergies there are between these two UK bodies and India's identifies needs.

## 2. Incorporate the 'Swiss Challenge' route to create value for large projects

Incorporating the 'Swiss Challenge' route would help to create value for large projects like the Mumbai Trans-Harbour Sea Link.

There are a few states (such as Punjab, Andhra Pradesh, Gujarat) that have the Swiss Challenge route option but few project proposals have been submitted.

In the Swiss Challenge Approach, a private sector participant (original project proponent) submits an unsolicited or suo-motu proposal and draft contract principles for undertaking a project not already initiated by the government agency or the local authority and the proposal. If the government finds one of the competing counter proposals more attractive, then the original project proponent will be given the opportunity to match the competing counter proposal and win the project. In case the original project proponent is not able to match the more attractive and

**Table 14 : "Recommendations" to resolve the issues identified in the previous section**

Issues identified in section IV.	Recommendation provided in section V
Lack of a meaningful supply of bankable projects	<b>Recommendation 1:</b> Create a body to develop and implement viable projects <b>Recommendation 2:</b> Incorporate the 'Swiss Challenge' route to create value for large projects <b>Recommendation 3:</b> Improving coordination between the centre and the states (both for the creation of projects and for their implementation)
The lack of transparency in the PPP bidding and awarding processes of PPP projects	<b>Recommendation 1:</b> Create a body to develop and implement viable projects
Delays in regulatory and land clearances	<b>Recommendation 1:</b> Create a body to develop and implement viable projects
The lack of availability of the right kind of long-term debt	<b>Recommendation 4:</b> Creation of a long-term corporate bond and/or infrastructure bond market
Taxation issues	<b>Recommendation 5:</b> Reducing the tax burden borne by infrastructure companies
Lack of an independent regulatory authority	<b>Recommendation 6:</b> Creation of an independent regulatory body governing Indian infrastructure

competing counter proposal, the project is awarded to the private sector participant submitting the more attractive competing counter proposal.

### **3. Improving coordination between the centre and the states (both for the creation of projects and for their implementation).**

*Specific action points:*

- a. At a very basic level, it would be immensely helpful if all the major states imbibed the centre's urgency in promoting India's infrastructure build.

In this regard, it is highly noticeable that state governments which have passed Infrastructure Development Acts - Gujarat, Punjab and Andhra Pradesh - have made more progress than others.

If the centre urges the other major states to pass legislation similar to these Infrastructure Development Acts, it would (at the very least) create a degree of national uniformity in the political urge to promote infrastructure development.

- b. India lacks capacity in both the centre and the state level for the creation of implementable projects.

If a body is created at the Centre to develop and implement projects, a logical extension of that would be for this body to have state-level branches (with each branch having a remit over a specific state).

- c. PPPs have become the accepted model for financing most of India's infrastructure build. The PPP cell in the Ministry of Finance in Delhi is well known and has had a positive impact. Following encouragement by the central government, 22 states have set up PPP cells which are responsible for the approval of project and for the coordination between various departments and ministries.

This centre-state structure for PPP cells could either be replicated for the new body or this structure itself could be strengthened to create a national body.

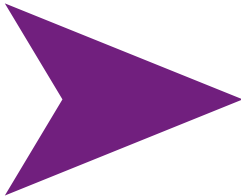
- d. The role of the planning commission can be bifurcated into planning and implementation.

### **4. Creation of a long-term corporate bond and/or infrastructure bond market**

*Specific action points:*

- a. Large global bond investors - life insurers and pension funds - are largely absent from the Indian bond market (which is dominated by the large public sector banks and by the Life Insurance Corporation of India).

Foreign participation in the debt market needs to be encouraged. Removing the withholding tax (up to 20% on bond coupons) would be a constructive measure in this regard.



