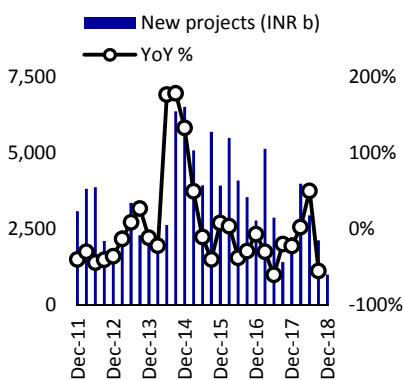
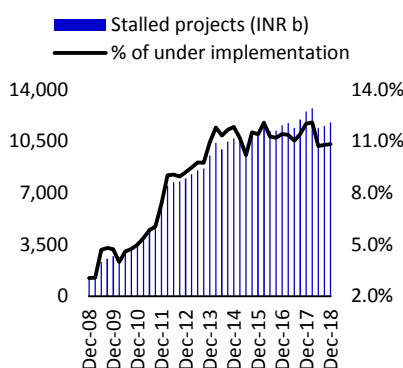


Capex tracker

New project announcements down 55%



Stalled projects remain at elevated levels (10.8% of the projects)



New project announcements down sharply to 14-year low

Weakness witnessed across segments

We highlight key takeaways from the capex data released by the Centre for Monitoring Indian Economy (CMIE), which we use as a proxy for the Indian capex cycle. The CMIE tracks projects across various stages of announcements, implementations and completions, and takes into account stalled/shelved projects.

New project announcements decline sharply to 14-year low

- New project announcements declined sharply by 55% YoY to INR1.0t in 3QFY19, impacted by weakness across segments barring construction and real estate (supported by the low base of 3QFY18). Rising policy uncertainties ahead of the general elections and current liquidity tightness prevailing in the economy have also added to the turmoil. While manufacturing declined 62% YoY (INR333b) and services declined 72% YoY (INR243b), construction and real estate projects increased 288% YoY (INR242b) supported by a weak base in 3QFY18.
- Key new projects announced during the quarter were mainly from the state governments, which include (a) the Taloja affordable housing project (worth INR180b) from the Maharashtra state government, (b) the Rayapudi government office complex (INR35b), and (c) the Mahipalpur bypass –NH8 from the Delhi state government (INR20b).
- Private sector project announcements declined 64% YoY to INR497b in the quarter. Private sector projects accounted for 50% of the new projects announced in 3QFY19. Government project announcements dropped 41% YoY to INR506b (central government projects contributed 26%, the lowest contribution in the last 23 years; balance was contributed by state and local governments) in 3QFY19.
- For 9MFY19, new project announcements declined by 7% YoY to INR6.1t owing to a decline in government project announcements (-31% YoY to INR2.1t), partly offset by increased private sector announcements (+15% YoY to INR4.0t).

Project completions drop 30% YoY to INR829b

- Project completions declined 30% YoY to INR829b in 3QFY19, much lower than the average quarterly run-rate of INR1.4t during the last three years, and also the lowest level in three years. Project completions have been on a downtrend post the implementation of structural reforms like demonetization and GST (renegotiation of contracts), with severe impact seen in sectors like manufacturing (-85% YoY, INR78b) and electricity (-60% YoY, INR59b).
- For 9MFY19, project completion declined 8% YoY, impacted by a subdued trend in chemicals & chemical products (-32% YoY, INR280b), transport equipment (-61% YoY, INR36b) and electricity (-44% YoY, INR551b) segments. Services segment witnessed a pick-up in project completion (+22% YoY, INR1.1t) in 9MFY19, supported by the transport (road, rail) segment (+26% YoY, INR717b).

