

Making jam of HAM

Patel Infra has come a long way – from government buildings to highways, focusing on HAM projects

India has the second largest road network in the world at 61 lakh km and roads continue to be the most common mode of transportation, accounting for over 86 per cent of passenger traffic and close to 65 per cent of freight traffic. The national highways, with close to 1,03,933 km, constitute just 1.7 per cent of the road network, but carry 40 per cent of the total road traffic. State roads and major district roads form the secondary system of roads, carrying 60 per cent of traffic and accounting for 98 per cent of road length.

The government investments on roads have been on a rapid rise. An estimated ₹10.7 lakh crore will be pumped into the roads sector over the next five years, says a CRISIL research report. Rural roads will witness even a faster pace of growth, thanks to an increased budgetary allocation to Pradhan Mantri Gram Sadak Yojana (PMGSY) since fiscal 2016.

Total investment in state roads between fiscal 2017 and 2021 is expected to be ₹4.4 lakh crore and private participation is expected to remain steady in the future. Gujarat, Madhya Pradesh, Maharashtra, and Rajasthan may lead the way in implementing state highway projects through PPP.

This is where companies such as the Ahmedabad-based Patel Infrastructure Ltd (PIL) see huge business. Patel Infra (not related to Patel Engineering) began its journey in Mumbai in 1972 as Patel Construction Company, a partnership firm founded by the late Vithalbhai Gorabhai Patel, by bagging construction contracts of government buildings like the MHADA colony at BKC, the high court, and hospitals. A decade later, it shifted base to Vadodara, Gujarat but continued as a government contractor constructing the central office, courts, engineering colleges, among other buildings. It became a limited company in 2004



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Arvind Patel: HAM is a win-win system

and since 2007 PIL ventured into the roads and bridges business, besides entered other states.

"We are now an established construction, development and maintenance service company, with a track record, experience and expertise in execution of various road focused EPC projects in various states of India," says Pravinbhai Vithalbhai Patel, chairman and whole-time director, Patel Infrastructure Limited.

With 36 years of experience, Pravinbhai leads the second generation of the Patel family. He has been instrumental in formulating the company's business strategies. "Our operations are primarily into two businesses – the construction contracts, under which we carry out EPC services for third parties and our development of roads and

highways projects," he explains.

As of now, the company has operations in Gujarat, Punjab, Madhya Pradesh, Rajasthan, Karnataka and Tamil Nadu, taking on both EPC and annuity projects for construction of roads, highways and buildings. "Within our EPC business, our key ongoing projects in the building and other civil construction sectors include the construction of eight new court buildings in the City Civil Court, Ahmedabad, the construction of the roller-compacted concrete (RCC) structure in coordination with steel structure for the frame of a new multi-storied, multispecialty hospital in Gujarat and the construction of residential flats, shops and offices under the Pradhan Mantri Awas Yojana in Gujarat," explains Arvind Vithalbhai Patel, the company's MD and younger brother of Pravinbhai.

Reducing delays

"As far as annuity business is concerned, some of the key ongoing projects are three HAM (Hybrid Annuity Model) projects, of a total contract value of ₹39,302 crore including the Sethiyahopu-Cholopuram project and the Cholopuram-Thanjavur project in Tamil Nadu, and the Darah-Jhalawar project in Rajasthan," says Arvind.

Under HAM, a new hybrid annuity model introduced in 2016, the government accepts revenue/toll collection risk, along with partial sharing (40 per cent, on a case to case basis) of financial risk and the concessionaire to continue to manage executional, operational and maintenance risk. The introduction of HAM projects provides opportunities for private developers to participate in the annuity based model without risking the entire financial and revenue burden as the government steps in.

"HAM is a win-win system and the credit for the revolutionary process goes to Union minister for road transport and highways, shipping and water resources," says Arvind.

According to CRISIL, HAM is expected to increase gradually with

private participation in the roads sector, which declined in the past 2-3 years. Due to delays in land acquisition, and caution shown by lenders in initial phases for lending to HAM, awarding remained at 4,337 km in FY17, compared to 4,349 km in FY16. Of the total projects awarded in FY17, about 2,430 km were awarded through HAM. Due to this, private participation stood at 66 per cent in FY17. This was higher than the private participation of 28 per cent seen in FY16. The NHA project execution is expected to gather steam and touch the 2,900 km mark in FY18, from 2,625 km in FY17. The share of private investments is expected to remain low because of execution driven by EPC, where the entire investments are through public funds, and HAM, where 40 per cent of investments are through public funds.