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|--|--|---|
| <p>b. Indian banks are not allowed to hold corporate bonds in their 'hold to maturity' (HTM) portfolio. As a result, the banks have to mark-to-market their corporate bond portfolios. This in turn disincentivises banks from investing in corporate bonds as opposed to giving corporates conventional loans (which do not have to be mark-to-market).</p> |  | <p>Exempting infrastructure SPVs from the Dividend Distribution Tax would rectify this anomaly.</p> |
| <p>b. With a view to encouraging investments in Indian infrastructure, section 80IA of the Income Tax Act gives infrastructure companies a ten year tax exemption on their profits from greenfield projects.</p>   |  |   |

Given that Indian banks, as a group, are the main investors in India's corporate bond market, allowing banks to hold bonds in their HTM books would reduce this disincentive and deepen the bond market.

However, these companies then get ensnared by the Minimum Alternative Tax (MAT) which was raised in the recent budget from 15% to 18%. Therefore MAT negates much of the section 80IA exemption benefits.

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|--|---|---|
| <p>c. Currently the Companies Act forces Indian issuers to file a prospectus when they issue a bond. Market participants in India would like to see the Companies Act amended to allow for filing by a corporate of a single 'shelf prospectuses' (on the basis of which repeated issuances can be made without creating the need to file new prospectuses).</p> |   | <p>Exempting greenfield infrastructure projects from MAT would be a logical step.</p> |
|  | <p>c. In the listed equity market, long term capital gains (i.e. longer than a year) are exempt from Capital Gains Taxes (CGT). Yet investors in infrastructure SPVs, which are unlisted, have to pay CGT taxes on their capital gains even if they exit their investments after three to five years or more. India's infrastructure SPVs arguably need capital more than the overall stock market.</p> |   |

**5. Reducing the tax burden borne by infrastructure companies**

*Specific action points:*

- |  |   |   |
|--|---|---|
| <p>a. At present, infrastructure SPVs are taxed on their profits and on the dividends they pay to their shareholders. These shareholders are in turn taxed when they pay dividends to their shareholders. As a result, specialist infrastructure financing companies face double or triple taxation.</p> |   | <p>This asymmetry should be rectified by exempting long term infrastructure SPV investors from CGT.</p> |
|  | <p>d. Provisions of the mooted Direct Tax Code affecting foreign investments made in India via Mauritius which could make capital gains taxable for Mauritius based</p> |   |

entities upon sale of equity investments in India should be revised.

### **6. Creation of an independent regulatory body governing Indian infrastructure**

Well conceived regulatory frameworks, including independent regulators, sound price setting regimes and transparent regulatory processes that invite stakeholder participation can improve the investment climate by increasing predictability and reducing political risk.

#### *Specific action points:*

- a. Such a regulatory body would need a mandate not just to foster rapid development in Indian infrastructure but also to ensure that the interests of the developers, the government and the wider public are balanced.

Therefore, as it would need to be independent of the Government, its creation would need to be underpinned by an act of parliament. Framing and introducing such a bill would require sign-off at the highest levels of the political apparatus.

- b. India's telecoms regulator, Telecom Regulatory Authority of India (TRAI), provides a role model for a potential infrastructure regulator. Set up by an act of parliament in 1997, TRAI has for the most part successfully balanced the conflicting interests of the telcos, the Government and the consumers.

Its frequent 'run-ins' with both the telecoms industry and the Government provides ample testimony to its 'independence'. India has witnessed one of the most rapid mobile telephony rollouts seen anywhere in the world and has new telecom operators clamouring to enter the market despite the lowest call tariffs in the world.

This is testament to TRAI's success. TRAI should be consulted, and used to develop a basic blueprint for an independent infrastructure regulator for India.

- c. Given the plethora of ministries which currently have a say in how infrastructure projects are regulated in India, it is unlikely that a single infrastructure body, cutting across the powers of various ministries, can come about without a political imperative from the very top.

An enhanced role for the Planning Commission in the area of implementing and overseeing infrastructure projects could go some way to addressing the issues of inter-ministry regulation for infrastructure projects. The government should also express its intention to create a body to regulate infrastructure development across sectors to avoid the prospect of more sector-specific regulators being established.

