

INFRASTRUCTURE SECTOR IN INDIA



INTRODUCTION

Infrastructure sector is a major sector contributing to India's overall development. This sector enjoys immense focus from Government to create a world class infrastructure in India. According to the India Brand Equity Foundation, a trust established by the Ministry of Commerce and Industry, Government of India, in August 2016 India has moved up 19 places in the World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries.¹



NEED FOR INFRASTRUCTURE DEVELOPMENT

- (1) Housing shortage in rural and urban India; and
- (2) Inadequacy of existing urban infrastructure to meet the current demand of urban population.

INVESTMENT OPPORTUNITIES

In order to provide significant investment opportunities to domestic as well as foreign investors for enhancing investments in the infrastructure sector, the Indian Government, led by Prime Minister Narendra Modi, has allowed 100% Foreign Direct Investment (FDI) through the automatic route for townships and cities including Smart Cities. An estimated budget of USD 650 Billion has been kept for urban infrastructure in the next 20 years. Rs 2 Trillion has been budgeted for Smart and AMRUT Cities (Atal Mission for Rejuvenation and Urban Transformation) in the next five years. A budget of Rs 62,009 Crore is earmarked under the Swachh Bharat Mission in urban areas. 70% of the funding under Swachh Bharat Mission will be mobilized largely from private sector.

¹ <http://www.ibef.org/industry/infrastructure-sector-india.aspx>, last visited on 16/01/2017

AGENCIES INVOLVED IN INFRASTRUCTURE SECTOR

I. CONSTRUCTION SECTOR:

- A. The Ministry of Urban Development
- B. The Ministry of Rural Development
- C. The Confederation of Real Estate Developers Associations of India
- D. The Builders Association of India
- E. The Construction Industry Development Council²

II. ROADS AND HIGHWAYS SECTOR

- 1. The Ministry of Road Transport and Highways (MoRTH):
 - i) National Highways Authority of India (NHAI)
 - ii) State/Union Territories Public Works Department (PWD)
 - iii) National Highway and Infrastructure Development Corporation Limited (NHIDCL)
 - iv) Border Roads Organisation (BRO)
- 2. Indian Roads Congress
- 3. Central Road Research Institute³

INVESTMENT POLICY FOR INFRASTRUCTURE SECTOR

FDI Policy:

There has always been an increasing demand in the construction sector in India for real estate and infrastructure projects. The construction sector accounts for second highest inflow of FDI after the services sector.

FDI of upto 100% through automatic route has been made open for the construction - development projects that will include development of townships, construction of residential/commercial premises, roads, highways and bridges, hotels, resorts, hospitals, educational institutes, recreational facilities, city and regional level infrastructure, townships and industrial parks.

² <http://www.makeinindia.com/sector/construction>, last visited on 16/01/2017

³ <http://www.makeinindia.com/sector/roads-and-highways>, last visited on 16/01/2017

Investors, in this sector, either enter into joint venture or partnerships with existing infrastructure companies or enter into public-private partnerships (PPP) with the Government.



But there are certain conditions mentioned hereunder:

- (i) No minimum land area requirement in case of development of serviced plots.
- (ii) The minimum floor area in case of construction-development projects is 20,000 sq. mts.
- (iii) The investee company should bring in a minimum FDI of USD 5 Million within six months of commencement of the project. In order to commence the project approval of the building plan/layout plan has to be sought for from the relevant statutory authority. The remaining amount of investment can be brought within the period of 10 years from the commencement of the project or before the completion of project, whichever expires earlier.
- (iv) Easy exit options for investor on completion of the project or after the development of trunk infrastructure i.e., roads, water supply, street lighting, drainage and sewerage.
- (v) The Government and Foreign Investor Promotion Board (FIPB) may, on case-to-case basis, permit repatriation of FDI or transfer of stake by one non-resident investor to another non-resident investor before the completion of project.
- (vi) The Indian investee company will be permitted to sell only developed plots. (plots where trunk infrastructure is available).
- (vii) FDI is not allowed in the real estate business or construction of a farmhouse and trading in transferable development rights (TDR).
- (viii) FDI in industrial parks shall be allowed only if they meet the following conditions:

- a) It should comprise a minimum of 10 units and no single unit should occupy more than 50% of the allocable area; and
- b) The minimum percentage of the area to be allocated for industrial activity will not be less than 66% of the total allocable area.

