

## **BUDGET 2014-15 Analysis – Infrastructure and Construction Sector**

### **I. Industry Scenario:**

Infrastructure sector is one of the key drivers of economic development in the developing country like India. In recent years, India has consistently increased investment on infrastructure from 5% of GDP in 10<sup>th</sup> five year plan period to 9% in 11<sup>th</sup> five year plan. India's planning commission has projected an investment of US\$ 1 trillion for the infrastructure in 12<sup>th</sup> five year plan. However, development in basic infrastructure is still relatively slower compared to other countries. The rapid growth of the Indian economy in recent years has placed increasing stress on physical infrastructure i.e. electricity, railways, roads, ports, irrigation, water supply and sanitation, all of which already suffer from deficit in terms of capacities as well as efficiencies. Infrastructure sector is mainly affected due to delay in project awarding, environmental clearances hurdles, land acquisition issues, slower execution, lack of cheaper financing options etc.

### **II. Previous Budget Policies:**

Key policies announced in the union budget 2013-14 were as follows:

- ✓ Allocation of funds towards Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Pradhan Mantri Gram Sadak Yojana (PMGSY), Indira Awaas Yojana (IAY), Rural Infrastructure Development fund, NABARD, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) etc.
- ✓ Encouraging Infrastructure debt funds, providing access to bond markets , allowing issuing tax free bonds which will raise resources and provide low cost financing in the sector
- ✓ Proposal to create regulatory authority for road sector to address challenges including financial stress, enhanced construction risk and contract management issues

### **III. Expectations from Budget 2014-15:**

Infrastructure sector have been impacted due to challenging bidding process, higher raw material expenses and levered Balance sheet. Further, Land acquisition issues, delay in obtaining Environmental and forest clearance and lack of financing alternatives, growth

prospects of the sector are hindered. Following were the expectations from the Modi government to revive economic growth:

- ✚ Allocation towards specified large infrastructure projects such as low cost airports, inland waterways development and low cost housing programme.
- ✚ Measures to expedite the existing programmes in the roads, railways, ports and urban infrastructure sectors.
- ✚ Guidelines for provision of single-window clearance and increasing role of e-governance to fast-track pre-execution process and improve monitoring of infrastructure projects.
- ✚ Measures to attract private sector investments by simplifying policies and providing incentives in form of :
  - Extension of tax holidays
  - Exemption from MAT under 80IA for Infrastructure projects
  - Allowing higher depreciation and import duty exemption for purchase of capital equipment
  - Grant Interest rate subsidy for Infrastructure projects.
  - Allow one-time restructuring of infrastructure projects that have achieved COD over 2 years
- ✚ Reintroduction of Tax saving infrastructure bonds
- ✚ Allowing 100% refinancing of existing debt by ECB for easy access of overseas funding to construction players.
- ✚ Roadmap for setting up of an independent road sector regulator and clarity on its role
- ✚ Higher project awarding targets under EPC mode, which would reduce the project funding liability from the developers, through additional budgetary support or alternate funding avenues.
- ✚ Enhance access to long term debt by :
  - Strengthening bond markets, infra debt funds
  - Channelling part of funds from insurance companies and pension funds into infrastructure sector

