Expectations from the Union Budget for 2021-22

January 22, 2021 I Economics

The 2021-22 Union Budget is being eagerly awaited as it is expected to set into motion plans for lifting the economy from the pandemic induced slump. The theme of the budget would necessarily have to be 'sustainable revival of the economy and employment creation, through targeted tax incentives and higher spending on infrastructure while maintaining an eye on fiscal consolidation'.

We have elaborated here on our expectations for (1) the broad macro- economy and (2) the likely announcements for specific sectors.

1. Budget expectations for the broad macro-economy

Higher than trend increase in the size of the budget

The budget would be expansionary with the higher than trend expenditure allocations for infrastructure and welfare measures. There would also be an additional head of expenditure in this budget – the vaccination programme.

The total expenditure of the government for 2021-22 is expected to increase to Rs.32-33 lakh crores from Rs.30.4 lakh crores in 2020-21 (budget estimate). Both revenue and capital expenditure is slated to see an increase, with the growth in expenditure in the latter being higher.

Revenue expenditure which accounts for around 85% of the total expenditure is expected to increase to Rs.27-28 lakh crores which would be a 6% increase from the budgeted increase of the preceding year. Although, various expenditure rationalization measures would be adopted, the government would nevertheless be required to augment the prevailing welfare allocations given the underlying weakness in the domestic economy. Further, given that vaccination and domestic economic revival are linked, the government would have to be at the forefront of the vaccination programme We expect the government to incur expenditure to the tune of Rs.12,000 crores towards the vaccination programme.

Capital expenditure for 2021-22 is expected to be around Rs 5 lakh crores, compared with Rs 4.1 lkh crore targeted last year with an addition of Rs 25,000 cr being announced during the year under the Atmanirbhar schemes. Capital expenditure would be targeted on the creation/ development of key infrastructure viz. road, power, ports, railways and agriculture and allied activities, all of which are expected to see higher allocations in the budget. The multiplier effect of infrastructure spending is being banked upon to facilitate sustainable economic recovery and growth. Outlay towards defence, which accounts for nearly 30% of capital expenditure, too is expected to see an increase.

Moderate increase in receipts

The avenues for fresh revenues for the government are limited. Receipts in 2021-22 would however see a year-on – year increase mainly due to the non- materialization of the budgeted receipts in 2020-21.

Given the dramatic fall in the country's economy and projected gradual recovery, the tax revenues are expected to see only a moderate increase in 2021-22 from that in 2020-21 (Rs.16.4 lakh crores). The government is likely to raise import duties on various manufacturing, electrical and electronics items to further the government's vision of making the nation self -reliant and promote local manufacturing.

Similarly, in the case of non-tax revenues too, the increments would be limited. The receipts from dividends (from the RBI, nationalised banks and PSU's which together account for 40% of non-tax revenue) are expected to be lower than that in 2020-21 even after factoring in the expected shortfalls in the budgeted receipts (of Rs.1.6 lakh crores) mainly on account of the RBI directive against transfer of dividends pertaining to 2019-20 by banks and expected lower dividends from the RBI.

In case of the RBI dividend transfer, owing to the aligning of its accounting year with the fiscal year (from June-July to April-March), its 2020-21 financial year would be made up of only nine months. Hence the way the surplus is declared by the RBI as also an interim transfer would determine the amount that would be available from this source. Lower levels of activity in 2020-21 would also impact profits and thereby the dividend payments of PSUs. At the same time, it is expected that revenues from spectrum auction (estimated to be Rs. 1.3 lakh crores) could add to the non-tax revenues in 2021-22.

Disinvestments of 2020-21 are likely to be pushed forward to 2021-22 and we expect the receipts on this account to be retained at Rs.2.1 lakh crores.

Flexible fiscal deficit

The higher expenditure needed to stimulate economic revival would require the government to be flexible on the fiscal deficit target of 3.3% of GDP in 2021-22. We expect the fiscal deficit to be budgeted at 5 to 5.5% for the year which would be an improvement from the estimated fiscal deficit of 7.8% to 8.4% in 2020-21. There can be a downward bias for the latter depending on the expenditure cuts that could be reckoned in the last two months of the year.