Investment frameworks:

As a capital market regulator, the Securities Exchange Board of India (SEBI) has been encouraging various frameworks for investment in the infrastructure sector, for its development, such as Infrastructure Debt Fund (IDF) and Category I Alternative Investment Fund (AIF), etc and has also been considering the introduction of Infrastructure Investment Trusts (InvITs) in India. SEBI has facilitated investment in the infrastructure sector, by domestic and foreign investors, through such frameworks.⁴ These funds and trusts will raise funds from the investors and then invest in the sector.

For instance, the IDFs set up by Larsen and Tourbo (L&T), India Infradebt and Industrial Development Finance Company (IDFC) Bank have invested in various infrastructure projects and have grown their asset base and incurred profits.

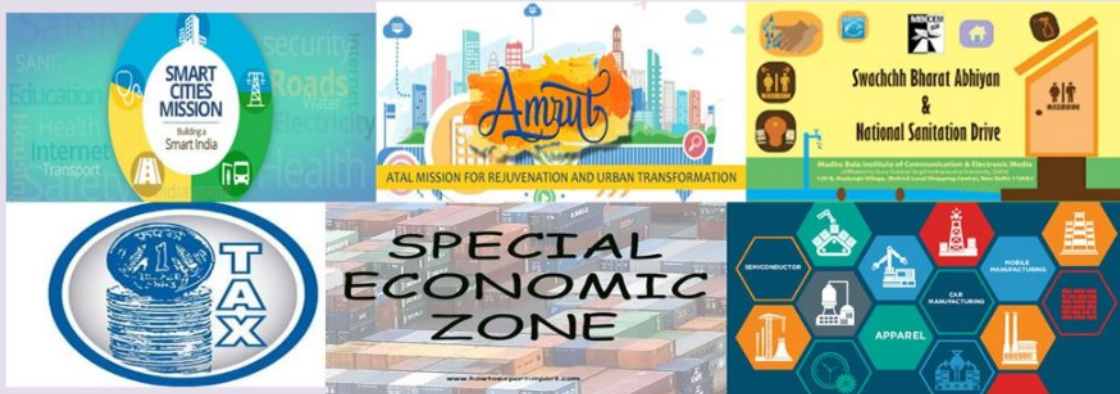
GOVERNMENT INITIATIVES

The Government has taken several steps to generate smart urban and rural infrastructure. Few of the significant initiatives are:

1. Smart Cities Mission

A 'City Challenge Competition' will select the 100 Smart Cities on the basis of their ability to achieve objectives of urban infrastructure development such as adequate and clean water supply, sanitation and solid waste management, efficient urban mobility and public transportation, affordable housing for the poor, power supply, robust IT connectivity, governance, especially e-governance and citizen participation, safety and security of citizens, health and education and sustainable urban environment.

⁴ http://www.sebi.gov.in/cms/sebi_data/attachdocs/1387543144855.pdf, last visited on 12/04/2017



A National Industrial Corridor Authority, with its headquarters in Pune is being set up to coordinate the development of Industrial Corridors with emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanisation.

2. AMRUT

The AMRUT Project is one of the schemes introduced by the Ministry of Urban Development. It has ensured so far and will continue to ensure that basic infrastructure services are available to public. A few instances of the urban services provided hereunder have been listed below:

a) Water Supply:

Public-Private Partnerships for water supply (Nagpur); setting up of Non-Revenue Water (NRW) cell for tackling non-revenue water (Surat); implementation of Service level Benchmark (SLB) program which will capture citizen feedback on basic services (Pimpri-Chinchwad); detection of leakages and technical losses in its water distribution system (Pimpri-Chinchwad), etc.

