UK INDIA BUSINESS COUNCIL

partnership in action

SECTOR:
INFRASTRUCTURE

SECTOR OVERVIEW: September 2013

Welcome to this quarterly UKIBC Infrastructure report. Over recent months we have focused greatly on the opening of our UK India Business Centre in New Delhi, and in London, we hosted a workshop on PPP welcoming a team from the Indian Department of Economic Affairs. We also collaborated on an oil and gas event which turned out insightful information on opportunities in India. Below you will find notes from these events and details of an upcoming energy delegation to India in February.

In terms of policy developments, this was also an eventful quarter. The land acquisition bill was finally passed, but is facing very mixed reviews. Reforms also took place on the FDI cap for ARCs, which incidentally also affect FII investments on the same.

Finally, we hope that you will enjoy our brief on the DMIC project as it works towards achieving ambitious goals and deadlines. On this topic, the UKIBC is delighted to invite you to an upcoming event featuring DMIC's Chief Executive to discuss the project further. More details below.

I hope that you will find this report interesting, and as always we look forward to your comments and suggestions at: Adriana.vega@ukibc.com.

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Mega project: The Delhi-Mumbai Industrial Corridor as archetype of India's infrastructure

The $100-billion Delhi-Mumbai Industrial Corridor project aims to connect the region between these two mega cities, running through six Indian states, to transform it into a modern hub of industrial activity. But looking beyond the ambitious deliverables, the project holds perhaps an even greater power for India as a whole, and that is reputational. Its successes, or failures, will convey a powerful message about India's ability to deliver mega projects successfully and on time.

The DMIC plans to build 24 cities by 2040, with 7 of these industrial hubs due by 2019. It is expected to generate over two hundred thousand jobs, improve connectivity and infrastructure and support new industries. Critics however, have voiced concerns over delays in land acquisition, a common challenge in Indian infrastructure. There is also scepticism over the achievability of deadlines.

But as Amitabh Kant, Chief Executive of the DMIC Development Corporation, points out, a project of this magnitude has many complexities and requires unprecedented planning. Mr Kant has also stressed the importance of following strict international standards. DMIC is after all the world's biggest city-building exercise ever to take place.

The project presents many opportunities to foreign investors. India's government and industry have keenly expressed interest to attract participation from the UK's infrastructure development industry given Britain's global reputation and expertise in planning, design, construction, operation, maintenance and financing.

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Successful involvement by AECOM

UKIBC member Aecom, a provider of professional technical and management support services including transportation, environmental, energy and water in various markets, have recently been awarded a program management contract in Dholera, Gujarat for the Dholera Special Investment Region (DSIR), which is part of the DMIC project.

With expertise in building smart and sustainable cities, Aecom's project of $30 million (£19.5 million) will implement the base infrastructure in Dholera which includes water supply, power, roads, highways and rail. The contract has a base period of five years and option to extend for an additional five year term.

Upcoming event: Opportunities for UK businesses presented by the DMIC

Aiming to encourage further participation by UK companies in the DMIC project, the UKIBC is holding an event on 22 October in London featuring speakers Amitabh Kant, Chief Executive, DMICDC, and Saurabh Chandra, Secretary, Department of Industrial Policy Promotion. Attendees will have a unique opportunity to hear from Mr Kant updates on the project, opportunities and indeed, challenges. The event will also include a Q&A session.

Click here to register

Market Update

Observations from PPP Workshop with team from the Indian department of economic affairs

By Caroline Erskine, Senior Sector Manager, Infrastructure, UKIBC

A delegation led by Abhilsaha Mahapatra, Deputy Secretary, Department of Economic Affairs were in the UK for an Infrastructure UK supported PPP study visit in September.

UKIBC arranged a roundtable for them with private sector to Discuss "Concession Agreements – What International Investors will look for - a UK Perspective" with a small group of UKIBC members including Standard Chartered, Balfour Beatty Investments, Mott MacDonald and Serco.

Following a presentation covering the Indian PPP programme and policy and Indian port projects, discussions focussed on standard contract terms and the provisions which International Financiers are likely to require to lend into the Indian PPP market. While up until now the majority of infrastructure has been financed by domestic banks, India is keen to attract international money going forward.

The delegates were interested to understand the UK's PFI model and experiences gained from financing and developing public private partnership projects globally. A range of issues were discussed which could be drawn upon and incorporated in the PPP Programme. India has a large roads programme and has done some ports, airports and railway stations on a PPP basis and is soon to rollout a large school of social infrastructure projects.

