

Can road construction come to the aid of economic recovery?

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Infrastructure development is being relied upon for the recovery and revival of the Indian economy from the sharpest economic slowdown on record being experienced currently.

Road construction is amongst the critical sub-segments of infrastructure development that is being currently banked upon to absorb the losses that have emerged from the pandemic and be a critical driver of economic growth as well as for employment creation.

Towards this end, the government proposes to incur higher expenditure towards road construction. The Ministry of Road Transport and Highways has set a target of constructing roads worth Rs.15 lakh crores in the next 2 years. The central government has even proposed making additional allocations towards roads over that given in the Union Budget 2020-21 – which was 11% higher (at Rs.91,823 crores) than the previous financial year. During the 5 months to Aug'20, the central government had incurred 40% of the budgeted capital expenditure for the sector, in line with that in the same period of a year ago. Construction viz. of roads was one of the first segments to see lockdown relaxations.

Despite these measures, road construction so far in the current financial year has been lagging, attributable in large measure to the lockdown led disruptions mainly, the displacement of labour. The total projects announced in the road sectors in the last six months have been the lowest in nearly two decades.

The decline in road projects announced although broad-based, has been notable in case of the state governments, which typically accounts for the bulk of the road construction.

The number as well as the cost of projects announced across the majority of states in H1 2020-21 has been lower when compared with H1 2019-20.

The issues associated with road construction such as land acquisition, environmental clearances, project financing, delays in tendering, contractual prevail and has been aggravated during the lockdown further hindering activities and leading to time and cost overruns.

The road sector has amongst the highest number of delayed projects. As per the project monitoring report on central sector projects for Aug'20, of the 539 delayed projects, 144 (or 27%) belonged to the road sector.

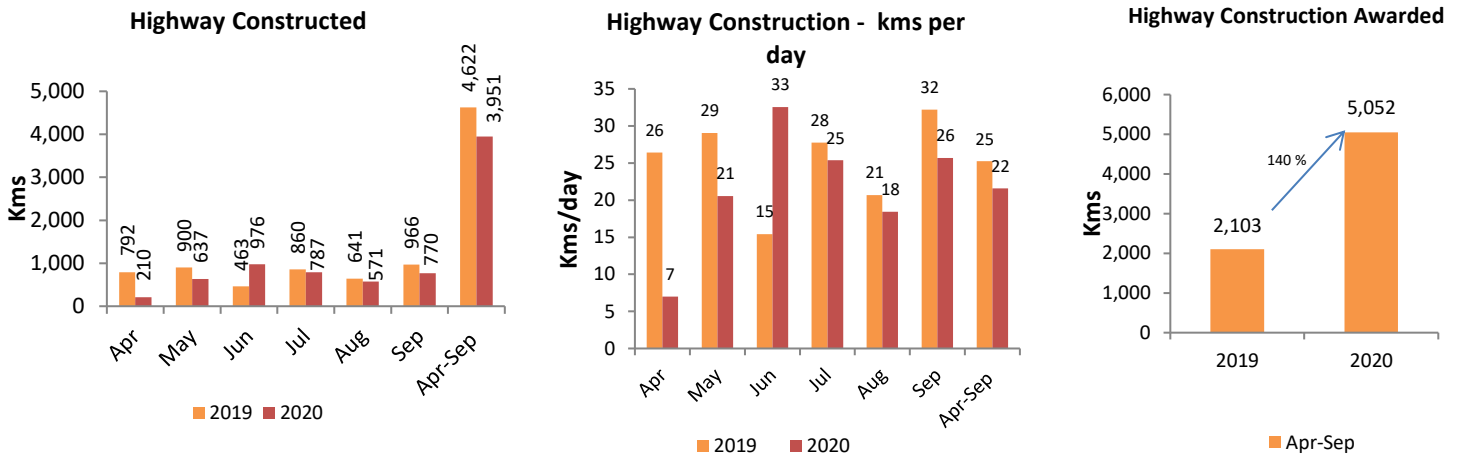
Highway Construction – lower rate of construction and increase in projects awarded

Highway construction has gained speed in the months since April’20, when construction had come to a near standstill on account of the nationwide lockdown. Despite the improvements in the subsequent months, highway construction in the current financial year continues to be lower when compared with year ago. In the first half of 2020-21, highway construction at 3,951 kms has been 15% lower than the 4,622 kms constructed in H1 2019-20.

