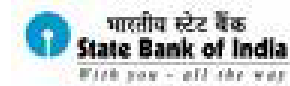


Building India through Infrastructure Development

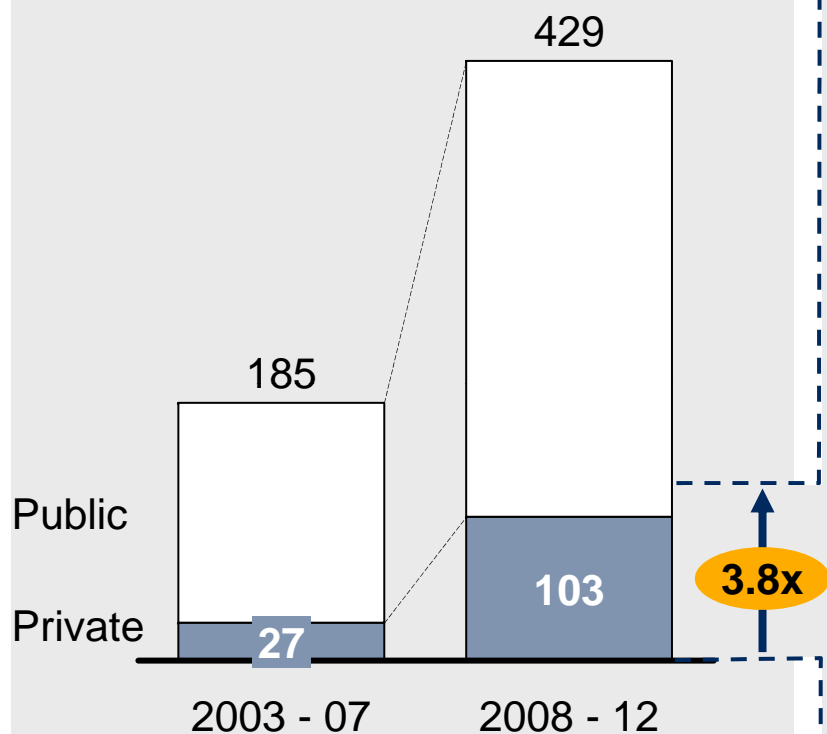


Presentation document
March 2010

The eleventh 5-year plan aims at investment of ~ USD 430 bn in the core infrastructure sectors, with increasing private sector participation

Development of investment sources over time

USD billion



Ratio per sector

Per cent	Public	Private	100% =
Power	74	26	150
Roads	64	36	76
Railways	80	20	63
Irrigation	100	0	55
Water	97	3	49
Ports	26	74	18
Airports	39	61	8
Storage	50	50	5
Gas	68	32	5

Further investment of ~ USD 65 bn in telecom

A large portion of the core infrastructure investment is expected to come from the private sector

USD billion

Sources of planned investments*

	<u>Private**</u>	<u>Public</u>		
		PSUs and commercial enterprises of the government	Budgetary government bodies	
Equity	30	56	142	228
Debt	74	88	39	201
	104	144	181	
	Total			

Total

Total expected core infrastructure investments: USD429 billion

* Lower range based on historical completion rate combine with market interviews

** Includes pure private and PPP

Source: Planning Commission (XIth plan);

However, given current challenges, India could potentially see a shortfall in infrastructure investment of USD 150-190 bn

USD ~10 bn shortfall in equity– on account of non-availability of debt

11th plan: Projected spend	Pvt.	PSU	Govt	Total
Equity	33	56	142	429
Debt	70	88	39	

Expected funds available	Pvt.	PSU	Govt	Total
Equity	22	157-191		241-283
Debt	62-70			

USD 90-100 bn shortfall in debt – likely to flow through to equity.

