



Role of Private Equity in Urban Infrastructure

July 18, 2013

Agenda

Private Equity in India – An overview

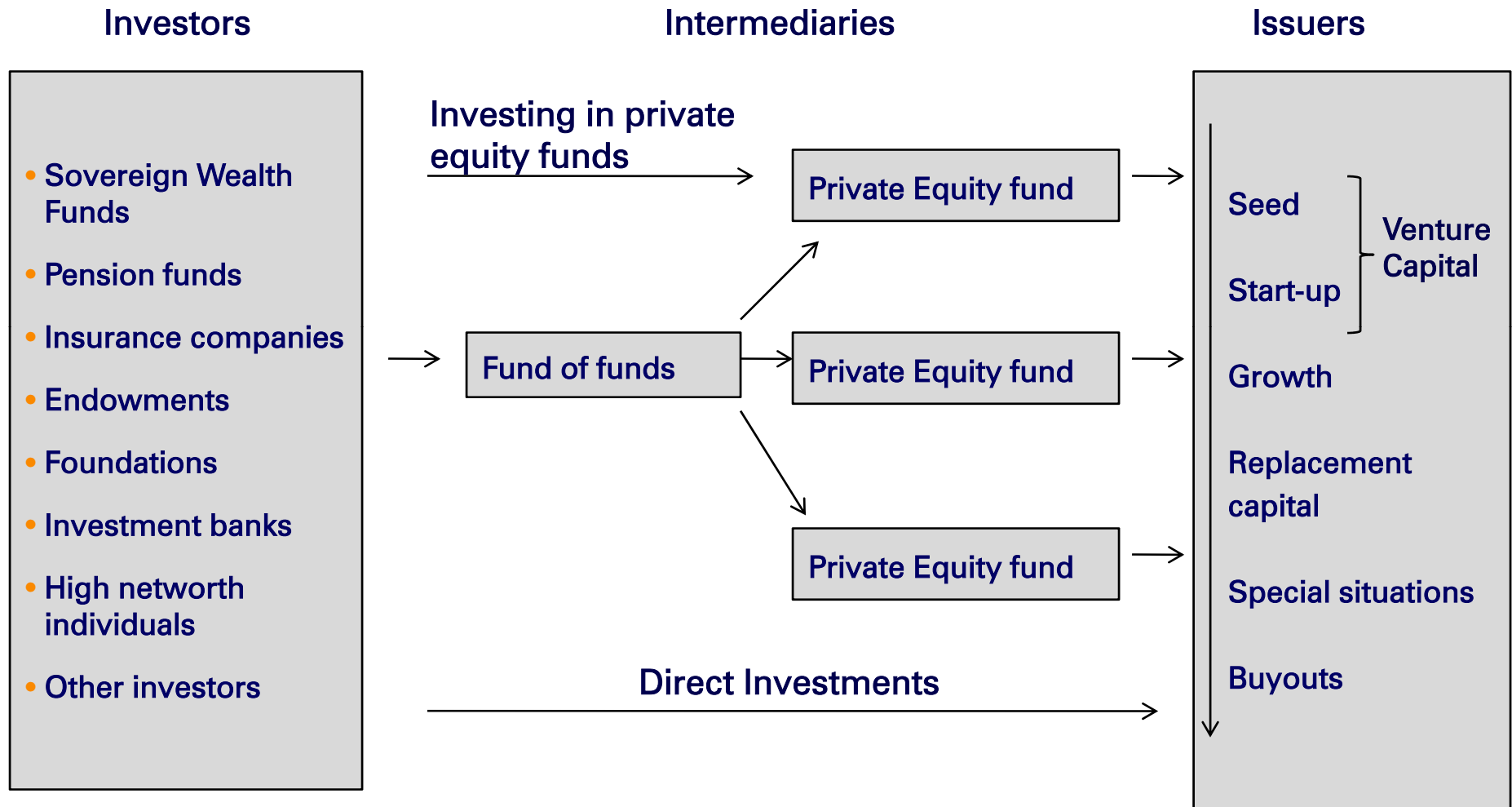
Indian Infrastructure opportunity

Key framework facilitating Infrastructure investment

Urban Infrastructure – Challenges & Success factors



Private Equity – An overview



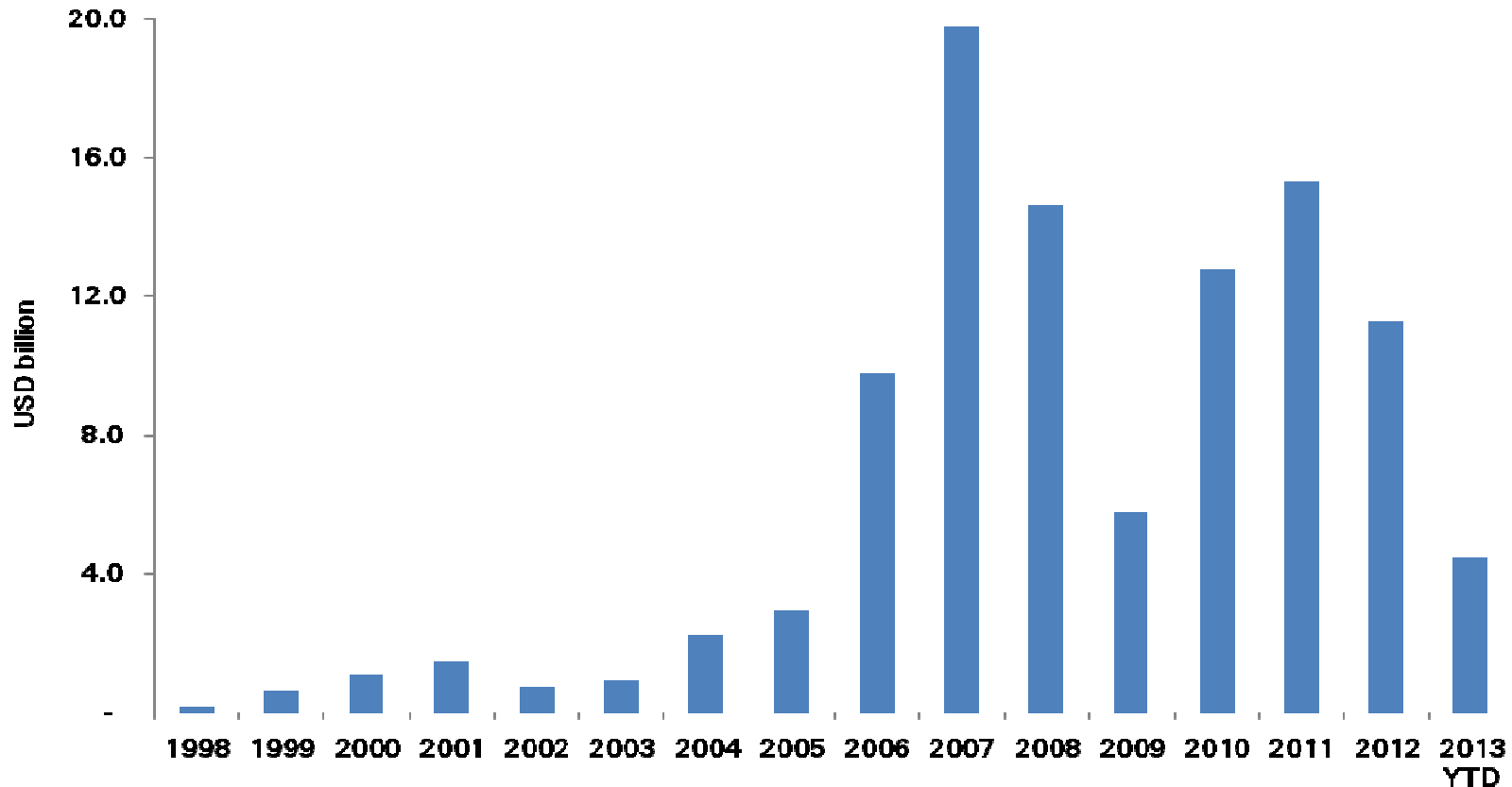
Evolution of Private Equity

- 1995-2000
 - Govt of India issued guidelines in September 1995 for overseas venture capital investment in India
 - SEBI issues the SEBI (VCF) regulations in 1996
 - Many international PE/VC funds enter Indian market
- 2000 onwards
 - PE investments gain momentum during the last 10 years with increasing deal size and broader sectoral coverage

