

INR 1 trillion NH HAM Projects Facing Severe Delays – Impacts Construction Pace

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Synopsis

In this report, CareEdge Ratings presents its findings on the (i) study on 374 National Highways Hybrid Annuity Model (HAM) projects, (ii) pace of project execution, and (iii) impact on sponsors, especially in light of heightened competition and execution woes.

Description of Sample Set used for HAM Study

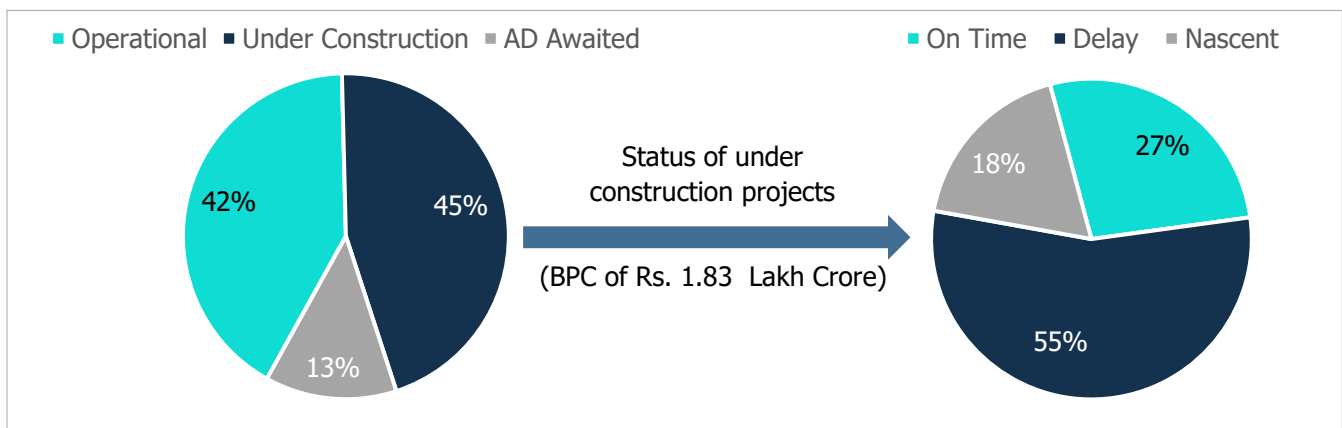
The HAM model has consistently been the preferred mode for awarding highway projects, accounting for nearly 55% of the total projects awarded between FY21 and FY24.

CareEdge Ratings has conducted an extensive analysis of 374 Hybrid Annuity Model (HAM) projects awarded by the National Highways Authority of India (NHAI) between 2015 and 2024. These projects span an impressive aggregate length of approximately 16,000 Km and have a total Bid Project Cost (BPC) exceeding Rs 4.03 lakh crore. As of September end 2024, 42% of the sample BPC, aggregating over Rs 1.65 lakh crore, have been commissioned, while around 45% of the projects, aggregating over Rs 1.80 lakh crore, are in the construction phase, and the balance of 13% are awaiting appointed date to commence construction.

Heightened Execution Challenge

Among the under-construction projects, 55%, with an aggregate BPC of Rs 1 lakh crore, have been delayed beyond six months. In a previous article dated April 30, 2024, CareEdge Ratings highlighted that around 33% of the projects were delayed as of June 30, 2023; this figure has risen to approximately 55% as of December 2024. The sponsor profile continues to be diverse across the delayed projects. While grant of extension of time (EOT) mitigates the project specific risk to an extent, it impacts overall construction pace and profitability of roads developers.

Chart 1- Status of HAM projects



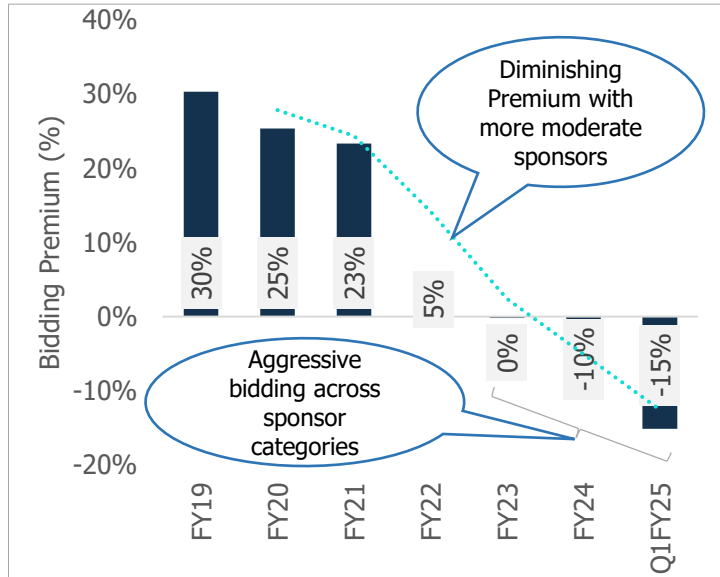
Source: CareEdge Ratings

Prominent factors contributing to these delays include (i) a standard construction period of two years regardless of project complexities, (ii) heightened competitive intensity, (iii) non-availability of hindrance-free Right of Way (RoW), and (iv) excessive rainfall.

As of December 31, 2024, projects with a Bid Project Cost (BPC) exceeding Rs 40,000 crore have been awaiting their appointed dates for over a year since being awarded, up from Rs 14,500 crore as of June 30, 2023, raising concerns about potential project terminations. The primary reason for the prolonged delays in receiving the appointed dates is the intensified focus on greenfield expressways and highways, which has compounded land acquisition challenges.

Deepening Competitive Intensity & Consequent Construction Pace

Chart 2- Trend in bidding premium (%) for HAM



Source: CareEdge Ratings

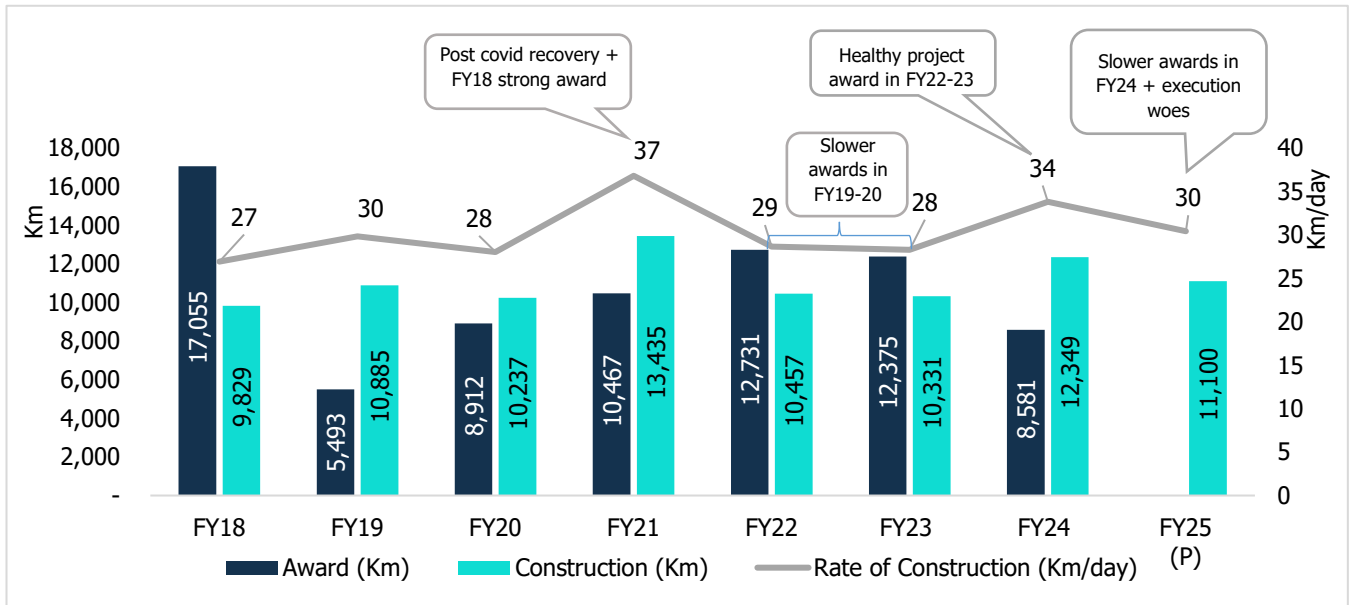
The rising competitive intensity in highway projects is evident from the diminishing premium of bid project costs over the NHAI costs, with projects being bid at a discount over the past two years ending FY24.