At the same time, the length of national highway construction awarded in the current financial year has been scaled up. In H1 2020-21, 5,052 kms of highway construction has been awarded which is a 140% increase from that in H1 2019-20. This reiterates the government’s push for road construction to be a tool for economic growth. The government has been focussing on highway construction in recent periods as it carries around 40% of the total traffic even though it accounts for 2% of the road network.

The pace of highway construction has increased notably from the lows of 7 kms/day in Apr’20 to 26 kms/ day in Sep’20. It touched a high of 33 km/day in Jun’20 and was 26 km/day in Sep’20. The pace of construction however has seen fluctuations on a monthly basis. This could in part be attributed to seasonal factors that come to impact road construction. With the monsoon season in various parts of the country running through May-Oct, road construction during these months slows down and pickups pace thereafter. The labour shortages consequent to the pandemic and the lockdown too have affected road construction.

Barring Jun’20, construction in all the other months of H1 2020-21 has been lower than that in corresponding months of H12019-20. The average rate of construction in H1 2020-21 has been 22 kms/day as against the 25 kms/day in the same period of year ago.



Source: Ministry of Road Transport and Highways

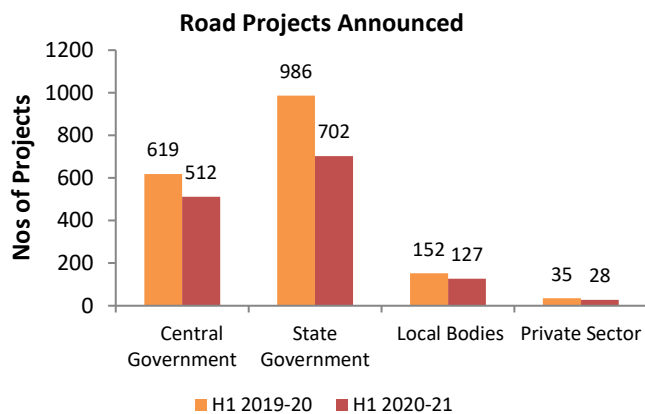
The rate of road construction is expected to gain momentum in coming months with the passing of the rainy season. The Ministry of Road Transport and Highways has set a daily target of highway construction of 60 kms/day.

Road Project announcements at multi year lows

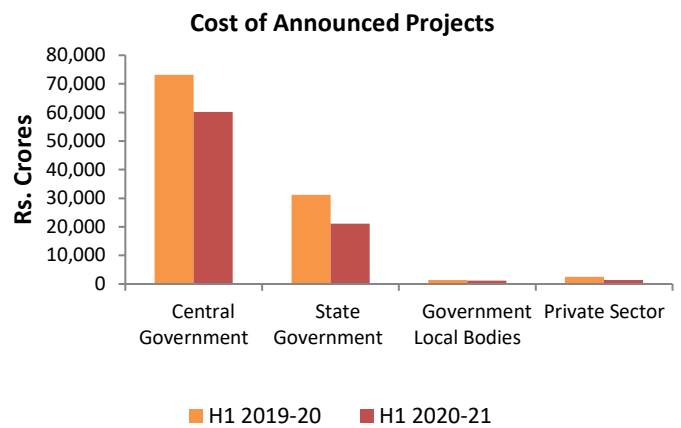
The announcement of total road projects in the country in H1 2020-21 by the government and private sector was the lowest since 2001-02.

As per the latest data available on the CMIE database, the road projects announced in the country by the government i.e central, state, and local bodies as well as the private sector in H1 2020-21 totalled 1,374, 24% less than that in the first half of the previous financial year, and entailed a total cost of Rs. 83,966 crores, 22% less than a year ago.

Although there has been a decline in road project announcements across all segments in H1 2020-21, it has been the sharpest in the case of the state governments, which accounts for the highest proportion of roads constructed (over 90% of the road network). There has been 29% decline in the number of road projects announced by state governments in the first six months of the ongoing financial year from that a year ago. In terms of cost of projects, the drop has been 32%. This highlights that the state governments, faced with severely strained finances on account of the lockdown of the last 7 months have been cutting down on non-committed or capital expenditure. Private sector participation continues to be subdued.



