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World City becomes a global draw

By Amy Yee

Artists' impressions of Mahindra World City, one of India's developing industrial enclaves, show a "business city" that will host factories, offices and homes on green lawns that look more like a US suburb than chaotic Chennai, an hour away on the pot-holed highway.

Indian and multinational companies seem to like the vision. Every plot on the 1,400 acre site being developed by the Mahindra Group has been snapped up, and total investments by incoming businesses is expected to reach \$1bn within five years, dwarfing Mahindra's \$52m acquisition and development costs.

Instead of the heavy traffic choking Indian cities, Mahindra World City will offer homes for up to 5,000 families, a school, hotel and shops spread over 325 acres. The entire enclave is expected to generate 50,000 jobs and indirectly employ another 50,000 by 2012.

Inside the new city, a couple of factories and offices have already begun operations, and BMW will inaugurate a €20m (\$26.2m) car plant later this month.

Yet visitors who follow the palm-lined boulevard into the enclave see foundations still being laid, while a gleaming office building stands in the middle of what seems to be a barren wasteland. Other buildings are in various stages of completion. For the moment, Mahindra World City is no more than a grand concept under construction.

Yet what unfolds here will be a test case for more than 200 "special economic zones" approved by India's government. Whether they live up to the vision displayed in glossy brochures depends on how well property developers and companies can execute their ambitious plans amid ambiguous government policy.

India ushered in its SEZ Land Act in 2005 to create industrial enclaves designed to spur manufacturing, exports and infrastructure. In exchange for investment in SEZs, companies get tax breaks, less red tape, looser labour laws and other incentives to encourage business.

A diverse range of companies has signed 99-year leases for plots in Mahindra World City. They include IT firms Infosys and Kanbay; apparel group Srinivasa Exports; Nera Electronics of Singapore, German medical device company B Braun and Indian auto components maker Sundaram, among others. The city will also host a sprawling research and development centre for Mahindra's flagship automotive company.

In its role as land developer, Mahindra World City provides clients with roads, power

substations, water treatment facilities and telephone and internet cables. This so-called “plug and play” infrastructure allows companies to skip over the arduous task of navigating land titles, construction permissions and bureaucracy.

BMW says it investigated 30 plots of land in 13 states in India for factory sites. Mahindra World City was the only one that offered built-in infrastructure.

“The positive thing for investors is that you see exactly what you get,” said Peter Kronschnabl, president of BMW India. “To set up your own infrastructure you have to start negotiating with the government. That could be a long process without knowing how things in India work.”

Built-in infrastructure is a “welcome asset” says Gopal Sarma, managing director at infrastructure consultancy Feedback Ventures, although he says small and medium sized businesses could benefit more from this. Larger companies sometimes prefer to set up infrastructure themselves because construction costs in India are “relatively trivial”.

SEZs are intended for export-oriented industries, but developers appear to have some flexibility. BMW’s factory is not within Mahindra’s SEZ area but rather in a special “domestic tariff area” because all its cars are for the Indian market.

The road to laying down the groundwork for Mahindra World City has not been smooth. Mahindra Group, whose holdings include technology, financial services and one of India’s biggest automakers, had never previously ventured into real estate.

Mahindra executive director Arun Nanda, who spearheaded the project, began buying parcels of barren land near Chennai on the basis that businesses would apply for plots once they existed. However, lack of clear title and fragmentation of land ownership among many small owners made the process difficult.

“It took a long time to get land,” Mr Nanda says. “Don’t underestimate land acquisition. It’s a huge problem in this country.”

In 1997, Mahindra began acquiring and developing land before a single client had signed on, even though sceptics scoffed at the idea that companies would set up outside of major cities. India’s rapidly-growing IT outsourcing industry was convinced that it would grow along India’s east coast and would not extend to Chennai, which sits on India’s southeastern tip.

The idea seems anachronistic today as fast-growing IT companies scramble to expand further afield to second-tier cities as major hubs such as Bangalore, Hyderabad and Delhi reach capacity and land prices soar.

But a few years ago many doubted the project and wondered how Mahindra would ever recoup its investments. “I was coming under pressure. The banks were getting worried,” Mr Nanda admits.

He approached Infosys, one of India’s bellwether IT companies, which eventually signed on to

build an office spanning 3.5m sq ft with capacity for 35,000 employees. That amounted to a vote of confidence in the project and prompted others to sign up. “After Infosys, the rest was a cakewalk,” Mr Nanda says.

But many bumps remain in the road ahead. Faced with increasing popular unrest about displacing farmers, India’s government early this year delayed approval of new SEZs until several issues, including compensation, have been resolved.

And while proponents tout SEZs as catalysts for exports and world-class infrastructure, others have raised doubts about their viability given the loss of tax revenue, lack of experience in running large townships and unreliable external infrastructure.

Mr Nanda admits the viability of a SEZ is far from a sure thing. Much depends on whether India’s economy keeps powering ahead and how land aggregation problems are resolved. Last, but not least, he says, a SEZ’s success depends on execution and “how many developers live up to their promises”.

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