Roads to riches

Kolkata-based BRNL hopes to cash in on the speedy growth of the road sector

"We badly need roads to connect to the city," said a group of poor people from remote, inaccessible villages in Rajasthan's Bharatpur district, when Lupin Human Welfare Foundation (LHWF) officials asked them decades ago about their problems and needs. More than anything else, those people said roads were the need of the hour, primarily to take sick and pregnant women to hospitals in cities.

The LHWF volunteers mustered the district collector's and local support and built the road that the Bharatpur people wanted. Apart from solving their immediate needs, the road had a cascading effect on the village's economy with the transport and connectivity.

In Western countries, road and other infrastructure are the pre-requisites for any township development but, unfortunately, in India, it is the other way round. During the UPA government, road development, like the rest of the infra projects, took a back seat. Remember, it took 11 years to complete construction of a nine-km bridge across the Brahmaputra connecting Assam with Arunachal Pradesh. "Had the Atal Behari Vajpayee government come to power, this bridge would have been completed 10 years ago," claimed Prime Minister Narendra Modi, who inaugurated it last fortnight on the occasion of his government's third anniversary.

Aided by the recent policy reforms, the execution of national highway projects has seen a good pick-up since 2015-16, after having slowed down in the previous two fiscals, says a Crisil Research report. The government and the National Highway Authority of India (NHAI) have announced a slew of reforms and respite measures such as a premium

Dutt: focus on highway assets

rescheduling policy and allowed promoters to fully exit all projects two years after completion. The Union cabinet has also allowed NHAI to fund projects stuck, owing to the weak financial health of promoters, where at least 50 per cent of the work has been completed.

The new amendments to the model concession agreement, such as back-ending of premium payments and deemed termination on delay of appointed date, have also brought many changes, which will reduce delay and improve lender comfort. The new hybrid annuity model (HAM) presents a mix of BOT annuity and EPC models. The government will contribute to 40 per cent of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer. Here, hybrid annuity means the first 40 per cent payment is made as a fixed amount in five equal installments whereas the remaining 60 per cent is paid as a variable annuity amount after the completion of the project depending upon the value of assets created.

HAM should encourage private participation with limited risk to the developer. Hence, the government's focus has clearly shifted towards ensuring on-the-ground implementation, instead of merely awarding more projects, says Crisil.

Growth opportunities

It is against this backdrop that the Kolkata-based Bharat Road Network Limited (BRNL), promoted by SREI Infrastructure Finance Limited, hopes to make it big in time. BRNL was thinly capitalised earlier and had to increase its capital base, which was supported by SREI, participating in the equity issuance. SREI had earlier supported BRNL with debt funding too. SREI, which currently holds 30.43 per cent stake in BRNL, is an RBI registered non-deposit-taking and systematically important infrastructure finance company and a public financial institution, with a track record of over two decades of supporting entities in the infrastructure sector.

"We believe that, in the future, the BOT space in India is expected to grow significantly, opening up immense growth opportunities for infrastructure developers with a strong focus on highway assets," says Brahm Dutt, chairman, BRNL, who is also an independent director in the company. "With a steady flow of projects coming up in EPC, BOT (toll) and HAM, there is likely to be rational and healthy competition among the select infrastructure developers with long-term interests in the sector," adds Dutt.

BRNL was incorporated in 2006 as a developer and operator for highways, road and related projects on a BOT basis. Maintaining financial discipline is the key to success in the highway business. "At BRNL, we intend to continue our practices of strict financial discipline through careful selection of projects; selective expansion into new geographical areas and careful selection of epc contractors," says Bajrang Kumar Choudhary, managing director, BRNL. "While we aim to get the most out of the huge organic growth and inorganic growth opportunities in the market, we remain judicious in our approach towards business expansion to avoid over-leveraging our balance sheet," he adds.

