SectorVector

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Reading the topical trends

Taking the road to strong growth

25% higher budgetary allocation to MoRTH augurs well for the connectivity story

Eye on the road

The Union Budget 2023-24 underscored the central government's focus on infrastructure development in India with a big increase in infrastructure spending.

At Rs 12.6 lakh crore, the aggregate budgetary support for the 11* core infrastructure ministries in fiscal 2024 budget estimate (BE) was up a sharp 17% over fiscal 2023 revised estimate (RE).

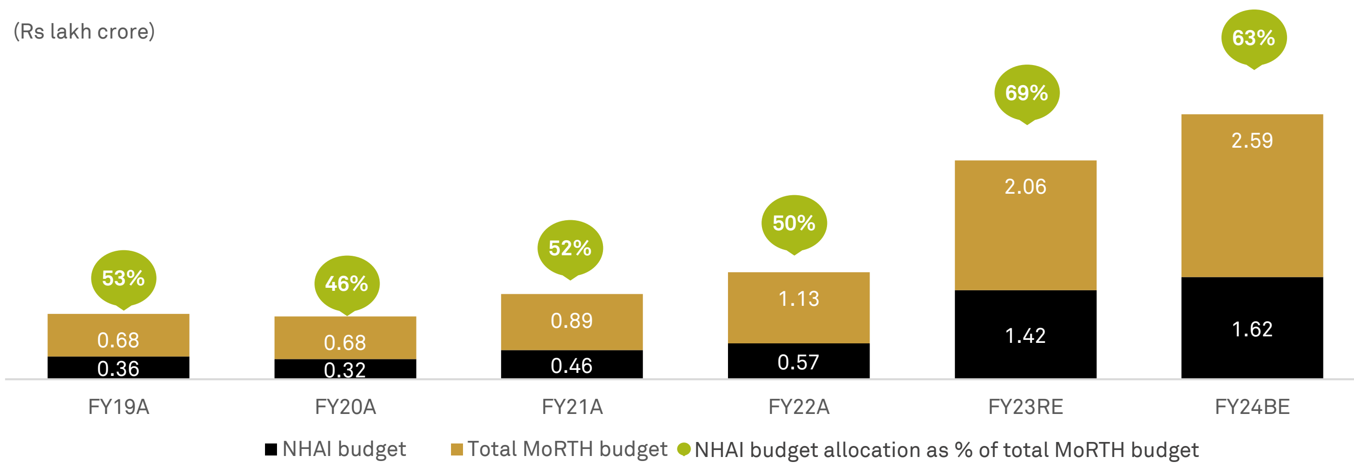
Almost a fifth (20%) of this outlay was allocated to the Ministry of Road Transport and Highways (MoRTH), making it one of the most well-funded infrastructure ministries, only behind railways.

Notably, the fiscal 2024BE allocation of Rs 2.59 lakh crore towards MoRTH marked a staggering growth of 38% over fiscal 2023BE and a steep growth of 25% over fiscal 2023RE.

The budgetary allocation towards the National Highways Authority of India (NHAI) for the next fiscal is also 15% higher than fiscal 2023RE and amounts to Rs 1.62 lakh crore, almost 5.5 times higher than the allocation seen in fiscal 2019BE.

The share of NHAI in MoRTH's budgetary support stands at 63%, higher than the previous five-year average of 54%, underlining its pivotal role in the country's highway infrastructure development in the past few fiscals.

Figure 1: Share of NHAI funding in MoRTH budget remains high



Source: Budget documents, CRISIL MI&A Research

* The 11 core infra ministries include road transport and highways, housing and urban affairs, civil aviation, power, railways, shipping, rural development, water resources, new and renewable energy, defence, petroleum and natural gas.

The increase in capital outlay would primarily be driven by the construction of greenfield six and eight lane expressways, which are three times costlier than four-lane highways.

Between April-January of this fiscal, 6,803 km of MoRTH projects have been constructed. Given the high quantum of awarding in the previous fiscals and the historical trend of execution spiking sharply in the last quarter of the fiscal, CRISIL MI&A Research expects 10,500-11,500 km to be constructed in this fiscal and another 12,000-13,000 km in fiscal 2024.

On the other hand, NHAI is expected to account for 5,000-5,500 km in this fiscal and 5,800-6,200 km in the next.

That said, while high budgetary allocation has paved the way for strong sectoral growth, the following factors might pose a roadblock:

- The asset monetisation target has been slashed by half to Rs 10,000 crore (fiscal 2023RE) from Rs 20,000 crore (fiscal 2023BE) in line with the limited success seen in awarding of toll-operate-transfer (TOT) bundles. As roads account for close to 30% of the national Monetisation Pipeline (NMP) targets, the slower than expected progress of monetisation in the sector indicates delay in target achievement and continued dependency on budgetary support for the roads sector.
- The contribution of cess towards NHAI funding for fiscal 2024BE is around 1% of fiscal 2023RE since the reduction in value added tax on crude oil and diesel adversely impacted receipts in the Central Road and Infrastructure Fund (CRIF). In fact, fiscal 2024BE CRIF receipts are as much as 31% lower than fiscal 2023RE. Along with the elimination of internal and extra budgetary resources (IEBR), this implies that a significant portion of NHAI funding is likely to be met through gross budgetary support.

Considering these factors, going ahead, the pace of asset monetisation and sources of NHAI funding would remain key monitorables.

Analytical contacts

Aniket Dani
Director
Research
CRISIL Market Intelligence and Analytics
aniket.dani@crisil.com

Sehul Bhatt
Associate Director
Research
CRISIL Market Intelligence and Analytics
sehul.bhatt@crisil.com

Aritra Banerjee
Research Analyst
Research
CRISIL Market Intelligence and Analytics
aritra.banerjee@crisil.com

Media contacts

Aveek Datta
Media Relations
Crisil Limited
M: +91 99204 93912
D: +91 22 3342 5916
B: +91 22 3342 3000
Aveek.Datta@crisil.com

Riddhi Savla
Media Relations
Crisil Limited
M: +91 98199 57423
D: +91 22 3342 5916
B: +91 22 3342 3000
Riddhi.Savla1@crisil.com

Sarlin Stanley
Media Relations
Crisil Limited
M: +91 75072 14344
D: +91 22 3342 5916
B: +91 22 3342 3000
Sarlin.Stanley@EXT-CRISIL.COM