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UNION BUDGET 2019

Comprehensive analysis

Content

Foreword

UNION BUDGET 2019

The government has laid down its strategic vision for 2030 by announcing a pro-active approach focusing on 10 key themes comprehensively covering all aspects of the economy to take India to the next level of development with social equity.

The Budget is an attempt to provide a fine balance between larger socio-economic requirements and fiscal prudence. As the structure of the economy changes, it is important to have a robust safety net for the marginalised sections of the society. This Budget seems to be directed towards this objective. There are many far-reaching policy announcements to designate it as a milestone budget.

Vikas Vasal
Partner, Grant Thornton India LLP

Executive summary

Executive summary 1/2

Key policy announcements

- Focus on agriculture sector – INR 75,000 crore outlay to assure income support for small and marginal farmers, INR 60,000 crore outlay for Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and scheme for interest subvention on specified loans
- Focus on infrastructure – INR 19,000 crore for Pradhan Mantri Gram Sadak Yojana (PMGSY), INR 64,587 crore capital support for railways and INR 58,166 crore for Northeastern areas
- Pension scheme announced for the unorganised sector under the Pradhan Mantri Shram Yogi Maandhan scheme covering about 10 crore labourers and workers
- Allocation towards the defence sector at a record INR 3 lakh crore
- National Artificial Intelligence Portal to be launched soon to reap the benefits of artificial intelligence and related technologies
- Digital initiative to be launched to convert 1 lakh villages into digital villages
- The government has estimated the fiscal deficit for FY 2019-20 at 3.4% vis-à-vis 3.1% targeted last year due to additional allocation of income support to farmers

Executive summary 2/2

Key tax announcements

- No change in existing tax rates
- Tax rebate for individual taxpayers with annual total taxable income up to INR 500,000
- Standard deduction for salaried individuals increased from INR 40,000 to INR 50,000
- Exemption from tax on notional rent extended to second self-occupied house property
- Capital gains exemption by way of investment in residential property in India extended to two residential houses where capital gain does not exceed INR 2 crore; benefit available to taxpayers once in their lifetime
- Threshold for applicability of withholding tax on interest received from post office and savings account increased from INR 10,000 to INR 40,000
- Threshold for tax deduction on rent increased from INR 180,000 to INR 240,000
- Exemption for notional income from unsold inventory extended from 1 year to 2 years
- Proposal to process tax returns within 24 hours and simultaneously issue refund
- Stamp duty on issue and transfer of all kinds of securities is now proposed to be centralised – the responsibility of collection and disbursement to respective states is with stock exchange/depository/clearing corporation

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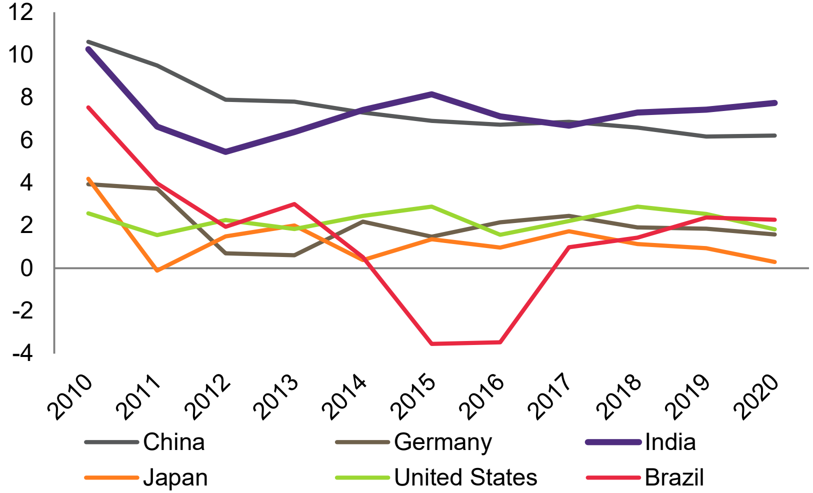
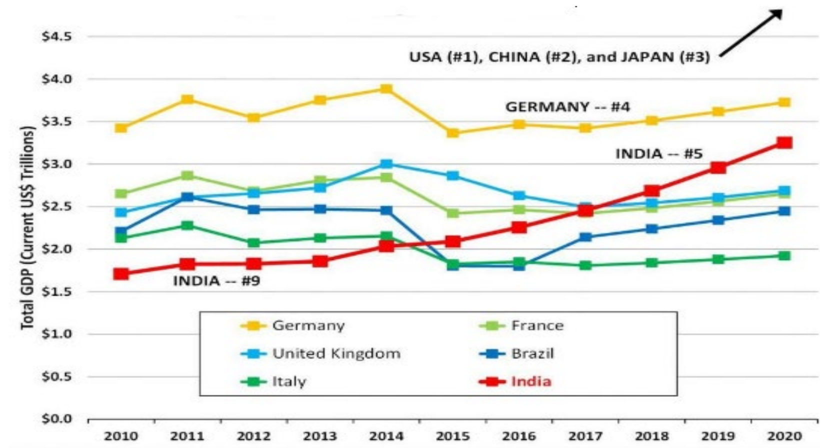
Economic overview

India: fastest growing large economy in the world

Trend of GDP Growth (% YoY)



India set to become 5th largest economy



Source: IMF

- India's GDP growth moderated in FY 2016-17 during demonetisation and the Goods and Services Tax (GST) implementation period of 2017-18.
- Growth averaged around 7.5% in the last four years, making it the fastest growing large economy in the world. India's contribution to world growth has risen from 7.6% during 2000-2008 to 14.5% in 2018.
- India is poised to become the fifth-largest economy overtaking the United Kingdom by 2019 as per IMF's projection.
- According to the UNCTAD's Report (2018), India was the 10th largest recipient of global FDI in 2017 and remained within the top three destinations for greenfield capital investment (FDI market intelligence 2018).

