

Roads and Highways - Progress check

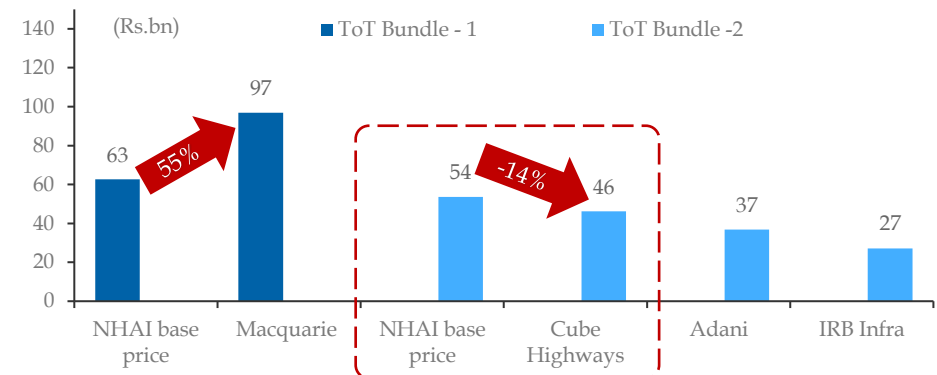
Project awarding slows; Construction stays robust

The Roads sector has faced rough weather in FY19 owing to a) overall weakness in project awarding b) delays in financial closure for Hybrid Annuity projects and c) poor response to second bundle of Toll Operate Transfer (TOT) projects. Although most decent-sized road contractors have achieved financial closure for their projects, other issues yet remain as industry woes. FY18 ended on a strong note of hope with order awards aggregating a whopping 17,055 kms and construction of 9,829 kms. FY19 thus promised a lot, especially being the pre-election year. However, only 2,105 kms have been awarded in first eight months of FY19 with construction of 5,759 kms. With FY19 targets of awards set at 20,000 kms, there's too much for the Ministry to catch up in the last four months.

Second TOT tender fetches lower bids than base price; Ministry may consider re-bid

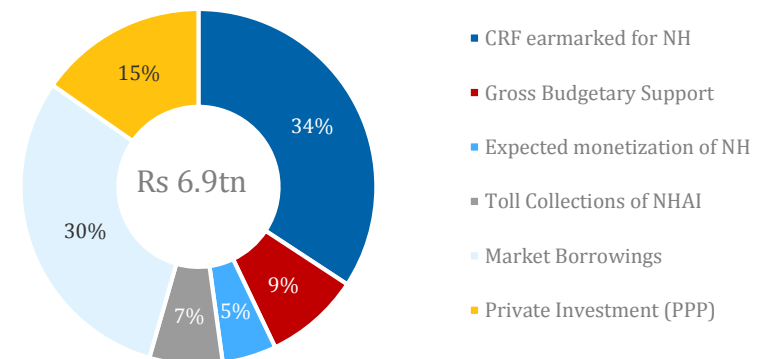
While the first bundle of TOT fetched a whopping 55% premium over the NHAI base price, the second bundle has fallen apart with highest bid at 14% discount to NHAI base price. This could be due to a few weak toll stretches in the bundle wherein the traffic may be sub-par. Also, liquidity constraints in the system could have dissuaded a few players from participating. This is a big set back at a stage when the Ministry is looking to raise funds through Monetization of National Highways and reducing dependence on budgetary support and borrowings. As per reports, the Ministry is considering re-bid for the second bundle. The bundle and base price would also have to be restructured to attract more bidders and better bids.

Exhibit 1: Few takers for 2nd TOT bundle; highest bid at 14% discount to base price



