

## Equities

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# India Infrastructure Insights – 17

## Nascent Recovery – Needs Policy Support to Survive and Mature

### ■ Industry Overview

- In our 17<sup>th</sup> edition of *India Infrastructure Insights* (III), we follow up on III–8, III–9, III–12 and III–13, and revisit new project announcements, project completion and stalled projects data from CMIE's capex database, which has been updated to Mar-12.
- **New project announcements increased 16% QoQ in FY4Q12** — New project announcements saw +16%QoQ / - 28%YoY change in FY4Q12 to Rs2,484bn. More importantly, FY4Q12 witnessed the second consecutive sequential quarterly improvement in private project announcements (+60% QoQ in FY4Q12 and +39% QoQ in FY3Q12). Government project announcements continued to decline (-26%QoQ), partially due to elections in five states in India in FY4Q12.
- **Stalled projects up sharply** — Projects under implementation but stalled for various reasons continued to rise unabated in FY4Q12. Total value of such projects has increased to Rs7,578bn in March 2012 (+27%QoQ/+91%YoY). The majority of stalled projects (~77%) belong to the private sector.
- **Stalled projects as % of outstanding projects at highest ever levels at** — 8.9% of investments (as % of under implementation excluding announced projects) at end-FY4QY12 were stalled. This is the highest level of stalled projects since 1995 (since data is available) and is even higher than in 2003 (after a multi-year slowdown in capex and before the start of the last capex cycle).
- **Project completion picked up pace in FY4Q12** — In FY4Q12, projects worth Rs1,524bn (+238%QoQ/ +22%YoY) were completed. Project completion pace in FY4Q12 at Rs1,524bn/q was very robust and compares very favorably with highest quarterly average project completion of Rs962bn/q observed in FY10.
- **Early signs of capex recovery?** — Two consecutive quarters of sequential improvement in private project announcements and robust pace of project completion in FY4Q12 bode well for the capex cycle and perhaps indicate that the down-cycle may have bottomed out, at least for now. Whether it matures into a full-fledged broad-based recovery remains to be seen. This uptick is also corroborated by commentary from companies such as Cummins and Havells.
- **We remain cautiously optimistic** — Actions that we believe the government can take to prevent the nascent recovery from being killed include: (1) improving the execution environment, (2) picking up new government project announcements post State Elections, (3) policy push to improve coal/gas availability, (4) faster environment and land clearance, and (5) a respite from high interest rates and low liquidity.
- **Top picks** — **Industrials:** L&T, Cummins and Havells. **Electric Utilities:** JSPL, PGCIL, CESC and JP Power. **Infrastructure:** IRB and R-Infra.

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**Venkatesh Balasubramaniam**

+91-22-6631-9864

venkatesh.balasubramaniam@citi.com

**Atul Tiwari, CFA**

+91-22-6631-9866

atul.tiwari@citi.com

**Deepal Delivala**

+91-22-6631-9857

deepal.delivala@citi.com

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Capex Cycle – Early Signs of Recovery?

New project announcements increased 16% QoQ but fell by 28% YoY in 4Q12.

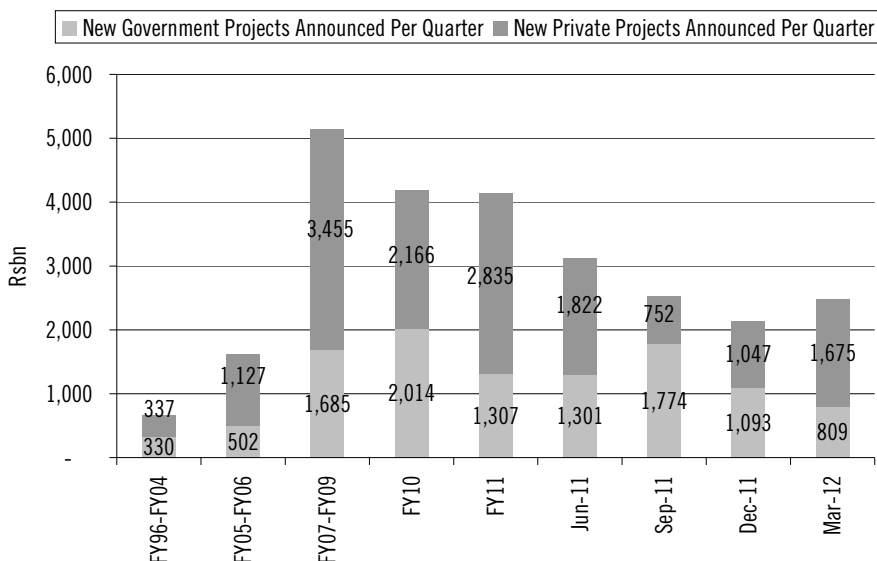
Most importantly, 4Q12 saw the second consecutive sequential quarterly improvement (+60% QoQ) in new private project announcements. But they declined -41% YoY.

New government projects saw YoY/QoQ change of +30%/-26% in 4QY12.

Government project announcements remained weak due to elections in five states of India.

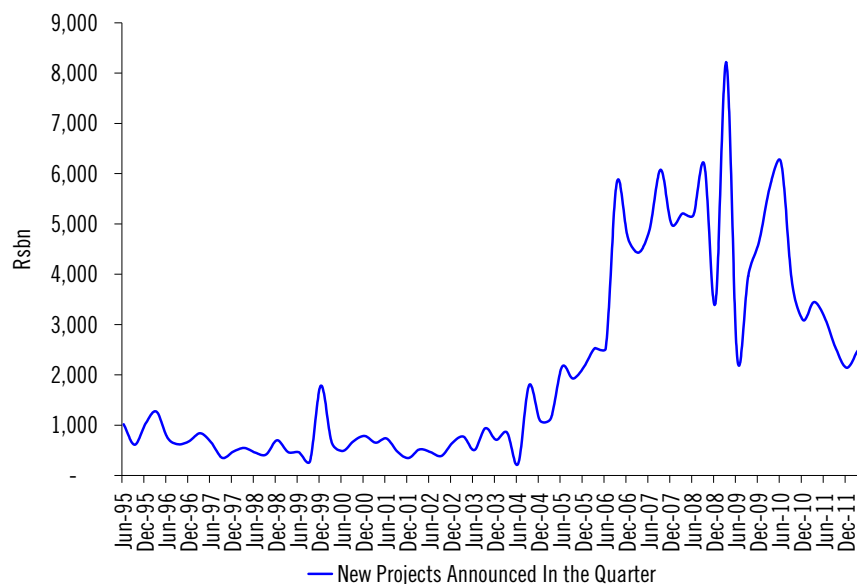
New project announcements remains quite weak and despite an uptick in 4QFY12 is at lowest levels since FY05.

Figure 1. New Project Announcements Per Quarter



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Figure 2. New Projects Announcement Per Quarter – Uptick in 4QFY12

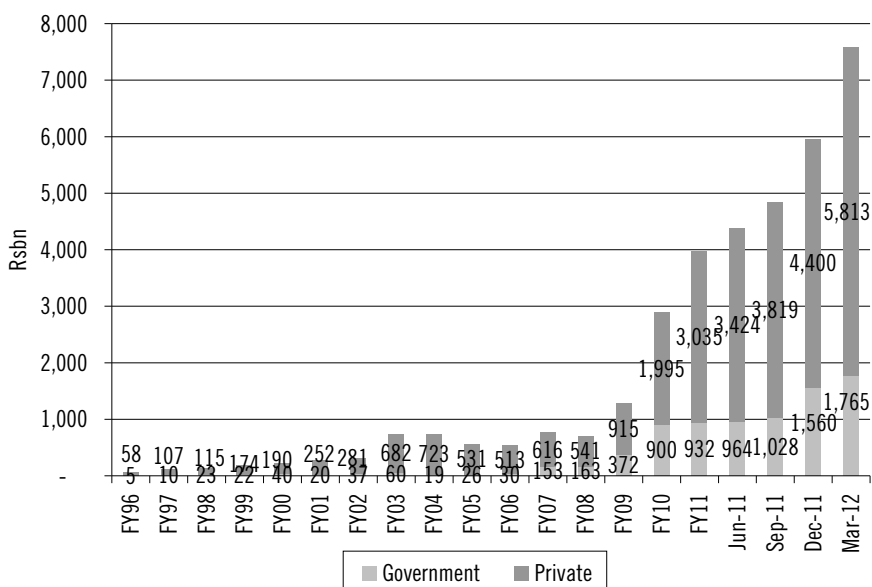


Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Execution-related challenges continue to result in an increased quantum of stalled projects. Stalled projects have increased 91%/ 27% YoY/ QoQ in 4QFY12.

Private projects have been particularly hard hit by execution challenges.

Figure 3. Under Implementation But Stalled Projects at Period End Continues to Increase

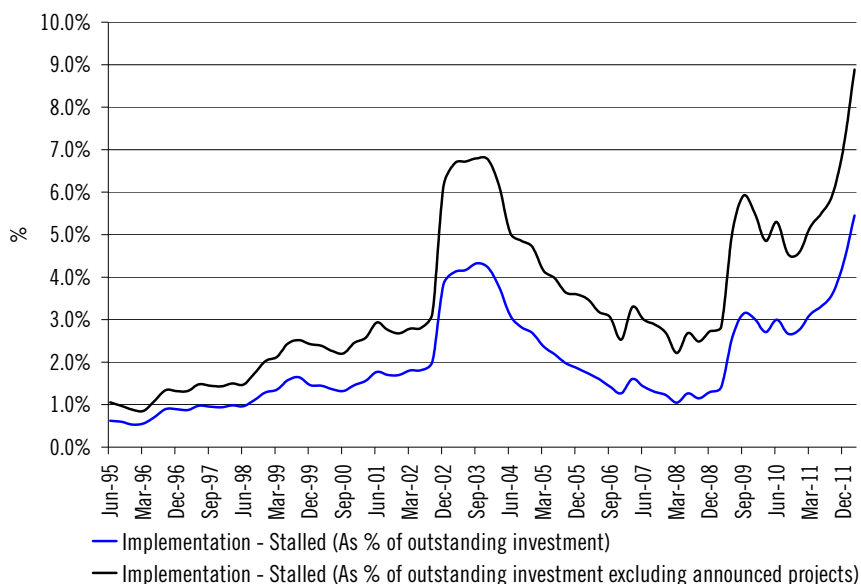


Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Under implementation but stalled projects as a % of total projects have increased sharply and is at its highest levels ever.

