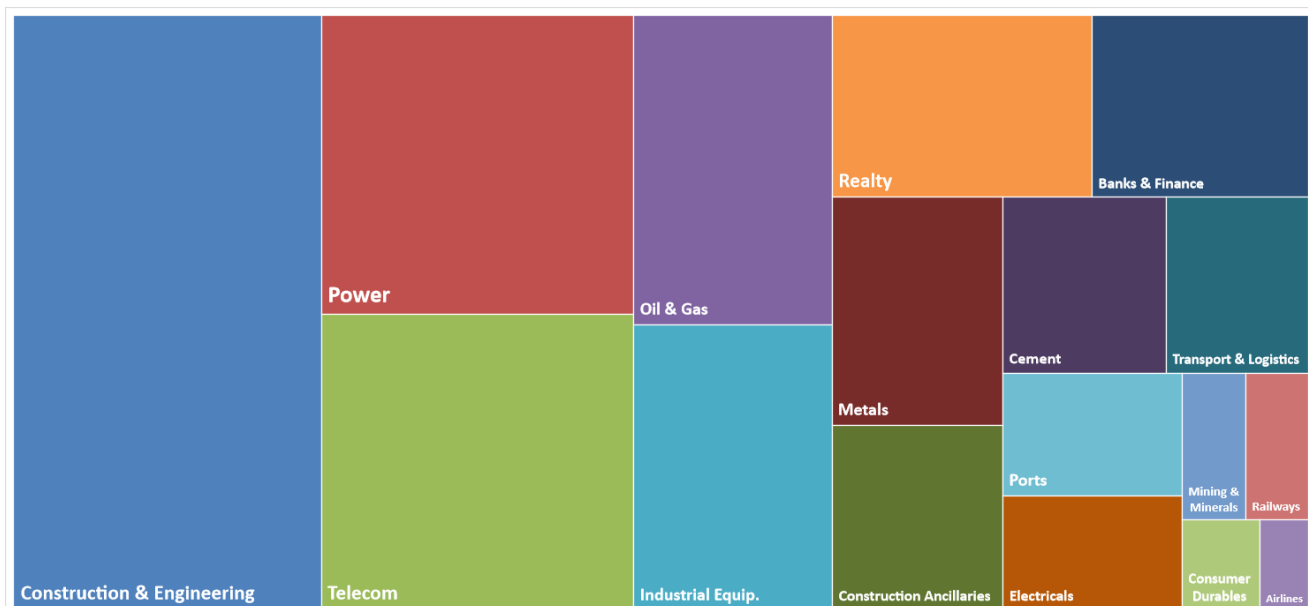


INFRASTRUCTURE FUNDS – INVEST WITH A VISION

Many investors feel the need to top up their investment portfolios with certain “in-favor” investment ideas or unique themes. Topping up the portfolio to a desired theme or idea helps in enhancing the overall return potential of the portfolio when the expected story plays out. Skewing the portfolio in a specific sector or a theme does increase the risk of the portfolio but a well-planned and researched idea pays well in the long term. One such theme that at the current juncture looks promising is the Infrastructure play. Infrastructure spending remains one of the most important fulcrum to lift economy to faster growth trajectory. Infrastructure theme provides a broad play in to many sectors ranging from capital goods, power, construction equipment’s, engineering, materials, metals, etc. Considering that infrastructure as a theme encompasses roads, ports, railways, power, communication, defense, etc., the theme touches upon many sectors directly or indirectly and hence provides a well-diversified and healthy selection of companies in the portfolio. Furthermore, the sector also provides a well spread out allocation opportunity in diverse market capitalization stocks, with a greater play in larger and mid cap space.

