

INFRASTRUCTURE

03 January 2020

Ambitious Rs 102tn infra push – funding holds the key

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.

Jiten Rushi

research@bobcaps.in

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

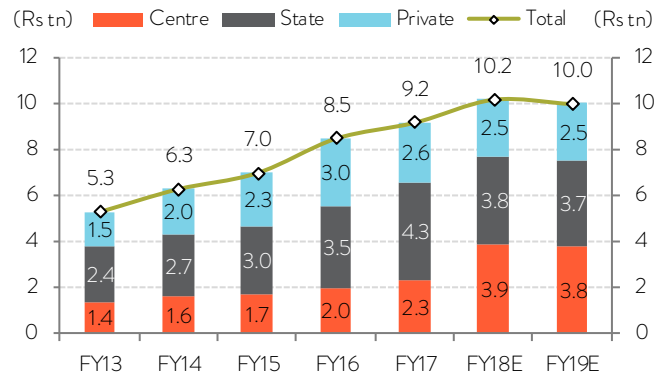
Price & Target in Rupees | HGINFRA = HGIEL |

*As on 2-Jan-20



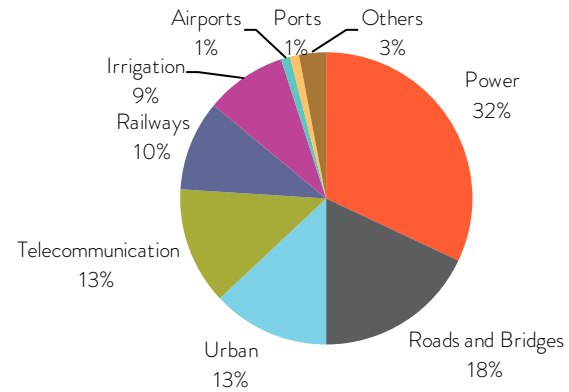
NIP – Fast facts

FIG 1 – INDIA’S INFRASTRUCTURE INVESTMENT FROM FY13



Source: Ministry of Finance, BOBCAPS Research

FIG 2 – SECTOR-WISE INFRASTRUCTURE INVESTMENTS OF RS 80TN MADE DURING FY08-FY19



Source: Ministry of finance, BOBCAPS Research

Overview of NIP

- Peak investments in FY21; could spill over to FY23-FY25
- Conceptual stage projects include expressways, freight corridors, river inter-linking and renewable energy

FIG 3 – TASKFORCE CHARGED WITH FRAMING NIP

Secretary, Department of Economic Affairs (DEA), Ministry of Finance (MoF)	Chair
CEO, NITI Aayog or his nominee	Member
Secretary, Department of Expenditure, Ministry of Finance or his nominee	Member
Secretary of the Administrative Ministry	Member
Additional Secretary (investment), DEA, MoF	Member
Joint Secretary (Infrastructure Policy & Finance), DEA, MoF	Member- Secretary

Source: Ministry of finance, BOBCAPS Research

FIG 4 – NIP’S RS 102TN INVESTMENT OUTLAY

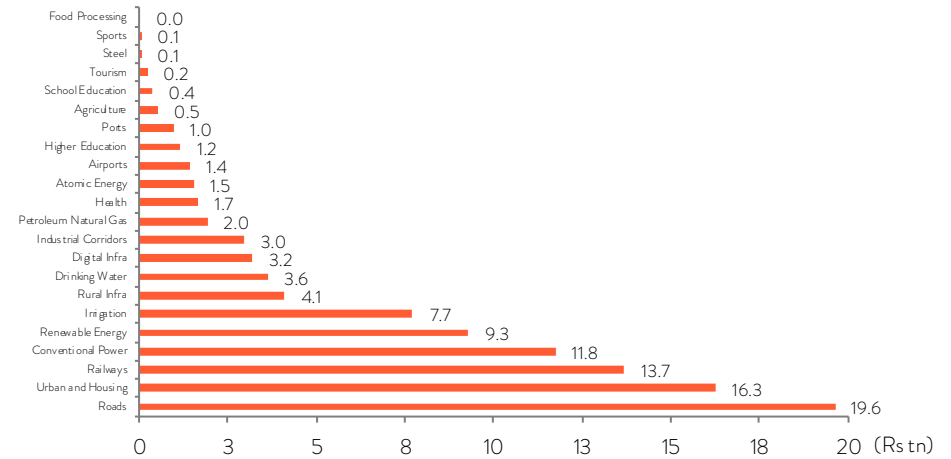
Ministry/ Department (Rs bn)	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-25	% share to the sectors	% share to total investment
Energy										
Power	1,041	1,197	1,014	817	738	692	6,262	11,760	48	11.5
Renewable energy	305	1,510	1,440	1,700	2,170	2,170	-	9,295	38	9.1
Atomic energy	112	210	279	331	327	283	-	1,541	6	1.5
Petroleum and natural gas	275	437	484	415	229	106	1	1,947	8	1.9
Total energy	1,732	3,354	3,217	3,264	3,464	3,250	6,263	24,542	100	23.9
Roads										
Roads	3,244	3,697	3,438	2,369	2,294	3,249	1,348	19,639	100	19.2
Total roads	3,244	3,697	3,438	2,369	2,294	3,249	1,348	19,639	100	19.2

