

## **Welcome address by Mr. Sanjiv Singhal (BanyanTree).**

- The program is being held to celebrate the 1<sup>st</sup> anniversary of BanyanTree.
- We have made 3 investments in the 1<sup>st</sup> year
- We are extremely bullish about India
- To find out what others think we thought of this topic of discussion. We have a policymaker, a promoter, a CFO, and an L.P. with us to discuss their views.

## **Dr. Saumitra Chaudhuri** (PM's Economic Advisory Council and BanyanTree Advisory Board)

The key to growth is the availability of investible assets. The rural economy supported by the government has been least affected in the current crisis. India has a monumental trade deficit which will be balanced by services.

Unlike other countries, the banking sector in India is doing fine as the Indian companies are not overleveraged. Going ahead, the first half of 2009 is expected to be bad and recovery can be expected in the second half of 2009.

There has been demand destruction in west, largely due to their broader base. The standard of living has been high and hence there is now demand destruction. In India and China there isn't demand destruction as there is ample demand for infrastructure including roads and power. In India and China there are still supply challenges.

## **Mr. Ankit Miglani** (Promoter Director, Uttam Galva Steel Limited)

The current credit crisis has badly affected the steel industry. Steel prices have crashed by 2/3<sup>rd</sup> from their peak of USD 1,200 per MT. The real demand dropped 20-30% but since there were expectation of further reduction in prices the apparent demand dropped around 50%.

Steel is a cyclical industry and the current downturn after 4-5 years of upturn was on expected lines. The industry is expected to witness a shakeout in the next 6-12 months and the survivors will reap super normal profits.

Working capital was not enough for companies and this further increased with the credit crisis. The end users did not have money and the mills were not giving them any credit. The lines of credit were also not available leading to a complete panic mode. Uttam had anticipated this scenario and they sold at every price level from July'08 to Dec'08. As a result they got a higher average price for their inventory as compared to competitors who did not sell.

In the current environment the cost of setting up a plant is a third of the cost a year back. Uttam is investing in a power plant and once that comes up the cost of power will reduce by two third.

## **Mr. Pramod Menon** (CFO, JSW Energy Limited)

India currently has a prime need for infrastructure development. The government has laid down investment spending of USD 514 billion in the 11<sup>th</sup> 5 year plan. In addition to this, the private

sector is also planning to invest USD 155 billion, with a debt equity mix of 70:30. The public sector infrastructure projects receive budgetary supports. However, debt funding for private sector is essential and thus a good model for debt raising for infrastructure projects is required.

We have not even achieved 50% of our target of power generation capacity addition plans in the 11<sup>th</sup> plan. We need to expedite our approach to reach 78,000 MW additions in power generation capacity. Even after sluggish growth of last 5-6 months in the Industry, the deficit for power stands at 11% and peak deficit is 14%.

Till now this sector has been largely funded by domestic banks with these banks now touching sectoral limits. The sector needs loans for a tenor of 15 years and beyond and this challenge needs to be overcome. There is a need for stronger debt markets where pension funds, insurance funds can invest for 15 years and beyond. With the current crisis, the banks are asking for all approvals before the sanction and the sources of equity funding have now dried up. Thus there is a need for diversifying the source of funds.

The key risks for the sector include regulatory risks. Projects started in 2005/2006 once commissioned in 2009/2010 should give a lot of comfort to the lenders. It is the right time now for clearing the investment pipeline by securing all approvals and deferring the new investment proposals.

**Mr. Rajesh Srivastava** (Chairman and MD, Rabo Equity Advisors Private Limited)

Agriculture is farm production plus the infrastructure required for it. Agribusiness is everything else related to agriculture like food processing, selling and all such activities.

Agriculture in India has been state driven with subsidies, direct lending by banks and minimum support price announced by government. Agriculture and the sectors supplying inputs to agriculture are doing well. The credit crisis has not impacted the rural India as the purchasing power has increased by 4% and the net bank credit has also increased. Since, the amount of land available is same thus there is now focus to get better seeds and better inputs.

The effect of downturn on agribusiness has been severe. An example is the sugar industry which has been badly affected due to high storage costs and reduced credit availability. Generally agribusiness is capital intensive and commodity heavy as well. Both export and import oriented companies have suffered. The result is that companies are slowing their capex plans.

It isn't the case that everyone is earning less but it's just that apprehension has set in so people are spending less and reconfiguring their expenditure.

Although credit crisis is a big crisis but rural India has graver crises such as water delivery, social infrastructure, climate change, rural credit delivery.

**Mr. Turan Caglayan (DEG)**

DEG is one of the largest European bilateral organizations. DEG has invested USD 365 million in India.

The current crisis is much more than a credit crisis. Slowdown in India started before the credit crisis and it is in a better situation when compared with other emerging markets. The worst is yet to come and although India will be affected but China, Thailand and other countries will be more badly affected. Indian companies need to focus on domestic markets and promoters need to provide more equity.