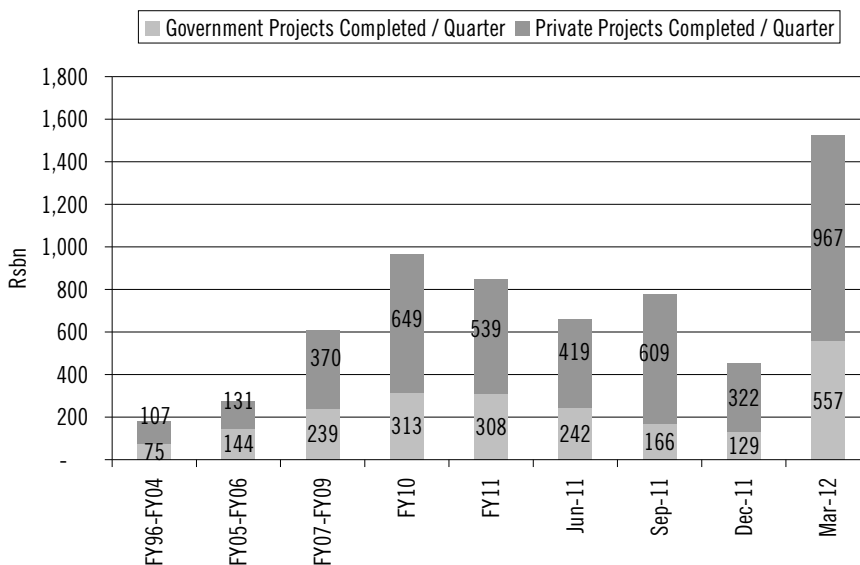
Current level of stalled projects as a % under implementation projects is also highest ever.

Figure 4. Stalled Projects as a % of Total Outstanding Projects Has Increased Sharply



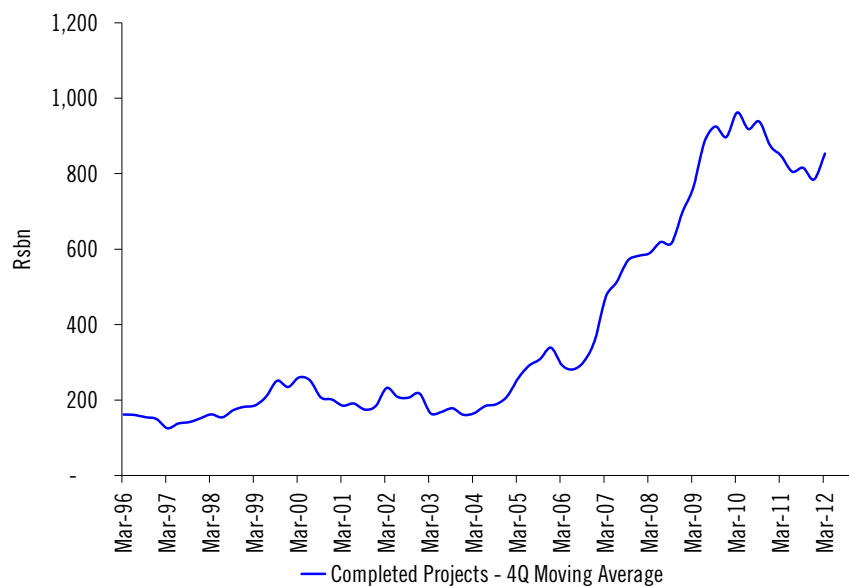
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Figure 5. Completed Projects Per Quarter



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

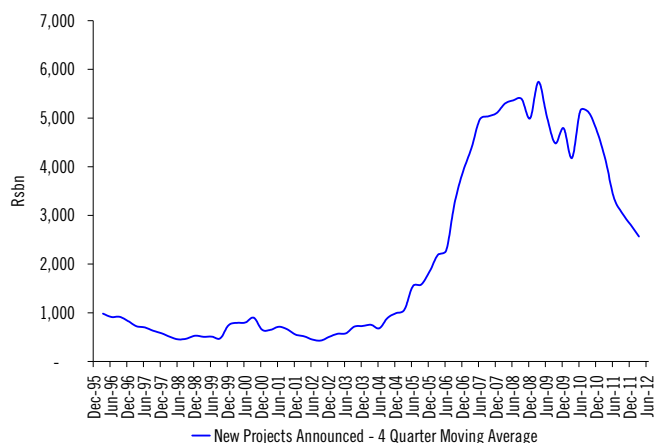
Figure 6. Completed Projects – 4Q Moving Average



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

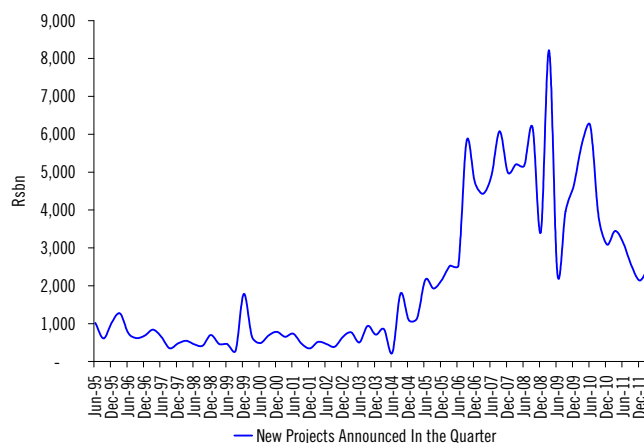
## Long-Term Charts – New Projects

**Figure 7. New Projects Announced in Quarter (4Q Moving Average)**



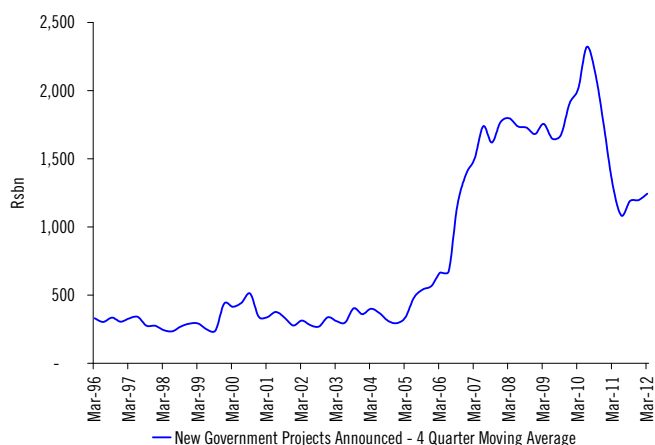
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 8. New Projects Announced in Quarter**



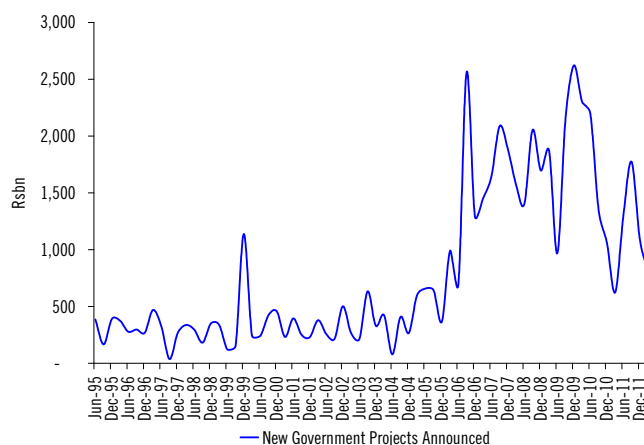
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 9. New Government Projects Announced (4Q Moving Average)**



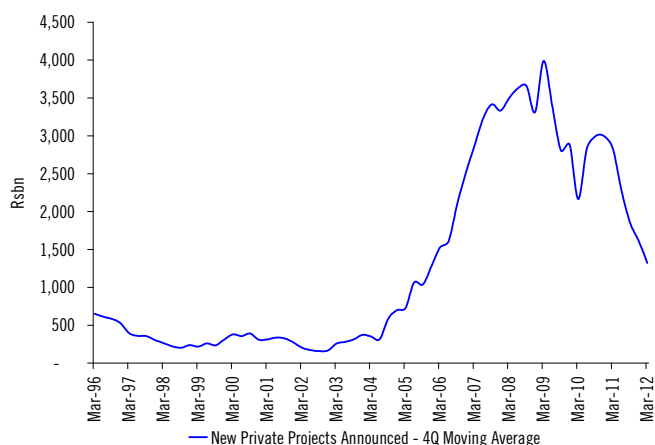
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 10. New Government Projects Announced In Quarter**



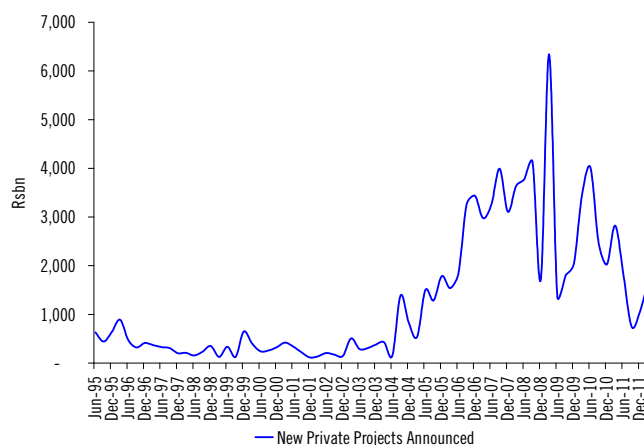
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 11. New Private Projects Announced (4Q Moving Average)**



Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

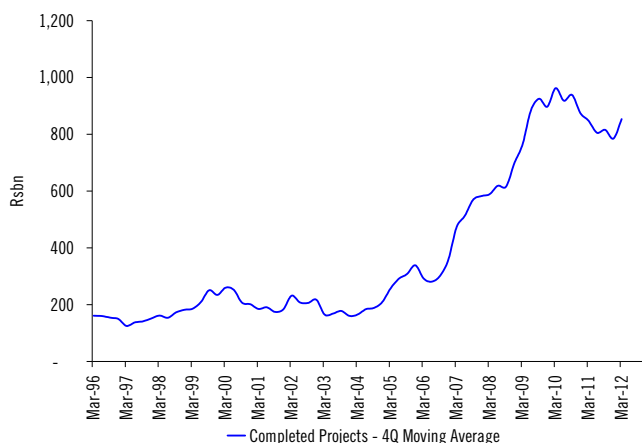
**Figure 12. New Private Projects Announced in Quarter**



Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

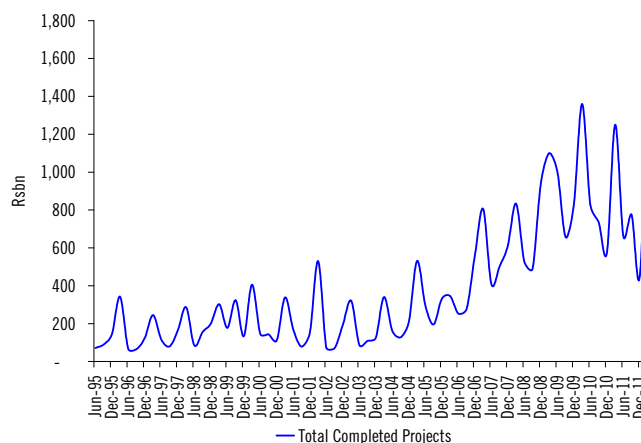
## Long-Term Charts – Completed Projects

**Figure 13. Completed Projects in the Quarter (4Q Moving Average)**



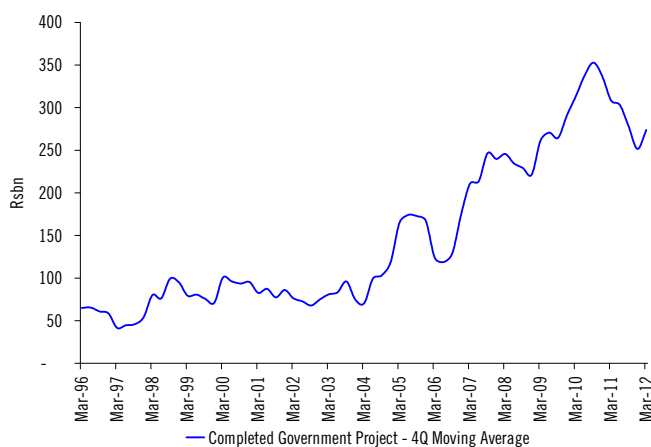
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 14. Completed Projects in the Quarter**



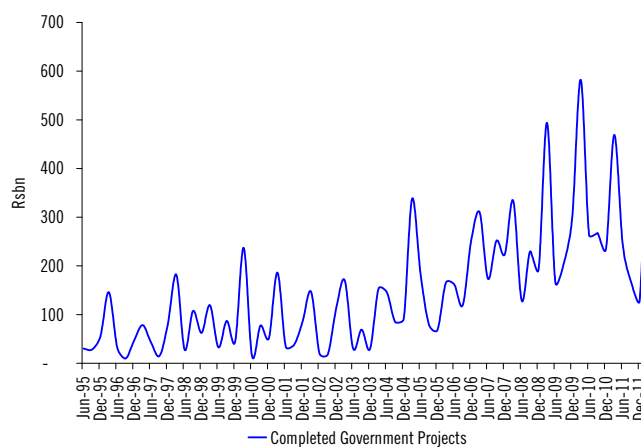
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 15. Completed Government Projects (4Q Moving Average)**



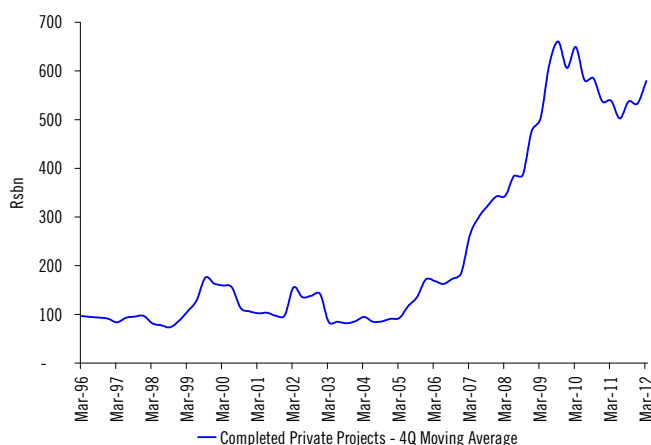
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 16. Completed Government Projects in the Quarter**



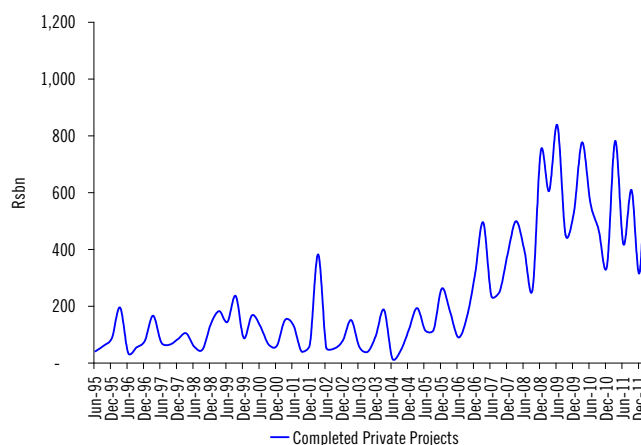
Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

**Figure 17. Completed Private Projects (4Q Moving Average)**



Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

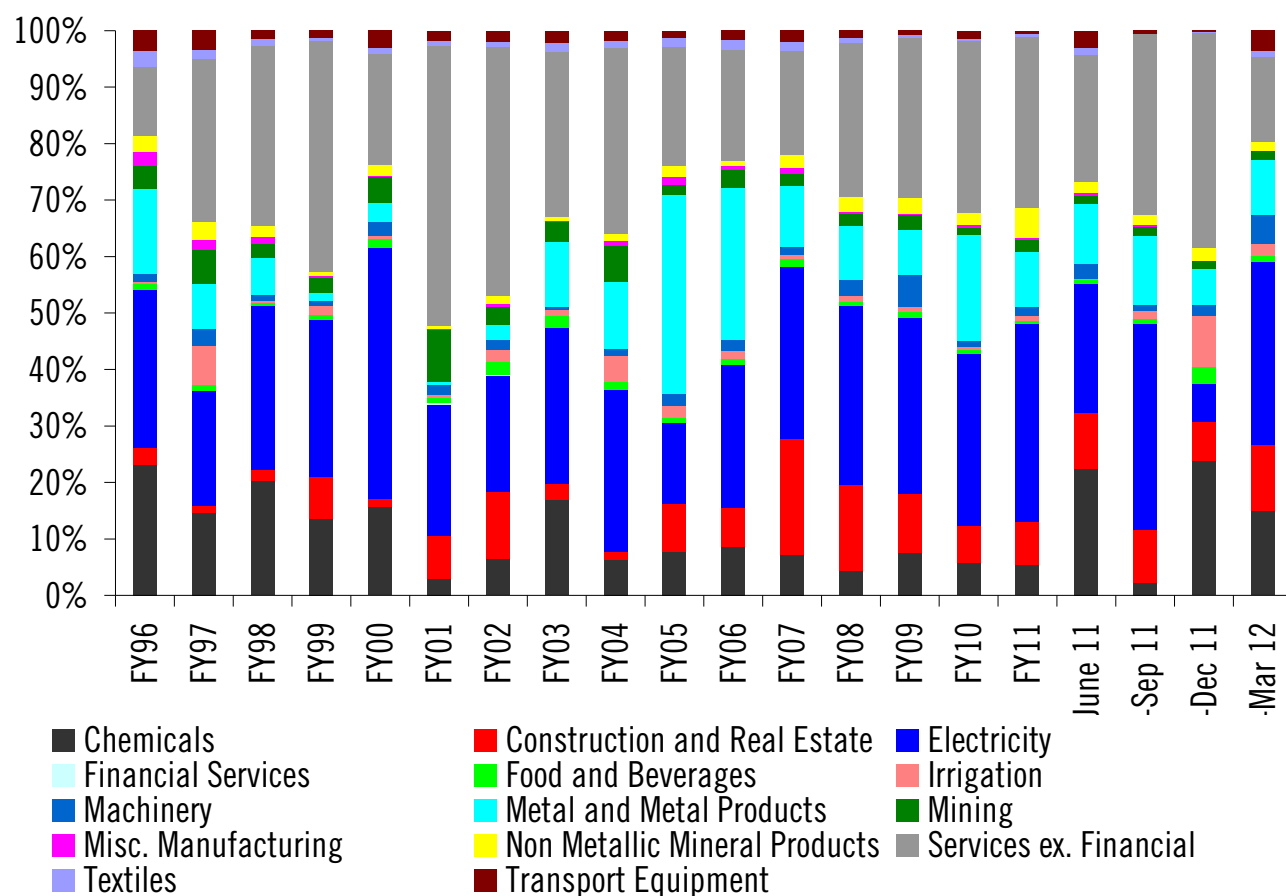
**Figure 18. Completed Private Projects in the Quarter**



