

NHDP: 8,800km target award in FY13; INR700b opportunity

Key triggers: Policy certainty, land acquisition ramp-up, funding

- Interaction with senior NHAI officials indicates target award of 8,800km in FY13E.
- This looks achievable, given policy certainty in road sector (vis-à-vis other sectors), ramp-up in land acquisition, and funding availability.
- BoT award would be ~6,000km; cash contracts/annuity award would be ~2,800km.
- Key challenges at developers' end: adverse macro, funding constraints.
- Consolidation is inevitable.



NHAI was constituted by an act of Parliament, the National Highways Authority of India Act, 1988. It is responsible for the development, maintenance and management of National Highways entrusted to it. The Authority was operationalized in February 1995.

Opportunity size of ~INR700b, possible award of 8,800km in FY13E

NHAI is targeting to award road projects totaling 8,800km in FY13 (v/s 6,491km in FY12), which is pegged to be an opportunity pie of ~INR700b for developers (almost same size as in FY12). This will be the second consecutive year of sizable improvement in project award compared to 5,083km in FY11 and 3,360km in FY10. Improvement in awards is driven by: (1) annual prequalification norms (to be initiated for FY13 soon), (2) setting up land acquisition cells, and (3) funding flexibility. ~6,000km projects would be on BOT (toll-based) and the balance 2,800km on EPC/annuity mechanism.

NHAI well-placed on funding and land; developers' fund mobilization could be an issue

NHAI is favorably placed on funding as it raised INR100b in FY12 through bonds (additional issue of INR100b in FY13 approved). In addition, given revenue from cess (~INR92b), toll collection (~INR30b) and premium income (INR30b), it is well placed to meet its recurring obligation on EPC/annuity projects.

NHAI land acquisition has increased 4x over the last five years to 12,000 hectares from 3,684 hectares in FY08, on the back of strong regulatory support like setting up of land acquisition cell and financial maneuverability. (NHAI provides 65-70% land v/s norm of 80%). However in certain states like Goa and Kerala land acquisition is a constraint. NHAI has recently cancelled the Panji-Goa project awarded to IRB, due to land acquisition issue.

Our interactions with authorities however suggested that developers may find it difficult to close large projects, given dearth of equity/debt funding. Long-term debt funding is crucial as short-term bank credit funded the initial round of infrastructure investments (loans for infrastructure projects as a % of credit rose to 15% in FY12). Players with rational bidding, lower reliance on outside equity funding, and healthy balance sheet could be winners.

Competitive intensity likely to ease in FY13

Towards end-FY12, we noticed moderation in competitive intensity as difference between the L1 and L2 bidder narrowed. For Maharashtra-Karnataka border project, the difference was INR80m, while for Rohtak-Jind project it was ~INR700m. This compares with L1 / L2 difference of 30-40% in past (L1 bid for the Ahmedabad-Vadodra project was INR6.3b v/s L2 bid at INR5b). We expect limited competition due to (1) challenging macro environment, and (2) serious, established players having already committed capital to large infrastructure projects. Marginal developers will not dictate competitive scenario.

Consolidation inevitable

Aggressive bidding, lower than expected traffic, rising funding cost, and project execution delays have sizably lowered returns on projects awarded in past. Few developers are even finding it difficult to close projects, either for want of equity or on lenders' insistence on collateral. Many construction companies have already indicated the intention to exit the developer model, in order to reduce balance sheet leverage. We think this facilitates M&A opportunity for large, focused players.