Sectoral Spread of Infrastructure Theme

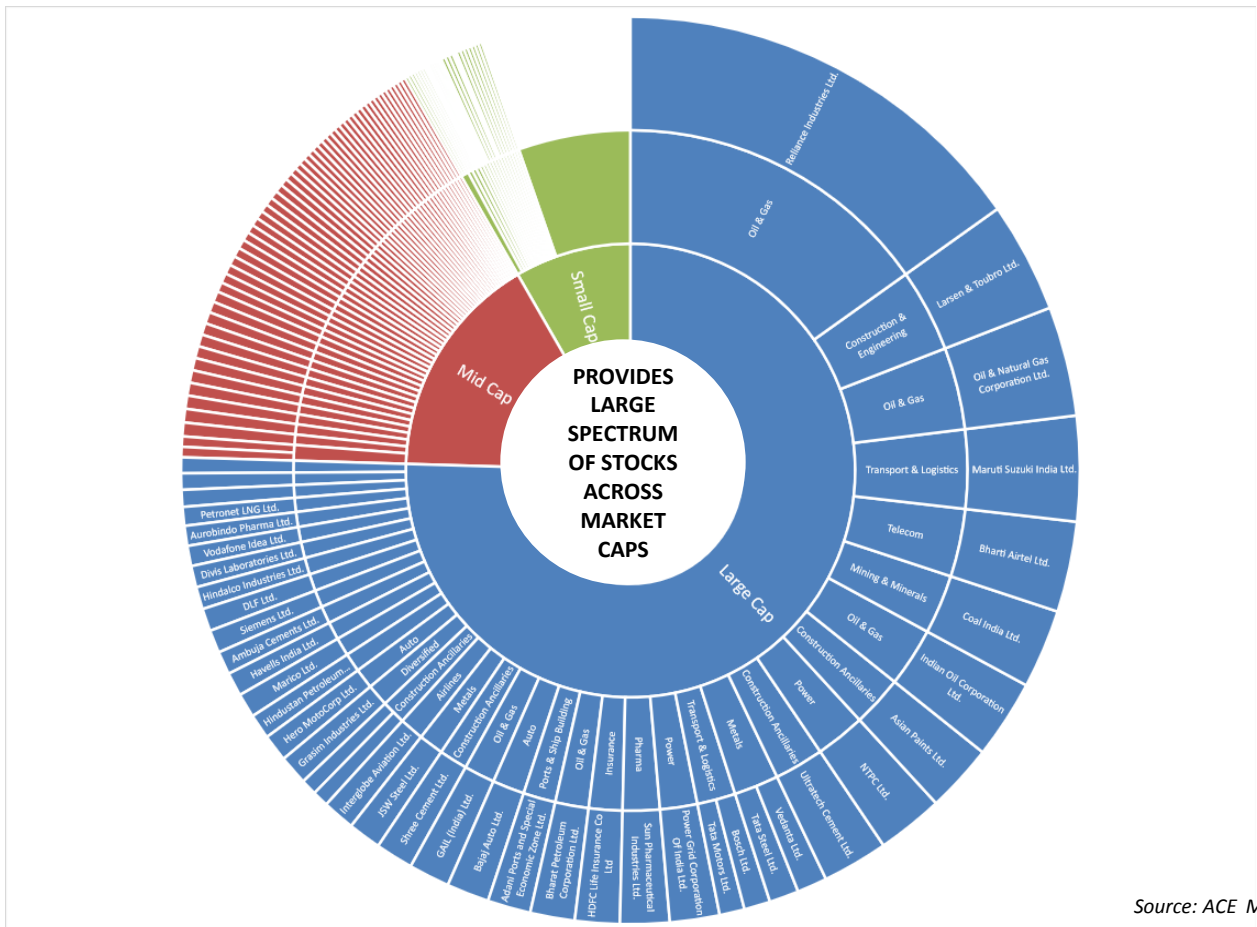


Why invest in infrastructure now?

Source: ACE MF and IndiaNivesh Research

One of the biggest reasons to look for infrastructure as an investment theme is the thrust of the government on infrastructural development and laying the path of faster economic growth. The government has projected a massive outlay of 100 lakh crores over the next 5 years. The projected outlay is almost twice the amount spent in last 5 years. As per the Sankalp Patra – Election Manifesto, the ruling government envisages a strong focus on roads connectivity, water resource, urban development, rail connectivity, developing new airports, coastal development, energy needs and telecommunication. The government comes with a greater resolve and focuses on continuing its economic reforms in the light of recent narrative of slowdown in economic activity and job losses. A significantly higher spend is projected to jump-start the economy and to take India to \$5trillion economy by 2025 and 3rd largest economy in next 12 years.

