

A grinding halt, and the grind ahead

Impact of the pandemic on the transport sector and the mitigants thereof

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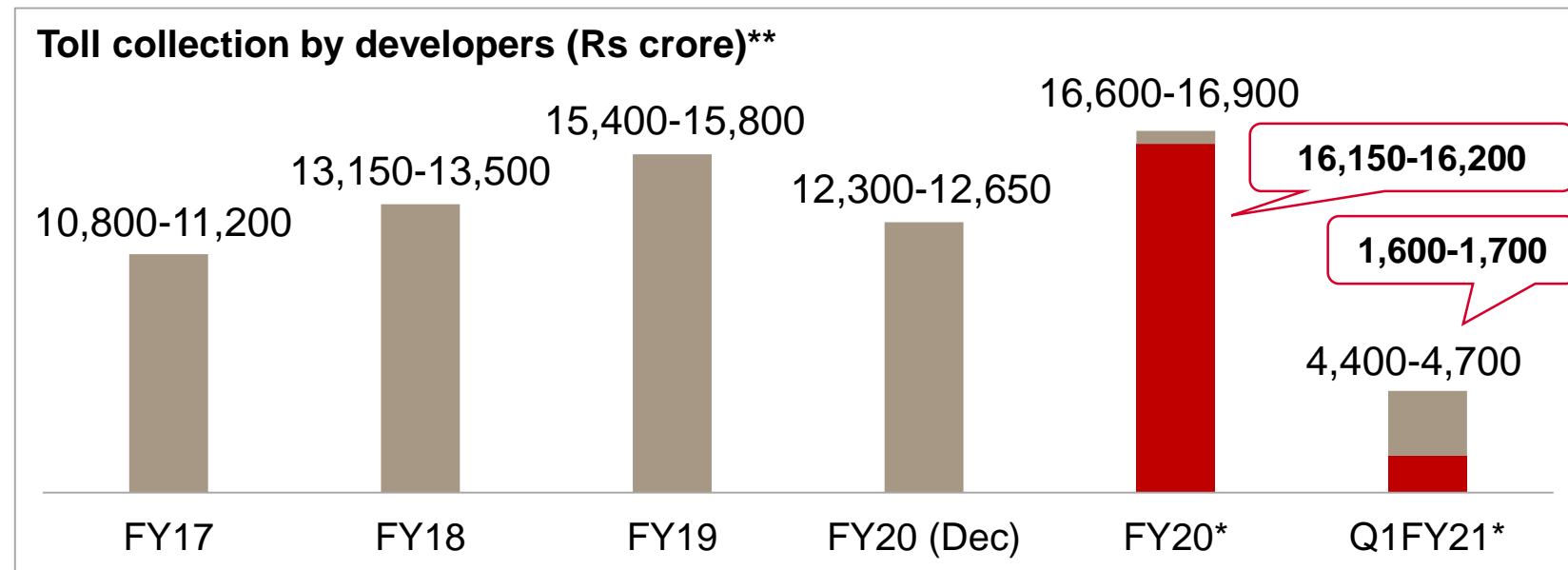
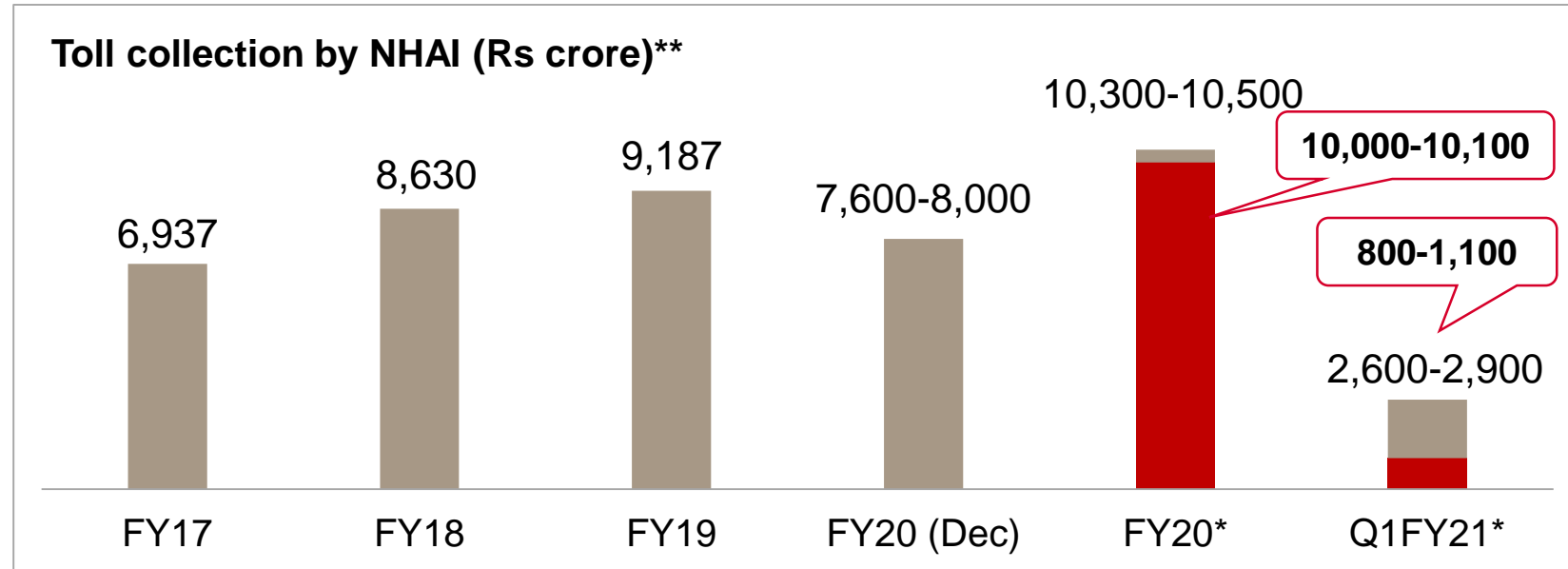
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The highways sector



