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BUDGET 2022-23

EXPECTATIONS

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INTRODUCTION

The Union Budget 2022 is awaited with much anticipation to set the growth path of the coming year and highlight the areas that the Government intends to focus on through higher budgetary allocation. The unfolding pandemic has had a significant bearing on the country's financial resources and industry await guidance from the Government on various policy matters.

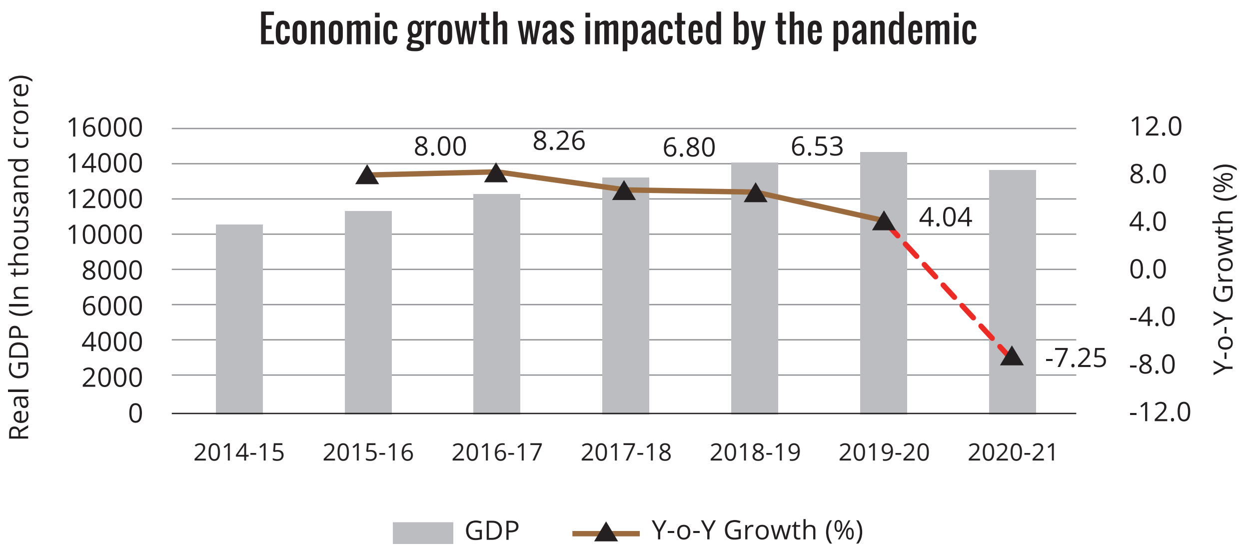
The Budget 2021-22 focused on sectors such as healthcare, MSMEs, and infrastructure to revive growth because of the two-month countrywide lockdown imposed in March-April 2020 to curb the spread of the Covid-19. However, Government efforts such as the Rs. 20-lakh crore Aatmanirbhar package helped to bring growth back on the right track. 2021 saw the government taking further measures to help the economy, despite the second wave during April-May 2021.

Over the past year, several efforts were taken including the rolling out of the Production Linked Incentive Schemes for 13 key sectors with an outlay of INR 1.97 Lakh Crores to create national manufacturing champions, passing of the Major Port Authorities Bill to improve the governance of major ports, and the PM GatiShakti National Master Plan (NMP) for better coordination among ministries and faster pace of infrastructure development. Furthermore, the Government has managed to administer more than 150 crore doses of the COVID-19 vaccine, fully vaccinating more than 63 crore people. These steps will go a long way in helping the country sustain the ongoing rise in cases and minimize the impact on the economy. With vaccinations now open for the 15–18 year age group and soon to be opened for vulnerable populations, all necessary steps to minimize the impact of a third wave are being taken.

With inflation trending upwards, unemployment on the rise, demand lagging in some sectors, and the threat of the Omicron variant on the rise across the world, the upcoming Budget will have a challenging task of balancing the needs of the industry, while charting a path for sustainable high growth for the years to come. In this document, we analyze the various trends that would impact the direction, the government would have to take with the upcoming budget. Further, we dive deeper into various sectors highlighting their major challenges and expectations to address them, from the upcoming Budget.

WHAT IS THE BUDGET 2021-22 EXPECTED TO ACHIEVE?

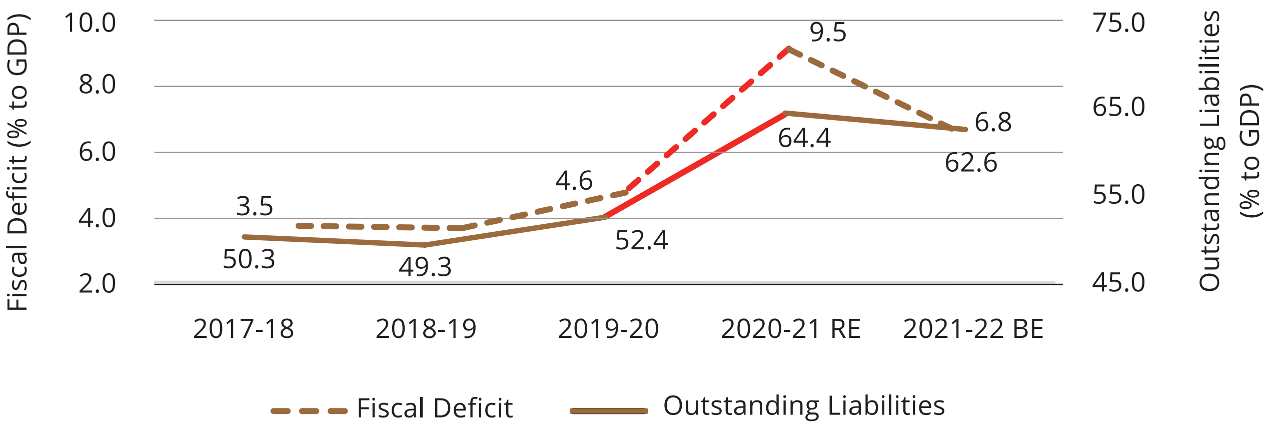
The Union Budget 2021-22 was passed in the backdrop of the significant impact of COVID-19, with the Government aiming to augment its revenues and contain the fiscal deficit. At the same time, the Government aimed to strengthen the country's fundamental growth by supporting various sectors, through budgetary allocations and policy support. The following section reviews the performance of the Union Budget 2021-22.



Source: Union Budget (Various Years)

- Economic growth, in real terms, in India over the past few years has been declining.
- Due to the unforeseen attack of the COVID-19 pandemic, a massive decline in GDP has been observed (both in absolute and percent terms).
- Economic losses due to the ongoing COVID-19 pandemic have been conspicuously high. In particular, a prolonged period of halt in nationwide economic activities as a response to fight the pandemic caused the decline in GDP growth from 2019-20 to 2020-21.

