CAPVENT & IDFC PRIVATE EQUITY

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Private Equity Impact 2008

A REPORT BY VENTURE INTELLIGENCE

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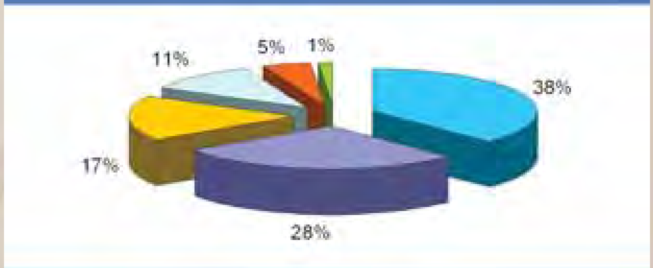
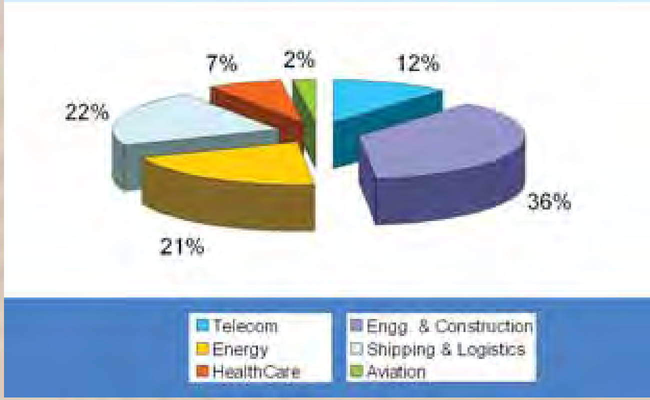


PE Investments in Infrastructure 2006 - 07

By No. of Investments



If India has an Achilles heel, it would have to be its infrastructure. With the economy powering ahead, indicators of that weakness - like congested ports and airports, potholed roads and power blackouts – are showing up. Experts say that poor infrastructure is already a drag on the economy by as much as 1-2 % a year.

According to India's Finance Minister, P. Chidambaram, the country needs an investment of USD 475 billion (about Rs. 19,000 billion) in infrastructure over the next five years to support the targeted 9% growth. Where is this capital going to come from? Given the need to prune the fiscal deficit, the government is restricted in the resources it can allocate. Last year, the government revised upwards its investment target in infrastructure by a mere 2% - from Rs. 10,890 billion to Rs. 11,100 billion - over the next five years. It doesn't come as a surprise then that private investment in infrastructure projects is no longer a choice, but a necessity.

The good news is that Corporate India is stepping up to the plate to take up projects that will alleviate the country's infrastructure constraints. And it is finding willing partners among Private Equity firms to fund these vital projects.

Each infrastructure sector presents a unique set of challenges. Acquisition of land for new airports has often morphed into a political issue. In water, the regulatory framework is still not in place. PE firms, both domestic and foreign, appear unfazed by these challenges. In 2007, they invested over Rs. 130 billion in India's 'core infrastructure' projects. They have also been investing actively in allied industries that benefit from infrastructure spending, like Engineering and Logistics.

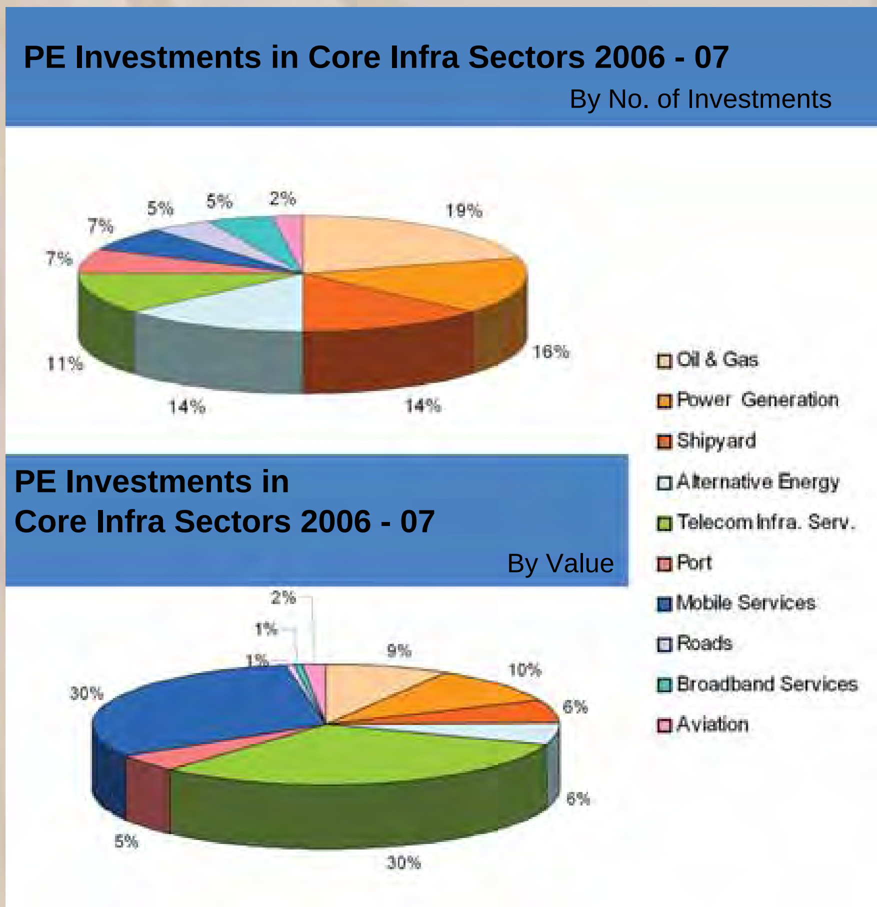
Among the core sectors, over the last two years, PE investors have tended to favor companies in the critical Energy sector as also companies in sectors such as Ports, Shipyards and Telecom Infrastructure.

Executive Summary... contd.

To understand the current and future impact of Private Equity on India's infrastructure, *Venture Intelligence* studied eight infrastructure companies across various sectors, that had raised PE capital.

Extensive interactions with entrepreneurs and senior managers at these companies revealed that PE firms add value in several ways:

- Expertise in valuing infrastructure projects
- Advise in fine-tuning the business model
- Assisting in toning up operational efficiencies
- Strengthening corporate governance
- Mentorship for the senior management team
- Ability to provide / arrange for follow-on financing to keep pace with growth
- Expertise in tapping public markets
- Strategic inputs to spot new opportunities
- Working with regulators and the government to speed up clearances.



So much so that some promoters, who have already tapped Private Equity, say that even if public markets provide better valuations, they would prefer partnering with PE investors thanks to the latter's deeper understanding of the projects and constructive role in realizing their intrinsic value.

In short, Private Equity brings in not just capital, but ideas, efficiency and new business opportunities. If the revenue sources of a project are well-defined and risks fairly allocated, Private Equity participation in infrastructure presents a win-win-win situation for the promoting company, the investors and the end users.

