

CONSTRUCTION

Sector Impact - Positive

Background

- Construction as a percentage of GDP has been in the range of 7-8% in past few years. The multiplier factor between growth rates of construction and GDP has been about 1.5x-1.6x.
- After facing a slowdown in FY09 the economy is now showing signs of revival and quarterly GDP for the construction sector registered a growth of 6.5% in Q2FY10 over Q2FY09.
- GoI has set an ambitious target of increasing the proportion of infrastructure investment to about 9% of GDP by the terminal year of the Eleventh Five Year Plan and is using the Public Private Partnership model to achieve this target. Almost half of the investment planned in the infrastructure sector is expected to flow to the road and power sectors. Infrastructure requirement in other areas like urban infrastructure, railways, irrigation and water will drive the balance investments.

Infrastructure sector (FY10-12)	Proposed Investment (Rs. bn)
Power	4,830
Roads	2,075
Railways	1,866
Telecom	1,889
Irrigation	1,899
Water supply & sanitation	1,017
Ports	608
Aviation	202
Total	14,386

Source: Planning Commission

- During FY10, GoI announced stimulus packages to minimise the impact of the global slowdown on the Indian economy and took steps like increasing the planned expenditure for critical rural infrastructure and social security schemes by Rs.20,000 crore, authorising India Infrastructure Finance Company Limited (IIFCL) to raise further Rs.10,000 crore to refinance bank lending for infrastructure projects and cut in excise duty on cement and steel.

- The momentum in the construction industry can be gauged by the strong order book position of companies in the sector. Ratio of order backlog to sales for various construction companies is in the range of 2 to 5 times.

Budget Proposals

1. Infrastructure being the backbone of the economy, GoI has provided about 46% (Rs.1.73 lakh crore) of the planned allocation towards rural and urban infrastructure development. This includes about 25% of planned allocations towards rural infrastructure development.
2. GoI expects to raise about Rs.25,000 crore through the divestment route in 2010-11 and the proceeds are expected to be utilised towards social sector schemes for creating new assets. GoI has also attempted to attract investments in infrastructure by allowing an additional Rs.20,000 deduction to individuals investing in long-term infrastructure bonds.
3. GoI has proposed to raise the allocation of road transport by over 13% to Rs.19,894 crore. For detailed analysis of the proposals relating to the roads sector, please refer to our 'Roads' section in this document.
4. The Delhi-Mumbai Industrial Corridor project has been taken up for integrated regional development. Preparatory activities have been completed for creation of six industrial investment nodes with eco-friendly world-class infrastructure.
5. Disbursements by India Infrastructure Finance Company Ltd (IIFCL) are expected to reach about Rs.20,000 crore by March 2011 and it is expected to refinance over Rs.6,000 crore in 2010-11. The take-out financing scheme announced in the last Budget is expected to initially provide finance for about Rs.25,000 crore in the next three years.
6. Increase in allocations to various infrastructure development schemes is highlighted below:

Project/Scheme	Increase in allocation for 2010-11
Road Transport	By 13% to Rs 19,894 crore
Railways	By 6% to Rs.16,752 crore
Bharat Nirman	By 17.35% to Rs.48,000 crore
Indira Awas Yojana	By 13.63 % to Rs.10,000 crore
Rajiv Awas Yojana	From Rs.150 crore to Rs.1,270 crore
Urban Development	By 76% to Rs.5,400 crore

Budget Impact: Industry

1. GoI has put strong impetus on infrastructure development in the current budget by allocating significant portion of the planned allocation towards infrastructure development. Sustained focus of the government to improve infrastructure especially roads, power and housing through increased allocation to various schemes such as Bharat Nirman, Indira Awas Yojana and Rajiv Awas Yojana, would result in strong order book for the players in the construction industry.
2. As GoI has laid high focus on urban development and roads, companies involved in these areas are to gain a higher benefit.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
L & T	Construction & Engineering Electronics/Machine Others	82 15 3	1 - 5	▲▲
IVRCL Infrastructures & Projects	Construction	100	1 - 5	▲▲
HCC	Construction	100	1 - 5	▲▲
Gammon India Ltd	Construction	100	1 - 5	▲▲
Patel Engineering Ltd	Construction	100	1 - 5	▲
Nagarjuna Construction Company	Construction	100	1 - 5	▲▲
Simplex	Construction	100	1 - 5	▲
Michigan Engineers Pvt Ltd	Construction	100	1 - 5	▲▲

Legends:

▲▲	Highly Positive	▼	Negative	◄►	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals