

## Highways construction to slow down to 26-27 km per day in FY2020.

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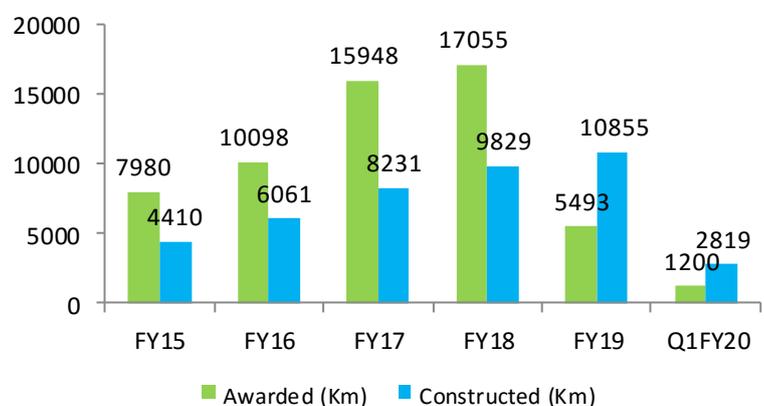
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CARE Ratings expects the overall pace of construction to slow down to about 26-27 km per day during FY2019-20 (refers to period April to March) owing to slow down in pace of awards, limited budgetary support, high risk aversion of public sector banks to infrastructure projects, worsened liquidity position of NBFCs and disruption in construction activity during monsoon and high cost of land acquisition. Furthermore, any short fall in external borrowings (IEBR) or any short fall in fund raising under toll operate transfer model will have negative impact on construction rate.

In view of slowdown in pace of awards under Hybrid Annuity model and Engineering Procurement Construction (EPC) model, CARE Ratings opines that to keep the pace of construction at current rate of 30 km per day entails private investment under Build operate transfer (BOT) model. However, road developers and lenders are wary of BOT road projects due to traffic and construction risks in BOT model. Government needs to mitigate or eliminate traffic risks and construction risks to attract private investment in BOT road projects viz. by way of extending concession period in case of shortfall in traffic estimates.

National Highways (NH) construction rate improved to around 30 km per day in FY2018-19 compared to 26.93 km in FY2017-18 and further improved to around 31 km per day in Q1FY2019-20 owing to huge projects awarded during previous years, sturdy pace of land acquisition during FY2018-19 and slew of reforms taken by government.

**Graph 1: Length of NHs awarded and constructed**



Source: MoRTH, CARE Ratings

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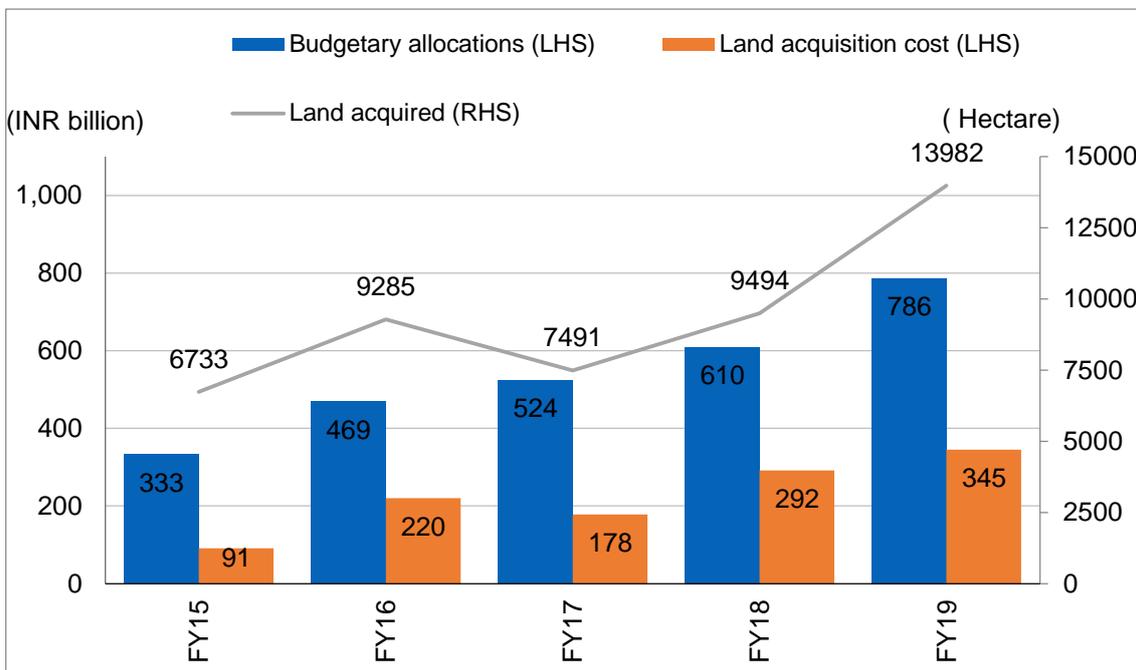
During Q1FY2019-20, 2,819 km and 1,200 km of NHs were constructed and awarded respectively as against 2345 and 892 during corresponding period a year ago. Out of 2,819 km of NHs, 1,848 km of

