

Impact note on import duty hike

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6754 3489

Saurabh Bhalerao
Associate Director- Industry Research
Saurabh.bhalerao@careratings.com
91-022- 6754 3519

Darshini Kansara
Deputy Manager-Industry Research
darshini.kansara@careratings.com
91-022- 6754 3679

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-22-6754 3492

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

Overview

The Central Government has taken tariff measures by way of increase in the basic customs duty to curb import of certain non-essential imported items such as consumer durable products – air-conditioners, washing machines (less than 10kg), refrigerators, footwear, jewellery, etc along with an import duty of 5% on the aviation turbine fuel (ATF) as the government seeks to control the current account deficit (CAD) and stabilise the rupee. Basic customs duties have been raised on 19 products that accounted for an import bill of approximately Rs 86,000 crore in FY18 by 2.5-10% points.

The move comes into effect from Thursday (September 27, 2018), a Finance Ministry release said. The prices of all these goods are expected to rise, dampening demand, lowering imports and helping domestic manufacturers, the report further said.

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Table 1: Items on which the basic custom duty has been raised

| Sr. No. | Item | Basic customs duty (%) | |
|---------|--|------------------------|-----|
| | | From | To |
| 1 | Air conditioners | 10 | 20 |
| 2 | Household Refrigerators | 10 | 20 |
| 3 | Washing machines less than 10 Kg | 10 | 20 |
| 4 | Compressor for air conditioners and refrigerators | 7.5 | 10 |
| 5 | Speakers | 10 | 15 |
| 6 | Footwear | 20 | 25 |
| 7 | Radial Car tyres | 10 | 15 |
| 8 | Non industrial diamond (other than rough diamonds), i.e., cut and polished diamond | 5 | 7.5 |
| 9 | Diamonds-semi processed, half cut or broken | 5 | 7.5 |
| 10 | Lab grown diamonds | 5 | 7.5 |
| 11 | Cut and polished Coloured gemstone | 5 | 7.5 |
| 12 | Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal | 15 | 20 |
| 13 | Articles of Goldsmith or silversmith wares and parts thereof of precious metal or of metal clad with precious metal | 15 | 20 |
| 14 | Bath, shower bath, sink, wash basin, etc. of plastics | 10 | 15 |
| 15 | Articles of plastics for conveyance and packing such as boxes, case, containers, bottles, insulated ware etc. | 10 | 15 |
| 16 | Tableware, kitchenware and other household items of plastics | 10 | 15 |
| 17 | Miscellaneous items of plastics such as office stationery, fitting for furniture's, decorative Sheets, statuettes, beads, bangles etc. | 10 | 15 |
| 18 | Trunks, Suitcase, Executive cases, Brief Cases, travel bags and other bags etc. | 10 | 15 |
| 19 | Aviation turbine fuel (ATF) | 0 | 5 |

Source: PIB

- Consumer durables**

Imports of consumer durables (Air-conditioners - ACs, washing machines, refrigerators and compressors for ACs and Refrigerators) witnessed a CAGR growth of about 14–20% between FY14 and FY18. The maximum growth of about 20% was witnessed in the air-conditioner segment followed by refrigerators that grew by 18.8% and washing machines grew by 14.1%. The compressors used in ACs and refrigerators registered a growth of over 18% during the period.

In FY19 (Apr-Jul), imports of consumer durables (Air-conditioners - ACs, washing machines, refrigerators and compressors for ACs and Refrigerators) witnessed an increase of over 23% y-o-y on back of volume growth along with rupee depreciation. The government has doubled the custom duties on refrigerators, washing machines up to 10 kg capacity and ACs to 20%, while that of compressors for ACs and refrigerators is increased from 7.5% to 10%.

