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UPDATE

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**NHAI's new bidding constraints likely to cool down competition.** NHAI has issued a new clause to prevent an entity from bidding if it had three or more NHAI projects awaiting financial closure. NHAI aims to prevent a player from getting an unfair share of projects based on aggressive bids. Sadbhav, IVRCL and IRB have won 2-3 projects each recently and the new clause may restrict their future bids. GMR, GVK and L&T may benefit from lower competition in the Feb-Mar 2010 round. The new clause fails to take into account firm-specific execution capability and non-NHAI projects.

#### **New NHAI bidding norm – barred if three or more projects are awaiting financial closure**

NHAI has changed its bidding guidelines such that a road infrastructure developer can not bid for additional road projects if it already has three or more NHAI projects awaiting financial closure. The new guideline appears to aim at preventing some players from bagging a disproportionate share of projects even as they lag in financial closure and execution of existing projects.

#### **Feb-Mar 2010 bidding: IVRCL, Sadbhav and IRB may be restricted and rush for financial closure**

Companies that have recently won three or more projects and are thus likely to be held back from incremental bidding on road projects include IKMC Construction (four projects), SOMA (three projects), HCC (three projects) and RB Infrastructure (four projects). Reliance Infrastructure, IVRCL and Sadbhav have won two projects each in the recent November round and thus they may also exercise caution in extensive bidding. SOMA, KMC and IRB may rush to achieve financial closure of the projects secured in Jun-Jul 2009 round and thus qualify themselves for bidding.

#### **L&T, GVK and GMR likely to benefit from lower competition in next round of bidding**

L&T, GVK, and GMR may benefit from the new clause as they have not won projects from NHAI in the recent past and may benefit from lower competition as the new clause prevents potential competitors from bidding. We expect the Feb-Mar 2010 round of tenders to see much less competition compared to the Nov-Dec 2009 round. The Nov-Dec 2009 round of bids had most projects awarded on the basis of revenue share (versus mostly NHAI grant in Jun-Jul 2009), possibly indicating aggressive competition to secure projects.

#### **New clause fails to account for developer's execution capability and non-NHAI project portfolio**

The new clause based on projects awaiting financial closure applies equally for all players and does not account for (a) execution capability and net worth of larger players such as GMR and L&T, and (b) other open projects of the same company in other sectors where financial closure may not have been achieved yet, as they contribute as much to risk of the project eventually failing to take off. We highlight that roads sector has been replete with changes being made to the bidding conditions in middle of the process, often with unintended consequences.

Lokesh Garg  
lokesh.garg@kotak.com  
Mumbai: +91-22-6634-1496

Supriya Subramanian  
supriya.subramanian@kotak.com  
Mumbai: +91-22-6634-1383

Nitij Mangal  
nitij.mangal@kotak.com  
Mumbai: +91-22-6634-1453

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

### **New bidding norm—barred if three or more projects await financial closure**

NHAI has changed its bidding guidelines such that a road infrastructure developer cannot bid for additional road projects if it already has three or more NHAI projects awaiting financial closure. The new guideline appears to be a step to avoid a situation where certain players try to gain unfair share of projects without having requisite capabilities to financially close and execute the projects.

### **IVRCL, Sadbhav and IRB may find restricted; L&T, GMR, GVK likely to benefit**

We believe that next round of bidding is scheduled to start on February 19 and thus some players would certainly find it difficult to qualify for this round in case they have not completed the financial closure of the projects as yet.

### **KMC, SOMA, HCC and IRB may have three or more projects pending closure**

Companies that have recently won three or more projects and are thus likely to be held back from incremental bidding on road projects are KMC Construction (four projects), SOMA (three projects), HCC (three projects) and IRB Infrastructure (four projects).

SOMA, KMC and IRB had secured their projects in June-July round of bidding followed by no incremental wins in November-December round of bidding, thus there is fair possibility that these companies may be able to financially close their projects over the next few weeks and qualify themselves for a bid. We expect that these companies would attempt to expedite financial closure to be eligible for the NHAI tenders that open up starting 19 February 2010.