The pre-pandemic target of containing the fiscal deficit at 3.1% of GDP by 2022-23 would necessarily have to be revisited given that prolonged higher government spending would be required for sustainable economy recovery. At the same time, a feasible roadmap for reigning in the in the deficit would have to be clearly outlined.

Market borrowings are being relied upon to finance the fiscal deficit. For 2020-21, the gross market borrowings was budgeted at Rs 7.8 lakh crores but the government revised it to Rs 13.1 lakh crores on account of the pandemic led disruptions that severely constrained government revenues and necessitated higher commitments from the central government (including the additional transfer of Rs 1.1 lakh crs to the states as part of the shortfall in GST compensation).

Pursuant to our expectations of fiscal deficit at 5-5.5% of GDP, nominal GDP growth of 15% and repayment of market borrowings of around Rs 3.1 lakh crores in 2021-22, we expect the gross market borrowings at around Rs 10.1 – 11.3 lakh crs for FY22(BE). The GSec yields could be pressured to some extent owing to the elevated level of borrowings but the RBI in recent times have managed to keep the yields range-bound and is likely to continue to do so.

Budget Expectations for specific heads of expenditure

Subsidies

The share of subsidies in total expenditure has seen a steady decline from 15% in 2015-16 to around 9% in 2020-21. Allocations towards subsidies were Rs.2.6 lakh crores in 2020-21, marginally lower than the preceding year. We expect the governments subsidy bill for 2021-22 to increase by around 4 to 5% to Rs.2.7 lakh crores, driven by an increase in food subsidy. The allocation towards petroleum subsidy could see a moderation while that of fertilizers could be stable at year ago levels. Food, fertilizer, and petroleum subsidy account for almost 85-90% of the total subsidies.

Spending on food subsidy in the first seven months of 2020-21 exceeded the budgeted allocation for the year with the government considering the pandemic providing free food grains to families of ration card holders and migrant workers (under the Pradhan Mantri Garib Kalyan Yojana). An additional outlay of Rs 82,911 crs is estimated for 2020-21 with some of it spilling over into the next fiscal year.

Given the weakness in the domestic economy and the high levels of unemployment, the government would be required to increase allocations towards food subsidy. Food subsidy for 2021-22 has been pegged at around 1.3 lakh crores, an estimated growth of 10%.

Petroleum subsidy till November 2020 has been half of the budget estimate for 2020-21 primarily owing to benign global crude oil prices. With crude oil prices likely to remain at around $55-60/barrel in the coming financial year, petroleum subsidy is likely to be around Rs 35,000 crs for 2021-22, 14% lower than the budgeted amount of 2020-21.

Breakup of total subsidies allocation by the government

	FY16	FY17	FY18	FY19	FY20(RE)	FY21(BE)
Fertilizer	72,415	66,313	66,468	70,605	79,998	71,309
% growth		-8.4	0.2	6.2	13.3	-10.9
Food	1,39,419	1,10,173	1,00,282	1,01,327	1,08,688	1,15,570
% growth		-21.0	-9.0	1.0	7.3	6.3
Petroleum	29,999	27,539	24,460	24,837	38,569	40,915
% growth		-8.2	-11.2	1.5	55.3	6.1
Interest	16,730	17,888	22,146	20,008	25,946	28,179
Other subsidies	5,542	12,896	11,099	6,176	10,356	6,136
Total subsidies	2,64,105	2,34,771	2,24,435	2,22,962	2,63,633	2,62,110
Subsidies % of total expenditure	14.7	11.9	10.5	9.6	9.8	8.6

Source: Union Budget Documents

Spending under MGNREGA and cash transfers to farmers

Allocations under the Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) have been imperative in providing employment in the rural areas. During the last 4 years (FY16-FY20), the allocations have seen a double-digit growth in each year. However, during the previous Budget, the allocation was budgeted to be lower by 13% at Rs 61,500 crs. In order to mitigate the adverse impact of the pandemic on the livelihoods of the people, the government hiked the wage rates under MGNREGA in March 2020 and announced additional allocation of Rs 40,000 crs in May 2020, taking the total allocation to more than Rs 1 lakh crs for 202-21. The government measures towards MGNREGA are expected to continue and we expect allocations towards this scheme to be over Rs. 1 lakh crores in 2021-22.

