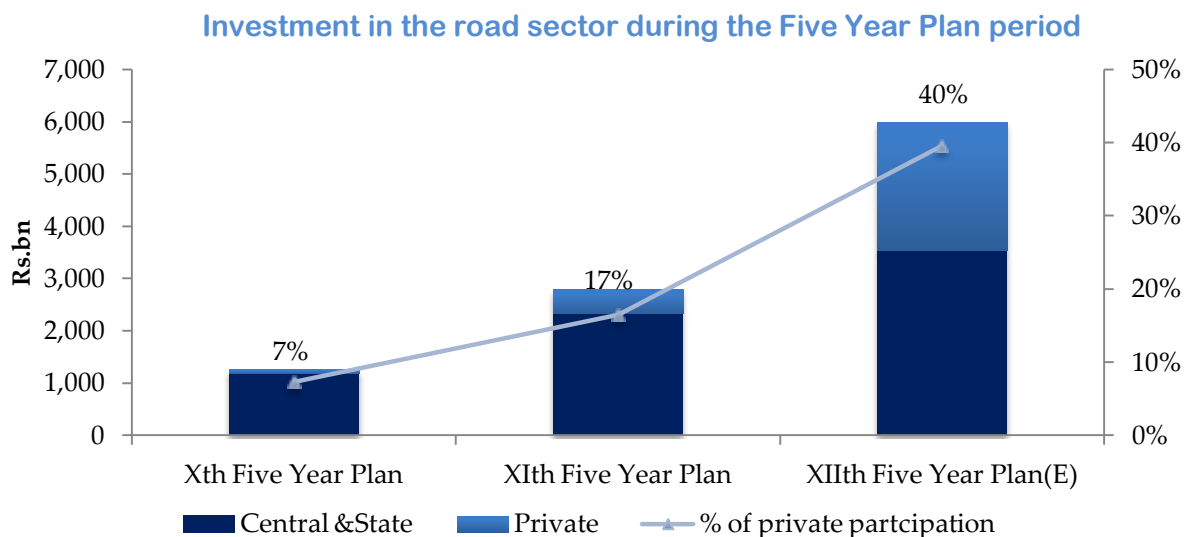


Investment Opportunity on the Horizon but Some Speed Breakers Remain

Road network in any country plays a pivotal role to support the growth of the economy. Eventhough, India has the second largest road network in the world it is inadequate to meet the rising traffic density. Thus, in order to attain the inclusive growth, Government of India (GoI) has laid huge emphasis on development of road infrastructure through various programmes like NHDP, PMGSY etc. During the Tenth Five year Plan, the road sector witnessed investment to the tune of about Rs. 1,271 bn. The expected investment in the Eleventh Five Year Plan is more than two times the investment achieved in the road sector during the Tenth Five Year Plan. CARE Research expects that in the Twelfth Five Year Plan, the investment in the road sector will be more than Rs.6,000 bn, almost 2.2 times over that in the Eleventh Five Year Plan.



Source: Planning Commission and CARE Research

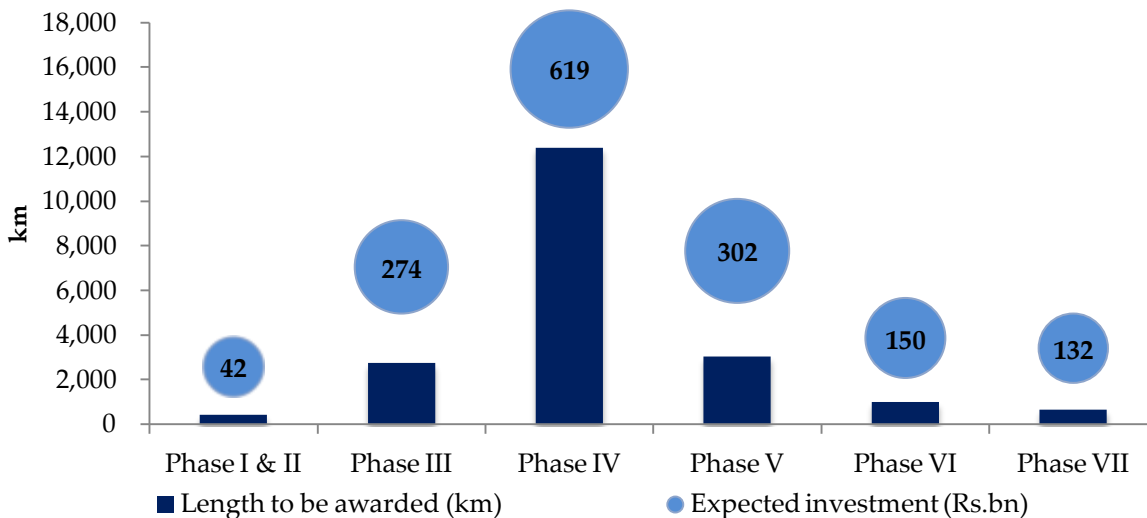
Until, the Tenth Five Year Plan, the contribution of the private sector in the road development was minimal. Almost 93% of the total investment in the road sector was contributed by the public sector. As per the Midterm appraisal, the contribution of the public sector is estimated to decline to 83% in the Eleventh Five Year Plan. CARE Research believes that in the Twelfth Five Year Plan the dominance of public sector will continue but it will show a significant decline as compared to the Eleventh Five Year Plan. Out of the total investment projected in the road sector in the Twelfth Five Year Plan, almost 40% of the investment is expected to be contributed by the private sector while about 60% will be shared by the public sector.