NHs were constructed by Ministry of Roads Transport and Highways (MoRTH), 928 km by National Highways Authority of India (NHAI) and 45 km by National Highways & Infrastructure Development Corporation Limited (NHIDCL).

During FY2018-19, 10,855 km length of NHs were constructed compared to 9829 km in FY2017-18. The construction target for FY2019-20 has been set at 11,000 km, of which 7,000 km will be constructed by MoRTH, 3,350 km by NHAI and 650 km by NHIDCL. During FY2018-19, 5,493 km length of NHs were awarded, which was 67.8% lower than 17,055 km of NHs awarded during previous year FY2017-18. Furthermore, projects award target has been reduced to 6,000 km for FY2019-20 from 20,000 km for FY2018-19.

Pace of land acquisition was strong during FY2018-19 and NHAI has acquired 13,982 hectare, which was about 47% higher than 9,494 hectares acquired in FY2017-18. Total expenditure for land acquisition increased from INR 29,200 crores (INR 3.07 crore per hectare) in FY2017-18 to INR 34,527 crores (INR 2.47 crore per hectare) in FY2018-19. Cost of land acquisition has increased by almost three times in recent years compared to INR 0.9 crore per hectare in FY2013-14. As a result of this, cost of land acquisition continues to hover around 25 to 30 % of total capital expenditure for NHs construction. Meanwhile, average capital outlay of NHs increased by 16 percent to INR 11.8 crore per km in FY2018-19 from INR 10.2 crore per km in FY2017-18. Furthermore, average capital outlay of NHs is higher at INR 15.4 crore per km for projects under Bharatmala Pariyojana. During FY2019-20, at an average capital outlay of INR 13-14 crore per km, NHs entail investment of about INR 1.4-1.5 trillion, which is much higher than the budgetary support. Funds allocated for construction or development of highways including Internal and Extra Budgetary Resources (IEBR) increased from INR 1,27,993 crore (IEBR of IN 62,000 crore) for FY2018-19 to INR 1,32,760 crore (IEBR of 75,000 crore) for FY19-20.

**Graph 2: Land acquisition and compensation cost versus Budgetary allocation**



Source: MoRTH, CARE Ratings

Under Bharatmala Pariyojana, the government awarded 178 projects having an aggregate length of 7,998 km till March, 2019 which was mere 23 percent of planned length of 34,800 km. As on June 30, 2019, there were 46 projects wherein appointed date was due for more than three months. Delay in awards is mainly on account of delay in obtaining pre-requisite land for awarding projects under EPC model (90 percent) and Hybrid Annuity Model (80 percent). Furthermore, as on March 31, 2019, there were 1495 NHs projects which are under construction or development stage. Out of which, 453 development projects were running behind scheduled timelines owing to delay in land acquisition, utility shifting, non-availability of aggregates, poor performance of contractors and delay in clearances and approvals.