Fiscal Deficit and Outstanding Debt increased



Source: Union Budget (Various Years)

BE - Budget Estimate
RE - Revised Estimate

- Fiscal deficit and Outstanding liabilities as percent to GDP have shown an increasing trend over the years.

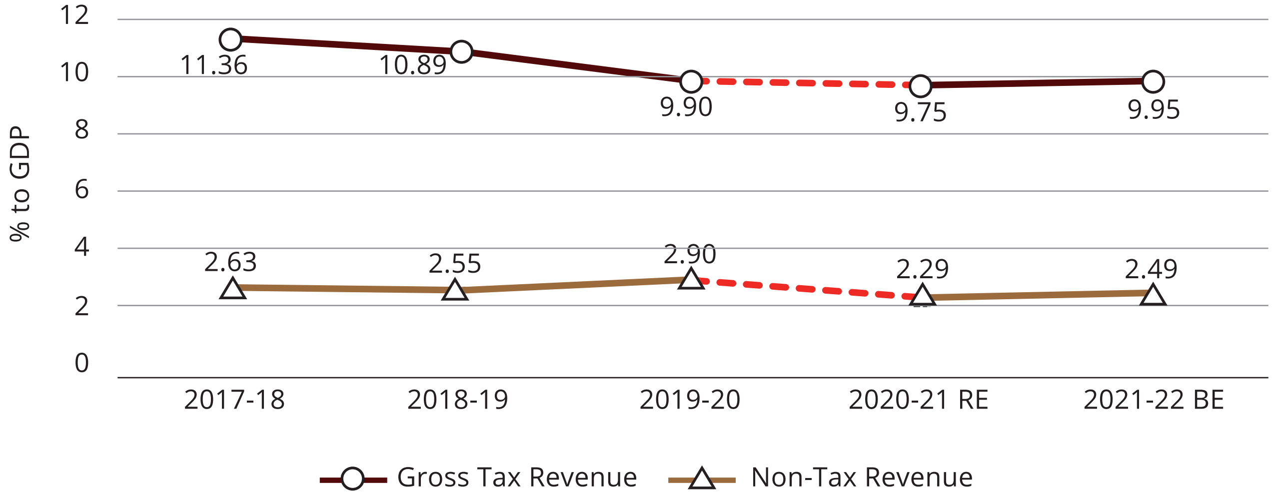
- The sudden spurt in both these two key fiscal indicators from 2019-20 to 2020-21 RE has been observed predominantly due to the sudden shock of COVID-19 pandemic.

- To combat the shock brought by the pandemic, finance minister Nirmala Sitharaman in the union budget 2021-22 presented a noteworthy fiscal deficit of ₹18,48,655 crores (9.5 percent to GDP) in the revised estimates of 2020-21. Consequently, this has led to rise in outstanding debt.

In this context, it would be intriguing to understand which factors (such as revenue mobilization, revenue expenditure, and capital expenditure (investment on infrastructure) have contributed and how, to such a high fiscal deficit of 9.5% of the GDP.

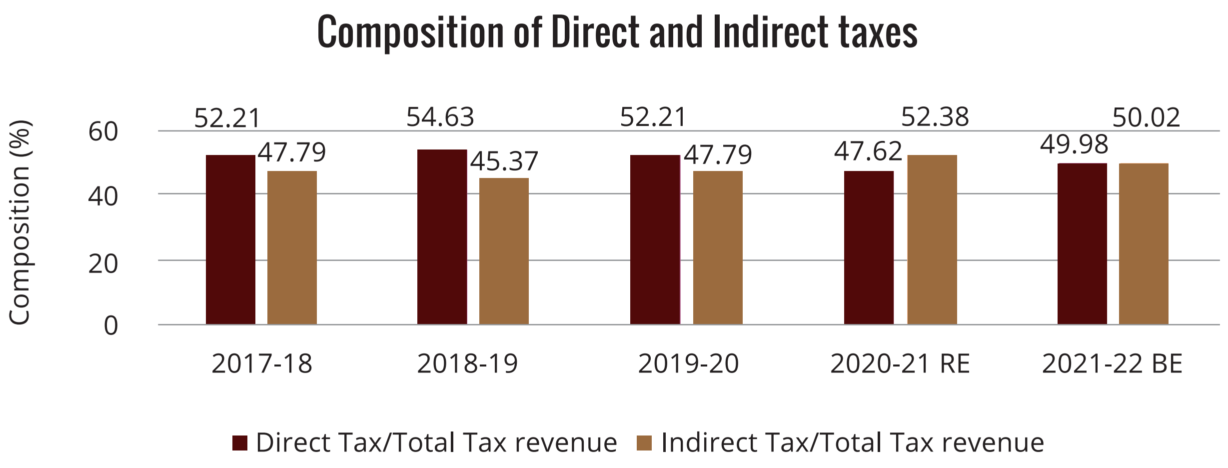
Government revenue declined

Trends in Revenue Receipts



Source: Union Budget (Various Years)

- Both the gross tax revenue and non-tax revenue as percent to GDP have declined over the years, thereby reducing total revenue receipts.
- Particularly, in 2020-21 RE, due to the shock of COVID-19, denominator GDP had declined but both these two revenue heads declined faster than GDP, causing the ratios to decline.
- Policy perspective: upcoming Union Budget should emphasize on improving such low and declining tax-GDP ratio.



- The share of direct taxes in total tax revenue has declined from 52.21 percent in 2017-18 to 47.62 percent in 2020-21 RE.

- In contrast, the share of indirect taxes in total tax revenue has correspondingly increased from 47.79 percent to 52.38 percent during the same period.

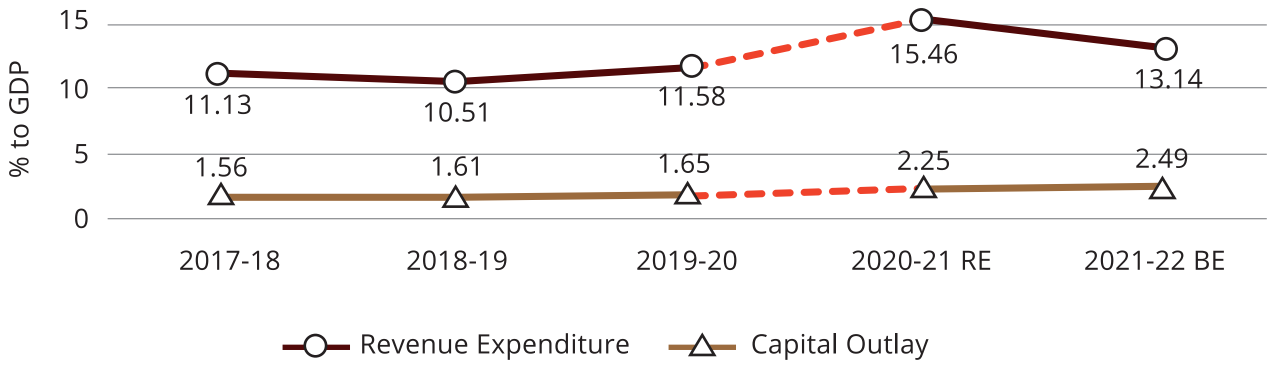
Our Take

- **These two key findings, one, decline in tax-GDP ratio over the years; and two, declining share of direct taxes in total tax revenue, clearly suggest that the central government should emphasize in the Union Budget 2022-23 on substantially improving the tax revenue.**

- **The policies regarding 'tax effort' could be designed through various ways such as, rationalizing tax rates, policies regarding widening tax base and net, and improving tax compliance and tax administration.**

- **This process would have enormous implications on ameliorating economic growth.**

Government increased Revenue Expenditure and Capital Outlay to maintain growth



Source: Union Budget (Various Years)

- In contrast to the trends in revenue receipts, both the revenue expenditure and capital outlay as percent to GDP has increased over the years.

