



India Infrastructure Update



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POWER

Draft Power Tariff Policy

The draft Power Tariff Policy has been prepared by the Ministry of Power in consultation with Crisil, with an aim to promote efficiency, introduce competition, rationalize electricity tariffs and bring transparency in administration of subsidies. To achieve these goals, the policy has sought to include a few special financial principles for generating and distributing companies. The principles are aimed to enable investors earn returns even as the transition to a more market determined regime with a greater number of operators takes place.

These financial principles recommend that the current practice of accounting separately for cost of debt and cost of equity shall continue.

Moreover, the cost of debt shall be allowed at actuals, subject to satisfaction of the appropriate commission regarding due diligence. In case of debt denominated in foreign currency, any impact on account of variation in exchange rates shall be reflected in the tariff. For the purpose of tariff, the rate of depreciation would be as per schedule XIV of the Companies Act 1956. All power sector entities are to be treated as continuous process plants for the purpose of determination of the depreciation rate. In case of inadequacy of cash for debt repayment, the appropriate regulatory commission may allow advance against depreciation.

The draft policy continues to offer a 16% pre-tax rate of return on equity to investors in all segments of power as in the existing tariff regime. It has also been recommended that the rate of return on equity be applied to initial equity in case of generation and transmission and on net worth in case of distribution licenses. This formulation reflects the downward trend in the cost of funds and is aimed at encouraging better tax planning by power sector entities.

Copies of the draft have been sent to all state governments for comments and the final policy may be finalised within a month.

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Ministry to Charge up Electricity Act

The Union Ministry of Power will be introducing a series of amendments to the recently passed Electricity Act 2003. These pertain to provisions regarding open access to distribution, powers of the appellate tribunal and electricity theft.

One of the amendments will address apprehensions regarding licences for open access to new operators. In order that the regulator function independently, the amendment to Section 42 will propose that the guidelines for open access in distribution should be firmed up within one year and the state government should have open access in the distribution segment within three to five years. This will put an end to the long process and expedite the reforms in the power sector.

The second important amendment is to do with the powers of the appellate tribunal. Under Section 121, the Act has provided for setting up of an appellate tribunal, which will have control over the regulatory authorities. In order that the appellate tribunal may not use its powers to interfere into the day-to-day functioning of the regulatory authorities, the amendment will seek to ensure that the tribunal may not have powers over administrative functions of the regulators. The amendment bill will also address the issue of clauses regarding power theft.

Centre to Waive SEB Dues

Central power utilities have waived the Rs 100 bn delayed payment surcharge component (DPSC) payable by defaulting state electricity boards (SEBs) under the one-time dues settlement exercise advocated by the government. Accordingly, total SEB dues to be securitised through the issue of tax-free bonds by the concerned state governments is down to Rs 310 bn from Rs 410 bn. Every defaulting state has agreed to the one-time settlement of SEB dues proposed by the Centre, but the West Bengal government will be the first state to actually implement the securitisation of dues exercise through issue of state-guaranteed tax-free bonds to the central power utilities by end-July.

The West Bengal government proposes to issue 15 year state-guaranteed tax-free bonds Rs 21 bn to the concerned central power utilities, which are likely to attract a 6.5-7% interest. CERC has asked the West Bengal Electricity Regulatory Commission to expedite the appointment of an 'ombudsman', for handling all consumer grievances linked to power distribution. The CERC is also expected to come out with guidelines on power transmission and trading licences by September 30, '03.

NTPC Receives Greentech Safety Awards

Ten power stations of state-owned National Thermal Power Corporation (NTPC) have received Greentech Safety Awards for promoting safety measures during the year 2002-03. Korba, Anta, Faridabad and Auraiya power stations along with the NTPC corporate centre were presented gold medals. In recognition of their commitment towards improving safety measures during the period, Dadri, Badarpur, Simhadri, Kawas and Jhanor-Gandhar power stations received silver medals, with the Kahalgaon power station getting a bronze medal. The awards have been instituted by the Greentech Foundation.

Delhi's Power Tariff to Reduce by 2007

PHDCCI estimates that power tariffs in the Delhi are likely to come down by 2007 with power supply improving over the last one year. The improved power supply conditions have helped in bringing down the loss in supply to 1.39% in April-July this year from 3.06% during the same months in 2001. Positive results (such as reduction in tariffs) are expected by the end of 2007, as power distribution in Delhi is at present going through a transitional phase due to its privatisation.

According to PHDCCI, the distribution companies would have to achieve their loss reduction targets or else there could be net losses of upto Rs 800 mn. Chief Executive of BSES Yamuna Power Ltd and BSES Rajdhani Power Ltd Himadri Banerji has said the companies have already improved systems with an aim to reduce costs by 20% and improve quality by 30-40%.

