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The halfway mark challenge for PSUs on capex

Govt directive to spend 50% of capital expenditure target by September may hit execution hurdles

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India's top state-run companies in oil, power, metals, and mining have a capital expenditure (capex) of ₹1.22 trillion on the go for this financial year but experts see execution challenges in the Union finance ministry's recent directive asking them to expedite the spending.

Most of the first quarter saw lockdown-related challenges, and various states are yet to completely unlock. Besides, labour shortage continues and work-related travel is still to normalise. With the current restrictions and time lost in the June quarter, the September deadline would be an uphill task, analysts add.

Union Finance Minister Nirmala Sitharaman had earlier this week asked public sector companies to undertake half their capex for the current year by September.

In 2019-20, against the capex target of about ₹1.65 trillion for 23 central public sector undertakings (PSUs), the achievement was a little more than ₹1.66 trillion. In April-June FY20, the spending was ₹26,320 crore or 16 per cent of the total, though in the same quarter this year it is ₹20,202 crore or 12 per cent. The capex target for the 23 companies for 2020-21 is about ₹1.66 trillion.

Based on the data shared by companies and from analyst reports, nine state-run entities — Coal India, Oil and Natural Gas Corporation (ONGC), NTPC, National Mineral Development Corporation (NMDC), Indian Oil Corporation (IOC), GAIL, Bharat Petroleum Corporation (BPCL), Hindustan Petroleum Corporation (HPCL), and Power Grid Corporation — together have a capex plan of ₹1.22 trillion this financial year. The details for SAIL were not available.

Of these nine companies, three — BPCL, ONGC, and NMDC — have slashed their capex. BPCL, company executives earlier said, has cut capex plans to ₹8,000-8,500 crore from ₹10,000-11,000 crore. They attributed the cut to the company's March quarter losses and the time lost in the first two months of FY21 due to the lockdown.

ONGC is another company that has slashed its capex by 15 per cent, and is now at ₹27,500 crore. An executive earlier told Business Standard the cut was out of deferment in activities because of Covid-related issues.

"NMDC's earlier slated capex for FY21 was ₹2,300 crore and now has been revised to ₹1,860 crore," said a person close to the development.


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The person added: "So far in the June quarter, NMDC has managed a capex of only about ₹120 crore. Not much could be achieved on planned lines. But the company is hopeful it will pick up in the second quarter as the picture looks encouraging."

More than 50 per cent of NMDC's FY21 capex is for the steel plant, which is likely to be commissioned in October-November this year.

The person said: "There is no surety if the 50 per cent capex will be met by September but the company will try."

Analysts see execution more of a

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TRACKING SPENDING

FY21 capex of top 10 PSUs (₹ crore)

Total: ₹1.2 trillion

ONGC	27,500
IOC	26,143
NTPC	21,000
HPCL	12,000
PGCIL	10,500
Coal India	10,000
BPCL	8,500
GAIL	5,000
NMDC	1,860
SAIL	NA

Source: Company releases, analyst reports

challenge compared to financial viability and prudence.

"It is prudent to do so (spend half the planned capex by September) but it will be very difficult for many of them to achieve so because in many cases the required capital goods, logistics capacity, and manpower may be short or inconsistent," said Nitin Bhasin, head of research, institutional equities, Ambit Research.

Others say PSUs have better borrowing capabilities and can meet the funding requirements with ease. "Capex is not fully out of the operating cash flow. PSUs borrow. The execution looks challenging, given a quarter was lost with little work on the ground," said an analyst.

There have been outliers like Coal India, which has outperformed its quarterly capex targets. In a press note, the coal miner said: "The capital expenditure at ₹844 crore during the first quarter of the ongoing fiscal year breached the provisioned target of ₹720 crore, achieving 117 per cent of the target utilisation. Even amid Covid-induced slowdown the current year's first quarter capex spend was 4.2 per cent higher compared to the same quarter last fiscal year."

Analysts expect the finance ministry's directive will help push tendering and new awards.

"PSUs will get going with the documentation and other steps virtually for tendering activity. However, site visits are a constraint," said Sanjeev Sanjeev Zarbade, vice-president, PCG research, Kotak Securities.

"I expect PSUs to push tenders where work happened in the last fiscal year, and is pending only for decision making."

While reviewing their performance, the finance minister said PSUs had an important role in giving a push to the growth of the Indian economy.