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Mumbai Infrastructure Trip

Gearing the City for a Better Tomorrow

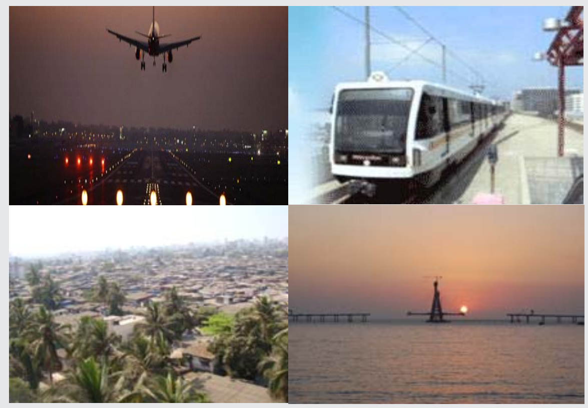
We hosted a Mumbai Infrastructure trip last week for investors to see the developments of some of Mumbai's core infrastructure projects – a new airport, city centre, metro, and a sealink. We present below our takeaways from the respective site visits.

Mumbai Airport: The project is on schedule. The contractor (L&T) is beginning construction of the new terminal in February 2009, with the entire project to be ready by December 2012. GVK intends to recover the project cost of Rs23.5bn (originally expected from real estate development) through an ADF. Even if there is no recovery from the encroached land of 276 acres, GVK does not expect any dent in its real estate plans of 20msf.

Unitech Golibar project: This is one of the largest mixed-use developments in the heart of Mumbai. The project is owned by Western Express JV; UT has a 50% stake and the local partner (including Shivalik Enterprise) the other 50%. It is a slum redevelopment project close to the BKC business district, airport, Western Expressway, and Western Railway Line.

Mumbai Metro Phase I: Mumbai Metro One (majority owned by Reliance Infrastructure) aims to commission the project by September 2010, against the original plan of March 2012. This is the first project of its kind in India being developed through a public private partnership.

Bandra Worli Sealink: HCC expects to complete the sealink by February 2009, and MSRDC has set May 1, 2009 as the inauguration date. Reliance Infrastructure, in consortium with Hyundai, has emerged as the lowest bidder for the Worli-Haji Ali Sealink – the extended arm of the Bandra-Worli Sealink – while HCC has emerged as the second-lowest bidder.



Project Visited	Meeting with	Target completion date
Mumbai Int'l Airport Ltd	Mr Sanjay Reddy, MD of MIAL	December 2012
Unitech – Golibar Slum Rehabilitation	Mr.Nitin Bansal, Head, Mumbai Region	7-10 years
Mumbai Metro	Mr SC Gupta, Head of Construction	September 2010
Bandra-Worli Sealink	Site Visit	May 2009

Mumbai Airport

Exhibit 1
Mumbai Airport – Project on Schedule

Source: Morgan Stanley Research

We met Mr Sanjay Reddy, vice-chairman and managing director of Mumbai International Airport Ltd (MIAL), and his team to get an idea on the progress of the Mumbai airport, the status of the slum rehabilitation, the real-estate development plans of GVK Power and Infrastructure (GVK), and key challenges faced in developing the airport.

Airport Development on Track, Ex-Cost Escalation

In May 2006, a GVK-led consortium won the mandate to develop Mumbai airport, India's busiest airport, on a build-own-operate-transfer (BOOT basis) for 60 years. GVK plans to double the existing capacity of 20mn passengers to 40mn by December 2012. The initial project cost was envisaged at Rs55-60bn; with modifications in the airside development and cost escalations, the total project costs now stand at Rs98bn.

Takeaways from the Meeting:

- GVK expects the Mumbai airport to be ready by the deadline for the project completion – December 2012.

- GVK has awarded the contract to build the new integrated passenger terminal for a contract value of Rs60bn to Larsen & Toubro (L&T), under which L&T proposes to start construction in February 2009.

- The promoters of GVK have pledged a 4.37% stake (of 60.94% stake) with financial institutions to provide for collateral security for availing credit facilities for the Mumbai airport project.

