

FIRST Construction Council discusses opportunities in road asset monetization

In the FY22 Budget, the government announced an asset monetisation plan of Rs 6.6 trillion for FY22-25 with the road sector accounting for 27 per cent of this. FIRST Construction Council's (FCC) virtual discussion forum shed more light on the road ahead for "Road Asset Monetisation".



The poster is for a virtual discussion forum titled "ROAD ASSET MONETISATION — Trends, Challenges & Opportunities —". It is presented by the FIRST Construction Council, which is part of the INFRAFIRST SERIES. The forum features two speakers: Vijay Agrawal, Executive Director of Equirus Capital Pvt Ltd, and Vikas Sharma, Partner (Investment Banking Advisory - Infrastructure) at EY. The event is scheduled for July 11, 2023, from 4.00 PM to 4.45 PM. The poster also lists supporting publications: Infrastructure Today, CW CONSTRUCTION WORLD.in, and Equipment India. The contact information is +91 82919 95574 or Contact@FirstConstructionCouncil.com. The hashtag #INFRAfirst is also displayed.

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FIRST CONSTRUCTION COUNCIL
FOUNDATION OF INFRASTRUCTURE RESEARCH STUDIES TRAINING

INFRA**FIRST** SERIES

ROAD ASSET MONETISATION
— Trends, Challenges & Opportunities —

VIRTUAL DISCUSSION FORUM

SPEAKERS

VIJAY AGRAWAL
Executive Director,
Equirus Capital Pvt Ltd

VIKAS SHARMA
Partner (Investment Banking
Advisory - Infrastructure), EY

July 11, 2023 | 4.00 PM to 4.45 PM

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Supporting Publications

Infrastructure
TODAY
India's Premier Magazine for Infrastructure Builders

CW CONSTRUCTION
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The FIRST Construction Council (FCC) - an infrastructure think-tank - hosted a virtual discussion forum on July 11, 2023, to highlight challenges and opportunities in road asset monetization. Two domain experts enlightened participants - comprising FCC members and key decision makers from the construction & infrastructure industry -

about the latest developments in the area of road asset monetization.

In his opening remarks, **Pratap Padode**, President and Founder, FIRST Construction Council, said, "FIRST Construction Council provides an ideal platform to all stakeholders associated with the construction sector to come together and discuss

thought provoking concepts. Today's topic of discussion is "Road Asset Monetization". Financing has been one of the Achilles heels in the infrastructure story which has punctured our growth many times. As infrastructure projects have long gestation period, financing is very critical. NHAI has also suffered because of the high debt of Rs 3.43 trillion on its balance sheet. Hence, the government launched the National Asset Monetization plan to raise Rs 6 trillion by FY25 and 27 per cent of this has to come from roads. There is a huge monetization benefit that can accrue to NHAI and private developers, who have taken on the risk of developing roads."

He also announced the plan of FIRST Construction Council to establish academic institute to meet the talent requirement of the infrastructure sector, which is only going to grow faster with India aiming to become a \$ 5 trillion economy.

This was followed by presentations of Vikas Sharma, Partner, Infrastructure Investment Banking Advisory Team, EY, and Vijay Agrawal, Director, Equirus Capital Pvt Ltd.

HAM projects in demand

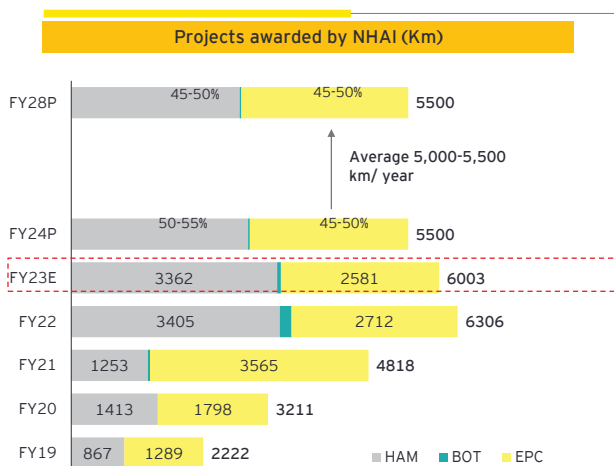
In his presentation on "HAM assets monetization: Opportunity & key considerations", Vikas Sharma,

Partner, Infrastructure Investment Banking Advisory Team, EY, said, "In FY19, EPC was the most preferred mode for awarding NHAI projects. But, over the last few years, HAM (Hybrid Annuity Mode) projects have become more important and in FY23, HAM accounted for 56 per cent share of the total NHAI projects. Going forward, HAM will be the key contributor to India's infrastructure growth story."