Source: <http://capex.cmie.com>, Citi Investment Research and Analysis

## Long-Term Charts – Sectoral Breakup

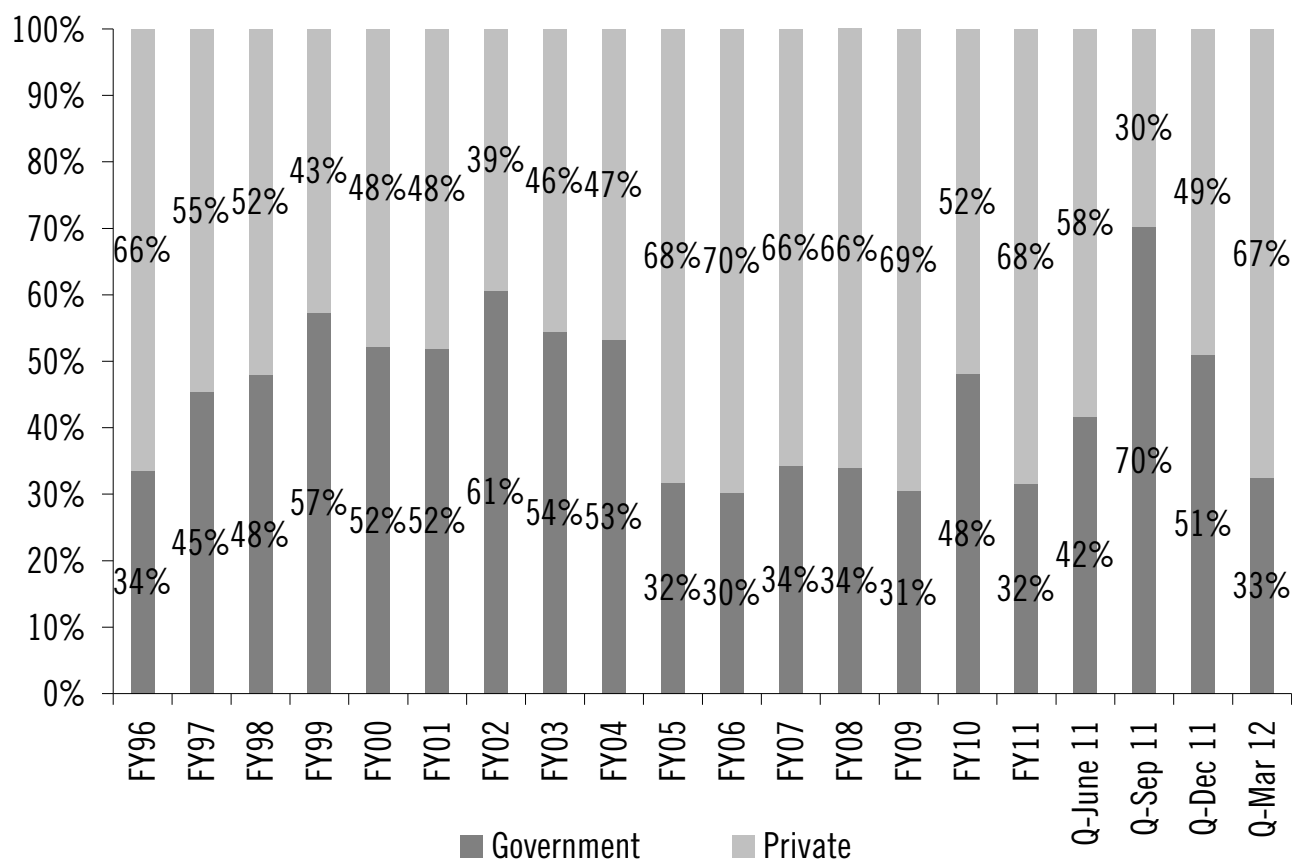
Figure 19. Sectoral Breakup – New Projects Announcement



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

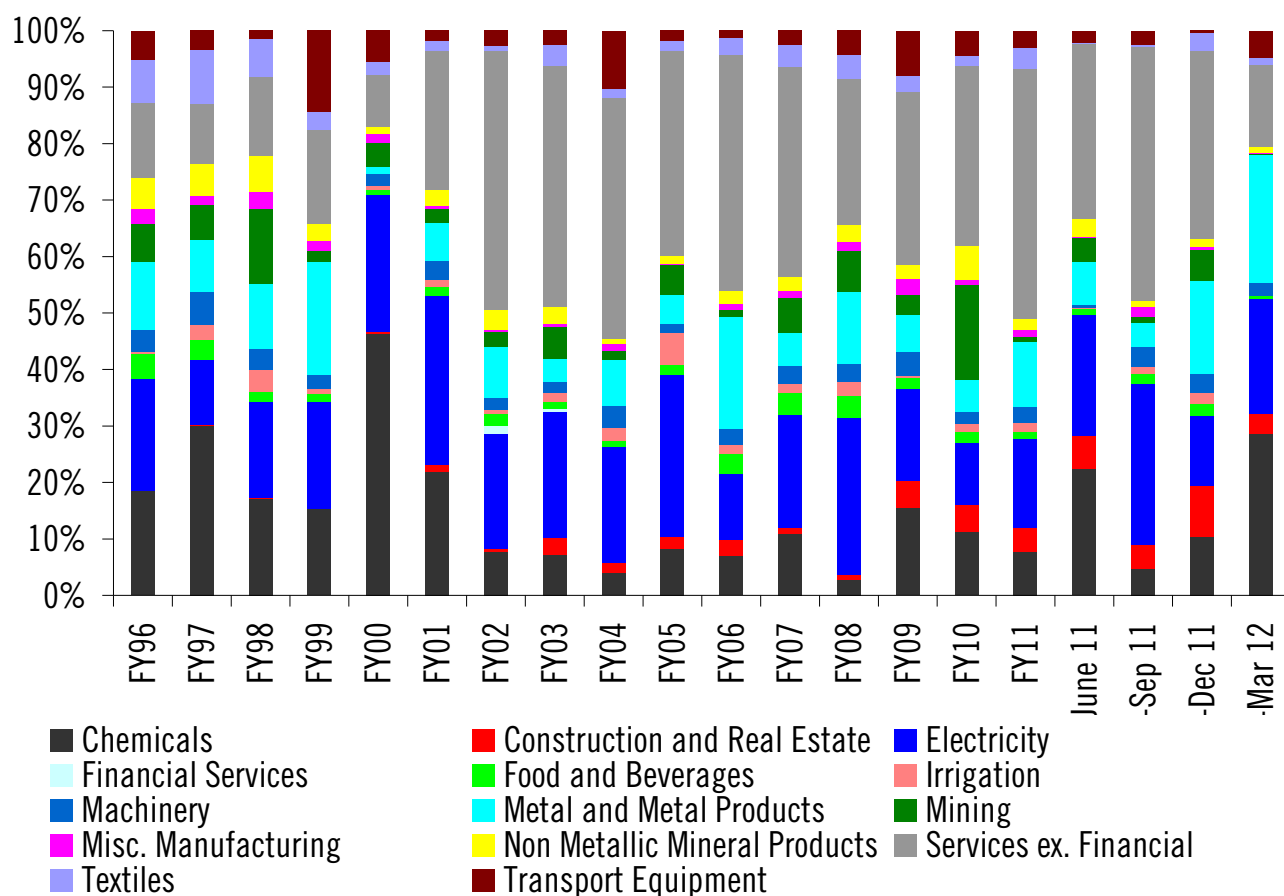


Figure 20. Ownership Breakup – New Projects Announcement



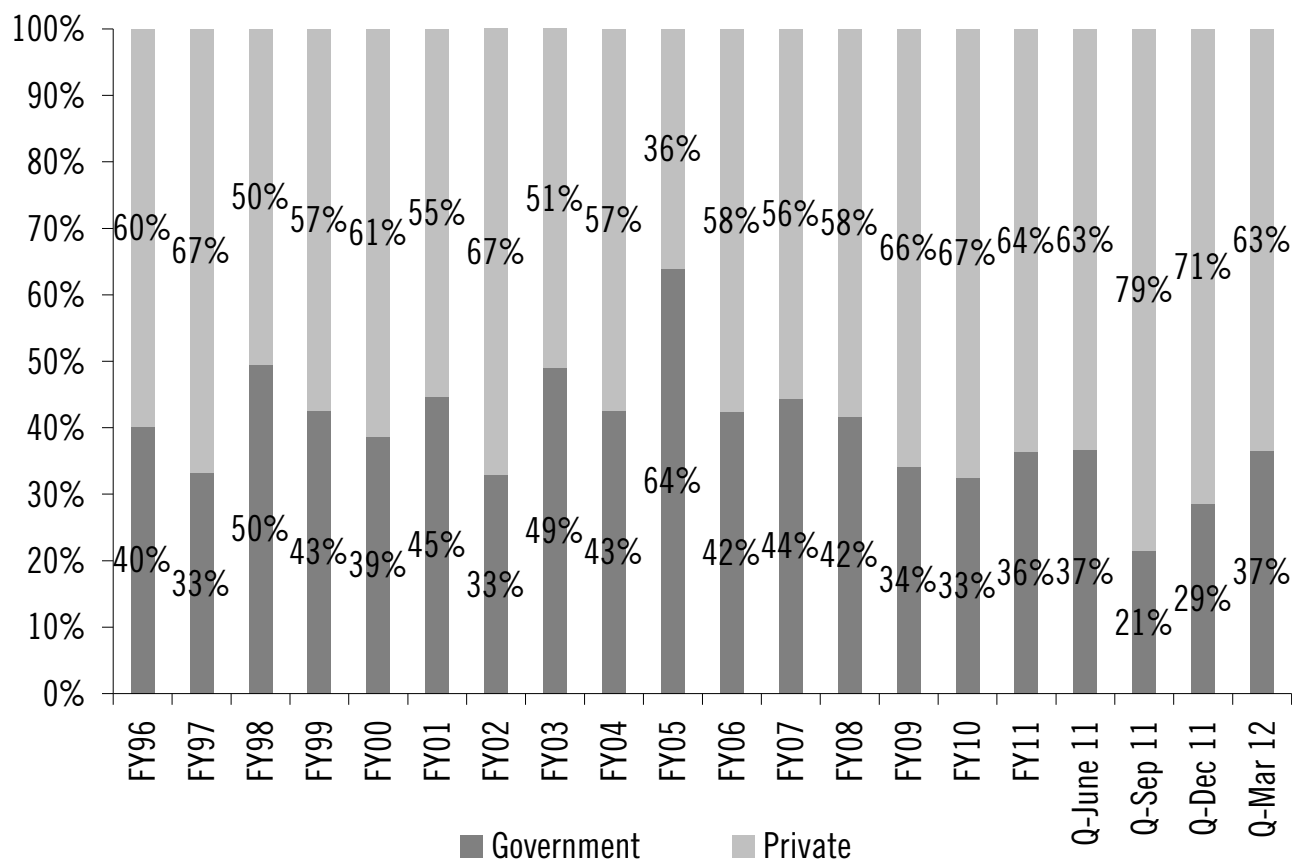
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Figure 21. Sectoral Breakup – Completed Projects



