

## PRESS RELEASE

April 16, 2024

**Road execution to grow by 5-8% in FY2025 to 12,500-13,000 km: ICRA**

- **Hybrid Annuity Model (HAM) and Engineering, Procurement and Construction (EPC) will continue to dominate project awards**
- **Share of build, operate and transfer (BOT) - Toll is expected to improve to around 10% in FY2025**

ICRA expects road execution to witness a growth of 5-8% to 12,500-13,000 km, after recording a robust expansion of ~20% in FY2024. The pace of execution in this fiscal will be supported by a healthy pipeline of projects, increased capital outlay by the Government of India (GoI) and focus on completion of projects by the Ministry of Road Transport and Highways (MoRTH).

ICRA noted that road execution had been impacted in H1 FY2024 on account of the prolonged monsoon in certain geographies, which affected productive days, resulting in muted growth during that period.

Giving more insights, **Mr. Vinay Kumar G, Vice President & Sector Head - Corporate Ratings, ICRA**, said: *"The execution situation started improving from September 2023 with road construction witnessing a YoY surge of 30% in H2 FY2024, enabling an overall growth of ~20% in FY2024 (to 12,349 km from 10,331 km in FY2023), slightly higher than ICRA's estimate of 12,000 km for that fiscal. This increase was supported by the Ministry's focus on the completion of projects ahead of the General Elections. ICRA expects the road construction momentum to sustain in FY2025 as well, with a growth of 5-8% to 12,500-13,000 km."*

The Ministry's project award pipeline is healthy, at above 45,000 km as of March 2024. This is despite the awarding being significantly impacted in FY2024 amid delay in approval from the Cabinet for the revised cost estimates of Bharatmala Pariyojana Phase 1 (BMP). Consequently, the overall awards declined by 31% to 8,551 km in FY2024 from 12,375 km in FY2023. A similar trend was seen in FY2019 before the last General Elections, when the project awarding had declined by over 67% on a YoY basis.

The EPC mode continues to be the mainstay of this process, accounting for 70-75% of the awards in FY2024, followed by BOT-HAM, accounting for 25-30% share. There were no awards under BOT-Toll<sup>1</sup> in FY2024. Recently, in March 2024, the Ministry amended the BOT-Toll model concession agreement to improve its attractiveness.

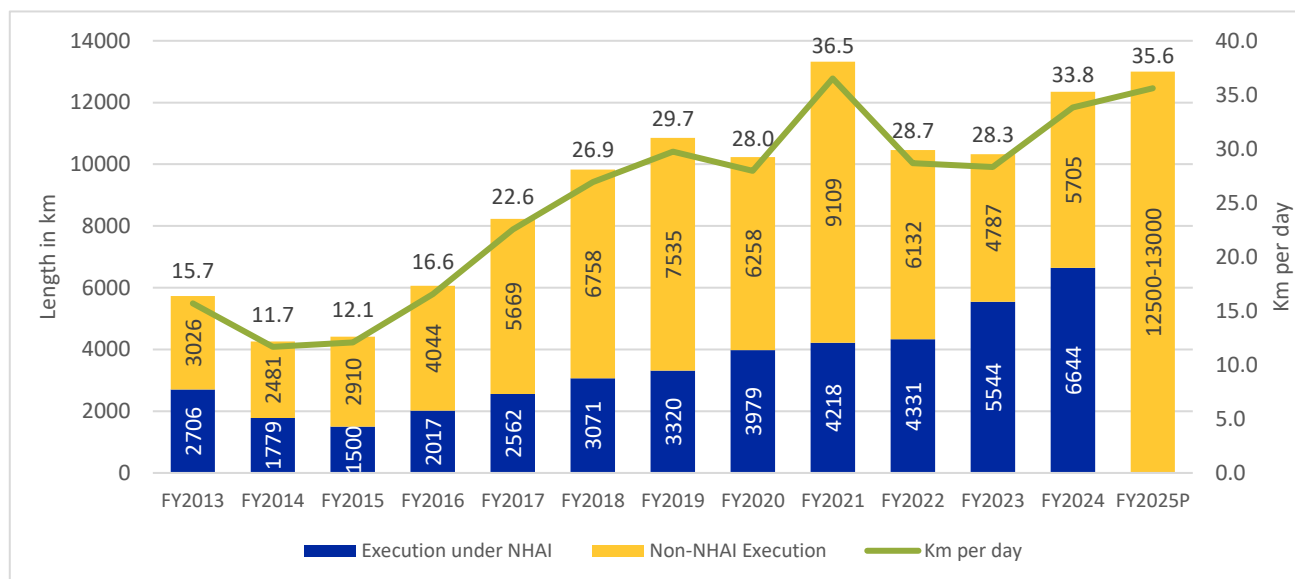
*"Despite the recent changes in the model concession agreement for capacity augmentation of BOT-Toll projects, given the higher equity commitment and the inherent traffic risks in BOT-Toll projects, a material shift in the overall project awards towards BOT-Toll in the near to medium term is unlikely. ICRA expects the BOT-Toll awards' share to increase to around 10% in FY2025 compared to less than 5% of the orders in the last five years,"* he added.

The EPC and HAM project bidding process in FY2024 witnessed intense competition, as reflected in the consistently discounted bids (with respect to the authority's base price) since FY2021. The maximum and median discounts in 11M FY2024 stood at 46% and 21%, respectively, against 51% and 25%, respectively, in FY2023.

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<sup>1</sup> Road projects are either awarded under 1) EPC (100% funded by the government), 2) BOT-Toll (100% funded by the private enterprise) and 3) BOT-HAM model which is a mix of EPC and BOT, with the government and the private enterprise sharing the total project cost in the ratio of 40:60, respectively. The toll road projects entail significant upfront equity commitment when compared to HAM in addition to market risk exposure.

## EXHIBIT 1: MORTH ANNUAL EXECUTION



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