

# [Issues and financial hassle have upset the pace](https://assignbuster.com/issues-and-financial-hassle-have-upset-the-pace/)

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Issues and challenges for roadsectorRestricted financial freedom of PPProad developers: Funding restrictions and financial hasslehave upset the pace of development in the roads sector. The PPP model for roadconstruction and development acted as a catalyst and provided impetus to thegrowth of the sector. In Fiscal 2008-Fiscal 2012, of the total 10, 600 km ofnational highways completed under NHDP, 50% was funded through BOT-toll modeland 10% through BOT-annuity model. Delays in project execution and costoverruns: Delays in project execution haveposed one of the major hurdles in development of the road sector. Delays leadto cost overruns which lower returns for developers as well as adversely affecttheir debt servicing ability. Reasons for delays are numerous and includeissues in land acquisition, environmental clearances, forest clearances, railway clearances, shifting ofutilities, religious structures and encroachments. Hurdles in bank funding for roadprojects: Banks are reluctant to fund roadsector projects as they approach sector exposure limits.

Moreover, to ensurethat delays due to land acquisition do not hinder the progress of a project, they demand 80-100% of the land be available with the developer at the time ofthe award of the project. Reluctance to accept toll: The Indian population has not yetcompletely accepted the importance of tolls for road construction andimprovement of service delivery. Also, appeasement of people through provisionof subsidies has been a major tool for reaping political gains in India. Therehave been instances of people, backed by various political groups, opposingtoll plazas.

Such instances have also affected service delivery within thesector. Multiple steps taken by governmentto revive sectorThe Roads sector has been identifiedas one of the top-3 capex themes by the current NDA government. The Ministry ofRoad Transport and Highways (MORTH) has taken multiple steps to revive theailing sector over the last three years. We believe the framework required forthe speedy award and execution of projects is in place. We expect activity topick up, with the government addressing issues like: Execution hurdles – awarding projects after 80% land acquisition under BoT and 90% land acquisition under EPC Funding arrangement – cess trebled from INR2/liter to INR6/liter; market borrowing plans in place Faster forest and environmental clearances Change in project model to ease funding burden of cash-strapped developers Exit policy for developers to help unlock equity from completed projects, making it potentially available for investment in new projects Premium deferment scheme to ease cash flow issues faced by developers Activity showing early signs ofpick-upFor the last three years, thegovernment has been ironing out issues hampering growth of the Roads sector.

InFY17, early signs of revival in the sector became evident, with project awardsat 16, 270km (up 56%) and construction at 8, 230km (up 37%). The government hasset steep targets for FY18 to award 25, 000km and construct 15, 000km. Movingahead, the trend looks promising, with industry reports indicating that NHAIwould award over 31, 000km of road projects executable over FY17-21E, entailingan estimated investment of INR3. 6t (civil construction works). We expectawarding activity to stabilize at 15, 000km per year, and execution activity topick up – 9, 300km in FY19 and 10, 000km in FY20.