

# 'The current infrastructure cycle is largely government-led'

Given the Indian demographics, infrastructure is a promising theme. We speak to Roshi Jain, who manages Franklin Build India Fund, an infrastructure-focused fund with assets of about ₹1,300 crore. She talks about the impact of economic slowdown on infrastructure, the current phase of infrastructure cycle and how she picks winning stocks in the infra space. Note that all the graphs in this interview are for Franklin Build India Fund (data as of November 2019).

**How do you define the scope of infrastructure in your fund? Which sectors are generally excluded?**

The fund invests in any or all those sectors/areas which are either directly or indirectly related to the infrastructure growth/development of the Indian

## Increasing/decreasing conviction

Top 10 companies in which her investments have gone up/down in the last one year

₹ cr	₹ cr
Vodafone Idea <b>58.9</b>	ICICI Bank <b>-37.5</b>
ACC <b>55.7</b>	Axis Bank <b>-33.4</b>
ONGC <b>36.6</b>	Shree Cement <b>-28.8</b>
NTPC <b>32.3</b>	Hero Motocorp <b>-26.6</b>
M&M Financial Services <b>21.6</b>	Bharti Airtel <b>-25.3</b>
GAIL <b>19.3</b>	SKF <b>-24.2</b>
Finolex Cables <b>19.0</b>	Sanofi <b>-23.7</b>
Gujarat Pipavav Port <b>17.8</b>	BPCL <b>-21.1</b>
HDFC Bank <b>17.5</b>	Power Grid <b>-14.3</b>
Puravankara <b>15.1</b>	CG Power <b>-8.3</b>



economy. Broadly defined, infrastructure-related activities include development, operations, management and maintenance of various infrastructures such as transportation, energy, resources, communication, etc.

**With the economy slowing down, how do you assess the impact on the infrastructure sector? Which pockets are more distressed? Which are largely insulated from the downturn?**

Assets under construction, in general, are more distressed than operating assets since the former require more capital for completion and in a risk-averse environment, capital – whether debt or equity – becomes harder to raise. Operating assets are relatively better positioned as there are no large capital needs. However, the slowing economy has impacted their operating rates and consequently the returns on those projects.

**The S&P BSE Infrastructure index has returned just over 3 per cent per annum over 10 years. What's wrong with the infra theme?**

Franklin Build India Fund has delivered an annualised return of 14.48 per cent for the same period and has quadrupled investor's wealth. This advocates the importance of stock selection and active investing. While the sector went through its challenges, for wealth creation, stock selection is the key as growth comes from companies that are able to navigate an uncertain economic backdrop and emerge stronger from it.

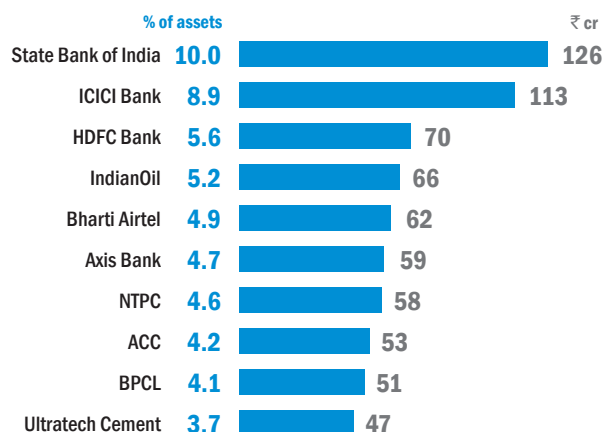
**How important is the business cycle in case of the infra theme? Where are we currently in terms of the business cycle for infrastructure?**

Since infrastructure is a capital-intensive segment, a benign business cycle is critical for its healthy performance. The business cycle in infrastructure would, among other things, require access to cost-efficient finance, supportive government policy and risk-taking by developers for private participation in infrastructure. When all the three factors are positively aligned, it creates a period of boom.