Ministry/ Department (Rs bn)	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-25	% share to the sectors	% share to total investment
Railways										
Railways	1,332	2,625	3,094	2,742	2,214	1,679	-	13,685	100	13.4
Total railways	1,332	2,625	3,094	2,742	2,214	1,679	-	13,685	100	13.4
Ports										
Ports	121	161	188	153	71	93	223	1,009	100	1.0
Total ports	121	161	188	153	71	93	223	1,009	100	1.0
Airports										
Airport	188	217	248	213	253	50	264	1,434	100	1.4
Total airports	188	217	248	213	253	50	264	1,434	100	1.4
Urban										
AMRUT, SMART Cities, MRTS, affordable housing, Jal Jeevan Mission	2,948	4,135	3,269	1,615	1,462	1,090	1,772	16,290	100	15.9
Total urban	2,948	4,135	3,269	1,615	1,462	1,090	1,772	16,290	100	15.9
Irrigation										
Irrigation	1,017	1,694	1,577	1,076	925	642	795	7,727	100	7.5
Total irrigation	1,017	1,694	1,577	1,076	925	642	795	7,727	100	7.5
Rural infrastructure										
Water and sanitation	362	607	1,007	842	800	-	-	3,618	47	3.5
Rural infrastructure	1,036	1,163	1,099	271	271	271	-	4,110	53	4.0
Total rural infrastructure	1,398	1,770	2,107	1,112	1,071	271	-	7,728	100	7.5
Digital infrastructure										
Digital infrastructure	839	638	554	396	390	389	-	3,205	100	3.1
Total digital infrastructure	839	638	554	396	390	389	-	3,205	100	3.1
Agriculture and food processing infrastructure										
Agriculture infrastructure	85	76	72	59	56	54	141	543	90	0.5
Food processing industries	5	5	2	1	-	-	-	13	2	0.0
Food and public distribution	-	-	-	-	-	-	50	50	8	0.0
Total agriculture and food processing infrastructure	89	82	74	59	56	54	191	606	100	0.6
Social infrastructure										
Higher education	132	185	227	190	172	53	226	1,183	33	1.2
School education	51	71	71	64	66	56	-	378	11	0.4
Health and family welfare	345	437	431	179	94	64	137	1,686	47	1.6
Sports	12	12	12	10	9	8	13	76	2	0.1
Tourism	16	20	27	21	14	9	1	243	7	0.2
Total social infrastructure	555	724	768	464	354	189	377	3,567	100	3.5
Industrial infrastructure										
Industries and internal trade	156	383	406	326	225	104	1,393	2,992	97	2.9
Steel	17	24	23	16	3	-	-	82	3	0.1
Total industrial infrastructure	172	407	429	342	228	104	1,393	3,075	100	3.0
Grand total	13,635	19,504	18,961	13,803	12,782	11,059	12,217	1,02,507	-	100.0