b) Sewerage

Provision of sewerage connections to people (Jalandhar, Punjab; Pallavaram, Chennai), as a result of which there is no public defecation and no breeding of mosquitoes leading to hygienic environmental conditions and reduction in pollution load.

c) Urban Transport

Introduction of G-Auto services in which passengers can use mobile technology to 'call an auto service' at their doorsteps at a Government approved meter rate (Delhi, Ahmedabad, Gandhinagar, Baroda, Surat and Rajkot); Bangalore Traffic Improvement Project to address the issues of traffic congestion, safety etc. by utilising the latest traffic management technologies and techniques.

d) Reforms

i. E-Governance Reforms

Transforming the governance mechanisms of Urban Local Bodies (ULBs) by computerizing the municipal work such as records, property tax, accounting and water tax module, birth and death registration, etc. (Maharashtra, Gujarat).

ii. Accounting Reforms

Development of new accounting system, computerization of accounts of works, documentation of assets, verification of payrolls, etc (Bijapur, Karnataka; Madhya Pradesh).

iii. Municipal Tax and User Charges

The technique of mapping properties has been reformed by using geographic information system (GIS) technique to create database and store the data collected from field work (Visakhapatnam).

iv. Giving effect to Swachh Bharat Mission (SBM)

Address and improve the status of sanitation by seeking help from Self-Help Groups (SHGs) (Tiruchirappalli, Tamil Nadu); by initiating a Community-led Total Sanitation (CLTS) Project (Nanded, Maharashtra); by ensuring environmentally sustainable solid waste management practices are followed by integrating waste-pickers in waste management services (Pune) and training the waste-pickers for waste collection, handling and processing by using compost pits and bio-gas plants

(Mumbai); by converting an open dump site into a scientifically engineered landfill (Srinagar, J&K); etc.⁵

3. Swachh Bharat Mission

This Mission aims at making India a cleaner, healthier and hygienic place to live and ensure scientific municipal solid waste management and healthier sanitation practices by generating awareness about sanitation and its linkage with public health among common people and capacity building for Urban Local Bodies (ULBs).

4. Revising the tax structure for real estate and infrastructure investments

Real Estate Investment Trust and Infrastructure Investment Trust have been given a pass-through status.

5. Various incentives for developing Special Economic Zone (SEZs)/electronic manufacturing/other sectoral clusters

(a) The major incentives and facilities available to SEZ developers include:

- (i) Exemption from customs/excise duties for authorised operations in SEZs that are approved by the Board of Approval;
- (ii) Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years, in 15 years under Section 80-IAB of the Income Tax Act;
- (iii) Exemption from Central Sales Tax;
- (iv) Exemption from Service Tax (Section 7, 26 and the Second Schedule of the SEZ Act 2005);
- (v) Incentives for units in SEZ/NIMZ for setting up of projects in special areas such as the North-east, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

⁵ http://amrut.gov.in/writereaddata/Compilation_of_practices-NIUA-PEARL.pdf, last visited on 16/01/2017

(b) The major incentives and facilities available for developing electronic manufacturing clusters (EMC):

i. Brownfield EMC-

The financial assistance upto 75% of project costs will be provided by the Centre, subject to an upper limit of INR 0.5 Billion. The remaining 25% of the project costs will be financed by other stakeholders of the EMC with a minimum industry contribution of 15% of the project costs.

ii. Greenfield EMC-

The financial assistance upto 50% of project costs will be provided by the Centre, subject to an upper limit of INR 0.5 Billion for every 100 acres of land. The remaining 25% of the project costs will be financed by other stakeholders of the EMC with a minimum industry contribution of 25% of the project costs.

iii. Administrative expenses-

The administrative expenses are to be restricted to 3% of the central assistance in the project. Project costs will include expenses towards the preparation of a detailed project report.

6. Incentives for developing roads and highways:



(i) The Ministry of Road Transport and Highways (MoRTH): The MoRTH aims to expand the existing stretch of 1.01 million kms of the National Highway network to a further 0.2 million kms over the next 4-5 years under various programmes such as:

(a) National Highways Development Project (NHDP)–

It aims to upgrade and strengthen the National Highways through various phases of the Project.