Well distributed portfolio

Choudhary wants to leverage the company's domain knowledge and a decade-long experience in the infrastructure space to remain focussed on strengthening BRNL's operational excellence, "while continuously seeking opportunities to expand our portfolio through selective participation in primary and secondary market opportunities". Asim Tewari, chief operating officer, operations, BRNL, concurs. "At present, all of our projects are implemented through special purpose vehicles, either through our subsidiaries or in partnership with other infrastructure players. We have our presence in high-traffic density corridors in Haryana, Uttar Pradesh, Madhya Pradesh, Kerala, Odisha and Maharashtra. At present, our project portfolio consists of six BOT projects, of which two are under final COD, three under provisional COD and one is a project under construction".

According to Tewari, "Our projects (operational under final COD, as also under provisional COD) cover about 1,622.44 lane km, including major and minor bridges. Those under construction involve development of 400.24 lane km, including major and minor bridges".

While developing roads, BRNL is also focussing on moving towards environment-friendly transportation solutions that are sustainable both from the energy consumption and the environment perspective. "With the gaining prominence of technology and other internal processes in every aspect of business and operations, we are constantly strengthening our IT systems and capabilities to create an environment-friendly and sustainable business eco-system," affirms Tewari.

CFO Sanjay Banka explains that the average residual concession


PHOTOS: SAJAL BOSE

Chaudhary: strict financial discipline

period of its BOT projects was about 18 years and 10 months, as against its average debt maturity profile of nine years and nine months, as on 30 November 2016.

"All BRNL's projects are implemented through special purpose vehicles formed for the respective projects, which enter into concession agreements with government agencies and are expected to generate revenue from toll receipts or user fee," informs Banka. "The concession agreements are for periods ranging from 21 years to 28 years".

In any model of asset ownership, analysts say, the embedded value of the constituents is always bigger than the evident value of the financials. As the real value of BRNL resides at the project SPVs, the financials of BRNL as the holding company is not the true reflection of the intrinsic value of the company.

With a net worth of ₹426.8 crore, BRNL is managing six assets, with a cumulative asset base of ₹6,658 crore. For 2015-16, the cumulative revenue generated from its operating assets was ₹314 crore, whereas the consolidated PBDITA was about ₹202 crore. For the eight months ended 30 November 2016, the cumulative revenue generated from all its operating assets was ₹215 crore, with PBDITA of ₹127 crore.

BRNL believes that its project portfolio is well distributed to cover both urban and rural vehicular traffic, which includes national and state highways. The geographical diversification of these projects also reduces their reliance on specific states or their economies and allows the company to capitalise on different growth trends in different states across the country, says Rajesh Sirohia, head, corporate strategy & investment.

For example, the SJEPL Project, located on the NH between Chandikhol (where a strategic petroleum reserve with 4.4 million tonnes of storage capacity is being planned) and Bhubaneshwar (capital of Odisha and a centre of economic importance) is one of the biggest smart city proposals at over ₹45,30 crore. Similarly, the GAEPL Project, which connects Ghaziabad to Aligarh in UP, services the Ghaziabad belt – a part of the National Capital Region (NCR). It is known as a manufacturing hub for engineering, electronics, leather and textile goods. Further, the proposed Dadri-Noida-Ghaziabad Investment Region is coming up in proximity to the GAEPL Project, which is expected to boost traffic, Sirohia explains.

For BRNL, access to capital is no problem due to its strong parentage,

PROJECT PORTFOLIO

Project SPV	REVENUE				PBDITA			
	Period ended 30 Nov. '16	Year ended 2016	Year ended 2015	Year ended 2014	Period ended 30 Nov. '16	Year ended 2016	Year ended 2015	Year ended 2014
Guruvayoor Infrastructure (GIPL)	76	117	106	92	26	62	45	73
Mahakaleshwar Tollways (MTPL)	10	23	22	21	7	18	18	18
Kurukshetra Expressway (KEPL)	45	73	66	34	19	31	42	20
Ghaziabad Aligarh Expressway (GAEPL)	83	101	0	0	75	91	0	0
Total	**215**	**314**	**194**	**146**	**127**	**202**	**106**	**111**

deep domain knowledge, understanding of the financial market and robust track record. "Our company's total debt (short-term, long-term as also current maturities of long-term debt) as on 30 November 2016 was ₹106.3 crore on a stand-alone basis," says Sirohia. "We have a low debt-equity ratio, which gives us the opportunity and ability to leverage our company's balance sheet to fund future needs of existing project SPVs, as well as for the purpose of bidding for and funding new projects," he adds.

