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CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Dr. Manoranjan Sharma
(Chief Economist)

Mr. Sankhanath Bandyopadhyay
(Economist)

Phone:011-24654796

104, 106,108
01st Floor, Golf Apartments,
Sujan Singh Park,
Maharishi Ramanna Marg,
New Delhi-110003

INDUSTRY OUTLOOK

INDIA'S ROAD SECTOR

16 July 2020

INDUSTRY OUTLOOK

The initial report 'Report of the Task Force on National Infrastructure Pipeline for 2019-2025' published on 31 December 2019 stressed that in order to achieve the GDP of \$5 trillion by 2024-25, India needs to spend about \$1.4 trillion (INR 100 lakh crore) over these years on infrastructure. In the past decade (FY 2008-17), India invested about \$1.1 trillion on infrastructure. The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint on the growth of the Indian economy¹.

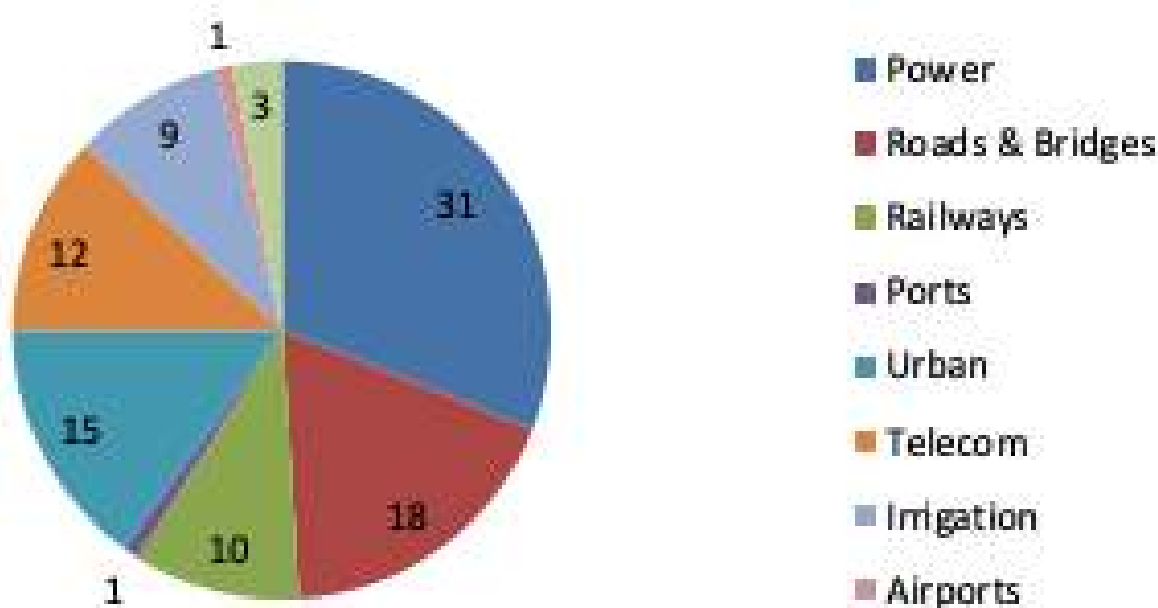
In her budget speech 2020-21, the Finance Minister made the following announcements regarding the roads sector²:

- INR 100 lakh crore will be invested on infrastructure over the next five years.
- Accelerated development of highways will be undertaken. This will include development of 2,500 km access control highways, 9,000 km of economic corridors, 2,000 km of coastal and land port roads and 2,000 km of strategic highways.
- The Delhi-Mumbai Expressway and two other packages would be completed by 2023. The Chennai-Bengaluru Expressway will be started.
- At least 12 lots of highway bundles of over 6,000 km will be monetised before 2024.

A Finance Ministry constituted Task Force has emphasized that creating new and upgrading existing infrastructure projects with INR 111 lakh crore (USD 1.5 trillion)³ investment will be key in achieving India's 5 trillion economy goal by 2025⁴.

