Road HAM projects - Safe drive for stake holders

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Operational hybrid annuity model (HAM) projects of National Highways Authority of India (NHAI, rated CARE AAA/ Stable) with low leverage have proved to be a safe investment proposition for the stakeholders. Strong pipeline of HAM projects and reinforcement of contractual terms augur well in terms of business prospects for the developers despite surge in competition. CARE Ratings has analysed HAM projects totalling to 25,700 lane km, with bid project cost (BPC) of around Rs.1,20,400 crore and debt of around Rs.50,000 crore. These projects were awarded by NHAI between FY2016 to FY2019 and cover around 90% of the projects awarded in this period. There are 13 unique sponsor-cum-engineering procurement construction (EPC) contractors executing these projects. This article is a sequel to CARE Ratings article titled: Journey of HAM- Credit story so far (published on Oct 9th, 2020)

Key takeaways of the study are as below (% are in BPC terms):

- Of the sample, 38% have achieved provisional commercial operations date (PCOD) while 18% are expected to achieve PCOD by March 2022. This entails robust debt refinancing opportunities of Rs.28,000 crore over FY22 and FY23.
- While the strong sponsors continue to deliver superior execution, 10% of the HAM projects awarded to weak sponsors continue to languish.
- Relaxation in the bidding criteria and changes in the model concession agreement of HAM projects have intensified competition in the bidding from Q3FY21. The number of maximum bidders rose to 20 in FY21 as against maximum 10 bidders till FY20. Competitive intensity continued to remain high during H1FY22.
- Road developers with focus on HAM projects have posted healthy growth at a CAGR of 19% during FY18-FY21. CARE Ratings expects revenue growth of 13% during FY22 for these players. However, decline in the PBILDT margins by around 210 bps is expected during FY22 over FY20 levels due to disproportionate hike in commodity prices over inflation indexation and impact of Covid-19. Assuming a nullifying impact of commodity prices in the upcoming bids by developers, CARE Ratings estimates PBILDT margins to taper down to 14%-15% in the medium term, owing to increasing competitive intensity.
- Capital structure and debt coverage indicators of road developers continue to remain strong on account of low-to-moderate reliance on debt. Asset monetization has also aided the balance sheet strength of road developers. Outlook for the sector is stable.

Strong sponsors outpace; projects with weak sponsors face delays ….

