

INDIAN ROAD SECTOR

Project awards may decline to 9,000-9,500 km in FY2024, ahead of the General Elections

JUNE 2023





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Awards are expected to decline to 9,000-9,500 km in FY2024.

Given the healthy unexecuted order book, and increased outlay of 25% to the Ministry of Road Transport and Highways (MoRTH) in the FY2024 budget, ICRA expects the execution to increase to 12,000–12,500 km in FY2024.



- Overall awards of MoRTH declined marginally by 2.8% to 12,375 km during FY2023 from 12,731 km in FY2022. ICRA expects the awards to decline further to 9,000-9,500 km in FY2024 owing to low approvals expected in Q4 FY2024 as sizeable awarding happens in the last quarter and bidding activity slows down before the General Elections, which are due around May 2024.



- Hybrid Annuity Model (HAM) followed by the Engineering Procurement and Construction (EPC) emerged as the preferred modes of project awards by the NHAI over the past three years. Almost 55% of the road projects awarded by the NHAI in FY2023 were through the HAM route and the trend is likely to continue in FY2024 as well. Project awards under BOT-Toll will continue to remain subdued, with its share likely to remain below 5% over the medium term.



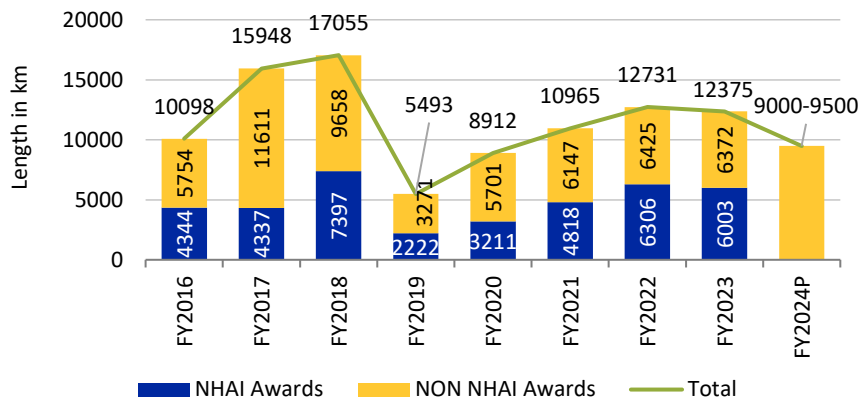
- In FY2023, execution eased marginally to 28.3 km/day from 28.6 km/day in FY2022, owing to high cost of raw materials as well as extended monsoons in certain geographies. However, road construction is expected to increase by 16-21% to 12,000-12,500 km in FY2024 on the back of 25% increase in outlay to MoRTH and a healthy unexecuted order book.



- Owing to lower order additions along with expected increase in road execution on the back of increased outlay to MoRTH, the order book of road developers may witness a marginal decline in the current fiscal to around 3-3.2 times. Nonetheless, it remains comfortable and provides adequate medium term revenue visibility.

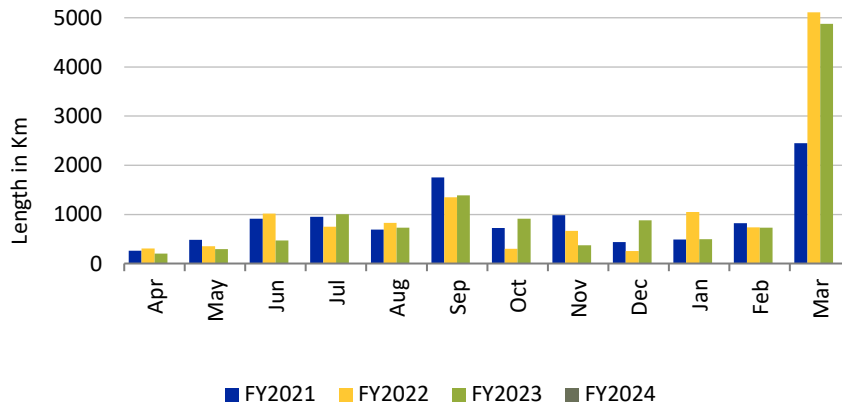
Awards to decline in FY2024 ahead of the General Elections

Exhibit 1: MoRTH Yearly Awards



Source: ICRA Research, MoRTH, NHAI

Exhibit 2: MoRTH Monthly Awards

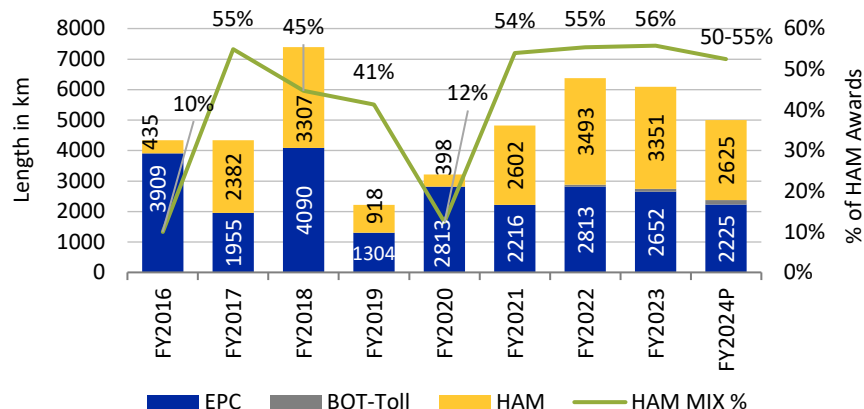


Source: ICRA Research, MoRTH, NHAI

- The overall awards are expected to decline to 9,000-9,500 km in FY2024 from 12,375 in FY2023, owing to bidding activity slowing down before the General Elections, which are due around May 2024. Project awards are sizeable in the last quarter historically (49.4% and 54.2% of total projects for the year have been awarded in Q4 FY2023 and Q4 FY2022 respectively).
- The overall awards of MoRTH declined marginally by 2.8% compared to FY2022, but remained healthy at 12,375 km during FY2023, against the backdrop of the Government's strong impetus last year to the road sector.