Airport Development Fees – Effort to Recover Project Cost

GVK had initially proposed to finance the project through a mix of debt, equity, and internal accruals. Subsequently, as a result of the increased project costs, GVK considered real-estate development, which it expected to contribute Rs23.5bn (24%) of the project cost of Rs98bn. Against a backdrop of falling air traffic, the government not allowing GVK a 10% aeronautical charge, and the sharp decline in the real estate market, GVK has now applied to the government to to levy an airport development fee (ADF) to finance the project to the tune of Rs23.5bn. The main difference between an ADF and a user development fee (UDF) is that the ADF is chargeable before the airport becomes operational and the UDF is chargeable only after the airport has begun commercial operation. More importantly, the ADF is a capital receipt, which will be deducted from the project cost, unlike the UDF, which is treated as a revenue item with revenue sharing applicable to it.

Takeaways from the Meeting:

- GVK has applied to the government to charge an ADF to domestic and international passengers. The details of the ADF are still being worked out, but management expects annual collection of around Rs7-8bn.

- GVK is planning to recover money through an ADF, so it will not be liable to pay any taxes or revenue share to the government on this receipt.

Absorption of AAI Employees

As per an agreement with the Airports Authority of India (AAI), MIAL was required to retain all 2,500 AAI employees for the first three years, that is, until May 2009. At the end of three years, MIAL was to make an offer to absorb 60% of the AAI employees by either offering them a position at MIAL or a voluntary retirement (VRS) package.

Takeaways from the Meeting:

- MIAL has made job offers to the required 60% of the AAI employees, but so far only 8% have accepted the positions with MIAL. Management indicates that, although it has not been able to ascertain the offers open at the moment, a good portion of the employees have declined the MIAL position or the VRS package.

- If these employees opt neither to join MIAL nor accept the VRS package, they will be transferred back to the AAI in May 2009.

- GVK has not worked out the exact liability in the event that AAI employees opt for the VRS but expects a one-time charge of Rs2-3bn for this. It plans to discharge this liability by raising debt at the parent company level.

Real Estate Development – Low Threat to Plans

As per an agreement with AAI in May 2006, GVK can use 10% of the 1,976 acres available for the airport, that is, 198 acres of land for city side commercial development. Of the 1,976 acres, 276 acres is land encroached on by slum dwellers.

GVK has 100 acres of land in possession, while another 50 acres of land is leased out to various agencies. Some of these leases are due to expire shortly, or the company is cancelling leases with various parties. To recover the encroached land, GVK signed an agreement with Housing Development and Infrastructure Ltd (HDIL) in October 2007, under which HDIL is required to re-claim 276 acres from slum dwellers and rehabilitate around 85,000 families in two phases –158 acres in phase 1 and 118 acres in phase 2. If HDIL manages to reclaim phase 1 of the land by October 2010, then HDIL will get development rights for a maximum of 65 acres of land from phase 2. We believe the allocation to HDIL would be from the 198 acres available to GVK.

Accordingly, GVK would be left with at least 133 acres of land (assuming HDIL can recover the entire 276 acres of encroachment) for its commercial development plans. GVK plans to develop 20msf of commercial area over 15-20 years and expects to invite bids for the commercial development by 4Q F2010.

Takeaways from the Meeting:

- So far, HDIL has managed to acquire a portion of the land for rehabilitation. However, as a result of the elections in April 2009, the rehabilitation of slum dwellers has slowed in the past few months.

- GVK has no cash outflow on 276 acres and sees only upside from recovery of the encroached land. It plans airside development, such as hangars and parking bays for aircraft on the recovered land.

- According to GVK, the non-clearance of the encroached land will have no impact on the operational areas of the airport. Given that GVK has 100 acres of land under its possession and is assured of a portion of the 50 acres of leased land, it does not expect any dent in its real estate plans of 20msf.

- The Navi-Mumbai airport, which is to absorb the excess traffic from Mumbai, is yet to go up for bidding, as the government is awaiting environmental clearances.

Update on other GVK Projects

- The GVK led consortium, which is developing the Gautami power plant, also includes Maytas Infrastructure (19.2% equity owners in the project.) Maytas Infrastructure has already invested its share of initial equity in the project, given the increase in project cost from the initial Rs14.5bn to Rs18.8bn, but it still has needs to bring in around Rs40-50mn as its additional equity contribution. If Maytas Infrastructure were unable to contribute to this equity, the other partners, IJM (India) and Nagarjuna Construction Company ('NCC'), would need to contribute the equity and go ahead with the project. GVK would contribute to the project if the other partners were not able to contribute to the equity.

- For gas for the Gautami plant and its JP-II plant, GVK has signed a term sheet with Reliance for an initial period of five years and expects gas from Reliance by March 2009.