"We have been able to effectively finance and manage our projects, due to effective financial management, efficient project execution and our prudent bidding strategy," says Sirohia. "We strive to maintain a robust financial position with emphasis on maintaining a strong balance sheet and effective capital gearing".

Besides capitalising on primary market opportunities, BRNL intends to focus on strengthening its position in the road infrastructure development business through increased activity in the secondary market. According to a Crisil report, during 2007-11, road developers had bid aggressively to bag more BOT toll projects, which resulted in many small to medium contractors with limited financial strength entering the BOT space. Some of these BOT projects have had significant cost overruns, due to various factors beyond their control, including subdued financing, lower traffic and delayed execution of projects. These factors have resulted in lower returns accruing to the developers as well as adversely affecting their debt servicing ability. Some of these developers have faced viability issues in the later stages of the projects.

Given its core competencies in managing highway assets, BRNL is seriously looking at such stressed assets. "Due to our ability to effectively finance our BOT projects, we are well positioned to take a rational approach towards secondary market acquisitions of existing BOT projects, either developed or under construction," says Choudhary. "We always have access to SREI for project pipelines and are currently evaluating a few opportunities."

Sirohia: different growth trends

BRNL will, however, do due diligence to check if such acquisitions are supported by sound strategic and financial objectives. "We thus intend to draw on our experience, effectively use our assets, market position and our ability to execute and manage multiple projects across geographies, to grow our portfolio of road projects by secondary acquisition of road assets," says Choudhary.

Paths to prosperity

As the primary capital markets are witnessing a boom, BRNL does not want to be left behind. It has already filed its papers with SEBI for its IPO for a public issue of up to 29.3 million equity shares of face value ₹10 at a price band to be decided later. Inga Capital and Investec Capital Services (India) are the book running lead managers to the issue, while SREI Capital Markets will be involved in marketing the issue in compliance with the SEBI rules, says the offer document.

Roads continue to dominate freight traffic, with their share in the overall freight movement rising steadily to 65.1 per cent in 2015-16, from 58.2 per cent in 2009-10, due to capacity constraints in railways and healthy growth in non-bulk traffic. Crisil Research expects the e-commerce industry to grow at an estimated 40-44 per cent CAGR during 2014-15 to 2017-18, to reach close to ₹2.5 lakh crore.

Further, the rising penetration of the internet, increasing use of smartphones (with mobile apps) and increasing consumer awareness should support the growth story. As the industry grows, players are looking to develop local ecosystems to serve demand across India. As these local ecosystems develop, lead distances can gradually reduce and freight traffic can gradually shift from air freight to roads.

The government's Smart Cities Mission introduced in June 2015 plans the development of 100 smart cities over five years (2016-17 onwards) to meet the infrastructure and services expectations of citizens. In all, 33 cities have already been selected to be funded from 2016-2017 onwards. About ₹335 billion is expected to translate into construction opportunities in the top 33 smart cities. About 87 per cent of the spend will be spread across four categories – housing, non-residential complexes, water supply and sanitation and, roads and transport facilities.

In the second round, another 40 smart cities will be funded from 2018-19 onwards. Crisil Research expects the investments in road projects to double to ₹9.8 lakh crore over the next five years. Investment in state roads is expected to grow steadily, and rise at a faster pace in rural roads owing to higher budgetary allocation to the PMGSY from 2015-16.

With the economy expected to grow at a healthy pace, per capita income is set to improve too, pushing the number of two-wheelers and passenger vehicles up. Initiatives like 'Make in India' and GST are also expected to add to the road freight traffic in the country. With such a rosy picture ahead, BRNL hopes to be on the road to success with its cash registers ringing and scripting a roads-to-riches story.

◆ LANCELOT JOSEPH
lancelot.joseph@businessindiagroup.com