Source: CMIE



Source: CMIE

State-wise road projects announced in H1 2020-21

The majority of states have seen a decline in both the number of projects announced as well the cost of the projects announced in H1 2020-21 v/s H1 2019-20, as per data provided by the CMIE database (Table 1 and 2 below).

- 7 states have seen an increase in the cost of projects announced in the first 6 months of 2020-21 from that in the same period of 2019-20. These states are Chhattisgarh (78%), Himachal Pradesh (72%), Odisha (52%), Madhya Pradesh (34%), Jammu & Kashmir (30%), Telangana (7%) and Nagaland (5%).
- Among the larger states, notable decline in terms of the cost of projects announced was observed in the case of Uttar Pradesh (-70%), Karnataka (-42%), Punjab (-43%), Gujarat (-40%), Tamil Nadu (-22%), Rajasthan (-19%) and West Bengal (-15%).
- Maharashtra, Andhra Pradesh, Kerala, Karnataka, Tamil Nadu and NCT of Delhi lead in terms of cost of projects announced, accounting for 32% of the total cost of road projects announced in the country in H1 2020-21.
- Arunachal Pradesh, Jammu & Kashmir, Nagaland, Madhya Pradesh, Meghalaya and Chhattisgarh have seen an increase in the number of projects announced on a year-on-year basis.

Table 1: State-wise Road Projects Announced

State	H1 FY21	H1 FY20	% change
Andaman & Nicobar	14	14	0
Andhra Pradesh	59	69	-14
Arunachal Pradesh	11	10	10
Assam	8	12	-33
Bihar	24	32	-25
Chandigarh	6	7	-14
Chhattisgarh	18	12	50
Goa	4	4	0
Gujarat	50	100	-50
Haryana	33	57	-42
Himachal Pradesh	148	175	-15
Jammu & Kashmir	24	20	20
Jharkhand	32	45	-29
Karnataka	79	96	-18
Kerala	171	177	-3
Madhya Pradesh	49	39	26
Maharashtra	99	149	-34
Manipur	10	14	-29
Meghalaya	16	12	33
Mizoram	4	4	0
Nagaland	10	8	25
NCT of Delhi	52	56	-7
Odisha	31	40	-23
Punjab	27	80	-66
Rajasthan	14	22	-36
Tamil Nadu	147	199	-26
Telangana	27	41	-34
Tripura	10	18	-44
Uttar Pradesh	35	63	-44
Uttarakhand	17	38	-55
West Bengal	26	38	-32

Source: CMIE

Table 2: State-wise Cost of Projects Announced (Rs. Crores)

State	H1 FY21	H1 FY20	% change
Andaman & Nicobar	6,630	6,630	0
Andhra Pradesh	56,425	57,261	-1
Arunachal Pradesh	9,310	9,667	-4
Assam	9,100	9,140	0
Bihar	19,684	20,550	-4
Chandigarh	862	2,029	-58
Chhattisgarh	11,317	6,352	78
Goa	200	200	0
Gujarat	22,685	37,817	-40
Haryana	3,532	5,421	-35
Himachal Pradesh	8,436	4,895	72
Jammu & Kashmir	27,248	20,974	30
Jharkhand	4,544	6,931	-34
Karnataka	39,325	67,405	-42
Kerala	41,794	43,176	-3
Madhya Pradesh	18,761	14,009	34
Maharashtra	65,781	70,954	-7
Manipur	10,374	10,932	-5
Meghalaya	11,175	13,109	-15
Mizoram	5,007	5,800	-14
Nagaland	5,290	5,025	5
NCT of Delhi	33,504	35,176	-5
Odisha	18,577	12,232	52
Punjab	2,370	4,182	-43
Rajasthan	7,043	8,692	-19
Tamil Nadu	34,924	44,495	-22
Telangana	26,749	25,076	7
Tripura	5,967	17,428	-66
Uttar Pradesh	27,928	92,460	-70
Uttarakhand	1,265	3,917	-68
West Bengal	26,936	31,706	-15

Source: CMIE

Going forward

With the passing of the low (monsoon) season, road construction is expected to gain momentum in the next 6-7 months. However, with the government finances viz. that of state government's being pressured, they could be constrained to cut down on the budgeted expenditure to be incurred towards the sector.

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