

# Private equity cos hit the road to make it big

Government is also looking at offering roadside land development rights to developers, making the segment more attractive, says Nirbhay Kumar

BACKED by a buoyant economy growing at more than 8%, investors are chasing highway projects which promise huge return in the medium and long term. Private equity players such as 3i, ICICI Venture, IDFC and Blackstone are betting big on road sector and plan to either directly partner developers by jointly bidding for the highway projects or pick up stake in the infrastructure firms.

"We are raising \$5 billion in the next 12 months alone, a substantial part of which would go to infrastructure, including highways. We have invested \$850 million in highway projects in India," ICICI Venture director (investments) Shailesh Pathak said.

ICICI is even looking at picking equity in infrastructure firms. "We are looking at all kinds of infrastructure opportunities, including stake in a company, project and participation even at co-bidding stage of the projects," Mr Pathak added.

PE firm 3i recently took a minority stake in Hyderabad-based engineering and construction company Soma Infrastructure for \$101 million. Soma has an order book of more than \$1.6 billion and is undertaking various highway projects on build, operate and transfer (BOT) toll basis. "We are looking at long-term partnership with 3i, and depending upon the fund requirement, we may offer further stake to them," Soma Infrastructure director Ankineedu Maganti said. Soma is also planning to enter into aviation sector by bidding for airport development projects.

With the government planning to allow PE players in the road projects at the time of bidding itself, more companies are likely to infuse fund in the highway projects. Moreover, government is also looking at offering roadside land development rights to the developers, making the segment more attractive. "Indiabulls, Edelweiss, Tata Realty and Goldman Sachs have also started taking preliminary interest in the road projects and are in talks with various developers at different levels," industry sources said. Gulf-based investors are also looking at special purpose vehicle (SPV) route to infuse funds in the Indian road sector. Industry watchers estimate PE fund flow in the road sector in excess of \$2 billion in the next few months. "Today, if a traffic consultant projects X number of vehicles on a certain highway stretch on a certain date, chances are that, in some cases, the number of vehicles would double or triple in a couple of years. As there is huge promise as well as potential in the road sector, good money is chasing good asset. In the time to come, highway projects would figure as cash cow in the PE firms' portfolio," AT Kearney principal Debashish Mukherjee said.

With cost estimation of a project becoming a critical aspect of the entire construction activities, role of PE firms is likely to get more important. Most of these firms bid for huge projects across the world and hence they bring adequate experience for project execution.

"Government's proposed move to allow PE firms to jointly bid for the projects along with construction companies would bring in more foreign direct investment in the road sector," added Mr Mukherjee. The government allows 100% FDI in the road sector through automatic road. The National Highways Authority of India, the government agency responsible for the development and upgradation of national highways, is currently in the process of awarding contracts to private players for four-laning of 8,074 km of NHs under national highways development project (NHDP)-III on BOT basis at an estimated cost of Rs 54,339 crore. Under NHDP-V, it plans six-laning of 6,500 km of existing four-lane highways on design, build, finance and operate basis.

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