In February 2019, the Government had launched the PM-Kisan Samman Nidhi (income support to farmers) of Rs 6,000/- per year per farmer family to be paid in three equal instalments of Rs 2,000/- each. In December 2020, the government released the third instalment of the cash transfer scheme aggregating Rs 18,000 crs to around 8-9 crore farmer families (which is lower than the initially proposed 14 crore families). Considering the recent farmer protest against the new farm bill, we can expect a hike in the yearly income support provided to the farmers.

Allocations under MGNREGA and income support scheme for the farmers

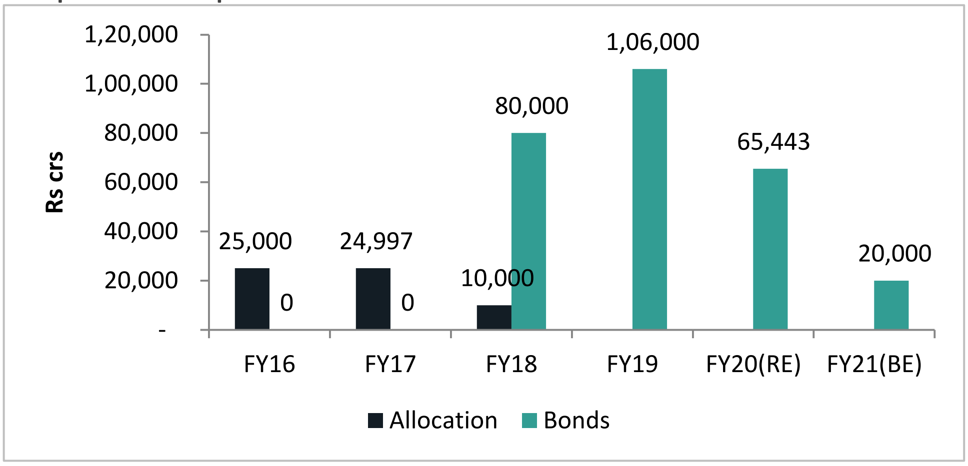
	FY16	FY17	FY18	FY19	FY20(RE)	FY21(BE)
Spending under MGNREGA (Rs crs)	37,341	48,125	55,166	61,815	71,002	1,01,500
% growth		29.1	14.1	12.1	14.9	43.0
PM-Kisan Samman Nidhi (Cash transfers)						
(Rs crs)				1,241	54,370	75,000

Source: Union Budget Documents

Capitalization of public sector banks

The government has been allocating funds for the recapitalization of public sector banks during each of the 5 financial years of 2015-16 to 2019-20. Although no allocation were made towards recapitalization in the 2020-21 budget, in September 2020, the Parliament approved bank recapitalization via recapitalization bonds of Rs.20,000 crores . Since 2017-18, the recapitalization of banks has been through the issue of recapitalization bonds which does not entail an immediate outgo of funds from the government and as such does not add to its expenditure and fiscal deficit.

Recapitalization of public sector banks



The Financial Stability Report released by the RBI (January'21) points towards a sharp increase in the non-performing assets in the banking system (from 7.5% in September 2020 to 13.5% in September 2021 under the baseline scenario). In case of the public sector banks the asset quality is likely to deteriorate to 16.5%. Capital adequacy is likely to slip from 15.6% in September 2020 to 14% in September 2021. Pursuant to the deterioration in asset quality and likely provisions having an impact on capital adequacy there would be pressure on their balance sheets. Given that bank credit growth would be higher in FY22 than in FY21, incremental credit would be around Rs 10-11 lkh crore for the system and with a share of 60-65%, PSBs can witness an increase in credit of Rs 6.5-7 lkh crore. The need of capital from the government either through recap bonds or direct allocation can be in the region of Rs 35,000-40,000 cr.

