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## ROADS & HIGHWAYS On Road to Mission 2022



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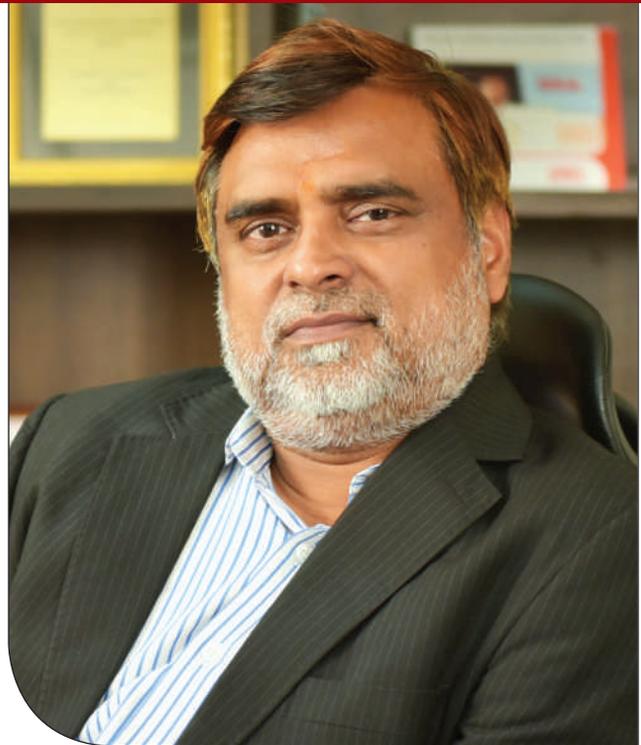
### REPORT

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# Huge pipeline of projects to come up for awarding in next two years



Smart mobility in India is currently at nascent stage but it is projected to undergo explosive growth in coming years, says

**BAJRANG KUMAR CHOUDHARY**, Managing Director, Bharat Road Network Ltd

**Upgrading, enhancing and strengthening of the Highways network in the country has been the primary focus of the Government. Have the current set policies and measures been fruitful in moving the sector ahead?**

Infrastructure creation has been quite emphatically steering the policy decisions over the past few years. And thankfully it has been Roads and Highways sector in India which has been witnessing a massive traction. Apart from an increase in budgetary allocation, the improvisation in the project delivery mechanism under Hybrid Annuity Model (HAM) and Toll Operate and Transfer (TOT), facilitation of the exit mechanisms, regulation for release of arbitration award and slew of other policy measures truly reflect the commitment of policymakers to provide a major thrust to the industry which had been gasping for some relief from policy paralysis and inertia. While the intent of Government in stimulating growth in the industry is praiseworthy, the barriers are still far too many for a smooth ride. The implementation of new policy measures itself leaves a lot of room for improvement to make real impact on the

ground. Going by some of the recent industry experiences, it is safe to assume that the spirit of the regulations is somehow getting lost during the implementation stage. Talking about specifics, linking the bank guarantee for the release of 75% of arbitration award amid a volatile credit situation defeats the sole purpose of providing liquidity support to the sector. Also the inordinate delays in approval for facilitating exit or change in ownership fail to make the desired impact on the industry. Additionally, the ground realities in project execution too remain challenging either due to local issues or lenders inability to ensure fund flow that commensurate with the project execution. This is clearly evident from the fact that while project awarding grew at a CAGR of 36% over the past 4 years, the project execution has been growing at much lower pace at a CAGR of 17%. Though we have moved up remarkably from abysmal record of well under 10km/day of road construction, the current pace of construction at 27 km/day in 2017-18 remains much below the targeted rate of 45km/day road construction.

**Which are the key projects that hold significance for the growth and the future of the sector in the country?**

With the thrust on infrastructure initiatives for trade and business, especially centered around logistics and supply chain, the Government has made its intent very clear about unlocking the true potential of India's infrastructure market. The large-scale government driven infrastructure programme spanning sectors such as real estate, ports, roads and power are all set to give a major boost to our economy in terms of job creation and investment revival. While the flagship programme such as 'Sagarmala' for Port connectivity, 'Make in India' for enhanced industrial

connectivity roads and Green-field expressways with an estimated investment of about ₹ 5.97 lakh crore under Bharatmala Pariyojana would be the biggest factor in propelling India's overall development and time-bound creation of world class infrastructure in the country.

**How do you see the Roads & Highways sector shape up by the year 2020, with a number of major projects lined up for completion?**

There's a huge pipeline of projects to come up for awarding in next two years. When you talk about a target of 16,400 km of road projects to be awarded by 2019 jointly by MoRTH, NHA and NHIDCL and almost 34,800 kms of

smooth sailing in near future, there are quite a few pitfalls that could make the future ride little bumpy. The major issue is availability of funding in consonance with the awarding activity. With tightening interest regime, the liquidity crunch triggered by stiffening prudential norms and the recent RBI circular on refinancing, the funding for new projects as well as under construction remains slipshod and would require intervention and facilitation for smoothening execution mechanism. Also the perennial issue of land acquisition continues to deflate the growth projections. According to industry estimates, there are almost 800 km of HAM projects stuck due to Land Acquisition and other approvals. While the government is on an awarding spree for new projects, the delays triggered by Land acquisition and regulatory clearances continues to affect the pace of road construction which needs urgent attention.

