



## Roads: Back on track

BSE Sensex: 15,104

S&P CNX: 4,587

5 June 2009

### Government continuity to result in accelerated execution

**Mr. Kamal Nath appointed as Union Minister of Road Transport and Highways:** Mr Kamal Nath, who had held Commerce and Industry portfolio in previous term (FY05-09) of United Progressive Alliance (UPA) government has been entrusted with an important role as Union Minister of Road Transport and Highways. The key priorities have been identified as: increased focus on execution, improving capital availability and addressing operational issues in consultation with state governments.

**National Highway Authority of India (NHAI) project award during FY07-09 has not been encouraging:** During FY05-09, total road projects completed stood at 9,819kms; of which projects completed during FY07-09 stood at just 4,575kms. Also, new projects awarded during FY05-09 stood at 11,502kms; of which projects awarded during FY07-09 stood at just 3,571kms. The key reasons for delays in terms of project awards during FY07-09 were largely due to restructuring of NHAI, formation of 'PPP Advisory Committee', introduction of new Model Concession Agreement, etc. Also, restriction in terms of number of bidders for each infrastructure project and Clause 2.1.18 which restricted eligibility of each company to bid for infrastructure projects also affected investor interest. Apart from the above, there were issues in terms of land acquisition, shifting of utilities, execution challenges, etc which impacted project execution.

**Revision in concession terms leads to improved viability, 10 projects awarded since December 2008:** NHAI has approved higher capital costs, increased concession periods, etc which has led to improved viability. Also, project costs have been reduced through changes in project design. Restrictions in terms of number of bidders for each infrastructure project and also Clause 2.1.18 have been relaxed.

**9,531kms of projects have reached RFP stage, expect accelerated project award:** Based on our analysis of NHAI projects, 100 projects with total length of 9,531kms and with project cost of Rs1,178b have already reached Request for Proposal (RFP) stage. Of these, bids have already been called for 29 projects with total cost of Rs562b (total length of 3,071kms). Given that a large part of the administrative issues have been sorted, we expect acceleration in terms of project award.

**Easing liquidity to aid project financing:** The Surat-Dahisar Project (245km, Rs25b), awarded to IRB Infrastructure in February 2008, has achieved financial closure in February 2009 at 12.5% (domestic debt) with Canara Bank and IOB leading the consortium. This project was one of the five awarded in February 2008 (1,095km). Companies with robust cash flows (e.g. L&T, Reliance Infra. and IRB Infra.) are relatively better positioned to address the financing issues.

BOT PORTFOLIO IN ROAD SEGMENT (BASED ON PROPORTIONATE HOLDING OF COMPANIES)

COMPANY	COST* (RS B)	KMS			STATUS
		TOTAL	OP	UC	
Larsen & Toubro	92	952	256	696	3 Gujarat projects (493kms) and Pimpalgaon-Gonde (60kms) to achieve FC
IRB Infrastructure	54	728	448	280	Pre-qualified for Rs133b NHAI projects, financial bids for 3 projects (Rs18b)
Reliance Infrastructure	39	491	97	394	Sole / L1 bidder for 3 projects of Rs94.4b (295kms)
GMR Infrastructure #	24	346	228	118	2 already operational, Lol received for Hyd.-Vijaywada (181kms, Rs17b)
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GVK Power & Infrastructure	6	91	91	0	Already operational
Hindustan Construction	11	70	0	70	Pre-qualified to bid for 8-10 NHAI projects

FC = financial closure; # Hyderabad-Vijayawada project not included in calculations

Source: Company

### **Mr. Kamal Nath appointed as Union Minister of Road Transport and Highways**

Mr Kamal Nath, who had held Commerce and Industry portfolio in previous term (FY05-09) of United Progressive Alliance (UPA) government had initiated major trade policies, including incorporation of comprehensive Foreign Trade Policy (FY05-09). Under his leadership, India organized G-20 meeting in 2004 and also played a key role in finalization of WTO Framework Agreement. The liberal stand on FDI, policy framework on SEZ, introduction of full product patent regime, etc are other key initiatives.

In the current UPA regime, Mr Kamal Nath has been entrusted with an important role of Union Minister of Road Transport and Highways. This sector had witnessed dismal progress in previous term of UPA government. Post assuming charge, the Minister highlighted the importance of Road transport and highways for economic development. The key priorities have been identified as: increased focus on execution and project award, improving capital availability and addressing operational issues in consultation with state governments.

