

Construction

NHAI projects kick off

NHAI has recently opened bids for 15 road BOT projects. Among the companies under our coverage, **IVRCL and Sadbhav have emerged as the lowest bidder on two projects each, Hindustan Construction (HCC), Nagarjuna Construction (NCC) and JMC Projects (JMC) are lowest bidder on one project each, while HCC is sole bidder on one project, where bid is yet to open.** Two projects did not receive any bids. (Please refer to page two for details).

Our interaction in the industry indicates that the competition was not intense in the current round of bidding on most of the projects. **NHAI is likely to continue to open bids on a large number of projects in the near future.**

If the companies are awarded these projects, we expect that construction revenues will start flowing from FY11 end/FY12 start. Toll collection will start post execution, which is likely to take ~2.5 years from the date of start of construction. Since most of the companies do not have free cash for funding, we expect equity dilution in the main company or in their infrastructure subsidiaries.

NHAI has set an ambitious target of awarding 11,947 km (122 projects – Rs 1,066 bn) of road projects by June 2010 (deadline extended from March 2010). Also, they have prepared work Plan II where 92 projects of 11,721 km have been identified and target dates have been set for land acquisition, DPR, RFQ and invitation of RFP during FY11.

The government has recently accepted the recommendations of B.K. Chaturvedi Committee, which we believe is a right step by addressing the policy issues first. Also, as per the new terms, NHAI is obliged to handover 80% of land to the construction companies on the date of financial closure, which may delay project award to some extent. However, it will ensure a fast and smooth implementation, as availability of land was the key hurdle in execution earlier. Though, the target set by Ministry of Roads and NHAI is to build highways at the rate of 20 km a day; we believe the partial achievement of the same will also be a big positive for the sector.

Award of large quantum of projects will be a positive for the companies involved in the road development and construction business. HCC, Sadbhav and Madhucon are our preferred picks in the construction sector.

NHAI projects – L1 status

Project	KM	Lanes	Project cost Rs bn (As per NHAI)	Lowest bidder	Premium*/Grant	L2, Premium/Grant
Rohtak-Panipat	81	4	7.7	Sadbhav	Rs 450 mn premium	DS Construction – Rs 213 mn premium
Hyderabad-Yadgiri	36	4	3.4	Sadbhav	Rs 117 mn premium	IL&FS Rs 3.3 mn grant
Indore-Gujarat/MP Border	155	4	11.8	IVRCL	Rs 230 mn premium	PNC-SREI-Gulfar Rs 3,870 mn grant
Chengapalli-TN/Kerala Border	55	4	5.2	IVRCL	Rs 360 mn premium	Ramky – Rs 270 mn premium
Pune-Satara	145	6	14.5	Reliance Infra	Rs 909 mn premium	DS – Rs 611.1 mn premium
Farakka-Raiganj	103	4	10.8	HCC	Grant of Rs 4,145.4 mn	Sadbhav – Rs 4,283.2 mn grant
Bahrapore-Farakka	101	4	10	Single bid by HCC, yet to open		
Rohtak-Bawal	83	4	6.5	JMC – SREI	Rs 120 mn premium	Gayatri – Rs 34.1 mn grant
Bareilly-Sitapur	153	4	14.5	NCC	Grant of Rs 2,800 mn	
Godhra-Gujarat/MP Border	84	4	8	BSCPL	Rs 78.3 mn premium	Sadbhav – Rs 63 mn premium
Moradabad-Bareilly	121	4	11.5	IL&FS	Grant of Rs 4,430 mn	DS – Rs 4,830 mn grant
Ahmedabad-Godhra	118	4	11.2	Essel	Grant of Rs 1,080 mn	Sadbhav – Rs 2,610 mn grant
Haridwar-Dehradun	37	4	3.5	Era Infra	Annuity of Rs 530 mn	NCC – Rs 690 mn annuity
Muzaffarnagar-Haridwar	80	4	7.6	Era Infra	Grant of Rs 2,130 mn	
Krishnagar-Bahrapore				No bidder		
Raiganj-Dalkhola				No bidder		

Source: NHAI, Industry

*First year premium to be shared with NHAI from COD, will increase 5% every year.

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