

Bidding norms blocking road project investment

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At least Rs10,000 crore stuck over guidelines on shareholding even as road developers seek less stringent rules

Mumbai: Bidding norms are blocking investment of at least Rs10,000 crore in roads and highways, according to representatives of some infrastructure firms.

The guidelines, issued in June, said that an application would be disqualified if an investor or its associates holds at least 5% in another company which is applying for the same project, directly or indirectly.

Earlier, this conflict of interest could have arisen if the stake was at least 1%.

“In the last few months, various institutions have set aside close to Rs10,000 crore for investments in roads and highways. This capital cannot be invested as the companies that intend to bid for road projects have investors who hold more than 5% in them,” said M.K. Sinha, president and chief executive officer of IDFC Project Equity Co. Ltd, which has put on hold plans to invest at least Rs1,000 crore in road projects because of this requirement.

Funding roads: The Badarpur flyover on the Delhi-Haryana border under construction. Road developers are to meet Union minister Kamal Nath to seek relaxation in rules guiding investment in road projects.
Rajkumar / Mint

Road and highway developers are scheduled to meet minister for road transport and highways Kamal Nath this week to seek relaxation in a number of regulations that they claim have been preventing deployment of funds.

“Due to stringent norms, funds could not be deployed for roads, and many projects have not taken off over the last few years. This time, the ministry is reasonably liberal and we hope that the investment norms will be relaxed to attract more private capital,” said Gokul Chaudhry, partner at BMR Advisors, who also estimated the quantum of money raised by funds for roads and highways to be Rs10,000 crore.

Though the ministry’s move to increase the shareholding limit to 5% was aimed at encouraging investments in road projects, financial institutions and developers say even this is not enough because there are a number of consortiums that have common investors with at least 5% equity share.

“To facilitate road sector investments and improve the bidding process, we feel that the stakeholding limit could either be removed or be raised to at least 26%. A 26% stake will also allow us to get veto powers over the management of the companies where we have invested,” added Sinha.

Other industry executives also said a relaxation of the stakeholding limit was imperative for such projects. “The clause of conflict of interest should be made liberal. At least 26% shareholding could be set as the cap for investors in companies bidding for road projects. Even the tax and company laws recognize 26% as the limit to consider two companies as related parties,” said Chaudhry.

Agrees Arvind Mahajan, executive director at KPMG Advisory Services Pvt. Ltd. "The test should be not just equity holding but ability to control management."

Private equity (PE) funds can invest indirectly in the road sector by buying stock in firms that bid for road projects. Infrastructure mutual funds can allocate capital in roads and highways projects by investing in special purpose vehicles (SPVs) created by road construction companies.

"Many financial institutions have raised infrastructure funds with a portion to be invested in road projects, but if such clauses are not relaxed to absorb the capital, they will eventually be deployed to other infrastructure projects," cautioned Chaudhry.

Currently, Macquarie-SBI Infrastructure Fund (MSIF) and IDFC Project Equity Fund have about \$1 billion (Rs4,870 crore) each dedicated to infrastructure projects in India, while 3i India Infrastructure Fund has at least \$1.2 billion.

Some of the world's biggest banks and PE funds have announced infrastructure funds with India as a priority. US-based Morgan Stanley in May 2008 closed its global Morgan Stanley Infrastructure Partners fund at \$4 billion, and JPMorgan Chase and Co. has said it would invest at least \$2 billion.

The government has announced plans to invest about \$500 billion in improving the country's infrastructure over the next five years, with one-third of the funding coming from the private sector.

Various mutual funds have been raising capital under infrastructure schemes that can invest in SPVs and equities of companies in the infrastructure industry. Reliance Mutual Fund recently raised Rs2,300 crore under its Reliance Infrastructure Fund. SBI Infrastructure Fund, UTI Infrastructure Fund, Tata Infrastructure Fund and ICICI Prudential Infrastructure Fund have their own infrastructure schemes.

"We can invest in SPVs if there is an opportunity. There are prospects of more money from mutual funds coming in for infrastructure projects. These will, however, be subject to regulatory approvals," said Sundeep Sikka, chief executive officer of Reliance Capital Asset Management Ltd, a unit of Reliance Capital Ltd, which is promoted by the Reliance-Anil Dhirubhai Ambani Group.

"I agree that this norm needs to be relaxed. The industry is hopeful that the new ministry will look at this aspect favourably," said Mahajan of KPMG Advisory Services. "Relaxation of this clause will move in the positive direction with regard to road projects. However, they are necessary but not sufficient. The ministry needs to do more on policy and even more so on execution to enable these projects to happen." Nath last week said the government plans to raise at least Rs1 trillion for construction of 12,000km of highways in the current financial year. Half of that, he said, would preferably be from foreign investors. The ministry has recently raised its target of constructing 2km a day to 20km.