THE FINANCIAL EXPRESS

Fri, 21 Sep-18; Financial Express - Delhi; Size : 516 sq.cm.; Circulation:85000; Page : 4

NHAI to award more projects via EPC route as funding dries up

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Mumbai, September 20

THE NATIONAL HIGHWAYS Authority of India (NHAI) is likely to award more of road projects under the engineering, procurement and construction (EPC) method this fiscal, as both road developers and banks find it difficult to spend the money required for more projects under the hybrid annuity model (HAM).

Financial closure of HAM projects is proving a concern as developers struggle to finance them, while banks, which have been placed under the prompt corrective action (PCA) framework, are limited in the amount of loans they can extend. As a result, a majority of project awards are likely to be under the EPC mode. Under HAM, NHAI contributes 40% of the project cost while the remaining portion has to be funded by the developer in the form of both debt and equity.

According to Edelweiss, the focus on EPC will be positive as road companies would not be required to cough up equity required for such projects. However, some road developers have a different viewpoint. "Even for EPC projects, we are finding it difficult to procure the performance and mobilisation bank guarantees. Banks are supporting only double A+ rated companies and above," the CEO of a mid-sized road developer, who declined to be named, told *FE*. According to ratings agency ICRA, the median rating for the second tier road developers in the roads sector is BBB. While the large companies are rated A or A-, Rajeshwar Burla, AVP and associate head, ICRA, says companies outside this group will find it very difficult to get financing. "Under-construction projects are very dependent on the sponsor for the equity, which is is a function of the financial health of the sponsor. In most cases, the EPC contractor is also the sponsor himself so their financial and operational strength becomes important. Given these parameters, the ratings of the sponsor is strongly linked to the ratings of the project," he said.

With developers struggling to finance projects, analysts say many developers are in talks with financial institutions for forging partnerships. According to Edelweiss, "Such partnerships may result in the two parties sharing the burden of equity infusion for HAM projects during the construction stage with the financial institutions buying out the developer post the commercial operations date (COD)."

In fact, there have already been two such deals, with both Dilip Buildcon and MEP Infrastructure Developers selling their portfolio of six HAM projects each.

Manish Agarwal, leader, capital projects and infrastructure at PwC India, believes while banks are limited in their ability to finance projects, they are also still looking for confidence in the delivery capability of companies. Agarwal said: "Bidding out more HAM projects does not necessarily make sense until the execution capacity picks up. I am keen to see how the developer community is ramping up," he said.