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UNION BUDGET 2020

Comprehensive analysis

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Content

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Foreword

UNION BUDGET 2020

The Budget has a lot of positive announcements that should give a boost to the economy. Rationalising the personal tax regime, lowering individual tax rates, abolishing dividend distribution tax, providing impetus to start-ups, strengthening bond markets and creating an enabling environment for foreign investors and sovereign wealth funds are steps in the right direction.

Vikas Vasal
Partner, Grant Thornton India LLP

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#GTonBudget

Executive summary

Key policy announcements

- In line with the Economic Survey recommendations, the focus of the Budget was on agriculture (with an eye on doubling farmers' income), rural, education, infrastructure and solar energy sectors along with skill development and entrepreneurship.
- Achieving the fiscal deficit target of 3.5% of GDP in financial year (FY) 2020-21 now depends on the ability to achieve the aggressive disinvestment target of INR 2,100 billion, which is market-determined.
- **Focus on infrastructure**
  - Several projects like 100 more airports, Tejas-like trains and large solar panel capacity alongside railway track development were announced. The Delhi-Mumbai Expressway is proposed to be completed by 2023 and a Chennai-Bengaluru Expressway has also been proposed.
- **Push to attract foreign capital**
  - Sovereign wealth funds of foreign governments can avail a 100% tax exemption on the interest, dividend and capital gains income in investment made in infrastructure before 31 March 2024 with a minimum lock-in period of three years.
  - Several concessional rates of withholding tax for foreign portfolio investors (FPIs) and qualified foreign investors (QFIs) have been announced.
  - The abolition of dividend distribution tax (DDT) would help foreign investors.
- In order to deliver higher-quality education by attracting talented teachers, building better labs, etc., the government has announced that steps would be taken to enable sourcing of external commercial borrowings (ECB) and foreign direct investment in the education system.

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Key tax announcements - Direct tax

- The Budget proposes to abolish DDT on dividends declared, distributed or paid on or after 1 April 2020. Dividends will consequently be subjected to tax in the hands of the shareholders.
- It is proposed to reduce the period of stay criteria for Indian citizens/person of Indian origin (PIO) visiting India to determine their residential status.
- The Budget has proposed a new tax regime for individuals and Hindu Undivided Families (HUFs) with effect from assessment year (AY) 2021-22. The new regime is optional for the taxpayers and provides lower tax rates.
- The definition of 'business connection' has been expanded to include income from the following activities:
  - Advertisements targeted at residents or through an Indian IP address
  - Sale of data collected from a resident or through an Indian IP address
  - Sale of goods/services using data collected from residents or through an Indian IP address

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Key tax announcements - Goods and Services Tax

- New simplified returns and e-invoicing will be implemented from 1 April 2020.
- There will be an additional window for un-availed transitional input tax credit (ITC) for taxpayers.
- Refunds process has been simplified and fully automated.
- Aadhaar-based verification is being introduced to weed out dummy/non-existent taxpayers.
- There will be an exercise on revisiting the GST rate structure and other tax buoyancy measures.

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Key tax announcements - Customs law

- Health Cess at the rate of 5% will be levied as duty of customs on import of specified medical equipment.
- Additional measures will be implemented to curb misuse of Free Trade Agreements (FTAs) and Rules of Origin will be revisited.
- Additional safeguard measures on imports will be implemented to protect the domestic industry.
- Electronic credit ledger has been introduced for making duty payment by way of direct duty credit for export and other benefits.
- There has been an upward revision of duty rates across sectors to provide a level playing field for domestic players.

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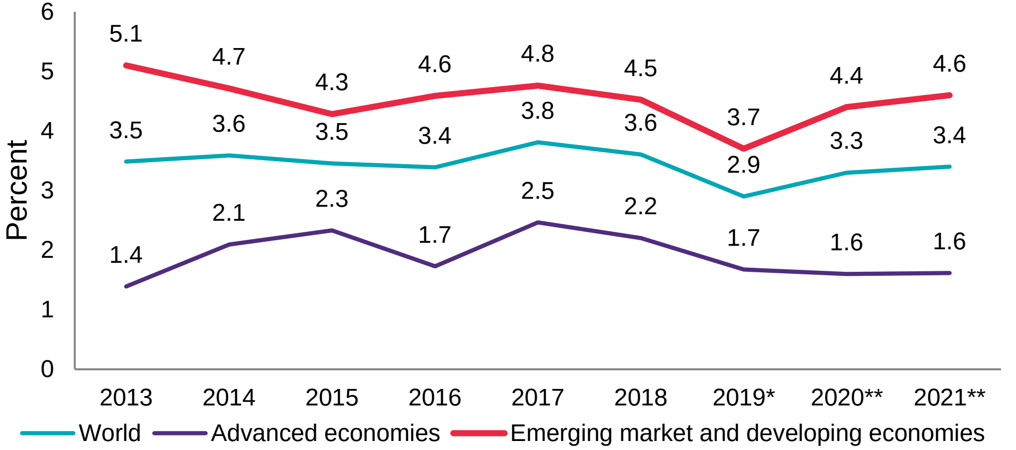
Economic overview

Global growth stabilising

World economic growth rate



Source: IMF, World Economic Outlook Database, January 2020 | *: Estimated, **: Projections

Growth estimates for India

	2019		2020	
	Previous	**Recent**	**Previous**	**Recent**
INTERNATIONAL MONETARY FUND	**6.1**	**4.8**	**7.0**	**5.8**
WORLD BANK	**6.0**	**5.0**	**7.5**	**5.8**
OECD	**7.2**	**5.8**	**7.35**	**6.2**

- According to International Monetary Fund (IMF), there are signs of stabilisation of global growth with a sluggish recovery helped by accommodative monetary policy and fiscal easing in some countries (including China, South Korea, and the United States (US).
- The markdown in growth in emerging and developing countries largely reflects the downward revision of India's growth. The domestic demand has slowed more sharply than expected, coupled with stress in the non-bank financial sector and a decline in credit growth.
- There exists downside risks from geopolitical tensions, particularly between the US and Iran, and trade tariff barriers between the US and its trading partners.

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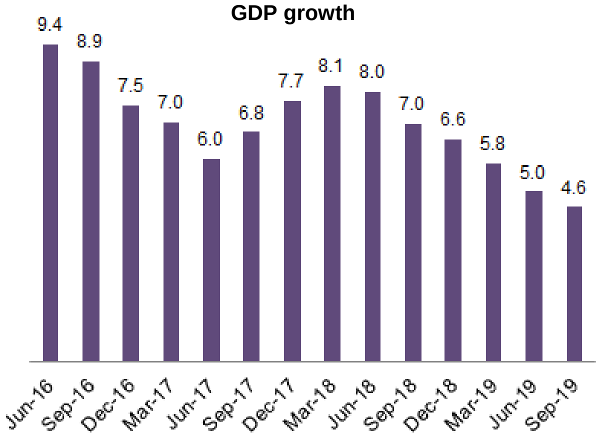
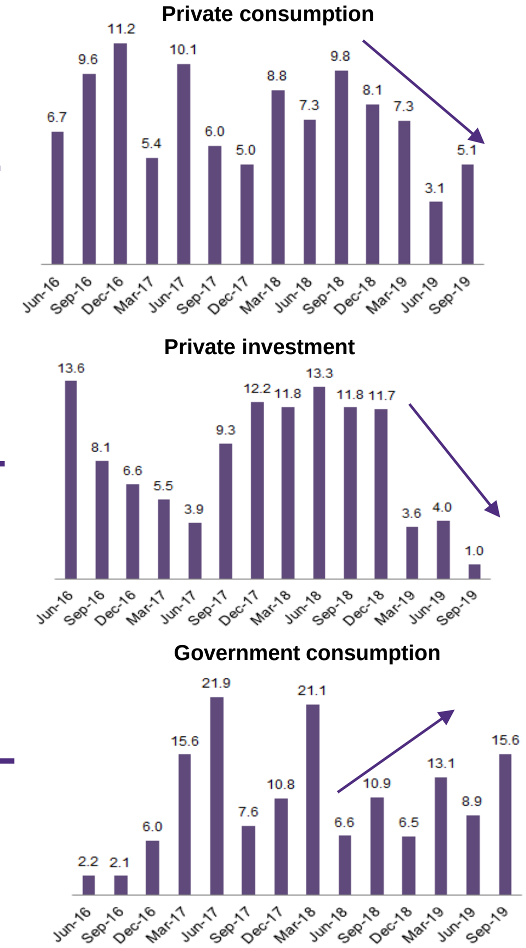
Domestic growth to improve gradually

Quarterly real GDP growth rate (% yoy)





- India’s GDP growth slipped to 4.6% in the July-September quarter.
- All primary drivers of growth, investment and consumption turned weak. Only large government spending cushioned the growth.
- The Reserve Bank of India (RBI) expects growth to pick up to 5.9%-6.3% in the first half of FY 2020-21 (April-September 2020).

Source: Central Statistics Office (CSO)

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Key measures to support growth in 2019

The government started with a slew of measures in August 2019, aimed at sectors that were impacted significantly by the slowdown and which could potentially help in growth revival. Some of these announcements were as follows:

- Removal of surcharge on capital gains for foreign portfolio and domestic investors, fast-tracking of budgeted INR 700 billion for bank recapitalisation, expediting GST refunds, clearance of pending government dues, etc., were announced.
- In a welcome move, the government, in September, overhauled the corporate income tax rate. The key eligibility condition for availing the reduced rates is that specified deductions/exemptions should not be claimed by such companies.
  - For newly incorporated domestic manufacturing companies, the rate was lowered to 15% (17.16% including cess and surcharge). Further, such companies are to be set up on or after 1 October 2019 and commence their production before 31 March 2023.
  - For other domestic companies, the rate was lowered from 30% to 22% (25.17% including cess and surcharge).
- A fiscal incentive of INR 200 billion was announced for the real estate sector to provide last-mile funding to housing projects for the affordable and middle-income segments that were neither currently declared non-performing assets nor were part of insolvency proceedings.

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Key measures to support growth in 2019

- For exporters, the government replaced the existing non-World Trade Organisation compliant scheme to resolve problems in ITC refunds under GST at a fiscal cost of INR 500 billion. Moreover, priority sector lending norms of banks for exporters were eased to free up an additional credit of INR 360 billion.
- A change in the Insolvency and Bankruptcy Code, 2016 (IBC) in November 2019 allowed the IBC to cover non-banking financial companies (NBFCs) with assets of INR 50 million or more, paving the way for the RBI to supersede the board of NBFCs on governance concerns and defaults.

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Some tentative green shoots in the economy

Macro-economic heat map

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Cement production (% yoy)	11.6	11.0	8.0	15.8	2.3	2.8	-1.9	7.7	-5.1	-1.9	-7.7	4.0	-
Index of industrial production (IIP) (% yoy)	2.6	1.4	0.1	-0.4	4.3	4.6	1.2	4.3	-1.4	-4.3	-4.0	1.8	-
IIP - mining (% yoy)	-1.0	3.9	2.2	0.8	5.1	2.4	1.5	4.9	0.0	-8.5	-8.0	1.7	-
IIP - manufacturing (% yoy)	3.0	1.0	-0.4	-0.1	4.0	4.5	0.2	4.2	-1.6	-3.9	-2.3	2.7	-
PMI manufacturing index	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7
PMI services index	53.2	52.2	52.5	52.0	51.0	50.2	49.6	53.8	52.4	48.7	49.2	52.7	53.3
PMI composite index	53.6	53.6	53.8	52.7	51.7	51.7	50.8	53.9	52.6	49.8	49.6	52.7	53.7
Tractor sale (% yoy)	8.9	2.4	-0.5	-15.0	-13.2	-15.7	-13.6	-13.1	-16.5	-4.7	-5.0	-13.2	2.4
Diesel consumption (% yoy)	3.6	6.3	2.8	1.4	2.2	3.1	1.7	3.3	-0.9	-3.3	-7.0	9.1	-0.5
Air traffic (% yoy)	12.9	8.9	5.6	0.1	-4.2	2.8	6.2	1.8	3.9	1.5	4.3	11.5	-
Foreign tourist arrivals (% yoy)	2.0	5.3	3.7	-4.8	3.5	0.7	5.4	1.4	1.6	4.3	6.1	7.6	-
Major port traffic (% yoy)	-4.0	-2.3	-0.5	4.0	5.7	-0.5	-0.5	3.5	1.2	-0.5	-5.4	-0.3	6.1
Rail freight traffic (% yoy)	3.3	2.8	4.3	6.6	3.2	2.9	2.0	1.6	-6.1	-6.6	-8.1	0.9	4.3
Indirect tax (% yoy)	13.4	14.7	5.1	11.9	14.2	0.5	-0.5	-2.3	10.1	-3.3	-18.7	6.5	

Negative Watch Neutral Positive

Source: CMIE (Centre for Monitoring Indian Economy) Economic Outlook Database

- The table above captures high-frequency data that indicates some sort of revival in the Indian economy. However, these are early signs.
- GST collections crossed the INR 1 lakh crore benchmark for two consecutive months in FY 2019.
- A large domestic auto manufacturer reported a rise in domestic car sales.
- Moreover, the CMIE capex database showed that new investment announcements posted positive growth in the December quarter, the first since June 2018.

