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UNION BUDGET 2019

Comprehensive analysis

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Foreword

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It is a pragmatic Budget with focus on infrastructure development, ease of doing business and strengthening of the rural economy.

The Budget lays down the roadmap for India becoming a USD 5 trillion economy over the next five years, with equal focus on overall human development through education and ease of living.

On the tax front, there are proposals to provide certainty and clarity on some of the contentious tax issues including the ones for start-ups. There is also focus on bringing in more transparency through digitisation and minimising human interaction between the taxpayers and authorities.

UNION BUDGET 2019

Executive summary

Key policy announcements

- The government lowered the fiscal deficit target for FY2019-20 to 3.3% of the GDP from 3.4% which was set in the Interim Budget 2019.
- It is proposed to streamline labour laws into a set of four labour codes.
- It is proposed to raise sovereign debt from overseas markets.
- An outlay of INR 10,000 crore is proposed for a programme to encourage faster adoption of electric vehicles.
- The Finance Minister has proposed to open FDI in aviation, media (animation, visual effects, gaming and comics) and insurance sectors. Further, local sourcing norms have been proposed to be eased for FDI in the single brand retail sector.
- The Union Budget addresses liquidity concerns in the non-banking financial services (NBFC) sector by providing a one-time partial government guarantee of up to 10% to public sector banks for purchase of high-rated pooled assets of financially sound NBFCs up to INR 1 trillion.

> **The Budget lays down a roadmap for growing the economy in a sustained manner with a focus on both urban and rural sectors**

Key tax announcements

Direct tax rates

Corporate tax rate of 25% extended to companies with a turnover of up to INR 400 crore

Increase in surcharge on the “super rich” - 25% on income exceeding INR 2 crore up to INR 5 crore, and 37% on income exceeding INR 5 crore

Key tax announcements

Provisions for curbing tax evasion

- Tax withholding of 2% on cash withdrawals of more than INR 1 crore
- Gifts to non-residents taxable in India subject to relevant treaty protection
- Pre-filled tax returns to be provided based on the data sourced from banks, stock exchanges, mutual funds, state authorities, etc.
- Buyback tax to be imposed on listed securities
- Mandatory filing of tax returns by persons entering into high-value transactions, going on foreign travel, or consuming electricity beyond the prescribed thresholds

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Key tax announcements

Direct tax incentives

- Additional interest deduction of INR 1.5 lakh on loan taken by individuals for affordable housing
- Interest deduction of INR 1.5 lakh on loan taken for purchase of electric vehicles by individuals
- Announcement of investment-linked tax incentive for mega investment in sunrise and advanced technology areas
- Profit-linked deduction up to 100% of income of an International Financial Services Centre (IFSC) unit for any 10 consecutive years out of a block of 15 years
- Beneficial changes for start-ups to facilitate carry forward of losses, extension of period of exemption on capital gains tax on sale of residential property reinvested into equity of a start-up

Key tax announcements

Customs

- Benefits for mega investment in manufacturing in the area of advanced technology like laptops, servers, lithium batteries, solar cells, etc.
- Verification of identity and compliance for better control
- Wider powers to arrest offenders sitting outside India, or those who attempt to avail drawback or exemption by fraudulent means
- Increase in the basic customs duty (BCD) for gold, precious metal, automobile, marble slabs, high-speed diesel, motor spirit, and petroleum and crude oil

Key tax announcements

Excise and service tax: Legacy Dispute Resolution

Sabka Vishwas Legacy Dispute Resolution Scheme introduced for central excise and service tax pending as on 30 June 2019

S. no.	Description	Tax dues	Relief available
1	Show cause notice (SCN)/appeals - Involving duty	INR 50 lakh or less	70%
		More than INR 50 lakh	50%
2	SCN/appeals - Involving late fee/penalty only	-	Full amount
3	Arrears	INR 50 lakh or less	60%
		More than INR 50 lakh	40%
4	Enquiry/investigation/audit	INR 50 lakh or less	70%
		More than INR 50 lakh	50%

Key tax announcements

Goods and Services Tax

- Interest to be charged only on the net cash liability, i.e., after adjusting the input tax credit available, except in specific cases
- Electronic invoice system to do away with the e-way bill from January 2020
- Refunds to get largely automated by January 2020
- Transfer of GST amount from one head to another in the electronic cash ledger permitted

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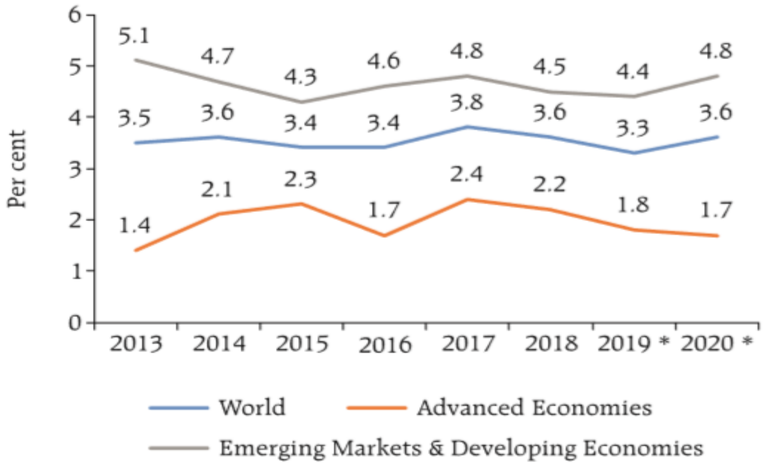
Economic overview

Global growth slowing down

World economic growth rate



Source: IMF; * projections

Growth projection for 2019

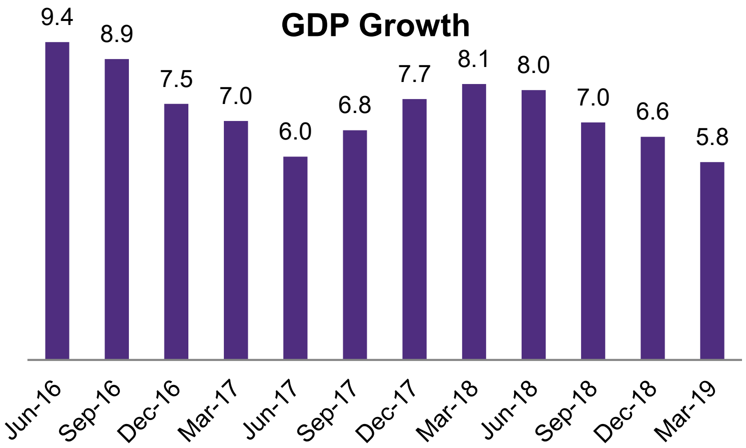
	Previous estimate	Recent estimate
INTERNATIONAL MONETARY FUND	3.5	3.3
WORLD BANK	2.9	2.6
OECD	3.5	3.3

- Global economic activity has been facing significant headwinds since the second half of 2018. International Monetary Fund (IMF) has revised global growth for 2019 to 3.3%, a 20 basis points downgrade from its January 2019 projection.
- In the Euro area, growth projections of major economies like Germany and Italy are slashed by 50 basis points each while that for the US economy is lowered by 20 basis points to 2.3%.
- The recent trade tensions on the Sino-US and EU-US front, uncertainties over Brexit as well as escalation of hostilities with key commodity-producing nations pose near-term risks.

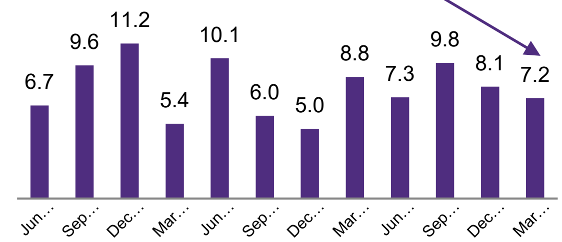
Source: World Economic Outlook, IMF; Financial Stability Report, RBI

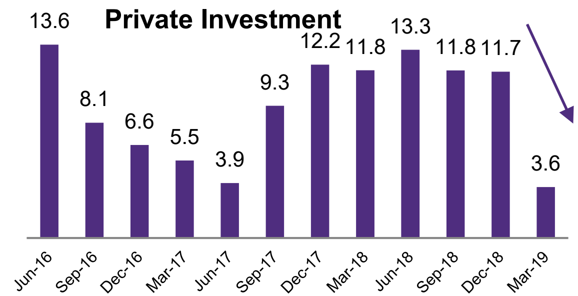
Domestic growth weakening in line

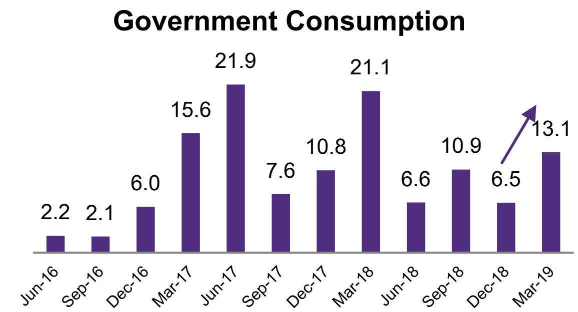
Quarterly real GDP growth rate (% YoY)



- Growth in the March quarter softened to 5.8%, resulting in FY 2018-19 growth at 6.8%.
- All primary drivers of growth turned weak. Investment declined sharply. Private consumption also moderated. Only large government spending cushioned the growth.
- According to the Reserve Bank of India (RBI), GDP growth will recover to 7.2%-7.5% in the second half of the fiscal FY2019-20.







Source: CSO

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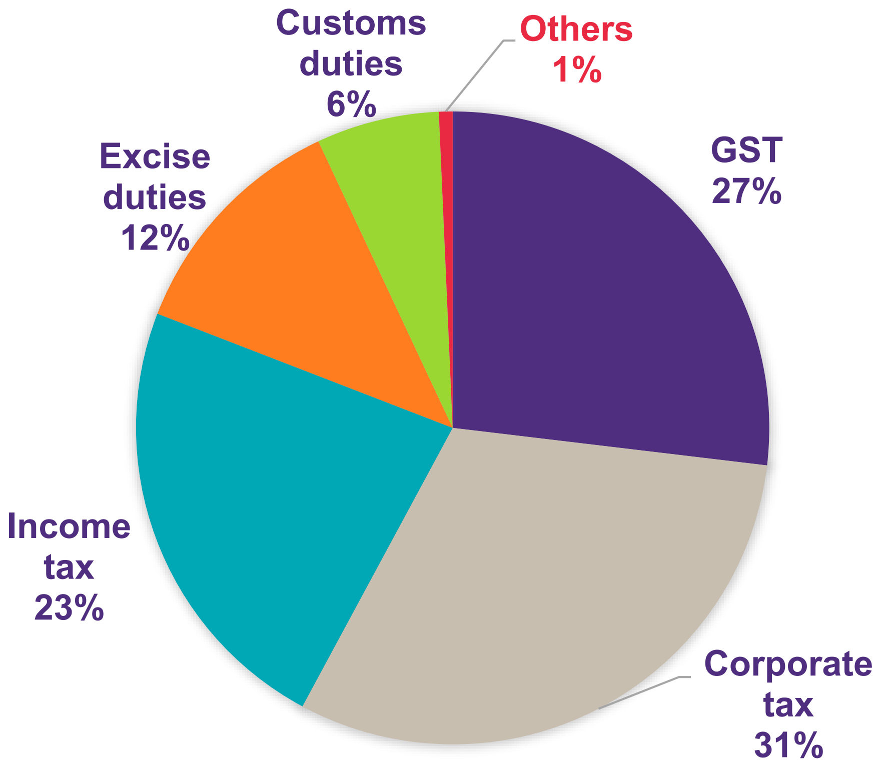
Budget FY 2019-20

Share of major tax revenues FY2019-20



Source: Budget documents

GST collection slightly lower than interim

- It is estimated that in FY2019-20, GST would account for 27% of total major tax revenues, a little lower than last fiscal.
- The collections from corporate taxes would remain at 31% of total gross tax revenues.
- Income taxes would contribute about 23% of total gross tax revenues.

