

# Union Budget 2016 – 2017

Improving the Infrastructure



# Union Budget 2016 – Improving the Infrastructure

Amongst the nine pillars which form the agenda for the next year to undertake transformative measures, the fifth pillar is the 'Infrastructure Investment'. The Budget 2016 aims to improve the quality of life, which calls for providing better environment and developing a resilient infrastructure for both - the urban and rural India. Better infrastructural facilities boost economic growth, generate employment opportunities and lead to self-sufficiency. A total of Rs. 2.21 lakh crore has been earmarked for the infrastructure sector. A slew of measures have been budgeted in various industries to pave way for the transformation in the infrastructure.

## Road and Transport

With the vision to connect India in a comprehensive manner, to make passenger and goods transit easier and to generate more employment, the budget has allocated Rs. 97,000 crore to develop the roads – both rural and highways. Of this, an amount of Rs. 19,000 crore has been allocated for the FY 2016-17 under the Pradhan Mantri Gram Sadak Yojana to construct 2.23 lakh km connecting 65,000 eligible habitations by 2019.

The government aims to approve about 10,000 km of highways during the year to push the development of the roads connecting India, which will generate 4 crore mandays approximately. Besides, National Highway Authority of India will also be allowed to raise Rs. 15,000 crore through tax free bonds.

To further improve the transportation, government plans to amend the Motors Vehicle Act to open up the road transport sector in the passenger segment.

In a bid to re-vitalize the PPPs, Public Utility (Resolution of Disputes) Bill is proposed to be introduced during 2016-17 and guidelines for renegotiation of PPP Concession Agreements are also proposed to be issued. This will help speed up resolution of disputes and boost confidence levels of the developers, encouraging fresh investment in the sector.

## Power

The power sector in India is plagued by the poor health of the 'Transmission and Distribution' companies, due to aggressive bidding, subsidized power tariffs and leakages and theft. To strengthen the power segment, the government proposes to augment the investment in the nuclear power generation over the next 15-20 years. This would help reduce the dependence on the Oil and Gas segment and diversify the fuel mix.

An increase in the Clean Energy Cess from Rs. 200/ tonne to Rs. 400/ tonne of coal is going to increase the power generation cost of power companies. On the lower end of the value chain, the transmission and distribution companies will benefit as the budget proposes to provide marketing freedom for gas produced in difficult terrain.

## Cement & Steel

A small change in the 'demand-driver' industry will have a significant impact on the 'input' industry. With the required impetus to the real estate industry to boost demand, the cement and steel industry are expected to grow in FY2016-17.

- With an allocation Rs. 2.21 lakh crore to the development of road and transport, the demand of cement and steel is expected to increase.
- In order to boost the consumer spending, the budget has allowed for a deduction of Rs. 50,000 per annum for loans upto Rs. 35 lakh sanctioned in FY 2016-17 for the first time buyers, where the house cost does not exceed Rs. 50 lakh.
- Exemption has been allowed from service tax on construction of affordable houses upto 60 square meters and 100% deduction of profits to an undertaking in housing project for flats upto 30 sq. mtrs in metro cities and 60 sq. mtrs. In other cities approved during June 2016 to March 2019 and completed in three years.
- Increase in government spend on the rural development and irrigation and allied projects are also going to boost the demand for the core sectors such as Cement and Steel.

## Real Estate

- In order to boost the consumer spending, the budget has allowed for a deduction of Rs. 50,000 per annum for loans upto Rs. 35 lakh sanctioned in FY 2016-17 for the first time buyers, where the house cost does not exceed Rs. 50 lakh.
- Exemption has been allowed from service tax on construction of affordable houses upto 60 square meters
- 100% deduction of profits to an undertaking in housing project for flats upto 30 sq. mtrs in metro cities and 60 sq. mtrs. In other cities approved during June 2016 to March 2019 and completed in three years.

A small change in the 'demand-driver' industry will have a significant impact on the 'input' industry. With the required impetus to the real estate industry to boost demand, the cement and steel industry are also expected to grow in FY2016-17. With an allocation Rs. 2.21 lakh crore to the development of road and transport, the demand of cement and steel is expected to increase further. Increase in government spends on the rural development and irrigation and allied projects is also going to boost the demand for the core sectors such as Cement and Steel.

Overall, the budget had a positive impact on the infrastructure sector as some industries such as cement in particular will reap significant gains. Having a long-term vision, the measures announced by the government will boost the investment, consumer spending and trigger higher growth rates in the coming years.

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