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CABINET APPROVES AMENDMENT OF TOLL OPERATE AND TRANSFER MODEL OF NATIONAL HIGHWAYS AUTHORITY OF INDIA

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The Cabinet Committee on Economic Affairs (CCEA), on 20 November 2019 gave its approval to the proposed amendment to the Toll Operate Transfer (TOT) model of the National Highways Authority of India (NHAI). After the successful roll out of the TOT model in 2016, CCEA's recent decision appears to be with a view to increase more participation of institutional investors in national highways sector for raising funds for NHAI.

Background

In 2016, the CCEA had first allowed NHAI to monetise the public funded national highways projects for raising funds from private or institutional investors by providing the right of collection and appropriation of tolls to concessionaire selected through an open, transparent competitive bidding (2016 TOT Model). The eligible projects under the 2016 TOT Model were brownfield highway projects, which were operational and generating toll revenues for 2 years after the Commercial Operation Date (COD). The 2016 TOT Model was rolled out to reduce the involvement of NHAI post construction of the highways and for providing with an overall framework for efficient Operation and Maintenance (O&M) of the national highways. Under the 2016 TOT Model, the selected bidder was given the right to collect toll and operate and maintain the highway for a pre-determined concession period of 30 years against an upfront lump sum amount to NHAI.

Key Highlights

- The proposed amendment relaxes the eligibility criteria given under the 2016 TOT Model by reducing the operationalisation period of highways thereby approving monetisation of public funded highways 1 year after they are operational. Under the 2016 TOT Model, NHAI could monetise completed Engineering Procurement Construction (EPC) and Build operate and Transfer (BOT) annuity highway projects, which had completed at least 2 years post COD on demonstrating stability in traffic numbers post COD. The amendment to the 2016 TOT Model will now allow NHAI to monetise assets with lesser operational period thereby allowing NHAI to raise funds by way of offering more highway projects to private or institutional investors.

- Amongst other changes, NHAI is also given the authority to determine the concession period of the projects between 15 to 30 years as opposed to previous fixed concession period of 30 years under the 2016 TOT Model.
- The monetisation of the highway using the TOT model will be subject to approval of competent authority in the Ministry of Road Transport and Highways or NHAI on a case to case basis.
- NHAI has identified around 75 operational projects bundled into 10 separate bids for potential monetisation.
- The fund raised from the proceeds of monetisation will be utilised by the government to meet its fund requirements and for future development of highways in the country including O&M of national highways.

Comments

The CCEA's decision to reduce the operationalisation period for highways to be eligible for monetisation is a welcome move and is in the right direction to attract more private investors to bid for highway projects by providing wider sets of assets. Introduction of shorter concession period will make highway assets more attractive, as investors will be able to make a better risk reward projection. Further, for institutional investors it will allow good opportunity to assess the sectoral challenges, risk and return projection. CCEA's move is likely to provide the much needed funding to NHAI to finance its existing debt and this move will provide impetus to the government in achieving the target under the ambitious Bharatmala programme.

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