Infrastructure Portfolios – The Market Capitalization Spread



Strong infrastructure push is already visible

- Highway construction in India increased at a rapid pace of 23% CAGR between FY14-18
- ₹ 71,000 crore was allocated for National Highways in the Union Budget 2018-19
- ₹ 19,000 crore was allocated to Pradhan Mantri Gram Sadak Yojana (PMGSY)
- Railways received the highest ever budgetary allocation under Union Budget 2018-19 at Rs 1.48 trillion
- Power generation capacity has increased steadily
- Policy initiatives and guidelines pushing the growth forward and reducing bottlenecks
- Commissioning of new policies to look at ground level issues
- Implementation and planning of new metro rail and mono rail projects in India
- Development of new airports and upgradation of existing airports to expand air connectivity
- Recognition of logistics as infrastructure sector is a big boost for the segment. Logistics and warehousing seeing higher investments as the sector forms a key in global supply chain
- Developing North eastern region through North East Special Infrastructure Development Scheme (NESIDS) by implementing new highway projects, railways, through 100% funded infra projects
- Affordable housing was given infrastructure status and thus housing sector got the biggest boost in the last few years. The proposal to establish an Affordable Housing Fund under the National Housing Bank, will further boost the housing and related investment in India.

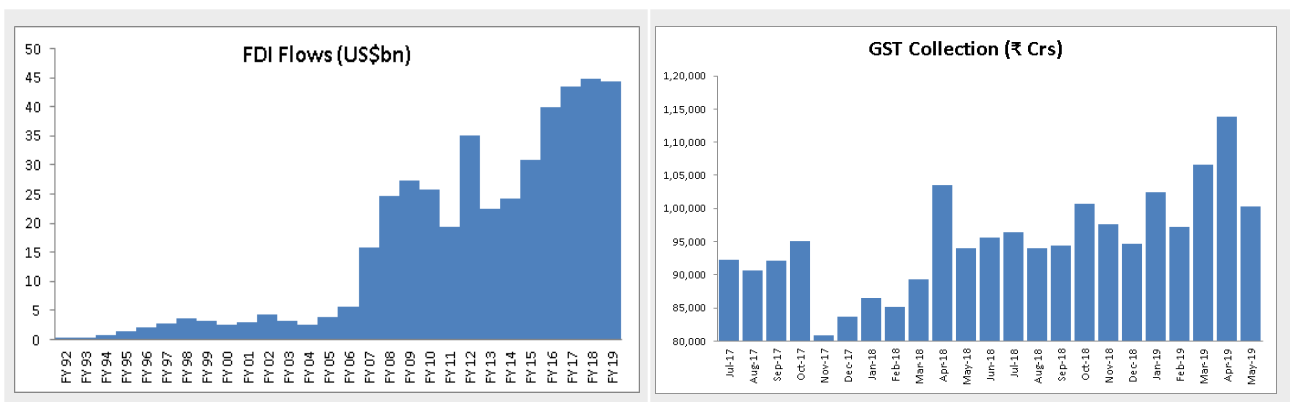
THRUST AREAS FOR INFRASTRUCTURE SPENDS PLANNED AHEAD

Roads	Construct 60,000 km National Highways in 5 years Double the length of National Highways by FY22 Completion of Phase-1 of Bharatmala and commence phase –II Bring in new technologies in road construction
Railways	Conversion of all viable track to broad gauge by 2022 Electrification of all tracks by 2022 Expanding connectivity of high speed trains across the country complete the dedicated freight corridor project by 2022 Modernizing railway stations in the country Wi-Fi facility at stations by 2022
Airports	Double the number of functional airports from 101 today
Coastal Development	Ensure speedy completion of the projects under this programme Doubling port capacity in next 5 years Upgradation of infrastructure to ensure smooth coastal connectivity Focus on development of inland waterways
Urban Development	Ensure that 50 cities are covered with a strong metro network in next 5 years Further development of suburban townships and new urban centres Launch a National Urban Mobility Mission to provide technology based urban mobility solutions to all urban local bodies
Energy	Ensuring a right mix of energy which leads towards a cleaner environment Supplying quality electricity to all consumers Making the state electricity entities Financially sound and administratively more efficient
Rural development	Launch a massive ‘Rural Road Upgradation Programme’ to connect centres of education, healthcare centres, and markets with hinterlands 25 lakh crores envisaged to improve farm productivity over next 5 years Expand Pradhan Mantri Krishi Sinchai Yojana to realize 100% irrigation potential
Make in India	Take India into Top 50 Ranking in Ease of Doing Business Index New Industrial Policy to improve competitiveness of manufacturing and services Easing regulatory requirement for start-ups Encourage Startups through creation of a ‘Seed Start up Fund’ of ₹20,000 crore
Housing	Pucca house to every family by 2022 Piped water connection to every household by 2024 Open separate Jal Shakti Mantralaya

