

File No: 1/10/2021-PPP-Part-2
Ministry of Finance
Department of Economic Affairs
Private Investment Unit

North Block, New Delhi
Dated 7th March, 2023

OFFICE MEMORANDUM

Subject: Record of Discussions of 110th Meeting of PPPAC to consider the modalities of Asset monetization through PSU InvITs– reg.

The undersigned is directed to enclose a copy of the minutes of the 110th Meeting of the PPPAC held on 8th October, 2022 and follow up meeting held on 19th November, 2022, under the Chairmanship of Secretary (EA), on the aforementioned subject matter, for information and necessary action.

2. This issues with the approval of the Secretary, Economic Affairs.

Encl: As above


(Dr. Kartik Agrawal)
Deputy Director

To

1. CEO, NITI Aayog
2. Finance Secretary & Secretary, Department of Expenditure
3. Secretary, Department of Legal Affairs
4. Secretary, Department of Revenue
5. Secretary, Ministry of Power
6. Secretary, Ministry of Road Transport and Highways
7. Secretary, DIPAM
8. Secretary, DPE
9. Chairman, NHAI
10. SEBI (Whole Time Member)
11. CMD, PGCIL
12. NHAI InvIT
13. PGCIL InvIT

Copy to:

1. Sr. PPS to Secretary (EA)
2. Sr. PPS to JS (ISD)

Record of Discussions of 110th Meeting of PPPAC to consider the modalities of Asset monetization through PSU InvITs.

1. The 110th Meeting of PPPAC chaired by Secretary, DEA was held on 8th October, 2022 and on 19th November, 2022 to consider the modalities of Asset monetization through PSU InvITs. The list of attendees is annexed (**Annexure-I**).
2. On behalf of the Chair, JS, ISD welcomed the attendees to the meeting. The PPPAC was informed the following:
 - i. In the meeting of Core Group of Secretaries on Asset Monetization (CGAM) held on 8th February, 2021 under Chairmanship of Cabinet Secretary, CGAM recommended that *“All Ministries/Departments may consider adopting the process of having asset monetization proposals appraised by PPPAC before submitting to the CCEA/Cabinet for approval in the interest of time. DEA may review whether an addendum was required to the Guidelines for Formulation, Appraisal and Approval of Public Private Partnership Projects to enable this.”* Further, in the CGAM meeting held on 26.08.2022, the action point pertaining to DEA is *‘DEA in consultation with NITI Aayog, M/o Power and M/o RTH may deliberate and finalise the modalities of effective price discovery mechanism for InvIT transactions while also optimizing the time taken for completion of transactions.’* Also, these issues have also been flagged in the review of progress of monetization by the Hon’ble Finance Minister, held on 14.11.2022.
 - ii. Ministry of Power (MoP) vide OM dated 01.07.2022 informed about monetization of Tariff Based Competitive Bidding (TBCB) transmission asset through InvIT mode and stated that as the Guidelines for Monetization of Central Sector Core Assets is yet to be approved, the current delegation of power awarded under the Cabinet Note for POWERGRID's first InvIT tranche may prevail, according to which the POWERGRID's Board of Directors shall be the Competent Authority for approving the proposed asset monetisation transaction. However, MoP also requested DEA to confirm whether Board of Directors of POWERGRID is the Competent Authority for approval of monetization of TBCB transmission assets of POWERGRID or any further approval is required and if so, the competent authority for the same may also be indicated.
 - iii. In this regard, DEA vide OM of even No. dated 15.07.2022 informed MoP that pending approval of the Guidelines for Monetization of Central Sector Core Assets framed by DEA, existing delegation of powers by the Cabinet

for approving the projects shall prevail. However, as per the recommendations of the CGAM Meeting held on 08.02.2021, the project proposal for monetization needs to be appraised by the PPPAC before approval is granted by the competent authority. Hence, DEA requested MoP to submit the proposal for monetization of assets of PGCIL in the prescribed proforma for consideration of the PPPAC.

- iv. However, post internal deliberations, DEA vide OM of even No. dated 22.07.2022 further clarified to MoP that pending approval of the Guidelines for Monetization of Central Sector Core Assets by the competent authority, MoP/POWERGRID may proceed with monetization of their assets as per their already approved mechanism. The process shall be transparent and competitive one with emphasis on robust analysis and proper price discovery.
- v. Now, MoP has vide their OM dated 25.08.2022 informed that the transfer of future TBCB assets to PGINvIT will be a bilateral negotiated transaction and under this mechanism, competitive discovery of transfer value may not be possible. In order to ensure the transparency and fair price discovery, valuation of the assets is proposed to be carried out by two independent Valuers registered with Insolvency and Bankruptcy Board of India (IBBI) as per SEBI norms to provide a range of values as benchmark for the transfer consideration. MoP has requested NITI Aayog (with a copy to DEA) to accord approval to POWERGRID for monetization of its TBCB assets through PGINvIT based on the aforementioned valuation methodology.
- vi. Further, MoP vide OM No. 25-10/4/2019-PG(Part-2) dated 25th October, 2022 has also submitted that, considering the guidance factors given by National Monetization Pipeline (NMP) for the public sector to determine the scale of asset monetization as an alternative means to meet the funding, gap there is no requirement for asset monetization for financing the infrastructure investments of POWERGRID in the current financial year. In view of above, MoP has requested to consider the proposal for not undertaking monetization of assets of POWERGRID in the current fiscal.
- vii. DEA is preparing Guidelines for Monetization of Central Sector Core Assets for standardizing and streamlining the entire process of Asset Monetization of Core Assets owned by CPSEs/Ministry/Departments. One of the models of Asset Monetization is through the InvIT route. The InvIT route enables the resources from capital markets to be infused in infrastructure development. However, since InvITs by their very nature are subjected to vagaries of capital market sentiments, hence, a sound

valuation mechanism needs to be put in place so as to ensure optimum price realization of monetized assets. Since, till date only two public Sector InvITs have been launched, one each by NHA (MoRTH) and PGCIL (MoP), hence, it would be useful for them to share their experiences and how they undertook or plan to undertake valuation of assets, so as to ensure effective price discovery mechanism for InvIT transactions while also optimizing the time taken for completion of transactions.

