ANALYSIS

ENERGY

CHINA FIRMS POWER RISING INDIAN EMPIRE

Showpiece Mundra port and power projects stand as monuments to tycoon's drive and Chinese building and engineering expertise

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As the four-seater private jet turns the final arc before touching down at India's largest private port on the tip of the western bulge on the Arabian Sea, rows of giant cranes loom into view, glistening in the mid-morning sun.

Mundra port's container cranes from Shanghai Zhenhua Port Machinery Co (ZPMC) offer the first glimpse of the Chinese participation in India's most ambitious privately funded infrastructure project comprising the port and a special economic zone.

Apart from the port, the other mainstay of Mumbai-listed Adani Ports & SEZ (APSEZ) is the world's single largest cluster of private thermal power plants generating 4,620 megawatts (MW) through nine units, entirely powered by Chinese equipment and engineering.

> **My experience with the Chinese has increased my admiration for them**
> GAUTAM ADANI, ADANI GROUP

For Gautam Adani, the 51-year-old self-made tycoon and chairman of his eponymous Adani Group that owns APSEZ, all that matter are decent quality, reasonable price and prompt delivery, all of which he finds aplenty in Chinese companies.

"ZPMC offered a price differential of 50 per cent, so we gave it a shot. And then we got hooked, they were so good. In the past 10 years, these cranes have gone from being untouchables to a worldwide share of 75 per cent. That tells you something about Chinese companies," says the portly Adani (pictured), whose penchant for risk and audacious leveraging has made his rise one of the most dramatic in the history of Indian business.

Starting out as a small-time commodities trader at 17, Adani has carved out an empire all by himself in a country dominated by towering business dynasties. The soft-spoken, modest first-generation tycoon now runs a conglomerate with US$8.7 billion in annual revenues and 10,400 employees.

India and China have come a long way from the decades of minimal contact following the 1962 war. From just US$2 billion in 2002, bilateral annual trade now stands at US$68 billion, with both sides aiming to take it to US$100 billion by 2015. China has emerged as India's largest trading partner while India is China's biggest project exports market.

This has largely been possible because of the incremental policy changes initiated by the political leadership in both countries. But business leaders like Adani also play a vital role in this trade-driven rapprochement with their ability to influence policymakers in the face of opposition from sections within the Indian establishment that remain deeply suspicious about China.

Chinese port operators, including Li Ka-shing's Hutchison Port Holdings, are already barred from bidding for Indian port projects as ports are considered strategic assets. And in September, ZPMC was denied security clearance to supply cranes to Mumbai port.

In the power industry, Chinese players face a different kind of resistance. Local companies fear market domination by these state-owned entities, with their easy access to cheap credit and state-fuelled cost-competitiveness. At an operational level, there have been questions about their after-sales service and availability of spares in the event of breakdowns as these companies don't manufacture in India.

But the overwhelming power deficit in a country where 400 million people have no access to electricity prompted the authorities to brush aside these concerns and let the Chinese in. Indians consume only 900 kilowatt-hours per capita, compared with 3,500 in China and 14,000 in the United States, according to data from the World Bank.

Adani was among the first companies to take advantage of the competitively priced Chinese power equipment and the excess capacity at the disposal of Chinese players when India opened up the market. It placed EPC (engineering, procurement and construction) orders with Shandong Electric Power Construction Corp III (Sepco III) for its US$6 billion power project in Mundra. The boilers came from Harbin Electric and Babcock Wilcox while the turbines and generators were sourced from Dongfang Electric and Beijing Beizhong.

In 2008, when Adani decided to enter the power business, Indian firms only had capacity to roll out 6,000MW of power plants a year, against 100,000MW of Chinese suppliers, says Adani.

"This was why we approached Chinese companies. We had also heard a lot about their quick turnaround time. After we started talks with Chinese power generator suppliers and realised their potential, we quickly established offices in Beijing and Shanghai to enable closer co-ordination. The results speak for themselves. We commissioned our first turbine in a record 36 months."

Sepco III came to Mundra with a 300-strong team of Chinese engineers, workers, interpreters and even a cook to set up the plants. With all the nine plants commissioned, almost the entire contingent has gone back to China – except the two interpreters who fell in love with two engineers from Adani, married and moved out with their husbands who were transferred to new power projects elsewhere in India.