According to the National Infrastructure Pipeline (NIP) Volume-I report (30 April 2020), power, roads and bridges, urban, digital infrastructure and railways sub-sectors together constituted ~85% of the total infrastructure investment in India during fiscals 2013 to 2019⁵. The Centre and states were the major funding sources for sectors such as power and roads and bridges, with moderate participation from the private sector.

Chart 1:Sector wise share in infrastructure investment (%) [2013-2019]



Source: : National Infrastructure Pipeline Volume-I (30 April 2020)Report of the Task Force, Department of Economic Affairs, Ministry of Finance, Government of India

https://invest-india-revamp-static-files.s3.ap-south-1.amazonaws.com/s3fs-public/2020-05/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i_0%20%281%29.pdf

The latest available monthly summary report March 2020 by the Ministry of Road Transport & Highways (MoRTH) stated that the Ministry has constructed 10,237 km of National Highways during 2019-20 up to 31 March 2020 as compared to 10,885 km during 2018-19. The award figure was 8,912 km during this period as compared to 5,493km during 2018-19⁶.

The government has envisaged an ambitious highway development programme Bharatmala Pariyojana, which includes development of about 65,000 km national highways. The National Highways Authority of India (NHAI) has been mandated development of about 27,500 km of national highways under Bharatmala Pariyojna Phase-I. The government has also given between three- and six-month extension to all private highway developers whose contracts had ended on or after February 20. Any concession fee or premium payable to the government has been deferred for all private national highway projects for the same period as they incurred loss in toll collection because of the nationwide lockdown. Toll collection period for existing contracts has been extended by 21 days. Moreover, the days can be extended in proportion to the loss incurred in toll fee during the lockdown phase, if it is less than 90 per cent of daily average collections⁷.

OTHER GOVERNMENT INITIATIVES

- To widen and revamp 1.25-lakh km of roads government of India has approved the launch of Phase-III of its rural road programme Pradhan Mantri Gram Sadak Yojana (PMGSY).
- Under the Union Budget 2020-21, the Government of India has allocated INR 91,823 crore (US\$ 13.14 billion) under the Ministry of Road Transport and Highways⁸.
- 30,000 kms of PMGSY roads have been built using Green Technology, Waste Plastic and Cold Mix Technology, thereby reducing carbon footprint.

