

SectorVector

Reading the topical trends

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Rising from the BBB floor

Credit rating criteria for bidders to provide a risk mitigation strategy for the roads sector

The Government of India recently set a minimum rating requirement of ‘BBB’ for bidders of hybrid annuity model (HAM) and build-operate-transfer (BOT) toll road projects.

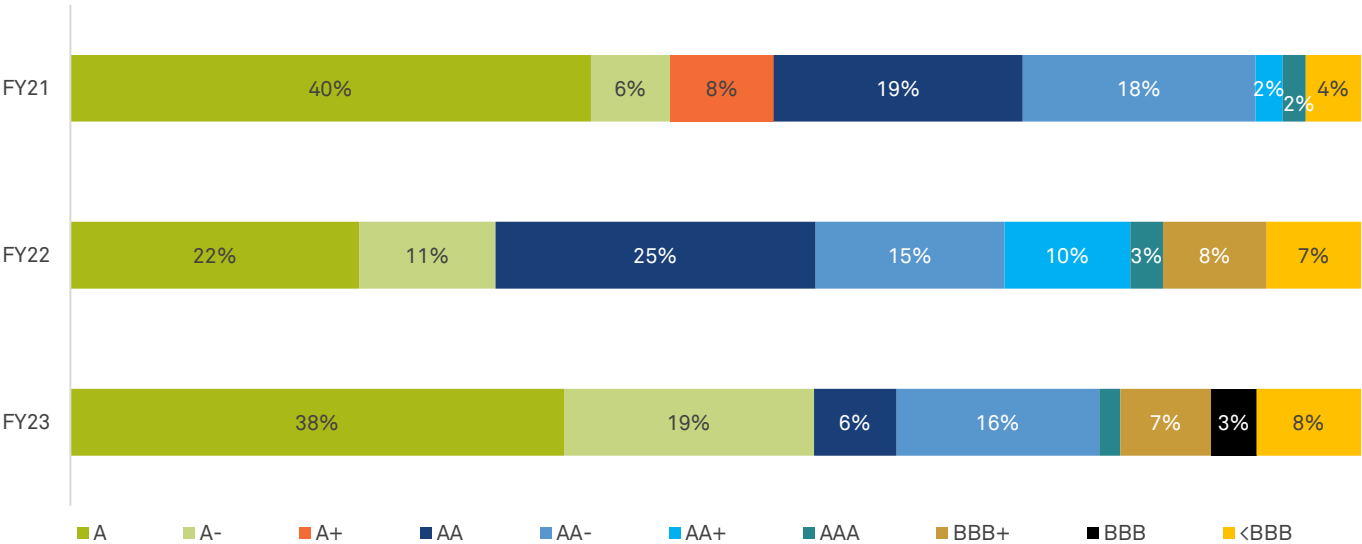
In case the rating is below this threshold, a comfort letter from banks/financial institutions is required to guarantee credit facilities (term loans).

This is to minimise risks associated with project implementation and defaults by developers. If implemented, the move would improve the risk profile of the sector.

The share of developers with a sub-BBB rating winning bids for HAM projects doubled from 4% in fiscal 2021 to 8% in fiscal 2023. Further, two-thirds of the HAM projects awarded to sub-BBB rated players between fiscals 2016 and 2018 are still under construction.

Moreover, developers with lower credit ratings generally entail greater financial and execution risks. Hence, the government move to set a minimum rating threshold for bidders is likely to mitigate risks linked to project execution.

Share of sub-BBB rated players in HAM awards has doubled over the past 3 fiscals



Note: Share in terms of km
Source: CRISIL MI&A Research

HAM projects saw intense competition over the past few fiscals due to pandemic-led relaxations in bidder eligibility norms, and limited opportunities in state projects. Not surprisingly, there was a sharp fall in the average bid premiums.

The upshot? Many large developers with healthy credit ratings either won projects at sub-optimal premiums or refrained from bidding to protect margins.

Rising competitive intensity led to a fall in bid premiums of projects for developers across most credit rating categories.

For instance, due to aggressive bidding, the average bid premiums in projects won by 'A-' rated players tumbled from 33% in fiscal 2021 to 4% in fiscal 2023. Similarly, the average bid premium for projects won by 'AA' rated players also dropped from 25% to 13% during the same period.

Setting the credit rating floor of BBB is relevant for the roads and highways sector as HAM is expected to be one of the primary modes for awarding road projects.

CRISIL MI&A estimates show the National Highway Authority of India is likely to award 4,800-5,200 km in fiscal 2024 with HAM projects cornering a share of 50-55% of total bids awarded.

Intense competition has lowered bid premiums

	Bid premium		
	FY21	FY22	FY23
AAA	27%	-11%	24%
AA+	17%	-15%	-
AA	25%	8%	13%
AA-	11%	7%	13%
A+	14%	-	-
A	16%	4%	12%
A-	33%	20%	4%
BBB+	-	1%	-17%
BBB	-	-	-1%
<BBB	15%	7%	-

Note: Red: <5%, Yellow: 5% to 15%, Green: >15%, Grey: Data not available or no awards won
Source: NHAI, CRISIL MI&A Research

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