Foreign capital of only about USD 40 bn

SBI BIGGEST FUNDER of DEBT

Pivotal role of Banks in Infrastructure funding

- Infrastructure lending by banks has grown 40X from some 7K crores in 2000 to 270K crores in 2009
- 10% of banks lending is to infra
- Banks to provide nearly 50% of incremental debt
- Bank funding is nearly 2X that of NBFCs
- 3X that of ECBs
- 10X that of Ins Cos & PFs combined
- SBI's sanctions over Rs 120,000 crores

Key reasons behind the shortfall

Description

Shallow bond market

- Restricts the banking system's ability to raise long term liabilities
 - Corporate sector unable to readily raise capital directly through the debt markets (placing greater demand for a share of total bank advances)
-

Finite long-term lending ability

- Banks largely reliant on CASA deposits for long term funding
 - ~32% of total deposits in SLR and CRR. Further 40% of advances in PSL
-







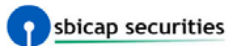


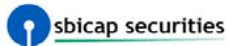


Insufficient participation of insurance and pension funds

- Restriction on insurance and pension funds
 - 50% of Insurance investments to be in government or other approved securities
 - ~90% of the provident and pension funds investments mandated. Private pension funds can invest only 5% of their corpus into equity, restricted to blue-chip stocks
 - Although insurance companies and pension funds are keen to invest in long term assets, they are unable to fund infrastructure SPVs which are typically unlisted
-

ECB restrictions for corporate

- Companies cannot readily raise high yield foreign funds (mezzanine debt) for infrastructure projects
 - Can raise only up to USD 100 million of ECBs for domestic infrastructure projects
 - The maximum interest rate for ECBs is capped at LIBOR plus 250 bps

Financial Institutions are participating in this space leveraging different models ranging from pure lending to integrated equity-led model











Business models that can be adopted		India example
1 Project lending	<ul style="list-style-type: none"> Participation in project finance purely as a lender, with access largely limited to interest income 	
2 Balance sheet - heavy lead arranger	<ul style="list-style-type: none"> MLA with primarily lending; syndication capabilities MLA with significant transaction banking cross-sell capability 	   
3 Balance sheet - light lead arranger	<ul style="list-style-type: none"> Primarily DCM; structuring and advisory skills Focus on fee-based income from debt syndication, advisory, structuring and placement, and transaction banking 	
4 Advisory	<ul style="list-style-type: none"> Primarily offering investment banking products, including debt and equity syndication 	
5 Advisory, equity investor	<ul style="list-style-type: none"> Provide equity advisory, syndication and strong placement capability along with own participation in project equity 	
6 Equity fund management	<ul style="list-style-type: none"> Managing own or third-party equity funds, with access to fund management fee as well as a performance fee 	
7 Debt-led integrated model	<ul style="list-style-type: none"> Products across the entire project finance value chain, leveraging on strong balance sheet and lending capabilities 	
8 Equity-led integrated model	<ul style="list-style-type: none"> Products across the entire project finance value chain, with emphasis on equity investment and fund management ability 	 

Source: McKinsey report on financing and investing in infrastructure: "Building India"

SBI today is the most highly rated financial institution by infrastructure developers

