

A sigh(n) of Covid Relief - Toll & HAM projects may benefit

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In FY2021, Government of India announced various liquidity measures under 'Atmanirbhar Bharat' financial package. Soon after, Ministry of Road Transport & Highways (MoRTH) and National Highways Authority of India (NHAI, rated CARE AAA/Stable) followed the suit by announcing slew of measures for the road sector in a bid to boost liquidity for roads developers against the backdrop of Covid 19 pandemic and resurrect investor confidence. These measures have been extended on a time-to-time basis by NHAI. On July 1, 2021, NHAI proposed to MoRTH to continue the benefits till September 30, 2021 in addition to grant of extension of time (EoT) under Covid-II.

In CARE Ratings' view, if the proposal is accepted, the likely extension of relief measures shall augur well for the road developers of under-construction Hybrid Annuity Model (HAM) projects primarily in terms of EoT for completion and additional time for achieving financial closure. Presently, the road developers/sponsors are entitled to these benefits under the Atmanirbhar Bharat package announced in FY2021. The proposed grant of extension of concession period for operational toll road projects is in alignment with the existing provisions of Concession Agreement. On an overall basis, in CARE Ratings' opinion such extension in concession period for toll projects shall be limited to about 20 days.

The salient measures and its likely impact on the sector are tabulated below:

Existing Relief Measures	Current proposal	Impact on the sector
Extension of Time (EoT)	Two to four months of EoT is proposed depending upon site condition	<ul style="list-style-type: none"> Additional EoT proposal shall counterbalance execution delays due to Covid-II. However, lengthy approval process of EoT issuance has been a dampener. Hence, timely issuance of EoT is crucial from credit perspective especially for the projects approaching schedule project completion date.
Extension of concession period for operational toll roads	Extension of concession period as per provisions of concession agreement	<p>Covid 19 pandemic is non- political event as per the clauses of the concession agreement. Hence, for operational toll roads, extension in concession period is equivalent to the period reporting daily toll collection < 90% of average daily toll collection (without force majeure event).</p> <p><i>With gradual unlocking by various states, increased penetration of electronic toll collection), CARE Ratings expects overall extension of concession period limited to ~20 days.</i></p>
Relaxation in contract terms with billing cycle aligned to monthly billing pattern from milestone completion	Extension up to September 30, 2021	<ul style="list-style-type: none"> Improved operating cycle and liquidity of roads developers during FY21. Increased construction pace of NH roads. Overall basis, extension till September 2021 shall extend the liquidity relief to road developers especially in Q2FY22 which is a lean period owing to monsoon.
Release of retention money for contractors on a proportionate basis for the work executed	Extension up to September 30, 2021	
No deduction in retention money for the fresh bills	Extension up to September 30, 2021	
Waiver of penalty for delay in submission of performance security or bank guarantee	Waiver extended to contracts entered in April and May 2021	<ul style="list-style-type: none"> Major relief to road infra developers with moderate to weak credit profile.
EoT in achieving financial closure	EoT of two to four months for concession agreement entered in Q1FY22	

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