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A monthly publication from South Indian Bank

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NATIONAL MONETISATION PIPELINE

OCTOBER 2021 | THEME 358

30th Year of Publication

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"Successful investing is about managing risk, not avoiding it."
Benjamin Graham

The "Students' Economic Forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is "National Monetisation Pipeline".

Recently, the government of India has launched the Asset Monetisation Pipeline of Central ministries and public sector entities: 'National Monetisation Pipeline (NMP Volumes 1 & 2)'. The pipeline has been developed by NITI Aayog, in consultation with infrastructure line ministries, based on the mandate for 'Asset Monetisation' under Union Budget 2021-22. NMP estimates aggregate monetisation potential of Rs 6.0 lakh crores through core assets of the Central Government, over a four-year period, from FY 2022 to FY 2025.

Asset Monetisation

Asset Monetisation involves creation of new sources of revenue by unlocking of value of hitherto unutilized or underutilized assets. Governments and public-sector organizations, which own and operate such assets and are primarily responsible for delivering infrastructure services, can adopt this concept to meet the ever-increasing needs of the population for improved quality of public assets and service. The concept is used globally and is widely used amongst businesses. However, suitable structuring of such transactions is extremely critical from the perspective of public interest and service aspects.

Transfer of such rights is in return of an upfront/ periodic consideration defined by a concession/ contractual framework. It allows a balanced risk-sharing framework between the public authority and private parties. Thus, a private sector entity is expected to operate and maintain the asset-based terms and conditions mentioned in the contract/ concession, generating returns through higher operating efficiencies and enhanced user experience. Then, the funds transferred by the private entities to the government or public bodies are reinvested in new infrastructure or deployed for other public purposes. Such contracts include "provision for transfer of assets back to the public authority" when such a contract ends.

Asset Monetisation is also referred to as **Capital Recycling.** It means with the already available assets; you try to generate wealth but without additional financing. The concept of capital recycling appears to be borrowed from property portfolio management where the proceeds from the sale of some properties in a portfolio are put into purchasing new properties, somewhat like share investors rebalancing a share portfolio without adding additional capital.

Monetisation Models are categorised into:

(i) Structured Financing models– Fund generation via capital markets or through a pool of investors

(ii) Direct Contractual Approach– Contract between a public entity and identified private sector developer(s)/ investor(s)

In a monetisation transaction, for a specific duration of time, the government transfers revenue rights to private parties, expecting upfront money, a revenue share, and commitment of investments in the assets. To serve the purpose, the government deploys — methods of Real Estate Investment trusts (REITs) and Infrastructure Investment Trusts (InvITs) that are used to monetise assets in the roads and power sectors. These are listed on stock exchanges that facilitate the investors' liquidity through secondary markets as well. These come under **Structured Financing Models.**

Direct Contractual Monetisation Models – Brownfield PPP (Public-Private Partnership) concessions include: Operate Maintain Transfer (OMT), Toll Operate Transfer (TOT), and Operations, Maintenance & Development (OMD). OMT and TOT are deployed in the highways sector while OMD is instrumental in the case of airports.

Against this backdrop, the National Monetisation Pipeline (NMP) was announced in the Union Budget 2021-22, and the development of the NMP was assigned to NITI Aayog. Since asset monetisation is closely connected to the development of new infrastructure, the NMP has been timed to coincide with the remaining four-year period of the National Infrastructure Pipeline (NIP).

National Monetisation Pipeline (NMP)

Union Budget 2021-22 has identified monetisation of operating public infrastructure assets as a key means for sustainable infrastructure financing. Towards this, the Budget provided for preparation of a 'National Monetisation Pipeline (NMP)' of potential brownfield infrastructure assets. NITI Aayog in consultation with infra line ministries has prepared the report on NMP.

NMP aims to provide a medium term roadmap of the programme for public asset owners; along with visibility on potential assets to private sector. Report on NMP has been organised into two volumes. Volume I is structured as a guidance book, detailing the conceptual approaches and potential models for asset monetisation. Volume II is the actual roadmap for monetisation, including the pipeline of core infrastructure assets under Central Govt.

Framework

The pipeline has been prepared based on inputs and consultations from respective line ministries and departments, along with the assessment of total asset base available therein. Monetisation through disinvestment and monetisation of non-core assets have not been included in the NMP. Further, currently, only assets of central government line ministries and CPSEs in infrastructure sectors have been included. Process of coordination and collation of asset pipeline from states is currently ongoing and the same is envisaged to be included in due course.

The framework for monetisation of core asset monetisation has three key imperatives.

- Monetization of 'Right' NOT 'ownership'. Assets handed back at the end of transaction life
- Brownfield de-risked asset, stable revenue streams
- Structured partnerships under defined contractual frameworks with strict KPIs & performance standards

This includes selection of de-risked and brownfield assets with stable revenue generation profile with the overall transaction structured around revenue rights. The primary ownership of the assets under these structures, hence, continues to be with the Government with the framework envisaging hand back of assets to the public authority at the end of transaction life.