### **Reliance Infra, IVRCL, Sadbhav close with two projects each, may exercise caution**

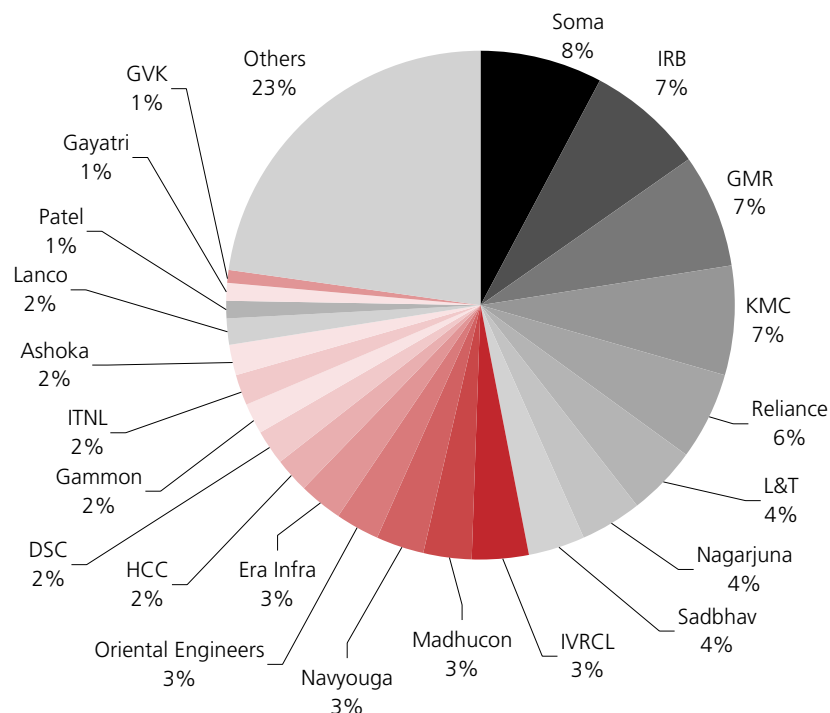
Companies having two projects would also find new clause restrictive as well. Reliance Infrastructure, IVRCL and Sadbhav have won two projects each in the recent November round of bidding and thus they may also exercise caution in extensive bidding particularly if there are particular stretches companies have been interested in.

### **L&T, GVK and GMR would potentially benefit from lower competition**

We believe companies such as L&T, GVK, and GMR may benefit from the new clause as they have not won projects from NHAI in the recent past and may benefit from lower competition as some companies are held back from bidding based on this new clause. We highlighted in our sector note "Government rolls out red carpet: Industry exuberance over the top" released on December 4, 2009 that November round of NHAI bidding was marked by competition and aggressive bidding. We expect the competitive intensity to abate in the Feb-Mar 2010 round of bidding despite the highly fragmented market as the new clause would restrain extensive bidding from about half of the top 10 players.

**Fragmented market of NHAI road project developers**

Share of developers in about 10,000 km of NHAI projects announced till date



Source: NHAI, Kotak Institutional Equities

**Financial closure is documentation heavy and requires NHAI's assent**

We believe that financial closure, for the purpose of the new bidding norm, would be considered achieved only when a final agreement has been signed for full project debt with all the lenders in agreement with NHAI. Offers for underwriting the entire debt by some lenders, potentially motivated by syndication fees, may not be considered as a financial closure. Financial closure also partly depend on NHAI as we believe NHAI is party to the tripartite agreement between lenders and project SPV as some security clauses such as termination payments etc. belong to NHAI's domain.

**NHAI replete with changes in bidding norms, often unintended consequence**

Roads sector has been replete with changes being made to the bidding conditions in middle of the process. Around December 2007, NHAI/Planning commission tried to restrict financial bidding to the top five to six bidders on qualification-based points. The restriction ended up with several unintended consequences—(1) emphasis on having the big global names in consortium for getting a high score thus leaving reputed Indian companies out of the fray, (b) the possibility of projects getting in hand of weaker companies based on marks from borrowed names, and (c) monopolization as the same consortium got the highest scores for each and every project. Subsequent attempts to limit monopolization by limiting the number of projects a company/consortium could bid led to (1) withdrawals of bids leaving some projects without enough number of bidders, and (2) leaving implied right of first refusal on lucrative projects to bidders with higher qualification marks. The change was contested legally by the industry, and government had to remove the clauses that restricted number of bidders for a project from incremental bidding.

