INFRA SCAPE

Union Budget 2020 – Metro rail in focus

India Equity Research | Infrastructure - Construction

The Union Budget 2020–21 delivered flat/marginal growth in outlays across various infra segments. The cumulative outlay for railways and highways is about INR3.1tn, just 1% higher than the FY20 revised estimate (RE)—while the railway budget has been increased 3% YoY, road outlay is slightly down. Allocations to urban infra projects such as metro rail and AMRUT, however, have been stepped up. With high hopes of a ramp-up in infra spending somewhat belied, infra stocks, having run up over the past month, may be under pressure in the short term. We continue to prefer companies with healthy balance sheets such as PNC Infratech and KNR Constructions.

Transport sector outlay remains broadly flat

The budget has allocated ~INR3.1tn to the transport sector compared with ~INR3tn in FY20 (RE). Out of this, outlay for the road sector at INR1.5tn marks a marginal decline compared with FY20 RE; on the other hand, railways' funding rose 3% to ~INR1.6tn. To address concerns regarding the growing borrowings at Indian Railways (IR) and the NHAI, the government has stepped up its commitment to the infra space—the share of budgetary support in the transport space is up from 46% in FY20 (RE) to 49% in FY21. In NHAI, the funds contributed by the internal and extra-budgetary resources (IEBR) are in fact down from INR750bn in FY20 (R.E.) to INR650bn in FY21. The IEBR in FY21 includes ~INR103bn of road asset monetisation (ToT).

Metro spending continues to gain government support

The FY21 budget marks the continuity of higher spending on metro rail projects; it is up 8% to INR196bn vis-a-vis FY20 (RE). The support to other urban infra projects such as Smart Cities and AMRUT (at INR65bn and INR73bn, respectively) is the same as the one outlined in the FY20 budget; accordingly, no incremental funds have been provided to these schemes even as there is a growth when seen in context to FY20 (RE) figures. The affordable housing space gets higher fund allocation—while the outlay for the PMAY (Urban) has been increased 17% to ~INR80bn, the spending for PMAY (Rural) scheme has been increased by 6% to ~INR195bn. The outlay for the rural road scheme—Pradhan Mantri Gram Sadak Yojana (PMGSY)—has jumped a whopping ~39% to INR195bn; however, this is due to under-achievement of the FY20 targets.

Outlook: Infra sector looking for more funding support

Except the metro rail and urban infra segments, the infra sector does not have much to cheer about in the FY21 budget. While the government has ambitious infra rollout plans (*'Infra Scape' - National Infra Pipeline: Aggressive intent, but funding key*), the weak economic growth is seen as a major impediment to fund-raising/availability. In this backdrop, we continue to prefer companies with low leverage such as PNC Infratech ('**BUY'**) and KNR Constructions ('**BUY'**).

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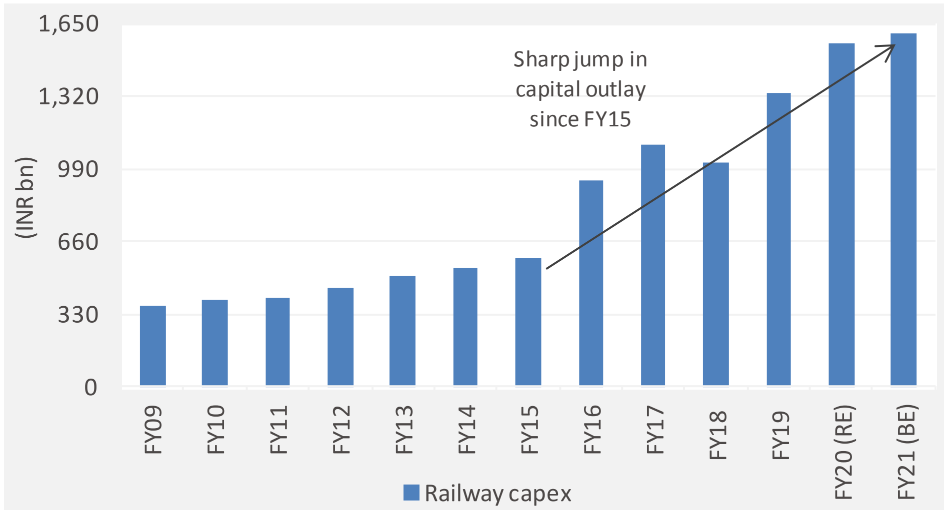
Budget 2020–21: Outlay growth moderates

Growth in allocation for the infra space moderated in the Union Budget 2020–21. As is always the case, the transportation space cornered the bulk of the allocation by garnering ~INR3.1tn. We analyse key provisions of the budget below.

Railway allocation inches up

After robust growth in outlays over the past few years (as part of the steps taken by the government to achieve its stated intent of a sustainable turnaround of Indian Railways), this budget shows slower growth in allocation. The government allocated ~INR1.6tn to the railway sector, growth of 3% over the revised capex of INR1.56tn in FY20 and 21% higher than the actual spending in FY19.

Chart 1: Railways—Strong uptick in capital outlay since FY15



Source: Government documents, Edelweiss research

Note: RE – Revised Estimate, BE – Budgeted Estimate

Table 1: Railways—Breakdown of proposed central plan outlay **(INR bn)**

Particulars	FY14 Actuals	FY15 Actuals	FY16 Actuals	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Budget estimates	FY20 Revised estimates	FY21 Budget estimates
Budgetary support	271	301	350	452	434	528	658	678	700
IEBR	269	286	585	647	586	805	941	882	908
Total	**540**	**587**	**935**	**1,099**	**1,020**	**1,334**	**1,599**	**1,561**	**1,608**

Source: Government documents, Edelweiss research

Within the overall railway allocation, both the budgetary support and IEBR witnessed ~3% YoY growth each.