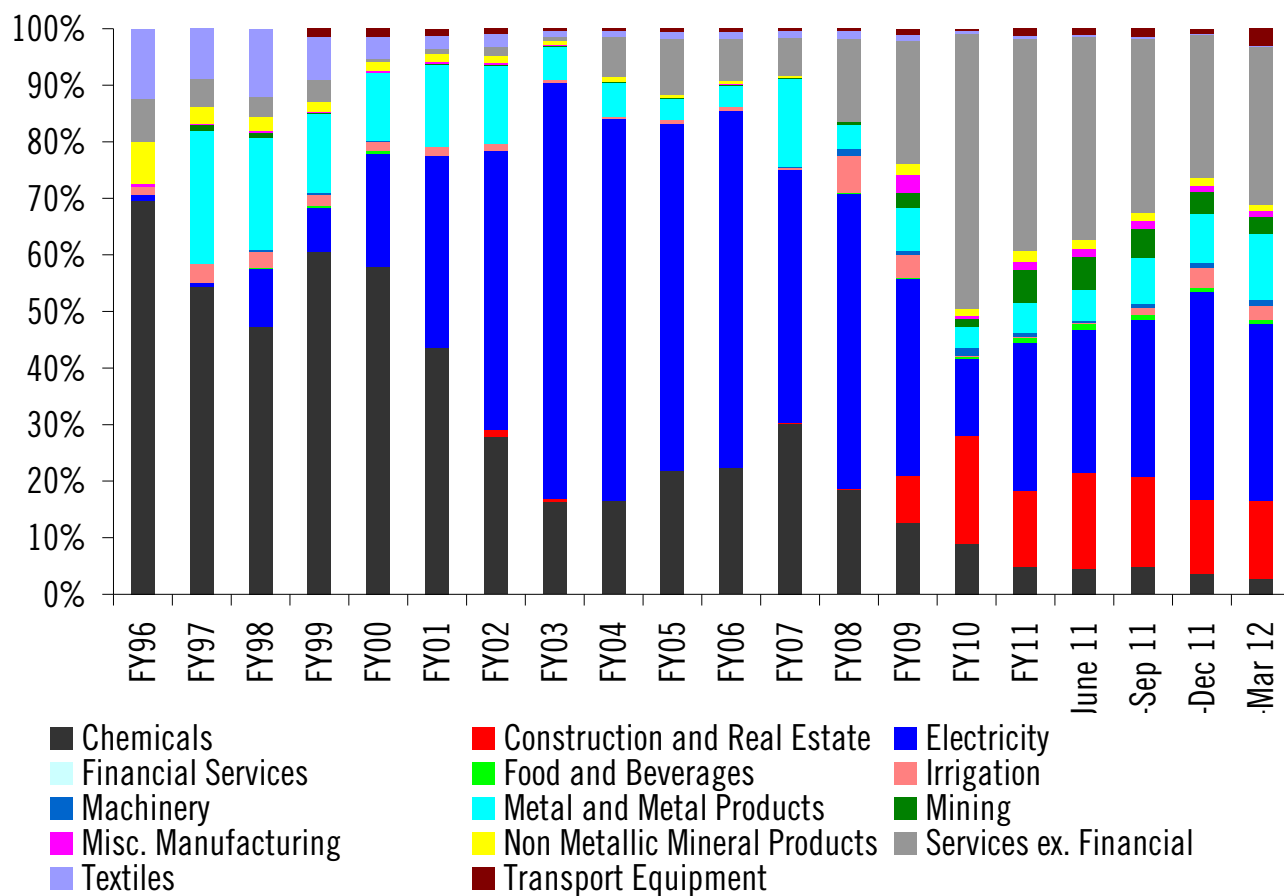
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Figure 22. Ownership Breakup – Completed Projects



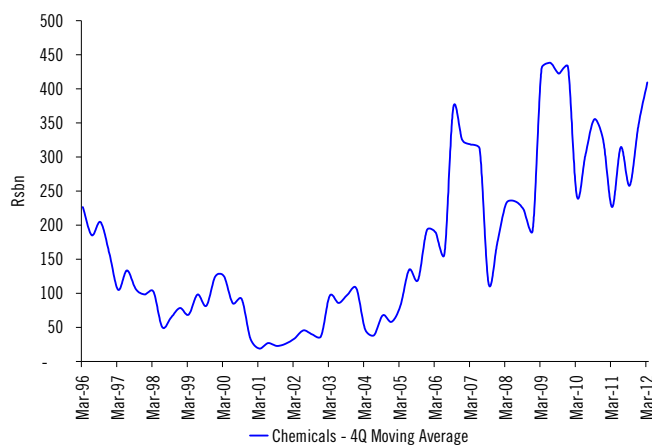
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

Figure 23. Stalled Implementation Projects – Sectoral Breakup



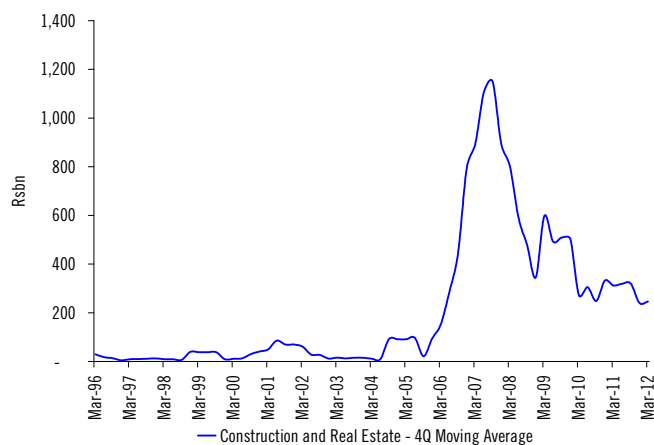
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Investment Research and Analysis

**Figure 24. Chemicals – New Project Announcements**



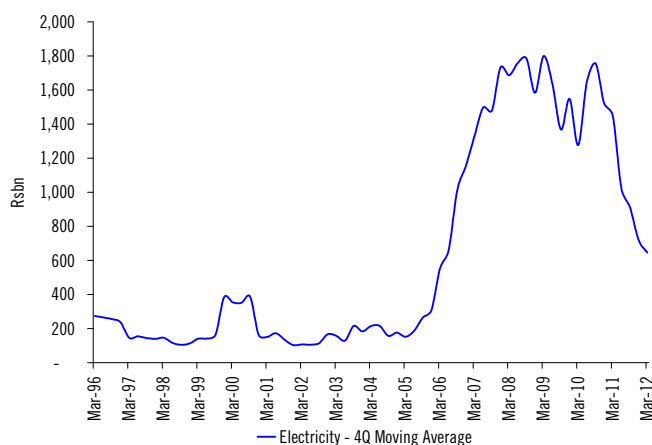
Source: CMIE, Citi Investment Research and Analysis

**Figure 25. Construction – New Project Announcements**



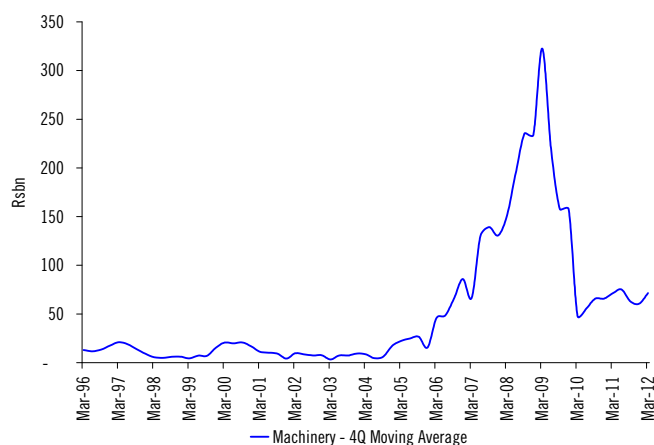
Source: CMIE, Citi Investment Research and Analysis

