Credit Rating Update

Indian Road Sector- Need a Nodal Dispute Resolution Authority

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Plan and outlay for the sector

Action on ground- still a far cry

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Over the last decade, the government's inititatives towards road sector have been directed both towards formalising an adequately robust and 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. Investment in road and bridge sector is projected at Rs 9.20 lakh crore during the Twelfth Five Year Plan period ending March 2017, as against Rs 5.16 lakh crore invested during the Eleventh Five Year Plan period ending March 2012. A target of 8,800 kms of road in 2012-13 has to be met with an allocation Rs 25,360 crore. It is further expected that 1,000 km of expressways would be completed during the Plan, while land for another 6,000 km would be acquired to initiate work.

Fruition of these ambitious plans has remained a challenge given that the sector remains mired in several issues. The recent episodes of exit from two prominent developers from BOT road projects, only reinstate the issues faced by the participants. The high quantum of projects facing delays in execution owing to regulatory hurdles, delays in grant of approvals, land acquisition issues, dispute resolution, capacity constraints and funding limitations only worsen the scenario. Whilst the former four emanate from the overall policy and regulatory framework, the remaining are issues prevailing with the private sector. Of late, the issues have gained so much ground that the envisaged pace of progress in awarding fresh projects through private participation as well as completion of awarded projects have suffered a colossal setback.

Currently for **an execution of an average NHAI road project, close to 30 odd clearances and approvals are required** which are granted at various levels and by diverse authorities. Several private developers were in the urge of winning projects and ended up in aggressive bidding with minimum or wafer-thin returns. In turn, achieving financial closure on such projects has proved to be an uphill task for quite a few.

Challenges

The risks to road projects, in terms of winners' curse of over-promising, ability of developers to provide the managerial and financial resources to undertake, multitude of approvals required, possible adverse developments in the economy, etc. were present over the years. However, impact of increase in interest rates (base rates of 9.50% in FY10 to 10.50%-11.00% in FY12), lack of financial resources and the slowdown in economy from 8% growth in GDP in FY10 to 5.5% growth expected in FY13 has resulted in chicken coming home to roost. The risks are unraveling project by project, owing to one or more of risks enumerated earlier, slowing down the entire sector.

Dismal performance in FY13

The year so far has thus witnessed a huge disappointment in the otherwise "favourable" Indian road sector. The road transport ministry and NHAI, which had a target of awarding 9,500 km of road projects, has now brought it down to 4,800 km. After awarding 8,000 km of projects in the last fiscal, there has been a slowdown in project award, with **only 2,500 km** being awarded till the end of December 2012.

Restricted funding avenues

Even NHAI faced a major blow when road transport ministry asked them not to go ahead with the Rs.10,000 crore tax-free bond issue in January 2013. This signal from the roads ministry has come after the finance ministry had expressed concerns over the inability of the highways authority to fully utilise the money raised through tax-free bonds (Rs.10,000 crore) in the last fiscal, mainly owing to tardy pace of project awards. This definitely has tightened the strings of NHAI's purses which required higher quantum of funds for rolling out bids in EPC mode, in the backdrop of lower projects awarded on premium basis.

What could be done-

Augmentation of financial resources,

While the MoRTH, NHAI and Central government continue with their increased impetus on increasing the Roads & Highways projects' execution, few things yet have to fall in place for smooth execution like augmentation of financial and technical resources which are some of the key requirements to ensure enhanced participation from the private sector. It is therefore 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. From the regulatory side, there has to be cohesive policy framework in bidding criteria, relaxation of exit guidelines and devising of a relatively simpler clearance / approval issuance process. On the other hand, setting –up of a nodal dispute resolution body will also aid in faster settlement of disputes between the concessionaire, the concessioning authority and other stakeholders.

Setting up of Nodal Dispute Agency

While efforts are on in this direction, only concrete measures and policy reforms undertaken will yield favourable results for this sector's growth prospects. Till then, the aggrieved parties will continue with the unfortunate 'blame-game' resulting in tardy progress of the projects, which take the shape of non-performing assets in a banker's portfolio.

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