Speaking about the role of private sector investment in infrastructure, he said, "HAM requires equity investment by private sector. Based on projects awarded till December 2022, expected HAM equity investment outlay from the private sector for HAM projects is Rs 49,000-61,000 crore (approximately \$6-7 billion). Such massive outlay by private sector and continued growth in HAM project award would require release of existing equity locked in developed projects through stake monetization; thus there is a scope of significant M&A (merger & acquisition) activity in near future. We expect M&A to be very important part of strategy for developers."

Stating that M&A activity in HAM space is expected to gain strong traction, he said, "Of the HAM projects awarded since January 2016, a total of 71 projects with cumulative BPC (bid project cost) of Rs 80,818 crore (about \$ 10 billion) became operational during FY2019-H1FY2023. Of this, about 29 projects with a

Greater focus on HAM under the NHAI awarded projects



- ▶ 56% share of HAM projects in FY23, expected to remain in similar range going forward
- ▶ Expected equity investment outlay from the private sector for HAM projects is ~ INR 49,000 - 61,000 Cr (~USD 6-7 Bn)
 - ▶ 12% - 15% out of Total estimated cost of ~INR 4 Lakh Cr, being equity investment requirement
- ▶ Such massive outlay by private sector and continued growth in HAM project award would require release of existing equity locked in developed projects through stake monetisation → scope of significant M&A activity in near future

M&A Activity Expected to Pickup pace

► M&A Activity in HAM space to gain strong traction

- Of the HAM projects awarded since Jan 2016, a total of 71 projects with cumulative BPC of INR 80,818 Cr (~USD 10 Bn) became operational during FY2019-H1FY2023;
 - Of this, ~29+ projects with a cumulative BPC ~USD 3.5 Bn+ were sold to investors in the last two years
 - Select Transactions in HAM space
 - Welspun- Actis PE Fund
 - KNR- Cube Highways
 - HG Infra- Highway Infrastructure Trust (Sponsored by KKR)
 - Dilip Buildcon - Shrem InvIT
- About 105 HAM projects involving BPC of ~INR 1.22 lakh Cr (~USD 15 Bn) are expected to become operational in the next 2 years
- **Favourable Regulatory changes to support M&A activity** : Changes in the Model Concession Agreement terms for HAM projects (covered subsequently in the presentation)

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1USD = 82 INR

Source: ICRA Rating

EY

cumulative BPC \$3.5 billion were sold to investors in the last two years. More assets will be needed to monetise in the next few years. For example, about 105 HAM projects involving BPC of Rs 1.22 lakh crore (about \$ 15 billion) are expected to become operational in the next two years."

InvITs gaining traction

Road sector has witnessed heightened M&A activity over the last 2-3 years. Vijay Agrawal, Director, Equirus Capital Pvt Ltd, commented, "People are lapping up road assets as Indian roads have come to maturity level where FASTag has

Government push on Monetization of Infra Assets

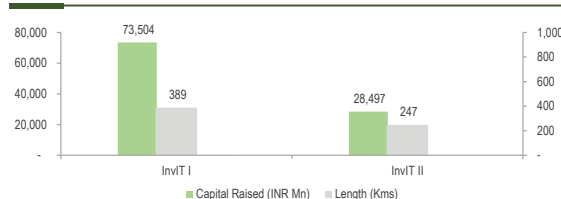
Emphasis on capital recycling via capex outlay and parallel monetization plans

Capital raised through by NHAI ToT bundles route

| S. No. | ToT Bundle | Length (Kms) | Capital Raised (INR Mn) | Successful Bidder |
|--------------|------------|-----------------|-------------------------|---|
| 1 | 1 | 681.00 | 9,6815.0 | Macquaire – Ashoka |
| 2 | 3 | 566.27 | 5,0110.0 | Cube Highways |
| 3 | 5A-1 | 53.60 | 1,0110.0 | Adani-Skylark |
| 4 | 5A-2 | 105.90 | 1,2510.0 | D.P. Jain |
| 5 | 7 | 135.00 | 6,2671.0 | Indian Highways Concessions Trust |
| 6 | 9 | 72.64 | 3,1440.0 | National Investment and Infrastructure Fund |
| Total | | 1,614.41 | 26,3656.0 | |

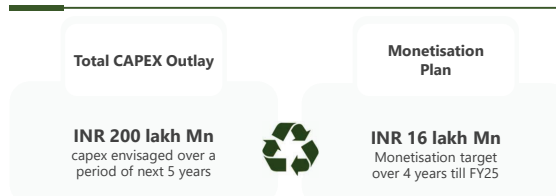
- NHAI has been monetizing highway stretches through ToT model since 2018
- Bids have been invited for ToT Bundles 11 and 12 for a total of INR 70,000 Mn

Capital raised by NHAI through InvIT route



- NHAI has plans to raise Phase III & IV with a capital raising aim of INR 200 Bn.

