Union Budget 2021

Impact on building materials industry

Washrooms and Beyond captures the reactions of the bath products and real estate industry on the budget addressing the pain points in a post pandemic year

Union Budget 2021-22 was literally a make-or-break event. The circumstances are unprecedented – it is the first budget presented after a pandemic which shattered the economy globally, and in India. The impact of the pandemic has been catastrophic with early government estimates indicating a 7.7% contraction in FY 2020-21 – the biggest GDP growth plunge in over four decades. Expectations across sectors were at an all-time high, though the fiscal pressures on the finance ministry are nothing short of crippling.

The Budget has gone a step ahead and unveiled measures to support domestic demand, job creation and boost economic growth. The expansionary, growth-oriented Budget has increased spending and raised allocations across multiple sectors. Healthcare and infrastructure have received special attention with a significant jump in capital expenditure while agricultural credit target has been hiked. As a welcome step, the government has not imposed any new taxes; instead, higher borrowings will be resorted to fund additional spending. Higher FDI limit for the insurance sector is in keeping with the government's investor-friendly stance while incentives for affordable and rental housing would go a long way in making housing accessible to all citizens.

KE Ranganathan
Managing Director
Roca Parryware

"Our Hon'ble FM has given the near-perfect 'Vaccine' to the economy for faster recovery. The 'jab' will be very effective as seen from the huge jump of +35% in Capex spending and the fiscal deficit widening from 6.8% to 9.5%.

Indeed a bold step to pull the demand side up through these higher allocations for spending.

The 'Jab' will spread to all parts of the economy body: agriculture getting a big target of ₹ 17 lakh Cr funding, urban infrastructure, railways and roadways a major chunk of over ₹ 3 lakh Cr allocation, affordable housing with tax breaks, Swachh Bharat with ₹ 1.15 lakh allocation, textile getting a big boost etc. On the people side, good to see GIG / Platform workers getting protected with better social security benefits. Relief for senior taxpayers from filing returns is in the right direction. Overall the health of the Indian economy will re-bound faster with this well thought out vaccine."

Key takeaways from the Budget

The government has relaxed the fiscal deficit target of 3.5% of GDP by FY 2020-21 due to the unprecedented economic situation. Higher capital expenditure will lead to faster economic recovery which, in turn, will enhance tax revenues and allow the government to meet the planned fiscal deficit target by FY 2025-26.

In line with the Budget's eight focus areas - doubling farmers' income, strong infrastructure, healthy India, good governance, opportunities for youth, education for all, women empowerment, and inclusive development - the budget proposals were made on six pillars – Health and wellbeing, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R&D, and minimum government and maximum governance.

The Budget focuses extensively on infrastructure to increase investments, create long term assets, boost domestic demand and generate jobs. The modalities of infrastructure financing are laid out with a dedicated focus on highways, urban transport infrastructure, shipping and renewable energy. Hike in the FDI limit is a

Kamlesh Patel
Chairman & Managing Director
Asian Granito India Ltd

"It is a growth oriented inclusive budget with focus on infrastructure, investment, MSME and health sector to revive growth on fast track. The measures are expected to give the right momentum to the economy in the medium to long term. Tax reforms and tax simplification measures especially reducing the time-limit for reopening of assessment to 3 years are steps in the right direction. Higher allocation to infrastructure, extension of exemption for the purchase of affordable houses till March 2022 and tax exemption to rental housing projects will provide necessary boost to the ceramic industry."

Himanshu Jindal
CFO
Orientbell Tiles

"Budget this time has focused more on investment-led measures with higher outlays defined for infrastructure while the tax rates are largely unchanged despite the woes on the deficit front. Capex proposal of ₹ 5.5 lakh crores to be spent next year is way above the revised estimates for the current year with increased allocations for roads, ports, railways, housing and urban development. The creation of "bad bank" and DFI should aid liquidity and thus help revival of stressed sectors post the uncertainties that clouded most of FY21. Allowing debt financing of Infrastructure Investment Trust (InvITs) and Real Estate Investment Trusts (REITs) by Foreign Portfolio Investors (FPIs) is again a step in the right direction as this improves their ability to raise more money. Sops announced for affordable housing and real estate too add to the joy. Extension of the tax holiday by 1 more year along with the increase of the eligibility period for claiming additional deduction of interest should help the offtake of affordable housing projects.

On the other hand, for promoting supply of affordable rental housing for the migrant workers, a new tax exemption for the notified affordable rental housing projects has also been announced – again a plus for the sector. Relaxations have also been granted in terms of the acceptable variance between sales consideration and stamp duty value for sale of residential units. All of this shows the willingness of the government to support an ailing sector which by far is one of the biggest contributors to the country – both in terms of GDP and also direct / indirect employment."

Rishi Jain
Managing Director
Jain Group

"The budget is a subset of a grand plan and the steps taken are in the right direction and only have positives for the housing and real estate sector. Infrastructure and housing go hand in hand and the priority allocated to infrastructure and the housing sector is laudable.

The easing of more and more compliances and unnecessary departmental formalities, in line with easing of doing business, is encouraging. Because most reforms are already announced during pandemic times, I personally was not expecting any Big Bang reforms. The steps to improve ease for small and medium scale businesses and taxpayers deserve a thumbs up."

