Budget Expectations: FY21

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The general sentiment surrounding the Union Budget 2020-21 is that the government would announce a series of measures that would help kick start the revival of the domestic economy. Growth has slumped to an 11 year low in the current financial year and is projected to be 5% by the RBI (5.2% is our forecast).

We believe that the Budget would primarily be directed towards raising investment and consumption levels which involves substantial employment generation. This could largely be through the infrastructure development route entailing higher capex. Higher allocations towards capital (infrastructure) spending and the resultant employment opportunities generated would in turn lead to higher consumption. There could be some limited measures announced on the personal tax front to provide some support for consumption too.

However, given that the government has faced several challenges on the revenue side when trying to balance the budget in FY20, we believe there is scope for deciding on a modicum of flexibility in the fiscal policy. Additionally, some sector specific measures and reforms that have been coming in the way of output or weighing down the sectors too could find mention in the Budget. But this may be limited as the government has already been proactively announcing several such measures in the last few months.

Summarized here are the expected key focus areas of the Union Budget 2020-21 which we believe could form the content of the discourse.

1. Expansionary fiscal policy

In order to stimulate economic growth, the government could incur higher expenditure in 2020-21 given that domestic economic growth in recent times has been largely led by government/public spending amid subdued private consumption and investment. This would require the government to reconsider the fiscal consolidation roadmap of bringing down the fiscal deficit to 3% of GDP by 2020-21. The intended fiscal consolidation plan would have to be pushed forward to later years when domestic economic growth picks up. With revenue collections being lower than expected due to weakness in economic growth, the central government is most likely to breach the gross fiscal deficit target of 3.3% of GDP for 2019-20 by 0.6 - 0.8% which would essentially take the revised fiscal deficit to 3.9-4.1% of GDP for the year.

If the government is to adopt a flexible fiscal policy for 2020-21 and increase the fiscal deficit by 0.5%, then assuming a nominal GDP growth of 10% for the year (FY21 projection to be around Rs 225 lakh cr) the quantum of incremental fiscal deficit would be higher by around Rs 1.10 lakh crore which can be directed towards capex. In case the fiscal deficit is increased by 1% above the currently stated target, the quantum of increase in fiscal deficit would be Rs. 2.2 lakh crores. This would be an interesting call to be taken by the government.

The higher fiscal deficit would also involve higher gross market borrowings and can range between Rs 7-7.25 lakh cr in case of conventional fiscal deficit on the path of FRBM to Rs 7.5-7.75 lakh crore in case an additional 0.5% is opted for. The balance would come from NSSF and cash draw down.

2. Higher allocations towards capital expenditure

Based on the trend growth rate, the total expenditure of the government could increase from Rs. 27.8 lakh crs in 2019-20 (B) to around Rs.30.5 lakh crs in 2020-21 (B). Consequently, the capital expenditure which on an average accounts for 13% of total expenditure would see an increase from Rs.3.38 lakh crores to around Rs. 4 lakh crs. If the fiscal deficit target is relaxed (by 0.5 – 1%) and assuming that the additional fiscal deficit is entirely used for infrastructure development, the capital expenditure would be in the range of Rs. 5.1-6.2 lakh crores. This will be a substantial sum of money to provide a stimulus on the fiscal side. It must be kept in mind that of the Rs 3.36 lakh crore of capex projected for FY20 (B), a little more than 30% is for defence a part could be import-based.

The increased capital expenditure would be towards infrastructure projects viz. those that have been detailed in the National Infrastructure Pipeline (NIP). Nearly 40 % of the capex would be towards the rail and road transport sector. Housing and urban development is the other important component with share of around 6%.

3. Higher allocations towards welfare schemes

In the last 4 years, the allocation of by the central government towards various welfare schemes (pertaining to women and children, senior citizens, SC, ST, minorities, health, education and employment) has seen a steady increase. Based on the trend growth rate we expect allocations for the welfare programs in 2020-21 to increase by around 10% (to Rs. 2.4 lakhs crores). Of the various centrally sponsored schemes Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGP) accounts for the highest share (~18 %). Although the allocation towards MGNREGP declined marginally in the 2019-20 budget we believe that there would be around 10% increase in allocation made towards this scheme in the upcoming Budget as it is linked directly with rural employment.

4. Increase in deductions of income tax with no change in slab rates

Although we do not foresee a cut in income tax rates, we expect revisions in the tax deductions that could benefit tax payers belonging to different income groups and could increase their disposable income and thereby consumption.