**How can the funding gap in the Roads & Highways sector be bridged? What measures can be taken to draw foreign investment in the segment?**

The availability of long term low cost capital is a pre requisite for infrastructure development and it does require active support from lenders and private investors to improve the credit supply in the market to push up the GDP growth rate. The trust deficit among various stakeholders in PPP business and an acute crisis in lender's confidence in the sector has made most of the public sector banks remain overtly cautious and apprehensive towards the viability of project. Furthermore, the recent RBI circular on refinancing have also added to the woes as it failed to take cognizance to the asset liability mismatch of BOT Toll project which typically have a fixed life of assets with assured cash flow. The circular seems to have conveniently ignored the debt servicing capability over the life of an asset and rather than facilitating the refinancing opportunity



production and 'Smart Cities' mission for urban redevelopment would contribute significantly towards the growth and development of Indian Road sector through improved freight and traffic movement, the landmark announcement of Bharatmala Pariyojana would invariably remain the stepping stone for the transformation of India's economic landscape and the single largest contributor in bridging critical gaps in India's transportation sector. The development of Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International connectivity roads, Coastal and Port

road development by 2022 under BharatMala Pariyojana, the roadmap for the sector invariably looks bigger and brighter than we ever imagined. Apart from economic compulsion for propelling GDP towards double digit growth, the socio-political scenario too remain optimistic since the governments (both state and centre) are expected step up their efforts to boost infrastructure spending while they approach an election year. Historically, we have seen that awarding momentum pick up sharply in the year before election and there seems to be no reason for us to believe in any possible trend reversal this year too. Amid bright prospects of

for those assets with relatively long residual life, it has rather pushed a reasonably good asset into a vicious cycle of default upon temporary failure in meeting debt obligation due to cash flow mismatch. The Government is therefore expected to make a concerted effort to bring back lenders confidence in the sector and once we see that happen, we can expect a big turnaround for the sector. The need of the hour is therefore to revisit refinancing opportunities for the earlier mode of BOT Toll projects and streamline the execution of the stalled infrastructure projects. This would not only help private developers to improve their cash flow but also revive lenders' confidence in the sector. Additionally, there is also a serious need to explore alternative modes of resource mobilization, both equity and debt. Developing a robust infrastructure bond market as well as creating a favourable institutional mechanism for bringing in long term capital from pension funds and insurance companies may help us in solving the funding woes. This could also encourage more and more international fund managers and pension funds to increase their exposure in developing infrastructure in India.

**Do you see a model of sustainable mobility in the country?**

Smart mobility in India is currently at nascent stage but it is projected to undergo explosive growth in coming years. The focus towards shifting our energy generation portfolio towards renewable sources would be major driving force for the sector. However, the availability of a proven technology in Indian context and the commercial viability of such technology solutions would depend heavily upon adaptability and affordability. Government support will be therefore very critical for the growth of this sector in India.

**How has the Toll Operate Transfer (TOT) model worked out for the Roads**

**& Highways sector in the country?**

The bids for first bundle of Toll Operate Transfer have certainly stirred up the roads market and Government has every reason to feel ecstatic at demonstrated success of its Asset Recycling Strategy. While the privatization program of Government had been facing hurdles at many other fronts, the overwhelming response to the TOT model opens up the gateway to new opportunities in the highways sector. The model includes almost every ingredient to attract long term foreign capital due to its high ticket size, negligible construction risk and relatively lower traffic risk due to existing traffic records in comparison to BOT projects which are largely new

*The availability of long term low cost capital is a pre requisite for infrastructure development*

projects. With the gradual shift of PPP project awarding from BOT (Toll) towards Hybrid Annuity Model (HAM), the Toll Operate Transfer (TOT) is most likely to act as natural corollary for the future PPP as most of the current project under EPC and HAM are likely to come up for bidding under TOT model. However, amid the euphoria surrounding the huge response to initial bundle of TOT, the industry needs to be cautious about the pricing and avoid repeating the trend of aggressive bidding for the BOT projects that has led to undesirable outcomes in the past. Although the interest of major international players in subsequent bundles look promising, it would be surprising if the future projects also receive similar response and premium bidding.

Also the Government needs to judiciously mix the portfolio size of each of the upcoming bundles to encourage more domestic players enter into this space independently. Considering the volatility in financing market and financial strength of domestic infrastructure players, it is clearly evident that most of domestic players are reluctant to participate independently for TOT unless backed by an international pension funds.

**The Green Highways policy of 2015 envisions the development of environmental-friendly national highways. Has the policy, according to you, made an impact on the segment?**

As Indian cities continue to choke on a cocktail of toxic fumes and particulate matter, the Green Highways Policy or 2015 has been a welcome step towards ensuring green belt development along the highway stretch. However, the efficacy of the policy remained more on paper and less on ground since it was more a regulatory approach than collaborative. Also the policy has been confined towards maintenance of the green cover along national and state highways rather than extending the ambit towards other Green initiative such as using eco-friendly electric vehicles for route operations and maintenance, increasing the solar power for highway lighting and minimizing the consumption of fuel for highway patrolling and other operations. While improving the aesthetics of highway stretch by plantation and landscaping is definitely a proactive measure for pollution containment in highways, leveraging technology for efficient green corridor planning must also be considered an integral part of developing eco-friendly national highways. We, at BRNL, are committed towards development of green corridors along our stretch and create resilient ecosystems by taking up both the roadside plantation and allied activities along highways. EPCWorld