There is still high liquidity in the domestic markets and the main issue is that pricing in domestic and international markets do not match. There will remain a shortage of financing and it can be covered by 1) Public Private Partnerships and 2) Development Finance Institutions (Multilateral / Bilateral).

India needs to reduce the corruption levels, keep up with the momentum of privatization, improve the regulations, investment climate and the corporate governance level, provide better infrastructure and decent living conditions.

#### **Q&A:**

**Q 1:** What is the nature of crisis? We are looking at a deflation situation. So how do all these issues melt together? How does deflation make an impact on the crisis? (For Dr. Saumitra Chaudhuri)

There are 3 elements of the current crisis:

1. Growth spurts partly due to increase in liquidity. When everything moves up at the same time, the rally is stretched, down cycle was anyway overdue.
2. Commodity prices increased in 2007 and 2008, this devastated household budgets, government budgets and led to lot of dislocation.
3. Credit crisis: General crisis after the fall of Lehman Brothers

Deflation is not the issue in India. Crude prices have increased by more than 20-25% from its bottom, commodity prices have inched up, thus there is in-fact inflationary pressure building up.

**Q 2:** Have Indian companies understood the crisis. You said that you want to clean up your investment pipeline and not look at fresh investments. You don't want to look beyond 5 years. Is that the positive response to the crisis that you are facing? (For Mr. Pramod Menon)

There are fund related issues at the equity and debt level. We need to recalibrate and look at the funding pattern that is emerging out.

Costs are high, thus making it difficult to do a new investment proposal today. We are taking one project at a time and focus is to clean up the investment pipeline.

**Q 3:** There is fall in apparent demand, apparent and not real. Are banking and financial institutions are reading it far more negatively than the companies? (For Mr. Ankit Miglani)

The perception of the investor and the market is not the same as people in the sector. There will be alignment maybe after 3/6 months.

According to us, this is a great time to invest in projects because:

- The cost of investment will be low
- Gestation period will be low

**Q 4** Banks are skeptical and PEs are looking for investments. So are PEs smarter than banks?  
(For Mr. Rajesh Srivastava)

This year PE activity has come down. General perception is that it is a very good time for PEs.

**Q 5** Slowdown in India started before the actual crisis hit India. So what should be done now?  
(For Mr. Turan Caglayan)

Yes, the slowdown in India started before the actual crisis hit India. There is crisis of trust, which is very important for doing business.

The US government is putting billions and billions of dollars in the markets. If there was trust then there wouldn't have been this problem.

Indian government and the corporates have to make use to certain extent of this period and make a chance out of it.

**Q 6** How have you diversified the sourcing of funds? (Mr. Ankit Miglani)

Currently the sources of fund including equity funding and mezzanine financing are not available. We are thus tapping the traditional sources of funding. The company does not want to increase leverage and is careful with allocation.

**Q 7** Will it make sense to work with government agencies or in Public Private Partnership ('PPP') model (Mr. Pramod Menon)

There are lot of PPPs especially on the transmission and distribution side of the power segment. Funding does not become easier with the government partnership or a PPP model, but is dependent on the viability of the project.

There is a need to diversify sources of funding. There is a need for long term funding at lower cost for infrastructure projects.

**Q 8** Would you say that you are in a slightly better position as seeking or demanding fund is concerned as you are in a shortage area now for instance for the same fund you are seeking if you were a real estate company? (For Mr. Pramod Menon)

Yes, from a sector perspective.

There are negatives including regulatory risks. However, projects which were started in 2006, when it starts showing up in 2009/2010 will give a lot of comfort to the lenders.

**Q 9** Basic commodities – demand/consumption? (Mr. Rajesh Srivastava)

Rural economy has grown considerably stronger over the years, helped by government initiatives.

The agricultural infrastructure is not in place and if efforts are made to improve this then it will lead to strong demand for sectors like steel and cement.

**Q 10** Why would you want to invest in India and where? (Mr .Turan Caglayan)

We would want to invest in India for long term and not in any specific sector. However, we will focus on the power, pharmaceuticals and agriculture/food processing sectors. These are the sector that the country is not too much dependant on export industries.

As equity investor, if we invest now then there might be provisions/write-offs in the next 1-2 years. However, on the long term basis (5 years and beyond), the markets look very attractive.

**Q 11** What are the channels by which the crisis has affected us? (for Dr. Saumitra Chaudhuri)

- Export channel: Sharp decline in business
- Financing channel: It shatters asset markets, equity markets etc. Thus removing potential sources of financing and makes it more expensive. If the capacity to take on equity is limited then the capacity to take on debt is also limited.

**Q 12** Is India looking relatively better than other economies? What are the advantages and disadvantages of investing in India currently? (For Mr. Nanno Kleiterp)

Yes, India looks relatively better than other economies. India is talking of growth rate between 5-6%, whereas countries in Europe are talking of negative growth rates.

FMO is less worried about India and feels that India is best positioned today because it is more isolated.

Risks of investing in India are lower than other emerging economies as they have more exposure to world trade and commodities. There are risks but there are much more opportunities.