Source: NHAI, Media Reports, YSL

Exhibit 2: Bharatmala funding; NH Monetization crucial



Source: Government Documents, YSL

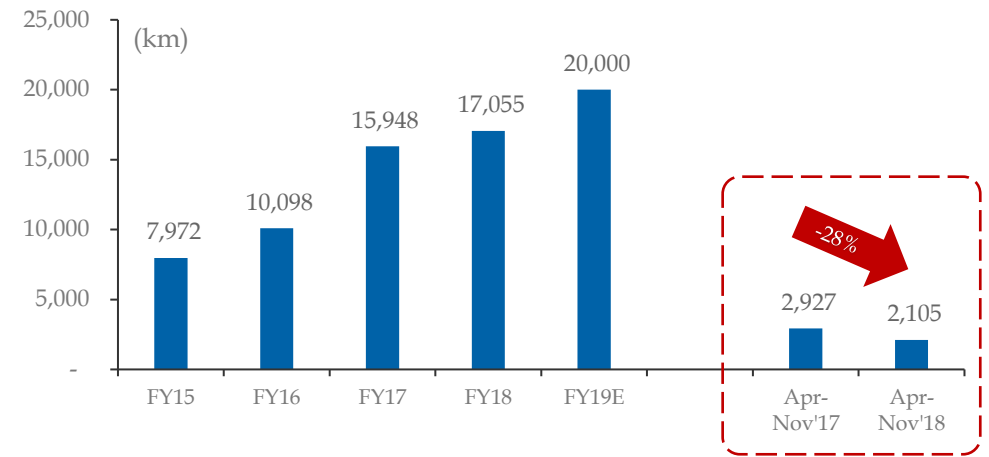
Record projects awarded drop sharply in first eight months of FY19; full year target seems a far cry

Post the flood of awards witnessed in FY18, awarding during Apr-Nov'18 period has been benign. This has been largely due to issues related to land acquisition and issues with financial closure of already awarded projects. The Ministry is looking to award projects only when decent portion of land is acquired to ensure smooth execution. Also, the financial closure hurdle has delayed few projects and Ministry aims to award projects only after ensuring comfort on this aspect. While Q4 is generally the strongest quarter from project awarding perspective, there seems too much to catch up to reach anywhere close to the targeted numbers. With the upcoming elections, the Government may push for awarding projects; however, the target of 20,000 kms in FY19 is indeed challenging.

Project execution stays robust but may fall marginally short of target

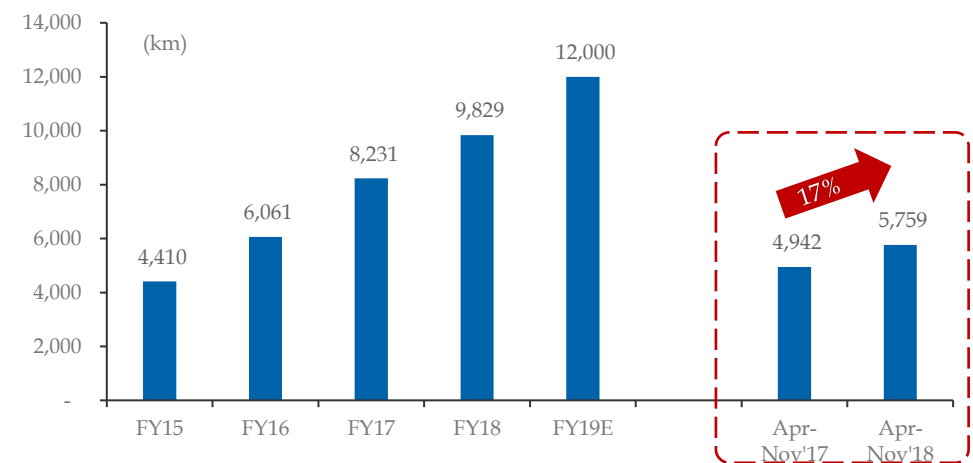
Like FY18, growth in road construction in FY19 is likely to far outpace the growth in road awarding. This would be primarily on the back of the strong awarding witnessed in last few years, and which is currently under execution. High budgetary allocation, fund raise through projects like first bundle of TOT would ensure strong construction during the next couple of years. Better financial position of contractors with low leverage and comfortable working capital position would also help project execution. However, as far as the target of 12,000 km for FY19 is concerned, the actual construction may fall marginally short of the target.

Exhibit 3: Road awarding declined 28% yoy during Apr-Nov'18 period



Source: Government Documents, YSL; FY19E indicates target set by Ministry

Exhibit 4: Construction continued its uptrend journey; witnessed 17% yoy growth during Apr-Nov'18 period



Source: Government Documents, YS; FY19E indicates target set by Ministry

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