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Inside this week's issue:

National Monetization Pipeline

The National Monetization Pipeline is a Rs. 6 lakh crore GOI scheme which aims at Asset Recycling of Brownfield projects.

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A Deep Dive Into NMP

National Monetization Pipeline in simple terms, is a new 4-year scheme that the Government of India unveiled on 23rd August 2021, with a focus on establishing structured contractual partnerships with private players instead of privatization and sale of capital assets owned by the government.

The scheme has the aim of monetizing assets like roads, power, railways, aviation, ports, telecom, mining, natural gas and petroleum pipelines, warehouses, and stadiums. Through this, it aims to raise an amount of Rs. 6 lakh crores by FY2025.

The NMP plans to unlock value in the brownfield projects by transferring the rights (leasing) out to the private sector and using the funds raised to further promote infrastructure development in the country.

Benefits For The State Governments

The Finance Minister particularly stressed the monetization aspect along the lines of the importance of furthering infra development.

The entry of private players will ensure that the under-utilized assets can be adequately operated thereby generating employment opportunities, public access to higher quality and affordable infrastructure, which will boost the economic development of India.

The Centre also wants to encourage State governments to monetize their assets, by giving interest-free loans of up to Rs. 5,000 crores for a period of 50-years. The center will also provide a 100% matching value of the divestment to the State government upon successful divestment of its stake in a Public Sector Undertaking.

Additionally, if a State-run PSU is listed in the stock market, 50% of the amount raised through the listing will be given by the Centre.

"The NMP plans to unlock value in the brownfield projects by transferring the rights (leasing) out to the private sector and using the funds raised to further promote infra development in the country.

NITI Aayog's CEO Amitabh Kant said the government will closely monitor the NMP progress, with yearly targets and a monthly review by a committee chaired by the Cabinet Secretary."

Framework of NMP

The NMP essentially has 3 key pointers:
Involves transfer of rights, (not ownership). The capital assets will be handed back to the government when the tenure is completed.

All Brownfield Projects include de-risked assets with stable revenue streams.

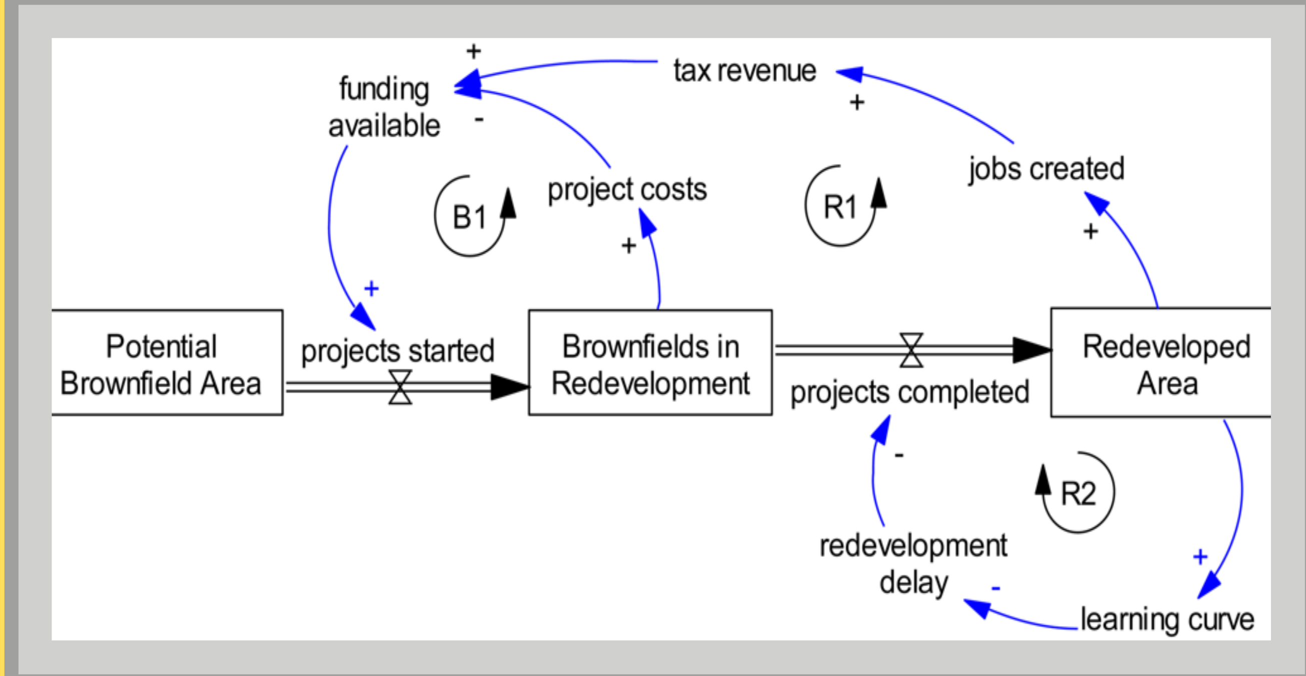
Private partnerships will be structured under defined contractual frameworks.

The top 5 sectors taken into NMP make up 83% of this total pipeline valuation (roughly Rs.5lakh crore).

These include Roads (27%), Railways (25%), Power (15%), Oil & Gas Pipelines (8%), Telecom (6%).

Targeting Brownfield Projects

The government is willing to monetize the Brownfield Infrastructure Assets and channel these additional revenues into building greenfield infrastructure. Since Greenfield projects will give a 2x multiplier effect i.e. for every 1% investment of GDP in Greenfield Infrastructure will lead to at least a 2% increase in the GDP growth.



Hence post the announcement of NMP, there has been a rise in the infra stock prices of companies like Adani Ports, Ambuja Cements, ONGC, etc.