Gol's Impetus on Capital Deployment and Recycling for Road sector



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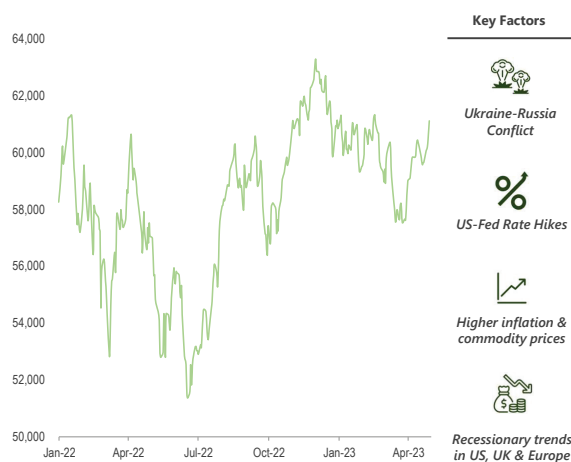
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Source : Public Information

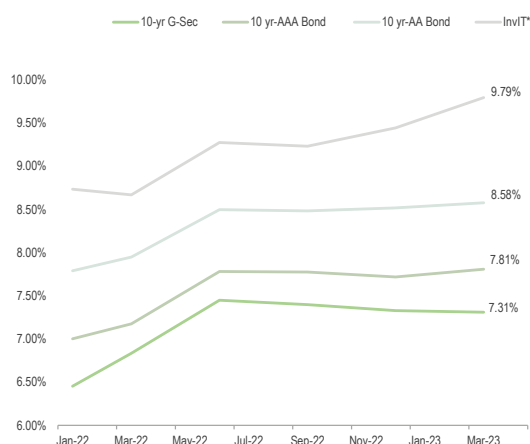
equirus

Volatility in Indian Markets is driving investors to yield products

Sensex over last 15 months has shown High Volatility & been Range Bound



Yield products have shown continued uptick & resilience during volatility



In times of High Volatility investors prefer to invest in asset classes with stable returns and look to protect their downside risk

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*InvIT – For reference taken yield of India Grid Trust considering it has longest history comparable to 10-yr bonds and is backed by Annuity Assets



improved the digitalisation of collection process and has avoided the leakages. People are banking NHAI agreement. Road EPC players are looking to de-leverage their balance sheet because they need money to tap the upcoming opportunity in infrastructure like HAM assets. With more investors coming in, sellers are getting better valuation for their assets."

The government has been focusing on infrastructure development and emphasizing on capital recycling through capex outlay and parallel monetization plans. While the government intends to spend Rs 20 trillion for capex over a period of next five years, it has announced monetization target of Rs 1.6 trillion over the next four years till FY25. NHAI wants to monetise assets worth Rs 50,000 crore every year.

Infrastructure Investment Trust (InvIT), conceptually like mutual funds, raises capital to invest in income-generating assets like highways, power transmission, etc. While developers have set up their own InvITs, but, of late, financial institute driven InvITs are raising lot of capital.

Because of the tax efficiency, valuation under InvIT structure can be higher.

During his presentation on "InvIT: A preferred structure for holding road asset", Agrawal said, "InvITs are gaining traction and we have three listed InvITs. Though Sensex has witnessed high volatility over the last 15 months, yield from InvIT has shown continued uptick and resilience during volatility. In the road sector, AUM (assets under management) crossed more than Rs 1 trillion and InvITs have emerged as preferred holding structure."

About FIRST Construction Council:

FIRST Construction Council provides a platform to promote the adoption of best practices, and be the torchbearer for all policy initiatives that are needed to enhance the importance and welfare of the construction industry. By engaging with key stakeholders of the industry and government agencies, the council provides a networking platform and access to growth opportunities for its members.

If you want to be a part of the Networking and Knowledge activities of FIRST Construction Council, drop us an email at

Contact@FIRSTConstructionCouncil.com