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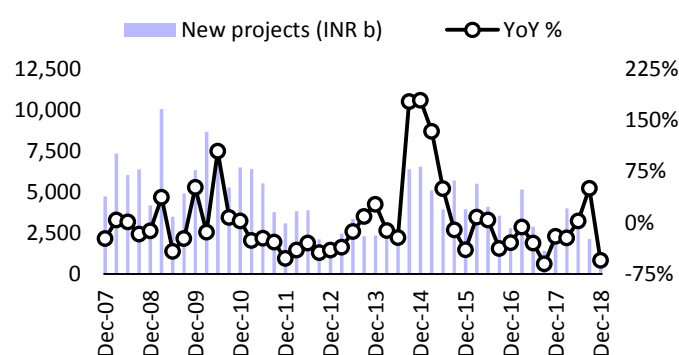
Stalled projects remain elevated at INR11.8t, account for 10.8% of projects under implementation

- Stalled projects remain elevated at INR11.8t, accounting for 10.8% of projects under implementation – this, however, is lower than the peak levels of 12.2% in Mar’18. Stalling of projects can be attributed to the lack of environmental clearances, low fuel availability, insufficient funds and land acquisition-related problems. 82% of stalled projects are private sector projects.
- By sector, power accounts for majority (35%) of the stalled projects, followed by manufacturing (30%), transport services (16%) and construction (11%). A high number of stalled projects is a key reason for subdued new project proposals/announcements.

Projects under implementation up 4%, supported by government projects

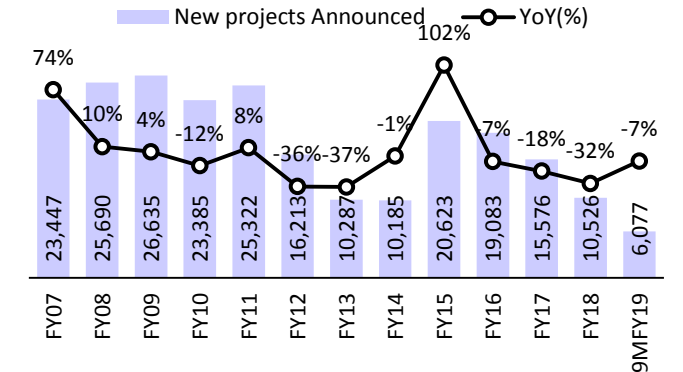
- Projects under implementation saw a muted increase of 4% YoY to INR109t in 3QFY19. Around 63% of projects under implementation are from the government sector (the highest since Jun’06); private sector accounts for 37%, which is reflective of the reluctance of the private sector to invest in new capacity, given (a) a constrained demand scenario and resultant underutilization, and (b) over-leveraged balance sheets.
- Sectors registering strong growth are textiles (+34% YoY), transport equipment (+17% YoY), and communication services (+55% YoY).
- For 9MFY19, projects under implementation increased by 3% YoY.

Exhibit 1: New project announcements declined sharply (-55% YoY in 3QFY19)



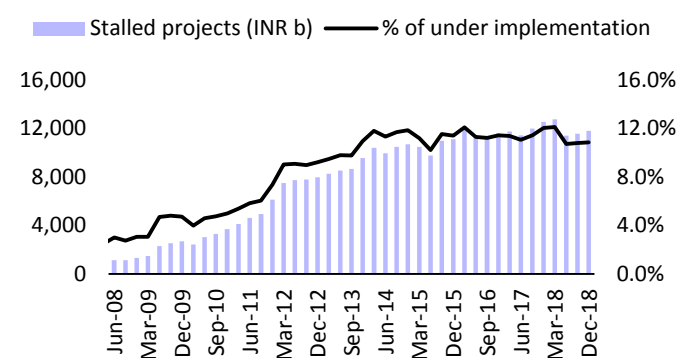
Source: MOSL, Company

Exhibit 2: New project announcements decline (-7% YoY) in 9MFY19



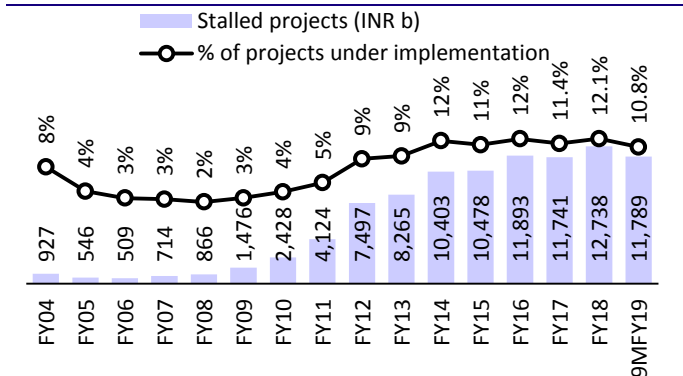
Source: MOSL, Company

Exhibit 3: Stalled projects remain at elevated levels (10.8% of projects under implementation)



