Infra industry says government must focus on boosting consumption to aid project execution and capital expenditure

Infrastructure companies expect the budget to provide a push to capital expenditure in the industry, especially in labour-intensive sectors like construction.

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While the Indian infrastructure industry has recovered significantly from the impact of the Covid-19 pandemic, private investment in the sector has been slow to recover to the levels of 2019.

Even before the pandemic, the infra industry had been dealing with muted cashflows and many companies faced deteriorating financial health. The lockdowns, migration of labour, and slowing of orders hurt the industry more.

While the industry is getting back on its feet, it is not yet ready to run, and executives expect the **Union Budget** for 2023-24 to provide them with a shot in the arm.

Story so far

Although the government has announced various initiatives over the past few years to develop infrastructure, execution has been slow.

The National Highways Authority of India awarded only 35 projects with a length of 1,024 km worth Rs 19,100 crore in April-September. This is a small share of NHAI's target of roughly 8,000 km for 2022-23.

According to Crisil Research, bottlenecks including delays in financial closure, land acquisition, limited increase in budgetary support, and higher capex for 70 percent of high-value expressways under construction have led to delays in NHAI awarding new projects.

Similarly, plans by the Indian Railways to add 400 Vande Bharat trains by 2025 have been slow to get off the ground, with tenders for only 160 such trains awarded till December.

While the government had aimed to award tenders quickly, private companies needed time to evaluate the investment needed before bidding. Furthermore, only five such trains have been manufactured at the Integral Coach Factory. The target is to make 75 such trains by Independence Day next year.

Sudhanshu Mani, former general manager of Integral Coach Factory in Chennai and chief architect of India's first Vande Bharat project, said manufacturers would need about two years to deliver their first train set. He added that it would take at least 5-6 years to manufacture 400 Vande Bharat trains.

India's journey to operate a high-speed rail, or bullet train, has faced roadblocks in terms of land acquisitions, canceled tenders, and subdued participation by Japanese partner companies. Many of the 11 tenders originally meant to be executed by Japanese companies have been stalled due to differences in prices quoted by the international partners.

The railways now expect the project to be commissioned fully by October 2028, instead of the original deadline of December 2023.

High-profile projects such as BharatNet have been stalled for almost 12 years, caught in procedural issues and lack of inter-department coordination.

The plan that sought to bring broadband connectivity to 250,000-gram panchayats across 16 states was announced in 2010 and only 180,422-gram panchayats were service-ready by November 2022. The project is now scheduled to be completed by 2025.

Other major projects facing delays include the Hubli-Ankola New Line Project, a supercritical railway project stuck due to litigation issues regarding wildlife clearance; the Delhi-Ghaziabad-Meerut Regional Rapid Transit System corridor; and four-laning of the Bengaluru-Chennai Expressway.

Eyes on the Budget
Infrastructure companies expect the budget to provide a push to capital expenditure in the industry, especially in labor-intensive sectors like construction.

Officials of highway developer companies met the government earlier this week and sought 10 crucial changes in the direct tax regime to boost capital expenditure by private players in infrastructure projects. One official said specified investors can get tax exemption for income from funds invested in infra projects.

“There is an urgent need to extend the benefit to Indian funds, investors, or holding companies. Domestic funds should be given equal opportunity to compete with sovereign wealth funds for investing in the infra sector,” the official said.

He added that if this benefit is extended to Indian companies, capital investment by private players is likely to increase, enabling a rise in execution.

The infrastructure industry has also urged the government to consider plans like creating an employment-linked incentive scheme for the services sector and starting pilot programmes for a national employment guarantee scheme for cities.

“Employment-linked schemes will help reduce labour costs in the execution of infrastructure projects, thereby encouraging companies to hire more employees and increase the execution speed of projects,” an infrastructure analyst at PwC said.

There is a need to put more money in the pockets of consumers and increase consumption, which will create room for investments and jobs, industry groups said. The PHD Chambers of Commerce and Industry suggested that infrastructure investments must not be less than 10 percent of GDP compared with 8.5-9.5 percent now.

According to a report by FICCI, a strong focus on public capex will attract private investment.

Assocham president Sumant Sinha said programs like Gati Shakti and the Digital India Mission should be implemented quickly.

The Confederation of India Industry pitched for setting up separate special-purpose vehicles in the infrastructure sector to execute individual projects due to the mandate of tender conditions issued by the NHAI.

“Creation of SPVs for infrastructure projects will help by separating the risk and freeing up the capital. As a result, the SPV and the sponsoring company are protected against risks like insolvency,” an official from infrastructure major Larsen & Toubro said.

Deloitte India called for measures toward sustainable growth in demand, which will require efforts to create jobs and increase income-generation opportunities.

“The government must focus on fast completion of projects and efficient execution of initiatives. The other expectation would be raising capital for investments through asset monetisation,” said economist Rumki Majumdar in Deloitte’s pre-budget expectations.

Dispute resolution

The CII asked the government to reduce excise duties on fuel, expedite rural infrastructure projects, and consider smaller gestation periods for quick relief.

The CII emphasized that implementation of the National Infrastructure Pipeline should stay on track and the government should look to increase outlays on green infrastructure along with traditional infrastructure.

The industry body asked the government to consider five proposals to improve the swift dispute resolution mechanism and encourage public-private participation in infrastructure projects.

At the moment, construction contracts often cause disputes and conflicts between contractors and governments and ultimately delay the implementation of projects and increase total costs, adversely impacting development outcomes.

Industry participants working with the Indian Railways requested the government to not slow down on orders to expand freight and cargo capacity.

"The Indian Railways needs to reiterate its focus on expansion and growth in the upcoming budget. This will not only boost manufacturing in the industry but will also help the country move towards the aim to reduce logistics costs," said Vivek Lohia, MD of Jupiter Wagons.

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