*India currently has more than 100 private equity fund managers;
The PE industry has invested over USD 100 bn in the last 15 years*



Private equity investments in India



Over USD 100 billion has been invested by private equity funds in the last 15 years



Some key global and Indian players

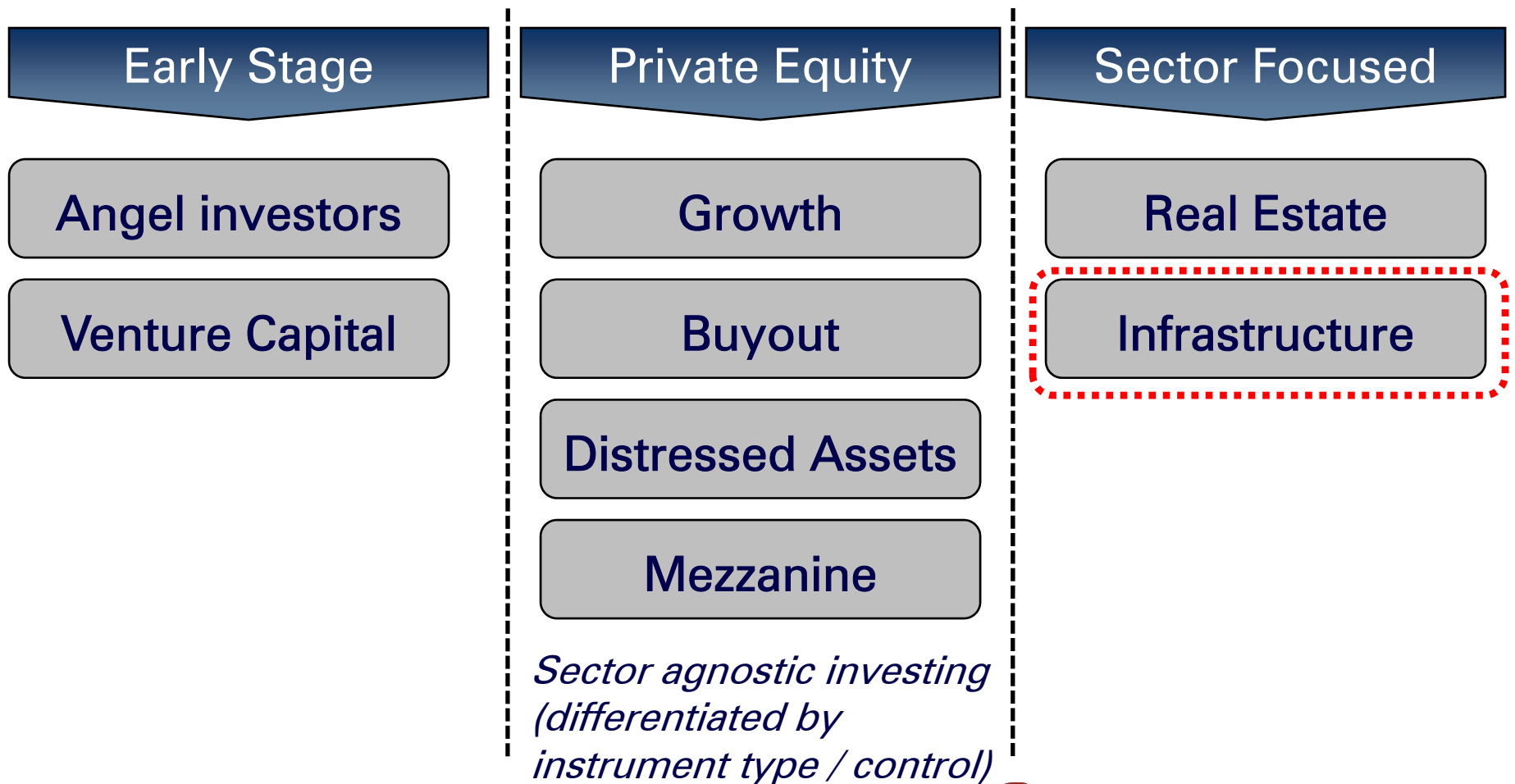
Global players in India



Indian PE players



Working across the entire alternative assets investment thesis



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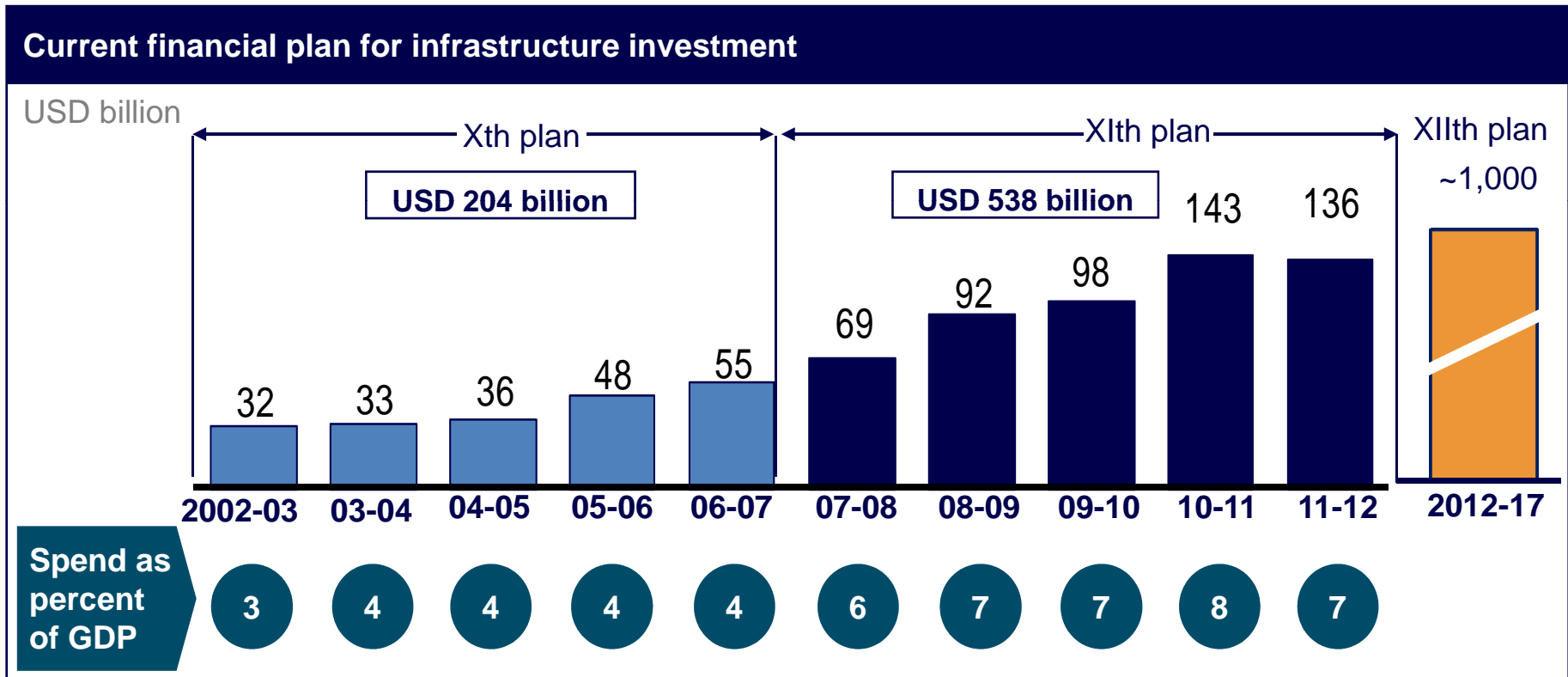
Key framework facilitating Infrastructure investment

