

India Infrastructure Insights - 19

Nascent Recovery Falters – Investment Decline Resumes

■ Industry Overview

- In the 19th edition of *India Infrastructure Insights* (III), we revisit new project announcements, project completion and stalled projects data from CMIE's capex database, which has been updated to June-12.
- **Uptick in new project announcements is short-lived** — New project announcements in 1QFY13 fell again (after an uptick in 4QFY12) and continued the declining trend observed since FY10 onwards. New projects announcements declined 27%QoQ/ 39%YoY in 1QFY13. Government new project announcements stayed at the anemic level of 4QFY12 (+5%QoQ/- 45%YoY in 1QFY13). The expectation that government new project announcements, which were slow in 4QFY12 due to elections, would rebound due to a renewed push on capex by government departments/PSUs has not materialized so far.
- **Private new project announcements nosedive in 1QFY13** — More importantly, private new project announcements, which saw sequential improvements in 3QFY12 and 4QFY12, declined quite sharply in 1QFY13 (-39%QoQ/-35%YoY), signifying a weak investment environment. The 4-quarter moving averages of total/government/private new project announcements continued to head down.
- **Under-implementation but stalled projects moderate a bit** — Stalled projects (both in absolute terms and as a % of under implementation projects) have moderated a bit in 1QFY13 sequentially (-6%QoQ / but +65%YoY). This probably is due to the government's efforts to smooth out wrinkles in project implementation. However, we need to see a much more pronounced and sustainable decline in stalled projects to call it a definitive pick-up in the pace of execution.
- **Project completions remain sedate, projects shelved increased in 1QFY13** — Quantum of projects completed in 1QFY13 was up only 3% YoY (down 68% OoQ as 4QFY12 was last quarter of FY12 and 11th plan saw a push to announce project completions). Quantum of projects shelved also jumped sharply in 1QFY13 (but historical data series shows large fluctuations and hence deriving a trend from this datapoint may not be prudent).
- **Government action is the key** — Rapid progress on power sector reforms, land acquisition bill, improvement in coal production, increase in pace of various approvals from central and state governments and decline in cost of capital are key for a pick-up in new project announcements and the pace of capex.
- **Underlying does not support Jun12 stock rally** — Similar to Jan-Feb12 stock rally, Indian industrial, E&C, infrastructure and electric utility stocks have rallied sharply in Jun12 without too much fundamental support. We would advise investors to book some profits ahead of the start of the 1QFY13 earnings season.

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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No Respite Yet

The uptick in new project announcements in 4QFY12 was short-lived.

New project announcements in 1QFY13 fell again and the declining trend observed since FY10 onwards has continued.

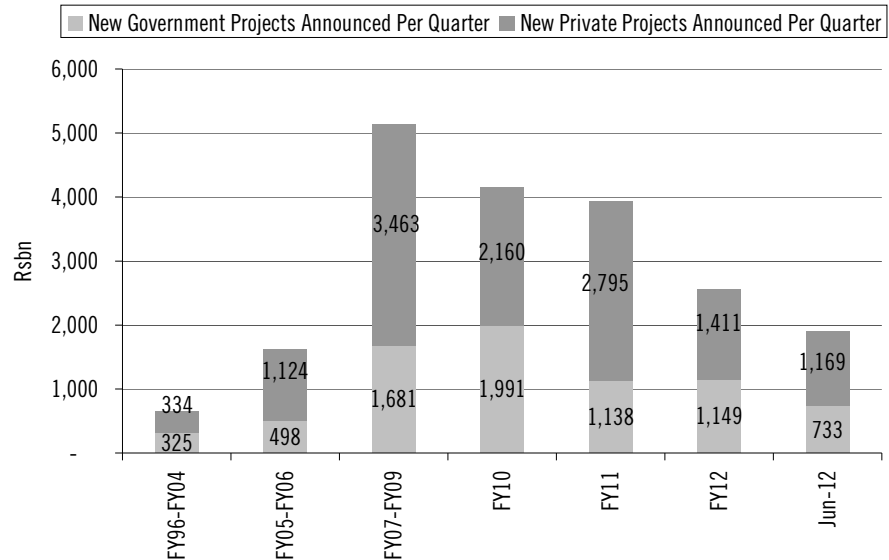
New project announcements declined ~27% QoQ and ~39% YoY in 1QFY13.

More importantly, private new project announcements, which saw sequential improvements in 3QFY12 and 4QFY12, declined quite sharply in 1QFY13 (-39%QoQ / -35%YoY), signifying a weak investment environment.

Government new project announcements remained at the anemic levels of 4QFY12 (+5%QoQ / -45%YoY in 1QFY13).

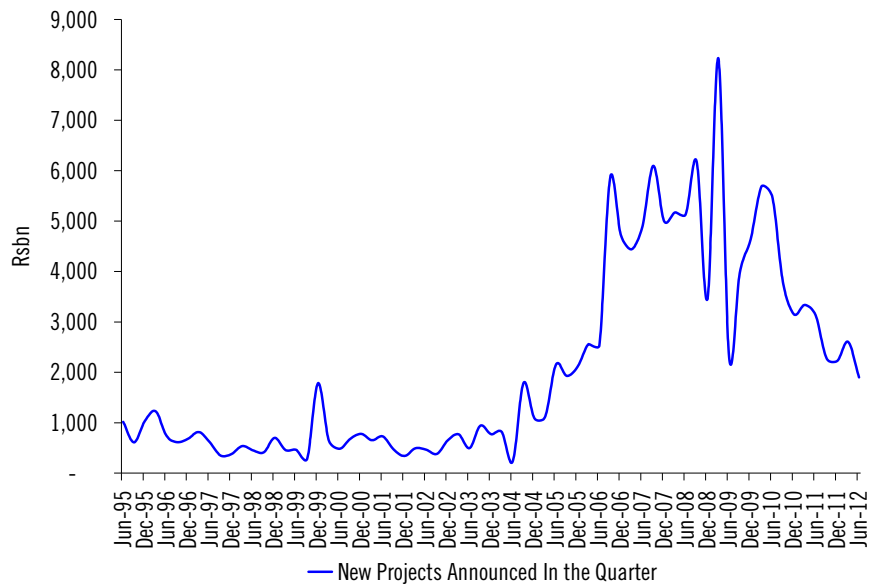
The expectation that government new project announcements, which were slow in 4QFY12 due to elections, would rebound post elections has not materialized.

Figure 1. New Project Announcements Per Quarter



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

Figure 2. New Project Announcements – Declining Trend Resumes After 4QFY12 Uptick



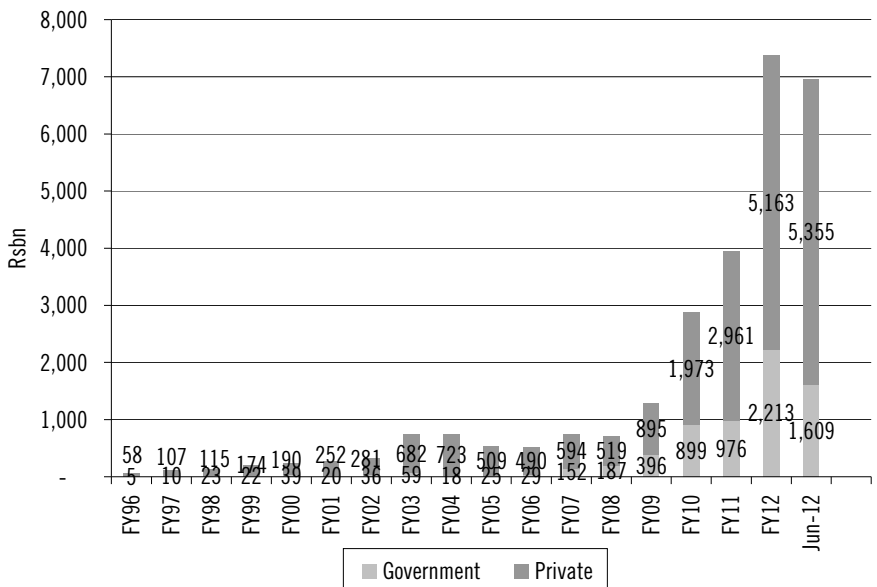
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Stalled projects (both in absolute terms and as a % of under implementation projects) moderated a bit in 1QFY13 sequentially (-6%QoQ / +65%YoY).