Also, after a great performance in the Tokyo 2020 Olympics, the Government is ready to lease out stadiums under the NMP, as it will boost the quality of Infrastructure for athletes.

Are we the first one?

In 2013, Australia took over the asset recycling craze by leasing out 2 major ports near Sydney. Hence, the country started facing a few problems that India should be ready for-

- Direct Impact on the Consumer- Since the NMP deals will be on the contractual partnership, over a certain period. The investors would want to increase their profits over this particular time frame, hence a natural raise in prices, limit in competition, or cut back on upkeep. Therefore, the government should try to prevent today's lump-sum gains to the government from becoming a cost tomorrow. So some regulations are needed to tackle such an issue, otherwise, all the power will be with some specific companies and hence creating a mono/duopoly.
- Letting go of Political Economical Conditions- The Government is still looking out for certain inefficient airlines, the state's execution capability. Also, Frothy equity markets, resulting from a massive global and local liquidity glut, all were a golden opportunity for the present policymakers to extract great value from them.

But the chance has gone, just because of the Bureaucratic Delays that were made by the government. Also, not until the citizens are vaccinated fully, there ought to be such delays

Brownfied v/s Greenfield project

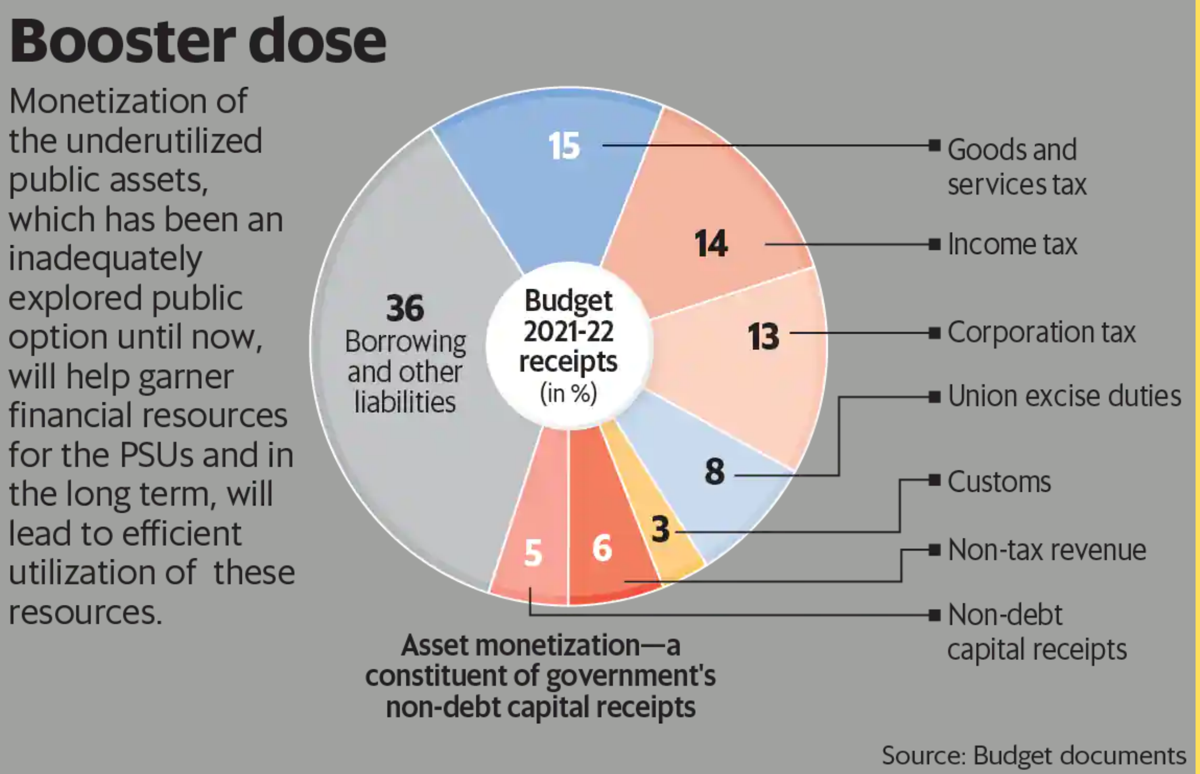
Brownfield Projects are projects where some work has already been made. The site is already partly developed with essential structure. So from that point onwards, new development will be started in it. Example- Stadiums, Airports etc.

Whereas, Greenfield Project starts from scratch. Hence, The site is not developed and the required infrastructure for the project is normally not present. So a Greenfield Project starts afresh from scratch.

Analysing the Situation

The Government of India wants to enable Infrastructure creation through effective monetization by leveraging useful public-private collaborations. This will further provide a vision and path for these sectors to excel, thereby delivering better socio-economic growth and quality of life for the Indian population.

The ultimate objective of the 'Asset Monetization' program is to create a win-win for all stakeholders including public authority, private investors, and most of all the common citizen, through universal access to high-quality and affordable infrastructure.



Some are even terming NMP as a better structured PPP.

But, there are still some risks that are yet to be checked, such as,

- Credit risk- where the facility/asset is being supplied to state-owned enterprises.
- Compliance risks- like climate change and environment protection laws, tax laws etc.
- Force Majeure risks- latent and patent defect issue of projected life and capacity of the asset.

This can be solved if there are plenty of special courts for fast-track resolutions in PPP projects so that there is some clarity for the risks faced.

More than the concerns on the investors-consumer relationship, there is still some clarity to be given by the government regarding the use of proceeds from the monetization. The document released by Niti Aayog has only mentioned a 5-6% of NIP to be financed through asset recycling..