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National Monetization Policy – Strategy equals to Execution

Background

The Government of India (GoI) undertook a first-of-its-kind exercise in FY2019-20 to lay the infrastructure vision for the country. Pursuant to this, the National Infrastructure Pipeline (NIP), detailing this vision was released in December 2019. NIP envisages infrastructure investment of USD 1.4 trillion over a five-year period from FY2020 to FY2025 with an average annual investment of USD 293.0 bn, this is a significant step-up (~2.5 times) vis-à-vis historical levels of spending on infrastructure.

To finance the massive NIP, GoI has emphasized on innovative mechanisms – such as asset monetization – to generate additional resources.

What's National Monetization Policy?

The National Monetization Policy (NMP) was announced in the Union Budget 2021-22. NITI Aayog has been entrusted with the mandate to develop National Monetization Pipeline. It will prima-facie help in evolving a common framework for monetization of core assets. It will also help in identifying potential monetization-ready projects, across various infrastructure sectors/ ministries and simultaneously provide visibility to investors.

What's the Objective of NMP?

The main objective is to unlock the value of investments in mature public sector assets by tapping private sector capital and efficiencies which can thereafter be leveraged for greenfield infrastructure creation. This also presents an opportunity for public asset owners to avail new financial structures for tapping capital from private sector investors. In the process, it helps public sector authorities in easing fiscal constraints and freeing up the balance sheets for taking up more greenfield infrastructure projects. This enables deployment of resources by government towards social sector and other competing public priorities.

Framework for assets monetization

Unlike privatization, strategic sale and disinvestment, asset monetization gives *just the rights to collect the revenue and not the ownership*. The assets are handed back to the owner at the end of transaction life. Only fully completed, brownfield, de-risked assets with stable revenue streams are monetized. It has a structured partnerships under defined contractual frameworks with strict KPIs & performance standards.

Why would an investor look at investing in these assets?

Assets under NMP will attract investors as these assets:

- Are mature and low risk asset class for investment
- Offer stable returns over 25-60 years
- Carry negligible/limited construction risk and stable demand
- Provide high flexibility in operations and management
- Have potential upsides in the form of efficiencies and value-added services

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Different models of monetization

- Direct Contractual Models like brownfield PPP concessions such as -
  - Operate Maintain Transfer (OMT) – such as in Road Toll
  - Operate Maintain Develop (OMD) – such as in Airports
  - Other PPP Models like Design Build Finance Operate Transfer
- Long Term Lease
- InvIT – Infrastructure Investment Trust
- REIT – Real Estate Investment Trust

Experiences from different countries

The Australian Government, considering low private investment in public infrastructure projects, had launched an Infrastructure Growth Package (IGP) which included Asset Recycling Initiative. The Scheme helped unlock over USD 17.0 bn in new infrastructure development across Australia.

In February 2020, the Government of Indonesia introduced an alternative scheme for financing public infrastructure through utilization of existing state-owned assets. The private sector was invited to operate, maintain, and expand existing assets in return for an upfront concession fee or a revenue sharing schemes. These additional revenues were aimed at enabling the government to complete its massive infrastructure program.

Consolidated identified pipeline for Monetization

The total indicative value of NMP for Core Assets of Central Government has been estimated at USD 80.0 bn over the 4-year period, FY22-25. An overview of the same is:

- 20+ asset classes, 12+ line ministries / departments are involved
- Top 3 sectors are: Roads (27%) Railways (26%) and Power (15%) by value
- Top 3 Asset classes are: Toll Roads, Railway Stations &Transmission towers

Year-wise indicative value of monetization pipeline:

- FY22: USD 12.0 bn
- FY23: USD 22.0 bn
- FY24: USD 24.0 bn
- FY25: USD 22.0 bn

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Sectoral break-up of the NMP considered for monetization over FY 2022 to 2025

1. Roads

   – Aggregate length of assets considered for monetization is 26,700 km. This is based on the length of already/ to-be operational, four lane highways and above in the country, entailing potential for revenue generation and thereby monetization.