Sectoral Opportunities

What the numbers reveal…

The Planning Commission's Eleventh Plan (2007-08 to 2011-12) states that India's infrastructure requires around US$ 494 billion, to sustain a 9% GDP growth rate. Of this, the private sector is expected to contribute about $ 147 billion, representing a 13-times rise compared to the $ 11 billion received from the private sector - constituting just 18% of overall infrastructure investments - during the Tenth Plan (2002-03 to 2006-07). Of this, about $ 44 billion - i.e. about 30% – would come in via the equity route.

Sector: Power

India needs to generate an additional 70,000 MW to meet its ever-growing power requirements. The Planning Commission expects the private sector participation to increase by 25% (YoY) riding on the back of ultra-mega power projects. The private sector would also lead investments in non-conventional sources of power. Since 2006, Private Equity firms have invested about $1.3 billion in projects across the power value chain in the segments of generation, transmission and distribution.

Overall Demand (MW)	**70,000**
Total Investment Required ($ billion) (incl. Electricity and Gas Distribution)	**155**
Private Sector Contribution - Total ($ billion)	**41**
Private Sector Contribution - Equity ($ billion)	**12.4**
Plan. Comm XI Plan Report	

PE Investments in Power

Company	Sector	Investors	Amount (US$ M)	Date
Adani Power	Thermal Power	3i IIF	227.00	Oct 07
East India Petroleum	Petroleum Storage	Global Infrastructure Partners, Zeus Inframanagement	122.00 100.00	Oct 07 Oct 07
Moser Baer Photo Voltaic	Solar Energy	IDFC PE, GIC Special Investments, CDC Group, IDFC		
Krishna Godavari Gas Network	Gas Pipelines	IDFC PE	50.00	Aug 06
Tata Power Co.	Power Generation	IFC	50.00	Dec 07
Ind Barath Infra	Power Projects	Citi	58.00	Jun 07
Vestas RRB India	Wind Turbine	Merrill Lynch PE	55.00	Oct 07
Cairn India	Oil & Gas	IFC	45.00	Oct 06
Jindal Drilling & Industries	Oil Drilling	Citi	37.50	Dec 07
Gujarat State Petronet	Gas transportation	IFC	30.00	Sep 07
Punj Lloyd Upstream	Drilling rigs	IFC	30.00	Dec 07
KVK Energy	Power Projects	Old Lane	26.00	Sep 07
Reliance Energy	Power	NYLIM India	25.00	Jan 07
Regen Powertech	Wind Turbine	Indivision	25.00	Oct 07
Shiv Vani Oil & Gas	Exploration Services	Citi	25.00	Sep 07
Bhilwara Energy	Power	WIH Holdings, NYLIM India	24.00	July 07
Southern Wind Farms	Wind Energy	Reliance Capital	20.70	Apr 06
Central UP Gas	Gas distribution	IDFC PE	20.00	Jun 07
Reliance Petroleum	Energy Oil & Gas	ICICI Venture	10.00	Apr 06
Ind Barath Infra	Power Projects	UTI Ventures	10.00	Jul 07
AD Hydro Power	Hydropower	IFC	9.00	Dec 07

Sector: Roads

Private sector participation in Roads has been increasing through construction contracts. To tap the full potential of private sector participation, the regulatory framework has been made more responsive. A Model Concession Agreement (MCA), based on international best practices, has been mandated for public-private partnerships (PPPs) in National Highways. The MCA is expected to significantly increase the pace of projects as well as ensure an optimal balance of risk and reward among all project participants. All contracts whether for construction or BOT are awarded through competitive bidding. FDI is allowed up to 100% under the automatic route. And the National Highway Authority of India (NHAI), the apex regulatory body, provides grants/ viability gap funding for smaller projects.

Overall Demand ('000 KMs)	**360**
Total Investment Required ($ billion)	**76**
Private Sector Contribution - Total ($ billion)	**27.4**
Private Sector Contribution - Equity ($ billion)	**8.2**
Plan. Comm XI Plan Report	

PE Investments in Roads

Company	Sector	Investors	Amount (US$ M)	Date
IL&FS Transportation Networks	Highway Development	Goldman Sachs	20	Jun 07
IL&FS Transportation Networks	Highway Development	Trinity Capital	9.65	Jan 07

Sector: Ports

A huge impetus is being given to private investment in the ports sector in view of its key role in international trade and its contribution to economic growth in the country. The government's strategy for the sector is expected to lead to a quantum jump in capital formation in ports. Private investment in major ports is expected to grow at around 30% a year and in minor ports, at15%. The ratio of public to private investments in ports is 24:76 in favor of the private sector.

Overall Demand (Million MT)	**830**
Total Investment Required ($ billion)	**18**
Private Sector Contribution - Total ($ billion)	**13.3**
Private Sector Contribution - Equity ($ billion)	**4**
Plan. Comm XI Plan Report	

PE Investments in Ports

Company	Sector	Investors	Amount (US$ M)	Date
Mundra Port & SEZ	Port	GIC	120.00	Oct 07
Pipavav Shipyard	Shipyard	Indus Capital, Trinity Capital	100.00	Apr 07
Chennai Container Terminal	Container terminal	Global Infrastructure Partners	25.00	Jun 07

Sector: Telecom

The government aims to achieve a telecom subscriber base of 600 million by 2011-12, with 200 million rural telephone connections. Private sector investment in telecom is expected to grow at an average rate of 35 % a year.

Overall Demand (Millions)	
Subscribers	600
Internet Connections	40
Total Investment Required ($ billion)	65
Private Sector Contribution - Total ($ billion)	43.3
Private Sector Contribution - Equity ($ billion)	13

PE Investments in Telecom

Company	Sector	Investors	Amount (US$ M)	Date
Bharti Infratel	Telecom Infrastructure	Temasek, Investment Corporation of Dubai, Macquarie, Citi, Goldman Sachs, AIF Cap, India Equity Partners	1000.00	Dec 07
Idea Cellular	Mobile Services	Providence Equity, NSS Ventures, Macquarie, 2i Capital, TA Associates, Spinnaker Capital, Citi, Sequoia Capital India, ChrysCapital	966.00	Oct 06
Tata Teleservices	Telecom Services	Temasek	360.00	Mar 06
Acme Tele Power	Telecom Infrastructure	Capital Partners	171.00	Nov 07
Global Assets Holding Corporation	Telecom Infrastructure	StanChart PE	137.00	Oct 07
Spice Telecom	Mobile Services	Spinnaker Capital, Lehman Brothers	20.00	Jun 07
YOU Telecom India	Telecom Services (Broadband)	Citi	15.00	Aug 06
Broadband Pacenet India	Broadband Services	Ashmore	10.00	Sep 07

Sector: Airports

Given the critical role of airports in economic growth, the government is keen to address capacity constraints. The strategy for the sector, supported by the development of a detailed financing plan for airports, is expected to lead to a quantum jump in capital formation in the sector.

