

INDIAN ROAD SECTOR

**Extended monsoons cast a cloud
over full-year execution target**

SEPTEMBER 2022



The award and execution of road projects remained lower in 5M FY2023 compared to the corresponding period during the last fiscal. Given the strong impetus on the road sector and the healthy order book position of road players, the award and execution are likely to improve sharply during the remaining period of FY2023.



- ICRA has a Positive outlook on the toll road segment in the backdrop of improved toll collection, supported by strong pick-up in economic activity and consequent impact on traffic movement along with a healthy toll rate hike. This is also evident from the improved credit ratio of the road sector in the last 6-8 quarters.



- MoRTH execution stood lower by 13% at 2912 km in 5M FY2023 compared to 3,355 km in 5M FY2022. Notwithstanding the price escalation clauses in the agreement, surge and high volatility in commodity prices led to developers delaying procurement of materials and going slow on execution, thereby impacting the pace of execution in the first five months. Given the healthy order book of road players and moderation in the key input prices, the execution is expected to improve sharply post the monsoon season, starting Q3. The execution is expected to be 12,500-13,000 km for FY2023.



- The order awarding has improved during Q2 FY2023, after a sheepish Q1 FY2023; though, awards during 5M FY2023 remain lower than the corresponding period during the last fiscal. The overall MoRTH project awards are expected to be 12,500-13,000 km for FY2023, the same as the last fiscal on the back of strong impetus on the road sector.



- ICRA has conducted a study of 120 Build-Operate-Transfer (BOT) road projects which defaulted during the period FY2011 – FY2022. Out of the 120 projects, 86 have defaulted during the operational phase while 34 projects defaulted during the construction phase. One-fourth of road projects have come out of default through various routes viz. stake sale and substitution wherein strong sponsor groups/ investors (private equity funds) have taken over the stressed assets, improved cash flow position, and restructuring.



- The daily toll collection through FASTag touched an all-time high of Rs. 143 crore per day in June 2022. In July and August 2022, the collections moderated sequentially on account of the monsoons though it was higher than last year levels. The collections may improve from September 2022 onwards on account of toll rate hikes for the projects linked to March WPI. Post marginal dip in e-way bills in Jan and Feb 2022 due to the Omicron, e-way bills rebounded sharply and stood in the range of 74-78 million in March – August 2022.

Agenda

1 Budget allocations, awards and execution



2 Study on BOT Road Project Defaults



3 Traffic Trends



4 Competitive Intensity of the Sector



5 NMP and M&A Activity



6 ICRA Rating Actions and Outlook on Toll Road Projects





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