Indian Roads- Bumpy Ride Ahead?

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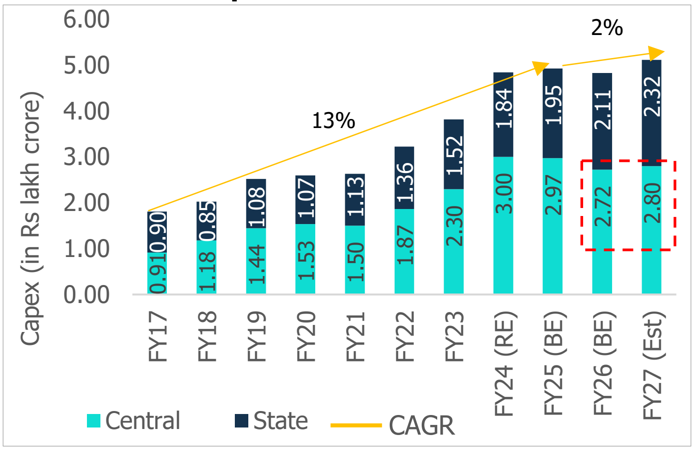
Synopsis

In this article, CareEdge Ratings examines the evolving dynamics of the Indian roads sector amid a sustained moderation in national highways (NH) awarding, elevated execution challenges, heightened competitive intensity and impact of surge in bitumen prices owing West Asia Crisis on roads developers. This is a sequel to CareEdge Ratings regular feature on roads sector (INR 1 trillion NH HAM Projects Facing Severe Delays – Impacts Construction Pace, February 07, 2025). The analysis focuses on-

i. Road capex growth is expected to remain muted over FY25–FY27, with states emerging as the primary growth drivers amid moderation in central NH spending.
ii. NH construction pace is estimated to decline to around 25 km/day in FY26, reflecting a continued slowdown in execution momentum. Going forward for FY27, the construction pace is expected to further decline by around 12-15% to 21-22 km/day.
iii. Changes in bidding norms introduced in April 2025, and July 2025, are expected to have a limited impact on large sponsors, while smaller and mid-sized players may face relatively higher constraints.
iv. Driven by competitive intensity and adverse order book mix, aggregate PBILDT margins of road developers are expected to decline from around 13% in FY23 to 11.5% in FY26. PBILDT margins are expected to decline further 100-150 bps in FY27 owing to recent surge in bitumen prices due to the ongoing West Asia crisis.
v. Working capital intensity of road developers has increased, with total debt/PBILDT is estimated to increase to around 2.97x in FY26 and gross current asset days increasing by approximately 55 days over FY24-FY26.

State Capex Drives Growth Amid Central Moderation

Chart 1: Total Capex in road sector

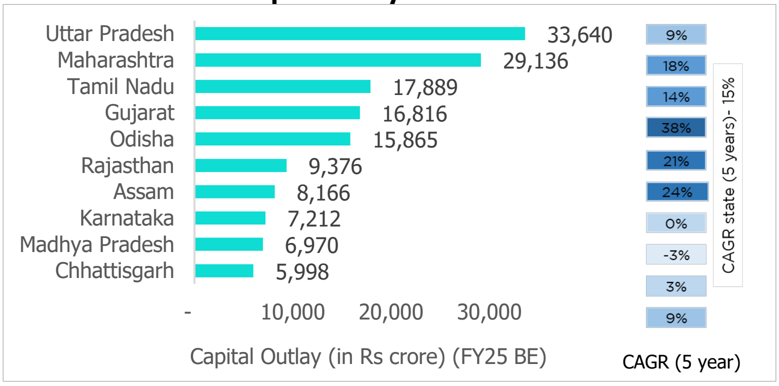


Source: RBI, PMGSY

The Indian roads sector has witnessed cumulative investments of approximately Rs 28.5 lakh crore since FY17, registering a compounded annual growth rate (CAGR) of around 13%, driven by both central and state governments over FY17 to FY25. However, muted project awarding for National Highways and execution challenges over FY24 and FY25 have led to stagnation in central capex on NH projects, despite elevated land acquisition costs. With the pace of NH construction slowing, central outlays are expected to remain muted in the near term.

In contrast, state-level investments have gained momentum. Capital outlay by states on roads infrastructure recorded a CAGR of around 15% during FY21–FY25, supported by a strong pipeline of regional connectivity projects. States such as Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Rajasthan, and Odisha have emerged as key contributors. For FY26 and FY27, state capex growth is expected to outperform central spending, reflecting a structural shift in sectoral investment priorities.

