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# How Budget 2022 proposals will affect various sectors

Union Finance Minister Nirmala Sitharaman with Ministers of State for Finance Bhagwat Karad (R) and Pankaj Chaudhury (L) shows the digital tablet wrapped in a traditional 'Bahi Khata' style pouch **(Photo: Rahul Singh)**

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**Team Mint**

A look at what's in store for the various sectors from the budget in the coming fiscal year

Amid lingering global headwinds and economic uncertainty, finance minister Nirmala Sitharaman continued to prioritize growth over fiscal consolidation for the second straight year, sharply expanding capital and infrastructure spending in the

Union Budget for the year starting 1 April.

Stock markets gave a thumbs up, with the BSE Sensex rising 1.46% on Tuesday. Spending on infrastructure, housing, defence and agriculture are expected to have a multiplier effect on the economy. Easier tax compliance measures and capping the long-term capital gains tax on all equity investments at 15%, expected to benefit unlisted companies in India, also buoyed the markets.

A look at what's in store for the various sectors from the budget in the coming fiscal year:

**OIL & GAS**

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OIL & GAS

**PROPOSALS:** The budget has proposed an increase in capex outlay by 35.4%, expansion of national highways network by 15% and addition of 25,000 km of roads,, development of four multi-modal logistics parks in the coming year; focus on electric vehicle (EV) charging infra and a new battery swapping policy. It also proposed a gradual reduction in customs duty to 7.5% for all project capital goods imports and allocation of ₹19,500 crore for production-linked incentive (PLI) scheme for manufacturing of polysilicon solar modules.

**IMPACT:** A better infrastructure connectivity will provide significant impetus on oil and gas projects, with refineries being set up in the south India, and pipelines and city gas projects across the country. In addition, new highways and EV and battery swapping push will provide a great avenue for retail growth for oil marketing companies to increase retail outlets and offerings to customers. Differential duty on unblended fuel to incentivise bio-fuel blending will be a boost to oil and gas companies which are already transitioning to new energy areas, renewables and greener power to decarbonize their operations. This will open up additional avenues of financing and support for green projects taken up by oil companies in biofuels and green hydrogen as well. (KPMG)

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**PROPOSALS:** To boost consumption and empower the rural economy, the finance minister has announced several measures such as support for millet production, reduced dependence on imported oilseeds, finance start-ups for agriculture and rural enterprise pertinent to the farm produce value chain. Customs exemptions on implements and tools for the farm sector have also been rationalized to boost domestic manufacturing.

**IMPACT:** The government's impetus on PM Gatishakti plan to build world class infrastructure and logistics is likely to give boost to the consumer sector supply chain over a longer term. Further, custom duty rates have been rationalised on parts of mobile phones (including camera modules), wearables/ hearables devices, loudspeakers, etc. to facilitate domestic electronics manufacturing. To incentivize exports, exemptions have been provided on items relevant to textiles sector. Lastly, to facilitate the domestic capital goods sector, it has been proposed to gradually phase out the concessional rates of capital goods in sectors like fertilizers, textiles, leather goods, footwear, food processing, etc. All these are likely to act as a catalyst for improving the conditions of lower income consumers, thereby leading to a steady acceleration in the consumption and demand for FMCG sector products. (KPMG)

**BANKING**

**PROPOSALS:** The government has proposed to introduce a digital rupee—using blockchain and other technologies—issued by the Reserve Bank of India (RBI) starting 2022-23 for more efficient and cheaper currency management system. Further, to help micro, small and medium enterprises (MSMEs) impacted by the pandemic, the credit guarantee fund trust for micro and small enterprises (CGTMSE) will be revamped with additional credit of ₹2 trillion and thereby expand employment opportunities. Post office accounts will be brought under the coverage of core banking.

