

FY18 private sector capex declines for seventh year in a row**Project sanctions by banks indicates revival around the corner**

FY18 private sector capex down 13% YoY at INR1.5t; marks seventh year of decline: Private sector capex, which peaked in FY11 at INR3.7t, has been on a declining trend since the past seven years. And now, during FY18, it hit its lowest level since FY07, declining 13% YoY to INR1.5t (See Exhibit 1). Also, capex based on projects sanctioned by banks/FIs (excluding ECBs/equity issuances) declined 10% YoY to INR1.2t. The decline in private capex can be attributed to (a) weak end-market demand resulting in under-utilization of capacity, (b) high leverage with companies in sectors like steel, power, and infrastructure, which constrains new borrowings and resultant capex, and (c) delays in land acquisition and clearances.

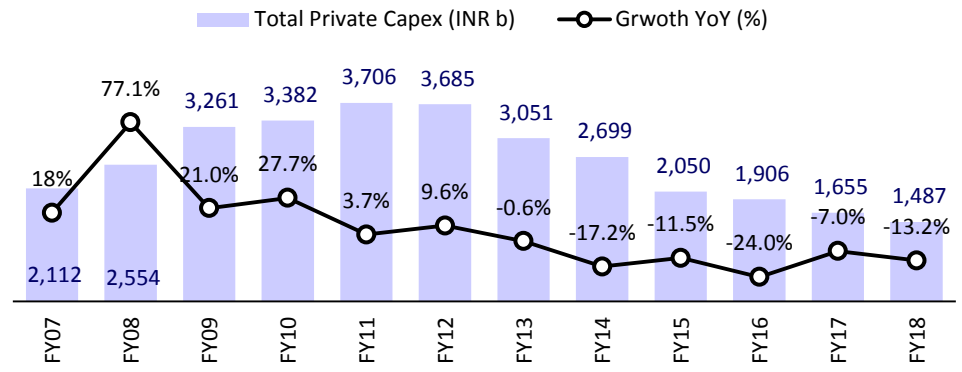
Projects sanctioned (by banks, ECBs and equity issuances) declines 4% YoY to INR2.0t in FY18 on multi-year high base of FY17: In FY18, 782 companies obtained project sanctions worth INR2.0t (-4% YoY) v/s 922 companies with projects worth INR2.2t in FY17. Projects sanctioned by banks/FIs declined 5% YoY to INR1.72t in FY18, due to a high base in FY17 (1.82t; +92% YoY). Note that project sanctions from banks/FIs peaked in FY10 (INR4.3t), post which there was a subsequent decline in capex (See Exhibit 2). With a sharp revival seen in sanctions since FY17, we expect private capex to see an improvement post general election in FY20.

Share of Power sector in projects sanctioned dips to 38% in FY18 (45% in FY17); Chemicals and Fertilizers' rises to 11% (2% in FY17): Share of the Power sector declined to 38% (primarily renewables, in our view) on a lower share of coal-fired plants. Chemicals and Fertilizers (11% share v/s 2% in FY17), Roads, Bridges and Waterways (10% share v/s 7% in FY17), Metals (9.5% v/s 5.0% in FY17), Construction (5% share v/s 12% in FY17), Transport Equipment (4% share v/s 0.5% in FY17) and Textiles (4% share, flat YoY) together contributed another 42% to projects sanctioned.

Share of greenfield projects surge (89% of sanctions) driven by large ticket projects (>INR10b): The share of greenfield project sanctions increased to 89%, which is the highest in the last six years (a higher share of greenfield projects reflects renewed confidence in companies as regards future demand/utilization). Moreover, we note that large-sized projects (>INR10b) constitute ~63% of the projects sanctioned (59% share in FY17 and 78% share at its peak in FY10). This clearly indicates that big-ticket green/brown field expansions are starting to revive.

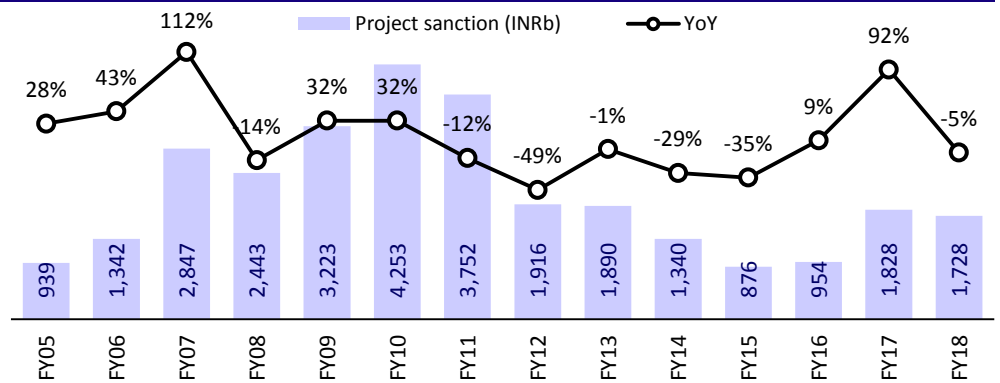
Valuation and View: We reiterate our view that private sector capex is bottoming out and is likely to revive over the next 12-18 months. This is corroborated by the consistency witnessed in the project sanctions done by banks for the last two years. Our top picks in the Industrial sector are L&T (BUY, TP: INR1,610), Cummins (BUY, TP: INR950) and Thermax (BUY, TP: 1,240).

