

FIRST LIGHT

06 January 2020

RESEARCH

Infrastructure

Ambitious Rs 102tn infra push – funding holds the key

SUMMARY

Infrastructure

The finance ministry's Rs 102tn National Infrastructure Pipeline (NIP) for India over FY20-FY25 comes as a major boost for the sector. Focused towards key segments of energy, roads, urban infrastructure, railways and irrigation, NIP is expected to be funded by the Centre (39%), state (39%) and private sector (22%). While the FM also outlined mega reforms for the sector, it remains to be seen whether NIP can overcome the chronic challenges of funding, land acquisition, regulatory clearances and time/cost overruns.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.88	(4bps)	6bps	(68bps)
India 10Y yield (%)	6.50	0bps	1bps	(92bps)
USD/INR	71.38	(0.2)	0.4	(1.7)
Brent Crude (US\$/bbl)	66.25	0.4	8.7	18.4
Dow	28,869	1.2	3.9	27.3
Shanghai	3,085	1.1	7.3	25.2
Sensex	41,627	0.8	2.0	17.2
India FII (US\$ mn)	1 Jan	MTD	CYTD	FYTD
FII-D	(0.2)	(0.2)	(0.2)	2,943.9
FII-E	50.3	50.3	50.3	7,439.5

Source: Bank of Baroda Economics Research

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INFRASTRUCTURE

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Investments worth ~Rs 102tn identified: Of the total project pipeline under NIP, 42% is under implementation, 19% under development, 31% is at a conceptual stage and 8% is unclassified. The funding share of Centre and state stands at 39% each, with the balance 22% envisaged from the private sector (to be increased to 30% by 2025). Budgetary support comprising 1% of GDP will fund 41% or Rs 17tn of the Centre's share. A separate agency is to be created for project monitoring and the government is expected to expedite work execution.

Key beneficiaries: About 80% of the NIP investment will be focused towards key sectors of energy (~24%), roads (~19%), urban infrastructure (~16%), railways (~13%) and irrigation (~8%). Further, sectors with higher private investments include renewable energy (100%), digital infrastructure (71%), roads (39%) and airports (39%).

Mega reforms on the anvil: To incentivise infrastructure investments, the FM has recommended key reforms: (a) creation of a robust project preparation framework, (b) enhancing execution capability of private players via JVs and collaborations with global developers (PPP model), (c) optimal risk sharing between public and private players, (d) project bidding and awards on fulfillment of key upfront conditions (90% of contiguous land acquisition, all clearances), (e) focus on ease of funding through setup of a credit enhancement fund, strengthening of municipal bond market and revitalising asset monetisation, among others, and (f) adoption of international contract standards.

Our view: The NIP is an important step towards creation of a strong regulatory framework, enabling better order inflows and on-ground execution. But addressing funding issues will be a key challenge, besides overcoming the usual bottlenecks of land acquisition, regulatory clearance, and time/cost overruns. We remain positive on the sector and retain PNCL and HGIEL as top picks.

RECOMMENDATION SNAPSHOT

Ticker	Price*	Target	Rating
ASBL IN	109	190	BUY
DBL IN	413	560	BUY
HGINFRA IN	264	390	BUY
KNRC IN	264	340	BUY
PNCL IN	198	245	BUY
SADE IN	124	160	BUY

Price & Target in Rupees | HGINFRA = HGIEL |

*As on 2-Jan-20



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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