

DISCOVER OPPORTUNITY: INFRASTRUCTURE IN INDIA

IBEF
INDIA BRAND EQUITY FOUNDATION

India
FASTEST
GROWING
FREE MARKET
DEMOCRACY



> ...The Public Private Partnership approach is best suited for the infrastructure sector. It supplements scarce public resources, creates a more competitive environment and helps improve efficiencies and reduce costs.
>
> **Dr Manmohan Singh**, Prime Minister of India

--A snapshot of a global opportunity in the world's fastest growing free market democracy. In an economy where private enterprise accounts for close to 60 per cent of the GDP, public private partnerships are the chosen vehicles for creating the infrastructural backbone. As policy makers and business leaders take India to the world, opportunities abound in infrastructure development.

Profit from the experience.

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AIRPORTS

POLICY

- 100% FDI is permissible for existing airports; FIPB approval required for FDI beyond 74%
- 100% FDI under automatic route is permissible for greenfield airports.
- 49% FDI is permissible in domestic airlines under the automatic route, but not by foreign airline companies
- 100% equity ownership by Non Resident Indians (NRIs) is permitted
- AAI Act amended to provide legal framework for airport privatisation
- 100% tax exemption for airport projects for a period of 10 years
- 'Open Sky' Policy of the Government and rapid air traffic growth have resulted in the entry of several new privately owned airlines and increased frequency/flights for international airlines.





OUTLOOK

- Passenger traffic is projected to grow at a CAGR of over 15% in the next 5 years
  - To cross 100 million passengers p.a. by 2010
- Cargo traffic to grow at over 20% p.a. over the next five years
  - To cross 3.3 million tonnes by 2010
- Major investments planned in new airports and upgradation of existing airports

OPPORTUNITY

- Favourable demographics and rapid economic growth point to a continued boom in domestic passenger traffic and international outbound traffic
- International inbound traffic will also grow rapidly with increasing investment and trade activity and as India's rich heritage and natural beauty are marketed to international leisure travellers.
  - Consequent high demand for investments in aviation infrastructure
- SME lending, a largely untapped market, presents a significant opportunity - SMEs account for 40% of the industrial output and 35% of direct exports
- Government is taking steps to increase participation by private industry
- Major opportunities lie in:
  - Modernisation/upgradation of Metro airports – induction of partners for Chennai, Kolkata expected subsequently
  - Greenfield airport projects planned in resort destinations and emerging metros such as Goa, Pune, Navi Mumbai, Ludhiana, etc.
  - Estimated investment of over US$ 15 billion for airport development over the next 5 years

For additional information:

Ministry of Civil Aviation (http://civilaviation.nic.in), Airports Authority of India (http://www.airportsindia.org.in/aai/main.htm)

HIGHWAYS

POLICY

- 100% FDI under the automatic route is permitted for all road development projects
- Incentives:
  - 100% income tax exemption for a period of 10 years
  - NHAI agreeable to provide grants/viability gap funding for marginal projects
  - Model concession agreements formulated

OUTLOOK

- Annual growth projected at 12-15% for passenger traffic, and 15-18% for cargo traffic
- Over US$ 50–60 billion investment is required over the next 5 years to improve road infrastructure

OPPORTUNITY

- Road development is recognised as essential to sustain India's economic growth
  - The Government is planning to increase spends on road development substantially with funding already in place based on a cess on fuel
- A large component of highways is to be developed through public-private partnerships
  - Several high traffic stretches already awarded to private companies on a BOT basis
  - Two successful BOT models are in place – the annuity model and the upfront/lumpsum payment model
- Investment opportunities exist in a range of projects being tendered by NHAI for implementing the NHDP – contracts are for construction or BOT basis depending on the section being tendered.
- A US$ 5 billion project plans to lay 6 lane roads over 6,500 km of National Highways on the Design Build Finance and Operate (DBFO) basis – for high traffic stretches of over 40,000 passenger car units (PCUs) per day.

