



Construction Market in India

A report by dmg events India

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Building & Construction Market in India

The construction equipment industry's revenues are estimated to reach **US\$ 22.7 billion by 2020** from US\$ 5.1 billion in FY12. Unit sale of construction equipment is expected to grow to 82,000 by 2016 from 61,745 in FY12. Construction equipment forms around seven to eight per cent of gross domestic product (GDP) and gives employment to more than 30 million people in the country. It also accounts for more than 60 per cent in total infrastructural investment.

The demand for construction equipment in India is expected to grow to US\$ 9.9 billion by 2015, at a compound annual growth rate (CAGR) of 24.1 per cent (from 2011). Increased impetus to develop infrastructure in the country is attracting the major global players. There were cumulative foreign direct investment (FDI) inflows of US\$ 209.4 million in earth-moving machinery in the period April 2000-March 2014.

The Government of India has de-licensed the material handling equipment industry and has allowed 100 per cent FDI under the direct route. It has also given approval to some financial institutions to raise money through tax-free bonds. In the interim budget 2014-15, excise duty was cut by two per cent.

Summary

- USD 1,000 billion investments for infrastructure sector projected in 12th five year plan (2012-17).
- USD 650 billion investments in urban infrastructure estimated over next 20 years.
- 100% FDI permitted through the automatic route for townships, cities.
- 10% of India's GDP is based on construction activity.

New Indian government: Vision and policies for the sector

Recent initiatives by the new government in India

- The Planning Commission (a department formed to develop and co-ordinate investment plans for the central government) had projected a **USD 1 trillion investment** in infrastructure for the 2012-17 period.
- The government is working on many ambitious projects undertaking the development of infrastructure and roads in India. The Union finance minister in his budget speech proposed **industrial corridors and 20 new industrial clusters**.
- The Government of India in the Union Budget 2014-15, has announced a project to develop 'One Hundred Smart Cities' as satellite towns of larger cities by modernizing the existing mid-sized cities in the country. INR 70.6 Billion has been allocated in the current fiscal year for the same. The following has also been announced in the budget in relation to smart cities:
 - To encourage development of 'Smart Cities', which will also provide habitation for the neo-middle class, requirement of the built-up area and capital conditions for FDI is being reduced from 50,000 sq. mts. to 20,000 sq. mts., from USD 10 Million to USD 5 Million respectively. To further encourage this, projects which commit at least 30% of the total project cost for low cost affordable housing will be exempted from minimum built-up area and capitalisation requirements.
 - A National Industrial Corridor Authority, with its headquarters in Pune is being set up to coordinate the development of Industrial Corridors with emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanization.
 - Master Planning of the Amritsar-Kolkata Industrial Corridor will be completed expeditiously for the development of Industrial Smart Cities in seven states of the country. The seven states to be covered in this project are Punjab, Haryana, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand and West Bengal.
 - Master planning of three new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka are to be completed.
- A Perspective Plan for the Bengaluru Mumbai Economic Corridor and Vizag-Chennai Corridor is to be completed with provision for 20 new industrial clusters.
- A proposed allocation of INR 40 Billion, to set up a mission on low cost affordable housing, will be anchored in the National Housing Bank.
- A proposed allocation of INR 1 Billion, to develop metro projects in Lucknow & Ahmedabad.
- INR 80 Billion has been allocated for the National Housing Bank with a view to expand and continue to support rural housing in the country.
- State governments concerned are purposed to be notified as sponsoring authority for metro rail projects covered under project import regulations, 1986.
- The norms for FDI in the construction development sector are being eased as well. Easing of norms has generated high interest levels from not just the foreign investors but also domestic players.

- Forecasts for the market size of construction industry for the Twelfth Plan period indicate that aggregate output of the industry during the period 2012–13 to 2016–2017 is likely to be **52.31 lakh crores**, increasing from 7.67 lakh crores in 2012–13 to 13.59 lakh crores in 2016–17.



Prime Minister Narendra Modi started 'Clean India Mission', a national campaign which would result to building of proper sanitation and toilet system in rural and urban India.