Overview of the Covid-19 pandemic impact

Stakeholders	Impact
NHAI	<ul style="list-style-type: none">• Direct losses in toll revenue• Slow progress in under-construction projects leading to increase in total project cost• Rolling out of key initiatives such as asset monetisation delayed• Project awards held up, leading to further delay in completion of Bharatmala Pariyojana – Phase I• Losses on account of claims filed by developers/contractors/toll operators
Developers/contractors	<ul style="list-style-type: none">• Direct losses in toll revenue• Interest payments to lenders/banks• Direct and indirect losses consequent to shutdown of project sites, withdrawal of labour, shutdown of machinery, etc

Private sector toll revenue losses at Rs 3,450-3,700 crore in March-June



- Based on assumption of 90% toll revenue loss in April, 60-75% in May and 30-40% for the rest of the quarter
- National Highways Authority of India (NHAI) expected to incur a loss of Rs 2,100-2,200 crore over March-June 2020
- Developers/operators expected to incur a loss of Rs 3,450-3,700 crore over March-June 2020

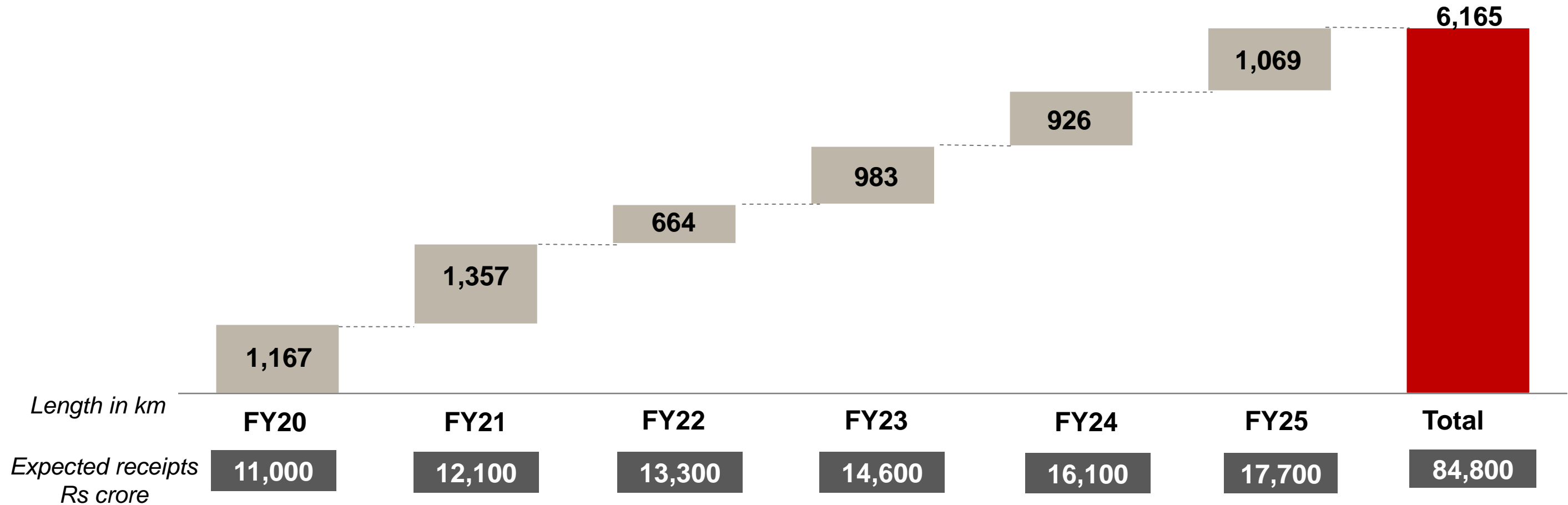
 Toll collection if the pandemic had not broken out
 Toll collection taking the pandemic into consideration

*Projections as per situation – with and without Covid-19 impact

**www.aninews.in dated July 18, 2019, and market research for FY20 onwards

Disclaimer: Based on initial understanding of current market situation. However, market conditions are changing rapidly.

Asset monetisation delays: NHAI's revenue to dip further



- NHAI planned to raise close to Rs 85,000 crore through asset monetisation initiatives (TOT and InvITs)* by monetising ~6,000 km of operational toll roads
- Suspension of tolling and gradual recovery thereafter will make it hard for potential investors to estimate the traffic and, thus, arrive at a fair value for the asset

*Source: Budget declaration and stakeholder interaction

Disclaimer: Based on initial understanding of current market situation. However, market conditions are changing rapidly.

