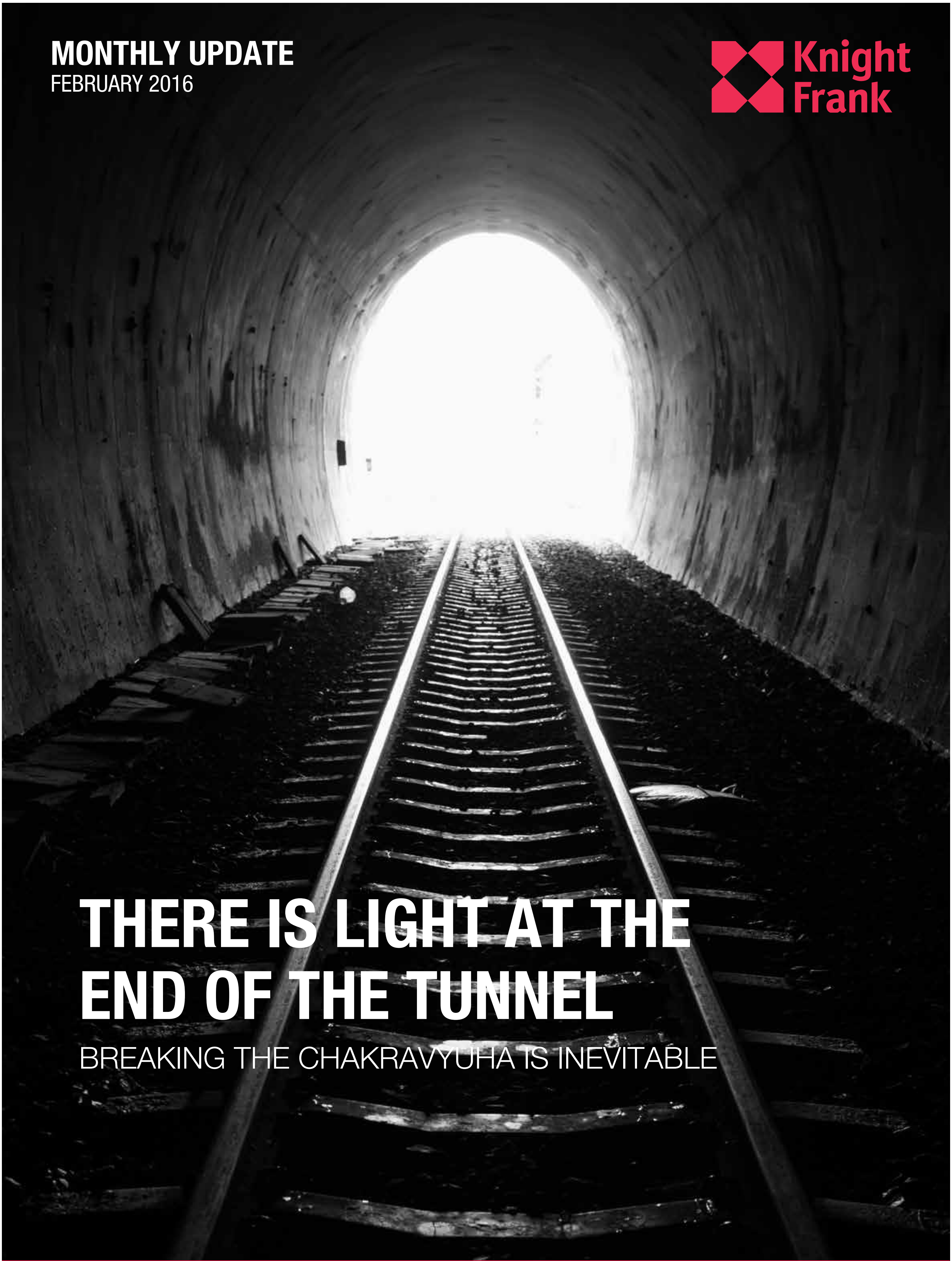
MONTHLY UPDATE

FEBRUARY 2016



THERE IS LIGHT AT THE END OF THE TUNNEL

BREAKING THE CHAKRAVYUHA IS INEVITABLE

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THERE IS LIGHT AT THE END OF THE TUNNEL, BREAKING THE CHAKRAVYUHA IS INEVITABLE

After having generated positive expectations for a gradual revival in the interest rate cycles last December, Janet Yellen, the Chair of the Board of Governors of the Federal Reserve System of the US, recently expressed a note of caution in her testimony to the Congress. Her statements were rooted in the low reading of the Q3 2015 US growth – a slowdown to 0.7 per cent from 2 per cent recorded in Q2. The Q3 growth now stands revised to 1 per cent and inflation has picked up as well. However, the situation in the euro area is the exact opposite: partly due to lower food and energy prices, deflation is back and prompting the government for crucial policy action. China's slow story continues; data indicates that the country's economy has dipped to a 25-year low of 6.9 per cent.