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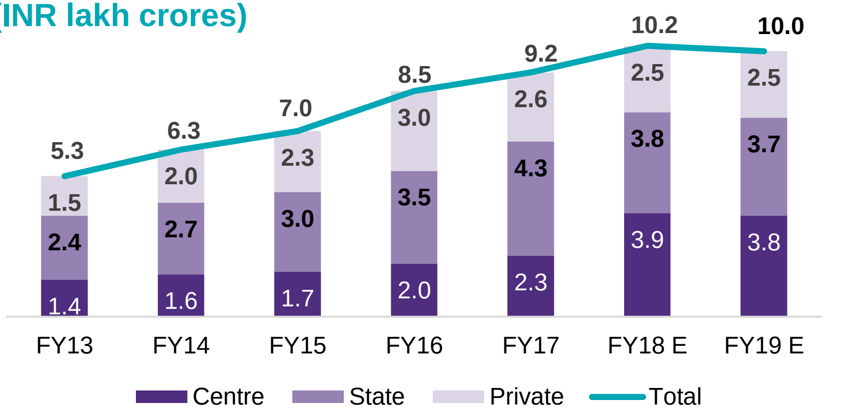
Government unveils INR 102 lakh crore infra projects …

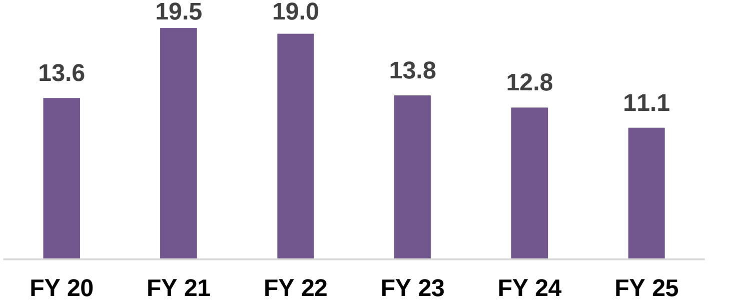
- The government unveiled INR 102 lakh crore of National Infrastructure Projects (NIP) on 31 December 2019, spread across 22 ministries, 18 states and union territories over five years.
- Of the total amount announced, INR 42.7 lakh crore (43%) of projects are under implementation, INR 32.7 lakh crore (about 33%) of projects are at the conceptualisation stage and INR 19.1 lakh crore (about 19%) of projects are under development.
- The new infra pipeline consists of 39% projects each by the centre and states, and the balance 22% by the private sector.
- The sectors covered by these projects include power, railways, urban development, digital sector, irrigation, mobility, education and health amongst others.
- Since FY14, India has spent on average INR 8.5 lakh crore every year on infrastructure with the centre contributing INR 2.6 lakh crore and states accounting for INR 3.5 lakh crore. Under NIP, this investment in infrastructure will have to double in the coming years.

India's infrastructure investments since FY13 (INR lakh crores)



Source: Appraisal documents for five-year plans

NIP pipeline announced in (INR lakh crores)



Source: Press release for NIP

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… to achieve the target of a USD 5 trillion economy by 2024

- India is expected to play an increasingly important role as one of the major growth engines in the Asia-Pacific region. The government projects that the Indian economy could touch USD 5 trillion by 2024.
- India's GDP reached USD 1 trillion in 2007, 60 years after independence. It became a USD 2 trillion economy in 2014, only seven years later. Today, our GDP is valued at around USD 2.7-2.8 trillion. Thus, in 17 years, that is, from 2007 to 2024, India's GDP is expected to have grown five times.
- Last year, the projected that India would become the world's fifth largest economy, soon overtaking the UK and France, with GDP exceeding USD 3 trillion.
- With the recent slowdown in real GDP growth to below 5%, it might take a couple of more years to reach the target of USD 5 trillion.

IMF estimates in 2019 (USD billion)

	2018	2019
USA	20,580	21,439
China	13,368	14,140
Japan	4,972	5,154
Germany	3,951	3,863
UK	2,829	2,744
France	2,780	2,707
India	2,719	2,936

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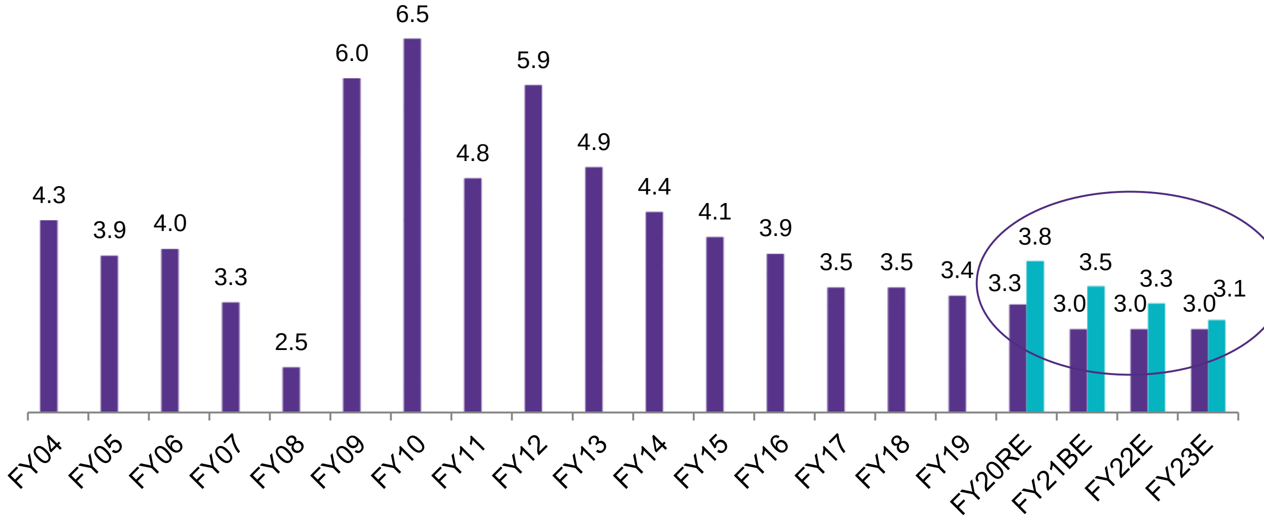
Fiscal deficit

Fiscal deficit as a percentage of GDP higher than budgeted



- The government decided to take advantage of the 0.5% wiggle room available in the Fiscal Responsibility and Budget Management (FRBM) Act for extraordinary situations to boost growth.
- A new glide-path for medium-term fiscal consolidation is announced and fiscal deficit will be slowly reduced to 3.1% of GDP by FY23.

- The fiscal deficit for FY20 is revised up from the budgeted 3.3% of GDP to 3.8%.
- Reasons for higher deficit include:
  - Much lower than budgeted nominal GDP growth (7.5% as against 12% budgeted)
  - Lower revenue collection - both direct and indirect taxes
  - Disinvestment target not met
- Higher dividend transferred from the RBI could not completely offset the shortfall in revenue collection.

Source: Budget documents; RE: Revised estimates; BE: Budgeted estimates; E: Estimates

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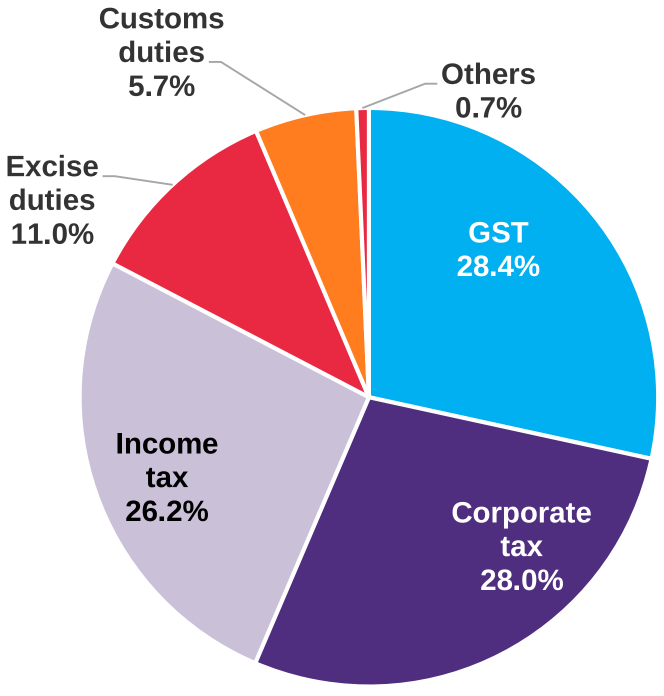
Projected tax revenues

Share of major tax revenues FY 2020-21



- It is estimated that in FY 2020-21, GST would account for 28.4% of total major tax revenues - higher than last fiscal.
- The collections from corporate taxes at 28% of the gross tax revenues would almost be the same as that of GST.
- Income taxes would contribute about 26.2% of the total gross tax revenues.

Source: Budget documents

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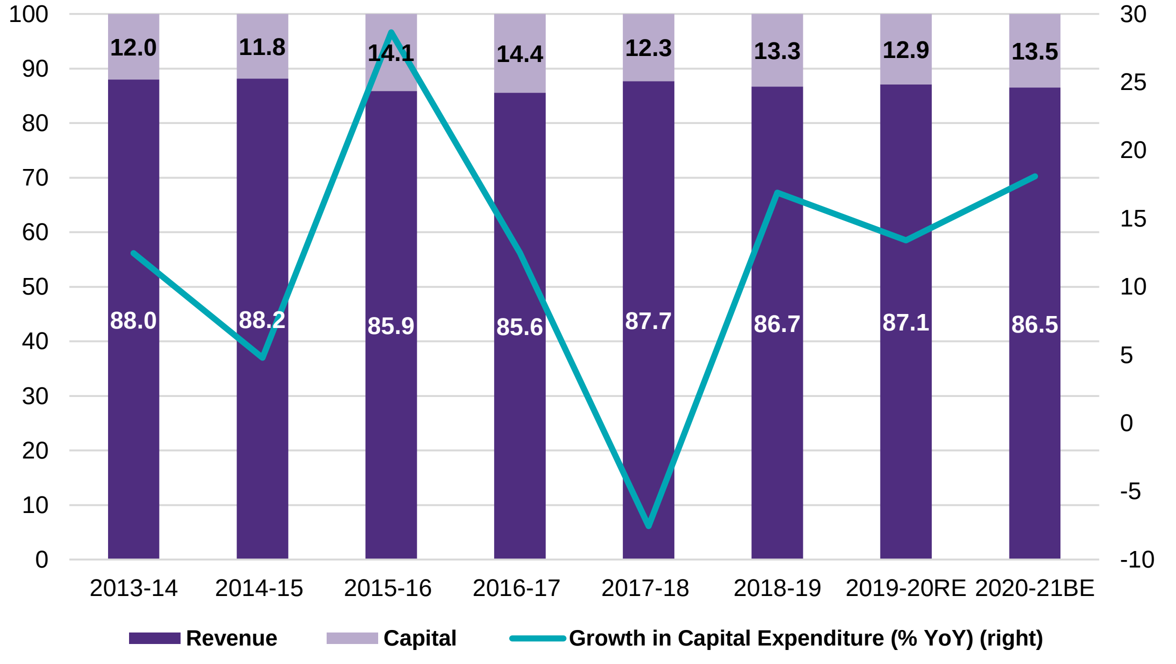
Budget FY 2020-21 - Expenditure

Share of capital expenditure



- Capital expenditure is budgeted to have a higher share in total expenditure in FY21 compared to the previous year.
- Capital expenditure is also budgeted to grow at a higher rate of 18% over last year.

Source: Budget documents

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Key direct tax proposals

Personal tax

Optional new tax regime for individuals and HUF (1/2)

- The Budget has proposed a new tax regime with effect from AY 2021-22. It is optional for taxpayers and provides lower tax rates. However, it does not permit the following:
  - Specified deduction under section 80C and section 80D
  - Specified exemptions like House Rent Allowance (HRA) and Leave Travel Allowance (LTA)
  - Additional depreciation, interest on self-occupied house property, donations, etc.
  - Set-off of carry forward of losses and unabsorbed depreciation
  - Inter-head set-off of loss from rented house property
- For individuals having business income, reduced tax rates once exercised will be applicable for all subsequent years; also, Alternate Minimum Tax (AMT) provisions will not be applicable.
- Individuals having no business income can exercise the option for reduced tax rates on a year-to-year basis.