New Initiatives that can be announced as they are necessary keeping in mind future growth

1. Setting up of a development financial institution for infrastructure development with initial equity infusion from the government.
2. Setting up of a bad bank for taking over the stressed assets from the books of banks thereby freeing capital for them to undertake fresh lending. The funding undertaken by the bad banks to resolve the stressed assets should be linked to the credit ratings of the borrowing entities. This will help in providing a screening mechanism for picking up distressed assets by the bad bank.
3. Setting up a financial institution for taking over stalled projects. Here too the recommendation is that lending should be linked to the credit rating of the entities.
4. Re-introduction of the NSIC subsidy scheme on credit rating for SMEs. This year a lot has been done for the SMEs. The ensure that they remain credit worthy, the subsidy scheme for SMEs should be revived and provided for three years instead of the earlier scheme of single year.

2. Sector specific budget expectations

(i) Real Estate

The real estate market has witnessed certain structural changes and is still recovering from the triple shocks (Demonetisation, RERA and GST) witnessed in the last few years.

Given the situation bought about by the pandemic, there has been an overall fall in the fair market values of properties. On the other hand, the circle rates have not undergone any major revision and have remained at the pre-COVID levels. Such a situation is leading to tax being calculated on deemed income basis. During Atmanirbhar 3 announcements the Government of India had allowed for increasing the differential between agreement value and circle rate from 10% to 20% (under section 43CA) till June 30th, 2021. However, it is only applicable for the primary sale of residential units of value upto Rs 2 crore.

For the upcoming budget, to stimulate demand on a pan-India basis, the industry expects the government to revise the circle rates in order to bridge the gap between the agreement value or extend the deadline and the benefit of increasing the differential between agreement value and circle rate from 10% to 20% to other realty segments to such as residential units priced above Rs 2 crore and commercial spaces.

With the PMAY-U or "Housing for All" target coming to a close (by 2022), it is expected the government will announce allocations over and above the usual limit to spearhead and fast track the construction process.

(ii) Oil and Gas

Gas explorers are under pressure from low gas prices (Domestic gas price which is determined based on a formula is also at an all-time low of USD 1.79/MMBtu), which is dissuading E&P players in taking up exploration activities. Indian explorers are still required to pay royalty, cess and profit petroleum (applicable only to private players) to the Government of India.

To provide some respite to E&P players, reduction in the above taxes could provide some relief to their cash flows and business viability in gas exploration aspect. The government wants to transform India into a gas-based economy and 54% of natural gas consumption is met through LNG imports. We expect LNG customs duty to be waived off completely from the current 2.5%, to benefit domestic regasification terminals.

The oil and gas industry, during the FY21 budget received Rs 40,915 crore as subsidies where Rs 37,256 lakh crore was earmarked as the LPG subsidy and the remaining Rs 3,659 crore was to be given as the kerosene subsidy.

Petroleum subsidy (Unit: Rs/crore)

	FY16	FY17	FY18	FY19	FY20(RE)
29.1	2016-17	2017-18	2018-19	2019-20 (P)	2020-21 (BE)
LPG	18,678	15,656	20,268	34,086	37,256
Kerosene	8,861	8,804	4,569	4,483	3,659
Total Subsidy	27,539	24,460	24,837	38,569	40,915

Source: Union Budget

Over the years, kerosene consumption has decreased, and penetration of LPG has gained traction (coverage is almost 99.3%). Kerosene consumption has declined by 10% and 30.7% during FY19 and FY20 respectively because of reduced allocation to states and voluntary surrender of Public Distribution System quota by a few states. In the current financial year, though allocation towards the LPG subsidy has increased and consumption too has increased, the government has only paid 49% of the budgeted subsidy amount up to November 2020 due to the sharp fall in oil prices.