- viii. An Issues Note for the meeting was also prepared and circulated to all the members of the PPPAC (attached as **Annexure – II**).
3. The Chair then invited PPPAC Members to identify various issues/ concerns related to asset monetization and InvIT mode. Following issues/ concerns were identified during deliberations in the meeting:
- i. Which is the most appropriate model for asset monetization PPP/TOT vs. PSU InvIT?
 - ii. When to go for asset monetization? What should be the general approach and considerations?
 - a. Even if the organization doesn't have any investment need, should it still go ahead with the asset monetization?
 - b. If the return on capital released from monetization is not paripasu with the return from the operational assets, whether it would lead to erosion of capital?
 - c. Should asset monetization be subject to cost of PSU borrowing vis-à-vis cost of asset monetization capital?
 - d. Is InvIT a financially prudent mechanism of Asset Monetization in the light of: -
 - Cheaper cost of borrowing vs. high cost of InvIT Capital
 - Securitization of assets vs. Monetization of Assets
 - iii. For a PSU sponsored InvIT, what is the better option for project manager and investment manager: - government company or private company?
 - iv. What should be the appropriate method of price discovery for InvIT:-
 - a. Whether the PSU InvIT shall be Private Listed or Public Listed?
 - b. In case of Public Listed InvIT, what should be the minimum percentage of retail unit offering?
 - c. What should be the mechanism for valuation of assets and price discovery?
 - v. What should be the mechanism of Follow on Offer for existing PSU InvITs?
 - a. Offering to the existing PSU InvIT after valuation by independent valuers (Negotiated Value),

- b. Offering to the existing PSU InvIT by following the mechanism similar to the original offer (Market Bidding),
 - c. Open Market bidding in which existing PSU InvIT and Private InvITs can participate (may be with right of first refusal to the existing PSU InvIT).
- vi. Under asset monetization, rights in the asset should be transferred for a limited period and should be transferred back after that period. In this regard, what are the implications of the GST on Asset Monetization, including InvIT Mode.
4. Further, after deliberations, PPPAC decided the following: -
- i. These identified issues require further deliberation to establish broad guiding principles for InvIT mode of asset monetization.
 - ii. Meanwhile, Administrative Ministry/Department may make an assessment of the future requirements of the capital, investment avenues, cost of alternate sources of capital such as debt, asset securitization, etc.
 - iii. In an asset monetization transaction, the transfer of asset's rights/ ownership shall not be perpetual but for a limited period with mandatory transfer back/buyback at nominal value, through a well-defined contractual framework.

The meeting ended with vote of thanks to the Chair.

Annexure - I

List of attendees of 110th Meeting of PPPAC chaired by Secretary, DEA held on 8th October, 2022 and on 19th November, 2022 to consider the modalities of Asset monetization through PSU InvITs:

1. **Department of Economic Affairs (DEA), Ministry of Finance**
 - a. Shri Ajay Seth, Secretary- In Chair
 - b. Shri Baldeo Purushartha, Joint Secretary (ISD)
 - c. Dr. Kartik Agrawal, Deputy Director
2. **Department of Expenditure (DoE), Ministry of Finance**
 - a. Sh. L.K. Trivedi, Director
 - b. Ms. Shalaka Kujur, Deputy Director
3. **Department of Expenditure (DoE), Ministry of Finance**
 - a. Shri Ritvik Pandey, Joint Secretary
4. **NITI Aayog**
 - a. Sh. ParthaSarthi Reddy, Adviser (PPP)
 - b. Ms. Alpana Jain, Sr. Specialist
 - c. Ms. Aparna Bhatia, Sr. Specialist
4. **Department of Legal Affairs (DoLA)**
 - a. Dr. R.J.R. Kasibhatla, Deputy Legal Advisor
5. **Ministry of Power (MoP)**
 - a. Shri Alok Kumar, Secretary
 - b. Shri Mohammad Afzal, Joint Secretary
6. **Ministry of Road Transport and Highways (MoRTH)**
 - a. Shri Amit Kumar Ghosh, Additional Secretary
7. **Department of Disinvestment and Public Asset management (DIPAM)**
 - a. Shri TuhinKanta Pandey

8. **Department of Public Enterprises (DPE)**
 - a. Shri Rohin Koppuravuri, Deputy Director

9. **Securities and Exchange Board of India**
 - a. Shri Ashwani Bhatia, Whole Time Member

10. **POWERGRID Corporation of India Ltd. (PGCIL)**
 - a. Shri K Sreekant, CMD
 - b. Shri G. Ravisankar, Director (Finance)
 - c. Shri Sunil Agrawal, Executive Director (Corporate Planning)

11. **National Highways Authority of India Ltd. (NHAI)**
 - a. Shri NRVVMK Rajendra Kumar, Member (Finance)

12. **PGInvIT**
 - a. Shri Purshottam Agarwal, CEO

13. **NHAI InvIT**
 - a. Shri Suresh Goel, CEO