National Highway Projects to throw an investment opportunity of more than Rs.2,000 bn

The development of national highways in the country is the responsibility of the central government. In order to strengthen and upgrade the national highway network in the country, the GoI launched NHDP - identifying seven different phases. Under NHDP, total road length of more than 48,250 km is planned for construction and upgradation. During the Eleventh Five Year Plan, under NHDP, emphasis was mainly given to complete the road network under Phase I (GQ) and Phase II (NSEW corridors). These two phases are almost complete, only a small portion is left to be completed which will be taken up in the Twelfth Plan.

In the initial years of the Twelfth Plan, the focus will be provided to strengthen the heavily trafficked roads by converting them into four or six lanes under Phase III and Phase V. Also, there is an urgent need to upgrade the existing single lane national highways into two lanes (Phase IV) which will be the priority in the next plan. NHAI is expected to award about 5,500 km of road projects in FY12 as against the target of 7,300 km. CARE Research expects that NHAI will complete the project awarding activity under NHDP by the end of FY16. The projects to be awarded under various phases of NHDP will entail an investment opportunity of more than Rs.1,500 bn for the road developers.

Expected investment from NHDP under different phases

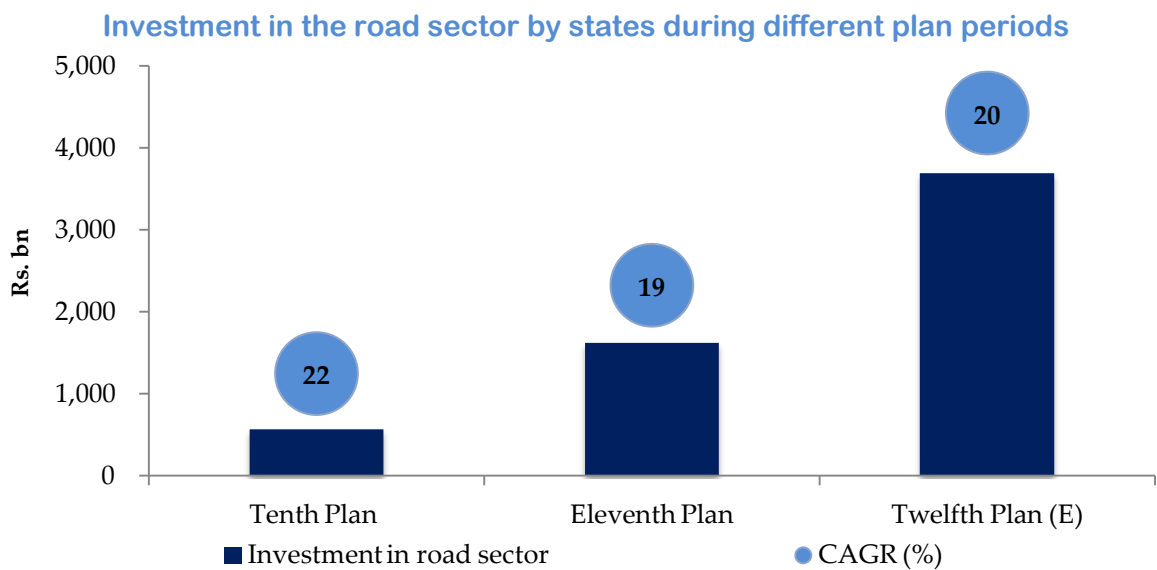


Source: NHAI and CARE Research

Apart from NHDP, State PWDs and Border Roads Organisation (BRO) also play a major role in the development of NHs in the country. At the end of FY11, India had NHs network of about 70,934 km, out of which about 60% were entrusted to state PWDs and BRO. As per the working group report on the Twelfth Five Year Plan, NHs with length of about 18,420 km are planned for upgradation and development by different state PWDs and BRO. Correspondingly, an investment opportunity of about Rs.525 bn is likely to emanate from these projects during the period of next 4-5 years.

