

## Union Budget 2024 to stick to capital expenditure target set in February

ICRA believes the government will continue with infrastructure spending because of its multiplier effect on the GDP and overall economy

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### Highlights

Gol likely to retain capex target of Rs 11.1 lakh crore for FY2025 Capex earmarked for “new schemes” could be distributed among various ministries There could be some re-prioritisation among various infra sub-segments Reviving private investment in roads can lead to overall higher capex in this segment

Rail capital outlay to remain robust as private participation is muted In the Interim Budget Estimate (IBE), the central government had set a capital expenditure target of Rs 11.1 lakh crore for 2024-25. The government’s capex growth is likely to have been muted in the first quarter (Q1) of FY2025 as project execution slowed because of the Lok Sabha election. Against the embedded growth target of 17.1 percent (at Rs 11.1 lakh crore) for FY2025 (over FY2024 provisional), the government’s capital expenditure declined 14.4 percent YoY (year-on-year) to Rs 1.4 lakh crore in April-May FY2025 amid a volatile monthly trend. With capex numbers remaining typically low during the monsoon months, the required monthly run-rate in the second half of FY2025 will have to be quite high to even achieve the IBE for the full financial year. As a result, ICRA believes that the Government of India (Gol) is likely to retain its capital expenditure target of Rs 11.1 lakh crore for FY2025.

Besides, the Gol had earmarked a fairly large capex of Rs 0.7 lakh crore, under the finance ministry’s allocation, for “new schemes” in the FY2025 IBE. This accounted for the bulk of the Rs 1.6 lakh crore expansion in the aggregate capex over the FY2024 level. As the details of this scheme have not been provided, this is likely a placeholder entry to show a double-digit expansion in the capex in the IBE. This amount is now likely to be distributed among various ministries, thereby enhancing their respective capex numbers, while keeping the aggregate number unchanged. The GDP (gross domestic product) multiplier effect on job creation as well as the overall economy will continue to drive Gol’s infrastructure spending.

Driven by the Gol’s push for infrastructure development, the capital outlay has increased at a CAGR of 17.5 percent to Rs 11.1 lakh crore for FY2025 IBE from Rs 1.9 lakh crore in FY2014. The capex momentum in FY2025 IBE was driven by a 37 percent increase in the allocation to Special Assistance as loans to states. The allocation to roads and railways garnered the maximum share (~47%) of the total capex outlay for FY2025 IBE. Going forward, there could be some re-prioritisation among various infra sub-segments to accommodate all stakeholders. However, the capital outlay for infrastructure is expected to sustain the healthy growth momentum, given the overall GDP multiplier effect of infrastructure spending and the consequent job creation in the unskilled and semi-skilled segment. EXHIBIT Trends in Gol’s capex in FY2014-FY2025

### Roads and Highways

Roads accounted for 19 percent of Gol capex in FY2025 IBE The government’s capital outlay for the Ministry of Road Transport and Highways (MoRTH) rose to Rs 2.7 lakh crore in FY2025 IBE from Rs 0.23 lakh crore in FY2014. Further, its share in the total capex increased to 18.7 percent from 5.1 percent during the above period. Although the capital outlay towards MoRTH increased marginally by 3 percent in FY2025, it remains healthy, indicating the government's support to help the ministry

meet the targets for the Bharatmala Pariyojana (BMP) and the National Infrastructure Pipeline (NIP). Moreover, the government's emphasis on reviving private investments in the sector through the BOT-Toll route will lead to higher overall capital expenditure in the sector going forward.

Between FY2015 and FY2024, the ministry has constructed more than 95,000 kms of roads — a combination of greenfield and brownfield expansions. In terms of lane kms, the lengths of the national highways have increased by 93 percent during the above period compared to a 60 percent increase in highway length in kms. ICRA expects road execution to achieve a growth of 5-8 percent to 12,500-13,000 kms (~34-36 km/day) in FY2025, after recording an expansion of ~20 percent in FY2024.

EXHIBIT Year-wise construction of National Highways in the country

Source: ICRA Research, MoRTH, NHAI;

Roads sector – what more could be done:

Timely approval of BMP cost-escalation remains crucial for awarding activity to pick up - The overall awards in the roads sector had declined to 8,581 kms in FY2024 from 12,375 km in FY2023, owing to delays in getting cabinet approval on cost escalation as well as pre-election restrictions in March 2024. Timely Cabinet approval for BMP cost escalation remains crucial for awarding activity to pick up and remains one of the key factors to be watched.

