

News From Bloomberg

<http://www.businessweek.com/news/2014-07-14/modi-s-25-billion-backs-vow-to-unclog-nation-corporate-india>

Cargo on Ganges in \$25 Billion Modi Push to Unclog India

By Anurag Kotoky and Debjit Chakraborty July 15, 2014

Indian Prime Minister Narendra Modi is pledging \$25 billion to unclog India's choked transport links, spur power output and build cities. His plans include ferrying cargo on the Ganges and expanding gas pipelines.

The 42 billion-rupee (\$700 million), 1,620-kilometer (1,006-mile) freight route on India's best-known river was among the most eye-catching projects in Modi's first budget on July 10. Others included 523 billion rupees for roads and 500 billion rupees for urban infrastructure funding, part of 1.48 trillion rupees for everything from highways and ports to housing.

"The measures to boost infrastructure investment amount to a significant down payment on a key policy priority, although they still amount to only a modest step towards meeting India's enormous needs," Eswar Prasad, who teaches economics at Cornell University in Ithaca, New York, said in an e-mail. Modi's task is to channel private domestic and foreign investment into such assets, he said.

The budget cleared the way for dedicated investment trusts and eased infrastructure lending rules toward that goal, steps that Fitch Ratings said may spur long-term capital investment. Modi must now ensure implementation of his agenda following a landslide election victory in May, after gridlock under the previous government stalled about \$255 billion of projects.

The more he succeeds, the better the outlook for companies that build and power India, whose infrastructure ranked below China and Indonesia in a World Economic Forum survey.

Financing Costs

Specific beneficiaries may include engineering company Larsen & Toubro Ltd., roads specialist IRB Infrastructure Developers Ltd., Tata Power Co. Ltd. (TPWR), Cummins India Ltd. (KKC) and Container Corp. of India, Citigroup Inc. said in a July 11 note.

Finance Minister Arun Jaitley said in the budget speech for the 12 months started April 1 that the government will minimize the amount of reserves that must be set aside for funds earmarked for infrastructure lending.

That step is "significant" and the budget "categorically prioritized infrastructure development," said R. Shankar Raman, the chief financial officer at Larsen & Toubro in Mumbai. It will help cut financing costs too, according to SMC Global Securities Ltd.

The lending measure could also bolster earnings at IDFC Ltd. (IDFC), India's biggest lender to road projects, by as much as 20 percent, according to Credit Suisse Group AG.

Market Optimism

Jaitley boosted plan spending -- or expenditure on productive assets -- by almost 200 billion rupees, to 5.75 trillion rupees, compared with the previous government's interim budget in February. He also plans to ease foreign-direct investment caps in defense and insurance to woo inflows.

Optimism that Modi can revitalize Asia's No. 3 economy has fueled an 18 percent surge in the benchmark S&P BSE Sensex Index (SENSEX) this year, more than the rise of about 4 percent in the MSCI Asia-Pacific Index. The rupee has strengthened 2.8 percent against the dollar in the same period.

Analysts at banks including Deutsche Bank AG and Nomura Holdings Inc. saw the budget as a missed chance to take tough measures on subsidies. Jaitley estimated higher tax revenues and asset sales will help pare the fiscal deficit to a seven-year low of 4.1 percent of gross domestic product.

Modi's government is trying to control the fiscal shortfall, curb a consumer inflation rate of more than 7 percent and revive investment. The economy expanded 4.7 percent in the year ended March, a pace close to a decade low.

Implementation Risk

Modi's Bharatiya Janata Party has promised reliable electricity for all households by 2022, 100 new so-called "smart cities" and bullet trains, among other pledges. The budget allocated an initial 70.6 billion rupees for the cities project.

The proposed cargo route on the Ganges will snake from the eastern coast at Haldia in West Bengal inland to Allahabad in Uttar Pradesh, India's most populous state, and take six years to complete, the finance minister said.

NTPC Ltd., the nation's biggest power producer, is already transporting about 3 million tons of coal over the Ganges, from Haldia to its plant in Farakka in West Bengal, Transport Minister Nitin Gadkari said earlier this month.

Jaitley also set out a goal of adding 15,000 kilometers of pipelines using public-private partnerships to complete the gas grid, doubling the current length. There were about three dozen mentions of "infrastructure" in his speech.

Investment Cycle

A key challenge is to ensure such initiatives are implemented as bureaucrats unnerved by past graft scandals involving government contracts delay approvals. A slow land-buying process, environmental objections and elevated interest rates are among the other impediments.

"There's a lot of investments in the pipeline which need to be moved from the project stage to operating stage," said Rajiv Agarwal, managing director of Essar Ports Ltd. One example is a coal terminal project the company

was awarded in 2009 at Paradip port in Odisha state, which Essar has yet to start work on as approvals are still pending, he said.

Even so, India's infrastructure industry "is set to receive a multi-year boost" from the budget, Fitch said in a July 13 statement. The "thrust on infrastructure development was unmistakable," Crisil Ltd., the local unit of Standard & Poor's, said in a note.

The budget signals a desire to create a platform to get back to GDP growth rates of more than 7 percent, according to Arvind Mahajan, a partner at consultancy KPMG in India.

"Unclogging the infrastructure sector is very critical for that," he said. "The intent of the government is two-pronged: unravel the past and make fresh investments. This will improve sentiment and get the investment cycle back on track."

To contact the reporters on this story: Anurag Kotoky in New Delhi at akotoky@bloomberg.net; Debjit Chakraborty in New Delhi at dchakrabort10@bloomberg.net

To contact the editors responsible for this story: Anand Krishnamoorthy at anandk@bloomberg.net Sunil Jagtiani, Dick Schumacher

SPECIAL OFFER | SUBSCRIBE AND SAVE 89%

©2014 Bloomberg L.P. All Rights Reserved. Made in NYC