Overall Demand	
Modernization Projects	39
Greenfield Projects	10
Total Investment Required ($ billion)	8.4
Private Sector Contribution - Total ($ billion)	5.2
Private Sector Contribution - Equity ($ billion)	1.5

Private Equity in Power

SPECIAL ARTICLE

By KPMG Infrastructure Advisory Group

Private Equity (PE) has become a key component of investment planning in infrastructure. In the US and Europe, the rapid growth in the scale and success of PE is on account of new strategies for creating value – leading to faster organic growth and mergers & acquisitions (M&A). Research shows that the average enterprise value of infrastructure businesses studied in the US and Europe grew 72% (acquisition to exit over an average time span of 3-3.5 years).

In many cases, the PE investor installed a new management team and then worked with them to implement a new plan. Across all deals, the investors were intensely involved in the business after acquisition, made rapid decisions, set challenging targets and made available specialist expertise. The engagement was usually found to be more effective than under the previous owners.

Given this backdrop, a discussion on the possibility of participation of PE in India's power sector will need to address these questions:

- What is the size of the opportunity for private investments in power sector?
- Are opportunities for private investments amenable to incorporation of business strategies that enable higher and faster growth of economic value?
- Will developers be open to involvement of PE in management of the project? Will they trust the expertise made available by PE?

Our analysis shows that India will need to double its generation capacity (currently around 135 GW) by the year 2015.

Enabled by the Electricity Act 2003, the Indian electricity sector is undergoing structural changes that aim to make it more competitive and bring back the interest of private sector in development and operation of power plants in India.

Private response has been encouraging with announcements of plans for addition of generation capacity of around 80 GW in the next 5-7 years, implying an equity

capital requirement of around US$ 20-25 billion. We expect 15 - 20% of this requirement to come from PE firms.

New business models adopt an integrated outlook towards the entire value chain – from fuel sourcing, fuel transportation and logistics, to planning, development and operation of power plant and finally the plan for sale of power (choice of markets, tariff structure, etc).

As evident from above, planning for the establishment of a power plant includes economic analysis, organisation capability development analysis and risk management analysis – for infrastructure segments beyond a power plant. As integrated planning becomes common, it will create a platform for PE participation at early stages of the project, to provide inputs by leveraging expertise in the highlighted areas. A PE player with sector-focus and relevant experience is likely to be more successful.

In managing power sector businesses, PE players will face challenges in organization building as the requirement of skilled manpower is far in excess of availability over the next decade. As seen elsewhere, PE would need to influence the developers to increase the share of equity and widen incentives so that the benefits of success can be shared in a more inclusive manner. This will help in attracting, retaining and motivating the best talent, which is scarce today. The close alignment of incentives between the investor group and management team will also help in managing the expectation of an exit in 3-5 years.

KPMG's Private Equity group works with PE houses through the life cycle of their investments and provides a wide range of services from deal sourcing and tax structuring to due diligence, market assesment and post-deal portfolio management services. KPMG worked on more than 150 PE transactions in 2007.

GMR Group

Diversified Infrastructure

Energy, Roads, Airports

Grandhi Mallikarjuna Rao, Chairman of the GMR Group, thinks on his feet. When the group's about-to-be commissioned brewery project was stalled in the early 1990s thanks to a suddenly imposed 'prohibition' in Andhra Pradesh, GM Rao quickly moved into power, an unexplored area for private players till then. GMR Group now runs three power plants – one each in Andhra Pradesh, Karnataka and Tamil Nadu. Five more are being developed.

Having cut his teeth in business 30 years ago with a jute mill in his hometown Rajam in Andhra Pradesh, Rao made his mark in diverse business segments such as sugar and banking before anchoring in infrastructure. Besides energy, the group is focusing on airports and roads.

The Group has won the bid for modernizing Delhi Airport and for developing the greenfield international airport at Shamshabad in Hyderabad. The group made its first international foray by winning the bid to modernize the international airport at Istanbul, Turkey. In the roads segment, GMR Group has already completed two road projects in the Golden Quadrilateral Scheme. Four more road projects are under way. Group firm GMR Infrastructure came out with an IPO in 2006.

Investors: IDFC PE

Transaction Summary:

Investment Date: March 2004

Amount: Rs 1 billion

Status: Realized

Private Equity and GMR Group:

Private Equity players were not rushing into infrastructure when GMR courted IDFC PE over five years ago. Infrastructure was still a 'project finance' domain. "Being our first investment, we were extra cautious," recalls Luis Miranda, President & CEO, IDFC PE. "We spoke to customers, suppliers and former partners of GMR. Everyone had good things to say about the group," he adds. Reminisces GM Rao, "There were not many institutions which had the wherewithal to finance infrastructure projects. IDFC PE's insight into the infrastructure sector encouraged us to partner them".

Once they became partners, IDFC PE kept pace with GMR's aggressive growth plans, acting as a critical sounding board on strategic issues. IDFC PE also helped GMR Group look at new businesses. Says

Ashutosh Agarwala, CFO (Strategic Finance), GMR Group, "The help in business development was also a key value-add by IDFC PE." That GMR chose to partner with IDFC PE as well on the Delhi International Airport project is a testimony to the strength of the partnership. Explains Agarwala, "The long gestation period and risks cannot be perceived by the public at large, while PE investors can play a constructive role by realizing the intrinsic value of the project."

PE Impact

- Expertise in valuing infrastructure projects
- Strategic inputs for expansion into new businesses
- Working with promoters on the IPO process
- Advise in financial structuring

"There were not many institutions which had the wherewithal to finance infrastructure projects. IDFC PE's insight into the infrastructure sector encouraged us to partner them"

G M Rao, Chairman, GMR Group

Suzlon Energy Ltd

Energy

Wind Power

When a power crisis threatened the very survival of his family-controlled textile business 13 years ago, Tulsi Tanti commissioned two windmills to supply electricity to the factory in Gujarat. Not happy with the equipment vendors, 'Tulsibhai' started Suzlon Energy with the idea of supplying a wind power solution to customers (as opposed to being an equipment vendor).

Suzlon Energy, which began in 1995-96 as a 3.34 MW wind farm project with just 20 employees, has evolved into the world's largest fully-integrated wind power company with over 13,000 employees, ranked at No. 5 in the global wind energy market. Now with management headquartered in Netherlands, Suzlon's operations are spread across Europe, Asia, America and Australia. The company went public in India in October 2005.

Investors: CVCI (part of Citigroup), ChrysCapital

Transaction Summary:

Investor: CVCI
Investment Date: April 2004
Amount: Rs. 1 billion
Status: Partial divestment

Investor: ChrysCapital
Investment Date: August 2004
Amount: Rs. 1 billion
Status: Realized

Private Equity and Suzlon:

According to P R Srinivasan, Managing Director, CVCI, when his firm decided to invest in Suzlon in 2004, Suzlon faced a unique challenge. It was overwhelmingly dominant in the domestic market, with more than 50% market share. But this didn't seem good news. The Indian market was nascent and small. Many PE investors, concerned how the company would grow without becoming a global player, were not sure if Suzlon actually presented a great investment opportunity.