For the coming budget, the government could further reduce kerosene subsidies and divert is more towards the LPG subsidy. Allocation towards the LPG subsidy is also to fall given oil prices have been benign in the past few months. The fuel subsidy is to be ~Rs 35,000 crore for FY22.

(iii) Fertilizers

India imports raw materials needed for the manufacturing of P&K fertilizers. Custom duty on phosphoric acid and ammonia is 5% and 2.5% for rock phosphate and Sulphur. For the upcoming budget the industry is expecting the government to exempt raw materials from customs duty in order to promote domestic manufacturing.

The fertilizer industry during the FY21 budget received Rs 71,309 crore as subsidies where Rs 47,805 crore was earmarked as the urea subsidy and the remaining Rs 23,504 lakh crore was to be distributed as the nutrient based (NBS).

Fertilizer subsidy (Unit: Rs/crore)

	2016-17	2017-18	2018-19	2019-20 (P)	2020-21 (BE)
Urea	47,470	44,223	46,514	54,755	47,805
NBS	18,843	22,244	24,090	26,369	23,504
Total	66,313	66,468	70,605	81,124	71,309
Urea	2016-17	2017-18	2018-19	2019-20 (P)	2020-21 (BE)

Source: Union Budget, CGA

In the current financial year, FY21 the government has already paid 92% of the budgeted subsidy amount upto November 2020. The government has been more aggressive in disbursing the urea subsidy as compared to the NBS as urea players are suffering from a higher and huge backlog. During November 2020, the Finance Minister has also announced an additional provision of Rs. 65,000 crore to be disbursed as the fertilizer subsidy as part of her stimulus package (Atmanirbhar III) to boost the economy. The allocated amount is being provided to ensure adequate availability of fertilisers to farmers and to enable timely accessibility of fertilisers in the upcoming rabi season.

While the additional allocation for the fertiliser sector has been greatly appreciated by the industry, continued budgeting going forward for the fertiliser subsidy will remain critical for ensuring sufficient availability for the agri sector. We believe that not all will be spent this year and going by last year's pattern around Rs 6,000 crore could be this year's share. At the outer limit Rs 30,000 crore could be the expenditure for the government. Hence for the forthcoming budget, allocation for the fertilizer subsidy is to remain the same at Rs. 71,000 crore. The subsidy allocation is expected to increase for the urea sector driven by commissioning of the Ramagundam plant.

(iv) Warehousing/Storage

As the Indian government prepares for a mega COVID-19 vaccination drive in the coming months, the safe delivery of vaccines for mass immunisation will be a massive challenge and the country will need to significantly ramp up its cold chain facilities. The urgency triggered by COVID-19 vaccine is a great opportunity for India to build all the cold storage it has needed for a long time. The expansion of cold storage is not only essential for the distribution of the COVID-19 vaccine, but also presents opportunities for several other sectors post the pandemic. The Centre has also reportedly directed states to make a robust plan for vaccine storage and distribution.

For the upcoming budget, the centre can provide subsidies to the State governments for the development of these cold storages.

(v) Healthcare

The healthcare industry is likely to be one of the focus points of the budget FY22 as the outbreak of Covid-19 pandemic highlighted the very much need of better healthcare infrastructure in India. Thus, some of the key budget expectations for healthcare industry include:

- 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 budget may see some favourable changes in taxes for manufacturing of medical equipment to encourage domestic production.

In addition to this, Covid-19 vaccination drive will increase healthcare budget of the nation during FY22. The vaccination program which started 16 January 2021 onwards has an estimate to inoculate the population of 30 crore in phase one of the program. With an estimate that the central government will bear the cost of phase one and the vaccine will come at a cost of about Rs.200 per dose, the initial phase is expected to result in an expenditure of about Rs.12,000 crore for the government. While some expenditure with respect to phase one vaccination drive will take place in FY21, majority or more than around 10% of the expenditure will be in FY22. Thus, the healthcare expenditure budget of the central government for FY22 is expected to increase by about Rs.11,000 crore on account of Covid-19 vaccination program (phase one).

