

WE ARE WATCHING THE INVIT MARKET VERY CLOSELY

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Ashish Agarwal, Director, Equirus Capital, explores the various avenues available for encouraging the flow of private funds into the infrastructure sector.

What steps need to be taken to make infrastructure projects a more bankable proposition for the private sector?

Most of the risks which potentially impact the viability of an infrastructure project are associated with the construction stage - whether it is the land acquisition delays, cost overruns and associated arbitrations, etc.

It is extremely difficult for the private sector to price such risks and hence, over time, the private sector has shown more appetite towards EPC contracts (where the government takes the construction risks). NHAI has acknowledged this trend and has therefore changed the colour of project awards from being more BOT-oriented (till two years back) to EPC oriented today. Since NHAI has to also fund these EPC projects, it has identified the appetite for operational projects in the private market and is now coming up with the 'Toll Operate Transfer' (TOT) model which will help NHAI monetise its operational road projects by selling concession rights for a period of 30 years. Lenders and pension funds are expected to look at these opportunities more aggressively since these are devoid of construction risks.

We believe that for high gestation period projects which also carry larger construction risks, the regulators should take a cue out of NHAI's strategy wherein the government can be a deeper participant in the construction stage and monetise the assets in the operational stage. This can also be potentially followed in the hydro, ports and aviation sectors.

What is further needed from the government's end? By when will the infra market space in India become mature enough for private sector players to participate and bid on a PPP model?

As highlighted earlier, I believe the strategy involving deeper government participation in the construction stage of infrastructure projects which can be monetised in the operational stage to the private sector (pension funds, etc.), is a prudent asset-recycling strategy from the government's point of view. Lenders are also happier to back the private sector when it comes to operational projects. Most of the NPAs in the infrastructure sectors have been fuelled by cost overruns and construction delays which are fully mitigated in operational revenue-generating projects.

We are watching the InvIT market very closely. If the market prices these operational infrastructure assets appropriately, it will open up a huge secondary market for private players as well as regulators like NHAI to securitise their operational assets. This is a true test of the level of maturity achieved across operational assets - as to how much comfort will cash yield based investors be able to derive from these assets.

How can more professionalism and fiscal discipline be instilled into the private sector infrastructure domain in India?

If one looks at how private equity has played out in the Indian infrastructure space, we have not seen any significant minority PE transaction in the infrastructure space in the last four years. This is due to lack of historical profitable exits. If one digs deeper, PE players have realised that it is extremely difficult to make PE returns in infrastructure holding company investments. A couple of bad assets in a portfolio can kill overall returns. Since minority stakes have diluted controls, it is also extremely difficult to map cash flows, which accentuates overall risks.

PE has therefore evolved and has realised that the only way to play the infrastructure game in India is to 'own and control' operational assets. This ensures that downside is limited and cash flows and assets are under control. We have seen funds like IDFC and Macquarie change their strategy in line with what's mentioned above. Also, players like I Squared Capital, Brookfield, PSP and CDPQ have increased their Indian presence to buy operational assets and help promoters deleverage.

Do you feel enthusiastic enough to participate in bids for taking over toll projects (with assured incomes over long term as a concessionaire)?

The TOT model is being followed very closely by infrastructure funds and pension funds. They are extremely happy with the amended draft Model Concession Agreement. NHAI has identified around 75 projects to be bid out (within 15 clusters) having an annual revenue of around Rs 2,700 crore per annum. This is likely to generate approximately Rs 30,000 crore of upfront capital for NHAI.

TOT enables large infrastructure/pension funds to invest large ticket sizes in operational assets. Also, since the 'seller' will be the regulator, these risk-averse funds need not worry about past liabilities, title issues, past litigations etc. These assets are also likely to have at least four-five years of operational history, enabling funds to take a more informed call on traffic and road quality.

Overall, the industry has welcomed the model and is keenly looking forward for the first bids as and when they are announced.