### New clause also fails to account for developer's execution capacity and capability

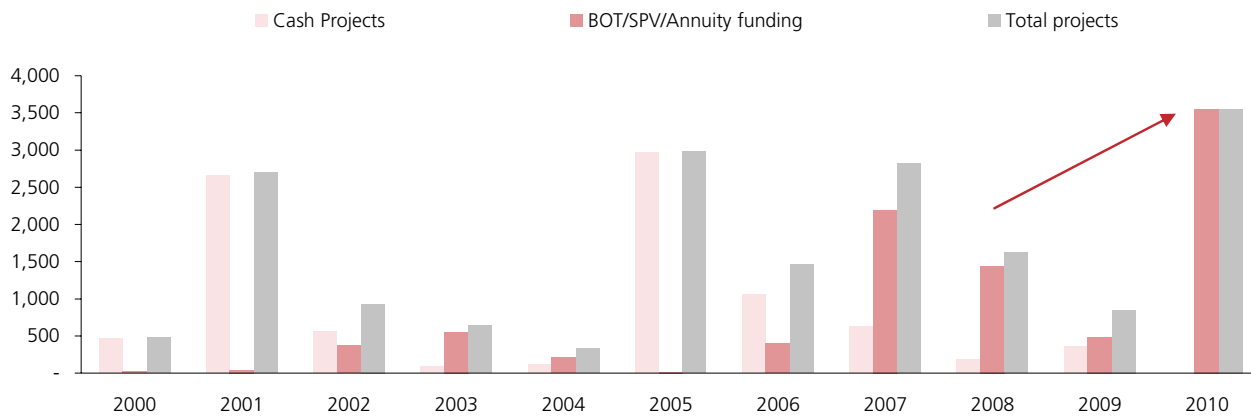
The new clause based on projects awaiting financial closure applies equally to all players and does not account for (1) execution capability and net worth of larger players such as GMR and L&T, and (2) other open projects of the same company in other sectors where financial projects may not have been achieved yet, as they contribute as much to the risk of the project eventually failing to take off.

### Award activity accelerates—but NHAH is probably falling behind its work plan

We highlight that NHAH project award activity has shown renewed momentum under the new leadership with more than 3,500 km of BOT projects already awarded in FY2010 versus a sedate about 500 km in FY2009. Based on B K Chaturvedi report recommendations, the government has addressed several glitches to enhance project viability and bidding participation in the implementation of National Highways Development Project (NHDP) which is expected to support the momentum.

#### BOT projects activity shows significant revival under new NHAH leadership, while clearly cash projects are on the way out

Cash and BOT/SPV/Annuity funded NHDP projects FY2001-10 as on December 31, 2009 (km)



Source: NHAH, Kotak Institutional Equities

However, NHAH seems to be falling behind its earlier proposed work plan target of 20 km/day. Of the 13,000 km of planned four and six lane projects, 66% of the highway length were planned to be contracted in FY2010 itself which would imply about 6,800 km of BOT toll contracts in FY2010. NHAH has awarded about 3,500 km in FY2010 so far with less than two months to go.

## Proposed work plan aims to award about 66% of 4/6 lane highway length by end-FY2010

NHAI proposed work plan in year-wise length over various modes of delivery, March fiscal year-ends, 2010-14 (km)

	2010	2011	2012	2013	2014	Total
<b>Four and six lane BOT projects</b>						
<b>BOT (toll)</b>						
4 lane - Phase III	4,373	—	—	—	—	4,373
4 lane - Phase II	55	—	—	—	—	55
6 lane - Phase V	2,403	1,200	—	—	1,477	5,080
Expressways - Phase VI	—	—	436	604	—	1,040
4 lane - Phase VII	—	—	681	—	—	681
<b>BOT (toll) total</b>	<b>6,831</b>	<b>1,200</b>	<b>1,117</b>	<b>604</b>	<b>1,477</b>	<b>11,229</b>
<b>BOT (annuity)</b>						
4 lane - Phase III	524	—	—	—	—	524
4 lane - Phase II	380	—	—	—	—	380
J&K - Phase II	239	—	—	—	—	239
4 lane - SARDP-NE	394	—	—	—	—	394
<b>BOT (annuity) total</b>	<b>1,537</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,537</b>
<b>BOT total (4/6 lane projects)</b>	<b>8,368</b>	<b>1,200</b>	<b>1,117</b>	<b>604</b>	<b>1,477</b>	<b>12,766</b>
<b>Two lane BOT projects</b>						
<b>BOT (toll)</b>						
2 lane with paved shoulders - Phase III	1,977	—	—	—	—	1,977
2 lane - Phase IV	—	4,086	3,075	339	—	7,500
<b>BOT (annuity)</b>						
2 lane with paved shoulders - Phase III	1,477	—	—	—	—	1,477
2 lane - Phase IV	—	4,645	4,000	1,355	—	10,000
<b>BOT total (2 lane projects)</b>	<b>3,454</b>	<b>8,731</b>	<b>7,075</b>	<b>1,694</b>	<b>—</b>	<b>20,954</b>
<b>EPC</b>						
4 lane - SARDP-NE	330	—	—	—	—	330
2 lane - Phase IV	—	1,161	1,000	339	—	2,500
2 lane with paved shoulders - Phase III	500	—	—	—	—	500
<b>EPC total)</b>	<b>830</b>	<b>1,161</b>	<b>1,000</b>	<b>339</b>	<b>—</b>	<b>3,330</b>
<b>Total over all projects</b>	<b>12,652</b>	<b>11,092</b>	<b>9,192</b>	<b>2,637</b>	<b>1,477</b>	<b>37,050</b>

