INVESTING IN INDIA

INDUSTRIAL DEVELOPMENT

World City becomes a global draw

Built-in infrastructure and a prime location are helping India's Mahindra project pay off for its developers, writes Amy Yee

A rtists' impressions of Mahindra World City, one of India's fastest 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 classic Chennai, an hour away on the pot-holed highway.

Indian and multinational companies seem to like the vision. Every plot on the 1,900 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 $25m acquisition and development costs.

Instead of the heavy traffic-checking Indian cities, Mahindra's World City will offer homes for up to 1,000 families, a school, hotel and shops spread over 255 acres. The entire enclave is expected to generate 50,000 jobs and indirectly employ another 56,000 by 2012.

Inside the new city, a couple of factories and offices have already begun operations, and BMW will inaugurate a $268m (€165m) 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 ambitious 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, lower labour costs 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 Kambay, apparel group Srilavasa, textile exporters Niren Electronics of Singapore, German medical device company Dr. 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 Kressenschmidt, 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 work in India."

Built-in infrastructure is a "welcome asset," says Gopal Sarma, managing director at SEZs consultancy Feedback Venutres, 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

The banks were getting worried. After Infosys joined, the rest was a cake walk.

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 infrastructure running large townships and unreliable external electricity.

Mr Nanda admits the viability of a SEZ is far from certain. Much depends on whether India's economy keeps powering ahead and how its infrastructure 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."