   – 20% asset length as a percentage of Potential Asset Base

   – Indicative Monetization Value: USD 21.0 bn

   The chances of successful monetization of this asset class, which accounts for 27% of the total plan, is the highest because for roads monetization there is:

   – Precedence of monetization transactions and frameworks

   – Existing evolved regulatory framework

   – Greater transparency in operations

2. Railways

   – Approach to monetization: Railway station redevelopment; passenger train operations; Track, signaling, and Overhead Equipment InvIT

   – Indicative Monetization Value: USD 20.0 bn

   – Key Assets considered for monetization

     - 400 Railway Stations (5.5% of stations)
     - 90 Passenger Trains (5% of total trains)
     - Railway Track: 1 route of ~1,400 kms (2% of network)
     - Konkan Railways: 741 km
     - 4 Hill Railways: 24km route
     - 265 Railway owned goods sheds (21% of goods sheds)
     - DFC Track and allied infrastructure: 673 km (20% of total DFC network)
     - Others – selected Railway Colonies and 15 stadiums

   The key enablers for monetization of this asset class are:

   – High commercial potential of the assets and a massive footprint

   – Dedicated institutional arrangements to drive the monetization agenda

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- PPP Framework
- Mechanisms to address asset-specific challenges important to scale up monetization

3. Power Transmission
   - Asset base considered for monetization: 28,608 ckt kilometers
   - 17% Asset Length as a percentage of Potential Asset Base
   - Indicative Monetization Value: USD 6.0 bn
   - 8% share in overall NMP

   Enablers for monetization of this asset class are:
   - Consistent and stable cash flows from assets with long-term visibility and low counterparty risks
   - Established track record of participation by private-sector and institutional investors
   - Stable availability and robust profile of transmission assets

4. Power Generation
   - Asset base considered for monetization: 6.0 GW (-3.5 GW Hydro, -2.5 GW Re)
   - 6% Asset Length as a percentage of Potential Asset Base
   - Indicative Monetization Value: USD 5.0 bn
   - 7% share in overall NMP

   Factors influencing monetization of the asset class are:
   - Focused Government Initiatives
   - Mitigation of counterparty risks associated with discoms
   - ESG compliant clean energy projects
   - Strong Economic case for investing in renewable energy

5. Telecom
   - Asset base considered for monetization: 2.86 lakh km of Bharatnet Fiber, 14,917 Nos of BSNL and MTNL Towers
   - 57% of Bharatnet fiber and 21% of Towers: Asset Length as a percentage of Potential Asset Base
   - Indicative Monetization Value: USD 5.0 bn
   - 6% share in overall NMP

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6. Natural Gas Pipelines
   - Asset base considered for monetization: 8,154 kms
   - 25% of asset length as a percentage of Potential Asset Base
   - Indicative Monetization Value: USD 3.0 bn
   - 4% share in overall NMP
7. Petroleum, Petroleum Product Pipelines, & Other Assets
   - Asset base considered for monetization: 3,930 kms
   - 23% of asset length as a percentage of Potential Asset Base
   - Indicative Monetization Value: USD 3.0 bn
   - 4% share in overall NMP
8. Warehousing Assets
   - Asset base considered for monetization: 210 lakh metric tons of which 175 LMT is of FCI and 35 LMT is of CWC
   - 39% Asset Length as a percentage of Potential Asset Base
   - Indicative Monetisation Value: USD 4.0 bn
   - 5% share in overall NMP
9. Mining Assets

   Coal Mining Assets
   - 160 projects identified for monetization
   - Indicative monetization value: USD 4.0 bn
   - 5% share in overall NMP

   In addition, 761 blocks of Mineral Mining Assets would be considered for monetization.
10. Airports
    - 25 AAI Airports considered for monetization
    - 18% of existing AAI Airports planned for monetization
    - Indicative monetization value: USD 3.0 bn
    - 4% share in overall NMP

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11. <u>Ports</u>
    - 31 development projects in 9 major ports planned
    - Indicative monetization value: USD 2.0 bn
    - 2% share in overall NMP
12. <u>Sports Stadia</u>
    - 2 National Stadiums and 2 regional centers planned for monetization
    - Indicative monetization value: USD 2.0 bn
    - 2% share in overall NMP
13. <u>Urban Real Estate Assets</u>

    Identified Projects: Redevelopment of colonies and 8 hospitality assets

    Overall, the NMP seems well thought through. There is an year-wise phased plan for the entire monetization target. In fact, if the planning is any indication to go by, it should be a great success. However, from here on, the strategy should be execution.

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