Chart 1: Imports of Air-conditioners (000 Nos)

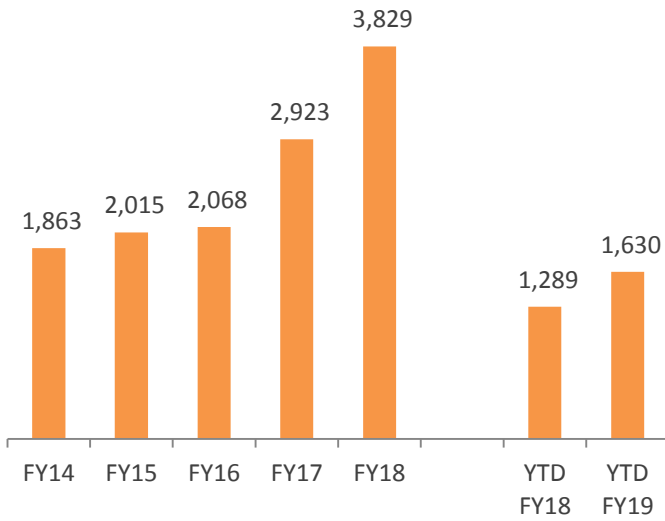


Chart 2: Imports of Washing Machines (000 Nos)

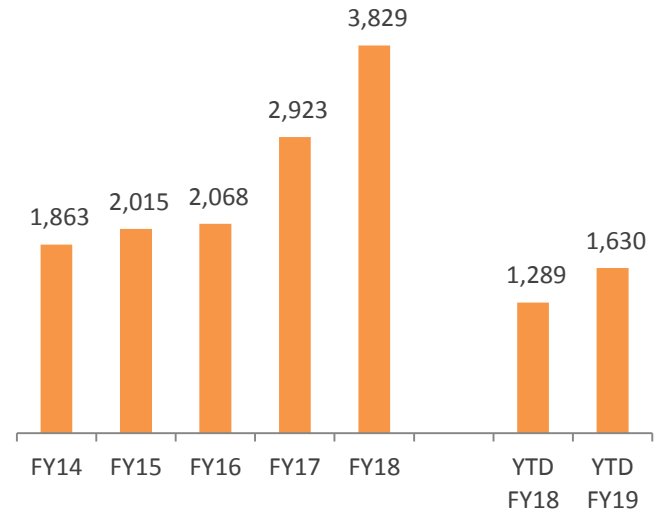


Chart 3: Imports of Refrigerators (000 Nos)

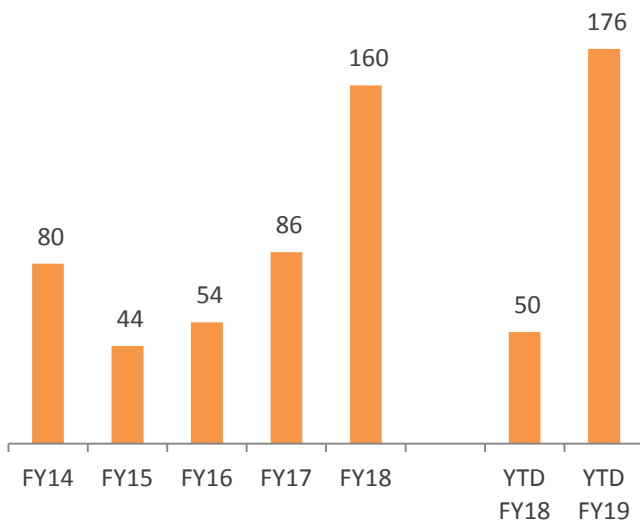
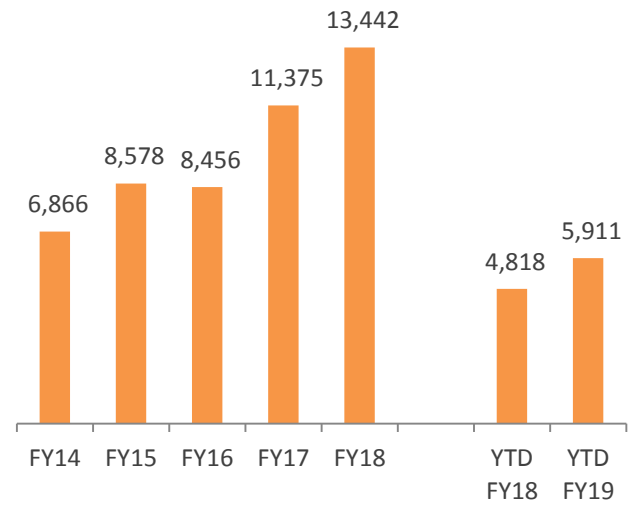


Chart 4: Imports of Compressors used in ACs and Refrigerators (000 Nos)



