Daily Economic News Summary: 2 March 2016

1. Union Budget 2016-17: Govt to speand Rs 2.18 trillion on roads, railways

Source: **Live Mint** (Link)

India will invest as much as Rs.2.21 trillion in creating and upgrading infrastructure in the next fiscal year, finance minister Arun Jaitley said in his budget speech on Monday. Calling infrastructure investment the fifth support pillar in the transformation of India, Jaitley said the government was speeding up construction of new roads and upgrading state highways to national ones. Together with the capital expenditure announced for the railways last week, the total capex outlay for roads and railways in 2016-17 will be "a mammoth Rs.218,000 crore" Jaitley said. *"We further expect to approve nearly 10,000km of national highways in 2016-17. This will be much higher than the two previous years,"* he said. Total capital expenditure outlay for infrastructure during the fiscal will be Rs.221,246 crore, he said. In 2015, India awarded the highest number of road projects by length and produced the highest number of motor vehicles, Jaitley said. *"This is a sign of growth of the economy, but it presents a challenge also. Therefore, we have speeded up the process of road construction. I have proposed to allocate a sum of Rs.55,000 crore in the budget for roads and highways."*

2. Narendra Modi for electrification of 200 villages every week

Source: **Live Mint** (Link)

Prime Minister Narendra Modi has asked the power ministry to target electrification of around 200 villages every week by holding regular follow ups with the state implementing agencies. *"The prime minister has said that ministry of power must strive to complete electrification of 200 villages every week by following up with state implementing agencies regularly,"* an official familiar with the matter said, adding, that progress with regard to electrification of villages should be properly highlighted. *"For electrification of the balance villages, the power ministry must follow up with state implementing agencies to ensure timely sanctions, procurement, installations and commissioning activities,"* the official said. Over 5,O00 villages have been electrified under the Deen Dayal Upadhyaya Gram Jyoti Yojna (DDUGJY). In view of Prime Minister Narendra Modi's address to the nation on Independence Day last year, the ministry had decided to electrify 18,452 villages within 1,000 days i.e. by 1 May 2018.

The project has been taken on mission mode and strategy for electrification consists of squeezing the implementation schedule to 12 months and also dividing village electrification process in 12 stage milestones with defined timelines for monitoring. The Centre has fixed a target of electrifying 7,000 villages by March-end, power and coal minister Piyush Goyal had earlier on Sunday said

3. Govt to seal key deals with Israel

Source: **Times of India** (Link)

Ahead of PM Narendra Modi's first visit to Tel Aviv later this year, the cabinet committee on security (CCS) has begun to clear a slew of defence deals with Israel. The deals, some of which have been pending for long, are together worth well over $3 billion. Defence ministry sources on Tuesday said while the deals for Spice-2000 bombs and laser-designation pods have already been cleared by the CCS, the ones for acquisition of two more Phalcon AWACS (airborne warning and control systems), four more aerostat radars and the medium-range surface-to-air missile system (MR-SAM) for the Army are now on anvil.

TOI had last month reported that most of these deals had reached the final stages of approvals, while the negotiations for the initial Rs 3,200 crore contract for 321Israeli "Spike" anti-tank guided missile (ATGM) systems & 8,356 missiles were also making some headway after being stalled for months. Both the 164 laser-designation pods (Litening-4) and 250 advanced "Spice" precision stand-off bombs are meant to arm IAF fighter jets like Sukhoi-30MKIs and Jaguars for greater lethality and accuracy. The around Rs 10,000 crore joint development of the MRSAM for the Army, in turn, will follow the similar ongoing DRDO-Israeli Aerospace Industries projects worth around Rs 13,000 crore for the Navy and IAF.