**IMPACT:** The budget proposals are aimed at boosting credit growth of both banks and non-banking financial companies (NBFCs), with schemes announced across various sectors including affordable housing, transportation and logistics, and electric vehicles (EVs), etc. With 1.5 lakh post offices coming under core banking, more than 35 crore post office deposit accounts will come into the mainline banking and payments system. The proposal for 75 digital banking units in 75 districts is a small step but a definite push towards digital banking. ‘Digital Rupee’ is another step towards the government’s adoption of digital as means of transaction banking. (KPMG)

## AUTO

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AUTO

**PROPOSALS:** The finance minister has announced a new battery swap policy to encourage electric vehicle (EV) adoption. The government also proposed to open up defence research and development (R&D) to private players for auto component development.

**IMPACT:** A policy for battery swapping will aid in reducing the upfront ownership cost of EVs, thereby driving customer preference towards such vehicles. This policy is also expected to encourage private sector to develop sustainable and innovative business models for ‘Battery or Energy as a Service’.

Further, interoperability standards will build efficiency in operation of charging infrastructure for EVs. The government will facilitate special mobility zones for EVs as well as push for clean tech and electric vehicles in public transport. These changes, along with recently announced production linked incentives (PLI) for EVs, would give the necessary fillip to EV revolution in India. The extension of concessional Income tax regime of 15% for new domestic manufacturing facility setup, up to 31 March 2024, is a welcome move and would help attract new investment in manufacturing of EVs and its components. The incentives announced for start-ups could also be a booster for EVs. (KPMG)

## DEFENCE

**PROPOSALS:** The budget has proposed the highest ever allocation for the defence sector at ₹ 5.25 trillion for FY 2022-23, with a significant increase of about 10% from last year vis a vis a nominal increase of 1.45% in 2021-22.

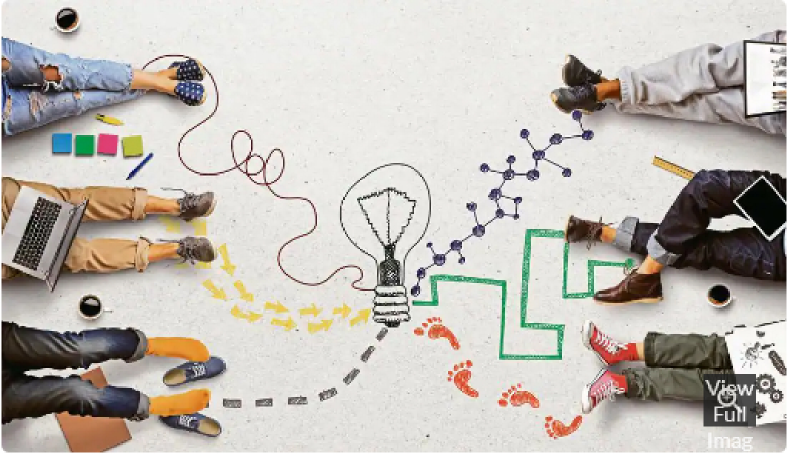
**IMPACT:** The proposals will go a long way in modernizing the Indian armed forces further, while ensuring the current government's commitment to reduce dependence on import of defence equipment. Another notable update in the area of defence is the opening up of defence research and development (R&D) for industry, startups and academia by earmarking 25% of defence R&D budget for them. This is a positive move which will help to leverage the capabilities of the private industry in defence research. Additionally, an independent nodal umbrella body will be set up for meeting wide-ranging testing and certification requirements. In order to avail the preferential 15% corporate tax rate, the deadline for commencement of manufacturing operations is proposed to be extended to 31 March 2024 (from 31 March 2023). Since state-of-the-art defence projects involve huge investment and time costs, this will further incentivise domestic manufacturing in the sector. The budget further showcases the government’s commitment to “Make in India" (KPMG)

## HEALTHCARE/PHARMA

**Proposals:** The government has made a path breaking move with the introduction of Ayushman Bharat Digital Mission in Budget 2022 to ensure universal access to healthcare facilities to all Indian citizens in the longer run. However, there has been no policy amendments to facilitate private participation to provide an impetus in strengthening the overall healthcare infrastructure and accessibility to healthcare services.