#### IV. Union Budget 2014-15 Proposals and Impact:

Budget Proposals	Impact on the Industry
<p><b>Urban and Rural development</b></p> <ul style="list-style-type: none"> <li>✓ Providing Rs.7060 crore to develop <b>100 smart cities</b></li> <li>✓ Allocation of Rs.8000 crore for rural housing scheme</li> </ul>	<p>Whereas fund allocated may not be sufficient to develop 100 smart cities on simultaneously basis, such step provides right direction for forming new cities, a positive for civil construction companies</p>
<p><b>Road sector</b></p> <ul style="list-style-type: none"> <li>✓ Allocation of Rs.14389 crore towards PMGSY (i.e. rural road development), 20% more than last time allocation</li> <li>✓ Proposal to invest Rs.37850 crore in NHAI and state Highways; with Target of NH construction of 8500 km will be achieved in current financial year</li> <li>✓ Proposed to work on expressways parallel to Industrial corridors</li> </ul>	<p>The sector was affected due to lack of funds, Right of way issue and strong drive from government to move beyond the success of National corridor.</p> <p>Government has provided huge budgetary allocation and shown a will to complete pending construction by giving time line to achieve construction of 8500 Km in the financial year.</p> <p>Funding at NHAI level will help to provide viability gap funding for various unattractive stretches so that they can be developed via PPP model.</p>
<p><b>Rail transportation</b></p> <ul style="list-style-type: none"> <li>✓ Allocation of Rs.1000 crore to boost rail connectivity in north east area</li> <li>✓ Allocation of Rs.1000 crore to accelerating rail connectivity in Border areas</li> <li>✓ To allocate Rs.100 crore for Metro Projects for Lucknow and Ahmedabad</li> </ul>	<p>Government has announced extra allocations to rail connectivity in difficult terrain and such support will augur well for the development of these remote areas.</p> <p>Also Government indication to develop metro in cities like Lucknow and Ahemdabad augurs well for companies specialising in metro rail construction as in future more and more cities will get considered for metro rail development</p>
<p><b>Others</b></p> <ul style="list-style-type: none"> <li>✓ Infra Investment trusts to be set up to scrutinize infra projects</li> <li>✓ Present corpus of Pooled Municipal Debt Obligation Facility to be enlarged to Rs.50000 Crore from Rs.5000 crore.</li> </ul>	<p>If successful , will help the industry to raise much require long term capital</p> <p>A measure step towards urban development through providing support to municipal bodies so that development should not stalled which come under municipal corporation purview.</p>



<p><b>Other Initiatives</b></p> <ul style="list-style-type: none"> <li>✓ Proposal to develop SEZ in Kandla and JNPT</li> <li>✓ Allocate Rs.100 crore National Industrial Corridor in Pune.</li> <li>✓ Propose scheme for development of New Airports in Tier-I, II cities thru PPP mode</li> </ul>	<p>Such Initiatives augurs well for the sector as it will give opportunities to infrastructure players to bag new orders</p>
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**The government as stated earlier has clearly chosen the path of infrastructure development to achieve long sustainable economic growth and has provided a lot of measurement to fuel infrastructure development which will help infra and construction companies to bag new orders.**

**About XMPUS:**

- ✚ XMPUS is a Financial Advisory firm specializing in Credit Risk Assessment.
- ✚ Set up on July 25, 2013, by first generation entrepreneurs having over 20 year experience in finance industry, including 13 years of Credit Rating Industry.
- ✚ Set up with an Aim :
  - ✓ To act as Internal Credit Risk Assessment desk for the corporates
  - ✓ To achieve deserving long term sustainable Credit Rating for the corporates
  - ✓ To channelize company resources in a profitable and efficient way
  - ✓ To help the management streamline operations with a view to improve financials

**About Partners:**

**Mr. Mahendra Patil, FRM -**

- ✚ Co-founder of XMPUS Financial services has a Master’s Degree in Commerce and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Certified Financial Risk Manager (FRM) and has completed CFA-II (USA).
- ✚ He has overall experience of about 12 years in various fields, of which 7 years is in Credit Rating Industry.



- ✚ He has worked on 500+ rating assignments from various industries ranging from Power, Steel, Shipping, Shipbuilding, Ports, Logistics, Real Estate, Roads, Power Transmission Structures, Retail, Tyres, etc.
- ✚ Prior to starting XMPUS, Mahendra Patil was a part of CARE's Internal Rating Committee.

**Mr. Umeshpratap Singh, FRM, CFA –**

- ✚ Co-founder of XMPUS Financial Services is an Engineering Graduate and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Chartered Financial Analyst (USA) and Certified Financial Risk Manager.
- ✚ He has an Overall Experience of about 8 years in various fields, of which 6 years' experience is in Credit Rating Industry. He has worked on 500+ rating assignments from various industries ranging from infrastructure, construction, real estate, textile, hotel, Gems & Jewellery etc. He acted as one of the Rating Heads in CARE and handled a team of 20 analysts.
- ✚ Prior to starting XMPUS, he had collected valuable experience of over two years in corporate finance field with one of the largest corporate groups in India.

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