Source: Ministry of Finance, BOBCAPS Research

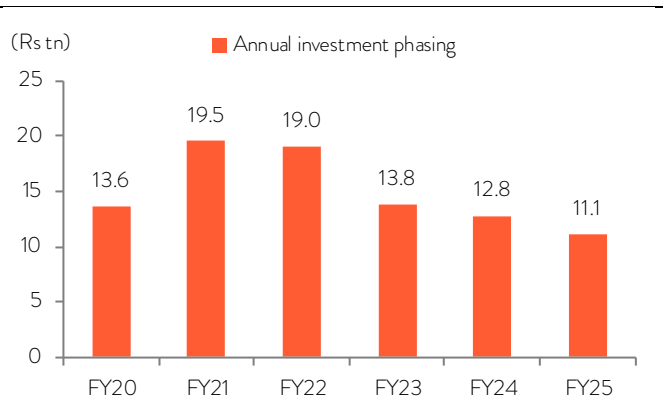
Roads, urban infra/housing, railways, power and irrigation to comprise ~80% of NIP

FIG 5 – NIP SECTOR-WISE BREAKUP



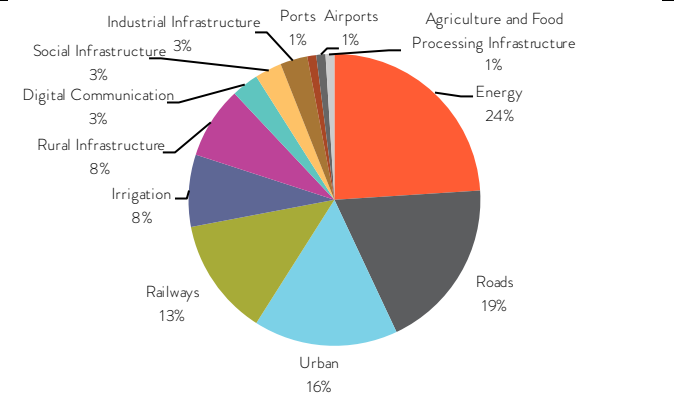
Source: Ministry of Finance, BOBCAPS Research

FIG 6 – ANNUAL INVESTMENT TREND



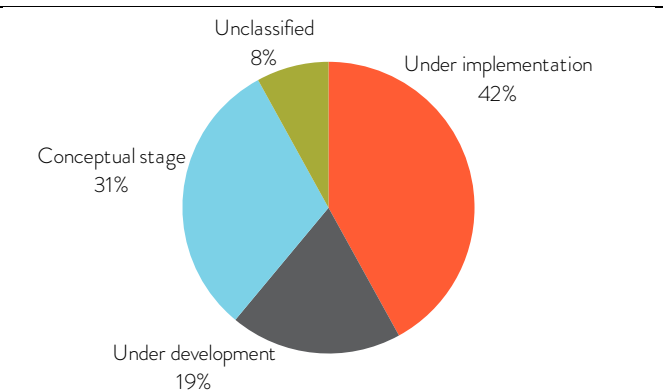
Source: Ministry of Finance, BOBCAPS Research | Note: Excludes the power sector and some states where phasing not provided

FIG 7 – PROJECT CAPITAL EXPENDITURE WORTH RS 102TN DURING FY20-FY25, SECTOR-WISE BREAKUP



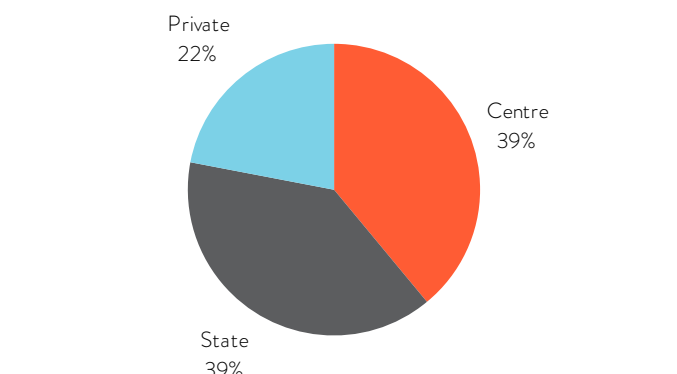
Source: Ministry of Finance, BOBCAPS Research