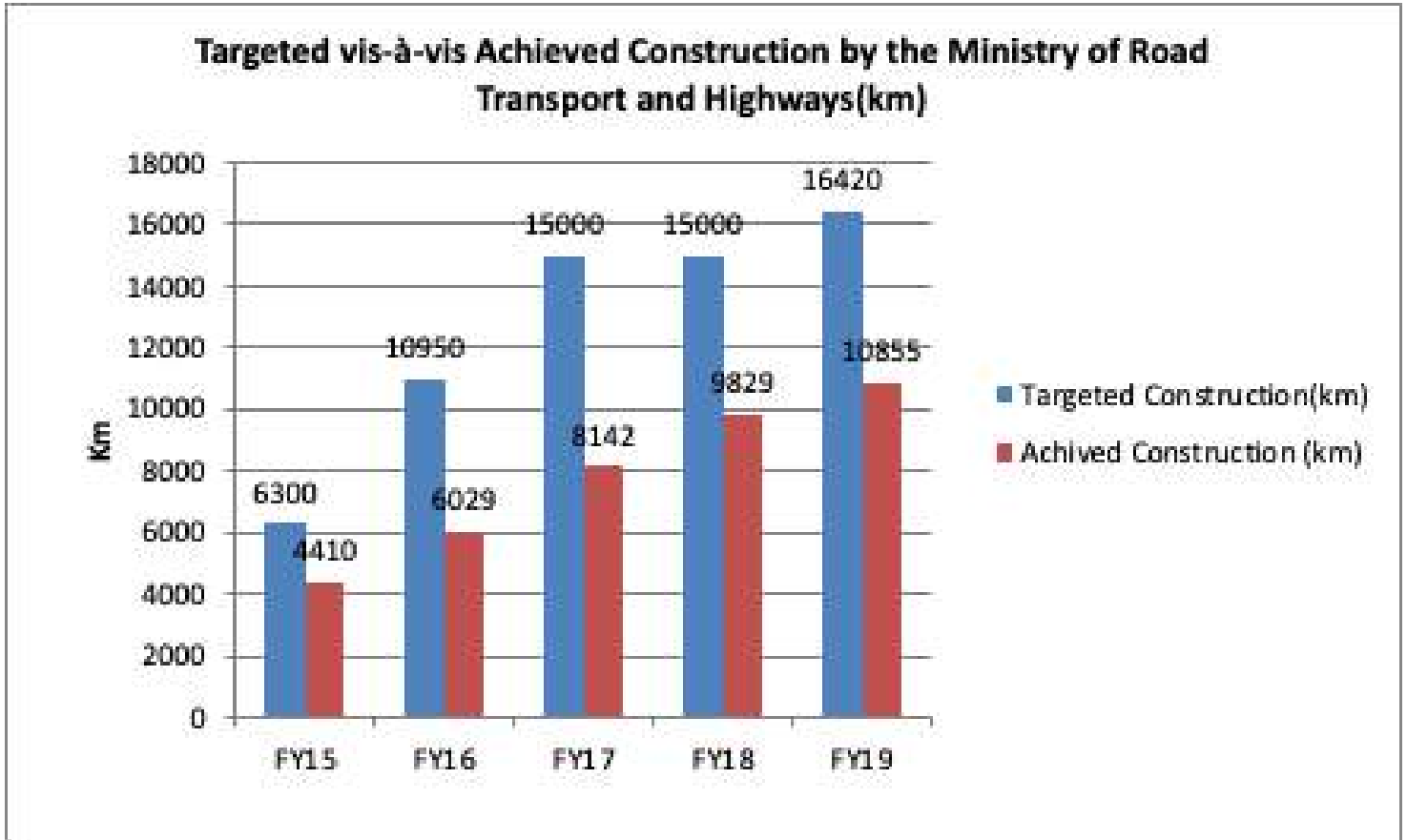
Table 1: Road sector reforms/Developments Timeline (2016-2019)

2016	2017	2018	2019
Hybrid Annuity Model (HAM) launched to boost private sector participation in road projects.	BharatmalaPariyojana launched to improve economic corridor connectivity.	The NHAI raises INR 96.81 billion by monetizing road Assets through toll-operate transfer (ToT) model.	Cube Highways ⁹ has emerged as one of the most active buyer of road assets in India.
Setu Bharatam launched to make all national highways free of railway crossings. Infrastructure Debt Fund (IDF) set up to enhance flow of long-term infrastructure debt.	IRB garners INR 50.50 billion from public issue of India's first Infrastructure Investment Trust (InvIT). IRB InvIT ¹⁰ is a Trust owning a portfolio of 7 Toll Road assets with gross toll collection of ~ INR 14.9billion for FY 2017-18. The Trust was listed on 18th May, 2017 on both exchanges BSE and NSE.		The TOT bundle that Cube Highways had acquired from NHAI includes nine stretches of roads, totaling 566.27 kilometers (km) across Uttar Pradesh, Jharkhand, Bihar and Tamil Nadu. ¹¹

Source: National Infrastructure Pipeline Volume-II (30 April 2020) Report of the Task Force, Department of Economic Affairs, Ministry of Finance, Government of India.



Chart 2: Targeted vis-à-vis Achieved Construction by the Ministry of Road Transport and Highways(km)



Source: National Infrastructure Pipeline Volume-II (30 April 2020) Report of the Task Force, Department of Economic Affairs, Ministry of Finance, Government of India.

NATIONAL INFRASTRUCTURE PIPELINE (NIP) PROJECT SUMMARIES AND MARQUEE PROJECTS

In the roads sector, total capital expenditure of INR 2,033,823 crore by both the Centre and states would be made between fiscals 2020 and 2025. About 1,820 projects have been identified to be implemented in 2020-25. The total capital expenditure for these projects by the Centre is estimated at INR 13.8 lakh crore over fiscals 2020 to 2025.



