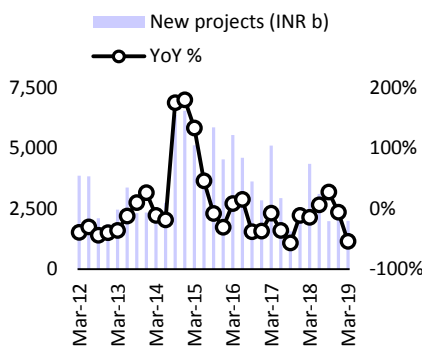
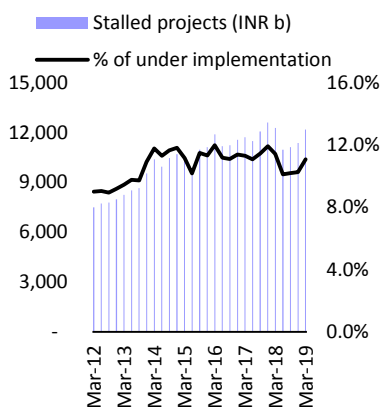


Capex tracker

New project announcements down 54% in 4QFY19 and 17% for full year FY19



Stalled projects remain at elevated levels (11.1% of the projects)



New project announcements decline sharply in 4Q19

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, taking into account stalled/shelved projects.

New project announcements decline sharply

- New project announcements declined sharply by 54% YoY to INR2.0t in 4QFY19, impacted by weakness across segments. Rising policy uncertainties ahead of the general elections and the current liquidity tightness prevailing in the economy have added to the turmoil. Manufacturing declined 46% YoY (INR608b), Services declined 47% YoY (INR717b) and Construction & Real Estate projects declined 82% YoY (INR54b).
- Key new projects announced during the quarter were mainly from the state governments, which include (a) BASF acrylics value chain project (INR160b), (b) Solar projects from SECI (INR423b), and (c) Bio chem project of bio refinery and ethylene project (INR30b).
- Private sector project announcements declined 51% YoY to INR1.2t in the quarter. Private sector projects accounted for 63% of the new projects announced in 4QFY19. Government project announcements dropped 60% YoY to INR738b (central government projects contributed 22%, the lowest contribution in the last 23 years; balance was contributed by state and local governments) in 4QFY19. For FY19, private sector projects contributed 67% to the new projects announced, highest since FY11 in percentage terms, though on a lower base.
- For FY19, new project announcements declined 17% YoY to INR9.5t impacted by Electricity (-28% YoY), Construction & Real Estate (-29% YoY) and the Services segment (-20% YoY). For FY19, Government project announcements declined 40% YoY to INR3.1t, partly offset by increased private sector announcements (+4% YoY to INR6.3t).

Project completion picks up with 12% YoY growth to INR1.9t

- Project completions picked up during the quarter and registered 12% YoY growth to INR1.9t in 4QFY19. The number was much higher than the average quarterly run-rate of INR1.3t during the last five years, and also the highest level in the last two years. Project completions have started to show signs of an improvement post implementation of the structural reforms like demonetization and GST (renegotiation of contracts), with improvement seen in sectors like Electricity (40% YoY, INR351b) and Construction & Real Estate (+196% YoY, INR131b).
- For FY19, project completion improved 10% YoY, supported by improved trend in the Services segment (+47% YoY, INR2t) and Construction & Real Estate (+97% YoY, INR720b). Manufacturing (-23% YoY, INR1.1t) and Electricity (-31% YoY, INR1.1t) segments did not fare too well.

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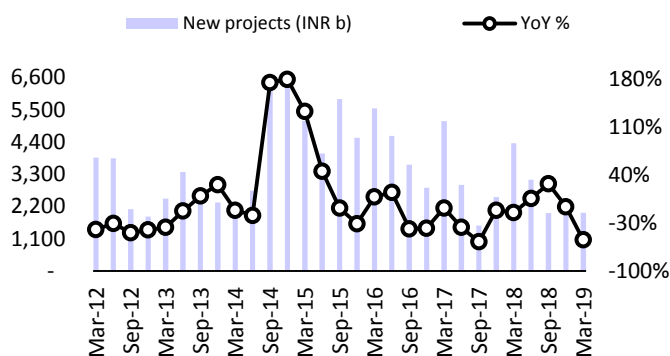
Stalled projects remain elevated at INR12.2t, account for 11.1% of projects under implementation

- Stalled projects remain elevated at INR12.2t, accounting for 11.1% of projects under implementation – this, however, is lower than the peak levels of 12% in Mar’16. Stalling of projects can be attributed to the lack of environmental clearances, low fuel availability, insufficient funds and land acquisition-related problems. 98% of stalled projects are private sector projects.
- Sector-wise, the Power sector accounts for majority (34%) of the stalled projects, followed by Manufacturing (28%), Transport Services (20%) and Construction (7%). The high number of stalled projects is a key reason for subdued new project proposals/announcements.