This probably is due to the government's efforts to smooth out wrinkles in project implementation.

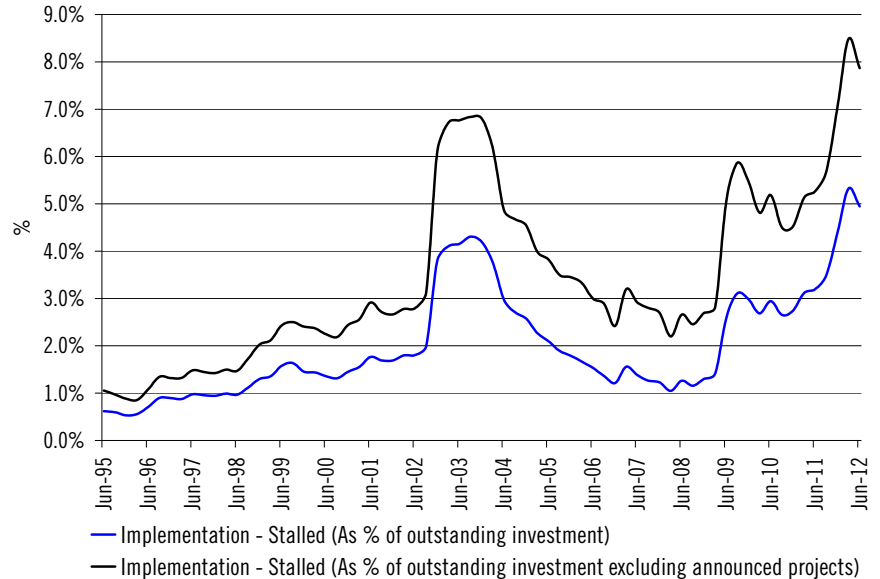
However, we need to see a much more pronounced decline in stalled projects to call it a sustained pick-up in pace of execution.

Figure 3. Under Implementation But Stalled Projects At Period End Moderated A Bit



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

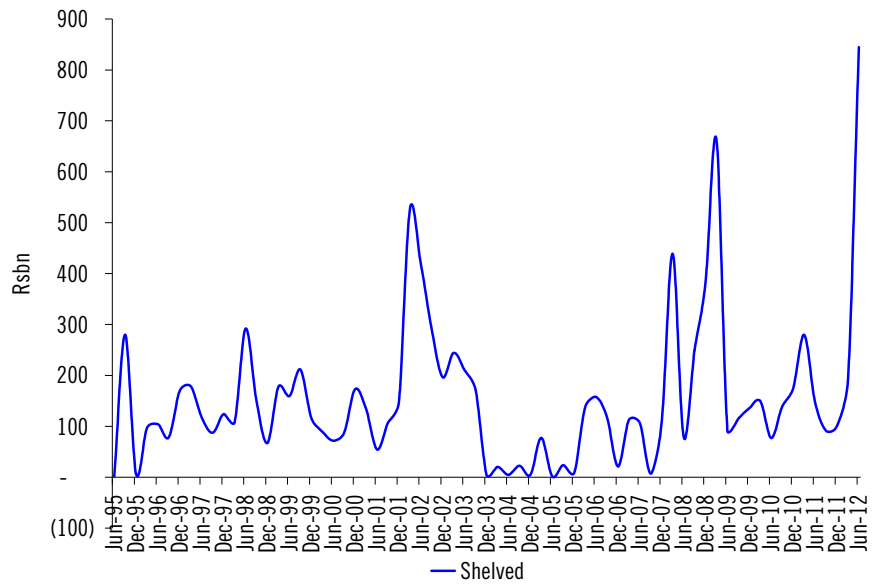
Figure 4. Stalled Projects As A % Of Total Outstanding Projects Also Moderated A Bit



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

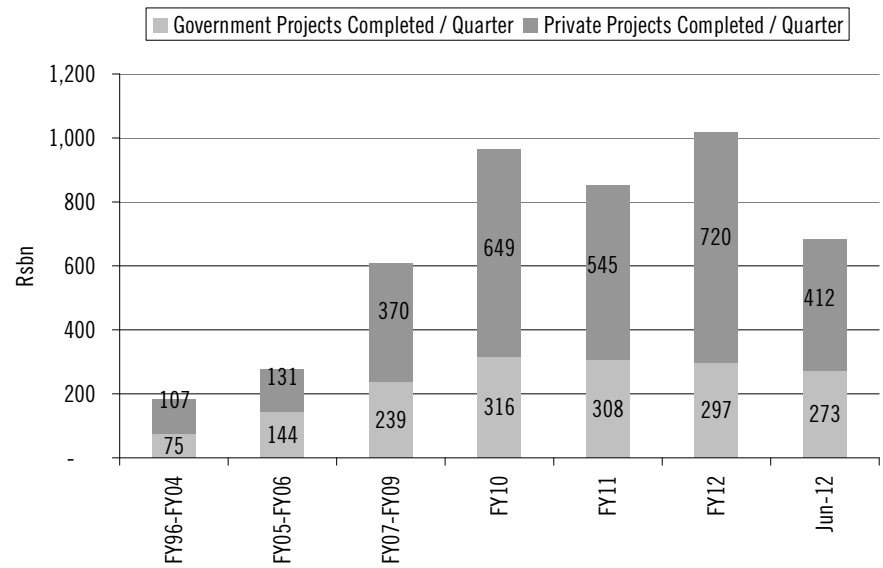
We also note that the quantum of projects shelved in 1QFY13 has jumped quite sharply but the historical time series has large fluctuations so it is difficult to derive a trend.