The government has also floated various other NHA projects including the Special Accelerated Road Development Programme in the North-East region and the National Highways' Interconnectivity Improvement Project. According to CRISIL, out of the total ₹4.3 lakh crore expected to be invested in national highways up to FY22, about ₹1.4 lakh crore will be through HAM projects. "Our expertise and experience in the development, operation and management of road infrastructure projects, as well as our established reputation, provides us with a competitive advantage in pursuing opportunities in this rapidly growing sector," says 27-year-old Krunal Patel, director – strategic business development. Krunal is the elder son of Arvind.

Roads continue to dominate freight traffic due to the capacity constraints in railways. Moreover, there has been

a robust growth in non-bulk traffic, which is predominantly transported by road. Amendments to the model concession agreement governing private participation in the roads sector in August 2009 made investment in roads more private sector-friendly. Consequently, the private sector's share increased to 45 per cent from FY13 to FY17 in national highways, Arvind points out.

The Central government has focussed on reducing hurdles for new projects and clearing stalled projects, thus reducing delays in construction. In roads, a major cause of delays had been non-availability of land for a part of the project, after construction has begun. This has been managed by the government by ensuring that 80-90 per cent of land has been acquired before awarding.

Exclusive experience

Another booster for the road sector is the Centre's Sagarmala project that aims to reduce logistics cost for export-import as well as domestic trade. It entails an investment of ₹8 lakh crore in 415 projects up to 2035. The preferred mode of awarding projects through this programme will be the PPP model.

The Make in India campaign will also boost economic growth, and increase the need for transportation of goods, thus increasing freight traffic. In FY16 and FY17 combined, India received FDI equity inflow of ₹83.5 billion compared with ₹55.2 billion in FY14 and FY15 combined, marking a rise of 51 per cent.

With an all-round positive ambience, PIL intends to tap the primary market to raise ₹400 crore. The price band and time of the IPO launch are

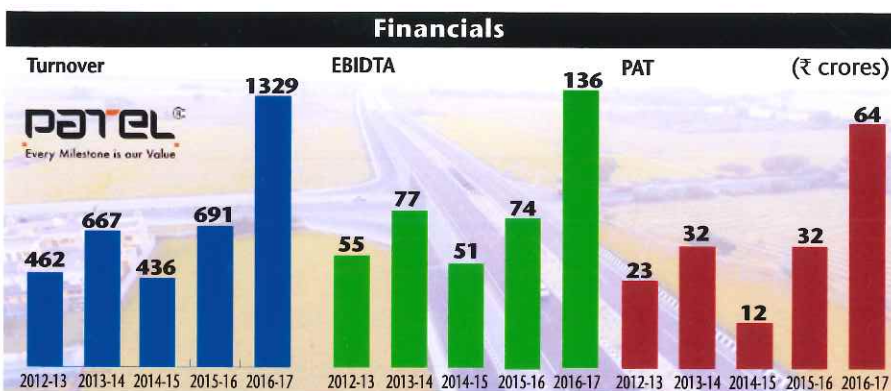
to be decided in consultation with the BRLMs. "The net proceeds of the issue will be utilised to invest in its subsidiary, Patel Cholapuram-Thanjavur Highway Private Limited for part-financing the HAM project, purchase of construction equipment, funding incremental working capital requirement, payment in full of certain indebtedness apart from general corporate purposes," says company CFO, Sandeep Sahni.

Sahni, a member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India and former C&C Constructions Limited hand, says the company enjoys an order book size of ₹62,67.2 crore that includes one OPRC road project, eight EPC road projects, and three HAM projects accounting for 2.77 per cent, 31.92 per cent and 62.71 per cent, respectively.

Sahni, who completed three years with the company, says: "It has been a fruitful journey at PIL. Working as part of a team is a great way to learn personal strengths and weaknesses and taking accountability for your role in a greater purpose. I have been able to get a better grasp on what my personal strengths are and what I have to offer as part of a PIL team", and notes that "there is certainly a rare energy from the top down that is contagious and a synergy that crosses the company laterally."