#### **Nath promises action on roads (Media Article)**

Once the high-profile commerce minister making India's voice heard at global trade fora, Kamal Nath is now tasked with putting the country's teetering highway projects on track. The surface transport ministry had drawn criticism for slippage in project implementation and delay in awarding contracts, but the new minister says actions will speak for themselves. **Excerpts from an interview:**

#### **What will be the key focus areas of the new government?**

In the past, there has been enough planning. Now thoughts have to be transformed into action. We have to ensure that the system and platforms are workable. Performance has to be measured not in terms of plans, but actual work. Things have to be looked at in a new way. In a few weeks, a new model will be found so that India can build the highest number of road kilometres. We have to see that all the outlays are utilised. A successful plan is that which is converted into action.

#### **There have been talks of roads as a stimulus to the economy...**

The greater the outlay on construction of roads, the greater the impetus to the economy. If you look at the development of countries like China, Japan and those in Europe, it is all based on their roads and other major infrastructure. There could be better airports but without good roads it doesn't help much. Along with highways, rural roads too have to be given proper attention.

#### **Earlier, there were delays on the part of the government ... but a big hurdle was the paucity of cash owing to the impacts of the financial slowdown, which too delayed project implementation ...**

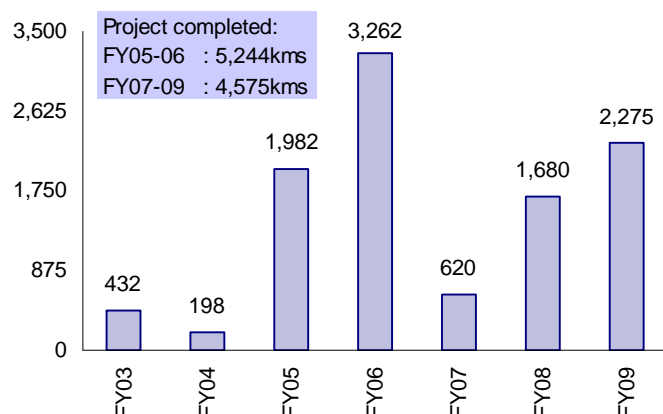
We will meet all the states in a month's time to remove the bottlenecks. Some old regulatory frameworks on transportation such as multiple permit and others have to be reviewed. We are looking at new models. We will look at new ways of capital inflow.

## NHAI project award during FY05-09 has not been encouraging

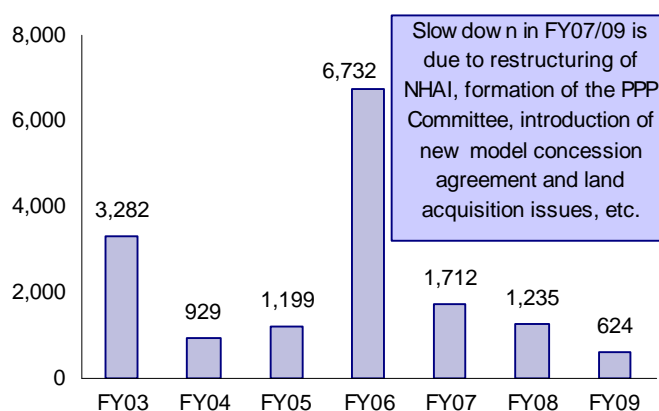
### Project progress during FY05-09

- ✘ During FY05-09, total road projects completed stood at 9,819kms; of which projects completed during FY07-09 stood at just 4,575kms.
- ✘ New projects awarded during FY05-09 stood at 11,502kms; of which projects awarded during FY07-09 stood at just 3,571kms.
- ✘ As of March 2009, additional 15,731kms of projects are pending award.

NATIONAL HIGHWAY DEVELOPMENT PROGRAMME COMPLETION (KMS)



YEARLY PROJECT AWARDS BY NHAI (KMS)



Source: NHAI

### Reasons for delays in terms of project awards during FY07-09

The key reasons for delays in terms of project awards by NHAI during FY07-09 were:

- ✘ NHAI was being restructured and made into a multi-disciplinary body with capacity to handle large number of Public Private Partnership (PPP) projects. As part of the restructuring, all projects would be cleared by Committee of Secretaries, and thus a new cell was created under NHAI 'PPP Advisory Committee'. The PPP Advisory Committee took charge wef October 2006, which led to the initial delays.
- ✘ Another aspect of restructuring was the introduction of new Model Concession Agreement (MCA). There had been delays in terms of approval of the new MCA, and the first projects under new MCA came up for bidding by beginning CY07.
- ✘ New MCA initially stated that 80% of the land has to be acquired before contract award and thus there were delays, as land acquisition was a contentious issue. Post several modifications, it was decided to lower the limit and 50% of the land will now be handed over prior to commencement of construction.
- ✘ Subsequently, there were restrictions in terms of capping the number of bidders for each project to 5-6. This again led to delays given the tightening credit scenario and also the need for joint ventures with foreign companies, as shortlisting was based of stated parameters.
- ✘ Clause 2.1.18 restricted the eligibility of each company to bid for a specified number of infrastructure projects.
- ✘ Apart from the above, there were issues in terms of land acquisition, shifting of utilities, execution challenges, etc which impacted project execution.