Share of BOT-Toll awards remains modest - The revival of BOT-Toll has remained a challenge on account of the sizeable funding commitment from the developers (compared to BOT-HAM ) as well as associated market risk with a BOT-Toll project. The recent changes in the model concession agreement in capacity augmentation for BOT-Toll projects is a positive step from a concessionaires' perspective; however, certain challenges related to termination pay-out during the under-construction stage as well as the impact on IRR because of revenue loss due to alternate route/mode persists. With the Gol targeting 35 percent of its incremental road sector investment worth Rs 22 lakh crore by FY2031 to be driven by private developers, proactive measures to address the concerns of stakeholders remain crucial to enhance private developers' participation in BOT-Toll projects. ICRA expects the BOT-Toll awards share for MORTH to increase to around 5 percent in FY2025 compared to less than 2 percent of the orders in the last five years.

Monetisation of the roads sector - Under the NMP, road sector monetisation was expected to account for Rs 1.6 lakh crore — 27 percent of the total monetisation during FY2022-FY2025. By the end of FY2024, the road ministry had realised around Rs 0.53 lakh crore (~33 percent) across the two modes for monetising its assets — TOT and InvIT . Although the ministry has made significant progress in monetisation, it has achieved 33 percent of the NMP target till FY2024. In April 2024, the National Highways Authority of India (NHAI) released an indicative list of 33 road assets it plans to monetise in FY2025 through a mix of TOT and the sale to the NHAI's InvIT, with an estimated Rs 53,000–60,000 crore value. If achieved, the accrual against the NMP target could end up between 65 percent and 71 percent by the end of FY2025. A significant ramp-up in monetisation is required to achieve these targets under the NMP for the roads segment.

Railways

Share of railways in capital outlay increased to 18 percent in FY2025 IBE The government's capital outlay for the railways rose to Rs 2.65 lakh crore in FY2025 IBE from Rs 0.52 lakh crore in FY2014, with its share in the total capex increasing to 18.2 percent from 11.5 percent during the above period. Track infrastructure and rolling stock accounted for ~57 percent of the capex budget for the

railways. The proportion of allocation has remained the same in FY2025 IBE compared to FY2024 (Prov), mainly due to a modest 1.1 percent YoY increase in allocation for track infrastructure in FY2025 IBE against a 32.4 percent YoY increase in FY2024 (Prov). The National Rail Plan (NRP) targets a 45 percent share for the railways in freight movement by 2030 compared with less than 30 percent at present. Consequently, the capital outlay for the railways is expected to remain robust in the coming years. Indian Railways has identified 1309 stations for redevelopment under the Amrit Station Scheme, of which work is currently on in 1,100 stations, while work in five stations has been completed. Given the limited track record of PPP projects in station redevelopment work and the reluctance of private players to take up PPP projects, the majority of the project awarding is expected to be in the EPC mode.

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EXHIBIT Trend in Centre's capital outlay towards railways FY2014-FY2025; Segment-wise budgetary allocations

Railways sector – what more could be done

Monetisation of the Railways sector – While monetisation in the roads sector has picked up in the past two years, there has been limited progress in the railways sector, which has a monetisation target of Rs 1.52 lakh crore by FY2025. Station redevelopment (which forms much of the target) through the PPP route met with lower-than-expected progress as far as monetisation is concerned. Other parts of the railway's National Monetisation Pipeline (NMP), primarily privatisation of train operations, have not seen much progress either. Suitable changes in the model concession agreement after taking inputs from various stakeholders could make the contracts more attractive and bring in more private players.

Limited private sector participation - The roads sector has been quite successful in undertaking PPP projects (BOT-Toll and HAM projects). Of the total awards by MoRTH over the last three years, the PPP projects accounted for 25-30 percent. However, the PPP remains a non-starter in railways. The limited track record of PPP projects in station redevelopment works and the reluctance of private players to take up similar projects saw a majority of the projects move to the EPC mode. A change in strategy and model could be important to achieve some traction under the PPP mode.

The author is Senior Vice-President & Co-Group Head - Corporate Ratings, ICRA Limited. Views are personal.