Significant increase in costs for both NHAI and private players because of project delays

Area of impact

Increase in costs of under-construction projects

- Under Bharatmala Phase-I, ~9,700 km road projects with total capital cost of ~Rs 2.40 lakh crore were awarded/under construction till February 2020
- In March 2020, additional ~800 km road projects were awarded. This takes the total capital cost of awarded/under-construction projects to ~Rs 2.65 lakh crore

Increase in accrued interest burden

- NHAI and private road developers/contractors have over Rs 2 lakh crore of debt each

Delay in completion of Bharatmala Pariyojana

- Based on cost of awarded projects, NHAI requires ~Rs 6.5 lakh crore from fiscal 2021 till fiscal 2025 to successfully complete the remaining Bharatmala Phase-I projects
- The pandemic could result in financial stress and lesser budgetary support to the infrastructure sector, as more resources would be diverted towards vulnerable sections of the society and industry

Disclaimer: Based on initial understanding of current market situation. However, market conditions are changing rapidly.

Impact of pandemic

Assuming a project delay of 3-6 months, 5% inflation, 10-11% interest rate on debt; capital cost of under-construction projects can increase by ~Rs 7,000-12,000 crore

Every month of delay is expected to cost the sector over Rs 3,000 crore as accrued interest burden

If budgetary support to the roads and highways sector were to be frozen at the current rate for the next 4-5 years, completion of Bharatmala Phase-I could get delayed by ~12 months

Key mitigation measures

Impact of pandemic

NHAI

- Toll revenue losses
- Increase in total project costs
- Accrued interest burden
- Delay in completion of various projects
- Losses on account of multiple claims filed by private players

Developers/Investors

- Toll revenue losses
- Accrued interest burden

EPC contractors

- Job losses
- Direct and indirect losses consequent to shutdown of project sites