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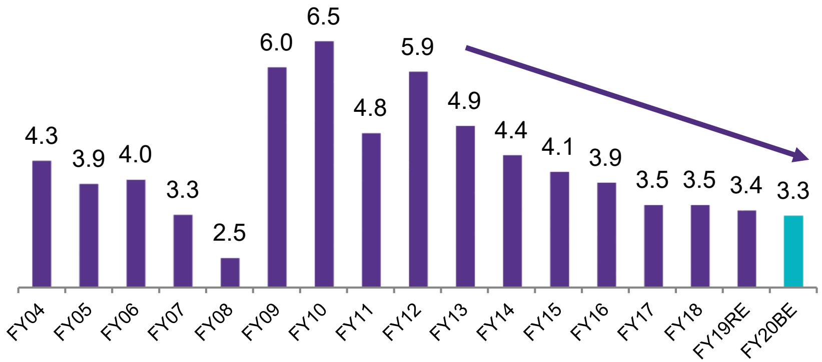
Budget FY 2019-20

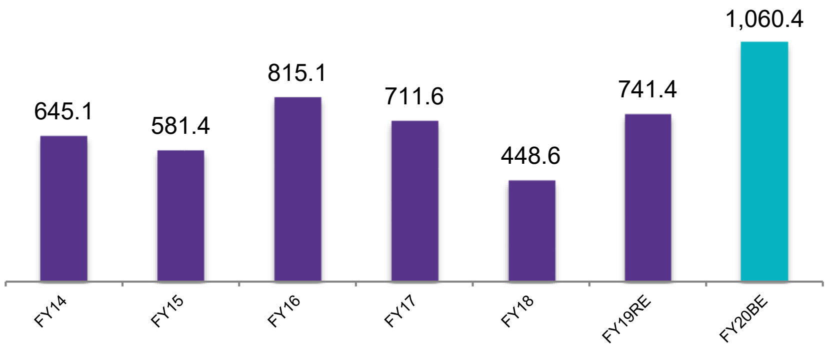
Fiscal deficit as a % of GDP



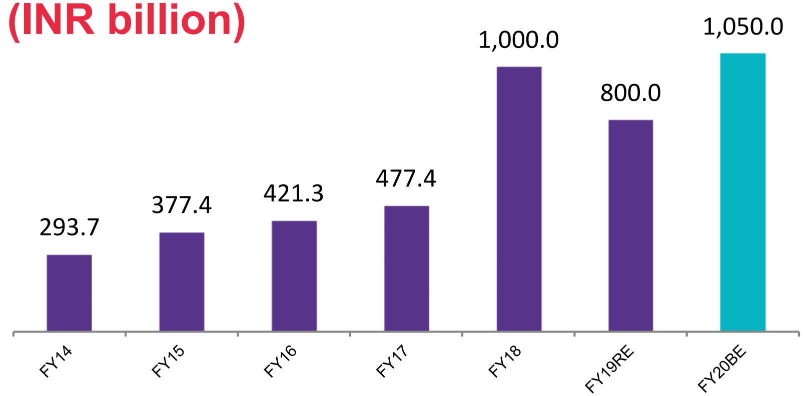
Fiscal consolidation path maintained

- The fiscal deficit target for FY2019-20 is revised down to 3.3% of GDP, a tad lower than 3.4% projected in the Interim Budget.
- The fiscal deficit for FY2019-20 is to be met through high disinvestment receipts and large dividend payments by the RBI, nationalised banks and financial institutions.

Dividends/surplus from RBI, nationalised banks (INR billion)



Disinvestment receipt (INR billion)



Source: Budget Documents; RE: Revised Estimate; BE: Budgeted Estimate; E: Estimate

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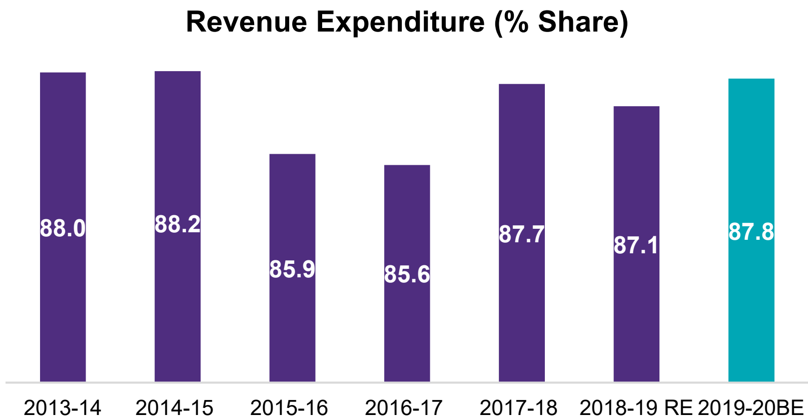
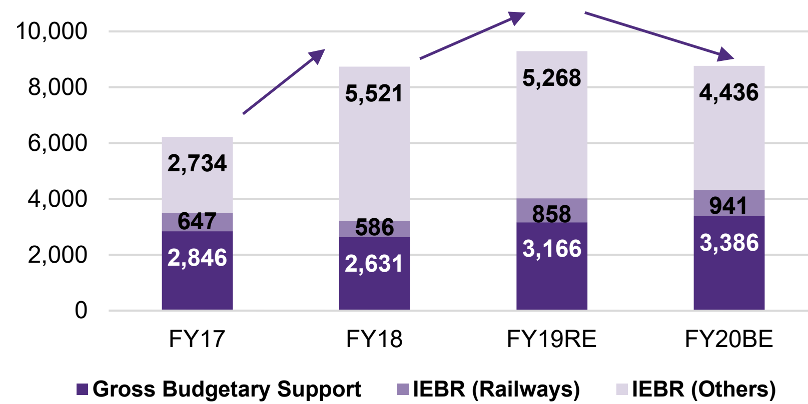
Budget FY 2019-20

Share of revenue expenditure is high



Capital expenditure through off-budget



- The share of revenue expenditure would reach a high of 87.8% in FY2019-20.
- As a result of fiscal constraints due to lower revenue collection and fiscal consolidation roadmap, infrastructure or capital spending will come from Internal and Extra Budgetary Resources (IEBR) or off-balance sheet, which includes internal resources of central public sector undertakings (PSU), their borrowings and collaborative funding by state governments and the private sector.
- Borrowings will include money raised through tax-free bonds by entities such as the National Highways Authority of India (NHAI), the Power Finance Corporation (PFC), the Rural Electrification Corporation Ltd. (REC) and the National Bank for Agriculture and Rural Development (NABARD). This will help the government support growth without high fiscal slippage.

Source: Budget documents

What's new in Union Budget 2019-20

Sovereign borrowings

Proposal to raise sovereign debt from external market

Recapitalisation of banks

Public sector banks to be provided with INR 70,000 crore capital to boost credit for a strong impetus to the economy

Addressing issues in NBFCs

- A one-time government guarantee to be provided to public sector banks for the purchase of high-rated pooled assets of financially sound NBFCs up to INR 1 trillion
- RBI authority over NBFC to be strengthened

> **Roadmap laid down for growing the economy in a sustained manner with focus on both urban and rural sectors**

What's new in Union Budget 2019-20

Tap external market for domestic capital requirement

- Investments by foreign institutional investors (FII)/foreign portfolio investments (FPI) permitted in debt securities, issued by infrastructure debt funds
- Know Your Customer (KYC) norms for FPIs to be streamlined without compromising the integrity of cross-border capital flows
- FDI in aviation, media (animation, AVGC) and insurance sectors to be opened up in consultation with all stakeholders
- 100% FDI permitted for insurance intermediaries
- Local sourcing norms to be eased for FDI in single brand retail trading

Green Budget

- An outlay of INR 10,000 crore over three years to incentivise purchase of electric vehicles
- GST Council to lower the GST rate on electric vehicles from 12% to 5%
- Income tax deduction of INR 1.5 lakh on the interest paid on loans taken to purchase electric vehicles

UNION BUDGET 2019

Direct tax proposals

Tax rates

Corporate tax rates

Domestic companies having turnover of up to INR 400 crore to be taxed at 25% as against the earlier threshold of INR 250 crore

Increase in surcharge for “super-rich”

Surcharge increased for individuals and other specified category of non-corporate taxpayers:

- on income exceeding INR 2 crore up to INR 5 crore - 25%
- on income exceeding INR 5 crore - 37%

> **The effective tax rate for the “super-rich” substantially increased to 39% and 42.7%**

Personal tax

Incentives for National Pension System (NPS) subscribers

Exemption limit on the commuted amount of the NPS scheme has been increased from 40% to 60% of the total NPS accumulation.

Tax incentive for affordable housing

Interest on loans taken for affordable housing (up to INR 45 lakh) during the period 1 April 2019 to 31 March 2020 shall be eligible for additional deduction up to INR 150,000.

Tax incentive for purchase of electric vehicles

Interest on loans taken for purchase of electric vehicles during the period 1 April 2019 to 31 March 2023 shall be eligible for a deduction up to INR 150,000.

Widening of tax base

Tax withholding on contractual and professional payments by individuals and Hindu Undivided Families (HUFs)

- Individuals and HUFs (not subject to tax audit) are currently not liable to withhold tax on payments made for contractual and professional services.
- Such payments will now be subject to withholding tax at the rate of 5% where such payments exceed INR 50 lakh in a financial year.

Tax on gift to a non-resident

Gift of money or property situated in India by a resident to a non-resident shall be subject to tax in India from 5 July 2019. Gifts to relatives or on the occasion of marriage, etc., shall be exempt from this provision.

> **A non-resident may claim relief under the relevant tax treaty but it may not be possible in several jurisdictions; however, tax credit would be available**

Widening of tax base

Mandatory furnishing of return in case of high-value transactions

- Filing of return of income mandatory in cases of:
  - deposits in current account exceeding INR 1 crore annually, or
  - expenditure incurred for foreign travel exceeding INR 2 lakh for self or any other person, or
  - electricity expenditure exceeding INR 1 lakh in a year, or
  - fulfilment of other prescribed conditions

Buy-back tax extended to listed companies

Currently, unlisted companies are required to pay tax at the rate of 20% on buy-back of shares. This provision has been extended to buy-back by listed companies on or after 5 July 2019.

