

Infrastructure

INSTITUTIONAL RESEARCH

Execution Coming To A Halt

Whilst our last week survey was more encouraging with our coverage universe execution largely on track, the call for 'Janta Curfew' has resulted in project sites staring at closure. We interacted with 15 large Indian Infra companies to gauge on the ground impact of COVID-19 on execution. The interaction covered large Road players, Building EPC players and T&D players. Large part of the halt is (1) Due to Central/State Govt directive on lock down and work from home (2) Few clients have told Contractors for closure till 31st March 2020 & (3) Goodwill towards employees'/laborers' safety.

Execution comes to screeching halt, global players less impacted

- City centric developers with high concentration of projects in the urban areas have got highly impacted. Imposition of Section 144 by State Govts and suspension of public transport till 31st March 2020 has impacted manpower mobility. Strict checks on the same have led to Corporates scaling down operations. Larger goodwill measure regarding the health and safety of employees and laborers has also resulted in slowing down of execution by the corporates. KEC/KPTL with global operation less impacted due to works continuing in these markets.

Public transportation suspended, to impact profitability

- The suspension of long-distance trains, domestic flights and bus services has made the labor immobile. Due to Holi Holidays the labor force had reduced to 60-65%. Since then the laborers have extended their holidays. Corporates need to provide the labor contractor funds for food and other routine necessities. This is being done more on humanitarian grounds though the profitability will get impacted depending on how labor intensive the job is. Roads/Metro works are less impacted, while Buildings are more impacted.

Supply chain on wait and watch

- Our channel checks suggest that supply chains may contract further over the next 3-4 days as more State's enforce COVID-19 lockdown and overall risk aversion and flight to safety plays out. The State borders are also getting sealed to restrict movement, only essentials items are allowed to pass. Even companies providing Bitumen, Steel, Cement etc may look at wait and watch approach as liquidity tightens. The elongation of working capital will also impact payment to suppliers. Banks are also expected to slow down disbursements due to scarcity of manpower at HO and overall reduction in execution at site.

Banking perspective – awaiting Central Bank action

- Owing to strict NPA recognition norms Banks can't do much to alleviate the COVID-19 stress build up on Infra sector. Our channel checks with Banks suggest that Government need not provide any investment in companies. The situation can be managed by slight relaxation of NPA recognition norms, moratorium period on repayments and rate cut. Infra companies will invoke 'Force Majeure' as per the contract with Government clients and seek compensation for losses incurred. COVID-19 has been declared as Global Pandemic and losses can be attributed to lock down and unavailability of raw materials/manpower/labor to execute project. Even private clients have provisions to compensate contractors in case site availability is not provided. This process though will be time consuming and payments will be back ended. Stay with companies with strong Balance Sheets.

Company	MCap (Rs bn)	CMP (Rs)	Reco.
Ahluwalia Contracts	12.9	192	BUY
Ashoka Buildcon	12.9	46	BUY
Capacite Infraprojects	5.5	81	BUY
Dilip Buildcon	30.2	221	BUY
HG Infra	9.9	152	BUY
ITD Cementation	5.0	29	BUY
J Kumar Infraprojects	4.6	67	BUY
JMC Projects	6.5	39	BUY
Kalpataru Power	27.6	180	BUY
KEC International	46.5	181	BUY
KNR Construction	27.1	193	BUY
NCC	11.3	19	BUY
PNC Infra	25.7	100	BUY
PSP Projects	10.4	290	BUY
Sadbhav Engineering	6.2	36	BUY

