

Quality First: MoRTH's New Bidding Norms to Increase BG Requirement for Aggressive Bidders



May 26, 2025 | Ratings

Synopsis

- The Ministry of Road Transport & Highways (MoRTH) has removed the existing 3% cap on Additional Performance Security (APS) and implemented a revised framework for APS to deter abnormally low bids in National Highways projects and ensure quality as well as timely and effective completion. Effective April 30, 2025, APS applies to all central government road projects.
- Earlier, relaxed bidding norms intensified competition in Central Government Road projects, resulting in significantly discounted bidding compared to the estimated cost, specifically in terrain projects. Aggressive new entrants in the sector led to discounted bids, causing delays in several projects or their execution with compromised quality.
- As of March 2024, the Ministry of Statistics and Programme Implementation (MoSPI) reported that 440 out of 1,873 infrastructure projects (each worth Rs 150 crore or more) faced a cost overrun of Rs 5.01 lakh crore, a 18.65% increase from initial cost estimates. Furthermore, 41.59% of projects (i.e., 779 projects) are behind schedule, with average delays exceeding three years, while 393 have no set commissioning date. Issues such as poor project reports, delays in approvals, land acquisition, and environmental clearances contribute to these setbacks.

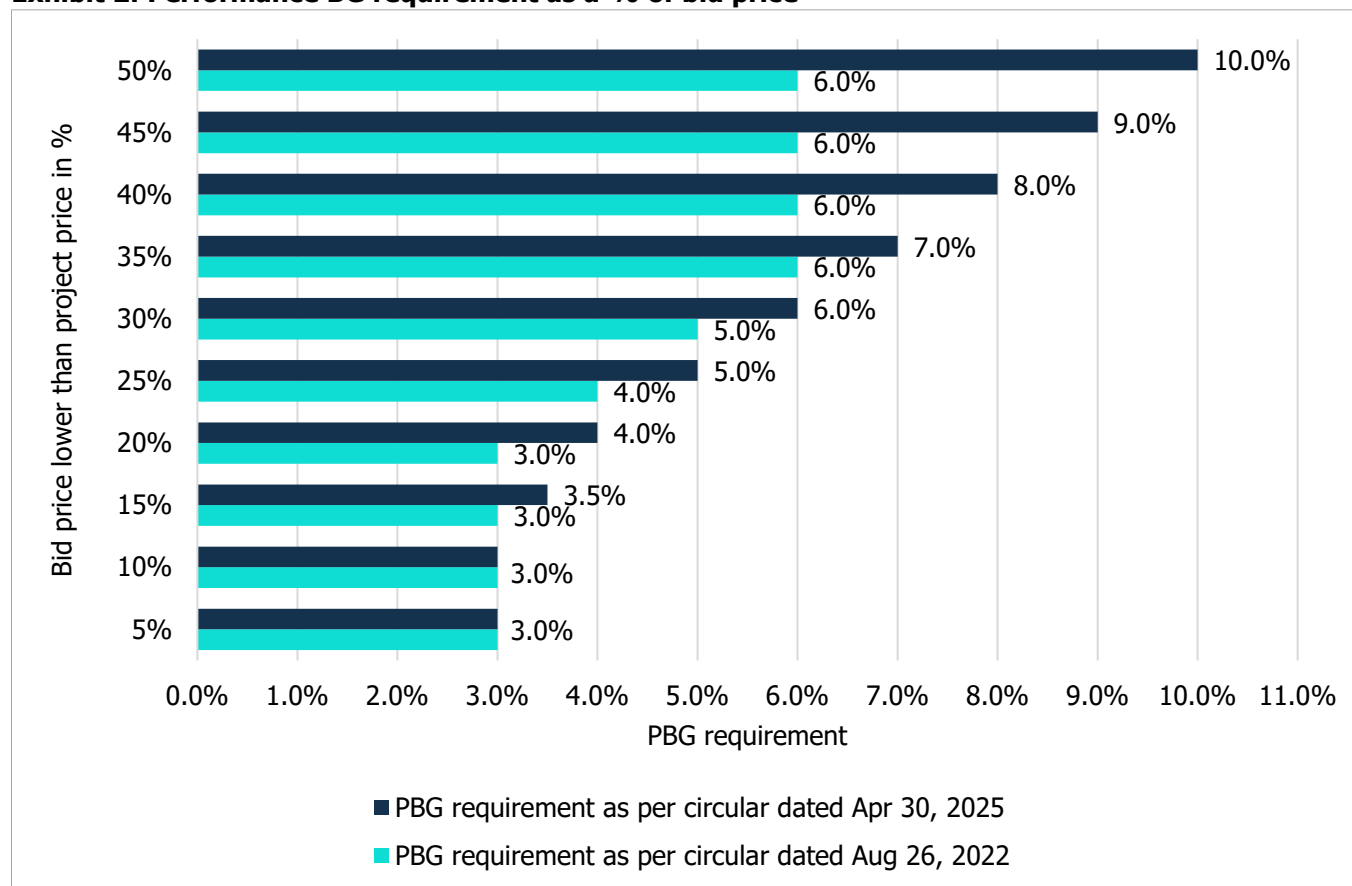
Exhibit 1: Key changes introduced by MoRTH for APS requirement