> **Individuals and HUFs will need to carefully compare the tax outflow under both the options before choosing either of the tax regimes**

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Personal tax

Optional new tax regime for individuals and HUF (2/2)

- Illustrative analysis of tax rates under the new tax regime vis-à-vis the old tax regime:

Income level	Existing tax rates	Tax (INR)*	New tax rates	Tax (INR)
INR 2,50,000	0%	0	0%	0
INR 2,50,000 to INR 5,00,000	5%	12,500	5%	12,500
INR 5,00,000 to INR 7,50,000	20%	50,000	10%	25,000
INR 7,50,000 to INR 10,00,000	20%	50,000	15%	37,500
INR 10,00,000 to INR 12,50,000	30%	75,000	20%	50,000
INR 12,50,000 to INR 15,00,000	30%	75,000	25%	62,500
Above INR 15,00,000	30%	As computed	30%	As computed
Total taxes for income up to INR 15,00,000		**2,62,500**		**1,87,500**

* Excluding exemptions and deductions

- No change in rebate available for taxable income up to INR 500,000
- No change in rate of surcharge and Health and Education Cess

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Personal tax

Residential status (1/2)

Period of stay for Indian citizens visiting India

- The Budget proposes to reduce the period of stay criteria for Indian citizens/PIO visiting India to determine their residential status. They will now qualify as residents if their stay in India is:
  - more than 120 days (earlier limit was 182 days), and
  - more than 365 days during the preceding four previous years.

Change in condition for qualifying as Not Ordinary Resident (NOR)

- Existing provisions provide two criteria for an individual to qualify as NOR. The individual:
  - is a non-resident in 9 out of 10 preceding years, or
  - stays in India for 729 days or less in seven preceding years.
- The above provisions are proposed to be replaced with a new provision whereby an individual will qualify as NOR if he/she has been a non-resident in India in 7 out of 10 preceding years.

> **With modification of tax residency rules, globally mobile individuals would need to evaluate their residential status in India very carefully as their global income will be exposed to tax in India**

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Personal tax

Residential status (2/2)

Deemed residency criteria for citizens of India

The Budget proposes to introduce the concept of citizenship-based taxation in a limited manner.

- Indian citizens who are not liable to tax in any other country by virtue of residency, domicile or any other similar criteria would be deemed tax residents of India.
- This may result in global income being liable to tax in India, unless they qualify as NOR based on the new condition proposed.

> **Indians who otherwise qualified as non-residents in India as well as in other jurisdictions will be impacted by the proposal**
>
> **The amendment seeks to plug the issues around double non-taxation of such taxpayers**

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Personal tax

Employee stock option plan (ESOP)

- The existing law provides for two points of taxation: As a perquisite in the year of exercise and as capital gains in the year of sale of shares.
- In order to ease the cash flow burden on employees of eligible start-ups, the Budget proposes to defer the deduction and payment of TDS on such taxable perquisite. Eligible start-ups would now be required to deduct and pay TDS within 14 days from:
  - expiry of 48 months from the end of the relevant AY
  - date of sale of such securities, or
  - date on which an individual ceases to be an employee

  whichever occurs earlier, at the rates in force in the FY when the option was exercised.

Deferring the taxation of the perquisite income arising from exercise of ESOPs for eligible start-ups is a welcome step

However, the benefit could have been extended to all companies as the issues are the same

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Personal tax

Recognised Provident Fund (RPF), National Pension Scheme (NPS) and Superannuation Fund (SAF)

- Under existing provisions, employer's contribution up to the following limits is exempt:
  - **Contribution to RPF**: Up to 12% of salary
  - **Contribution to NPS**: Up to 10% of salary in case of non-government employees
  - **Contribution to SAF**: Up to INR 150,000
- It is proposed to introduce an overall cap of INR 750,000. Employer's contribution over and above this limit is proposed to be taxed as perquisite.
- Further, annual accretion to such funds by way of interest, dividend, etc., on contribution in excess of INR 750,000 would also be taxed as perquisite.

> **This proposal signals an intent to shift from the exempt-exempt-exempt (EEE) regime. The restriction will impact employees in higher income brackets**

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Personal tax

Foreign remittances

- Tax collection at source (TCS) at the rate of 5% is proposed to be introduced on the following transactions:
  - Remittances of INR 700,000 or more in an FY under the Liberalised Remittance Scheme (LRS) route through an authorised dealer
  - Purchase of overseas tour programme package
- TCS shall be levied at 10% in case Permanent Account Number (PAN)/Aadhaar is not furnished.

Affordable housing projects

- Under the existing provisions, additional deduction of interest up to INR 150,000 is available in respect of loans taken from a financial institution to purchase an affordable residential house subject to certain conditions.
- One of the conditions for claiming such deduction is that the loan should be sanctioned before 31 March 2020.
- It is proposed to extend the period of sanctioning of loan to 31 March 2021.

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Direct tax

DDT

- Currently, companies are required to pay DDT on the dividend declared/distributed/paid to shareholders at the rate of 15% plus applicable surcharge and cess.
- The Budget now proposes to abolish DDT for dividends declared, distributed or paid on or after 1 April 2020.
- Consequently, dividends will be subjected to tax in the hands of the shareholders in all cases.
- It is also proposed that interest expenditure be allowed as deduction from dividend income, subject to a cap of 20% of such income.
- The Budget also proposes to eliminate the cascading tax effect in case of inter-corporate dividends by providing a deduction in respect of dividends received by a domestic company to the extent such dividend is distributed.
- Such deduction shall be allowed only if the dividend is distributed by the company at least one month prior to due date of filing of return of income.

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Direct tax

Start-ups

- It is proposed to increase the turnover cap for eligible start-ups claiming tax holiday from INR 25 crore to INR 100 crore.
- The window for claiming tax holiday is proposed to be expanded to three consecutive years in a block of 10 years from the current block of seven years.

> **Tax holiday eligibility criteria for start-ups is aligned with conditions prescribed by the Department for Promotion of Industry and Internal Trade (DPIIT)**

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Direct tax

Business connection

- In a major expansion of the definition of 'business connection', the Budget proposes to include, within its ambit, the income attributable to the following activities from AY 2021-22:
  - Advertisements targeted at residents or through an Indian IP address
  - Sale of data collected from a resident or through an Indian IP address
  - Sale of goods/services from data collected from residents or through an Indian IP address
- It is also proposed to include within the definition of 'Significant Economic Presence', systematic solicitation of business whether or not from digital means, effective from AY 2022-23.

> **The impact of these changes is to immediately tax income attributable to specified operations of a non-resident. This is a significant step towards taxation of digital economy**

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Direct tax

International tax proposals

- Currently, royalties exclude any amount paid for sale, distribution or exhibitions of cinematography films. It is now proposed to include such amounts within the purview of royalties.
- Under the existing provisions, fund managers of eligible investment funds (EIFs) do not constitute ‘business connection’ in India for the EIF. This is subject to conditions which include a cap of 5% investment by residents in the particular EIF. This condition is proposed to be relaxed, whereby the investment by the fund manager during the first three years not exceeding INR 25 crore shall not be counted for the 5% cap. Further, it is proposed that the minimum fund corpus shall be achieved within a period of 12 months instead of the existing 6 months.
- The Budget proposes to exempt Category I FPIs from the applicability of indirect transfer provisions.
- In alignment with Article 6 of the multilateral instruments (MLI), the Budget proposes to deny treaty benefits to all arrangements created for the purpose of tax evasion and avoidance.

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Direct tax

Incentives to new electricity-generation companies

- Currently, new manufacturing companies established on or after 1 October 2019 and commencing manufacture on or before 31 March 2023 are eligible to a reduced corporate tax rate of 15%.
- Companies engaged in electricity generation are proposed to be included under these beneficial provisions.

Modification of concessional tax scheme

- Currently, companies opting for concessional tax rates are not eligible for specified deductions under Chapter VI-A.
- The Budget proposes to deny deductions under all the provisions of Chapter VI-A except the deductions in respect of expenditure incurred for employment of new employees and inter corporate dividends.

> **It is a welcome move to boost investment in infrastructure spending in relation to generation of electricity**

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Direct tax

Lower tax rate cut extended to co-operative society

- Currently, the option of reduced tax rate of 22% is only available to domestic companies.
- This option is proposed to be extended to resident co-operative societies.
- AMT provisions and provisions related to carry forward and set-off of AMT credit will not apply to such resident co-operative societies exercising this option.

Benefits to public sector banks and general insurance companies

- Currently, carried-forward losses and unabsorbed depreciation are allowed to the amalgamated banking company to facilitate re-organisation of banking companies.
- This benefit is proposed to be extended to all banks whether incorporated as companies or not as well as general insurance companies. This proposal is intended to facilitate consolidation of public sector banks and insurance companies.

> **The amendment seeks to facilitate re-organisation and re-capitalisation of public sector banks and general insurance companies**

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Direct tax

Capital gains

- Currently, it is provided that the difference between the stamp duty value and the sales consideration is considered as taxable income in case the stamp duty value exceeds the sales consideration by 5%. It is proposed to increase the tolerance limit to 10%.
- It is also proposed that the cost of immovable property acquired prior to 1 April 2001 shall not exceed the stamp duty value, if available, to compute capital gains.
- Currently, there is no guidance for determining the cost of segregated portfolios as directed by the Securities and Exchange Board of India (SEBI).
  - It is now proposed that the cost of acquisition of units in the segregated portfolio shall be determined based on respective net asset values (NAVs).
  - The period of holding will be computed for the segregated units as per the period of holding of the original units.

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Direct tax

Business trusts

- Currently, only listed Infrastructure Investment Trust (InvITs) and REITs are eligible to qualify as a business trust to get a pass-through status for specified streams of income. A change has been proposed to make unlisted trusts eligible for the beneficial provisions.
- Under the existing provisions, dividends earned from business trusts were exempt from income tax in the hands of the recipients. The Budget proposes to levy tax on such dividends in the hands of the unit holder.

Taxability of dividend from a special purpose vehicle (SPV) in the hands of a unit holder of a business trust

- Income earned from a business trust in the nature of dividend from an SPV, which were earlier exempt from tax, is now required to be offered to tax by the unit holder.
- Limitation has been imposed on interest expenditure allowance to the extent of 20% of the income from mutual fund.

> **The amendment will facilitate a level-playing field for private unlisted and public listed trusts with respect to availing of tax benefits**

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Direct tax

Mutual funds

- Income from units of a mutual fund, currently exempt and subject to distribution tax, is proposed to be taxed in the hands of the unit holder with effect from 01 April 2020.
- It is also proposed that the payer shall withhold taxes at the rate of 10% on such income if it exceeds INR 5,000 and the unit holder is a **resident in India**.
- In the case of a **non-resident unit holder**, the payer shall deduct tax at the rate of 20%.

E-commerce transactions

- The Budget proposes to impose withholding tax at the rate of 1% on the gross amount of sales or service by an e-commerce operator on payments made to a **resident** e-commerce participant (i.e. person selling goods and/or services on electronic or digital platform).
- Payments made to an individual or HUF e-commerce participant are exempt from withholding tax if the gross amount does not exceed INR 500,000 subject to furnishing of PAN/Aadhaar.
- In the absence of PAN/Aadhaar of the e-commerce participant, withholding tax rate at the rate of 5% shall be levied.
- E-commerce participants shall be entitled to obtain lower tax deduction certificate in respect of proceeds receivable from e-commerce operators.
- This amendment will take effect from 1 April 2020.

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Direct tax

Penalty provisions widened

- The Budget has proposed a penalty of 100% of the value of fake invoices/false entries or invoices where services rendered/goods supplied cannot be substantiated.
- Further, penalty is proposed to be levied on non-furnishing of statements, and certificates by a research association, university, college, company or other institution, as prescribed.

Return filing and stay of demand

- The Budget proposes that non-residents may be required to file their tax returns in cases where the withholding tax rates are lower than the tax rates specified in the domestic law.
- With effect from 1 April 2020, it is proposed that the Income Tax Appellate Tribunal (ITAT) may grant stay subject to payment of 20% of tax demand or furnishing of security of an equal amount.

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Direct tax

Tax audit

- The Budget proposes to increase the turnover threshold for mandatory tax audit for persons carrying on business from INR 1 crore to INR 5 crore. The essential condition is that cash receipts and payments do not exceed 5% of the total receipts and payments, respectively.

Due date for compliances

- Effective AY 2020-21, it is proposed that the tax audit report be filed one month prior to the due date for filing income tax return.
- Consequential amendments are proposed for reports and certificates for claiming various tax exemptions and deductions.
- The due date for furnishing Accountant's Report in Form No. 3CEB is proposed to be changed from 30 November to 31 October.

> **The increase in turnover threshold is a welcome move as it will ease compliance burden for MSMEs**

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Direct tax

Withholding tax on interest on foreign loans

- Currently, the benefit of concessional withholding tax rate of 5% in respect of interest on overseas borrowings, long-term bonds and rupee denominated bonds (RDBs) is available up to 1 July 2020. It is now proposed to extend this benefit for borrowings made up to 1 July 2023.
- In respect of long-term bonds and RDBs listed on a recognised stock exchange in an IFSC, beneficial withholding tax rate of 4% is proposed.
- The amendment is proposed to be effective from 1 April 2020.

