

Our Views

National Monetization Policy to create international level Infrastructure

As we head towards final quarter of a very difficult 2021, there are always some silver linings. If I were to point out some of the events on the policy making front, I would unflinchingly select three events – Air India Privatization, efforts towards the listing of Life Insurance Corporation (LIC) and the National Monetization policy. All three initiatives can change the direction of the country. We can potentially significantly enhance the ‘available resources to GDP ratio’ and move away from being a ‘low revenue to GDP ratio’ country. The biggest beneficiary of these initiatives will be investment in the infrastructure.

For the first time, 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 Rs. 111 lakh crores (US\$1.4 trillion) over a five-year period from FY2020 to FY2025 with an average annual investment of ~Rs. 22 lakh crores, this is a significant step-up (~2.5 times) vis-à-vis historical levels of spending on infrastructure.

While privatization and disinvestment are known concepts, the National Monetization Policy (NMP) is a new concept being attempted for the first time in the country. It will help in identifying potential monetization-ready projects, across various infrastructure sectors/ ministries and simultaneously provide visibility to investors. 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 new greenfield infrastructure creation. This also presents an opportunity for public asset owners to avail new financial structures and vehicles for tapping capital from private sector investors. In the process, it helps public sector authorities and entities in easing fiscal constraints and freeing up the balance sheets for taking up more new greenfield infrastructure projects. This enables deployment of resources by government towards social sector and other competing public priorities.

Unlike privatization, strategic sale and disinvestment, assets-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. I believe that assets under NMP will attract investors as these assets are mature and carry low risk, provide stable returns over 25-60 years, have negligible/limited construction risk and stable demand, have higher flexibility in operations and management, and offer upsides in the form of efficiencies and value-added services.

However, the big challenge to the success of this very well-structured program will be the enforcement of contracts. For any long-term contract particularly in the infrastructure area dispute resolution and enforcement of contract is the most important. This goes to the core of the do-ability of the transaction not just the impact on the valuation and pricing. One way to streamline this is to provide for special benches in the NCLT only to hear all infrastructure related cases. Any tangible efforts such as setting up of special bench in NCLT will provide great amount of comfort to the investors and demonstrate government’s resolve towards this.

With the constant increase in direct and indirect taxes, renewed focus on sale of commercial entities such as Air India and others, listing of other remaining large Public Sector Undertakings such as LIC and the much-needed innovative Assets Monetization Policy, our nation has the potential to switch from an infrastructure starved country to a world class infrastructure country. The government has the vision, and with these initiatives there is also a visibility of achieving this vision.

<https://economictimes.indiatimes.com/markets/stocks/news/how-national-monetization-policy-can-create-international-level-infra-and-attract-investors/articleshow/87651752.cms>

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