FINANCIAL EXPRESS
Read to Lead

Railway PPP model being reworked to lure investors

Surabhi, December 15, 2022

The government is reworking the terms of the public private partnership (PPP) model for assorted railway projects, to make it more attractive to private investors and bridge a viability gap perceived by sections of investors. The new PPP model will also include a hybrid model on the lines of the reasonably successful one in the highway sector, where the government makes upfront payment of 40% of the project cost to the developer under the build operate transfer (BOT) mechanism. The move is in view of the yawning gap between the funds needed for modernisation and upkeep of India's railway infrastructure and the availability of resources in the government sector.

"The huge infrastructure plans of the railways will require substantial private sector participation. Budgetary support is hugely insufficient, despite the big increases in outlays in recent years. However, given the complexity of railway projects, the PPP model has often not worked well in the sector," said a person familiar with the development.

The railway ministry is understood to have sent a proposal to the Union Cabinet for a hybrid annuity model on the lines of the viability gap funding for laying of tracks, after discussions with the finance ministry. If approved, this would be used for various projects including the Sonnagar to Dankuni stretch of the Eastern Dedicated Freight Corridor, sources said. Under the model, the railways will take the project risks in terms of traffic and delays, and will provide an upfront payment of 40% of the project cost to the developer.

With the railways making little operational surplus, capital investments in the sector is funded through budgetary support and borrowings from the market (via its arm IRFC) and multilateral institutions, cost-sharing of projects and special purpose vehicles with state governments, as well as monetisation of some assets. But given the scale of funds required, private investments are crucial.

Finance minister Nirmala Sitharaman had in the Union Budget 2019-20 pegged investment into railway infrastructure at Rs 50 trillion between 2018 and 2030, and had proposed the use of PPP to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. "Given that the capital expenditure outlays of the railways are around Rs 1.5-1.6 trillion per annum, completing even all sanctioned projects would take decades," she had said.

Total capex by the railways rose sharply from Rs 1 trillion in FY18 to Rs 2.3 trillion in FY21. The estimated capex for the current fiscal is Rs 2.5 trillion.

The railways has invited private sector participation for Gati Shakti Terminals and manufacturing of rolling stock through upgradation of production units. It has received 125 applications for development of cargo terminals under the GCT policy, and has given in principle approvals for 79 projects. The revised land lease policy is also expected to boost privatisation of the railways logistics sector.

Experts agree that attracting private capital in railways is fairly complicated but believe that there are huge opportunities for the private sector. "My personal opinion is that the best route for the railways is to monetise existing assets. The railways can develop greenfield projects through the EPC mode using private sector expertise. These can then be offered to the private sector," said Vinayak Chatterjee, founder and managing trustee, The Infravision Foundation.

Capex spend by the railways in segments such as electrification and track development has been a huge opportunity for private players.

The National Monetisation Pipeline had identified about Rs 1.52 trillion worth of railway assets to be monetised, including passenger trains. But plans to attract private participation in passenger trains through PPP have been shelved following opposition and concerns as railways considered to be a national utility.

At present, the railways is using the PPP route for modernisation of 16 stations including Anand Vihar and Vijayawada, which is estimated to cost about Rs 10,000 crore. Railway colony redevelopment is also being done through the PPP route. However, it is leaning more on the engineering-procurement-construction (EPC) model in recent years to ensure that projects are not delayed.

"There are private investments in railways but are very low compared to the roads sector. The higher haulage charges due to cross-subsidisation of passenger fares and lack of an independent regulator are seen to be two major bottlenecks for lower private sector participation in sector," said Maulesh Desai, director, CARE Edge Ratings.

BNP Paribas in its India Capital Goods Report noted that the railways are expected to grow rapidly over the next decade, similar to how roads have grown over the last 20 years.

“The current focus is on 100% rail electrification, followed by an improvement in speed across various corridors. This should be followed by new dedicated freight corridors in southern India, which can be a high-ticket multi-year project,” it said.