

India playbook 2024: 2 capex themes for investors after Budget

By Vinay Jaising, ET CONTRIBUTORS Last Updated: Feb 23, 2024, 12:05:00 PM IST

Synopsis

The overall theme of the Union Budget 2024, despite it being an interim budget was “Its Business as Usual and let us be Prudent, Long term Growth is a given”.



The Indian **Budget**, despite being an interim budget, has reiterated our thesis of buying more Domestic **growth** centric stocks focussed on **capex** and MAKE in INDIA stories. In this article we focus on two Capex themes – Railways and Water, both seeing exponential growth in capex. (Source- Bloomberg)

Index / Sector	Returns %									% change from All
	1w	1m	3m	6m	CYTD	FYTD	1Y	3Y CAGR	5Y CAGR	
NASDAQ	3	7	16	17	7	31	36	4	17	0.0
MSCI World	1	3	12	9	3	16	16	3	9	0.0
MSCI EM	1	0	5	0	-3	1	-2	-11	-1	-20.0
Russell 2000	4	3	18	4	-1	12	5	-4	5	-5.8
Nikkei	1	4	13	14	10	32	33	8	12	0.0
MSCI China	3	-4	-9	-17	-8	-24	-26	-26	-8	-39.2
MSCI India	1	2	16	18	3	34	30	14	15	-0.5
Gold	0	-1	4	6	-2	3	8	3	9	-2.7
Silver	2	-1	3	1	-4	-5	4	-6	8	-13.4
Barclay's Agg Bond I	0	-1	5	3	-1	1	2	-3	1	-7.1

(Source- Bloomberg)

The overall theme of the **Union Budget 2024**, despite it being an interim budget was “Its **Business** as Usual and let us be Prudent, Long term Growth is a given”. The key takeaways were three:

1. The gliding path of the fiscal deficit to reach 4.6% by F2026 looks achievable. The fiscal deficit for F2025 has been estimated at 5.1% as against 5.8% in F2024. There seemed to be no populist measures either, in fact the overall subsidy has been reduced by ~8%.
2. Focus on Capex growth was eminent with an increased budget of 17% as against 30% CAGR in the last three years. The overall Capex spent by the government has increased an impressive 6.8x in the last 11 years. Rural spend including affordable housing has increased by an impressive 11% after three years of decline
3. There were no changes suggested in the taxation front or in GST, which should lead to stability in the tax regime and the buoyancy of growth should be maintained.

(Rs bn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024BE	2024RE	2025E	(X) over 2014	Slippage in RE vs BE	CAGR (FY18-25BE)
Water	140	153	212	262	355	322	301	268	823	745	992	965	964	7.0	-2.7%	17%
Railways + Metro	241	271	301	350	605	574	672	722	1,112	1,624	2,413	2,433	2,554	10.6	0.8%	24%
Defence	802	831	836	915	954	998	1,160	1,399	1,380	1,500	1,626	1,572	1,720	2.1	-3.3%	8%
Road	149	166	275	412	508	676	684	882	1,133	2,060	2,586	2,645	2,722	18.3	2.3%	22%
Others	291	388	500	873	850	802	793	1,196	2,365	1,387	2,393	1,886	3,130	10.8	-21.2%	21%
Total Govt Budget	1,623	1,808	2,126	2,811	3,073	3,372	3,610	4,477	6,813	7,316	10,010	9,502	11,111	6.8	-5.1%	19%
% of GDP	1.4%	1.5%	1.5%	1.8%	1.8%	1.8%	1.8%	2.3%	2.9%	2.7%	3.3%	3.2%	3.4%			
% YoY		11.4%	17.0%	32.3%	9.2%	9.7%	7.3%	24.0%	52.2%	7.4%	36.8%	28.9%	16.9%			
PSU capex	2,631	2,291	3,114	3,381	6,307	6,080	6,416	4,776	5,025	4,031	4,977	3,262	3,430	1.3	-33.1%	-6%
Total Govt + PSU Budget	4,254	4,099	5,240	6,192	9,380	9,451	10,025	9,254	11,898	11,337	14,887	12,764	14,541	3.4	-14.3%	6%
Total Govt + PSU budget % of G	3.8%	3.3%	3.8%	4.0%	6.0%	6.0%	3.0%	4.7%	8.0%	4.2%	4.9%	4.3%	4.4%			

(Source- Union Budget)

Capex : Railway industries

The recent budget has reaffirmed our stance on the domestic growth narrative, particularly in capital expenditure sectors such as defence, railways, and renewable energy, which emerged as the primary beneficiaries.