ASEB to Access ADB Credit

The Assam State Electricity Board (ASEB) may get access to cheaper electricity from the national grid by the end of 2004, thanks to credit worth \$250 million from the Asian Development Bank (ADB). The credit, which is likely to reach the state power utility by November 2003, aims at improving the T&D infrastructure of the ailing state power utility.

With an 120-mw average power generation of ASEB against a peak demand of 350 mw, the move is a welcome one for addressing the rising power shortage. A high-powered ADB team is expected to visit the state in August for appraisal of the project. The credit would come to ASEB through the Union power ministry and the grant component could be as high as 90% for ASEB.

DVC Eyes Power Projects in Jharkhand

The Damodar Valley Corporation (DVC) has stated that it will set up the 4x250 mw Maithan Right Bank thermal power project on its own even if it fails to locate a suitable partner to replace BSES. To be set up by DVC promoted Maithan Power Limited (MPL), the project would offer the joint venture partners equity holding of 45%, equal to DVC's stake. The project cost is estimated to be in the region of Rs 44 bn. In a parallel development, DVC is likely to set up a 1000 mw thermal power station at an estimated cost of Rs 45.82 bn in the Jainagar block of Jharkhand. The total project is expected to be completed three years from handover of land.

NHPC Seeks Loans for MP Power Projects

The National Hydro Power Corporation (NHPC) has decided to seek loans from the State Bank of India and Deutsche Bank of Germany for the 1000-mw Indira Sagar project and the 520-mw Omkareshwar project in Madhya Pradesh. It has tied up a \$150 mn loan from Deutsche Bank and talks are on for another \$250 mn loan to meet the project cost. The central government and the state government's guarantee is expected to be Rs 3.12 bn and Rs 3 bn, respectively, for the project. The Rs 14.76 bn Omkareshwar project is likely to be completed during the Tenth Five-Year Plan.

NHPC is seeking another loan of Rs 15 bn from the State Bank of India. It has obtained the first tranche of Rs 3 bn at the rate of 6.85%, but is negotiating for a lower rate of 6.5% for the remaining Rs 12 bn. The private consortium executing the Omkareshwar project has stated that it would be completed ahead of schedule. Regarding the Indira Sagar project, two units of 125 mw each are expected to start generating power by November, the other six units will start functioning by March 2004, about one year ahead of the schedule.

J&K to Review Sawalkot Project

The Jammu and Kashmir government has decided to review the 600 mw Sawalkot hydroelectric project following an over 100% escalation in the estimated cost of the project. The cost of the project has escalated to Rs 75 bn from Rs 30 bn in 2001. The project comprises three units of 200 mw each. To be built over the river Chenab in Doda district, the state government had signed a MoU with NCC International, a Norwegian consortium, for the project in April 2001.

The state government has asked the corporation to ascertain the actual cost likely to be incurred on the project because it would affect the finalisation of power tariff. The corporation has decided to get the techno-feasibility of the project reassessed by an independent body. The Sawalkot project is located 70 kms upstream of the 450-mw Baglihar project, being executed by the Jai Prakash Industries Private Ltd.

Rs 3 Bn Wind Power Projects in Rajasthan

The Rajasthan government has cleared projects with a combined capacity of 75 mw under the new wind power policy. It is planning to invest around Rs 3 bn in these projects and the power purchase agreements are expected to be signed soon. While some of them are likely to be operational during this financial year, the rest may start generation in 2004-05.

The state is likely to have around 150-175 mw of wind power generation capacity by the end of 2003-04. Six sites have already been identified and assessment studies are being conducted for ten others to set up wind power projects. Under the new wind power policy, several concessions and benefits have been announced for the wind energy developers. These projects are likely to start functioning by March 2004. The state government has formulated this new policy due to the prohibitive level of tariff protection provided by the earlier policy.

MNCs Smell More Oil in India

The recent gas discovery by Reliance in the Krishna-Godavari basin is one of the reasons for the recent generation of unprecedented interest among multinational oil majors in the fourth round of bidding under the new exploration licensing policy (NELP-IV). Multinational oil firms have been visiting the three data centres at Houston, London and New Delhi to study the prospects of the exploration acreage on offer. Visitors include Occidental, Exxon Mobil, Statoil, Woodside Energy, Chevron Texaco, BP and ENI of Italy, besides two Russian companies and some Australian firms. Many of these companies had not visited these centres during the previous three rounds of NELP bidding. However, not many data packages have so far been purchased by the prospective bidders.

The renewed interest in Indian blocks had been triggered by the Reliance discovery as well as a string of successful discoveries by Cairn Energy. Moreover, the improved quality of data prepared by the directorate-general of hydrocarbons has also helped attract prospective investors to the centres.

