

Work in Slow Progress: National Highways Execution to Decline by 7-10% in FY25

April 30, 2024 | Ratings

Synopsis

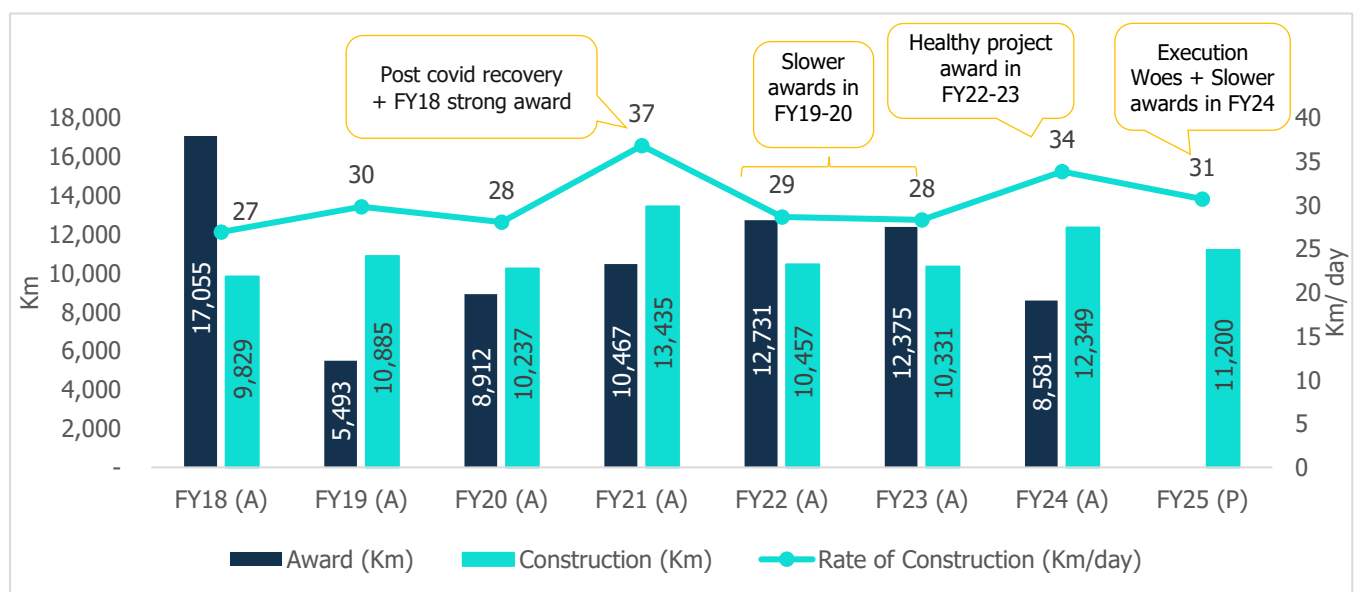
In this report, CareEdge Ratings opines on the current state of the Indian Roads & Highways Sector and outlook on awarding mix and pace of project execution especially in light of heightened competition and increase in project complexities.

Significant dip in awarding activity during FY24

The government's steadfast commitment to infrastructure development has been highlighted by a significant increase in project awards following Covid-19, particularly during FY22-FY23. This period accounted for nearly 50% of the projects awarded in the last five years ending in FY23. However, FY24 witnessed a downturn, with project awards declining by 31% compared to the previous fiscal year and way below Ministry target of 13,290 km for FY24. Decline in awards was steeper than expected, primarily due to pending approval of revised cost from cabinet towards projects under Bharatmala Pariyojana. A decrease of 10-15% in awards was already anticipated due to legislative elections and the subsequent imposition of the code of conduct. However, these factors combined have led to a further reduction in the pace of project awards.

Pace of construction to slow down by 7-10% in FY25 due to heightened execution challenges

The pace of construction for National Highways in India during FY24 registered a healthy uptick of 20% to 34 Km/day (PY: 28 Km/day), in line with CareEdge Rating's earlier estimates ("[Indian Road Sector: Navigating a Smooth Journey?](#)" dated May 11, 2023). Despite the uptick, the pace of construction fared lower than 37 km per day reported in FY21 due to execution woes and increasing competitive landscape. Furthermore, increasing project complexities, rising participation of moderate creditworthy sponsors and significant delay in the receipt of appointed date post award of the project are expected to pull down the execution pace by 7-10% during FY25 to around 31 Km/day. CareEdge Ratings expects National Highways Construction to slow down from 12,350 Km in FY24 to 11,100-11,500 Km in FY25.



