

# SectorVector

## Reading the topical trends

May 2022

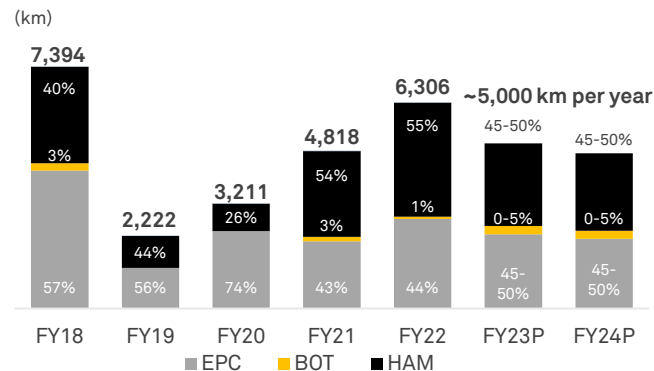
### NHAI awarding to moderate, HAM in a jam even as government tries to course-correct

#### Awarding to break four-year streak this year, Bharatmala Phase 1 stretches on

National Highways Authority of India (NHAI) awarding may slow down to 5,000 km annually over this fiscal and the next, after a sequential rise from merely 2,222 km in fiscal 2019 to 6,306 km in fiscal 2022.

A limited rise in budgetary support, coupled with higher capex for 70% of high-value expressways currently under construction, could defer NHAI awards under Bharatmala Phase 1 beyond fiscal 2024 — the year construction was originally scheduled to be completed. About 40% of detailed project report-ready projects under Bharatmala Phase 1 are yet to be awarded.

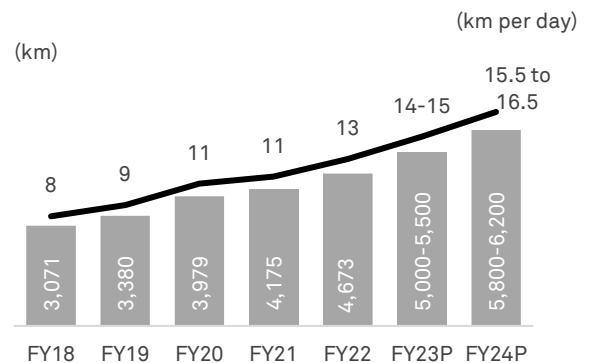
55% of projects awarded under HAM in FY22, share to remain similar



The NHAI awarded 55% of projects under the hybrid annuity model (HAM) and only 1-3% under build-operate-transfer (BOT) over the past 2 years (see chart below). The easing of bidder financial capacity criteria and changes in the HAM and BOT model concession agreement in fiscal 2021 has aided the spurt in HAM awards.

The inherent benefits of HAM resulted in a steady rise in the pace of NHAI construction from 8 km per day in fiscal 2018 to 13 km per day in fiscal 2022. The sharper focus on execution has also helped. With the recent higher awards, we expect the pace to rise further to ~16 km per day by fiscal 2024.

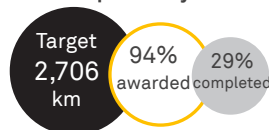
Pace of construction likely to continue climbing, given sharper focus on execution



#### Bharatmala Phase 1



#### Expressways



14-15% under-construction projects are expressways  
Cost ~3x

Note: Numbers are for NHAI only  
Source: NHAI, CRISIL Research

## HAMstrung?

Notwithstanding the benefits of HAM, awards under this mode have had their share of challenges. Only 56% of projects awarded over fiscals 2016 to 2018 have been completed, while 37% are still under construction. Of the HAM awards in fiscals 2019 and 2020, 90% are still under construction.

Financial closures are being achieved with a 3-4 month delay. More pressingly, ~40% of projects have received appointed dates 1.5 years post awarding, indicating land acquisition issues persist. While HAM provides for automatic de-scoping and de-linking clauses, cushioning projects from being stuck in the under-construction phase, delays for these approvals have been observed.

A few execution concerns have surfaced, too. Though 75% of projects were awarded to large players over fiscals 2016 to 2020, one-fourth of the projects have been delayed by two years beyond their original scheduled commercial operations date, with only 55% physical progress.

## Amid a flurry of bids, premiums tumble

In fiscals 2021 and 2022, when the financial threshold to bid was reduced, NHAI awarding peaked (see chart below). Package sizes (explain in brackets briefly what that means) reduced by 30% over 2016-20 levels, to fast-track construction by awarding to a larger pool of players.

All this led to intensified competition, with nearly 15 bidders per project. Bid premiums nosedived to as low as ~4% from ~16% on average earlier. Instances where even large players bid aggressively increased and one-third of projects were awarded at discounts.

## Growing mid-sized player presence

Interestingly, mid-sized regional players won ~40% of HAM awards in fiscal 2022, vis-à-vis 25% in the earlier period.

While ~70% of the projects awarded to mid-sized players in fiscal 2021 have achieved financial closure, timely execution by these players remains a key monitorable given their significant share.

## Government measures to lower competition intensity

Amid rising concerns on aggressive bidding in the HAM space, recent government measures are as follows:

- A. NHAI has recommended a new method for the calculation of financial capacity, which is yet to be finalised. Under this, equity requirement for under-construction and yet-to-commence projects would be deducted from net worth to arrive at bid capacity
- B. Operation and maintenance (O&M) bids have been removed as award criteria for HAM, thus discarding low O&M bids. O&M payments would be made similar to engineering, procurement and construction (EPC) contracts
- C. Additional performance security for abnormally low bids with more than 20% discount would also kick in, which is more relevant for EPC projects where competition is even more fierce

These measures, if successfully implemented, could discourage indiscriminate bidding in the NHAI HAM space.

## HAM tally

Land acquisition issues continue, but de-scoping clause provides a buffer; execution by mid-sized regional developers and extent of competition are key monitorables

Year of award	Km awarded	Current status	Share of developers	No of bidders	Bid premium	
FY16-18 total	5,835	<p>56% Completed, 37% Under construction, 6% Terminated</p>	<p>Large players: 4, Mid-sized players: 8</p>	4-8	13-16%	<b>Positives</b> ✓ ~70% of projects awarded to mid-sized players in FY21 achieved financial closure
FY19-20 total	1,776	<p>7% Completed, 90% Under construction, 2% Yet to commence, 1% Terminated</p>	<p>Large players: 4, Mid-sized players: 8</p>	4-8	15-20%	<b>Government measures</b> ✓ Adjustment in net worth calculation by <b>deducting balance equity commitment</b> in projects
FY21	2,576	<p>70% Under construction, 30% Yet to commence</p>	<p>Large players: 7, Mid-sized players: 10</p>	7-10	10-12%	✓ O&M bids <b>removed</b> as award criteria
FY22	3,494	<p>2% Under construction, 98% Yet to commence</p>	<p>Large players: 10, Mid-sized players: 15</p>	10-15	3-5%	✓ <b>Additional performance security</b> for abnormally low bids <b>below 20%</b>

Notes: 1) % based on km; large players: revenue > Rs 1,500 crore; mid-sized players: revenue < Rs 1,500 crore (status as of March 2022, based on award date); FC: financial closure; AD: appointed date; SCOD: scheduled commercial operations date  
 2) De-scoping/ de-linking: provision provided to remove the balance 20% land from the scope of work if not provided within 180 days of the appointed date.  
 Source: NHAI, CRISIL Research

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