Indian Firms to Bid for Kuwait Deal

State-owned Indian Oil Corporation and ONGC Videsh Ltd have joined with global oil majors BP and Occidental to bid for a Kuwaiti oilfield production contract. With a 65% stake in the consortium, British-based BP is acting as the leader of the bid. US-based Occidental has a 25% stake in the venture, while IOC and OVL share the remaining 10%. The BP-led consortium is one of three groups bidding for "Project Kuwait", which aims to increase production from a cluster of fields along the border with Iraq. The other contenders are a consortium led by ChevronTexaco, and another led by Royal Dutch/Shell. Project Kuwait is a US\$7 bn, 20-year plan to increase the output of 5 northern oil fields - Abdali, Bahra, Ratqa, Rawdhatain, and Sabriyah - from 450,000 barrels per day (bpd) to around 900,000 bpd by the year 2006. Unlike production sharing agreements, Kuwait will sign technical service contracts that will allow it to retain ownership of reserves, control over oil output, and strategic management of the venture. The winning consortium will be paid a "barrel" fee, allowances for capital recovery and incentive fees for increasing reserves.

Reliance, Shell Supply Natural Gas to NTPC

Reliance gas reserves at KG basin may have a bulk consumer in the state-run power major NTPC. Reliance and energy giant Shell have placed offers to the power major to supply natural gas equivalent of 3 mn tonnes of LNG per annum for its Kawas Gandhar thermal power stations. The 17-year firm contract proposed by NTPC would mark the biggest NG/ LNG market in India so far with a size of over Rs 320 bn. The contract will signify the attempt of the power major for global sourcing of fuel via competitive bidding. This will end its dependence on domestic gas supplier ONGC, which is threatening to hike prices by linking domestic price of gas to benchmarked import parity price of furnace oil. The contract size could become bigger, as NTPC reserves the option to extend the contract for no specified tenure.

CDR Group Clears Essar Oil Project

The corporate debt restructuring (CDR) group, led by ICICI Bank, has cleared Essar Oil's (EOL) proposal to restart its Vadinar project in Gujarat with a series of stringent conditions. The conditions include pledging 51% of EOL and 100% of Vadinar Oil Terminal to lenders against any failure of compliance by the promoters. The CDR group has formed a monitoring committee and has set up a trust and retention account to manage the fund flow during the pre- and post-completion of the project. Personal guarantee of the Ruias as well as the corporate guarantee of Essar Shipping have been sought while preparing the recast plan of the project. In case of any failure by the promoters, the lenders will raise the stake from 51 to 76%.

Other important conditions include lenders reinstating the earlier sanctions of Rs 15 bn in the form of rupee and forex resources. Also, Rs 3.11 bn of equity is to be brought in by the promoters along with Rs 9.05 bn and \$91 mn of subordinated debts by EPC contractors — ABB and Larsen & Toubro. The debt will be priced at 11-12%. The move will pave the way for re-commencement of the work without any further hurdles at the revised 12 mmtpa refinery, which earlier was of 10.5 mmtpa capacity. The project is to be completed in 24 months. The cost of the revised refinery project is assessed at Rs 98.63 bn and the debt-equity of the project stands at 2.26. Uhde (a part of Thyssen Group), appointed by the lenders, in its report to the lenders has certified the revised project cost of EOL and has stated that the project cost compares favourably with similar projects. The project has achieved full financial closure and confirms viability.

GAIL Eyes Oil, Gas Blocks in Argentina

GAIL is considering a stake in oil and gas exploration blocks in Argentina and Mozambique and planning city gas projects in several countries to expand its international operations. GAIL, which already has a 10% stake in A-1 gas field off Myanmar's northwestern coast, is also talking to Shell for picking up stake in two city gas distribution companies in Egypt. Shell has offered GAIL 19% equity in Fayum Gas Company and 10% equity in Shell CNG company (both in Egypt). Financial, legal and technical due diligence study for both have been completed and valuation and other terms and conditions for investment are under preparation. Fayum Gas Company supplies piped natural gas for domestic consumption while Shell CNG retails CNG for automobiles in Cairo.

Besides this, feasibility of participation in another gas distribution company in Egypt, Natgas, is under evaluation. British Gas has also offered equity participation in its gas distribution company. GAIL, which signed an agreement with Botas of Turkey for helping it set up city based gas distribution system and CNG network for automobiles in Istanbul and Ankara, is eyeing CNG distribution projects in Manila and Philippines. Foreign operations may account for 15% of turnover in the next 10 years when GAIL's total revenues should double to Rs 200 bn. GAIL had also prepared detailed feasibility report for city gas project in Dhaka.