Infrastructure (Roads): Comparative valuations

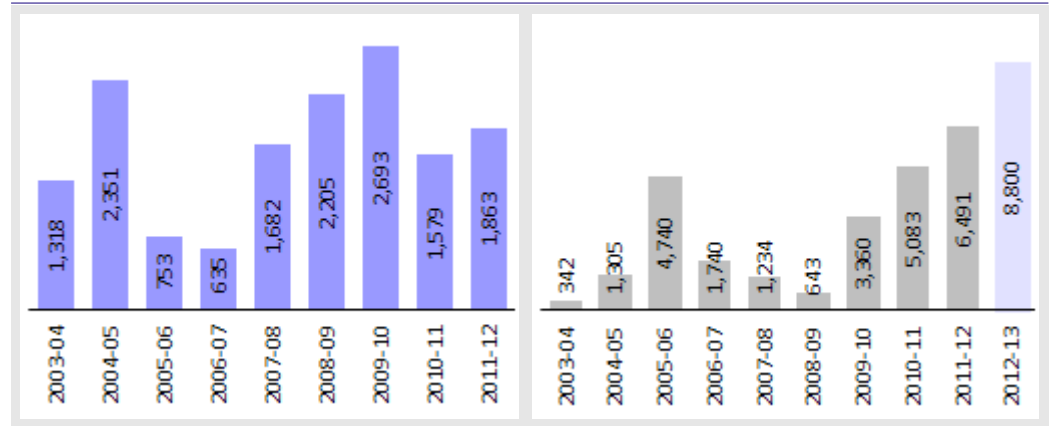
	P/E (x)		P/BV (x)		EPS (INR)		EV/EBITDA (x)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
IRB	7.8	7.7	1.1	1.0	15.7	16.0	5.2	4.3
ITNL	6.4	6.3	1.0	1.0	27.4	27.7	7.6	6.7
Ashoka Buildcon	7.3	5.8	1.0	0.8	27.3	33.9	5.5	4.1

Source: Bloomberg

Yearly project completion (km)

NHAI targeting to award 8,800km in FY13

Project awards momentum in FY12 & FY13 would translate into accelerate pace of project construction and completion would increase, going forward



Source: NHAI

Status of NHDP program as on March 2012 (km)

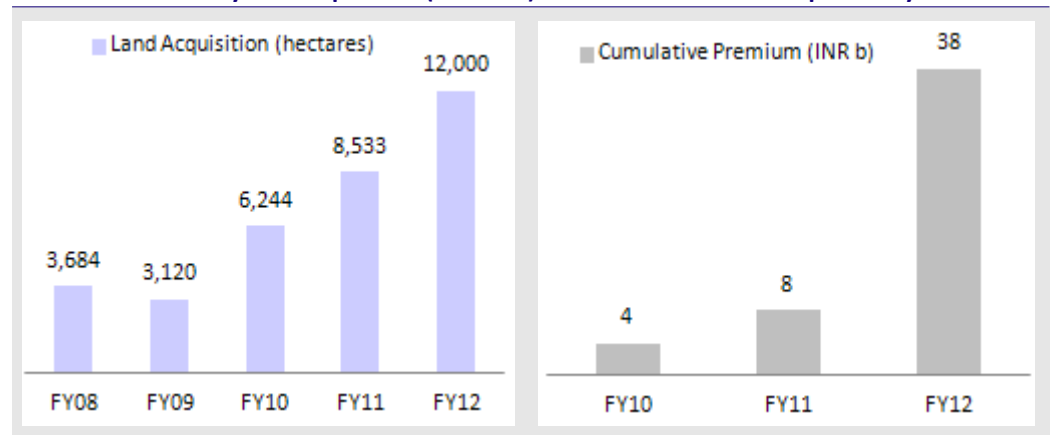
Balance to be awarded over the next 2 years is 18,215km, entailing continued momentum in project awards

Phase	Total	Completed	Under Implementation	To be Awarded	% completed
Phase I	5,846	5,839	7	0	100
Phase II	7,300	6,011	711	420	82
Port Connectivity	1,770	1,314	436	20	74
Phase III	12,109	3,643	6,626	1,840	30
Phase IV	14,799	0	3,318	11,481	0
Phase V	6,500	910	3,071	2,519	14
Phase VI	1,000	0	0	1,000	0
Phase VII	700	13	28	659	2
SARDP NE	388	34	78	276	9
Total	50,412	17,764	14,275	18,215	

Source: NHAI

Awards facilitated by land acquisition (hectares) Premium income too up sizeably

NHAI's land acquisitions have improved in FY12 despite facing several issues. This, along with financial maneuverability, would drive project award in FY13



