The requisite speed and efficiency in infrastructure creation could be optimized only through increased private participation

Since there is no dearth of construction capabilities in the country and the infrastructure need of our country is humongous, the focus of policymakers should be aligned more towards rejuvenating PPP model under BOT (Toll) to enhance private capital infusion and optimize yield for the infra investors, says **BAJARANG KUMAR CHOUDHARY**, Managing Director, BRNL in an interaction with EPC World.

What are the basic differences, according to you in the Hybrid Annuity Model (HAM), Build-Operate-Transfer (BOT), Toll-Operate-Transfer (TOT), Engineering procurement and construction (EPC) and Operate, Maintain and Transfer (OMT) model?

PPP model is essentially an arrangement between a government and a private sector entity but the key differentiating factor among various operating models of PPP ispurely basedon risk allocation between the private sector and the public entity. The main risk for any PPP business can be broadly classified between (a) development or construction risk, (b) financing risk and (c) traffic or revenue risk. In EPC projects, the construction risk is only transferred with private entity while financing risk and revenue risk remains with Government entity or public authority. On the contrary, OMT and TOT model entails transfer of Financing and Revenue Risk to private entity with no role of private entity in development stage of the project. The risk allocation among the model for various models has been shared below for ease of reference and understanding.

With an objective to harness private sector efficiencies in asset creation, maintenance and service delivery, the

	Development/ Construction Risk	Financing Risk	Traffic/ Revenue Risk
EPC	√	×	×
BOT (Toll)	√	√	√
BOT(Annuity)	√	√	×
BOT (Hybrid Annuity Model)	√	Shared	Nil
OMT	NA	×	√
TOT	NA	√	√

government thus emphasizes on engaging with the private sector through various operating models under the PPP framework based on value-for-money analysis.The main essence of PPP model though remains with Build Operate and Transfer (BOT) models which include BOT (Toll), BOT (Annuity) and BOT (Hybrid Annuity Model) as it adopts the life cycle approach for the asset development and helps in maximizing private sector efficiencies and amplify the asset management skillset to operate and manage infrastructure assets for long-term survival.

In the Indian context, which of the implementation models will suit best and allow for faster implementation and completion of projects?

It is beyond doubt that the requisite speed and efficiency in infrastructure creation could be optimized only through increased private participation, both for attracting investment in infrastructure and leverage on their asset management skillset.Considering thecurrent scenario of fiscal constraint for the Government in increasing budgetary allocation and simultaneous liquidity crunch in the market due to lenders reluctance to increase their infrastructure exposure, we believe that an ideal operating model for infra creation should be judicious mix of PPP and EPC projects based on the individual merits of the projects. While public funding for EPC projects would keep the contractors engaged with a robust order book, private capital in PPP under BOT (Toll/ HAM) would give major fillip to infra creation at the required scale and size.It would be therefore more important for policymakers to strengthen risk assessment capability and project evaluation skillset to ascertain project viability in various implementation models.

However, we must also acknowledge that since there is no dearth of construction capabilities in the country and the infrastructure need of our country is humongous, the focus of policymakers shouldbe aligned more towards rejuvenating PPP model under BOT (Toll) to enhance private capital infusion and optimize yield for the infra investors.Although it is equally important that Government takes adequate measure to allay the past fears over the land acquisition and delay in dispute resolution. This would help in reinstating the trust of lenders and investors alike for increasing their allocation for PPP projects in Roads under BOT (toll) model.

What are the factors that are holding back the rate of construction of highways in the country?

Though there are signs of euphoria creeping into the market due to sharp uptick in project awarding and increase in deal flow in secondary market, there are concerns regarding capacity building and institutional strengthening which are holding back the growth engine. The lack of efficiency and speed in resolving minor disputes and issues arising out of agreement is still a major roadblock for effective project execution. This could be easily assessed from the fact that while project awarding last year picked up to a record high, the execution still lagged behind 40km/day target. Despite considerable progress on issues on land acquisition and dispute resolution mechanism, the execution challenges on ground remain challenging due to lack of political will and support for faster execution. Additionally, the pushback from lenders in increasing their infra exposure due their past experience, the financial closure remains challenging unless the projects are backed by the promoters with strong balance sheet and credible execution track records.

What are the opportunities in the Roads & Highways sector that are waiting to be tapped to allow a robust growth of the sector?

