

Indian Road Sector- Increase in Pace of Award and Execution

Background

India has an extensive road network of around 48.7 lakh km, the second largest in the world after USA. While USA has 21 km of road per 1000 persons, India has 3.8 km. India ranks 74th (out of 140) and 61st (out of 140) in terms of quality of overall infrastructure and quality of roads respectively as per the World Economic Forum (WEF) Report for 2015-16. Indian roads carry around 80% of passenger traffic and 65% of freight traffic.

Although the pace of award had witnessed decline during FY13 and FY14 after aggressive bidding during FY10-12, the same has gained momentum during FY15 and FY16. The projects awarded during FY10-12 faced various issues which include delay in clearances, non-availability of adequate funds from sponsors, etc. This resulted in the developers shying from bidding for road projects under Build-Operate-Transfer (BOT) model and has led to a shift in the awarding model during the last two years. Efforts taken by National Highways Authority of India (NHAI) to address the bottlenecks have resulted in increased pace of awarding of new projects and higher execution. Upfront land acquisition, clearance from Ministry of Environment, Forest and Climate Change (MoEF) and increasing proportion of EPC contracts leading to increase in pace of award of new projects.

Some of the major initiatives taken by the Government include:

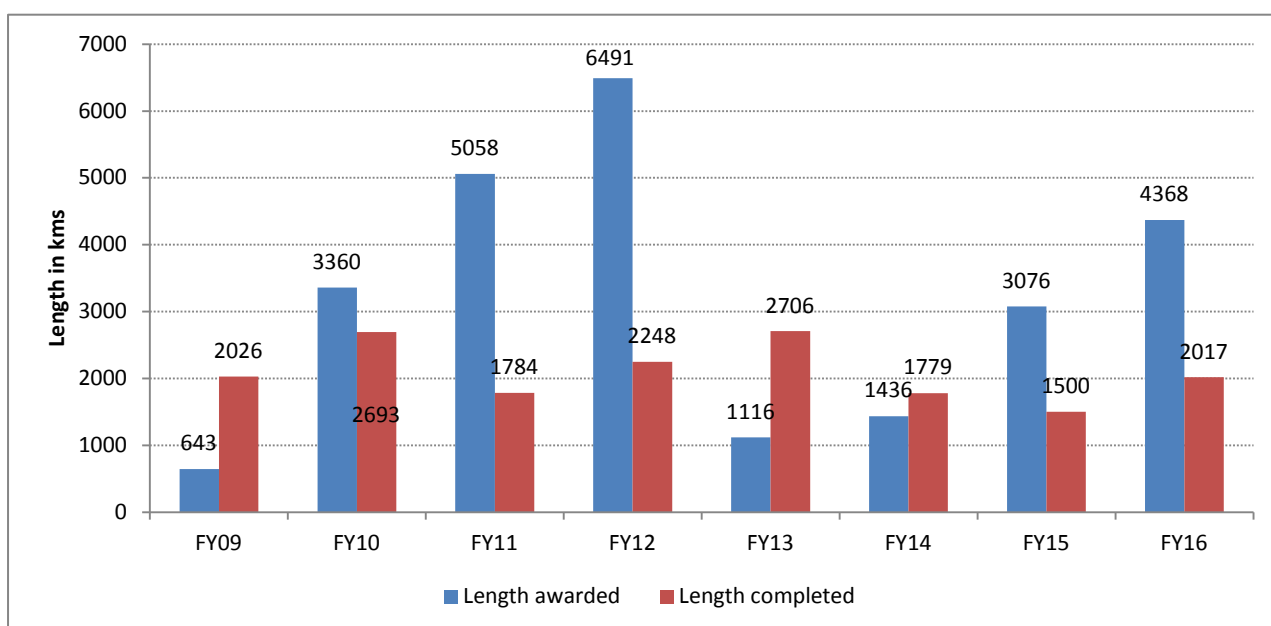
- Adoption of Hybrid Annuity Model (HAM) for road projects.
- Allowing developers to exit highway projects two years after their construction post completion. This is expected to unlock significant investment which will be available for re-investment.
- Availability of one time financial assistance for eligible stalled road projects wherein 50% of the works have been completed till November 2014.
- States to clear projects with up to 40 acres of forest land, hike limit for sand mining, online filing and clearing of Rail Over Bridges and Rail Under Bridges.
- Projects to be awarded/allowed for bid only when 80% of Right of Way (RoW) is in place.
- Premium restructuring wherein delayed premium payment is being allowed on a case to case basis. Further, payment of premium shall be commenced from fourth year from commercial operations date (COD) and increase in gradual manner in the later part of concession as per changes proposed in model concession agreement.
- Increase in allocation from Rs.40,000 crore during the last budget to Rs.55,000 crore for 2016-17. NHAI can also raise additional Rs.15,000 crore through bond issue for construction of roads. Total

