



*Dewan P.N. Chopra Consultants Private Limited*

# **The Indian Infrastructure Sector**

## **An Overview**



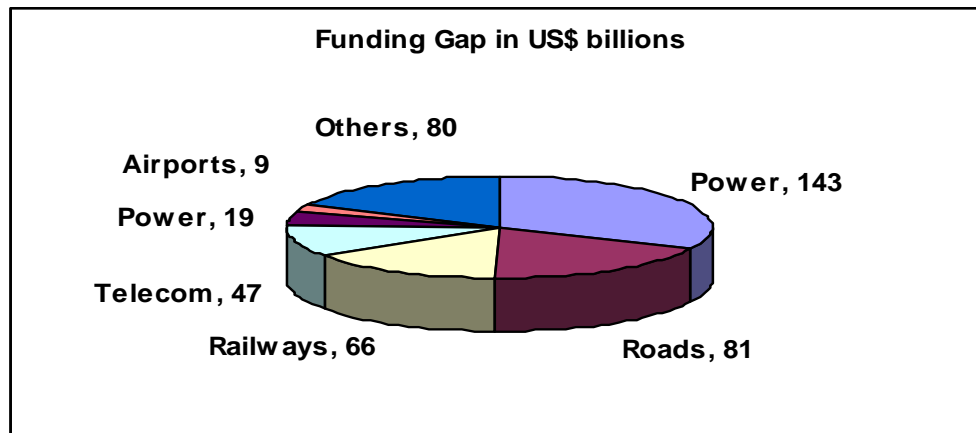
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## The Infrastructure Sector

### General Overview

- Over the past four years, the Indian Economy consistently recorded growth rates in excess of 8.5% per annum resulting in rapidly increasing infrastructure spending. **Total infrastructure spending** is expected to increase from **US\$ 24 billion in 2005** to **US\$ 47 billion in 2009**. (FICCI)
- Total **investment requirement** in the infrastructure sector over the next **five years** is **US\$ 445 billion**



*Source: IDFC*

- It is estimated that the Infrastructure Sector **needs to grow at a CAGR of 15% over the next five years** to support the growing requirements of virtually every other sector of the Indian Economy.
- With the objective of stimulating and mobilizing increased private sector investments, either from domestic sources or foreign avenues, the government has offered various incentives:



▪ **Liberalization of FDI Regulations**

- i. Barring aviation, **100% FDI under the automatic route** is now permitted in all infrastructure sectors.
- ii. FDI under the **automatic route** is permitted up to 49% - 100% for various services in the aviation sector.

*Source: DIPP*

▪ **Extended tax holiday periods**

Under section 80-IA of the Income Tax Act, 1961, a **ten year tax holiday** is available to enterprises engaged in the business of development, operation and maintenance of infrastructure facilities, subject to compliance with the conditions prescribed therein.

▪ **Introduction of Public Private Partnerships (PPP)**

Based on resounding global success, the government has introduced the concept of **public-private partnerships** in India, to combine the best practices of public and private sectors to efficiently develop and maintain infrastructure facilities. PPPs are aimed at inducing private sector participation in activities which might otherwise prove to be cost prohibitive e.g. development, operation and maintenance of toll roads.

- The Industry has received an aggregate of **US\$ 6.6 billion in infrastructure investments** over the past **six years**. (*DIPP*)
- The Government has indicated that the Indian infrastructure sector has the **potential** to absorb **US\$ 150 billion (including the power sector) in FDI** over the **next five years**.



## Sector Specific Opportunities

### *Roads*

- India has one of the **largest road networks in the world, aggregating to approximately 3.34 million kilometers.** (*Economic Survey 2007-08*)
- The Government has laid down ambitious plans for development and upgradation of the domestic road network. Private sector participation through PPPs is being actively encouraged to achieve greater efficiencies in development, operation and maintenance.
- It is estimated that the **total investment requirement** for development and upgradation of the country's road network over the **next five years** is approximately **US\$ 55 billion.** (*Economic Survey 2007-08*)

### *Ports*

- India's **coastline of 7,517 kilometers** is spread over 13 states and houses 12 major ports and 187 non-major ports. (*Economic Survey 2006-07*)
- **Traffic handling** at these ports has been **increasing** at an **average of 10% per annum** over the past three completed financial years.
- Average turn around time at the major ports is presently in the region of 3.5 days, as compared with 10 hours in Hong Kong – reflecting the potential for increasing the global competitiveness of our ports.
- It is estimated that the **total investment requirement** for upgradation and modernization of the country's ports over the **next five years** is approximately **US\$ 12 billion.** (*Economic Survey 2007-08*)



## Airports

- Domestic and international **air traffic** over the past three financial years has been **increasing at over 35% per annum**.
- It is estimated that the **total investment requirement** for expansion and modernization of the country's airports to counter the aforementioned traffic increases is approximately **US\$ 10 billion**. (*Economic Survey 2007-08*)
- Projects for upgradation, operation and maintenance for several major airports including the Delhi, Mumbai, Hyderabad and Bangalore airports are already in the process of being executed/ have been executed:

Airport	Project executor
Delhi	GMR Infrastructure
Mumbai	Larsen and Tubro
Hyderabad	GMR Infrastructure
Bangalore	Consortium of privately held enterprises.

- Private sector participation through PPPs has been the preferred mode of execution for the aforementioned projects.
- The Airport Authority of India has already **firmed up plans for modernizing 35 other non-metro airports across the country**.

## Railways

- Indian Railways is the **world's 2<sup>nd</sup> largest rail network** under single management. (*Economic Survey 2007-08*)
- **Passenger traffic** and **freight traffic** have been increasing at an average of **7% and 9%** respectively over the last three financial years. **By 2012**, Indian Railways expects to handle **double** the traffic it already handles.
- To scale up manufacturing capabilities sufficiently to meet the increasing flow of traffic, the **total investment requirement** for modernization and upgradation of the country's rail networks and rail infrastructure is approximately **US\$ 75 billion**. (*Economic Survey 2007-08*)



- Development of **dedicated freight corridors, at a cost of US\$ 7.5 billion**, with the objective of easing the flow of freight traffic across the country are already in the process of being executed in accordance with the XI<sup>th</sup> five year plan.
- As part of its modernization plan, the Government has presently identified **22 stations at metro cities and major tourist destinations** for substantial upgradation and revamping through the PPP route.

### *Telecommunications*

- India's telecommunications network is the **third largest** in the world, with more than 270 million existing connections and is expected to grow to **500 million subscribers by 2010**. (*Economic Survey 2007-08 & Investment Commission of India*)
- **Wireless services** have been growing at an impressive **CAGR of over 87% per annum since 2003**. (*Economic Survey 2007-08*)
- The investment opportunity in areas such as network infrastructure, value added services sector etc. is estimated at **US\$ 76 billion**. (*Investment Commission of India*)
- Development of telecommunication infrastructure presents substantial investment opportunities on account of the following reasons:
  - i. Rapidly **increasing telecommunication subscriber base**, particularly on account of the increased affordability of mobile phones;
  - ii. Technological innovations that have resulted in **tariffs** in India falling to **among the lowest in the world** – the government has recently announced subsidy benefits to telecom operators, the benefit of which is expected to be passed on to customers in the form of further reductions in tariffs; and
  - iii. Increasing **integration** of the telecom sector **with the IT sector** (through development of telecom-specific software applications), as highlighted by the recent announcement made by the Telecom Regulatory Authority of India (TRAI) permitting **mobile virtual network operators (MVNOs)** to enter the Indian market.



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