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SERVICE COMPANY

INDIAN ROAD SECTOR

Traffic growth across major corridors expected to recover from FY2022 onwards; proposed greenfield and dedicated freight corridors likely to result in traffic shift in respective corridors over the medium term

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EXECUTIVE SUMMARY

The Indian transport system includes railways, roads, coastal shipping, airways, inland waterways and pipelines. Currently, freight transport in India is road-dominated—accounting for 61% of the freight movement. Nearly 30% of the freight demand is met by rail and remaining 9% by waterways, shipping and pipelines. Of the road network, the golden quadrilateral (GQ), North-South corridor and East-West corridor connect all the major economic corridors in the country. The traffic for each corridor is impacted by macro trends as well as region-specific factors. As part of the study, data on toll collections in each corridor has been analysed and implied traffic growth over preceding five and ten-year periods is computed for each toll project. Implied traffic growth is the toll collection growth adjusted for growth in toll hikes (linked to WPI). Each corridor is further studied for overall growth trends and is studied in the backdrop of GVA growth of Construction, Mining and Manufacturing (CMM) for the 5-year and 10-year periods.

Based on the analysis of 113 stretches across the major economic corridors for the period from FY2011 to FY2020, the traffic and toll collections have been impacted by various factors such as a slowdown in manufacturing and mining activity in FY2014, slowdown in the economic activity post de-monetisation in FY2017, impact of revision in axle-load norms in FY2019 and pandemic-related impact in FY2020. Most of the stretches have witnessed a traffic slowdown during FY2019 and FY2020 owing to the impact of revision in axle-load norms as seen from the significant decline in implied traffic growth for the five-year period from FY2016 to FY2020 when compared to that from FY2014 to FY2018. Apart from this, corridors' traffic and toll collections have also been affected by region and project-specific factors such as rate of economic activity in the hinterland, quality of the road and presence of alternate routes etc.

Performance of various corridors

Among the major corridors, Delhi-Kolkata and Kolkata-Chennai corridors displayed higher implied traffic growth driven by factors such as absence of alternate routes, geographical advantages such as proximity to ports and healthy commodity movement. This is followed by the North-South corridor which is connected to all major economic centres in the country given that it spans the entire length of the country. Despite the presence of commercial hubs at Delhi and Mumbai, the Mumbai-Delhi corridor has displayed a relatively lower growth rate owing to the presence of alternate routes. Further, the proposed greenfield corridor between Mumbai and Delhi and dedicated freight corridors (Mumbai-Delhi & Delhi-Kolkata) are expected to result in a traffic shift from the respective corridors to an extent.

Correlation between toll collections and GVA of CMM

Freight movement has a strong correlation with the GVA of CMM; consequently, toll collections exhibit good correlation with this. The implied traffic growth has mostly followed similar growth trends of GVA of CMM except for the period between FY2019-FY2020 which is impacted by axle load relaxations in FY2019. Further, the growth for the five-year period between FY2014-FY2018 and ten-year period between FY2011-FY2020 are relatively higher than that between FY2019-FY2020.

Growth outlook for various corridors over the medium term

The Covid-19 pandemic adversely impacted the traffic growth across all the corridors with 3-5% overall contraction in collections during FY2021, whereas the GVA of CMM witnessed an annual decline of 7.7% in FY2021. However, the traffic is expected to grow by 3-4% in FY2022 despite the impact of the second wave in April and May 2021. This along with an average toll rate revision of 4-5% for projects under new toll regime and 7% for projects under old regime, is expected to result in an increase in toll collections by 12-14% in FY2022, given the impact of toll suspension in the first 20 days of April 2020.

Given the factors like low-investments in other transportation infrastructure, better service, end-to-end connectivity, cost efficiency and reliability of road transport system, the road network is expected to maintain its significant share of traffic over the medium term. The traffic growth for Kolkata-Chennai, Chennai-Mumbai and North-South corridors is likely to revert to the 5-year CAGR (FY2014-FY2018) levels primarily owing to the strong economic activity along the entire stretch and absence of alternate stretches. The Kolkata-Chennai corridor is expected to grow by ~14%, Chennai-Mumbai by ~5-6% and North-south by 7-8% in the medium term. The Delhi-Kolkata corridor may see a decline in its traffic growth from the earlier 5-year growth (FY2014-FY2018) levels of 17-18% to 10-12% owing to shift in traffic to the proposed EDFC once it becomes operational. The Delhi-Mumbai corridor traffic growth is expected to remain muted with the commencement of greenfield highway and dedicated freight corridor. The growth of the East-West corridor will continue to be impacted by its subdued economic activity and is expected to grow at ~7% in the medium term.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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