- Increase in standard deduction from the current Rs. 50,000 to Rs 75,000 per annum. In the 2019-20 Budget, the limit was raised by Rs.10,000.
- Deduction for investments under sections 80C could be increase from Rs 1.5 lakhs to Rs 2 lakhs.
- Deduction for contribution to National Pension Scheme could be increased from Rs.50,000 to Rs 1 lakh.
- Deduction of interest paid on housing loan could be increased from Rs.2 lakhs to Rs. 2.5 lakhs. There could also been an increase in the additional interest deduction for first time home buyers who have borrowed during 1 April 2019 to 31 March 2020 from the current Rs. 1.5 lakhs to Rs. 2 lakhs. This would provide a boost to the real estate sector.

5. Measures to boost savings, investments and development of financial markets

- The dividend distribution tax (DDT) may be abolished to do away with multiplicity of taxes for companies. However, this would be taxable at the hands of the receiver of the benefit which would be taxable at the existing slabs for the concerned individuals. Removal of tax on dividend income which currently is 10% for dividend income above Rs.10 lakhs as this would no longer be applicable.

- The Long Term Capital Gains Tax (LTCG) of 10% for gains over Rs. 1 lakh which was introduced in 2018-19 may be removed. The holding period for availing LTCG may be raised from 1 year to 2 years. This would by and large be a positive for long term investors.
- Remove or cut commodity transaction tax (currently Rs.1000 per Rs.1 crore of trade) on non–agri and agri processed commodity derivatives to encourage hedging of commodities and to lower cost of transaction in commodity derivatives.

6. Disinvestments to garner revenues

The disinvestment target for 2020-21 is likely to be Rs. 1 lakh crores, Rs.0.1 lakh crores lower than that the budgeted target for 2019-20 with the timelines for the disinvestment to be specified.

The government is likely to bring down their stake in certain public sector undertaking to below 51%. In the absence of the BPCL disinvestment not going through in FY20, it would be the major sale in FY21 along with Air India.

Additionally, they may announce policies/measures for the monetization of assets of public sector entities. Such a measure would mean creating a framework for asset monetization which involves the structures to be followed like auctioning or any other kind of bidding process.

7. Incentives for start-ups

Do away with 'Angel Tax' for start-ups. In the 2019-20 Budget start-up was exempted from Angel Tax if the start-ups complied with certain conditions and the exemption were to be revoked with retrospective effect if the conditions are breached. The conditions for tax exemptions included (1) obtaining a certificate of recognition from the Department for Promotion of Industry and Internal Trade (DPIIT) , (2) the aggregate amount of post issue (including proposed issue) paid-up share capital and premium should not exceed ₹25 crore, (3) start-ups do not invest in certain specified assets for specific duration. The conditions and restrictions for availing the exemptions are seen as being restrictive and could be revisited.

8. Announce schemes and measures for the power sector

Government could announce a scheme akin to UDAY (2015) to address the financial constraints of DISCOMS. Captive renewable energy policy could be announced with exemption from cross subsidy and transmission charges for clean energy plants beyond factory boundaries. These reforms would be more on ensuring that the DISCOMs bring about the required changes in operation to get any further support from the government.

9. Railways – Privatization

Privatization of railway stations and running of trains on certain routes could be announced. The sector could also be opened to foreign investors. Additionally, investors can be allowed to run commercial and real estate business and railways could monetize its assets. While the scale may not be large, it would provide a firm roadmap for the future.

10. Bank recapitalization

The government is likely to undertake additional capital infusion into public sector banks (PSBs) to enable these banks to adhere to their capital adequacy norms (capital adequacy ratio of 11.5% from Mar'2020 as per BASEL III regulations) and facilitate lending.

Assuming the growth in bank credit during FY20-25 to be in the range of 13-14% per annum, the total outstanding bank credit as of 2024-25 would be around Rs. 200 lakh crores. Although the share of PSBs in bank credit has been declining (from 71% in Mar'16 to 57% in Sep'19), we expect PSBs to account for around 60% of incremental bank credit during this period. Total additional capital required over the next five years would be around Rs 7 lakhs crore.

This additional capital will have to be sourced from retained profits of the bank (including recovery), mobilization of capital from the markets and infusion of funds via the government. The Budget may consider this requirement over the next five years.

11. Increase in non-tax revenues - from telecom and RBI

In the Budget, the other communications services segment falls under non-tax revenue receipts and mainly relates to the license fees from telecom operators and receipts on account of spectrum usage charges (SUC). The revenue from this segment increased by 22.4% to Rs.39,245 crore as per the revised estimates of 2018-19 and is estimated to rise by 28.7% to Rs.50,250 crore according to budget estimates of 2019-20.