Figure 5. Shelved Projects



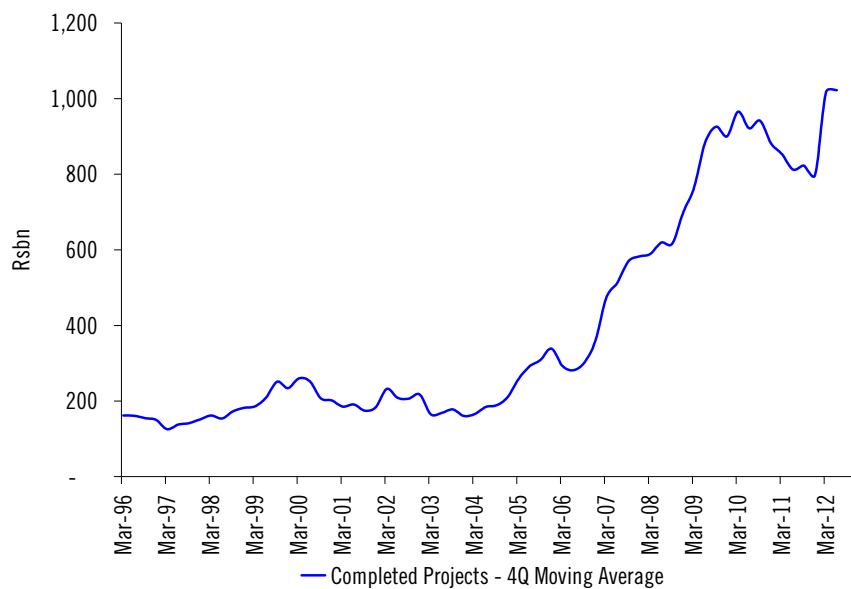
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 6. Completed Projects Per Quarter



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

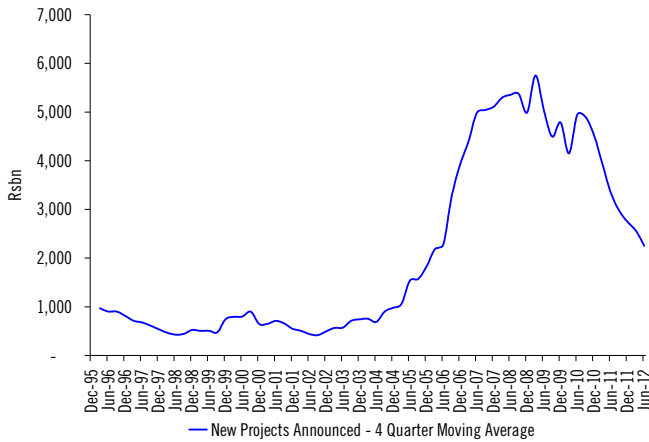
Figure 7. Completed Projects – 4Q Moving Average



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

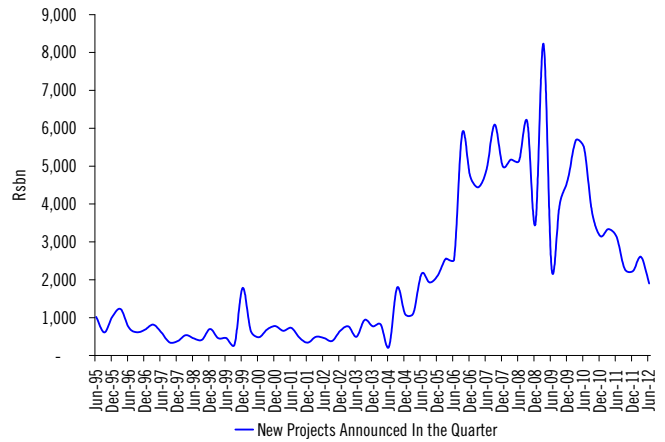
Longer Term Charts – New Projects

Figure 8. New Projects Announced In Quarter (4Q Moving Average)



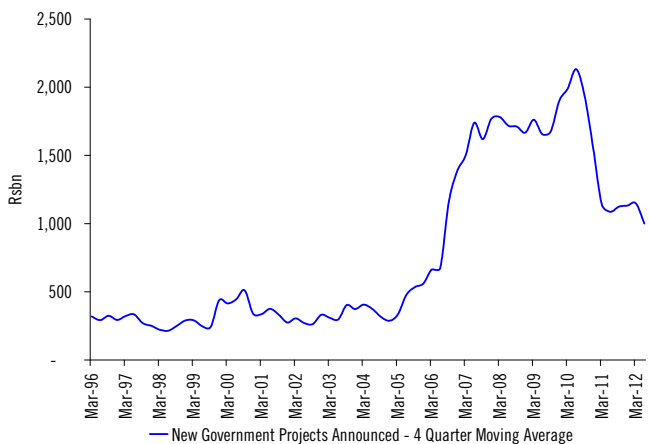
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 9. New Projects Announced In Quarter



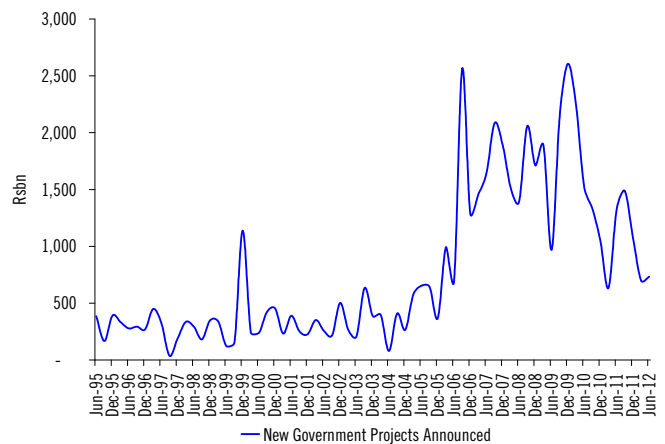
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 10. New Government Projects Announced (4Q Moving Average)



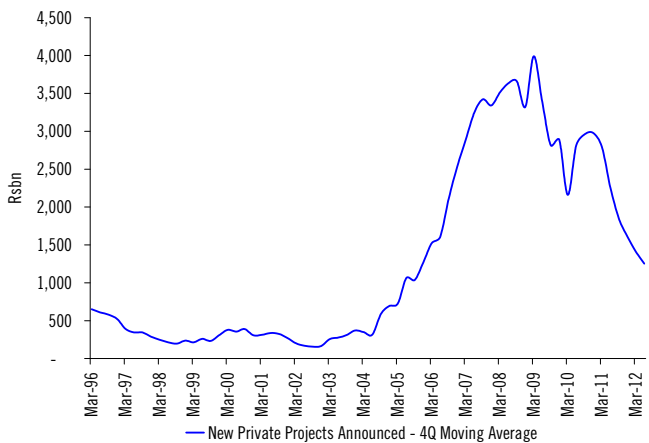
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 11. New Government Projects Announced In Quarter



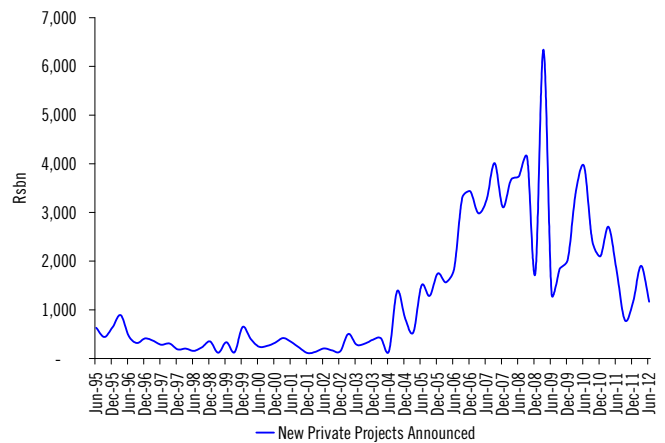
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 12. New Private Projects Announced (4Q Moving Average)