**Figure 26. Electricity – New Project Announcements**



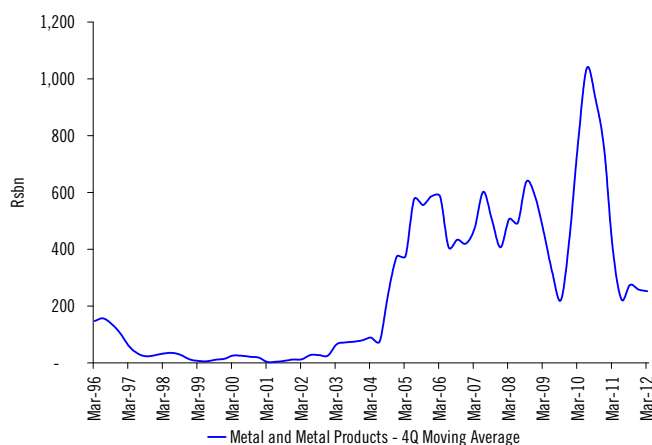
Source: CMIE, Citi Investment Research and Analysis

**Figure 27. Machinery – New Project Announcements**



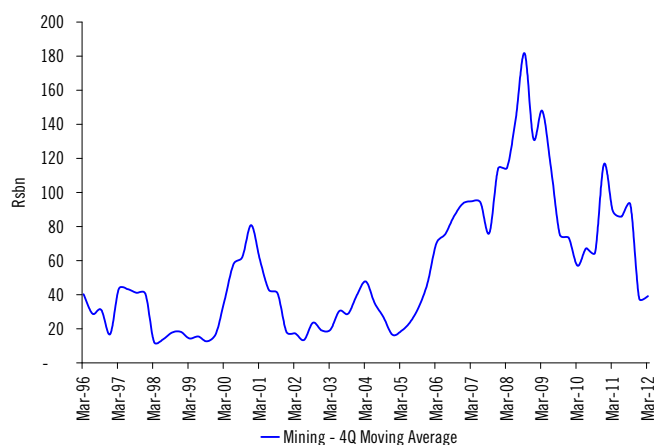
Source: CMIE, Citi Investment Research and Analysis

**Figure 28. Metal and Metal Products – New Project Announcements**



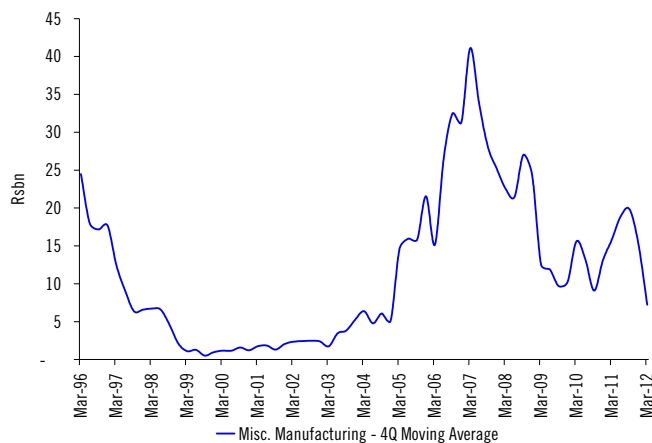
Source: CMIE, Citi Investment Research and Analysis

**Figure 29. Mining – New Project Announcements**



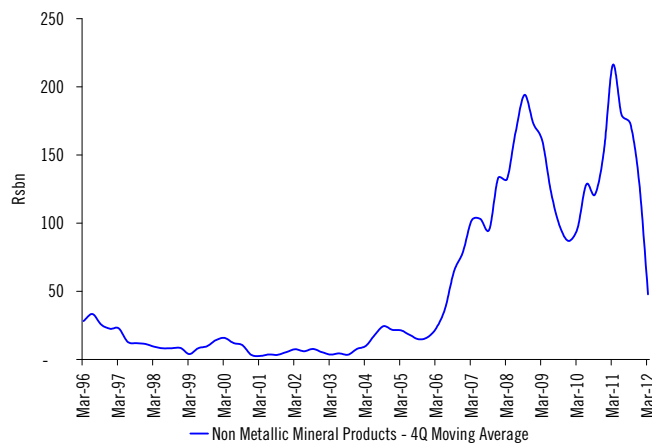
Source: CMIE, Citi Investment Research and Analysis

**Figure 30. Miscellaneous Manufacturing – New Project Announcements**



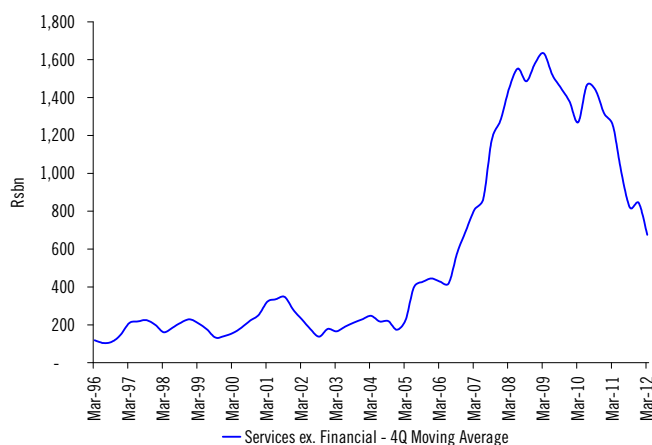
Source: CMIE, Citi Investment Research and Analysis

**Figure 31. Non Metallic Mineral – New Project Announcements**



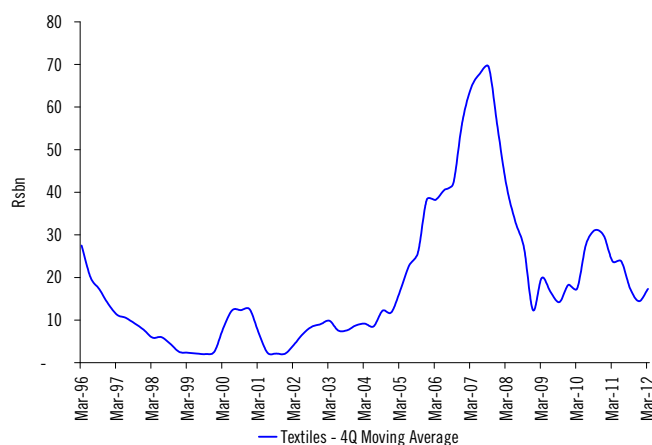
Source: CMIE, Citi Investment Research and Analysis

**Figure 32. Services (ex. Financial) – New Project Announcement**



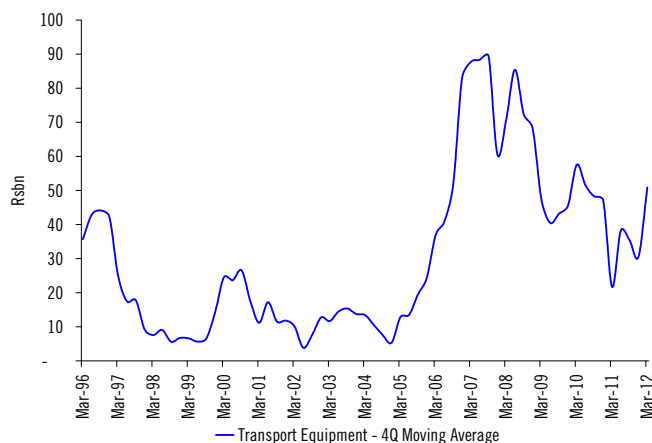
Source: CMIE, Citi Investment Research and Analysis

**Figure 33. Textile – New Project Announcement**



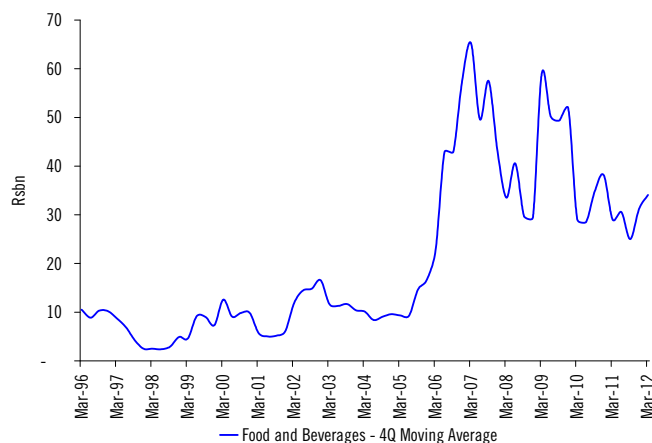
Source: CMIE, Citi Investment Research and Analysis

**Figure 34. Transport Equipment – New Project Announcements**



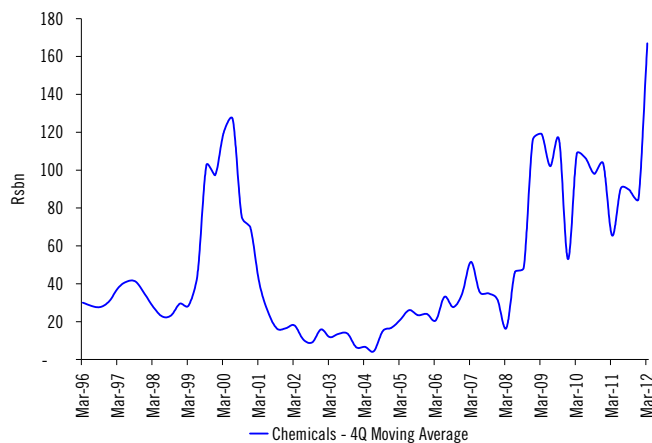
Source: CMIE, Citi Investment Research and Analysis