FIG 8 – STATUS OF NIP PROJECTS



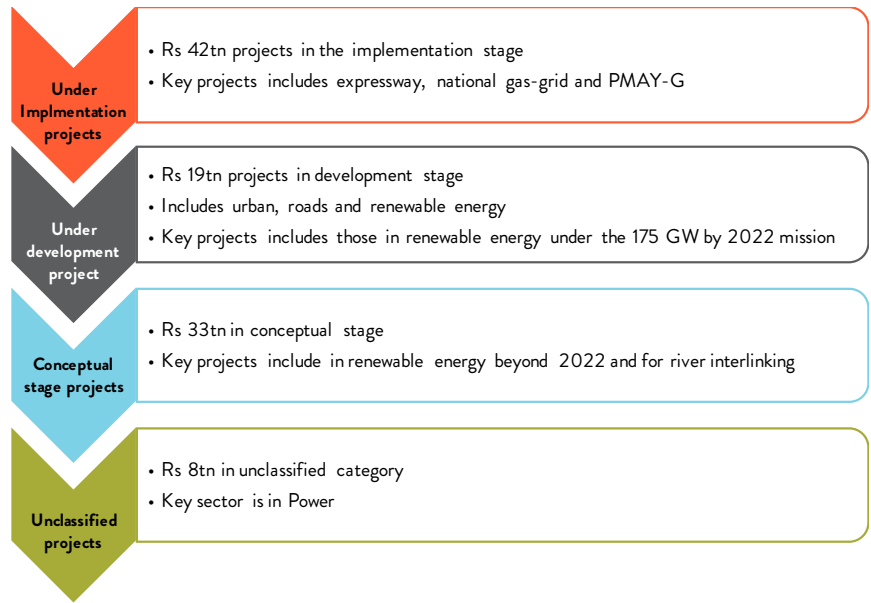
Source: Ministry of Finance, BOBCAPS Research | Note: Power sector data has no classification provided

FIG 9 – FUNDING SHARE OF CENTRE, STATES AND PRIVATE SECTOR IN NIP



Source: Company, BOBCAPS Research | Note: Excludes the power sector and some states where phasing not provided

FIG 10 – INSIGHTS INTO CURRENT PROJECT STATUS



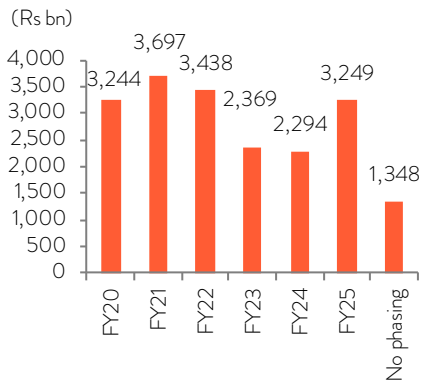
Source: Ministry of Finance, BOBCAPS Research

Key sectors under NIP

Roads

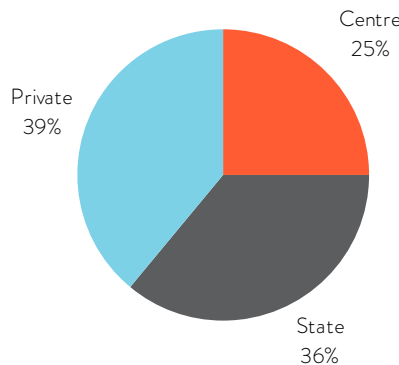
- ~39% of NIP to be implemented by private sector
- 34% of projects in implementation stage
- Major projects: Delhi-Mumbai Expressway, Chennai-Bengaluru Expressway

FIG 11 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 19.6TN)



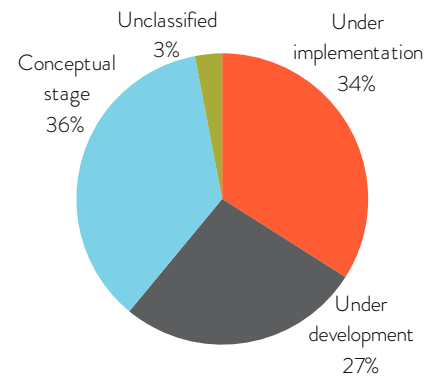
Source: Ministry of Finance, BOBCAPS Research