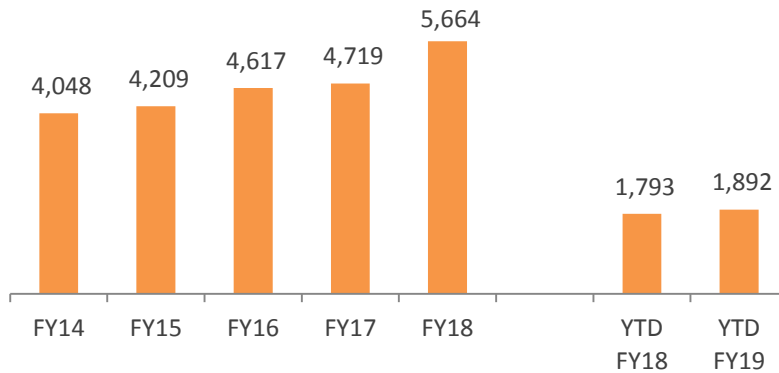
Note: YTD figures are for the Apr - Jul period
Source: CMIE, Department of Commerce

While the rate hike was important in order to narrow down the current account deficit and bring the domestic manufacturing industry at par with the international markets post GST, **the timing of the hike will have a major impact on the durables industry with the festive season just around the corner.** Also, the companies may not be able to pass on the price rise on account of muted demand in the domestic market post the price drop on washing machines and refrigerators during Jun-Aug 2018 due to GST led rate corrections. The final impact in terms of physical import of these goods as well as impact on price inflation is fuzzy.

- Radial car tyres**

The local manufacturers were worried about dumping of cheap Chinese radial tyres in the domestic market and had urged the government for protection against rising imports that was affecting the local players demand and margins. Imports of radial tyres registered a CAGR growth of about 9% between FY14 and FY18 with the sharpest growth of 20% y-o-y seen during FY18. During FY19 (Apr-Jul), imports continued to witness a growth of 5.5% on a y-o-y basis.

Chart 5: Imports of radical car tyres (000 Nos)



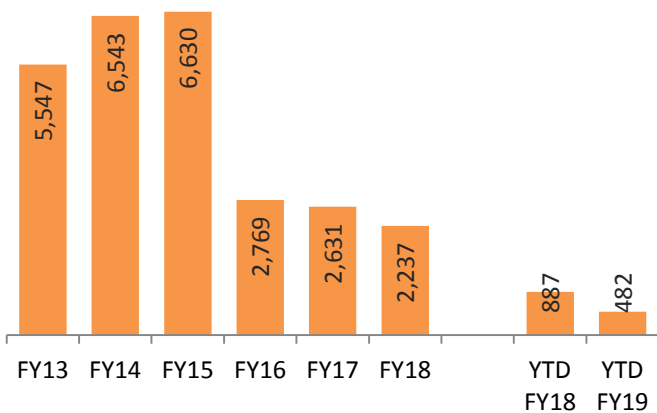
Note: YTD figures are for the Apr - Jul period
Source: Department of Commerce

The move is expected to marginally bring down import of radial tyres as domestic producers would be able to substitute such supplies. To the extent that imported tyres would be taxed at a higher rate, there will be an increase in prices. Imported tyres (radial and non-radial) are around 13-15% of total tyres used in the country.

- Gems and Jewellery**

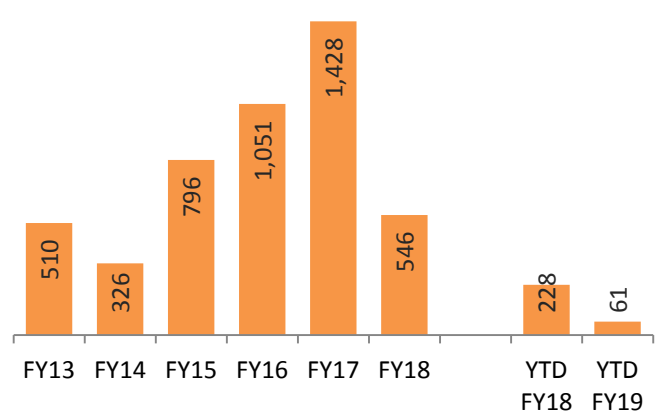
In the gems and jewellery sector, as a part of the CAD reduction measures, the government has not imposed any additional duty on gold. The charts below provide an overview of the import trend of the above mentioned items.