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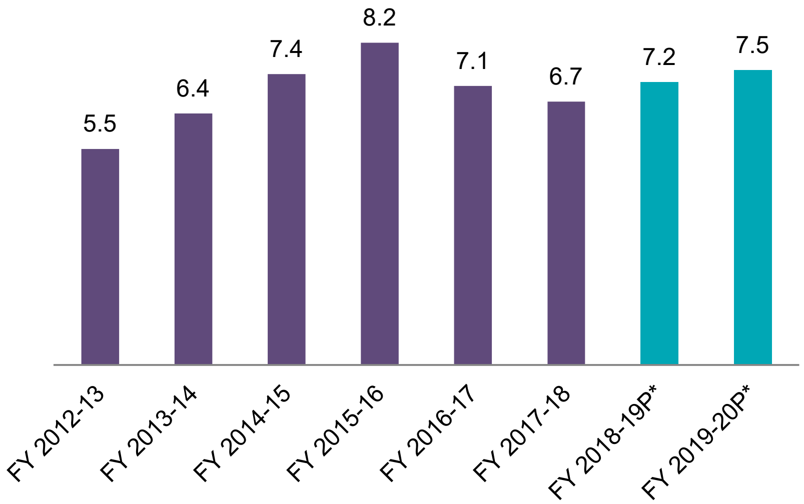
Gross Domestic Product (GDP) growth

Annual GDP growth of India (% YoY)



Source: Central Statistics Office, advance estimate announced on 07 Jan 2019
*FY19 data: CSO's advanced estimate, FY20: World Bank, IMF projection

Growth expected to improve going forward

- Despite recent slowdown, GDP growth in FY 2018-19 will be higher at 7.2% from 6.7% last year. Growth is projected at around 7.5% by the IMF and the World Bank in FY20.
- Growth will benefit from lower crude oil prices, increased investment activity and capacity utilisation.
- There are downside risks from financial market volatility, slowing global demand, ongoing trade war and uncertainties over Brexit.
- Depending on how the global environment evolves, India's potential growth could rise meaningfully from 2020, led by higher investment and dividends from recent reforms.

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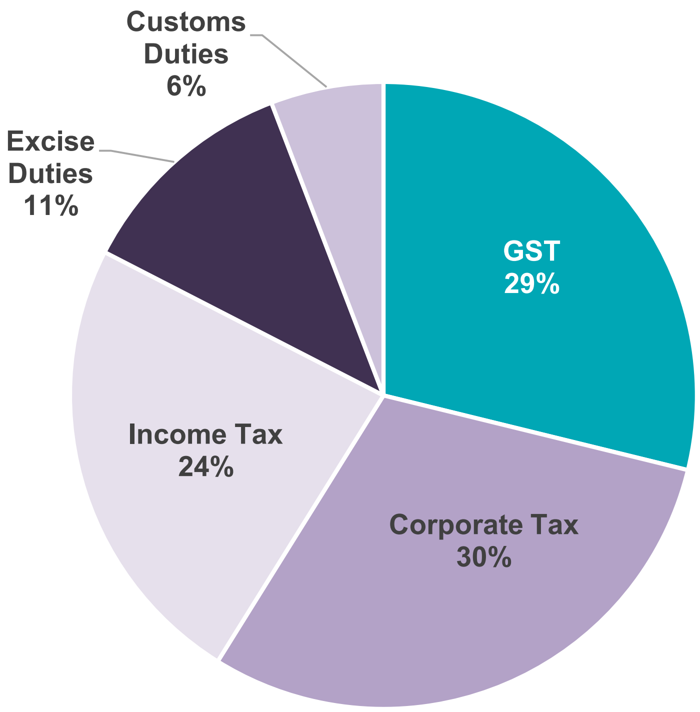
Share of major tax revenues in FY 2018-19



Source: Government Budget Documents (revised estimates)

GST collection trends encouraging

- Average monthly collection in current year is INR 97,100 crore versus INR 89,700 crore in the first year.
- GST contributed 29% of tax revenue.
- Collections from corporate tax contributed 30% of tax revenue.
- In FY 2019-20, GST is estimated to contribute 29.9% of tax revenue.

