



# Role of Private Equity in Urban Infrastructure

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July 18, 2013

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# Agenda

Private Equity in India – An overview

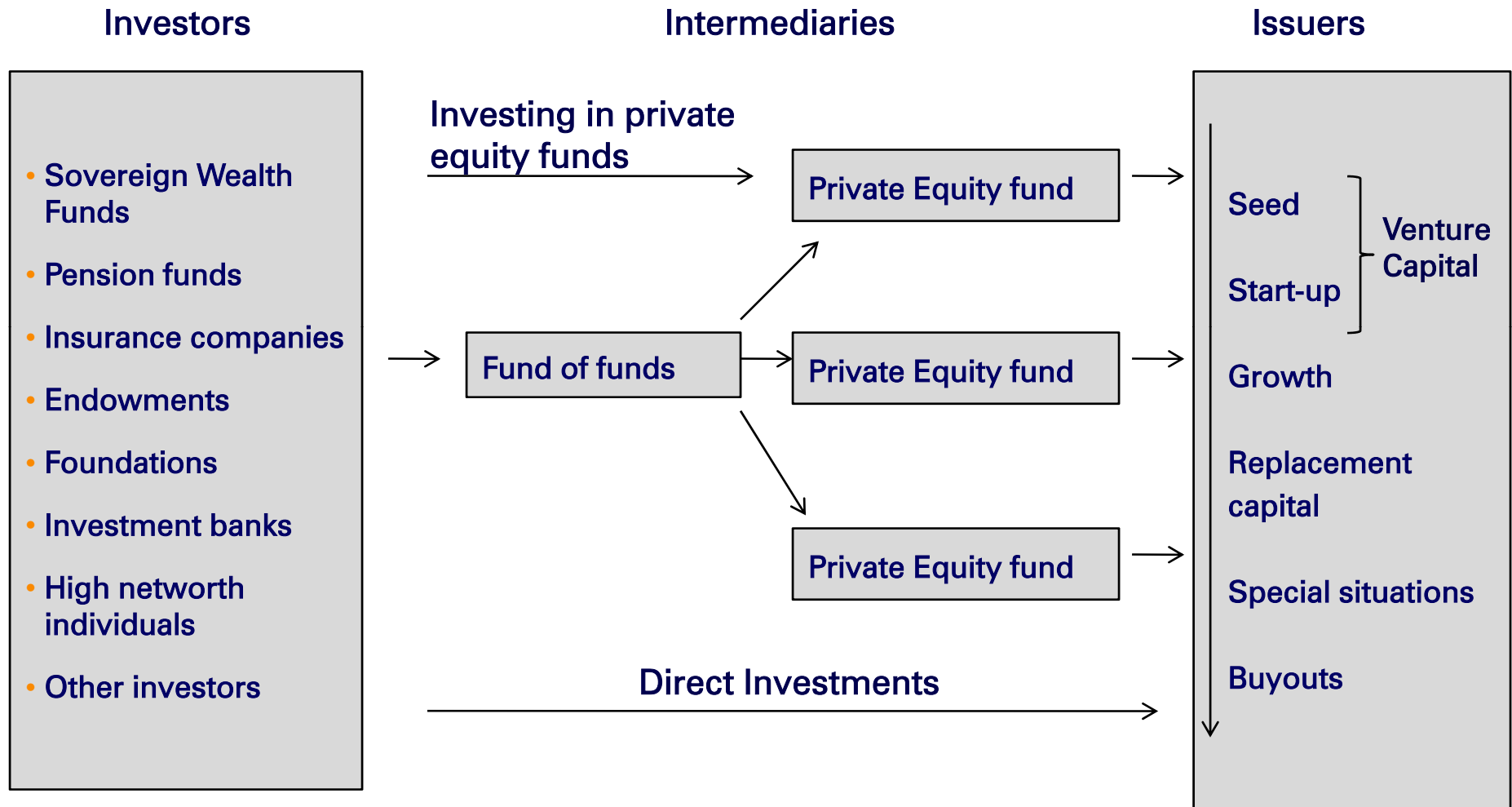
Indian Infrastructure opportunity