investment in the road sector including Pradhanmantri Gram Sadak Yojna (PMGSY) is envisaged at Rs.97,000 crore.

- Allowing deemed termination if appointed date is not received within one year of signing of concession agreement
- Focus on real time data for traffic count and toll collection

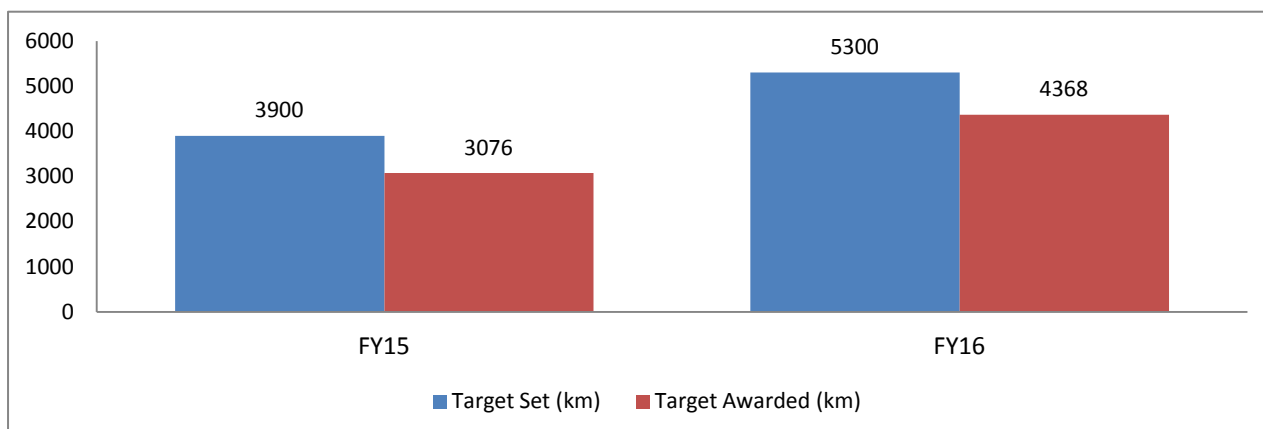
Length awarded and completed

With renewed thrust on infrastructure, road projects are gathering momentum as reflected by increase in award of projects by 42% during FY16 over FY15 (from 3076 km during FY15 to 4368 km during FY16) as presented below:.



Around 72% of the projects were awarded through EPC contracts while 20% and 8% of the projects were awarded in BOT and Hybrid annuity model respectively during FY16. Although NHAI has awarded highest length in km. projects during FY12, aggressive bidding by developers and inordinate delay in receipt of appointed date had resulted in cancellation of around 50% of the projects awarded in FY12. Cancellation of the projects reduced to 2.4% in FY15 and almost nil in FY16 mainly on account of increase in focus on EPC projects and receipt of the appointed date within reasonable period of seven to eight months. Hence, net award (adjusting for cancellation) during FY16 was higher at 4368 km in comparison to 3250 km level of FY12. More projects were awarded on EPC basis during FY15 and FY16 as against BOT model.