> **The arbitrage of dividend distribution tax on buyback of shares by listed companies is no longer available**

Promoting a cashless economy

Additional modes of electronic payments

- Permitted non-cash modes of payments have been widened to include all electronic modes as may be notified. This was restricted to electronic clearing system and account payee cheque/draft.
- The effective date for the change is:
  - 1 September 2019 for accepting or repaying loans and high-value transactions
  - 1 April 2020 for other specified transactions
- Businesses with turnover exceeding INR 50 crore are required to provide the facility to customers of making payment through prescribed electronic modes from 1 November 2019.

Withholding tax on cash withdrawal in excess of INR 1 crore

- Cash withdrawals from a bank in excess of INR 1 crore in a financial year subjected to withholding tax at the rate of 2% from 1 September 2019.

> **A move in the right direction aimed to further discourage cash transactions, contain black money and provide a thrust to a cashless economy**

Tax incentives

Incentives for promoting IFSC

- The tax holiday for the units in IFSC has been increased to 100% for 10 consecutive years out of a block of 15 years. Currently, it is 100% for the first five years and 50% for the balance five years.
- Transfer of derivative instruments or specified securities by a Category III Alternative Investment Funds (AIF) on a recognised stock exchange in an IFSC will be exempted from capital gains tax.
- Interest earned by non-resident lenders on loans to units in IFSC will be exempted from tax.
- Dividend declared by units in IFSC on or after 1 September 2019 from profits accumulated post 1 April 2017 will be exempted from dividend distribution tax.
- Income distributed on or after 1 September 2019 by mutual funds located in IFSC to non-resident unit holders will be exempted from additional tax on distribution.

> **Incentivising the IFSC regime will help make the GIFT City more competitive and attractive for global investors**

Tax incentives

Taxation of interest on NPA by NBFC

- Interest on non-performing assets (NPAs) is taxed on receipt basis in case of banks. This benefit is now being extended to non-banking financial companies (NBFCs).
- Consequently, deduction of interest cost shall only be permitted to the borrower in the year of payment

Exemption from tax on issue of shares

- Investments made by Category I AIF are currently exempt from taxation on notional income arising on issue of shares. This exemption is now extended to investment received from Category II AIF.

Tax incentives – Start-ups

Investment in eligible start-ups further enabled

- Currently, capital gains on the sale of a residential property are exempt from tax if the net consideration is invested in the equity shares of an 'eligible' start-up.
- The exemption was available in respect of investments made on or before 31 March 2019. This date has been extended to 31 March 2021 with the following further relaxations:
  - Minimum threshold of the investor has been reduced from 50% to 25% of the voting rights of the investee company.
  - Lock-in period for new assets being computer or computer software has been reduced from five years to three years.

Carry forward of losses

Start-ups would be eligible to carry forward loss provided either of the following conditions is satisfied:

- All the shareholders with voting rights continue to hold those shares, or
- At least 51% of the voting rights are held by the same shareholders

Angel tax exemption

- Non-compliance with conditions of angel tax exemption by start-ups will result in the tax being levied in the year of violation.

Resolution of distressed companies

Measures for resolution of distressed companies

- Currently, tax losses are allowed to be carried forward for companies when there is a change in shareholding pursuant to a resolution plan approved under the Insolvency and Bankruptcy Code (IBC).

  This benefit is now extended to companies (including their subsidiaries/step-down subsidiaries) where the change in shareholding and management is consequent upon a resolution plan approved by the National Company Law Tribunal (NCLT) in cases of oppression and mismanagement.

- For the purpose of computing Minimum Alternate Tax (MAT) for such companies, the aggregate of book loss and unabsorbed depreciation shall be deductible.

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Improving effectiveness of tax administration

Faceless e-assessments

Moving ahead on digitisation of compliances and assessments, the Finance Minister has announced that assessments shall be carried out electronically by randomly allocated officers, thereby minimising human intervention.

Pre-filled income tax returns

With the objective of ensuring accuracy of reporting of income and taxes, pre-filled tax return forms based on data captured from stock exchange, banks, mutual funds, etc., will be provided to taxpayers.

Rationalisation measures

Aligning tax and accounting provisions for demerger

Recording of assets at a value other than book value permitted for Ind AS compliant companies.

Withholding tax on payments to non-resident

- Tax will not be recovered from the remitter in case of failure to withhold tax on payments made to a non-resident, where the non-resident recipient files a tax return declaring such income and pays tax thereon.
- Consequently, such payments will not be disallowed in the hands of the payer.

Rationalisation measures

Transfer pricing secondary adjustment

- With effect from 1 April 2018, secondary adjustment is not required to be made by a taxpayer if he/she pays additional income tax at the rate of 18% (and applicable surcharge) on the excess money, including the prescribed interest till the date of such payment.
- Secondary adjustment is applicable for advance pricing agreements (APAs) entered after 1 April 2017.

Applicability of Master File

The constituent entity of an international group is required to file the prescribed form even in the absence of international transactions. The amended provision is applicable from Assessment Year 2020-21.

Beneficial rate for equity-oriented fund of funds

Currently, short-term capital gains are taxed at the rate of 15% in certain cases. This provision will now include short-term capital gains on equity-oriented fund of funds.

Rationalisation measures

Interchangeability of PAN and Aadhaar

PAN and Aadhaar would be made interchangeable, and taxpayers without PAN would be able to file the tax returns quoting their Aadhaar numbers.

Non-business losses of investment fund available to unitholders

Category I and II AIFs are taxed only in respect of business income. Non-business income is taxed in the hands of the unitholders while the AIFs are treated as pass-through entities. It is now clarified that non-business losses shall also be allowed to be set off against income by the unitholders, subject to the satisfaction of the holding period conditions.

Securities transaction tax

The value of taxable securities transaction in respect of sale of option shall be the difference between the strike price and the settlement price, with effect from 1 September 2019.

Black Money Act

Provisions of the Black Money Act shall also apply to a non-resident and a not-ordinarily resident if such person was a resident in the year when the undisclosed foreign asset was acquired or the year to which undisclosed foreign income relates. This amendment will take effect retrospectively from 1 July 2015.

Indirect tax proposals

Indirect tax

Macro indirect tax proposals

- Continued focus on simplification of GST processes proposed to cover:
  - simplified single return to be rolled out
  - free accounting software for return preparation for small businesses
  - automated refund module to be implemented
  - replacement of multiple tax ledgers into one ledger
  - electronic invoicing system to be introduced from January 2020; this will replace the e-way bill requirements
- Rationalisation in customs duty rates on specific products
- Stringent penalty and prosecution provisions introduced to curb misuse of concessions and export incentives
- Dispute resolution cum amnesty scheme proposed for quick settlement of pending litigations under the erstwhile excise and service tax regime

> **"Indirect tax proposals are aimed towards procedural simplification, ease of doing business and better tax administration"**

Goods and Services Tax

Extension of composition scheme

- Composition scheme (combined rate not exceeding 6%) extended to supplier of services or supplier undertaking mixed supplies having an annual turnover of up to INR 50 lakh in the preceding financial year
- Annual turnover to exclude the value of exempt supply of services by extending deposits, loans or advances where the consideration is represented by way of interest or discount

Returns and payment of taxes

- Facility of filing quarterly returns to be notified for taxpayers up to the specified threshold
- Composition taxpayers to furnish annual return along with quarterly payment of taxes

Higher registration threshold for goods suppliers

- Threshold limit increased from INR 20 lakh to INR 40 lakh in case of suppliers who are exclusively engaged in supply of goods

> **“New proposals introduced including the existing exemptions to be incorporated in the Central Goods and Services Tax (CGST) Act, 2017”**

Goods and Services Tax

Digital payment facility

Notified suppliers to mandatorily offer digital payment facility to recipients

Mandatory verification

Mandatory verification through Aadhaar or any other alternate viable means proposed for better compliances/control under GST

Interest to be paid on the net cash liability

In case of delayed filing of returns, interest to be deposited on the net tax payable in cash, i.e., amount after adjusting input tax credit

Disbursement of refund amount by single authority

Power proposed to be granted to the central government to disburse refunds, including the amount towards state taxes

> "Albeit prospectively, much needed clarity on the applicability of interest on the net liability is a welcome move"

Goods and Services Tax

Constitution of a National Appellate Authority

- The National Appellate Authority for Advance Ruling constituted to take up appeals against conflicting advance rulings on similar issues pronounced by two or more existing appellate authorities
- The Authority to pass order within 90 days of receipt of appeal
- Unless there is change in law or facts, rulings pronounced by the Authority to be binding on applicants/jurisdictional officers on all registrations covered under single Permanent Account Number

"Establishment of National Appellate Authority would enable uniformity in the interpretation of the law"

Sabka Vishwas Legacy Dispute Resolution Scheme, 2019

Key features of the Scheme

- Proposed scheme to cover past disputes and voluntary disclosure of taxes by declarants under various central laws which got subsumed under GST, including central excise and service tax
- Amount determined against declarants under the Scheme to be conclusive and can be paid only in cash
- Any such amounts paid would be non-refundable or ineligible for input tax credit
- Immunity from payment of any further duty, interest or penalty in cases covered in the scheme
- No prosecution proceedings against declarants

> **"The Scheme is intended to enable quick settlement of long pending litigations under central laws"**

Sabka Vishwas Legacy Dispute Resolution Scheme, 2019

Eligibility under the Scheme

Eligible for all persons except the following cases:

- In appeals, where final hearing has been completed on or before 30 June 2019
- Persons convicted for any offence punishable under the relevant central laws
- SCN issued and heard finally on or before 30 June 2019
- Persons subjected to an enquiry or investigation or audit and amount of duty not quantified on or before 30 June 2019
- Voluntary disclosure cases after being subjected to enquiry or investigation or audit
- Voluntary disclosure cases wherein amount declared as payable in return filed but was not paid
- Matters filed before settlement commission
- Matters involving excisable goods specified in fourth schedule to Central Excise Act, 1944

Sabka Vishwas Legacy Dispute Resolution Scheme, 2019

Relief available under the Scheme

S. no.	Description	Tax dues (INR)	Relief available*
1	SCN/Appeals – Involving duty	50 lakh or less	70% of tax dues
		More than 50 lakh	50% of tax dues
2	SCN – Involving late fees/ penalty only	Not applicable	Amount of late fees or penalty
3	Arrears	50 lakh or less	60% of tax dues
		More than 50 lakh	40% of tax dues
4	Enquiry/investigation/audit	50 lakh or less	70% of tax dues
		More than 50 lakh	50% of tax dues
5	Voluntary disclosure	Declared tax dues	No relief of tax dues

Note: Amount of pre-deposit/deposit made under relevant central laws to be deducted from the amount payable by the declarant as determined under the Scheme

* In addition to the above mentioned relief, immunity from payment of any further duty, interest or penalty available in all cases

Service tax

Grant of liquor licence by state government

No service tax on licence/application fee paid during the period starting from 1 April 2016 to 30 June 2017

Specified educational programmes by Indian Institute of Management (IIM)

No service tax on specified educational programmes provided by IIMs to students during the period 1 July 2003 to 3 March 2016 except for Executive Development Programme

Grant of long-term lease by specific government bodies for infrastructure development of financial businesses

No service tax on upfront amount (premium/salami/development charges, etc.) payable in respect of long-term lease of 30 years or more on plots for development of infrastructure for financial business for the period starting from 1 October 2013 to 30 June 2017, subject to conditions