Ranks 1 or 2

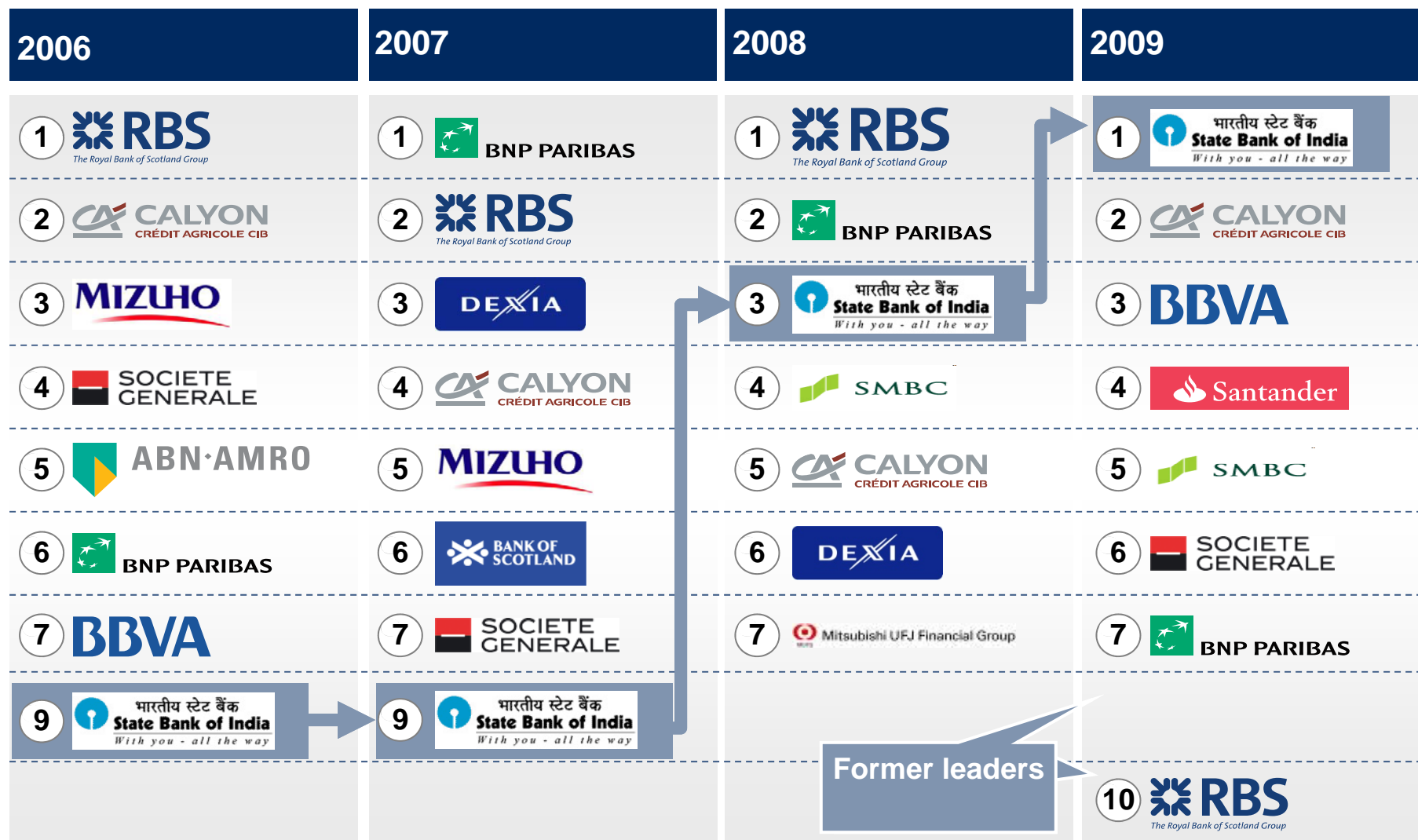
Rank/position of banks for each product

Bank/FI	Pre-project advisory	Debt appraisal	Domestic debt syndication	Foreign debt syndication	Equity capital markets	Trade finance	Cash management
 STATE BANK OF INDIA	1	1	1	1	2	1	2
 ICICI Securities	2	2	2	5	1	2	1
 AXIS BANK	3	2	5	-	3	3	3
 IDBI BANK	4	3	4	3	5	-	-
 IDFC	5	4	3	5	-	-	-
 HDFC BANK	4	-	-	5	2	5	2
 बैंक ऑफ इंडिया Bank of India	-	5	4	4	-	-	4
 केनरा बैंक Canara Bank	-	-	5	-	4	4	5
 Indian Overseas Bank Head Office: 752 Anna Salai Chennai - 600 002 India	4	5	-	4	-	-	-
 HSBC	-	-	-	2	-	-	-

Scoring Method: 3 points if ranked I, 2 points if ranked II and 1 point if ranked III

Source: McKinsey survey

Which has led to SBI's global leadership position in Project and Infrastructure Finance



SOURCE: Project finance international

Some thoughts to attract more debt investment into infrastructure

A

Banks

- Allow banks and infrastructure-focused NBFCs to raise long-term SLR-free infrastructure bonds
 - Provide priority sector status to infrastructure lending
 - Facilitate securitization and take-out financing of infrastructure loans
-

B

Insurance and pensions

- Liberalise investment guidelines for insurance companies, provident and pension funds
-

C

Foreign borrowings

- Allow foreign non-bank financial institutions to make ECB to Indian companies
-

D

Bonds

- Implement a range of recommendations to deepen and strengthen the domestic bond markets