(b) Special Accelerated Road Development Program for the North-East region (SARDP-NE)-

It is comprised of three phases:

i. Phase 'A' upon approval of the Government:

It aims at improvement of about 4,099 km length of roads (2,933 km of NH and 1,166 km of State roads) of which 1,639 km of road has been completed. The SARDP-NE Phase 'A' is expected to be completed by March, 2017.

ii. Phase 'B' upon completion of Phase 'A':

It aims at covering 3,723 km (1,285 km NHs and 2,438 km of State roads) of road.

iii. Arunachal Pradesh Package:

This Package, approved by the Government, involves development of about 2,319 km length of road (2,205 km of NHs & 114 km of State I General Staff I Strategic Roads) of which 348 km of road has been completed. The entire Arunachal Pradesh package is targeted for completion by March, 2018.

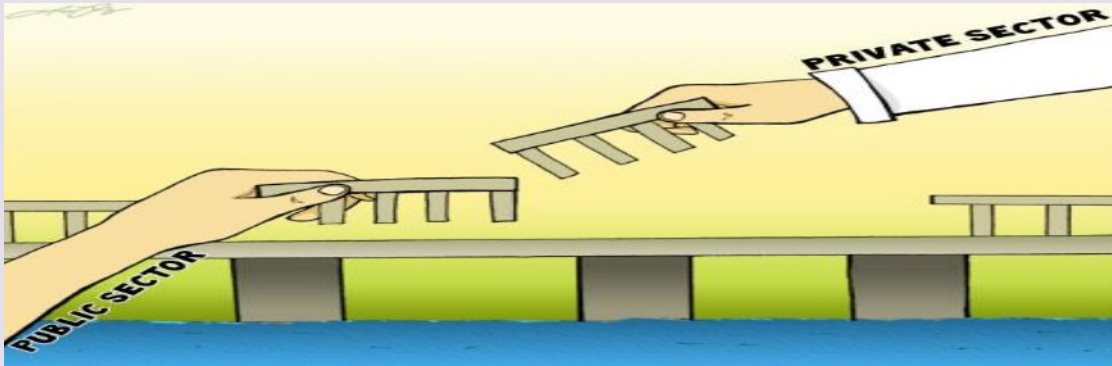
(c) Development of roads in Left Wing Extremism affected areas –

The Government has approved a scheme for development of about 1,177 km of NHs and 4,276 km of State Roads with an estimated cost of about USD 1.09 billion. Moreover, along the Vijayawada Ranchi route, the development of 600 km of State Roads in Odisha (549 km newly declared NH and 45 km SH) has been approved by the Government at a cost of USD 179 million on 4th November, 2010.

(d) National Highways interconnectivity Improvement Project (NHIIP) under World Bank Loan Assistance –

It comprises of a proposal for improvement of existing 1,120 km (approximately) length of NHs to 2-lane NH standards following corridor development approach in Phase-1. It is envisaged that the Loan Agreement for Phase- I was signed with World Bank on 1 July, 2014. The cost of land acquisition and utility shifting for projects under the Program are said to be borne by the Government of India.

(ii) Public Private Partnerships (PPPs) Project models:



The infrastructure sector has been growing rapidly and private sector has contributed to a large extent to its growth and development. The development of infrastructure is believed to pave way for economic growth of our country. But for development of quality infrastructure, huge investments, expert project management and technology is essential. To meet these requirements, the Government has introduced the public-private partnership (PPP) program whereby the capabilities, strengths and experiences of both public and private sector players would be put to use for the construction and operation of infrastructure projects. As per the 2015 Infrascope Report of the Economist Intelligence Unit, in the global ranking, India ranks first in "Operational Maturity" for PPP projects and fifth in terms of having an ideal environment for PPP projects. The PPP project implementation models used in the highways sector are:

a) Build Operate Transfer (BOT) (Toll) Model-

Herein, the private players invest 30% of the project costs in the form of equity and the remaining 70% in the form of loan. The BOT (Toll) developers recover their investment by collecting the user fees.

b) BOT (Annuity) Model-

Herein, the private players invest 30% of the project costs in the form of equity and the remaining 70% in the form of loan. The BOT (Annuity) developers recover their amount of investment from the Government in installments.

c) Hybrid Annuity Model (HAM)-

Herein, the Government provides 40% of the project costs during the construction period and the release of which will depend on the progress of the construction; and the remaining 60% is invested by the private player in the form of equity and loan. The recovery of entire investment by the private player in this type of PPP Model is assured by the Government as it takes all the risks of collection of user fees, repayment of bank loan if the private player fails to complete the project, etc.

