

OVERVIEW OF THE CONSTRUCTION INDUSTRY IN INDIA

April 2008

Head Office: 502, Bengal Chemicals Compound · Veer Savarkar Marg · Prabhadevi · Mumbai 400 025 · India
Tel: +91.22.2436 8186 · Fax: +91.22.2436 8191/2438 2716 · Email: iicci@indiaitaly.com ·
Web: www.indiaitaly.com

CONSTRUCTION INDUSTRY IN INDIA

CONSTRUCTION SECTOR - OVERVIEW

Today, India is the second fastest growing economy in the world. The Indian construction industry is an integral part of the economy and a conduit for a substantial part of its development investment, is poised for growth on account of industrialization, urbanization, economic development and people's rising expectations for improved quality of living.

In India, construction is the second largest economic activity after agriculture. Construction accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years. Investment in construction accounts for nearly 11 per cent of India's Gross Domestic Product (GDP). €239.68 billion is likely to be invested in the infrastructure sector over the next five to 10 years - in power, roads, bridges, city infrastructure, ports, airports, telecommunications, which would provide a huge boost to the construction industry as a whole.

Investment into this sector could go up to €93.36 billion by FY2010. With such bullish prospects in infrastructure, affiliated industries such as cement are on a high. Cement consumption, for the first time, is set to exceed the 150-million tonne mark. Reflecting the demand for the commodity, capacity utilisation rose to over 100 per cent to touch 102 per cent in January 2007 with despatches touching 14.10 million tonnes as against the production of 14 million tonnes. As opportunities in the sector continue to come to the fore, foreign direct investment has been moving upwards. The real estate and construction sectors received FDI of €216.53 million in the first half of the current fiscal year.

Industry Segments

REAL ESTATE

- Residential (Housing & Development)
- Industrial (Industrial Parks, Factories, Plants, etc.)
- Corporate (Office, Research Centres)
- Commercial (Retail: Malls, Shops, Showrooms; Hotels; etc.)

INFRASTRUCTURE

- Roads
- Railways
- Urban infrastructure (improved housing, watersupply and sanitation, schools, universities, health and security, etc.)
- Ports
- Airports
- Power

Indian Real Estate Sector

Real Estate is a €8 bn (by revenue) Industry in India. It is projected to grow to €34 bn by 2010. It has witnessed a revolution, driven by the booming economy, favourable demographics and liberalised foreign direct investment (FDI) regime. Growing at a scorching 30 per cent, it has emerged as one of the most appealing investment areas for domestic as well as foreign investors.

The second largest employing sector in India (including construction and facilities management), real estate is linked to about 250 ancillary industries like cement, brick and steel through backward and forward linkages. Consequently, a unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as five times.

All-round Development

Rising income levels of a growing middle class along with increase in nuclear families, low interest rates, modern attitudes to home ownership (the average age of a new homeowner in 2006 was 32 years compared with 45 years a decade ago) and a change of attitude amongst the young working population from that of 'save and buy' to 'buy and repay' have all combined to boost housing demand.

According to 'Housing Skyline of India 2007-08', a study by research firm, Indicus Analytics, there will be demand for over 24.3 million new dwellings for self-living in urban India alone by 2015. Consequently, this segment is likely to throw huge investment opportunities. In fact, an estimated €16 billion investment will be required over the next five years in urban housing, says a report by Merrill Lynch.

Simultaneously, the rapid growth of the Indian economy has had a cascading effect on demand for commercial property to help meet the needs of business, such as modern offices, warehouses, hotels and retail shopping centres.

Growth in commercial office space requirement is led by the burgeoning outsourcing and information technology (IT) industry and organised retail. For example, IT and ITES alone is estimated to require 150 million sqft across urban India by 2010. Similarly, the organised retail industry is likely to require an additional 220 million sqft by 2010.

Global Majors

With the significant investment opportunities emerging in this industry, a large number of international real estate players have entered the country. Currently, foreign direct investment (FDI) inflows into the sector are estimated to be between €3 billion and €3.50 billion.