Having come a long way from the minuscule Hindu rate of growth predominated by agriculture in the early years of its independence, India now boldly calls upon the world to 'Make in India', aspiring for a double-digit growth, with substantial contributions from the industrial and manufacturing sectors. The grand Make in India Week that recently concluded in Mumbai was a show of the country's potential manufacturing prowess and ability to attract investments. However, the economic landscape that evolved across decades is akin to the Chakravyuha Challenge, as described by the India Economic Survey 2015-16. The Reserve Bank of India, Ministry of Finance, International Monetary Fund and the World Bank all agree on the ~7.5 per cent growth rate for India in the current fiscal year, but with many challenges. Though the fiscal deficit target set for 2015–16 seemed achievable, the one set for 2016–17 is expected to be difficult, says the Survey. Given a choice between growth and fiscal discipline, one would be prompted to lean towards growth at the current juncture, though the two are not exclusive of each other. Consumer inflation is gradually firming up, recording 5.6 per cent in January. While the RBI has set a target of containing retail inflation within 6 per cent by January 2016 and within 4 per cent with a band of 2 percentage points for all subsequent years, the rising CPI inflation is prompting concerns. The mounting NPAs and liquidity challenges of the banking sector, falling exports and slowing industrial and manufacturing activity also demand due attention. The prevailing volatility of the currency and equities add to the woes. During the period November 2015–February 2016, there have been net investment outflows of $6,185mn by foreign institutional investors' (FII) against net FII inflows of $15,550mn during the same period in the previous year, while February 2016—the month of the Make in India Week—saw net FII outflows over $2,000mn against the net FII inflows of around $4,000mn in the same month last year.

The Chakravyuha is not always indomitable; the Indian mind views it as the Mahabharata portrays it – even Abhimanyu (whose exceptional valour and fighting skills were equated with Arjuna and Krishna) could not exit it. However, the Economic Survey asserts that a growth target of 7–7.75 per cent of the GDP growth is achievable by pursuing monetary easing, relaxing the roadmap for fiscal consolidation, better transmission of interest rate cuts to end-customers, introducing labour reforms, rationalising subsidies and raising the tax to GDP ratio, while also hoping for a normal monsoon. The Union Budget 2016-17 stresses on the required reforms with a greater focus on financial sector reforms to widen and deepen the financial markets, including the corporate bond market. It also provides for enhancing the ease of doing business and adhering to the preset targets of fiscal discipline. However, the Budget also warns of the risks, particularly any further global slowdown and volatility, and the additional expenditure to be accrued due to the 7th Central Pay Commission recommendations and the One Rank One Pension (OROP) Scheme.

The real estate sector has many takeaways from the Union Budget on both, the demand and supply sides. The Budget provides for a tax exemption of an additional ₹50,000 for first-time homebuyers and a 100 per cent tax exemption of profit and exemption from service tax for the construction of houses of up to 325 sq ft in metros and 650 sq ft for developers. Further, with the removal of the dividend distribution tax (DDT) on REITs Special Purpose Vehicle, we do not think there is any major road block in the way of launching REIT schemes any time now.

The Budget stresses on infrastructure and rural development, while also providing for the digitisation of land records. On the infrastructure front, it aspires to invest a robust ₹97,000 cr for the road sector and approve around 10,000 km of national highways in 2016–17. The total outlay for infrastructure development amounts to ₹221,246 cr. The Budget also provides for reforms such as introducing a new credit system for infrastructure projects, reforms in the FDI policy and steps to revitalise public–private partnership.

The Railway Budget 2016-17 provides for reorganising, restructuring and rejuvenating the Indian Railways by introducing new revenue sources, norms and structures, though its claim to improve the operating ratio to 92 per cent in 2016–17 from the current 90 per cent is debatable, given the massive pay commission outflows. Railway connectivity projects at prominent ports in the country are a major provision. The ministry also assures that it would make both reserved and unreserved rail travel 'comfortable' and safe.

GLOBAL UPDATE

CHINA CUTS RESERVE REQUIREMENT TO ENSURE COMFORTABLE LIQUIDITY, GROWTH SLOWS TO A 25-YEAR LOW

The People's Bank of China (PBoC) cut its reserve requirement ratio by 0.5 per cent. As a result, Chinese banks will have a reserve ratio of 17 per cent. The move is expected to ease the liquidity situation, releasing $108 bn funds into the banking system. This is the fifth time since February 2015 that macroeconomic compulsions prompted the PBoC to cut the ratio, the last cut being in October 2015.

The latest data indicates that the Chinese economic growth rate slowed to a 25-year low of 6.9 per cent in 2015 and 6.8 per cent in the fourth quarter of last year.

EUROZONE INFLATION IN THE NEGATIVE IN FEBRUARY

The eurozone annual inflation fell more than what was forecasted, to -0.2 per cent YOY in February 2016 from 0.3 per cent recorded in the previous month. It crossed into the negative territory for the first time since September 2015, when it was at -0.1 per cent.

Core inflation (excluding the volatile prices of unprocessed food and energy) also slipped more than expected, to 0.8 per cent in February. The fall in consumer prices was prompted by the fall in energy prices. Prices for food, alcohol and tobacco products rose by 0.7 per cent in February, albeit at a slower pace than the 1.0 per cent growth recorded in January.

The slowing inflation prompted a more proactive role from the European Central bank (ECB). In its upcoming March 10 meet, it is expected to cut its already negative rate, along with squeezing its Asset Purchase Programme (APP).