Exhibit 1: Private sector capex dips 13% YoY in FY18 to INR1.5t (seventh year in a row)



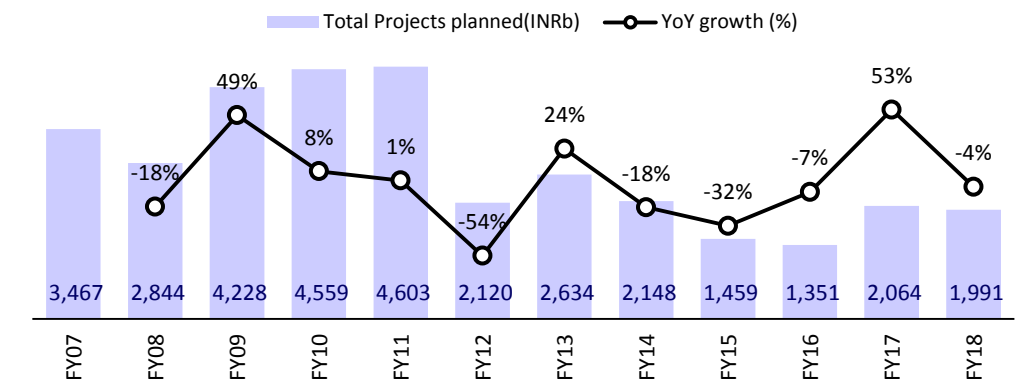
Source: MOFSL, RBI

Exhibit 2: Project sanctions from banks/FIs decline 5% in FY18, capex to follow



Source: MOFSL, Company

Exhibit 3: Project sanctioned including ECB/Equity issuances down 4% YoY to INR2.0t



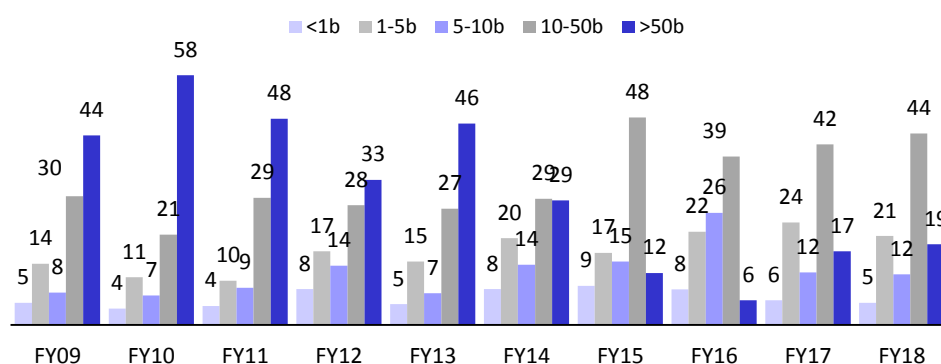
Source: MOFSL, Company

Exhibit 4: Share of Power sector in projects sanctioned declines in FY18, Chemicals and Fertilizers sees a surge (% of total)

Sector	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Power	42.4	39.4	35.1	42.2	57.2	45.1	38.2
Ports and Airport	1.3	1.9	0.8	-	2.4	5.6	3.0
Water management	0.5	-	1.1	0.6	4.2	3.6	0.3
Roads & Bridges	-	-	1.2	0.3	7.6	7.2	9.8
Construction	1.7	2.8	2.1	4.0	1.8	11.8	5.1
Metals	16.3	28.9	17.0	17.4	1.5	4.8	9.5
Transport Eqpt	2.6	0.9	1.2	5.3	2.5	4.3	0.3
Textiles	7.0	1.9	10.3	4.1	4.8	4.0	3.6
Cement	2.0	3.9	7.1	3.8	1.9	2.2	0.6
Chemicals & Pesticides	3.5	1.1	1.0	2.6	1.6	2.1	11.1
Others	22.7	19.2	23.1	19.7	14.5	9.3	18.5