Mitigation measures

- Ease financial burden of NHAI through the following:
 - Leveraging **long-term land bonds** (10-15 years) to pay for land acquisition. These should be tradeable, ensuring cash to landholders
 - **Land pooling** as a mode of land acquisition to **reduce the expenditure** involved in asset development
- Scale up initiatives beyond conventional modes of finance and revenue generation
- The pandemic is a **force majeure event**, and interpretation issues should not delay relief measures

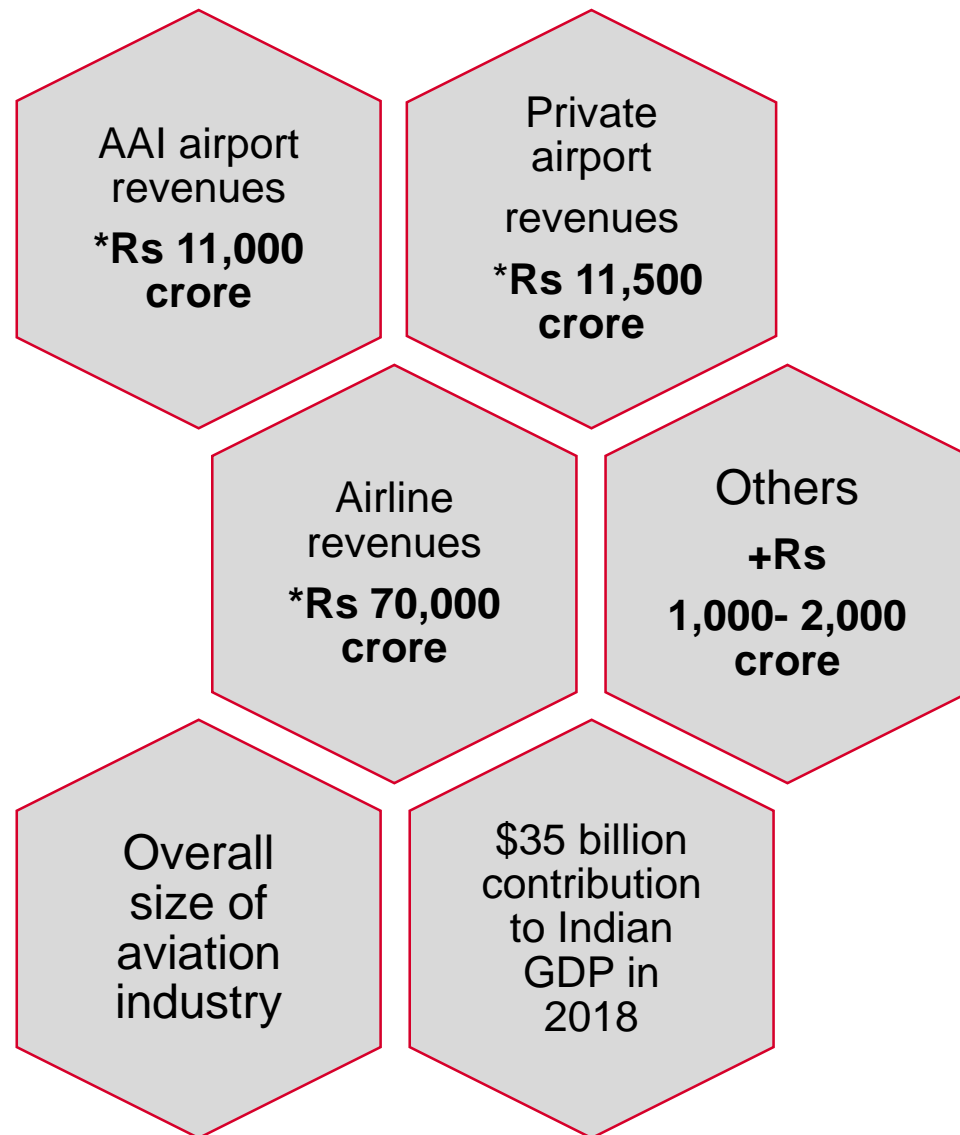
- Initiate estimation of toll loss on various projects immediately; **regional/project offices** should be **empowered to make immediate payments** up to a threshold
- **Adjustment/extension of the remaining concession period** for Build-Operate-Transfer (toll)/Design-Build-Finance-Operate and Transfer (DBFOT) projects should be carried out with immediate effect