> These exemptions are proposed to be introduced retrospectively. Further, refund application for the service tax paid to be made within six months from the enactment of the Finance Act

Customs

Export manifest

- Export manifest allowed to be filed by persons other than the person in charge of a conveyance

Mandatory verification

- Mandatory verification through Aadhaar or any other alternate viable means proposed

Scope of prosecution and penalty provisions widened

- Offenders located outside India
- Fraudulent availment of duty drawback/exemptions under Customs Act with duty value exceeding INR 50 lakh
- Fraudulently obtaining and utilising instruments under the Customs Act or Foreign Trade (Development and Regulation) Act with duty value exceeding INR 50 lakh

Customs

Confiscation and seizure of goods

- Power to grant custody to owner/importer of goods in cases where custody and seizure of confiscated goods is not practical, subject to undertaking
- Power to attach bank account for a period of six months (extendable by further six months) to protect revenue interest or smuggling

General penalties

- Penalty for contravention of the provisions of the Customs Act not specifically covered elsewhere enhanced from INR 1 lakh to INR 4 lakh
- Penalty for contravention/failure to comply with any rules or regulations made under the Customs Act enhanced from INR 50,000 to INR 2 lakh

Customs

Amendments in the Custom Tariff Act, 1975

- Power to impose countervailing duty (CVD) wherein importer alters descriptions, specifications, name, etc., for circumventing applicable CVD in specific goods
- Right to appeal to Customs Excise and Service Tax Appellate Tribunal (CESTAT) extended in the following cases:
  - Any subsidy or dumping in relation to import of any article
  - Import of any article into India so as to cause or threatening to cause serious injury to the domestic industry requiring imposition of safeguard duty in relation to import of that article
- Retrospective amendment to enable refunds in cases where anti-dumping duty was paid by importers but should not have been paid, by filing an application within six months from the date of enactment of the Finance Bill, 2019

Changes in customs and excise duty rates

Various product-specific and use-based rate changes proposed under the Customs Tariff Act, 1975 and the Central Excise Act, 1944 with rate changes effective from 6 July 2019

Key changes include:

- Product-specific revision of BCD/export duty (Annexure-I)
- Introduction of specific BCD exemptions (Annexure-II)
- Withdrawal of specific BCD exemptions (Annexure-III)
- Excise duty rate changes (Annexure-IV)

"Changes in duty rates are in line with the government's aim to promote the 'Make in India' initiative, rationalise duty structure and boost domestic consumption."

Customs duty – Annexure I

Change in BCD (effective from 6 July 2019)

Description of goods	Pre-Budget	Post-Budget
Cashew kernel broken/whole	INR 60/75 per kg or 45%, whichever is higher	70%
Marble slabs (both covered under Ch. 25 and 68)	20%	40%
Friction material and articles thereof	10%	15%
Roofing tiles and ceramic flags, wall tiles, etc., (Ch. 6905 and 6907)	10%	15%
Glass mirrors, whether or not framed, including rear-view mirrors	10%	15%
Waste and scrap of precious metal (Ch. 71)	10%	12.50%
Wire or other alloy steel (other than INVAR)	5%	7.50%
Indoor and outdoor units of split-system air conditioner	10%	20%

Customs duty – Annexure I

Change in BCD (effective from 6 July 2019)

Description of goods	Pre-Budget	Post-Budget
Gold bars and gold coins having gold content not below 99.5% and gold findings	10%	12%
Gold dore bar having gold content not exceeding 95%	9.35%	11.85%
Gold and silver imported through baggage by eligible passengers	10%	12.50%
Base metals or stainless steel or silver or platinum or gold and other articles thereof (covered under Ch. 71)	10%	12.50%
Silver dore bar having silver content not exceeding 95%	8.50%	11%
Base metal mountings, fittings and similar articles suitable for furniture, doors, staircases, windows, etc.	10%	15%
Locks used in motor vehicles	10%	15%
Oil/petrol filters and catalytic convertors	7.50%	10%

Customs duty – Annexure I

Change in BCD (effective from 6 July 2019)

Description of goods	Pre-Budget	Post-Budget
Chlorobutyl rubber or bromobutyl rubber or butyl rubber	5%	10%
Lighting or visual signaling equipment on bicycle and automobiles, head lamps, tail lamps, stop lamps and blinkers and horns	10%	15%
Completely built unit (CBU) imports of motor vehicles	25%	30%
Chassis fitted with engines for motor vehicles	10%	15%
Optical fibres, cables and bundles	10%	15%
Naphtha	5%	4%
Methyloxirane (propylene oxide)	7.50%	5%
Magnesium oxide coated cold and hot rolled steel, hot rolled annealed and pickled coils used for manufacture of CRGO	5%	2.50%
Amorphous alloy ribbon	10%	5%
Cobalt mattes and other intermediate products of cobalt metallurgy	5%	2.50%
Wool fiber/tops	5%	2.50%

Customs duty – Annexure I

Change in export duty (effective from 6 July 2019)

Description of goods	Pre-Budget	Post-Budget
EI tanner leather	15%	Nil
Hides, skins and leather, tanned and untanned, all sorts	60%	40%

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Customs duty – Annexure II

Exemption introduced (effective from 6 July 2019)

Description of goods	Pre-Budget	Post-Budget
Specified military equipment and their parts imported by the Ministry of Defence	Applicable rate	Nil
Materials used for manufacture of artificial kidneys, disposable sterilised dialyser	Applicable rate	Nil
Uranium ore and concentrates, for generation of nuclear power	2.50%	Nil
Uranium enriched in U235 and its compounds used for generation of electricity	7.50%	Nil
All goods required for setting up specified power projects	Applicable rate	Nil
Specified capital goods for manufacture of specified electronic items such as printed circuit board (PCB), charger of cellular mobile phone, display panel, etc., subject to actual user condition	Applicable rate	Nil
Specified parts of electric vehicles	Applicable rate	Nil
Specified military equipment and their parts imported by the Ministry of Defence	Applicable rate	Nil

Customs duty – Annexure III

Exemption withdrawn (effective from 6 July 2019)

Description of goods
Stone crushing (cone type) plants for construction of roads
Charger/adapter of digital video recorder, CCTV and IP camera
End-use based exemption on palmitic acid, stearic acid, their salts and esters
Goods having free fatty acid (FFA) 20% or more
Petroleum crude
Newsprint
Uncoated paper used in printing of newspaper
Lightweight coated paper used in printing of magazines
Water blocking tape for use in manufacture of telecommunication grade optical fibres or optical fibre cable
All goods for use in the manufacture of soaps and oleo chemicals

Central excise duty – Annexure IV

Change in central excise duty (effective from 6 July 2019)

<table>
<tr><th>Description of goods</th><th>Pre-Budget</th><th>Post-Budget</th></tr>
<tr><td>Filter and non-filter cigarettes with certain specifications</td><td rowspan="4">Nil</td><td rowspan="2">INR 5 per thousand</td></tr>
<tr><td>Cigarettes of tobacco substitutes</td></tr>
<tr><td>Hookah or gaduko tobacco</td><td rowspan="2">0.5%</td></tr>
<tr><td>Chewing tobacco</td></tr>
</table>

Central excise duty – Annexure IV

Change in central excise duty (effective from 6 July 2019)

Type	Duty rates applicable up to 5 July 2019 (INR per litre)				Duty rates applicable from 6 July 2019 (INR per litre)			
	BED	SAED	RIC	Total	BED	SAED	RIC	Total
Petrol (Unbranded)	2.98	7	8	17.98	2.98	8	9	19.98
Petrol (Branded)	4.16	7	8	19.16	4.16	8	9	21.16
Diesel (Unbranded)	4.83	1	8	13.83	4.83	2	9	15.83
Diesel (Branded)	7.19	1	8	16.19	7.19	2	9	18.19

*__BED__: Basic Excise Duty, **SAED**: Special Additional Excise Duty, **RIC**: Road and Infrastructure Cess

Sectoral analysis

Auto and manufacturing

Sector overview: Auto

- The Indian auto industry is the 4th largest in the world and is currently valued at around INR 4.8 lakh crore. Between April 2000 and December 2018, the cumulative FDI crossed USD 20.85 billion.
- It contributes 49% to India's manufacturing GDP and 7.5% to the national GDP, and provides direct and indirect employment to approximately 37 million people.
- The industry is estimated to reach USD 251.4 billion – USD 282.8 billion by 2026 at a CAGR of 3.5% during 2016-26. Further, India is expected to become a world leader in the two- and four-wheeler market by 2020.
- During April 2018 - January 2019, production increased 9.84% year-on-year reaching 26.26 million units.
- While passenger vehicle exports declined by **9.64%**, commercial vehicles, three-wheelers and two-wheelers registered a growth of **3.17%, 49.00%** and **16.55%** respectively in April-March 2019 over the same period last year.

30,915,420 vehicles manufactured in FY 2019

Market size of auto components is USD 51.20 billion, representing 2.3% of GDP

In April-March 2019, overall automobile exports grew by 14.50%

Cabinet approves plan to provide USD 1.4 billion subsidies for sales of hybrid and EVs over a three-year period

Policy initiatives: Auto

- **BS VI norms:** The government is leapfrogging from BS IV directly to BS VI in its ambitious aim for a cleaner, greener future. The new norms go live in April 2020.
- **FAME I:** 11 cities have been finalised by the Ministry of Heavy Industries for introduction of electric vehicles (EVs) in public transport systems under the scheme. Incubation centres are being set up for start-ups. As of March 2018, 192,451 vehicles were supported under FAME.
- **FAME II**: In February 2019, FAME II, an improvement over its predecessor, was approved with a total outlay of INR 10,000 crore for a three-year time period. The scheme employed three major verticals: (i) demand incentives, (ii) establishment of network of charging stations and (iii) administration of the scheme including publicity and IEC activities. Under the scheme, 7,090 electric buses, 20,000 hybrids, 35,000 four-wheelers, 500,000 three-wheelers, and 1,000,000 two-wheelers are to be subsidised.
- **Recommendations of NITI Aayog:** The NITI Aayog has recommended that only EVs be sold in the Indian market after 2030. Further, it not only proposed a complete ban on all two-wheelers and three-wheelers currently running on ICEs in the next 6-8 years but also 100% electrification of all three-wheeled auto rickshaws by 2023 and all two-wheelers under 150 cc by 2025.