Key framework facilitating Infrastructure investment

Urban Infrastructure – Challenges & Success factors



# Private Equity – An overview



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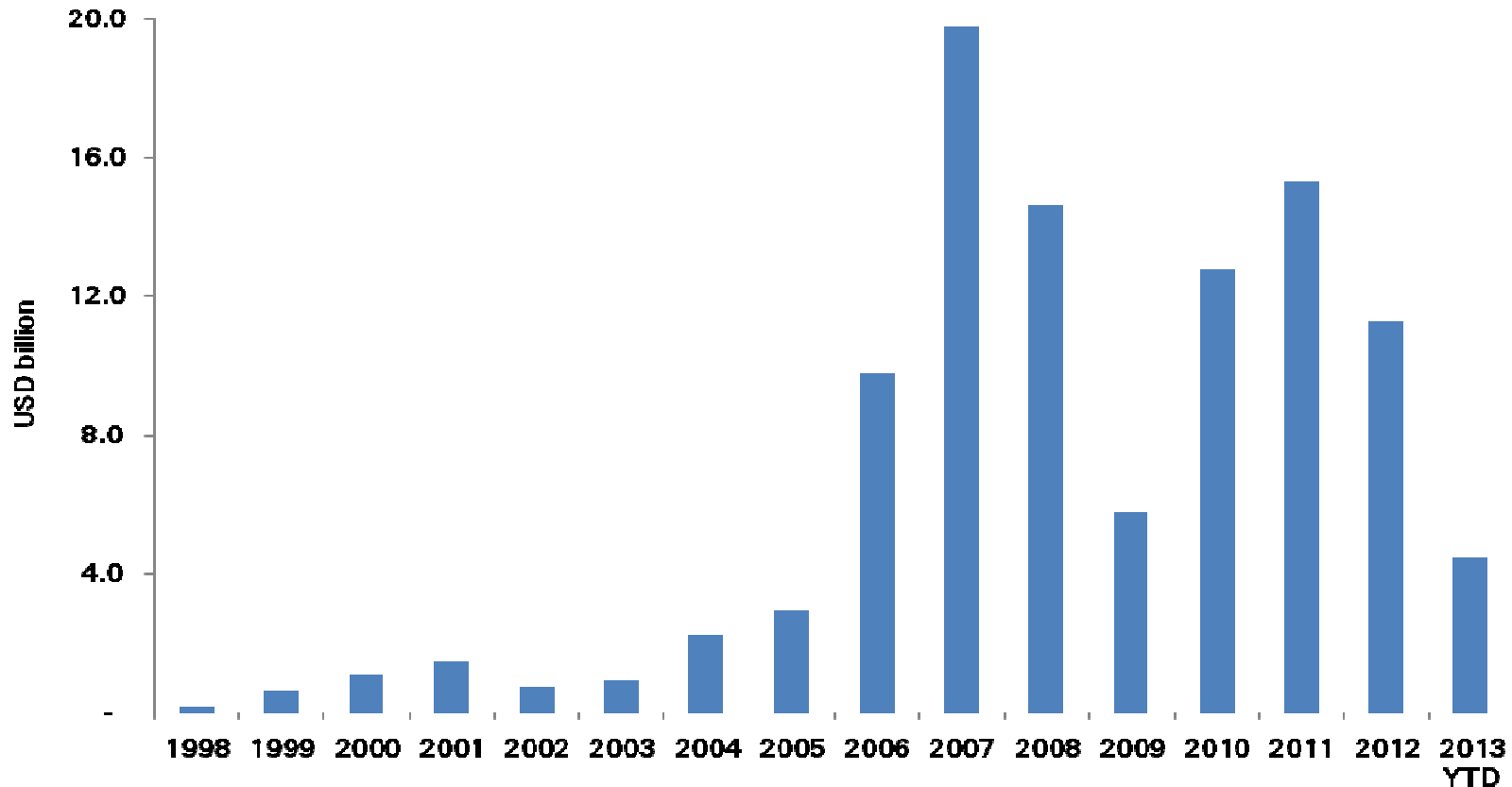
## Evolution of Private Equity