- Regarding the divestment of 49% in the Jaipur-Kishangarh road project, given the recent fall-off in traffic, the private equity partner is still doing due diligence and GVK expects to close the deal shortly. Even if the deal does not go through, GVK expects to raise money in the SPV by securitizing the project's receivables.

- GVK has tied up with BHP Billiton to explore opportunities regarding oil and gas exploration. The consortium has been awarded seven deepwater blocks under the New Exploration Licensing Policy (NELP-VII).

- GVK recently won a minor port project in Gujarat

Unitech Golibar Project

Exhibit 2
Golibar Project Site (facing Western Expressway)

Source: Morgan Stanley Research

We visited Unitech's 50%-owned Santa Cruz slum rehabilitation project (Golibar) on the Western Express highway, close to the airport and the CBD of the Bandra Kurla Complex (BKC).

The Golibar project covers around 140 acres, of which 97 acres are being developed in phase I (the balance is encroached defense land). The full scope of the project involves rehabilitating 25-26,000 families living in slum tenements. In return, Unitech will get roughly 18msf of saleable space. The development timeframe is 7-10 years.

Around 2,500 families have been relocated so far; into 500 rehab units, a transitory camp for 1,000 families, and offsite rental arrangements for another 1,000 families. Unitech aims to relocate another 2,500 families by the end of 2009. The company expects the ground breaking for the first 1msf of commercial development (partnered with Lehman Brothers) by mid-2009.

Unitech management emphasized the attractive economics of slum rehabilitation projects in Mumbai, high entry barriers (given the logistical challenges) and longer-term sustainability and scalability (10,000 acres of land in Mumbai has slum coverage). Key steps in a slum rehabilitation include door-to-door campaigns, winning legal consent from at least 70% of families, and receiving a letter of intent from the Slum Rehabilitation Authority.

Exhibit 3
Arial View *(Western Expressway to the right and Khar Railway Station to the left of the site*)

Source: Company data, Morgan Stanley Research

Exhibit 4
Clearing of Slum Tenements in Progress

Source: Morgan Stanley Research

Exhibit 5
Transitory Buildings

Source: Morgan Stanley Research

Exhibit 6
Slum Rehab Apartments *(7 Buildings Completed)*

Source: Morgan Stanley Research

Exhibit 7

Inside a Model Rehab Unit *(269sf Carpet Area)*

Source: Morgan Stanley Research

Mumbai Metro One

We met Mr SC Gupta, Head of Construction at Mumbai Metro One Private Limited, and his team to get an idea on the progress of the first phase of the Mumbai metro project and key challenges faced so far during construction.

Project details: This project is the first phase of the 146.5km metro project that has been envisaged by the Mumbai Metropolitan Region Development Authority (MMRDA). This phase is 11.4km, from Versova to Ghatkopar (Exhibit 11), and is expected to reduce travel time from 90 minutes to about 20 minutes. The project will have capacity to carry daily traffic of about 475-600,000 passengers at a fare of Rs6-10 apiece depending on the length of the journey. The project is being executed by an SPV in which Reliance Infrastructure holds a 69% equity stake, Veolia Transport holds 5%, and the balance is held by MMRDA. The total cost of the project is Rs23.56bn and it is being funded by Rs5.1bn of equity, Rs6.5bn of capital grant from MMRDA, and Rs11.9bn of debt. Rupee loans of Rs9bn (mainly a loan from IDBI Bank Ltd) and foreign currency loans of Rs2.8bn from India Infrastructure Finance Company Limited have been secured by the SPV. The team believes a fall in commodity costs may reduce the cost of the project to some extent.

Construction status: The project is slated for completion by March 2012, but the team is targeting completion by September 2010. All the contracts have been placed and construction work is underway. The viaduct construction has been awarded to Simplex Infrastructures, while the 12 station buildings and three major bridge contracts have been awarded to SEW Constructions. Since the metro will be constructed over the existing road network, the site has been barricaded. Existing utilities, such as water and electricity pipelines, have been relocated.

Piling work has begun for the viaduct and for the stations, and the project is setting up almost 20 piers in 45 days. Contracts for 16 trains (with four coaches each) have been placed with CSR Nanjing and the deliveries are expected between October 2009 and April 2010.

The revenue streams for the project will include ticketing, advertising, and retail revenue. Based on management's current forecasts, the project is expected to generate an equity IRR of more than 20%.

Key challenges: These include: a) construction above the existing road network without disrupting traffic; b) identifying and diverting existing utilities; and c) obtaining clearances from various government agencies, such as the MMRDA, municipal corporations, and the traffic police.

