

Road Development Market, Size, Share, Market Intelligence, Company Profiles and Trends Forecast To 2022

Road Development Market 2017 Trend, Segmentation and Opportunities Forecast To 2022

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- The award of 10,000 km of national highway projects and construction of a length spanning 6,000 km during 2015-16 has given a new high to the road sector. The sector has certainly started showing signs of recovery after a slowdown of almost three years. The initiatives taken by the central government have begun to show quantifiable results. The current construction rate for national highways has gone up to about 16-18 km per day.
- During 2015-16, the National Highways Development Programme (NHDP) too reported impressive numbers with the award of 79 contracts spanning over 4,300 km. With regard to the mode of implementation, the engineering, procurement and construction (EPC) model continued to be the dominant mode of project award and implementation. Nearly 80% of the projects awarded by National Highways Authority of India (NHAI) during 2015-16 were on an EPC basis. In the current fiscal, 50% of the projects awarded so far are on an EPC basis. The newly launched hybrid annuity model (HAM) found takers with the award 36 projects so far.
- Road development in the northeast region also picked up pace. As of December 31, 2016, 41 packages spanning 1,098 km with a total project cost of Rs 172.33 billion (including land acquisition cost) are currently under execution.

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Key Initiatives: On the Right Track

- Launch of innovative modes of delivery such as the HAM have to some extent contribution to increase activity. With the recent approval for the toll-operate-transfer (TOT) model, the Ministry of Road Transport of Highways (MoRTH) continues to explore new areas of growth.
- The investor sentiment; however, continues to be low key. There is still some time before the stakeholders exit the 'wait and watch' mode and turn bullish towards the sector.
- During the past 12-15 months, the ministry took concrete steps to ease the operating and financing environment. Amendments to the model concession agreement (MCA), one-time fund infusion, exit policy, segregation of construction cost from civil cost for project appraisal are some of the initiatives undertaken. At the same time, attempts are being made to modify the public-private partnership (PPP) model with the Kelkar Committee showing the way in its recent report.
- On the funding front, new sources are being explored. Innovative means like masala and green bonds are being explored. The government's decision to remove dividend distribution tax on infrastructure investment trusts (InvITs) has encouraged companies like IRB Infrastructure Developers MEP Infrastructure Developers to list their assets under InvITs. RBI's approval to the Scheme for Sustainable Structuring of Stressed Assets (S4A) will also ease stress.

Trending– Asset sales and Debt Restructuring

- Operational asset sales have become prominent in the sector; especially post the policy change that allowed companies to fully exit their projects after two years of construction. This is helping road developers deleverage their balance sheets to infuse fresh liquidity into the sector. Some of the companies that divested their assets include Hindustan Construction, NCC, Sadbhav Infrastructure Projects, GMR, Madhucon, Gammon and PNC Infratech.
- Meanwhile, execution delays, policy hold-ups and indebted cash-strapped promoter companies have rendered loan recovery difficult for banks. This has led to an increasing number of stressed assets in their books, and therefore restructuring of loans has become routine for most lending consortiums.
- During the past 12-15 months, the sector also reported a surge in corporate debt restructuring (CDR) cases. In fact, developers such as IVRCL have had to go through strategic debt restructuring (SDR) due to mounting financial stress.

Technology Initiatives and Online Portals – To Expedite Development

- Technology continues to be a key focus area of the ministry and NHAI. FASTag is now active at about 350 toll plazas across the country. NHAI is in the process of introducing advanced highway management systems on national highways. This will help improve vehicular flow as well as transfer real-time traffic data to the operator.
- Online platforms like e-Pace and Infracon, and an updated version of INAM-PRO have also been launched by the ministry. Recently, the government launched an Indian Bridge Management System to closely monitor the inventory of national highway bridges.
- Road safety is another focus area of the government. It has set a target to reduce the number of fatalities due to road accidents by 50 per cent by 2020. It has also constituted a group of ministers to recommend safety-related measures.
- In order to promote greening of highways, the NHAI launched a policy on green highways in 2015 as part of which 1% of the project cost will be set aside for plantation on highways.

Key Challenges – Impeding Growth Prospects

- The sector continues to face some key issues. Land acquisition is still a grey area. There is a need for a more effective dispute resolution mechanism, proper project development and preparation, and a more balanced risk allocation.
- Financing continues to be a problem, especially with regard to availability of equity; it has been difficult to achieve financial closure of projects. The newly crafted HAM projects are also finding it difficult to achieve closures. Equity constraints and rising non-performing assets continue to add to developer and financier woes.
- Issues related to exemption of vehicles, delayed payments of annuity and litigation are some of the unforeseen ones being faced by the lenders. Poor quality of feasibility reports, ban on mining activities, slow and lengthy arbitration process, toll exemptions, falling wholesale price index and static traffic growth are some of the key concerns.

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