- 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*

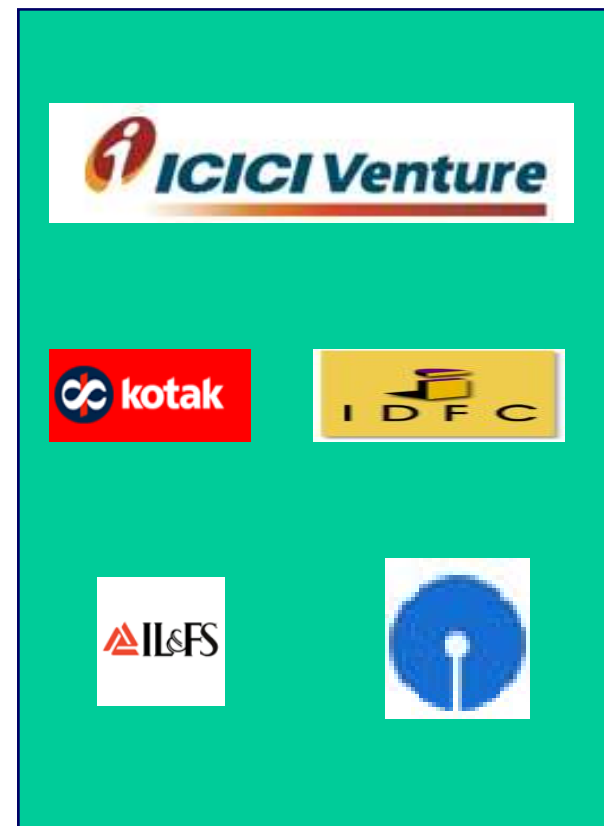


# Some key global and Indian players

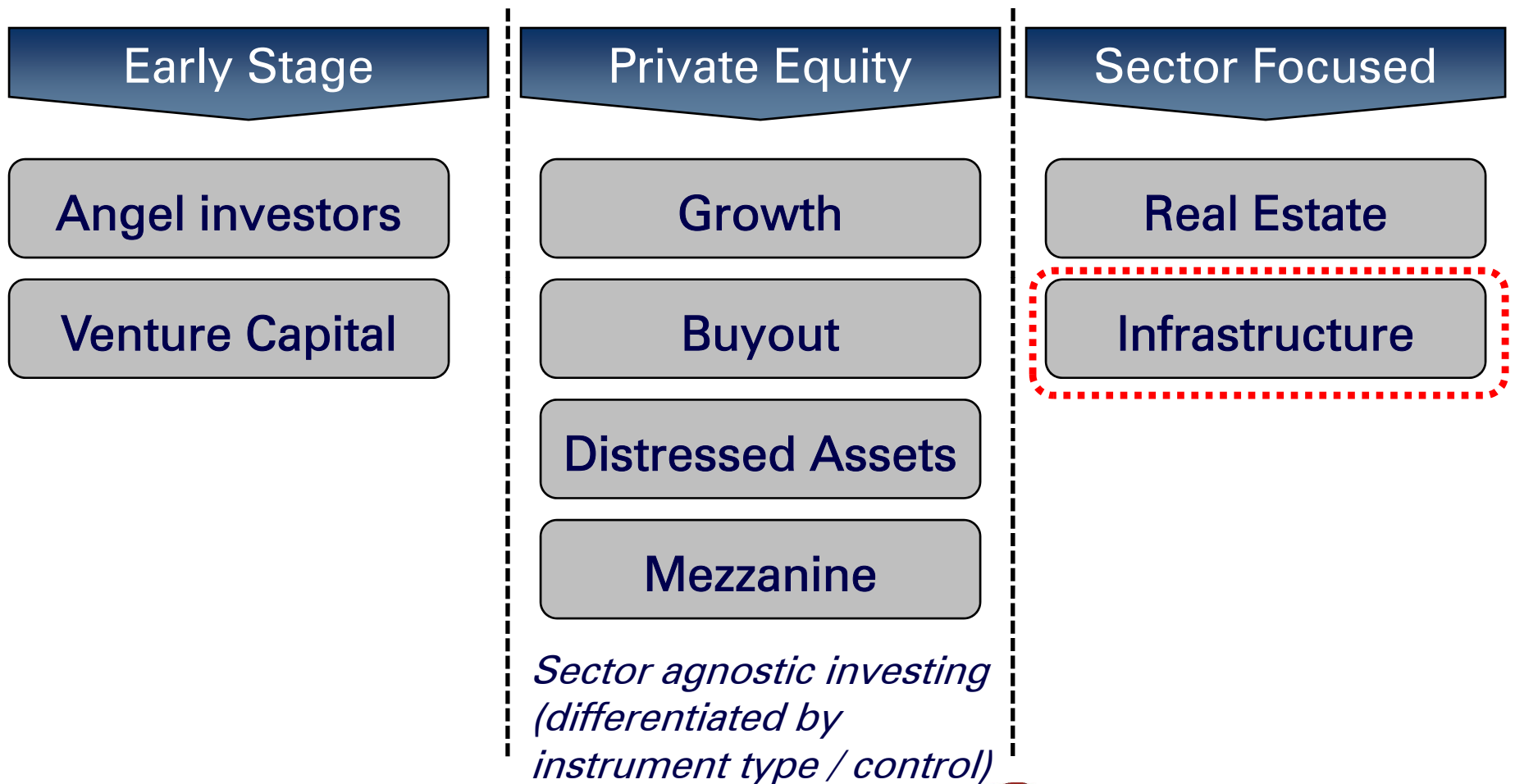
## Global players in India



## Indian PE players



# Working across the entire