FIG 12 – INVESTMENT SHARE OF IMPLEMENTING AGENCY



Source: Ministry of Finance, BOBCAPS Research

FIG 13 – PROJECT STATUS

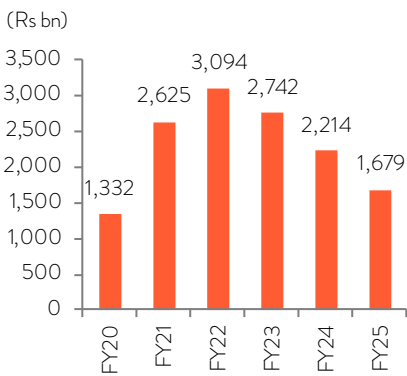


Source: Ministry of Finance, BOBCAPS Research

Railways

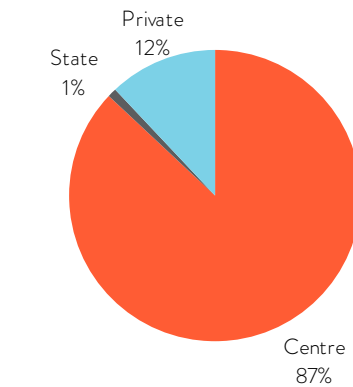
- ~87% of NIP to be implemented by Centre
- 60% of projects in implementation stage
- Lower execution rate after FY23 through to FY25
- Major projects: dedicated freight corridors, high-speed rail

FIG 14 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 13.7TN)



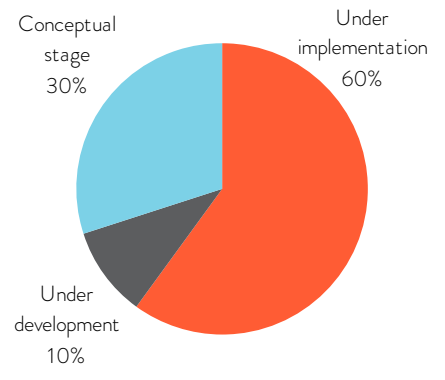
Source: Ministry of Finance, BOBCAPS Research

FIG 15 – INVESTMENT SHARE OF IMPLEMENTING AGENCY



Source: Ministry of Finance, BOBCAPS Research

FIG 16 – PROJECT STATUS

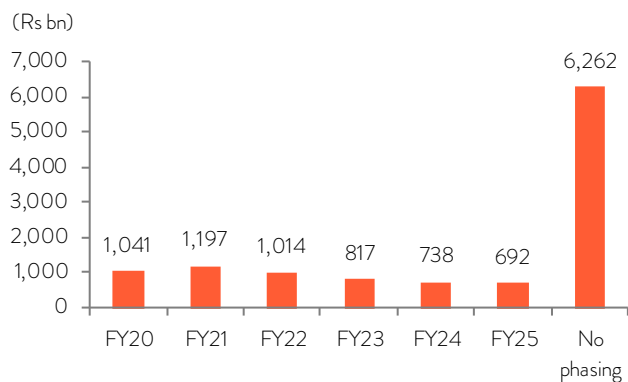


Source: Ministry of Finance, BOBCAPS Research

Conventional power

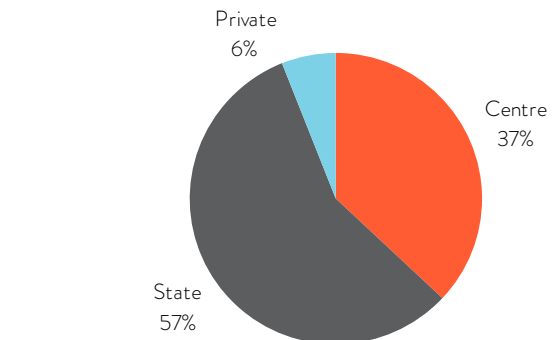
- ~57% of NIP to be implemented by states
- Major projects: Dibang Hydel Power Project, HVDC Bipole Link Project (transmission)

FIG 17 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 11.8TN)