- Particularly, in 2020-21 RE, to counter the shock of COVID-19, increase in revenue expenditure and capital infrastructure spending by the central government is considered as an important step in order to solve the aggregate demand problem in the economy.

- This increase in expenditure ensued mainly due to giving various fiscal stimulus packages (five “mini-budgets” in continuum). Such counter-cyclical expansionary fiscal policy was extremely crucial to boost demand in the economy.

Sectoral Priority: Department-wise Expenditure Pattern during the Pandemic

Key Departments	Rs. Cr.			2019-20 to 2020-21 RE	2020-21 RE to 2021-22 BE
	2019-20	2020-21 RE	2021-22 BE		
Agriculture & Allied Activities	112452	145355	148301	⇧	⇧
Commerce & Industry	27299	23515	34623	⇩	⇧
Education	89437	85089	93224	⇩	⇧
Energy	43542	33440	42824	⇩	⇧
Health	63425	82445	74602	⇧	⇩
IT and Telecom	20597	32178	53108	⇧	⇧
Labour & Employment	10084	13720	13307	⇧	⇩
Rural Development	142384	216342	194633	⇧	⇩
Social Welfare	44649	39629	48460	⇩	⇧
Urban Development	42054	46791	54581	⇧	⇧

- Department-wise expenditure trend shows how the central government has prioritized sectors.
- While it has been observed that total expenditure has increased from 2019-20 to 2020-21 RE, the table highlights that a few ministries and departments curtailed their expenditure.
- It is also observed from the table that a few ministries, that increased their spending in 2020-21 RE, have reduced it in 2021-22 BE.

Our Take

- **It is expected that against contraction in revenues, increase in expenditures could collectively revive the aggregate demand in the economy. This could lead to a high growth in the near future, henceforth, reducing the fiscal deficit (estimated to be 6.8 percent in 2021-22) both in absolute terms and as a percentage of GDP.**
- **In this regard, it is expected that central government would re-assess its ministry-wise allocations, and increase spending on social and economic sectors to boost aggregate demand in the economy.**

WHAT WILL DEFINE THE BUDGET 2022-23?

Various key events and trends are shaping the overall environment and will have a strong bearing on the Union Budget 2022. The following section showcases the key global and domestic trends that could have an impact on the upcoming budget.

How are the global events impacting India?

Monetary tightening:
Another speed-breaker likely in the offing. Everyone is racing with caution!

- Inflationary concerns are predominant in major economies. The US Fed has doubled its pace of tapering of its bond purchase program and Europe is also moving towards a higher interest rate scenario, particularly in the UK where November inflation came at a 10-year high of 5.1%.

- Global FDI fell ~42% to ~$859bn in the COVID impacted year FY 2020 with developing economies seeing ~12% YoY decline while ASEAN countries witnessed ~31% YoY contraction at $107bn. Another extended wave could further lead to a decline in investment flow.

- These are uncertain times with no templatized solutions due to lack of precedence.

- The Indian government is also cognizant of further complete or partial lockdowns – in which case there might need to be further measures to support the economy, potentially leading to higher inflation again. Hence, there may not be many new scheme announcements in this budget.

Fiscal tightening:
The inverse relationship of Government debt and the tax regime

- India reportedly imports ~85% of its domestic oil requirements. Its oil import bill in FY21 was ~$62.7bn and FY22 may see further hardening of oil prices which may not be passed on due to political considerations.

- Rising oil import bills coupled with fiscal tapering could potentially lead to a high impact on both the cost and availability of debt.

- The ability of the government to borrow will hence be impacted as interest rates increase.

Geopolitics:

Looking outwards to ensure peace and prosperity, but within to maintain it!

- Geo-political dynamics keep evolving with every step that a US and / or China takes especially when it comes to Indo-Pacific region security and control. There is an air of political, health and security related uncertainty which does not seem to fade away.
- Foreign policies across the globe are being framed with intent to maintain existing relationships while also nurturing new and more strategic ones. What is becoming clear is that while dependencies will continue to exist, it is critical to have strategic independence.
- Budgets require a blended consideration of economy, foreign policy and security, more now than ever.

Trade:

Globalization then vs Protectionism now – but "horses for courses" ain't easy!

- Countries are deliberating protectionist policies and looking inwards in order to reduce future supply shocks. Wherever possible, domestic industries are being incentivized and preferred.
- Bilateral FTAs are being encouraged and being looked at as a huge opportunity for both demand and supply market forces.
- Smaller countries like Vietnam are receiving a larger share of FDI (~$20bn in FY21)compared to other larger investment destinations. They are bringing in competitive tax regimes and local supply chain support in their core industry strengths to attract investments
- While indigenization is the big picture, imports continue to increase. Trade with China is expected to cross $100bn in FY21 with imports by India expected to form almost 65-70%. Supply chain dependencies are inevitable and will continue at least for the foreseeable future. However, countries are looking at being self reliant at least at the strategic level.

How will domestic trends define the way forward?

India's supportive fiscal stance: Increasing support on the demand side

Due to the stimulus packages as a measure of counter-cyclical expansionary fiscal policy, a spurt has been observed in both the revenue and capital expenditures on the face of revenue contraction. The Union Government softened the disinvestment targets through less recovery of loans and advances.

A prolonged period of halt in nationwide economic activities as a response to fight the pandemic caused the revenue contraction. In contrast, the union government executed huge cash transfers. The intent of providing fiscal stimulus packages (five "mini-budgets" in continuum) such as food delivery and capital expenditure (investment on infrastructure) was to give the economy a massive demand side push. The Union government envisaged that these fiscal stimulus packages could collectively revive the aggregate demand in the economy, which could lead to high growth in the near future. Consequently, the level of fiscal deficit (in both the absolute term and as percent to GDP) would come down.

Thus, the Budget for FY 2022 should continue to provide more support on the demand side than the supply side by reviving the informal sector and MSMEs.

Focus on Tax Revenue Augmentation: A larger net reduces loss due to spillage

Decline in tax-GDP ratio over the years, and declining share of direct taxes in total tax revenue, clearly suggest that the central government should emphasize in the Union Budget 2022-23 on substantially improving the tax revenue. The policies regarding 'tax effort' could be designed through various ways such as, rationalizing tax rates, policies regarding widening tax base and net, and improving tax compliance and tax administration.