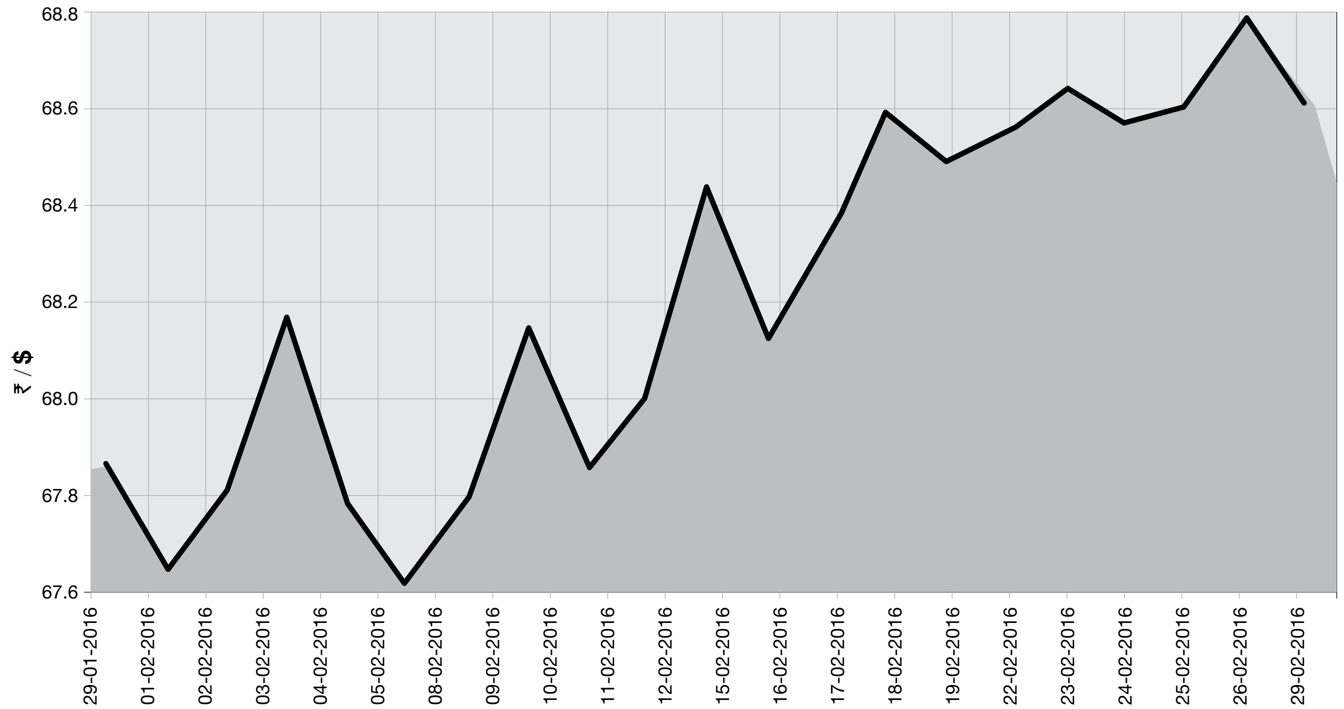
In its winter forecast, the ECB estimated the eurozone inflation to average at 0.5 per cent in 2016 on the expectation that oil prices would stay muted.

US INFLATION AND GROWTH FIRM UP

US inflation, as measured by the personal consumption expenditure (excluding food and energy), rose 1.7 per cent YOY in January 2016 from the 1.5 per cent recorded in December 2015.

Growth too stood unexpectedly revised upwards to 1 per cent YOY in Q4 2015 from 0.7 per cent in the previous estimate. The data releases have resulted in increasing the expectations of an interest rate hike.

CURRENCY TREND



Source: RBI

In February 2016, the Indian rupee depreciated 1.09 per cent against the US dollar

INDIA UPDATE

CENTRAL STATISTICS OFFICE (CSO) PROJECTS ECONOMIC GROWTH FOR 2015–16 AT 7.6 PER CENT

The CSO, in its advance estimates, has projected the economic growth for 2015–16 to be at 7.6 per cent – a five-year rate compared to the previous high of 8.9 per cent recorded in 2010–11. This is higher than the growth projected by the Finance Ministry in its mid-year economic analysis, at 7–7.5 per cent and the 7.4 per cent estimated by the Reserve Bank of India (RBI).

The CSO data further indicates that the economy grew at 7.6 per cent in the first quarter, 7.7 per cent in second and 7.3 per cent in third quarter.

RBI KEEPS KEY POLICY RATES UNCHANGED; RAISES INFLATION FORECAST

As expected, the RBI rendered the key policy rates unchanged in its bi-monthly policy meet. The repo rate stays unchanged at 6.75 per cent, while the reverse repo also stays unchanged at 5.75 per cent. The cash reserve ratio (CRR) of scheduled banks too stands steady at 4.0 per cent of net demand and time liability (NDTL).

The RBI Governor said, ‘The Indian economy is currently being viewed as a beacon of stability because of the steady disinflation, a modest current account deficit and commitment to fiscal rectitude. This needs to be maintained so that the foundations of stable and sustainable growth are strengthened’. The RBI also indicated that if structural reforms and controlled spending were adhered to, they would lend more fiscal space to the government to support growth as well as to keep inflation at its projected level of five per cent by the end of 2016–17.

RBI EASES LIQUIDITY RULE; HELPING RELEASE ₹2.8 LAKH CR FOR LENDING

Under the liquidity coverage ratio, the RBI allowed banks to use three per cent more of their statutory liquidity ratio (SLR) requirements. Now, 10 per cent of SLR bonds would qualify as liquidity coverage ratio (LCR) from the earlier 7 per cent – a requirement mandated under the Basel III accounting norms. Easing the regulations on the LCR, the RBI helped to address the liquidity issues of banks, as the move is likely to release ₹2.8 lakh cr for lending.

RBI COMES UP WITH STRICTER NORMS TO PREVENT NPAS; KEEPS AWAY DISSENTING BANKS FROM A COMMITTEE ESTABLISHED TO PREVENT FRESH DEFAULTS

The RBI has disallowed dissenting banks from a committee established to prevent new defaults. It has further suggested that the promoter would have to bring in more funds. The RBI notification clarified that the exiting lender bank will not have the option to continue with its existing exposure and simultaneously not agreeing to their rectification or restructuring as CAP (common action plan). In such cases, the exiting bank will have to sell its exposure completely to new or existing lenders.

