

COVID-19 | “ATMANIRBHAR” PACKAGE | Day #4

Summary of announcements incentivising growth-oriented Industrial sectors and impact on Vehicle Finance Sector

BACKGROUND

Post the announcement of a Rs. 20 lakh crore stimulus package in his nation-wide address on May 12, 2020, by Prime Minister Narendra Modi, the Ministry of Finance held a series of press conferences on 13th to 15th May 2020 to announce measures supporting the Micro, Small and Medium Enterprises and Non-Banking Financial Companies, reforms specifically for the ‘base of the pyramid’ sections of the society such as street vendors, migrant workers, farmers, etc., and the agricultural and agri-allied sectors.

On May 16, the key highlight of FM’s announcement was on the structural policy reforms and liberalisation in eight growth-oriented sectors to fast track investments, raise industrial production and generate employment opportunities.

DAY #4 ANNOUNCEMENTS: LIBERALISATION ON A FAST TRACK MODE

The fourth tranche of the “Atmanirbhar” package focussed on plans for liberalising the coal, mining, defence production and aerospace sector which would attract global fund inflows and increase the competitiveness of the domestic industry. The focus of reforms in the core sectors of coal, mining and electricity comes at a time when there was a sharp 16.7% contraction in India’s industrial output in March 2020, and hence these reforms will help to resolve supply related concerns piled up currently. The announcement also included immediate plans for privatising six airports and offered financial support for making social infrastructure projects viable. The package contained the stimulus of INR 63,100 crores out of which the direct budgetary cost is around INR 8,100 crores to enhance viability gap funding to support creation of social infrastructure.

The announcement comprised reforms in eight core sectors - coal, minerals, defence production, air space management, airports, MRO, distribution companies in UTs, space sector, and atomic energy expected to revive industrial & infrastructure activities across the country and will have a positive impact on the overall transport sector especially Commercial Vehicle (CV) segment. Heavy tonnage vehicles were already riling under viability pressure over the last one and half years due to excess supply post axle load implementation and demand shortage due to downward GDP trend and hence these reforms should revive some demand on the ground for vehicle deployment and create contract/job opportunities for the underlying borrowers of portfolio entities under Vehicle Finance.

- **Government ends Monopoly on Coal:** FM’s announcement ended the government’s monopoly on coal by allowing commercial mining to introduce competition, transparency, and private sector participation through a revenue-sharing mechanism in the sector. Fast track implementation of these reforms is expected to enhance capacity utilization and efficiency in coal/mineral mining and transportation activity in the coming quarters.
- It is pertinent to note that **around 53% of the coal transport takes place via rail route, 28% via road route** and remaining 19% through other modes (water, conveyors, etc.). While railway forms a significant portion under first mile/long haul connectivity of coal from mines to power plants, coal transport sector **requires heavy trucks/tippers for short distances, like within coal mines, last mile connectivity at power plants,**

cement/steel production sites and for loading/unloading. As an illustration, to load one coal rake (about 4,000 tonne), around 250-300 round trips of coal tippers (capacity range of tippers is from 15 metric tonne to 18 metric tonne) is required. NBFCs operating in CV and Construction Equipment segments will see some uptick in demand as well as repayments from underlying cash flows especially in major coal mining states as mentioned below.

Major Coal Mining States	Coal Reserves * (in billion metric tonnes)
Jharkhand	83.15
Odisha	79.30
Chhattisgarh	57.21
West Bengal	31.67
Madhya Pradesh	27.99
Telangana	21.70
Maharashtra	12.30

* Source - coal.nic.in

- GOI has proposed investment of INR 50,000 crore for creating transportation infrastructure for evacuating 1 billion tonnes of coal from state run Coal India Ltd (CIL) mines. This is expected to revive some job opportunities (both skilled and unskilled), wage rates and ease off livelihood pressure from the underlying borrowers' segments (lower income groups catered by Northern Arc which are impacted due to lock down).