Union Budget 2015 in India

Amid the huge expectations of the infrastructure players and global investors, the focus of the Budget was on growth, investment, redistribution and promoting 'Make in India' campaign. Certainly, the Budget comes as a big push for investments in infrastructure and manufacturing sector.



Finance Minister Arun Jaitley presented the first full-fledged of the Narendra Modi government in Parliament aimed at high growth and focusing on boosting investments.

Investment boost in infrastructure through higher public funding positive

- Budgetary allocation: Total allocation for infrastructure has been increased by 1.5 times to INR 2.8 trillion (roads, railways and urban infrastructure the biggest beneficiaries).
- Roads: Investments for development of national highways proposed to be hiked by 178% year-to-year to INR 85,607 crore. A major portion of this increase will be funded by INR 4 per litre increase in road cess on petrol and diesel.
- Railways: Total outlay raised by 52%, in the railway budget 2015-16, there have been many announcements of PPP projects in areas of coastal connectivity, gauge conversion, dedicated freight corridors (DFCs) and the Mumbai suburban rail.
- Funding availability: An INR 200 billion National investment and Infrastructure Fund to be set up for infrastructure finance companies to raise debt. The budget also provides for issuance of tax-free bonds for roads, railways and irrigation projects, and aims to rationalise the tax regime for infrastructure investment trusts.
- Other measures: The government's intent to table a Public Contracts (Settlement of Disputes) bill will help speedy redressal of disputes in large public projects and create a conducive environment for PPP projects.

At a time when private sector interest in infrastructure development is low, the increase in budgetary support holds the potential to kick-start capital investments in the economy. Moreover, the significant increase in public funding for the roads sector has the potential to boost execution of national highway projects by about 5,800 km annually and create a robust construction opportunity for road engineering procurement & construction (EPC) companies.

The Union Budget 2015 has proposed that the National Investment and Infrastructure Fund will create additional funding resources for private developers, over and above the rise proposed in public funding. Moreover, rationalisation of tax regime for Infrastructure Investment Trusts may help free up private capital currently locked in completed projects.

Reasons to invest

- An investment of USD 1,000 Billion has been projected for the infrastructure sector until 2017, 40% of which is to be funded by the private sector. 45% of infrastructure investment will be funnelled into construction activity and 20% set to modernise the construction industry.
- The Indian government has undertaken a number of measures to ease access to funding for the sector.
- Construction activities contribute more than 10% of India's GDP.
- The construction industry in India has seen sustained demand from the industrial and real estate sector.
- An estimated USD 650 Billion will be required for urban infrastructure over the next 20 years.
- Housing for seniors has seen increased interest levels from corporates, the hospitality and healthcare industries over the last few years.



Future of Construction Market in India

With new government and recently announced Union Budget, the future of the building and construction industry appears to be bright. However, the next 5-10 years as expected to be promising from FDI as well as overall sector perspective

The Indian Construction Industry was approximately US\$157 billion in size in FY14, as against an estimated US\$ 153 billion in FY13. With a new government at the center, the future of construction industry in India appears to be bright in coming years.

Latest market research report (2014) by PWC highlights:

- The Construction industry in India expects a growth rate of 7-8% per annum over the next 10 years.
- The Construction sector is one of the largest contributors to economic activity, after the agriculture sector, in India. Construction employs an estimated 35 million people and is a significant driver of FDI inflows.
- The industry remains highly fragmented, though the share of the 'organized' players is growing rapidly – accounting for about 50% of the industry today. The 12-15 largest contractors account for an estimated 15-20% of the market.

Growth Drivers

- India has an estimated urban housing shortage of 18.8 Million dwelling units. The housing shortage in rural India is estimated at 47.4 Million units, in 2012.
- Present levels of urban infrastructure are inadequate to meet the demands of the existing urban population. There is need for re-generation of urban areas in existing cities and the creation of new, inclusive smart cities to meet the demands of increasing population and migration from rural to urban areas. Future cities of India will require smart real estate and urban infrastructure.
- The Government of India is in the process of launching a new urban development mission. This will help develop 500 cities, which include cities with a population of more than 100,000 and some cities of religious and tourist importance. These cities will be supported and encouraged to harness private capital and expertise through PPPs, to bolster their infrastructure and services in the next 10 years.
- To provide quality urban services on a sustainable basis in Indian cities, the need of the hour is that urban local bodies enter into partnership agreements with foreign players, either through joint ventures, private sector partners or through other models.