Some thoughts to attract new sources of capital

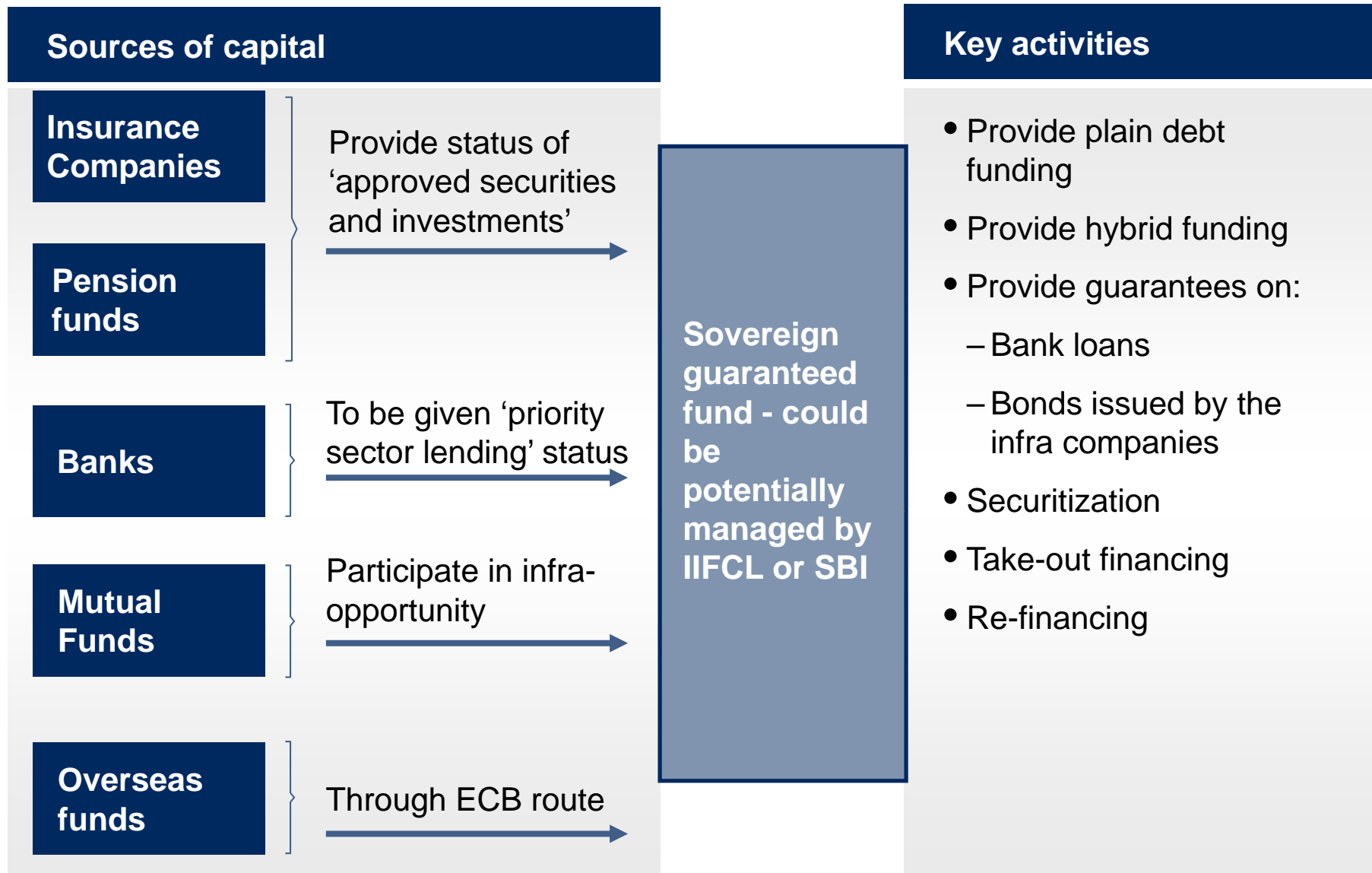
- A** Permit domestic mutual funds to **launch direct infrastructure funds (DIFs)**

- B** **Create long-term infrastructure debt fund** (potentially leveraging IIFCL) to provide long-term debt funding to infrastructure projects

- C** **Systematically tap sources of foreign capital-** PEs, SWFs, global pension funds by increasing awareness and improving the regulatory and legal climate

- D** Create mechanisms to channel funds into infra - **channel dedicated revenues into infrastructure**, similar to the NHAI model