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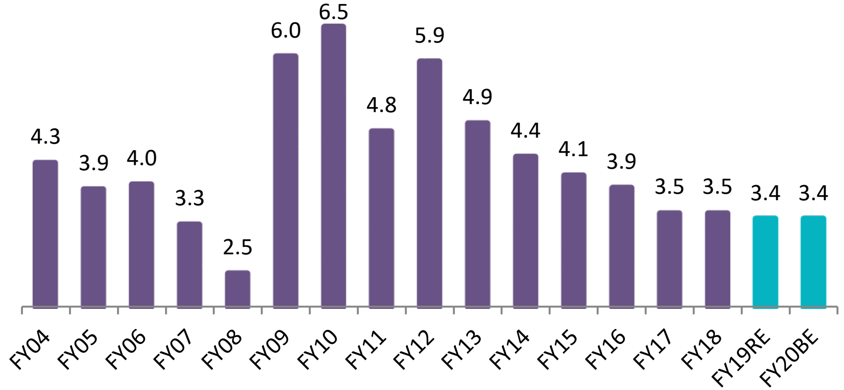
Fiscal deficit

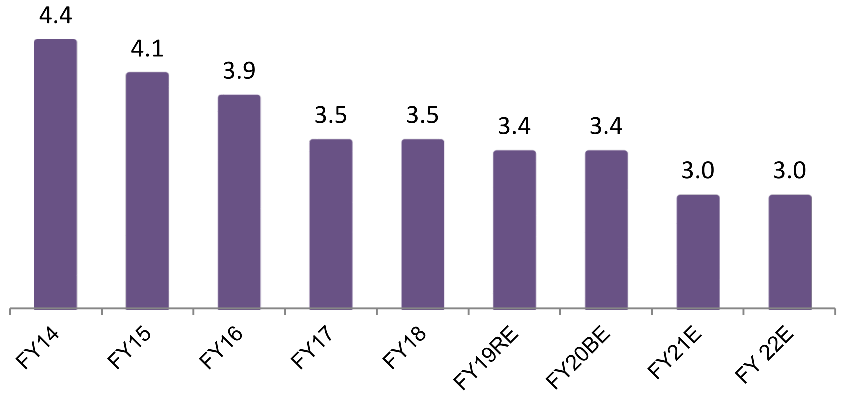
Fiscal deficit as a % of GDP



Fiscal deficit target marginally higher for FY19

- The fiscal deficit target for FY19 is revised at 3.4% of GDP, marginally higher than 3.3% budgeted previously.
- Fiscal deficit for FY 20 is budgeted at 3.4% of GDP, higher than 3.1% announced last year primarily due to the fiscal package announced to address agrarian distress.

Medium-term fiscal consolidation roadmap



Source: Government Budget Documents

Fiscal deficit of 3% to be reached by FY21

- The government has announced the medium-term fiscal consolidation path.
- Fiscal deficit is expected to be brought down to 3% of GDP by FY 2020-21.
- Overall objective is to bring down the Central Government's debt within 40% of GDP as per the FRBM Act from 48.8% of GDP in 2018-19.

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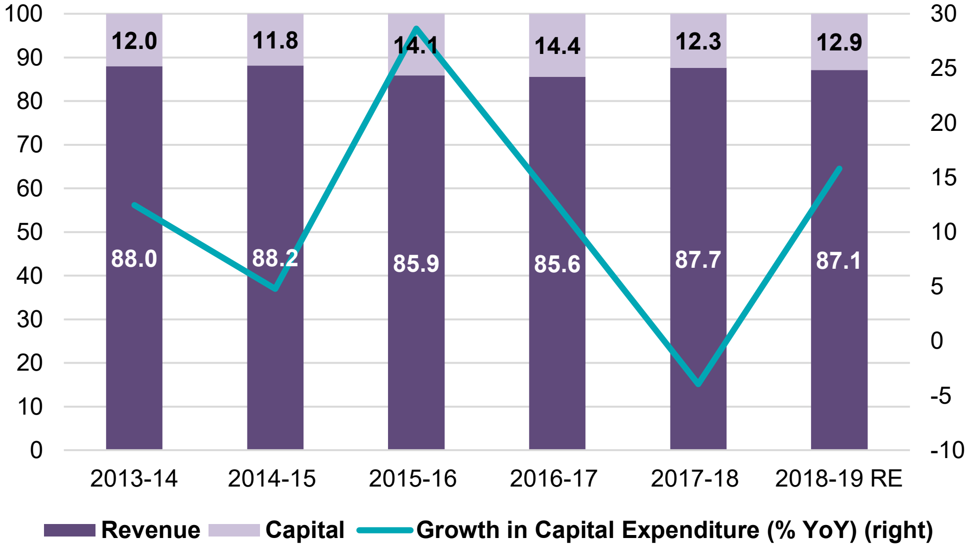
Capital and revenue expenditure

Share of capital and revenue expenditures



Capital expenditure higher than budgeted

- Capital expenditure remains a small part of total expenditure.
- Capital expenditure for FY19 in the revised estimates is higher at INR 3.17 lakh crore; up from budgeted INR 3 lakh crore (growth of 15.8% Y-o-Y compared to 9.9% budgeted).
- Capital expenditure expected to increase by 6.2% to INR 3.4 lakh crore in FY20.

Fiscal quality improves

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19BE	FY19RE	FY20BE
RD/FD	76.4	74.3	71.0	71.6	64.3	59.1	73.8	66.6	64.8	66.8
Cap Expenditure/FD	30.7	34.0	37.3	38.5	47.5	53.1	46.0	48.1	49.9	47.8

- Lower ratio of revenue deficit (RD) to fiscal deficit (FD) indicates that less market borrowings are used for unproductive spending like interest, salary, etc.
- Decline in RD/FD ratio and improvement in capital expenditure/FD ratio, indicating better fiscal management.

