



INDIAN INFRASTRUCTURE SECTOR ANALYSIS

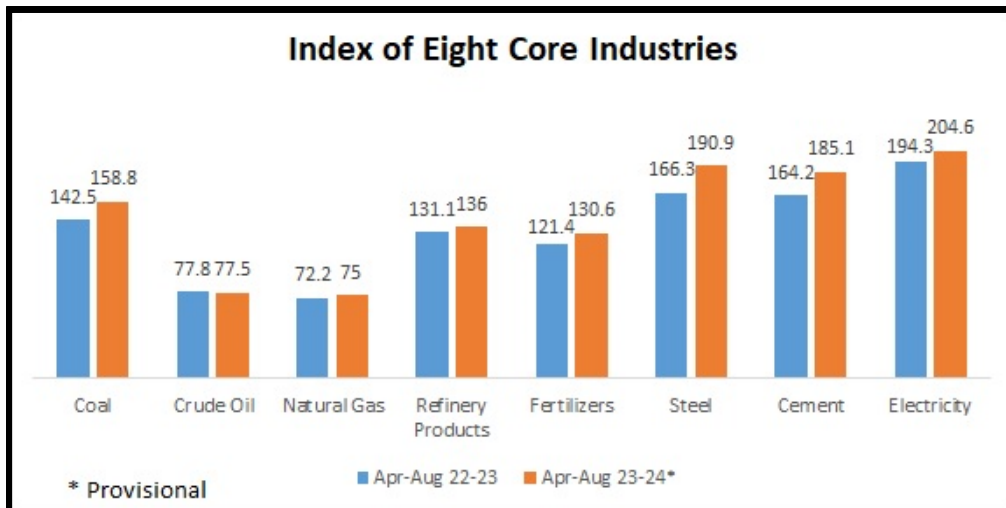
November - 2023



Indian economy is driven through multiple economic sectors and infrastructure is one of the major sector contributions to continuous growth. Infrastructure development is crucial to achieve the India 2047 vision for a \$40 trillion economy and be reclassified from a developing economy to a developed economy. In the aftermath of COVID-19 and the digitisation of the world, the focus rests not only on physical infrastructure, but on digital and social infrastructure as well. In order to meet India's aim of reaching a \$5 trillion economy by 2025, infrastructure development is the need of the hour. The government has launched the National Infrastructure Pipeline (NIP) combined with other initiatives such as 'Make in India' and the production-linked incentives (PLI) scheme to augment the growth of the infrastructure sector. Historically, more than 80 per cent of the country's infrastructure spending has gone toward funding for transportation, electricity, and water& irrigation. The launch of a quadrilateral economic forum by India, the US, Israel & the UAE in November 2021 has further added to the influx of infrastructure growth perspectives. Alternatively, the introduction to the 'Infrastructure for Resilient Island States' program in November 2021 has shown a significant opportunity to improve the lives of vulnerable nations across the globe by enabling Indian infrastructure growth to flourish in tri-folds.

