National Monetisation Pipeline – a wider net for asset recycling

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National Monetisation Pipeline is Government of India's (GoI's) programmatic approach to create financing capacity for building new infrastructure assets across various sub-sectors.

Asset monetisation of operating brown field infrastructure assets is now not only restricted to Central Government undertakings, but has also been extended to State Government assets. As a part of the NMP programme, GoI will provide incentives to states for asset monetisation and disinvestment by State governments (including State Government undertakings).

As an incentive for asset monetisation, additional allocation equivalent to 33% of value of assets realised is envisaged to be deposited in the State consolidated funds (or the account of State Government undertaking) owning the assets depending on the condition that the amount raised through asset monetisation is necessarily used for capital expenditure by States. Funds provided to the States under this GoI scheme are intended for long term infrastructure creation within the State by restricting the use for new and ongoing capital projects or for settling pending bills in ongoing capital projects. Thus, the NMP proceeds will address to some extent the financing gap for the National Infrastructure Pipeline.

Here GoI has taken a leaf out of the Australian Asset Recycling, wherein the National Government of Australia established an Australian Dollar 5 billion incentive program in 2013 to provide State Governments with an additional 15% of the capital raised from recycled assets. This is likely to pave the way for a sizable monetisation of various State Government assets including state highways, energy distribution infrastructure, intrastate transmission networks, urban transport, bus depots, water supply & sewerage networks, gas pipelines (in certain states), sports stadium and district level sport complexes. This will significantly boost the overall monetisation opportunity available for the existing operating assets in the country.

As we see in the learnings from the road sector below, investors have been wary of assets owned by State Government (or its undertakings) partly due to a lack of track record of stable, predictable and enforceable agreement frameworks under the Public Private Partnership (PPP) route. Policy guidelines and a regulatory environment along with well-drafted sample contractual agreements that are enforceable in the event of disputes with established neutral / unbiased arbitration frameworks would be critical for success of the PPP mechanism. It's imperative to have coherence between policies of the Central Government and that of respective State Governments. This is important in the country's federal structure to decipher the cascading of policies that lead to a stable framework for any prospective investor.

Learnings from the Road Sector

While one of the largest sectors identified under the National Monetisation Pipeline is the roads sector (contributing around 27% to the NMP), the GoI began its asset recycling agenda in the roads sector almost 15 years ago. With operate-maintain-transfer (OMT) models, it would bid out the roads constructed under the EPC models to private entities who would bid upfront for a 3 months, 6 months or 1 year license to collect toll.

In 2018, however, this entered the big leagues with the first Toll-Operate-Transfer (TOT) model being bid out. This TOT model worked on a similar concept – wherein, a readily constructed bundle of road assets were bid out to investors who were keen to take on only the demand or traffic risk, while leaving out the construction risk from the equation. The first of these bids, TOT 1 bundled 9 assets across two states – Gujarat and AP, and raked in close to Rs. 9,700 crores for the Government. The second bundle however didn't find takers, due to risks perceived in the underlying project stretches. The third bundle, again with 9 assets across 4 states, brought in a little over half of the first bundle at Rs. 5,011 crores for the government. However, Bundle 4 again didn't find takers.

With the seeming decline in interest in what was thought to be a game changing model, NHAI then decided to bring down the size of the project bundle, thus allowing smaller entities to bid. It also brought down the qualification criteria for bidding. The fifth TOT bundle thus had only 2 project stretches, and was split into 2 packages, allowing a bidder to bid for just a single stretch, 5A or 5B. This found takers, with two Indian developers bagging a stretch each at a little over Rs. 1,000 crores and Rs. 1,200 crores respectively.

Most of the reasons that investors have been cautious of BOT or TOT projects are largely regulatory in nature, even as traffic risks remained equally critical for BOT projects. With events like demonetization and the pandemic lockdowns when tolling had been suspended, investors see risk in the application of terms of the Concession Agreement wherein the reimbursement of toll receivables due to Material Adverse Events or Force Majeure events isn't clearly laid out, with timelines for resolution being long drawn. It is for the same reason that State BOT projects are seen to be more risky, given the precedence where tolling of cars have been stopped on certain State Highways and reimbursements are claimed from the Government. Political/ regulatory risk and its mitigation thus becomes key to attract private investments into infrastructure projects.

How the government addresses some of these issues will be key in bringing in private capital to bridging the infrastructure gap through these asset monetization routes. To be fair, the NHAI has taken into account some of these concerns – leading to modifications in the road agreements like the BOT and Hybrid Annuity Model (HAM) Concession Agreements, easing some concerns on the distribution of risk to make it more equitable.

Huge monetisation opportunities

Apart from roads, NITI Aayog has identified 12 other sectors which together form the NMP. This includes huge monetisation opportunities in other sectors like railways, power (transmission and generation), urban infrastructure, gas pipelines, telecom towers and fibre assets; which were fairly limited earlier.

Railways - Railways have been identified as the second largest sector contributing to around 26% of the NMP, with monetization potential from monetization of railway stations (12% of total NMP value), passenger trains, private freight terminals, railway colonies redevelopment, track infrastructure under Dedicated Freight Corridor Corporation of India Ltd (DFCCIL) and other tracks, signalling and overhead electrical infrastructure. This is to be looked at along with the fact that Railways as a sector has seen a very limited penetration of PPP. As a result, it becomes important to have a standardized PPP framework for railway projects along with a dedicated institutional arrangement to drive monetization and mechanisms to address asset-specific challenges that may arise.

Power – Power sector has the third largest contribution to the NMP, with the transmission assets alone constituting 8% of the total pipeline. While tariff based competitive bidding (TBCB) assets of PGCIL have already been recycled through the PGCIL InvIT, through the NMP, GoI has added the regulated return Section 62 (of the Electricity Act, 2003) cost-plus tariff based assets also to the monetization plan. This will pave the way for further asset monetization through PGCIL which holds more than 95% assets under the regulated return tariff framework.

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