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GUEST ARTICLE

Development of Roads and Bridges Sector in India

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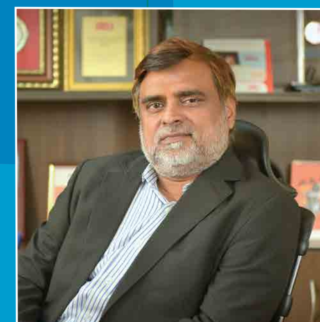

Highway development in India has been undoubtedly soaring towards an unprecedented high over the past two years. Besides providing a major fillip to the economic growth of the country, the recent spurt in the investment in the sector was long overdue to minimize the significant gap created due to underinvestment in the sector in past.

With the announcement of Rs 7 trillion highway investment initiatives including Rs 5.35 trillion under Bharatmala Pariyojana for building economic corridors and expressways, the Government has undoubtedly taken a giant stride in plugging the infrastructure deficit and improving the quality of infrastructure in the country.

It was not long ago that we witnessed the PPP model in Infrastructure and more specifically in Roads and Highways suffering a big setback due to the policy paralysis, coupled with range of other issues such as land acquisition delay, liquidity crunch resulting from economic crisis, aggressive bidding by contractors due to lack of order book in cash contract among many others. It was increasingly becoming difficult for the industry to maintain the growth momentum of twelfth five year plan period (2007-12) which has been arguably the best phase so far for highway development under PPP model. It was evident from the fact that NHAI project awarding in 2013-14 dropped down to almost 1,700 km from around 7200 km in 2011-12.

While the sector was gradually sinking towards a new low with every passing year since 2012 onwards, the response from the policymakers must be applauded for breathing a fresh lease of life into the sector with a slew of investor friendly measures. Additionally, there are several other factors such as economic growth, preference of road in freight traffic, spurt in private participation and surge in passenger traffic and vehicle density which acted as the key growth drivers for increased investments in the Roads and Highways sector.

After a hiatus of over 3 years since 2013, this buoyancy in the road space augurs well for infrastructure players who are expected to benefit substantially from the boom in road awarding. It is more heartening to see that the opportunities are not just confined to any specific area or sub-sectors, rather are more diverse and divergent than ever before. While there are opportunities galore for EPC contractors to put up a robust order book, the developers, who are averse to traffic and revenue risk are now looking forward to lucrative returns and operating margins through HAM projects. Also the initial success of road monetization programme under Toll Operate Transfer (TOT) have opened plethora of opportunities for infrastructure asset owners and institutional infra investors who are looking for long term sustainable returns. The renewed interest of foreign institutional investors, large pension funds, infrastructure asset managers are encouraging signs which are keeping the infrastructure chariots sprinting on the growth path. Additionally, the entry of global players would be extremely beneficial if Indian companies could take advantage of the technological excellence of international EPC companies and also adopt global best practices in infrastructure development.

It is not only the optimism in primary market but also the magnitude of secondary market contributing towards the excitement in the market. With such a huge opportunity on the anvil across multiple segments, the EPC contractors who were earlier to some extent compelled to enter PPP space for BOT projects, are now eager to deleverage their balance sheet and free up their capital commitments. Additionally, amid the mounting NPAs, the lenders are also looking sponsor substitution to minimize their exposure to stressed asset portfolio by offering them to developers with strong financials and asset management skillset.

As an infrastructure asset owner working primarily on asset aggregation platform, Bharat Road Network

Limited (BRNL) is uniquely positioned in the market to capitalize on the burgeoning opportunity in both primary as well as secondary market. As PPP model is aimed at leveraging on the private capital for infrastructure development and making the best use of the asset management skillset of the infrastructure companies, we see ourselves as strong enabler for PPP projects due to our infrastructure experience, asset management skillset and financial engineering capability. We intend to leverage on our ability to attract the most competitive construction partner in local space as well as large infra focused institutional investors for project implementation and project financing for our portfolio expansion and improving operational efficiency for value accretion. We are therefore quite optimistic about our portfolio expansion as the pipeline of opportunities under various schemes continues to be attractive over the medium term.

Though there are signs of euphoria creeping into the market due to commencement of Bharatmala and road construction target of 16,420 km for 2018-19 with estimated per day construction target of 45km/day, there are indeed some concerns regarding capacity building and institutional strengthening which may possibly derail the growth engine unless they are effectively addressed at this moment.

With awarding momentum racing towards record high, we are seeing companies rushing towards building their order book. In order to avoid repeating the same mistake of earlier phase of aggressive bidding when PPP model was at its prime, Authority must consider whether companies have requisite range of resources, expertise and skills to effectively execute order book.

Besides few such structural concerns, there are inherent issues related to project execution mechanism which would continue to keep investors and lenders cautious about committing themselves towards further exposure in Highway sector unless issues related to Land acquisition and dispute redressal mechanism is streamlined and Government is able to reinstate the spirit of partnership in PPP model. The uncertainty over lenders confidence and their cautious and apprehensive approach towards further exposure in the sector can be major deterrent towards the growth of the sector. Though we believe that for organisations with strong balance sheets and good credit ratings, raising funds is not much of a challenge. Being in infrastructure sector for over a decade now, we ourselves don't see any issues in raising resources for any of our existing or future projects once the project viability is adequately addressed.

Overall, we can safely assume with the general elections due in 2019, there are multiple drivers operating synchronously providing high visibility for growth in the next two years

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