Telecom Services Market Crosses 500 Bn

Even as basic services, the bread and butter of the Indian telecom services industry, grew by only 9% in 2002-03, the mobile services business grew by leaps and bounds. As per the 8th National Telecom Report survey, mobile services added 7.75 mn subscribers (both GSM and CDMA), registering a 50.53% growth in revenues. According to the report, the communications services market in India was worth Rs 503.58 bn in 2002-03. This is a growth of 5.11% over the 2001-02 fiscal, when the market size was Rs 479.08 bn. Services covered in the survey include basic services, cellular services, national and international long distance, Internet services, VSAT services and radio trunking services. It also included radio paging, infrastructure, unified messaging, voice mail and audiotex services.

As per V&D100, while basic services contributed 57% to the total services industry size of Rs 503.58 bn last year, the fast growing cellular was a distant second with 16% contribution to the communication services industry's top line. Other significant contributors were the national long distance (12%) and international long distance (11%) services. The long distance segment in fact reported a negative growth of 21% on account of a significant drop in the tariffs. Even though not really in good shape, at Rs 12.85 bn Internet services business still accounted for 2.5% of the industry.

Bharti - Teletch Merger for Telecom Infrastructure Platform

The Department of Telecom (DoT) is likely to allow TeleTech Services India - a 50:50 JV between the Bharti group and TeleTech of US - to merge its domestic and international call centres under a common telecom infrastructure platform. This would enable the JV to take advantage of multiple time zones, wherein its merged call centres will be able to cater to foreign clients at night and domestic customers by day. The Telecom Commission is considering this as it will help the Indian call centre operators effectively compete with their BPO rivals in Philippines, South Africa, Sri Lanka. Merging of domestic and foreign call centres under a common infrastructure platform will also enhance employment opportunities in the BPO space.

The proposed merger of domestic and international call centres could result in annual savings of up to 40% in a company's telecom infrastructure costs depending on actual capacity utilisation.

DoT's interpretation of convergence will however be different from TRAI's definition of convergence. The convergence of telecom licences will therefore be different from convergence in telecom infrastructure sharing. The need for suitable safeguards is also being talked of, as these would ensure merged call-centre operations do not result in illegal bypass of ILD traffic through the international private leased circuits (IPLCs) of the private call centre operator (in this case: TeleTech Services). DoT fears it will lose out on ILD revenue-sharing if such illegal bypassing of ILD traffic through the networks of private call-centre operators occurs.

India's Voice Equipment Market to Grow 17%: Frost & Sullivan

A recent Frost & Sullivan study reveals that India's growing presence as a top call centre outsourcing destination can ensure a compound annual growth rate of 17% between 2002 and 2009 for the voice enterprise market. Frost & Sullivan expects revenues to touch \$349.5 mn. Revenues from the enterprise voice equipment market stood at \$112.4 mn in 2002.

With an abysmally low telephone penetration rate of 5.5% for every 100 people, there is huge untapped market for traditional telephone systems especially so as the tele-density target to be achieved over the next three years has been set at seven per 100 people.

The burgeoning call centre industry has also managed to perk up the interest of IP voice and data players. According to the report, there is hardly any other market that offers such tantalising growth opportunities for both the traditional private branch exchange (PBX) and key telephone systems (KTS) as well as the emerging new order, IP telephony.

Tata Telecom which represents Avaya in India maintained its leadership with a revenue market share of 29.2% in 2002 in the enterprise voice market, according to the study. For the emerging communication paradigm IP telephony, Cisco India has taken a pioneering initiative of developing the market and this in turn is reflected in Cisco's leading market share at 57.7%.

However, one restraint that is expected to hamper market growth is the government regulation that prevents users from employing IP Telephony beyond closed groups.

C-DoT to Partner Private Firms for Technology Solutions

The Centre for Development of Telematics (C-DoT), a state-run research and development centre, has decided to partner with telecom basic and cellular service providers to provide total telecom solutions to enable the operators meet customer expectations.

At a recent partnership summit it organised, C-DoT brought together leading players like BSNL, Bharti, Shyam, Idea, TATA Teleservices and MTNL, Adviser(Technology), Telecom Commission. The major objective of the partnership summit was to apprise the telecom companies about the C-DoT's technical strengths, products, technologies and solutions and its plans to develop futuristic technologies for the requirements of telecom markets. Industry players emphasised that the Government and DoT need to support indigenous technology.

Using the inputs of operators, C-DoT is looking forward to catering to generic and specific needs of the telecom service providing companies through various models of cooperation including long term understanding and sustaining partnership on mutually identified area of technology solutions.

New Inter-Connect Regime May be Delayed

The revised inter-connect usage charge (IUC) regime may be delayed as telecom regulator TRAI waits for more data from basic and cellular operators. The regulator had earlier announced that the review exercise would be completed by July and that the new regime would be announced by August.