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

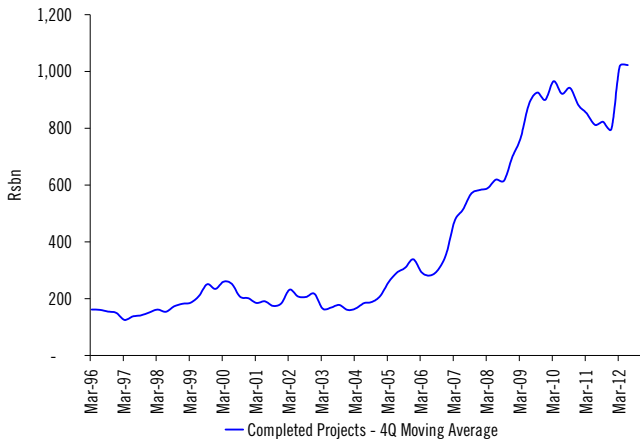
Figure 13. New Private Projects Announced In Quarter



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

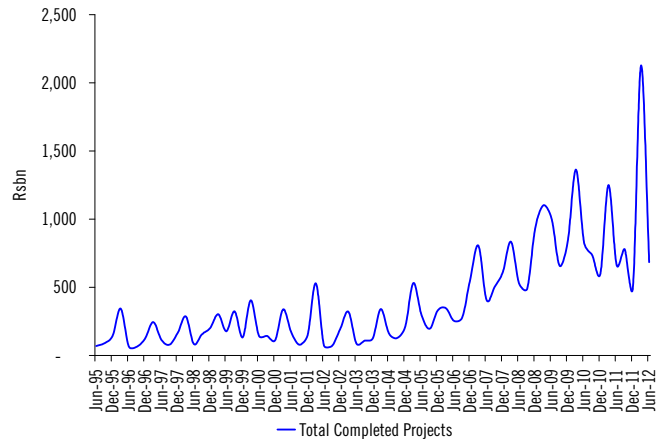
Longer Term Charts – Completed Projects

Figure 14. Completed Projects In The Quarter (4Q Moving Average)



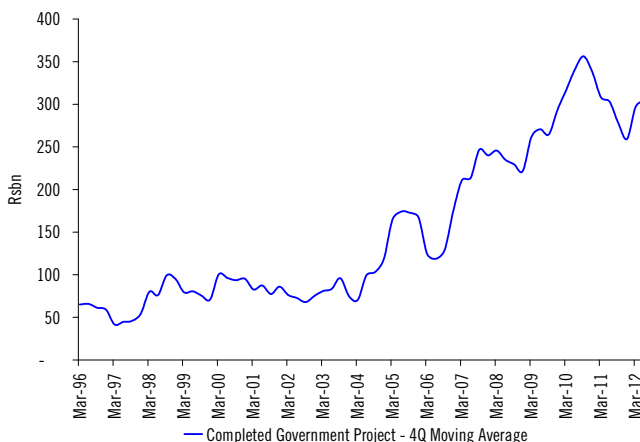
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 15. Completed Projects In The Quarter



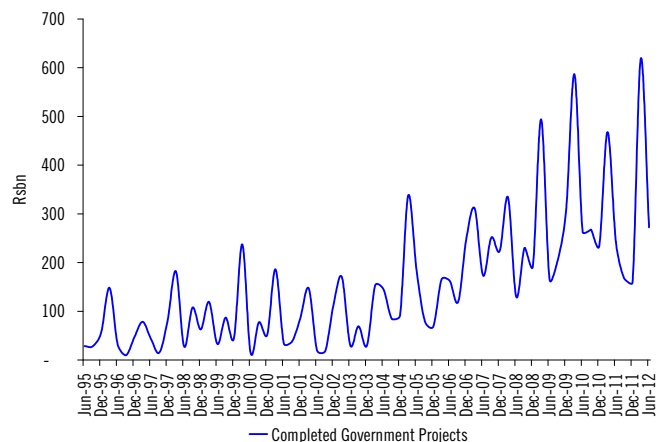
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 16. Completed Government Projects (4Q Moving Average)



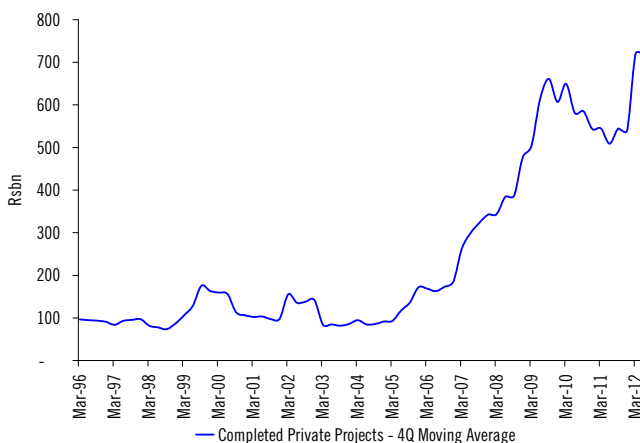
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 17. Completed Government Projects In The Quarter



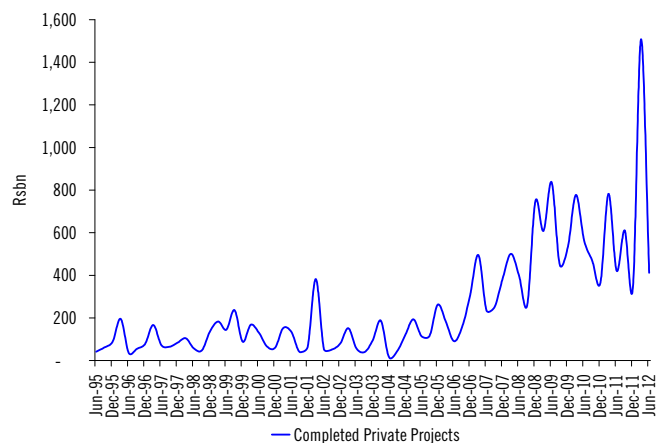
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 18. Completed Private Projects (4Q Moving Average)