CVCI noticed that Suzlon had global capabilities even if it did not have a presence in global markets. Explaining the reasons for the decision to invest, Srinivasan says, "Suzlon had a fairly long history of operating R&D facilities in Germany and Netherlands. In our view, the Promoters understood and were capable of handling the cultural challenges of multinational operations. We were quite confident that Tulsi Tanti would do the right things and expand Suzlon's European

PE IMPACT

- Helped create a global footprint
- Opened other financing channels for growth
- Provided a new way of looking at operational numbers
- Strengthened best practices in corporate governance

capabilities to build a global marketing team. We were proved right – Tulsibhai not only built a global marketing team but with factories in China, Europe and US, he also built a global production organisation." The decision to invest in Suzlon was also in line with Citigroup's decision to finance sustainable and clean energy globally.

Concurs Kirti Vagadia, Head of Corporate Finance, Suzlon: "The company was not well known internationally. To tackle this, we had the option of either going public or bring on board PE investors."

Besides infusing capital, CVCI's key contribution to Suzlon was in becoming an active partner in implementing the company's strategic vision. "The Indian wind power market itself was of the size of 220 MW then. But Suzlon was building a capacity of 1200 MW. You need an equally courageous PE firm that believes in your dream to finance that kind of a project," points out Srinivasan.

CVCI helped the company find more funds from other PE investors – ChrysCapital, which came on board, was introduced by CVCI to Suzlon. "Suzlon is a phenomenal success story from India and is a perfect example of the ChrysCapital investment thesis which is to financially partner a passionate entrepreneur who can create a global play out of India. Tulsi Tanti is truly a visionary and inspiring leader," says Ashish Dhawan, Managing Director of ChrysCapital.

The PE investors' presence on the board also helped open doors for the company in the US market. Suzlon's subsequent efforts in raising funds through the project finance route were also aided by CVCI. Asked about what PE investors contributed besides money, "New thinking, new ideas…In a nutshell, 'out of the box thinking'," comments Vagadia. Given that the global wind energy industry has been growing at over 30% a year, Suzlon appears all set to ride the wind, thanks to the courageous backing from the PE investors.

"PE investors contributed besides money, new thinking, new ideas…In a nutshell, 'out of the box thinking'"

Kirti Vagadia, Head of Corporate Finance, Suzlon

Transport

Roads

Noida Toll Bridge Co Ltd (NTBCL)

Crippling time and cost overruns. Intractable hurdles in land acquisition. Overestimated revenue collections. Can a road project in India steer clear of such usual predicaments? Yes, proved Noida Toll Bridge Co Ltd (NTBCL), which completed a toll bridge between New Delhi and the satellite township of Noida four months ahead of schedule. The eight-lane, 0.5 km long toll bridge across the Yamuna - also called DND Flyway - is the first major success story in Public Private Partnership (PPP) in roads.

The DND Flyway, which became operational in 2001, works on a BOOT (Build-Own-Operate-Transfer) framework on the basis of a 30 year concession. Apart from equity contribution of US$ 2 million by the civic authority of Noida, the entire funding (debt and equity) was raised by IL&FS (Project Sponsor) on a non-recourse basis. The traffic on the bridge has grown from approximately 17,000 vehicles per day in early 2001 to more than 70,000 vehicles per day in 2007. It is estimated that daily vehicle traffic on the toll bridge will increase to over 200,000 a day by 2021. NTBCL has started making a net profit since 2005-06.

PE IMPACT

- Active involvement in operations
- Bringing in other anchor investors
- Advise on restructuring of the project's financing
- Strategic advise to enhance revenues

"After we invested, it was a long learning curve for us. Initially, we dealt with issues related to traffic, ad revenues and then moved on to issues such as creating awareness for people to pay toll for roads. It meant a lot of efforts in educating users"
Archana Hingorani, Executive Director, IIML

Investor: IL&FS Investment Managers Ltd (IIML)

Transaction Summary:

Investment Date: June 2000

Amount: Rs. 200 million

Status: Realized

Private Equity and NTBCL:

The financial closure of NTBCL happened in 1998 when India faced economic sanctions after conducting nuclear tests and it was nearly impossible to raise funds for infrastructure projects. Reminisces Pradeep Puri, President & CEO, "No one was willing to lend money. The very fact that we could raise funds was an achievement. But we got it at such a high rate that our coffers were empty soon and we had to refinance it."

To the credit of IIML, it took the risk unfazed by the uncertainties ahead. Pointing out that this transaction was the first PE investment in a core infrastructure project in India, Archana Hingorani, Executive Director at IIML, says "After we invested, it was a steep learning curve for us. Initially, we dealt with issues related to traffic, ad revenues and then moved on to issues such as creating awareness for people to pay toll for roads. It meant a lot of efforts in educating users".

So what did IIML bring to the table besides money? Given that IL&FS, IIML's parent was also the promoter of NTBCL, the PE firm was involved in operations in a continuous manner. IIML introduced innovative financial structuring options including mezzanine funding and deep discount bonds and was also involved in the restructuring of the project. "New ideas to bring more traffic and being anchor investors, bringing in global limited partners such as Prudential and AIG, were our other contributions to the project," Hingorani says. "It was a very good fit between what the investors wanted - which was a 3-6 year horizon - and what we were looking for," adds Puri.

Gujarat Pipavav Port Ltd (GPPL)

Shipping

Ports

Gujarat Pipavav Port Ltd (GPPL) is India's first private sector port. Though Pipavav's potential as a deep water port has been known for decades, the port, located on the southern Saurashtra coast in Gujarat, remained only an anchorage serving a minor port called 'Port Albert Victor'. In its early years, the port did not come up as expected because of the delay in laying the railway line to the port. In 2003, APM Terminals, a part of Danish conglomerate AP Moller-Maersk Group, which had already invested in Pipavav, approached IDFC Private Equity with an offer to resurrect the project. The two bought out the original promoter Nikhil Gandhi and two other investors to take charge of the port.

Port Pipavav has created extensive infrastructure to handle container, bulk and liquid cargo. It is recognized as one of the principal gateways on the West Coast of India. The port has handled more than 22 million tons of cargo, and more than Rs.9 billion has been invested in the development of the port. Port Pipavav has undertaken a massive expansion project which involves the development of a new multi purpose terminal and expansion of the container terminal.

Investors: IDFC PE, IL&FS Investment Managers Limited (IIML), New York Life Investment Managers (NYLIM India), AMP Capital

Transaction Summary:

GPPL has raised multiple rounds of private equity funding since 1998.

