

INFRASTRUCTURE

01 February 2020

FY21 Budget: Reduced funding for infrastructure

Overall fund allocation for key infrastructure sectors has declined 4% YoY in Union Budget FY21 to Rs 5.5tn, with gross budgetary support at Rs 2.7tn (+10% YoY) – the latter includes Rs 1.6tn (+7% YoY) towards roads and railways. A sum of Rs 220bn has also been provided for the recently announced National Infrastructure Pipeline (NIP). Lastly, a 100% tax exemption granted on income from interest, dividend and capital gains in select sectors including infrastructure is aimed at attracting foreign investment.

Jiten Rushi
 research@bobcaps.in

Rs 3.3tn for transportation sector: Allocation to the transportation sector slipped 7% YoY to Rs 3.3tn, with gross budgetary support (GBS) at Rs 1.7tn (+7% YoY). The share of GBS for roads increased 600bps YoY to 59% but remained flat for rail at 44%. Overall allocation to NHAI declined 3.8% YoY to Rs 1.1tn but its share of GBS was up 670bps to 39.5%, decreasing dependence on external resources. Given the focus on rural road connectivity, Rs 195bn (+39% YoY) was allotted under the PMGSY scheme. Within railways, allocation for new lines/track renewal jumped 52%/25% YoY to Rs 120bn/Rs 106bn.

Impetus to urban development: Key urban development schemes saw higher funding: AMRUT (+122% YoY to Rs 73bn), Smart Cities (+87% to Rs 65bn), PMAY (urban & affordable housing: +17% to Rs 80bn) and Metro-MRTS projects (+8% to Rs 209bn). Affordable housing also received a boost with a one-year extension of loan interest incentives up to 31 Mar 2021 for purchase of an affordable house valued up to Rs 4.5mn (additional tax deduction of Rs 0.15mn, taking the total benefit to Rs 0.35mn).

Tax exemption for foreign investments: To drive investment in priority sectors from sovereign wealth funds of foreign governments, the finance ministry has proposed to grant 100% tax exemption on interest, dividend and capital gains income from investment made in infrastructure (and other notified sectors) before 31 Mar 2024 that have a minimum lock-in period of three years. In our view, this will boost funding avenues and fast-track the asset monetisation plans of NHAI through the TOT/InvIT route and support funding of future awards.

Outlook: Budgetary spending on infrastructure has declined, but the recent NIP announcement suggests the government's thrust on the sector remains intact. We prefer asset-light companies and select asset owners with sound financials: BUY PNC Infra, HG Infra, KNR Constructions, Ashoka Buildcon.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
ASBL IN	105	190	BUY
DBL IN	393	560	BUY
HGINFRA IN	259	400	BUY
KNRC IN	290	340	BUY
PNC IN	192	245	BUY
SADE IN	122	160	BUY