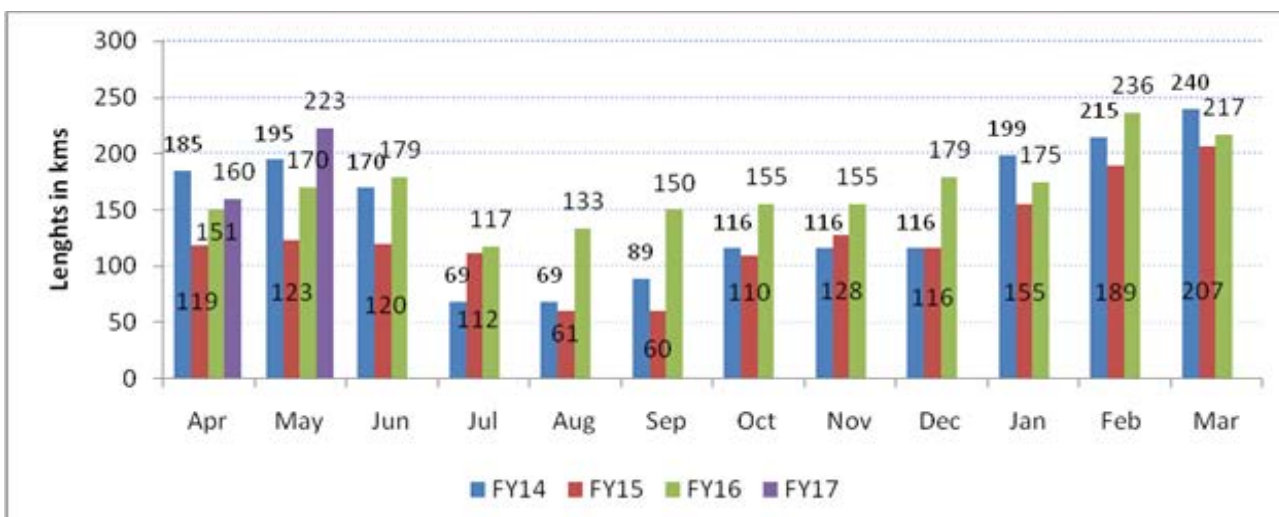
Target set and awarded



In terms of target achievement, as against the increased set award target of 5,300 km for FY16, NHA has awarded 4,368 km from April 01, 2015 to March 31, 2016 (82%) in comparison to award of 3,076 km awarded during FY15 as against set target of 3,900 km (79%), showing improved pace in awarding of projects during FY16. Furthermore, during 2MFY17, NHA has awarded projects of 224.92 km in length, out of which 85.57% projects were awarded through hybrid annuity and 14.43% through EPC mode as against award target of 15,000 km for FY17.

Increasing pace of execution

The construction of NHA roads during FY16 was 2,017 kms (5.51 km/day) which has increased from 1,500 kms (4.11 km/day) during FY15 and 1,779 kms (4.87 km/day) during FY14. Total projects under construction as on March, 2016 were 10,247 km including 105 projects of 7,145 km where construction work was yet to commence. Nevertheless, projects where construction work was to be commenced reduced from 7,145 km as on March 31, 2016 to 4635 km (83 projects) as on May 31, 2016 mainly on account of commencement of work in some of the projects awarded in FY16. Increase in pace of execution over last 38 months ended May 2016 is presented below:



Ambitious target set for FY17 albeit with expected increase in award and execution pace

NHAI plans to increase both awards and execution in FY17 by four times over FY16 levels i.e. with target execution of 8000 km (@21.92 km/day) and target awards at 15,000 km. In case of NH projects, the maximum length constructed in a single year during the last seven years was 2,693 km (7.38 km per day). Given the current pace of execution, the target set for FY17 looks ambitious. Nevertheless, CARE expects substantial increase in pace of award and execution during FY17 over FY16 mainly on account of various government initiatives, focus on hybrid annuity as well as EPC contracts and structural changes in the concession agreement. Developers with in-house EPC team, good financial flexibility and demonstrated execution track record are expected to benefit notwithstanding aggressive bidding.

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