alternative assets investment thesis



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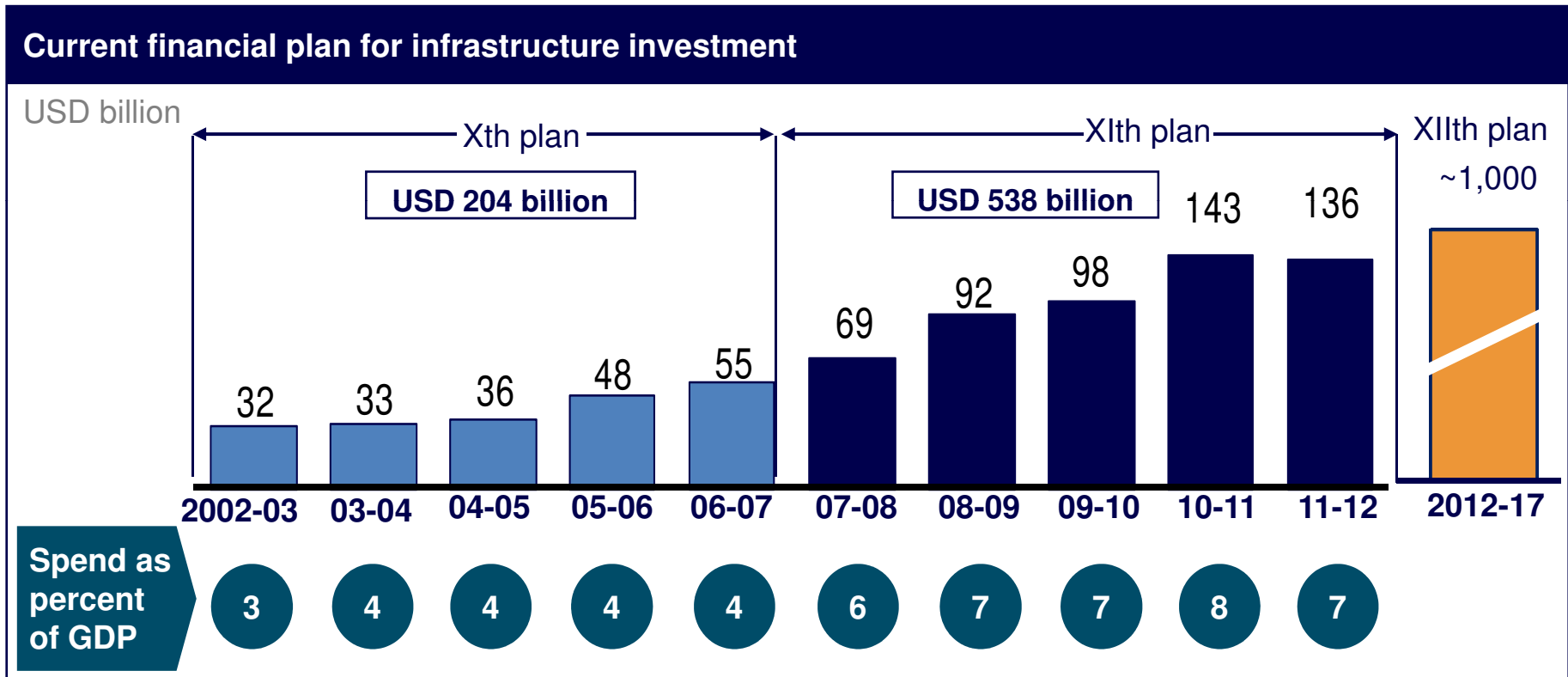
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# Infrastructure spend in India has increased significantly in the last decade