On 24 October 2019, the Supreme Court revised the definition of Adjusted Gross Revenue (AGR) for telecom industry. With the change in definition, the telcos have to pay around Rs.1.47 lakh crore dues to the government that includes pending license fee payments and SUC. This payment is to be made within 3 months period after the announcement of AGR definition. Considering this, the telcos made provisions of about Rs.54,000 crore for the pending dues and are seeking government's support to continue with their services. Even if these payments are made during FY20, the telcos will continue to owe around Rs.93,000 crore to the government which the telcos may pay in FY21. This is expected to provide a boost to the non-tax revenue receipts of the government during the year.

It is to be noted that the payment of Rs.93,000 crore may not necessarily be made in FY21 and may be made in tranches in the following years.

In the 5 years to 2017-18, the RBI on an average transferred around Rs.50,000 crores to the government as surplus payable. However, in 2018-19 the surplus transferred increased substantially to record highs of Rs 1.47 lakh crores in addition to the interim dividend of Rs.28,000 crores.

For 2020-21, the RBI is to follow a rule based pay-out as stipulated by the Bimal Jalan Committee. We can expect a surplus transfer up to Rs. 1 lakh crores (less the likely interim dividend to be announced in Feb-Mar'2020) from the RBI to the government in 2020-21.

Sector-specific measures that CARE Expects

Fertilizers

The fertilizer industry during the FY20 budget received Rs 0.80 lakh crore as subsidies where Rs 0.54 lakh crore was earmarked for urea and the remaining Rs 0.26 lakh crore was to be nutrient based (NBS). The overall fertilizer subsidy had been increased by 14.1% and allocations towards the urea and NBS were increased by 19.2% and 5.1% respectively.

We expect an increase in allocation towards nutrient based subsidy. The focus of the government is to improve the agricultural sphere of the nation and to boost the farmer's income. In order to achieve the aforementioned goal, the production of fertilizers will have to be increased as it would help in increasing the productivity of land and farm produce and will also aid the sector in implementing DBT 2.0.

Increase in allocation towards the nutrient based subsidy will encourage the production of decontrolled fertilizers and promote a more balanced usage.

The subsidy towards the fertilizer sector can be ~Rs 0.85 lakh crore: ~Rs 0.55 lakh crore towards the urea subsidy and ~Rs 0.30 lakh crore towards the nutrient based subsidy.

Oil and Gas

The government wants to transform India into a gas based economy and 47% of natural gas consumption is met through LNG imports. We expect LNG customs duty to be waived off completely from the current 2.5%, in order to benefit domestic regasification terminals.

The oil and gas industry, during the FY20 budget received Rs 0.37 lakh crore as subsidies where Rs 0.33 lakh crore was earmarked as the LPG subsidy and the remaining Rs 0.04 lakh crore was to be given as the kerosene subsidy. Over the years, kerosene consumption has decreased and penetration of LPG has gained traction. Kerosene consumption declined by 29.6% and 7.9% during FY18 and FY19 respectively because of reduced allocation to states and voluntary surrender of Public Distribution System quota by a few states. The government could further reduce kerosene subsidies.

The Government has achieved the target of disbursing 8 crore LPG connections to families under Pradhan Mantri Ujwala Yojana (PMUY) but the rate of refills has been less than the average. The subsidy earmarked towards kerosene could be diverted towards the LPG subsidy which can provide aid in the rate of refills.
The fuel subsidy can be ~Rs 0.35 lakh crore.

Automobiles

The industry expects some temporary relief in the form of GST rate cuts from the existing 28% to 18% for the automobiles to boost consumption amidst the slowdown in demand and price hikes led by BS VI implementation from April 2020. Also, to get outdated and polluting old vehicles (trucks and buses) off the road, we expect the government to rollout an incentive-based scrappage policy to be implemented soon. The policy will make it mandatory to dispose of vehicles older than a stipulated period of holding thereby generating demand for new commercial vehicles

The industry wants the Centre to incentivize even the private buyers of electric and hybrid cars and not just the ones that put up their vehicles for commercial use under the Faster Adoption and Manufacturing of Electric and Hybrid Vehicles (FAME) Scheme in order to improve sales and propel demand for EVs and hybrid vehicles. We do expect some announcements here. Additionally we expect the Budget to provide incentives for local manufacturing of EV batteries

