

PRESS RELEASE
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Tightened bidding norms by MoRTH to ease competitive pressure in Central government road projects: ICRA

- Road developers will witness increased working capital requirement, as Ministry tightens bidding norms

ICRA projects the tightening of bidding norms by Ministry of Road Transport & Highways (MoRTH) through requirement of additional performance security (APS) to ease competitive pressure in Central Government Road projects. Previously, the relaxed bidding norms had intensified competition in Central Government Road projects, with most construction projects being awarded at significant discounts – a median around 25% between January 2024 and March 2025. However, the policy may exert some strain on the credit profiles of small and mid-sized contractors, particularly those with modest bank guarantee (BG) limits.

In August 2022, the Ministry had imposed APS for projects awarded substantially below the base price; however, the APS requirement was capped at 3% of the overall project cost. As per the recent circular, the capping of 3% has been removed.

Giving more insight, **Ashish Modani, Group Head, Corporate Ratings, ICRA**, said: *“The hike in performance security requirement is a positive step towards execution discipline, which will deter speculative bidding and promote realistic pricing. The policy though, in the near term, is expected to put some strain on the credit profiles of small and mid-sized contractors, particularly those with limited-sized BG limits. The requirement for cash margins to secure additional BGs will increase working capital needs, potentially impacting bidding capacity, revenue growth, and coverage metrics due to higher finance costs. However, on a medium term the policy eventually will encourage serious well-capitalised bidders for participation, to get desired output of performance in terms of quality of road construction.”*

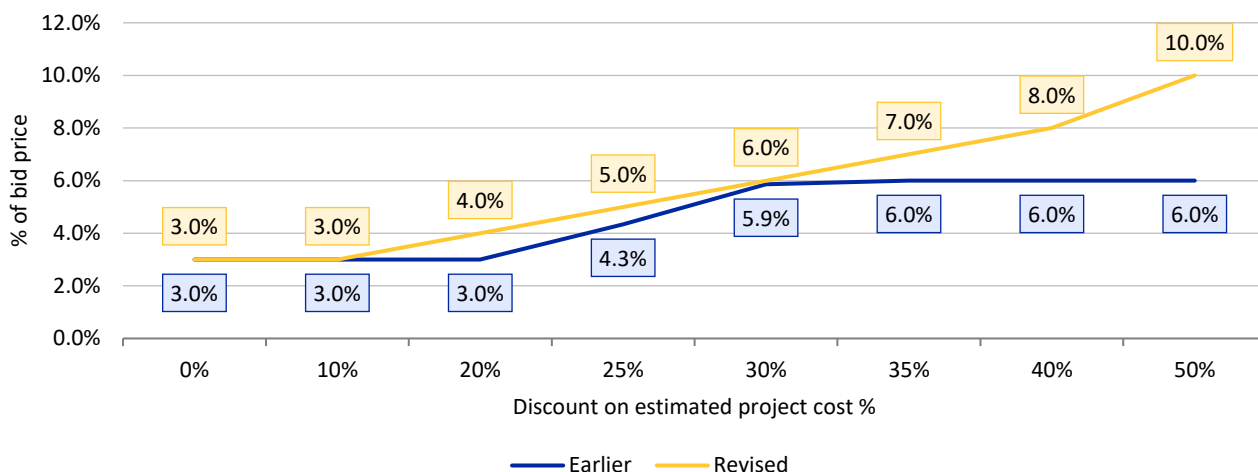
The MoRTH has introduced a revised framework for APS, aimed at deterring abnormally low bids in the national highway projects. The key differences under revised norms are highlighted as below:

Aspect		Previous APS norms (August 2022)	Revised APS norms (April 2025)
Trigger for APS		Bids lower than 20% of the estimated project cost	Bids lower than 10% of the estimated project cost
APS Formula		20% of the difference in the (i) Estimated project cost – 20% of Estimated project cost and, (ii) Bid price offered by bidder	Two-tiered approach: <ul style="list-style-type: none"> • For bids lower than 10% of the estimated project cost, APS at a rate of 0.1% for every 1% below 10% • For bids exceeding a 20% discount, APS increases to 0.2% per 1% beyond 20%, plus a flat 1%, all calculated on the bid price.
APS Cap		3% of bid price	No explicit cap; APS can exceed 3% based on bid deviation

The APS is to be rounded to the nearest 0.5% and is now treated as part of the overall performance security requirement. An illustration of incremental performance security requirements vis-à-vis earlier scenario is given below:

Exhibit 1 : Difference in total performance security requirement vis-à-vis discount on project cost

Performance security as a % of bid price



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