**Clause 2.1.18 of Request for Proposal (RFP)****2.1.18 Other bid conditions shall include:**

- a) The bidder, in case it does not have the O&M experience specified in Clause 2.2.3 of the Request for Qualification (RFQ), by submitting its Bid, shall be deemed to acknowledge and agree that for a period of at least 5 (five) years from the date of commercial operation of the Project, it shall enter into an operations & maintenance (O&M) agreement with an entity having the specified experience, failing which the Concession Agreement shall be liable to termination.
- b) A bidder shall not be eligible for bidding hereunder if the bidder, its member or associate was, during a period of 2 (two) months preceding the bid due date, either by itself or as member of a consortium;
  - a) pre-qualified and shortlisted by the Authority for the Bid Stage comprising RFP in relation to 8 (eight) or more projects of the Authority; or
  - b) declared by the Authority as the selected bidder for undertaking 4 (four) or more projects of the Authority; or
  - d) unable to achieve financial closure, for 2 (two) or more projects of the Authority within the period specified in the respective concession agreements entered into with the Authority;

Provided that in the event the Bidder, its Member or Associate, as the case may be, shall have, within one week of receiving a notice of prequalification and short-listing for the Bid Stage of any such project, withdrawn from the bid process and notified the Authority of the same, the project so notified shall be excluded from the purview of this clause 2.1.18

**Revision in concession terms lead to improved viability, 10 projects awarded since December 2008****NHAI approves higher capital costs, increased concession periods, etc to improve viability:**

- ✍ Estimated project cost has been increased, which entails higher viability gap funding (VGF), thus improving project viability.
- ✍ VGF, which is capped at 40% of the project cost, was earlier paid during construction period (20%) and post operations (20%). For the projects to be awarded in 2009, the entire 40% VGF will be paid during the construction period, thereby improving cash flows. However, for Phase-V projects, VGF has been capped at 10% of the project cost.
- ✍ NHAI is also contemplating reducing the cost of projects through changes in project design.
- ✍ The concession period for several projects recently approved by the Cabinet Committee on Economic Affairs (CCEA) has been 26-30 years v/s the earlier average of 18-20 years. Also, the mandatory provision of six-laning by the end of the 12th year has been done away with.

- Restrictions in terms of number of bidders to 5-6 for each infrastructure project and also Clause 2.1.18 which restricted the bidding ability of each company were relaxed; and for future projects have been done away with.

**9,531kms of projects have reached RFP stage, expect accelerated project award**

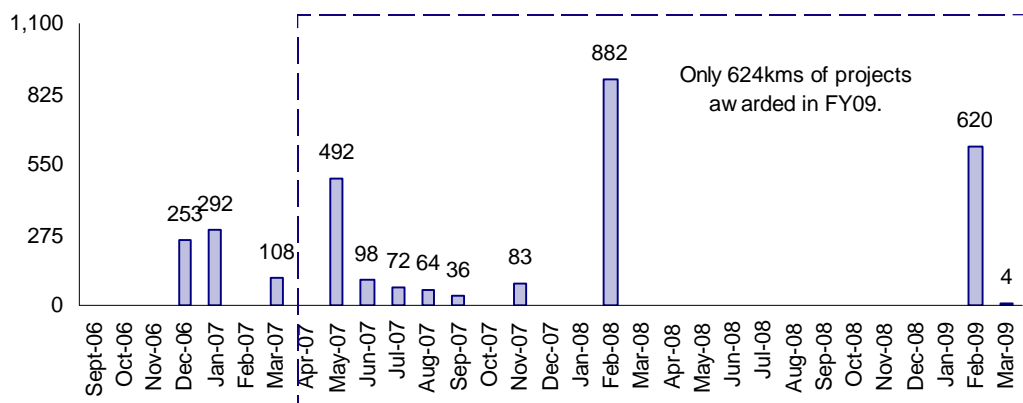
Based on our analysis of NHAI projects, 100 projects with total length of 9,531kms and with project cost of Rs1,178b have already reached Request for Proposal (RFP) stage. Of these, bids have already been called for 29 projects with total cost of Rs562b (total length of 3,071kms) and we understand that 10 projects have been awarded with total cost of Rs135b (total length of 1,227kms). Given that a large part of the administrative issues have been sorted, we expect acceleration in terms of project award.