Hospitality & Tourism

While the GST rates for hotel industry have been brought down in order to improve demand, the industry is now looking for faster GST repayments by the government. One of the major challenges for the tourism industry in India continues to be the availability of adequate infrastructure facilities such as air, ground and port infrastructure, and tourist service infrastructure and last-mile connectivity. The connectivity between tourism circuits needs to be taken up on priority in order to promote domestic as well foreign tourism in India without accessibility concerns. Clear cruise friendly policies will further encourage international cruise liners to make investments in India and thereby promote cruise holidays in the country/

The Budget may give export industry status to Tourism Industry as it one of the higher export earners with regards to foreign exchange. Hospitality industry has maintained a long standing demand from the government for Infrastructure & Industry status for projects with investments over Rs 50 crore. We expect the allocation to tourism ministry to be higher in the budget 2020-21 vis-à-vis last year.

Retail & E-Commerce

In terms of consumption improvement, the industry wants the government to address the low consumer spending. Streamlining GST for e-commerce vendors, bringing more parity among offline and online vendors is something which could find mention in the Budget. IT could also provide more clarity on guidelines pertaining to ecommerce policies.

The industry’s demand for ‘National Retail Trade Policy’ to promote ease of doing business in the country may be taken up this time.

Sugar

The government will maintain allocations towards schemes for development of sugar industry as the problem of sugarcane arrears continue to remain unresolved. With the government aiming to increase diversion of sugarcane towards ethanol, there may be higher loan allocation to sugar mills for production of ethanol.

Drugs & Pharmaceuticals

Indian pharmaceutical players have faced severe headwinds on account of increase in raw material prices (especially key starting materials and intermediates) denting not only the profitability margins but also has raised concerns over continued domestic availability of essential drugs at an appropriate price. Considering this, it is expected that the government may take initiatives to set up SEZs exclusively dedicated for manufacturing the key starting materials and intermediates and also provide various sops for setting up the same.

The pharma players aim to focus on development of specialty medicines or complex generics in addition to generics for their portfolio expansion and thus investment in research & development (R&D) is very crucial for the industry. Therefore, any major announcement on tax incentives or sops with respect to R&D will augur well for the pharma industry.

Healthcare

To meet the objective of accessibility and affordability of health care to all, the government is expected to concentrate on development of healthcare infrastructure most probably through public private partnership (PPP). The government will continue to make significant allocation of funds towards its flagship program Ayushman Bharat Scheme that was officially implemented in September 2018.

The Budget may see some favourable changes in taxes for manufacturing of medical equipment to encourage domestic production under Make in India campaign.

Telecom

The telecom industry looks forward for a cut in Spectrum Usage Charges (SUC) rate and license fee and refund of input tax credits.

The government aims to connect, propel and secure India with the help of digitization. Therefore, the government will continue to allocate funds towards the development of telecom infrastructure in rural and remote areas which is expected to result in significant allotment of funds for Universal Service Obligation Fund (USOF).

Textiles

The government is expected to come up with Textiles Policy 2020 with a vision to develop a competitive textile sector which is modern, sustainable and inclusive with special focus on manufacture of apparel and garment, technical textiles, man-made fibre products and exports while maintaining pre-eminent position in handicrafts and handlooms sectors. The budget allocation for the sector will thus revolve around the focus points of the new policy.

Paper

It is expected that the government will increase in customs duty on coated paper, paper boards and handmade papers from the current level. The Budget will also keep paper and paper products in negative list while reviewing the existing and formulating new FTAs and agreements. Import safeguards and/or stringent environmental norms for the import of waste paper is expected by industry as also a uniform GST rates on all paper grades

BFSI

Some of our expectations include:

- Allocate additional funds to the three general insurance companies for meeting their regulatory limits and enable a smoother merger and continued operations
- Undertake steps towards reducing procedural hassles in securitizing personal and enterprise loans, mortgages and corporate loans based on recommendations of committees set up to study the same
- Undertake measures for infusing liquidity – institutional and/or transactional, for NBFCs/HFCs
- Additional steps to encourage borrowing for constructing or purchasing homes for the middle and lower income groups
- Reduce procedures and policies to popularize investment vehicles such as InvITs, REITs, etc.
- Strengthen IBC/ NCLT for faster debt resolution
- Raise the current foreign direct investment (FDI) cap of 49% in insurance
- Increase the current limit of Rs 25000 for the health insurance premium

Gems and jewellery

Three expectations here are the following. Reduction in customs duty on various gems and jewellery products including gold, from 12.5%, to curb illegal activities like smuggling of the precious metal, increase affordability of gold jewellery in the domestic market and enhance cost competitiveness of Indian gold jewellery manufacturers in the export market. Second, exemption from payment of IGST on re-import of goods exported during overseas exhibitions/ consignments/ export promotion tours, which shall help promote ease of doing business, increase participation of Indian CPD processors in international market fairs and ease liquidity pressure of CPD processors.

