



India: Construction: Infrastructure

Equity Research

Government new capex picks up as private sector remains elusive

Government new project starts showing signs of revival...

The CMIE Dec '13 update on capex investment shows average four quarterly new project starts at Rs1064bn, increasing by 29% qoq. The investment for the quarter itself is the highest recorded in 6 quarters. While new projects announced by the private sector continued to decline (down to c.Rs200bn for the quarter vs. average of Rs1.5tn since 2004), government capex showed a sharp increase to Rs710bn in the quarter (+73% qoq, +89% yoy) driven by announcements of new solar power capacity.

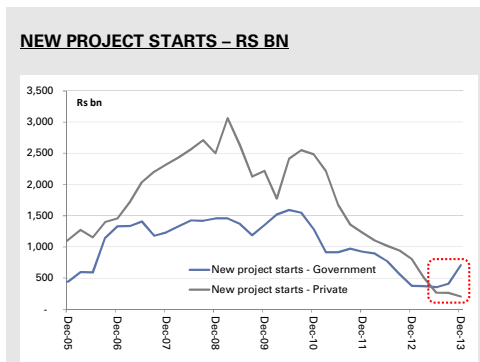
This is the third consecutive quarter where government capex is higher than private (after 40 quarters), and the second consecutive qoq increase in government capex. With the government reform measures and the Cabinet Committee on Investments (CCI) working on fast-tracking clearances for infrastructure projects, we believe further downside in new investments would be limited and we could potentially be past the bottom.

...completion still lackluster + stalled/shelved projects increased

The average four quarterly project completions declined 25% yoy, and various major projects saw implementation stall in the quarter (reaching 5.1% of total projects outstanding). We believe this will reflect in the upcoming earnings season (3QFY14) in the form of muted order book and revenue growth. The uptick in government new investment will likely take a few quarters to start reflecting in execution, and we remain concerned about limited private sector announcements of new projects. With 31% of the projects accepted having been fully addressed by the CCI, real implementation of those will be key to re-start the capex cycle in our view.

Prefer quality with better visibility on growth

Given our expectation of a gradual capex recovery, we prefer structural winners having quality execution and growth visibility. Our preferred pick in the Infrastructure space is L&T (CL-Buy, 12-month TP Rs1064). We like L&T because of its high order book coverage, execution ability and strong balance sheet. We believe L&T is best positioned to benefit from a potential recovery in the domestic investment cycle. We retain a Sell on BHEL (Sell, 12-month TP Rs110) given lack of growth and our expectation of declining returns for the stock due to negative operating leverage. Key risks: Downside: Continued slowdown and high interest rates; Upside: Pick-up in capex and faster interest rate cuts.



Source: CMIE Capex, Goldman Sachs Global Investment research

KEY IDEAS HIGHLIGHTED

Ticker	Rating	Price (Rs)	Potential upside/ (downside)	FY14E P/B (X)	FY14E ROE (%)
LART.BO	Buy*	1036	3%	2.6	14%
BHEL.BO	Sell	169	-35%	1.3	11%

*Denotes that this stock is on our Regional Conviction List.

Prices as of market close on Jan 2, 2014

Source: Datastream, Goldman Sachs Global Investment Research.

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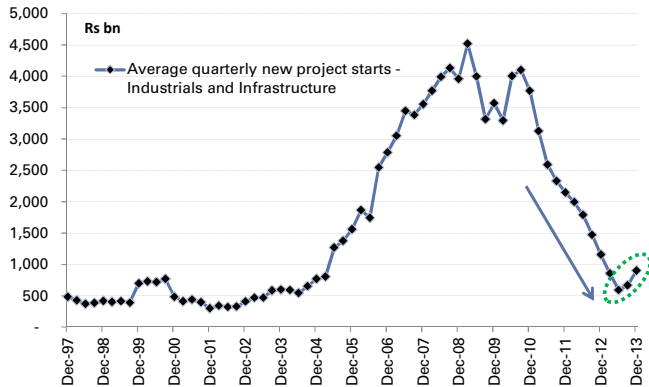
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Second consecutive quarter with decline in new project starts being arrested – although driven by public sector

Exhibit 1: Improvement in new project starts has continued for two quarters now...