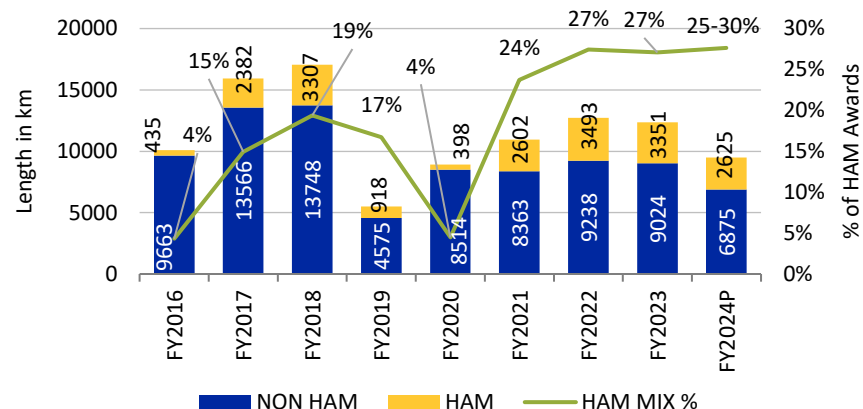
NHAI awards dominated by HAM in the past three years

Exhibit 3: NHAI Yearly Awarding Mix



Source: ICRA Research, MoRTH, NHAI

Exhibit 4: MoRTH Yearly Awarding Mix

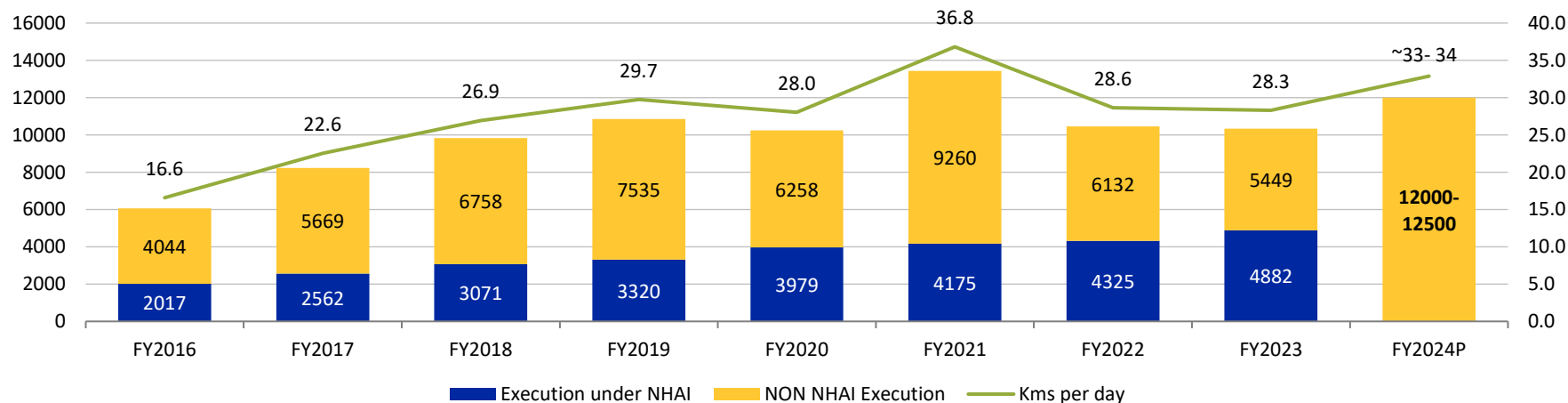


Source: ICRA Research, MoRTH, NHAI

- HAM had dominated the NHAI awards over the past three years and accounted for around 55% of the total awards. Further, HAM and EPC together accounted for majority of the NHAI awards in the past five years while BOT-Toll awards accounted for less than 5% and the same is expected to remain at similar levels in FY2024.
- HAM is expected to remain the mainstay going forward in the NHAI awards. However, HAM accounted for less than 30% of the overall MoRTH awards over the past two years and is expected to account for around 25-30% in FY2024 with the balance awards mostly coming through the EPC mode.

Execution to increase by 16-21% in FY2024

Exhibit 6: MoRTH Annual Execution



Source: ICRA research, MoRTH; NHAH

- MoRTH execution eased marginally to 10,331 km in FY2023 from 10,457 km in FY2022, owing to high cost of raw materials as well as extended monsoon in certain geographies. Execution in April 2023 was lower at 523 km compared to 578 km in April 2022 owing to unseasonal rains impacting road execution.
- Given the healthy unexecuted order book of awards, increased budget outlay of 25% in FY2024 budget for MoRTH, continued relaxations in terms of monthly payments and lower retention amount requirements, ICRA expects the execution to increase by 16-21% to 12,000–12,500 km (~ 33-34 km/day) in FY2024.



Order Inflow expected to decline to 9,000-9,500 km in FY2024 compared to 12,337 km in FY2023



Order Book:
Notwithstanding decline in order inflows, overall order book for road developers is expected to remain comfortable at 3-3.2 times



Road Construction will witness 16-21% growth, to 12,000-12,500 km



Working Capital Cycle:
The continued relaxations in terms of monthly payments supports working capital cycle of road developers



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