Third, setting up Special Notified Zones for import and trading of rough diamonds which shall allow diamond mining companies to sell their rough diamonds directly in India. The mining companies will be taxed to the extent of invoices raised to Indian companies eliminating middle men involved in trade. This will help India to become a rough diamond trading hub; and especially help small diamond polishing units in India.

Media and Entertainment

India is an under penetrated market with just about 8 screens per million people compared to 20 screens per million people in China. The requirements for obtaining a cinema license need to be updated. Provide single window clearance mechanism for setting up screens, along with tax holiday for setting up new multiplexes or for conversion of single screen to multiplexes. Other demands include:

- Reduction of license fee of radio for operating in smaller cities.
- Granting infrastructure status which will aid it in availing better financing options, given the high investments required for digitization, technology upgradation and setting up of multiplex theatres.
- Include media and entertainment industry in the definition of "industrial undertaking" under sec72A of the Income Tax act, which allows carry forward and set off of losses. The digitization process and the deployment of set top boxes require significant capital. Thus, they should be allowed to set off accumulated losses and unabsorbed depreciation allowances to be carried forward.
- Appropriate measures to combat piracy, which is one of the biggest causes of depleting revenues of film exhibition players.

IT & ITeS

We do expect the introduction of weighted deduction / tax incentives on skill development activities and R&D activities carried out by companies engaged in the IT services industry. There would be more focus on offering additional benefits for encouraging digital payments.

Units set up in Special Economic Zones (SEZ) and commencing operations on or before March 31, 2020 are only eligible for direct tax incentives. Expectation is providing tax incentives to unit's setup in special economic zones beyond March 2020. There is also demand for reduction in Minimum Alternative Tax (MAT) for SEZ from current rate of 18.5%. Last, long term capital gains arising from the sale of shares of unlisted companies should be exempt from tax to encourage investment in start-ups.

Education

With government's increasing focus on improving the education system of the country, the industry expects an increase in fund allocations towards higher education research fund and for completing the work of established higher educational institutions such as IITs and central universities. In FY2019-20, budget allocations were around Rs.94,000 crore and this is expected to increase by about 5% in this budget. Scholarships for students in higher education who are from an economically or social weaker section of the society is also a measure that will help.

Aluminium

Import duty on CP Coke and caustic soda lye, two of the major raw material used to make primary aluminium should be reduced. Aluminium industry has to import caustic soda due to constraint of availability in the domestic market. Together these two raw materials account for around 30% of the cost of producing aluminium. Currently, the import duty on CP Coke and caustic soda is around 10% and 7.5%, respectively.

Government should boost domestic scrap industry. The demand for scrap metal has outpaced demand for primary metal in the past few years because it is more economical to make downstream aluminium products from recycled scrap then from primary metal. However, this increased demand is being met through imports. Import of scrap aluminium has grown from 470 mt in FY11 to 1,348 mt in FY19. The government should focus on developing the domestic scrap recycling industry which will help in curbing imports. The much-awaited voluntary vehicle scrappage policy needs to be implemented. Scrap recycling also helps in saving energy and is environment friendly. Currently, import duty on aluminium scrap is 2.5%. Import duty on primary aluminium is 7.5%.

Steel

Import duty on coking coal which is presently 2.5% should be removed as it is a key raw material in steel manufacturing and the industry depends on imports due to lack of domestic availability. The production cost of making steel in India is the highest because of various taxes and royalties. Royalty on coal and iron ore is close to 20%. Freight and electricity cost in India are also higher compared to China. These should be brought down to make Indian steel more competitive in the global market.

The government is expected to increase budget allocation for infrastructure developments and affordable housing projects in the country. This will boost demand for steel. Government is also expected to privatize railway operations. The railway station modernization plan will also boost steel consumption.

Copper

The government should address the problem of inverted duty structure facing copper industry in India. The government levies import duty of 2.5% on copper concentrate (a key raw material) while finished goods are imported at zero duty under various FTAs. Import duty on refined copper is 5% but most copper concentrates are imported at zero duty from countries with which India has FTAs. The primary refined copper producers have no option but to import copper concentrates as the same is not indigenously available. 95% of all copper concentrates are imported. While this benefits the downstream copper producers as they can directly import finished goods at nil duty it is detrimental for the upstream copper companies.

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