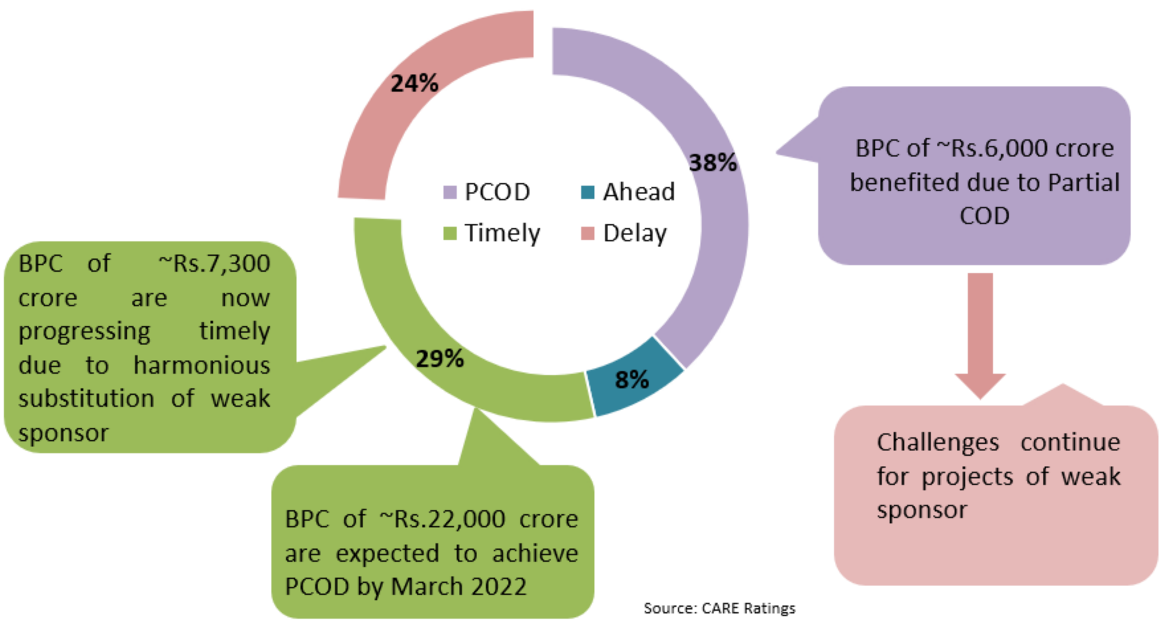


Figure 1: Project Progress (% of BPC) till March 2021

Robust refinancing opportunities over FY22-FY23

Operational HAM projects and projects expected to achieve PCOD by March 2022 tantamount to an aggregate BPC of Rs.68,000 crore (56%). This implies robust refinancing potential of around Rs.28,000 crore debt over FY22 and FY23. To analyse the cash flow resilience of projects considering non-linear transmission of bank rate over lending rate on these projects, CARE Ratings tested them

under two scenarios.

- **Scenario-I:** BPC >1.10x Total Project Cost (TPC) or BPC~TPC with adequate bidding in O&M annuity;
- **Scenario-II:** BPC ~TPC and there is aggressive bidding in O&M annuity

Cash flow resilience is expected to remain higher under scenario-I due to low project leverage. CARE Ratings estimates 62% of sample debt of Rs.28,000 crore to exhibit high cash flow resilience and may see greater traction for refinancing. Cash flow resilience is expected to remain lower under scenario-II due to high project leverage and aggressive bidding in O&M annuity. CARE Ratings estimates 21% of sample debt to belong to low cash flow resilience.

Healthy order book to propel growth, margins to head southwards

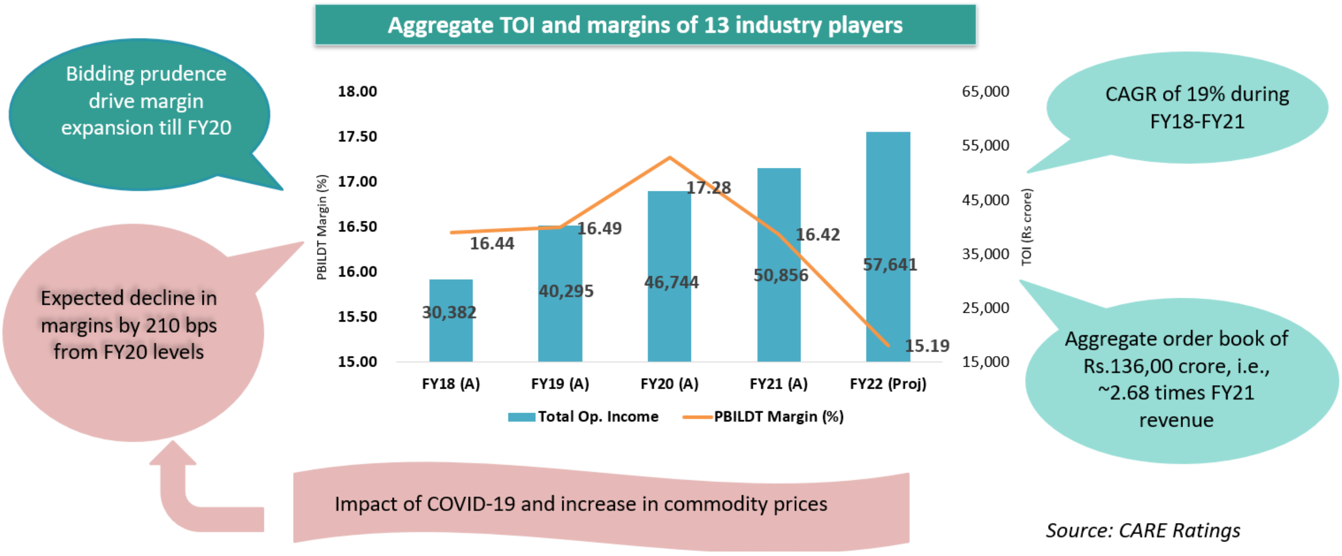
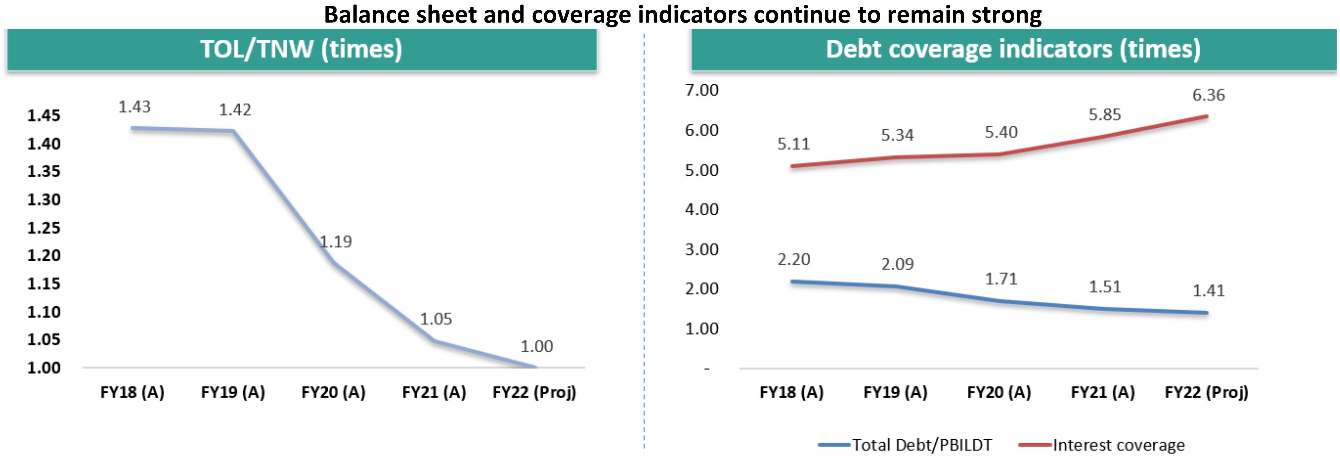