Source: Ministry of Finance, BOBCAPS Research

FIG 18 – INVESTMENT SHARE OF IMPLEMENTING AGENCY

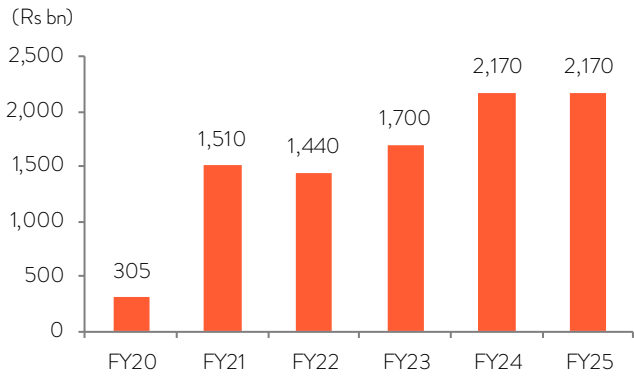


Source: Ministry of Finance, BOBCAPS Research

Renewable energy

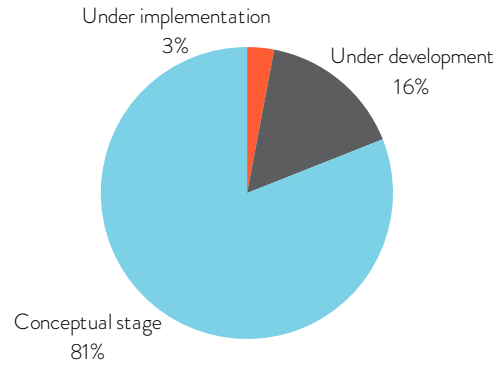
- ~100% of NIP to be implemented by private sector
- Well-stocked pipeline through to FY25 due to 450GW target visibility

FIG 19 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 9.3TN)



Source: Ministry of Finance, BOBCAPS Research

FIG 20 – PROJECT STATUS

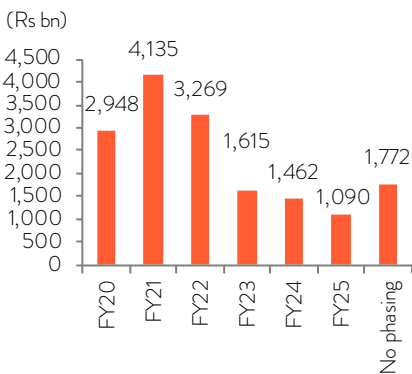


Source: Ministry of Finance, BOBCAPS Research

Urban infrastructure

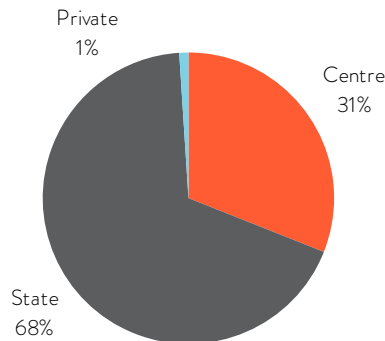
- ~68% of NIP to be implemented by states
- ~46% of projects in implementation stage
- Lower execution rate after FY23 through FY25
- Major projects: Surat Metro Rail, Kanpur Metro, Affordable Housing and Jal Jeevan Mission (Urban)

FIG 21 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 16.3TN)



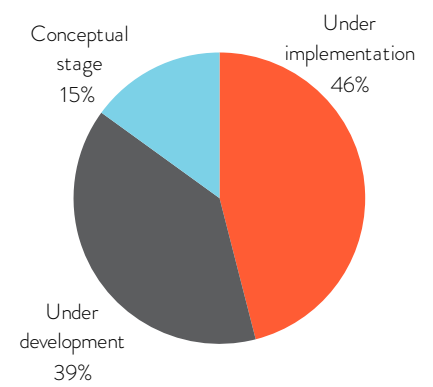
Source: Ministry of finance, BOBCAPS Research

FIG 22 – INVESTMENT SHARE OF IMPLEMENTING AGENCY



Source: Ministry of finance, BOBCAPS Research

FIG 23 – PROJECT STATUS

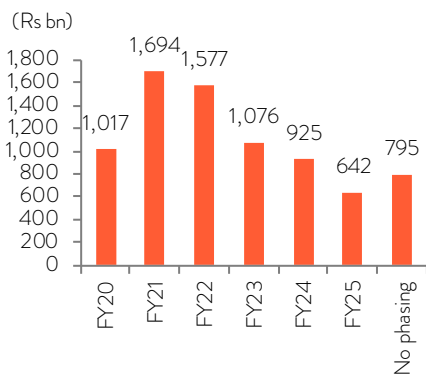


Source: Ministry of finance, BOBCAPS Research

Irrigation

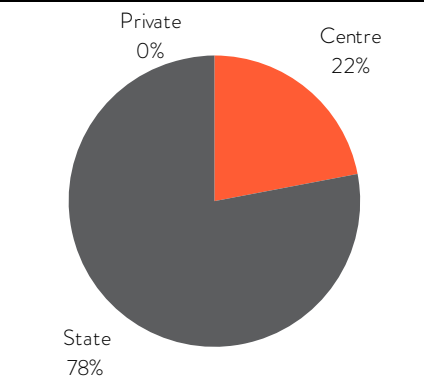
- ~78% of NIP to be implemented by states
- ~55% of projects in conceptualisation stage
- Lower execution rate after FY22 through FY25
- Major projects: Ken-Betwa, Godavari-Cauvery river linking, Clean Ganga, and reservoir projects

