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## Bloomberg News

# L&T Infrastructure Slows Lending to Coal Projects on Water Risk

By Natalie Obiko Pearson August 22, 2013

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The infrastructure finance unit of Larsen & Toubro Ltd. (LT), India's largest engineering company, is slowing its lending to coal power projects due to concerns that future water shortages may cause shutdowns.

"We are very, very selective on coal projects," Suneet K. Maheshwari, chief executive officer of L&T Infrastructure Finance Co., said in an interview in Mumbai. Projects must show ample water and be able to source and transport fuel reliably. "There are very few that have all of these boxes ticked."

Coal plants need water to produce steam that powers turbines. India, the third-biggest coal consumer after China and the U.S., faces a water crisis as industry, farmers and a 1.2-billion populace vie for shrinking supplies, the United Nations says. India plans to build at least 500 gigawatts, a third of the new coal-fired capacity proposed globally, to address chronic power shortages, according to the World Resources Institute.

It's not enough for project developers to obtain water rights from local authorities because the government may backtrack on that commitment if there's a shortage, Maheshwari said. The lender, which helps fund energy, telecommunications, road and port projects in India, instead is boosting lending to less water-intensive clean-energy projects.

## Water-Shortage Risks

Miners, utilities and lenders in India are increasingly taking steps to protect themselves against the risk of water shortages with industrial demand set to surge by 57 percent by 2025, according to HSBC Holdings Plc, which says India is the most vulnerable of the Group of 20 nations to water stress.

Disputes with farmers over irrigation rights have stalled about \$80 billion of investment by companies, including mining projects by Posco and ArcelorMittal. (MT) CLP Holdings Ltd. (2)'s India unit passed on an opportunity last year to build a new coal plant in Odisha state. Tata Steel Ltd. (TATA), India's biggest maker of the alloy, is setting annual targets to cut water usage, Managing Director H.M. Nerurkar said in April.

"Water is a fundamental right. The primacy of water is first that drinking water should be available and that farmers should get water," Maheshwari said. "Nowhere in the world can any government guarantee supplies at the cost of drinking water or farm water. So I don't expect it to be different here."

A coal power plant developer has to do its own assessment of whether there will be enough water available before L&T Infrastructure will consider financing it, he said. "Do they have the means and capability to do

that? Yes. Do they do that well? No.”

## Renewables Appeal

Water is growing in importance as a criterion for assessing the viability of energy projects, the International Energy Agency said in its World Energy Outlook last year. Renewable technologies like wind and solar photovoltaic, which use negligible amounts of water, are better-suited for a future that’s more carbon- and water-constrained, it said.

L&T Infrastructure Finance is optimistic about clean-energy projects, especially small hydroelectric plants, Maheshwari said. “We still are quite happy to look at any projects in that space.”

Hydropower, wind and solar projects accounted for 22 percent of its portfolio of 142 billion rupees as of July 31. The company has financed 2,322 megawatts of clean-energy capacity and is the largest financier of non-recourse loans to solar plants.

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