

● TURNING A CORNER

NH construction activity picks up pace

BIG AIMS. The govt's target of constructing 12,000 km of national highways in H2 FY23 is back on track from the slump in H1FY23

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India's national highway (NH) construction activity, which slowed down to around 19.5 km per day in H1 FY23, is expected to pick up in the second half of the fiscal year aided by softening raw material prices and higher number of tenders floated by the government.

Last month, overall highway construction stood at 4,060 km, against 3,559 km in September 2022 and 2,912 km in August. Awarding rose to 5,007 km in October from 4,092 km and 2,706 km in September and August, respectively.

THE COST LANE

Crisil Market Intelligence and Analytics Director (Consulting), Akshay Purkayastha, pointed out that the overall NH awarding in H1 FY23 was around 22 km per day, which is 11 per cent lower against the last fiscal, while construction was down 7 per cent y-o-y.

"NHAI's (National Highways Authority of India) awarding, which accounted for 47 per cent of the overall NH awarding in FY22, showed a relatively higher drop of 60 per cent against H1 FY22," Purkayastha told the *businessline*. He added that awarding and construction remained subdued in H1 FY23. An important reason being the higher cost of key input materials.

Rudrabhishek Enterprises' (REPL) Senior VP, Daleep Thusu, said that construction activities on NH remained steady during H1 FY23 at a rate of around 19.5 km per day. It is slightly slower than the rate in FY22, which is gradually increasing, he added.

INCREASING PACE

NH awarding and construction was relatively more impacted in Q1 FY23, which has stabilised to an extent in Q2 FY23.

For Q1 FY23, awarding was lower by around 42 per cent y-o-y and construction was down by about 14 per cent y-o-y. Meanwhile, for Q2 FY23, awarding grew by about 7 per cent y-o-y whereas construction picked up by 3 per cent, Purkayastha said.

"Both awarding and construction typically ramp-up in H2 and looking at the



MAKING HEADWAY. Timely financial closure and execution of projects would be the key monitorables, say experts MURALI KUMAR K

National Highways' construction and awarding activity (Figures are in km)

| Month | Completed | Awarded |
|----------------|-----------|---------|
| October 2022 | 4,060 | 5,007 |
| September 2022 | 3,559 | 4,092 |
| August 2022 | 2,912 | 2,706 |
| July 2022 | 2,493 | 1,975 |
| June 2022 | 1,966 | 969 |
| May 2022 | 1,307 | 496 |
| April 2022 | 578 | 201 |
| March 2022 | 10,457 | 12,731 |
| February 2022 | 8,045 | 7,618 |
| January 2022 | 6,684 | 6,883 |
| December 2021 | 6,185 | 5,835 |
| November 2021 | 5,118 | 5,578 |
| October 2021 | 4,450 | 4,913 |

Source: Ministry of Road Transport & Highways

trends such as higher floated tenders, H2 FY23 should also see a substantial im-

provement against H1 FY23. The sizeable awarding done in previous fiscals will support the execution, despite a slow H1," he explained.

On raw material prices, Purkayastha said "Given that the prices of these key commodities (cement, steel, etc) have started showing signs of cooling down (7 to 9 per cent drop in October 2022 WPI for bitumen and diesel against June 2022 levels), it is expected that pace of construction activities would pick up in H2."

However, the cost of key input materials would remain an important monitorable, he cautioned.

Thusu said "For H2 FY23, the government has a target of constructing 12,000 km of highways. This is indeed a challenging target but we can expect the real outcome very much close to the targeted mark."

HAM PROJECTS

NHAI's HAM (hybrid annuity model) awards in H1 FY23 witnessed a fall in

bidding intensity (5 to 7 bidders on an average against 10 to 15 bidders in FY22) with bid premiums per project recovering (8 to 10 per cent in H1 FY23 against 3 to 5 per cent in FY22).

The reasons for this can be attributed to sharp rise in commodity prices, project awards in difficult terrains, change in bidding criteria to avoid very low O&M quotes and lesser participation from mid-sized players, Purkayastha pointed out.

"NHAI has planned to ramp up HAM awards in H2. There are currently ~2,200 km under bidding and ~800 km under evaluation with more tenders expected to be released soon. It would be interesting to see whether H1 trends hold up as NHAI steps up awards in the second half. Timely financial closure and execution of projects would be key monitorables," he added.

The share of HAM projects in NHAI project awards was around 55 per cent in FY22.