Withholding tax on investments by a foreign institutional investor (FII) or QFI

- Currently, interest paid to an FII or a QFI on government securities and RDB attracts 5% withholding tax.
- It is proposed to extend the benefit of lower withholding rate up to 1 July 2023.
- Additionally, this benefit will be extended to investments in municipal debt securities.
- The amendment is proposed to be effective from 1 April 2020.

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Direct tax

Withholding tax/TCS

- The Budget proposes to introduce withholding tax on dividend payouts to **residents** exceeding INR 5,000 by any mode at the rate of 10%. Dividend paid to a **non-resident** would also be subject to withholding tax at the rate of 20%.
- With a view to reduce litigation on account of short deduction of tax, fees for technical services (other than professional services) paid to resident will now attract withholding at a reduced rate of 2%.
- It is proposed that a seller of goods shall collect tax on payments in excess of INR 5 million at the rate of 0.1% (1% in case of no PAN/Aadhaar) provided the seller’s turnover exceeds INR 100 million.
- These amendments will be effective from 1 April 2020.

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Direct tax

Charitable institutions, trusts, etc.

- It is proposed that a electronic registration process be introduced for charitable institutions, specified funds, trusts, institutions, universities, educational institutions, hospitals and medical institutions. The registration will be valid for five years (three years in cases where application for registration is currently pending), effective from 1 June 2020.
- It is proposed that charitable institutions furnish a statement providing details of donations with the tax authorities without which donors shall not be eligible for deduction on account of donation.

Exempt Income

- It is proposed that interest, dividend and long-term capital gain earned by a wholly owned subsidiary of Abu Dhabi Investment Authority and sovereign wealth funds (SWFs), meeting specified conditions, be exempt in respect of investments in infrastructure facilities made on or before 31 March 2024 and held for a period of three years.

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Direct tax

Other announcements

- A new direct tax amnesty scheme **'Vivad Se Vishwas'** has been proposed, encouraged by the success of the indirect tax Sabka Vishwas (Legacy Dispute Resolution) scheme, with a view to reduce litigation. The scheme proposes full waiver of interest and penalty if the disputed tax amount is paid by 31 March 2020. The scheme shall remain open till 30 June 2020, but the amnesty will only be partially available for payments made after 31 March 2020.
- With a view to enhance the trust between the taxpayer and the tax collector and to nurture an atmosphere of mutual co-operation, the Finance Minister has announced the introduction of a **taxpayer's charter** in the statute. The Central Board of Direct Taxes (CBDT) has been mandated to adopt and implement the charter. The details of the charter are expected to be announced shortly.
- The Budget proposes an **e-appeal scheme** for disposal of appeals by the Commissioner of Income Tax (Appeals). A detailed notification will be issued soon.

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Transfer pricing

Income attribution to the permanent establishment (PE) in India

- Under the current regime, it was not clearly provided whether the Advance Pricing Agreement (APA) provisions apply to determine income attributable to PE in India. Further, Safe Harbor Rules (SHR) were not available in such cases.
- From AY 2020-21, it is proposed that taxpayers can opt for SHR to determine the income attributable to a PE in India (detailed rules are expected to be notified separately).
- It has also been clarified that APA provisions shall also apply to determine income attributable to a PE, in cases of APAs entered into, on or after 1 April 2020.

> **Taxpayers need to be cautious while evaluating whether to go for SHR or APA**

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Transfer pricing

Dispute Resolution Panel (DRP) provisions

- The existing DRP provisions require tax officers to issue a draft assessment order to an eligible taxpayer only in cases where a variation is proposed in the income or loss returned. The taxpayer can approach the DRP for redressal.
- It is now proposed that a taxpayer can approach a DRP against all variations even if they do not impact the returned income or loss. For example, if a software developer has been characterised by the tax officer as a contract R&D service provider, without disturbing the arm's length price, the taxpayer can now approach DRP.
- The Budget has also proposed that the DRP provisions be extended to cover non-resident non-corporate taxpayers.

> **It is a big relief for non-corporate non-residents, who can now access the faster DRP route**

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Transfer pricing

Interest deductibility

- Finance Act 2017 introduced interest limitation rules in line with recommendations of Base Erosion and Profit Shifting (BEPS) Action Plan 4 to limit the interest deductibility in case of loans between associated enterprises (AEs).
- Under the existing provisions, the Indian branch of the foreign bank and a taxpayer are deemed to be AEs if the loan advanced by such branch to such taxpayer exceeds 51% of the book value of the total assets of the taxpayer. Consequently, interest paid by the taxpayer to such branch is also subject to such disallowance.
- To remove the anomaly, it has been proposed to exempt Indian branches of foreign banks from the interest limitation rules effective AY 2021-22.

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Allied laws

Indian Stamp Act, 1899

- The Budget proposes changes in the Indian Stamp Act to exempt the following transactions carried out through a stock exchange or depository in International Financial Services Centre (IFSC):
  - Sale of securities through stock exchange
  - Transfer of securities made through depositories
  - Creation/change in record of depository pursuant to issue of shares
- It is also proposed to empower the central government to issue directions and to authorise the RBI/SEBI to issue instructions for carrying out provisions with respect to levy of stamp duty on transfer of securities.

Commodities transaction tax

- It is proposed to subject commodity derivatives or options on commodity derivatives based on prices or indices of prices to Commodities Transaction Tax.

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Key indirect tax proposals

Key announcements

- The government has re-affirmed the introduction of a simplified return filing system from 1 April 2020 focusing on overall simplification with improved flow of ITC.
- E-invoicing system will be implemented in a phased manner starting February 2020 optionally; it will be made mandatory from 1 April 2020.
- A new scheme has been launched to allow exporters to obtain refund of taxes (such as electricity duty, VAT on fuel used for transportation, etc.) which are not exempted or refunded under the current regime.
- Aadhaar-based verification to be introduced to weed out dummy/non-existent taxpayers to check tax evasion.

> **Exercise on revisiting GST rate structure and other tax buoyancy measures to continue**

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Goods and Services Tax

The following proposals will be made effective from date of enactment of Finance Bill 2020:

Stringent penal provisions

- The Budget proposes to impose penalty on any beneficiary who retains the benefit of illegitimate ITC or any tax evaded, equal to such amount.
- Similar provisions have been extended to such beneficiaries only in case of cognisable and non-bailable offences.

Alignment of definition of union territory

- Amendment in the GST law has been proposed to include Dadar and Nagar Haveli, Daman and Diu, and Ladakh as union territories.

Cancellation of registration

- GST officers have been empowered to cancel taxpayers' voluntary registration.

ITC in respect of debit notes

- Date of issuance of debit note will be considered for availing ITC.

> **Illegitimate availment of ITC without an invoice and benefit availed in cases of tax evasion has been made a cognisable and non-bailable offence**

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Goods and Services Tax

The following proposals shall be made effective from a date to be notified:

Retrospective amendment in transitional provisions

- The manner and time limit for availing transitional ITC of the pre-GST regime will be prescribed.

Refund of accumulated ITC of Compensation Cess disallowed on tobacco products

- Refund of accumulated credit of Compensation Cess on tobacco products arising out of inverted duty structure has been disallowed retrospectively with effect from 1 July 2017.

Issuance of tax invoice

- Categories of services or supplies to be notified with respect to which tax invoices are to be issued.

> **Additional window to allow transitional ITC could be a welcome move if implemented for all taxpayers retrospectively**

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Customs law

The following proposals are effective from 2 February 2020:

Imposition of Health Cess on specified imported medical devices

- New ad valorem Health Cess at the rate of 5% to be levied on import of specified medical devices, over and above the existing custom duties.
- Health Cess not levied on goods that are currently exempted from levy of basic customs duty (BCD) or on goods that qualify as inputs used in the manufacture of medical devices.
- Duty credit scrips would not be allowed for making payment of such cess.

> **Health Cess has been imposed with the dual objective of providing impetus to the Make in India scheme and creating a viability gap funding window for setting up hospitals under the Ayushman Bharat scheme**

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Customs law

The following proposals are effective from 2 February 2020:

Amendment in rules have been proposed related to anti-dumping duty on dumped articles and countervailing duty on subsidised articles:

- The amendments aim to strengthen the anti-circumvention measures and make them more comprehensive.
- Provisions for investigation in case of circumvention of countervailing duties have been incorporated to enable investigation and imposition of duty.

> **Stricter provisions for imposition of anti-dumping duties including investigations would help in protecting domestic players**

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Customs law

The following proposals will be made effective from the date of enactment of Finance Bill 2020:

Electronic duty credit ledger

- An electronic duty credit ledger will be created on the customs portal in order to provide duty credit in lieu of duty remissions (for export and other similar benefits) for duty payment.
- Consequential amendment has also been proposed for recovery of the above duty credit in case of fraudulent availment.

Stricter procedure to claim preferential rate of import duties

- Importers would be required to provide compliance declaration, maintain proper records and provide requisite data to substantiate compliance with rules of origin.

> **The proposal is a welcome move to avoid manual intervention, similar to the GST laws**

> **Non-compliance to amended procedures for claiming preferential rate could lead to full disallowance or temporary suspension**

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Customs law

The following proposals will be made effective from date of enactment of Finance Bill 2020:

Power to prohibit importation or exportation of goods

- Scope widened to cover uncontrolled import or export any goods, in addition to existing products (gold and silver), to prevent injury to the domestic market.

Recovery of duties

- Scope of recovery in case of fraudulent cases has been widened to cover instruments issued under any law or scheme of the central government in addition to customs and foreign trade policy.

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Changes in Customs Duty rates

- Various product specific and use-based rate changes proposed under Customs Tariff Act, 1975
- Key changes entail:
  - Product-specific revision of BCD (Annexure I)
  - Introduction of specific BCD exemptions (Annexure II)
  - Withdrawal of specific BCD exemptions (Annexure III)
  - Introduction of specific SWS exemptions (Annexure IV)
  - Withdrawal of specific SWS exemptions (Annexure V)
  - Withdrawal of certain exemption notifications (Annexure V)

> **Changes in duty rates are in line with the government's aim to protect, safeguard and boost domestic market, ultimately fulfilling the objective of its Make in India initiative**

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Customs Duty – Annexure I

Increase in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Food processing - walnuts, shelled	30%	100%
Other chemical products and preparations of the chemical or allied industries, not elsewhere specified	10%	17.5%
Footwear	25%	35%
Parts of footwear (covered under heading 6406)	15%	20%
Kitchen household items	10%	20%
Household electronic items (grinders, coffee and tea maker, shavers, water-heaters and other electrical products)	10%	20%
Table fan, ceiling fan, portable blowers	10%	20%
Coin (of precious metal)	10%	12.5%

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Customs Duty – Annexure I (cont'd.)

Increase in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Railway carriage fans	7.5%	10%
Other fans with a self-contained electric motor not exceeding 125W	7.5%	20%
Industrial fans blower, pressure vessels and air circulator	7.5%	10%
Compressor of refrigerator and air conditioner	10%	12.5%
Electrical freezers, commercial freezers and other freezers	7.5%	15%
Other chest type freezers	10%	15%
Refrigerating or freezing display counters, cabinets, showcases and the like items	7.5%	15%
Heat pumps other than AC machines, ice-making machinery	7.5%	15%

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Customs Duty – Annexure I (cont'd.)

Increase in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Stationary items	10%	20%
Welding and plasma cutting machines	7.5%	10%
Electronic goods - static converters	15%	20%
Other electronic goods - dip bridge rectifier, populated, loaded or stuffed printed circuit boards	10%	20%
Automobile and automobile parts - catalytic convertor	10%	15%
Furniture goods	20%	25%
Toys - wheeled toys	20%	60%
Miscellaneous items such as artificial flowers, glass beads, bells, gongs, statuettes, trophies	10%	20%

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Customs Duty – Annexure I (cont'd.)

Increase in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Colloidal precious metals; compounds of precious metals; amalgams of precious metals	7.5%	10%
Butyl acrylate	5%	7.5%
Precious stones and metals - polished cubic zirconia	5%	7.5%
Specified goods required for use in high voltage power transmission project	5%	7.5%
Rotary tillers/weeder	2.5%	7.5%
Motors like single-phase AC motors, stepper motors, etc.	7.5%	10%
Water cooler, vending machine, other than automatic	10%	15%

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Customs Duty – Annexure I (cont'd.)

Increase in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Specified goods for use in the manufacture of catalytic converters and its parts	5%	7.50%
Completely knocked down forms of electric vehicles - passenger vehicles, three-wheelers, two-wheelers, buses and trucks	10%	15%

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Customs Duty – Annexure I (cont'd.)