**Impact:** The government has extended the benefit of concessional tax regime for manufacturing companies. The government has also considered pharmaceutical sector as one of the sunrise opportunity sectors that will benefit from future supportive policies, among other things.. The government, however, did not consider the long-standing demand/expectation of industry to incentivise research and development needed to enable India to move from being an incremental innovator to becoming a global player in innovative drugs. (EY)

## START-UPS



START-UPS

**PROPOSALS:** The existing tax benefits for start-ups has been extended by one more year till 31 March 2023. Also, a fund, raised under the co-investment model, will be facilitated through National Bank for Agriculture and Rural Development (Nabard) to finance start-ups for agriculture and rural enterprise relevant for the farm produce value chain. Start-ups will be promoted to facilitate ‘Drone Shakti’ through varied applications and for Drone-As-A-Service (DrAAS).

**IMPACT:** Budget 2022 was high on the development and inclusiveness agenda of the government, with significant allocations on infrastructure, healthcare, education, fin-tech, agriculture, etc. Initiatives around tele-mental health, digital university set-up for supporting supplementary education, highways, cargo terminal, kisan drones, etc., would all go a long way in supporting employability and employment within India. Similarly, policies aimed at the faster adoption of electric vehicles and a committee set up for promoting private equity/venture capital ecosystem would be beneficial in the longer term.(EY)

## REAL ESTATE

**PROPOSALS:** Affordable housing was clearly in focus, with the finance minister announcing the allocation of ₹48,000 crore under the Pradhan Mantri Awas Yojana. Around 8 million houses are expected to be completed by 2023 across the country.

**IMPACT:** From a policy perspective, the allocation to the PM Awas Yojana and the intent to reduce time for obtaining construction approvals as well reduce the cost of capital for consumers, credit guarantee of ₹50,000 for the hospitality sector are all welcome measues. The proposal to replace the Special Economic Zone (SEZ) Act with a legislation that would permit states to partner in creating enterprise and service hubs and the push for digitization of land records are also laudable.

The budget has also proposed the rationalization of tax withholding provisions relating to purchase or rental of properties and including units of Real Estate Investment Trusts (REITs) within the bonus stripping/ dividend provisions. (EY)

## METAL & MINING

**PROPOSALS:** The budget has proposed an increase in outlay for capital expenditure. It also proposed the setting up of four pilot projects for coal gasification and conversion of coal into chemicals.

**IMPACT:** The increase in outlay for capital expenditure may provide the much-needed impetus to mining and metals (M&M) industry which forms the backbone around which blueprints for capital expenditure are drawn up. The pilot projects for coal gasification and conversion of coal into chemicals will boost the transition to a carbon neutral economy. A slew of measures has also been announced from indirect tax perspective such as extension of customs duty exemption on import of steel scrap by another year (up to 31 March 2023) and revocation of anti–dumping and countervailing duty on specified steel products. (EY)

## RETAIL

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Retail

**PROPOSALS:** Though there was no specific proposal for this sector, the thrust on employment, infrastructure and financial inclusion is expected to boost consumption over the medium term. The 1.5 lakh post offices into the core banking system is a positive particularly for rural India and a higher minimum support price (MSP) allocation will drive consumption of fast-moving consumer goods (FMCG) products in the hinterland.

**IMPACT:** With an estimated gross domestic product (GDP) growth of over 9%, and the initiatives in the budget, consumer goods companies could expect an increase in consumption over the short to medium term driven by the thrust on investment, employment, and financial inclusion. We could also see an uptick in rural consumption, driven by the budgetary allocations towards infrastructure building. Rationalization of import duties as part of “Make in India" initiative is likely to give a strong impetus to consumption bringing sustainable growth for consumer, e-commerce and retail sector. For the retail sector, reeling under the pandemic, the budget has very little direct support to offer. The direct and short-term benefits with respect to “putting more money in consumer wallets" or special subsidies or support to industry in general seem to have got lesser emphasis. (EY)

## GREEN ENERGY

**PROPOSALS:** The government will launch sovereign bonds and increase the funding for solar equipment. It will also install 500 gigawatts (GW) of non-fossil capacity by 2030, reduction in emission intensity of GDP by 45% over 2005 levels, source 50% of the electricity from non-fossil by 2030 and reduction in carbon emission by 1 billion tonnes till 2030 and achieving net-zero by 2070.