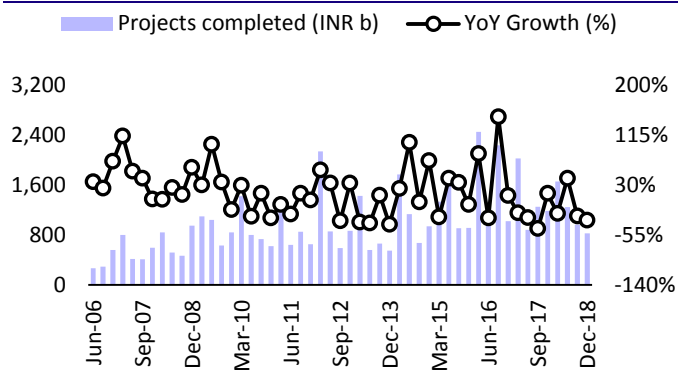
Source: MOSL, Company

Exhibit 4: 82% of stalled projects are from the private sector



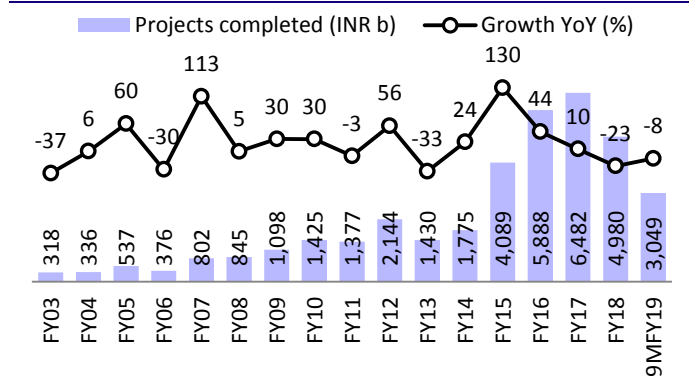
Source: MOSL, Company

Exhibit 5: Project completion declines sharply by 30% YoY in 3QFY19



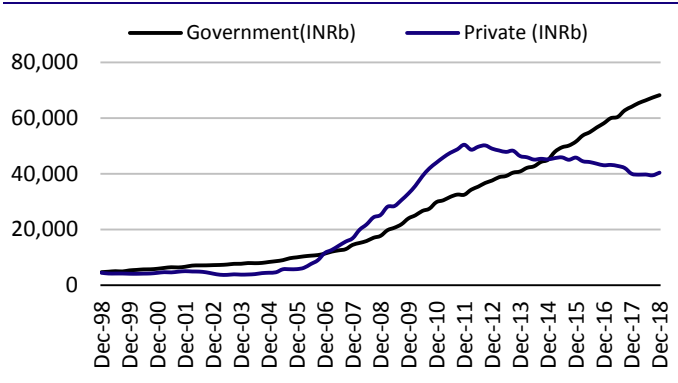
Source: MOSL, Company

Exhibit 6: Project completion declines 8% in 9MFY19, impacted by implementation of structural reforms



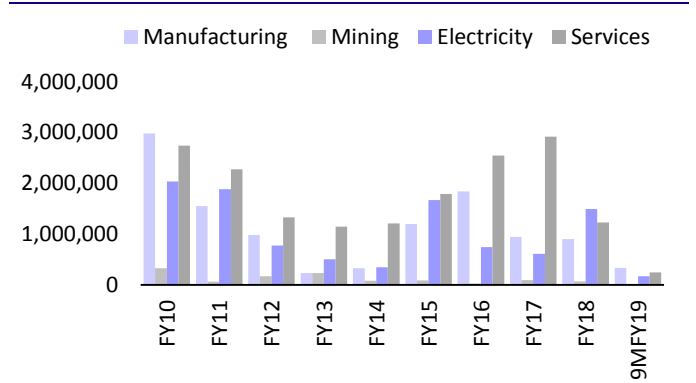
Source: MOSL, Company

Exhibit 7: Projects under implementation supported by government projects



Source: MOSL, Company

Exhibit 8: New projects announced down 7% in 9MFY19



Source: MOSL, Company

NOTES

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Investment Rating	Expected return (over 12-month)
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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