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INDUSTRY

Concrete signs of a nudge to building blocks

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‘Public spending in infrastructure, especially roads, airports, rural power and railways, has quickened: L&T’s head of finance

Government spending on infrastructure has seen a significant increase in the last few years.

Order placements with infrastructure companies have reached new highs and several sectors associated with infrastructure have shown enhanced performance. Traction has been seen in offtake of cement, steel as well as commercial vehicles.

Cement production rose 6.3% to 298 million tonnes in FY18. Steel consumption increased 8% to 91 million tonnes. Medium & Heavy Commercial Vehicles (MHCV) sales climbed 28% in FY16 and capital investment in railways has increased to ₹1.31 lakh crore in FY18 from 1.17 lakh crore the previous year. Per-day road construction has increased to 28 km from less than 12 km per day in 2014-15.

“For the last 6-8 months we have been seeing growth in order inflow in infrastructure,” said R. Shankar Raman, chief financial officer, Larsen & Toubro Ltd., India’s biggest engineering & infrastructure conglomerate. “So, we reported [numbers for] two strong quarters. The momentum is expected to continue.”

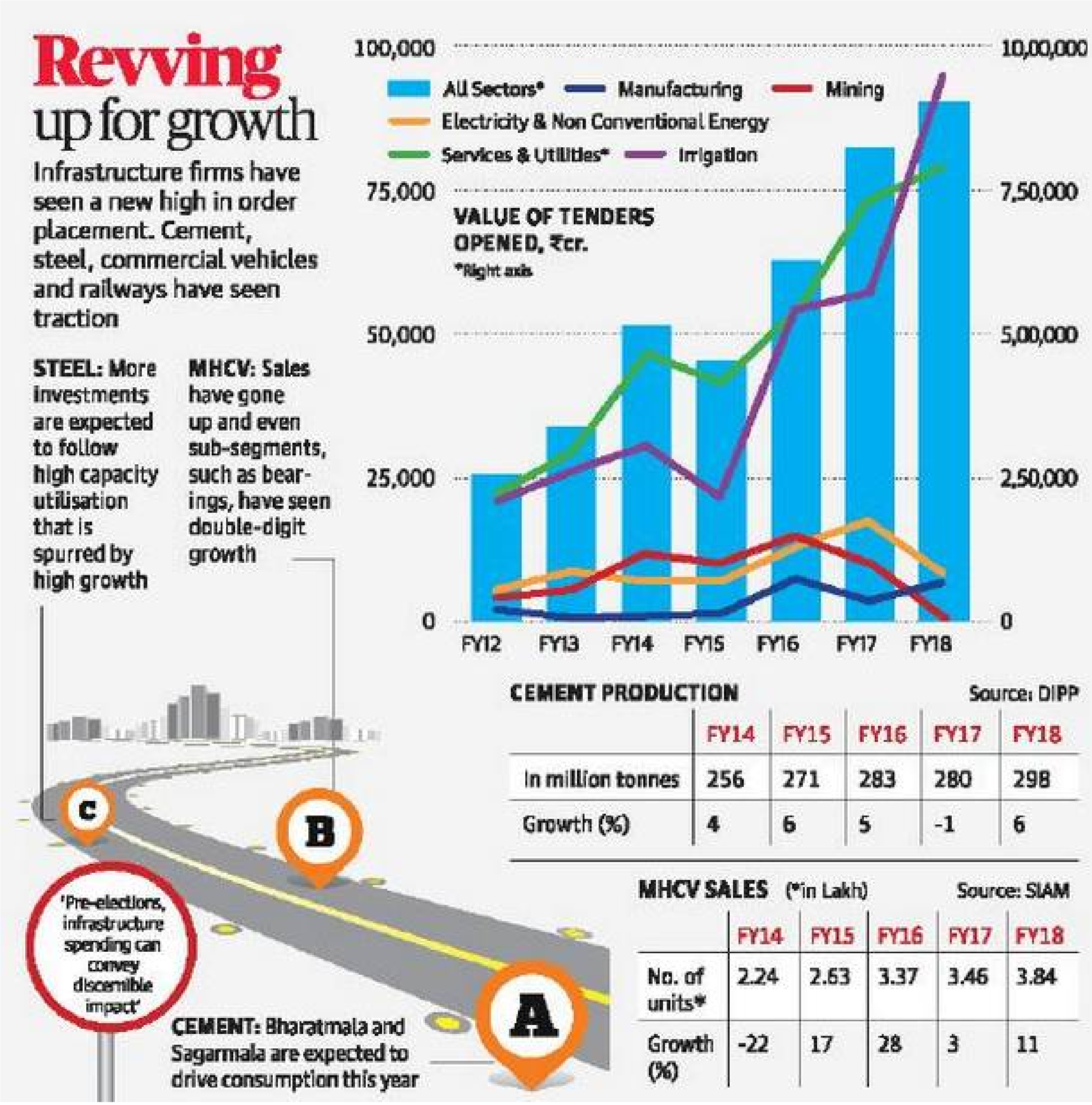
‘Across sectors’

“Orders gained momentum in the second half of 2017-18 and it was across sectors including roads, bridges, water supply systems and tunnels. Orders came for metro-rails, rural power transmission lines under the Saubhagya Scheme and for airport expansion. Infrastructure growth has been backed by robust capital investment largely funded by multilateral agencies and budgetary support,” Mr. Raman said.