**IMPACT:** The budget is inclusive and focused on sustainable development of a climate-adaptive and resilient Indian economy. It aims at digitally integrating participative economic planning with support from and efforts of all stakeholders. It builds the base for a technology- and innovation-led economy

– driving design-led manufacturing, renewable growth, improving logistics efficiency, clean mobility, storage and battery solutions for the transition to electric vehicles, developing AgriTech solutions, transforming health and education sectors, and achieving financial inclusion. It supports the development of sunrise business areas and reduction of carbon intensity by supporting the emergence of technology and innovative financing ecosystems. It has a clear direction around stimulating a circular economy by developing a policy and regulatory framework, and facilitating innovation. (PwC)

## TEXTILE

**PROPOSALS:** The custom duty exemptions announced on items such as embellishment, trimming, buttons, zipper, lining material, and packaging boxes would benefit apparel exporters. The extension of emergency credit guarantee scheme for micro, small and medium enterprises (MSMEs) for one more year and increasing the guarantee by ₹50,000 crore.

**IMPACT:** The abolishing of concessional duties on imported capital goods , especially for fabric manufacturing and processing will increase the capital cost of new projects / replacement of existing machineries till such machineries are manufactured in India. There are no major announcements specific to the textiles sector, after the big ticket announcements on production linked incentives (PLI) for textiles focusing on man-made fibre and technical textiles and the Mega Textile Park (PM-MITRA) schemes last year. While phasing out of customs duty exemption on fabrics will support the growth of domestic textiles manufacturing in the long run, it is expected to adversely impact the competitiveness of apparel exporters in the short run. The extension of emergency credit guarantee scheme for MSMES for one more year and increasing the guarantee by ₹50,000 crore is also expected to benefit over 50 lakh MSME units in textile and apparel sector. (PwC)

## PETROCHEMICALS

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**PROPOSALS:** Reduction of customs duty on certain critical chemicals namely, methanol, acetic acid and heavy feed stocks for petroleum refining, while increasing the duty on sodium cyanide. To promote blending of fuel, the government proposes to charge an additional differential excise duty of ₹2 per litre from 1 October 2022 on unblended fuel.

**IMPACT:** The changes in the customs duty of petrochemical and petroleum feedstocks used by domestic manufacturers result in reduced cost of inputs and correction of the inverted duty structure. Setting up of pilot projects for coal gasification and conversion of coal into chemicals are important, primarily to reduce dependence on methanol and acetic acid, which top the list of imported chemicals in terms of volume. The lack of availability of cheap natural gas, guarded nature of technology and stiff competition from the Middle East and China are the major barriers to methanol and acetic acid production. Reduction in basic custom duties for these chemicals will help in the development of downstream value chain till the time some commercial capacities come online. The focus is to continue to remove anomalies and challenges in the indirect tax regime, especially the inverted duty structure, which impedes the Make in India policy. (PWC)

## TELECOM

**PROPOSALS:** Spectrum auctions will be conducted to roll out 5G services and a scheme for design-led manufacturing in 5G will be launched. The national capital will also launch a scheme for design-led manufacturing to boost 5G. To enable affordable broadband and mobile service proliferation in rural and remote areas, 5% of annual collections under the universal service obligation (USO ) fund will be allocated.

**IMPACT:** Auctions for 5G spectrum and roll-out will happen in the fiscal year 2022-23. The roll-out across the country will also happen much faster than other previous generation roll-outs with the completion of fibre network in all villages by 2025 . Focus on digital education including digital universities will further push the need for high-speed broadband. While the details of the production linked incentive (PLI) for design-led manufacturing in the 5G space are awaited, it could be broadened beyond manufacturers to the telecommunication service providers (TSPs) and telecom infrastructure players. Also, the USO funds have historically been used for the rural infrastructure roll-out. A 5% allocation towards research and development and commercialization of the technology could help some of the indigenous niche players building up technologies around O-RAN and private networks. (Deloitte)

## INFRASTRUCTURE

PROPOSALS: The PM Gati Shakti National Master Plan announced with an aim to making logistics connectivity seamless. The national highways network will be expanded by 25,000 km, with an outlay of ₹20,000 crores via financing. A scheme for expressways will be formulated to facilitate faster movement of people and goods. Railways will develop new products and logistics services for small farmers, and small and medium enterprises.