Urban Infrastructure – Challenges & Success factors



Infrastructure spend in India has increased significantly in the last decade

■ Actual/estimated
■ Planned



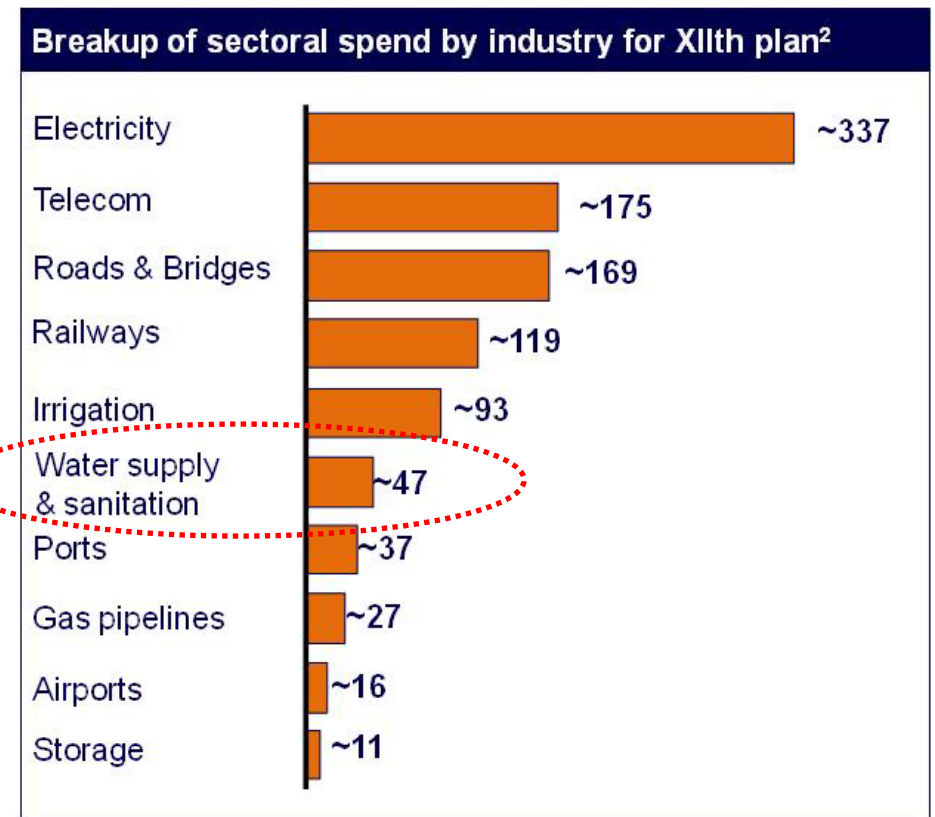
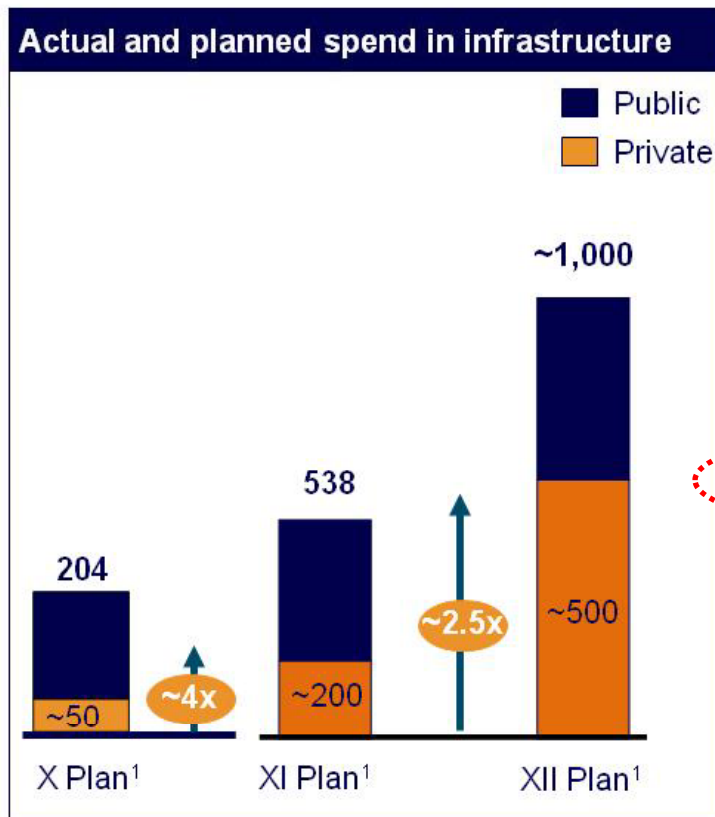
USD = INR 45

Source: Planning Commission



Private sector expected to contribute ~50% of infrastructure spend

USD billion



Over USD 200 billion has been invested by private sector through the PPP route



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Infrastructure Investors perspective