The Mundra port-SEZ complex is run on a unique integrated infrastructure model, combining resources, logistics and energy. While thermal power plants elsewhere in the country are bleeding because of sloppy supply and poor quality of coal delivered by state monopoly Coal India, Adani has left nothing to chance. Mundra port imports from Indonesia, South Africa and Australia the coal it needs for the plants. It is then transferred to the power plants and beyond through a 64-kilometre railway line the company has laid itself, the longest private railway line in the country.

The company has even built a small airport to ferry senior executives (and curious journalists) to and from Adani's headquarters in Gujarat's Ahmedabad city, an hour's flight from Mumbai. A man in a hurry, Adani is known to prefer his private jet over regular airlines even for long-haul trips to avoid stopover time and circuitous routes.

Though Chinese companies are engaged in all three components of logistics, energy and resources at Mundra, Adani is looking for more Chinese involvement in his new ventures.

"My experience with the Chinese has only increased my admiration for them. The dedication and work culture and the speed with which they can turn around things is a big differentiator," he gushes.

The company has raised almost US$1 billion from Chinese banks in the past. But to develop a Mundra-like project at the Abbott Point coal mine it has bought in Queensland, Australia, it is looking at Chinese banks to raise US$7 billion to US$9 billion.

It is also in talks with Chinese companies to buy underground mining equipment and rolling stock, and expand the Abbott Point port. Adani is even open to equity participation by Chinese companies for this project.

Adani detests the fear-mongering prevalent in a section of India's government and industry when it comes to the Chinese. "On his recent Beijing trip, Prime Minister Manmohan Singh clearly said we would welcome Chinese foreign direct investment. But on the other hand, we have these security concerns that prevent the Chinese from greater participation. We have to change our mindset."

The Chinese, too, he says, should make an effort to establish manufacturing bases in India, which would give them a greater stake in the country and silence detractors. "If they made their power equipment here, who would doubt their reliability on spares?"

Ever the optimist, Adani is, however, upbeat on the future of China-India trade, the entrepreneur in him sensing the opportunity of a lifetime. "History has never seen two neighbours of this scale. Just imagine a combined market of more than 2.5 billion people. The possibilities are limitless, and only our own restricted thinking can hold us back," he says.

The gleaming Mundra port serves as a showcase for Chinese know-how. The port and special economic zone feature cranes from Shanghai Zhenhua Port Machinery Co and power equipment from Shandong Electric. Other suppliers include Harbin Electric, Dongfang Electric and Beijing Beizhong. Photos: SCMP Pictures, Debasish Roy Chowdhury

Equipment makers' dream run starts to stall

Chinese power equipment manufacturers may be running out of steam in India after a dream run as they come to terms with a punishing import duty, currency depreciation and murmurs of complaints over quality.

Power equipment from Dongfang Electric, Shanghai Electric, Babcock Wilcox, Beijing Beizhong and Harbin Electric began to flood the Indian market from 2006 as local private power producers such as Adani, Lanco, Reliance, Vedanta and JSW switched to Chinese vendors.

The Chinese companies offered lower rates, easy finance and rapid implementation, making local market leader Bharat Heavy Electricals Ltd (Bhel) look like a dull old dawdler. While Bhel could supply 5,000 to 6,000 megawatts (MW) of equipment annually, the average Chinese company had spare capacity of up to 30,000MW.

According to the Indian Electrical & Electronics Manufacturers' Association, a representative body of the country's US$25 billion electrical equipment industry, China's share in Indian imports of electrical equipment, including power generation gear, has dramatically increased in the past few years and stands at 45 per cent of the total from 15 per cent in 2005-06.

Of the new projects earmarked for India's 11th Five-Year Plan to 2012, 49 per cent of power generation equipment orders went to Bhel and 30 per cent to Chinese manufacturers. For the 12th and 13th plans (2012-17 and 2017-22), Chinese companies have bagged 34 per cent of the orders placed so far and Bhel, 41 per cent, with the rest going to joint ventures between Indian and foreign generators.

As Bhel's order book began to shrink and the public-sector unit posted a loss for the first time in more than a decade, New Delhi decided to step in by increasing the import duty on power generation equipment from 5 per cent to 21 per cent this year.

> **Growth has slowed markedly ... we do not expect a turnaround**
> VIK CHOPRA, SUN HUNG KAI FINANCIAL

"India is the major export market for Chinese power generation equipment manufacturers and grew rapidly prior to 2011," says Vik Chopra, a vice-president at Sun Hung Kai Financial.