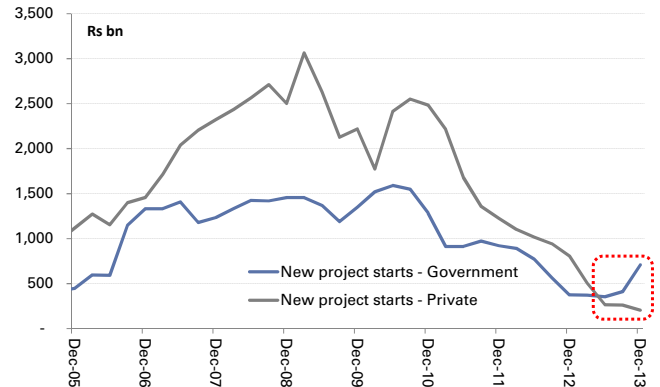
Average quarterly new project starts – Infra and Industrial



Source: CMIE Capex, Goldman Sachs Global Investment Research.

Exhibit 2: ...which has been supported by a notable increase in Government capex; however, private sector capex remains muted

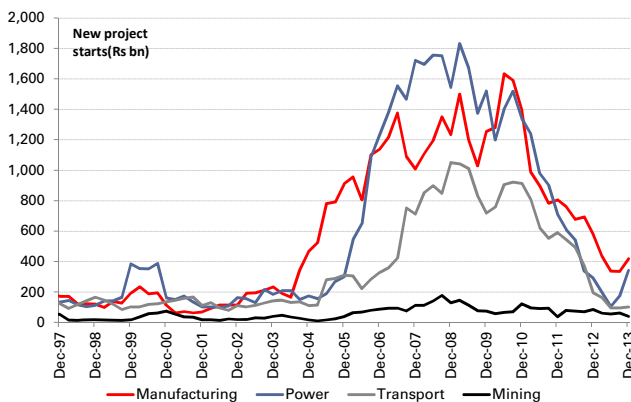
Average quarterly new project starts – Govt. vs. Private



Source: CMIE Capex, Goldman Sachs Global Investment Research.

Exhibit 3: The increase in new project starts is led by the power sector (and manufacturing to some extent)

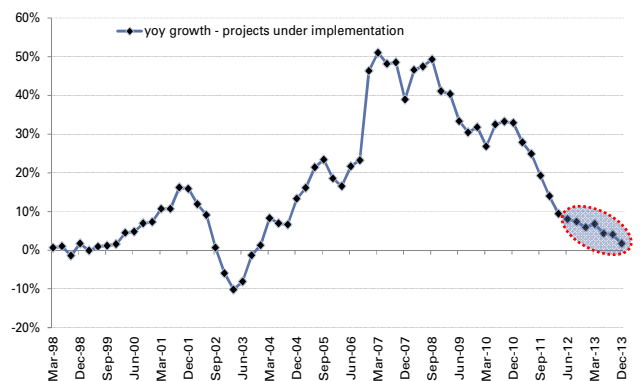
Average quarterly new project starts – relevant segments



Source: CMIE Capex, Goldman Sachs Global Investment Research.

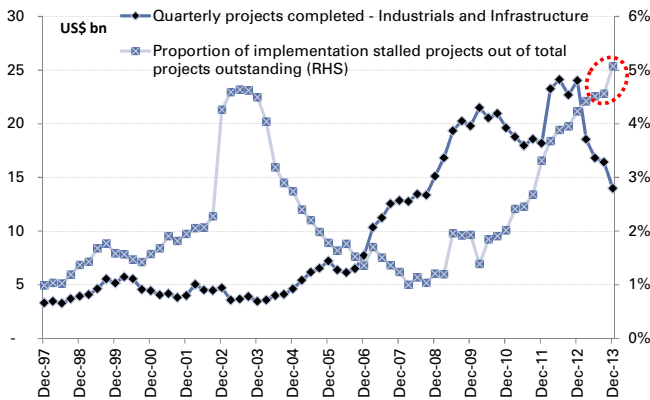
Exhibit 4: Growth in projects under implementation (proxy for order-book) continues to be sedate across both manufacturing and infrastructure

Yoy growth in projects under implementation



Source: CMIE Capex, Goldman Sachs Global Investment Research.