To weed out the constraints with regards to banks agreeing to restructuring under the Joint Lenders Forum, the minimum consensus required has been reduced to 50 per cent of the total lenders, from 60 per cent earlier. RBI also mandated that operations such as the sale of assets, conversion of loans into equity and prevention of loans from becoming bad will have to be time bound.

EXPORTS CONTINUE THE FALL, 13.6% DOWN IN JANUARY

India’s exports declined 13.6 per cent YOY in January to $21.07 bn, continuing the fall for the 14th straight month. However, of the 30 export sectors, 13 posted growth. In the first 10 months of 2015–16, India’s exports made up $217.67 bn against $264.32 bn in the same period last year.

There is also a drop in imports by 11 per cent to $28.71 bn, helping to narrow the trade gap to an 11-month low. The trade deficit (merchandise exports) stood at $7.63 bn in January 2016. Gold imports increased 85 per cent YOY to $2.91 bn in January 2016 against the 179 per cent YOY increase in December 2015. Oil imports slipped 39 per cent to $5.02 bn, while non-oil imports declined 1.4 per cent to $23.68 bn and non-oil, non-gold imports—the barometer of domestic demand—fell 7.4 per cent to $20.78 bn.

WPI INFLATION DOWN FOR THE 15TH STRAIGHT MONTH; CPI CONTINUES FIRMING UP

The annual rate of the Wholesale Price Index (WPI) inflation dropped further to -0.90 per cent (provisional) YOY during January 2016 against the -0.73 per cent (provisional) recorded during December 2015 and -0.95 per cent in January 2015. However, the build-up inflation rate in the financial year so far stood higher, at 0.23 per cent compared to -1.66 per cent in the corresponding period of the previous year.

The WPI of primary articles slipped by 1.7 per cent from the previous month, while that for the food articles group within primary articles fell by 1.9 per cent during the month. The WPI of the fuel and power group dropped 2.9 per cent from the previous month, while that for the manufactured products group rose 0.1 per cent during the month.

The continuous rise in the prices of primary articles for the last five months has contributed to building inflationary pressure. In January 2016, the inflation of primary articles stood at 4.63 per cent compared to 5.48 per cent in the previous month, while that of fuel and power stood at -9.21 per cent from -9.15 per cent recorded last month. Inflation in manufacturing products recorded -1.17 per cent, compared to -1.36 per cent last month.

The annual rate of retail inflation based on the consumer price index (CPI) firmed up to 5.69 per cent YOY in January 2016 from 5.19 per cent recorded in January 2015 and 5.61 per cent recorded in December 2015. This is the highest since August 2014. While the RBI has set a target of containing retail inflation within six per cent by January 2016 and within four per cent with a band of two percentage points for all subsequent years, the rising CPI inflation is prompting concerns.

While rural retail inflation in January 2016 rose 6.48 per cent from 5.34 per cent a year ago, the urban retail inflation slipped to 4.81 per cent from 4.96 per cent a year ago. Inflation in consumer food prices also firmed up 6.85 per cent YOY in January 2016 from 6.14 per cent in January 2015 and 6.40 per cent in December 2015.

CAR SALES SLIPPED IN JANUARY FOR THE FIRST TIME IN 15 MONTHS

For the first time in 15 months, car sales declined 0.72 per cent YOY to 168,303 units in January 2016 from the 12.87 per cent rise recorded in December 2015. The last time sales fell was in October 2014, declining by 3.32 per cent. This fall is attributed to inventory corrections. The three-month suspension on the registration of large diesel cars and utility vehicles in Delhi is cited as one of the factors leading to the decline. However, it should also be taken into account that the decline in sales follows the robust demand prompted by heavy discounts last month. The sale of passenger vehicles, including utility vehicles and vans, rose 0.61 per cent to 232,016 units in January 2016 from the 10.46 per cent rise exhibited in December 2015.

The sale of commercial vehicles—a barometer of economic activity—continued to rise at 17.53 per cent during the month.

Despite the global automotive market staying muted, recent research indicates a better outlook for India. In its report on the auto industry, Nomura has forecasted that India's market is expected to expand 15.6 per cent in 2016 against the projected global growth of 3.2 per cent and the emerging market growth of 4.5 per cent. Credit Suisse foresees the Indian automotive industry to expand 20 per cent, against the expected 15 per cent rate of growth for China, while automotive forecasting firm IHS Automotive estimates the production of light vehicles, both passenger and commercial, to increase nine per cent in 2016 and domestic sales by 11 per cent – the fastest among the top seven passenger vehicle markets in the world.

INDUSTRIAL ACTIVITY STAYS MUTED; IIP DOWN BY 1.3% IN DECEMBER

The IIP for December 2015 stood at 183.4 – 1.3 per cent lower than that in December 2014. However, industrial activity improved in December, given the 3.4 per cent (revised) decline in growth posted in November 2015, on account of the unprecedented heavy rains and floods in Chennai. The cumulative growth for the period April–December 2015 over the corresponding period in the previous year stood at 3.1 per cent.

The Indices of Industrial Production (IIP) for the mining, manufacturing and electricity sectors for the month of December 2015 exhibited YOY growth rates of 2.9 per cent, -2.4 per cent and 3.2 per cent respectively, as compared to December 2014. Contraction in manufacturing is the major contributor to the muteness in industrial activity.

The cumulative growth in three sectors during April–December 2015 over the corresponding period in 2014 recorded 2.3 per cent, 3.1 per cent and 4.5 per cent respectively.

SERVICES SURGE TO A 19-MONTH HIGH IN JANUARY

India's services sector activity expanded to a 19-month high in January 2016, due to the firm demand and improved weather that led to a rise in new orders. The seasonally adjusted Nikkei India Services Business Activity Index rose to 54.3 from 53.6 in December. A reading above 50 on this survey-based index shows expansion. Four out of the six monitored categories (excluding hotels & restaurants and transport & storage) exhibited expansion, while new business orders increased for the seventh straight month.

Earlier, data releases indicated that the Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose to a four-month high of 51.1 in January 2016. The composite PMI Output Index reached an 11-month high of 53.3 during the month, against 51.6 in December.

MAKE IN INDIA WEEK CONCLUDES IN MUMBAI; MAHARASHTRA BAGS THE MAXIMUM BENEFITS

Adhering to the Prime Minister's Make in India call, the Make in India Week took place in Mumbai from 13–18 February 2016. With the participation of seventeen Indian states and 102 countries, the event focused on manufacturing as well as other sectors supporting the manufacturing sector, viz. aerospace and defence, automobiles and automobile

components, chemicals and petrochemicals, construction equipment, materials and technology, food processing, infrastructure development, IT and electronics, industrial equipment and machinery, micro, small and medium enterprises, pharmaceuticals and textiles. The event saw about 2,094 memorandums of understanding (MoUs) worth ₹1,520,000 cr signed. The foreign component of the MoUs made up almost 30 per cent. The event is estimated to have proposed new projects that are likely to generate 30 lakh jobs.

The Make in India event not only strengthened the spirit of Make in Maharashtra and Make in Mumbai, but also brought in MoUs for investments in the state worth ₹7.94 cr.

INDIA ECONOMIC SURVEY 2015–16 HIGHLIGHTS 'THE CHAKRAVYUHA CHALLENGE OF THE INDIAN ECONOMY'

The Economic Survey 2015–16 highlights the following[1] :

- The economy is expected to grow at 7–7.75 per cent in 2016–17, to be achieved by pursuing monetary easing, giving a fiscal boost by relaxing the fiscal consolidation roadmap, better transmission of rate cuts, labour reforms, removing subsidies and raising the tax to GDP ratio. The return of a normal monsoon is also a crucial factor.
- The fiscal deficit target of 3.9 per cent of the GDP set for 2015–16 seems achievable, though the target for 2016–17 could be challenging; need to adhere to 3.5 per cent of the GDP fiscal deficit target; review of medium-term fiscal framework necessary.
- CPI inflation to be around 4.5–5 per cent in 2016–17; RBI could be expected to meet the 5 per cent inflation target by March 2017; lower oil prices may keep inflationary pulls muted.
- Current account deficit to be around 1–1.5 per cent of the GDP in 2016–17, given the currency adjustments in China; India requires to stay prepared in the face of likely currency readjustments in Asia; gradual depreciation in the Indian rupee could be allowed if capital inflows weaken.
- Tax revenue to be higher than the budgeted levels in FY15–16; need to widen the tax net from 5.5 per cent of earning individuals to more than 20 per cent by not raising exemption thresholds and removing tax exemptions.
- The estimated capital requirement (excluding internal generated profit) for banks the next four years up to FY 2018–19 is likely to be about ₹180,000 cr. Of this, the government would release the ₹70,000 cr available out of budgetary allocations during the current and succeeding years.

THE UNION BUDGET 2016–17 STRESSES ON REFORMS AND FISCAL CONSOLIDATION, ALONG WITH EASE OF DOING BUSINESS

The following are some of the important highlights / focus areas of the Union Budget 2016–17[2]

- Growth of the economy accelerated to 7.6 per cent in 2015–16, India hailed as a 'bright spot' amidst a slowing global economy by IMF.
- Foreign exchange reserves touched the highest-ever level of about $350 bn.
- Despite increased devolution to states by 55 per cent as a result of the 14th Finance Commission award, plan expenditure increased at RE stage in 2015–16, in contrast to the earlier years.
- Challenges in 2016–17 include risks of further global slowdown and turbulence, and additional fiscal burden due to 7th Central Pay Commission recommendations and the One Rank One Pension (OROP) Scheme.

FINANCIAL SECTOR REFORMS

- A comprehensive Code on Resolution of Financial Firms to be introduced.
- Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.
- A financial data management centre to be set up.
- RBI to facilitate retail participation in government securities.
- New derivative products will be developed by SEBI in the commodity derivatives market.
- Amendments in the SARFAESI Act 2002 to enable the sponsor of an Asset Reconstruction Company (ARC) to hold up to a 100 per cent stake in the ARC and permit non-institutional investors to invest in securitisation receipts.
- Increasing the members and benches of the Securities Appellate Tribunal.
- Allocation of ₹25,000 cr towards the recapitalisation of public sector banks.
- Target amount sanctioned under the Pradhan Mantri

[1] http://indiabudget.nic.in/vol1_survey.asp & http://indiabudget.nic.in/vol2_survey.asp

[2] http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

Mudra Yojana increased to ₹180,000 cr.

- General insurance companies owned by the government to be listed in the stock exchanges.

GOVERNANCE AND EASE OF DOING BUSINESS

- A task force has been constituted for the rationalisation of human resources in various ministries.
- Comprehensive review and rationalisation of autonomous bodies.
- Bill for the targeted delivery of financial and other subsidies, benefits and services by using the Aadhar framework to be introduced.
- Introduce (Direct Benefit Transfer) DBT on a pilot basis for fertiliser.
- Automation facilities will be provided in 3 lakh fair price shops by March 2017.
- Amendments in the Companies Act to improve the enabling environment for start-ups.
- Ek Bharat Shreshtha Bharat programme will be launched to link states and districts in an annual programme that connects people through exchanges in language, trade, culture, travel and tourism.