The allocation for the railway budgetary outlay has surged significantly, increasing by 10.6x since the inception of the Modi government to Rs2.6 trillion in 2025BE.

Analysing the past 11 years, the initial four years witnessed less exhilarating allocations, ranging from just Rs240-350 billion during 2014-2017. However, from 2018-2021, the allocation rose to Rs575-720 billion, showcasing the government's commitment to fortifying railway infrastructure through the addition of new lines, track renewals, electrification and other improvements.

Looking ahead to 2022-2025BE, the allocation has increased 4x with the government placing significant emphasis on doubling of railway lines, investment in rolling stock, development of new lines, and the modernization of existing infrastructure, including signalling systems.

The motivation stems from the government's objectives to increase the modal share through railways from the current 27% to a target of 45%, expanding metro rail network, adding Vande Bharat trains into the system and High-speed rail.

The three biggest Companies operating in the rolling stock sector [Titagarh](#), [Texmaco](#), and [Jupiter Wagons](#), have witnessed a substantial increase in production levels. This expansion is noteworthy, with the monthly output of wagons now matching what was previously produced in an entire year. In F2023, their combined revenues accounted for ~32.5% of the overall rolling stock budget, and only ~6% of the overall railway budget suggesting scope of further order wins and revenue growth in the future, as they grow in different rail business segments.

(Rs m)	FY25BE	FY25BE
Total railway budget outlay	2,520,000	
Rolling Stock		410,861
Railway companies revenue	FY25E	FY25E
	Total revenue	Rolling stock revenue
Titagarh	52,643	52,643
Texmaco	50,426	40,310
Jupiter	46,091	39,627
Total revenue	149,160	132,581
% of total rail budget	5.9%	
% of rolling stock budget		32.3%

(Source- Union Budget)

	Order book (as at end-Dec'23) (Rs m)	O/B to TTM sales (x)
Titagarh	274,660	7.3
Texmaco	85,000	2.7
Jupiter wagons	70,763	2.2

(Source- Company)

Capex: Water industry

Water can become a scarce commodity in the future and Indians can have as much as 50% shortage of water for their overall demand. To bridge this gap the government has started stepping up its projects including increasing irrigation, treating wastewater and desalination to help increase water supplies.

The budgetary allocations have more than doubled from Rs140bn in 2014 to Rs301bn in 2020 and then further tripling to Rs984bn in 2025BE. Opportunities in the water sector are diverse, encompassing initiatives such as the Jal Jeevan Mission, Namami Gange, water treatment, irrigation, and more. The emphasis on developing robust water infrastructure stems from the pressing need to address the depleting freshwater resources. The government recognizes that treating water is not only a crucial long-term solution but also imperative in the face of a growing population. Four of the biggest water companies [VA Tech Wabag](#), [ION Exchange](#), Triveni Engineering and Vishnu Prasad accounted for a small ~ 4-5% of the water budget in F2023 suggesting scope of further order wins and revenue growth in the future, as they grow in different rail business segments.

(Rs m)	FY25BE
Total water budget outlay	984,188
Water companies	FY25E
VA Tech Wabag	36,973
ION Exchange	29,062
Triveni Engineering	4,260
Vishnu Prakash	16,653
Total revenue	49,975
% of total rail budget	5.1%

(Source- Union Budget)

	Order book (as at end-Dec'23) (Rs m)	O/B to TTM sales (x)
VA Tech Wabag	106,866	4.2
Ion Exchange	33,030	1.5

(Source- Company)

(You can now subscribe to our [ETMarkets WhatsApp channel](#))

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economictimes.com.)

Pick the best stocks for yourself

Powered by **REFINITIV** 



Weekly Top Picks: Eight stocks with consistent score improvement and upside potential of up to 40%

9 mins read



4 stocks with 5% to 8.87% dividend yields and continuous dividend payments for 7 years

7 mins read



Weekly Top Picks: Seven large & mid caps with consistent score improvement and upside potential of up to 42%

9 mins read



What do Q2 LIC results indicate for other Insurance companies? Two Life and 3 non-life Insurance players with "buy" and "strong buy" ratings

3 mins read



Large cap stocks with upside potential of more than 25%

4 mins read



5 stocks for a high dividend yielding portfolio

8 mins read



Eight midcap stocks, 2 with "Strong Buy" and 6 with "Buy" recommendations with potential upside of up to 35%

7 mins read



Six high ROE and low PEG ratio stocks, right combination for wealth creation

8 mins read

[View More Stories](#)

Subscribe to **ETPrime**