- NHAI should roll out projects on **EPC mode** and work with the developer community to **restart all stalled projects quickly**
- This will allow a large number of **construction workers** to be **absorbed in highway projects** located close to their homes

Airports and aviation

There was turbulence before pandemic, but there was growth, too

Indian aviation industry before Covid-19



- Total passenger traffic increased at a meagre rate of 2.5% from 344.7 million in fiscal 2019 to 353.2 million in fiscal 2020
- Total freight traffic saw an average decline of ~4% on-month in fiscal 2020 because of the weaker economic activities worldwide
- The meagre growth of 2.5 % in fiscal 2020 would have been lower if not for the government's thrust through UDAN routes
- However, the sector had been experiencing a slowdown primarily on account of **weaker global economic activities** and grounding of **Jet Airways**
- Before the pandemic broke out, the sector, in general, had not been doing well compared with its overall performance over the last decade (Passenger traffic CAGR ~12%; Freight traffic CAGR ~7% over fiscals 2010 to 2019)
- The Indian aviation Industry **employing over 7.5 million** people (directly and indirectly) contributed 1.5-2% **to the national GDP in 2018**

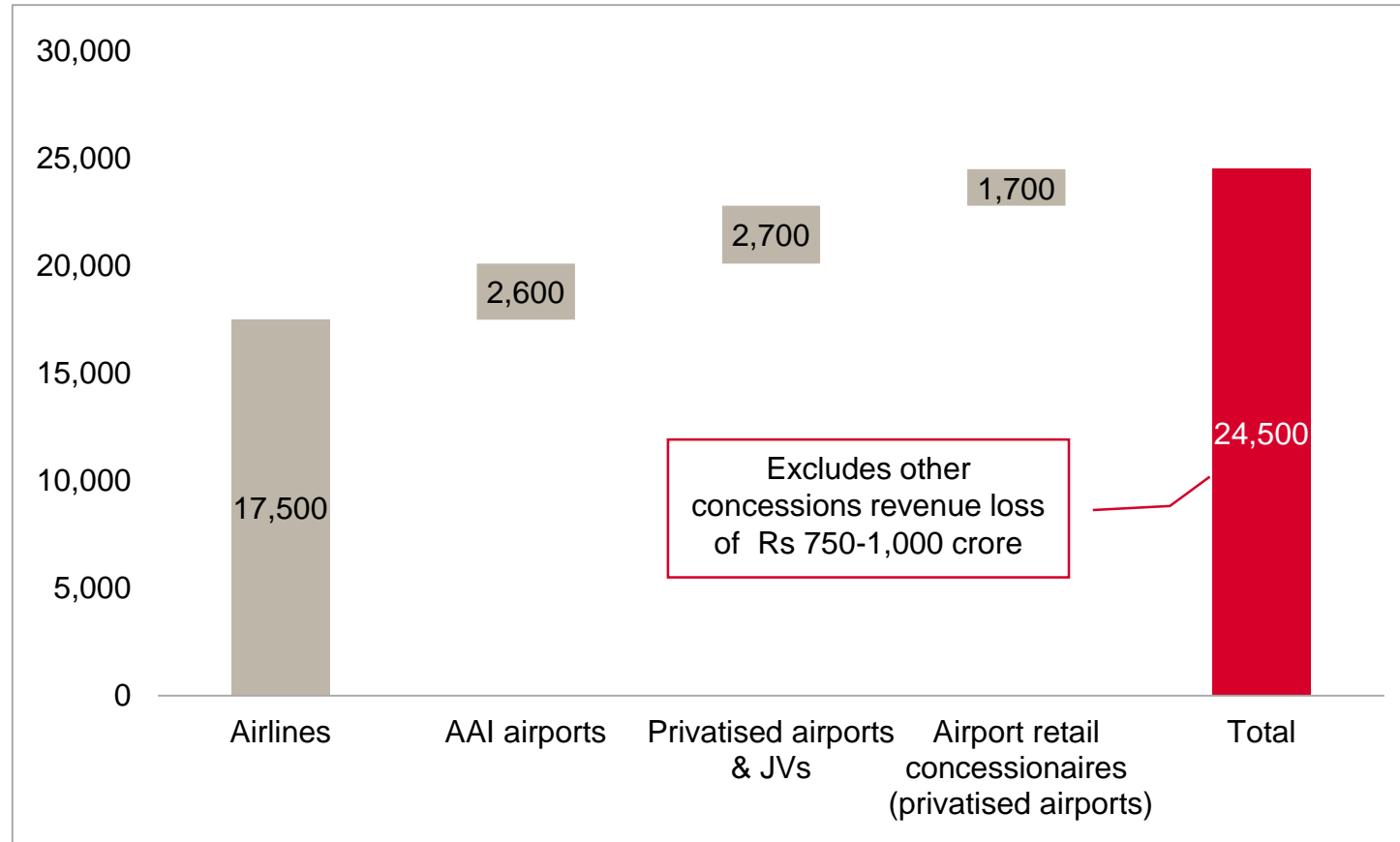
Despite the recent slowdown before the pandemic broke out, the sector was expected to revive in the next 9-12 months with the heavy order book of airlines and government initiatives to boost the economy