According to CareEdge Ratings, ensuring the availability of 80-90% unencumbered RoW at the time of appointed date issuance, besides taking proactive measures in case of delays attributable to developers, is critical for improving the pace of construction. Emphasising the quality of construction is also crucial in view of heightened competition. Therefore, doubling the defect liability period from five to ten years for Engineering Procurement and Construction (EPC) projects is a step in the right direction.

CareEdge Ratings forecasts a nearly 7-10% decline in the pace of National Highways construction in FY25 compared to FY24. The construction rate is expected to slow from 12,350 km in FY24 to 11,100-11,500 km in FY25, closer to nearly 31 km/day.

In line with CareEdge Ratings estimates for FY24, the pace of construction for national highway projects saw a notable increase of 20% ("[Indian Road Sector: Navigating a Smooth Journey](#)", dated May 11, 2023), reaching 34 km/day on a YoY basis. Yet, this was below 37 km/day accomplished in FY21. The highways sector has witnessed a combination of a rise in project complexities, participation from sponsors with moderate capabilities and significant delays in receipt of appointed dates after projects are awarded, contributing to a slackened construction pace.

Chart 3- Pace of award and construction for National Highways



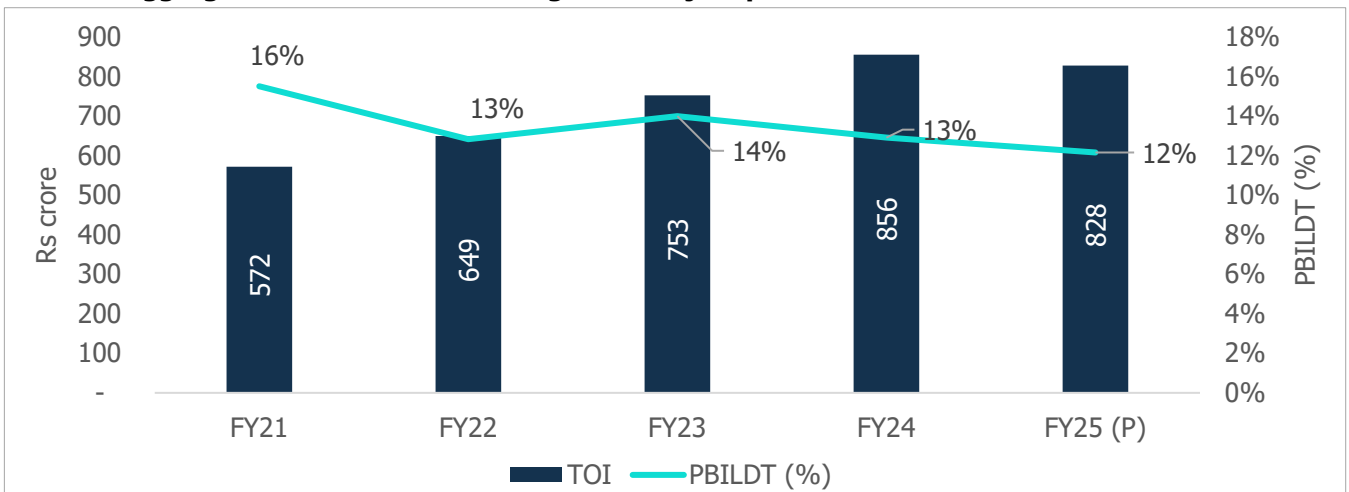
Source: CareEdge Ratings

As anticipated earlier by CareEdge Ratings, the execution pace of the National Highways is expected to decline by ~7-10% during FY25 over FY24 (as cited in ["Work in Slow Progress: National Highways Execution to Decline by 7-10% in FY25"](#), dated April 30, 2024). This is corroborated by a 6% decline witnessed in the road construction pace during 9MFY25 (21 km/day) over 9MFY24 (23 Km/day).

Impact Analysis on Sponsor

CareEdge Ratings conducted a comprehensive financial analysis of 17 sponsors, who also serve as EPC contractors, actively engaged in under-construction HAM projects. Timely execution resulted in a compound annual growth rate (CAGR) of 14% in total operating income (TOI) from FY21 to FY24.