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Rohan Rustagi

rohan.rustagi@hdfcsec.com
+91-22-6171-7355

Shrey Pujari

shrey.pujari@hdfcsec.com
+91-22-6171-7358

Company	Week 1 - 17th March 2020	Week 2 - 23rd March 2020
Dilip Buildcon	<ul style="list-style-type: none"> No major impact on execution 	<ul style="list-style-type: none"> Execution is fully impacted since Sunday, 22nd March 2020
	<ul style="list-style-type: none"> New bids getting deferred 	<ul style="list-style-type: none"> Supply chain is ok as of now but will start getting impacted
		<ul style="list-style-type: none"> Site works were happening at project site only but now local admin is now allowing work
		<ul style="list-style-type: none"> No issues in funding due to non availability of staffs at banks; some disbursement is pending Labor also started going back home Can't say how long this will continue ; next 10days important for future course
KNR Construction	<ul style="list-style-type: none"> No major impact but labor have reduced post the Holi holidays. There has been delay in arrivals 	<ul style="list-style-type: none"> Still executing at 35-40% capacity as lockdown just began in Telangana and Tamil Nadu.
	<ul style="list-style-type: none"> No impact on funding lines 	<ul style="list-style-type: none"> Only crusher related work going on
		<ul style="list-style-type: none"> Believe complete lockdown sometime this week to start
		<ul style="list-style-type: none"> May lead to all sites getting shut in case TN/Karnataka enforce shutdown for construction activities too No pending HAM FC Cube Highways Kerala BOT fund inflow may get delayed as NHA is working at 25% capacity and approvals may get delayed Have sufficient cashflows to service liabilities Irrigation payment Rs 3bn dues supposed to get by Mar-20E end. Major relief if dues are duly received.
Capacite Infraprojects	<ul style="list-style-type: none"> Funding lines normal 	<ul style="list-style-type: none"> Cant risk exposing total 15,000 workers' health
	<ul style="list-style-type: none"> Work is going as usual; no impact of COVID-19 	<ul style="list-style-type: none"> Have closed all site now and works have stopped
		<ul style="list-style-type: none"> Have about 2,000 direct staff
		<ul style="list-style-type: none"> Supply chain still not an issue but have stopped taking supplies from 18th March 2020 onwards 15th March 2020 onwards have started slowing down Labor/Workmen have gone home Expect Govt to come out with some funding support in the interim to meet financial obligations
J Kumar Infraprojects	<ul style="list-style-type: none"> As of now work is going on 	<ul style="list-style-type: none"> About 20-25% of the staff was local and with stoppage of trains they are not able to access sites
	<ul style="list-style-type: none"> No challenge on funding lines 	<ul style="list-style-type: none"> Since yesterday work has come to complete halt
	<ul style="list-style-type: none"> Maintain Rs 32bn Rev guidance for FY20 	<ul style="list-style-type: none"> Local administration also getting things difficult to execute
		<ul style="list-style-type: none"> Migrant labor went back to home States. Many not willing to come back Driver, Machine Operators etc. not available. Work totally shut

Company	Week 1 - 17th March 2020	Week 2 - 23rd March 2020		
HG Infra	<ul style="list-style-type: none"> COVID -19 execution impacted by Rs 250-300mn for 4QFY20 No impact on banking lines 	<ul style="list-style-type: none"> All project sites stopped now No supply chain to support Labor availability also an issue. With adjoining projects also facing issues peer pressure impacted our site labor migration as well Expect Govt to come with revival scheme for the sector Somehow should be able to meet the salary, debt installment etc Should be able to reach Rs 22-23bn revenue estimate for FY20 		
	PNC Infra	<ul style="list-style-type: none"> No major impact of Covid-19. On track to achieve FY20E guidance NHAI has slowed down tendering No major impact on banking lines Laborers taking time to return from Holi Holidays though its annual routine Overall execution may be lower by Rs 400-500mn due to this 	<ul style="list-style-type: none"> As of now projects in Lucknow, Kanpur, Allahabad got impacted due to partial lockdown Would say still operating at 65-70% utilization FY20 should be able to largely meet the guidance Will wait and watch how Apr-20 develops As of now liquidity is comfortable 	
		Ahluwalia Contracts		<ul style="list-style-type: none"> Work stopped today at all sites due to lockdown Have well being of employee, labourers on mind as they can be carrier Don't think one month lockdown can hurt the fundamentals of the company Last 1 week have been strategizing on raising resources for funding fixed costs Sector will come out of the pandemic stronger
			JMC Projects	
Kalpataru Power				

