

# INFRA SECTOR AT CUSP OF UPTURN DRIVEN BY GOVT PUSH: ANALYSTS

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Road infra companies could be potential beneficiaries of planned investment opportunities

**MUMBAI** : Infrastructure is expected to be at the cusp of a big upturn with orders being won steadily and execution remaining strong, said analysts. Road infrastructure companies could be potential beneficiaries of planned investment opportunities, according to the analysts who are keeping a keen eye on the sector ahead of the Union budget this year.

"With the government focusing on increasing road capex, we believe the National Highways Authority of India (NHAI) will try to award a larger share of projects via the hybrid annuity mode (HAM) compared with engineering, procurement and construction or EPC (as HAM puts less fiscal stress on the government)," said Parvez Qazi and Vasudev Ganatra, analysts, Edelweiss Securities Ltd, in a note on 4 January.

With listed companies having less market share in EPC projects, their best bet to build the order book is by winning HAM projects, they said.

Consequently, along with the overall quantum of NHAI project awards, investors will also need to keep an eye out for the pre-qualification norms/ competition for HAM projects.

Intensifying competition and dilution of pre-qualification norms after the coronavirus outbreak has dragged market shares of listed developers in NHAI awards from 61% over FY16-18 to 30% over FY19-21, and 21% in the current fiscal year, showed an analysis by the brokerage firm.

NHAI awards have had their ups and downs. A steady increase over the FY15-18 period (culminating in a 1.2 trillion award in FY18) was followed by sluggish awarding in FY19-20. FY21 marked an all-time high in awards at 1.3 trillion, but awards in the current fiscal year (at 80,000 crore) have been relatively muted.

On top of it, the market share of listed developers itself has been volatile, declining from an average of 60% over FY10-12 to 48% over FY13-15. It again increased to 61% over FY16-18, but has since fallen to 30% over FY19-21 and to 21% in the current fiscal.

The government's infra push and increase in capex will turn the corner for the sector, analysts said. The Union budget is expected to propose a massive 30% increase in allocations for the ministry of road transport and highways to speed up the construction of about 50km of highways per day, according to a *Mint* report.

The hike in allocations will take the budget for the ministry to more than 1.5 trillion, its highest ever.

"Timely implementation of planned projects and monetization are crucial. Road infra projects have a gross domestic product (GDP) multiplier of 2 times, triggering economic benefits," said Ankita Shah, analyst, Elara Securities.

State government capex, which is 3% of GDP, had slowed because of lockdowns and is now picking up with sufficient fiscal space, according to Credit Suisse. India's investment cycle has

understandably made investors cautious about sustained revival, but order books of capital goods firms are seeing good inflows, it said.

"We believe the Indian capex cycle is on the verge of a sustainable recovery after a decade-long hiatus. The government's large National Infrastructure Pipeline (NIP) and various supply-side measures adopted since late 2020 should boost private capex sentiment," said Manishi Raychaudhuri, head, APAC equity research, BNP Paribas.

The government's NIP envisages an investment of 111 trillion over FY20-25, almost double the investment of 56.5 trillion over FY13-19.

The government has articulated, among others, renewable energy, roadways, railways and water resources to be notable targets for expansion of capex layout.

"The infrastructure space is at an inflection point. The Union and state governments are embarking on ambitious infra projects to stimulate growth. The pipeline is massive, including 80,000km of roads under Bharatmala, 1,000km of metro rail in cities, 500GW of renewable energy by 2030. The companies in this space are reporting strong order wins and we expect order momentum to accelerate. We believe that the infrastructure sector is at the cusp of a big upturn as the fundamentals, execution and order win, remain strong," said analysts at Teji Mandi, a subsidiary of Motilal Oswal Financial Services.

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