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

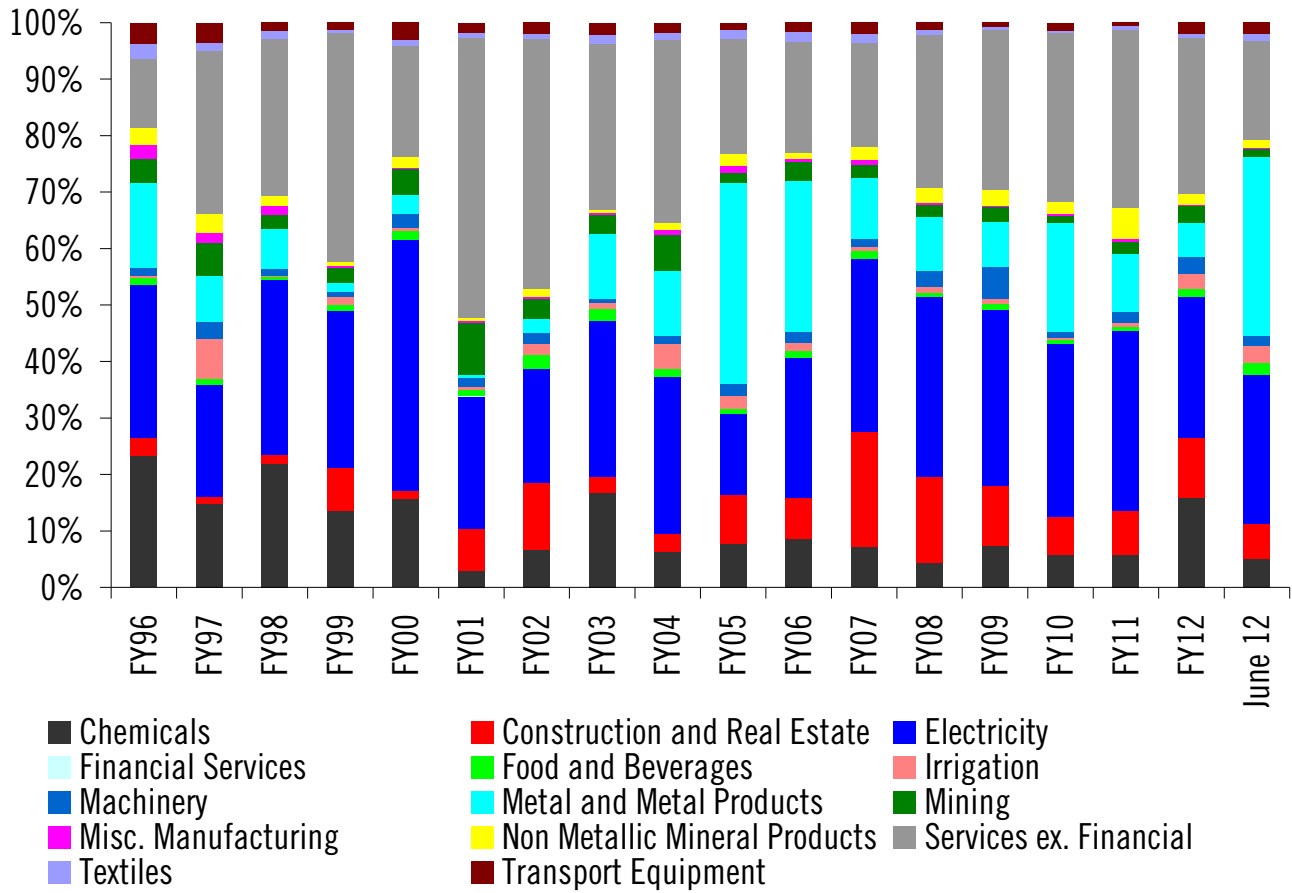
Figure 19. Completed Private Projects In The Quarter