A simple calculation shows that the cost to the country of these recommendations not being implemented is substantial.

Every year India is spending US\$60-70 bn on infrastructure as

opposed to the targeted US\$100 bn. If the extra US\$30 bn is spent, it would generate GDP of approximately US\$45 bn (using the well accepted fiscal spend multiplier of 1.5X. Since US\$45 bn is around 4% of GDP, that is the price India pays each year for not meeting the targets of the XIth five year plan.

A decade ago - or even in the dark months following Lehman Brothers' demise - there were some grounds for swallowing this bitter pill of foregone national income. However, with financing for infrastructure now readily available, there is very little appetite in the country for paying such a high price on an annual basis.



# Appendix 1 : Case studies - the Indian PPP experience to date

## Case study I: Mundra Port & SEZ

### **Mundra Port & SEZ has been one of the most successful and effective PPPs on a very large scale (project of Rs55 bn)**

Mundra Port & SEZ (erstwhile Gujarat Adani Port Ltd. (GAPL)), is a joint venture between the Government of Gujarat and the Adani Group, which is a fully commercial and professionally managed multi-purpose port. Mundra is amongst a few Indian ports which offer the full range of port services, including stevedoring, storage and cargo transfer (mechanised cargo handling) under one umbrella. The port is amongst the most successful private sector port projects to be developed in India.

Mundra was identified for the development of a direct berthing deep-water port using the Public-Private model in 1995. The State Government invited bids and then formed a partnership with majority stake owned by the private sector participant, and the minority by the state government (through Gujarat Maritime Board and Gujarat Industrial Investment Corporation).

At the time of the bid, Mundra had no rail connectivity. Later, the Adani Group built a 62 km line on the coast and then took 20% equity in a 315 km line providing alternate route to Mundra port. These railway lines were amongst the first few privately built railway lines in India. Presently, the port is connected to the national rail network through rail and to the

state highway network through road. These road and rail links were critical in providing connectivity to what was until then one of the most remote parts of Western India.

In order to develop the port, Adani Group invited P&O Ports (of the UK) to operate one container berth. Today Mundra has 12 berths, including two for container handling. Mundra also has India's first multi commodity SEZ spreading over a 100 sq km area. Adani Group developed not only access infrastructure but also the social infrastructure in the hinterland.

The port development did face some challenges. It faced prolonged delays in setting up the critical basic rail and road linkages. As per the company, there was an initial lack of synchronisation; and time lags in the development of various types of logistics infrastructure required.

Effective planning and strong political will (with support from the highest echelons of the state government) to develop the project helped the project to be delivered.

### **Why was it successful?**

Gujarat was the first state in the country to enact an Infrastructure Development Act. This was passed to boost investment in infrastructure projects. The Act provided a framework to private sector players keen to participate in the construction, finance and maintenance of infrastructure projects. The Gujarat Infrastructure

Development Board, set up in 1995 under this Act, facilitates the flow of funds from the private sector into the infrastructure sector and ensures coordination among various agencies.

Moreover, Gujarat was the first state to announce a separate Port Policy, which integrates the development of ports with industrial development, power generation and infrastructure development. It was also the first state to privatise the construction of ports in the country.

In keeping with our discussions with various industry participants, Mundra Port's evolution provides useful insights into how to effectively manage a large PPP. A few reasons cited for its success were as follows:

1. Careful planning of the PPP project;
2. Extensive feasibility study conducted, with the input of PPP experts;
3. Appropriate legal and regulatory framework;
4. Flexibility in tariff setting and in creating supporting infrastructure;
5. No business development restrictions;
6. Strong state level and local institutions with appropriate resources; and
7. A competitive and transparent procurement process.