Private Equity and GPPL:

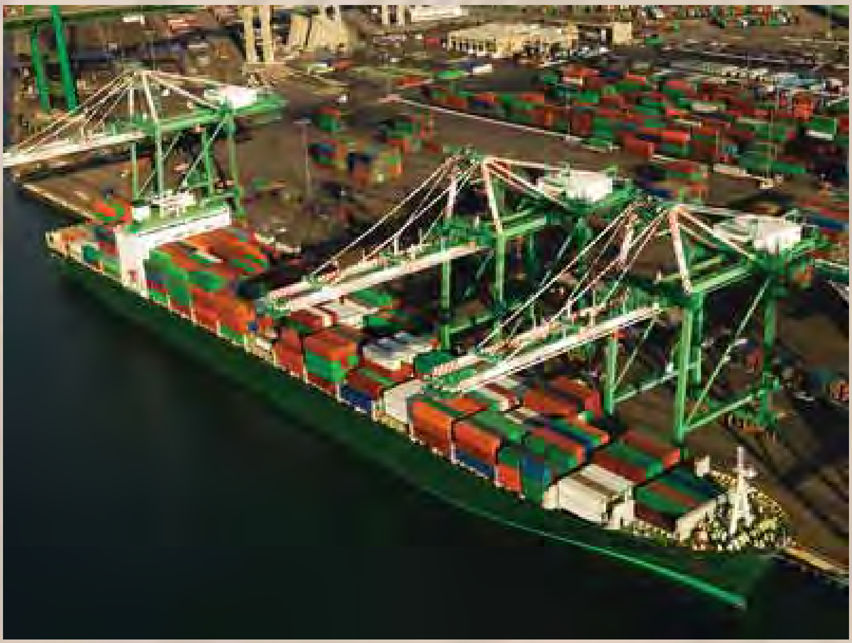
Pipavav was already a private sector port with PE participation when the management changed hands. Says IDFC PE's President & CEO, Luis Miranda, "Nikhil Gandhi did a brilliant job of conceptualizing a private sector port. Also, he had brought in world-class strategic investors and financial investors". When the management changed hands, some of the global investors decided to exit. The new PE investors did not mind this and decided to persist with the project under the new management.

But why did Maersk, an MNC, need to partner PE firms? "They needed a strong local partner. IDFC

PE IMPACT

- Bringing in new operational management
- Financial restructuring
- Help with government and regulatory clearances
- Strategic inputs at board level

"The investors have consistently supported us through out the restructuring process"
Philip Littlejohn, Managing Director, GPPL



PE, along with parent IDFC, played a very large role in getting the regulatory approvals. We helped get clearances from the government as well as Gujarat Maritime Board (GMB) – which regulates all the minor ports in Gujarat - to enable the APM Terminals to take charge. The process took about two years," explains Luis Miranda. Adds Hingorani, "To complement the process of obtaining regulatory approvals from GMB / Govt. of Gujarat (GoG), IL&FS provided a financial undertaking to GoG, which enabled GPPL obtain its regulatory approvals expeditiously."

GPPL's debt was restructured and when it was time to raise new debt, IDFC underwrote the debt issue.

"Besides direct investment in the port, we supported creation of infrastructure necessary for port operations by investing in a dedicated rail link between the port and the national network, possibly India's first PE investment in this sector," says Hingorani. IIML is involved in Pipavav Port through the Leverage India Fund. "The investors have consistently supported us throughout the restructuring process," says Philip Littlejohn, Managing Director of Gujarat Pipavav Port.

Thanks to the efforts of the management and investors, the mood at Pipapav Port is now upbeat. APM-Terminals plans to invest around Rs. 12 billion in GPPL for expansion and modernization of the Pipavav port over the next three years. The firm is expected to submit a detailed project report (DPR) and master plan for the port in February 2008. "The port is all set to go through an aggressive pace of growth over the next couple of years," says IDFC PE's Miranda.

Indraprastha Gas Ltd (IGL)

Energy

City Gas Distribution

IGL holds the unique distinction of being a company that was formed to carry out a Supreme Court directive. By the late 1990s, the state of Delhi had earned the sobriquet of being the pollution capital of India as well. Pollutants were up to 200 to 300 microgram per cubic cm, 2 - 3 times the permissible level. Vehicles contributed to about 65% of the air pollution. An alarmed Supreme Court directed the entire fleet of buses, autos and taxis to be converted to a single fuel mode, that of compressed natural gas (CNG). IGL was formed in 1998 to implement the Supreme Court order. A JV between GAIL (India), BPCL and the government of Delhi, IGL took over Delhi City Gas Distribution Project from GAIL (India) Ltd. The company lays and operates the network for distributing natural gas in Delhi for domestic and commercial consumers. It provides CNG for vehicles and piped natural gas (PNG) to households. The company aims to lay natural gas pipes in other cities in the National Capital Region including Noida, Gurgaon and Faridabad, set up CNG stations and provide PNG to domestic, commercial and industrial sectors in these cities as well.

PE Investor: IL&FS Investment Managers Ltd (IIML), AMP Capital

Transaction Summary:

Investment Date: September 2000

Amount: Rs. 280 million

Status: Realized

Private Equity and IGL:

According to Archana Hingorani, Executive Director, IIML, her firm worked closely with GAIL

PE IMPACT

- Supported expansion plans to create one of India's largest gas distribution companies
- Established corporate governance procedures
- Guidance through the IPO process
- Strategic advice through board level representation – even after exit

"This public - private participation structure is still being used for implementation of various projects in this space"
Archana Hingorani, Executive Director, IIML

and BPCL to formulate a structure of private participation in the company. "This public private participation structure is still being used for implementation of various projects in this space," she says. "Active participation by our team was not just limited to transaction structuring but post investment, we continued to provide support to the company in facilitating speedy decision making required for the project rollout within the Supreme Court's deadline," recalls Hingorani.

Post stabilization of operations, IIML guided the company through the IPO process in 2003. "As Chairman of the IPO Committee, Shahzaad Dalal (Vice Chairman and Managing Director, IIML), played a pivotal role in guiding the company through the process, at a time when primary markets where not doing too well and infrastructure IPOs were unheard of," says Hingorani. IGL's IPO was oversubscribed 35 times.

Despite IIML having completely exited the company in January 2005, IGL continued to benefit from the expertise of the PE firm at the highest level of decision making with Dalal remaining on the board of IGL for the next two years.

Telecom

Telecom Services

Bharti Airtel Ltd

Bharti Airtel entered some of the highly competitive – and, lucrative - mobile services circles at a time when players with deeper pockets appeared well-entrenched in them. Aided by an increasingly more liberal policy regime and license fee structure, Bharti moved with remarkable speed and aggression to become India's top private telecom service provider with a presence in every telecom circle.

Bharti Airtel's businesses have been structured into three strategic business units (SBUs) - Mobile Services, Airtel Telemedia Services and Enterprise Services. The mobile business provides mobile and fixed wireless services using GSM technology across 23 telecom circles while the Airtel Telemedia Services business offers broadband and telephone services in 94 cities. The Enterprise Services provide end-to-end telecom solutions to corporate customers and national and international long distance services to carriers. The passive mobile telecom infrastructure facilities have recently been spun-off into a new entity called Bharti Infratel.

PE Investor: Warburg Pincus

Transaction Summary: Bharti Airtel received US$ 292 million from Warburg Pincus over a two year period ending September 2001. WP completed its exit in October 2005 with total gains of about $ 1.3 billion.