Particulars	Previous APS norms (August 2022 to April 2025)	New APS norms (April 30, 2025)
APS capping	3% of the bid price	No cap; APS can exceed 3% based on bid deviation
Applicability of APS	Bids lower than 20% of the estimated project cost	Bids lower than 10% of the estimated project cost
APS calculation formula	For bids lower than 20%, APS at a rate of 0.2% for every 1%, subject to a cap of 3%.	(i) For bids lower than 10% but not below 20% of the estimated project cost, APS at a rate of 0.1% for every 1%. (ii) For bids below 20% or more of the project cost, APS increases to 0.2% per 1%.

Source: MoRTH Circulars, CareEdge Ratings

Below is an illustration of the performance bank guarantee requirement according to the revised APS norms circular dated April 30, 2025, compared to the earlier circular dated August 26, 2022:

Exhibit 2: Performance BG requirement as a % of bid price



Source: MoRTH Circulars, CareEdge Ratings

CareEdge Ratings' View

Sandeep Aggarwal, Associate Director, CareEdge Ratings, said, "With the recent changes, working capital requirements for contractors are expected to increase due to higher cash margins on additional APS and the need for extra collateral mortgaged with banks and financial institutions. This may adversely affect the bidding capacity of contractors, leading to lower order book growth in FY26 and weakening debt coverage metrics due to higher finance cost."

"The impact may primarily be concentrated on contractors who bid aggressively with limited sanctioned bank guarantee (BG) limits in central government road construction projects. Nevertheless, the revised APS framework will discourage abnormally low bids in central government road projects, potentially reducing competition while ensuring higher quality and more effective completion," concluded Puneet Kansal, Director, CareEdge Ratings.

Contact

Priti Agarwal	Senior Director	priti.agarwal@careedge.in	+91 - 033 - 4018621
Puneet Kansal	Director	puneet.kansal@careedge.in	+91 - 120 - 4452018
Sandeep Aggarwal	Associate Director	sandeep.aggarwal@careedge.in	+91 - 120 - 4452062
Aashu Singh	Lead Analyst	aashu.singh@careedge.in	+91 - 120 - 4452077
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 67543596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and strong position across the segments. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.

Disclaimer:

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.

Privacy Policy applies. For Privacy Policy please refer to https://www.careratings.com/privacy_policy

© 2025, CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information. Any use or reference to the contents herein on an "as-is" basis is permitted with due acknowledgement to CARE Ratings. Reproduction or retransmission in whole or in part is prohibited except with prior written consent from CARE Ratings.