Although most of the data has been submitted, TRAI wants some additional information from operators to resolve all concerns. Basic operators had opposed the regime saying it was illegal and that TRAI had imposed it without proper consultations.

According to the Cellular Operators Association of India (COAI), the IUC regime had many anomalies—such as fixed-to-WLL calls being cheaper than fixed-to-cell calls—and sought their removal. TRAI had initiated the IUC review process by issuing a consultation paper. The consultation paper had sought clarification on various issues as pointed out by stakeholders.

Bharti Lowers ISD Tariffs on Touchtel

Bharti has announced reduced international long-distance tariffs, promising savings of up to 58% on weekends and up to 33% on weekdays. The reduced tariffs have been introduced as a limited time offer till August 31 on select Touchtel tariff plans. Touchtel subscribers will be able to make calls to their family and friends any where in the world at Rs 15.99 per minute, as against a maximum of Rs 24 during peak hours on weekdays. On weekends, subscribers can call US and Canada at Rs 9.99 per minute; UK, Europe, and Singapore at Rs 11.99 per minute; United Arab Emirates and Saudi Arabia at Rs 13.99 per minute. Touchtel has taken a lead in introducing the most competitive international long distance tariffs on fixed line

Bharti Televentures is gearing up to make an overseas equity offering next fiscal. The venue is likely to be the US. If it comes through, the company will be the first private sector telecom player to be listed outside India. Raising such capital will not be for company's requirement, which is comfortably met through internal accruals. Rather it will be used for consolidation, acquisition and for extremely high growth scenario. Bharti is planning to invest Rs 200 bn this year to strengthen and expand its operations across the country. While 65% of the earmarked investments will go for mobility, the balance will go for land line and long distance operations. The company has so far invested over Rs 1060 bn in its operations in India.

WLL User Base Rises by 4.6 Mn in June

The limited mobility club added 464,000 users in June '03 as against 300,000 subscribers in the previous month. The total number of subscribers of the private basic telecom players stood at 3.18 mn. The total number of limited mobility subscribers with private basic operators was 20,81,000 subscribers as of June end. The public sector, Bharat Sanchar Nigam (BSNL) added about 550,000 lines, while MTNL added 100,000 lines, taking the total number of public sector WLL lines to 650,000.

Unified Licence Regime Under Discussion Will Change India's Telecom Landscape

The Telecom Regulatory Authority of India wants to bring in a new licencing regime that could change the face of India's Rs 400 bn telecom market. This new regime will revolutionise the market, end years of bickering and lawsuits between rival telcos and the government and create a pan-Indian market out of the present 20-odd fragmented telecom 'circles'.

With its new policy TRAI wants to: Bring all segments of the telecom market under a single operating licence, covering fixed, mobile, domestic long distance (DLD) and international (ILD) calls and creating uniform rules for all players. This is a huge leap forward from TRAI's relatively modest July 16 proposal to merge cellular and WLL-M licences. This means that under the proposed new policy, a niche player like Chennai's cellular operator RPG can, if it so desires, run pan-India long distance operations or enter the Delhi or Mumbai mobile market. Unlike the US, China and Europe, India currently has a fragmented market. TRAI and all telcos will have to work hard to scrap regional licences in favour of pan-India permits. Fees and revenue shares will also have to be reworked for the broad unified regime. TRAI will have to sort through the wide diversity of entry fees and revenue shares that existing operators have paid to get into different services.

To begin with, TRAI may allow intra-circle mergers - currently forbidden - between rival telecom operators to take place, provided they don't create monopoly powers. The proposed new licence could also create a single, pan-Indian market by scrapping rules that restrict operators to 20-odd regional service areas called 'circles', for which licences have been issued separately.

The sudden widening of the definition of a 'unified licence' has taken major telecom players by surprise. To allow telecom players to study and digest the proposed sweeping changes, TRAI will need to extend the deadline for operators to respond to its proposals beyond August 7.

UTStarcom Plans India Unit - May Take Partnership

US-based UTStarcom is planning to set up a manufacturing unit in India. The company has applied to the foreign investment promotion board (FIPB) for setting up a subsidiary. The plans are at initial stages and the company may go in for domestic manufacturing either with a partner or on its own. The company already has R&D centres in India. It has over 160 employees in its various offices in India.

UTStarcom is world leader in PHS, a wireless access technology and is also one of the largest supplier of broadband systems. Recently, it launched its MediaSwitch, an end-to-end solution designed for telecom operators and broadband service providers to deliver high quality TV and on-demand entertainment service over IP. It would cost operators to the tune of \$300 per line to provide broadband connectivity and TV services to the subscribers.