Moreover, standardized processes for PPP and public funded projects and a clear policy framework relating to bidding and tolling have been developed so far by the Government.

(iii) Policy measures for upgrading highways:

MoRTH's enabling measures to upgrade and strengthen highways and expressways in the country include:

- a) setting up of an Infrastructure Group for resolution of approval/clearance issues related to Environment & Forests and Railways and Defence;
- b) setting up of model driving training institutes for drivers of heavy vehicles;
- c) training of 20,000 construction workers such as pavement technicians, masons, carpenters, reinforcement technicians each year;
- d) feasible exit options for private developers involved in BOT projects , i.e. two years from start of operations irrespective of the date of award of the project;
- e) revival of BOT projects through one-time fund infusion by NHAI, subject to adequate due diligence of such projects on case to case basis;
- f) promoting innovative project implementation models like Hybrid Annuity Model (HAM) for implementation of highway projects which take into consideration appropriate risk allocation;

- g) amendments to the Model Concession Agreement (MCA) for facilitating smooth and efficient development and operation of highway projects;
- h) 100% FDI through automatic route allowed subject to applicable laws and regulations;
- i) Right of way (ROW) for project land made available to concessionaires free from all encumbrances;
- j) NHAI/GOI to provide capital grant (Viability Gap Funding/Cash Support) up to 40% of project cost to enhance viability on a case to case basis;
- k) 100% tax exemption for 5 years and 30% relief for next 5 years, which may be availed of in 20 years; and
- l) Duty free import of modern high capacity construction equipment.

INVESTMENT OPPORTUNITY AREAS FOR INFRASTRUCTURE SECTOR

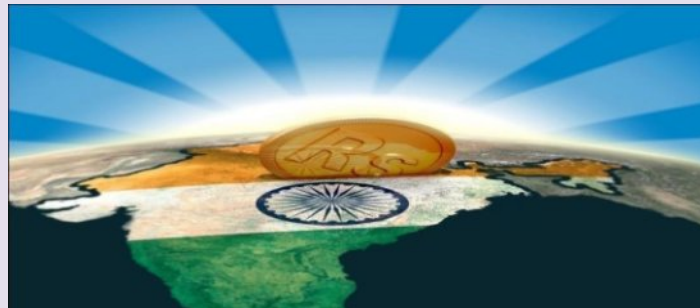


A. CONSTRUCTION SECTOR

1. Residential, retail, commercial and hospitality sectors for construction development.
2. Technologies for the promotion of low cost, affordable housing and environmentally friendly building materials.
3. Technologies and solutions for smart sustainable cities and integrated townships with adequate water supply, sewerage and sewage treatment.
4. Training and skill development of construction sector workers.
5. Smart cities.

B. ROADS AND HIGHWAYS SECTOR

- 1) Project Highways- Construction, and Operation and Maintenance.
- 2) Expressway projects including the following:
 - i. Vadodara Mumbai Expressway - 650 km
 - ii. Bangalore - Chennai Expressway (Green field) - 262 km
 - iii. Delhi-Jaipur Expressway (Greenfield)- 196 km
 - iv. Delhi-Ludhiana-Amritsar-Katra with connectivity to Chandigarh Expressway- 600 km
 - v. Hyderabad- Vijayawada- Amravathi (HVA) Expressway- 300 km
 - vi. Nagpur- Hyderabad- Bangalore (NBH) Expressway-1,100 km
 - vii. Kanpur Lucknow (KL) Expressway- 75 km
 - viii. Ring road/ Expressway at Amravathi -186 km
- 3) Asset recycling Toll-operate-Transfer (ToT) model has been proposed.
- 4) Innovative technologies, material, equipment etc;
- 5) Tunnel projects- currently at bidding stage;
- 6) Projects related to efficient operations & network management for improving logistics including development of Transport Nagars and Logistic Hubs, enabling seamless inter-state traffic movement, improved public transportation etc.
- 7) Intelligent Transport Systems (ITS)
- 8) Other opportunities- Road Safety, Driver Training Institutes etc.
- 9) 'Bharatmala Project', which is yet to be formally launched, is a new highways development programme.



