



## PRIVATE EQUITY “Telecom’s infra-sharing model can be replicated in other sectors”

*IDFC was established in 1997 to channel the private capital into the infrastructure sector, and IDFC Private Equity was established in 2002-3 to provide equity support to infrastructure sector. **Satish Mandhana, Managing Partner, IDFC PE, explains how infrastructure funds will be spent in the near future.***

**What did IDFC PE set out to do, and how has it been to find equity funding for the infra sectors?**

When we started the private equity business people did not believe that there is money to be made in the infrastructure sector. Despite support from the Finance Minister at that time, for a private equity fund dedicated to the infrastructure sector, we had a tough time raising money for the nearly \$200 million fund—our first. It took us more than a year to convince LIC, SBI and banks to contribute to that fund.

That fund has done extremely well. We have returned two and a half times of the money overall.

**How does your fund define infrastructure?**

We define infrastructure space in a broad manner, including not only the hard assets but the whole value chain that gets into the making of those assets. This includes manufacturing, personnel service providers, designers and consultants. If we identify a bottleneck in that value chain, we find an opportunity to fund it.

We also include social infrastructure as a part of our infrastructure definition, including education, healthcare and hospitality. Also, because the definition of infrastructure need not be just a hard asset rooted to the ground, and it can be soft infrastructure, we have the flexibility to include such soft infrastructure, perhaps value added services, and providing that

service of transaction. So we can invest in that category, which is preferable to us in comparison to merely having a hard asset.

**You said people needed convincing that money can be made in infrastructure. Did that thinking emerge from the concept that traditionally, infrastructure is essentially social-developmental in nature?**

Right. In fact, the sceptical question in 1997, when the ideas were formed, was how an institution [such as ours] could survive when infrastructure is supposed to be provided by the government free of cost, and therefore there is no willingness to pay? CDC, where I then worked, was a initial shareholder of IDFC, so I had to convince my investment committee. I showed them the picture of Mumbai suburban rail with people hanging out of trains and sitting on their roofs. My clinching argument was that if we provide a better facility, I didn't see why they wouldn't pay for it.

**So, in a way, within infrastructure, can we distinguish basic, developmental and free infrastructure like water up to a set upper limit of usage, from a premium portion of infrastructure for service over and above the basics?**

In the infra value chain, we draw up a priority perspective, based on the amount of risk. There is an end which is riskier, where you don't have anything but just an

idea. We are cognisant of the fact that if India is talking about a \$1 trillion infra-spend over the next Plan (2012-17), we need to be aware of the big pipelines of projects in the picture, and the development of those pipelines may be through consulting organisations working with the government. We have seen the success of Ultra Mega Power Plants (UMPPs)—of how the Power Finance Corporation (PFC) took up the mandate to do the initial bids and roll it out.

“Our first fund focused on hard infrastructure: India needed plenty of it at that time. We later realised that the bottlenecks are actually in the value chain and not at the end.”

On the other hand, the government interface to get a licence or get a concession or get something around it, and after all the clearances and construction, the project starts finding a revenue—either