It is to be noted that each individual requires 2 doses to complete the inoculation process which brings the vaccine price to about Rs.400 per person.

(vi) Telecom

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 is estimated to have increased by 44.5% to Rs.58,990 crore as per the revised estimates of FY20 and is expected to rise by a sharp 125.5% to Rs.1.33 lakh crore according to budget estimates of FY21.

The revenue budget estimate of FY21 from other communications services however is expected to witness a shortfall as the government will not be able to earn revenues that it had estimated from 5G spectrum. This is because the 5G spectrum auctions did not find any mention in the proposal approved by the Department of Telecommunications (DoT) to auction 2,251.25 MHz spectrum units from 1 March 2021 given the low level of interest shown by the telcos to buy 5G spectrum due to its high reserve price. The spectrum auctions to be conducted in March 2021 is expected to fetch around Rs.50,000 crore to the government. Of this, upfront payment for spectrum auction which is expected to be in the range of Rs.12,500 crore-Rs.25,000 crore may come up in FY21. Apart from this, the government is likely to see revenues of Rs.6,000 crore from Adjusted Gross Revenue (AGR) payments during FY21 as the Supreme Court (SC) had asked the telcos to pay 10% of AGR associated dues by 31 March 2021 on 1 September 2020.

In addition to this, the SC also allowed staggered payments towards settlement of AGR dues over 10 years period starting 1 April 2021. As a result, the government revenues from AGR payments are estimated at around Rs.13,400 crore in FY22 budget. Also, the 5G auction which will not see light during FY21 is expected to be conducted during FY22 as the government remains keen to hold 5G spectrum auctions. Thus, it is likely that the government will want to target similar revenue estimate of Rs.1.33 lakh crore during FY22 which the government is unlikely to achieve in FY21.

Some key budget expectations for telecom industry include:

- 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) and Bharatnet project.
- With government keen on introducing 5G technology, it is likely that fund allocation with respect to 5G connectivity testing and its deployment will see a rise.

(vii) Sugar

- The government will continue to make allocations towards schemes for development of sugar industry as the problem of sugarcane arrears remain.
- With the government aiming to increase diversion of sugarcane towards ethanol and fixing ethanol supply targets for various states where it advises each state's sugar mills/distilleries to utilise at least 85% of their existing installed capacities to produce ethanol, we may see higher allocation of funds that aims to support ethanol production.

(viii) Drugs & Pharmaceuticals

- The Covid-19 pandemic disrupted the demand-supply situation of the Indian pharma players primarily in the initial phase of lockdown. This, in turn, raised concerns about import of bulk drugs and Active Pharmaceutical Ingredients (APIs) required for making of formulations by the Indian pharma industry. As a result, the government announced schemes for development of bulk drugs, Key Starting Materials (KSMs) and APIs to promote their domestic production. Thus, it is expected that the government would allocate funds for smooth functioning of these schemes.
- The pharma players aim to focus on development of speciality 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.

(ix) Textile

- The textile industry saw complete loss of operations during Covid-19 induced lockdown. Even when lockdown restrictions eased, demand for textiles remained affected as retail stores and malls were allowed to operate at only later stage. Besides, the discretionary nature of the industry also disrupted its consumption. Thus, the textile sector looks forward for a relief-package that could provide some support to the industry players.
- The textile industry looks forward for lower GST rates on inputs which have resulted in inverted duty structure for the textile firms.

(x) Retail Industry

The retail industry continues to demand that a 'National Retail Trade Policy' be formulated to promote ease of doing business in the country. In addition to this, a retailers' trade body - Retailers Association of India (RAI) amongst varied set of recommendations submitted to the government for the upcoming budget has suggested that the government should allow retail traders to register as MSME and accordingly avail benefits. It has also recommended that the Pradhan Mantri Mudra Yojana scheme be modified/extended to include financial support to small retailers and kirana stores for digitisation.

