

Issues and financial hassle have upset the pace

[Business](#), [Industries](#)



Issues and challenges for road sector
Restricted financial freedom of PPP road developers: Funding restrictions and financial hassle have upset the pace of development in the roads sector. The PPP model for road construction and development acted as a catalyst and provided impetus to the growth of the sector. In Fiscal 2008-Fiscal 2012, of the total 10,600 km of national highways completed under NHDP, 50% was funded through BOT-toll model and 10% through BOT-annuity model. Delays in project execution and cost overruns: Delays in project execution have posed one of the major hurdles in development of the road sector. Delays lead to cost overruns which lower returns for developers as well as adversely affect their debt servicing ability. Reasons for delays are numerous and include issues in land acquisition, environmental clearances, forest clearances, railway clearances, shifting of utilities, religious structures and encroachments. Hurdles in bank funding for road projects: Banks are reluctant to fund road sector projects as they approach sector exposure limits.

Moreover, to ensure that 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 of the award of the project. Reluctance to accept toll: The Indian population has not yet completely accepted the importance of tolls for road construction and improvement of service delivery. Also, appeasement of people through provision of subsidies has been a major tool for reaping political gains in India. There have been instances of people, backed by various political groups, opposing toll plazas.

Such instances have also affected service delivery within the sector. Multiple steps taken by government to revive sector
The Roads sector has been

<https://assignbuster.com/issues-and-financial-hassle-have-upset-the-pace/>

identified as one of the top-3 capex themes by the current NDA government. The Ministry of Road Transport and Highways (MORTH) has taken multiple steps to revive the ailing sector over the last three years. We believe the framework required for the speedy award and execution of projects is in place. We expect activity to pick 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 of pick-up For the last three years, the government has been ironing out issues hampering growth of the Roads sector.

In FY17, early signs of revival in the sector became evident, with project awards at 16,270km (up 56%) and construction at 8,230km (up 37%). The government has set steep targets for FY18 to award 25,000km and construct 15,000km. Moving ahead, the trend looks promising, with industry reports indicating that NHA would award over 31,000km of road projects executable over FY17-21E, entailing an estimated investment of INR3.6t (civil construction works). We expect awarding activity to stabilize at 15,000km per year, and execution activity to pick up - 9,300km in FY19 and 10,000km in FY20.