Chart 2: State Wise capex Outlay

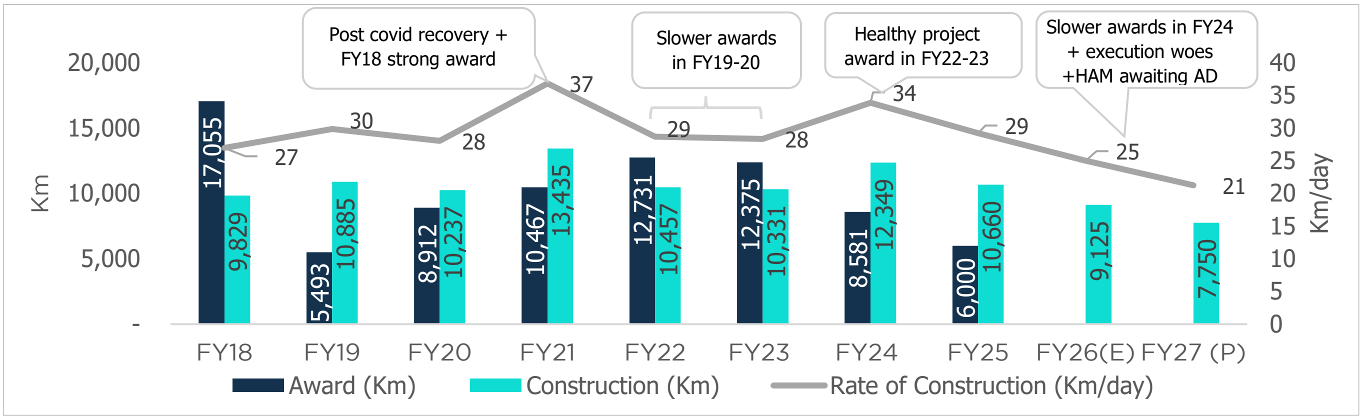


Source: RBI, PMGSY

NH Awarding Slowdown Continues to Weigh on Execution Momentum

The shift in investment mix has coincided with a sharp moderation in NH awarding activity. After a period of healthy project awards during FY22–FY23, NH awards declined materially over FY24 and FY25. While the awarding target for FY26 was set at about 10,000 km, CareEdge Ratings estimates significant under-achievement of this target reflecting a relatively muted pace of project awards during the year. Lower awarding, combined with execution hurdles and prolonged delays in receipt of appointed dates—largely due to land acquisition challenges—has directly weighed on construction activity. As a result, the pace of NH construction declined from about 34 km per day in FY24 to around 29 km per day in FY25 and expected to decline further by 14% to ~25 km per day in FY26 as anticipated by CareEdge Ratings (as cited in "National Highways Construction Pace to Decline by 7-10% to 9,500 km-10,200 km in FY26", dated June 17, 2025). Sustained low awarding and heightened execution challenges paired with increase in bitumen prices owing to the ongoing West Asia crisis is expected to further dampen construction pace by 12-15% to 21-22 km/day in FY27.

Chart 3: Pace of award and construction for National Highways



Source: MoRTH and CareEdge Ratings

Going forward, NHAI has indicated a shift in its awarding strategy, with new projects proposed to be awarded only after achievement of 80–90% land acquisition, along with a planned revamp of the Hybrid Annuity Model (HAM) concession agreement. These measures are expected to mitigate execution-related delays and improve project implementation timelines in the medium term. Given the availability of a healthy project awarding pipeline, a sustained pick-up in awarding activity in FY27 remains a key monitorable for the sector's revival.

For Road EPCs, Execution Hurdles and Bidding Intensity Deepen

Execution challenges remain pronounced across NH projects, particularly within the HAM portfolio. A significant proportion of HAM projects under construction continue to experience time overruns, primarily due to delays in receipt of appointed dates arising from land acquisition and right-of-way constraints, higher exposure to greenfield stretches, and uniform construction timelines that do not adequately factor in project-specific complexities and front-ended approvals. As a result, a sizeable share of the under-construction HAM portfolio exceeding Rs.1.25 lakh crore has witnessed delays exceeding six months, constraining execution visibility and elongating cash flow timelines for sponsors.

The moderation in NH awarding has further intensified competition across both HAM and EPC projects. With limited project availability, developers have adopted aggressive bidding strategies to sustain order book visibility, leading to steady compression in bidding premiums over NHAI cost estimates. Median bidding premiums have turned negative in since 2024, reflecting heightened risk appetite across sponsor categories. This combination of execution stress and aggressive bidding has weakened project economics and increased balafze
nce-sheet risks for sponsors.