FIG 24 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 7.7TN)



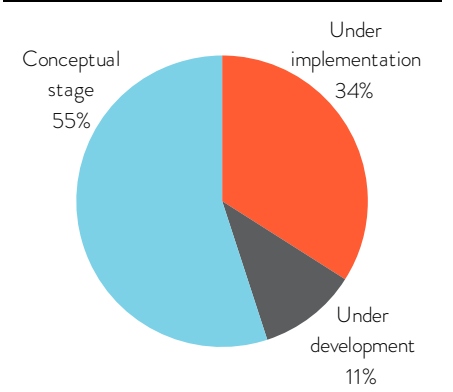
Source: Ministry of Finance, BOBCAPS Research

FIG 25 – INVESTMENT SHARE OF IMPLEMENTING AGENCY



Source: Ministry of Finance, BOBCAPS Research

FIG 26 – PROJECT STATUS

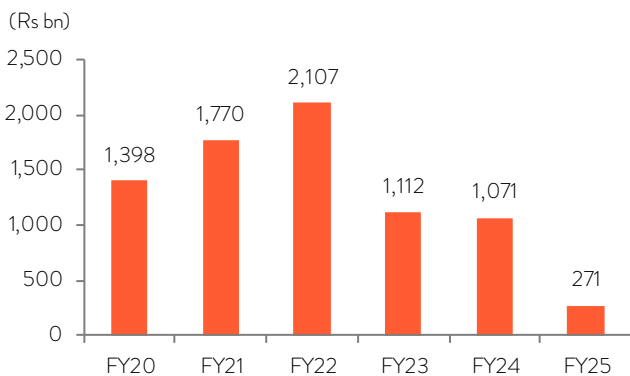


Source: Ministry of Finance, BOBCAPS Research

Rural infrastructure

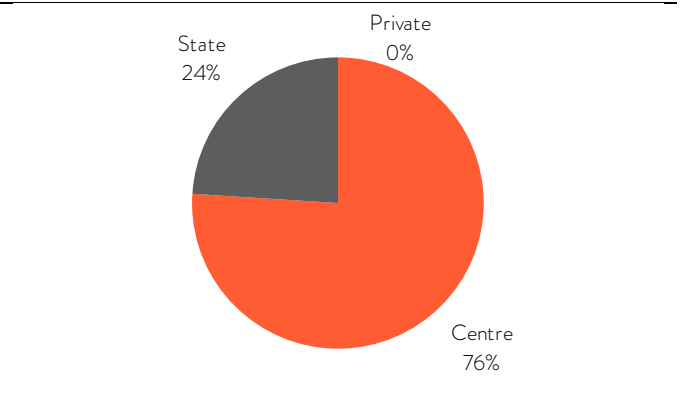
- ~76% of NIP to be implemented by Centre
- All projects in implementation stage
- Lower execution rate after FY23 through FY25
- Major projects: Jal Jeevan Abhiyan (Rural), PMGSY, PMAY G

FIG 27 – ANNUAL PHASING OF INVESTMENTS (TOTAL RS 7.7TN)



Source: Ministry of Finance, BOBCAPS Research

FIG 28 – INVESTMENT SHARE OF IMPLEMENTING AGENCY



Source: Ministry of Finance, BOBCAPS Research

Financing the NIP

- Centre’s share at Rs 42tn – of this, Rs 17tn (41%) to be funded through budgetary support, comprising ~1% of GDP

Our view: Successful generation of financial resources by the Centre over and above the gross budgetary support will hold the key to NIP’s success. Further, details on state financial support for 39% of the total outlay remain unclear.