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

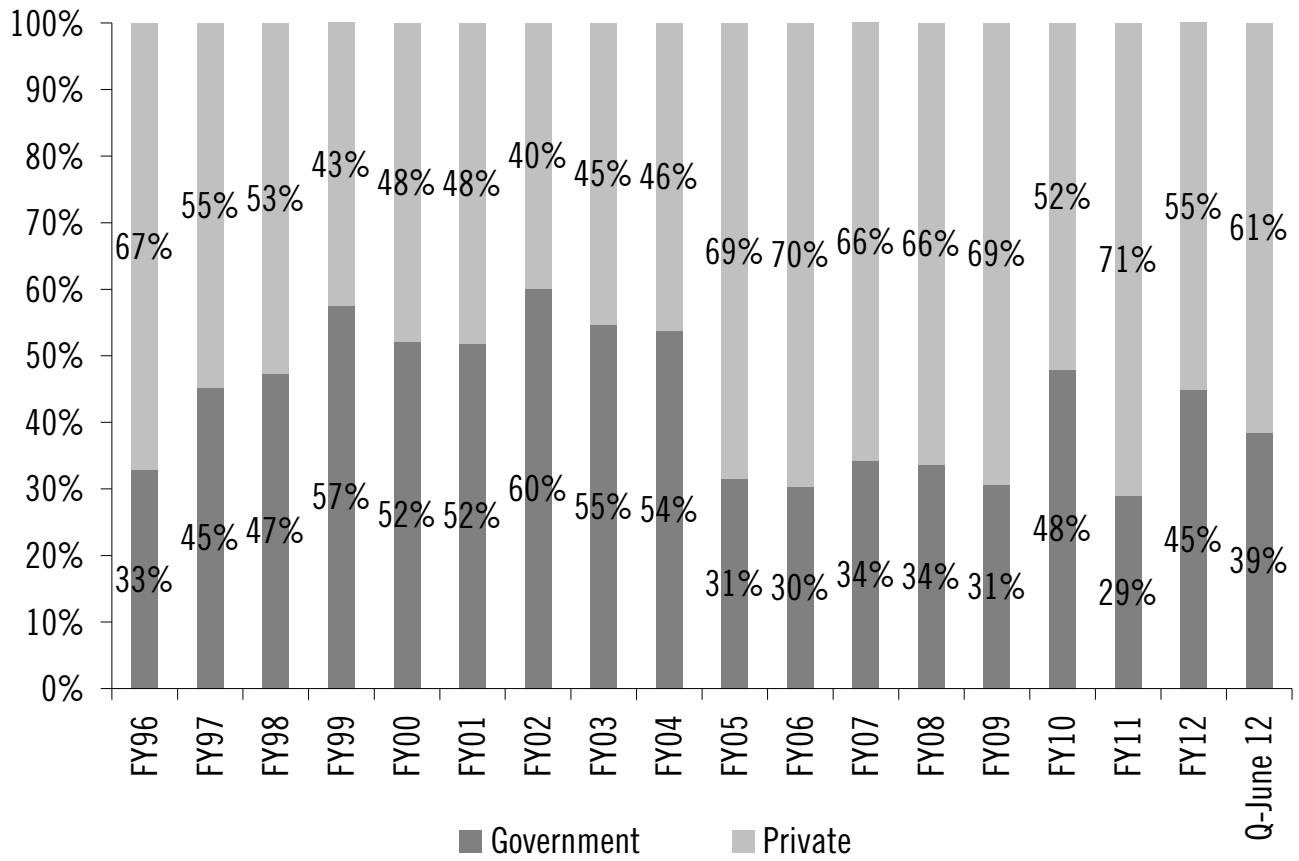
Sectoral Breakup

Figure 20. Sectoral Breakup – New Project Announcements



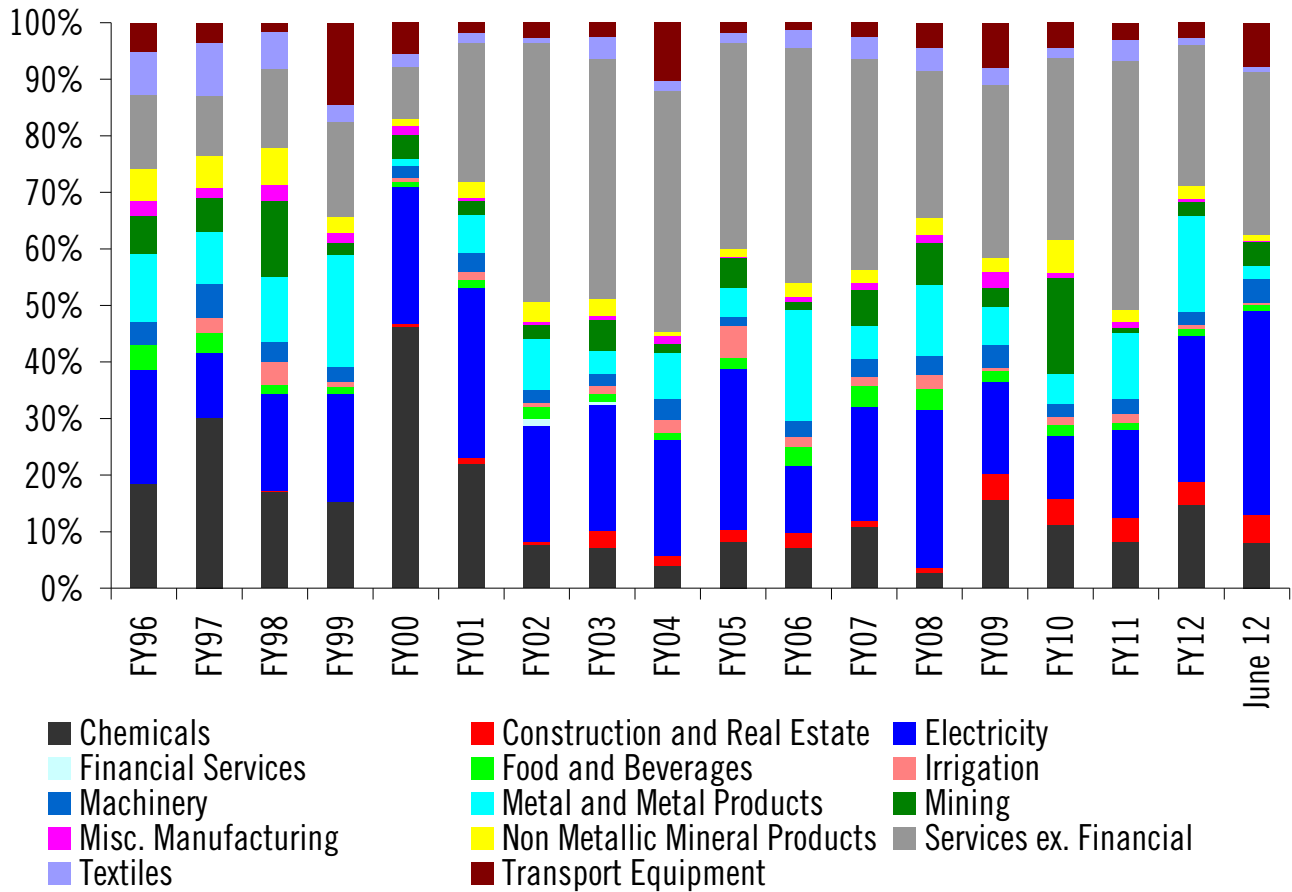
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 21. Ownership Breakup – New Project Announcements



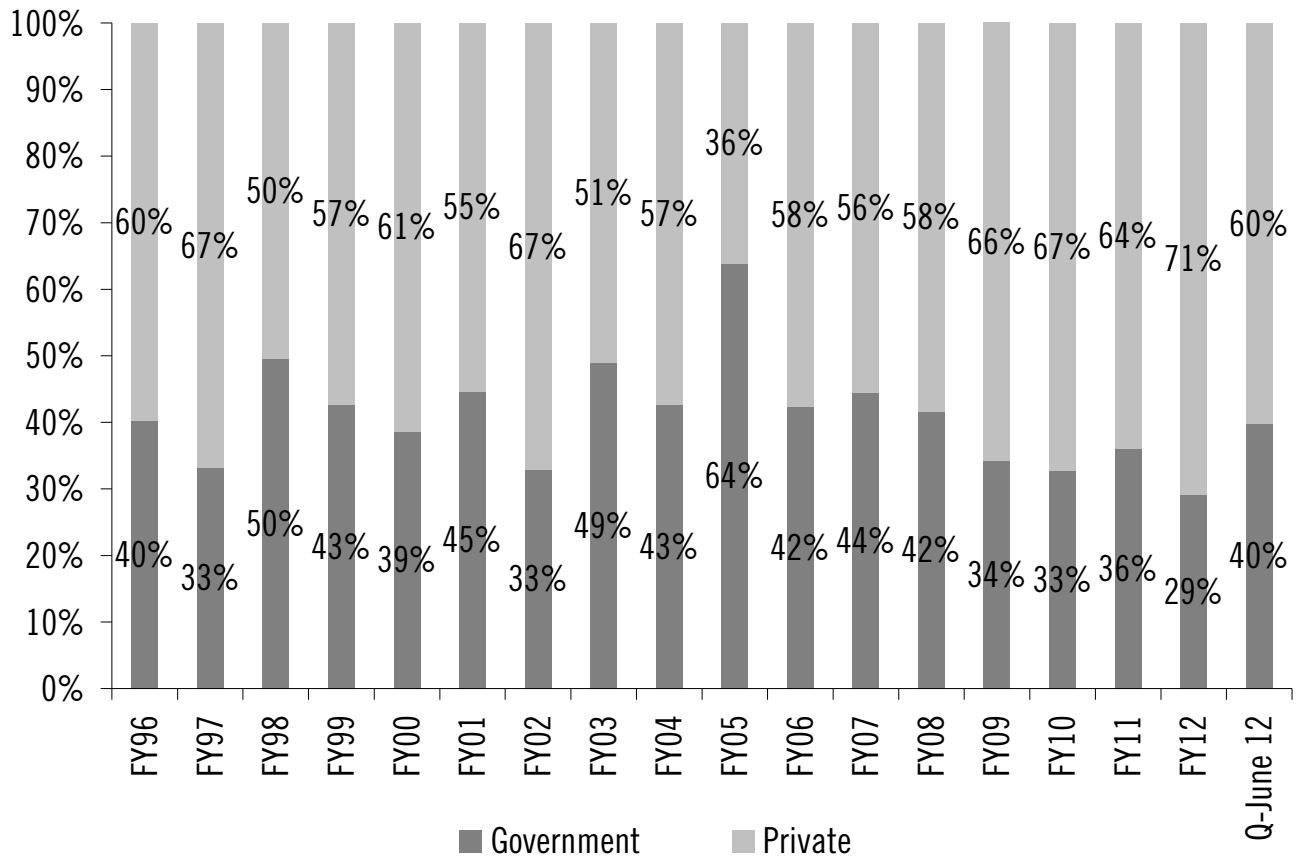
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 22. Sectoral Breakup – Completed Projects