FOREIGN INVESTMENTS

The Government policies have become favorable for foreign investments in the infrastructure sector. Few such investments have been enumerated below:

1. U.S. based property developer Tishman Speyer has entered into a joint venture in 2015 with Singapore's sovereign wealth fund GIC Real Estate for development of an SEZ campus for IT/ITES professionals in Hyderabad.⁶
2. U.S. based property developer Tishman Speyer has entered into a joint venture in 2015 with Singapore's sovereign wealth fund GIC Real Estate for development of an SEZ campus for IT/ITES professionals in Hyderabad.⁷
3. Construction Industry Development Board Malaysia (CIDBI) has substantially invested in the Golden Quadrilateral programme under Phase — I of the National Highways Development Project in 2015.⁸
4. Hines India Residential (the local unit of the US-based real estate firm) and Abu Dhabi Investment Authority (ADIA) have partnered with Conscient Infrastructure Private Limited (India), a real estate developer for investing Rs 400-500 crore to develop a premium residential project in Gurgaon, Haryana.⁹
5. Singapore based Ascendas-Singbridge has invested in the real estate sector in India to establish a logistics park in major cities and has also planned to invest in India's warehousing sector in 2016 in nodal manufacturing hubs.¹⁰

⁶<http://economictimes.indiatimes.com/wealth/personal-finance-news/gic-picks-50-stake-in-tishman-speyers-waverock-office-project-in-hyderabad/articleshow/49494621.cms>, last visited on 16/01/2017

⁷<http://economictimes.indiatimes.com/wealth/personal-finance-news/gic-picks-50-stake-in-tishman-speyers-waverock-office-project-in-hyderabad/articleshow/49494621.cms>, last visited on 16/01/2017

⁸<http://indianexpress.com/article/business/business-others/centre-kicks-off-efforts-to-woo-malaysian-contractors-for-highway-projects/>, last visited on 16/01/2017

⁹<http://economictimes.indiatimes.com/industry/indl-goods/svs/construction/hines-adia-conscient-to-invest-rs-400-crore-in-residential-space-in-gurgaon/articleshow/51405963.cms>, last visited on 16/01/2017

¹⁰<http://realty.economictimes.indiatimes.com/news/industry/ascendas-singbridge-plans-fund-to-invest-in-indias-warehousing-segment/53627287>, last visited on 12/01/2017

6. France based Alstom Transport has contracted with Engineering Projects India Limited in 2016 to develop and market the railway sector of India. It has supplied train control systems for metros in India; and invested in production of rolling stock, components, design, research and development in India.¹¹
7. Germany based Gesellschaft für Internationale Zusammenarbeit (GIZ) has collaborated with the Indian Government in 2016 for sustainable waste management, etc. It has introduced principles of ecologically sound industrial parks; built a sanitary landfill site for hazardous waste in Karnataka, etc.¹²
8. Hong Kong-based Silver Spring Capital will soon invest Rs. 2,000 crore (\$300 million) in Hyderabad-based infrastructure developer Transstroy India Limited to build projects of international standards in 2016.¹³

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¹¹<http://www.ambafrance-in.org/9-French-companies-sign-MoU-with-EPI#ALSTOM-TRANSPORT>, last visited on 16/01/2017

¹²ibid

¹³<http://www.ibtimes.co.in/chinese-fund-invest-rs-2000-crore-indias-highway-construction-676609>, last visited on 16/01/2017