Increasing vibrancy in India's entrepreneurship ecosystem: A good upbringing of infants, in the right atmosphere, will take care of your old age

The startup ecosystem has acted as a catalyst for enhancing entrepreneurship and innovation activities in the country. India has the 3rd largest startup ecosystem in the world and that have raised more than $23 billion in FY 2021. DPIIT recognized start-ups have reported creation of close to 2 lakh jobs in 2021, the highest in four years. India today is the largest producer of vaccines in the world and the country should focus on increasing R&D in the coming years. Also as 45% of the start-ups are from Tier-2 and Tier-3 cities, and 45% of start-ups are represented by women entrepreneurs, the roots of startups have grown deep in the country.

The budgetary impetus should give attention to developing innovation ecosystem, accelerating income tax refunds to startups and providing tax sops for R&D to support entrepreneurship and enable large scale employment opportunities.

Going green is important, but prioritizing the avenues will reap better rewards

Last year's budget had several proposals for the energy sector such as allocation of Rs 2,217 Cr, vehicle scrappage policy, allocation of Rs.1,000 crore to SECI, Rs.1,500 crore to IREDA and setting up a national green hydrogen mission etc.

With the Government aiming to achieve 523 GW of renewable energy capacity by 2030, this year's budget is likely to see increased allocation and incentives to large-scale sustainable power projects and industries focusing on production of renewable energy products.

India's Journey towards Self Reliance: Converting challenges to opportunities

The Government has announced Atmanirbhar package amounting to Rs.29.87 Lakh Crore to convert the COVID pandemic challenges to opportunities. The PLI scheme announced by the Government to give a push to the 'Make in India' program is intended to make the manufacturing sector globally competitive and create economies of scale to ensure efficiencies.

The upcoming budget can intend to build upon the PLI Scheme and continue to add more sectors and encourage continued investments in energy, chemicals biopharmaceuticals to make India competitive and self reliant.

Periodical renovations to the foundation pillars help keep the monument strong

The Budget 2021-22 had set a disinvestment target of Rs 1.75 lakh crore along with other measures to improve the financial health of the economy such as Government's 4R strategy of Recognition, Resolution, Recapitalisation and Reforms, reducing NPAs of the banking sector to Rs 8,35,051 crore as on March 2021 and the new Public Sector Enterprises Policy.

The banking sector played a vital role of supporting industry and businesses hit by the pandemic and this year's budget would continue to witness reforms and disinvestments in this sector, for example of IDBI and BPCL.

WHAT DOES THE INDUSTRY EXPECT FROM THE BUDGET 2022-23?

While there are various sectoral expectations from the budget, there are a few cross-cutting expectations that will help place India on a rapid growth path. Additionally, these interventions will go a long way in securing the country's long-term future.

Social Protection and Social Welfare Programs:

Several measures needs to be taken to improve the effectiveness of social protection and social welfare programs to withstand the country's recovery from shocks that can lead vulnerable populations into poverty. Both coverage and coordination of social protection systems is required at the state level. Further, to improve beneficiary identification and targeting, design, piloting and scale-up of social registries is required.

More PLIs in sectors:

The GoI has released several PLI schemes across various sectors to boost domestic manufacturing facilities followed by higher import substitution and employment generation. However, PLI schemes needs to be introduced in several other sectors given the export potential and disruption in global supply chain.

Focus on sectors such as Defence & Healthcare:

There is an expectation of increased allocation in sectors like Defence, healthcare, rural, women & child development and Education.

Increased focus on Climate Financing:

India has taken a leadership position in Climate. Therefore, we expect major announcements and financing in climate.

Major sectoral reforms in Banking and Energy sector:

Major sectoral reforms in banking sector such as privatisation of PSUs and energy sector, which is dragging all the other sectors of the economy.

Focus on operationalization of reforms:

Instead of too many new reforms or scheme focussed on disinvestment in NIP and NMP.

Focus on tax rationalization and incentives:

For select sectors that are important in wake of the coming election now and later in the year - Gujarat & UP.

Deepening of the Corporate Bond Market and other initiatives:

To strengthen IIFSC and Private Financing of Infrastructure programs.

A few key sectors have been identified which are expected to have significant impact on the Indian economy. Key challenges and expectations for these sectors have been highlighted in the following section.

Agriculture and allied Sector

Agriculture is the primary source of livelihood for about 58% of India's population.

The share of agriculture and allied sectors in gross value added (GVA) of India at current prices stood at 17.8 % in FY20.

The total agricultural and allied products exports stood at USD 41.25 billion in FY21.

Aerospace and Defence

India accounts for 3.7% of global military spending, making it the third highest military spender in the world.

The defence expenditure constituted 2.9% of India's total GDP with approximately $72.9 billion spent on defence in 2020.

Automotive

The Automobile sector has a 7.1% share in India's GDP and generated employment for over 35 million people.

India is the world's largest two-wheeler and three-wheeler manufacturer.

Oil & Gas

India is the third largest energy and oil consumer in the world after China and the US.

India is the 4th largest importer of liquefied natural gas (LNG).

BFSI

India has the highest FinTech adoption rate globally of 87% which is significantly higher than the global average rate of 64%.

The Indian FinTech industry valued at $ 50-60 Billion in FY20 and is estimated at ~$ 150 billion by 2025.

Education

The education industry in India was estimated at $92 billion in 2018 and over $100 billion in 2019.

Number of colleges in India reached 39,931 in FY19. As of May 17, 2021, number of universities in India reached 981.

Healthcare

There has been a 45.06% increase in the total investments in Healthtech startups in India.

The Telemedicine market in India is expected to touch $5.4 Billion by 2025, growing at a compound annual growth rate (CAGR) of 31%.

Real Estate

The real estate sector is the second-highest employment generator, after the agriculture sector.

According to the Indian Real Estate Industry, the real estate market is all set to reach a market size of $1 trillion by 2030.

Transportation

In the Union Budget 2021, the government has given a massive push to the infrastructure sector by allocating Rs. 233,083 crore (US$ 32.02 billion) to enhance the transport infrastructure.

As of October 2021, the Ministry of Road Transport and Highways constructed national highways extending 4,450 kms compared with 4,956 kms, as of October 2020.

Climate

India has committed to achieve Net Zero emissions by 2070.

India is on track to achieve 50 per cent of its energy requirements from renewable energy by 2030.

Energy

Total Installed Capacity as on April 2021 was 382 GW of which 36.5% was generated from renewable sources.

Total FDI inflow in the power sector reached US$ 15.36 billion between April 2000 to June 2021, accounting for 3% of the total FDI inflow in India.

MSME

The MSME sector in India accounts for 95% of the industrial units and approximately 50% of exports.

The estimated number of workers in unincorporated non-agriculture MSMEs in the country is 11 crore.

NIP & NMP

In FY21, infrastructure activities accounted for 13% share of the total FDI inflows of US$ 81.72 billion.