■ Actual/estimated  
■ Planned



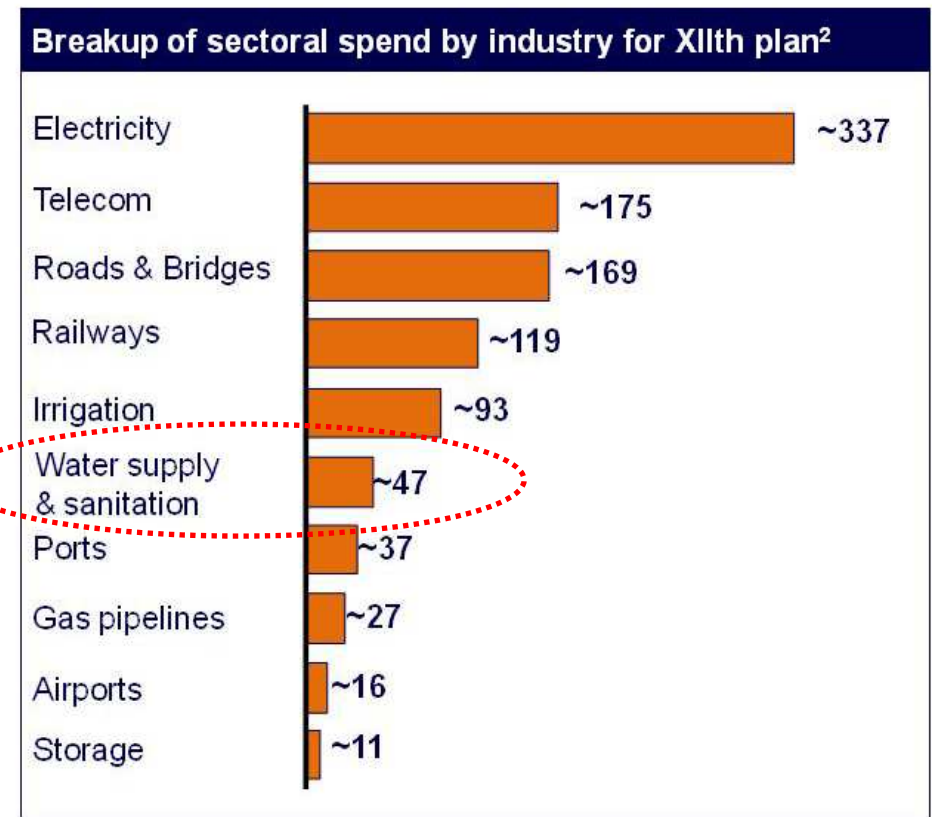
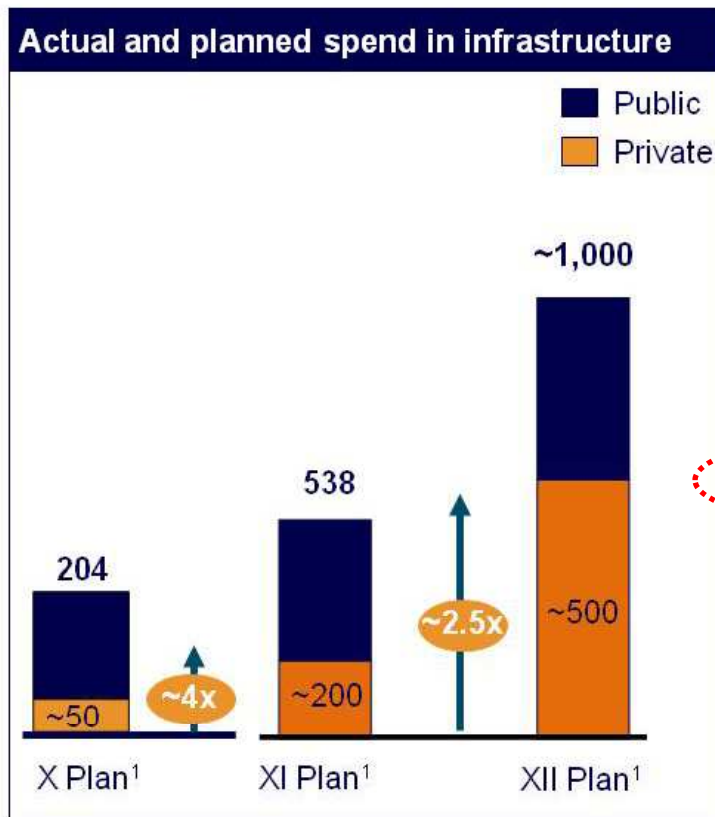
USD = INR 45

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*



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## 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

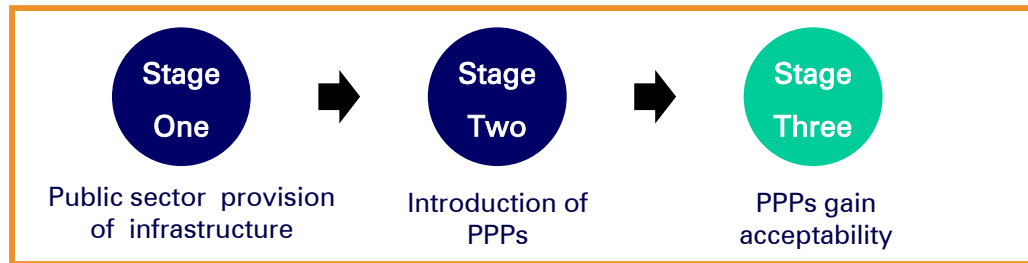


# Strong infrastructure policy and regulatory framework

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



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## 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