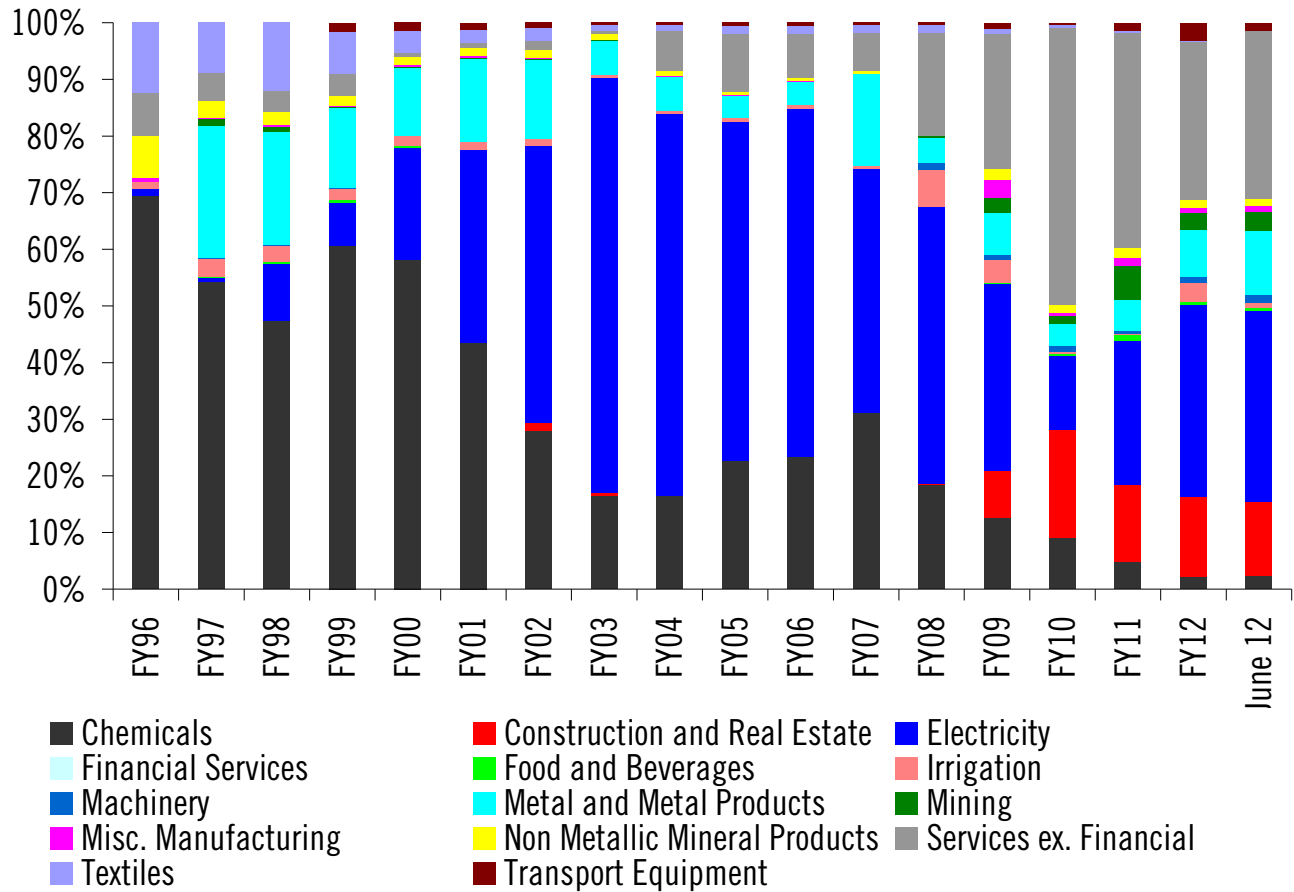
Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 23. Ownership Breakup – Completed Projects



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

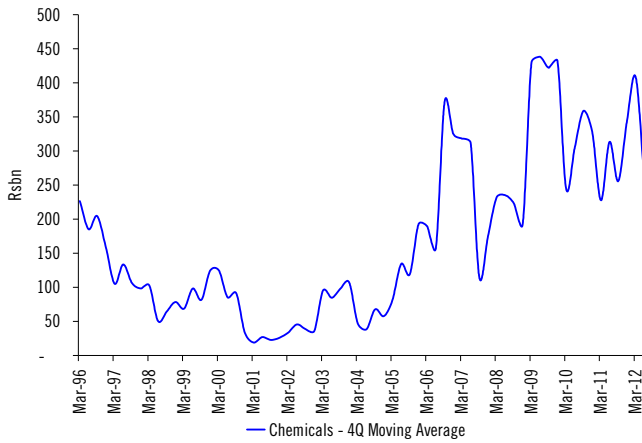
Figure 24. Stalled Implementation Projects – Sectoral Breakup