**Figure 35. Food and Beverages – New Project Announcements**



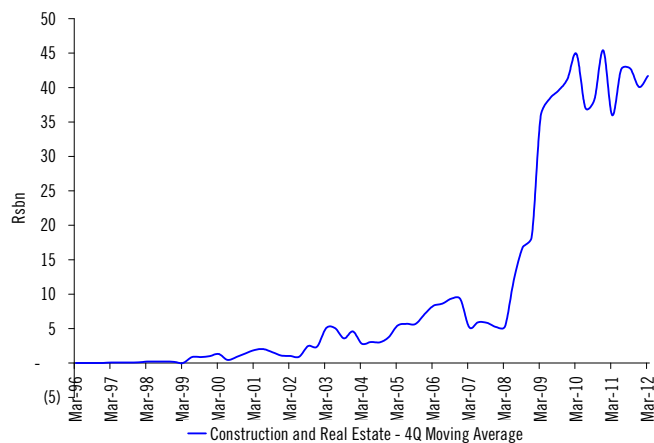
Source: CMIE, Citi Investment Research and Analysis

Figure 36. Chemicals – Projects Completed



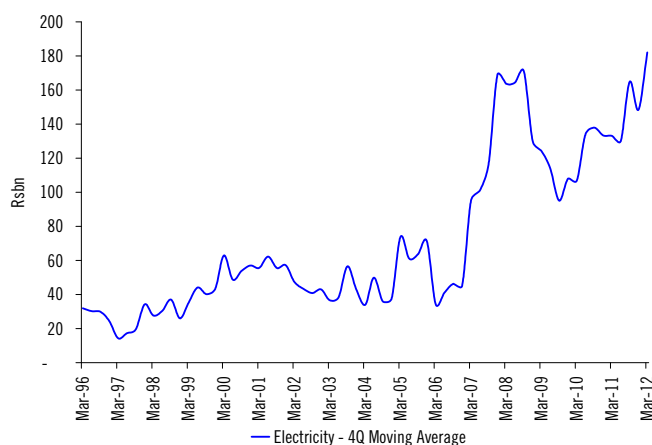
Source: CMIE, Citi Investment Research and Analysis

Figure 37. Construction – Projects Completed



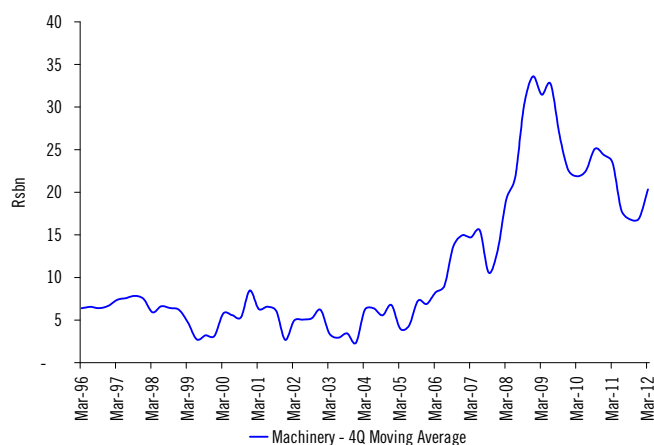
Source: CMIE, Citi Investment Research and Analysis

Figure 38. Electricity – Projects Completed



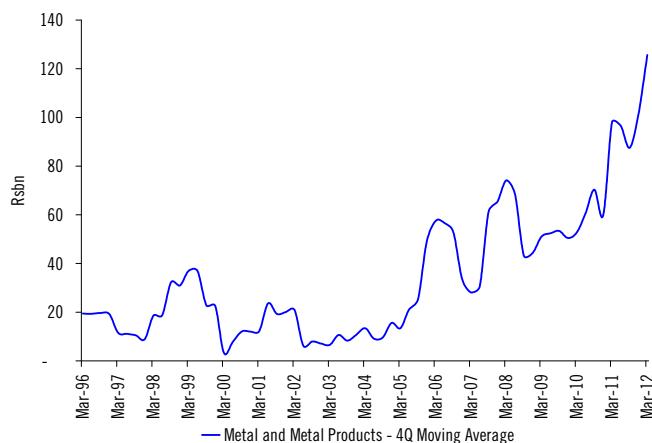
Source: CMIE, Citi Investment Research and Analysis

Figure 39. Machinery – Projects Completed



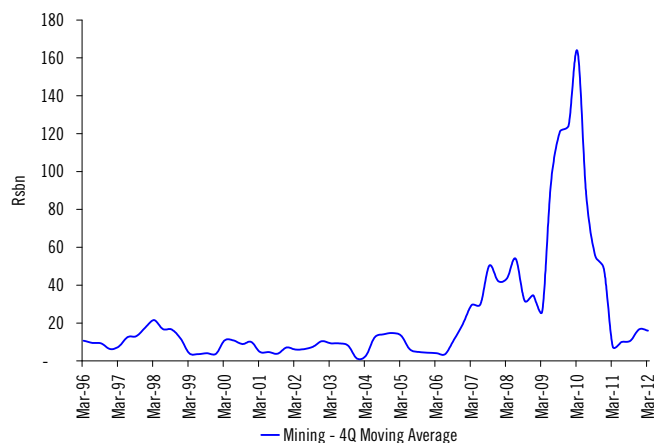
Source: CMIE, Citi Investment Research and Analysis

Figure 40. Metal and Metal Products – Projects Completed



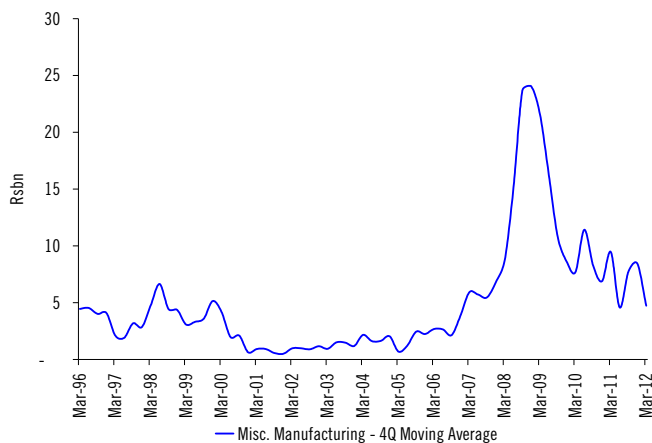
Source: CMIE, Citi Investment Research and Analysis

Figure 41. Mining – Projects Completed



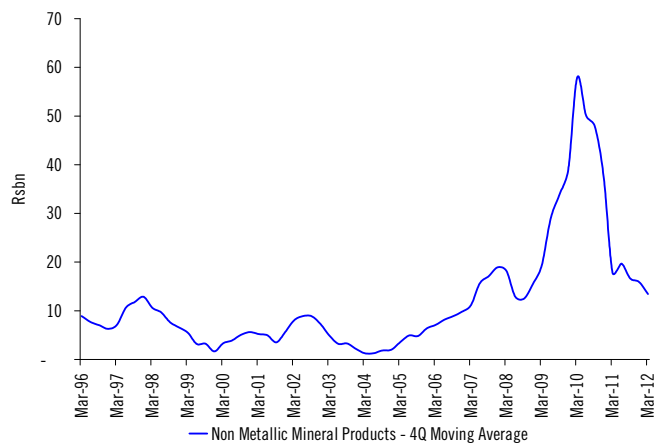
Source: CMIE, Citi Investment Research and Analysis

**Figure 42. Miscellaneous Manufacturing – Projects Completed**



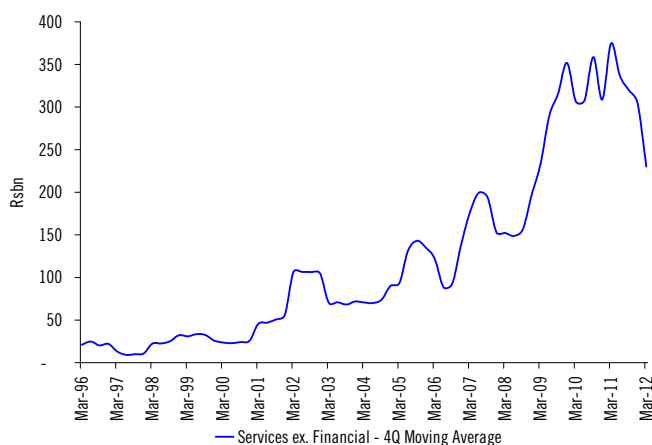
Source: CMIE, Citi Investment Research and Analysis

**Figure 43. Non Metallic Mineral – Projects Completed**



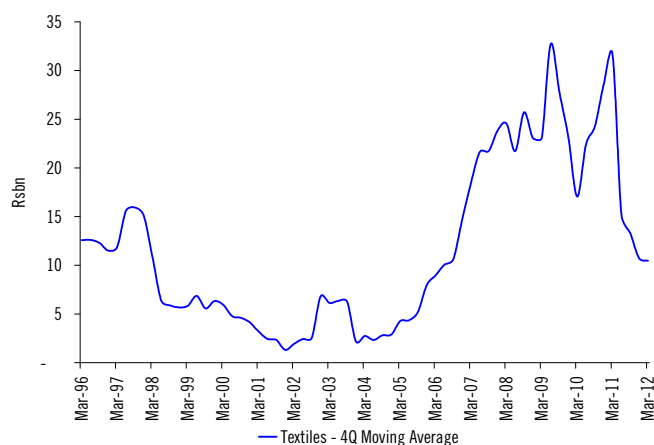
Source: CMIE, Citi Investment Research and Analysis

**Figure 44. Services (Ex Financial) – Projects Completed**



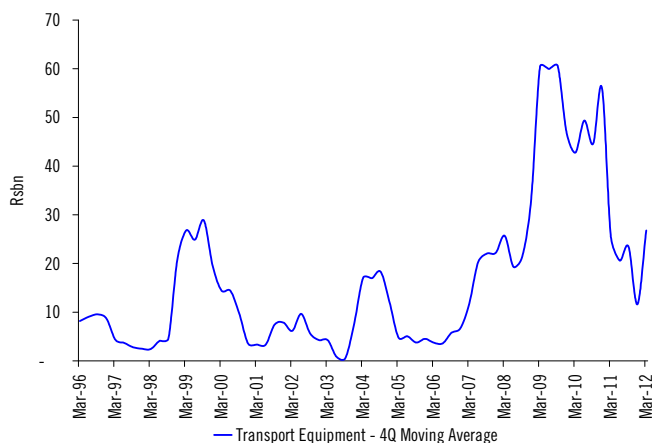
Source: CMIE, Citi Investment Research and Analysis