> **“National Automotive Board has been set up to act as a mediator and facilitator between the industry and government”**

Key challenges: Auto

- High cost of ownership of vehicles
- High prices of crude oil
- No uniform scrappage policy
- Large inventory and low demand, slowing down production
- No concrete strategy yet to offset the impact on demand of high prices resulting from clean tech under BS VI
- Tight schedules for BS VI and AMP, largely decided without consultation with the industry
- Disruption in the form of shared mobility ventures
- Shortage of skilled professionals – large gap between demand and supply

Growth drivers: Auto

- Rapid urbanisation
- Green regulations to achieve environmental goals like BS VI
- Collaboration between OEMs to produce EVs and develop the EV ecosystem
- Renewed focus on research and development
- Fast-track tax rate cuts on EVs to incentivise buying
- Rationalisation of tax rates
- Make in India – Lithium ion cells and other auto components
- Boost to demand – through annual budget developments
- Commitment to the development of indigenous production capability and capacity
- Huge replacement market
- Rising demand for auto components from developed economies

Sector overview: Manufacturing

- With 1.3 billion consumers and an increasing purchasing power, India is well on its way to becoming a manufacturing hub for global players.
- The nation has also evolved as an attractive destination for big foreign investments in manufacturing, with cumulative FDI in Indian manufacturing reaching USD 46.62 billion during April 2000 - December 2018.
- Propelled by the Make In India drive, manufacturing has fast become one of the high national growth sectors.
- 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 create 100 million new jobs by 2022.
- The electronic goods industry is expected to reach a valuation of USD 400 billion by 2020.
- The government is working on an export-oriented policy for electronic goods in order to give an impetus to exports and encourage big investments in creating large (port-based) manufacturing clusters.

India expected to become the fifth largest manufacturing country by 2020

Contributes 16%-17% of GDP and employs 12% of the nation's workforce

Has the potential to reach USD 1 trillion by 2025

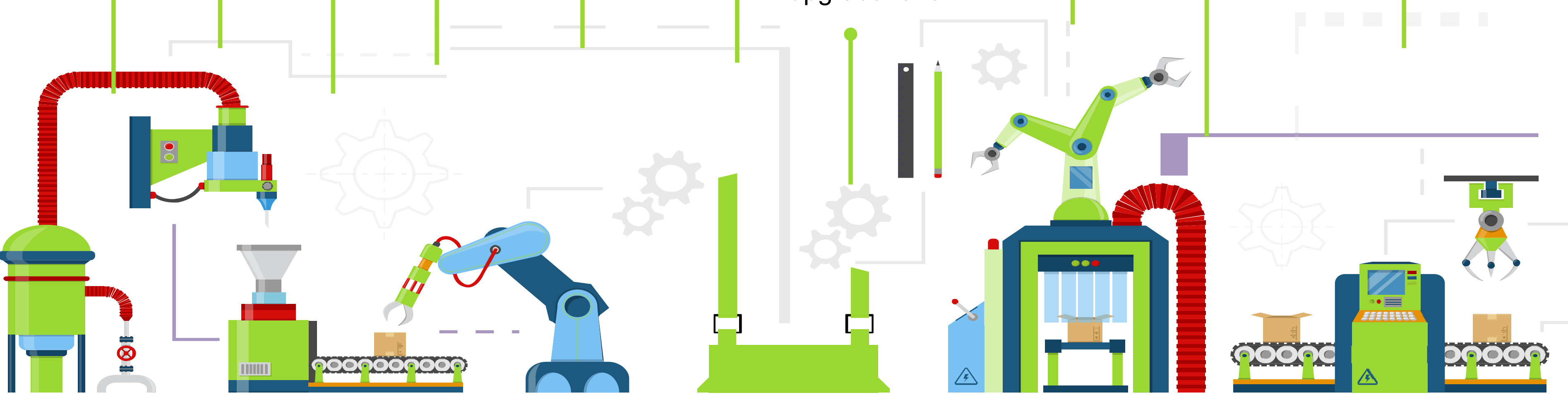
Policy initiatives: Manufacturing

- **Mid-Term Review of Foreign Trade Policy (2015-2020):** Export incentives available to labour-intensive MSME sectors increased by 2%.
- Under the **Phased Manufacturing Programme (PMP)**, more smartphone components are being added to the 'Make in India' scheme, to give an impetus to indigenous manufacturing of mobile handsets.
- **NATRiP:** R&D centres are being set up across the country to move India up the ranks in innovation. The total outlay towards this objective is USD 388.5 billion.
- **SAMARTH Udyog**: 'Demo cum experience' centres are being established across the nation. The goal is to help SMEs implement industry 4.0 or automation and data exchange in the manufacturing technology.
- **National Policy on Electronics:** The policy has envisioned the creation of an electronics manufacturing industry worth USD 400 billion in the country by 2025.
- **Tax benefits:** The government reduced the corporate tax rate to 25% for all companies with a turnover of up to INR 250 crore in FY 17-18. Further, 25 machine parts were exempted from basic customs duty in September 2018 to promote indigenous mobile handset production.

> **A new industrial policy is being worked upon to make India a global competitor in manufacturing**

Key challenges: Manufacturing

- Inadequate road and energy infrastructure
- Regulatory blockades
- High cost of finance
- Shortage of skilled labour
- Rising minimum wage
- High prices of raw materials
- Constant need for R&D, novel technological innovations and upgradations
- Less-than-optimum capacity utilisation leading to efficiency losses
- High costs of transportation
- Loose intellectual property laws, with less-than-stringent enforcement



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Growth drivers: Manufacturing

A large consumer base with rapid urbanisation and rising purchasing power make the country an attractive destination for foreign companies

Developing industrial corridors and smart cities

Large investments in R&D and skill development by OEMs to enhance efficiency and competency

A young population with an ever-rising middle class

Large FDI, aided by government policy, in automobiles, luxury goods and electronics

Strong government support for indigenous development and manufacturing, especially smartphones and automobiles (EVs in particular)

Key budget announcements

Major push to EVs

- Phase-II of FAME scheme with an outlay of 10,000 crore for a period of three years to encourage faster adoption of EVs by way of offering upfront incentive on the purchase of EVs.
- Additional income tax deduction of INR 1,50,000 on the interest paid on loans taken by individuals to purchase pure EVs.
- Nil customs duty on certain parts for exclusive use in EVs.

MSMEs

- Dedicated online portal for processing loans up to INR 1 crore for MSMEs within 59 minutes.
- 2% interest subvention for all GST-registered MSMEs on fresh and incremental loans
- Payment platform for bill filings to enable cut down delays in government payments to MSMEs.

Incentive for Make in India in advanced technology areas

The government to launch a scheme to invite global companies through a transparent competitive bidding to set up mega-manufacturing plants in sunrise and advanced technology areas such as semi-conductor fabrication, solar photo voltaic cells, etc. and provide them investment linked income tax exemptions and indirect tax benefits

UNION BUDGET 2019

Infrastructure

Sector overview

- 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 has a requirement of 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 areas of roads and highways, smart cities, airport and rail sector.
- India has considerably improved its ease of doing business ranking from 100 to 77 in 2019, indicating the positive thrust on improving the industrial scenario through provision of good infrastructure.

Policy initiatives

- During the last budget, the sector allocation was INR 4.56 lakh crores and the thrust given to the schemes continued through the year for a speedy implementation and improvement in spending.
- The Government of India is expected to invest highly in the infrastructure sector, mainly highways, renewable energy and urban transport.
- The Indian Railways received allocation under Union Budget 2019-20 at INR 66.77 billion (USD 9.25 billion). Out of this allocation, INR 64.587 billion (USD 8.95 billion) is capital expenditure.
- INR 83,015.97 crore (USD11.51 billion) allocated towards road transport and highway.
- INR 3,899.9 crore (USD 540.53 billion) to increase capacity of Green Energy Corridor Project along with wind and solar power projects.
- Allocation of INR 8,350.00 crore (USD 1.16 billion) was provided to boost telecom infrastructure.
- The budget announcement also provided focus to water supply wherein water supply would be provided to all households in 500 cities.

> **“While the sector demands high investments to cater to the growing economy, the inability to spend the government allocation completely in a particular year seems to be a characteristic feature”**

Key challenges

Inability of spending the allocation due to delays in project execution

Attracting private investment through the PPP route where additional funding is required, though some progress was achieved in the last year

Uniformity in private investment: Large and international private players prefer developed states

Slow and often incomplete land acquisition process

Delays in approvals for commencing new projects

Absence of a rigid framework to bring multiple stakeholders on a common platform, inhibiting speedy implementation of projects

Absence of a resolution mechanism for disputed projects, leading to time and cost overruns and thus halting the implementation process

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Growth drivers

A well-knit ecosystem that brings together project financing, policy/regulatory, stakeholder involvement, technology, governance and institutions

An outcome-based approach to improve the urban infrastructure sector and its investments, with the outcomes expected out of the road sector clearly spelt out and increased in the last budget.

A liberalised FDI regime to boost the much-needed private investments

Positive demographic trends and increased per capita income

Key budget announcements

National highway grid project

- Developing a desirable length and capacity of national highway grid using financeable model like 'Toll Operate Transfer'.
- States to be supported to develop state road networks under Bharatmala (Phase II).

Jal Marg Vikas Project

- Enhancing the navigational capacity of Ganga, primarily to develop our inland waterways to shift a significant portion of inland cargo movement from road and rail.
- Multi-modal terminals like the one in Varanasi to be set up in Sahibganj, Haldia; navigational lock at Farakka.

Railways and power

- Public-private partnership model to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services.
- One Nation, One Grid - proposal for blueprint for developing gas grids, water grids, i-ways and regional airports.
- A package of power sector tariff and structural reforms to soon be announced.

Measures to enhance the sources of capital for infrastructure financing

- Creation of Credit Guarantee Enhancement Corporation.
- Action plan to deepen the market for long-term bonds including corporate bond repos and credit default swaps.

Key budget announcements

FPI investment in Infrastructure Debt Fund and Real Estate Investment Trusts (ReITs) and Infrastructure Investment Trust (InvITs)

- Proposal to permit investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to be transferred/sold to any domestic investor within the specified lock-in period.
- FPIs to be permitted to subscribe to listed debt securities issued by ReITs and InvITs.

Bond collaterals for bond financing

- Further deepen bond markets for infrastructure financing; government to work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals.
- Pradhan Mantri Gram Sadak Yojana, PMGSY-III, envisaged to upgrade 1,25,000 km of road length over the next five years.

Constitution of the Jal Shakti Mantralaya

- Integrating the Ministry of Water Resources, River Development and Ganga Rejuvenation and Ministry of Drinking Water and Sanitation.
- Management of water resources and water supply in an integrated and holistic manner.
- Coordinated work with states to ensure piped water supply to all rural households by 2024 under the Jal Jeevan Mission.

National Common Mobility Card (NCMC)

- An inter-operable transport card to allow the holders to pay for their bus travel, toll taxes, parking charges, retail shopping and withdraw money.

Food and agriculture

Sector overview

- Indian agriculture is one of the key sectors as it accounts for nearly 17.3% of India's GVA. The sector witnessed a CAGR of 2.3% during 2012-15. However, on the back of favourable economic factors, the pace of growth picked up during 2015-18, i.e., a CAGR of 3.2%.
- Agriculture and allied sectors have four sub-sectors: crops (horticulture and field crops), livestock, forestry, and fishing and aquaculture. Nearly 61% of the contribution from agriculture and the allied sectors comes from the horticulture and agriculture segment, followed by 25% from livestock and the remaining (approximately) 14% from forestry, fishing, and aquaculture sectors.
- Production of horticulture crops in India is estimated at a record 314.7 million metric tones (MMT) in 2018-19.
- Milk is the largest contributor in the livestock output, contributing approximately 65% to revenue. Meat contributes over 20% of the total livestock output.
- From April 2000 to March 2019, India received a cumulative FDI inflow of USD 2.5 billion in the agriculture sector, including agriculture machinery.
- The Indian food processing industry accounts for 32% of the country's total food market, one of the largest industries in India. It is ranked fifth in terms of production, consumption, export, and expected growth.