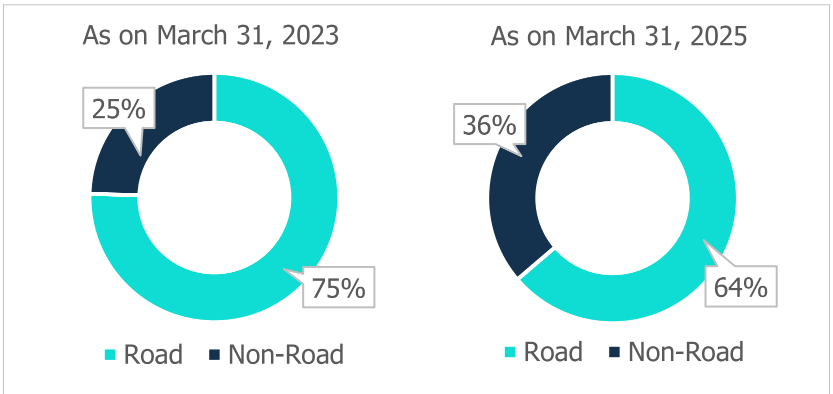
Change in Bidding Norm Changes Offer Limited Check on Aggressive Bidding

In response to sustained bidding aggression and execution concerns, the Ministry of Road Transport and Highways has introduced multiple regulatory measures through distinct circulars. The first circular issued in April 2025, mandates additional performance security (APS) for abnormally low bids, aimed at discouraging excessive under-pricing. However, the impact of APS is expected to remain moderate, given early release of performance security upon achievement of defined physical progress milestones and the availability of unutilised non-fund-based limits with large sponsors (as discussed in "Morth's New NH Guidelines: Balancing Progress with Pitfalls", dated March 27, 2025).

The second and more structural circular issued in July 2025 revises bidding eligibility norms through a tighter computation of adjusted net worth. Under the revised framework, 20% of unexecuted order value in public–private partnership projects is excluded while assessing net worth for bidding eligibility, alongside an increase in the minimum net worth threshold from 15% to 20% of project cost. This measure is expected to restrict aggressive bidding by developers with stretched under-construction portfolios and disproportionately impact small and mid-sized players, while larger, well-capitalised sponsors are likely to remain relatively resilient.

Impact Analysis on Road Developers

Chart 4: Share of road sector in orderbook of major developer



Source: CareEdge Ratings, Annual reports, study on 30 sponsors

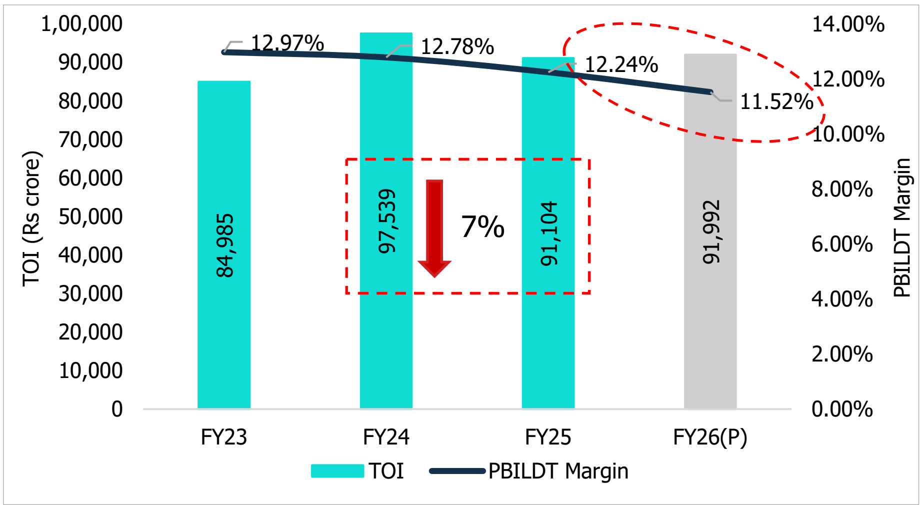
Order Book Shift Towards State Projects Credit Raises Risk Profile

The combined impact of lower NH awarding, execution delays, elevated competitive intensity and tightening of bidding norms has materially altered the business risk profile of road developers. While aggregate order book-to-turnover ratios have remained broadly stable, the composition of order books has shifted meaningfully. The share of road projects in the order books of major developers declined from around 75% in FY23 to about 64% in FY25, while the proportion of state government projects increased sharply from nearly 8% to around 35% over the same period. Contribution of non-roads and state projects is estimated to remain unchanged in FY26 owing to lower awarding by National Highways. This shift has heightened exposure to execution risk, elongated receivable cycles and higher counterparty risk.

Stagnant Top Line Amid Declining PBILDT Margins

Operational performance during FY25 has moderated amid subdued execution and delays in commencement of awarded projects. Aggregate total operating income of major road developers declined by approximately 7% in FY25 over FY24, reflecting lower executable order books and slower project ramp-up. Revenue visibility remains constrained, with aggregate turnover expected to remain largely stagnant in FY26 due to a significant portion of order books awaiting appointed dates.