IRCON's Fate Sealed in Malaysian Rail Deal

IRCON, a turnkey infrastructure construction company under the Ministry of Railways, has been denied a multi-billion dollar rail project in Malaysia, which is now likely to go to a local consortium. Initially, IRCON International along with China Railway Engineering Corp (CREC) were picked as the main contractors for the project under separate government to government deals to offset palm oil sales from Malaysia. The cost mentioned then was about RM32 bn, 70% of which was to be paid in the form of CPO (crude palm oil) and the remaining in cash. A Malaysian weekly recently reported that IRCON's bid for this mega project appeared to be in jeopardy. This happened after a joint venture between Malaysian Mining Corp and Gamuda last month put in a bid to complete the job at a discount of more than 50% compared with the price quoted by IRCON International and CREC. The MMC-Gamuda proposal sparked off a bidding war, with CREC and IRCON International bringing the price down to RM20 bn to RM24 bn. Despite a significant downward revision in the bids, both the foreign companies, who had earlier received a letter of intent (LoI), were still waiting to hear the outcome. The Edge reported that the local consortium will walk off with the deal. The report quoted a source saying, "The government is leaning towards the local consortium for what is being billed the biggest-ever construction project in this country."

Madurai-Manamdurai BG Conversion

The railway ministry has made an enhanced allocation of Rs.500 mn for expediting the broadgauge conversion of the track between Madurai and Manamdurai for its completion before 2004. As the patronage, both passenger and freight, was poor in the Virudhunagar-Rajapalayam sector which had been converted into BG track recently, the railways have decided to expedite the BG conversion work on Rajapalayam-Tenkasi sector and complete it before 2004.

The government has decided to accelerate eight major projects, including BG conversion, including Villupuram-Chengalpattu, Thanjavur-Kumbakonam, MRTS Phase II and Vadalore-Cuddalore. Once the Tiruchi-Manamadurai BG conversion is completed, all the goods trains would be diverted by that line. This would free the Tiruchi-Dindigul-Madurai sector and allow it to operate one more day train. The doubling of Madurai-Dindigul sector is also likely to be taken up shortly.

DSCL to Shift Focus from Highway Projects

DS Constructions Ltd (DSCL) part of the UK-based \$450-mn DS group has decided to shift its focus away from highway construction to other projects which include infrastructure projects. The company, which is currently executing projects worth Rs 8 bn in various parts of the country, has decided to participate in new projects in airport, ports, railways, special economic zones (SEZs) and township development sectors. The company expects to close 2002-03 which a projects worth Rs 10 bn in hand. The company however has decided to restrict itself to BOT projects only. It plans to bid for the Raipur township project and the SEZs planned by the UP government.

IR Sets Standard for BOT Model

Indian Railways' first gauge conversion project with private sector participation sets a new benchmark in BOT (build-own-transfer) investment model. The project for gauge conversion of Viramgam-Mahesana section of Western Railway has reached financial closure way before its September 10 deadline, with UTI Bank funding the entire Rs 624 mn debt component of the total project cost of Rs 893 mn. The project provides an exciting opportunity to investors/lenders for zero risk and stable returns. The most significant precedent being set by the Railways to attract private investment in railway projects is providing, free from encumbrances, at least 70% of the site required for construction to the concessionaire. Another significant feature is that they will pay the concessionaire an assured access charge in the form of 24 equal and fixed semi-annual payments of Rs 79.7 mn each for 12 years after the start of commercial operations. Thus, the concessionaire's role, responsibility and liability end nearly 12 months after commencing commercial operations as he is only required to finance and build the asset, which he owns, and not operate it. Thus, the project will generate a post-tax IRR (internal rate of return) of 15.8% with no traffic or revenue risks, low design and construction risks and unlike highway projects, no land acquisition risks either. If the construction period is shortened by two months, the return goes up to 16.4%.

Railways to Link Metros with Optic Fibre

The Railways plans to link the four metros, Delhi, Kolkata, Mumbai and Chennai and the four mini metros - Ahmedabad, Pune, Secunderabad and Bangalore - with optic fibre cable network during the current financial year. The project is being implemented by the RailTel Corporation of India, a public sector undertaking of the Ministry of Railways. It has brought 91 cities and 1096 stations under the network. Under the ambitious programme, 150 important cities and 1500 stations are proposed to be linked.

The Corporation recently commissioned an Internet kiosk at the New Delhi Railway station. The facility will be extended to 200 stations. During the current financial year, Internet service will be introduced in a selected train. Trials were carried out successfully in April on the Delhi-Mathura section. Its technological feasibility has been tested. Also, the Unreserved Ticketing System (UTS) started in the Northern Railway from August 15 last year has been extended to 23 stations in the Delhi area. About 90 counters have been operationalised. These counters can issue tickets with all the defined destination stations in the system.