Price & Target in Rupees



FIG 1 – TOTAL BUDGETARY ALLOCATION TO KEY INFRASTRUCTURE SECTORS

Sectors (Rs bn)	FY16A			FY17A			FY18A			FY19A			FY20BE			FY20RE			FY21BE			Change (% YoY)		
	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total
Roads	469	280	749	522	331	854	610	505	1,115	773	612	1,385	830	750	1,580	830	750	1,580	918	650	1,568	10.6	(13.3)	(0.8)
Power	85	698	783	105	621	726	140	594	734	156	746	902	159	424	583	159	524	683	159	499	658	-	(4.9)	(3.8)
Renewable Energy	3	54	57	44	123	167	36	105	142	42	105	147	53	124	176	39	125	164	58	137	195	47.8	10.1	19.1
Civil Aviation	42	28	70	35	25	60	27	71	98	96	49	145	45	126	171	37	348	385	38	52	90	3.3	(85.1)	(76.6)
Ports & Shipping	13	17	30	15	19	34	15	43	58	18	41	59	19	56	75	15	39	55	18	37	55	18.2	(5.5)	1.1
Railways	320	655	975	462	748	1,210	452	586	1,038	549	805	1,355	680	941	1,621	700	882	1,582	722	908	1,630	3.2	2.9	3.0
Urban development	184	40	224	369	139	508	401	189	590	406	334	740	480	194	674	423	477	899	500	319	819	18.4	(33.1)	(8.9)
Drinking water and sanitation (Jal Shakti)	111	-	111	165	-	165	239	-	239	184	87	271	200	-	200	184	70	254	215	120	335	17.2	71.4	32.2
Water Resources, River Development and Ganga Rejuvenation (Jal Shakti)	11	-	11	47	22	69	53	31	84	74	70	144	82	83	166	75	50	125	90	51	140	19.2	2.4	12.5
Total of key infrastructure sectors	1,238	1,772	3,010	1,764	2,028	3,793	1,973	2,125	4,098	2,299	2,848	5,147	2,549	2,697	5,246	2,461	3,265	5,726	2,718	2,773	5,491	10.4	(15.1)	(4.1)
Transportation sector (roads/railways/ports/civil aviation)	844	980	1,824	1,034	1,123	2,158	1,104	1,205	2,309	1,436	1,507	2,943	1,574	1,872	3,447	1,582	2,020	3,602	1,696	1,647	3,343	7.2	(18.5)	(7.2)
% share																								
Roads	62.6	37.4	100.0	61.2	38.8	100.0	54.7	45.3	100.0	55.8	44.2	100.0	52.5	47.5	100.0	52.5	47.5	100.0	58.6	41.4	100.0	-	-	-
Power	10.9	89.1	100.0	14.5	85.5	100.0	19.0	81.0	100.0	17.3	82.7	100.0	27.2	72.8	100.0	23.2	76.8	100.0	24.1	75.9	100.0	-	-	-
Renewable Energy	5.3	94.7	100.0	26.3	73.7	100.0	25.7	74.3	100.0	28.8	71.2	100.0	29.8	70.2	100.0	23.8	76.2	100.0	29.5	70.5	100.0	-	-	-
Civil Aviation	60.0	40.0	100.0	58.3	41.7	100.0	27.2	72.8	100.0	66.3	33.7	100.0	26.4	73.6	100.0	9.5	90.5	100.0	42.3	57.7	100.0	-	-	-
Ports & Shipping	43.3	56.7	100.0	44.1	55.9	100.0	25.9	74.1	100.0	30.9	69.1	100.0	25.4	74.6	100.0	27.9	72.1	100.0	32.6	67.4	100.0	-	-	-
Railways	32.8	67.2	100.0	38.2	61.8	100.0	43.6	56.4	100.0	40.5	59.5	100.0	42.0	58.0	100.0	44.2	55.8	100.0	44.3	55.7	100.0	-	-	-
Urban development	82.1	17.9	100.0	72.6	27.4	100.0	67.9	32.1	100.0	54.9	45.1	100.0	71.2	28.8	100.0	47.0	53.0	100.0	61.1	38.9	100.0	-	-	-
Drinking water and sanitation	100.0	-	100.0	100.0	-	100.0	100.0	-	100.0	67.9	32.1	100.0	100.0	-	100.0	72.4	27.6	100.0	64.2	35.8	100.0	-	-	-
Water Resources, River Development and Ganga Rejuvenation	100.0	-	100.0	68.1	31.9	100.0	63.1	36.9	100.0	51.6	48.4	100.0	49.8	50.2	100.0	60.3	39.7	100.0	63.8	36.2	100.0	-	-	-
Total of key infrastructure sectors	41.1	58.9	100.0	46.5	53.5	100.0	48.1	51.9	100.0	44.7	55.3	100.0	48.6	51.4	100.0	43.0	57.0	100.0	49.5	50.5	100.0	-	-	-
Transportation sector (roads/railways/ports/civil aviation)	46.3	53.7	100.0	47.9	52.1	100.0	47.8	52.2	100.0	48.8	51.2	100.0	45.7	54.3	100.0	43.9	56.1	100.0	50.7	49.3	100.0	-	-	-

Source: Budget Documents, BOBCAPS Research | Note – BE: Budget Estimates, RE: Revised Estimates, GBS: Gross Budgetary Support, IEBR: Internal and Extra Budgetary Resources