IMPACT:The Gati Shakti initiative highlights the importance of quality multi-modal transport in achieving overall cost competitiveness. With global studies pegging India's average logistics costs at around 14% of GDP as against 8-9% for advanced economies, this is clearly a factor which needs to be addressed for attracting quality anchor investors across sectors. Infrastructure financing has also been mainstreamed, with particular focus on environment and sustainability, as evident from the announcement around green bonds, focus of National Infrastructure and Investment Fund (NIIF) and National Small Industries Corporation (NSIC) Fund of funds on the renewables sector, etc. For the rural economy and social sector in particular, the budget refers to blended finance as an option. This would again be linked to the Social Stock Exchange, an initiative announced earlier. (Deloitte)

## CAPITAL GOODS

**PROPOSALS:** The government is planning a gradual phase out of concessional tariff rates offered for capital goods and project imports. The Budget 2022-23 has proposed a 7.5% tariff on all such products and services. Exemptions are being introduced on inputs, like specialised castings, ball screw and linear motion guide, to encourage domestic manufacturing of capital goods.

**IMPACT:** The production linked incentive (PLI) schemes and other government measures have augmented investments in various sectors like food, textile, electronics, chemicals, etc. However, the dependency on import of capital goods still continues. Increase in customs duty on capital goods in these sectors would mean that such investments would be dearer and thereby also affect cash flows and profitability. Thus, companies would have to look at options to reduce such an impact. The increase in duties would enable a twofold benefit. One, companies would now try to procure capital goods locally. Two, Indian companies and the MNCs would now look at greenfield and brownfield expansion in the capital goods sector as well. The increase in duties on capital goods coupled with various incentive schemes would boost the investment even in the capital good sector and complete the value chain in terms of the intent of Make in India. **EY**

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## IT

**PROPOSALS:** Blockchain-enabled digital currency will be issued by the Reserve Bank of India starting 2022-23. The government is promoting digital economy, digital health eco-system and e-passport, amongst others to drive India's growth.

**IMPACT:** Nearly every sector is expected to receive digital impetus driving further growth in technology and related sectors. The number of digital initiatives planned (digital currency, PM Gati Shakti, e-passport, Kisan drone, etc) are not incremental but transformational and will require a build-up of a complete ecosystem creating significant direct and indirect opportunities for the Technology and business process management sector. Many of these proposals will have significant downstream opportunities for software, hardware, and services companies. The government plans to make financial services available to everyone with planned connectivity of 1.5 lakh post offices to core banking systems. Digitalization of financial services will not only reduce the cost of services but will also make it available to a larger base. This, along with the digitalization opportunities available across different industries, will likely give rise to entrepreneurship and startup ecosystem. (KPMG)

## AGRI & ALLIED SERVICES

**PROPOSALS:** The government will promote the use of 'Kisan Drones' for crop assessment along with chemical-free farming. National Bank for Agriculture and Rural Development (NABARD) will finance start-ups for agriculture and rural enterprises and these start-ups will include inter-area support for farmer-producer organisations, machineries for farmers on a rental basis at the farm level and technology including invitee base.

**IMPACT:** On agriculture, some new age reforms like delivery of digital and hi-tech services to farmers in public private partnership mode, use of Kisan drones to aid farmers have been announced. Also, to encourage start-ups in the business of leasing machinery for farmers, and providing technology including IT-based support, announcement of launch of new fund has been made. Similarly, proposal on steps for promotion of chemical-free natural farming, updating the syllabus of agricultural universities to meet the needs of natural, organic farming, modern-day agriculture has been made. To increase domestic production of oilseeds and reduce dependence on imports, proposal to implement a rationalized and comprehensive scheme has been made. From tax perspective, announcement on review of concessional customs duty rates on capital goods has also been made. (KPMG)