Estimated Potential

Considering that infrastructure creation is inextricably linked to monetisation, the period for NMP has been decided so as to be co-terminus with balance period under National Infrastructure Pipeline (NIP).

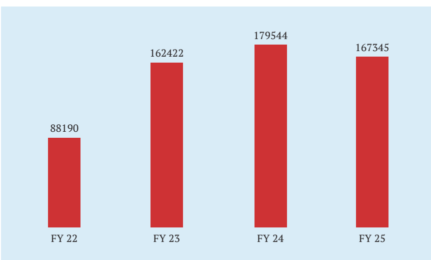
The aggregate asset pipeline under NMP over the four-year period, FY 2022-2025, is indicatively valued at Rs 6.0 lakh crore. The estimated value corresponds to ~14% of the proposed outlay for Centre under NIP (Rs 43 lakh crore). This includes more than 12 line ministries and more than 20 asset classes.

The sectors included are roads, ports, airports, railways, warehousing, gas & product pipeline, power generation and transmission, mining, telecom, stadium, hospitality and housing.

Sector wise Monetisation Pipeline over FY 2022-25 (Rs crore)

The top 5 sectors (by estimated value) capture ~83% of the aggregate pipeline value. These top 5 sectors include: Roads (27%) followed by Railways (25%), Power (15%), oil & gas pipelines (8%) and Telecom (6%).

In terms of annual phasing by value, 15% of assets with an indicative value of Rs 0.88 lakh crore are envisaged to be rolled out in the current financial year (FY 2021-22). However, the aggregate as well as year on year value under NMP is only an indicative value with the actual realization for public assets depending on the timing, transaction structuring, investor interest etc.



Indicative value of the monetisation pipeline year-wise (Rs crore)

The assets and transactions identified under the NMP are expected to be rolled out through a range of instruments. These include direct contractual instruments such as public private partnership concessions and capital market instruments such as Infrastructure Investment Trusts (InvIT) among others. The choice of instrument will be determined by the sector, nature of asset, timing of transactions (including market considerations), target investor profile and the level of operational/investment control envisaged to be retained by the asset owner etc.

The monetisation value that is expected to be realised by the public asset owner through the asset monetisation process, may either be in form of upfront accruals or by way of private sector investment. The potential value assessed under NMP is only an indicative high level estimate based on thumb rules. This is based on various approaches such as market or cost or book or enterprise value etc. as applicable and available for respective sectors.

Implementation & Monitoring Mechanism

As an overall strategy, significant share of the asset base will remain with the government. The programme is envisaged to be supported through necessary policy and regulatory interventions by the Government in order to ensure an efficient and effective process of asset monetisation. These will include streamlining operational modalities, encouraging investor participation and facilitating commercial efficiency, among others. Real time monitoring will be undertaken through the asset monetisation dashboard, as envisaged under Union Budget 2021-22, to be rolled out shortly. The end objective of this initiative to enable 'Infrastructure Creation through Monetisation' wherein the public and private sector collaborate, each excelling in their core areas of competence, so as to deliver socio-economic growth and quality of life to the country's citizens.

Challenges

a) Lack of identifiable revenue streams in various assets.

b) The slow pace of privatization in government companies including Air India and BPCL. Further, less-than-encouraging bids in the recently launched PPP initiative in trains indicate that attracting private investors' interest is not that easy.

c) Low Level of capacity utilisation in gas and petroleum pipeline networks.

d) Regulated tariffs in power sector assets.

e) Low interest among investors in national highways below four lanes.

Way Forward

a)Execution is the Key: While the government has tried to address many challenges, owing to infrastructure development in the NMP framework, execution of the plan remains key to its success.

b) Dispute Redressal Mechanism: Further, there is a need for an efficient dispute resolution mechanism.

c)Multi-Stakeholder Approach: The success of the infrastructure expansion plan would depend on other stakeholders playing their due role. These include State governments and their public sector enterprises and the private sector. In this context, the Fifteenth Finance Commission has recommended the setting up of a High-Powered Intergovernmental Group to re-examine the fiscal responsibility legislation of the Centre and States.

Greenfield vs Brownfield Investment

Greenfield Investment

Greenfield investment is a form of Foreign Direct Investment (FDI) where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. Production facilities, housing for the company's workers and management, and distribution centres also come under — construction projects. Because buildings are constructed on fields that were literally green, thus, we call them greenfield investment.

Brownfield Investment

When an entity purchases or leases an existing facility to start a new production, then this is called brown investment. This kind of investment is generally considered as time-saving and cost-friendly, as in an already established infrastructure, the company has to move. Brownfield may be called brown as the land on which a facility is built may be polluted by the previous owner's actions.

Source:

a) https://pib.gov.in
b) www.indianexpress.com
c) www.theindianwire.com
d) www.drishtiias.com

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