## Case study 2: Noida toll bridge

### The Noida toll bridge is regarded as a PPP disappointment

Most PPP failures can be attributed to inadequate or non-existent feasibility studies, including unrealistic traffic forecasts; undefined public contribution of funds; unrealistic revenue and cost estimates; lack of thorough financial and economic analysis; and inappropriate sharing of risks.

The need to follow good practice in both contract design and the process of awarding contracts, and the potential pitfalls of not doing so, are illustrated by the concession for the Delhi Noida toll bridge project. The concession for the bridge was awarded in 1997. The contract did not give the concession awarding authority a role in assessing the reasonableness of capital and operational costs reported by the concessionaire. Shortfalls in returns for previous years has resulted in a corresponding increase in project cost, on which further returns can be earned by the concessionaire. As a result, the initial capital cost of Rs4.1 bn crore, as determined by the concessionaire, had risen to Rs9.5 bn crore as on March 31, 2006.

The bridge, which opened to traffic in February 2001, was among the first few projects to have been developed as a PPP in India. The project was structured as a 30-year Build Own Operate Transfer (BOOT) concession, which was financed through equity of US\$30 mn and debt of US\$70 mn. Debt financing consisted of term loans from various Indian banks and financial institutions totalling US\$58 mn and the issue of deep discount bonds totalling US\$12 mn by the Noida Toll Bridge Company Limited (NTBCL), the concessionaire.

The concession agreement provides that the concession will last until the concessionaire has recovered the total project cost plus a return, which is 20% per annum of the total project cost. At the end of the concession period all of the NTBCL's interest in the Delhi Noida toll bridge is to be transferred back to NOIDA for the nominal sum of Rs 1.

In the initial years of operation, revenue from the collection of toll fees at the Delhi Noida toll bridge fell below the originally projected levels and ever below break-even level. The shortfall was attributed to a number of factors including the rate of growth of Noida being lower than expected. As a result of the financial losses incurred, NTBCL approached its lenders to restructure of its debt after its first year of operation. The restructuring was carried out in 2002.

The State Bank of India in conjunction with NTBCL (concessionaire), IDBI (debt provider) and IL&FS (debt provider, equity sponsor), prepared the corporate debt restructuring proposal, the key features of which were: (i) rescheduling of interest and repayments; (ii) reduction in interest rate for loans; and (iii) construction of new links in order to augment NTBCL's revenues (these links were to be funded by additional equity capital).

Not only was the traffic shortfall risk underestimated (which led to losses for the private concessionaire), the concession agreement (CA) was also not formulated in a manner to allow for appropriate sharing of risks. Issues with the CA were:

- The project was assured returns on the cost basis where project cost is defined ex post – (once construction and commissioning have

been completed) and the contract does not put a cap on the total project cost.

By providing a return on the total cost of the project and not specifying exactly what is included under total cost, a perverse incentive is created for the concessionaire to (a) attribute whatever it can to the cost of the project and (b) over-engineer the project.

- There was no competitive bidding. Page three of the CA says: "The Steering Committee has decided that the Project should be implemented by a corporate entity promoted by IL&FS and incorporated in the State of Uttar Pradesh for the purpose of developing and implementing the Project."
- The concessionaire was given the power to "determine, demand, collect, retain and appropriate" the fee for use of the Noida bridge in order to recover the total cost of the project and returns thereon. The fact that the concessionaire had the power to determine this fee is in contrast to the general practice in the case of National Highways and State Highways, where (as per law) the power to determine user fees rests with the government – rather than being vested in a private entity.