Private Equity and Bharti Airtel:

The telling of the Bharti-WP story has been a key catalyst in attracting a long line of global PE investors to India since 2005. Bharti Airtel had begun to actively look out for PE funding in 1998-99, when it decided to expand beyond its two circles (Delhi and Himachal Pradesh). "Most of the leading PE investors at that time considered us too small. They all seemed to be speaking to us and then going on to invest in our competitors!" recalls Akhil Gupta, Joint Managing Director and CFO of Bharti Airtel. "At that time, we had not heard of Warburg Pincus and when we agreed to meet Pulak Prasad, we did not know what to expect," he says. (Prasad, former joint managing director of Warburg Pincus, has since moved on to set up Singapore-based Nalanda Capital Pte Ltd).

Availability of funds at the right time has been crucial to Bharti Airtel's growth and success, feels the company's management. From just two mobile telecom circles in 1998, the company rapidly expanded

PE IMPACT

- Funding aggressive growth
- Important strategic inputs
- Mentoring for the management team
- Swift decision making

its presence to four circles in 1999, six circles in 2001, and 23 circles in 2004. The expansion was not only through application for fresh licenses, but also through the acquisition of operators in circles like Andhra Pradesh, Karnataka, Rajasthan, Chennai and Kolkata.

Beyond providing the capital to support its rapid growth, "While we could have raised funding from other sources, Warburg Pincus' involvement helped us in scaling up significantly," adds Gupta. WP's speed of decision making and faith in the management team played a key role in the partnership, he feels. This proved especially important as Bharti Airtel embarked on an aggressive growth path – that combined organic and inorganic strategies - to expand its footprint across the country. "WP took all decisions relating to acquisitions in 24-48 hours," Gupta recalls.

Another aspect that the Bharti Airtel management appreciated was how WP did not lose its calm when, post the company's January 2002 IPO, the stock price went lower than the IPO price (of Rs. 45 per share). "Their repeated advice to us was to forget about the share price and just focus on the good work that we were doing," Gupta says.

"While we could have raised funding from other sources, Warburg Pincus' involvement helped us in scaling up significantly,"

Akhil Gupta, Joint Managing Director, Bharti Airtel

Ramky Group

Waste Management

As India's economic growth began accelerating in the early 1990s, and with it the processes of urbanization and industrialization, it was clear that the demand for water supply and municipal & industrial waste management would shoot up. However, very few could foresee that private sector had a role to play in that field. Ayodhya Rami Reddy was one of them. A civil engineer by training, he founded the Ramky Group 14 years ago, focusing on effluent treatment, wastewater and water supply projects.

Ramky Infrastructure Limited (RIL) is now a leading construction company focused on the areas of civil, environmental and urban infrastructure. RIL has developed necessary skill sets to deliver on projects of high technical complexity and varying scale, especially in the water supply, waste water / effluent treatment space, in which it is regarded as one of the leaders in the industry. It has also been focussing on the development and management of industrial parks, public utilities, housing development projects and annuity based road projects.

The Hyderabad-headquartered group has also grown to be India's largest private solid waste management group with operations in industrial, bio-medical and municipal solid waste, through Ramky Enviro Engineers Ltd.

Investors:

IL & FS Investment Managers Ltd, Sabre-Abraaj PE Fund

Transaction Summary:

Investment date: December 2006

Amount: Rs. 1.25 billion

Status: Unrealized

Private Equity and Ramky Group:

The financial backing that PE firms provided helped the Ramky Group bid for larger BOT projects. "Most of the projects that are coming up in waste management are based on the BOT model. We have to invest large sums and we need this money in the form of equity," says Goutham Reddy, CEO, Ramky Group.

"PE investment also demonstrates to other financial investors that a reputed third party investor has already looked into our company closely and found merit in investing. It demonstrates that the organization has internal controls in place and strong growth potential. “In short, PE is a key stepping stone for infrastructure service providers like our group,” adds Reddy.

According to Archana Hingorani, Executive Director, IIML, her firm’s involvement in the Ramky Group enabled the group to tap into the expertise of its parent firm, IL&FS, in infrastructure projects. IIML is also helping the Ramky Group companies with their IPO and on best practices in corporate governance. “In addition to the capital, PE investors also bring in internal control systems and corporate governance in a big way”, concurs Reddy.

PE IMPACT

- Helped bid for bigger BOT projects
- Enabled tapping of infrastructure expertise
- Stregthened best practices in corporate governance

Gujarat State Petronet Ltd.

Gujarat State Petronet Ltd (GSPL)

Energy

Natural Gas Transmission

GSPL has a seemingly simple core business activity - connecting various supply sources and users of natural gas in Gujarat through its pipeline network. It operates a medium to high pressure gas transmission grid comprising approximately 1130 km of pipeline. It is the second largest transmission network in India for natural gas (the first being Gas Authority of India Ltd). A subsidiary of Gujarat State Petroleum Corporation (GSPC), it is also the first company in India to transport natural gas on an 'open access common carrier' basis. GSPL came out with its IPO in January 2006.

Investor: IDFC Private Equity

Transaction Summary:

Investment Date: November 2004

Amount: Rs. 900 million

Status: Partly Realized

Private Equity and GSPL:

Can a government-controlled entity operate on a commercial basis? That was the question that IDFC PE had to answer when a Gujarat-government appointed investment banker contacted them for investment in GSPL. "We had concerns about whether their decisions would be profit-oriented. But the more time we spent with the company, the more we realized that the top management worked as an 'A' class team and was focused on setting up a world-class facility," recalls Luis Miranda, President & CEO, IDFC PE. In addition, the Gujarat government had just lost a court case on Gujarat Gas Act, which sought to give the state government complete rights over regulating the transmission and distribution of natural gas in the state. This meant there was no stopping of competition for GSPL from national players like GAIL.

It is therefore not surprising that it took some efforts and time for IDFC PE to convince themselves. "We spent a lot of time with the government, customers and with the management to understand the framework they had created for the

PE IMPACT

- More robust corporate governance
- Fine-tuning the business model
- Bringing in new investors
- Handholding company through the IPO process
- Help with expansion to another geographical region

company. We were then convinced that it would be run on commercial basis," says Miranda.

Among IDFC PE's key contributions, besides funding the project, was corporate governance. "We were the first external investor in the company and hence had a lot to contribute in terms of corporate governance," points out Miranda. IDFC PE also helped the company in fine tuning the business model. They assisted the company in a Pre-IPO Private Equity round, bringing in investors like UTI Bank, IDBI and IDFC. "We also walked them through the entire IPO process," says Miranda.

"To fund our aggressive expansion plans, we needed a strong financial investor who could bring in more than just money," says D J Pandian, MD of GSPL. Manish Seth, AGM (Finance), concurs, "IDFC Private Equity was closely involved in all key decisions, acting as a sounding board for the management." GSPL was the first state PSU to introduce an Esop scheme, an initiative driven by IDFC PE.

In August 2007, GSPL (now a listed entity), went the Private Equity way again by raising money from International Finance Corporation to draw from IFC's global experience of investing into similar projects.

Finally, IDFC PE assisted the company in expanding its network and investment beyond Gujarat, by helping it partner with the Government of Andhra Pradesh in setting up the Krishna Godavari Gas Transmission network.