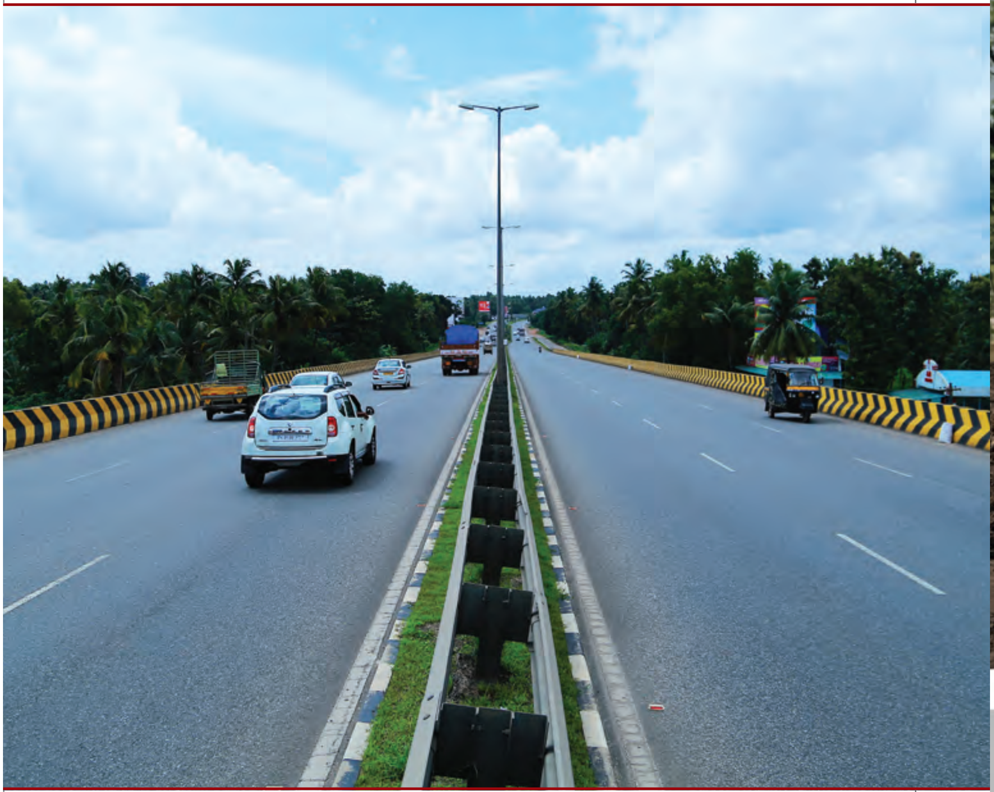
Over the past few years, the investments in Roads grew exponentially and we do hope the same to expand significantly going ahead. While both the central and some key state government heading up towards election next year, the capex allocation for infrastructure should remain encouraging and continue to drive growth for road focused companies.

Apart from growth in primary market, the secondary market is also expected to drive growth for the sector as there is still a huge pipeline of BOT assets available in the market at attractive valuation. Since there's a huge opportunity on the anvil across multiple segments, the EPC contractors who were earlier to some extent compelled to enter PPP space for BOT projects, are now eager to deleverage their balance sheet and free up their capital commitments. Additionally, amid the mounting NPAs, the lenders are also looking sponsor substitution to minimize their exposure to stressed asset portfolio by offering them to developers with strong financials and asset management skillset.

Furthermore, the technology is also expected to play a major role in helping the sector grow exponentially in the next few years. With the Government stepping ahead to implement 'Value Engineering Programme' to promote new technologies and material in highway projects, the industry is all set to witness a paradigm shift in its approach towards the highway construction, operation and maintenance. Although the glimpses of future of smart transportation system could be seen in some of the recently implemented expressways, we do hope to see a major transformation in highway operation and maintenance in coming years.

As an infrastructure asset owner working primarily on asset aggregation platform, Bharat Road Network Limited (BRNL) is uniquely positioned in the market to capitalize on the burgeoning opportunity in both primary as well as secondary market. We are also focused towards driving efficiency through technology innovation across multiple segments of asset development, toll operation and management and route operation and maintenance. By developing an integrated technology platform for road asset management, we aim to maximize automation of system, processes and services and adopt a hands-off approach towards asset management.

exit from existing BOT projects to reduce debt and adopt asset light strategy. Besides, there are still a lot of assets owned by distressed corporates who are aggressively looking for exit. Additionally,there's another emerging trend of EPC companies putting up theirHAM projects for saleto free up capital to fund strong growth prospectin EPC space. We therefore sense here a huge secondary market opportunity for acquisition of assets and consolidating the BOT assets by



How do you see the sector taking shape in the second half of the year 2018?

Besides revitalising the primary market bidding in PPP in 2018, there's another trend which we foresee in this year. That is the growth of aggregator platform through portfolio consolidation. As I mentioned earlier that we do believe that going forward there would be a lot of activities in secondary market in PPP as promoter companies are continuously looking for creating a platform for asset aggregation.

Additionally, we do hope to see increased traction under Toll Operate and Transfer model with an increasing interest from international players given their long-term investment horizon and aversion to construction risk. Also the strong pipeline of HAM projects under implementation, are expected to contribute significantly towards the future basket of TOT projects. EPC World