Figure 2: Aggregate TOI and margins of 13 industry players

Balance sheet and coverage indicators continue to remain strong

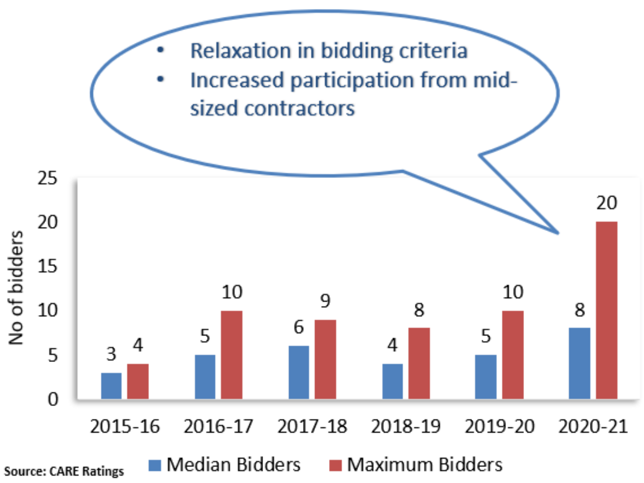


Improved liquidity to lower reliance on debt

Figure 3: Debt coverage indicators; Source: CARE Ratings

Heightened competitive intensity to taper PBILDT margins

Number of bidders in HAM projects



Source: CARE Ratings

Project size-wise competition during 2020-21

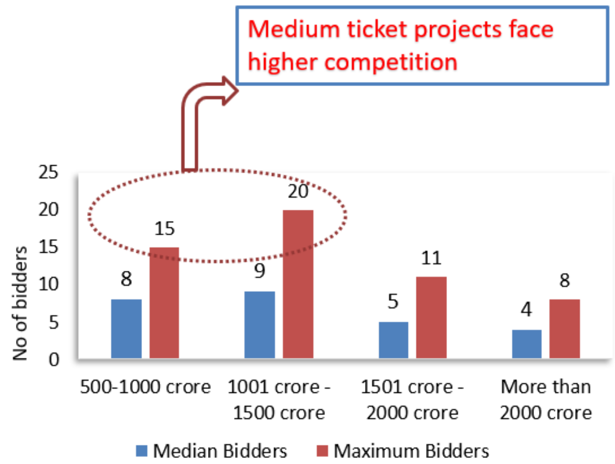


Figure 4: Increased competitive intensity

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