# Appendix 2 : Summary recommendations from other infrastructure papers as summarised in section I

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## 1. India: Building capacities for Public Private Partnerships, the World Bank, June 2006

- A clearly articulated policy statement on the use of PPPs at the national level;
- The creation of a national level PPP unit that would undertake information dissemination and guidance functions as discussed above, and provide advisory support to the central PPP program;
- A project development fund to reduce the transactions costs to state and local governments of preparing and bidding out PPPs; and
- A fund to partly cover the cost of state and local government commitments under PPP contracts

## 2. Financing Infrastructure: Addressing constraints and challenges, June 2006, the World Bank

- Improve exit policies to make it easier for investors to exit;
- Encouraging the use of more innovative financing instruments like mezzanine and takeout financing;
- Developing a longer term corporate bond market;
- Relax the existing investment norms prescribed for insurance, EPF and PPF so that these institutions can commit significantly larger amounts of long-term funds for infrastructure;

- Streamlining Approvals, Cutting Down on Red Tape and Enhancing Infrastructure Regulation
- Building Government Capacity

## 3. Rajiv B Lall, MD & CEO, IDFC, Presentation at the ICRIER Silver Jubilee Seminar, November 2006

- Allow insurance companies and PFs to invest in funds and/or SPVs owning infrastructure assets;
- Allow FIIs to buy tranches of long-term infrastructure focused CLOs and CDOs;
- Allow infrastructure NBFCs automatic access to ECBs at least from multilaterals and reputed regional financial institutions;
- Create strong and independent dispute resolution capacity;
- Create inter-ministerial (roads, ports, rail and airports) forum/group to develop and review inter modal transport policy blueprint on regular basis;
- Create state level PPP units to provide hand-holding to various departments;
- Setting up dedicated institute for the express purpose of training a PPP management and regulatory corps; and
- Clear framework for privatisation of coal mines for use in power generation.

## 4. International conference on Meeting India's Infrastructure Needs with Public Private Partnerships, The International Experience and Perspective, February 2007

- Sustaining and accelerating the present progress will need strengthening of policy and regulatory frameworks and substantial improvement in government capacities for managing and overseeing PPPs when in operation;
- The tax regime applicable to dividends paid out by SPVs needs to be rationalised;
- The government should take measures to deepen debt markets and encourage insurance funds to invest in infrastructure projects.

## 5. The Report of The Committee on Infrastructure Financing, May 2007

- Development of domestic debt capital market;
- Tapping the potential of insurance sector;
- Rationalizing banks' and NBFCs' participation in infrastructure financing;
- Fiscal recommendations;
- Facilitating equity flows into infrastructure;
- Inducing foreign investments into infrastructure;
- Utilizing foreign exchange reserves.

**6. Report and Recommendations of the Committee on 'Launch of Dedicated Infrastructure Funds (DIF's) by Mutual Funds', SEBI, 23 July 2007**

- DIF's be allowed to invest up to 100% of its funds into unlisted securities;
- It is suggested that DIF's should be eligible for investing in both equity and debt to balance the needs of the sector;
- The DIFs can also seek buyback options with the asset operators and their financial partners; and
- Govt./concerned regulators may consider modifying the investment guidelines for Insurance/Pension funds and provident funds so that they could invest directly in such type of DIFs.

**7. Infrastructure challenges in South Asia: The Role of Public-Private Partnerships, September 2007, Geethanjali Nataraj**

- Development of public sector capacity to prioritize, plan, appraise, structure, bid, and financially close PPPs;
- Strong political will and support for the PPP program and for specific PPP projects has to come from the highest political level of government;
- Detailed PPP policy and planning;
- Proactive public communication and stakeholder management; and
- Proper allocation of risks.

**8. CII ten-point agenda for speeding up Infrastructure projects, August 2008**

- Appointment of a Special Envoy to co-ordinate and facilitate clearance of projects across Ministries and state governments;
- Establishing a 'Centre for Excellence' for projects in PPP mode, which will help build capacities for project conception, development and implementation;
- Setting Civil Aviation Regulatory Authority along the lines of TRAI; and
- Forming uniform central guidelines for time-bound clearances for land, water, fuel, environment and forest and power evacuation.