Industry Speak

	<p>“A very positive and a growth oriented budget with a strong focus on infrastructure development. Investments of INR 70,000 Cr along with the risk sharing mechanism for PPP projects; setting up of a national investment and infrastructure fund; deepening of the bond markets etc will help revive infrastructure investment.”</p>
	<p>“This budget is focused on ease of doing business, Make in India, infrastructure, social sectors. Introduction of GST from 1st April 2016 will definitely rejuvenate the industry and make manufacturing more competitive.”</p>
	<p>“With the investment and thrust to infrastructure increasing by INR 66,500 crore, budgetary outlay on roads and rails increasing by INR 13,300 crore and by INR 9,500 crore respectively, the industry is well poised for growth. As the economy picks up from 8% to 8.5% in the coming year, I am confident that these reformatory initiatives will spur the much needed growth in the sector.</p>

Why now is the best time to enter India?

Investment opportunities in India

- Construction development in residential, retail, commercial and hospitality sectors.
- Technologies and solutions for smart sustainable cities and integrated townships.
- Technologies for the promotion of low cost and affordable housing.
- Green building solutions.
- Sustainable and environmentally friendly building materials.
- Training and skill development of construction sector workers.
- Smart cities.
- Urban water supply, urban sewerage and sewage treatment.

FDI Policies

- 100% FDI through the automatic route is permitted in townships, housing, built-up infrastructure and construction-development projects (including, but not restricted to housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure). The major conditions under which foreign investment can be made in this sector are:
- A minimum capitalization of USD 10 Million is envisaged for wholly-owned subsidiaries and USD 5 Million for joint ventures with Indian partners. The funds will have to be brought in within six months of date commencement of business of the company.
- 100% FDI is allowed under the automatic route for urban infrastructure areas like urban transport, water supply, sewerage and sewage treatment subject to relevant rules and regulations.

FDI policy for Industrial Parks

- 100% FDI is allowed under the automatic route. 'Industrial Park' is a project in which quality infrastructure in the form of plots of developed land or built-up space or a combination with common facilities is developed and made available to all the allottee units for the purposes of industrial activity.
- FDI in industrial parks is not subject to the conditionalities applicable for construction development projects etc., provided the industrial parks meet with the under-mentioned conditions.

Why India?

Advantage India

- Viglacera Trading JSC an Established manufacturer in Vietnam since 1974 with 39 years of development, are now looking to enter the Indian Market space by 2015.
- IDEVIT from Turkey is looking for a local partner in India to expand their presence in Asia.
- Jiuning Associated Trading Corporation from China is planning to enter the Indian Market arena by 2016
- Sert Plastik Ltd Turkey has major expansion plans to enter India by end of 2015
- Universal Anodisers has been operating for 45 years and is one of the most experienced organisations in Australia specialising in anodising aluminium sheet and extrusions for architectural applications and fenestration is planning to enter India in 2015.
- Yeoman Shield has been manufacturing wall protection & door protection to the UK & Export markets since 1966, is planning to launch their brand in India through a dealer format by 2016.

8 Top Reasons to Invest in India

1. Size of India

India's GDP is currently US\$1.3 trillion, making it the 8th largest economy in the world. However, in PPP terms, which recognises India's low cost base, the GDP notionally rises to three times this amount (US\$3.8 trillion) which places it on a similar size to Japan and, by 2013, it will become the third largest economy in the world (after the USA and China) in PPP terms. However, despite representing 7.5% of Global GDP (on a PPP basis) in 2010, India attracts less than 0.5% of investment inflows. An anomaly which is unlikely to continue for much longer!

