

Budget 2021-22: A booster shot to infrastructure investment



Presented in the backdrop of a pandemic induced contraction in national economic output, the Budget 2021-22 marks a shift to experimental measures to boost economic growth via building infrastructure, thereby marking a shift to privatization and monetization of assets to boost infrastructure investment.

Finance Minister Nirmala Sitharaman in her Budget 2021-22 speech presented a major push to capital expenditure for the next fiscal to ₹5.54 lakh crore, from ₹4.39 lakh crore in the current financial year. The Budget proposals are mainly focused on accelerating spending on physical and financial infrastructure, healthcare, job generation, agri-infra and rural development together with generous allocations for development schemes. In totality, she has aptly allocated funds to sectors with potential of a multiplier impact on overall economic activities and drive economic growth across sectors, alongside ensuring that the economy gets back to the pre-pandemic GDP growth levels. As a matter of fact, the Budget is sticking to the path of fiscal consolidation and is aimed to reach a fiscal deficit of below 4.5% of GDP by 2025-26.

Roads & Highways

In the Union Budget 2021-22, the FM made the “highest ever” budget outlay of ₹1.18 lakh crore for road transport and highway infrastructure, an increase of nearly 18% than what it is estimated to spend by March this fiscal. The higher allocation came amid the ministry’s target to build a record 11,000-km NHs during the current financial year. The NHAI will also be allowed to raise ₹65,000 crore from the market. “I am hopeful of taking daily highway construction to 40-km by March end,” said road transport and highways minister Nitin Gadkari.

While giving details of the roadmap for eight major projects, including the Delhi-Mumbai, Bengaluru-Chennai, Delhi-Dehradun, Kanpur-Lucknow and Delhi-Katra expressways, the FM said that all new four and six-lane highways will have advanced traffic management systems with speed radars, variable message sign boards, and GPS enabled recovery vans. The Budget pins its hopes on the government attracting private finance in areas such as public bus transport services and the 8,500 km of road projects to be awarded in 2021-22. The FM announced highway works in various states including a 3,500 km corridor in Tamil Nadu, 1,100 km in Kerala at an investment of ₹65,000 crore, 675 km in West Bengal at a cost of ₹95,000 crore, and 1,300 km in Assam, in the next 3 years.

The National Infrastructure Pipeline, which was launched with 6,835 projects in 2019, has now been expanded to 7,400 projects. The focus on enhancing infrastructure targets will have its trickle-down benefits for the industry, too. This will help in two ways: by creating job opportunities and income, which will add substantially to incremental aggregate demand in the economy; and by making the industry more cost-efficient by reducing the cost of logistics and transportation.

The government believes that for a \$5-trillion economy, the manufacturing sector has to grow at double digits, on a sustained basis, and needs to become an integral part of global supply chains. Along with production-linked incentives, world-class infrastructure will be a key pillar of that vision.

Railways & Metro Rails

Considering railways as a priority sector, in the Budget proposals, the government has allocated ₹1.10 lakh crore with a capital outlay of ₹2.15 lakh crore - 33% more than the revised capital outlay expenditure for 2020-21. Out of the total allocation, ₹1.07 lakh crore will be spent in capital expenditure, which is also a record high. The strategic disinvestment of Container Corporation of India (Concor) will be completed this year. Also, Railways will monetize Dedicated Freight Corridor (DFC) assets for operations and maintenance, after commissioning, as a part of monetizing operating public infrastructure assets for new infrastructure construction.

The national rail plan of Indian Railways has been set up with a core focus to lower the logistics cost and improve Make in India program. Use of indigenous signaling technology, focus on increasing safety, are some of the other announcements in the Budget. The Budget also announced funds for Kochi Metro, Chennai Metro (₹63,246 crore), Bengaluru Metro, Nagpur Metro and Nasik Metro. Also, two new, light-rail technologies – Metro Lite, Metro Neo – will be used for tier-2 cities and feeder routes in bigger cities.

Railway Board Chairman and CEO Suneet Sharma described the Budget as a “transformational” budget for the national transporter and said the budget has focus on deliverance. “This budget is a different budget altogether as it is a transformational budget, a future-ready for railway and is a path-breaking budget,” Sharma added.