FIG 2 – BUDGETARY ALLOCATION UNDER VARIOUS GOVERNMENT SCHEMES/PROJECTS/FUNDS

Schemes/ Fund / Projects (Rs bn)	FY17A			FY18BE			FY19BE			FY20BE			FY20RE			FY21BE			Change (% YoY)		
	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total
Jal Jeevan Mission (JJM)	60	-	60	61	-	61	70	-	70	100	-	100	100	-	100	115	-	115	15.0	NA	15.0
Swachh Bharat Mission - Rural	105	-	105	139	-	139	153	-	153	100	-	100	83	-	83	100	-	100	19.9	NA	19.9
Swachh Bharat Mission - Urban	21	-	21	23	-	23	25	-	25	27	-	27	13	-	13	23	-	23	76.9	NA	76.9
AMRUT (Atal Mission for Rejuvenation and Urban Transformation)	49	-	49	50	-	50	60	-	60	73	-	73	33	-	33	73	-	73	121.5	NA	121.5
Smart Cities Mission	44	-	44	40	-	40	62	-	62	65	-	65	35	-	35	65	-	65	87.0	NA	87.0
Metro and MRTS Projects	153	20	173	180	6	186	150	19	169	192	8	199	189	5	194	200	9	209	5.9	80.0	7.8
Pradhan Mantri Gram Sadak Yojna (PMGSY)	179	-	179	190	-	190	190	-	190	190	-	190	141	-	141	195	-	195	38.6	NA	38.6
Pradhan Mantri Awas Yojna (PMAY) - Urban	49	-	49	60	-	60	65	-	65	69	-	69	69	-	69	80	-	80	16.7	NA	16.7
Pradhan Mantri Awas Yojna (PMAY) - Gramin	161	-	161	230	-	230	210	-	210	190	-	190	185	-	185	195	-	195	5.5	NA	5.5
National Investment and Infrastructure Fund (NIIF)	-	-	-	-	-	-	20	-	20	10	-	10	20	-	20	5	-	5	(74.9)	NA	(74.9)
Support to National Infrastructure Pipeline (NIP)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	220	-	220	NA	NA	NA

Source: Budget Documents, BOBCAPS Research

FIG 3 – NHAI GROSS BUDGETARY SUPPORT UP 15.8% YOY TO RS 425BN FOR FY21BE

NHAI funding break-up (Rs bn)	FY16A			FY17A			FY18A			FY19A			FY20BE			FY20RE			FY21BE			Change (% YoY)		
	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total	GBS	IEBR	Total
Investment met from Central Road and Infrastructure fund (CRIF)	165	-	165	74	-	74	154	-	154	166	-	166	161	-	161	161	-	161	208	-	208	29.0	NA	29.0
Investment from Permanent Bridge and Fee Fund (PBFF)	65	-	65	75	-	75	85	-	85	96	-	96	106	-	106	106	-	106	115	-	115	8.5	NA	8.5
Investment met from monetization of National Highways Fund (TOT route)	-	-	-	-	-	-	-	-	-	97	-	97	100	-	100	100	-	100	103	-	103	2.5	NA	2.5
Internal and Extra Budgetary Resources (IEBR)	-	280	280	-	331	331	-	505	505	-	612	612	-	750	750	-	750	750	-	650	650	NA	(13.3)	(13.3)
Total	230	280	510	149	331	480	239	505	744	358	612	970	367	750	1,117	367	750	1,117	425	650	1,075	15.8	(13.3)	(3.8)

Source: Budget Documents, BOBCAPS Research

Other key budget highlights

- The government plans to **monetise at least 12 highway bundles** of over 6,000km before 2024. To accelerate construction activity, the roads ministry will focus on development of 2,500km of access control highways, 9,000km of economic corridors, 2,000km of coastal and land port roads, and 2,000km of strategic highways. Further, the Delhi-Mumbai Expressway and two other packages are scheduled to be completed by 2023, while the Chennai-Bengaluru Expressway will also be started.
- In order to boost the ~Rs 103tn **NIP** over the next five years, the central government has provided Rs 220bn in the form of equity infusion in NIIF and IIFCL. This support will enable the financial institutions to leverage and provide financial support of over Rs 1tn to various upcoming projects (in total 6,500 projects have been identified under NIP).
- A 148km **Bengaluru suburban transport project** carrying a cost of Rs 186bn will be implemented, with a 20% share of funding from the central government.
- A total of 100 **airports** are to be developed by 2024 to support the UDAAN scheme.
- An **Investment Clearance Cell** will be set up for infrastructure projects to provide “end-to-end” facilitation and support, including pre-investment advisory, information related to land banks and to facilitate clearances at the Centre and State level.

Disclaimer

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)

Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.