Chart 6: Import of cut and polished diamonds (in \$ mn)



Note: YTD figures are for the Apr - Jul period
Source: GJEPC, CMIE

Chart 7: Import of coloured gemstones (in \$ mn)



Note: YTD figures are for the Apr - Jul period
Source: GJEPC, CMIE

Table 2: Import of jewellery and precious metal wares (in \$ mn)

| Year | Jewellery | Goldsmith or silversmith wares |
|----------|-----------|--------------------------------|
| FY13 | 5,126 | 7 |
| FY14 | 945 | 5 |
| FY15 | 561 | 3 |
| FY16 | 699 | 2 |
| FY17 | 333 | 40 |
| FY18 | 1,797 | 1,351 |
| YTD FY18 | 265 | 293 |
| YTD FY19 | 208 | 4 |

Note: YTD figures are for the Apr - Jul period

Source: Ministry of Commerce

As can be seen above, the imports of cut and polished diamonds and gemstones although high in earlier years, has been generally on a downtrend. Further, synthetic diamonds constitute a small portion of the industry. *Consequently, there would not be a material impact on the diamond portion of the industry.* However, it should be noted that exporters of jewellery who were importing cut and polished diamonds may witness cost escalation which they would not be able to pass fully on their customers thereby impacting margins. Further, this tariff hike would not impact those importers who are sourcing from countries, which have an FTA with India.

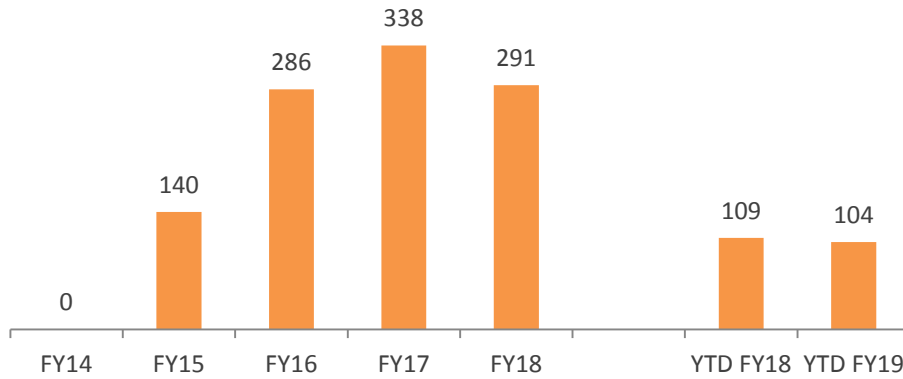
Import of jewellery and finished products had increased significantly in FY18, but the momentum has not kept pace in FY19 till date. Further, with a clear demarcation of duty imposition on finished jewellery products, it is apparent that the government is promoting value added domestic manufacturing. A few unique imported jewellery and related items may witness a marginal price increase but demand reduction is not anticipated as this small segment is not price-sensitive.

- Oil & Gas - Aviation Turbine Fuel (ATF)**

India imports 4-5% of its ATF requirements. Prior to FY15 ATF imports were nil. Imports of ATF have increased at a CAGR of 27.6% in the past 4 years i.e. during FY15-18.

In the current fiscal year, FY19 (April-August) even though there has been a 4.6% decline in quantity of imports, value wise there has been a 26.7% rise. India has imported ATF valued at USD 76 million during FY19 (April-August) as compared with imports being valued at USD 60 million during the corresponding period in the previous financial year. ATF constitutes only 0.13% of the total oil and oil product bill in the current financial year.

Chart 8: Trend in ATF imports (in 000 tonnes)



Note: YTD figures are for the Apr - Aug period
Source: PPAC

The imposition of duty on imported ATF is likely to lower the quantity imported as users would switch to domestic produced fuel. This may not have an impact on inflation (Has a weight of 0.32% in WPI).

Concluding remarks

1. The step taken by the government is positive in scope. However, the overall impact on demand for imports may be minimal and restricted to specific products.
2. To the extent that imports come in at a slower pace, the price effect would be there and inflation on account of imported prices will increase. But this we believe will not be significant. Imports included under this tax net are valued at Rs 860 bn or \$ 11.8 bn which is 2.5% of total imports of \$ 460 bn last year.

CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)
 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)