Key producer of rice, wheat, sugarcane, fruits and vegetables, spices, tea and coffee

Fifth-largest seed market in the globe

16.45% CAGR of agriculture exports from 2010 to 2018. FY 19 exports totalled to USD 39.13 billion

The organic food market is expected to witness a CAGR of 25% during 2017-2023

Key policy initiatives

- **Paramparagat Krishi Vikas Yojana (PKVY):** It was launched in 2015 to promote organic farming in the country, with USD 19.70 million sanctioned (2016-17 to 2018-19). Grant released up to 2017-18 (December) is USD 6.90 million.
- **Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA):** It announced in Union Budget 2018 to ensure remunerative prices to farmers for their produce.
- **Pradhan Mantri Krishi Sinchai Yojana (PMKSY):** The scheme ensures access to irrigation facilities to all agricultural farms in the country to produce 'per drop more crop', thus bringing in much-desired rural prosperity.
- **Pradhan Mantri Kisan Samman Nidhi (PMKISAN):** It was launched in 2019 to provide a guaranteed income of INR 6,000 per year to small and marginal farmers.
- **Agriculture Export Policy:** The new policy approved by the government in December 2018 aims to increase India's agricultural exports to USD 60 billion by 2022 and USD 100 billion in the next few years with a stable trade policy regime. Under the policy, all restrictions on the export of organic and processed food items will be lifted. These include mandi (wholesale) taxes, minimum export prices, duties and quota restrictions.
- **Doubling farmers' income:** The scheme was launched in 2016, having set a target to double farmers' incomes by 2022 in order to address the key concerns such as agrarian distress, farmers welfare and inequitability.
- **Budget allocation:** As per Union Budget 2019-20, allocation of INR 1,40,763.97 crore (USD 1.95 trillion) has been made to the Ministry of Agriculture.

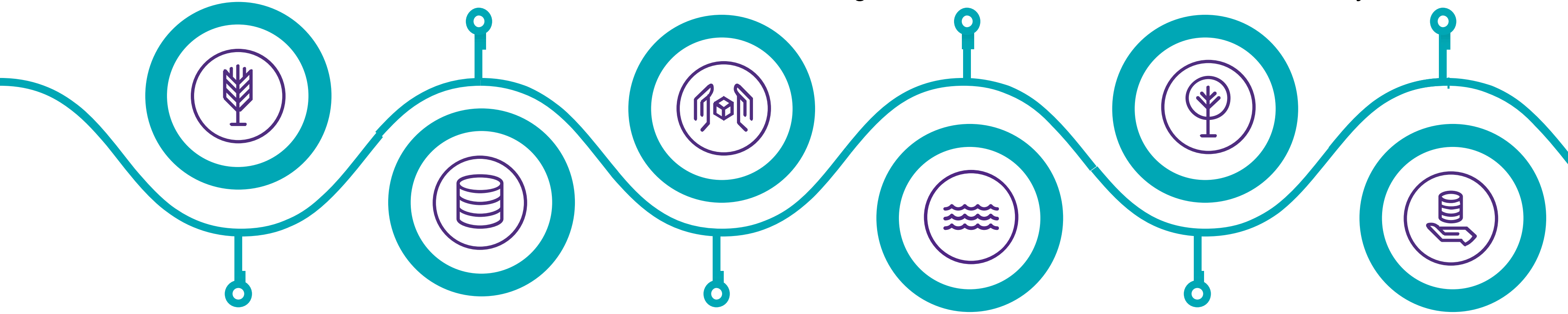
> **A special fund of INR 2,000 crore has been created in NABARD for providing affordable credit to entrepreneurs for setting up food processing units in designated food parks**

Key government schemes

Scheme	Annual budget	Maximum grant (INR)	Key highlights
Mega Food Parks Scheme	USD 63 million	INR 50 crore	• 50% of eligible project cost in general areas and 75% of eligible project cost in the northeast region (NER), hilly/ITDP and difficult areas • Requires 50 acres of contiguous land • Net-worth of 1.5 times of grant sought
Agro Processing Cluster	USD 17.5 million	INR 10 crore	• 35% of eligible project cost in general areas and 50% of eligible project cost in NER, hilly/ ITDP and difficult areas • Requires 10 acre of contiguous land • Net worth of USD 2.1 million of the applicant
Operation Green	USD 21 million	INR 50 crore	• Projects eligible for grant-in-aid at the rate of 50% of the eligible project cost in all areas, subject to a maximum USD 7 million per project. However, in case PIA is an FPO, the grant-in-aid will be at the rate of 70% of the eligible project cost in all areas, subject to a maximum of USD 7 million per project.
Cold Chain Scheme	USD 15.4 million	INR 10 crore	• 50% of the eligible project cost in general areas and 75% of the eligible project cost in NER, hilly/ITDP and difficult areas • In-principle sanction of term loan along with appraisal note
Backward Forward Linkages	USD 4.2 million	INR 5 crore	• 35% of eligible project cost in general areas and 50% of eligible project cost in NER, hilly/ ITDP and difficult areas • Final sanction of term loan
CEFPPC Scheme	USD 7-8.4 million	INR 5 crore	• 35% of the eligible project cost in general areas and 50% of eligible project cost in NER, hilly/ ITDP and difficult areas • Final sanction of term loan • Applicable for units coming in mega/designated food parks

Sources: Ministry of Food Processing Industries, Secondary Sources, GT Analysis; Conversion is done on INR to 0.014 USD

Key challenges



Fragmented land holdings

Inadequate access to formal capital

Limited access to storage facilities

Inadequate access to irrigation and over-dependence on ground water

Non-availability of High Yielding Variety (HYV) seeds

Information and communication gaps affecting uniform price discovery

Key growth drivers

Growing population reasulting in steady increase in demand

Farmer aggregation through farmer producer companies and National Agricultural Market (e-NAM)

Export potential

New technologies leading to increase in yield

Increase in availability of farm power

Key budget announcements

- Thrust on self-sufficiency and export of food grains, pluses, oilseeds, fruits and vegetables.
- The Department of Fisheries to establish a robust fisheries management framework to address critical gaps in the value chain, including infrastructure, modernisation, traceability, production, productivity, post-harvest management and quality control.
- Set up of more Common Facility Centres (CFCs) to facilitate cluster-based development to make the traditional industries more productive, profitable and capable for generating sustained employment opportunities; the focused sectors are bamboo, honey and khadi clusters.
- Set up of 80 Livelihood Business Incubators and 20 Technology Business Incubators in 2019-20 to develop 75,000 skilled entrepreneurs in the agro-rural industry sector.
- Support to private entrepreneurship in driving value-addition to farmers' produce from field and for those from allied activities, like bamboo and timber from the hedges and for generating renewable energy.
- Encouragement to dairying through cooperatives by creating infrastructure for cattle feed manufacturing, milk procurement, processing and marketing.
- 10,000 new Farmer Producer Organisations to be formed over the next five years.
- Providing benefits to farmers through e-NAM (National Agriculture Market)
- Focus on Zero Budget Farming to double the farmers' income.
- Creation of local infrastructure for water management to support reuse of household waste water in agriculture.
- Levy of 70% customs duty on import of cashew kernels.

Financial services

Sector overview

- 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.
- One of the key initiatives of the government in the last few years has been digitisation of financial products (such as PMJDY, Aadhaar-enabled 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.
- 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.

Assets under management of the MF industry stood at INR 23.26 lakh crore

The sector witnessed CAGR of 15.51% over 2017-18

IBC has addressed stressed assets worth INR 4 lakh crore

Policy initiatives

- In April 2018, the Indian government issued minimum FDI capital requirement of USD 20 million for unregistered/exempt financial entities engaged in fund-based activities and threshold of USD 2 million for unregistered financial entities engaged in 'non-fund based activities'.
- India's leading stock exchange, Bombay Stock Exchange (BSE), has created a new sub-segment within its existing small to medium (SME) segment to list start-up companies in India.
- The Securities and Exchange Board of India (SEBI) has proposed direct overseas listing of Indian companies and other regulatory changes.
- In the Union Budget 2018-19, the government has allocated INR 3 lakh crore towards the Mudra (Micro-Units Development & Refinance Agency Ltd) Scheme.
- Amendment in the Indian Stamp Act, 1899 for levy and administration of stamp duty on securities market instruments only at one place through one agency (i.e. through stock exchanges or their clearing corporation, or depositories) on one instrument, and for appropriately sharing the same with the respective state governments, based on the state of domicile of the ultimate buying client.

> **As per the Union Budget 2018-19, the recapitalisation of PSBs is expected to allow banks to lend additional INR 5 lakh crore**

Key challenges

No clarity on rule 8D allowing expenditure incurred to earn exempt income

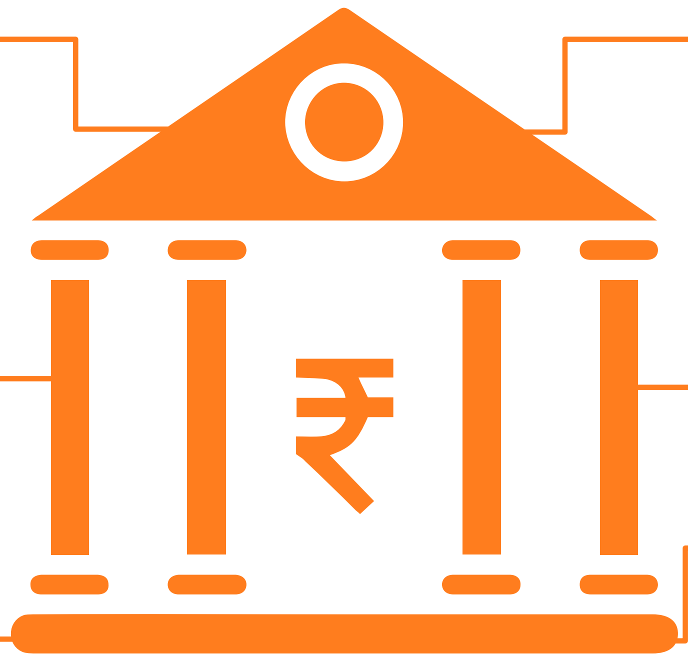
Taxation of income distributed by Securitisation Trusts

Non-applicability of MAT

Rising bad loans and sluggish profits

Financial inclusion not at its best

Implementation of Income Computation and Disclosure Standards



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Growth drivers

Better corporate governance and effective framework

Widening reach across various segments to benefit the insurance sector

Implementation of GST to promote export, create employment opportunities and encourage competition

'Skill India' and 'Make in India' programmes promote India as a manufacturing hub

Continued growth in equities and innovative products

Rising income with growth of wealth services

Key budget announcements

NBFCs

- For purchase of high-rated pooled assets amounting to INR 1 lakh crore of financially sound NBFCs, the government to provide a one-time partial credit guarantee to Public Sector Banks (PSB) for first loss of up to 10%.
- NBFCs to create a Debenture Redemption Reserve (DRR) for funds raised even through private placement of debt instruments.
- Participants including NBFCs (not registered as NBFCs-factor) to be allowed to directly participate on the Trade Receivables Discounting System (TReDS) platform to facilitate factoring transactions.
- Upper limit in relation to 'Net Owned Funds' (NOF) requirement for commencing NBFC business increased from INR 2 crore to INR 100 crore.
- Additional powers provided to RBI in relation to NBFCs including powers to remove their directors, supersede the board of directors, initiate resolution by way of amalgamation, restructuring or splitting of NBFCs, etc.
- Increase in quantum of penalty for contravention of specified provision of the RBI Act by NBFCs' authorised personnel, auditors, etc.