**9. Approach to Regulation of Infrastructure, Planning Commission, Government of India, 15 September 2008**

- An Act of Parliament laying down the overarching principles of regulation cutting across different sectors;
- Department of Regulatory Affairs may be created within the ministry of personnel and administrative reforms to focus on regulatory reform and governance;
- Separate appellate tribunals could be constituted for the three major segments, that is, energy, communication and transport; and
- In the case of states, a single regulatory commission for all infrastructure sectors may be more productive and cost-effective as compared to sectoral regulators for each sector.

**10. Institutional Capacity and Governance for PPP Projects in India, Ashwin Mahalingam<sup>1</sup> and Vikram Kapur, 2009**

- Presence of explicit PPP legislation or at least a state policy towards PPPs;
- A credible, independent regulator, as well as efficient and fair dispute resolution mechanisms;
- Coordination or nodal agencies that bridge competencies within government organizations and which bring to bear 'best practices';
- Innovative financing schemes that provide support for project development and project financing; and
- Inculcating political willingness to enter into an arrangement with the private sector, as well as the local community's willingness to be involved in a project.

**11. Background Paper- Indian Infrastructure Summit 2009, Deloitte**

- Setting up well conceived regulatory frameworks, including independent regulators, sound price setting regimes, and transparent regulatory processes;
- Developing the Domestic Bond Market;
- Develop secondary market for projects that have completed the construction phase and have successfully begun commercial operation; and
- Creating First Loss Default Guarantee Funds (FLDGs); FLDGs seek to provide non-event specific partial credit guarantees to lenders.

## 12. SREI Infrastructure Presentation, 2009

- Land acquisition process be streamlined;
- Strong government entities to provide credit enhancement for projects;
- Facilitation in terms of getting all clearances & approvals from government agencies prior to project commencement;
- Scope of Venture funds to be expanded to allow investment in all infrastructure sectors; and ECB be made accessible to all infrastructure players under automatic route.

## 13. PPP Project Financing- Challenges and Options, February 2009, Dr S D Nanda, IIFCL

- MCAs to be developed for all infrastructure sectors;
- Document the role, responsibilities, risks and rewards for each part in statutory authorities;
- To develop single window for approvals in time bound manner for PPP projects;
- To develop pipeline/shelf of projects; and
- To develop the policy for acquisition of land.

## 14. Articles of Vinayak Chatterjee, Chairman Feedback Ventures, Business Standard

- Creation of bankable projects;
- Increase PPP capacities in Centre and states;
- Standardisation of PPP bid documents and MCAs;
- Extension of Section 80 IA for another 15 years and MAT be abolished in the

period of availment;

- Full pass-through of dividend distribution tax for infrastructure SPVs, and treatment of long-term capital gains tax on sale of equity holdings in unlisted SPVs in line with their listed counterparts;
- An Expert Committee on Definition of Infrastructure to be set up;
- Set up National Development Council for Infrastructure (NDCI) and supporting agency called the National Infrastructure Facilitation and Monitoring Agency (NIFMA) for improving implementation and adopt 20 cross-sectoral projects of national importance;
- Set up a National Land Bank Corporation (NLBC) with an initial capital of Rs 50,000 crore, under an Act of Parliament;
- Setting up truly independent regulatory commissions/bodies; and
- Increase in political will and bureaucratic energy.

## 15. Construction Federation of India (CFI) wish list, February 2010

- Market for long term debt-some designated institutions be asked to provide market-making support for bond issuances by banks for onward infrastructure lending;
- Banks should be allowed to raise long tenor tax exempt bonds to on-lend to infrastructure sector;
- RBI may be persuaded to lower capital adequacy norms for Take-out financing;
- Norms for Insurance / Pension Funds should allow pension funds to invest

about 10 to 15 % of their funds in Infrastructure Bonds; and

- Treat Infrastructure Holding Companies as a separate class of NBFC and exempt them from the restrictions imposed on usual NBFCs.