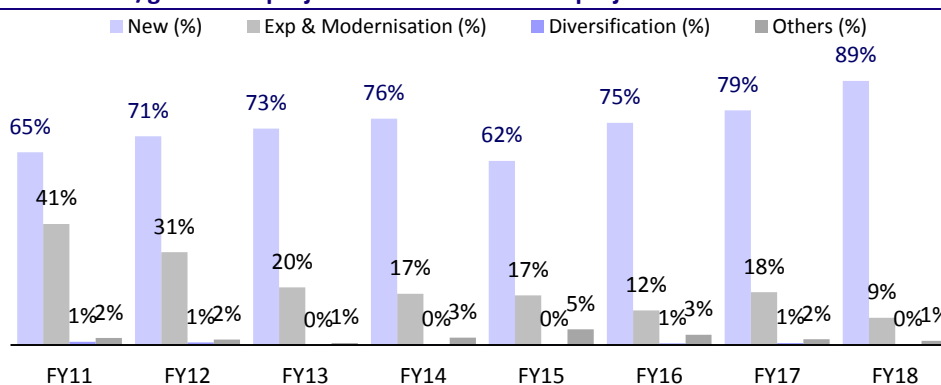
Source: RBI, MOFSL

Exhibit 5: Large ticket projects(>INR10b) at 63% of total in FY18 v/s peak of 78% in FY10



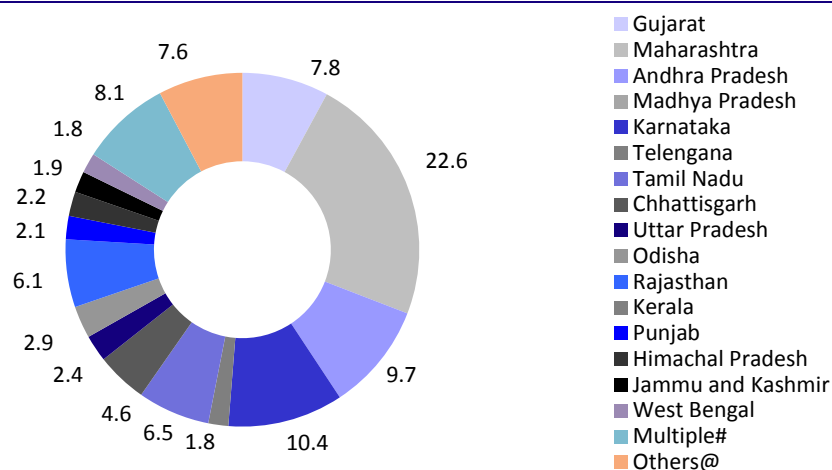
Source: MOFSL, Company

Exhibit 6: New/greenfield projects account for 89% of projects sanctioned in FY18



Source: MOFSL, RBI

Exhibit 7: Top-6 states account for 66% of projects sanctioned in FY18



Source: RBI, MOFSL

Exhibit 8: Motilal Oswal coverage universe ratings and valuation

Company	Rating	CMP INR	EPS (INR)			P/E			EV/EBITDA			RoE (%)		
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
ABB#	Sell	1,338	19.8	25.6	32.5	67.5	52.3	41.1	20.9	15.9	11.9	11.6	13.5	15.3
GE T&D	Neutral	275	7.5	10.0	10.5	36.7	27.4	26.2	24.5	16.8	16.2	17.3	20.2	18.8
BHEL	Sell	69	2.2	3.2	3.8	31.4	21.6	18.2	7.5	8.1	6.5	2.5	3.5	4.2
Blue Star	Neutral	670	14.5	16.8	23.6	46.2	39.9	28.4	24.6	18.9	14.2	16.7	19.3	22.3
Crompton Consumer	Buy	215	5.2	6.0	7.7	41.6	35.9	27.9	26.9	23.6	18.8	48.7	42.4	43.7
Cummins	Buy	720	23.5	26.9	30.7	30.6	26.7	23.5	29.0	23.7	20.6	18.3	18.0	19.0
Engineers India	Buy	113	6.3	6.4	7.4	18.1	17.8	15.2	10.6	12.0	9.0	15.7	16.9	18.0
L&T	Buy	1,377	51.7	59.0	73.9	26.6	23.3	18.6	19.9	16.8	13.3	13.7	14.2	14.8
Siemens##	Neutral	1,048	19.8	25.1	30.9	53.0	41.7	33.9	30.5	24.7	20.1	9.1	11.2	12.7
Thermax	Buy	1,998	20.5	26.3	36.3	97.3	76.1	55.0	29.5	27.4	19.8	8.8	10.5	13.2
Havells	Buy	739	11.2	13.2	16.2	65.9	56.1	45.7	40.6	34.7	27.8	18.7	19.4	20.9
Voltas	Neutral	603	17.3	15.3	18.1	34.9	39.4	33.3	25.2	24.1	20.6	15.9	12.7	13.4
Bharat Electronics	Buy	92	5.7	7.1	7.4	16.0	12.9	12.4	9.9	7.1	6.5	18.0	19.7	18.3
KEC Internl.	Neutral	290	17.9	19.7	24.7	16.2	14.7	11.7	7.8	7.6	6.4	23.1	20.9	21.5
VA Tech Wabag	Neutral	324	24.1	24.0	32.6	13.5	13.5	9.9	6.1	5.4	4.6	12.4	9.9	13.8
Solar Industries	Neutral	1,047	24.4	28.7	37.5	43.0	36.4	27.9	22.6	18.5	14.4	21.9	21.9	23.8

Year end December; ## Year end September

Source: MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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