

## INFRASTRUCTURE

27 September 2019

### NHAI call takeaways – Order awards to gather pace from Q3

We spoke with V K Sharma – CGM (Land Acquisition) and Siba Narayan Nayak, CGM (Finance) of NHAI, for an update on land acquisition and order award targets for FY20. Key takeaways are outlined below.

**Land acquisition target set at 15,000ha:** Over Apr-Jul'19, NHAI has acquired 1,300ha of land for Rs 33bn and aims to buy a total of 15,000ha in FY20 at a cost of ~Rs 400bn (Rs 26.7mn/ha). In comparison, it acquired 13,982ha in FY19 for Rs 345bn (Rs 24.7mn/ha). Acquisition cost has come down steadily from a high of Rs 30.8mn/ha in FY18 with the announcement of greenfield projects.

**Order award target cut to 4,500-5,000km:** With only 600km awarded so far, NHAI's highway order target for FY20 has been cut from 6,000km to 4,500-5,000km. High land cost and funding constraints are key reasons for order delays. The EPC/BOT/HAM award mix is likely to be 30%/10%/60%.

**D/E ratio to remain under control at ~1x:** As per the NHAI officials, gross budgetary support of Rs 367bn (-1.7% YoY) earmarked for the road's authority in the FY20 Budget was below expectations. NHAI is in talks with the finance ministry for higher fund allocation from the Central Road and Infrastructure Fund (CRIF), where its current share is Rs 161bn (-10.9% YoY).

NHAI also aims to award two bundles (each with 8-9 operational projects) on toll-operate-transfer basis in FY20 and plans to raise >Rs 100bn for these. Gross outstanding debt now stands at ~Rs 2tn (~Rs 1.8tn as on Mar'19) and is likely to reach ~Rs 2.5tn by Mar'20 (D/E at ~1x vs. 0.8x in Mar'19), well under control.

**Our view:** NHAI's FY20 order target under the Bharatmala Programme (BMP) implies ~4,000km of contract awards in H2– this concentration of project tenders in the second half is likely to keep competitive intensity high, resulting in aggressive bidding. In our view, cost overruns and funding constraints plaguing the BMP are likely to persist unless funding through asset monetisation and private sector investment is introduced.

We, however, maintain our long-term positive stance on the sector based on the government's sustained focus on infrastructure spending and NHAI's shift towards the award of viable projects versus chasing aggressive expansion targets. Our top picks remain PNC Infra, KNR Constructions, HG Infra and Ashoka Buildcon.

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DBL IN	448	610	BUY
HGINFRA IN	200	395	BUY
KNRC IN	232	360	BUY
PNCL IN	188	250	BUY
SADE IN	137	175	BUY

Price &amp; Target in Rupees



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**BUY** – Expected return >+15%

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**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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