Ravi Khaitan
Managing Director, Prudent Infrarealty Private Limited

“The tax holiday proposed by FM for one more year in order to promote affordable housing projects is a positive sign towards 'Housing for All' initiative and also to increase their supply so that the growing demand can be met.”

Abhishek Bharadwaj
Chief Marketing Officer, Shristi Infrastructure Development Corporation Ltd

“It is very encouraging to see that the current budget has continued its emphasis on affordable housing as a priority area. The extension of eligibility of additional deduction of interest of ₹ 1.5 lakhs for loan taken to purchase an affordable house will surely boost the demand for real estate in the country. The extension of tax holiday for affordable housing projects will also help the developers. The new tax exemption for the notified Affordable Rental Housing Projects for the migrant workers is also a welcome step. The increased allocation in infrastructure spending will also boost the real estate sector indirectly. As a whole, the budget is encouraging for the sector.”

Anshul Jain
Managing Director, South East Asia and India, Cushman & Wakefield

“The Union Budget 2021-22, following an economic contraction, has provided the stimulus to boost demand through the enhanced infrastructure spending. The focus on healthcare will only steer the economy faster out of the pandemic and is a welcome move. The extension of tax holidays in affordable housing on both demand and supply sides are in line with expectations. Higher budgetary allocation for MSMEs and agriculture and social security for unorganised sector workers show the government's vision for inclusive growth.”

Arya Sumant
Managing Director, Eden Realty

“Government had already done many mini budgets over the course of the last financial year due to the Covid-19 pandemic. So, it was expected that there wouldn't be many big bang reforms. It is an extremely balanced budget and it is heartening to see that Affordable Housing is still being given a major push and the additional year announced for tax breaks is going to provide the required boost to the real estate sector for post-pandemic era. The reduction in import duty for steel is also going to help the sector grappling with high construction cost for the past several months.”

welcome step to attract foreign investors and enhance insurance penetration.

The eligibility period for claim of additional deduction for interest of ₹ 1.5 lakh paid for loan taken for purchase of an affordable house is extended to 31st March 2022, to incentivize purchase of affordable housing as a boost on the demand side. To boost the supply side, eligibility period for claiming tax holiday for affordable housing projects is extended by one more year. To promote supply of affordable rental housing for the migrant workers, a new tax exemption is allowed for the notified affordable rental housing projects. The Budget takes the right measures to expedite economic recovery by boosting spending on infrastructure, healthcare and rural sector. Fiscal consolidation has been shelved and growth has been made a priority. The unorganised sector and MSMEs have received attention while the government has continued to encourage foreign investment.

Jitendra Khaitan
Managing Director, Pioneer Property Management Limited

“The additional deduction of ₹ 1.5 lakhs by the FM granted up to March 31, 2022 will keep the momentum positive for the real estate industry and towards residential buyers too.”

Pradeep Misra
CMD – REPL

“As it was expected and much needed, there is massive emphasis on infrastructure in the union budget. The number of projects under NIP (National Infrastructure Pipeline) has been extended to 7400, which will help in generating immediate employment. Focus on Affordable Housing section continues with the extension of eligibility to avail benefits for another year. Plan to set up 'Development Financial Institution' with fund infusion of ₹ 20,000 crores for financing infrastructure & development projects will further help in mobilizing the long term capital, especially through debt instruments. This should be vital in pulling out the projects that are stuck or slowed down.

The aim to complete 11,000 Km of National Highways, seven Port projects worth ₹ 2,000 crore in PPP mode, extending metro in Tier 2 cities and peripheral areas of Tier 1 cities will collectively create a vibrant economic conditions of growth. As mentioned by the Hon'ble Finance Minister, fund infusion in infrastructure sector will have to be accentuated by multiple measures, including monetization of assets, creating institutional structure as well as raising the union & state governments' budgetary allocations. Overall, the budget has set the tone of intense infrastructure development in FY 21-22 and following years.”

Anuj Puri
Chairman, Anarock Property Consultants Private Limited

“As anticipated, affordable housing and rental housing got a big boost with the government extending the period for extra deduction of ₹ 1.5 lakh available for loans up to 31st March 2022. This will keep demand buoyant for affordable housing in 2021 as well.

Further, the extension of the tax holiday for affordable housing projects for one more year will help bring in more new supply within this segment. As per ANAROCK Research, affordable housing already accounts for more than 35% of the supply across the top 7 cities in the country.

Infrastructure got a major push. Infra works proposed include building 8,500-km of highways by March 2022. There were big infra sops announced for poll-bound states including West Bengal, Tamil Nadu, Kerala and Assam.

The government also announced the Bill to set up Development Finance Institution (DFI) providing ₹ 20,000 Cr to boost infrastructure projects. The Modi government has not lost sight of its USP of infra creation, which will help connect more areas and thus open them up for real estate development.

Customs duty on steel reduced to 7.5% will create some space for real estate developers who may not be in a position to increase prices immediately. The announcement to set up 7 mega textile parks with plug-and-play facility in 3 years will unlock the potential of new markets for development and provide an impetus to real estate assets, including logistics and warehousing.”