Chart 5: Aggregate TOI and PBILDT margin of major sponsors



Source: CareEdge Ratings, study on 23 sponsors

Profitability has moderated in line with intensifying competition and adverse changes in order book mix. Aggregate PBILDT margins declined from about 13.0% in FY23 to around 12.2% in FY25 and are expected to compress further by 70–75 basis points in FY26, driven by aggressive bidding, lower fixed-cost absorption and higher overheads associated with diversification into other infrastructure segments.

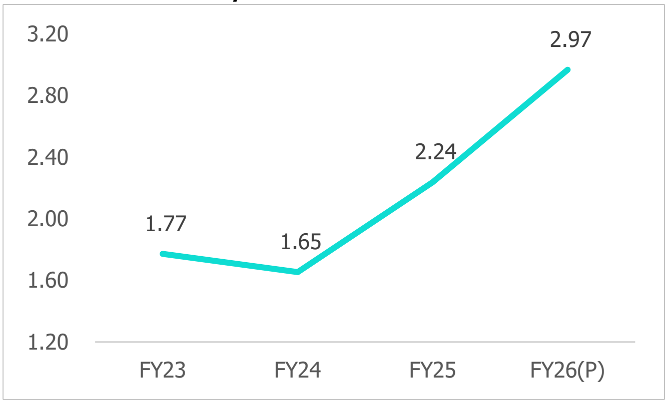
The recent sharp increase in bitumen prices, driven by supply disruptions linked to the West Asia crisis, is expected to exert additional pressure on the margins of major road developers. Bitumen cost typically accounts for around 12–15% of total project costs for flexible pavement, and therefore sharp price increase of 20-30% is likely to compress PBILDT margins by 100–150 bps in FY27,
notwithstanding the adjustment of contractual inflation indexation.

Rising Working Capital Pressures Leverage Metrics; developers with operational assets are resilient

Working capital intensity for EPC sponsors in 2025 has increased materially. Following the discontinuation of monthly payment mechanisms and rising exposure to state projects Gross current asset (GCA) days, which averaged around 180 days during FY23–FY24, increased by nearly 50 days in FY25. GCA days are expected to elongate further to around 235 days in FY26. The increase in working capital requirements has led to higher reliance on debt, with leverage levels measured as Total Debt / PBILDT expected to deteriorate to around 3.0x in FY26.

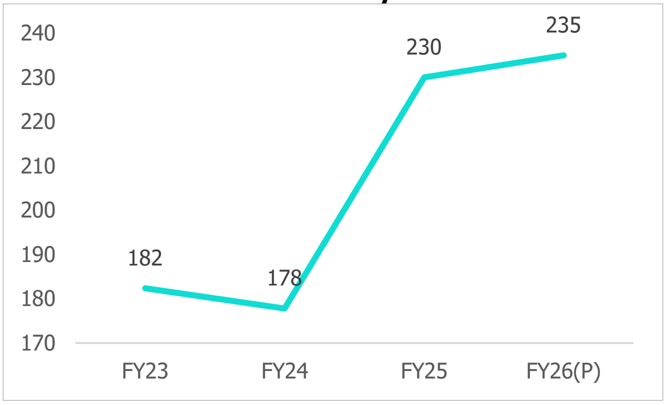
Developers with diversified portfolios and a pool of operational assets are relatively better positioned to manage liquidity pressures and leverage, while conversely players with large portfolio of under construction assets and high leverage are vulnerable to sustained pressure on cash flows and credit metrics.

Chart 6: Total debt/PBILDT



Source: CareEdge Ratings, study on 23 sponsors

Chart 7: Gross Current asset Days



Source: CareEdge Ratings, study on 23 sponsors

CareEdge Ratings' view

"Pace of construction for National Highways is estimated to decline by 14% in FY26 to ~25 km per day, the lowest level since FY19. Sustained decline in awarding for FY25 and FY26 paired with surge in bitumen prices owing to the ongoing West Asia crisis and heightened execution challenges is expected to decline pace of construction furhter to ~21-22 km/day in FY27. A sustained recovery in NH awarding during FY27 remains a key sector monitorable," says Setu Gajjar Associate Director, CareEdge Ratings.

"Heightened competitive intensity, execution delays and rising overheads owing sectoral diversification have continued to exert pressure on financial profile of road developers. PBILDT margins are expected to decline from about 13% in FY23 to around 11.5% in FY26. PBILDT margins are expected to decline further 100-150 bps in FY27 owing to recent surge in bitumen prices due to the ongoing West Asia crisis. Following the discontinuation of monthly payment mechanisms and rising exposure to state projects working capital requirement is estimated to increase by ~55 days in FY26 over FY24 pushing the leverage of roads developers. Nevertheless, roads developers with low leverage and portfolio of operational assets are better placed to manage headwinds," comments Maulesh Desai, Director, CareEdge Ratings.

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