

SectorVector

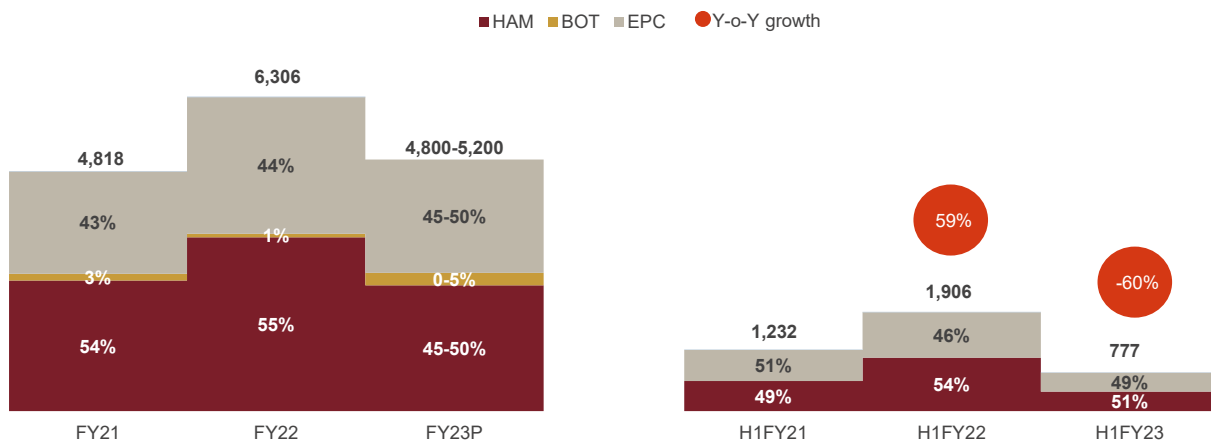
Reading the topical trends

October 2022

Braking hard

NHAI awards drop 60% in H1 FY23, competitive intensity in HAM moderates

NHAI awards in the red in H1, to moderate in FY23



Note: Data is for NHAI excluding O&M contracts
Source: NHAI, CRISIL Research

The National Highways Authority of India (NHAI) awarded only 777 km of road projects in the first half of this fiscal — a three-fiscal low and a 60% drop compared with last year.

Slackened pace of execution and highly inflated prices of key input materials (owing to uncertainties arising out of global geopolitical tensions) have acted as major impediments to awarding momentum.

That said, NHAI has already floated tenders for ~2,200 km so far this fiscal — as much as 36% more than in the same period last fiscal — and considering the ramp-up that typically happens in the fourth quarter, awarding in the second half of the fiscal is expected to improve substantially.

Nonetheless, awarding for the full fiscal is still likely to moderate on-year. We expect 4,800-5,200 km of awards this fiscal, much lower than the 6,306 km awarded last fiscal.

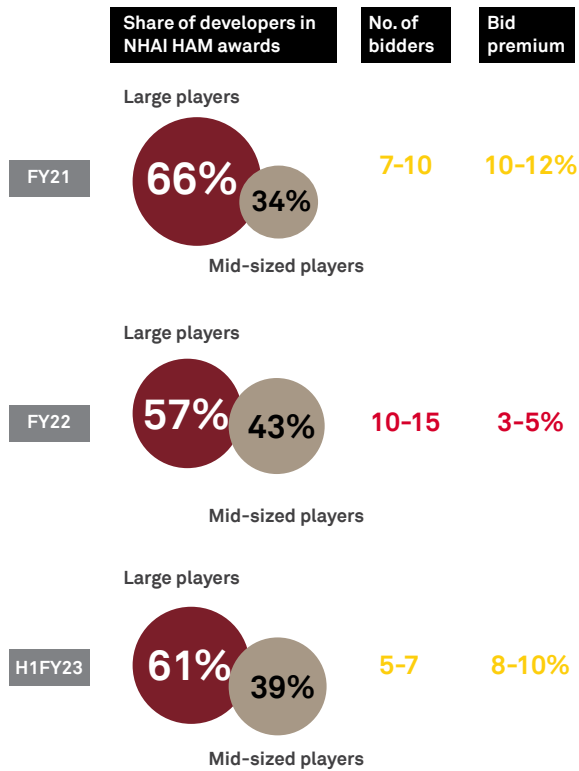
Of the 777 km awarded in the first half of this fiscal, hybrid annuity model (HAM) projects cornered a healthy 51% share, while engineering, procurement and construction (EPC) accounted for the rest. The shares are expected to remain at current levels for the full fiscal as well, with HAM accounting for 45-50%, EPC for 45-50%, and build-operate-toll (BOT) for <5%.

Delving deeper into HAM awards, some of the concerns around intense competition in the space seem to have a softened to an extent.

In sharp contrast to last fiscal, which saw 10-15 bidders on average per project, HAM awards in the first half of the fiscal saw only 5-7 bidders on average. Indeed, 61% of the HAM projects awarded so far this fiscal have been won by large-sized developers compared with 57% last fiscal.

At the other end, however, bid premiums per project have recovered to 8-10% from 3-5% last fiscal.

Slight rationalisation witnessed in HAM bids



*Note: % based on km; large players: revenue >Rs 1,500 crore; mid-sized players: revenue <Rs 1,500 crore
Source: NHAI, CRISIL Research*

The reasons for the fall in bidding intensity and consequent rise in bid premiums:

- Sharp rise in commodity prices and complex project awards in difficult terrains warranted developers to seek a higher premium to maintain their margins
- Removal of operations and management (O&M) cost as a criterion for awarding averted developers from quoting abnormally low O&M bids to win projects
- Many mid-sized developers who won projects in the past two years exhausted their balance sheet capacities, which prevented them from participating in bids this fiscal

That said, when the NHAI ramps up awards in the second half, competition, timely financial closure, and execution of projects, especially by mid-sized players, will be among key monitorables.

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