

THE INDIAN ROAD SECTOR

Gradually disappearing roadblocks

Over the last decade, road connectivity has assumed remarkable importance and received increasing attention by the Government, given its importance in the economic and social development of the country. The Government's initiatives are directed both towards formalising an adequately robust yet comprehensive policy framework relating to, *inter alia*, private sector participation, model concession agreements and the process of awarding road contracts, as well as in facilitating expeditious implementation of projects across the country.

The Government has been augmenting the allocation of funds to the road sector through the past few Five Year Plans. The outlay in the Eleventh Five Year Plan (2007-12) was Rs.2.79 trillion, 119% higher than in the Tenth Five Year Plan (2002-07). The funds earmarked in Twelfth Five Year Plan (2012-17) are nearly double at nearly Rs.5 trillion. Fruition of these ambitious plans has remained a challenge given that the sector remains mired in several issues. However, the sector is showing signs of gradual improvements as is evident from the fact that around 1,682 km in 2007-08, 2,205 km in 2008-09 and 2,693 km in 2009-2010 were constructed. This translates into 4.6km per day, 6.04 km per day and 7.3 km per day, respectively. Besides, the achievement reportedly during June 2009 to August 2010 has hovered in around 12.3 km per day, which is substantially better than the average achievement of the programme in the previous years.

Of the several "road-blocks" witnessed by the sector, prominent are regulatory hurdles, delays in grant of approvals, land acquisition issues, dispute resolution, capacity constraints and funding limitations. Whilst the former four emanate from the overall policy and regulatory framework, the remaining are issues prevailing with the private sector. Certain corrective measures have been initiated by the Ministry of Road Transport and Highways (MoRTH), based on the recommendations of the **B.K.Chaturvedi Committee** in order to resolve the impending issues, mainly relating to award of contracts, ascertainment of threshold capacity limit for bidding, qualification criteria, validity of the Request for Qualification (RFQ) and setting up of Special Land Acquisition Units (SLAUs) for speeding up the land acquisition process.

However, augmentation of financial and technical resources are some of the key requirements to ensure enhanced participation from the private sector. It is therefore

highly imperative that debt markets and equity finance channels open up alongwith enhanced participation from pension funds and dedicated infrastructure funds which shall boost the availability of financial resources for the sector.

FY10 Performance of CARE rated road portfolio :-From the credit rating perspective, project delays leading to time and cost- overrun with consequent distancing of revenue visibility translated into increased sponsor support towards the project. On reviewing the rated road portfolio for FY10, CARE observed that the credit outlook for majority of the project stage road companies facing huge delays in acquisition, did not deteriorate primarily on account of unstinted support from the sponsor. This was also evident in a handful operating road companies esp. toll based, which faced liquidity constraints owing to mismatches in the traffic and envisaged toll revenue. Besides, majority of the sponsors of BOT projects are also doing the EPC work for the respective project, which ensures considerable level of sponsor support and is a credit positive.

The road sector has of late assumed significant prominence and the thrust is likely to continue for upcoming years. Despite severe roadblocks faced by the industry which is characterized by long gestation nature, the impetus is bound to stay upbeat given the huge economic significance associated with it and rising investor interest in the sector. Going forward, stable prospects of the sector hinge on the ability of policymakers to handle varied, often contrary, interests in issues like land acquisition. Besides, increased private participation and access to long-term finances shall act as catalyst to the overall development of the Indian road sector.



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