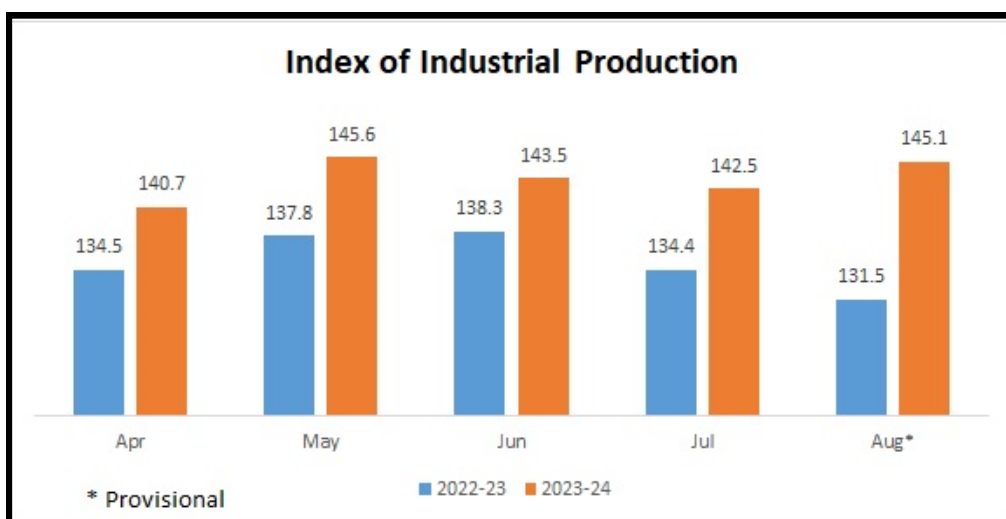
Performance of eight core industries

Infrastructure output, which comprises eight sectors -- coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity -- accounted for nearly 40 per cent of industrial output. The cumulative growth rate of Index of Eight Core Industries (ICI) during April to August, 2023-24 is 7.7 per cent (provisional) as compared to the corresponding period of last year, with index value of 154.8. Cement production (weight: 5.37 per cent) increased by 18.9 per cent in August, 2023 over August, 2022. Its cumulative index increased by 12.7 per cent during April to August, 2023-24 over corresponding period of the previous year. During April to August, 2023-24, coal production increased by 11.5 per cent, Electricity generation increased by 5.3 per cent, Fertilizer production increased by 7.5 per cent, Natural Gas production increased by 3.9 per cent, Petroleum Refinery production increased by 3.7 per cent and Steel production increased by 14.8 per cent, while Crude Oil production declined by 0.4 per cent.



Index of Industrial Production

In an another measure of industrial performance, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stood at 145.1 for the month of August 2023. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of August 2023 stood at 111.9, 143.5 and 220.5 respectively. As per Use-based classification, the indices stood at 145.4 for Primary Goods, 107.0 for Capital Goods, 156.1 for Intermediate Goods and 175.5 for Infrastructure/ Construction Goods for the month of August 2023. Further, the indices for Consumer durables and Consumer non-durables stood at 122.8 and 147.0 respectively for the month of August 2023.



Factors influencing infrastructure sector

- **Growing highway construction and road connectivity**

The construction of national highways in 2022-23 was 10,993 kilometres, falling 13.70 per cent short of the government's target of 12,500 km. The Ministry of Road Transport and Highways (MoRTH) awarded highways of 12,375 km length in the last financial year. While the pace of the construction of national highways (NH) in the country touched a record high of 37 kilometre a day in 2020-21, it slowed to 30.11 kilometre a day in 2022-23. Highways construction was 10,237 km in 2019-20, 13,327 km in 2020-21 and 10,457 km in 2021-22. The National Highways Authority of India (NHAI) and National Highways and Infrastructure Development Corporation (NHIDCL) are primarily responsible for the construction of national highways and expressways in India.

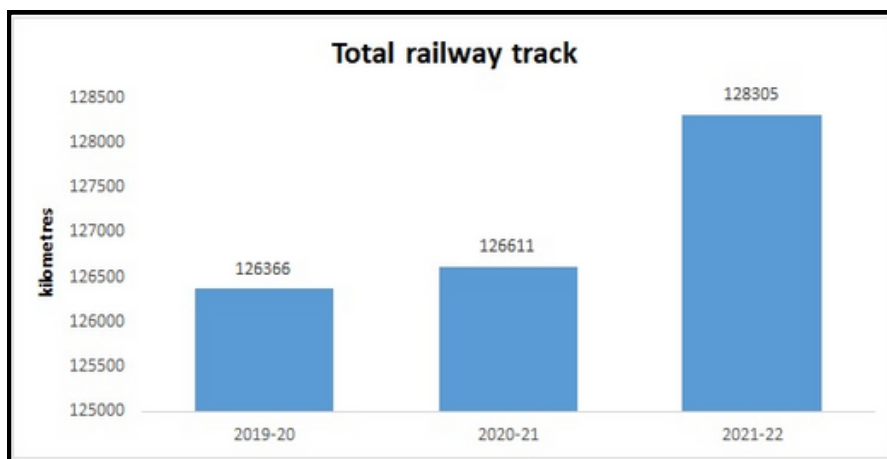


- **Need for improvement in port infrastructure:**

The government is improving port infrastructure via Sagarmala programme which aims to promote port-led development in the country through harnessing India's 7,500 km long coastline and 14,500 km of potentially navigable waterways. As a part of Sagarmala Programme, more than 800 projects at an estimated cost of around 5.54 lakh crore have been identified for implementation during 2015 to 2035. These projects are broadly classified into pillars of Sagarmala which are - Port Modernization & New Port Development; Port Connectivity Enhancement; Port-linked Industrialization; and Coastal Community Development. For all the 12 major existing ports, master plans have been finalized. From the port master plans, 92 port capacity expansion projects (cost: Rs 58,884 crore) have been identified for implementation over next 20 years and are expected to add 712 million tonne per annum (MTPA) to the capacities at major ports. To fill the demand gap, 2 new major ports are planned which will bring in significant capacity expansion.