For additional information:

Department of Road Transport and Highways, Ministry of Shipping, Road Transport and Highways (http://morth.nic.in), National Highways Authority of India (http://www.nhai.org)





PETROLEUM & NATURAL GAS

POLICY

- 100% FDI is allowed in petroleum refining, petroleum product and gas pipelines and marketing/retail through the automatic route
- Marketing / retail of petroleum products requires divestment of 26% in favour of the Indian partner / public within 5 years
- Virtual administrative price control of government over most petroleum products
- Petroleum and Natural Gas Regulatory Board Bill and Natural Gas Pipeline Policy to be enacted shortly





OUTLOOK

- High GDP growth rate, rapidly growing vehicle population and better road infrastructure will drive consumption of petroleum products
  - Industry is expected to grow at a CAGR of about 8% to 10%
  - Over 190 MMT of refining capacity required by 2010
- Over 120MMSCMD of additional demand for Natural Gas in the next five years
  - Recent gas finds and increased use of gas for power generation, petrochemicals, fertilisers and city gas distribution

OPPORTUNITY

- Several areas of unexploited potential, including:
  - City gas distribution
  - LNG (import) infrastructure – terminals, regasification, pipelines to industrial consumers
- Growing demand-supply mismatch provides opportunities for investment in the entire value chain for petroleum (refining, product pipelines, storage and retail) and Natural Gas
- Investment need of US$ 15 billion and US$ 8 billion estimated in refining and marketing respectively by 2010

For additional information:

Ministry of Petroleum & Natural Gas (http://petroleum.nic.in)

PORTS

POLICY

- 100% FDI under the automatic route is permitted for port development projects
- 100% income tax exemption for a period of 10 years
- Tariff Authority of Major Ports (TAMP) regulates the ceiling for tariffs charged by Major ports/port operators (not applicable to Minor ports)
- A comprehensive National Maritime Development Policy is being formulated to facilitate private investment, improve service quality and promote competitiveness

OUTLOOK

- Cargo handling at all the ports is projected to grow at 7.7% p.a. till 2013-14 with Minor ports growing at a faster rate of 8.5% compared to 7.4% for major ports
  - Traffic estimated to reach 960 million tonnes by 2013-14
  - Containerised cargo is expected to grow at 17.3% over the next 9 years



- The New Foreign Trade Policy envisages doubling of India's share in global exports in next five years to US$ 150 billion
  - A large portion of the foreign trade to be through the maritime route: 95% by volume and 70% by value

OPPORTUNITY

- Growth in merchandise exports projected at over 13% p.a. underlines the need for large investments in port infrastructure

- Investment need of US$ 13.5 billion in the major ports under National Maritime Development Program (NMDP) to boost infrastructure at these ports in the next nine years
  - Under NMDP, 219 projects have been identified for the development of Major ports
  - Public–Private partnership is seen by the Government as the key to improve Major and Minor ports
  - 64% of the proposed investment in Major ports envisaged from private players

- The plan proposes an additional port handling capacity of 530 MMTA in Major Ports through:
  - Projects related to port development (construction of jetties, berths etc.)
  - Procurement, replacement or up-gradation of port equipment
  - Deepening of channels to improve draft
  - Projects related to port connectivity

- Investment need of US$ 4.5 billion for improving Minor Ports

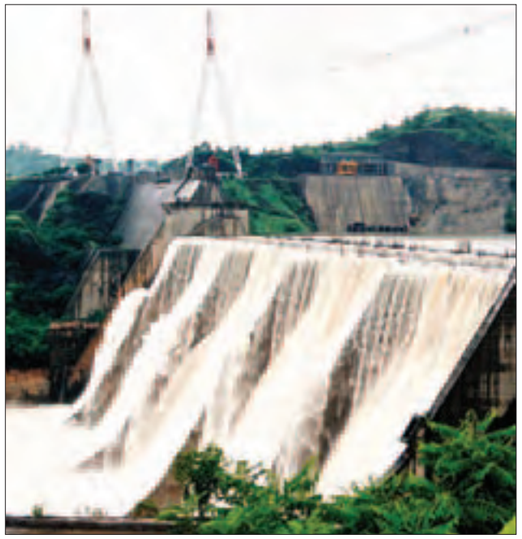
For additional information:
Department of Shipping, Ministry of Shipping, Road Transport & Highways (http://shipping.nic.in)



POWER

POLICY

- 100% FDI permitted in Generation, Transmission & Distribution - the Government is keen to draw private investment into the sector
- Policy framework: Electricity Act 2003 and National Electricity Policy 2005
- Incentives: Income tax holiday for a block of 10 years in the first 15 years of operation; waiver of capital goods import duties on mega power projects (above 1,000 MW generation capacity)
- Independent Regulators: Central Electricity Regulatory Commission for central PSUs and inter-state issues. Each State has its own Electricity Regulatory Commission.