Source: NHAI, Kotak Institutional Equities

**NHAI lays out an impressive bidding schedule over the next two months**

NHAI has laid out an extensive bidding schedule for the next two months where it would tender about 45 projects worth more than 4,200 km. This round includes several of the large projects such as 436 km Icchapuram–Vishakhapatnam–Rajahmundry section of NH-5 in Andhra Pradesh, and 230 km stretch of Dhankuni-Baleshwar in Orissa. There are 15 projects, including the abovementioned, which are more than 100 km in stretch. The bidding schedule indicates the extensive opportunity that will open up in the sector over the next two months.

**4,200 km of road projects coming up for bidding in remaining part of FY2010**  
Bidding schedule for current tenders floated by National Highway Authority of India

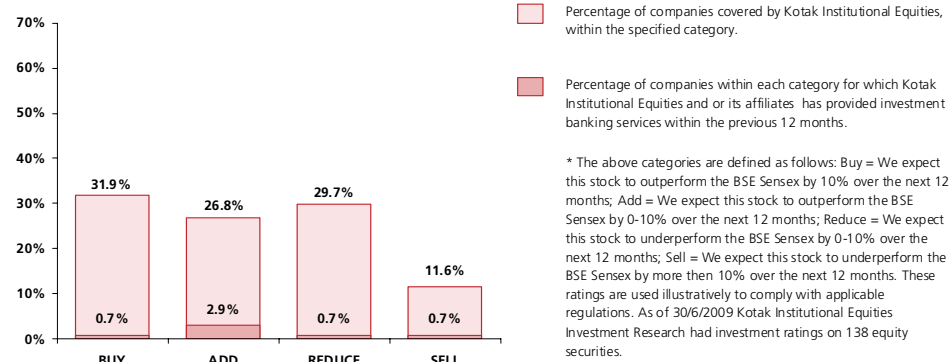
Last Date	Mode	Phase	(km)	State	Description
19-Feb-10	BOT(Annuity)	SARDP-NE	62	Assam, Meghalaya	Four laning of Jorbat – Shillong (Barapani) section of NH-40
19-Feb-10	NA	NHDP - III	165	Bihar	Four lane of new Ranchi Bypass of NH 33
19-Feb-10	BOT(Toll)	NHDP - III	121	Kerala	Four laning of Kuttipuram-Edapally
19-Feb-10	BOT(Annuity)	SARDP-NE	27	Meghalaya	Two laning of Shillong Bypass section of NH -40 & NH-44
22-Feb-10	BOT(Toll)	NHDP - V	180	Haryana/UP	Six laning of Delhi-Agra
22-Feb-10	BOT(Toll)	NHDP - V	45	Madhya Pradesh	Six laning of Indore-Dewas
22-Feb-10	BOT(Toll)	NHDP - III	44	Rajasthan	Four laning of Reengus-Sikar
23-Feb-10	BOT(Toll)	NHDP - III	50	Haryana	Two/four laning of Rohtak-Jind
23-Feb-10	BOT(Toll)	NHDP - V	79	karnataka	Six laning of Belgaum – Dharwad section of NH-4
23-Feb-10	BOT(Toll)	NHDP - V	114	karnataka	Six laning of Tumkur- Chitradurga section (excluding bypass)
25-Feb-10	BOT	NHDP - II	68	Jammu & Kashmir	Four laning of Srinagar to Banihal section of NH 1-A
25-Feb-10	BOT	NHDP - II	52	Jammu & Kashmir	Four laning of Jammu to Udhampur section of NH 1-A
25-Feb-10	BOT(Annuity)	NHDP - II	43	Jammu & Kashmir	Four laning of Udhampur to Ramban section of NH-1A
25-Feb-10	BOT(Toll)	NHDP - III	17	Maharashtra	Four/six laning of Solapu-Maharashtra/Karnataka border
1-Mar-10	BOT(Toll)	NHDP - V	436	Andhra Pradesh	Six-laning of Icchapuram-Vishakhapatnam-Rajahmundry section of NH-5
2-Mar-10	BOT(Toll)	NHDP - III	83	Haryana	Two laning of Rohtak-Hisar
3-Mar-10	BOT(Toll)	NHDP - III	73	Haryana	Two/four laning of Ambala-Kaithal
3-Mar-10	BOT(Annuity)	NHDP - III	93	Madhya Pradesh	Two laning of Jabalpur-Rajmarg crossing section of NH-12
4-Mar-10	BOT(Toll)	NHDP - III	108	Haryana	Four laning of UP/Haryana border-Yamunagar-Saha-Barwala-Panchkula
5-Mar-10	BOT(Toll)	NHDP - III	64	Andhra Pradesh	Four laning of Vijaywada – Machilipatnam section of NH-9