Real Estate

Sticking with the government’s focus on affordable housing, the Budget has extended the provision of deduction up to ₹1.5 lakh in respect of interest on loan taken for the purchase of an affordable residential house property from taxable income under section 80EEA by one year up to March 31, 2022. This benefit is over and above the ₹2 lakh deduction against interest paid on a home loan taken to buy a house under Section 24 of I-T Act. So, a buyer can get tax rebate on ₹3.5 lakh interest paid on home loan. In fact, it would almost cover the entire interest to be paid in a year if one were to take a home loan of ₹40 lakh to buy a house of ₹45 lakh. The benefit will bring down the effective interest rate to around 5.5% from the existing 7% if the taxpayer comes in the bracket of 20%, and the net EMI after adjusting for tax benefit would be around ₹26,000 only. The real estate sector was upbeat about the move saying it would keep demand buoyant for affordable housing. For developers, the custom duty on steel, which has been reduced to 7.5%, is also a welcome move.

REITs & InVITs

Debt financing of real estate investment trusts (REITs) and infrastructure investment trusts (InVITs) announced in the Union Budget is expected to be a game-changer for the fundraising requirements in the real estate sector. Ashoo Gupta, Partner, Shardul Amarchand Mangaldas & Co, said: “Debt financing of REITs and InVITs will be enabled by making a suitable amendment; this can be a game changer for the fund raising requirements of these entities and thereby enable greater transaction in completed brownfield projects.”

Piyush Gupta, Managing Director, Capital Markets & Investment Services at Colliers International India, added, “Providing flexibility to REITs and Invits to raise more debt capital would provide additional funds to acquire assets, which could lead to faster closure of transactions with lower cost.”

Rental housing has been given a big boost with a tax deduction for those undertaking rental housing projects; this is likely to enhance supply. Shishir Bajjal, Chairman & Managing Director, Knight Frank India, said: “In context to the real estate sector, budget announcements relating to monetization of infrastructure and real estate assets will help increase private sector participation and also assist the government in enhancing fund flow for development of critical infrastructure assets.”

“The proposed easing of restrictions on leverage by Invits/REITs will attract more REITs listings and thus higher investments into real estate. The announced monetization of surplus land of government and government bodies is a welcome move; however, the implementation will need to be monitored,” said Dr Samantak Das, Chief Economist and Head of Research, JLL India.

Aviation

The Finance Minister made several announcements in airport infrastructure and that more airports will be monetized for operations and management concession, including those in smaller cities – meaning they will be run the PPP way. Varanasi, Bhubaneswar, Raipur, Indore, Amritsar, and Trichy airports will be given to PPP players by clubbing with smaller airports. Which means a corporate entity taking over one of these six airports will need to take small airports too. The (names and numbers of) smaller airports have not yet been finalized yet,” she said. The core infrastructure assets will be rolled out under the Asset Monetization Program including Airports Authority of India airports in Tier II and III cities and that the next lot of airports will be monetized for operations and management concession,” she said. AAI manages a total of 137 airports which include 24 international airports (3 civil enclaves), 10 custom airports (4 civil enclaves) and 103 domestic airports (23 civil enclaves).

Rural Infra

Increased spending in rural infrastructure, sops for the farm sector and a focus on job generation are expected to help spur demand for daily household products and groceries – a market that has already recovered strongly during the last quarter. Finance minister increased spending on rural infrastructure development by 34% to ₹40,000 crore and doubled micro-irrigation corpus to ₹10,000 crore among other measures that could help create jobs and boost farm incomes in the hinterland – home to more than 800 million people, whose purchasing behavior is largely linked to farm output.

Urban markets and cities, which were severely impacted by the pandemic-induced disruption, too, could get an impetus with the Budget’s focus on infrastructure spending and job creation. AThe growth momentum should continue even as the bottom-of-the-pyramid urban consumers are still stressed,” said Saugata Gupta, Managing Director of Marico, which makes Saffola edible oil and Parachute hair oils, and stressed on the need for effective execution of the Budget measures to the last mile. “With drive on infrastructure and job creation, there should be a boost, but execution will be a key,” said Gupta.

Power & Renewable Energy

The Budget announced a financial assistance package of about ₹3.06 lakh crore for India’s ailing electricity distribution companies. The funds will be allotted on a results-based approach tied to the discoms’ financial improvement. The funds would be spent on infrastructure investment such as installation of prepaid and smart meters, and feeder separation. Currently, all discoms in the country, whether private or state-owned, are monopolies. A framework will be put in place to give choice to the customer in the form of at least two discoms in every market. Transmission assets of Power Grid Corporation will be rolled out under the asset monetization program.