Investment opportunity of about Rs.3,690 bn likely from State Road Projects

Alongwith NHs, it has become imperative to develop the network of state highways and district roads to improve the intrastate connectivity. With the growing economic activity, the focus of the state government on development / upgradation of the state highways and district roads has gathered momentum. This is expected to throw a sizable opportunity to the road developers. During the Twelfth Five Year Plan, total investment by all states in the road sector is expected to grow at a CAGR of 20%. Accordingly, CARE Research has estimated that investment of about Rs.3,690 bn will be materialised during the Twelfth Five Year Plan.



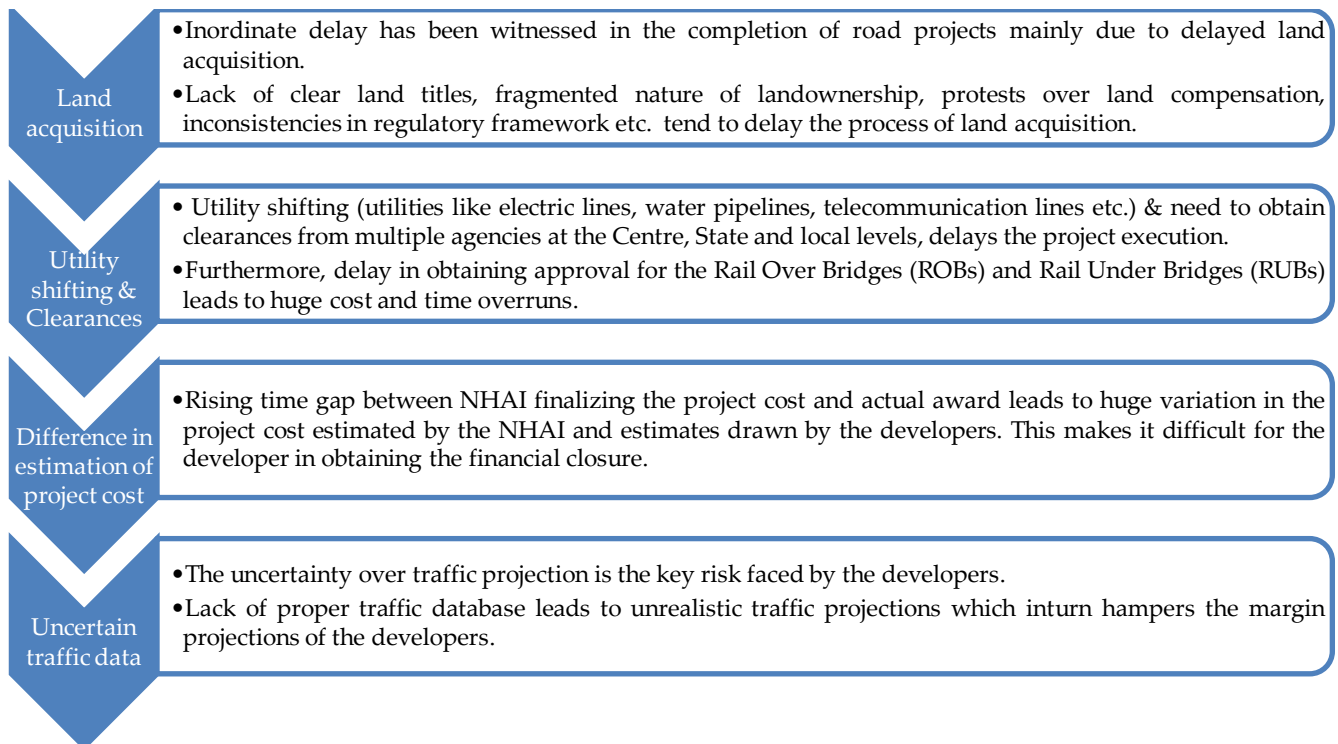
Source: CARE Research

Opportunity from express highways

Apart from the expressways identified under Phase VI of NHDP, MoRTH has prepared a master plan for the construction of 18,637 km of expressways by 2022. Project awarding under expressway is expected to catch momentum in the Twelfth Five Year Plan. MoRTH has finalized the guidelines for development of expressways. Further, in order to expedite the development of expressway networks, a Special Purpose Vehicle (SPV) will be developed under NHAI to monitor each expressway project. The Phase I of the expressway programme is expected to make significant progress by the end of the Twelfth Five Year Plan which will throw an opportunity of about Rs.450 bn for the road developers.

Not a smooth road all along, some speed breakers remain

Over past several years, the road developers in the country have been facing various issues. Following charts depicts the scenario of the same:



CARE Research feels that huge investment opportunity is awaiting on the horizon for the road sector, given the ambitious road development programmes set by the government at both state and central level. Apart from NHDP, the state projects are also likely to drive the investments in the road sector. However, the journey is not expected to be smooth as the execution concerns are likely to persist on account of perennial problem of land acquisition.

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