

India has one of the largest road networks in the world, but it fares poorly on density and quality.

The emphasis on development of roads has increased significantly post-liberalization. To sustain its GDP growth, India must invest in road infrastructure to develop in a faster, reliable network, up to world class standards.

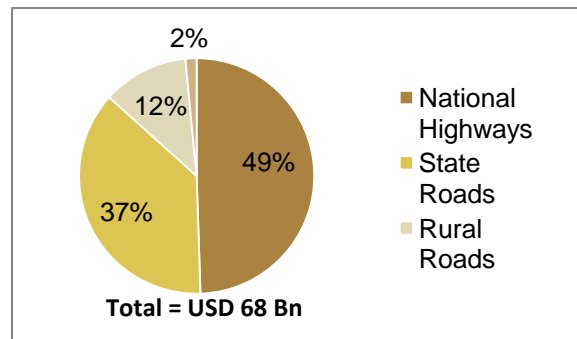
The roads in India are divided into expressways, national highways, state highways, major and other district roads, and village roads. National highways carry the bulk of traffic in India but form only a small part of the entire network. The increase in the length of national highways, and the upgrading of single to double lanes and double to four/ six lane highways, is a high priority task for India. The Indian Road Congress has formulated 'Vision 2021' for development of roads with particular emphasis on national highways.

Incremental infrastructure expenditure on roads from the 9th five-year plan to the 11th five-year plan (total outlay of USD 68 bn) has increased almost 22 fold, as opposed to about a five-fold increase for infrastructure; indicating that share of the funds allocated to roads is increasing.

NHAI has been formed as the nodal agency for development of national highways. Action plan for this has been outlined in the form of National Highways Development Plan (NHDP). NHDP defines a seven-phase roadmap for construction of new national highways, and for improvement of the existing ones.

Public-Private participation in development of roads has been increasing and there is a huge potential for private players in this space. PPP is happening in the form of BOT (Toll based), BOT (Annuity based), OMT (Operate, Maintain and Transfer) and SPV contracts.

Exhibit 1: Projected Investment in the Road sector in the 11th Plan (USD bn)



Source: o3 Capital Research

An investment of ~USD 160 bn is expected to be made in roads in the 11th and the 12th five-year plans together. Of this, close to 60% is expected to be generated via PPP. This indicates investment opportunities for foreign and domestic infrastructure players, and private equity players. Business opportunities will trickle down to business lines such as BOT operators, equipment manufacturers, engineering companies, civil work contractors, O&M contractors, toll collectors etc.

This report by o3 Capital captures the tremendous potential of road infrastructure sector in India, and provides an in-depth view into trends, developments, and key issues. It also gives a brief overview of the government initiatives and regulatory frameworks, key domestic and international players, current projects, and tries to provide an insight into the opportunity for private participation.

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