PIL now qualifies to bid independently on an annual basis for bids by NHA and MoRTH of contract value up to ₹1,234 crore for EPC contracts and ₹1,250 crore for annuity contracts based on its technical and financial capacity. "While we independently execute projects where we are pre-qualified to bid on an independent basis, we form joint ventures and consortiums, with other infrastructure and construction companies, where a project requires us to meet specific eligibility requirements," explains Vinay Shah, vice president, technical. The company is executing through two joint ventures – the Sadbhav-PIPL JV and the KECL- PIPL JV – and has already completed one project.

"Patel Infrastructure has been associated with us since 2007," says Vasistha Patel – director Sadbhav Infrastructure. "Patel Infrastructure was Sadbhav's





Kaithal road project, Rajasthan



Sangrur Bypass Project, Punjab

partner in the Ahmedabad Ring Road project which was executed by Patel Infra in schedule time."

"We have recently completed one joint venture road project with morth in Punjab with Patel Infra. The company has the latest technology machinery and other resources to execute big size projects. Over the years Patel Infra has established itself as a leading road contractor known for quality work and timely execution," says Vasistha.

PIL has been associated with the IRB group as an associate road contractor since 2002. "Patel is known for its work quality and timely delivery of projects," says Virendra Mhaiskar, CMD, IRB Infrastructure Developers Limited. "They have shown excellent workmanship on our prestigious Ahmedabad-Vadodara Expressway. The project got completed in record time with excellent quality. Patel Infrastructure has also completed our 120 km Rajasthan border to Kaithal Road project, six months ahead of schedule," says Mhaiskar.

India Ratings and Research, which gives Long-Term Issuer Rating – IND A to Patel Infra, says, "The company promoters have extensive experience in road construction nationwide. It has recently been declared the L1 for a hybrid annuity model road project in Tamil Nadu to the tune of ₹13.4 billion. This is PIL's first project as a principal sponsor. The management claims to have executed the majority of projects within or before the time frame

allotted for execution," says the Fitch group company.

Strengthening market position

During the last five fiscals, PIL has completed nine roads and highway projects above the contract value of ₹30 crore each, aggregating to a total contract value of ₹2,273.2 crore and six buildings and other civil construction projects above the contract value of ₹30 crore each, aggregating to a total contract value of ₹440.6 crore. "We have also received a letter of appreciation for early completion of our work on the Ahmedabad-Vadodara expressway project from the concessioning authority, Modern Road Makers Private Limited," says Krunal.

Rating company CARE gives a stable rating for PIL. It says the revision in the ratings assigned to the bank facilities of PIL takes into account the growth in its scale of operations with execution of large sized road projects, enhanced revenue visibility with the receipt of new orders in diverse geography and improved performance of its operational build-operate-transfer (BOT) based road projects on a sustained basis which led to a generation of healthy cash surplus for PIL. The revision in rating also improved growth prospects for the company due to its demonstrated project execution capability and good financial flexibility in light of the thrust of government on road development."

"The company has built a fleet of modern construction equipment and assets of gross block worth ₹247 crore

which include earth movers (dumpers and tippers), loaders and excavators, among others", says Vinay Shah, vice president – technical.

Shah, who has been associated with PIL for over eight years, says the company is "strong, solid, stable and has withstood and excelled in every challenge that has come its way."

In FY15, 16 and 17 and the six months ended 30 September, 2017, the company's revenue from operation, were ₹564.3 crores, ₹891.1 crore, ₹1,593.2 crore and ₹799.4 crore, respectively. "Revenues from EPC business were ₹357.2 crore, ₹670.2 crore, ₹1,368.9 crore and ₹668.6 crore, while revenues from the annuity business were ₹31.5 crore, ₹33.5 crore, ₹3.5 crore and ₹16.7 crore, respectively, for the same period," explains Sahni.

Over the next few years, says Arvind, "our strategy is to continue to focus on strengthening our market position and developing and executing EPC projects in the roads and highways sector, while seeking opportunities to bid for additional projects. We intend to draw on our experience, effectively use our assets, market position and our ability to execute and manage multiple projects across geographies, to grow our project portfolio."

"We intend to broaden our revenue base and reduce risks of volatility of market conditions and price fluctuations by expanding our geographic footprint," – he looks at making literally jam of HAM projects.

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