## 16. Articles and interviews of Mr Amrit Pandurangi, Leader Infrastructure Practice, PwC

- Bolster urban management skills;
- Consistency and stability of policies/infrastructure policies; and
- Fiscal concessions provided to infrastructure sectors be more definitive, more consistent and indicative of a long-term stable regime.

# Appendix 3 : Questionnaires

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<b>Questionnaire for equity investors investing into Indian infrastructure</b>			<b>Questionnaire for developers investing into Indian infrastructure</b>	
		7.	How much is you equity participation dependent upon adequate debt availability and what do you think should be done to increase debt availability for Indian infrastructure assets?	
1.	As an investor when you look at Indian Infrastructure assets, how do these compare with opportunities in other Asian/Emerging countries/ Developed countries in terms of risks and rewards?	8.	In case you have made any investments in any infrastructure asset/segment in India, have these generated returns in line with expectation? If not, why? Are there any sector specific issues and can you detail them?	
2.	What are the key risks and concerns that you face when considering investing in Indian Infrastructure assets or companies? Have these risks and concerns reduced over a period of time?	9.	What are your return expectations from investing in infrastructure assets in India? Have these return expectations come down over a period of time?	
3.	Are these concerns similar for various kinds of investors such as—VCs, PEs, Pension Funds, and Listed Infrastructure Funds? How does your foreign entity status reduce or increase concerns?	10.	In case you are considering making investments in Indian infrastructure assets/ companies, which segments do you prefer currently and why?	
4.	What do you think GoI should do immediately to increase investor interest like yours in Indian Infrastructure assets? Are there any specific segments which have more issues than others?	11.	Do you think infrastructure segments lack a strong regulatory body such as TRAI which has helped investments in telecom?	
5.	Are these risks and concerns specific to India or you will find them anywhere while assessing investment in Infrastructure assets?	12.	What are the various modes through which you can invest in Indian Infrastructure assets — equity, preference shares, convertible debt, sub-debt, bonds?	
6.	Government of India over a period of time has made many amendments in its policies in regards to infrastructure assets such as roads, ports, airports or power. Do you think they have been able to address the right issues for increasing the private participation?	13.	Roads and Power offer two largest opportunities for participation by private capital, but do these also offer the best returns or returns commensurate to the risks taken for investors?	
		14.	In past if you have shelved got out of any investment earlier than expected, why was it?	
			1.	What are the biggest obstacles that foreign investors/entities are not able to participate in the Indian infrastructures opportunity?
			2.	How aware are the foreign investors of risks in investing in Infrastructure assets especially Indian infrastructure assets? How do they seek to address the risks and concerns when they consider investments in your firm or projects that your firm is executing?
			3.	How have regulations changed for improving foreign investment into your firm?
			4.	Do foreign investors bring any learning from the international infrastructure investments?
			5.	Does the structure of a developer cum construction contractor reduce any challenges concerns for a developer?
			6.	Developer is the biggest investor of equity. What are according to you the biggest challenges? What are the challenges for foreign infrastructure developers looking at India either by themselves or in a JV with Indian players?
			7.	TRAI has been one of the biggest drivers of interest in Indian telecom? Do you think other segments also need such regulators? Any other regulator which is doing good work?

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# About Execution Noble

Execution Noble is a leading investment banking and securities firm focusing on large and mid cap pan-European secondary equities and research, with an established distribution platform across London, New York, and Hong Kong.

We provide our clients with execution; equity sales and trading; research; M&A; corporate finance; corporate broking; equity capital markets; and corporate access.

In the latter half of 2009, our group expanded into fixed income and the acquisition of Noble brought with it a primary deal origination capability enhancing our ability to compete for significant equity capital markets mandates.

The acquisition has also significantly strengthened our mid cap research product, with a highly rated Indian research product being added.

We are already a recognised leader in sell-side alpha generation, analyst research, agency broking, and growth and mid cap corporate broking and financial advisory services. We also operate agency credit and derivatives businesses.

