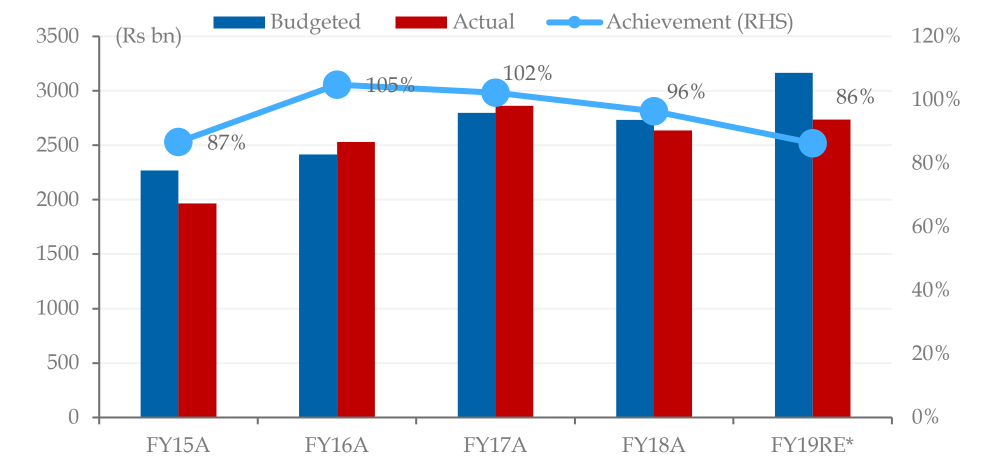
Infrastructure – Yearly Roundup

A mixed bag!

Central Government Capex - On track to achieve FY19 target

Central Government outlay for the first eleven months of fiscal year 2019 has hit ~86% of the total annual target. This is quite commendable considering the impact of policy reforms like GST on finances. The lower than expected GST collections had posed a risk of significant reduction in Central Capex. The central capex discussed above excludes funding through the Internal and External budgetary resources (IEBR) which is a large source of capex funding for the Government. With expected improvement in finances post stabilization of GST revenues, the Central Capex is likely to witness further pickup post FY20. Higher Central Capex is critical as funding for that is relatively more stable as against IEBR which is dependent on external variables.

Exhibit 1: Central Capex on track during April-Feb 19

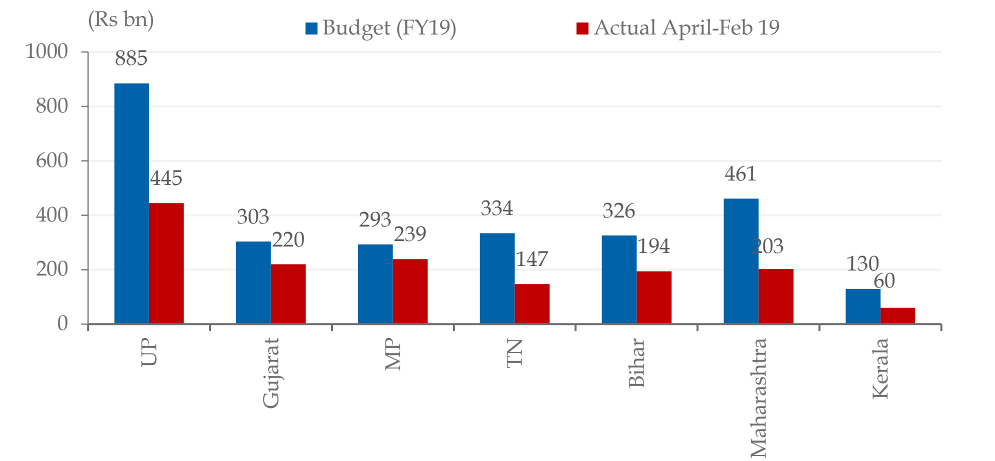


Source: CGA, YES Sec – Research; *FY19; Actual data for FY19 is for April-Feb 19 period; RE – Revised Estimates and A - Actuals

State Capex - Significantly short of the budgets

Several key states would fall significantly short of the full year targeted budget. A series of reforms undertaken by the Government during the last several quarters has restricted the near-term growth in state revenues. While the states were reeling under impact of UDAY obligations and Demonetization, the implementation of GST severely affected state finances. Farm loan waiver by some states also impacted the state ability to spend, given the need to provide for such loss. The weak financial position and obligations have drastically declined the capex of most states. While things are expected to look up in next few quarters, the improvement would only be gradual. This may lead to a slowdown in new state level projects in the near to medium term.