The government expanded the 'National Infrastructure Pipeline (NIP)' to 7,400 projects. ~217 projects worth Rs. 1.10 lakh crore USD 15.09 billion were completed as of 2020.

Primary **Secondary** **Tertiary** **Themes**

STRENGTHENING INNOVATION AND RESILIENCE IN THE AGRICULTURE AND ALLIED SECTOR

Current situation

The agriculture and allied sector is at the cusp of transformation triggered by access to technology, innovation and sustainable growth. A large number of agri-tech start-ups are bringing in efficiency by deploying technology across the value chain. Government programs like eNAM and the PLI scheme for food processing sector would give a further boost to the sector and help boost income of farmers.

Growth Outlook

The sector may see a growth of 3.5-4% in the short term to about 7-8% in the long term. Robust local demand, use of innovative means like zero budget natural farming, moving up the value chain to organic produce, investment in the entire value chain including cold storage & warehouse, formation of FPOs would continue to fuel growth in this segment.

Top sector challenges

- Small and fragmented land holding (more than 86% are small and marginal) leading to potential decrease in agricultural productivity
- Effects of climate change and extreme weather events impacts agriculture and allied industry with an estimated 1.5% impact on the GDP
- Inadequate use of efficient farm equipment & advanced technology with farm mechanization being around 40% resulting in lower productivity and earnings
- High amount of the total food grain (estimated to be about 20-30% of the harvest) is wasted due to constraints like inadequate storage capacity, regional imbalance in warehouses, lack of adequate scientific storage and logistics handling, long distance transport and storage of the same consignment at multiple places
- Quality of agriculture output is an area of concern and needs improvement to enable exports

Budget Expectations for FY 22-23

- Focus on strengthening FPOs eco-system to empower farmers
- Focus on climate resilient farming practices
- Budgetary provision for usage of emerging technology such as IoT, Drone, AI, & Satellite imaging etc. in farming
- Sustainable agriculture (e.g., organic farming, zero budget natural farming) should be promoted through policy interventions
- Strengthening the whole value chain including cold chain, warehousing, food processing
- Enabling export-oriented growth
- Strengthening and enhancement of the role of agri research and extension institutions like State Agriculture Universities and KVKs

Expert View

The Government has set an ambitious target of setting up 10,000 FPOs by providing fiscal support during establishment phase and then hand holding for continuous operations. To take this initiative forward, there is a need to develop FPOs as Agricultural Enterprises by making them take value addition activities such as processing, packaging, branding etc. As well as enabling them to participate in export."

Dr. Satish Verma, RBI Chair Professor, CRRID

INDIGENISATION OF THE INDIAN AEROSPACE & DEFENCE SECTOR SHOULD BE FURTHER BOOSTED

Current situation

The Indian defence industry has been on a transformational journey in the last few years both at a policy and an operational level so much so that defence exports have risen more than 5x times in last 5 years to almost INR 8,500cr in FY21. While the imminent gaps are being plugged with required procurements, the focus on indigenization is expected to continue with much more rigour. Technological capability is evolving in India and the strategic partnership policy goes a long way in attempting to enable the growth in this critical area.

Growth Outlook

While the sector is organically growing basic domestic consumption and exports, the growth can be further enhanced by finalizing ongoing tenders including for the NUH, FRCV, FICV and P-75I. The indigenous contributions on various platforms can be furthered by investing in focussed R&D (more than the 1-2% currently being done) and this should be the driver in the medium term. There needs to be mandatory R&D investments by all entities in the ecosystem. With the focus on aero engines, materials, fab, space segment and MRO - there is huge potential for growth in this industry in the long term, both for MSMEs and the large companies.

Top sector challenges

- **Funds for capital procurement** have always been a challenge for India given the fact that while the defence budget is among the top five in the world, almost two-thirds of the budget (ex pensions) goes towards revenue procurements and even in the balance one-third, almost 70-80% is for previous year(s) procurement payments.
- **India's budget allocation for investments into R&D (DRDO) in defence sector** are approximately 2% vis-à-vis US where almost 15% of budget is dedicated to R&D. It is important that the private industry in a standalone manner or in collaboration with government invests in focused R&D – especially in areas where there is significant reliance on imports especially electronics. Currently there is also a lot of potential overlap in R&D activities that is resulting in time and resource underutilization
- **India's domestic industry (public and private) capabilities to meet the requirements of the Services is still evolving.** This is a major challenge as while orders will be based on requirements, industry needs to be able to absorb the orders and meet the qualitative, quantity and timeframe requirements

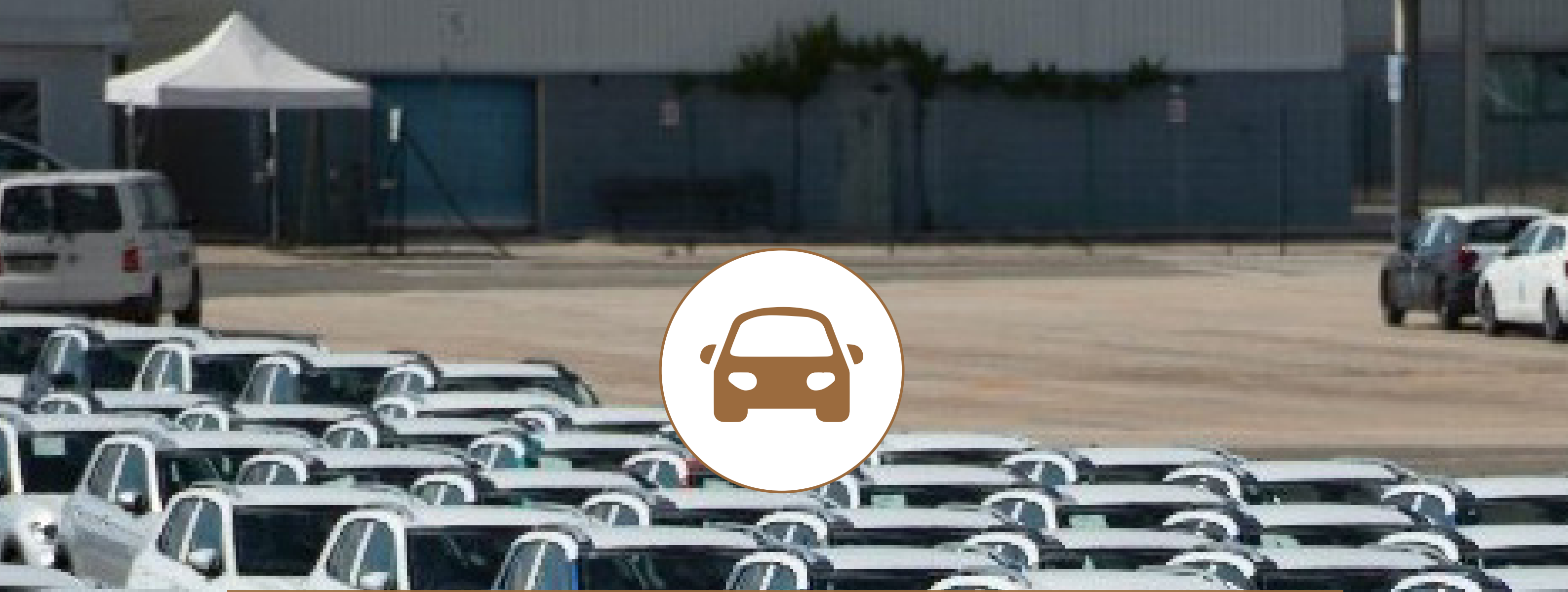
Budget Expectations for FY 22-23

- A larger allocation for private industry from within the separate budget for domestic capital procurements, vis-à-vis the current level of ~INR 17,500cr
- Constitution of a 'Defence Fund' to support capital procurements. This fund could be sourced from the statutory reserves of the government and / or investments from government entities like LIC
- Merging of the Defence pension head with the Central government pension head which could potentially release funds to enable more capital procurement allocations