Exhibit 8
Debt Funding Status

Name of Lender	Amount to be availed (Rs mn)
Rupee Loan	
IDBI Bank Ltd.	3000
Indian Bank	2000
Canara Bank	1630
Karur Vyasa Bank	1000
Oriental Bank of Commerce	1000
Corporation Bank	440
Sub-total	***9070***
Foreign Currency Loan	
IIFCL	US$ 70 mn (Rs 2870 mn)
Total (Rs mn)	**11940**

Source: Company data, Morgan Stanley Research

Exhibit 9
Daily Ridership Forecasts

Year	Daily Ridership
2010	475,046
2011	513,338
2021	664,703
2031	882,533

Source: Company data, Morgan Stanley Research

Exhibit 10
Proposed Fare Structure

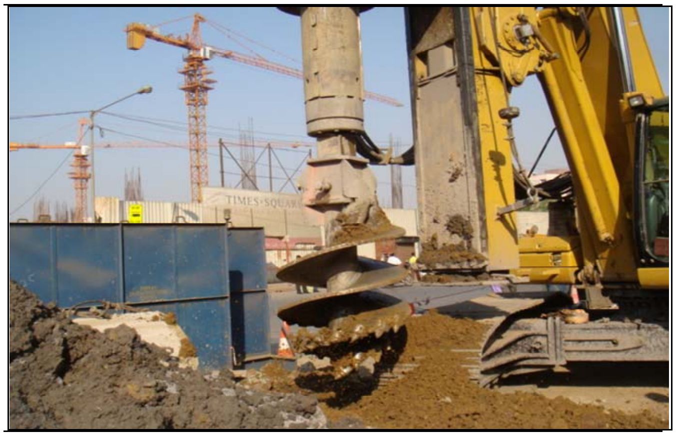
Proposed Fare Structure	
<3 km	Rs. 6/-
3 – 8 km	Rs. 8/-
>8 km	Rs. 10/-

Source: Company data, Morgan Stanley Research

Exhibit 11
Mumbai Metro–Phase I Alignment

Source: Company data, Morgan Stanley Research

Exhibit 12
Caterpillar Boring Driller at Work



Source: Morgan Stanley Research

Exhibit 13
Piling Work In Progress

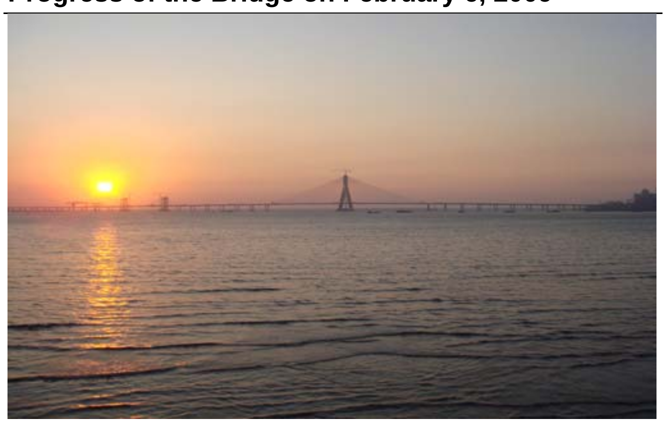
Source: Morgan Stanley Research

Bandra Worli Sealink

Hindustan Construction Company (HCC) is the cash-contractor for the Bandra Worli Sealink and expects to complete the project in February 2009. The Maharashtra State Road Development Corporation (MSRDC) has set May 1, 2009 as the opening date. Under the initial plan, MSRDC was to collect the tolls on the project, but MSRDC has reworked the financial model and the project will now be run on a build-operate-transfer (BOT) basis.

The winning bidder of the BOT project has to buy the Bandra-Worli bridge by paying an upfront sum to MSRDC. The bidder can then construct the 4.7km Worli-Haji Ali Sealink (the extended arm of the Bandra-Worli Sealink) and collect tolls from Bandra-Worli for 30-50 years. The bidders were asked to derive a viability gap funding figure, which would be needed to be paid by MSRDC. Reliance Infrastructure, in consortium with Hyundai, has emerged as the lowest bidder for the Worli-Haji Ali Sealink, while HCC has emerged as the second-lowest bidder.

Exhibit 14
Progress of the Bridge on February 6, 2009



Source: Morgan Stanley Research

Exhibit 15
Progress of the Bridge on March 29, 2008

Source: Morgan Stanley Research

Exhibit 16
Progress of the Bridge on August 31, 2008

Source: Morgan Stanley Research

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