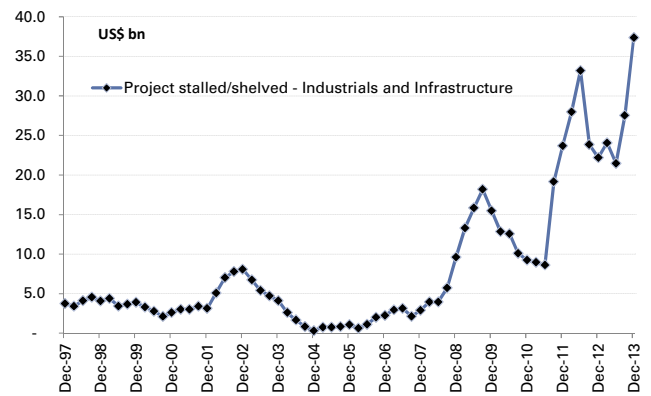
Exhibit 5: The quarter saw projects completed continuing to decline and the % of stalled projects increase sharply
 Projects completed and stalled projects as a % of outstanding



Source: CMIE Capex, Goldman Sachs Global Investment Research.

Exhibit 6: The increase in stalled/shelved projects resulted partly from a few large projects getting stalled due to either non-availability of resources or lack of financial viability

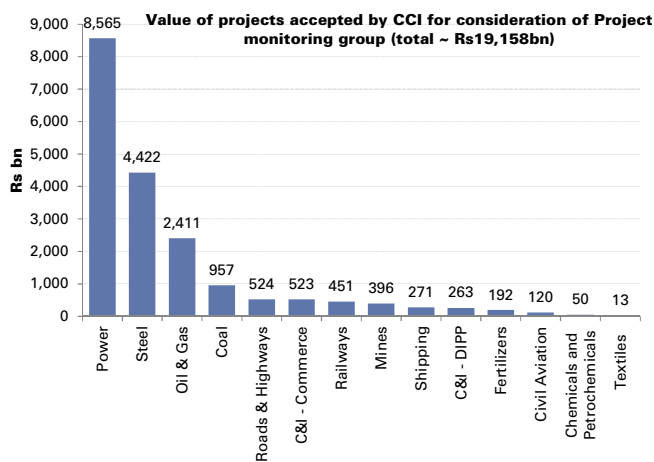
Projects stalled/shelved in the quarter (US\$ bn)



Source: CMIE Capex, Goldman Sachs Global Investment Research.

Exhibit 7: So far the CCI (Cabinet Committee on Investment) has accepted 406 projects worth Rs19.2tn for consideration of fast-tracking

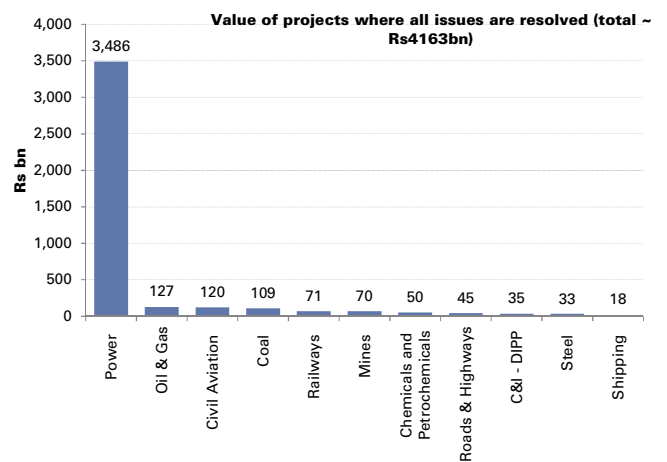
Aggregated list of projects accepted by CCI for consideration



Source: Cabinet Secretariat, Goldman Sachs Global Investment Research.