OUTLOOK

- Over 90,000 MW of new generation capacity is required in the next seven years
  - A corresponding investment is required in transmission and distribution networks
- Power costs need to be reduced from the current high of 8-10 cents/unit by a combination of lower AT & C losses, increased generation efficiencies and added low cost generating capacity

OPPORTUNITY

- Large demand-supply gap: All India average energy shortfall of 7% and peak demand shortfall of 12%
- The implementation of key reforms is likely to foster growth in all segments:
  - Unbundling of vertically integrated SEBs
  - "Open Access" to transmission and distribution network
  - Distribution circles to be privatised
  - Tariff reforms by regulatory authorities
- Opportunities in Generation for:
  - Coal based plants at pithead or coastal locations (imported coal)
  - Natural Gas/CNG based turbines at load centres or near gas terminals
  - Hydel power potential of 150,000 MW is untapped as assessed by the Government of India
  - Renovation, modernisation, up-rating and life extension of old thermal and hydro power plants
- Opportunities in Transmission network ventures - additional 60,000 circuit km of transmission network expected by 2012
- Opportunities in Distribution through bidding for the privatisation of distribution in thirteen states that have unbundled/corporatised their State Electricity Boards – expected to take place over the next 2-3 years
- Total investment opportunity of about US$ 200 billion over a seven year horizon

For additional information:

Ministry of Power, Central Electricity Regulatory Commission, State Electricity Regulatory Commission (http://powermin.nic.in)

REAL ESTATE

POLICY

- 100% FDI is allowed in real estate development subject to minimum scale norms of either:
  - 25 acres in case of serviced plots or integrated townships; or
  - 50,000 sq. mtrs. of built-up area for construction development projects

OUTLOOK

- The Real Estate market is projected to grow to US$ 50 billion by 2010
  - CAGR of over 30% p.a. is expected over the next five years

OPPORTUNITY

- Several factors are expected to contribute to the rapid growth in Real Estate
  - Large demand-supply gap in affordable housing
  - Demand fuelled by the availability of loans at low interest rates, tax incentives and a growing middle class with higher savings
  - Increasing demand for commercial and office space especially from the rapidly growing Retail, IT/ ITeS and Hospitality sectors
  - The recently announced Urban Infrastructure Renewal Mission is expected to give a boost to the sector.
  - US$ 11.5 billion earmarked over the next five years for 60 cities

- Investment opportunities exist in almost every segment of the business
  - Housing: About 20 million new units expected to be built in five years
  - Office space for IT/ITeS: Five-fold increase in office space requirement over the next 3 years
  - Commercial space for organised retailing: 200 million sq. ft. by 2010
  - Hotels & Hospitality: Over 50,000 new rooms in the next 5 years

- Investment opportunity of over US$ 50 billion in the next five years

- Major foreign institutional investors including Morgan Stanley, Merrill Lynch, AIG, Blackstone and Calpers have shown interest in investing in Indian real estate

For additional information:
Ministry of Urban Development (http://urbanindia.nic.in), Confederation of Real Estate Developers Associations of India (http://www.credai.com)





TELECOM

POLICY

- 74% to 100% FDI permitted for various telecom services
- FIPB approval required for foreign investment exceeding 49% in all telecom services
- 100% FDI permitted in telecom equipment manufacturing
- India has a telecom policy that aims to encourage private and foreign investment.
- An independent regulator – the Telecom Regulatory Authority of India (TRAI)
- Revenue-share model for licences issued by the Government for telecom services in India. Unified access licences are available for providing telecom services on a pan-India basis
- Planned opening up of National Long Distance (NLD), International Long Distance (ILD) and other value added services





OUTLOOK

- India expected to be among the fastest growing telecom markets in the world
  - Projected growth of 30-40% p.a. to reach 250 million subscribers by 2009-2010
- Over 6 million new users are added every month – mostly in wireless

OPPORTUNITY

- Favourable demographics and socio economic factors leading to high growth:
  - Growth of disposable income combined with changes in lifestyle
  - Increasing affordability - low tariffs, easy payment plans and handset financing
  - Increased coverage and availability of mobile services
- Investment opportunity of US$ 22 billion across many areas:
  - Telecom Devices and Software for Internet, Broadband and Direct To Home Services. Set Top boxes, Gateway exchange, Modem, Mobile handsets and consumer premise equipments, Gaming devices, EPABX, Telecom Software
  - Telecom Services for voice and data via a range of technologies
  - Applications and Content development ranging from gaming to education
- Nokia, Elcoteq, Alcatel, LG, Ericsson are all investing in India

For additional information:

Department of Telecommunications, Ministry of Information Technology & Communications (http://www.dotindia.com), Telecom Regulatory Authority of India (http://www.trai.gov.in)





The India Brand Equity Foundation is a public-private partnership between the Ministry of Commerce & Industry, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

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