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The infrastructure push

The budget focus on infrastructure will have a cascading effect if the financial interventions bridge the funding gap

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In the recent budget, finance minister Nirmala Sitharaman highlighted the ability of infrastructure development for its cascading effect on several other industries. She also spoke of its ability to bring in growth and deliver connectivity across rural and urban markets.

She explained how existing programs such as the Sagarmala, Pradhan Mantri Gram Sadak Yojana, Bharatmala, the numerous freight corridors, Jal Marg Vikas and UDAN, and infrastructure aligned to the relatively newer sectors of EVs, aerospace, will get the needed attention with an investment target of Rs 100 lakh crore in the infrastructure sector over the next five years.

The infrastructure industry is relieved that it got its much needed focus, but also cautious about how the proposed growth will play out. Says Suman Saraf, MD, Radha TMT, "Infrastructure spending is the key to accelerate the

GDP growth and the budget envisages a robust investment programme. We hope the implementation and funding would be in the same spirit for the growth to percolate and benefit every segment of the economy."

Speaking for many in the business community, he added, "Right now there is a liquidity squeeze and the government could have done more to ease that. Secondly, the increase in personal income tax for the highest bracket and share buyback tax has spooked the financial markets. This could have been avoided to give the confidence to the entrepreneurs to participate in nation building on a larger scale. Overall the key would be timely execution of infrastructure projects and easing of liquidity that would lead to robust growth in the coming quarters."

Industry insiders have also said that the new focus is welcome as

there will be systemic trade-offs and this is the time India needs to relook at its infrastructure nationally.

Besides the massive investment on infrastructure, the plan to construct 19.5 million rural houses over the next three years will strengthen steel consumption dramatically, ratings agency Icri Research said in its Budget analysis. Icri's review is predicated on the fact that construction and infrastructure sectors account for 50-60 per cent of the domestic steel consumption.

Across the steel industry, different segments will benefit. For instance, as the government has set itself a target to provide drinking water to all households

by 2024 under the flagship Har Ghar Jal Mission, which would benefit domestic steel manufacturers as it will need extensive infrastructure, the report by Icri noted.

The enhanced capital outlays towards roads, railways and urban infrastructure is expected to support domestic steel consumption growth of 7-7.5 per cent over the medium term.

"The government's intent to focus on infrastructure spend with emphasis on digital economy and job creation are significant announcements. Further, the aim to put a mechanism in place to attract foreign capital is an important development. We believe investment in infrastructure sector and moves to attract private capital in railways and waterways can have a positive cascading effect in the economic activity across sectors of development and growth," T V Narendran, global MD & CEO, Tata Steel, said in a statement.

Besides stepping up allocations for infrastructure, the budget has raised import tariff on some stainless and alloy steel products to 7.5 per cent from five per cent. This step will offer some relief to the domestic steel companies who were assailed by cheaper imports before.

Niranjan Hiranandani, President, Naredco, also pointed out, "The government's proposal to invest more than Rs 100 lakh crore for infrastructure over the next 5 years was essential. Liquidity, which has been a major concern for the industry, has been addressed via policy to a certain extent. Public sector banks are now proposed to be further provided Rs 17000 crore of capital to boost credit. Also the economy was devoid of any institution capable of providing long term credit, the government has tried to address that issue as well," he added.

The next few years will be indicative of how far India's policy and finance reforms assist its larger growth goals.



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- Icri Research