FISCAL DISCIPLINE

- Fiscal deficit in Revised Estimates (RE) 2015–16 and Budget Estimates (BE) 2016–17 retained at 3.9 per cent and 3.5 per cent. Revenue deficit target from 2.8 per cent to 2.5 per cent in RE 2015–16.
- Total expenditure projected at ₹19.78 lakh cr.
- Plan expenditure pegged at ₹5.50 lakh cr under Plan – an increase of 15.3 per cent. Non-plan expenditure kept at ₹14.28 lakh cr.
- Special emphasis on sectors such as agriculture, irrigation and the social sector, including health, women and child development; welfare of scheduled castes and scheduled tribes, minorities, infrastructure.
- Mobilisation of additional finances to the extent of ₹31,300 cr by National Highways Authority of India (NHAI), Power Finance Corporation Ltd (PFC), Rural Electrification Corporation Limited (REC), Indian Renewable Energy Development Agency Ltd. (IREDA), National Bank for Agriculture and Rural Development (NABARD) and Inland Water Authority by raising bonds.
- Plan/non-plan classification to be done away with from 2017–18.
- Every new scheme sanctioned will have a sunset date and outcome review.
- Rationalised and restructured more than 1,500 central plan schemes into about 300 central sector and 30 centrally sponsored schemes.
- Committee to review the implementation of the FRBM Act.

AGRICULTURE

- The allocation for agriculture and farmers' welfare is ₹35,984 cr.
- 'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation.
- The implementation of 89 irrigation projects under Accelerated Irrigation Benefits Programme (AIBP), which are languishing for a long time, will be fast-tracked.
- A dedicated long-term irrigation fund will be created in National Bank for Agriculture and Rural Development (NABARD), with an initial corpus of about ₹20,000 cr.

Source: http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

RURAL SECTOR

- The allocation for the rural sector is ₹87,765 cr.
- ₹2.87 lakh cr will be given as grants in aid to gram panchayats and municipalities as per the recommendations of the 14th Finance Commission.
- A sum of ₹38,500 cr allocated for Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).
- 300 Rurban growth clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission.
- 100 per cent village electrification by 1 May 2018.

Source: http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

SOCIAL SECTOR, INCLUDING HEALTH CARE

- The allocation for the social sector, including education and health care, is ₹151,581 cr.
- ₹2,000 cr allocated for the initial cost of providing LPG connections to BPL families.
- 'National Dialysis Services Programme' to be started under the National Health Mission through PPP mode.

Source: http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

EDUCATION, SKILL DEVELOPMENT & JOB CREATION

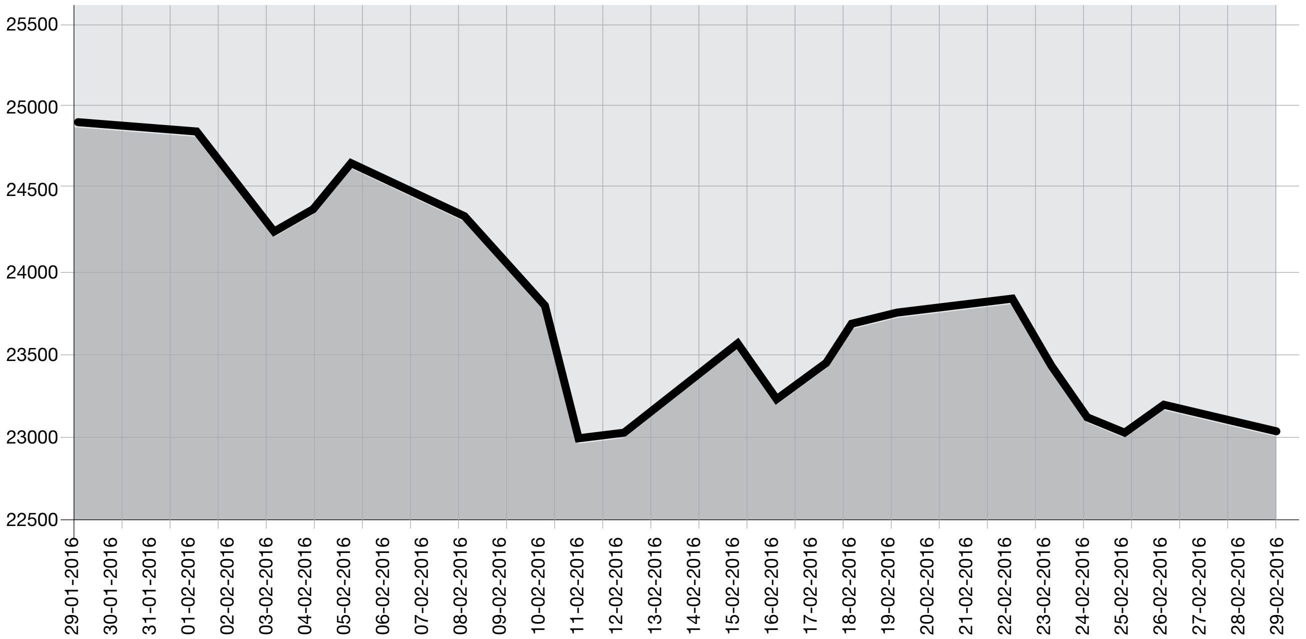
- 62 new Navodaya Vidyalayas will be opened.
- Sarva Shiksha Abhiyan to increase focus on the quality of education.
- Higher education financing agency to be set up, with an initial capital base of ₹1,000 cr.
- Digital depository for school leaving certificates, college degrees, academic awards and mark sheets to be set up.
- The allocation for skill development is ₹1,804 cr.
- 1,500 multi-skill training institutes to be set up.
- GoI will pay a contribution of 8.33 per cent for all new employees enrolling in EPFO for the first three years of their employment; budget provision of ₹1,000 cr for this scheme.
- Deduction under Section 80JJAA of the Income Tax Act will be available to all assessees who are subject to statutory audit under the Act.
- 100 Model Career Centres to operational by the end of 2016–17 under the National Career Service.