"We were the first external investor in the company and hence had a lot to contribute in terms of corporate governance,"

Luis Miranda, President & CEO, IDFC PE

SPECIAL ARTICLE

Private Equity in SEZs

By ICICI Venture

Special Economic Zone (SEZ) is a 'specifically delineated duty free enclave'. It is deemed to be 'foreign territory' for the purpose of trade operations, duties and tariffs. SEZs are expected to work towards better infrastructure, along with reduction in procedural complexities and bureaucratic barriers.

International Experience

Globally there are about 3,000 SEZs operating in 120 countries which account for over US$600 billion in exports and about 50 million jobs. International experience shows that SEZs are pockets of manufacturing excellence which apart from driving export growth and attracting FDI are also contributing tremendously to generation of employment and thereby contribute to the economic growth of the country.

Globally, the size of SEZ's generally varies from 2 to 800 sq. km. Size is influenced by the degree of self-sufficiency and integration in the zone. However, a minimum land area is necessary to support a desired level of economic activity. Some SEZs are remarkably large. In China the Shenzhen SEZ is 327 sq. km, while the entire province of Hainan (34,000 sq. km) is declared as SEZ. Most such global SEZs are townships or cities designed as duty free enclaves, and are almost always developed by Government agencies.

However, in India, the size of the largest SEZ is capped at 1000 Hectares (10 sq km). The combined land requirement for all 193 notified SEZs sanctioned in India thus far is only 228 sq. km. Also, the majority of new SEZs are being developed by private entities.

SEZs in India

While 'Export Processing Zones' – EPZs have been around for quite some time, with Kandla being set up in 1965, the concept of SEZ stated with the Exim Policy 2000. This policy envisaged SEZs as an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.

In 2005-06, Government of India passed the SEZ Act, which is now the regulatory framework for all subsequent SEZs in India. The SEZ policy framework comprises an attractive package of incentives, including several fiscal concessions for the developers of the SEZ and the units to be set up in these SEZs. The SEZ rules and regulations have been put in place. The Ministry of Commerce and Industry expects that the total investments in SEZ's would reach about Rs. 2,85,279 crores in the notified SEZs by December 2009. Investments in notified SEZs have crossed Rs. 500 billion as of January 2008.

Until 2005, 19 SEZs had started operations, out of which only 4 were developed by private entities. Under the SEZ Act 2005, 193 SEZs have been notified. Out of these, 163 are being developed by the private sector, and only 30 are government sponsored. This is in variance with international experience. In terms of size, 87 SEZs are below 25 hectares (ha) in size, and only 60 SEZs are above 100 ha.

Current Status of Approvals in India:

No. of Formal Approvals	**404**
No. of Notified SEZs (out of Formal Approvals)	**193**
No. of In Principle Approvals	**167**

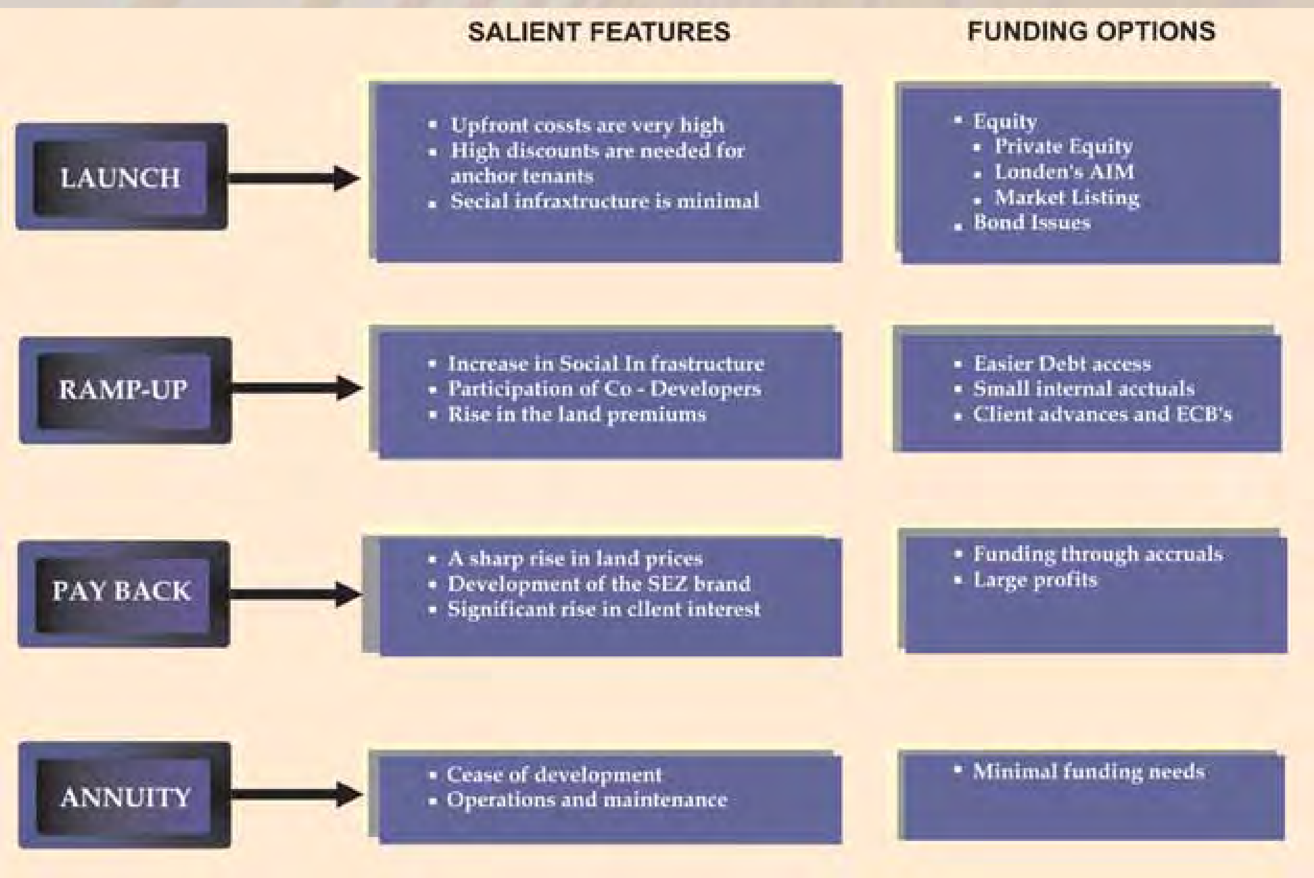
SEZ Value Chain Analysis

SEZs offer various investment opportunities at various segments of the value chain.

LAND DEVELOPMENT > UTILITY CONNECTIONS > BUILT-UP SPACE

Land development and developing the built up space contribute to about 90% of the total costs and players and entities in this area are a large opportunity for investment.

A typical life cycle of a SEZ with various financing options available at each stage of the life cycle is presented as under:



Risks

The larger SEZs have been controversial especially on account of land acquisition issues. In 2007, we have seen major debates on SEZs in the country. A 'land-scam' perception due to inadequate value transfer to private landowners has become a sensitive public policy issue. Such value transfer includes the price as well as non price components that landowners would receive.