Key budget announcements

Housing Finance Companies (HFCs)

- RBI to act as the regulator for the housing finance sector; however, National Housing Board to continue to act as the refinancer and lender of the housing finance sector.
- Enhancement in the NOF requirement for HFCs from INR 2 crore to INR 10 crore.

Foreign Portfolio Investors (FPIs)

- Rationalisation of the existing KYC norms to attract further foreign capital.
- Investment under the FPI route to be permitted up to the sectorial limits prescribed under the exchange control regulation as against the present limit of 24%.
- FPIs to be allowed to transfer/sell debt securities of IDF-NBFCs to domestic investors within the specified lock-in period.
- Proposal to merge NRI Portfolio Investment Scheme route with the FPI route.
- FPIs to be permitted to make investments in listed debt securities issued by ReITs and InVITs.

Key budget announcements

Insurance

- Proposal to increase the FDI limit in the insurance intermediaries.
- To encourage onshoring of international insurance transactions in IFSC, NOF requirement for reinsurance branches to be reduced from INR 5,000 crore to INR 1,000 crore.

Pension

- In order to maintain an arm's length relationship of the NPS Trust with the Pension Fund Regulatory and Development Authority (PFRDA); National Pension Scheme Trust to be separated from PFRDA.

Banks

- To improve the lending capacity, PSBs to be recapitalised by INR 70,000 crore.
- PSBs to leverage technology to enable customers of one PSB to access services across all PSBs.
- Government to initiate steps to empower account holders to have control over cash deposit by others in their accounts.
- No charges to be levied by any bank or system provider for use of electronic mode of payment as may be prescribed.

Key budget announcements

Capital market

- Proposal to ask SEBI to increase minimum public shareholding in listed companies from the existing 25% to 35%.
- Creation of a social stock exchange for listing of social enterprises and voluntary organisation to enable such entities to raise capital by way issue of equity shares, debt instruments or units.
- Proposal to enable retail investors to invest in treasury bills and securities issued by the government of India.
- Regulator to enable stock exchanges to allow AA rated bonds as collaterals to deepen the corporate tri-party repo market in corporate debt securities.

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Real estate

Sector overview

- 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 the investor sentiments, emerging trends of co-working space and quality offices, government's initiatives in the sector, together with stabilisation of RERA and GST.
  - Driven by companies in e-commerce, consulting spaces are expected to grow rapidly. The demand for quality office spaces will also move up substantially.
  - Co-working spaces have raised an aggregate of USD 68 million funding over the past three years.
- While the housing sector has been struggling with muted demand, consumer distrust and liquidity crisis, certain initiatives by the Indian government have contributed to growth.
- With regards to the implications of the Goods and Services Tax (GST) on the real estate sector, various initiatives have been undertaken by the government based on the recommendations of the GST Council.

13% of GDP by 2025

Market size of USD 1 trillion by 2030

Gross leasing activity of 47.4 million square feet, marking a y-o-y growth of 5.3%

Sector overview

- To boost the segment, the government constituted a seven-member Group of Ministers (GoM) committee to analyse the tax rate and suggest a composition scheme/valuation mechanism. Pursuant to the recommendations by the Committee, new tax rates have been prescribed by the government, which came into effect from 1 April 2019.
- A comparative summary of GST rates as applicable before and after 1 April 2019 is tabulated below:

Type of housing	Rates applicable till 31 March 2019				Rates applicable from 1 April 2019			
	Tax rate	Abatement	Effective rate	ITC	Tax rate	Abatement	Effective rate	ITC
Affordable housing	12%	33%	8%	Available	1.50%	33%	1%	Not available
Other than affordable housing	18%	33%	12%	Available	7.50%	33%	5%	Not available

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Policy initiatives

Smart cities project

It is set to impact a total urban population of 99,630,069.

Pradhan Mantri Awas Yojana (PMAY)

Under this initiative, 0.68 million houses (against the sanctioned 6.85 million houses) have been constructed so far in 4,331 cities.

National Urban Housing Fund

It was approved in February 2018 with an outlay of INR 60,000 crore.

Housing for All initiative

It is expected to bring investments worth USD 1.3 trillion in the housing sector by 2025.

> “The government has raised FDI limits for townships and settlements development projects to 100%. Real estate projects within a SEZ are also permitted 100% FDI”

Key challenges

Single-window clearance mechanism not in place

Inability of the builders to lower prices

Availability of adequate funds for developers

Trust deficit with the customers, leading to muted demand

RERA not getting stabilised across key real estate markets in the country

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Growth drivers

Affordable housing gaining a lot of traction on the residential side

Attractive tax incentives for homebuyers

Success of the first ReIT in the country

Liberalised FDI regime

Growth in the e-commerce sector and consulting leading to demand in office and warehousing space

Key budget announcements

- Draft Model Tenancy Law to be circulated to states for adoption.
- FPIs to be permitted to subscribe to listed debt securities issued by ReITs.
- 1.95 crore houses proposed to be built for eligible beneficiaries under the second phase of Pradhan Mantri Awas Yojana – Gramin (PMAY-G) between 2019-20 and 2021-22:
  - Houses under PMAY-G to have amenities like toilet, electricity and LPG connections
  - Reduction in average number of days for completion from 314 days to 114 days
- Proposal to build large public infrastructure on land held by Central Ministries and Central PSE; promotion of instruments such as joint development and concession.
- Regulatory authority on housing finance activities to move from NHB to RBI to avoid conflict of interest.
- Proposal to allow a tax deduction up to INR 1,50,000 for interest paid on loan sanctioned on or before 31 March 2020 for purchase of affordable house (value up to INR 45 lakh); this is in addition to the existing interest deduction of INR 2 lakh; alignment of definition of affordable housing with the GST Act.
- Increase in BCD for construction materials from 10% to 15%.

Technology and telecom

Sector overview: Technology

- Digital is one of the fastest growing segments and now accounts for over 20% of the industry exports. India boasts of 75% of the global digital talent with almost 500,000 skilled personnel.
- Revenue from digital segment is expected to comprise 38% of the forecasted USD 350 billion industry revenue by 2025.
- About 200 Indian IT firms are present in around 80 countries.
- The Indian start-up ecosystem has become the third largest in the world with data analytics, artificial intelligence and IoT start-ups witnessing fastest adoption across industry verticals. Start-ups witnessed a 108% growth in total funding, from USD 2 billion in 2017 to USD 4.2 billion in 2018.

Market size of USD 181 billion in 2018-19

Expected CAGR 7 to 9%

FDI inflow in computer software and hardware sector: USD 35.82 billion during April 2000-December 2018

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Sector overview: Telecom

- The telecom market can be split into three segments – wireless, wireline and internet services. The wireless market segment comprises 98.20% of the total subscriber base, as of February 2019.
- Over the last few years, the telecom sector has seen consolidation of the major players. The key players are expected to invest up to INR 700 billion in Optical Fibre Cable (OFC) and other capex spends followed by investments in 5G.
- India is also the second largest country in terms of internet subscribers at 604.21 million as of December 2018. India became the world's fastest-growing market for mobile applications in the first quarter of 2018 and remained the fastest growing market for Google Play downloads in the second and third quarter of 2018 globally.
- FDI cap in the telecom sector has been increased to 100% from 74%; out of 100%, 49% will be done through automatic route and the rest will be done through the FIPB approval route.

1197.87 million subscribers as of Dec 2018

CAGR of 19.61% in wireless segment in FY 2018

FDI inflow: USD 32.45 billion from April 2000 to December 2018

Policy initiatives

- The National Digital Communications Policy was rolled out in September 2018. It is expected to generate 4 million new jobs and attract investments of USD 100 billion in the communications and digital sectors. It is also expected to raise the sector's contribution to 8% of GDP.
- The Department of Information Technology intends to set up over 1 million internet-enabled common service centres across India as per the National e-Governance Plan.
- The Government of India has introduced Digital India programme under which all the sectors such as healthcare, retail, etc. will be connected through the internet.
- Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA) 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.
- In the Interim Budget 2019, the Government of India announced plans to launch a national programme on AI and setting up of a national AI portal.
- National Policy on Software Products-2019 was passed by the Union Cabinet to develop India as a software product nation.

> **“Various digital schemes were launched to promote 4 Es - Education, Employment, Entrepreneurship and Empowerment”**

Key challenges

Infrastructure bottlenecks

Lack of governance mechanism

Data protection/security laws in the country

Strong multi-layered approval system

Reduced sector incentives - fast approaching sunsets

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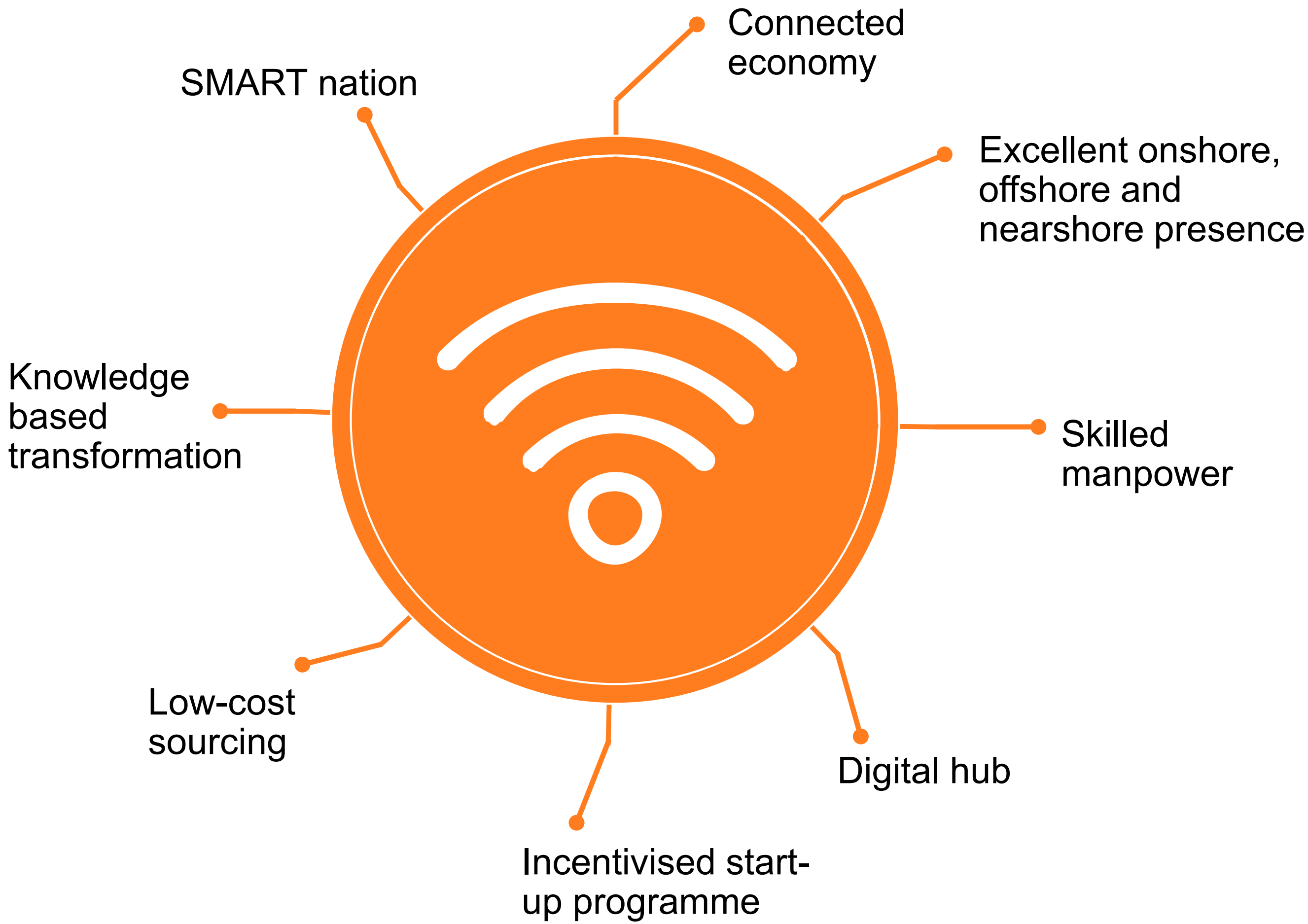
Growth drivers