Source: http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

INFRASTRUCTURE AND INVESTMENT

Please refer to the INFRASTRUCTURE & REALTY UPDATE section for details on the related budget provisions

S&P BSE SENSEX



Source: BSI

During the month, the SENSEX slipped by 7.51 per cent.

INDIA INFRASTRUCTURE & REALTY UPDATE

OVERCOMING CHALLENGES – REORGANIZE, RESTRUCTURE REJUVENATE INDIAN RAILWAYS: ‘CHALO, MILKAR KUCH NAYA KAREN’, STRESSES THE RAILWAY BUDGET

The Railway Budget 2016-17 is based on a three-pronged strategy, i.e. Nav Arjan – New Revenues, Nav Manak – New norms and Nav Sanrachna – New Structures. The following are some of the important highlights[3] :

PERFORMANCE AND ACHIEVEMENTS 2015–16

- Savings of ₹8,720 cr in 2015–16, neutralising most of the revenue shortfall; expected Operating Ratio (OR): 90%.
- Action initiated on 139 budget announcements of 2015–16.
- 2015–16: assured funding through LIC; commissioning of 2,500 km of broad gauge railway lines; commissioning of 1,600 km of electrification – the highest ever.
- Port connectivity: Tuna Tekra Port commissioned and railway connectivity projects to the ports of Jaigarh, Dighi, Rewas and Paradip under implementation.
- Make in India: Finalised bids for two loco factories; proposed to increase the current procurement of train sets by 30 per cent.
- Making travel comfortable by generating over 65,000 additional berths, installing 2,500 water vending machines; introducing the Mahamana Express with modern, refurbished coaches; 17,000 bio-toilets in trains; the world’s first bio-vacuum toilet developed.
- Ticketing: Introduced 1,780 automatic ticket vending machines (ATVMs), mobile apps and GoIndia smartcards for cashless purchase of Passenger Reservation System (PRS) & Unreserved Ticketing System (UTS) tickets; enhanced capacity of the e-ticketing system from 2,000 tickets per minute to 7,200 tickets per minute.
- Wi-Fi provided at 100 stations; to be provided in 400 more.
- Security through helplines and CCTVs.
- Safety: 350 manned level crossings closed; 1,000

unmanned level crossings eliminated; 820 Road over bridge/Road under bridge (ROB/RUB) completed in the current year and work going on in 1,350 of them.

BUDGET ESTIMATES 2016–17 AND PLANS

- Targeted Operating Ratio (OR): 92 per cent for 2016–17; to restrict the growth of ordinary working expenses by 11.6 per cent, factoring the impact of the 7th Pay Commission; diesel and electricity consumption to be reduced; revenue generation targeted at ₹184,820 cr.

The OR ratio targeted is debatable, given the massive pay commission outflows.

- 2016–17: The focus is on enhanced CAPEX, with a mix of various funding sources in order to ensure that the projects are given assured funding.
- 2016–17: Gross Traffic Receipts kept at ₹184,820 cr. The passenger earnings growth has been pegged at 12.4 per cent and earnings target budgeted at ₹51,012 cr. Freight traffic is pegged at an incremental traffic of 50 mn tonnes, anticipating a healthier growth in the core sector of the economy. Accordingly, goods earnings are proposed at ₹117,933 cr. Other coaching and sundries projected at ₹6,185 cr and ₹9,590.3 cr respectively.
- 2016–17 plan size of ₹121,000 cr.
- Other areas of focus would be improving quality of travel, cleanliness – 'Clean my Coach' service through SMS, travel insurance for passengers, SMART (Specially Modified Aesthetic Refreshing Travel) coaches, partnering with state governments to operate tourist circuit trains; the recent upgrade of the National Rail Museum, promotion of tourism through railway museums and UNESCO world heritage railways.

Rail Connectivity (2016–17): targeted commissioning of 2,800 km of railway tracks; commissioning of broad gauge railway lines at over 7 km per day against an average of about 4.3 km per day in the last six years. This would increase to about 13 km per day in 2017–18 and 19 km per day in 2018–19; it will generate employment of about 9 cr man days in 2017–18 and 14 cr man days in 2018–19. The outlay for railway electrification increased by almost 50 per cent in 2016–17; the target is to electrify 2,000 km.

Port Connectivity (2016-17): implementation of railway connectivity for the ports of Nargol and Hazira under PPP in 2016–17.

Source: Highlights of the Railway Budget 2016-17,

http://www.indianrailways.gov.in/railwayboard/uploads/directorate/finance_budget/Budget_2016-17/RailBudgetSpeech_2016-17_Hinglights_Eng.pdf

2016–17 UNION BUDGET FOCUSES ON INFRASTRUCTURE

The following are the major thrust areas in infrastructure as underlined in Budget 2016-17[4]

- Total investment in the road sector, including PMGSY allocation, would be ₹97,000 cr during 2016–17.
- India's highest ever number of kilometres of new highways were awarded in 2015; to approve nearly 10,000 km of National Highways in 2016–17.
- Allocation of ₹55,000 cr in the budget for roads; additional ₹15,000 cr to be raised by NHAI through bonds.
- Total outlay for infrastructure – ₹221,246 cr.
- Amendments to Motor Vehicles Act to be made to open up the road transport sector in the passenger segment.
- Action plan for the revival of unserved and underserved airports to be drawn up in partnership with state governments.
- To provide calibrated marketing freedom in order to incentivise gas production from deep-water, ultra deep-water and high pressure and/or high temperature areas.
- Comprehensive plan, spanning the next 15–20 years, to augment the investment in nuclear power generation to be drawn up.
- Steps to revitalise PPPs: The Public Utility (Resolution of Disputes) Bill will be introduced during 2016–17; guidelines for the renegotiation of the PPP Concession Agreements will be issued.
- New credit rating system for infrastructure projects to be introduced.
- Reforms in the FDI policy in the areas of insurance and pension, asset reconstruction companies and stock exchanges.
- 100 per cent FDI to be allowed through the FIPB route in the marketing of food products produced and manufactured in India.
- A new policy for the management of government investments in public sector enterprises, including disinvestment and strategic sale; seven approved.