* Figures are as of FY19; + Figures are as of FY18

Indian aviation sector losses to reach Rs 24,000–25,000 crore (\$3.2-3.5 billion), will account for 4-5% of losses in APAC region

Potential revenue loss to the Indian aviation industry (Apr–Jun 2020)*

All figures are in Rs crore



- An overall revenue loss of ~Rs 24,500 crore is expected if the air travel restrictions extend through the entire first quarter of fiscal 2021
- **Aggregate losses maybe accentuated further in case the lockdown extends.** Considering the slow pace of operations, it could take 6-8 quarters for normalcy to be restored
- Of all the stakeholders involved, the airlines are expected to bleed the most, accounting for as much as ~70% of the total potential revenue loss
- AAI airports and airport operators are expected to incur revenue losses of ~Rs 2,600 crore and ~Rs 2,700 crore, respectively
- The airport retail business at the privatised airports is expected to lose revenue to the tune of ~Rs 1,700 crore
- It is pertinent to note that the airport operators' aero revenue loss would be notional in nature. The regulatory regime will true up the ARR in future control periods, protecting their revenue to a large extent
- However, there will be no such leeway for the airlines or airport retail concessionaires

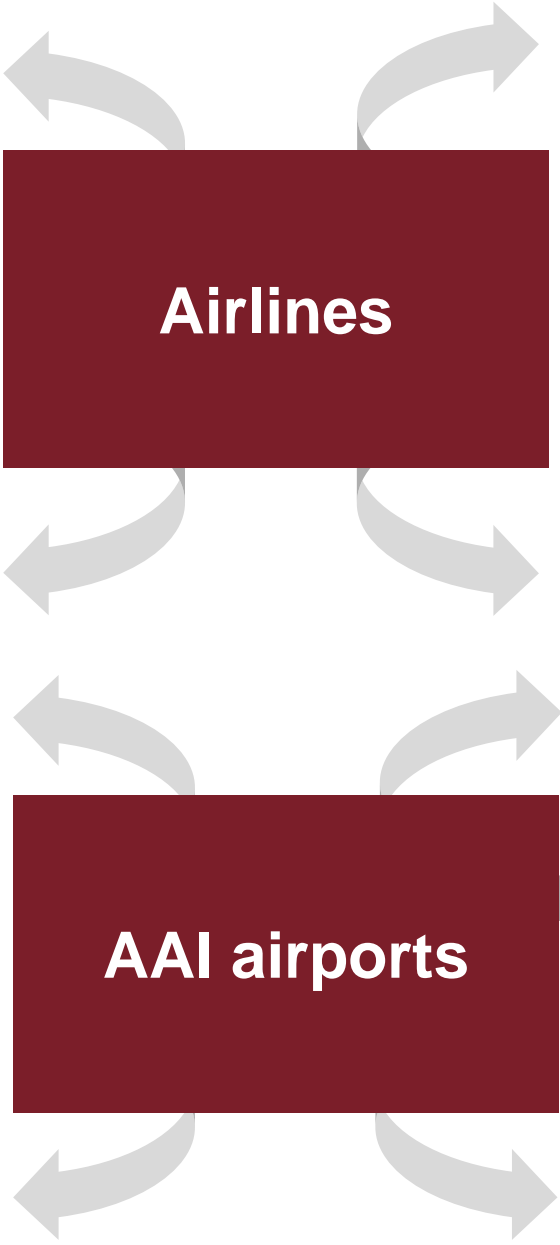
Once the lockdown is lifted in India, operations are expected to be gradually ramped up to 50-60% of capacity by the year-end