Projects under implementation up 2%, supported by government projects

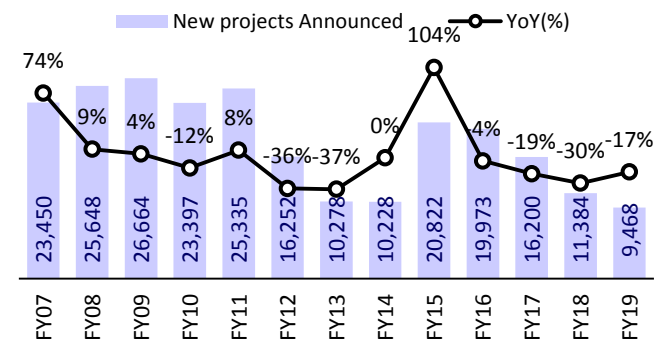
- Projects under implementation saw a muted increase of 2% YoY to INR110t in 4QFY19. Around 64% of projects under implementation are from the government sector (the highest since FY05); private sector accounts for 36%, which is reflective of the prevailing environment of reluctance of the private sector to invest in new capacity, given (a) a constrained demand scenario and resultant underutilization, and (b) over-leveraged balance sheets.
- Sectors supporting growth are Textiles (+6% YoY), Transport Equipment (+9% YoY), and Communication Services (+42% YoY).
- For FY19, projects under implementation increased by 4% YoY.

Exhibit 1: Quarterly trend: New project announcements declined sharply (-54% YoY in 4QFY19)



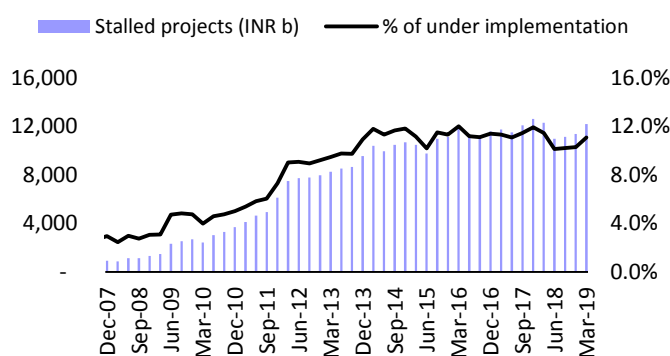
Source: MOFSL, Company

Exhibit 2: Yearly trend: New project announcements declined (-17% YoY) in FY19



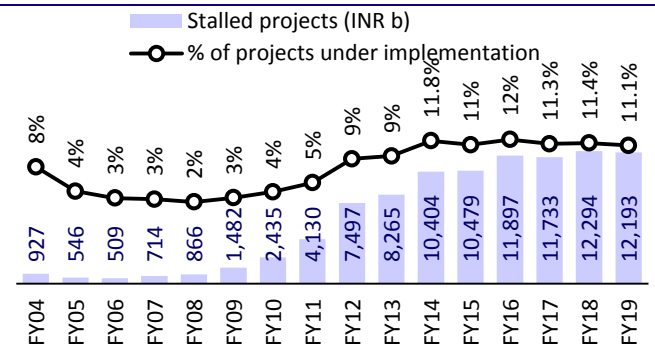
Source: MOFSL, Company

Exhibit 3: Quarterly trend: Stalled projects remain at elevated levels (11.1% of projects under implementation)



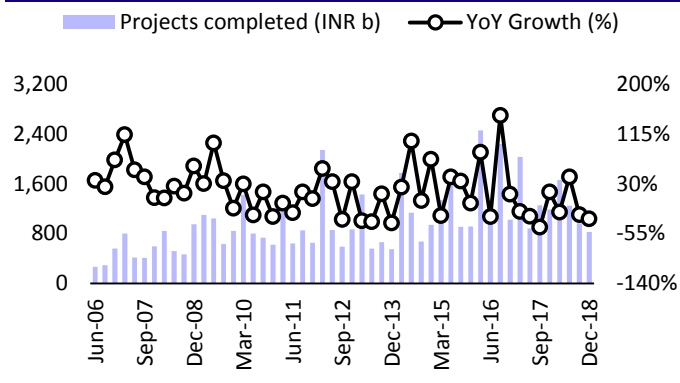
Source: MOFSL, Company

Exhibit 4: Yearly trend of stalled projects: Note that 98% of stalled projects are from the private sector



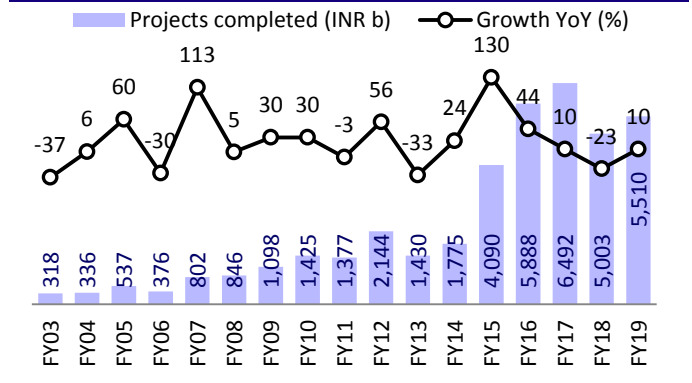
Source: MOFSL, Company

Exhibit 5: Quarterly trend: Project completion registers improvement by 12% YoY in 4QFY19



Source: MOFSL, Company

Exhibit 6: Yearly trend: Project completion improves 10% in FY19, indicating signs of stabilization post implementation of structural reforms



Source: MOFSL, Company

NOTES

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