Expert View

The Indian defence industry is going through a watershed period and we look forward to increased capital budget allocation in keeping with the Long Term Vision articulated in the DPEPP, and increasing content of indigenous procurement, as well as having a larger share of allocation for the private industry. With the expanse of modernisation required in this decade, it is essential to have increasing fund allocation both for procurement from Indian Entities to gain from cost efficiencies as also incentivising R&D in Private sector through Make-I route in line with commitments by the MoD leadership. The private industry is maturing and is ready for Build to Requirements and enhance national defence capabilities."

Mr JD Patil, Whole Time Director (Defence & Smart Technologies) and Member of the Board – L&T



STRENGTHENING THE SUPPLY CHAIN, ESPECIALLY OEMS, WILL HELP SUSTAIN THE GROWTH OF THE AUTOMOTIVE SECTOR

Current situation

Car sales grew by 27% to cross the 3 million unit-mark in 2021 despite the semiconductor shortage and second wave of the coronavirus. Key growth drivers for increase in sales have been favourable demographics, growing urbanization, increasing FDI inflows, entry of international players, use of technology in auto manufacturing, and supportive government regulations. At the same time, sale of commercial vehicles increased by 13% YoY owing to infrastructure spending by Central and State Governments.

Growth Outlook

The automobile industry in India expects to attract USD 8-10 billion in local and foreign investments by 2023 with government initiatives for Automobile and Auto components adding to the growing demand and encouraging investments into the sector, which is expected to reach USD 280 billion by 2026 with the growing middle class and rising disposable incomes, along with the introduction of new models driving growth in the medium term. Further, there exists a USD 206 billion opportunity for the EV market by 2030 with increasing awareness, growing charging infrastructure, and government support providing the necessary growth impetus to the EV industry.

Top sector challenges

- Under utilization of funds allocated under FAME-2 (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles); FAME-2 and PLI must be more adaptable to allow disbursements in FY22-23 to help industry invest in EV infrastructure
- High GST and cess on luxury cars; currently 28% GST with up to 25% cess is levied on premium / luxury cars that makes purchase by individuals unattractive. Challenge: a large number of such cars are purchased on lease by firms, which claim input credit subsequently
- Costly renewable energy (~2-3 times more costly than the cost of production) due to various taxes and duties to the end consumer makes replacement of fossil fuel based power with renewable energy unviable. With steel being an important material for car manufacturing and OEMs increasingly giving preference to steel manufacturers that use green steel plants, it becomes imperative for steel manufacturers to replace fossil fuel based power plants with renewable power. Policy support by the Government in this matter will help produce steel through RE

Budget Expectations for FY 22-23

- Inclusion of auto components and parts under RoDTEP to help increase exports by compensating tax costs such as electricity duty, road tax, tax on fuel, etc
- Permit utilization of RoDTEP scrips for payment of IGST to help businesses that may not want to pay IGST through cash and avail credit instead
- Reduce taxation on luxury cars and restore tax credit for R&D expenditures to 200% from 150%
- Subsidy under FAME-2 for retrofitted vehicles

Expert View

I congratulate the Hon'ble Prime Minister and the Government of India for its landmark decision to extend USD 10 billion support to develop Semiconductors and Display manufacturing in India. This strategic and pathbreaking move shall lay foundations to a much needed indigenous and integrated electronics design and manufacturing ecosystem bedrock of any developed economy in the digital and Industry 4.0 era. I am confident, this will now set in motion a longer-term process to transform India into an Innovation driven economy with focus on high-end capability, skills and value-creation, here in India."

Baba Kalyani, Chairman & MD, Bharat Forge Ltd.

REDUCING IMPORT DEPENDENCY BY STRENGTHENING OIL & GAS INFRASTRUCTURE

Current situation

A series of reforms have been announced across the Oil & Gas supply chain. However, with Crude Oil, Gas, and Petroleum Products forming around 27% of the import bill for the country, high import dependency and dynamic nature of the sector are still posing major challenges.

Growth Outlook

The Oil & Gas sector is expected to have moderate to strong growth due to constant efforts to attract oversees investment in E&P activities, higher allocation for infrastructure development, target to increase share of natural gas to 15% of energy basket by 2030, and development of new markets for natural gas.

Top sector challenges

- **High dependency on imports and rising import bill:** India imports ~83% of Oil and ~50% of its Natural Gas requirement. Additionally, due to rising demand and increasing crude oil prices, the import bill for April-August increased by around 138% of the imports during last year
- **Stagnant domestic Exploration & Production (E&P):** The domestic oil production has constantly been declining from FY2015. Lack of new investment in exploration and production activities is one of the key reasons behind this
- **Lack of a long-term pipeline infrastructure plan:** The Natural gas pipeline infrastructure construction is led by demand in the country and in specific geographies. This has led to an underutilized LNG infrastructure and decline in Natural Gas consumption growth

Budget Expectations for FY 22-23

- Promoting exploration activities by allocating more budget, incentivizing adoption of technologies for higher productivity, and announcing PLI scheme for E&P activities
- Restructuring of the public sector petroleum companies, with a dedicated entity for Oil and Gas Pipeline Construction through PPP model
- Crude oil, natural gas and petroleum products to be brought under GST

Expert View

While we have seen significant improvement and addition in the gas pipeline network, if it can be integrated under one agency and at the same time forecast future P&L with timelines, it will act as a catalyst to Economic Growth."

Vipul Mathur, MD & CEO, Welspun Corp Ltd

INDIAN BANKING & FINANCIAL SERVICES SECTOR

Current situation

Policy and structural changes in the last year have reformed the BFSI sector, resulting in a stable recovery in Q3 2021. Fintechs have also driven recovery in the financial system, bringing in $8 bn of capital influx in 2021. However, inflationary pressure looms, and growing NPAs in the banking system pose a major challenge.