In addition to our investment banking and securities capabilities, we have a unique insurance products distribution platform - comprising of a Lloyd's accredited reinsurance broker (EXN 1143) and offering solutions for traditional reinsurance, equity capital markets, corporate

access, equity research and event linked futures.

Headquartered in London, with around 250 professionals and offices in Scotland, the United States, Hong Kong, India, France and Germany, Execution Noble has been servicing many of the world's major investing institutions, including mutual funds, pension funds, insurance companies and hedge funds since 2001, as well as over 200 listed and unlisted growth and mid-cap companies.

Empowered by technology and differentiated by our people, we provide access to the market's core liquidity providers through extensive personal relationships and expertise.

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# The City of London Corporation

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The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the City of London Corporation provides.

Older than Parliament itself, the City of London Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way

through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the City of London Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and

around it.

The City of London Corporation, however, never loses sight of its primary role - the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility - and it seeks to perpetuate the City's position as a global business leader into the new century.

# City Office in Mumbai

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The City of London has long recognised the critical importance of India to the UK-based financial services industry, and is committed to making the best possible use of existing cultural, linguistic, political and trade relationships. In order to strengthen direct links with India, one of the world's largest and most vibrant emerging markets, the City of London has established the City Office in Mumbai since 2007.

The City Office in Mumbai works to further strengthen trading and investment links in both directions between India and the UK through the provision of world class financial

services and products. The India Advisory Council steers the work of the India Office in Mumbai and provides guidance on the City of London's engagement with India. The Council is chaired by Mrs Naina Lal Kidwai (Group Chairperson & Country Head of HSBC) - other members of the Council are: Mr Mukesh Ambani (Chairman of Reliance), Mrs Zia Mody (Senior Partner of AZB & Partners), Mr Nasser Munjee (Chairman of Development Credit Bank), Mr Deepak Parekh (Chairman of the HDFC Group), Dr. Ajay Shah (Sr. Fellow at the National Institute of

Public Finance and Policy), Mr. Jairaj Purandare (Executive Director of PricewaterhouseCoopers, India), Mr. Jamshyd Godrej (Chairman of Godrej & Boyce), Mr. Ajay Srinivasan (Chief Executive - Financial Services of the Aditya Birla Group), Mr. Neeraj Swaroop (CEO of Standard Chartered, India) and Mr. Shardul Shroff (Managing Partner of Amarchand & Mangaldas).

# The Council of European Union Chambers of Commerce in India

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The Council of EU Chambers of Commerce in India is a non-government, industry led and industry-managed not-for-profit sec 25 company, playing a proactive-catalyst role in the development process and serves as a link between the business & economic communities of India and the EU.

The Council is a 18 years old organisation and is the only Apex Bilateral Chamber in India, It is committed to development of Indo-EU business and trade relations set up at the instance and support of the European Commission. The council's primary membership (promoters) consists of five European Bi National Chambers (Indo Belgian,

Indo-French, Indo German, Indo Italian and Indo Romanian) and 10 European Bi national Business committees (serviced by the Bombay Chamber). The Member's nominees drive and manage the Council and its activities.

The Ambassador and Head of the Delegation of the European Commission in India is the Chief Patron of the Council. The Ambassadors of the Countries which hold/held the EU rotating Presidency are invited as Patrons. Mr. Rana Kapoor (Founder & MD, Yes Bank), Mr. R Mukundan (MD&CEO, Tata Chemicals) and Mr. Dinesh K Lal(Group Director, Maersk India Pvt Ltd) are the President ,

Vice President and Past President of the council's Top Management for the year 2009-10.

With EU as the major trading partner for India, together with the strong two way Investment flows, the contours of Indo EU bi-lateral relationship is changing, The Council accordingly re-orientes and rededicates itself to serve the cause of its members better. The Council has been taking up the action points arising out of the Indo EU Summits as its focus area / work plan to ensure collaborative approach between industry and Government from both sides.

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Indian infrastructure going beyond the  
soundbyte  
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Printed March 2010

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