ANNEXURE A

Summary of Announcements targeting Core Industrial Reforms

Source: Press Bureau of India

NO.	SCHEME	PARTICULARS
1)	Commercial Mining in Coal Sector	<ul style="list-style-type: none"> Revenue Sharing mechanism instead of regime of fixed Rupee/Tonne. (Earlier only captive consumers with end use ownership could bid. Now, any party can bid for coal block). Production earlier than scheduled will be incentivised through rebate in revenue share Liberalized entry norms. Nearly 50 blocks to be offered immediately Allowing exploration-cum-production regime for partially explored blocks Investment of INR 50,000 crore for creating transportation infrastructure for evacuating 1 billion tonnes of coal from state run Coal India Ltd (CIL) mines Commercial concession given to CIL's consumers (relief worth INR 5000 Crores offered)
2)	Enhancing Private Investments in Mineral Sector	<ul style="list-style-type: none"> Introduction of seamless composite exploration-cum-mining-cum-production regime

NO.	SCHEME	PARTICULARS
		<ul style="list-style-type: none"> • 500 mining blocks offered through open and transparent auction process • Introduce Joint auction of Bauxite and Coal Mineral blocks (will benefit Aluminium industry) • Removed distinction between captive and non-captive mines to allow transfer of mining leases and sale of surplus unused minerals (will lead to better efficiency)
3)	<i>Enhancing Self Reliance in Defence Production</i>	<ul style="list-style-type: none"> • FDI limit in the defence manufacturing under automatic route will be raised from 49% to 74% • 'Make in India' – Ban on Import on notified weapons/platforms, separate budget provisioning for domestic capital procurement, improve autonomy and accountability in Ordnance Supplies by Corporation of Ordnance Factory Board • Setting up of PMU to support contract management, realistic setting of GSQRs, overhauling trial and testing procedures will help in time bound defence procurement processes and faster decision making.
4)	<i>Enhancing Efficiency in Civil Aviation</i>	<ul style="list-style-type: none"> • Total benefit of INR 1000 crores per year for the sector. • Optimal utilization of airspace, reduction in fuel use, time • AAI has awarded 3 airports out of 6 bids for operation and maintenance on PPP basis • Annual Revenue of 6 airports in 1st round – INR 1000 crores (against 540 crores currently), AAI will get a down payment of INR 2300 crores • 6 more airports to be auctioned on PPP basis and INR 13,000 additional investment by private players in 12 airports • Tax system for MRO ecosystem has been rationalised. Aircraft component repairs and airframe maintenance to increase from INR 800 crores to INR 2000 crores in 3 years
5)	<i>Tariff Policy Reform and Privatisation of Distribution in UTs</i>	<ul style="list-style-type: none"> • Consumer Rights – DISCOM inefficiencies not to burden consumers, load-shedding to be penalised • Promote Industry – Reduction in cross subsidies, time bound grant of open access, generation and transmission project developers to be selected competitively • Sustainability of Sector -No regulatory assets, timely payment of gencos, DBT for subsidy, smart prepaid meters • Power Departments/ Utilities in Union Territories will be privatised. This will lead to better service to consumers and efficiency improvement in distribution

NO.	SCHEME	PARTICULARS
6)	Boosting Private Sector Investment in Social Infrastructure	<ul style="list-style-type: none"> Government to enhance the quantum of Viability Gap Funding up to 30% each of Total Project Cost as VGF by Centre and State/Statutory Bodies For other sectors, VGF existing support of 20 % each from GoI and States/Statutory Bodies shall continue Total Outlay is INR 8,100 crores
7)	Boosting Private participation in Space Activities	<ul style="list-style-type: none"> Private sector to be encouraged to enter the space exploration sector. They will also be given access to ISRO facilities and other relevant assets to improve their capacities Future outer space travel would be opened to private sectors as well. A liberal geo-spatial data policy will also be introduced to provide remote sensing data for tech entrepreneurs here
8)	Atomic Energy related Reforms	<ul style="list-style-type: none"> Establish research reactor in PPP mode for production of medical isotopes – promote welfare of humanity through affordable treatment for cancer and other diseases. Establish facilities in PPP mode to use irradiation technology for food preservation – to compliment agricultural reforms and assist farmers Link India’s robust start-up ecosystem to nuclear sector – Technology Development cum Incubation Centres will be set up for fostering synergy between research facilities and tech-entrepreneurs

Reforms to fast-track Investment – Effort towards Atmanirbhar Bharat

- Fast track Investment Clearance through Empowered Group of Secretaries (EGoS)
- Project Development Cell in each Ministry to prepare investible projects, coordinate with investors and Central/ State Governments
- Ranking of States on Investment Attractiveness to compete for new investments
- Incentive schemes for Promotion of New Champion Sectors will be launched in sectors such as Solar PV manufacturing; Advanced cell battery storage; etc.

Upgradation of Industrial Infrastructure

- Scheme will be implemented in States through Challenge mode for Industrial Cluster Upgradation of common infrastructure facilities and connectivity.
- Availability of Industrial Land/ Land Bank for promoting new investments and making information available on Industrial Information System (IIS) with GIS mapping.
- 3376 industrial parks/estates/SEZs in 5 lakh hectares mapped on Industrial Information System (IIS)