(xi) Hotels & Tourism Industry

In line with the expectation that domestic tourism will be the key user segment to revive this sector, the industry expects policy incentives to promote domestic travel in the upcoming budget. It also wants more funds to be allocated for the tourism sector. Also, the industry continues to maintain its long-standing demand from the government for Infrastructure & Industry status for projects with investments over Rs 50 crore.

(xii) Aluminium sector

Import duty of 7.5% on primary aluminium has helped to curb import of primary metal to a certain extent. However lower import duty on aluminium scrap at just 2.5% incentivises import of scrap. During the last five years, while import of primary aluminium has come down from 422 thousand tonnes in FY16 to 266 thousand tonnes in FY20 import of aluminium scrap has risen from 867 thousand tonnes to 1.3 million tonnes. Besides, USA and China have levied import duty of 10% and 25%, respectively on aluminium scrap. This is directing all the additional scrap into the Indian markets which is adversely affecting the domestic aluminium industry. We therefore expect government to increase the import duty on aluminium scrap from the present 2.5% to at least 10% to curtail dumping of aluminium scrap in the Indian market.

Aluminium is a power intensive industry as power accounts for almost 40% of the cost of production (COP). The cess on coal at Rs 400 per tonne alone raises the aluminium COP by $ 64 per tonne. Royalty and taxes as percentage of ex-mine coal cost in India is among the highest in the world at around 25%-31% as against 7% in Australia and 12% in Indonesia. Taxes on coal in India raise the price by about 24%. This affects the competitiveness of the domestic aluminium industry. The industry therefore expects reduction in coal cess and taxes on coal.

(xiii) Steel sector

The government has been taking measures to counter the devastating impact of the Covid-19 pandemic on the domestic steel sector. The Production Linked Incentive (PLI) Scheme, amendment to the domestically-manufactured iron & steel products (DMI&SP) act and push to infrastructure development are likely to ensure revival of steel demand.

One of the key problems facing the steel sector currently is the scarcity of main raw material- iron ore in the domestic market which has in turn increased steel prices substantially. Iron ore exports from India shot up 62.8% during April-November 2020 as compared with the corresponding period of the previous year. This was over a high base of 140% growth during April-Nov 2019. Steel companies and miners are exporting iron ore due to higher export realisations despite shortage in domestic market which is severely impacting the smaller secondary steel players who do not own captive iron ore mines. While cumulative crude steel production by the top 6 integrated steel producers who own captive mines fell by 10.7% yoy during Apr-Nov 2020, production by the smaller secondary producers who do not own captive iron ore mines fell by a sharper 23.2% yoy. The government need to take steps to reduce export of raw material- iron ore and iron ore pellet to bring down the cost for secondary steel players.

India is one of the lowest cost producers of steel in the world. However, the various taxes, duties and cess increases the steelmaking cost and makes Indian steel uncompetitive in the global market. This is in contrast with China where the government heavily subsidies production cost for the domestic industry. As per Niti Aayog, after the various taxes, duties, cess, royalties and logistics cost the final steel prices increases by $ 80-100 per tonne, $20 per tonne higher than its competitor, China. This therefore calls for reforms.

The domestic steel industry seeks reduction in customs duty on different types of coals mainly (coking coal and met coke) for which domestic substitution is not available and the industry has to largely depend upon imports. Despite the unavailability in the domestic market, import duty on coking coal and metallurgical coal currently stands at 2.5% and 5%, respectively. These duties need to be reduced to nil to lower steelmaking cost.

Import duty on steel currently stands at 15% which protects the domestic steel industry from dumping of cheap imports. However, there are some bilateral and Free Trade Agreements too which incentivise imports. Therefore, additional measures to curb imports from certain FTA countries like Japan and South Korea which have found to be violating the FTA norms are also likely.

An increase in customs duty on specific grades of steel, which has seen significant increase in import's is expected. In October 2020, 48% of total steel imported could have been sourced domestically, as per data from Ministry of Steel. Screw bolts, stranded wire, ropes and CR Coils are some of the items that were imported despite being available locally.