Source: BJP Manifesto 2019

Given the size of planned investment in infrastructure, greater emphasis will be put in encouraging private investments. International participation in India's growth story through increased FDI also remains an important element in financing high expenditure budgets. In the recent times the state of shadow banking entities have become quite vulnerable and effective resolution needs to be brought in to tackle the industry issues and reinvigorate the financial sector. Infrastructure projects by its very nature requires substantial capital investments both from government as well as private players, and hence require clear policy guidelines, ease of financing, continuance of reforms, commitment to long term mutual participation etc. Private capex commitment comes with easy capital availability, equal government participation and encouragement, clear and coherent policy reforms, etc.

Over the past few years, government's efforts towards eradicating corruption and black economy and streamlining indirect taxation through implementation of GST has had a negative impact on business sentiment and slowdown in capex. However, this has laid the ground work for enhancing the tax base of the country, increasing compliance and progressively increasing tax revenue. GST collection as well as compliance is steadily rising. The number of tax payers has doubled after the move of demonetisation and the direct tax kitty has expanded to 11 lakh crores. Capital inflows in the form of foreign direct investment too have remains robust reinforcing the expectations of international financing. Taking cues from the manifesto it is evident that the government is sensitive to the issues of employment and economic growth and has envisaged large public expenditure.



Source: www.dipp.gov.in and IndiaNivesh Research

Investment View:

In our opinion, the massive thrust in the governmental spending is expected to boost private capex and growth in several sectors. Sectors associated with infrastructure such as cement, engineering companies, industrial machinery makers, defense, capital goods, power and utilities, telecom, construction material, energy, housing, housing finance, metals, etc., are expected to get the required investment impetus. A pure play on infrastructure would include industries and companies which are basically asset owner or developers and asset creators while a quasi-play on infrastructure would also involve asset financiers, which is the banking segment.

Mutual Funds catering to infrastructure story usually play with a broader theme including direct and quasi play. The definition of infrastructure theme remains diverse across fund houses and government agencies and variances largely emanate from direct and indirect impact on sectors across the spectrum. For e.g., metals, banks and finance are primarily outside the ambit of pure infrastructure play for a few fund houses but mutual fund industry largely considers banking as a part of the theme.

From a conservative perspective, the inclusion of banking sectors further broadens the theme and also provides a cushion to the infrastructure theme. Moreover, as banks remains critical for financing the growth story, it is quite usual that banking features as an important sector in the theme. The banking sector is gradually coming out of the NPA issues and certain select stocks provide pockets of opportunities, it would be prudent to have a mix of pure play and diversified infrastructure theme portfolios.

We recommend investment in Infrastructure theme from a investment perspective for moderate and aggressive investors to benefit from the long term structural growth story of India. It is imperative to mention here that Infrastructure businesses are capital intensive in nature and have long gestation periods. It is therefore prudent to have longer investment horizon of 3-5 years to benefit from investment idea. Sectoral/thematic investments should be restricted to 5-10% of the overall equity portfolio.

Recommended schemes in Infrastructure Space

Scheme Name	Comment	6Mtns	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
DSP India T.I.G.E.R Fund	Considers finance in Infra play	11.09	2.94	11.89	9.72	13.83	9.20
Franklin Build India Fund	Considers finance in Infra play	11.17	8.95	13.62	16.77	21.61	--
Invesco India Infrastructure Fund	Excludes Banking & Finance	9.03	0.64	11.52	9.59	14.75	10.21
IDFC Infrastructure Fund	Excludes Banking & Finance	9.94	-6.97	13.16	9.23	9.68	--

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