Two key areas which it was felt would improve liquidity into the market were: market/demand risk model, and compensation on termination.

While there is an extensive concession-based roads programme (largely a user pay model but with some viability gap funding) it was felt that an "availability based" payment model could be an easier starting point for international investors. Demand risk, whereby the concessionaire takes the traffic risk, would have to be mitigated by a robust non competing route clause but even then, it was felt that it presented an obstacle for foreign investors. Also there was a feeling that the demand risk model had resulted in over-aggressive bidding and unsustainable traffic forecasts resulting in contracts having to be renegotiated, which in turn made investors nervous.

Another key areas which it was felt would improve liquidity was compensation on termination during the construction period. In many concession based contracts, debt is not protected during the construction period which means that banks retain recourse to the sponsor/developer. The contrast between the UK is that PFI is true limited recourse financing with the sponsor risk limited to the equity.

The importance of developing a secondary market and reducing lock in periods was emphasised as developers want to be able to sell one year after construction to reinvest in new projects, in addition to developing a speedy dispute resolution process.

Land acquisition bill passed in Indian Parliament

India's Land Acquisition, Rehabilitation and Resettlement Bill, 2012, was finally passed in parliament in August, replacing the more than 100-year old Land Acquisition Act. The new bill however, has received mixed reactions. The main positive is that it replaces a complex and archaic regulation, with greater clarity and scope for landowners and the acquirer, and addressing issues such as compensation and rehabilitation which were not covered in the old law. However, as we had mentioned in our UKIBC Sector Report in January, industry has expressed concerns. A lot of these concerns have to do with new requirements on landowners' consensus and compensation, affecting infrastructure projects including PPP. Some argue that the new bill still has a number of complexities and that it will generate high costs and inefficiencies. For this reason, developers such as India's HCC seem to be staying put before starting new projects.

Oil and Gas Opportunities in India – Insights from September event

India is largely energy deficient, depending heavily on imports: almost 80% of its oil and gas requirements are sourced externally. Although the country has made a strong push for exploration, a large portion (almost 78%) of its sedimentary basins remain to be explored.

With over $300bn of capital investments being planned in Indian oil and gas projects, the sector poses highly valuable opportunities to foreign investors. To help inform UK businesses on these opportunities and on the business environment in this sector, the UKIBC, in collaboration with the Energy Industries Council (EIC), hosted a panel discussion in mid-September featuring experts including PwC and Larsen & Toubro among others.

Many UK oil majors are already firmly established in India, with BP, BG, Shell and Cairn being the largest investors in oil and gas. These companies, along with their supply chain partners and international service providers are bringing in their global exploration and subsea technologies, further developing India's energy sector.

Major greenfield and expansion projects are also planned in the midstream and downstream sectors in India. Opportunities exist across LNG terminals and regasification, gas pipelines, refineries, and petrochemicals subsectors.

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Upcoming trade delegation to New Delhi and Mumbai – energy sector

With such a vast range of opportunities in India for the energy supply chain, the EIC will be hosting a trade delegation to New Delhi & Mumbai from 16 – 21 February 2014. For more information, please contact Camilla Tew at: camilla.tew@the-eic.com

NEW: UKIBC opens first UK India Business Centre in Delhi

On September 19th, the UKIBC opened our first UK India Business Centre in Gurgaon, Delhi in the presence of UK Trade Minister Lord Green and Chief Minister of Haryana Bhupinder Singh Hooda. This initiative, which is supported by the UK Trade and Investment (UKTI) and the British Business Groups (BBGs) will help British companies, especially SMEs, experience a low-risk, low-cost entry into India. Over 100 guests, including leading UK and Indian businessmen from Rolls Royce, BAe, Bodyshop, Standard Chartered, and policy makers attended the launch.

Investment Update

Mott Macdonald appointed design consultant Delhi Metro Phase III

In July, UKIBC member Mott MacDonald was appointed detailed design consultant by the Hindustan Construction Company–Samsung joint venture for Phase III of Delhi Metro in India. The consultancy will provide geotechnical, civil and structural engineering services for contract CC34.

For more information, click here.

FDI reforms: cap in asset reconstruction companies (ARCs) raised to 74%

Recent reforms increased the cap on FDI in ARCs from 49% to 74% as well as removing prohibitions on investment by FII in ARCs. To read more, click here.