Increase in BCD - Effective from 1 April 2020

Description of goods	Pre-Budget	Post-Budget
PCB of cellular mobile phones	10%	20%
Completely built units of commercial vehicles (other than electric vehicles)	30%	40%
Completely built units of commercial electric vehicles	25%	40%
Semi-knocked down forms of electric passenger vehicles	15%	30%
Semi-knocked down forms of electric vehicles - buses, trucks and two-wheelers	15%	25%

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Customs Duty – Annexure I (cont’d.)

Decrease in BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Calendared plastic sheets for use in manufacturing of smart cards	10%	5%
Fuels, chemicals and plastics - calcined petroleum coke	10%	7.5%
Paper industry - newsprint, uncoated paper, lightweight coated	10%	5%
Spent catalyst/ash containing precious metal like gold from which such precious metal is retrieved subject to specified conditions	12.5%	11.85%

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Customs Duty – Annexure I (cont'd.)

New entries added to the First Schedule - Effective from 2 February 2020

Description of goods	Tariff rate	Effective rate
Wall fans	20%	20%
Open cell for television set	15%	0%
Solar cells not assembled	20%	0%
Solar cells assembled in modules or made up in panels	20%	0%

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Customs Duty – Annexure II

Exemption from BCD introduced – Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Pure-bred breeding horses	30%	Nil
Very low sulphur fuel oil	10%	Nil
Polyester liquid crystal polymers (LCP) for use in manufacture of connectors	10%	Nil
Specified sports goods	Applicable rate	Nil
Specified parts of microphone for use in manufacture	10%	Nil
Specified parts use in manufacture of micro fuse and sub-miniature fuse	7.5%	Nil
Specified military equipment imported by defence PSUs and other PSUs for defence forces	Applicable rate	Nil

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Customs Duty – Annexure III

Exemption withdrawn from BCD - Effective from 2 February 2020

Description of goods	Pre-Budget	Post-Budget
Precious stones and metals: - Gold used in the manufacture of semi-conductor devices - Rubies and other gem stones	Nil Nil	12.5% 0.5%
Specified goods required for construction of road like paver finisher, machines for filling up cracks in roads, mobile bridge inspection units, etc.	Nil	Applicable BCD
Copper and articles thereof used in the manufacture of specified electronic items	Nil	Applicable BCD
Fingerprint readers for use in cellular mobile phones	Nil	15%
Vibrator/ringer of cellular mobile phones (w.e.f. 1 April 2020)	Nil	10%
Display panel and touch assembly of cellular mobile phones (w.e.f. 1 October 2020)	Nil	10%

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
1.	Tuna bait [0303]
2.	Goods up to an aggregate of 10,000 metric tonnes of total imports of milk and cream, in powder, granules or other solid form in a financial year [040210, 04022100]
3.	Whey, concentrated, evaporated or condensed, liquid or semi-solid [0404 10 10]
4.	Other whey [0404 90 00]
5.	Butter, ghee, butter oil [0405]
6.	Other cheese [0406 90 00]
7	Pancreas (products of animal origin, not elsewhere specified) [Chapter 5]
8	Conch shell [0508 00]
9	Bulbs or tubers, other live plants [0601 or 0602]
10	All goods other than muslin or wheat [1001]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
11.	Muslin [1001]
12.	Maize up to an aggregate of 5 lakh metric tonnes of total imports of such goods in a financial year [1005 90 00]
13.	Sugar beet seeds [1209 10 00]
14.	Edible oils [1508, 1512, 1513, 1514,1515 or 1511 10]
15.	Refined vegetable oils of edible grade, in loose or bulk form (other than palm oil) [Chapter 15]
16.	Vegetable oils of edible grade, in loose or bulk form (other than those specified against S. No. 58 and palm oil), imported for the manufacture of oil commonly known as *vanaspati* or for refining. Explanation - The expression 'vegetable oil' means: (a) in case of cottonseed oil, oil having a free fatty acid content of at least 0.2%; (b) in case of any other vegetable oil, oil with free fatty acid content of at least 0.5%.

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
17.	Crude sunflower seed or sunflower oil up to an aggregate of 1,50,000 metric tonnes of total imports of such goods in a financial year [1512 11]
18.	Crude sunflower seed or safflower oil other than those specified against S. No. 68
19.	Refined rape, colza or mustard oil up to an aggregate of 1,50,000 metric tonnes of total imports of such goods in a financial year [1514 19 or 1514 99]
20.	Margarine, animal or vegetable oils of edible grade [1517 or 1518]
21.	Glycerol, crude, glycerol waters and glycerol lyes, (other than crude glycerin) [15200000]
22.	Raw sugar up to an aggregate of 3 lakh metric tonnes of total imports of such goods. Provided that the import of raw sugar in physical form is completed within 60 days from the date of issue of the Tariff Rate Quota Allocation Certificate or license by DGFT to the importer. Provided that the importer shall convert the raw sugar into white/refined sugar within a period, not exceeding 30 days, from the date of filing of bill of entry or the date of entry inwards, whichever is later [1701]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
23.	Dextrose monohydrate [1702]
24.	Molasses resulting from extraction or refining of sugar [1703]
25.	Chewing gum whether or not sugar-coated [1704 10 00]
26.	Food preparations, for infant use and put up for retail sale, of - (i) goods of headings 0401 to 0404, containing cocoa calculated on a totally defatted basis, in a proportion by weight of 5% or more but less than 10%, or (ii) flour, meal, starch or malt extract containing cocoa calculated on a totally defatted basis [1806 90]
27.	Preparations for infant use put up for retail sale [1901 10]
28.	Preserved potatoes [2004 10 00]
29.	Peanut butter [2008 11 00]
30.	Wine for use as sacramental wine [2204]
31.	Angostura bitters [2208]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
32.	Fin fish feed [2301 20, 2309 90 32, 2309 90 39]
33.	Dietary soya fibre [2304]
34.	Naphtha, when imported by Ratnagiri Gas and Power Private Limited (RGPPL), for use in generation of electricity in the power plants of RGPPL at Dabhol, Ratnagiri district, Maharashtra [2710]
35.	Naphtha, when imported for generation of electrical energy by a generating company as defined in section 2(28) of the Electricity Act, 2003 (36 of 2003) to supply electrical energy or to engage in the business of supplying electrical energy [2701]
36.	Propane, butane [27111200, 27111300]
37.	Electrical energy [2716 00 00]
38.	Phosphoric acid, for the manufacture of fertilisers[28]
39.	Japanese Encephalitis (JE) vaccine, imported by the Andhra Pradesh government through UNICEF [30]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
40.	Kyanite salts, in a form indicative of their use for manurial purpose [31]
41.	Isolated soya protein [3504]
42.	Colour positive unexposed cinematographic film in jumbo rolls and colour negative unexposed cinematographic film in rolls of 400 feet and 1000 feet [37]
43.	Instant print film [3701 20 00 or 3702]
44.	Cinematographic films, exposed but not developed [3704]
45.	Promotional material (like Trailers, making of film etc.) imported in the form of electronic promotion kits (EPK)/ beta cams (Any Chapter)
46.	The following polymers of ethylene: (i) Low density polyethylene (LDPE), (ii) Linear low-density polyethylene (LLDPE), (iii) High density polyethylene (HDPE), (iv) Linear medium density polyethylene (LMDPE), (v) Linear high-density polyethylene (LHDPE) [3901]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
47.	All goods other than poly iso-butylene [3902]
48.	All goods [3903]
49.	Compostable polymer or bio-plastic used in the manufacture of bio-degradable agro mulching films, nursery plantation pots and flower pots [39139090]
50.	Water blocking tape for use in the manufacture of insulated wires and cables falling under heading 8544 (except sub-heading 8544 11) [3919 90 90)]
51	Subbed polyester base, imported by M/s Hindustan Photo Films Manufacturing Company Limited, Ooty for the manufacture of medical or industrial X-ray films and graphic art films [3920]
52.	Patent leather [4114 2010]
53.	Raw fur skins [4301], tanned and dried fur skins [4302]
54.	Lead bars, rods, profiles and wire [7806]

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
55.	Zinc tubes, pipes and tube or pipe fittings [7907]
56.	Tin plates, sheets and strip, of a thickness exceeding 0.2 mm; tin foil (whether or not printed or backed with paper, paperboard, plastics or similar backing materials), of a thickness (excluding any backing) not exceeding 0.2 mm; tin powders and flakes [8007]
57.	Parts and components of the goods specified in list 10 required for use in high voltage power transmission project [any chapter]
58.	All items of equipment including machinery and rolling stock, procured by or on behalf of Delhi Metro Rail Corporation Ltd. for use in- (i) Delhi MRTS Project Phase-I; and (ii) Specified corridors of Delhi MRTS Project Phase-II, comprising of the following, a) Vishwavidyalaya-Jahangirpuri; b) Central Secretariat-Qutab Minar (via AIIMS); c) Shahdara-Dilshad Garden; d) Indraprastha-New Ashok Nagar; e) Yamuna Bank-Anand Vihar-Inter State Bus Terminus; and f) Kirti Nagar-Mundka (along with operational link to Shahdara-Rithala corridor) (any chapter)

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Customs Duty – Annexure III (cont'd.)

Exemption withdrawn from BCD – Effective from 2 February 2020

Sl. No.	Description of goods
59.	Goods specified in List 15 required for construction of roads [84 or any other chapter]
60.	The following goods required for manufacture of optical disk drives (ODD: (i) pick-up assembly, (ii) digital signature procession integrated circuit, (iii) DC motor, (iv) LDO voltage regulator [84 or any other chapter]
61.	The following goods: (a) sprinklers and drip irrigation systems for agricultural and horticultural purposes; (b) micro-irrigation equipment [8424]
62.	Disc harrows [8436 21 00]
63.	Parts for manufacture of printers falling under sub-heading 8443 32 (except 8443 99 51, 8443 99 52, 8443 99 53) [8443]
64.	CD-writers [8471]
65.	MP3 or MP4 or MPEG 4 player with or without radio or video reception facility [85]
66.	One set of pre-recorded cassettes accompanying books for learning languages and essential complement to such books. [85]

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Customs Duty – Annexure IV

Exemption introduced - Social Welfare Surcharge – Effective from 2 February

Sl. No.	Description of goods
1.	Whey, concentrated, evaporated or condensed, liquid or semi solid
2.	Cheese, other
3.	Bulbs or tubers, other live plants
4.	Specified almonds and walnuts
5.	Wheat and meslin
6.	Maize
7	Chewing gum, whether or not sugar-coated
8	Preparations suitable for infant or young children, put up for retail sale
9	Specified orange juice
10	Marble and travertine slabs
11	Specified tiles, cubes , stone and similar articles
12	Commercial vehicles (including electric vehicle), (W.e.f. 1 April 2020)

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Customs Duty – Annexure V

Exemption withdrawn – Social Welfare Surcharge – Effective from 2 February 2020

Sl. No.	Description of goods
1.	Certain items falling under chapter 84, 85 and 90 such as facsimile machines and teleprinters, automatic teller machines, specified loudspeakers, line telephone handsets, Information Technology software, parts of LCDs, etc.

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Customs Duty – Annexure VI

Exemption notifications withdrawn

Sl. No.	Notification No.	Notification Subject
1.	13/2010-Customs dated 19.2.2010	Exemption to import of goods in relation to Commonwealth Games, 2010
2.	73/1999-Customs dated 8.6.1999	Exemption to import by Power Grid Corporation of India for the setting up of Rihand-Sasaram-Bihar Shariff HV DC Link Back to Back Station Project
3.	205/1992-Customs dated 19.5.1992	Exemption to imports under Advance Customs Clearance Permit
4.	105/1999-Customs dated 10.8.1999	Exemption under SAARC Preferential Trade Agreement
5.	56/2006-Customs dated 7.6.2006	Exemption from Special additional duty to specified goods produced in Nepal

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Customs Duty – Annexure VI (cont'd.)

Exemption notifications withdrawn

Sl. No.	Notification No.	Notification Subject
6	22/2003-Customs dated 4.2.2003	This notification provides exemption to wool or woollen fabrics by Red Cross and Paper Money. [The entry related to Red Cross has been merged in notification No. 148/1994 –Customs dated 13.7.1994 and exemption to paper money will now be granted through notification No. 50/2017-Customs dated 30.6.2017. Accordingly, the notification No. 22/2003-Customs is being rescinded.]
7	22/2007-Customs dated 1.3.2007	Preferential rates on certain CTH
8	14/2004-Customs dated 8.1.2004	Water supply projects for industrial use exempted under Project Imports. This exemption will now be available through notification No. 50/2017 - Customs dated 30.6.2017

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Food and agriculture

Sector overview

Food and agriculture

- Agriculture and allied sectors have four sub-sectors:
  - Crops (horticulture and field crops): **CAGR 0.8%**
  - Livestock: **CAGR 7.3%**
  - Forestry: **CAGR 2.3%**
  - Fishing and aquaculture: **CAGR 8.5%**
- The Indian food processing industry accounts for **32% of the country's total food market** and provides employment to approximately **49% of the population.** It is ranked fifth in terms of production, consumption, export and expected growth.
- The government of India has accorded high priority to agriculture and has come out with several policy and safety net related measures to enhance farmers' income.