The minister announced that a National Hydrogen Mission will be launched that will aim to scale up generation of hydrogen from green sources. Solar Energy Corporation of India (SECI) and Indian Renewable Energy Development Agency (IREDA) will get an additional capital infusion of ₹1,000 crore and ₹1,500 crore, respectively. The minister also announced a hike in the import duty on solar inverters from 5% to 20% and solar lanterns from 5% to 15%, adding that this will give a boost to domestic manufacturing. She also announced that the government will introduce a phased manufacturing plan for solar cells and panels.

Jal Jeevan Mission Urban

The FM announced that Jal Jeevan Mission Urban will be launched with an outlay of ₹2.87 lakh crore over 5 years; it is aimed at universal water supply in all 4,378 urban local bodies, with 2.86 crore household tap connections and liquid waste management in 500 AMRUT cities. She also announced the Urban Swachh Bharat Mission 2.0 with an outlay of ₹1,41,678 crore for over 5 years from 2021, focused on complete fecal sludge management, wastewater treatment, source segregation, management of waste from urban construction, and bioremediation of legacy dump sites.

Industry Reactions on Budget

Satish Parakh, Managing Director, Ashoka Buildcon

A path breaking budget with shift from tax source of funding, with no additional levy, to monetising of public sector assets, leading to relief to businesses which are already recovering from Covid and bringing PSUs to mainstream business units. Major thrust on infrastructure program and allocation of funding. Also support to infra investment structures like Invit in roads and power and also exemption of TDS on dividend will attract foreign investment.

Anil D. Yadav, Group Chief Finance Officer, IRB Infra Group

The move to increase allocations for Roads & Highways segment in the Infrastructure Sector will facilitate the development agenda. Road development has always proven to boost economic growth, since it has a direct impact on land prices, facilitates urban development, creates direct employment and capex generation.

Sandeep Singh, Managing Director, Tata Hitachi

The Construction Equipment Industry lauds Union Budget FY21-22 for its bold attempt to address the disruption caused by the pandemic. Despite the backdrop of the huge fiscal deficit of 9.5% for FY21 and an estimated deficit of 6.8% in FY22, the government has outlined robust measures to boost health care infrastructure, of infrastructure development, power sector reforms, promote innovation and R&D, and skilling. All of these will help accelerate revival of the economy. The Budget proposals related to expansion of the National Infrastructure Pipeline (NIP) to include 7400 projects, enhanced outlay of ₹1.18 lakh crore for MoRTH, new economic corridors in Tamil Nadu, Kerala, West Bengal and Assam, allocation of ₹1.4 lakh crore towards Clean India mission, increased focus on railways, airports, and affordable housing, amongst others, will help create demand in the construction equipment industry. The announcement of a new Development Finance Institution (DFI) for the infrastructure sector will ease access to long-term funding. The push to InVITS and REITS through creation of a National Monetization Pipeline of potential brownfield infrastructure assets is a good step towards monetizing operating public infrastructure assets. Enhancement of the Rural Infra Development Fund to ₹40,000 crore and doubling of the micro irrigation fund under

Dr Malini Saba, Founder & Chairman, Saba Group

Given that the economy is well on its path to recovery, the Union Budget 2021 has focused on enhancing expenditure while keeping the fiscal targets at bay in the short term. The Budget focuses on augmenting infrastructure with a special focus on expediting urban infrastructure projects which will act as a strong catalyst in driving real estate in urban areas. The proposed easing of restrictions on leverage by Invits/REITs will attract more REITs listings and thus higher investments into real estate. The monetisation of surplus land of government and government bodies is a welcome move; however, the implementation will need to be monitored. The continuance to promote affordable rental housing schemes by providing a tax exemption for notified rental housing projects is a great effort. This will accelerate the pace of investments in this scheme and is likely to fall in line with achieving the overall objective of ‘Housing for All’.

Farrokh Cooper, Chairman & MD, Cooper Corporation

Budget 2021 is optimistic, driving the country towards Aatmanirbhar Bharat by putting significant stress on railways, power sector, infrastructure healthcare, banking, insurance, and agriculture, which will not only enable the country to revive its economy but will also stimulate growth. Voluntary and agriculture, scrapping of vehicles would have a positive effect and will move the commercial and automobile industries ahead. The industry would definitely be encouraged by the decision to double the allocation of MSMEs and to reduce the customs duty on steel. Focusing on highways and the investment plan would certainly give the CV and construction equipment the requisite impetus. The government’s increased focus on the infrastructure sector will certainly have a positive impact.

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