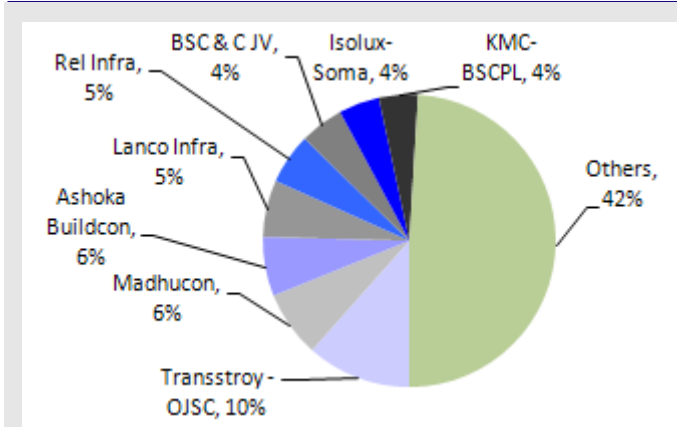
Source: NHAI

Annual list of pre qualified bidders for FY12/FY13

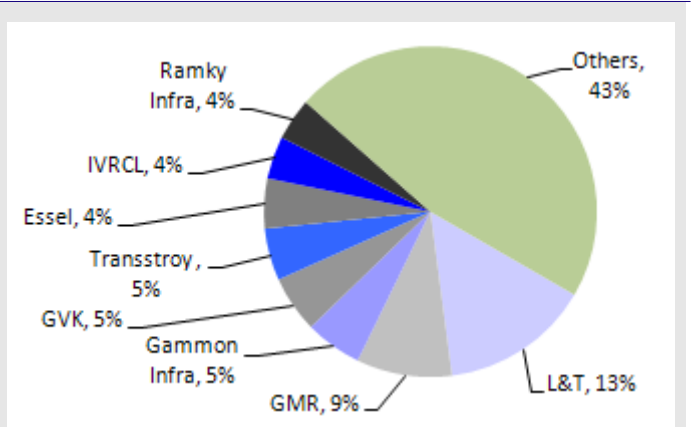
Name of the applicant	RFAQ	Name of the applicant	RFAQ
Above INR75b		INR25b+ to INR50b	
Plus Expressways Berhad	114	IRB Infrastructure Developers	41
Leighton Contractors (India) Pvt Ltd	100	NCC Infrastructure Holdings Ltd	40
L&T Infrastructure Development Projects Ltd	98	IVRCL Asset Holdings Ltd	33
Macquarie SBI Infrastructure Investment Pte Ltd	92	Salini Costuttori SPA	33
Tril Roads P Ltd & Autostrade Indian Infra Dev P Ltd	79	HCC Concessions	32
		Jhon Laing Investments Mauritius	31
		Navayuga Engineering Co Ltd	31
		Shapoor ji Pallonji Roads Pvt Ltd	31
		DSC Ltd	30
		Gayatri Projects	30
		Soma Tollways Ltd	29
		Punj Lloyd	27
		Madhucon Projects	26
		Galfar Engineering & Contracting SAOG	25

Source: NHAI

FY11 market share (km)



FY12 market share (km)



Source: NHAI

Mega projects awarded in FY12, financial closure pending for 4 out of 5 projects

Out of all the mega highway projects awarded in FY12, only Ahmedabad-Vadodra project bagged by IRB Infrastructure Developers has achieved financial closure

Developer	GMR	IRB	L&T	GVK	Soma tollway
Project	Kishangarh Udaipur	Ahmedabad Vadodra	Beawar Pali	Shivpuri Devas	Jabalpur-Katani-Rewa
Length	555	100	244	332	210
Awarded	Sep-11	Apr-11	May-11	Sep-11	May-11
Project cost	53,876	32,000	24,000	28,150	18,950
FC	Pending	Achieved	Pending	Pending	Pending
Premium/VGF	6,360	3,100	2,510	1,809	VGf -18%
L2	GVK-Dalfour Datty	Madhucon		Gammon	IL&FS transportation
L3	L&T	OSE		Essae & Punj	

Source: NHAI

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