Most large SEZs are being planned around large metros, where it is possible for SEZs to succeed financially just based on housing and shopping, without much recourse to exports. There is also the fear of a 'governance deficit' in these SEZs, which are not going to be part of the local Government. Indeed, not involving the local government is a significant accusation against SEZs in their present form.

Local protests have led to a mixed regulatory response, and clarity has yet to emerge. Going forward, forcible land acquisition by the State for larger, privately promoted SEZs seems to be fairly difficult. This is particularly true after a 2007 Supreme Court ruling on land acquisition. This has banned the acquisition of 'good' farm land by Government for private industries.

Perhaps the answer is for State Government entities to identify unproductive wastelands, and develop very large SEZs in the Government domain, on the Shenzhen model. Greater Noida in the National Capital Region or Navi Mumbai in Maharashtra would be good models for future SEZs. Both these have been developed by State owned entities. Most serious commentators agree that it would be much better to have a limited number of SEZs that are really large, with world class infrastructure, a hassle-free environment, logistics support and other financial incentives. Private Equity would be extremely willing to come into such large SEZs.

However, smaller IT/ITES SEZs are not affected by such land-based protests – in most cases, such SEZs are in a single building complex or integrated mini-township. Other smaller dedicated SEZs for

pharmaceuticals, gems & jewellery and textiles may also not have major problems. Private Equity firms are talking to some of these developers.

PE Investment in SEZs in India

PE investors are finding the SEZ story interesting and are increasingly making larger and more investments in SEZs in India. Some recent transactions include

(a) ICICI Venture investing $40 million for a stake in an IT/ITES SEZ in Hyderabad

(b) DLF has received $400 million from US hedge fund DE Shaw in DLF Assets Private Ltd, which is focusing on SEZs.

(c) Several overseas investors are in dialogue to invest in SEZs promoted by Real Estate majors.

(d) Trinity Capital PLC has invested about $75 million for a 49.4 per cent stake in Luxor Cyber City.

(e) Mundra Port & SEZ received large private equity investments before it went for an IPO recently.

Conclusion

India's former Commerce Minister, Mr Murasoli Maran was a strong champion of SEZs in India. His role model was the Chinese SEZ cities. The story has played out differently in India, with very few 'SEZ cities' and many more micro SEZs.

For Private Equity players, smaller SEZs offer a higher risk-adjusted return. Among large SEZs, the interesting targets would be port-SEZ, or airport-SEZ combinations. Other large SEZs, specially those close to major metros, would have pricing and other issues, unless they have land in peaceful possession. The unfolding story of SEZs in India has many more chapters yet to be written.

Between the Central Government and the State Governments, there would hopefully be some consensus on the development of large SEZs. Indeed, some argue that an entire district or State should be declared an SEZ, on the lines of Hainan province in China. In case state entities develop large SEZs, private equity investors could come in to own a stake of such SEZs as well.

Private Equity Infrastructure Funds Active in India*

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Avenue Capital
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Contact: Jayshree Krishna
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Global Union Energy Ventures
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Macquarie Infrastructure
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**Funds which have made investments into core infrastructure projects*

CAPVENT

Capvent AG is an independent private equity investment group based in Switzerland, with offices in the UK and India. Our focus is on generating high returns for our LP investor partners by investing in exceptional private equity funds internationally.

We manage or advise private equity programs of over USD1.3 Bn in size, invested in over 70 groups through fund of funds and co-investment programs. Capvent invests in the full range of private equity fund strategies, including leveraged buyout, growth and expansion capital, venture capital, distressed and mezzanine funds.

The team includes five partners, two based in India (Varun Sood and Rohan Ajila), two in Zurich (Tom Clausen and Thomas Vock) and one in London (Joe Sovran) respectively, with a cumulative total of over 80 years of experience in private equity. They are supported by an investment team of 8 investment professionals in addition to analytical and back office resources, functioning out of three offices in India.

With an office in India since 2003, Capvent was the first experienced institutional fund-of-funds manager with an operational presence in India.

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ICICI Venture is the largest and one of the most successful private equity firms in India with funds under management of around USD 2.3 billion.

ICICI Venture is a subsidiary of ICICI Bank – the largest private sector financial services group in India with a market capitalization of over USD 36.7 billion as of January 2008.

ICICI Venture, over the years, has built an enviable portfolio of companies across sectors like pharmaceuticals, media, retail, manufacturing, IT, logistics, textiles, etc. It has to its credit several 'firsts' in the Indian private equity industry:

- First leveraged buy out – Infomedia India
- First real estate investment – Cyber Gateway
- First mezzanine financing for acquisition – Arch Pharmalabs
- First 'royalty-based' structured deal in Pharma R&D – I-Ven Pharma (with Dr. Reddy's).

ICICI Venture is currently investing out of India Advantage Fund – Series II, a USD 810 million private equity fund. The Fund is a broad based one that aims to tap the India growth story.

ICICI Venture is also managing a USD 550 million real estate fund focused on developing a pan-India portfolio of commercial, residential and retail properties. It also has a joint venture with Tishman Speyer Properties, USA for real estate development.

ICICI Venture is currently raising India's first Mezzanine Fund – India Advantage Fund VII (Mezzanine Fund I). The Fund provides mezzanine finance for mid-market growth, buyouts, turnaround opportunities, real estate, recapitalization, ownership consolidation, etc. The target corpus of this Fund is Rs. 5 billion (USD 120 million) and it has concluded its first closing.

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The member firms of KPMG International in India were established in September 1993. As members of a cohesive business unit, they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition.

We provide services to over 2,000 international and national clients, in India. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune. The firms in India have access to more than 2,500 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

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IDFC Private Equity manages a corpus of USD 630 million and is India's largest and most active private equity fund focussed on infrastructure. The two funds under management are India Development Fund and IDFC Private Equity Fund II. The Fund invests in unlisted and listed infrastructure companies focussed on being leaders in their space. The Funds' investors include leading Indian and global institutional investors.

IDFC PE was set up in 2002 and is a 100% subsidiary of IDFC. IDFC was set up in 1997 and had a very successful IPO in 2005. It is India's leading infrastructure intermediary.

IDFC PE is managed by professionals with over 100 years of domestic and international experience in private equity, infrastructure, financial services and early stage companies.

IDFC PE's portfolio includes GMR Infrastructure (full exit), Gujarat State Petronet (partial exit), Hotel Leelaventure (full exit), Chalet Hotels, Gujarat Pipavav Port, Delhi International Airport, International Recreation Parks, L&T Infrastructure Development Projects, Manipal Health Systems, HealthCare Global Enterprises, Ashoka Buildcon, Manipal Universal Learning, Krishna Godavari Gas Network, Central U.P. Gas, Delhi Assam Roadways Corporation, Quipo Infrastructure Equipment , Sical Logistics, PV Technologies and Doshion.

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About Venture Intelligence

Venture Intelligence, a division of TSJ Media, is the leading provider of information and networking services to the Private Equity and Venture Capital ecosystem in India.

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Our customers include leading Indian and global PE / VC Firms, Limited Partners, Strategic Investors, Investment Banks, Law Firms, HR Services Firms and Consulting Firms.

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