✧ Infrastructure and real estate

Reaping rewards by recycling assets

After it successfully leased large portions of its highways, India is looking to expand its programme for monetising public infrastructure through transactions with private sector investors.

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India is one of the fastest growing major economies. A rising and briskly urbanising population, coupled with improved living standards, have resulted in rapidly growing demand for infrastructure. The ministry of finance estimates that the country must invest $200bn in infrastructure development annually. At the present pace of actual investments, there is an annual investment deficit of around $90bn.

Over the past decade, the private sector has contributed to just over a third of the overall infrastructure investments in India. It has contributed to the majority of investments in telecommunications, electricity generation, ports and airports. Private participation has been prominent in the roads sector. India’s national highways development programme has attracted commercial capital through public-private partnerships and hybrid structures.

PPP schemes are the prevalent approach to bring in private capital to develop public infrastructure. Another way to attract commercial investments is by monetising brownfield public infrastructure assets. Under this scenario, a private investor buys temporarily the rights to a revenue-generating public infrastructure asset. They are responsible for maintenance and operations of the asset and can earn revenues from it. These are typically long-term arrangements, lasting between 30-100 years. In most cases, governments receive payment upfront.

Assess monetisation success in many countries

Several countries have undertaken successful public infrastructure monetisation programmes. In the US in the mid-2000s, tolled expressways were leased to private investors for around $1.8bn and $3.8bn in Illinois and Indiana, respectively. In 2014, the Australian federal government initiated an asset-recycling initiative as part of a broader national infrastructure growth package. Between 2014-18, more than 10 such transactions were carried out over five Australian states, yielding close to Aud52bn. The country’s electricity networks generated the most revenue; three assets were leased for 99-year periods for a total of Aud34bn.

In early 2018, the National Highways Authority of India offered rights to operate and collect revenues from road assets under a ‘toll-operate-transfer’ model. The project covered nine sections of national highways, extending over 648 kilometres, for 30 years. This effort drew enthusiasm from large international investors, thanks in part to how the project was structured. The highway sections on offer served as key transport links, with an established operating and tolling history. They provided diversification across two states in India. The contract provided for two planned adjustments to the concession term, shielding investors from uncertainties in traffic build-up. Following competitive bidding, the combined project was awarded for an upfront consideration of close to $1.5bn, the country’s single largest highway infrastructure transaction.

Interest in India

Asset monetisation is relevant for India for several reasons. First, it has a large and growing stock of revenue-generating public infrastructure assets. It is estimated that more than 6,500km of road length are under the management of the NHAI and close to 5,000km of new highway projects are awarded for development each year. Second, while the traditional PPP model for infrastructure investments has contributed substantially to infrastructure development, private sector appetite for such projects has dwindled in recent years. Government agencies are therefore looking to infrastructure recycling to boost resources for new development. Large international institutional investors are keen to invest in Indian infrastructure, and these assets are well-aligned to their interests.

India’s infrastructure assets monetisation programme is set to create important opportunities for global institutional investors. The bidding process was recently undertaken to award 50-year contracts to operate six airports. The government is making efforts to identify additional sectors that would be ripe for monetisation. These are likely to include power transmission lines, gas and oil products pipelines, telecom towers, port terminals and public warehousing facilities. The deciding factors are consistent and long-term revenue streams, the possibility for investors to enhance substantially commercial returns, and improved asset utilisation. ✦

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