Source: India Brand Equity Foundation, Report on policies and action plan for secure and sustainable agriculture

Fast facts

15.40%
Contribution in GDP; key producer of rice, wheat, sugarcane, fruits and vegetables, spices, tea and coffee in the world

USD 265.51 billion
Gross value added by agriculture and allied industries in 2019

16.45%
CAGR of agriculture exports from 2010 to 2018; exports in 2019 amounted to USD 38.54 billion

25%
Expected CAGR of organic food market during 2017-23

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Sector overview

Food and agriculture

Some of the key policy initiatives of the government for the sector in the past few years are as follows:

- **Paramparagat Krishi Vikas Yojana (PKVY):** An area of **5 lakh acre** is targeted to be covered through **10,000 clusters** of **50 acre each.**
- **Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA):** An **outlay of INR 15,053** crore announced to ensure fair prices for farmers.
- **Pradhan Mantri Krishi Sinchayee Yojana (PMKSY):** INR **50,000 crore** has been invested to develop irrigation facilities to all agricultural farms in the country.
- **Pradhan Mantri Kisan Samman Nidhi (PMKISAN):** In 2019, **INR 2,021 crore** transferred to the bank accounts of more than **10 million beneficiaries.**

Source: Grant Thornton Insights

Recent announcements

- Allocation of INR 1,40,763.97 crore (USD 1.95 trillion) made to the Ministry of Agriculture
- Setting up of business incubators to develop 75,000 skilled entrepreneurs in the agro-rural industry sector.
- Formation of 10,000 new farmer producer organisations over the next five years
- Government to work for the benefit of farmers through e-NAM (National Agriculture Market)
- Focus on zero budget farming to double farmers' income

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Opportunities and challenges

Food and agriculture

Opportunities	Challenges
Farmer aggregation through farmer producer organisations	Fragmented land holdings together with inadequate access to capital
New technologies leading to increase in yield (micro irrigation, precision farming)	Limited access to training for farm-based practices, availability of quality agri-inputs
Growing population with high purchasing power resulting in steady increase in demand	Limited availability of farm-level infrastructure and storage facilities
Export potential/development of value chain-based agri-processing clusters	High dependence on middle-men and limited direct market linkages for sale of produce
Connecting farms with information communication technology	Rain-fed agriculture; inadequate access to irrigation facilities

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Key Budget announcements

Economic reforms

- Provision of energy sovereignty through PKVY
- Insurance for 6.11 crore farmers under PM Fasal Bima Yojana
- Liberalisation of farmer markets
- Adoption of sustainable cropping patterns and introduction of technology integrated methods

Proposal of 16 action points:

1. Encouraging the implementation of certain model laws (issued by Central Government) by state government
2. Comprehensive relief measures for 100 water-stressed districts
3. Expansion of PM-KUSUM scheme and facilitating the set-up of solar power generating capacity in barren lands
4. Encouragement to use of organic fertilisers over chemical ones
5. Creation of warehousing in line with Warehouse Development and Regulatory Authority (WDRA) norms achieved through viability gap funding
6. Proposal of village storage scheme run by women self-help groups (SHGs)
7. Introduction of Kisan Rail, providing seamless national cold supply chain of perishables
8. Launch of Krishi Udaan by Ministry of Civil Aviation on national and international routes

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Key Budget announcements

Economic reforms

9. Focus on 'one product one district' for better marketing and export in horticulture
10. Expansion of integrated farming systems, zero-budget natural farming and strengthening of jaivik kheti (online national organic products)
11. Integration of e-NWR (Negotiable Warehousing Receipts) with e-NAM (National Agriculture Market)
12. Expansion of NABARD re-finance scheme
13. Elimination of foot and mouth disease, brucellosis in cattle and also peste des petits ruminants (PPR) in sheep and goat; facilitating the doubling of milk production capacity
14. Framework for development, management and conservation of blue economy
15. Employment of youth in coastal areas through Sagar Mitras and fish farmer producer organisations with view to raise fishery exports
16. Mobilisation of funds under Deen Dayal Antyodaya Yojana for alleviation of poverty and expand SHGs

    Fund allocation for the above-mentioned reforms is as follows:

Particulars	Amount (in crore)
Agriculture, irrigation and allied activities	1.60 lakh
Rural development and Panchayat Raj	1.23 lakh
Total	**2.83 lakh**

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Healthcare

Sector overview

Healthcare

- The healthcare sector has four major sub-sectors:
  - Hospitals
  - Pharmaceutical
  - Allied services (diagnostic centres, medical devices, etc.)
  - Health tech
- India is the second largest contributor of global biotech and pharmaceutical workforce. It accounts for 20% of global exports in generics, and pharmaceutical exports stood at INR 1.2 lakh crore in 2017-18.
- Indian pharmaceutical companies received over 350 generic drug approvals in the US during 2019
- The National Pharmaceutical Pricing Authority regulates prices of scheduled drugs in India.
- The healthcare market in India is expected to reach USD 372 billion by 2022, driven by rising incomes, greater health awareness, lifestyle diseases and increasing access to insurance.
- The hospital industry in India is expected to grow at a CAGR of 16-17% to reach USD 132.84 billion by FY 22 from USD 62 billion in FY 17.
- The world's largest government-funded healthcare scheme, Ayushman Bharat, was launched in India in September 2018.

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Key regulatory updates from 2019-20

Healthcare

- **Price capping and trade margin capping:** The National Pharmaceutical Pricing Authority (NPPA), which has the responsibility for monitoring and regulating drug prices in India, has reduced the MRP of 526 anti-cancer drugs in 2019. In April 2019, the Department of Pharmaceuticals (DoP) had proposed a few options on drug price capping including capping of trade margins at 30% on non-scheduled drugs.

- **Pharma freebies to healthcare providers:** Hon'ble Union Health Minister, Dr. Harsh Vardhan, informed the Parliament on 12 July 2019 that pharma freebies to doctors would invite disciplinary action, not just on doctors but also on CEOs of pharma companies indulging in unethical drug marketing practices. It remains to be seen what shape the disciplinary action against CEOs of pharma companies will take.

- **Ayushman Bharat Yojana:** Budget allocation for the Ayushman Bharat Yojana, India's universal healthcare programme, saw a significant 167% increase to INR 6,400 crore in Union Budget 2019.

- **Pharma Vision 2020**: The government's Pharma Vision 2020 aims at making India a global leader in end-to-end drug manufacture.

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Opportunities and challenges

Healthcare

Opportunities	Challenges
Low public spending on healthcare	Use of preventive medicine
Demand-supply gap: Beds, doctors and locations	Increasing prevalence of chronic and lifestyle diseases
Low insurance penetration	Newer diseases and infections
Attracts less than 2% allocation of GDP spend	Increasing discretionary income in middle class households
Access to affordable healthcare for all	Government impetus to the healthcare industry in India
High levels of import in medical devices, equipment and consumables	Rising access to insurance
Significant R&D investment with long gestation periods	Need for penetration of health services in tier 2 and 3 cities and rural India
Implementation of indirect tax amendments/ positions across distribution channels	Advancements in medical technologies: IVF, embryology, genome sequencing, etc.

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Key Budget announcements

Healthcare

UNION BUDGET 2020
consumer sector

- Received Budget allocation of about INR 69,000 crore, including INR 6,400 crore towards the Prime Minister Jan Arogya Yojana (PMJAY)
- **Eradication of tuberculosis:** 'TB Harega Desh Jeetega' campaign launched to eradicate tuberculosis by 2025
- **Availability of affordable generic drugs to be expanded:** Jan Aushadhi Kendra Scheme, a scheme to provide affordable generic drugs to the masses through special 'kendras', to be expanded to all districts offering 2000 medicines and 300 surgical items by 2024
- **Support to domestic manufacturing**
  - Handholding support for pharmaceutical industry among others for technology upgradations, R&D, business strategy, etc.; the handholding scheme for the pharmaceutical industry proposed to be financed by a scheme of INR 1,000 crore, which will be anchored by EXIM Bank together with SIDBI; both these institutions would contribute INR 50 crore each; the INR 100 crore to be used towards equity and technical assistance; debt funding of INR 900 crore from banks to be made available
  - A health cess, by way of custom duty, is introduced on import of medical equipment; proceeds of the cess are to be used for viability gap funding of hospitals in aspirational districts
  - Proposed scheme for encouraging manufacture of medical devices, details of which will be announced later

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Key Budget announcements

Healthcare

- **Viability gap funding for empaneling hospitals under universal healthcare:** Proposal to set up viability gap funding window for setting up hospitals in the PPP mode in order to increase the number of empaneled hospitals in tier-2 and tier-3 cities covered under PMJAY; in the first phase, 112 aspirational districts where there are no Ayushman-empaneled hospitals have been identified.
- **Reaching immunisation goals:** Mission Indradhanush, which aims to achieve 90% immunisation against vaccine-preventable diseases, expanded to cover 12 such diseases from the existing 8, including five new vaccines
- **Use of machine learning and AI in preventive healthcare:** Using machine learning and AI in the Ayushman Bharat scheme, health authorities and the medical fraternity can target disease with appropriately designed preventive regimes
- **Holistic view to women's health:**
  - A task force to be appointed to study and provide recommendations related to women's welfare, including maternal mortality ratio (MMR), education and careers for women, age of a girl entering motherhood, etc.
  - Under the 'Poshan Abhiyan', more than six lakh anganwadi workers equipped with smart phones to upload the nutritional status of more than 10 crore households

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Key Budget announcements

Healthcare

- **Swatch Bharat Mission:** INR 12,300 crore allocated towards Swatch Bharat Mission
- **Clean water:** INR 3.6 lakh crore allocated to Jal Jeevan Mission to provide piped water supply to all households; this scheme places emphasis on augmenting local water sources, recharging existing sources and promoting water harvesting and de-salination
- **Skill improvement for nurses, para-medical staff and care-givers abroad:** The Ministry of Health, through a special training package, to design a special course to improve the employment opportunities for nurses, para-medical staff and care-givers abroad

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Auto and manufacturing

Sector overview

Auto

The Indian automobile industry is one of the driving forces of the economy, contributing about **49% to the country's manufacturing** GDP and **7.5% to its overall GDP.**

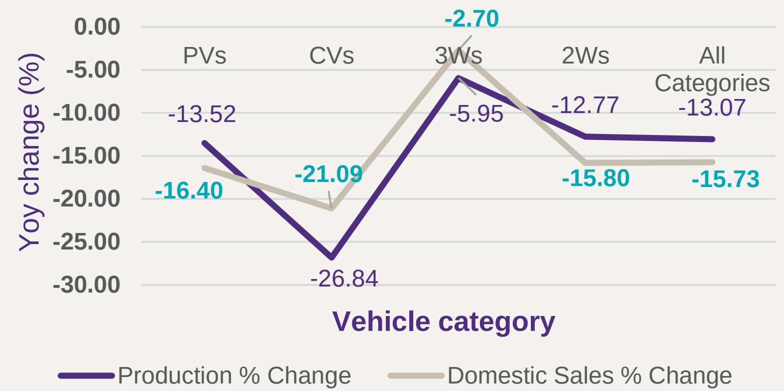
In 2018, the Indian automobile market pipped Germany's to become **the fourth largest in the world.** It has emerged as one of the largest automotive markets both in Asia and worldwide with passenger car production levels exceeding 4 million units.

With the scale of introduction of **electric vehicles (EVs) and the impact of BS VI enforcement**, the Indian automobile industry is under intense pressure, witnessing sales decline since July 2019.

Higher monsoon deficit has impacted rural demand. Liquidity issues with dealers coupled with inventory corrections for better business viability have resulted in a sizable volume decline across the automobile segment.

OEMs slashed production by 11% in the April-June 2019 period and continue to take a production cut.

Cumulative production, domestic sale growth (Apr-Dec 2019)



Source: SIAM

Number of cars produced in India	**4 m units**
Total production capacity of 2w and 3w in India's automotive industry	**27.56 m units**
The sector's value chain employs	**32 m people**

Yoy % change (Apr-Dec 2019)

Sales	**-15.73**
Production	**-13.07**
Exports	**3.86**

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Opportunities and challenges

Opportunities

- Increased M&A in the sector
- Green mobility with BS VI implementation, new and upgraded models
- Focus on battery cells and battery management system give a boost to EVs
- Budget expectations on lower custom duties and reduced GST
- Provision of USD 1.4 billion subsidies for sales of hybrids and EVs over a three-year period
- Reduced corporate tax
- MEMS and sensor technologies
- Automotive telematics
- IoT-aided vehicles
- Renewed focus on R&D
- Commitment to the development of indigenous production capability and capacity
- Application of National Electric Mobility Mission Plan (NEMMP) 2020
- Faster Adoption and Manufacturing of (Hybrid and) Electric vehicles (FAME India)

Challenges

- Light-weighting and electrification of powertrains
- Development of innovative and low-cost batteries including its recycle and reuse
- Large inventory and low demand, slowing down production
- Low consumer sentiments with postponement of purchases
- Shortage of skilled professionals - Large gap between demand and supply
- Tight liquidity and distress in rural markets
- Comprehensive vehicle scrappage policy for end-of-life vehicles (ELVs)
- High cost of ownership of vehicles coupled with high prices of crude oil
- Disruption in the form of shared mobility ventures

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Sector overview

Manufacturing

Manufacturing has emerged as a fast-growing sector owing to the rapidly increasing population in the country with 16% GDP contribution.

