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Banks not too keen on funding HAM projects as NPAs swell

BY [RAJESH NAIDU](#), ET BUREAU | SEP 28, 2018, 08.12 AM IST

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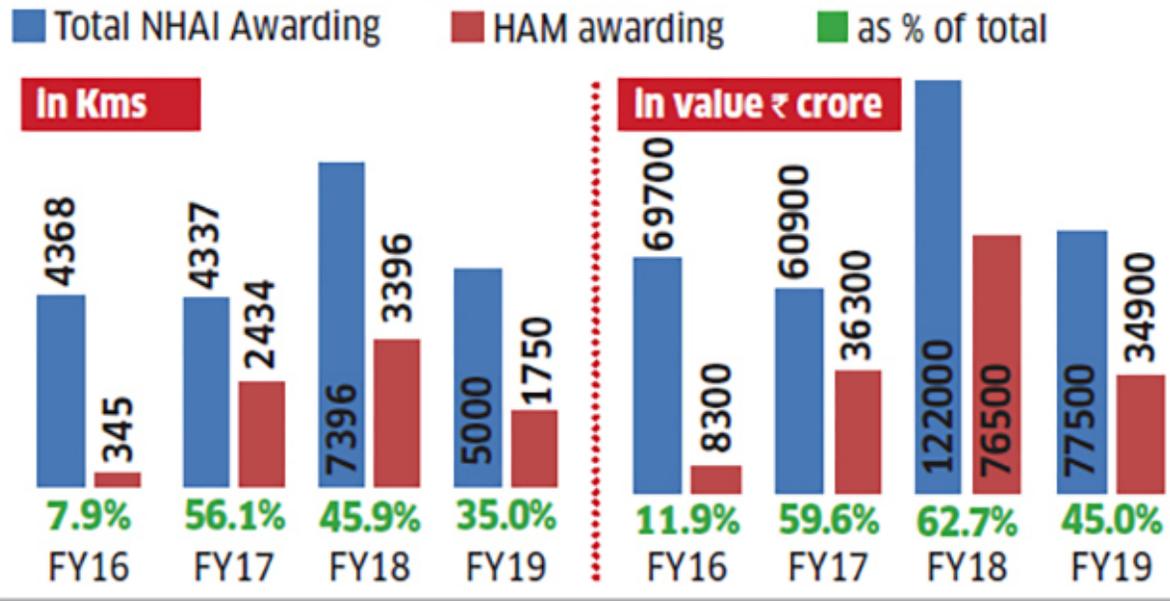
The Hybrid Annuity Model (HAM) of awarding road projects, which was expected to revive the industry, is turning out to be a mixed bag for the roads sector. The key reason delaying the implementation is the extreme reluctance and cautiousness of banks in funding HAM projects. In the past cycle of intense business activity, unbridled aggression led to high bidding even from players that did not have the ability to execute projects. Due to this, banks funding these players paid a heavy price by way of non-performing loans, with borrowers unable to make enough revenues even to service their interest expense.

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Also, high debt, weak traffic and slow pace of execution meant that it would take a long time for these players to repay the debt to banks. Given this experience, in this cycle, banks are only selectively funding road projects.

A large number of projects are unable to secure [financial closure](#). Between FY16 and FY18, National Highway Authority of India awarded 90-100 HAM projects, of which only 40% secured financial closure. It is estimated that many HAM projects exceeded the stipulated 150 days to secure financial closure. So, analysts believe the HAM model has proved to be a mixed bag. The pace of awarding HAM project contracts has not been in lockstep with land acquisition and execution of order books. The order-book-to-bill-ratio of most construction players is hovering in the range of 3.5-4, implying that these players have 3-4 years of visibility on revenues. HAM was introduced to help well-placed construction companies with lower debt and better financials to secure their order books. The idea was to bring in responsible and seasoned players that would be accountable enough to secure and execute projects. In this way, the onus of reviving the sector will not just rest on the government.

Hybrid-Annuity Model (HAM) Projects



Source: NHA, MoRTH, Spark Capital Research

Due to the relatively asset light nature of this model, firsttime promoters or companies with poor balance sheets and financials had bid for, and secured, high-ticket HAM projects. These players are finding it extremely difficult to secure funding even as their relatively well-placed peers are also struggling, given the cautious stand of banks. Added to this is the inability of the players to secure equity commitment for their projects. Given these factors, it makes sense to be with companies that have a higher likelihood of securing bank finances. These are Dilip Buildcon, KNR Constructions, PNC [Infratech](#), and NCC.

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