Source: Government Budget Documents

What's new in Union Budget 2019-20

Pension for the unorganised sector

- Pension for the unorganised sector announced in the form of Pradhan Mantri Shram Yogi Maandhan for workers with monthly income up to INR 15,000. There will be an assured monthly pension of INR 3,000 from the age of 60 years against a monthly contribution of INR 100 equally matched by the Central government. It is expected to be one of the largest pension schemes in the world covering over 10 crore people.

Focus to reduce oil imports

- The government has proposed to increase hydrocarbon production in order to reduce India's dependence on crude oil imports.
- India’s macro vulnerability increases in tandem with higher oil prices. A high-level inter-ministerial committee set up with a focus on renewable energy has made several specific recommendations which will be implemented soon.

Receipts from disinvestments and dividends remain high

- Disinvestment receipts are projected at INR 80,000 crore in FY19 and INR 90,000 crore in FY20.
- Dividend receipts from RBI increased this year by about INR 20,000 crore and are estimated at the same level for FY20.

Key tax proposals

Direct tax (1/3)

Tax rates

- No changes are proposed in the existing tax slabs and rates.

Enhancement of standard deduction

- Standard deduction for salaried taxpayers is proposed to be increased from INR 40,000 to INR 50,000 resulting in higher net-in-hand income.

Enhancement of rebate for individual taxpayers

- Rebate of income tax up to INR 2,500 is currently available to individual taxpayers with total taxable income not exceeding INR 350,000.
- Full tax rebate for individual taxpayers with total taxable income not exceeding INR 500,000 is proposed.

Second self-occupied house property

- Currently, if a taxpayer has more than one self-occupied house property, income tax is payable on additional properties on notionally computed rent. It is proposed to exempt a second self-occupied house property from taxation on notional basis.
- Aggregate deduction for interest on borrowed capital for both self-occupied house properties is proposed to be capped at INR 200,000.

> **"Personal tax reliefs are designed to benefit middle-class and salaried taxpayers aligned with the government's focus towards social equity"**

Direct tax (2/3)

Roll-over of capital gains

- Capital gains on sale of residential house is currently exempt from tax if such gains are invested in another residential house in India within the prescribed period.
- It is proposed to extend this exemption even in cases where the gains are invested in **two** residential houses in India. However, this benefit is available where the capital gains do not exceed INR 2 crore and is allowed only once in a lifetime.

Enhancement in threshold of TDS applicability

- The threshold for applicability of TDS on interest from banks, post office and co-operative society has been increased from the current level of INR 10,000 to INR 40,000 per annum.
- The threshold for applicability of TDS on rent has been increased from INR 180,000 to INR 240,000 per annum.

> **"Increase in the threshold of TDS on interest and rent is expected to ease cash flow and provide relief to small taxpayers from filing tax returns"**

Direct tax (3/3)

Relief to real estate sector on unsold inventory

- Currently, unsold inventory of constructed units held as stock-in-trade is exempt from tax on notional rent basis for a period of 1 year from the end of the financial year in which the certificate of completion of construction is obtained.
- It is proposed to increase the exemption period from 1 year to 2 years.

Promoting affordable housing

- The tax holiday from profits and gains derived by developers of affordable housing projects is proposed to be extended by 1 year to projects approved till 31 March 2020.

E-assessments

- Moving ahead on digitisation of compliances and assessments, it is proposed that within the next two years, all scrutiny assessments and verification of returns will be done electronically through a back office manned by tax experts and tax officials, without any personal interface.

> "These proposals provide a much-needed impetus to the real estate sector by stimulating demand"

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Stamp duty (1/3)

Stamp duty on issue and transfer of securities to be centralised

- With a view to rationalise the levy and collection of stamp duty on securities, it is now proposed that stock exchange/depository/clearing corporation be vested with the responsibility of collecting stamp duty on such instruments and disbursing the same to the respective states.
- Earlier, the stamp duty in such cases was collected by the respective state governments (through Collector of Stamps).
- The levy is proposed to apply on issue and transfer of securities covering shares, debentures, derivatives, government securities and corporate bonds.
- Penalty of at least INR 1 lakh (extendable up to 1% of the collection/transfer defaulted) is proposed on failure to discharge the responsibility of collection/disbursement by the agency.
- Stamp duty is payable only on the principal instrument in case of issue, sale or transfer of securities effected through multiple instruments.

"The rationalisation and standardisation of levy and collection of stamp duty across securities is a welcome move that generally reduces cost of transactions as well as simplifies compliance for investors/stakeholders. However, securities in dematerialised mode, particularly listed securities, are now burdened with an additional cost on account of this levy."

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Stamp duty (2/3)

Transfer of dematerialised securities now under the ambit of stamp duty

- Earlier, transfer of securities in dematerialised form was exempt from levy of stamp duty.
- It is now proposed to remove the above exemption and levy the same rate on transfer of shares even in the dematerialised form.