2. Economic growth

India's economy is currently growing by 8.75% per annum (in 2010) and this GDP growth rate is expected to increase to 9% - 10% per annum for each of the next 10 years. India's GDP will grow five times in the next 20 years, and GDP per capita will almost quadruple.

3. Diversity

The Indian economy offers investors exposure to a wide range of opportunities from consumer goods and pharmaceuticals to infrastructure, energy and agriculture. With its strong services sector (comprising 50% of India's economy), particularly in knowledge-based services (IT, software and business services) India has proved that industrialisation and the export of commodities and resources is not the only path to rapid economic development.

4. Demographics

India is one of the youngest countries in the world, with an average age of 25 and likely to get younger. India's working-age population will increase by 240 million over the next 20 years. With a population of 1.2 billion, a strong work ethic, high levels of education, democracy, English language skills and an entrepreneurial culture, India is poised to dominate the global economy in the next 20 years.

5. High Savings

With a savings rate of 37% of GDP, India's domestic savings fuels most of its investment requirements, and only 20% of India's total public debt is sourced from foreign borrowing. With significant investment to be made in upgrading India's poor infrastructure in the next 10 years (estimated

to be US\$1.7 trillion) India's Government is taking various steps to further encourage private and foreign investments.

6. Domestic economy

India's domestic consumption, generally led by the private sector, has played a significant role in India's growth and is expected to remain firm as more people enter the workforce and the emerging middle classes. India's wealthiest consumers (those earning US\$1m or more in PPP terms) will increase by 40 million in the next 10 years! Every sector within India's consumer market is booming, making India far less vulnerable to external shocks and pressures than other emerging markets.

7. A robust financial sector

India has a robust, diversified and well regulated financial system which has allowed it to weather the global financial crisis without any major difficulties and present an image of quality, resilience and transparency. India's banking sector is strong, with top quality balance sheets, high levels of competition (there are around 80 banks in India) and strong corporate governance.

8. Quality of Investment Markets

The Bombay Stock Exchange is the second oldest in the world (165 years) and offers investors a low cost, highly efficient, modern and well governed environment in which to prosper from India's extraordinary economic growth. The Indian stock market has generated investment returns of over 15% per annum for the last 10 years and experts expect this rate to increase in the next decade. More significantly perhaps, Indian investors have doubled their money over the last 3 years at a time when many have lost money in almost every other market

Why The Big 5 India 2015?



Capitalizing on the recent growth opportunities in India, The Big 5 Construct India would be providing the stakeholders – the platform for business, networking and education from 10-12 September 2015 at Bombay Exhibition Centre, Goregaon (East), Mumbai, Maharashtra, India.

How The Big 5 Construct India is different from any other events?

- **Your gateway to Indian Construction Market** which brings together a closely-knit lobby of construction professionals from all over the country.
- **High quality and serious buyers** at the event as compared to any other show of this segment representing India and neighbouring countries.
- **An umbrella event** which comprehensively covers equipments, materials and services, and representatives of the construction industry.
- **Brings the credibility and market reputation** of the Big 5 series of construction industry events which annually brings together over more than 80,000 construction industry professionals from 86 countries.
- **Extensive and qualified database** of visitor segments including new growing visitor segments.
- **Attractive marketing activities** for international exhibitors.
- **Strong relationships and partnerships** with influential government bodies, key trade associations, media and local network of suppliers.

Highlights of the Big 5 Construct India 2015:

- 300+ brands at display from 25+ countries representing more than 250 exhibitors.
- Key buyers from Delhi, Gujarat, Maharashtra, Karnataka, Andhra Pradesh and Tamil Nadu to attend.
- Free technical seminars to stay up-to-date with the latest industry advancements.
- Certified workshops to improve industry credentials and continue professional development.
- Event supported by the Indian Institute of Architects (IIA), Council of Architecture (COA) and Center for Development of Stones (CDOS).
- VIP buyer program to drive quality buyers from across India.
- International pavilions expected from China, Germany, Italy, Iran, Korea and Turkey, Greece, UK, Taiwan, Spain among others to showcase latest technology and trends.

Report prepared by

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