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Key budget announcements

Digital payments

- To enable seamless mobility, “one nation one card” is proposed to be introduced which would enable people to pay multiple kinds of transport charges, including metro services and toll tax, across the country. This card runs on RuPay card.
- One of the major initiatives towards cashless economy in the current budget is to waive Merchant Discount Rate (MDR) charges for businesses with yearly turnover of over INR 50 crore, these businesses shall offer low cost digital modes of payment to their customers. RBI and banks will absorb these costs.

Start-ups

- Start-ups get a major boost in the Budget. Some of the top initiatives taken to encourage start-ups are:
  - exclusive TV channel designed and executed by start-ups to discuss issues affecting their growth, matchmaking with venture capitalists, funding and tax planning, etc.
  - introduction of e-verification mechanism to identify investors and source of their funds to resolve angel tax issue.
  - reduce unwarranted litigation in order to give impetus to the growth of start-ups.

Key Budget announcements

Space technology

A Public Sector Enterprise viz. New Space India Limited (NSIL) has been incorporated as a new commercial arm of Department of Space to tap the benefits of the Research & Development 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.

UNION BUDGET 2019

Healthcare

Sector overview

- Healthcare is primarily characterised by three major sub-sectors:
  - Hospitals
  - Pharmaceutical
  - Allied services (diagnostic centres, medical devices, etc.)
- India is expected to become one of the top three healthcare markets in the world in terms of incremental growth by 2020.
- India is the second largest contributor of global biotech and pharmaceutical workforce. It accounts for 20% of the global exports in generics. Pharmaceutical exports stood at INR 1.2 lakh crore in 2017-18.
- Indian pharmaceutical companies received a record 300 generic drug approvals in the US during 2017 where the generic market is expected to reach INR 6.2 lakh crore by 2021.
- The healthcare sector continues to be largely exempted from GST similar to erstwhile regime. However, the overall indirect tax costs of healthcare services on account of input tax credit blockage remain a major concern.

Market size to increase three-fold to INR 8.6 lakh crore by 2022

Expected CAGR of 22% to reach INR 26 lakh crore by 2022

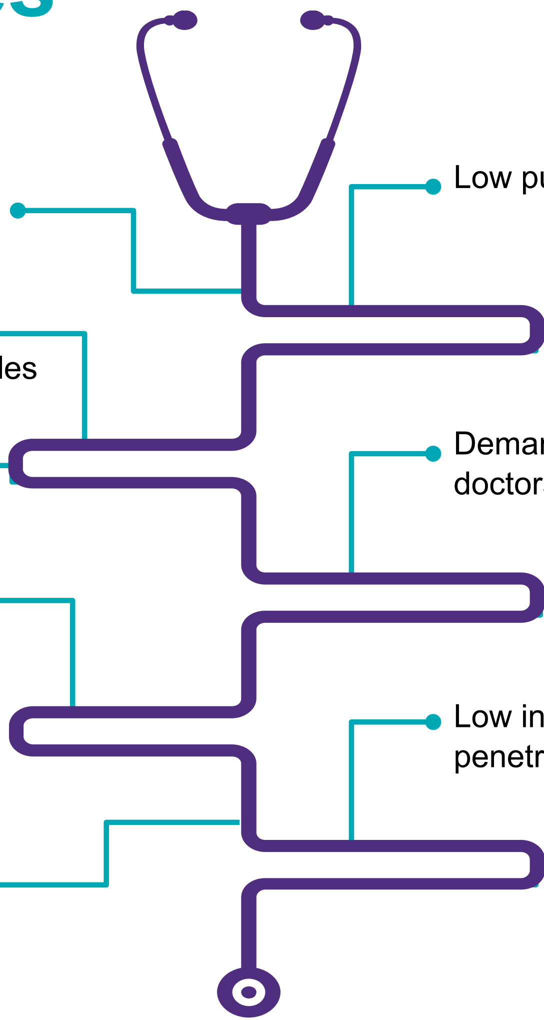
Government expenditure to reach 2.5% by 2025 from 1.4% in 2018

Key policy initiatives

- **Pradhan Mantri Jan Arogya Yojana:** The National Health Protection Scheme is the largest government-funded healthcare programme in the world, which is expected to help 100 million poor families in the country by providing a cover of up to INR 5 lakh (USD 7,723.2) per family per year for secondary and tertiary care hospitalisation. The programme was announced in the Union Budget 2018-19.
- **Ayushman Bharat-National Health Protection Mission:** This was approved in August 2018 as a centrally sponsored scheme with specified contribution by both centre and state governments.
- **Mission Indradhanush:** Aims to improve coverage of immunisation in the country. The target was to achieve at least 90% immunisation coverage by December 2018 to cover unvaccinated and partially vaccinated children in rural and urban areas of India.
- **Single window facility:** In March 2018, the Drug Controller General of India (DCGI) announced its plans to start a single-window facility to provide consents, approvals, and other information. The move is aimed at giving a push to the ‘Make in India’ initiative. Further, it is also planning to set up an electronic platform to regulate online pharmacies under a new policy to stop any misuse due to easy availability.

> **“Pharma Vision 2020 by the Department of Pharmaceuticals aims to make India a major hub for end-to-end drug”**

Key challenges



- Access to affordable healthcare for all
- Low public spending on healthcare
- High levels of import in medical devices, equipment, and consumables
- Fragile healthcare infrastructure
- Ambiguity around price control and frequent modifications under the NPPS regime
- Demand-supply gap – beds, doctors and locations
- Significant R&D investment with long gestation period
- Fragile healthcare infrastructure
- Low insurance penetration
- Implementation of indirect tax amendments/positions across distribution channel
- Attracts less than 2% allocation from the GDP spend

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Growth drivers

- Addition in the number of beds (bed capacity)
- Focused penetration in tier II and tier III cities
- Local manufacturing of devices to improve profitability and ease in servicing
- Inclusion of private sector to improve quality of healthcare
- Expansion of affordable healthcare services
- Increasing disposable income for both rural and urban India
- Increasing focus on preventive medication and diagnostics like gene testing, and vaccines
- Investment in complex and specialty drugs
- Entry in new international markets and segments

Key budget announcements

- Extending benefits of Swachh Bharat Mission to solid waste management in every village
- Reduction in customs duty from 5% to zero on certain raw materials, parts or accessories used for manufacturing artificial kidneys, disposable sterilised dialyser and micro-barrier of artificial kidneys
- TDS on life insurance policy payment increased from 1% to 5%
- National Research Foundation for higher research will aid indigenous research in pharmaceutical industry, bio-medical industry and innovation in indigenous treatments modalities, etc.
- Announcement to boost Artificial Intelligence will strengthen the usage of technology in the field of healthcare and it will intensify the quality in healthcare with accessibility and affordability

Media

Sector overview

- The growth in Indian media and entertainment sector continued to outperform the overall average growth of the economy.
- India has world's second highest population, of which majority is youth, the demand for entertainment avenues is expected to rise in the near future.
- Digital media and online gaming were the front runners in the sector's growth. The proliferation of internet and convenient access to portable devices supported by government's digitisation initiatives contributed towards exponential growth.
- Over-the-top (OTT) platforms satiated the demand for variety in content and managed to attract masses. Complete shift away from traditional pay television is not expected any time soon.
- With digitisation of Indian television universe, the viewers now have much elaborate spreads to choose from. Also, with addressable systems in place, the digital platform operators and broadcasters have access to much more consumer insights.
- The Indian film industry is one of the largest producers of films globally. With strong scripts, fresh story lines and star presence, this segment experienced decent growth. Monetisation of content through digital also added to growth.
- The traditional media, print and radio, may need some more innovation and policy initiatives with the changing times to stay competitive.

The game changers: digital media and online gaming

OTT got a hearty welcome

Content remains the king

Policy initiatives

- Updated regulatory framework for digital television services became effective, which significantly impacted each component through the delivery chain from broadcasters to subscribers.
- National Digital Communications Policy, 2018 was released to fulfil the information and communication needs of citizens and enterprises by providing robust infrastructural support.
- Cinematograph (Amendment) Bill, 2019 was introduced to combat piracy with stricter penalties.
- Single-window clearance was provided to Indian filmmakers as well, to ease the regulatory mechanism around filming in India.
- Upward revision of 25% to the advertisement rates for print media was announced by Ministry of Information and Broadcasting.

> **“TRAI is ready to reconsider the updated regulatory framework for digital television services to make television subscriptions economical”**

Key challenges

Clarity in regulatory guidelines for online gaming segment

Uncertainty of impact of proposed OTT regulatory framework

Costlier pay television subscriptions under new TRAI regulations

Increased online content and film piracy

Erratic availability of infrastructure to reach and monetise content in the rural areas

Restriction of FDI in print and radio segments

Growth drivers

- Proliferation of internet availability
- Affordable internet rates
- Young and diverse demographics
- Improved ease of filming in India, including filming incentives offered by various states
- Regulatory support on penalising piracy
- Transparency in pay television regulatory framework
- Co-production treaties conceded

Key budget announcements

- Fiscal allocation to Ministry of Information and Broadcasting has been enhanced by 7% over 2018-19 budget with major focus on Prasar Bharti, National Film Heritage Mission and, broadcast and film infrastructure
- Liberalisation of FDI norms in animation, visual effects, gaming and comics sectors to be considered to promote healthy competition and generate employment opportunities.
- Proposal to skill youth with focus on virtual reality, robotics, 3D printing, etc.
- Withdrawal of exemption from BCD on newsprint and other specific paper categories used in printing of newspaper and magazines which shall now attract BCD of 10%: thereby enhancing cost of imports.
- To encourage domestic publishing and printing industry, BCD at the rate of 5% has been levied on specified imported books.

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