Table 2: Capital expenditure to be incurred over FY20 to FY25 (INR Crore)

Centre/States	FY20	FY21	FY22	FY23	FY24	FY25	Total
Centre	247,838	259,714	251,695	172,484	170,238	280,411	1,382,380
States	84,721	123,569	105,271	80,296	70,523	52,249	651,444
Total	332,559	383,283	356,966	252,780	240,761	332,659	2,033,823

Source: National Infrastructure Pipeline Volume-II (30 April 2020) Report of the Task Force, Department of Economic Affairs, Ministry of Finance, Government of India.

INDUSTRY RISK

The novel Covid-19 crisis further accentuated existing challenges like reviving stalled projects, streamlining land acquisition, disposal of cases in respect of Change of Scope (CoS) and Extension of Time (EoT) in a time bound manner and close coordination with other Ministries and State Governments. Multitude of factors decelerated the toll growth from 9% in FY17 to mere 1% in the period (nine Month) FY20. Revision of axle load norms, weak economic revival prospects, traffic leakage due to alternate routes and led to underperformance of toll roads.

The roads and highways sector is likely to experience developers and toll operators incurring toll revenue losses of around INR 3,450 to INR 3,700 crore during March-June 2020. Certain other challenges also emerges as the Hybrid Annuity Model (HAM) for highway projects that shields private developers from commercial risks, is putting strain on the balance sheet of the National Highways Authority of India (NHAI). The National Highways Authority of India (NHAI) is likely to incur loss in the range of around INR 2,100 to INR 2,200 crore in toll during March-June 2020. A major reason for rising pressure is escalating land acquisition cost in the roads sector. The asset monetisation plan of NHAI is also adversely impacted, and the Bharatmala Pariyojana-I project is likely to be delayed.

Other challenges are as follows:

Delays in achieving financial closure of new projects:

Banks are becoming risk-averse in lending to private players in the roads and highways sector, especially for mid-sized players.

Delayed award of contracts owing to delays in approvals and clearances:

The lengthy land acquisition process has led to a slowdown in project awards as limited tenders are getting issued.

Going forward, project executions are likely to be more in the private sector domain since the government is facing liquidity issues and build-operate-transfer (BOT) and hybrid-annuity could boost private sector investment.

The Task Force Report Volume-I has flagged certain measures like tapping the bond markets by local governments, strengthening municipal bond market, revitalizing asset monetization measures through sale of land, non-operational assets through long-term lease with significant upfront lease payment, the toll-operate-transfer (TOT) model for operational road assets, Infrastructure investment trusts (InvITs), sale of portfolio of assets to strategic/ financial investors, and loan asset monetisation through securitisation. Other explorations can be tradable long-term land bonds of 10-15 years to pay for land acquisition, effective usage of land pooling etc.

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**SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY**

CORPORATE OFFICE

Mr. ML Sharma

Mobile No.: +91 9619112204, E-mail: mlsharma@infomerics.com

Office No.: 022-62396023; 022-62396053

Address: Office no 1105, B wing, Kanakia Wallstreet, Off Andheri Kurla Road, Andheri East,
Mumbai -400093.

EAST INDIA OFFICE

Mr. Avik Sarkar

Mobile No.: +91 8929802903, E-mail: asarkar@infomerics.com

Office No.: 033-46022266,

Branch office Address: 202, 2nd Floor, Justice Court,
2/3 Justice Dwarkanath Road, Near Elgin Road Lee Road Crossing,
Kolkata-700020.

WEST INDIA OFFICE

Mr. Dheeraj Jaiswal

Mobile No.: +91 8929802910, E-mail: dheeraj@infomerics.com

Branch office Address: #1102/A, Synergy Tower, Prahaladnagar, Corporate Road, Nr.
Vodafone House, Off S.G. Highway, Ahmedabad – 380015.

SOUTH INDIA OFFICE

Mr. R Balaraman

Mobile No.: +91 8929802918, E-mail: rbalaraman@infomerics.com

Office No.: +91 44 45020041

Branch office Address: #Mount Chambers, #758, A/MZF-C, Mezzanine Floor,
Anna Salai, Chennai – 600002



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