Growth Outlook

Monetary reponses to encourage credit-disbursal by the banking and NBFC sector (including through an extension of the ECLGS) is expected to support credit-growth of the sector while maintaining a safety net against NPAs. Approval of the Government's guarantee amount for the National Asset Reconstruction Company (NARCL) is expected to deliver respite in the long-term for resolving the NPA Challenge. Double digit growth is possible by a mix of domestic and foreign investment, with FPIs playing a central role in capital inflow into the country.

Top sector challenges

- **Growing NPAs:** Banks witnessing a rise in NPAs which have increased from 7.5% last year to 13.5% in September 2021. The key issue is with the Public sector banks which have been impacted the most during the pandemic period. In order to finance the growth driven by private investment there is a need to help improve the balance sheets by looking at initiatives beyond bank consolidation
- **Low FPI Participation:** Foreign Portfolio Investors are continuing to shy away from investing in NCDs – utilizing only 19% of the limit available to them – hinting towards need for introspection of regulatory-policy environment, which may be plaguing participation. Sustaining strong FPI participation in the Corporate bond market is critical for long-term financing for businesses and infrastructure projects
- **Improvement in FDI Policy:** Rationalization of the FDI Policy and aligning it to sectoral regulations will be required to support ambitious targets for the coming year – with respect to IPO of Life Insurance Corporation – and also remove baggage from earlier policies (PN-3 2020)

Budget Expectations for FY 22-23

- Now is the right time to define a roadmap for privatization of PSU banks while improving their balance sheets with adequate capitalization. This will help PSBs provide much needed capital to boost private investment
- To improve FPI Participation the Government should increase the share of NCDs available for FPIs to invest in – from more than 15% at present
- Clarity w.r.t. beneficial ownership in the press–note 3 should be brought. This will bring in foreign capital required to fund double digit growth

Expert View

The biggest challenge to the financial system today is arbitrage that exists between regulated entities such as banks, NBFCs and unregulated Fintech entities. Unless sandbox-oriented solutions are developed, this may pose a real threat to financial system stability"

Atanu Chakraborty, Former Economic Affairs Secretary and part-time chairman of HDFC

NATIONAL EDUCATION POLICY HAS LAID THE FOUNDATION, EQUITABLE ACCESS WILL NOW BE KEY

Current situation

Despite the COVID-19 pandemic, more than 30 lakh elementary school teachers were trained digitally. Taking this further, the 2021 budget paved the way to train 56 lakh school teachers through the National Initiative for School Heads and Teachers for Holistic Advancement (NISTHA) in 2021-22. Also, National Professional Standards were set for all 92 lakh teachers in India.

Growth Outlook

Strengthening Exemplar Schools with components of National Education Policy incorporated. These schools will function as mentor schools, acting as a hub of demonstrable best practice in the country. Further, Digital Mesh under NDEAR will enable progression from National Achievement Survey (NAS) to universal assessment with the participation of all students in all subjects and grades. Big data mining can also help make this possible by assisting in localized improvement planning which is school-student centric and linked to the Performance Grading Index (PGI).

Top sector challenges

- **Application of SARTHAQ Framework:** SARTHAQ has been developed through wide and intensive consultative process with States and UTs. It links each recommendation of the National Education Policy with 297 Tasks along with responsible agencies, timelines and 304 outputs. Implementation of these tasks may vary from State to State, and so the application of the framework will have to be in accordance with state specific context. This is especially so since last 20 months have played havoc with timelines and outputs
- **Allocations for central digital university:** A digital university could help bridge not just a digital divide but a learning divide transcending barriers of opportunity, time, and place, propelling more students into higher education space than the current 27%, and at the same time creating access to a vibrant course mix, applied programmes, range of faculty, diverse languages, and digital learning tools through virtual learning environments
- **Aligning Vocational and skill education in the curriculum:** The workforce being prepared is not a predictor for future employment. Vocational education needs to be aspirational. Students need exposure to fintech, agro, digital and industrial technologies, and entrepreneurial skillsets. Phygital learning is gaining currency requiring a fundamental shift. Language barriers for students in technical and higher education programmes and job market are another challenges which needs to be addressed

Budget Expectations for FY 22-23

NEP 2020 recommends increasing public investment on education to 6% of GDP, so budget 2022-23 could see an increase in funding for :

- Skill Universities and Incubation cells to be set up across the country to further entrepreneurial exposure and skills
- Vocational education to be introduced at grade 6-8 to expose students to the world of work and 'hand knowledge'
- Fintech and Agroforestry courses to be added in the curriculum from middle school up to college
- Science Scholarships in collaboration with experts
- Technical education in vernaculars to be made available for inclusivity

Expert View

In order to enhance the delivery of proper education and providing right skills and exposure, there is a need to strengthen the infrastructure, improve the quality of buildings and its expansion with the help of Central aid. Support is required for execution of a well-rounded curriculum by establishing technology labs, art and culture rooms, and well stocked libraries."

Dr B D Kalla, Honourable Education Minister, Govt of Rajasthan

TECHNOLOGY TRANSFORMATION BROUGHT ON BY THE PANDEMIC NEEDS TO CASCADE ACROSS ALL SEGMENTS

Current situation

- Positive Growth of 2.3% to touch $194 Billion
- Exports to grow YoY at 1.9% to $150 Billion
- Domestic technology sector to grow YoY at 3.4% to $45 Billion

Growth Outlook

The technology sector continues to show immense potential and focus on digital transformation, quantum computing, data protection and cyber security, AI, VR and augmented reality is expected to fuel the next level growth in the sector.

Top sector challenges

- Widening of the Skill gap with disparity between desired skills and existing skills and the need for upskilling of people on continuous basis
- Due to the pandemic related global technology disruption, CIOs of many organizations are facing challenges in talent management and talent retention
- Having to adopt new business and operating models with focus on hybrid work environment
- Automating the various tasks and robotizing systems shall be one of the challenge areas to make the workplace more safe and efficient
- Need to quickly reinvent and adopt new age technologies including focus on product development
- Leveraging on cloud native monitoring tools and machine learning systems to better manage the disruptions and the faster changing technological demands

Budget Expectations for FY 22-23

- Financial incentives and design infrastructure support to domestic companies, startups and MSMEs for setting up design and R&D centres in India
- Incentives for start-ups with higher innovation index in product or technology service offerings
- Launch of new projects on digital transformation with focus on cloud, AI, IOT
- Setting up COE in India related to cyber readiness and resilience

Expert View

We have hundreds of welfare schemes aggregating to annual expenditure of 10 lac+ Crore rupees from 30+ ministries. Government spends 40K+ rupees per family per year! The purpose of social protection is to provide basic health, housing, education & food support (In kind not in cash) to vulnerable families. There should be a department for social protection with mandate to reduce error of inclusion or exclusion and design family centric progressive social protection."