Investments in the sector have been on the rise and initiatives like 'Make in India' are aiming to turn the South Asian country into a global manufacturing hub.

Under the Make in India initiative, the government aims to increase the share of the manufacturing sector to the GDP to 25% by 2022 and to create 100 million new jobs by 2022.

The themes of ease of living and ease of being compliant in doing business by the government are expected put India at par with global developed economics.

The National Policy on Electronics (NPE) launched in February 2019 has envisaged the creation of a USD 400 billion electronics manufacturing industry by 2025. A 32% growth rate has been targeted globally in the next five years.

The export-oriented policy for electronic goods would give impetus to exports and encourage big investments in creating large (port-based) manufacturing clusters.

UNION BUDGET 2020 industrial sector

India's jump in several global indices FY19

Ease of doing business index	#77
Start-up ecosystem ranking	#17
Global manufacturing index	#30
Logistics performance index	#44
Global innovation index	#58
Global competitiveness index	#58

Source: Invest India

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Opportunities and challenges

Manufacturing

Opportunities	Challenges
Strong government support, especially smartphones and automobiles (EVs in particular)	Lack of stringent intellectual property laws, and their enforcement
Large investments in R&D and skill development by OEMs to enhance efficiency and competency	Less-than-optimum capacity utilisation leading to efficiency loss
Developing industrial corridors and smart cities	Regulatory blockades and shortage of skilled labour
A large and young consumer base with rapid urbanisation and rising purchasing power	High cost of raw material, transportation and finance

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Key Budget announcements

Automotive

Schemes

a) The government proposes a scheme for manufacturing of electronic equipment and semi-conductors to attract foreign investments and help EV manufacturing for encouraging newer technologies like connected platform

b) INR 1,000 crore handholding scheme for mid-sized companies including those in auto components will give a thrust to exports, R&D and technology absorption

c) Auto component industry significantly dominated by MSMEs; provision for access to working capital through new scheme will enable them to remain competitive

Schemes

a) Increase in rates of CBUs – CVs, commercial EVs, SKD rates on EVs will encourage localisation

b) The proposed NIRVIK scheme to provide enhanced insurance cover and reduce premium will boost the credit availability to component exporters

c) Creation of Unified Procurement System in the country in the Government e-Marketplace for providing a single platform for procurement of goods, services and works. A great opportunity for MSMEs

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Key Budget announcements

UNION BUDGET 2020 industrial sector

Manufacturing

Infrastructure

a) INR 1.7 lakh crore provided for transport infrastructure in 2020-21

b) Accelerated development of highways with 2,500 km of access control highways, 9,000 km of economic corridors, 2,000 km of coastal and land port roads and 2,000 km of strategic highways

c) 100 more airports to be developed by 2024 to support the Udaan scheme

d) Policy to enable the private sector to build data centre parks soon, enhancing connectivity and digitisation of the sector

e) National Logistics Policy to be released soon to create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive

f) 1,150 trains to be run in PPP mode; 4 stations to be redeveloped with help of private sector investment

Miscellaneous

a) INR 3,000 crore for skill development in FY21

b) Knowledge Translation Clusters to be set up across technology sectors in new and emerging areas

c) Proposal to ease the burden of ESOP taxation on the employees by deferring the tax payment to boost to start-up ecosystem

d) e-NWR (Negotiable Warehousing Receipts) to be integrated with e-NAM

e) Proposal to create warehousing in line with Warehouse Development and Regulatory Authority (WDRA) norms; government would provide viability gap funding for setting up efficient warehouses

f) Focus on ‘one product one district’ for better marketing and export

g) Aim to improve physical quality of life through National Infrastructure Pipeline and to achieve seamless delivery of services through digital governance

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Infrastructure

Sector overview

Infrastructure

- The infrastructure sector has been a growth propeller for the Indian economy. The correlation of infrastructure investment to GDP has always been high. Last year, the correlation between investment in road, rail and airport infrastructure to the GDP of the country was at 0.9.
- Massive investment is required in infrastructure to achieve the targeted economic growth of the country. India requires investment worth INR 50 trillion in infrastructure by 2022 to have sustainable development in the country.
- India needs to spend 7% to 8% of the GDP in infrastructure every year to be able to sustain the requirements.
- Recognising this, the government has been increasing its spending on infrastructure every year, with particular focus on large infrastructure investments in the areas of roads and highways, smart cities, airport and rail sector.
- India has considerably improved its ease of doing business ranking to 63 in 2020, indicating the positive thrust on improving the industrial scenario through provision of good infrastructure.

Source: Grant Thornton insights

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Sector overview

Infrastructure

Some of the key policy initiatives taken by the government recently are as follows:

- **National highway grid project:** Developing a national highway grid using a financeable model like 'toll operate transfer’
- **Smarty Cities and urban rejuvenation:** With the intent of supporting rapid urban growth and making the cities liveable, the government has launched the Smart Cities Mission
- **Railways and power:** Public-private partnership model to ensure faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services
- **Infrastructure financing:** Creation of National infrastructure Fund created with INR 400 billion and setting up of the Credit Guarantee Enhancement Corporation
- **Jal Marg Vikas Project:** Enhancing the navigational capacity of River Ganga, primarily to develop our inland waterways to shift a significant portion of inland cargo movement from road and rail
- **Constitution of the Jal Shakti Mantralaya:** Integrating the Ministry of Water Resources, River Development and Ganga Rejuvenation and Ministry of Drinking Water and Sanitation; coordinated work with states to ensure piped water supply to all rural households by 2024 under the Jal Jeevan Mission
- **Housing sector**: Introduction of RERA a significant step; PMAY launched, covering 4,427 cities/towns

Source: Grant Thornton Insights

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Opportunities and challenges

Infrastructure

Opportunities	Challenges
Contribution to increase the GDP growth and per capital income	Delays in approvals for commencing new projects coupled with slow and often incomplete land acquisition process
An outcome-based approach to improve the urban infrastructure sector and its investments	Inability of spending the allocation due to delays in project execution
A liberalised FDI regime to boost the much-needed private investments	Uniformity in private investment: Large and international private players prefer developed states
A well-knit ecosystem bringing together project financing, policy/regulatory, stakeholder involvement, technology, governance and institutions	Absence of resolution mechanism for disputed projects, leading to time and cost overruns and halting implementation

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Key Budget announcements

Infrastructure

- Proposal to set up a project preparation facility to enable recent pipeline projects
- Infrastructure agencies to involve youth in infrastructure start-ups
- Single window e-logistic market focuses on generation of employment, skillset, etc.
- Development of railway station and introduction of new passenger trains on PPP basis, to bring about efficiency, remove bottlenecks and ensure better passenger amities

- National Logistics Policy to be launched, providing impetus to growth in the sector
- 5 Smart Cities proposed to be developed in collaboration with the states under PPP mode; these cities will be chosen to develop upcoming economic corridors, manufacturing and technology
- Monetise at least 12 lots of highway bundles of over 6,000 km before 2024
- More number of trains similar to Tejas
- Setting of large solar power capacity

- Development of the following likely to add to the current momentum in the sector:
  - 2,500 km of access-control highways
  - 9,000 km of economic corridors
  - 2,000 km of coastal and land port roads
  - 2,000 km of strategic highways
- Extension of confessional withholding tax in respect of infrastructure debt fund

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Key Budget announcements

Infrastructure

- Dhubri-Sadiya connectivity to be done by 2022
- 100 more airports to be developed under UDAAN by 2024, which is likely to give a boost to the aviation sector including aviation infrastructure
- Viability gap funding for setting up of hospitals under PPP mode, which is expected to give a fillip to private investments in the health sector and create facilities
- Corporatising at least one major port
- To invest INR 1.70 lakh crore for transport infrastructure

- INR 22 thousand crore to be provided to the power and renewable energy sector
- Expansion of national gas grid to 27,000 km, which is likely to increase spending in the sector, thus improving the gas distribution network

- Exemption from income in nature of dividend, interest, LTCG held by sovereign wealth fund, Abu Dhabi Investment Authority, subject to minimum lock in of 3 years
- New tax regime at 15% for power-generation companies
- Extension of concessional withholding tax in respect of infrastructure debt fund

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Real estate

Sector overview

Real estate

- The real estate sector comprises four sub sectors:
  - Housing
  - Retail
  - Hospitality
  - Commercial.
- The sector is expected to reach USD 1 trillion by 2030 and is likely to contribute 13% to the country's GDP by 2025 backed by positive trends in investor sentiments, emerging trends of co-working space and quality offices, government's initiatives in the sector, together with stabilisation of RERA and GST.
- While the housing sector has been struggling with muted demand, consumer distrust and liquidity crisis, certain initiatives by the Indian government like Smart Cities Project, PMAY, National Urban Housing Fund and Housing for All initiative have contributed to growth.
- Various initiatives have been undertaken by the government based on the recommendations of the GST Council.

Fast facts

13%
GDP contribution by 2025

USD 1 trillion
Expected size of the sector by 2030

Bengaluru
Most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun

Source: India Brand Equity Foundation, Statista

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Sector overview

Real estate

Some of the key policy initiatives taken by the government for the real estate sector are as follows:

Real Estate (Regulation and Development) Act, 2016: Aims to enhance transparency, bring greater accountability in the realty sector and set disclosure norms to protect the interest of all stakeholders

Affordable Housing Fund (AHF): AHF created in the National Housing Bank (NHB) with an initial corpus of INR 10,000 crore, using priority sector lending shortfall of banks/financial institutions for micro-financing of housing finance companies; 100% deduction in profits for affordable housing construction

PMAY: 1.12 crore houses sanctioned in urban areas

The Smart Cities Project: Plans to build 100 Smart Cities provide a prime opportunity for real estate companies

National Urban Housing Fund (NUHF): NUHF was approved with an outlay of INR 60,000 crore

Additional funding: The Union Cabinet has approved the setting up of an AIF amounting to INR 25,000 crore to revive around 1,600 stalled housing projects across top cities in the country

Real estate investment trust (REIT): SEBI given approval for REITs, which will help in allowing all kinds of investors to invest in the Indian real estate market

Interest subsidy for first-time homebuyers: Deduction of additional interest of INR 50,000 per annum for first-time home buyers for loans of up to INR 35 lakh sanctioned during the next financial year for houses with a value not exceeding INR 50 lakh

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Opportunities and challenges

Real estate

Opportunities	Challenges
Attractive tax incentives for homebuyers	Trust deficit with the customers, leading to muted demand
Affordable housing	Single-window clearance mechanism not in place
Success of the first REIT in the country	RERA not getting stabilised across key real estate markets
Liberalised FDI regime	Inability of the builders to lower prices
Growth in e-commerce, global R&D and consulting leading to the demand for office and warehousing space	Availability of adequate funds for developers
Co-working/co-living and fragmented ownership could be new drivers of growth	Limit of INR 200,000 as loss on house property for rented properties impacted yields of retail investors

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Key Budget announcements

UNION BUDGET 2020 industrial sector

Industry

- 5 Smart Cities proposed to be developed in collaboration with states under PPP mode; these cities to be chosen to develop upcoming economic corridors, manufacturing and technology

Direct tax

Developers: Tax holiday on profits earned by developers engaged in development of affordable housing projects extended by 1 year (from 31 March 2020 to 31 March 2021)

Buyers: Extension of the additional INR 1.5 lakh tax deduction on interest paid on affordable housing loans from March 2020 to March 2021

Direct tax

- The tolerance band for exemption (of buyer and seller) from the taxation of the differential between consideration of immovable property and stamp duty value increased from 5% to 10%

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Financial services

Sector overview

Financial services

- India has a diversified financial sector undergoing rapid expansion, in terms of both strong growth of existing financial services firms and new entities entering the market.
- In the last few years, the focus of the government to build a digital payment ecosystem has led to an increased formalisation of the Indian economy, and helped channelise retail investments into financial products offered by mutual funds, insurance companies, etc.
- In the last few years, various initiatives have been taken by the government for digitisation of financial products (such as PMJDY, Aadhar-enable e-KYC, UPI, etc.) and increased penetration of the banking/NBFC sector in rural and remote areas of the country. This has led to the formalisation of the economy and higher spending habits.
- With the introduction of the Insolvency and Bankruptcy Code (IBC), banks have been able to recover bad loans from defaulting borrowers expeditiously. IBC has addressed stressed assets worth over INR 4 lakh crore.