**Figure 45. Textile – Projects Completed**



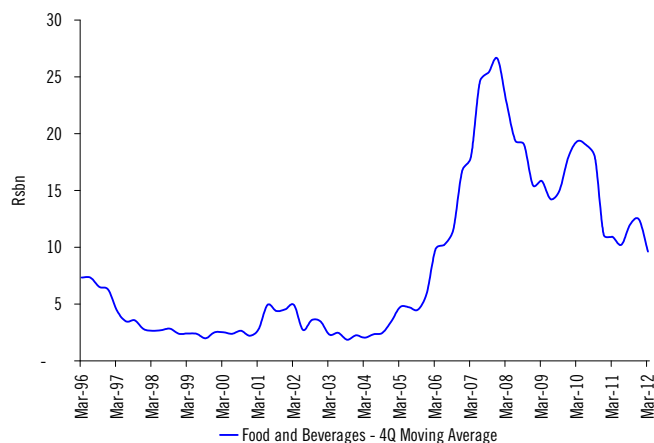
Source: CMIE, Citi Investment Research and Analysis

**Figure 46. Transport Equipment – Projects Completed**



Source: CMIE, Citi Investment Research and Analysis

**Figure 47. Food and Beverages – Projects Completed**



Source: CMIE, Citi Investment Research and Analysis



## Sector Comps Table

Figure 48. India Industrials, Infrastructure, Electric Utilities and Conglomerates Comparables

	RIC	Rec.	Price	MCap	P/BV			RoE			P/E			EV/EBITDA		
			Rs	US\$mn	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
<b>INDUSTRIALS</b>																
L&T Parent Adj	LART.BO	1	1,281	15,351	2.3	2.0	1.7	18.3%	17.9%	17.6%	13.3	11.9	10.6	10.2	8.6	7.5
L&T Cons	LART.BO	1	1,281	15,351	2.7	2.4	2.1	17.4%	17.6%	17.5%	16.8	14.5	12.8	na	na	na
BHEL	BHEL.BO	3	253	12,152	2.5	2.1	1.9	29.9%	23.6%	20.0%	9.2	9.7	9.9	6.4	6.5	6.6
Cummins	CUMM.BO	1	477	2,593	6.5	5.8	5.1	28.9%	31.0%	33.1%	23.8	19.7	16.4	20.9	17.5	14.2
ABB	ABB.BO	3	814	3,382	6.8	6.1	5.3	7.4%	13.2%	15.6%	93.5	48.6	36.5	60.0	32.0	24.0
Crompton Cons	CROM.BO	1	136	1,711	2.4	2.1	1.9	11.9%	15.8%	16.7%	21.3	14.4	11.9	11.0	7.5	6.3
Havells Cons	HVEL.BO	1	570	1,395	7.3	5.2	3.9	45.3%	37.5%	32.3%	19.3	16.2	13.9	12.0	10.1	8.6
Sintex Cons	SNTX.BO	1	84	447	0.9	0.8	0.7	14.0%	12.2%	12.3%	6.3	6.4	5.6	5.8	5.5	5.0
Thermax Cons	THMX.BO	3	456	1,065	3.4	3.0	2.6	26.8%	20.5%	20.3%	13.9	15.6	13.8	8.8	9.2	7.7
Voltas Cons	VOLT.BO	2	117	759	2.7	2.4	2.2	3.6%	16.3%	18.2%	73.8	15.0	12.2	98.1	11.1	9.1
Suzlon Cons	SUZL.BO	2	24	852	0.6	0.6	0.5	-2.6%	7.6%	12.6%	-24.3	8.1	4.4	6.9	5.5	4.4
BGR Cons	BGRE.BO	3H	362	512	2.3	2.0	1.8	21.7%	19.5%	18.2%	11.7	11.2	10.3	8.2	8.3	8.4
<b>MID CAP E&amp;C</b>																
Punj Lloyd Cons	PUJL.BO	3H	57	371	0.6	0.6	0.5	4.7%	7.6%	8.7%	13.2	7.6	6.1	8.3	7.3	6.4
IVRCL Parent	IVRC.BO	1	72	379	0.8	0.7	0.7	6.0%	7.4%	8.1%	12.7	9.9	8.7	7.5	6.6	6.2
Nagarjuna Parent	NCCL.BO	3	55	274	0.4	0.4	0.4	4.9%	7.1%	7.8%	8.4	5.7	4.9	7.0	6.9	6.4
<b>INFRASTRUCTURE</b>																
APSEZ (Ex Abbott)	APSE.BO	1	131	5,154	4.9	3.8	3.0	29.5%	35.8%	34.1%	19.1	13.3	10.6	15.1	10.1	8.5
APSEZ (Incl Abbott)	APSE.BO	1	131	5,154	4.9	3.8	3.0	21.5%	31.7%	31.5%	26.9	14.9	11.7	16.8	11.1	8.8
Gujarat Pipavav	GPPL.BO	2	58	483	2.8	2.5	2.2	9.5%	13.8%	10.6%	31.3	19.1	22.1	15.5	11.8	10.9
Essar Ports	ESRS.BO	1	86	695	1.6	1.4	1.2	3.9%	8.5%	14.4%	41.2	17.5	9.2	10.6	8.7	5.5
IRB Cons	IRBI.BO	1	185	1,208	2.1	1.8	1.5	18.8%	16.8%	13.6%	12.2	11.4	12.1	7.9	8.3	7.3
GMR Cons	GMRI.BO	3H	29	2,210	1.5	1.5	1.3	-0.2%	0.3%	10.5%	-618.3	514.9	13.2	16.0	10.0	6.6
GVK Cons	GVKP.BO	2H	17	528	0.8	0.7	0.7	5.4%	5.4%	5.1%	14.3	13.4	13.6	15.9	11.3	6.4
<b>CONGLOMERATES</b>																
JSPL	JNSP.BO	1	489	8,959	2.6	2.1	1.7	25.2%	22.4%	21.2%	11.4	10.3	8.8	8.7	8.2	7.2
Adani Enterprise	ADEL.BO	1	317	6,826	1.7	1.5	1.2	13.9%	16.5%	19.1%	13.4	9.8	7.1	15.1	9.3	6.4
JPA Parent	JAIA.BO	1	80	3,319	0.4	0.4	0.4	8.2%	6.5%	7.5%	5.2	6.2	5.2	7.8	8.4	7.6
RELI Parent	RLIN.BO	1	558	2,877	0.0	0.0	0.0	8.6%	7.5%	6.7%	0.2	0.3	0.3	2.7	2.3	1.5
<b>ELECTRIC UTILITIES</b>																
NTPC	NTPC.BO	2	163	26,361	1.8	1.7	1.6	13.0%	12.9%	12.9%	14.7	13.7	12.6	11.4	10.7	9.7
PGCIL	PGRD.BO	1	111	10,058	2.2	2.0	1.8	13.6%	14.4%	15.0%	16.9	14.5	12.6	12.2	10.8	10.0
Tata Power	TTPW.BO	2	104	4,861	1.9	1.7	1.6	14.2%	15.2%	10.3%	13.5	12.0	16.1	na	na	na
Adani Power	ADAN.BO	3	73	3,108	2.5	2.2	1.7	3.7%	11.8%	25.4%	67.2	20.0	7.7	32.1	12.3	7.0
JSW Energy	JSWE.BO	2H	58	1,851	1.7	1.5	1.4	3.8%	9.2%	9.5%	44.0	17.4	15.6	16.8	8.0	7.2
Lanco	LAIN.BO	1	19	878	0.9	0.9	0.8	2.5%	7.7%	12.6%	37.8	11.8	6.5	13.3	12.2	11.9
CESC	CESC.BO	1	271	663	0.9	0.8	0.7	10.8%	11.5%	13.6%	8.7	7.4	5.6	na	na	na
JP Power	JAPR.BO	1	41	2,084	1.9	1.7	1.4	7.4%	13.8%	19.8%	26.9	12.9	7.6	20.5	13.1	9.2

Source: Citi Investment Research and Analysis estimates. Priced as of April 11, 2012

## Appendix – Definition of Terms

### **Announcement**

This is the first stage of project implementation. At this stage since the company itself is not clear about the final scope of the project, the information issued by it to the general public through newspapers, business magazines, company's house journals or through any other printed media, is either insufficient or scanty. There is always a chance that an announced project may undergo substantial change when it reaches the under implementation stage. There is also a high probability that the project may subsequently be put on the back burner by the company.

### **Implementation - Stalled**

When an on-going project is stopped for reasons like cancellation of environment clearance, dispute among the co-promoters, stoppage of machinery supply, local agitation, and non-availability of additional land or for any political reasons, the status of the project would change to Implementation - Stalled.

### **Completed**

When a project is fully implemented and the plant starts commercial production, the Completed status is assigned to it. In cases, where exact date of project completion is not available an intelligent guess is made about the completion date.\

### **Shelved**

Proposed (Announced) projects are shelved by the companies when they become unviable following sudden change in socio-economic or political environment. Shelved projects are revived when the conditions turn favorable

### **Abandoned**

When the chief promoter backs out from a proposed project, the status of the project changes to Abandoned. Abandoned projects are rarely revived

**Source:** <http://capex.cmie.com> (Centre for Monitoring Indian Economy)

## Appendix A-1

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