Exhibit 2: State Capex shows a grim picture



Source: CAG, YES Sec – Research; Actual data for FY19 is for April-Feb 19 period

Research Analyst: Alok Deora ✉ alok.deora@yessecuritiesltd.in | Lokesh Kashikar ✉ lokesh.kashikar@yessecuritiesltd.in
Head of Research: Amar Ambani ✉ amar.ambani@yessecuritiesltd.in

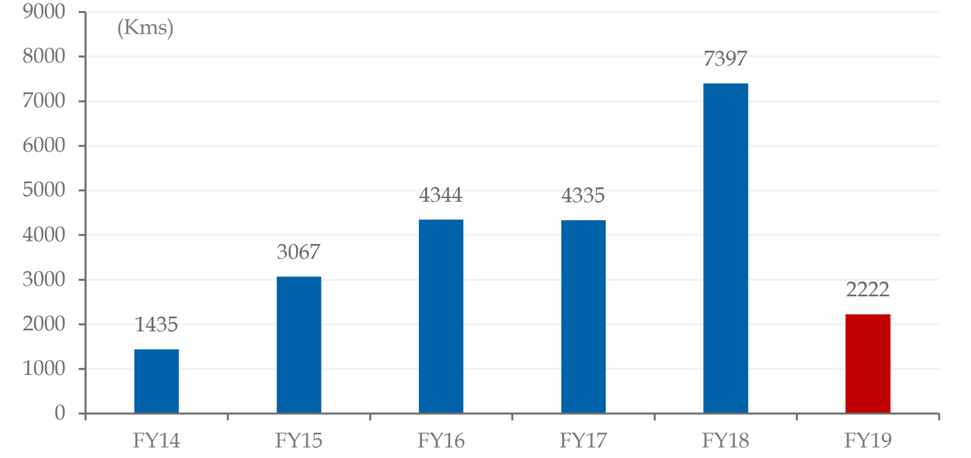
Roads and Highways – NHAI Construction outpace new awards

- ✓ Road constructions continues to head northward having reached 3,380 kms during FY19 (>2x of FY15 run-rate). This has been primarily due to substantial pickup in awarding over last few years largely backed by success of Hybrid annuity business model.
- ✓ After ending FY18 with massive order awarding of ~7,400 kms, some slowdown was expected. However, the projects awarding has literally dried up in FY19 and are now expected to pick up pace post elections. The tender pipeline remains huge at ~Rs.1 trn, large part of which is expected to be awarded in FY20.
- ✓ The weakness in awarding in FY19 is unlikely to impact the industry significantly as most contractors are sitting at all time high order books and can absorb few quarters of weak order inflows.
- ✓ Out of the Bharatmala program of 34,000 kms, ~5,700 kms have been awarded by NHAI. The detailed projects report (DPR) is underway for 25,000 kms of projects.

Industry concerns - Financial closure and Land acquisition

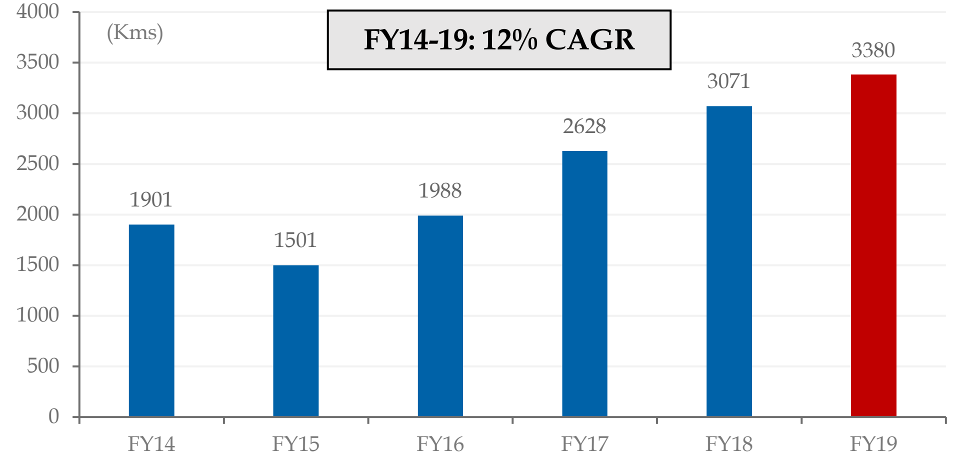
For projects awarded in FY18, we saw delays in receiving financial closure for HAM projects as well as delays in the receipt of appointed dates for projects due to land availability issues. The reluctance of banks to lend especially after liquidity tightening saw delays in the getting the financial closure. While most of the awarded projects have now achieved financial closures, the future projects face the risk of inability to raise such funds. Land acquisition has also been a major issue for projects where we have seen delays in receiving appointed date for projects. This is leading to delay is execution and revenue recognition.