Market value specifically defined for levy of stamp duty

- In case of listed securities (traded on stock exchange) – the traded price.
- In case of listed securities (off-market transaction) – the price/consideration mentioned in the instrument.
- In case of unlisted securities – the price/consideration mentioned in the instrument.

Stamp duty (3/3)

Rate of stamp duty applicable on issue and transfer of securities revised

Particulars	Proposed rates	Current rates
Issue of security (other than debenture)	0.005%	Different rates adopted by different states. For example: • 0.1% for Delhi (Schedule IA) • 0.1% for Maharashtra • INR 1 per share for Uttar Pradesh (amendment made by UP government)
Transfer of security (other than debenture on delivery basis)	0.015%	0.25% (Nil for demat shares)
Transfer of security (other than debenture on non-delivery basis)	0.003%	0.25% (Nil for demat shares)
Issue of debentures	0.005%	Different rates applicable in different states
Transfer or re-issue of debentures	0.00001%	Different rates applicable in different states

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Sectoral analysis

- Consumer
- Industrial
- Technology

FMCG, food and agriculture, healthcare, retail and e-commerce

Sector overview: FMCG

- The FMCG sector, comprising of the following three segments, is the fourth-largest sector in the Indian economy:
  - Household and personal care
  - Healthcare
  - Food and beverages
- The FMCG sector has grown from INR 2.2 lakh crore in 2011 to INR 3.7 lakh crore in 2017-18.
- The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 27.86% to reach INR 7.4 lakh crore by 2020 largely attributable to increase in private consumption and rural income.
- The online FMCG market is forecasted to grow from INR 1.4 lakh crore in 2017 to INR 3.2 lakh crore by 2020, backed by growth in online users from 90 million in 2017 to 200 million in 2020.
- The reduction in GST rates across various product categories such as ready-to-consume products (rate reduced from 12% to 5%), specific foods and off-the-shelf personal care products (rate reduced from 28% to 18%), etc. has benefited the sector as well as consumers.
- In order to ensure that due benefits of GST rates and input credits are passed to the ultimate consumers, the National Anti-Profiteering Authority has been evaluating cases of profiteering and has imposed penalties on various FMCG companies where it found that the benefit of reduced GST rates has not been passed to the consumer.

Sector overview: Food and agriculture

- The agriculture sector is the primary source of livelihood for approximately 58% of the population.
- Agriculture exports, which grew at a CAGR of 16.45% between 2010 and 2018 making India the 9th largest exporter of agricultural products, are projected to reach INR 2.7 lakh crore by end of 2018-19.
- India is on the path of doubling its farm income by 2022 on account of increased investments in agricultural infrastructure along with growing use of genetically modified crops.
- Some of the recent major government initiatives to bolster the sector are as follows:
  - Agriculture Export Policy, which aims to increase India's agricultural exports to INR 4.26 lakh crore by 2022
  - Introduction of an INR 15,900 crore procurement policy which aims to ensure fair prices for farmers.
  - Food and agro-based processing unit and cold chain infrastructure classified under agricultural activities for priority sector lending.
  - A special fund of INR 2,000 crore created in NABARD for providing affordable credit to entrepreneurs for setting up food processing units in designated food parks.
- On the GST front, the government has clarified that GST is to be charged at 5% on fertilisers supplied for direct use as fertilisers, or supplied for use in manufacturing of other complex fertilisers for agricultural use (soil or crop fertilisers).

Sector overview: Healthcare (1/2)

- India is poised to become one of the top three healthcare markets in the world in terms of incremental growth by 2020.
- Healthcare is primarily characterised by three major sub-sectors: hospitals, pharmaceutical and allied services (diagnostic centres, medical devices, etc.)
- Hospital and allied services are expected to grow at a CAGR of 22% to reach INR 26 lakh crore by 2022.
- The hospital sub-sector is expected to grow at a CAGR of 16% to INR 8.6 lakh crore by 2022.
- Key initiatives by the Government of India which will promote Indian healthcare industry:
  - Pradhan Mantri Jan Arogya Yojana (PMJAY) launched in September 2018 to provide health insurance worth INR 500,000 to over 100 million families every year
  - Ayushman Bharat-National Health Protection Mission approved in August 2018 as a centrally sponsored scheme with specified contribution by both centre and state governments
- The healthcare sector continues to be largely exempted from GST as was the case under the erstwhile regime. However, the overall costs of healthcare services on account input tax blockage remain a concern.
- Further, the healthcare sector had sought certain clarifications which will benefit the sector:
  - Food supplied to in-patients under doctor's/nutritionist's advice part of composite supply of healthcare and not separately taxable
  - Services provided by senior doctors/consultants/ technicians hired by the hospitals, whether employees or not, are healthcare services and are exempt.