Exhibit 8: Of which 31% of projects (in no.) costing Rs4.2tn have seen issues being fully addressed by the CCI, with Power seeing the maximum traction – these projects moving to implementation would be key to pick-up in broad capex

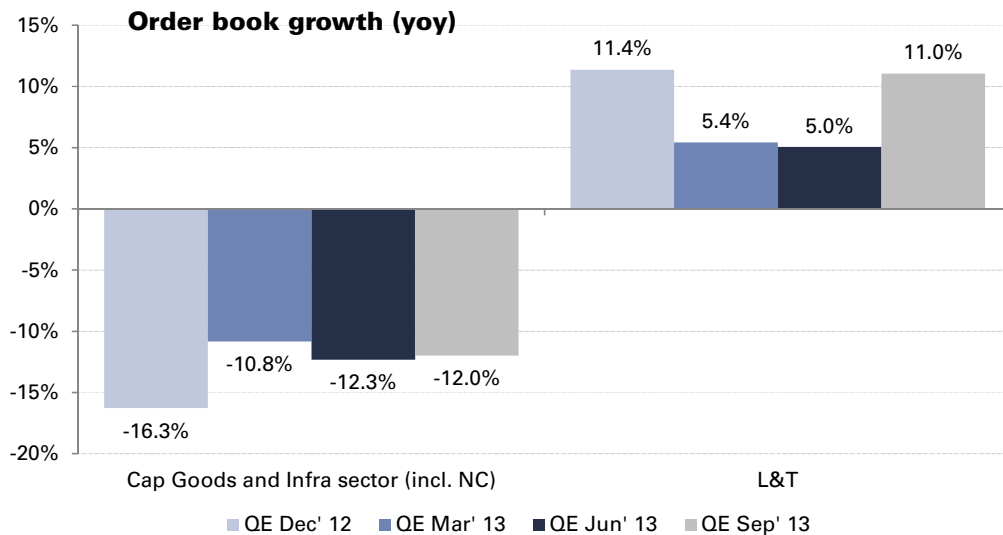
Aggregate list of projects fully cleared so far



Source: Cabinet Secretariat, Goldman Sachs Global Investment Research.

Exhibit 9: L&T has continued to grow its order book over the last 4 quarters vs. the sector which has seen major declines

Quarterly order book growth (yoy)



*Note: Sector total includes ABB, Siemens, KEC, Alstom T&D, Crompton, Voltas, BHEL, Thermax, Punj Lloyd, HCC

Source: Company data.



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Reg AC

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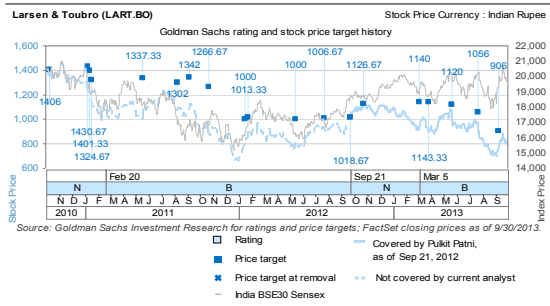
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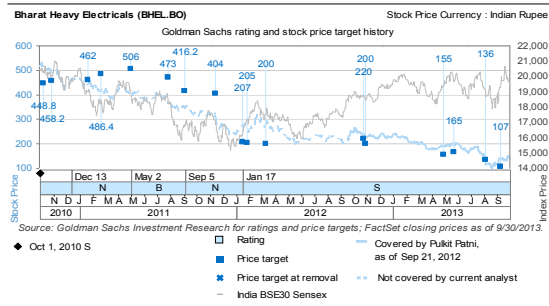
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	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	54%	15%	50%	42%	37%

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