BUDGET 2019-20

ANALYSIS & EXPECTATIONS – ENERGY & INFRASTRUCTURE SECTOR

Some of the key announcements Finance Minister Nirmala Sitharaman made in the Union Budget on July 5, 2019 on **energy** are:

- It will launch a scheme to invite global companies through competitive bidding to set up mega-manufacturing plants in advanced technology areas, including solar PV cells, lithium storage batteries, solar electric charging infrastructure etc.
- Offering upfront incentive on purchase of Electric Vehicle as a part of Phase – II of FAME Scheme and establishing the necessary charging infrastructure for Electric Vehicles.
- Total power generation is expected to grow 6.5% in this fiscal year.
- Retirement of old and inefficient plants and low utilisation of Gas plant capacity due to paucity of Natural Gas will be implemented.
- Government plans to soon announce structural reforms and changes in tariff policy.
- New Ujala-type scheme that will promote solar stoves and battery chargers.
- Private initiatives will be supported to develop renewable energy as an alternate source of income for farmers.
- Performance of Ujwal Discom Assurance Yojana (Uday) is being examined.
- Every rural household to get electricity connection and access to clean cooking fuel.

General Analysis:

Renewable energy-

The renewable energy industry expected the Budget to provide some impetus to revive growth given the slowdown in the past year. The sector expected reduction of GST for solar projects and availability of adequate and cheap credit. However, there is nothing specific in the Budget to address these concerns.

The Uday scheme has already failed and the government is in the process of examining it to improve it. The proposed reforms, likely to be announced soon, may include penalty on gratuitous load-shedding, not allowing losses of over 15 per cent as pass-through in tariff, limiting cross-subsidies, and removing duties from open access and captive generation. However, the exact details are still unknown.

Meanwhile, a key area that needs dedicated attention and has been snubbed by the Budget is solar rooftop. India is staring at a massive target of 40 GW of solar rooftop by 2022, with only 1.9 GW of capacity installed. Budgetary capital allocation or announcement of dedicated policy or scheme to fuel rapid growth would have been welcomed but are missing.

EVs on a faster road:

Announcing upfront incentives on purchase of electric vehicles, adding that the government has already moved GST Council to cut rate for EVs to 5% from 12% is a motivating factor for customers to purchase EV's. With tax deduction of Rs 1.50 lakh on EV loan interest, and no custom duty on certain parts of EVs, this will give affordable and environment friendly public transportation options to the common man, hence moving the country to a green energy economy.

Energy access-

The government has continued its focus on energy access by setting a target of providing an electricity connection and access to clean cooking fuel to all rural households in the country (except those who are unwilling). It claimed to already have connected 99 per cent of the households under Saubhagya and given out 7 crore LPG cylinders under Ujjwala scheme.

However, the challenge in energy access is not just of connection but of accessibility and affordability. Several reports showcase that power supply in several poor households is being disconnected due to their failure in paying electricity bills. Also, the announcement did not talk about ensuring 24X7 reliable power supply.

Some of the key announcements Finance Minister Nirmala Sitharaman made in the Union Budget on July 5, 2019 on **Infrastructure** are:

- Investing Rs. 100 Crore in the Infrastructure sector.
- Restructuring of the National Highway Programme.
- Encourage innovative rollout models in road sector like HAM, TOT and BOT.
- Investment target of Rs, 80,250 crores to build 1,25,000km on village roads in the Phase- III of Pradhan Mantri Gram Sadak Yojana.
- Developing inland waterways to reduce burden on road and rail.
- To use Public- Private Partnership (PPP) for faster development of Railway Infrastructure.
- Large Public Infrastructure can be built on land parcels held by Central Ministries and Central Public Sector Enterprises across the country.
- To enhance corporate debt markets and deepen bond markets.
- To enhance to the metro-railway initiatives by encouraging more PPP initiatives.
- Deduction of interest up to 3.5 lakhs on purchasing affordable houses.

General Analysis:

The Finance Minister proposed to invest Rs 100 lakh crore in the infrastructure sector over next five years, which looks like an aspirational target. However, it clearly reiterates the government focus on the sector. While this was in line with the overall target set up by the previous regime of the NDA government, but it will be dependent on the private sector's ability to mobilise financing, which looks subdued as of now. Fresh PSU bank recapitalisation of Rs 70,000 crore will be a big positive for the banking ecosystem and it came as more than a pleasant surprise. This will go a long way in terms of getting lending back on track to stimulate growth in core sectors like Infrastructure.

The government's renewed push to encourage innovative rollout models in road sector like hybrid annuity model (HAM) and other new models like TOT (Toll-Operate-Transfer) and modified BOT is well thought through and they seek to mobilise alternative financing resources through an effective asset monetisation strategy. The infrastructure credit enhancement initiative is a fresh move, which is being contemplated for some time now. It is very relevant from a timing perspective.

New initiatives to fund the dedicated freight corridor and urban transportation projects through PPP model, affordable housing demonstrates the government's priorities in the right areas aligned with sustainable and impactful development within the infrastructure sector.

The emphasis on IDFs, deepening of bond market and expressing intent to consolidate relationships with global pension and sovereign funds to meet long-term investment requirements of the infrastructure sector is a welcome move and should mean more potential traction and leverage through NIIF.