- Assets with long term, predictable cash flows driven by stable demand linked to economic growth
- Infrastructure services that provide economically viable and affordable solutions
- Pricing of services typically based on “inflation-pass-through” structures
- Tangible value and relatively longer asset lives
- Monopoly type characteristics operating in regulated markets

Infrastructure investors have invested in PE funds that leverage opportunities arising out of overall growth in the infrastructure space and seek relatively lower risk and moderate returns



Infrastructure creation – Key building blocks

- Strong policy and regulatory framework
- Tested and evolved PPP framework
- PPP framework supported by the banking system
- Increasing affluence improving user ability to pay for PPP infrastructure

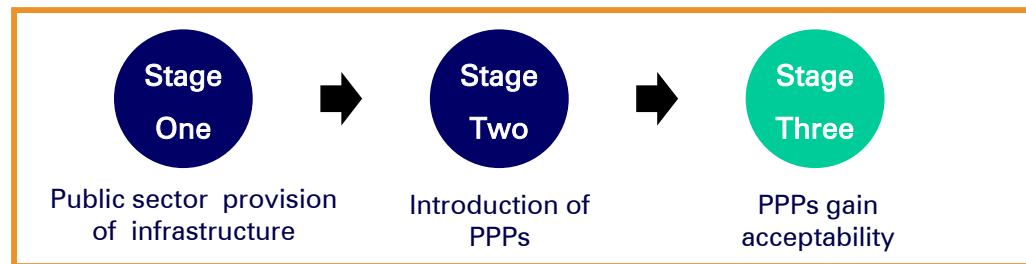


Strong infrastructure policy and regulatory framework

Policy and regulatory framework is increasingly supportive of private sector investment

- Substantial increase in FDI limits
- Fiscal incentives
- Viability Gap Funding (VGF) by government to increase financial attractiveness of certain projects
- Supportive policy and legislative framework
- Evolving regulatory oversight

Policy framework for Public Private Partnerships (PPP) has significantly developed



- Change in infrastructure provision typically follows a three-stage process
- Most Indian Infrastructure projects are now at Stage Three
- The Indian Government has developed a PPP model based on principles of competition, transparency and equity for all stakeholders in a project
- Various committees and systems have been established to strengthen the institutional framework



Strong infrastructure policy and regulatory framework - Key urban infra policy initiatives

- 100% FDI permitted for the development of integrated townships, including housing, commercial buildings, etc
- 10-year tax holiday available for investments in urban infrastructure projects
- Introduction of Viability Gap Funding Scheme
- PPP Guidelines formulated for Urban Infrastructure by GoI, particularly Water Supply and Sanitation
- JNNURM provides part-grant financing of projects
- JNNURM grants may be used for tariff reforms, escrow structures, etc.
- ULBs have been allowed to raise funds from the market

