

Renewed thrust on Roads & Highways Sector

Bharat Road Network Limited, (BRNL) is a road BOT company in India, focused on development, implementation, operation and maintenance of roads/highways projects. Incorporated in 2006 as a developer and operator for highways, road and related projects on a BOT basis, the company is involved with the development, operation and maintenance of national and state highways in several states in India with a huge portfolio.

Bajrang Kumar Chowdhury, Managing Director, BRNL, spoke to BE's Ankita Chakraborty about the recent investments in roads and highways and bottlenecks in the sector.



Bajrang Kumar Chowdhury

Q. What can be the facilitating mechanisms to increase investment in roads and highways from the private sector?

A. Over the past few years, we have been seeing a lot of proactive measures being taken up for reviving the infrastructure sector and thankfully the roads and highways sector has so far been the biggest beneficiary of government's thrust on infrastructure. The developers, investors and lenders are gradually looking at the sector with a lot of interest.

Though we are quite happy to see that the approach towards PPP is changing, there are still a lot of apprehensions from lenders towards increasing their exposure in the infrastructure sector. The funding constraints therefore continue to remain a challenge to the government's plan to achieve its ambitious target.

It would be extremely helpful if the government creates a framework to facilitate exit mechanism through pooling of assets as it could potentially be a very strong driving force to bring back investor confidence in the sector. Currently, there are quite a few highway developers who are still struggling with their existing under-construction assets due to their stretched balance sheet position. In order to address this situation, the government should consider the amendment of the existing exit clause to create a provision for multiple developers to consolidate their road assets into one

independently-managed, yield-seeking basket of operational and under-construction assets. Such a unique concept of building scale through consolidation would allow individual developers to unlock cash flow from stressed assets while the combination of cash generating operational project would ensure early return with minimum execution risk. This could be one of the most attractive investment opportunities in the BOT roads development sector in India and would be instrumental in value unlocking.

Additionally, it is also very important for allowing such investment vehicles, which are significantly held by alternative investment funds for participating in the bidding process and aim for organic growth through the opportunities in the primary market. It is therefore required that investment vehicles of such as AIFs should be allowed to leverage the technical and financial strength of its investment managers and its holding, subsidiaries, associates and other group companies to make the most of the bidding opportunities for the upcoming road projects.

Once an enabling institutional framework is provided for such innovative platform, the investment managers would be able to draw strength from its experienced management team and demonstrated capabilities in executing road projects and offer a compelling investment proposition for institutional investors and bring back investors' confidence in the highway sector.

Q. What are the areas that BRNL mainly focuses on? What have been the major challenges faced by the company post-demonetisation?

A. We are involved in the development, operation and maintenance of national and state highways in several states in India and currently we have a project portfolio consisting of six BOT projects, of which two are projects operational under final COD, three are projects operational under provisional COD and one is a project under-construction.

The demonetisation initiative spearheaded by the Prime Minister of India was welcomed by the highway industry in India. Though the suspension of tolling from November 9 and December 2, 2016, and the corresponding liquidity crunch at the toll plazas due to restrictions in exchange and withdrawal limits at ATMs and weekly/daily caps for transactions at banks had severe impact on the tolling, the entire industry remained committed to the cause and the subsequent digitisation drive through cashless transactions. I would rather say that the biggest benefit the industry could draw out of this exercise was adoption of the cashless mode of transaction. But all this definitely came with a cost as the financial impact of the toll suspension is estimated to be ₹922 crore for the BOTs (toll).

The industry was quite hopeful that the concerned authorities would remain supportive and timely compensate the concessionaire for this loss of revenue. However, the delay so far from the authority to release the compensation has definitely affected the debt servicing capability of the concessionaire and has further dented lender's outlook towards the sector. It is, therefore, imperative for the authorities to immediately provide relief to the concessionaires as the majority of cash flow in a project usually goes towards repayment of debt.

Q. What are the major bottlenecks in the sector? What are your recommendations to boost it?

A. Though the government has been quite supportive through a series of reform measures in the roads and highway sector, the lack of lender's confidence continues to remain a pain point for the sector. The uncertainty over lenders' confidence is more evident from the fact that today even when government has come up with the Hybrid Annuity Model (HAM) which is aimed at reducing the risk of developers and lenders alike through capital grant from the authority, the lenders remain overtly cautious and apprehensive towards the viability of the model. Currently most of the dozen projects bid under HAM are stuck for want of financial commitments and developers continue to find it difficult to achieve financial closure.

The government is expected to make a concerted effort to bring back lenders' confidence in the sector and once that

happens we can expect a big turnaround for the sector. The need of the hour is to 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 mobilisation, 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 also help to solve the funding woes.

In addition to the financing woes, the dispute redressal mechanism also remains an area of concern. The Highways sector in India immediately requires an independent Dispute Redressal Mechanism which shall monitor, act upon and provide solutions to disputes. The existing framework doesn't provide the provision to amicably settle the issues between the concessionaire and the authority through an independent grievance redressal mechanism. Therefore, currently minor issues are at times pushed towards arbitration resulting in project delay and cost escalation.

Furthermore, land acquisition remains a perennial problem for infrastructure developers as the policymakers continue with their piecemeal efforts and refrain from providing a comprehensive solution. Under the existing provisions, once the 3G (The National Highways Act, 1956) is done, in view of the authority, the land is deemed as acquired. However, till such time the compensation is paid, the possession is never handed over. In order to address this, the authority should consider declaring a land as fully acquired only after completion of formalities as per the provisions of 3(H) of The National Highways Act, 1956 and the concerned authorities may also undertake C&G activity on the site after taking over using local contractors (which is a very small cost) and then the land once cleared from any encumbrances, it should be deemed as acquired. This would enable to clear the ambiguity between the actual status of land acquisition and status of land acquisition as per the authority.

Q. What are your views on the allocation to roads and highways in the Union Budget 2017-18? How will it impact the sector?

A. The Union Budget has announced a significant increase in allocation of funds to the roads segment. The outlay for National Highways has been enhanced by 11% to ₹64,000 crore for 2017-18. Additionally, about 2,000 km of coastal connectivity roads have been identified for construction and development. This would facilitate better connectivity of ports and remote villages. With a 59.5% increase in money given to NHAI over the revised estimate of budgetary allocation, the government has kept its focus on building infrastructure. ■