Asset monetisation can spur infra value creation

Top-quality, well-managed infrastructure lies at the heart of economic growth. With Covid-19 taking an unprecedented toll on economic activity, a significantly enhanced level of infrastructure investment is required to revive growth. Financing requires a diversified set of alternatives.

In this context, asset recycling and monetisation serve two critical objectives — it unlocks value from public investment in infrastructure, and it taps private sector efficiencies in operations and management. Asset monetisation is a shift from privatisation and slump sale of assets to structured partnerships with private sector within contractual frameworks. It is not just a funding mechanism, but a paradigm shift in infrastructure operations, augmentation and maintenance.

India has made massive strides in creating a mesh of infrastructure in recent years. For most sectors, this has been driven by public funding. Today, India holds one of the largest brownfield stocks of fixed assets in the world. However, while the public sector can build infrastructure, it is rarely able to run it efficiently. The private sector has much greater resource efficiencies in developing and managing infrastructure. Increasingly, therefore, the government looks to partner with the private sector. However, for effective co-working, public private partnership (PPP) models now need a reboot.

Amitabh Kant

India has a robust PPP ecosystem. Concepts such as preservation of ownership with government, transfer back of assets at the end of concession and key performance indicators are ingrained in our PPP ecosystem.

However, there has been reduced appetite among private sector and debt financiers for greenfield infrastructure. This necessitates innovative mechanisms, structured around mature brownfield assets, for tapping private investment. Asset monetisation, therefore, strives to tilt the axis from greenfield to brownfield models.

The increased appetite for brownfield assets is evidenced by the flow of private and institutional capital into sectors such as roads, power and telecom. The private sector has utilised risk-managed structures to monetise assets such as toll roads, transmission towers, pipelines and telecom towers, thus bringing in a new investor class into India's infrastructure.

From the public sector, National Highways Authority of India has monetised close to 1,400 km of toll roads through Toll-Operate-Transfer (TOT) concessions and has raised ₹17,000 crore. PowerGrid successfully launched the first-ever public sector Infrastructure Investment Trusts (InvIT), monetising its first batch of transmission assets and raising ₹7,700 crore. Airports Authority of India (AAI) successfully monetised six brownfield AAI airports through Operation Management and Development Agreement (OMDA) model, raising upfront proceeds and private investment towards augmentation of the airports. Indian Railways also launched a strategic foray into PPP in station redevelopment and running of passenger trains.

Innovative structured vehicles such as InvITs and Real Estate Investment Trusts (REITs) are capital market plays. They are created and operated under the regulatory framework of Securities and Exchange Board of India (SEBI) and target pooled long-term capital. Since the launch of regulations for these vehicles by SEBI in 2014, India's private sector has effectively unlocked its invested equity by employing these vehicles and bringing in capital from global pension and sovereign funds. Assets Under Management (AUM) of ₹1 lakh crore from the private sector alone, is held by these vehicles.

Through the asset monetisation programme, public sector entities will also tap into long-term institutional capital and build on the recent success of PowerGrid's InvIT. More importantly, India's public can also invest in InvITs and REITs as retail investors. These models interest a different investor class, comprising global pension and sovereign wealth funds, and also retail investors. SEBI regulations bring transparency for investors and also efficiency in asset management.

India's tryst with monetisation is not a new thing, but an ongoing exercise. There is now a need to systematically adopt these initiatives across varied asset classes and streamline frameworks and modalities of such alternatives in a manner that can be readily absorbed, evaluated and replicated.

The availability of a sustained and robust asset pipeline has been cited as a key concern by investors at various forums. A well-laid-out pipeline gives a comprehensive view to investors and developers of brownfield investment avenues in infrastructure and helps them plan their fundraising and due diligence activities.

An initiative such as National Monetisation Pipeline (NMP) is pathbreaking at many levels. Creating a sectorally diverse pipeline beyond the traditional sectors of roads and power necessitated a "whole of government" exercise with a comprehensive scanning of brownfield asset inventory. A diverse and sustained NMP not only provides visibility to investors on potential financing opportunities, but also in driving preparedness of public authorities to structure and launch transactions in a systematic and transparent manner.

The states are equal partners in India's infrastructure story. India cannot grow faster unless the states grow at higher rates. The states too present a significant potential for leveraging assets such as tolled state highways, transmission towers, discoms, bus terminals, sports stadiums and state warehouses to mobilise capital for investment, which can have multiplier effects on state economies.

Recognising the criticality of enhanced capital expenditure, the Scheme for Special Assistance to States for Capital Expenditure is a pathbreaking measure. Under the scheme, an incentive is provided to the states in the form of 50-year interest-free loans. During the current year, ₹5,000 crore in incentive payments have been budgeted for the states undertaking monetisation and disinvestment.

In order to give the needed fillip to the monetisation initiative, three aspects need concerted efforts and interventions — a relentless focus on implementation; developing brownfield models and frameworks; and driving the states and partnering with them in undertaking monetisation in a structured manner.

Amitabh Kant is CEO, NITI Aayog

The views expressed are personal