Source: CareEdge Ratings

BOT-HAM (Hybrid Annuity Model) remained the preferred mode of award constituting around 55% of the total projects awarded during FY21-FY24. CareEdge Ratings has observed significant delays in the execution of such HAM projects. Of the overall sample of HAM projects awarded after March 2020 amounting to Rs.1.50 lakh crore, approximately one-third of the projects with an aggregate Bid Project Cost (BPC) value of Rs. 50,000 crore are facing delays ranging from 4-6 months beyond the grace period of three months. These projects have applied or received an extension of time (EOT) of a similar or longer period. Notably, another significant portion of NH-HAM projects with an aggregate BPC value of ~Rs.40,000 crore as of April 1, 2024 are still awaiting issuance of Appointed Date for more than a year as compared to Rs.14,500 crore as of June 30, 2023. Of the total awards of ~12,300 Km by National Highways Authority of India (NHAI) in FY22 and FY23, 20% continue to await appointed date for more than one year. All this, combined with accentuated execution challenges, is estimated to pull down the overall highway construction pace by 7-10% in FY25. Please refer to CareEdge Ratings study on NH-HAM projects published vide its earlier report ("[Monetisation Potential of NH-HAM Projects Likely Rs 2L cr for FY24-27](#)" dated September 28, 2023) indicating heightened execution woes.

With the announcement of greenfield expressways and highways, the challenges towards land acquisition have aggravated, thereby elongating the receipt of the appointed date. Also, the permissible execution span for projects is uniform at two years, irrespective of the project scope i.e. brownfield/ greenfield expressway/ structurally complex, which has further contributed to the project delays. All the above factors have increased the project completion cycle from earlier 2.75-3.25 years to around 3.50-4 years presently, resulting in a higher turnaround time for project execution and a subdued execution pace in the sector.

Awarding mix to shift to Build-Operate-Transfer (BOT) mode in the medium-term

Project awarding through the Engineering Procurement and Construction (EPC) mode constituted ~44% of awards for the past four years ended FY24. Nevertheless, aggressive bidding in the roads sector post-March 2020, coupled with a perceived notion about the inadequacy of the construction quality (under the EPC mode) and elevated debt levels of the NHAI emerged as the prominent challenges faced by the roads sector.

To address these challenges, the Ministry of Roads Transport and Highways (MoRTH) has revamped BOT Toll concessions to safeguard stakeholders' interests. As stated by CareEdge Ratings in its earlier report ("[Revised MCA for BOT-Toll and TOT: A Concrete Move for Highways Sector](#)" dated April 2, 2024), the introduction of the revised model concession agreement (MCA) under the BOT-Toll model is a welcome move, however, the extent of bidding aggression and on-ground enforcement of contractual clauses shall remain key monitorable.

CareEdge Ratings expects a (i) shift in awarding preference from EPC to HAM and Toll projects in the medium term, (ii) a significant reduction in the share of EPC projects to around 25-30% in awards going forward. This shall also help in reducing the funding requirement for NHAI while focusing on the quality of construction.

CareEdge Rating's View

CareEdge Ratings expects a decline in the pace of construction of National Highways by 7-10% in FY25 as compared to FY24. National Highways construction pace is expected to slow down from 12,350 Km in FY24 to 11,100-11,500 Km in FY25. The rising competitive landscape, escalating execution challenges, increasing project complexities, rising participation of moderate sponsors and elongation in receipt of appointed date from award are key challenges faced by the roads sector. NH- Hybrid Annuity Model (HAM) projects with aggregate length of over 2,200 km are yet to commence construction for over one year post award. All the above factors have stretched the project completion cycle from earlier 2.75-3.25 years to around 3.50-4 years. Notwithstanding the healthy order

book of road developers, these factors are likely to result in a subdued pace of road construction for NHAI," said Maulesh Desai, Director, CareEdge Ratings.

"As project complexities rise and timelines elongate, it is imperative to swiftly address bottlenecks thus ensuring seamless infrastructure development. Going forward, CareEdge Ratings estimates a significant reduction in the share of EPC projects from around 50% to 25-30% due to awarding through revised toll concessions. This shall also help in reducing the funding requirements of NHAI while focusing on the quality of construction. Under revised toll concessions funding requirement for NHAI shall reduce to 20%-32.5% of project cost as against 100% for EPC projects. At the same time, peak debt requirement is likely to be lower by 10% vi-a-vis old BOT-Toll concessions due to equity support from NHAI," he added.

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