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

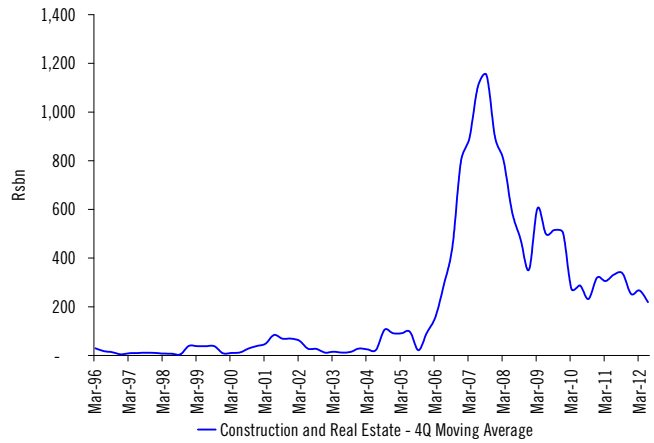
New Projects Announcements – Sectors

Figure 25. Chemicals – New Project Announcements



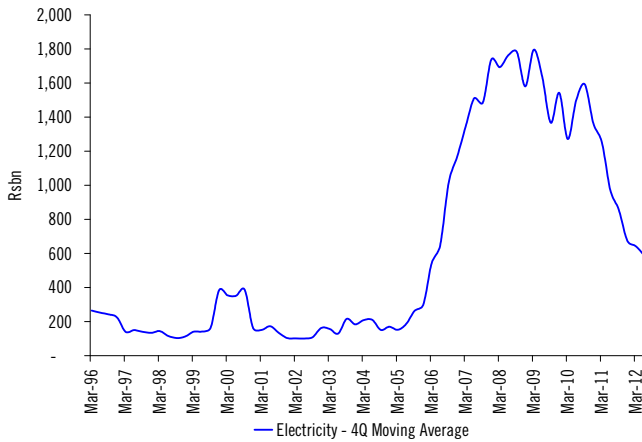
Source: CMIE, Citi Research

Figure 26. Construction – New Project Announcements



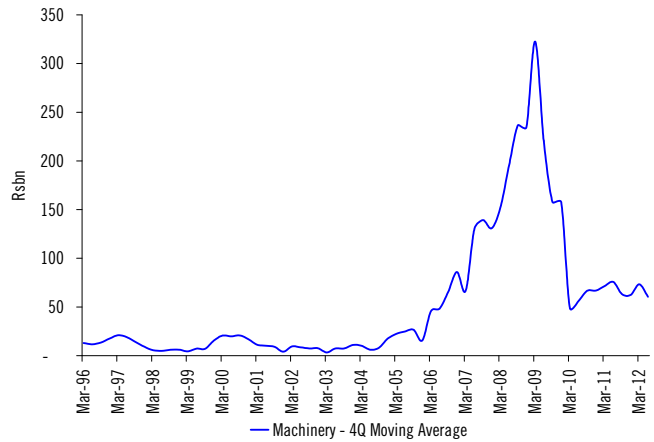
Source: CMIE, Citi Research

Figure 27. Electricity – New Project Announcements



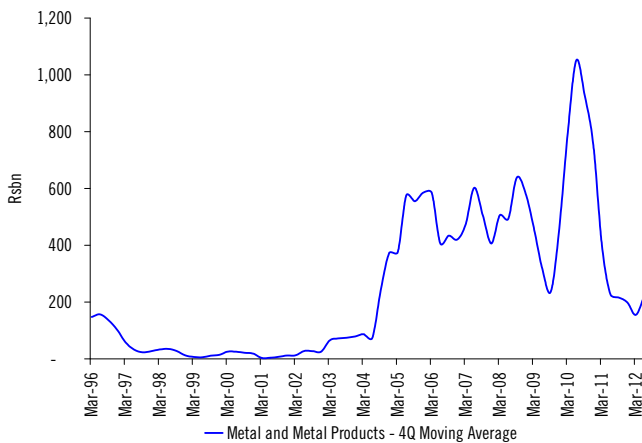
Source: CMIE, Citi Research

Figure 28. Machinery – New Project Announcements



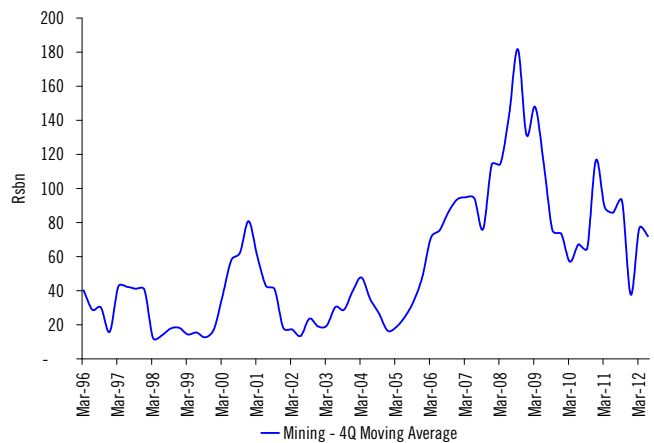
Source: CMIE, Citi Research

Figure 29. Metal and Metal Products – New Project Announcements



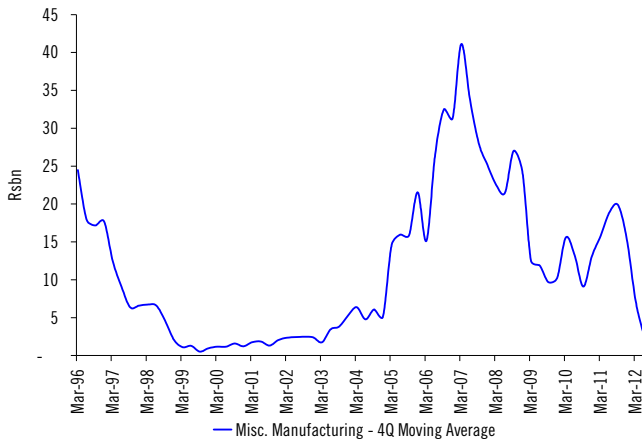
Source: CMIE, Citi Research

Figure 30. Mining – New Project Announcements



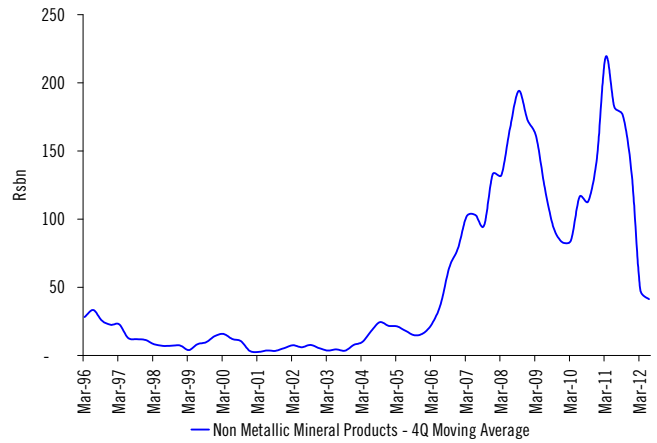
Source: CMIE, Citi Research

Figure 31. Miscellaneous Manufacturing – New Project Announcements



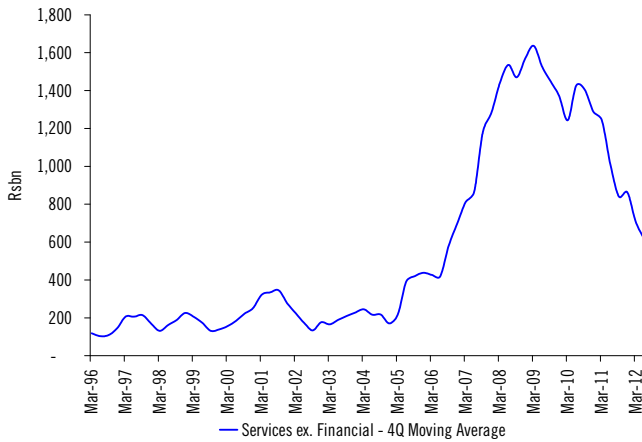
Source: CMIE, Citi Research

Figure 32. Non Metallic Mineral – New Project Announcements



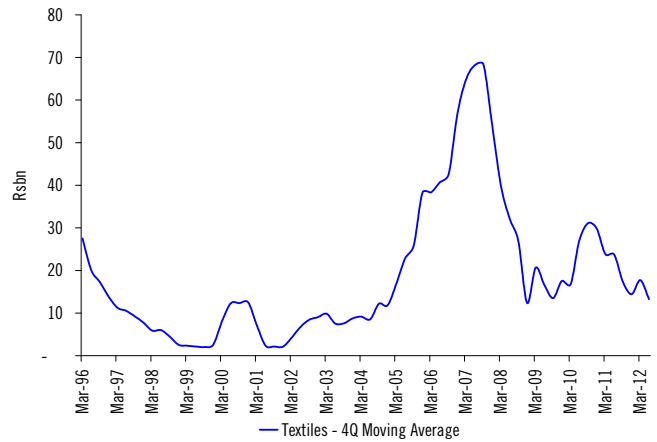
Source: CMIE, Citi Research

Figure 33. Services (ex. Financial) – New Project Announcement



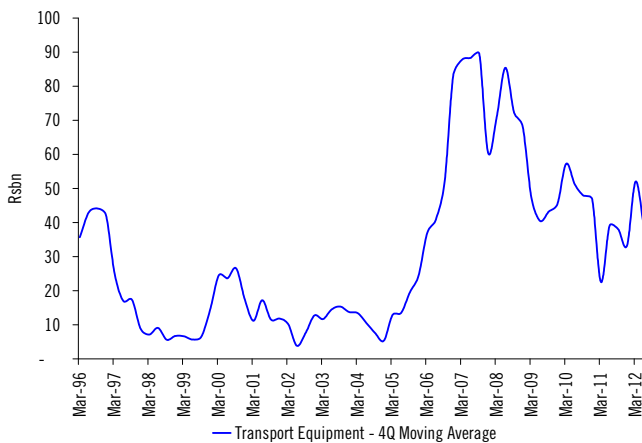
Source: CMIE, Citi Research

Figure 34. Textile – New Project Announcement



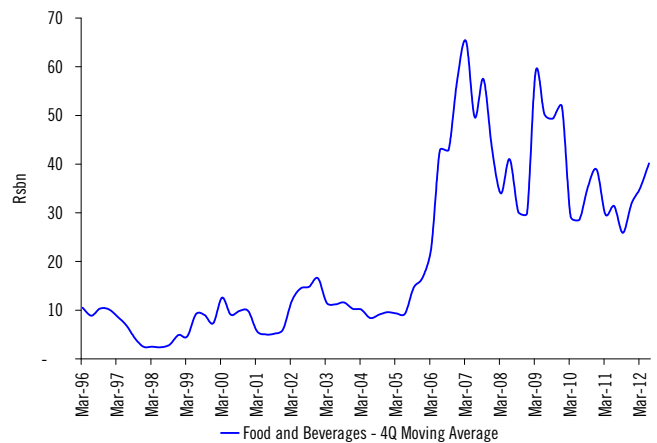
Source: CMIE, Citi Research

Figure 35. Transport Equipment – New Project Announcements



Source: CMIE, Citi Research

Figure 36. Food and Beverages – New Project Announcements



Source: CMIE, Citi Research

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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<i>Data current as of 30 Jun 2012</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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<i>% of companies in each rating category that are investment banking clients</i>	44%	43%	40%	48%	43%	45%

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