Suggestion for Government to set-up a sovereign debt and hybrid fund



Conceptually, for SBI 3 new balance sheets will need to be created

SBI Bank	SBI Asset Management Company (SAMC)
Corporate advisory group	Project equity
Syndication and structuring advisory	Mezzanine
<ul style="list-style-type: none"> • SBI's infrastructure activities to continue as is • Equity investment, fund raising and general insurance to be introduced • Products x, y and z to be introduce • A cross program specific to infrastructure to be implemented 	<p>Corporate equity</p> <ul style="list-style-type: none"> • A new AMC to be created – to operate on arms length basis from the bank • Three distract funds for mezz debt, project equity and corporate equity • The fund to be capitalised by both private investors and the government • Management plus carry model to be used (e.g., 2%/20%)
SBI refinance corporation (SBIRC)	SBI credit enhancement and risk mitigation (SCERM)
<p>Refinance</p> <ul style="list-style-type: none"> • The government and SBI to capitalise the SBIRC with equity • SBIRC liabilities to be raised from the government on a 15 years basis (government to borrow the money from, investors at a sovereign guaranteed as well as to take on any liquidity risk) • SBIRC to manage to administration and risk management of lending to banks on a 15 years basis – lending rates to included a liquidity risk premium 	<p>Credit enhancement</p> <p>General insurance brokerage – infrastructure focus</p> <p>Risk mitigation advisory</p> <ul style="list-style-type: none"> • Government, SBI and other leading MLAs to capitalise business • Credit enhancement business to guarantee the first 20% to 30% of losses in change for a fee • General insurance corporate brokerage to cross-sell erection all-risk, other construction coverage and standard general insurance products

THANK YOU

The drivers behind this shortfall are well understood (1/2)

Constraint	Description/Elements	Implication
Shallow Bond market	<ul style="list-style-type: none"> • Domestic appetite for bonds is restricted to government and PSU bonds – over 85% of traded bonds in FY'08 were government securities or PSU bank bonds • Bonds are less attractive to borrowers than loans for 2 reasons <ul style="list-style-type: none"> – Onerous disclosure requirements, equivalent to those of an equity offering – Quantum of stamp duty and the heterogeneity across states • Trading of corporate bonds is hampered by TDS • Banks do not find corporate bonds attractive due to restrictions on investing in unrated bonds and marked-to-market requirement 	<ul style="list-style-type: none"> • The corporate sector is unable to readily raise capital directly through the debt markets, placing greater demand for a share of total bank advances • Restricts the banking system's ability to raise long term liabilities • Banks can sell-down loans only to other banks, in the absence of a market for exchange-traded corporate bonds
Finite long-term lending ability of Banks and NBFCs	<ul style="list-style-type: none"> • Shallow debt markets and no access to ECBs leave banks reliant on core CASA to fund long term assets like infrastructure loans and mortgages <ul style="list-style-type: none"> – Typical core CASA for banks is ~10-15% of liabilities (1/3rd of total CASA) – Banks limit their infrastructure exposure to 8-10% of advances to manage asset-liability matching • NBFCs cannot raise funds through ECBs (except for FIs dealing exclusively with infrastructure finance, e.g., IDFC, IL&FS, IIFCL) and have restricted access to low cost deposits • Banks are mandated to invest 34% of liabilities in government securities (CRR, SLR) and a further 40% in priority sector loans (like agriculture) 	<ul style="list-style-type: none"> • Small minority of financial savings that gets into the financial system, eventually finds its way into infrastructure

The drivers behind this shortfall are well understood (2/2)

Constraint	Description/Elements	Implication
Insufficient participation of insurance companies and pension funds	<ul style="list-style-type: none"> • More than 50% of Insurance sector investments are mandated to be into government securities or other approved securities • Insurance companies cannot employ more than 20% of assets into private sector investments <ul style="list-style-type: none"> – Insurance companies can only invest in blue-chip stocks and cannot invest in unlisted private companies or listed companies without a dividend payment track record • The government provident fund and pension funds invest entirely in government and approved securities. Private pension funds can invest only 5% of their corpus into equity, restricted to blue-chip stocks 	<ul style="list-style-type: none"> • Although both insurance companies and pension funds are on the lookout for long term assets, they are unable to fund infrastructure SPVs, which are typically unlisted private companies
External commercial borrowing (ECB) restrictions	<ul style="list-style-type: none"> • Indian companies can only borrow foreign funds equivalent to their external capital expenditure and raise only upto USD 100 million of ECBs for domestic infrastructure projects • The maximum interest rate for ECBs is capped at LIBOR plus 250 bps 	<ul style="list-style-type: none"> • Companies cannot readily raise high yield foreign funds (mezzanine debt) for infrastructure projects