



TOLLING

THE JINGLE OF CASH

With billions of dollars being invested in new highways and expressways, toll collection has emerged as a major business opportunity attracting both domestic and international players, writes **A Kumar**.



AS India's network of national highways, expressways and major roads expands rapidly, collecting toll from vehicles on these arteries – both existing ones that are being upgraded, and new ones that are being built – is emerging as a significant business opportunity, attracting both domestic and international players.

Toll is levied in about 145 stretches of expressways and national highways across India. Of these, 90 are publicly-funded highways, while the rest developed under the public-private partnership model. Toll is collected on more than 6,200 km of the total national highways network of 66,000 km in the country.

The National Highway Authority of India (NHAI), the regulator for the roads and highways sector, earned almost US \$440 million from toll collection during financial year 2009-10 (which ended on March 31, 2010), a significant, over 14 per cent jump as compared to the previous fiscal's figure of US\$ 385 million. In financial year 2007-08, the NHAI had collected less than US\$ 320 million as toll.



According to Mr Kamal Nath, the Union Minister for Road Transport and Highways, about US\$ 70 billion will be invested over the next three years in building new roads in the country. Of this, US\$ 45 billion will come from the private sector. Toll roads – being developed on a build-operate-transfer (BOT) basis – will account for 60 per cent of the new roads and highways, says the Minister.

About 25 per cent of the roads are being built on annuity, where the payment is deferred. The remaining 15 per cent of roads are being developed on the standard engineering-procurement-construction (EPC) basis, where the government appoints a contractor to construct the road, which remains under its ownership.

So the future for the toll business is bright, as the government has embarked on an ambitious programme to develop more than 7,000 km of national highways every year. “High economic growth, an increasingly mobile population and greater levels of trade are fuelling traffic

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flows across India,” points out Paul Fletcher, senior partner, Actis, a leading private equity (PE) investor that has tied up with TRIL Roads Pvt Ltd, a subsidiary

of Tata Realty and Infrastructure (TRIL), for a joint investment of US\$ 200 million in a roads and highways fund. “The Indian government’s National Highways Development Programme (NHDP) is the largest highway development programme in the world.”

Toll roads are getting large bids as investors and developers find them attractive due to huge traffic volumes and virtually no post-construction risk. The NHAI has also taken initiatives to attract large players to bid for the projects. A project worth more than US\$ 675 million, for instance, would require the consortium bidding for it to have a minimum net worth of over US\$ 225 million. If the project cost exceeds US\$ 675 million, the net worth of the bidder will have to be much higher – the higher the cost of a project, the higher net worth requirement.

Firms bidding for toll collection and toll plaza maintenance should have a net worth of one-third of the estimated annual toll collection, according to the new norms that have been set up by the government.

AN ATTRACTIVE PROPOSITION

THE toll collection business is attracting the interest of international players, including private equity (PE) funds, both as a consequence of the government accelerating the highways development programme and the fact that the model concession agreement (MCA) makes it worthwhile for bidders to take up such projects.

One of the biggest investments was announced in April 2010, when TRIL Roads Pvt Ltd (TRPL), a 100 per cent subsidiary of Tata Realty and Infrastructure Ltd (TRIL), signed an agreement with Actis, a leading private equity investor, for a joint investment of US\$ 200 million in a PE transaction. Over the next few years, the Tata unit intends to execute and develop roads and highway projects worth nearly US\$ 2 billion. It has a partnership with Atlantia, one of Europe's largest toll road operators, to bid for concessions to upgrade, operate and toll existing Indian

roads and highways.

"We are delighted to welcome Actis as a partner in our roads business," remarks R K Krishna Kumar, chairman, TRIL. "The house of Tata's has always endeavoured to set global standards of quality and excellence in the businesses we operate in. We will bring world-class quality and safety standards for the Indian roads sector and strive to improve the quality of life for the common man. We are confident that this partnership will greatly contribute to the infrastructure development of the country."

Sanjay Ubale, managing director, TRIL, notes that the partnership with Actis will greatly enhance its capacity to invest in large road projects that NHAI intends developing through the PPP format.

Tata and Atlantia bagged their maiden project in the roads and highways sector in 2009 by winning the concession for

the 110 km Pune-Solapur Expressway. The project, valued at more than US\$ 310 million, is being implemented on a build-operate-transfer (BOT) basis from the National Highway Authority of India (NHAI).

Atlantia is Italy's largest toll motorway builder and operator as well as the largest private investor in infrastructure in Italy with projects worth over US\$ 24 billion.

3i Group Plc, the UK-based PE major, is also keen on investing in toll and highways projects. The firm, which has a US\$ 1.2 billion India infrastructure fund, had earlier invested more than US\$ 100 million in Hyderabad-based Soma Enterprises, a leading infrastructure development firm. The government had in February 2010 cleared an over US\$ 80 million foreign direct investment (FDI) proposal of Soma Highways (Toll) Projects, a group company.



TOLL TALES

TOLL roads are now becoming popular across India. One of the most successful 'toll tales' is the 96-km-long Mumbai-Pune expressway. Ten years after the initial segments were thrown open to motorists, India's first, access-controlled, six-lane expressway sees the movement of more than 12,000 vehicles daily.

Toll rates range from US\$ 3.16 for a

car to US\$ 9.28 for a bus and US\$ 21.36 for a multi-axle vehicle. Considering the fact that the expressway cuts down travel time by nearly two hours, most road-users do not mind paying the tariff.

The Bandra-Worli Sealink, opened in 2009, is also another major toll stretch in the country's financial and commercial capital. National Highway 4,

which links Pune to Bengaluru, is also a toll highway, and one of the busiest west-south corridors.

Delhi and the National Capital Region (NCR) are also seeing the development of toll highways and expressways, most of which are already operational. Several stretches of national highways in Tamil Nadu are also toll corridors.



For those bidding for multiple plazas, an additional requirement of 10 per cent net worth has been prescribed.

The government is also identifying the right toll technology that can be made applicable across the country. Nandan Nilekani, chairman, Unique Identification Authority of India, and former chairman of Infosys Ltd, is heading a committee that is expected to give its recommendations to the government on the most appropriate technology for toll plazas all over India over the next few months.

The aim is to integrate the back-end software of all the plazas to ensure seamless travel for vehicles across highways and expressways, with the

motorist (or truck-driver) using smart cards to pay the toll. The NHAI had earlier experimented with three existing electronic tolling technologies that are prevalent in Europe and the Far East, but decided against opting for any of them.

BOT road projects with toll as the main source of revenue – instead of earnings from real estate development along both sides of the corridor – is emerging as the most popular vehicle for highway construction in India. Virendra Mhaikar, chairman and managing director, IRB Infrastructure, the largest operator of toll roads in India (with more than 800 km of toll highways under its control), points out there is tremendous potential for growth

for the toll sector.

IRB Infrastructure – which also collects toll along the Mumbai-Pune Expressway and the Bandra-Worli Sealink in Mumbai – earns almost US\$ 500,000 daily through toll collection. The group plans to bid for projects worth more than US\$ 1.1 billion over the next three years. "We plan to sustain our buoyant growth in the future," says Mhaikar.

Toll operators in India are indeed bullish about the prospects for the sector, which is still at a nascent stage. With the automobile sector speeding along the fast track as thousands of Indians acquire new wheels, the road ahead appears to be long and smooth. 🌈