Company	Week 1 - 17th March 2020	Week 2 - 23rd March 2020	
KEC International		<ul style="list-style-type: none"> Till late last week there was no impact. May be Rs 300cr lower revenue due to PGCIL Chinese supply chain delay in certification at ports 	
		<ul style="list-style-type: none"> About Rs 120bn of Domestic order book execution is on as large part is in interior places in India 	
		<ul style="list-style-type: none"> International Rs 80bn order book. No exposure to Europe, USA, China, Iran. 	
		<ul style="list-style-type: none"> Rs 35bn in Bangladesh/Nepal. Rs 10bn in Oman/UAE/MENA. Rs 1.5bn in Saudi 	
		<ul style="list-style-type: none"> In Africa - Rs 10bn. Balance is in Thailand, Indonesia etc 	
		<ul style="list-style-type: none"> Work going on in International locations 	
		<ul style="list-style-type: none"> Maintain 15% YoY Rev growth in FY21 even if Apr-20 gets impacted. Will make up in rest of FY21E 	
		<ul style="list-style-type: none"> 4QFY20 Rev may be lower by Rs 2-3bn due to delay in Chinese Supply Chain client certification 	
		<ul style="list-style-type: none"> Will assess the impact of Janta Curfew on site execution. Still awaiting data for same. 	
Ashoka Buildcon		<ul style="list-style-type: none"> More than 50% site utilization still due to sites in South 	
		<ul style="list-style-type: none"> Labor availability may become an issue 	
		<ul style="list-style-type: none"> Not facing any challenges in the Bank funding 	
		<ul style="list-style-type: none"> Not seen any dip in toll traffic till last Saturday 	
		<ul style="list-style-type: none"> The ACL deal may get delayed by 1-2 months due to COVID 	
		<ul style="list-style-type: none"> Situation in evolving and more data is awaited 	
NCC	<ul style="list-style-type: none"> Covid -19 impact has been minor until now. Will maintain Rs 27/87bn execution for 4QFY20/FY20 	<ul style="list-style-type: none"> Some of the city centric projects got affected due to lockdown, viz. Mumbai, Nagpur, Pune Metro 	
	<ul style="list-style-type: none"> Debt may reduce from Rs 23.6bn to Rs 20bn 	<ul style="list-style-type: none"> Works in interior locations continuing 	
	<ul style="list-style-type: none"> Expecting Rs 1.5-2bn of AP Govt payment by Mar-20 end 	<ul style="list-style-type: none"> There could be delays in start of orders like NBCC Nauroji nagar, MMRDA Bhavan etc 	
	<ul style="list-style-type: none"> Banking lines no problem as of now 	<ul style="list-style-type: none"> AP Rs 2bn order has yet not come; was expecting by this month end. Also Govt department working with scarce staff and hence year end payments may get delayed 	
	<ul style="list-style-type: none"> Pledges has peaked out. Promoter loans has reduced from Rs 1bn to Rs 500mn and will reduce further 	<ul style="list-style-type: none"> May miss the debt reduction target from Rs 23.6bn to Rs 20bn 	
		<ul style="list-style-type: none"> SBI has come with circular that companies with standard loan can get 10% extra limits for 1-yr at concessional rates. We have Rs 6.2bn FB loans from SBI so can get Rs 620mn of additional loan 	
		<ul style="list-style-type: none"> Similarly if other Banks follow we can get Rs 2bn additional limits for Rs 20bn FB limits. This shall help us manage liquidity 	
		<ul style="list-style-type: none"> Can achieve Rs 85-90bn Rev for FY20. 	

Company	Week 1 - 17th March 2020	Week 2 - 23rd March 2020
PSP Projects		<ul style="list-style-type: none"> ▪ Had shut all the sites yesterday and today as per the request of clients and call by PM ▪ Planning to restart sites from tomorrow depending on the situation at Govt/local corporation level ▪ Surat Diamond Bourse may resume from tomorrow. Though Gujarat Govt has given call for lockdown till 25th March 2020 ▪ Labor mobility has now become issue with closure of modes of transportation viz. rail, bus etc ▪ Looking at normalcy to return at site later this week. Depending on Govt directions
ITD Cementation		<ul style="list-style-type: none"> ▪ Mumbai, Kolkata, Bengaluru Metro projects at standstill due to lockdown ▪ Udangudi is going on ▪ There could be Working Capital deterioration as Govt office working at 25% capacity and hence there could be delays in issuing payment ▪ They have to also fund the contractors and labor; will have to invest further from own pocket ▪ New works form about 50% of order book worth Rs 60bn; start may get delayed due to labor availability issues
Sadbhav Engineering		<ul style="list-style-type: none"> ▪ Project site partly impacted ▪ Banking lines in place not impact ▪ Labour availability may reduce
Banking Channel Checks	<ul style="list-style-type: none"> ▪ As of now there is pressure to disburse for Mar-20 target ▪ Bankers seeing not much impact of COVID-19 on execution ▪ Work from home implemented but rotational. Most instruction given electronically ▪ Will disburse as per contractual obligations 	<ul style="list-style-type: none"> ▪ Almost at all sites work has significantly slowed down ▪ Supply chains are also getting impacted as borders sealed ▪ Banks may also slow down disbursements or demand may get slowed down due to ecosystem ▪ Central bank is the right authority to give reprieve with likely relaxed norms ▪ Most Govt contracts covered under Force Majeure. Contractors will raise claims and Govt has to consider ▪ Even private contracts will have Force Majeure clauses if site availability is not there or client directs to stop ▪ No major equity support/investment required to help the Infra sector. Regulatory easing will do the good ▪ Don't see any large scale defaults as Govt will announce relief packages ▪ This is a Global Pandemic hence Govt will not shy from acting

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com