Sector overview: Healthcare (2/2)

Pharmaceutical

- India accounts for 20% of global exports in generics, and pharmaceutical exports stood at INR 1.2 lakh crore in 2017-18. The country's pharmaceutical sector is expected to expand at a CAGR of 22.4% over 2015-20 to reach INR 3.9 lakh crore.
- India is the second largest contributor of global biotech and pharmaceutical workforce. The pharmaceutical sector was valued at INR 2.3 lakh crore ($33 billion) in 2017.
- Indian pharmaceutical companies received a record 300 generic drug approvals in USA during 2017 where the generic market is expected to reach INR 6.2 lakh crore ($88 billion) by 2021.
- The country accounts for the second-largest number of Abbreviated New Drug Applications (ANDAs) and is the world's leader in Drug Master File (DMF) applications with USA.
- Key initiatives by the Government of India/state governments which will benefit the pharmaceutical sector:
  - In October 2018, the Uttar Pradesh government announced setting up of six pharma parks and has received investment commitments of more than INR 5,000-6,000 crore.
  - Pharma Vision 2020 by the Department of Pharmaceuticals aims to make India a major hub for end-to-end drug discovery.
- On the GST front, the government has issued a clarification on the procedure to be followed in respect of return of expired drugs or medicines. The development standardises the process followed across industry in case of expired drugs or medicines.

Sector overview: Retail and e-commerce

- India's retail sector, the fifth-largest retail destination globally, accounts for more than 10% of the country's GDP.
- The Indian retail market, which was valued at INR 55.5 lakh crore in 2018, is projected to reach INR 113.8 lakh crore by 2023, exhibiting a healthy CAGR of 15.4% between 2018 and 2023.
- The e-commerce market in India is valued at INR 3.5 lakh crore and is projected to reach INR 8.3 lakh crore by 2023, marking a CAGR of 19% between 2018 and 2023. The growth in e-commerce is largely attributed to the following:
  - The number of internet users in India is estimated to reach 1,130 million by 2023.
  - The smartphone user base is expected to touch 472 million by 2023 driven primarily by the Digital India campaign of the Government of India.
  - The number of online shoppers is expected to reach 171 million by 2023.
- The government allows 51% FDI in multi-brand retail and 100% FDI in single-brand retail and marketplace model of e-commerce under the automatic route. The FDI policy for the e-commerce sector was recently reviewed and the revised policy effective from 01 February 2019 provides that:
  - an entity having equity participation from e-commerce marketplace or its group companies shall be barred from selling on the platform run by the marketplace entity
  - An e-commerce marketplace entity cannot mandate any seller to sell any product exclusively on its platform.
- On the GST front, tax rates have been reduced on various consumer goods like specific TVs, refrigerators, etc. (from 28% to 18%) and footwear up to INR 1000 per unit (reduced to 5%).
- The government has allowed registration threshold exemption of INR 20 lakh (INR 40 lakh with effect from 01 April 2019) to e-commerce dealers. Provisions of tax collection at source introduced from 01 October 2018 for e-commerce operators now requires them to collect tax from suppliers selling through their platform.

Key budget announcements

Food and agriculture

- Assured income support to marginal farmers under the Pradhan Mantri Kisan Samman Yojna – vulnerable farmers having land up to 2 hectare will get direct income support of INR 6,000 per year. Outlay of INR 75,000 crore is proposed for the scheme to cover almost 12 crore farmers as direct beneficiaries. INR 20,000 crore has been added to the revised estimates of FY 2018-19.
- INR 750 crore has been allocated towards the animal husbandry and fisheries sector; 2% interest subvention on farm loans and additional 3% subvention on timely payment of loans have been extended.
- Interest subvention available to farmers for rescheduled crop loans in case of natural calamities is now extended to the entire period of the rescheduled loan rather than only for the first year as currently applicable.
- A mega pension scheme, Pradhan Mantri Shram Yogi Maandhan, is proposed for the workers in the unorganised sector earning a monthly income of up to INR 15,000. The scheme will provide an assured monthly pension of INR 3,000 from the age of 60 years. This is a significant step towards ensuring social security for such individuals.
- Government e-marketplace platform for public procurement is now being extended to all central public sector enterprises.
- As part of the 10 dimensional approach for 2030, the government aims to achieve high farm production and productivity through modern agricultural practices and value addition. This will involve an integrated approach towards agro and food processing preservation, packaging and maintenance of cold chain.

Healthcare

- 22nd All India Institute of Medical Sciences (AIIMS) is proposed to be set up in Haryana.

Expert take

UNION BUDGET 2019
consumer

"This Interim Budget will drive a consumption-led growth, which will directly benefit the consumer sector. More disposable income in the hands of the middle class through tax rebates will increase their purchasing power, driving the sales of more value-added products by FMCG, consumer electronics, retail and hospitality companies."

Ashish Gupta
Director, Grant Thornton Advisory Private Limited

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UNION BUDGET 2019

industrial

Auto and manufacturing, real estate, infrastructure

Sector overview: Auto and manufacturing (1/2)

Auto

- The auto industry is currently valued at $93 billion contributing 7.1% to India's GDP and the auto component industry, which is valued at $51.20 billion representing 2.3% of the GDP.
- The total units produced till September 2018 stood at 29.08 million (y-o-y growth of 14.78%) and the total sales stood at 24.97 million units (y-o-y growth of 14.50%). The total exports till that period stood at 4 million units, marking a y-o-y growth of 16%.
- Growth is largely attributable to improved economic indicators, pro-investment climate and decrease in interest rates.
- The auto component industry primarily consists of OEM supplies valued at $28.5 billion (representing 56%), exports valued at $13.5 billion (representing 26.2%) and aftermarket supplies of $9.2 billion (representing 17.8%).
- The sector is poised to play an important part in the fourth industrial revolution backed by strong consumer sentiment, low inflation and improving economic conditions.
  - The sector is expected to grow at a CAGR of 9.4% during 2015-2020, making India the third-largest passenger vehicle market by 2020.
  - India will lead and define the future of personal mobility in the next five years with EVs becoming mainstream and taxi aggregators redefining the dynamics of the industry.
- With the advent of GST, challenges and complexity around valuation in the auto sector have reduced. Under GST, the rate of tax on motor vehicles has been streamlined and kept at 28% with applicable cess ranging from 1% to 15% depending on the type of vehicle with availability of credit (electric cars attract 12% GST).