Fast facts

INR 26,54,075 crore
Assets under management (AUM) of Indian mutual fund industry as on 31 December 2019

USD 14.18 billion
Inflow in equity mutual funds in FY 2018-19

USD 30.72 billion
First year life insurance premium during FY 2018-19

Source: India Brand Equity Foundation, AMFI India

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Sector overview

Financial services

Some of the key policy initiatives of the government for the financial services sector in the recent past are as follows:

- **Consolidation of banks:** The government has initiated consolidation of weaker public sector banks with stronger public sector banks. This would lead to increased capital with banks for kick-starting the credit cycle.
- **NBFCs:** For purchase of high-rated pooled assets amounting to INR 1 lakh crore of financially sound NBFCs, the government will provide a one-time partial credit guarantee to public sector banks (PSB) for first loss of up to 10%.
- **Housing Finance Companies:** The NOF requirement for HFCs has been enhanced from INR 2 crore to INR 10 crore.
- **Foreign Portfolio Investors (FPIs):** The government has permitted investment under the FPI route up to the sectorial limits prescribed under the exchange control regulation as against the present limit of 24%.
- **Insurance:** 100% FDI will be permitted for insurance intermediaries.

The government is considering increasing minimum public shareholding in listed companies from the existing 25% to 35%.

Source: Grant Thornton insights

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Opportunities and challenges

Financial services

Opportunities	Challenges
Implementation of GST to promote export, create employment opportunities and encourage competition	Taxation of income distributed by securitisation trusts coupled with implementation of Income Computation and Disclosure Standards (ICDS)
Skill India and Make in India programmes promote India as a manufacturing hub	Rising bad loans and sluggish profits
Widening reach across various segments to benefit the insurance sector	Customer retention
Better corporate governance and effective framework leading to continued growth in equities and innovative products	Increasing regulatory compliance burden

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Key Budget announcements

Financial services - Economic reforms

- Deposit insurance coverage limit allowed to be increased from INR 1 lakh to INR 5 lakh per depositor
- Eligibility limit for NBFCs w.r.t debt recovery under SARFAESI Act proposed to be reduced to asset size of INR 100 crore or loan size of INR 50 lakh, from the existing limit of INR 500 crore and INR 1 crore respectively
- Specified categories of g-securities would be available for investment by non-residents as well

- Universal pension scheme with auto enrollment to be introduced
- Proposal to extend the Partial Credit Guarantee Scheme by offering support to guarantee-floated securities for NBFCs/HFCs
- An app-based invoice financing loan product to be launched for MSMEs
- FPI limits for corporate bonds to be increased to 15% from the existing 9%

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Key Budget announcements

Financial services - Economic reforms

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technology sector

- Proposal for subordinate debt scheme to address working capital credit requirement of MSME entrepreneurs by banks as quasi-equity and fully guaranteed through Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE)
- Window for restructuring of debt available for MSMEs may be extended up to 31 March 2021
- Introduction of new debt based ETF focusing on g-securities
- Necessary amendments made to the Factor Regulation Act 2011 to enable NBFCs to extend invoice financing to MSMEs through TReDS, thereby enhancing their economic and financial sustainability

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Key Budget announcements

Financial services - Economic reforms

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Specific Exemption to SWF

Interest, dividend and long-term capital gains exemption provided to SWFs on investments made in entities engaged in infrastructure facilities or such other business as may be notified; such investment to be in the form of equity or debt instrument made on or before 31 March 2024 and are held for at least 3 years

Applicability of indirect transfer provisions

Category I FPI exempted from the applicability of indirect transfer provisions

Levy of Commodity Transaction Tax (CTT)

CTT introduced on sale of options in goods and on sale of commodity derivatives based on prices or indices

Amendment in definition of business trust

Definition of 'business trust' amended now to include those trusts which are registered as an InvITs or a REIT with SEBI as per relevant regulations and not listed on a recognised stock exchange in India

Taxability of interest payments for non-resident investors

The benefit of concessional withholding tax rate of 5% extended till 30 June 2023 on interest payment:

a) To non-resident for monies borrowed in foreign currency

b) To FPI in RDBs and government securities

Similarly, concessional tax rate of 5% introduced on investments by FPI in municipal bonds and tax rate of 4% on investments by non-resident in certain types of bonds listed on a recognised stock exchange located in IFSC

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Key Budget announcements

Financial services - Key tax announcements

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Business connection for an offshore fund

Under the existing provisions, fund managers of eligible investment funds (EIFs) do not constitute ‘business connection’ in India for the EIF. This is subject to conditions which include a cap of 5% investment by residents in the particular EIF. This condition is proposed to be relaxed, whereby the investment by the fund manager during the first three years not exceeding INR 25 crore shall not be counted for the 5% cap. Further, it is proposed that the minimum fund corpus shall be achieved within 12 months instead of the existing 6 months.

Clarity on segregated portfolio

Currently, there is no guidance for determining the cost of segregated portfolios as directed by SEBI. It is now proposed that the cost of acquisition of units in the segregated portfolio shall be determined based on respective NAVs. The period of holding will be computed for the segregated units as per the period of holding of the original units.

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Technology

Sector overview

Technology

- Digital is one of the fastest growing segments and now accounts for over 20% of the industry exports. Revenue from the segment is expected to account for 38% of the forecasted USD 350 billion industry revenue by 2025.
- Exports from the industry increased to USD 137 billion in FY19, while domestic revenues (including hardware) advanced to USD 44 billion.
- The sector represents:
  - More than 55% share in global outsourcing market
  - More than 45% share in Indian services export
- Cumulative FDI in computer software and hardware sector between April 2000 and March 2019 stood at USD 37.23 billion.
- The number of internet users in India is expected to cross 600 million by 2021, supported by investments in telecom infrastructure and fast adoption of digital technology.
- Leading Indian IT firms are diversifying their clients offerings such as blockchain and AI using innovation hubs and R&D centres in order to create differentiated offerings.
- The Indian start-up ecosystem ranks third among global start-up ecosystems with more than 4,200 start-ups.

UNION BUDGET 2020
technology sector

Fast facts

7.5%
Share in India's GDP

USD 181 billion
India's IT and ITeS industry size in 2018-19

10.5%
Expected average CAGR of IT services between 2018 and 2021

3.9 million
Largest employer within the private sector

Source: India Brand Equity Foundation, Invest India and Economic Times

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Sector overview

Technology

Some of the key policy initiatives taken by the government for the sector recently are as follows:

- **Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA):** It was launched to make at least one person per eligible household digitally literate by March 2019. Various digital trainings have been provided to over 10.25 million people so far.
- **Digital scheme:** Various digital schemes were launched to promote 4 Es - Education, Employment, Entrepreneurship and Empowerment.
- **Space technology:** A public sector enterprise New Space India Limited (NSIL) has been incorporated as a new commercial arm of the Department of Space to tap the benefits of the R&D carried out by Indian Space Research Organisation (ISRO).
- **Skill focus on new technology areas:** By implementing ‘Kayakave Kailasa’, the government will enable about 10 million youth to take up relevant skill training through the Pradhan Mantri Kaushal Vikas Yojana (PMKVY). It will include new-age skills like AI, IoT, big data, 3D printing, VR and robotics.
- **Others:** The government has announced plans to launch a national programme on AI and setting up of a national AI portal. It has also introduced programmes to promote start-ups in India.

National Policy on Software Products-2019 was passed by the Union Cabinet to develop India as a software product nation.

Source: Grant Thornton insights

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Opportunities and challenges

Technology

Opportunities	Challenges
Large ecosystem of start-ups driving innovation and disruption	Strengthening protection of intellectual property
IoT to promote growth in software and services	Improving ease of doing business
Knowledge-based transformation backed by SMART nation initiative	Reskilling/upskilling of the IT workforce
Government incentives and import tariffs to promote hardware manufacturing	New security and data protection threats
Data localisation requirements and increase in data consumption	Outsourcing and geo-political risks

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Telecom

Sector overview

Telecom

- The telecom industry in India is the second largest in the world with a subscriber base of over 1.2 billion. The industry has witnessed exponential growth primarily driven by affordable tariffs, wider availability, expanding 3G/ 4G coverage and evolving consumption patterns of subscribers.
- The Indian mobile handset market, the second largest in the world, is expected to grow in single digits in 2020, lower than the 2019 levels, as consumers are hesitant to upgrade to smartphones and hold their devices longer.
- The government's plan to develop 100 Smart City projects has IoT play a vital role in the development of those cities. The success of these projects hinges on robust telecom infrastructure.
- The National Digital Communications Policy 2018 has envisaged investments worth USD 100 billion in the telecommunications sector by 2022.
- Despite the Make in India and Digital India initiatives, India is still trailing to become a major production hub for an assembly of range of products called network products.

Fast facts

8%
Share in India's GDP

USD 21 billion
India's telecom adjusted gross revenue in 2018-19

(-) 7%
Drop in AGR in 2018-19 over last year

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Sector overview

Telecom

Some of the key regulatory developments in the telecom sector recently are as follows:

- TRAI deferred the implementation of the zero-interconnect usage charges (IUC) regime by a year till 01 January 2021, and separately sought stakeholder views on whether it should set a floor and ceiling for voice and data tariffs.
- As an outcome of an SC ruling on AGR, telecos have been asked to pay the government around USD 21 billion in licence fees, SUC, penalties and interest payments.
- Given the financial strain on telecos owing to an SC's ruling, industry representation(s) have been made to DOT to delay the 5G spectrum auction by at least 3 to 5 years to enable the government get proper valuations for the bandwidth.

Over 1,00,000 jobs created since the introduction of the National Digital Communications Policy-2018; another 300,000 projected by 2020

Source: Grant Thornton Insights

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Opportunities and challenges

Telecom

Opportunities	Challenges
Mobile market growth to be led by rural areas	ARPUs still under pressure in the dominant prepaid market due to intense competition
Data consumption trends have increased significantly in recent times	Industry under high debt burden from capex spends in the past; AGR ruling adds to the woes
5G and extended 3G/4G rollout to power digital revolution in India	Network capacity lagging behind the demand

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Key Budget announcements

Technology and telecom

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technology sector

- BhartNet, a digital connectivity initiative gets an allocation of INR 6,000 crore. Fibre-to-home connection will link 100,000 gram panchayats
- An outlay of INR 8,000 crore over five years planned for the National Mission on Quantum Computing and Technology
- Government to unveil policy to enable private sector to build data centre parks across the country

- Tax relief for start-up employees by deferment of tax payment on ESOPs
- Early-life funding, including a seed fund, to support ideation and development of early stage start-ups
- Eligibility norms for start-ups to claim 100% profits deduction relaxed
- Proposal to setup a national university for forensic science and cyber-forensics

- Set-up of digital platform to ease registration of intellectual property rights
- Knowledge translation clusters to be set up across different technology sectors
- Scheme to promote manufacture of mobiles and electronic equipment to boost job creation

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Contact us

NEW DELHI
National Office
Outer Circle, L 41
Connaught Circus
New Delhi 110001
T +91 11 4278 7070

NEW DELHI
6th floor, Worldmark 2,
Aerocity
New Delhi - 110037
T +91 11 4952 7400

AHMEDABAD
7th Floor, Heritage
Chambers,
Nr. Azad Society,
Nehru Nagar,
Ahmedabad - 380015

BENGALURU
5th Floor, 65/2, Block A,
Bagmane Tridib, Bagmane Tech
Park, C V Raman Nagar,
Bengaluru – 560093
T+91 80 4243 0700

CHANDIGARH
B-406A, 4th Floor,
L&T Elante Office Building,
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI
7th Floor, Prestige Polygon
471, Anna Salai,
Teynampet
Chennai 600018
T +91 44 4294 0000

DEHRADUN
Suite 2211, 2nd floor
Building 2000, Michigan Avenue
Doon Express Business Park
Subhash Nagar, Dehradun -
248002 T +91 135 2646 500

GURGAON
21st Floor, DLF Square
Jacaranda Marg, DLF
Phase II
Gurgaon 122002
T +91 124 462 8000

HYDERABAD
7th Floor, Block III,
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI
6th Floor, Modayil Centre point
Warriam road junction,
M.G.Road
Kochi 682016
T +91 484 406 4541

KOLKATA
10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI
16th Floor, Tower II, Indiabulls
Finance Centre, SB Marg,
Prabhadevi (W)
Mumbai 400013
T +91 22 6626 2600

MUMBAI
Kaledonia, 1st Floor,
C Wing (Opposite J&J
office) Sahar Road,
Andheri East,
Mumbai - 400 069

NOIDA
Plot No. 19A, 7th Floor
Sector – 16A
Noida 201301
T +91 120 4855 900

PUNE
3rd Floor, Unit No 309 to 312,
West Wing, Nyati Unitree,
Nagar Road, Yerwada
Pune- 411006
T +91 20 6744 8800

For more information or for any queries, write to us at **contact@in.gt.com**

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