- **Rise in rail track laying:**

India has the 4th largest railway system in the world, behind only US, Russia and China. The Indian Railways consists of a total track length of 1,28,305 km as of 2023-22, but most of it is old and in need of modernization. The infrastructure is also insufficient to cater to the growing demand for transportation. In New Line (New Line/ Doubling/ Gauge Conversion) 5243 km of track length was achieved during 2022-23 as compared to 2909 Kms during 2021-22. Average daily track laying in FY23 comes out to be 14.4 kms per day, which is also the highest ever commissioning. Indian Railways has set the target to lay 19 kilometres of new track per day in the 2023-24 financial year. The new track laying includes gauge conversion and doubling. To facilitate the public to cross the tracks on roads, during 2022-23, 1065 Flyovers/Underpass were provided as compared to 994 Flyovers/Underpass during 2021-22 showing an increase of 7.14 per cent. For passenger / pedestrian crossing, during 2022-23, 375 FOBs were constructed as compared to 373 FOBs in 2021-22.



- **Developments in airport infrastructure:**

The government is looking at developing six 'Twin City' airports by 2030 in order to decongest existing airports located at major cities and expand the airport infrastructure to address burgeoning demand for air travel. So far the 'Twin City' airport development plan has been undertaken in Delhi-National Capital Region, with under development Noida International Airport at Jewar (Greater Noida), complementing Delhi International Airport, D. B. Patil International Airport at Navi Mumbai complementing Mumbai International Airport and the recently operationalised Manohar International Airport complementing Dabolim Airport in Goa.

Mega ongoing & completed infrastructural projects in India

- **Arunachal Frontier Highway:**

The state government is planning to 1,500-km-long road, to be known as Frontier Highway, and an additional 1,000 km of road to link the remotest parts of the state. The entire project will cost around Rs 40,000 crore. This 'futuristic highway' will be constructed along the 'India-Tibet-China-Myanmar' border. The road project will be as close as 20 km from the Line of Actual Control and the international borders. The project has a huge strategic value aiming transformational changes in road connectivity in Arunachal Pradesh. The road project will be beneficial for the Army too.

- **Anji Khad bridge:**

India's first cable-stayed railway bridge, with the structure ready and the track laying work is likely to start soon. The bridge is physically completed. Being built as a part of Indian Railways' Udhampur-Srinagar-Baramulla rail link, the Anji Khad bridge is indeed an engineering marvel and a breathtaking sight. The Anji Khad bridge is being constructed in Jammu and Kashmir's Reasi district. Once the strategically important USBRL or Udhampur-Srinagar-Baramulla rail link is completed, it will connect Kashmir to the rest of India through Indian Railways.

- **Chenab Bridge in the state of Jammu and Kashmir:**

It is one of the tallest arch railway bridges in the world, which is built at one of the highest altitudes with a broad-gauge Indian Railway line throughout its entire span. This bridge showcases the immense talent that Indian engineers possess and is proof that with the right leadership, this talent can create innovative and sustainable infrastructure for the growth of India.

- **Bharatmala Pariyojana:**

It is a new umbrella program for the highways sector that focuses on optimizing the efficiency of freight and passenger movement across the country by bridging critical infrastructure gaps through effective interventions like the development of Economic Corridors, Inter Corridors, and Feeder Routes, National Corridor Efficiency Improvement, Border and International connectivity roads, Coastal and Port connectivity roads, and Green-field expressways. Under the first phase of the ambitious 'Bharatmala Project' of the Ministry of Road Transport and Highways, 34,800 km of national highways will be constructed at a cost of \$64 billion (Rs 5,35,000 crore).

- **Delhi Mumbai Industrial Corridor (DMIC):**

It is the first industrial corridor development project announced by the Government of India. The Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC), the implementing agency of this development project, was incorporated in the year 2008. The total sanctioned amount for this program is about \$2.4 billion (Rs 20,084 crore). 11 industrial corridor projects have been taken up under the programme, and a total of 30 projects will be developed under the program in four phases by 2024-25. The National Industrial Corridor Development and Implementation Trust (NICDIT) is functioning under the administrative control of the Department for Promotion of Industry and Internal Trade (DPIIT) for coordinated and integrated development of all the Industrial Corridors that are at various stages of development and implementation.

Impact of ongoing war between Israel and Hamas on the sector

Hamas' surprise attack on Israel has sparked a major violent conflict in the Middle East. The Haifa Port of Israel is one of the key links in the recently signed MoU to establish the 'India-Middle East-Europe Economic Corridor' (IMEEC). The tentative route of the corridor connects India to UAE through sea link. From UAE, the plan involves building of rail route which would pass through Saudi Arabia, Jordan and Israel. The corridor will be connected with Europe through a sea link with Israeli ports.

