COVID-19 impact: Infrastructure sector in the doldrums

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Vinayak Chatterjee of Feedback Infra says that a lot of infrastructure companies are facing an existential dilemma.
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Construction halt, revocation of toll collection, labour crunch and severe working capital pressure – these nightmares for any infrastructure company have now become a reality. The infrastructure sector is one of the worst-hit on account on COVID-19 and for some companies, this might even become an existential crisis.

Phillip Capital believes that Q1FY21 will be a complete washout quarter as they expect 30-45 days of zero revenue for all companies. They believe that recovery in FY21 will be slow and will only be visible from Q3 onwards. While calculating earnings downgrade of COVID-19 remains challenging, Phillip Capital has cut their FY21 revenue estimates to -10 percent year on year (YoY) revenue decline for ALL companies and have factored a 100-150bps YoY fall in margins in FY21.

The more imminent challenge for the construction players remains working capital management. In the wake of COVID-19 pandemic, the focus of state and central govt has shifted to the welfare of citizens and hence infrastructure activity has taken a backseat.

Infrastructure players are facing a severe liquidity crunch and as bills and dues from govt are not being honoured on one hand and on the other hand companies are striving to maintain steady salary flows to contract labourers and employees. The same has resulted in a stark mismatch in fund inflow and outflow, putting pressure on balance sheets.

Vinayak Chatterjee of Feedback Infra says that a lot of infrastructure companies are facing an existential dilemma and recommends a 10 percent automatic extension of term loan and a working capital limit for all infrastructure players immediately.

YD Murthy of NCC also stresses on the need of extension of the current moratorium of 3 months as he believes that it would take at least 6 months for the sector to stabilise. The worry for the sector would not necessarily end with lockdown as it would take longer for the companies to return to optimal capacity due to migration of labour.

Infrastructure stocks have corrected significantly over the last few months (average -40 percent) to factor in COVID-19 economic damage. Though the stocks are currently trading at abysmally inexpensive valuations and offer deep value; experts advise waiting for more clarity to emerge before taking a big plunge.

Phillip capital reasons that once clarity emerges, quality infrastructure names (with strong balance sheets and decent order books) will deliver significant returns over the next 12-18 months – akin to the run-up during the 2014-15 cycle.

Tags coronavirus COVID-19 Infrastructure sector

https://www.cnbctv18.com/infrastructure/covid-19-impact-infrastructure-sector-in-the-doldrums-5592451.htm