- Jones Lang LaSalle (JLL), the world's leading integrated global real estate services and money management firm, plans to invest around €646 million in the country's burgeoning property market.
- Dubai-based DAMAC Properties would invest up to €2.9 billion to develop properties in India.
- Merrill Lynch & Co bought 49 per cent equity in seven mid-income housing projects of India's largest real estate developer DLF in Chennai, Bangalore, Kochi and Indore for €243 million.
- UAE-based real estate company Rakeen and Chennai-based mineral firm Trimex Group have formed joint venture company - Rakindo Developers - which would invest over €3 billion over the next five years.
- Dubai-based Nakheel and Hines of the US have tied up with DLF to develop properties in India. DLF has also formed a joint venture with Limitless Holding, a part of Dubai World, to develop a €9 billion township project in Karnataka.
- Gulf Finance House (GFH) has decided to invest over € 1 billion in a greenfield site close to Navi Mumbai.

Government Initiatives

The Government has introduced many progressive reform measures to unlock the potential of the sector and also meet increasing demand levels.

- 100 per cent FDI allowed in realty projects through the automatic route.
- In case of integrated townships, the minimum area to be developed has been brought down to 10 hectares from 40 hectares.

- Urban Land (Ceiling and Regulation) Act, 1976 (ULCRA) repealed by increasingly larger number of states.
- Enactment of Special Economic Zones Act.
- Minimum capital investment for wholly-owned subsidiaries and joint ventures stands at €9 million and €3 million, respectively.
- Full repatriation of original investment after three years.
- 51 per cent FDI allowed in single brand retail outlets and 100 per cent in cash and carry through the automatic route.

INFRASTRUCTURE

Power

- Power generation capacity of 122 GW; 590 bn units produced (1 unit =1kwh), Compound Annual Growth Rate of 4.6% over the last four years
- India has the fifth largest electricity generation capacity in the world

Roads

- An extensive road network of 3.3 m km – the second largest in the world
- The Golden Quadrilateral (GQ-5846 km of 4 lane highways) North-South & East West Corridors (NSEW-7300 km of 4 lane highways)

Railways

- The premier transport organisation of the country - the largest rail network in Asia and the world's second largest
- 7566 locomotives, 37,840 Coaching vehicles, 222,147 Freight wagons, 6853 Stations, 300 Yards, 2300 Goodsheds, 700 Repair shops, 1.54 m Work force

Ports

- 12 Major Ports and 185 Minor Ports along 7,517 km long Indian coastline
- 100% FDI under the automatic route is permitted for port development projects
- Public-Private partnership is seen by the Government as the key to improve Major and Minor ports

Airports

- India has 125 airports; of these, 11 are designated international airports
- 100% FDI is permissible for existing airports; FIPB approval required for FDI beyond 74%

- Privatization of the Delhi and Mumbai airports is in progress. Expected investment of about €2.4 billion
- New international airports - Bangalore & Hyderabad are being built by private consortia – total investment of about €411 million
- 25 other city airports are being considered for private investment.

Urban Development

- India's total urban population on 1st March 2007 was 285 million.
- Allowing up to 100 % foreign direct investment (FDI) under the automatic route in townships, housing, built-up infrastructure and construction-development project

Opportunities

With the economy surging ahead, the demand for all segments of the real estate sector is likely to continue to grow. The Indian real estate industry is likely to grow from €7 billion in 2005 to €58 billion in by 2015.

Given the boom in residential housing, IT, ITeS, organised retail and hospitality industries, this industry is likely to see increased investment activity. Foreign direct investment alone might see a close to six-fold jump to €19 billion over the next 10 years.

There are a lot of opportunities that are sprouting up in the construction of Roads, Railways, Airports and Power. Projects worth €1.872 billion are coming up to develop Special Economic Zones.

India has a large and growing middle class population of 300 million people, out of which a large section is need on new houses. It is estimated that there is a national housing storage of 41 million units. Retailing is becoming the boom industry with organized retail being a market of €4.494 billion. Water supply and sanitation projects alone offer scope for annual investment of €4.27 billion. The Ministry of Power has formulated a blueprint to provide reliable, affordable and quality power to all users by 2012. This calls for an investment of €54.67 billion in the next five years.

The government of India has permitted FDI up to 100% for development of integrated townships in India last year.

India's booming infrastructure sector is fuelling demand for all kinds of construction equipment. Before the opening up of the Indian economy, and the entry of international majors, much of infrastructure development and construction in the real estate sector

was done manually. But with the infrastructure and construction sectors undergoing dramatic changes – with 60-storeyed sky-scrappers being built in cities like Mumbai, and thousands of kilometers of expressways and highways being laid across the sub-continent - builders and contractors are acquiring sophisticated equipment to execute the multi-million-dollar projects. For the construction equipment sector, which has adapted rapidly to the changed scenario, this is indeed good news, as it paves the way for an exciting future.