Not only the Centre, but State governments too have invested heavily, aiding the largely distributed infrastructure growth.

Road building too has seen a sharp rise in orders.

“Order placement for roads has gone up sharply from 1,900 km in FY13 to 17,000 km in FY18, a ninefold jump in five years,” said Rohan Suryavanshi, head, strategy and planning, Dilip Buildcon Ltd., India’s biggest road construction company. “[This] is a massive uptick.”



CEMENT PRODUCTION Source: DIPP

	FY14	FY15	FY16	FY17	FY18
In million tonnes	256	271	283	280	298
Growth (%)	4	6	5	-1	6

MHCV SALES (*in Lakh) Source: SIAM

	FY14	FY15	FY16	FY17	FY18
No. of units*	2.24	2.63	3.37	3.46	3.84
Growth (%)	-22	17	28	3	11

'Booked for 3-4 years'

"Governments at the [central], State and even municipal levels have picked up projects across sectors including railways, ports, irrigation, sewage treatment, metro and even water supply. All project implementations are at historic highs. Most road contractors are booked for next 3-4 years. We have the largest order book amounting to ₹24,000 crore," Mr. Suryavanshi said.

In FY17, 8,000 km of roads were built and that increased to 10,000 km in FY18. Fiscal FY15 saw 4,500 km of roads being built. Jagannarayan Padmanabhan, director, Transport and Logistics, Crisil Infrastructure Advisory, said the road sector had been on an upswing. From the low single-digits in 2013-14, the pace of construction has stepped up and is now currently at 25-28 km a day.

“This growth is expected to continue with the implementation of the Bharatmala programme, and the successful bid-out of the first Toll Operate Transfer bundle,” Mr. Padmanabhan said.

Investments in the railways is also seen picking up, in a boost to infrastructure.

In FY17 and FY18, budgeted investments for the railways were ₹1.17 lakh crore and ₹1.31 lakh crore, compared with ₹65,400 crore in FY15. The average annual budgeted investment between 2009-14 was ₹45,980 crore while it was ₹24,310 crore on an average between 2004-09.

Rajeev Mehrotra, CMD, Rites Ltd., a public sector engineering consultancy company specialising in transportation, said, “In the past few years, railways has been investing heavily on infrastructure development. From FY15 to FY17, investment in infrastructure has grown 34% CAGR [compounded annual growth rate].” He said the investments made in these three years was almost 75% of the total investments in 2004-2014. Key areas that attracted investment included Dedicated Freight Corridors, capacity augmentation on saturated trunk routes, gauge conversion, high-speed rail and electrification.

“[The Centre] has made significant progress in investing in infrastructure creation and is able to achieve 90% of its planned investment in railways,” he said. “Other sectors contributing to infrastructure growth are highways, metro-rail and urban infrastructure. Metro-rail is going to be a major driver for investment. We have completed pre-feasibility study of 10 metros other than the ones already underway.”

Rajesh Mokashi, MD & CEO, Care Ratings, said five sectors — railways, roads, power, petroleum and urban development — will dominate in infrastructure spending.

“If one looks at the budget for FY19, capex in railways from the Centre would be higher at ₹53,060 crore [₹40,000 crore last year]; roads [will account for] ₹59,440 crore [₹50,864 crore]. In the case of power, the government has in place two schemes on supply of coal to power plants [Shakti] and power for all [Saubhagya] which are fairly progressive measures to hasten the growth process,” Mr. Mokashi said. He said this would also be supported by public sector enterprises in these segments with the Budget committing to ₹4.78 lakh crore of investments by PSEs

Growth in tenders

Adding strength to the view that the current phase of infrastructure growth was primarily funded by the government, Pankaj Pandey, head of research, ICICI Securities said “Tendering for projects has gone up from ₹2.5 lakh crore-₹3.5 lakh crore prior to 2014 to ₹9 lakh crore in FY18. There is a consistent build-up in ordering activity. Allocation for irrigation has increased from ₹20,000 crore to ₹95,000 crore."

He said the sharp spike in infrastructure growth has led to higher capacity utilisation in related sectors such as cement, steel and HCVs.

"The cement sector has seen the highest growth in four years, steel has seen growth, one of the highest in four years. HCV sales have gone up and even sub-segments, like bearings, have seen double-digit growth. With higher capacity utilisation, the cement and steel industry is expected to increase capacity and this will lead to investment by the private sector," he said.

Last year, the cement industry grew about 6.3% and expects similar growth this year. "Road construction will dominate and the two projects of the government, Bharatmala [for roads] and Sagarmala [ports] will drive consumption of cement," Mr Mokashi said.

Cement makers are bullish. "We expect growth of over 6% in cement consumption for the FY19 on account of higher spending on infrastructure and increased demand from the housing sector," said Krishna Srivastava, director, Penna Cement Industries Ltd. "In the south, Telangana leads in infra spend, focusing on irrigation and the roads sector."

In 2019, when general elections are due, the Centre is expected to spend more on social sectors such as healthcare, sanitation, water supply, irrigation and green transportation that would lead to investment in infrastructure. "Infrastructure is clearly the thrust sector for the government in the next year or so till the Elections as this is one area where there can be a discernible impact," Mr. Mokashi said.

"Access to quality infrastructure is a necessity which no government can ignore. The next government may have a different priorities but infrastructure growth will have to continue," Mr. Pandey said.

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