Chart 4- Aggregate TOI and PBILDT margins of major sponsors

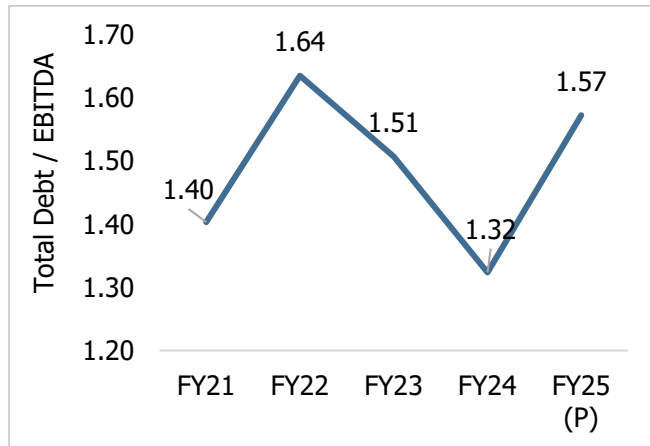


Source: CareEdge Ratings

However, CareEdge Ratings expects a 5% decline in TOI during FY25 due to heightened execution challenges, project delays, and pending receipt of appointed dates for many HAM projects.

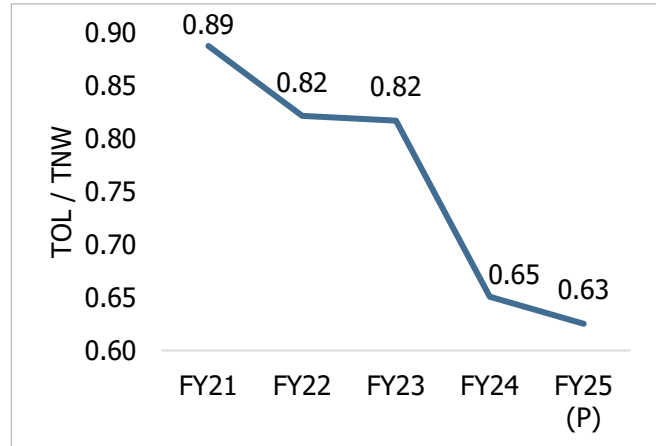
Lower project awards during FY24 and the first half of the current fiscal have reduced revenue visibility, with the order book and TOI ratio declining from 2.78x in FY22 to 2.15x in FY24. Additionally, a significant portion of the order book awaits appointed dates, resulting in a much lower executable order book and moderating revenue visibility for road-focused players. Operating profitability is expected to steadily decline by 200 basis points (bps) in FY25 from FY23 levels due to increased competition and high overheads. Furthermore, with the discontinuation

Chart 5- Total debt / PBILD (times)



Source: CareEdge Ratings

Chart 6- TOL / TNW (times)



Source: CareEdge Ratings

of the Atma Nirbhar Bharat scheme for releasing monthly payments, the working capital cycle for the sponsors is expected to rise by around 15-20 days in FY25.

Nevertheless, a comfortable capital structure marked by estimated total outside liabilities divided by tangible net worth (TOL/TNW) of 0.65 times as of March 31, 2025, and estimated total debt/PBILD of 1.57 times impart resilience to the credit profile of these players. Developers with a pool of operational assets shall be better positioned to manage their leverage and liquidity.

CareEdge Ratings’ view

“Among the under-construction projects, totalling Rs 1.83 lakh crore, 55% with an aggregate BPC of Rs 1 lakh crore are delayed by more than six months. CareEdge Ratings reiterates that the execution pace of the National Highways is expected to decline by ~7-10% during FY25 over FY24. It is owing to escalating execution challenges, heightened competitive landscape, and significant delay in receipt of appointed dates post award of the project,” said Maulesh Desai, Director, CareEdge Ratings.

“Revenue visibility of major road developers has been impacted by the diminished pace of NHA project awards and pending construction commencement for a large chunk of projects. Operating profitability is estimated to steadily decline by 200 basis points (bps) in FY25 from FY23 levels, led by increased competition and high overheads. Furthermore, with the discontinuation of the Atma Nirbhar Bharat scheme for releasing monthly payments, the working capital cycle is expected to increase by around 15-20 days. Nevertheless, comfortable leverage and capital structure impart resilience to the credit profile of major road developers. Players with a pool of operational assets shall be better positioned to manage their leverage and liquidity,” added Setu Gajjar, Assistant Director, CareEdge Ratings.

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