Due to the ongoing conflict, the planned implementation of the economic corridor might face delays. Significant delay in the implementation of the project could potentially hamper the earnings growth prospects for railway players in the medium term. The Haifa Port is owned and operated by Adani Ports and contributes 3 per cent of the total cargo volumes of the company. Haifa is located on the northern side of Israel, while the ongoing conflict is restricted to the southern part. The company has clarified that it is monitoring the situation closely. India finds itself in a tough diplomatic spot as the country shares significant trade ties with several Arab nations and Israel.

Gati Shakti- National Master Plan for infrastructure development

The government launched the Gati Shakti - National Master Plan for Multi-modal Connectivity in New Delhi, heralding a new chapter in governance. Gati Shakti - a digital platform - will bring 16 Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects. It will incorporate the infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered to improve connectivity & make Indian businesses more competitive. It will also leverage technology extensively including spatial planning tools with ISRO imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics). The multi-modal connectivity will provide integrated and seamless connectivity for movement of people, goods and services from one mode of transport to another. It will facilitate the last mile connectivity of infrastructure and also reduce travel time for people.

Government initiatives and recent developments

- **Centre bats for single agency to plan, monitor & evaluate infra projects**

In view of the government's increased thrust on infrastructure development and huge hike in investment, the Centre has decided to set up a single agency for infrastructure planning, monitoring, and evaluation. This has been aimed at ensuring infrastructure projects have maximum impact on the economy, job generation, ease of living, and quality of life. The trend of higher allocation for capital expenditure is likely to continue and there has been a significant increase in the utilisation of the allocated fund as well. As the resources are limited, it's important to have integrated planning and monitoring of all projects by one agency. But the evaluation of projects is more important to find about the results and impact of the huge public expenditure.

- **Launch of Urban Infrastructure Development Fund (UIDF)**

Union Budget 2023-24 announced the setting up of the UIDF through use of priority sector lending shortfall. Rs 10,000 crore per annum will be made available for this purpose. The Fund will be managed by the National Housing Bank, and will be used by public agencies to create urban infrastructure in Tier 2 and Tier 3 cities on the basis of given guidelines. As per the Budget announcement, States will be encouraged to leverage resources from the grants of the 15th Finance Commission, as well as existing schemes, to adopt appropriate user charges while accessing the UIDF. The Fund would be operationalised broadly along the lines of the existing Rural Infrastructure Development Fund.

- **Govt approves states' investment proposal worth \$6.9 billion under infrastructure scheme**

India's federal government has approved investment proposals worth around Rs 564.2 billion (\$6.88 billion) to state governments under a scheme that provides interest-free loans for infrastructure spending. As part of the 2023/24 Union Budget, the federal government had announced it would provide special assistance to states by extending 50-year interest-free loans worth 1.3 trillion rupees during the ongoing financial year. The capital investment projects are focused on sectors like health, education, irrigation, water supply, power and roads among others.

OUTLOOK

The outlook of the Indian infrastructure sector looks optimistic in line with Prime Minister Narendra Modi's vision to make India a 'Developed Nation' by 2047 as infrastructure is a crucial pillar to ensure good governance across sectors. The country's infrastructure sector is growing at a significant pace in areas such as roads, highways and civil aviation. The PM Gati Shakti master plan is going to change the face of India's infrastructure. Infrastructure is a sector that will continue to attract strong capital inflows, especially with structural reforms, digitisation of logistics and infrastructure-focused wealth funds to aid investment. These Investments have the potential to create a true multiplier effect to take the economy on a higher growth trajectory. The collective development of India's infrastructure propels India's economic growth. With increased demand for labour, goods and capital expenditure on infrastructure, there is an increase in industrial growth.

The government's flagship initiatives like the National Infrastructure Pipeline, Gati Shakti, Sagarmala, Bharatmala, UDAN and Maritime India Vision 2030, among others, have created a lot of opportunities in the infrastructure sector. The \$1.3 trillion national master plan for infrastructure, Gati Shakti, has been a forerunner to bring about systemic and effective reforms in the sector, and has already shown a significant headway. In fact, 102 critical projects under the Gati Shakti masterplan worth \$7.67 billion are to be completed by 2024, making 2023 a critical year for effective execution and celerity of completion. Global investment and partnerships in infrastructure, such as the India-Japan forum for development in the North East are also indicative of more investments. These initiatives come at a momentous juncture as the country aims for self-reliance in future-ready and sustainable critical infrastructure.

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