About 45 per cent of Dongfang Electric's order book is from India, estimates Chopra, while that of other generator producers ranges from 20 to 40 per cent.

"But growth has slowed markedly, given higher coal prices combined with a lack of availability of coal in India as well as duties slapped by the Indian government on Chinese manufacturers. Capacity additions in India have also slowed down, further pressuring Chinese imports," he said. "We do not expect a turnaround in the near future."

According to Debasish Mishra, senior director at Deloitte Touche Tohmatsu India, the plunge in the rupee, which has depreciated by about 16 per cent in the past 12 months, is also taking a toll on Chinese manufacturers by making imports a lot costlier.

"On top of that, many of the Indian private producers who had raised money from Chinese banks in 2007-08 to fund their expansion have been seared. They are now forced to shell out more to pay back and are afraid of taking on any more loans as the currency continues to fluctuate," Mishra said.

One of the power plants at the giant Mundra port development, where Chinese firms have been key suppliers. Photo: SCMP Pictures

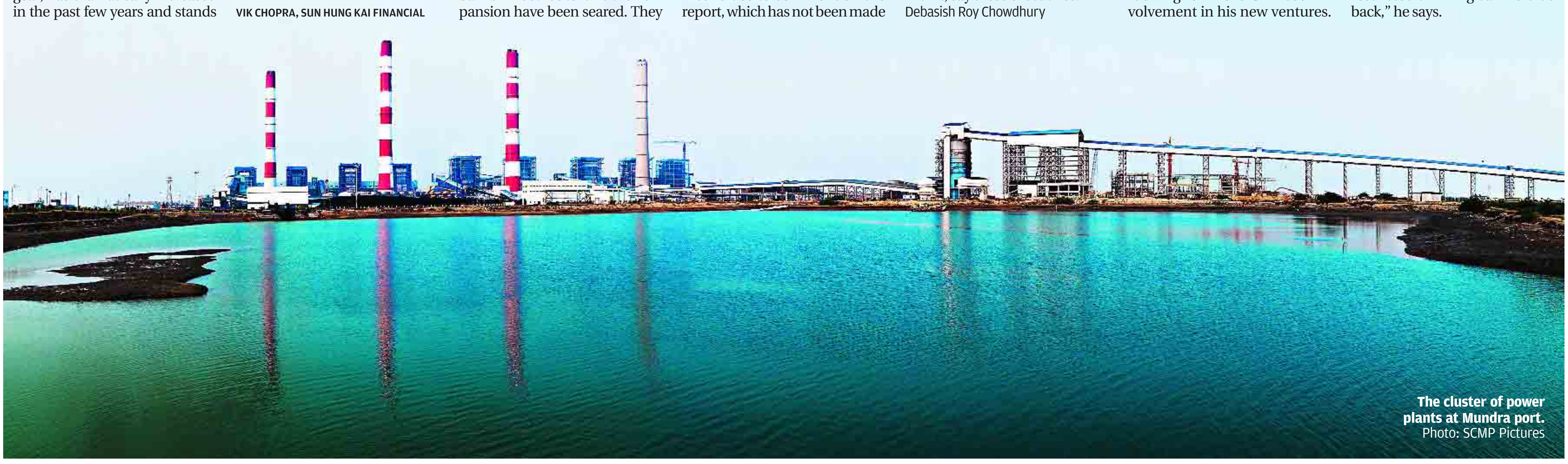
Quality issues have also been dogging Chinese makers. According to a report by India's Central Electricity Authority, Chinese units based on domestic coal witness substantially more outages than those from Bhel. The 41-page report also criticises Chinese power gear for failing most major operational parameters and safety norms.

Media-shy, Chinese companies refuse to comment on the report, which has not been made public but was accessed by the *South China Morning Post*. Industry executives who have worked with Chinese gear, however, counter that much of these claims is unfounded.

They point out that Chinese units based on imported coal, in fact, beat Bhel on certain parameters, showing the problem may lie more with the quality of coal supplied by state monopoly Coal India rather than Chinese generator manufacturers.

Bhel, which is used to operating with substandard coal, is much better-equipped to cope with it, say these executives.

Debasish Roy Chowdhury



The cluster of power plants at Mundra port. Photo: SCMP Pictures