Sector overview: Auto and manufacturing (2/2)

Manufacturing

- India's manufacturing sector, ranked 30th on the Global Manufacturing Index of the World Economic Forum in 2017-18, contributed to 16% in the country's GDP. This has made India one of the most attractive manufacturing destinations for investments.
- The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a CAGR of 4.34% during FY12 and FY18 as per the second advance estimates of annual national income published by the Government of India. During April-September 2018, GVA from manufacturing at current prices grew 14.8% y-o-y to INR 138.99 lakh crore.
- 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. Business conditions in the Indian manufacturing sector continue to remain positive.
- On the GST front, the government has rationalised tax rates with almost 60% of components now attracting GST at the rate of 18%. Further, the introduction of uniform e-way bill mechanism has eased the movement of goods across the country.
- In the textile manufacturing sector, while the government has allowed refund to fabric manufacturer on account of inverted duty structure from 01 August 2018, it has also allowed a reduced GST rate of 5% on the condition that the refund of accumulated ITC on account of inversion will not be allowed. The government has also introduced a uniform GST rate of 5% on job work relating to all textile products.

Sector overview: Real estate

- The real estate sector witnessed gross leasing activity of 47.4 million square feet, marking a y-o-y growth of 5.3%. Further, co-working leasing witnessed a 199% increase in the first-half of 2018 as compared to the first half of 2017.
- While the housing sector has been struggling with muted demand, consumer distrust and liquidity crisis, certain Government of India initiatives have contributed to growth – the Smart City Project, which is set to impact a total urban population of 99,630,069, and the Pradhan Mantri Awas Yojana (PMAY), under which 0.68 million houses (against the sanctioned 6.85 million houses) have been constructed so far in 4,331 cities.
- The sector is expected to reach $1 trillion by 2030 and is likely to contribute more than 10% of the country's GDP by 2025 backed by a positive trend in the investor sentiments, emerging trends of co-working space and quality offices, and the government's initiatives in the sector along with stabilisation of RERA and GST.
  - With companies in e-commerce and consulting expected to grow rapidly, the likely demand for quality office space will move up substantially.
  - Co-working spaces have raised an aggregate of $68 million funding over the past three years.
- The government has recently constituted a Group of Ministers (GoM) to look at the overall GST impact and rationalisation of taxes for the sector. It may be noted that while stamp duty on immoveable property continues to be a cost, the GST rate has been pegged at 18% (or 12% for specified affordable housing projects), with a standard 33% abatement towards the value of land, thereby bringing the effective GST rate for sale of under-construction property to 12% (or 8% for specified affordable housing projects) of sale value with credit as against applicability of multiple taxes (service tax, Value Added Tax (VAT) with limited credit).

Sector overview: Infrastructure

- The infrastructure sector requires an investment of more than INR 50 lakh crore by 2022 to be able to provide and sustain infrastructure services.
- Recognising this, the government has been increasing its spending on infrastructure every year with an INR 5.97 lakh crore outlay for the sector in Budget 2018, the thrust being on large infrastructure schemes and railway and road projects.
- Speedy implementation of projects remains an area of concern for the sector.
- The roads and highways sector has a high potential for investment. However, during the last fiscal, private funding did not pick up as expected. On the contrary, most roads were built with government funding and in addition, market borrowings were arranged by NHAI with SBI in the form of unsecured loans to the extent of INR 25,000 crore. Banks also preferred this route rather than directly funding private road developers.
- Power is an important component of infrastructure and a key focus area of the government. In the last five years, solar power generation grew 10 times. The government has set a target of adding 175 GW of renewable energy capacity in the country by 2022. It is expected that the government shall meet 75% of the target by 2022.
- In the pre-GST era, there was a dichotomy in the applicable indirect tax regime relevant to infrastructure. While Central laws provided exemptions and concessions for various infrastructure projects, state VAT and entry tax laws were applicable to goods required for infrastructure projects.
- Infrastructure projects now attract 12% GST under a works contract with credit to contractors, which has rationalised indirect tax against the pre-GST era.

