

Fiscal Stimulus – Atmanirbhar Bharat Part IV

May 2020

In the fourth tranche of the stimulus package, the Finance Minister outlined the new horizons of growth in the industrial and infrastructure space with focus on upgradation of industrial infrastructure, introduction of commercial mining in the coal sector, self reliance in defence production through 'Make in India'. The government also focused on developing world class aviation infrastructure, tariff reform policy for power sector, privatisation of discoms in UTs, boosting private sector investment in social infrastructure sector, private participation in space activities and atomic energy related reforms. More so, there was an effort for inclusive infrastructure development to kick start the capex cycle in the medium to long term.

Key Highlights:

- **Self reliance in coal production:** The government plans to introduce competition, transparency, private sector participation in the coal sector. The government plans to invest in infrastructure development for enhanced evacuation from mines to plant locations. Coal gasification/liquefaction will be incentivised and coal bed methane (CBM) extraction rights would be auctioned from Coal India's (CIL) coal mines
- **Six more world class airports have been identified for the second round on a PPP basis:** The bid process would commence immediately. Another six airports will be put out for third round of bidding. This will boost private sector investment in social infrastructure, which is suffering from poor viability through revamped viability gap funding (VGF)
- **To notify a list of weapons/ platforms for ban on import, indigenisation of imported spares, separate budget provisioning for domestic capital procurement:** It is aimed to reduce huge defence import bill. FDI limit in defence manufacturing under automatic route will be raised from 49% to 74%. Future projects with planetary exploration , outer space travel, etc, would be open to the private sector

Key Highlights (Continued...)

- Privatisation of discoms of UTs to improve sub-optimal performance of power distribution & supply and bring improvement in operational and financial efficiency in distribution
- At present, only 60% of airspace is available for civil aviation. Restrictions would be eased, which will eventually lead to optimal utilisation of airspace and reduction in fuel and time. The total cost savings for airlines would be ₹ 1000 crore/year

Key announcements.....

Measures	Feature	Beneficiaries	Quantum (₹ crore)
<u>Commercial coal/mineral mining</u>			
Self-reliance in coal production. Government to introduce competition, transparency and private sector participation in coal sector. To invest in infrastructure development for enhanced evacuation of from mines to plant locations.	Aimed to reduce import of substitutable coal. Revenue sharing mechanism instead of fixed rupee per tonne. Nearly 50 blocks to be offered immediately. Now even partially explored blocks to be auctioned. Private sector participation exploration to be allowed. Earlier only captive consumers with end-use ownership were allowed to bid, however now any party can bid for a coal block and sell in open market. There would be no eligibility conditions, only upfront payment with ceiling.	Commercial coal mining and private sector participation to boost coal availability and help reduce coal import to private companies like NTPC. Also investment in coal evacuation infrastructure benefit material handling companies like BEML, Action Construction Equipment. Increased mining activities to auger well for mining explosive companies like Solar Industries, Premier Explosives. Also, Currently Coal India (CIL) has a monopoly in coal sector mining. Over a longer term horizon, commercialization of coal mining would reduce coal India's monopoly and would encourage private sector participation	50000
Introduce joint auction of Bauxite and Coal mineral blocks to enhance Aluminum Industry's competitiveness.	This would aid in reducing cost of production for aluminium sector as it would aid in reducing power cost	Vedanta and Hindalco are likely to be key beneficiaries as and when Bauxite and Coal mineral blocks are allocated. Over a medium to longer term horizon this would aid in ensuring partial/full raw material security for the aluminum majors.	
Coal Gasification / Liquefaction will be incentivized and Coal Bed Methane (CBM) extraction rights to be auctioned from Coal India Limited's (CIL) coal mines.	Rebate in revenue share for coal gasification to improve viability of the projects and auctioning of CBM extraction rights will encourage more private sector players in gas production.	This move by the government will assist India in switching to a gas-based economy over the long term. Although, there won't be any impact in the short run, but in the long term higher gas production will benefit all the Gas Utilities and City Gas Distribution companies.	

Source: Govt, ICICI Direct Research

Key announcements.....