The current infrastructure cycle is largely government-led as private-sector interest and capacity have been dented due to the issues from the previous cycle. However, we are seeing interest from foreign investors,

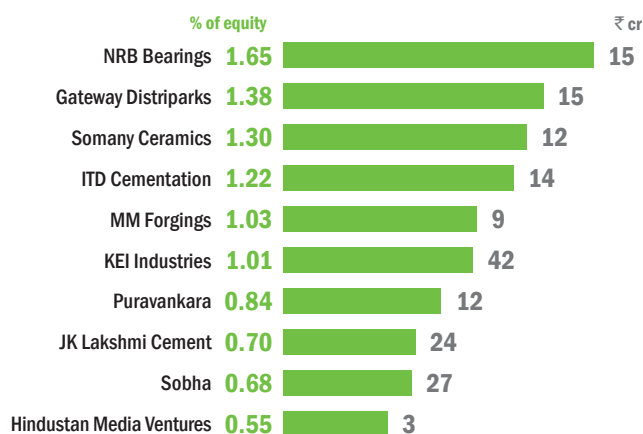
## Top holdings

Companies in which she has invested the largest amounts



## Top equity stakes

Companies in which she holds the highest equity stakes



such as pension funds, sovereign funds, infra funds or strategic investors, in acquiring some of the stressed infrastructure assets. This bodes well for the sentiment towards this segment. As positive business sentiment returns, we should see greater interest and pick-up in private participation in infrastructure.

**How do you select stocks? When do you exit a stock?**

The fund combines bottom-up stock selection with a top-down overlay to identify stocks/sectors with

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medium- to long-term growth potential and trading at reasonable valuations. The approaches are not discrete but integrated into our investment philosophy. Hence, it is not possible to call them out separately.

Our investment philosophy focuses on growth, quality, sustainability and reasonable valuations. Based on these criteria, we remain focused on identifying investment opportunities such that we create a focused yet diversified portfolio.

When a stock no longer meets our investment criteria, we exit it.

**You have a high exposure to energy stocks (oil & gas, power; etc). These stocks are not generally known to be wealth creators. What makes you bullish about them?**

Our Build India Fund is benchmarked versus Nifty 500 & BSE Infrastructure combined. Versus this combined benchmark, our energy and utilities exposure is significantly underweight, 22.5 per cent versus almost 44 per cent. Despite our underweight position, we have positions in the sector that could offer both cyclical and longer-term structural upside.

With regards to the electric utilities, we believe that completion of household electrification, a revival in industrial growth – combined with more power-sector reforms that include changes in tariff policies, better conduct and controls by DISCOMs and better metering and billing – will improve the sector outlook.

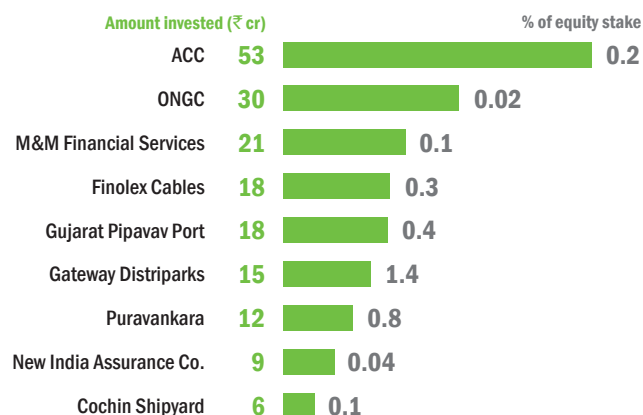
In the oil and gas sector we have exposure to some large PSUs which are trading at very attractive valuations in the light of reduced policy intervention with regards to subsidies and price controls.

**A PSU bank is your top holding. The balance sheets of PSU banks have been fractured due to high NPAs. When do you see the NPA cycle reversing for them?**

We evaluate each stock on its own merit without generalising the investment argument. With respect to our holding in SBI, we believe the process of balance-sheet repair is largely complete. For the banking system in general, we believe that corporate-borrowers-related NPA stress is largely recognised. Some pockets of stress in real estate/NBFCs and the

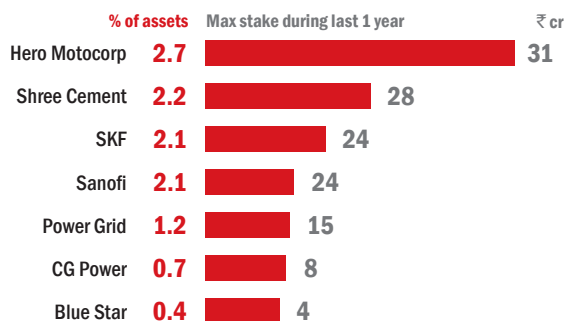
## New entrants

Her new bets over the last one year



## Complete exits

Companies from which she has exited in the last one year



SME segment exists but it is unlikely to be as disruptive as the corporate stress was.

**You have also invested in telecom, which has proved to be wealth-destroying so far. What are the prospects of this sector?**

The telecom sector is going through a phase of repair and recovery after hyper competition and significant capital investment. We believe that a combination of regulatory support and supportive pricing environment will augur well for the sector. **WI**

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