Herd on India's Autobahn

In order to provide uninterrupted traffic on the GQ alone, a total of 75 railway over-bridges are being constructed in addition to grade separators and underpasses. The Ministry of Road Transport and Highways has formulated strict norms for preparing detailed project reports (DPR) for demands of people in rural areas, for underpasses even for cattle to criss-cross. As per the new norms, the DPRs for this phase should carry a detailed picture of the need.



Pvt Firms May Get Nod to Set Up Rail Lines from Ports

The government is planning to allow private players to set up rail lines from ports to their container depots. In case this happens, this will change the northern Indian logistics market. Currently Concor has a 90-95% share of cargo movement in northern India, which is one of the fastest growing markets. The Railways allow a 19% discount on the haulage charge for wagons owned by Concor, which is also given scheduled services between major traffic centres. As per RITES (Rail India Technical and Economic Services Ltd) projections, the traffic is expected to jump from the current 5 lakh TEU to nearly 9 lakh TEUs in 5 years — only for the Delhi region.

Concor's relatively high rates and the absence of real competition has ensured that India's container penetration is low: just 50%, opposed to an average 80% in the West. From 80% of total cargo moved in 1952, the Railways is down to 40% today because of exorbitant freight rates. The situation clearly demands greater competition in the market. In December 2002, P&O Ports had announced plans to set up a parallel container service to break Concor's monopoly.

Cargo Handling Target at 336 MT

The shipping ministry has set a target of 336 mn tonnes (mt) of cargo handling by all major ports in the current fiscal. This is despite the fact that the handling capacity of all the major ports is 363 mt. During the last fiscal all major ports had together handled 313 mt and minor ports 125 mt. During the 9th plan period, the government spent Rs 45 bn for ports development. Following this, the efficiency of major ports has gone up manifold. Five years back on an average per berth per day out put was only 4500 tonnes, but last year it increased to 7000 tonnes.

Duty on Ships Brought in for Breaking

As per a recent verdict by the Customs, Excise & Cold (Control) Appellate Tribunal (CEGAT), a ship brought to India for breaking would attract customs duty, even if the ship was built in India. The order settles a long-standing dispute on whether duty is leviable for Indian ships — built in customs bonded warehouses — and later brought back to India for breaking. The issue was brought to light due to a claim for duty exemption made by M/s Mustan Teherbahi who had brought MV Jagatpriya for breaking. The exemption was claimed on the ground that the ship was built by Hindustan Shipyard in 1975 at Vishakapatnam, which was declared a customs bonded warehouse. Thus, vessels made there were exempt from customs duty. The ship MV Jagatpriya initially purchased by Dempo Steamships, changed hands in 1993 when Mustan Teherbahi bought the ship. A bill of entry was duly filed by Mustan Teherbahi, claiming exemption from duty. The customs in turn made a provisional assessment for 5% duty. The company then went to the Gujarat High Court. But it was held that under the provisions of the relevant notification, duty would be payable if a ship was brought to India for breaking. CEGAT too has confirmed that held customs duty would have to be paid.

Airport Privatisation Cleared for Take-off

The government has cleared the Airports Authority of India (amendment) Bill 2003. The move provides a fresh lease of life to the Bangalore and Hyderabad airport projects, besides paving the way for privatisation of the Delhi and Mumbai airports. The amendment enables the government to lease out airports to private parties. Till now, only the Airport Authority of India (AAI) was entitled to build and operate airports. The only private airport in the country had been set up in Kochi at the initiative of the Kerala government and the Centre.

The Bill also includes a provision to levy advance user fee on passengers using existing airports at Bangalore and Hyderabad to subsidise the greenfield airports. Promoters of these projects have been demanding subsidy, arguing that the Bangalore and Hyderabad airport projects are not commercially viable.

The move is the first step in the major process of reforms in the civil aviation sector aimed at improving the infrastructure. On security grounds, the air traffic control (ATC) will rest with the government even after privatisation. The Bill seeks to provide a legal framework for private investment in 'greenfield' airports, levying of development fees on passengers and setting up an Airport Appellate Tribunal. The amendment also seeks to provide for eviction of unauthorised occupants of airport premises besides appointing eviction officers and a tribunal to obviate the menace of large-scale encroachment. The provision for leasing will enable the government to lease the Mumbai and Delhi airports to a joint venture comprising private investors and the AAI. The private parties picking up stake in the joint venture are expected to bring in investment needed for upgradation and also to handle management of the airport, particularly the city side to improve passenger amenities.

The legislation does not seek privatisation of AAI but merely of the two airports at Delhi and Mumbai. The government had received requests from several states, including Tamil Nadu and West Bengal, for privatisation of their airports.