8-Mar-10	BOT(Annuity)	NHDP - II	36	Jammu & Kashmir	Four laning of Ramban to Banihal section of NH-1A
8-Mar-10	BOT(Annuity)	NHDP - II	15	Jammu & Kashmir	Quazigund - Banihal section including two tunnels (two Lane) of NH 1-A
8-Mar-10	BOT	NHDP - II	41	Jammu & Kashmir	Four laning of Chenani to Nashri section of NH-1A including 9 km long tunnel
9-Mar-10	BOT	NHDP - III	78	Himachal Pradesh	Four laning of Parwanoo- Solan section of NH-22
12-Mar-10	BOT(Toll)	NHDP - III	139	Bihar	Two/four laning of Patna-Buxar
12-Mar-10	BOT	NHDP - III	78	West Bengal	Four laning of Krishnagar to Bahrapore section of NH-34
15-Mar-10	BOT(Annuity)	NHDP - III	120	Bihar	Two/four laning Of Bakhtiyarpur–Khagaria section Of NH - 31
15-Mar-10	BOT(Annuity)	NA	140	Bihar	Two/four laning of Khagaria-Purnia section of NH-31
15-Mar-10	BOT(Toll)	NHDP - III	163	Orissa	Four/two laning of Panikoli-Rimuli
15-Mar-10	BOT(Toll)	NHDP - III	126	Orissa	Four/two laning of Chandikhole-Talcher
15-Mar-10	BOT(Toll)	NHDP - III	96	Orissa	Four/two laning of Rimuli-Rajamunda
16-Mar-10	BOT(Toll)	NHDP - III	84	West Bengal	Four laning of Barasat-Krishnagar
19-Mar-10	BOT(Toll)	NHDP - V	192	UP/Bihar	Six laning of Varanasi-Aurangabad
22-Mar-10	BOT(Annuity)	NHDP - III	77	Bihar	Two laning of Muzaffarpur-Sonbarsa section of NH - 77
22-Mar-10	BOT(Annuity)	NHDP - III	65	Bihar	Four laning of Chhapra-Hazipur section of NH-19
22-Mar-10	BOT(Annuity)	NHDP - III	95	Bihar	Two laning of Gopalganj-Chhapra section of NH - 19
22-Mar-10	BOT(Annuity)	NHDP - III	69	Bihar	Two laning of Pipakothi-Raxaul section Of NH - 28A
22-Mar-10	BOT(Annuity)	NHDP - III	15	Bihar	Two laning of Forbesganj-Jogbani section of NH - 57A
22-Mar-10	BOT(Toll)	NHDP - V	230	Orissa	Six laning of Dhankuni-Baleshwar and four laning of NH-60
25-Mar-10	BOT(Annuity)	NHDP - III	70	Bihar	Two laning of Mokama-Munger section of NH – 80
25-Mar-10	BOT(Toll)	NHDP - III	51	Bihar	Four laning of Patna-Bakhtiyarpur
25-Mar-10	BOT(Toll)	NHDP - III	83	Rajasthan	Four laning of Deoli-Kota
25-Mar-10	BOT(Toll)	NHDP - III	115	Rajasthan	Four laning of Beawar-Pali
25-Mar-10	BOT(Toll)	NHDP - III	129	Rajasthan	Four laning of Pali-Pindwara
31-Mar-10	BOT(Annuity)	NHDP - III	NA	Kerala	Four laning of Trivendrum-Kerala/TN border
<b>Total</b>			<b>4,229</b>		

Source: National Highway Authority of India, Kotak Institutional Equities

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### Corporate Office

Kotak Securities Ltd.  
Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

### Overseas Offices

Kotak Mahindra (UK) Ltd  
6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc  
50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel:+1-914-997-6120

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