2016–17 UNION BUDGET OFFERS IMMENSE POTENTIAL FOR THE REAL ESTATE SECTOR

The Budget has offered immense potential for the real estate sector from both the supply and demand sides. It provides for a tax exemption of an additional ₹50,000 for first-time home buyer. It has also increased the tax deduction limit of rent paid under section 80GG from ₹24,000 per annum to ₹60,000 per annum.

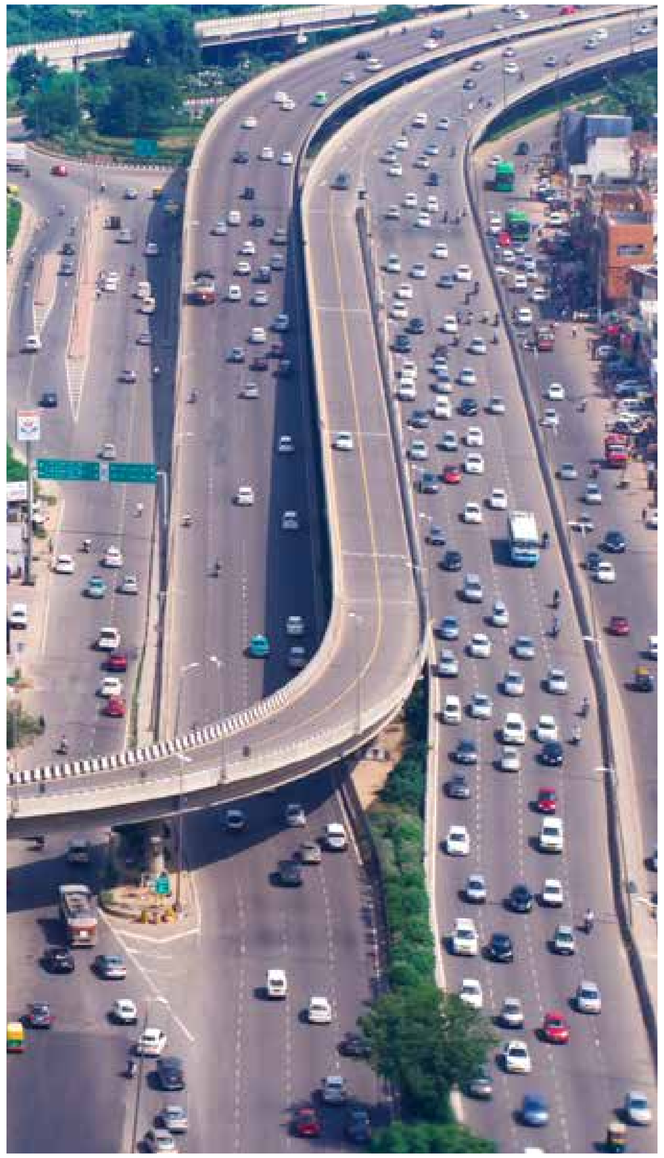
Further, with the removal of the dividend distribution tax (DDT) on REITs Special Purpose Vehicle, we do not think there is any major road block in the way of launching REIT schemes any time now. Developers are also given a 100% tax rebate on profit and exemption from service tax for the construction of houses up to 325 sq ft in four metros and 650 sq ft in other cities.

The Budget also focuses on rural development, along with the digitisation of land records.

ABU DHABI INVESTMENT AUTHORITY (ADIA) EXPRESSES INTEREST IN 50 HIGHWAY PROJECTS IN INDIA

The central government has 104 highway stretches to be awarded through the toll-operate-transfer (TOT) model, wherein a private party would operate the highway and collect tax. The model not only enables the government to plug leakages efficiently but also generates more funds for the government.

ADIA, a sovereign wealth fund of the emirate, has proposed to take up 50 highway projects in India on a TOT basis. If materialised, this would be the first of this kind of investment in India, amounting to about ₹35,000 cr. The upfront fee that the private partner would need to pay will be calculated on the future toll collection projections. Discussions concerning awarding these projects in a portfolio or separately are still going on.



[3]Highlights of the Railway Budget 2016-17,
http://www.indianrailways.gov.in/railwayboard/uploads/directorate/finance_budget/Budget_2016-17/RailBudgetSpeech_2016-17_Hinglights_Eng.pdf

[4]http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf

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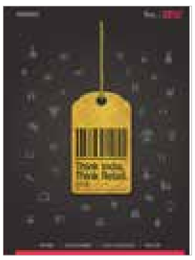

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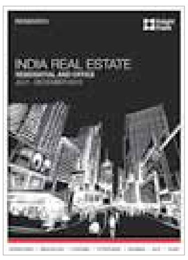

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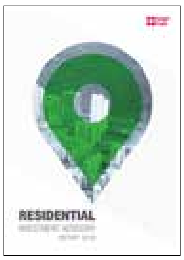

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