FIG 29 – CENTRE’S NIP FINANCING

(Rs tn)	FY19RE	FY20BE	FY21P	FY22P	FY23P	FY24P	FY25P	Total
Total capital outlay by Centre (infra) A	3.5	3.8	4.6	5.6	6.8	8.2	10.0	42.4
Budgetary support (infra) B	1.4	1.5	1.9	2.3	2.7	3.3	4.0	17.1
C = B/A	39%	41%	41%	41%	41%	41%	41%	40%
Budgetary support/GDP (D = B/E)	0.73%	0.74%	0.82%	0.89%	0.96%	1.03%	1.11%	0.93%
Incremental budgetary support/GDP vs FY20	-	-	0.07%	0.14%	0.21%	0.29%	0.36%	
GDP (E)	190.1	205.4	227.0	254.3	286.4	323.3	365.5	1,851.9

Source: Ministry of Finance, BOBCAPS Research | Note: BE – Budgeted Estimates, RE – Revised Estimates

FIG 30 – KEY FINANCIALS (STANDALONE)

Company YE March	Revenue (Rs bn)				EBITDA (Rs bn)				PBT (Rs bn)				EBITDA margins (%)				Adjusted EPS (Rs)				ROE (%)				ROCE (%)			
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
ASBL	38.2	45.1	51.5	55.1	5.2	5.8	6.6	6.9	4.6	5.0	5.6	5.7	13.5	12.8	12.9	12.5	10.2	12.5	14.9	15.0	16.1	14.9	15.3	13.5	22.2	19.3	19.6	18.5
DBL	91.2	98.5	110.4	123.6	16.0	17.4	19.4	21.7	8.0	7.4	9.0	11.0	17.6	17.7	17.5	17.5	55.9	38.2	44.9	54.7	26.9	15.1	15.3	16.0	21.6	20.1	21.6	22.7
HGIEL	20.1	23.9	30.1	34.6	3.0	3.6	4.5	5.2	1.9	2.4	3.1	3.6	15.1	15.0	15.0	15.0	19.0	27.5	35.8	41.8	16.3	22.0	26.7	27.1	20.6	24.0	24.5	22.7
KNRC	21.4	23.7	29.2	33.1	4.3	4.2	5.1	5.8	2.7	2.3	2.9	3.5	20.0	17.5	17.5	17.5	18.7	15.4	15.7	18.3	19.2	11.9	12.7	13.1	18.9	14.2	15.7	16.9
PNCL	30.7	50.6	61.2	63.9	4.3	7.0	8.5	8.8	3.1	5.1	6.3	6.5	14.1	13.7	13.8	13.8	12.7	19.5	17.1	17.7	11.9	14.6	15.6	14.0	15.2	19.8	20.1	18.8
SADE	35.5	34.0	37.7	40.6	4.3	4.2	4.6	5.0	2.6	2.1	2.7	3.1	12.1	12.2	12.2	12.2	10.9	9.7	11.7	13.2	9.5	7.9	8.8	9.2	9.8	8.4	9.1	9.5

Source: Company, BOBCAPS Research

FIG 31 – VALUATION SUMMARY

YE March Company	Sep'19		M Cap (Rs bn)	Rating	TP (Rs)	Upside (%)	P/E (x)			Value of assets (Rs)	Implied P/E (x)*			EV/EBITDA (x)*			P/Bv (x)		
	Promoter holding (%)	% pledged^					FY20E	FY21E	FY22E		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ASBL	54.3	-	30.0	BUY	190	74.6	8.7	7.3	7.3	70	3.3	2.7	2.7	4.1	3.3	2.9	1.2	1.1	0.9
DBL	75.0	27.8	57.6	BUY	560	35.6	10.8	9.2	7.5	117	7.7	6.6	5.4	4.5	4.0	3.4	1.5	1.3	1.1
HGIEL	73.9	-	17.4	BUY	390	45.9	9.6	7.4	6.3	45	7.9	6.1	5.2	5.1	3.8	3.0	2.1	1.6	1.3
KNRC	55.2	-	36.7	BUY	340	28.8	20.5	16.8	14.4	84	14.0	11.5	9.9	7.5	5.6	4.5	2.3	2.0	1.8
PNCL	56.1	-	50.0	BUY	245	23.6	14.7	11.6	11.2	50	11.0	8.7	8.4	6.8	5.4	4.8	2.0	1.7	1.5
SADE	46.6	41.0	21.6	BUY	160	29.3	12.7	10.6	9.4	43	8.3	6.9	6.1	7.2	6.1	5.5	1.0	0.9	0.8

Source: Company, BOBCAPS Research | ^ Shares as a % of total promoter holding pledged | *Ex of investments in SPVs

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)

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