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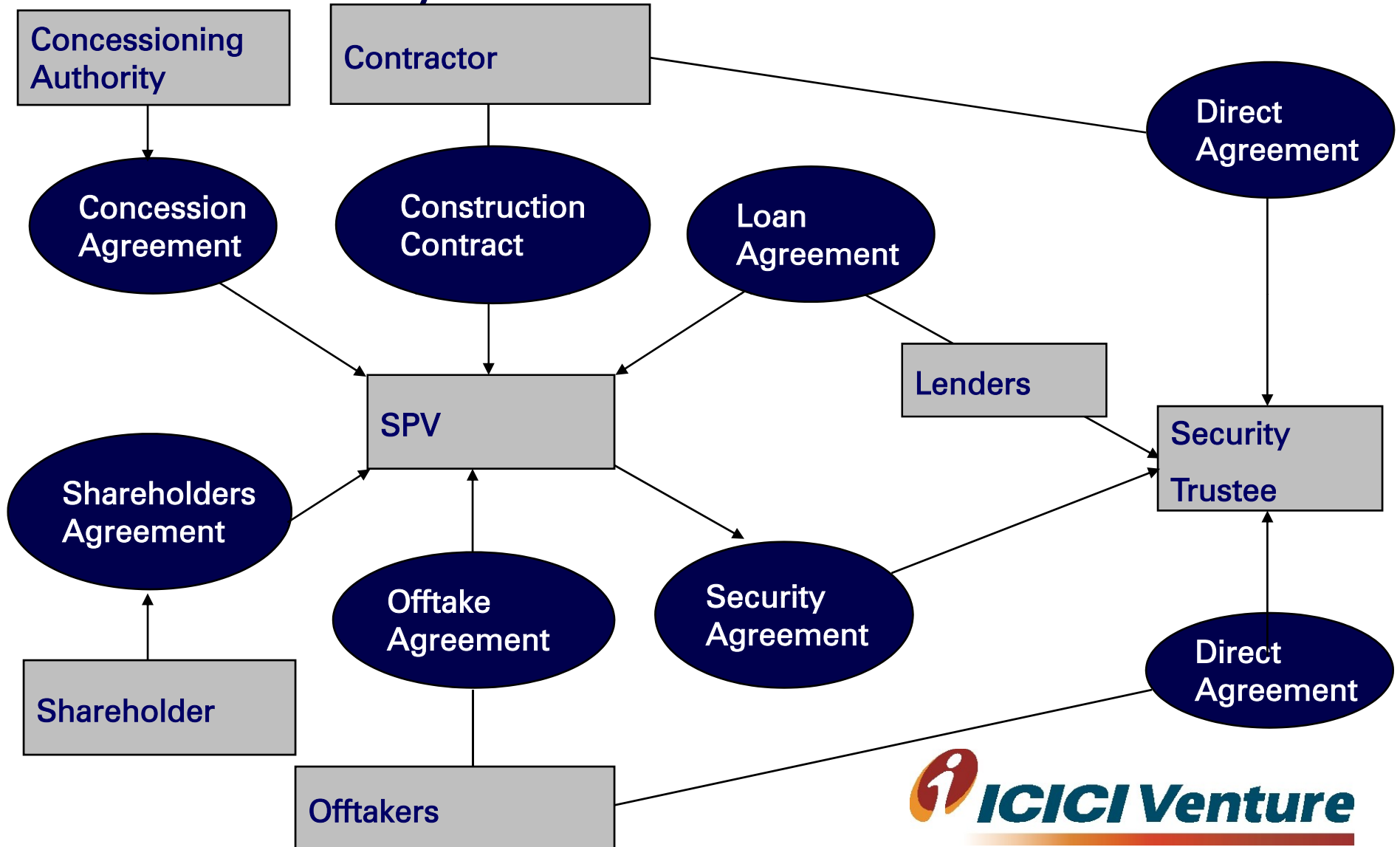
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## Tested and evolved PPP framework

- 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

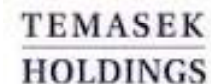


# Indian infra PE market has a mix of players

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



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## 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