Exhibit 3: NHAI awarding moderated after a mammoth FY18



Source: NHAI, MORTH, Media Articles, YES Sec – Research

Exhibit 4: NHAI Construction continues to remain steady

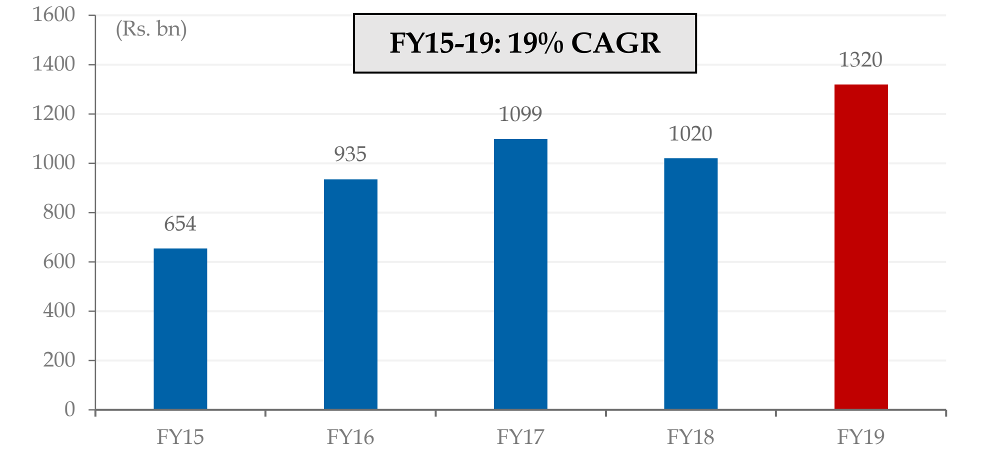


Source: NHAI, MORTH, Media Articles, YES Sec – Research

Railways continue to witness strong capex in FY19; revenue pickup crucial for future capex momentum

Given its focus on enhancement of network strengths and improvement in efficiencies, the Railway is continuously increasing its capital outlay. As per news reports, the actual capex for FY19 has been pegged at Rs.1.32 trn. While this is lower than revised Rs.1.38 trn target, it still implies strong growth. While FY19 has been strong, the future capex would also be dependent on Railways own resources. Apart from the budgetary support, the outlay is largely dependent on non-budgetary resources including internal resources. The higher revenues from Railways, could translate to higher capex.

Exhibit 5: Capital outlay on Railways continues to be robust



Source: Budget documents, Media articles, YES Sec – Research

Infra Companies set to benefit with the expected increase in spends over next couple of years

While FY19, was a mixed bag in terms of new projects, the contractors are still digesting the mammoth awarding of FY18 especially in the Road segment by NHAI. The slow awarding in FY19 has instead allowed them to focus on execution and not build on excessive order book. We expect most of the asset light contractors to be the biggest beneficiaries of the slew of awarding expected during the next couple of years. Even over the long term the opportunities remain humungous for the contractors.

Exhibit 6: Sectoral Opportunity in key sectors

Sector	Targeted Outlay	Timeline
Railways	Rs.8.5 trn	5 years
Roads and Highways*	Rs.7 trn	5 years
Ports (Sagarmala)	Rs.8 trn	20 years
Airport Development	Rs.4.2 trn	15 years

Source: Government documents, Media articles, YES Sec – Research; *Excludes State projects

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ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

UNDER REVIEW

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