LIST OF PROJECTS AWARDED POST DECEMBER 2008

PROJECT	STATE	LENGTH (KMS)	COST (RS B)	AWARD	OPERATOR	REVENUE SHARE/ POSITIVE GRANT
<b>Phase III Projects</b>						
Pimpalgaon-Nashik- Gonde	Maharashtra	60	8.0	Dec-08	L&T-Ashoka Buildcon	Revenue Share
Kishangarh-Ajmer-Beawar	Rajasthan	94	8.0	Dec-08	Soma-ISOLUX	Revenue Share
Maharashtra Border - Dhule	MP/Maharashtra	97	7.5	Dec-08	HCC-John Laing - Sadbhav	Revenue Share
Cuddappah- Kurnool	Andhra pradesh	188	18.0	Feb-09	KMC-IVRCL Consortium	Positive Grant
Gujarat/Mah Border - Surat - Hazira - Port	Gujarat	140	15.0	Feb-09	Soma-ISOLUX	Positive Grant
Pune-Sholapur	Maharashtra	110	11.0	Feb-09	Navinya buildcon-Atlantica	Positive Grant
Hyderabad-Vijayawada Road	AP	182	17.4	May-09	GMR-Punj Lloyd Consortium	Positive Grant
<b>Phase V Projects</b>						
Varanasi - Aurangabad	UP/Bihar	190	19.2	Dec-08	Soma - ISOLUX Consortium	Positive Grant
Krishnagiri-Walahpet	Tamil Nadu	148	14.9	Dec-08	Reliance Infrastructure	Positive Grant
<b>Phase VII Projects</b>						
Chennai Port-Maduravoyal	Tamil Nadu	18	16.6	Dec-08	Soma - ISOLUX Consortium	Positive Grant
<b>Total</b>		<b>1,227</b>	<b>135</b>			

Source: NHAI

TREND IN MONTHLY PROJECT AWARD (KMS)

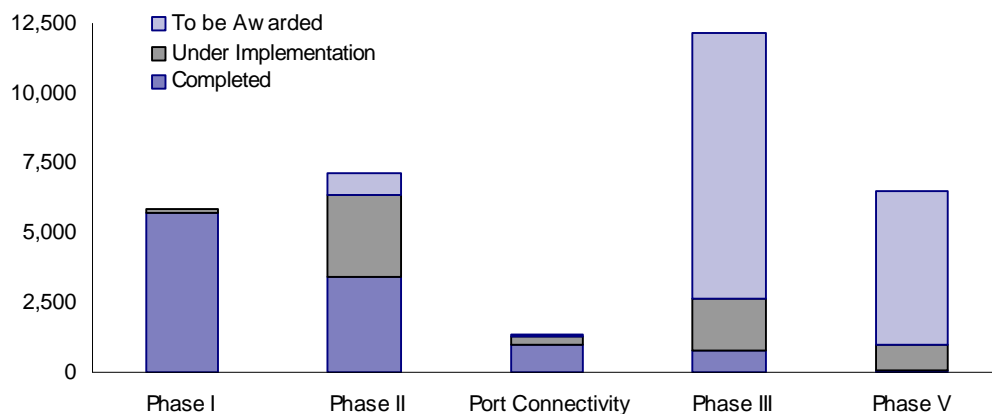


Source: NHAI

### NHDP projects status

As at March 2009, of the 33,097 kms of National Highway Development Project (NHDP) which have been approved by the Union Cabinet, comprising of Phase I, II, III and V; 11,037kms have been completed (vs 8,762 kms in March 2008), while 6,175kms (vs 7,756kms in March 2008) are under construction. In terms of phase-wise progress, 98% of Phase I and 47% of Phase II have been completed.

NHDP PROJECTS STATUS AS ON MARCH 2009 (KMS)



Source: NHAI

NHAI OPPORTUNITY (KMS)

PHASE	LENGTH	COMPLETED	UNDER CONS.	BAL. FOR AWARD	COST (RS B)	DETAILS
Golden Quadrilateral (GQ)	5,846	5,721	125	-	303	Connecting the four metros
Port connectivity and others	1,342	987	329	26		Incl in GQ cost
Phase II (NS-EW project)	7,300	3,436	3,073	791	343	Connecting Srinagar with Kanyakumari and Porbandar with Silchar
Phase III	12,109	787	1,878	9,444	806	Connecting state capitals and the places of economic importance and tourism with Phase I&II
Phase IV	20,000	-	-	20,000	278	2-laning with paved shoulders of 20,000 km of National highways
Phase V	6,500	106	924	5,470	412	6-laning of selected stretches of National Highways including GQ
Phase VI	1,000	-	-	1,000	167	Development of 1,000kms of expressways
Phase VII	700	-	-	700	167	Construction of ring roads, flyovers and bypasses on selected stretches
<b>Total</b>	<b>54,797</b>	<b>11,037</b>	<b>6,329</b>	<b>37,431</b>	<b>2,476</b>	

Source: NHAI

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