- CRIS analysis for Q1FY21; revenues for AAI airports and airport retail concessionaires have been adjusted for revenue share
- Airport retail concessionaires include retail, F&B, duty-free stores

Impact and recommendations (1/2)

Impact

<p>Sub-par capacity operations</p> <ul style="list-style-type: none"> The industry would witness a drop in traffic (40- 50%), fall in willingness to travel, lower revenues, reduction in passenger load factor (PLF) and revenue passenger kilometre (RPK)
<p>Weak balance sheets to worsen</p> <ul style="list-style-type: none"> Respite and gains brought in by advance sales, sale and leaseback strategies, etc, would be eroded on account of revenue loss during this period Downsizing staff, trimming of salaries, scaling down of certain routes, aircraft order deferral and fleet rationalisation will take place
<p>Under-utilisation of resources</p> <ul style="list-style-type: none"> In addition to revenue loss, heavy fixed asset base and large workforce costs would affect the national operator Further revenue loss expected due to weakened position of private airports
<p>Deferral of airport privatisation</p> <ul style="list-style-type: none"> Privatisation of new AAI airports and development of existing airports is expected to be deferred further



<p>Strong government intervention and policy support</p> <ul style="list-style-type: none"> It will be important that the government supports the industry through support packages, tax exemptions and swift policy actions All airlines to be treated at par by the government
<p>Quick closure and implementation of reforms</p> <ul style="list-style-type: none"> Government reforms such as bringing ATF under GST, waiver of airport charges, passing benefit of reduced oil prices, increase in credit period from oil companies, waiver of 80/20 rule for slots for interim period need to be implemented at the earliest
<p>Fast-tracking of privatisation</p> <ul style="list-style-type: none"> Fast-tracking will be important to reprise the success that the previous round of privatisation witnessed Social awareness initiatives need to be undertaken to promote safety around air travel to revive sentiment
<p>UDAN should not to lose its wings</p> <ul style="list-style-type: none"> The government's ambitious UDAN scheme which contributed to 50% growth in fiscal 2020 should be given more impetus through advance viability gap funding, return of bank guarantee

Recommendations & Way Forward

Impact and recommendations (2/2)

Impact

- True-up of aero ARR – Increase in UDF**
 - Non-operation will lead to shortfall in Aggregate Revenue Requirement (ARR) for the current control period
 - ARR true-up in next control period will result in higher user development fee (UDF) – challenging the economics of air travel affordability
- Erosion of non-aero revenue, resulting in higher ARR, UDF**
 - As non-aero revenue will be zero during this period, the cross subsidisation component would also be zero, leading to a higher net ARR and UDF
- Investment deferral on all fronts**
 - Existing airports such as Delhi, Hyderabad, Bengaluru, etc, would have to reassess their expansion plans
- Rentals and guaranteed payments**
 - In addition to the severe revenue loss, the retail concessionaires would be impacted by the committed rentals/minimum guaranteed payments to be made to airport operators



- Decisive strategies**
 - Moratorium on revenue share from airport operators, support for fixed expense
 - Government backing needed for seeking line of credit from banks, soft loans for initial period to address cashflow crunch
- Regulating the free hand**
 - As is observed in some countries such as China, airfares have skyrocketed after Covid-19-induced restrictions were imposed. Government intervention would be required if such a situation arises in India as well especially because of social-distancing norms
- Measures for passenger safety**
 - After Covid-19-related restrictions are lifted, government should actively engage and provide support to airport operators to ensure safety in terms of sanitation, social-distancing measures, new layout of terminal, digital upgrade to minimise touchpoints, etc.
- Support from airport operators**
 - Airport operators could defer the revenue share or minimum guaranteed payments from retail concessionaires

Recommendations & Way Forward

Thank you for your participation

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