4. Budget brings cheer to housing finance companies

Source: **Business Standard** (Link)

When demand for real estate is stagnant or moderating across many cities, the finance minister raising the tax benefit for new home buyers with a budget of Rs 50 lakhs augurs well for not only the developers but also for housing finance companies (HFCs). Stocks of LIC Housing, Dewan Housing, CanFin Homes, Repco Home Finance and Indiabulls Housing rose by four to eight per cent on Tuesday. First-time home buyers will get an additional interest deduction of Rs 50,000 in FY17 (the current deduction is Rs 150,000), if the loan availed does not exceed Rs 35 lakh and the cost of the house is restricted to Rs 50 lakh (usually categorised as affordable houses).

With relief being extended to realtors of affordable houses as well, the sector believes the income tax (I-T) sop will be a sentiment booster. Siddharth Purohit of Angel Broking feels the incremental interest deduction will benefit people in the 20 per cent I-T bracket. He adds the incremental demand from the affordable housing space could also offset the concerns on moderating of loan book growth for most HFCs. Rating agency CRISIL sees the move as a boost to affordable housing especially in Tier-II and Tier-III cities. According to its report, Currently, nearly 40 per cent of upcoming supply in the 10 major cities tracked by CRISIL Research is priced under Rs 50 lakh. Upcoming supply in this price bracket in Tier-II and Tier-III cities is expected to be even higher.

5. Body blow for special economic zones

Source: **Business Standard** (Link)

With the government deciding to end the income tax holiday for special economic zones (SEZs), it is the end of the road for them. Most of these SEZs have become real estate with promoters planning to use the land for redevelopment, say tax experts. In the Monday's Budget, the government said it would not allow any deduction to units commencing manufacture or production on or after April 1, 2020, in an SEZ. Units are allowed to claim 100 per cent deduction of profits derived from exports from SEZs for five years beginning with the year ofmanufacturing and deduction of 50 per cent of the profit for the next five years. The change in the latest Budget will impact the sale and rent of SEZ units of companies like AdaniPort, which has large SEZs in Mundra, Gujarat, say analysts. The Mukesh Ambani-owned SEZ near Mumbai will also lose tax benefits but as it is situated in proximity to Mumbai, it will become a real estate play, say tax experts.

The SEZs were initially set up to take on competition from Chinese SEZs, which were exporting to the rest of the world with special tax incentives from the local government. The Indian SEZs, especially those in manufacturing, failed to take advantage of the scheme due to a combination of factors. Many Indian companies, including the Mukesh Ambani-owned Reliance Industries, decided to set up SEZs but later curtailed plans due to opposition from landowners. For SEZ developers, abolishing tax sops which provide for deduction of profits derived from development of SEZ infrastructure means bad news. According to the Budget, the government will provide deduction of 100 per cent of the profits on investments made by companies on infrastructure and development of SEZs, provided the facility commences commercial operation and starts claiming deduction on or before March 31, 2017.

6. Steel prices to increase by Rs 2000 a tone

Source: **Business Standard** (Link)

Steel companies are set to shortly increase prices by Rs 2,000 a tonne, taking the total increase to Rs 6,000-7,000 a tonne since February. The increase in cold rolled products would be Rs 2,000 a tonne and of long products, Rs 2,000-3,500 a tonne. “Some of the primary producers have already intimated their customers that the new prices would be effective from March 1, while others are expected to follow suit shortly,” a secondary producer said.

The first round of increase in a long while was initiated on February 4, a day before the government imposed a minimum import price (MIP). On February 5, the government had imposed an MIP of $341-$752 a tonne on certain steel items, with the aim of halting cheaper imports that had landed the industry in dire straits. Between September and February, steel prices had dropped by around Rs 8,000 a tonne, ex-plant. Capacity utilisation had dropped from around 80 per cent to 72 per cent and despite a safeguard duty of 20 per cent. According to a presentation by the Indian Steel Association to the government, as of September 2015, the sector accounted for 21 per cent of the total number of corporate debt restructuring cases, of an aggregate of Rs 56,000 crore. The sector’s share in total stressed accounts of scheduled commercial banks is 10-11 per cent.

By Harsha Hazarika