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Q&A: Kotak's Sethi on the sectors that will witness most activity

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SANJAY SETHI/KOTAK MAHINDRA CAPITAL

Road, power sectors to attract most investments

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NEW DELHI

Global funds are keen to invest in India's infrastructure projects, says Sanjay Sethi, executive director and head of the infrastructure group for **Kotak Mahindra Capital Co Ltd**. In an interview, he says electricity generation and road development are two sectors that will witness most activity in the coming years. Edited excerpts:

Ramesh Pathania/Mint

Changing strategy: *Sanjay Sethi says a lot of firms look to wait before hitting the capital markets.*

Only a few companies are competing for a large number of infrastructure projects. Which sectors do you anticipate most activity in?

I think if you track the sectors that are in vogue, (a) lot of investments are going in or being talked about essentially (in) power and roads. Seaports have not really seen too much activity. What we are really seeing is huge traction in the power and roads side of the infrastructure story, where two things are happening. One is acceleration of sheer activity in terms of number of initiatives and number of projects. The second thing is about the overall scaling up of each of these initiatives...

How do you see the equity requirements for companies?

In so far as equity is concerned, there have been three or four generic sorts of windows being tapped. One, of course, is (for) anybody who believes he's ready for an IPO (initial public offer), public capital markets give you the best pricing. But what we are seeing of late is a lot of the companies are looking to wait up before they hit the capital markets—for a variety of reasons.

The other windows of opportunity the developer can tap is either a private equity window, or strategic. For example, in power we have seen some appetite as far as international developers are concerned. You have obviously read about Sembcorp (Industries) of Singapore investing in Gayatri (Energy Ventures) for a project. We know that there are at least a couple of more Indian developers who are exploring this route of getting an international strategic investor.

And the largest part of course, short of the IPO, is the private equity, where we are seeing a lot of traction. We have anywhere between one-and-a-half, two dozen private equity investors that we are in front of, for various deals, (who) are extremely positive in looking at this sector. So the India story is intact. In fact it has only accentuated...

Tata (Realty and Infrastructure Ltd) and Atlantia (SpA) have come together to bid for projects. The Tatas have diluted upstairs at the Tata holding company level for roads, where (private equity firm) Actis has come in as a 30% stakeholder with (the) balance 70% with Tatas. So that's another approach that we have seen a lot of people trying to adopt, where even if you do joint venture at the project level, the Indian company or the international company is raising resources at their own holdco (holding company) level.

But having said that we are now increasingly seeing the trend that some international companies who haven't really looked at India in the past are now saying that 'show us some brownfield assets'. So investor comes in, he buys you off for a certain percentage. You take that money and use it as growth capital to invest into new greenfield projects.

What sort of investors are these?

Well, these (are) international investors. They are infrastructure funds, primarily. I unfortunately can't share some of those names with you at this stage. These are all typically pan-Asian funds or they are global funds. These are not India-specific funds. But they have started to make the rounds of the country and they are looking for opportunities...

For large Indian infrastructure companies, does it make more sense to divest in the holding company level, or at the special purpose vehicle (SPV) level?

Within the so-called financial investor universe, the strategies can be twofold. You can actually look at divesting in the SPVs and as you do that you can bring in players at the holding company level as well. The advantages on holding companies is that the deal volumes can be larger, because obviously, you have a variety of projects sitting under the holding company. So with smaller dilutions, you can actually raise more money. And if it's growth capital, then the return expectations will be higher. Which is the reason why you really need to do a mix and match thing and see what are the assets at the SPV level which are mature enough, which can give you a 15-16% return. And if you are in those kind of assets, then it makes tremendous sense to look at asset level divestitures as well.

What has changed from a couple of years ago, when international funds and firms talked about coming to India but never really bid? There was the global slowdown, but part of it also seemed to be how they perceived the regulatory risk in the country.

Well, there is a third thing, which is a big part of the puzzle. A lot of these developers were being wooed because there were entry barriers. So if you could only (have) five or six shortlist(ed) for a project and you needed to bring a certain score, then you had no choice but to tie up. Now, how much of that was actual equity likely to come in as opposed to may be a name-lending, one doesn't know.

A lot of these developers said we would rather look at consolidating and retaining what we have in our home markets rather than look at international markets.