Key budget announcements

Infrastructure

- Pradhan Mantri Gram Sadak Yojana (PMGSY) is being allocated INR 19,000 crore in budget estimate 2019-20 as against INR 15,500 crore in 2018-19.
- Impetus to northeastern states by way of increased allocation to INR 58,166 crore representing a 21% increase over the BE 2018-19.
- Proposal to introduce container cargo movement to the northeast by improving the navigation capacity of the Brahmaputra river.
- Recommendation of High Level Inter-Ministerial Committee to shift from bidding on revenue-share basis to exploration programme for Category II and III basins being implemented for crude oil and natural gas.
- As part of the 10 dimensional approach for 2030, the government has laid the following vision:
  - Providing ease of living for a $10 trillion economy through creation of a physical and social infrastructure
  - Expanding rural industrialisation using modern industrial technologies based on the Make in India approach, using grassroot MSMEs and start-ups across the country
  - Providing clean rivers with safe drinking water to all Indians and promoting the use of micro-irrigation techniques and strength
  - Clean and Green India by promoting renewable source of energy and use of electric vehicles, thereby bringing down import dependence and increasing energy security for our people
  - Improving oceans and coastlines by strengthening SagarMala programme and other inland waterways

UNION BUDGET 2019
industrial

Expert take

"The government has clearly indicated its long-term focus on improving overall infrastructure and expediting the current pace of industrialisation. Expanding industrialisation to rural areas using modern digital technologies and creating infrastructure with a focus on railways, airways, highways, etc. to improve ease of living are praiseworthy announcements. The push towards making India a global manufacturing hub in auto, electronics, defence and medical devices will have a far-reaching impact on employment generation, making India a $10 trillion economy in eight years."

Neeraj Sharma
Director, Grant Thornton Advisory Private Limited

UNION BUDGET 2019

technology

Technology, media and telecom, financial services

Sector overview: Technology, media and telecom (1/2)

Technology

- The industry is expected to add revenue of $14-16 billion in FY 2018-19 from IT-BPM services. Export revenue is likely to grow from $135 billion to 137 billion and domestic revenue from $28 billion to $29 billion.
- 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.
- 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 $2 billion in 2017 to $4.2 billion in 2018.
- Technology has been a focus area with the government introducing various digital and IT initiatives in the last few years, including the following:
  - 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 1.25 crore individuals so far.
  - Various digital schemes were launched to promote 4 Es - Education, Employment, Entrepreneurship and Empowerment.

Sector overview: Technology, media and telecom (2/2)

Media

- Between 2012 and 2018, India's media consumption grew at a CAGR of 9%, which is almost nine times than that of USA and two times than that of China. The sector provides direct and indirect employment to approximately 4 million people.
- The sector is expected to witness a steady rise in revenue to $39.68 billion by 2023 at a CAGR of 11%-13%.
- The government has incentivised the sector with initiatives like digitising the cable distribution sector, granting industry status to the film industry and increasing the FDI limit from 74% to 100% in cable and DTH satellite platforms.

Telecom

- The gross revenue of the telecom service sector declined from INR 2.79 lakh crore in 2016 to INR 2.56 lakh crore in 2017 reflecting a decline rate of 9%.
- The National Digital Communications Policy was rolled out in September 2018. It is expected to generate 4 million new jobs and attract investments of $100 billion in the communications and digital sectors. It is also expected to raise the sector's contribution to 8% of GDP.
- The BharatNet programme, initiated in 2017, has successfully brought connectivity to 1.2 lakh gram panchayats. It further targets to connect a total of 2.5 lakh gram panchayats by March 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 technology.

Sector overview: Financial services

- The financial services sector is expanding rapidly and is backed by formalisation of economy, increased participation of Non-Banking Financial Companies (NBFCs), improved standard of living, and digitisation of various financial service products.
- In the last few years, the banking sector has faced a lot of Non-Performing Asset (NPA) issues, but with the introduction of the Insolvency and Bankruptcy Code (IBC), banks have been able to recover bad loans from defaulting borrowers expeditiously. IBC has directly/indirectly addressed stressed assets worth INR 3 lakh crore in the last two years.
- 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.
- 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 formalisation of the economy and higher spending habits.
- In the last few years, the focus of the government to build a digital payment ecosystem has led to increased formalisation of the Indian economy and helped channelise retail investments into financial products offered by mutual funds, insurance companies, etc.
- The capital market has witnessed record inflows, primarily in the form of Systematic Investment Plans (SIPs), from the retail investors into mutual funds in the recent months.

Key budget announcements

Technology

- National Artificial Intelligence Portal to be developed to reap the benefits of artificial intelligence and related technologies.
- Digital initiative to be launched to convert 1 lakh villages into digital villages.
- As part of the 10 dimensional approach for 2030, the government aims to provide fillip to satellite launch pads and also put an astronaut in space by 2022.

Media

- A single-window clearance to be provided to Indian filmmakers to ease the regulatory mechanism.
- Anti-camcording provisions to be introduced to the Cinematograph Act to fight piracy.

Financial services

- Proposal to amend 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 its clearing corporation, or depositories) on one instrument, and for appropriately sharing the same with the respective state governments, based on state of domicile of the ultimate buying client.
- The proposed amendment would bring in a streamlined system for levy, collection and distribution of stamp duty on securities, thereby enabling ease of doing business in India.

UNION BUDGET 2019

technology

Expert take

"The Budget is balanced and focuses on people and social infrastructure. It will provide an impetus to the Digital India and Start-up India initiatives, and chart out the strategy and platform to develop a Vibrant Bharat and a $10 trillion economy, with a focus on ease of doing business and ease of living. The Budget also brings in the 3 Cs (certainty, continuity and consistency) in thinking and execution for India's growth agenda, and creates a 'josh factor' for the people of India."

Raja Lahiri

Partner, Grant Thornton India LLP

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