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# Capitalising on reputation

**India's entrepreneurs have a hand in developing the country**

Indian entrepreneurs have a disproportionately large role in developing the country, compared to their peers in other BRIC economies, because they deploy such a significant share of total capital inflows – through private equity and portfolio investment via the stock market – compared to direct investment by foreign companies into India. It follows from this that the reputation – at home and abroad – of India's leading companies, and of the people who run them, is exceptionally important for financing India's continued rapid growth.

The size of private equity investments into Indian companies compared to FDI gives a rough idea of how central Indian entrepreneurs' balance sheets are to intermediating capital flows into the country. In 2008, the \$10 billion invested by private equity firms in Indian companies was equivalent to about one third of the total FDI into India. In China, which also counted about \$10 billion of private equity investment last year, the figure was equivalent to less than 10 per cent of FDI flows into the country in 2008. This pattern of capital flows reflects in part the obvious point that to make an investment and earn a return in India, you are likely to need a lot more local knowledge and connections. The same investment is often much less risky for domestic rather than international companies.

India's power industry has long exemplified this gap between the risk assessment of foreign and domestic entrepreneurs. To the international power company executive, the Indian power market still bristles with career-threatening risks. To the growing number of Indian power promoters, the market's imperfections are the opportunity.

Getting access to coal, taking a view on the best mix of merchant power to long-term contracted capacity, getting the permits and the local consensus to build plants quickly – these are the sort of challenges which ambitious power promoters like Reliance, Tata, Adani, JSW or GMR already know how to cope with, because they have successfully overcome them in numerous other industries. International portfolio and private equity investors have already backed and often won with these promoters, so the capital is there to finance new power investments, as the recent stream of successful completions of project financings and

IPOS in the power sector has shown.

This is a business where few multinational power development companies could hope to win on their own, even if they still wanted to join in. After the Enron debacle, most of them avoided India, though the US company, AES, has stuck it out and seems finally to be making progress with its Orissa joint venture. The obstacles for most foreign strategic investors in India's power sector are simply too high. Does that make India's aggressive power entrepreneurs heroic pioneers or just giant business groups that collect economic rents?

Probably both, but nobody should care, provided that the power promoters compete with each other, get the job done on time and then stick to their contractual terms. Delivery of the goods on reasonable terms is what public and political acceptance of Indian business depends on.

The charge that leading business groups in India could be growing into Indonesian-style oligarchs has not yet stuck, because since the liberalisation of the early 1990s, business in India is generally seen to be constrained by government policy and institutions, rather than conspiring to bend it out of shape to support the narrow interests of a few powerful groups. Promoters are and have to be good at the game of getting mining rights, construction permits, etc, from officials and politicians who are, as the PM reminded everybody at last month's CBI conference, pervasively corrupt. How else are all those power plants going to get built? The daily necessity for business to deal with corrupt officials is by no means the same, however, as an oligarchy diverting wholesale the course of economic policy and development in the interest of selected private businesses.

But the public image and the good reputation of Indian business, essential for maintaining India's distinctive pattern of capital flows to private entrepreneurs, is vulnerable to changes in perception. The Indian government recognised this when it moved quickly and effectively to limit the damage from Satyam. Foreign investors also recognise this as they scrutinise the Ambani feud and ask themselves whether this is just a celebrity punch-up, or whether it represents something important about the way business works in India that they need to pay a lot more attention to in future. ♦