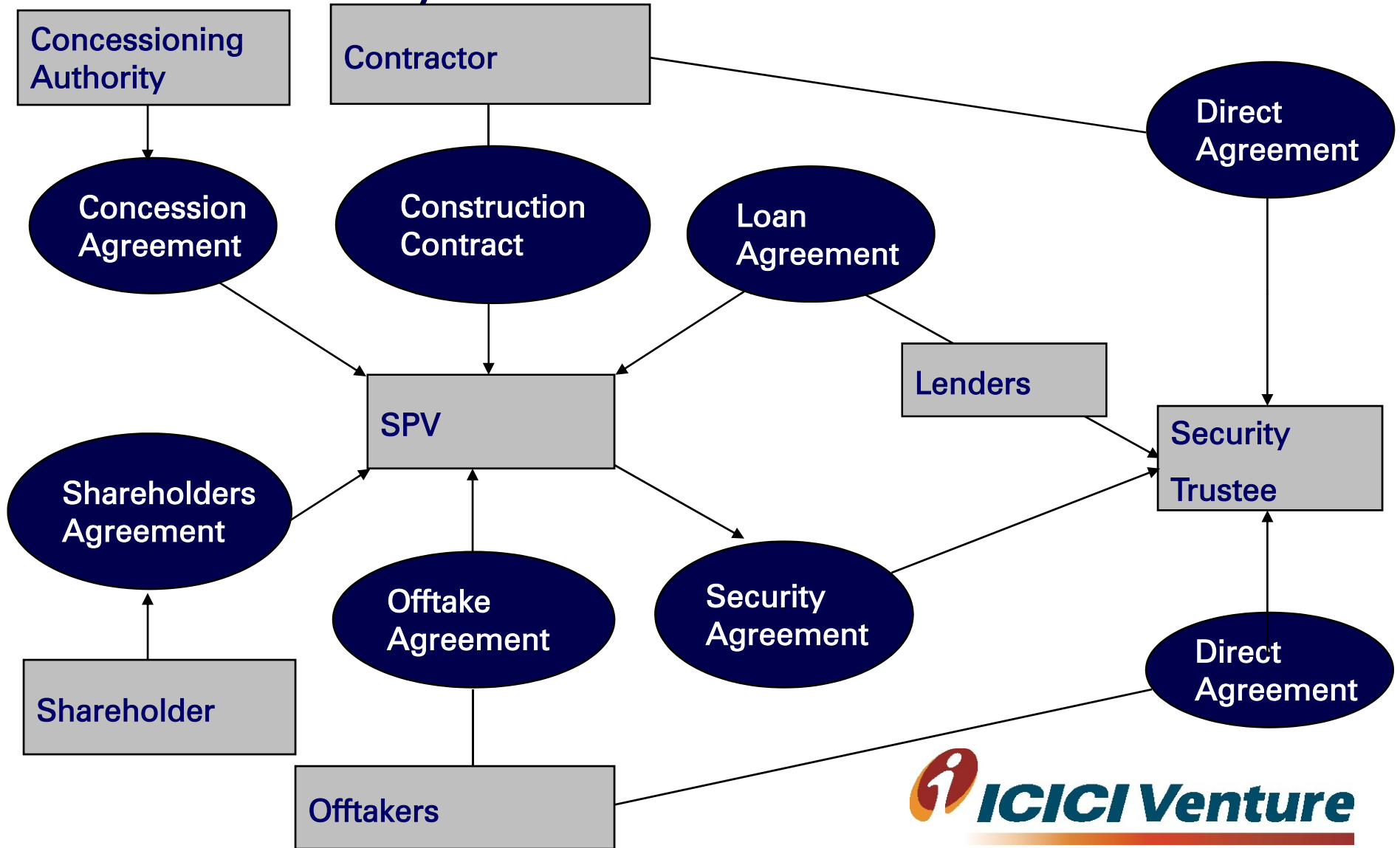


Tested and evolved PPP framework

- Model Bidding Documents for PPP projects
 - Request for Qualification (RFQ)
 - Request for Proposal (RFP)
- Standardized model concession agreements
 - National Highways
 - Ports
 - Urban rail systems
 - Greenfield and non-metro airports
 - Transmission of electricity etc.
- Project award based on open competitive bidding
- Project performance measured against easily quantifiable standards in order to avoid subjectivity in assessment



Infrastructure PPP architecture supporting bankability

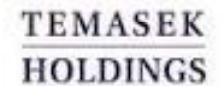


Indian infra PE market has a mix of players

Pure play Infra Funds



Diversified Global PE Funds



New Funds in market



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PPP in urban infra – Challenges

- Lack of standardization of concession terms and agreements
- Slow approval process
- Limited ability of Urban Local Bodies (ULBs) to structure bankable projects
 - Poor credit worthiness of ULBs
 - Implementation risks : time and cost over-runs
 - Revenue collection risks : low user charges and poor collections
- Irregular cash flow from budgets
- Limited use of ring fenced mechanisms like escrows to pay ULB dues for urban infrastructure creation



PPP in urban infra – Key success factors

- Increasing speed of decision making in PPP projects
- Building capacity to prepare bankable projects
- Standardization of documents and procedures
 - Regulations / municipal law;
 - Transparent bidding, model concession agreements;
 - Performance assessment,
- Rationalization of tariffs and user charges
 - Allow appropriate compensation to the private party
 - Are constant / consistent irrespective of changes in municipal administration
- Unbundling of urban service delivery mechanism

Road, power and port sectors attracted significant private pools of capital based on clearly defined and implemented PPP processes





Thank You