The government is expected to continue to spend on infrastructure and construction. This is likely to result in higher budget allocation for these sectors which will provide support to the steel industry.

The budget allocation for steel industry is expected to give significance to domestic production of steel that involves high-end value-added steel like automotive steel for high end applications, electrical steel (CRGO), special steel and alloys for power equipment, aerospace, defence and nuclear applications, rails for railways, among others.

(xiv) Education

With the demographics of Indian population being positively skewed for the country, the education system needs to be considered as a high priority for the government and hence adequate budget is required for the betterment of this sector. In the Union Budget for FY21, budgeted allocations rose to Rs. 99,312 crore from Rs. 94,854 crore (RE Budget FY20), which shows that expenditure on this sector is a miniscule proportion of the country's GDP. In the upcoming Union budget of FY22, we expect the allocations to rise by up to 5% (i.e. </= Rs. 1.05 lakh crore).

The following are some of the announcements that can be expected in the upcoming Budget:

- An increased fund allocation towards building higher education institutes that would attract foreign students and also encourage Indians to continue pursuing their higher education within the country instead of seeking international degrees.
- Introduce more research-based degree programmes via industry and academia partnerships.
- Start full-fledged online education programmes through institutes which are ranked within top 100.
- Introduce vocational and diploma courses while providing greater apprenticeship opportunities.
- To give a boost to the growing online education segment, a tax incentive may be introduced which shall benefit the start-up space of the industry.
- Focus on lowering the dropouts at schools by widening government schemes like mid-day meals and free distribution of education materials
- Affordability of professional courses in higher education (eg: medicine, management, engineering, etc.) by providing easy access to funds through lower interest rates or providing unsecured loans.

(xv) Automotive

The automotive sector is facing a downward trend since nearly 8-10 quarters now. Due to its linkages with multiple industries like iron, rubber, steel, aluminium, paint, plastic, glass, leather, electronics, etc., the sector assumes great importance as the driver of India's economic growth. The following are some of the expectations of the players operating in the automotive sector from the upcoming Union Budget.

- Measures to promote Electric Vehicles (EVs): Encourage investments in EVs and its ancillaries by introducing weighted deduction on R&D expenses, build more charging infrastructures in the country and incentive the local sourcing of critical components for EV battery manufacturing.
- Scrappage policy: To realise the full potential of BS-6 implementation with reduced emissions, there is a need for implementation of the scrappage policy, which includes a one-time incentive in the form of tax rebates for replacing vehicles which are older than 15 years. Implementing such a policy can support higher demand creation for trucks, buses and cars and also lead to a reduction in prices of new vehicles aided by the use of recycled materials from older cars.
- Lowering of tax rates: Although GST rates are decided by the GST Council, the automotive sector has long been pressing for a cut in GST rates. At present, passenger vehicles, commercial vehicles, two and three wheelers are taxed at the highest GST rate of 28% and a cess in the range of 1-22% is added, which takes the effective rate to up to 50%. A moderation in such rates could reverse the prevailing low

demand and hence increase sales, leading to a growth in tax contribution towards the government from this sector.

- Introduce benefits of claiming depreciation on vehicles for income tax-paying individuals and extend the depreciation period for corporates. Also, automotive dealers should be kept out of the annual tax collected at source of 0.1% as acts as a huge financial burden on the automobile retail industry.

(xvi) Gems and Jewellery

- Reduction in import duty on cut and polished diamonds from 7.5% to 2.5%. This shall help India move towards its dream of becoming a world manufacturing and trading hub.
- Reduction in import duty on polished precious and semi-precious gemstones from 7.5% to 2.5%
- Removal of 0.5% duty on rough coloured gemstones
- Reduction in import duty on precious metals: gold, silver, and platinum from 12.5% to 4%
- Allow EMIs and cashback schemes in the jewellery retail segment.
- Revive the gold monetisation scheme.

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