Railways will focus on:

- setting up a large solar power capacity alongside rail tracks on the land owned by IR;
- four station re-development projects while operation of 150 passenger trains would be done through PPP mode;
- high speed train between Mumbai and Ahmedabad; and

- developing the 148km Bengaluru suburban transport project at a cost of INR186bn. It would have fares on the metro model. The central government would provide 20% of equity and facilitate external assistance up to 60% of the project cost.

Roads outlay disappoints

The road network development got a setback in the budget. Total road sector capex at INR1.47tn is marginally lower than the revised FY20 figure. The outlay for FY21 is about 14% higher than the actual spend of ~INR1.29tn in FY19.

Table 2: Roads—Breakdown of proposed central plan outlay **(INR bn)**

Particulars	FY14	FY15	FY16	FY17	FY18	FY19	FY20 (B.E.)	FY20 (R.E.)	FY21 (B.E.)
Budgetary support	207	253	275	412	508	676	721	722	820
IEBR	79	33	280	331	505	612	750	750	650
Total	**287**	**287**	**555**	**743**	**1,013**	**1,289**	**1,471**	**1,472**	**1,470**

Note: RE – Revised Estimate, BE – Budgeted Estimate

Source: Government documents, Edelweiss research

Table 3: NHAI—Breakdown of proposed central plan outlay **(INR bn)**

Particulars	FY14	FY15	FY16	FY17	FY18	FY19	FY20 (B.E.)	FY20 (R.E.)	FY21 (B.E.)
Budgetary support	116	150	230	149	239	393	367	367	425
IEBR	79	33	280	331	505	612	750	750	650
Total	**196**	**184**	**510**	**480**	**744**	**1,005**	**1,117**	**1,117**	**1,075**

Note: RE – Revised Estimate, BE – Budgeted Estimate

Source: Government documents, Edelweiss research

Worried about the surging debt at NHAI, the government responded by increasing the budgetary outlay for roads by ~14%; at the same time, the IEBR for NHAI is projected to decline 13% YoY. Like last year, the projected road outlay includes a figure of ~INR100bn of road monetisation through the Toll-operate-Transfer (ToT) model.

The government will focus on development of 2,500km access control highways, 9,000km of economic corridors, 2,000km of coastal and land port roads, and 2,000km of strategic highways. The Delhi-Mumbai Expressway and two other packages would be completed by 2023 while the Chennai-Bengaluru Expressway would also be started. The government is aiming to monetise at least 12 lots of highway bundles aggregating 6000km-plus before 2024.

Budget: Other major highlights

Apart from the transport sector, other infra sub-segments also received a fair share of allocation. These include:

Table 4: Urban infra and affordable housing—Proposed plan outlay (INR bn)

Particulars	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	FY20 B.E.	FY20 R.E.	FY21 B.E.
Affordable Housing							
PMAY-U	15	49	86	61	69	69	80
PMAY-R	101	161	226	193	190	185	195
Urban Infra							
Metro and MRTS	93	153	140	144	181	182	196
Other Infra							
AMRUT	27	49	49	62	73	64	73
Smart City	15	44	45	59	65	35	65

Note: RE – Revised Estimate, BE – Budgeted Estimate

Source: Government documents, Edelweiss research

- **Metro rail**: The Metro rail segment is likely to get ~INR196bn worth of support in FY21 compared with ~INR182bn (RE) in FY20 and INR144bn in FY19.
- **Affordable housing**: In affordable housing, the PMAY (Urban) witnessed a higher allocation with FY21 outlay at INR80bn compared with INR69bn in FY20 (RE). On the other hand, the rural component, i.e., PMAY-Rural's allocation rose from INR185bn in FY20 (RE) to INR195bn in FY21.
- **Urban infra**: Total outlay for Smart Cities will be INR65bn in FY20 against ~INR35bn in FY20 (RE). Allocation to the AMRUT programme is likely to rise from INR64bn in FY20 (RE) to INR73bn in FY21.
- **Swachh Bharat Mission**: Total allocation for the Swachh Bharat Mission is about INR123bn for FY21.
- **Jal Jeevan Mission**: The mission aims to provide piped water supply to all households; the government has approved INR3.6tn for this Mission. During FY21, the scheme gets a budget of INR115bn.
- **SMART Cities:** The government has proposed to develop five new smart cities in collaboration with states on the PPP mode.
- **Ports:** The government would consider corporatising at least one major port, and subsequently its listing.
- **Inland Waterways:** The Jal Vikas Marg on National Waterway-1 will be completed. Furthermore, the 890km Dhubri-Sadiya connectivity will be done by 2022.
- **Aviation**: One hundred more airports would be developed by 2024 to support the ***Udaan*** scheme.
- **Power:** Measures to reform DISCOMs would be taken. The government has allocated INR220bn to the power and renewable energy sector in FY21.
- **Gas:** The government proposes to expand the national gas grid from 16,200km at present to 27,000km.

- **Infra financing:** The government had announced the NIP for INR1.03tn projects; about INR220bn of funds have been already provided for as support to the NIP. This would cater to the equity support for Infrastructure Finance Companies such as IIFCL and a subsidiary of NIIF. They would leverage it, as permissible, to create a financing pipeline of more than ~INR1tn. This would create a major source of long-term debt for infrastructure projects and fulfill a long awaited requirement.

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
02-Jan-20	**Construction**	National Infra Pipeline: Aggressive intent, but funding key; *Sector Update*		
18-Nov-19	**Sadbhav Engineering**	Mixed bag; *Result Update*	117	Buy
18-Nov-19	**J Kumar Infraprojects**	Execution ramps up; order-wins bring cheer; *Result Update*	160	Buy

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	> 50bn	Between 10bn and 50 bn	< 10bn
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