AP's Interest Free Loan for Airport

In order to kick-start the proposed international airport project at Shamshabad, the Andhra Pradesh government has decided to give an interest-free loan of Rs 3.15 bn to the preferred bidder, the GMR-MAHB consortium. The government has also agreed to treat the Rs 1.07 bn Advance Development Fee (ADF), to be collected by the developer, as grant. The total project cost is estimated to be Rs 11.62 bn, excluding the land cost and external infrastructure costing Rs 2.45 bn. The consortium is expected to prepare the report by September '04, and complete the project in 33 months, ie, by '07. The state government hopes to sign the state support agreement and shareholders agreements with the developer shortly. In addition to the airport, the government will also be signing the concession agreement and state support agreement with the preferred bidder, Visualsoft's DVS Raju-led consortium for the Gangavaram Port.



India's First Global Telecom City to Come up in Bangalore by 2008

In what could be the equivalent of Shenzhen in China, India will soon have a special economic zone of its own for the telecom sector in Bangalore. The Rs 206 bn global telecom city project, envisioned by sponsors from both Asia and the United States, will aim at creating about 200 acres of clustered operating infrastructure for telecom companies. The project, broken into three phases of equal-sized development, is expected to take four years and nine months to complete. International sponsors include US-based engineering and construction company Parsons Brinckerhoff and ITN Incorporation and Hong-Kong based Pacific Century Group. The Indian partners are SPA Enterprises, Bangalore-based Ashford Infrastructure Holding, and Data Access (India) Ltd. The project will focus on cluster development as its key for better infrastructure utilisation, greater development density and bringing together diverse products on parallel paths. The rationale of the project is to provide a single integrated facility for the most happening business process outsourcing sector in India.

While India is taking off as a telecom software hub, in order to retain this advantage, the development needs to be local. With international carriers keen to explore India as the hub, a national internet exchange being contemplated and DTH television and video broadcasts now a reality, the city will help in integrating the surplus and scattered connectivity. The project is likely to service the needs of existing global relationships of all the six partners. These include AT&T, British Telecom, Microsoft, Intel, Nokia, Alcatel, Hewlett-Packard, Sun Microsystems, VocalTel, Cisco, and all the telecommunications service providers, among others. The Karnataka government has supported the project by providing the land at cost of acquisition and with a waiver of service charge and stamp duty.

Pipeline to Carry Industrial Waste into Sea

Bharuch Eco-Aqua Infrastructure Ltd plans to construct a 10-km pipeline to carry industrial waste generated by industries based in Ankleshwar, Jhaghadia and Panoli estates into the mid-sea by December 2004. The project is expected to cost Rs 1.20 bn. Bharuch Eco-Aqua Infrastructure Ltd is a joint venture of GIDC and industries based in Ankleshwar, Jhaghadia and Panoli estates. After a gap of four years, the Gujarat Pollution Control Board has decided to issue no-objection certificates to those desirous of setting up factories in the Bharuch-Ankleshwar belt.

Drinking Water Should be in Public Domain

The Indian Council for Social Science Research (ICSSR), recommends that drinking water should be in the public domain and safe drinking water should not be made a commercial good. With water having different uses, it cannot be treated as a homogenous product. Its usage ranges from agriculture, sanitation, to industry and various other activities. Hence, water should be viewed as a differentiated product.

The council predicts that would be a big catastrophe in another 30 years, if water issues are not tackled now. It has invited papers from experts from across the country on various aspects of water. These papers pertain to macro issues on water use, policy aspects of water, surface water management, groundwater management, water and sanitation, decentralisation and water quality.

Anantapur Water Project Gets Nod

The state government has agreed in principle to release Rs 2.5 bn for setting up a comprehensive drinking water project for residents of Anantapur district. The project envisages diversion of water from the Penna Ahobilam Balancing Reservoir to the villages under 12 mandals in Madakasira, Hindupur, Penukonda and Gorantla constituencies.

The prolonged dry spell in the district has triggered acute scarcity of drinking water. The state government has agreed to release Rs 500 mn in the first phase for implementation of the proposed project under which, 2 to 3 tmc ft of water will be diverted to the mandals from the reservoir through pipelines.

Bottled Water Norms from Jan 1, 2004

The final norms for pesticide residue in packaged drinking water have been passed and all the players will have to comply with them by January 1, 2004. The union health ministry has finalised the new norms, which have been crystallised at 0.0001 mg/litre for residue of an individual pesticide. The limit has been set at 0.0005 mg / litre limit for total pesticide residue.

The final notification points out that "the analysis shall be conducted by using internationally established test methods meeting the residue limits". The water will be tested by the Bureau of Indian Standards. Industry players have indicated that there is unlikely to be any price increase in bottled water and have asked the government not to fluctuate between different global norms.

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