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<u>Industrial Infrastructure</u>			
Promotion of new champion sectors will be launched in sectors such as solar PV manufacturing, Advanced cell battery storage	Incentive scheme for promotion of new champion sectors will be launched in sectors such as solar PV manufacturing, Advanced cell battery storage	Companies like BHEL which has forayed into Solar PV manufacturing as part of its strategy to diversify into non-power business to benefit.	
Availability of Industrial land/ land bank for promoting new investment and making information available on Information System (IIS) with GPS mapping	3376 Industrial parks/ estates/ SEZs in 5 lakh hectares mapped on industrial information system. All industrial parks will be ranked in FY 21	L&T through its buildings and factories business to benefit from building factory structure, industrial warehouses and other industrial structures. Product manufacturing companies like Thermax, Elgi Equipment to benefit through their wide range of products and solutions with varied industrial applications. While companies like Timken, SKF having presence in industrial bearings to gain from increased industrial activities. Welding consumable & equipment companies like Ador Welding to also benefit. Companies like BHEL which is having ~14000 acres of land bank available in major cities, industrial clusters and demand centers for a range of purposes like setting up manufacturing facilities to benefit from this move.	
Scheme for upgradation of Industrial Infrastructure will be implemented through challenge mode for Industrial Cluster Upgradation of common infrastructure facilities and connectivity.			
<u>Social Infrastructure</u>			
Boost private sector investment in Social Infrastructure which is suffering from poor viability through revamped Viability Gap Funding (VGF)	Government to enhance the quantum of VGF upto 30% each of total project cost as VGF by Centre and States/ Statutory Bodies. Projects proposed by Central Ministries/ State government/ Statutory entities	Likely to auger well for companies like L&T which is having strong capabilities and presence in building social infrastructure like Hospitals.	8100
<u>Tranche V - Key Measure:</u>			
The central government has allowed the states to increase their borrowing limit from 3% to 5% of the gross state domestic product (GSDP) for FY 21E	The move will give the states extra resources of ₹4.28 lakh crore.	This move will help state to continue their capex/investment plans especially in the road construction and power T&D. This will be beneficiary for Road EPC companies like L&T, KNR construction, PNC infratech while on the power T&D space, KEC and Kalpataru power will stand to benefit.	

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Key announcements.....

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<u>Aerospace & Defence:</u>			
Enhancing self reliance in defence production through 'Make in India'	To notify a list of weapons/ platforms for ban on import, Indigenization of imported spares, separate budget provisioning for domestic capital procurement. It is aimed at reducing huge defence import bill.	Defence manufacturing companies like L&T, Bharat Electronics (BEL), Bharat Dynamics (BDL), Bharat Forge which are focused on R&D and indigenization of products and having manufacturing capabilities for indigenized defence products to gain significantly. BHEL which already supplies products like heat exchangers for 'TEJAS' and is rapidly expanding its offering in aerospace segment to benefit. Also increase of FDI limit from 49% to 74% to boost investment in private defence manufacturing and encourage private players like L&T and others to enhance their capabilities in this space. Domestic raw material suppliers like Midhani would be encouraged to manufacture products locally which were earlier imported providing scope for developing new advanced products.	
FDI limit in defence manufacturing under automatic route will be raised from 49% to 74%.	Setting up of project management unit (PMU) to support contract management, realistic setting of General Staff qualitative Requirement (GSQRs) of weapons/ platforms, Overhauling Trial and Testing procedures.		
India to become global hub for Maintenance, repair and Overhaul (MRO). Tax regime for MRO system has been rationalized. Convergence between defence sector and the civil MROs will be established to create economies of scale.	Aircraft component repair and maintenance to increase from ₹800 crore to ₹2000 crore in three years. Major engine manufacturers in the world would setup engine repair facilities in India in coming year. Maintenance cost for airlines to come down.	Companies like HAL having strategy to diversify further into Aircraft component repair and maintenance (MRO) services to benefit. Aviation companies like Interglobe Aviation, Spicejet to benefit as this would eventually bring down maintenance cost for them.	
Boosting private participation in space activities. Future projects with planetary exploration , outer space travel etc. to be open for private sector.	To provide level playing field for private companies in Satellites, launches and space-based services with predictable policy and regulatory environment. Private sector will be allowed to use ISRO facilities and other relevant assets to improve their capacities. Liberal geo-spatial data policy for providing remote-sensing data to tech-entrepreneurs.	This is likely to create sizable opportunity for companies like L&T which has already signed a consortium with other DPSUs to produce complete launch vehicle for ISRO.	

Source: Govt, ICICI Direct Research

Key announcements.....

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<u>Aviation/Airport Infrastructure</u>			
Six more world class airports have been identified for 2nd round on PPP basis. Bid process to commence immediately. Another Six airports will be put out for 3rd round of bidding.	AAI has awarded 3 airports out of 6 bids for operation and maintenance on Public-Private Partnership (PPP) basis. Additional investment of ₹13000 crore expected by private players in 12 airports of 1st and 2nd round.	Companies like L&T which was awarded major airport project in FY20 and having strong capabilities in EPC projects in airport segment to further benefit from PPP mode and bid process for 6 more airports improving its order inflow prospects.	13000
Efficient airspace management with reduction in flying cost and benefit of ₹1000 crore per year for aviation sector.	Restrictions on Indian Airspace will be eased (only 60% airspace is freely available now). Optimal utilization of airspace, reduction in fuel use, time. The total cost savings for airlines would be ₹1000 crore/year.	To benefit airline operator companies like Interglobe Aviation, Spicejet.	1000
<u>Power & Discoms:</u>			
Power departments / Utilities in Union Territories (UT) will be privatized.	To improve sub-optimal performance of power distribution and supply. Will lead to better services to consumers and improvement in operational and financial efficiency in distribution.	Privatization of Discoms in UTs to pose significant opportunities for private players already having presence and expertise in operating private discoms in few cities/states like CESC, Torrent power.	

Source: Govt, ICICI Direct Research



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