Amit Shukla, Founder and Managing Director, EasyGov

STEPPING UP THE HEALTHCARE GAME THROUGH PPP MODELS, LAST MILE DELIVERY AND DIGITAL INFRASTRUCTURE

Current situation

In 2021-22, the Ministry of Health and Family Welfare got an allocation of Rs 73,932 crore. Department of Health and Family Welfare accounted for 96% of the Ministry's allocation at Rs 71,269 crore, whereas the Department of Health Research received Rs 2,663 crore, i.e., 4% of the allocation, which was an annualised growth of 20% over actual expenditure in 2019-20. Strengthening health insurance, research, manpower and digital infrastructure should be the main focus for the coming financial year.

Growth Outlook

There is a need for allotment of funds in the relief and research for COVID-19. As new variants keep arising, the government should aim to keep up the momentum of the vaccination drive for adults as well as minors and with booster shots for the eligible categories. A new central scheme PM Atmanirbhar Swasth Bharat Yojana with an outlay of Rs 64,180 crore over six years will focus on developing primary, secondary, and tertiary healthcare systems; strengthening existing national institutions; and creating new institutions for detection and cure of new diseases.

Top sector challenges

- **Insurance and Transparency**- India has very high out of pocket expense for healthcare, a significant part of which (over 30%) is towards drugs. Strengthening of programs like CGHS, PMJAY, NRHM etc. through transparency, policy reform and infrastructure development will help to reduce the economic burden of healthcare on the public
- **Infrastructure**- There is a huge divide in the public health facilities available at different tiers of geography in India. An assessment of distribution of primary, secondary, and tertiary care facilities for upgradation of infrastructure is required
- **Healthcare Research**- India lacks in terms of healthcare research, which got highlighted in the COVID backdrop. The focus should shift to research and innovation and adequate budgetary provisions should be made for this. There is a need of research in pharma as well as clinical areas. There should be specialized diagnostics like the next generation genome sequencing (NSG) labs, which can help in identifying mutations as well as other genetic deformities

Budget Expectations for FY 22-23

- Skill development and training. By introducing one-year bridge courses for higher trained medical workers (like nurses) who can be authorized to man primary care centres and underserved areas and who can administer certain drugs and procedures
- Prioritization of current investment in digital health technologies such as telehealth to promote greater access to care. Under the Ayushman Bharat Digital Mission (ABDM) a digital healthcare ecosystem is getting created and it will integrate the various platforms into one
- 65% of deaths in India are caused by non-communicable diseases . Government should come up with a program for investment promotion and support for setting up single speciality hospitals in underserved areas, which is linked to initial cost but more importantly treatment and outcomes

Expert View

First and foremost, special attention should be given to strengthen primary healthcare including diagnostics, in our country. PHC then become like referral centres and this reduces the number of cases who need tertiary care. There should be public and private partnership and investments. It is important to focus on both lifestyle and infectious diseases. There are more people dying because of Diabetes, hypertension, and lifestyle diseases than COVID. But as this is not a community problem, so it is not getting the focus required. Strengthening of Ayushman Bharat program (AB PM-JAY). This will ensure people get suitable care where there is enrolment, they can get their entitlement. Initiative of creating a healthcare ecosystem by training a greater number of doctors, nurses and paramedical personnel. COVID has taught that if we do not have good number of Health professionals it is difficult to manage."

Mr. Joy Chakraborty, COO, P. D. Hinduja National Hospital & Medical Research Centre

PROVISIONING FOR INCREASED FISCAL INCENTIVES WILL BOOST REAL ESTATE DEMAND

Current situation

Real Estate Sector witnessed a strong recovery in the year 2021. Real estate sector contributes 5-6% to Gross Domestic Product (GDP) of India and is the second largest employer, making it key to economic reconstruction and growth. Despite the Disruptions due to pandemic, the sector witnessed strong rebound especially Residential Sector.

Growth Outlook

Residential real estate sector is witnessing strong demand due to historically low interest rates, greater affordability, need for larger space due to wfh and incentives offered by the Government. Residential Segment is expected to lead the real estate sector growth in the coming year as well. In the commercial segment, the sector is witnessing a shift from traditional working spaces to coworking spaces and hybrid styles.

Top sector challenges

- Housing Shortage: Large number of Urban & Rural Population is living in informal housing such as slums, kutcha ghar, unauthorised housing etc. While initiatives like PMAY have greatly reduced the gap, there is still a long journey ahead
- The housing shortage is primarily driven by the low-income segment population, as majority of the housing supply that is being built across urban areas is beyond their affordability. Private developers primarily have targeted the luxury, high-end and upper-mid housing segment owing to higher returns that can be gained from such projects. The burden of supply of affordable housing mostly falls on the back of government organizations. Government needs to ensure greater private participation for developing affordable housing stock
- In India, traditionally Government has focused on ownership based housing. There has been a lack of a strong regulatory framework for Rental Housing due to which this sector has not developed. There is a need for encouragement and development of Rental Sector. While the Model Tenancy Act is a step in this direction, government has to ensure its adoption across different states

Budget Expectations for FY 22-23

- Pradhan Mantri Awas Yojana (Urban) Mission, with an objective to provide housing for all in urban areas, is ending in year 2022. The Government should extend this scheme by three years
- The current limit of interest deduction under Section 24 of IT Act 1961 on housing loan should be increased from INR 2 Lakhs to 5 Lakhs to reduce the cost burden on home buyers
- Affordable Rental Housing Stock to be developed across the country. Government to encourage development of greater Rental Housing Stock

Expert View

Budget needs to focus on ensuring Housing for All. Finance Ministry should ensure that every citizen who is purchasing their first house is able to reduce their cost burden, by providing deduction on the complete interest component of Home loan"

Rajan Bandelkar, President, Naredco India

MOBILITY & TRANSPORT SEGMENT NEEDS A ROBUST ECOSYSTEM TO SUPPORT INCREASED PRIVATE SECTOR PARTICIPATION

Current situation

A combination of aggressive infrastructure development and due attention to safe and sustainable transport ensures a positive outlook for the sector. However, reformative measures are required to achieve the intended asset monetization target, a key assumption for growth of the sector.

Growth Outlook

Considering the impact of the ongoing pandemic, resultant restrictions, and demand uncertainty, the sector may experience moderate growth in the short-term. With defined sector-specific growth trajectories, efforts to create demand centers, emphasis on higher operational efficiency, and infrastructure creation, the sector has strong to very strong long-term growth prospects.

Top sector challenges

- **Aviation:** Uncertain demand with ongoing COVID-19 pandemic (~61% YoY decline in airport traffic), financial unviability of smaller airports (a key to success of regional connectivity), and cost implications of adopting Sustainable Aviation Fuel (SAF) in line with ICAO compliance
- **Railways:** Increasing modal share for railways; Development of new projects & completion of ongoing projects as per National Infrastructure Pipeline; Monetisation of brownfield assets as per National Monetisation Pipeline; Financing projects listed in National Rail Plan; Upgrading passenger experience with semi- and high-speed trains
- **Ports & Shipping, Inland Waterways:** Initiate actions for quantum jump in coastal shipping as per National Maritime Plan; monetisation of brownfield assets as per National Monetisation Pipeline; promote private sector participation in logistics infrastructure under PPP mode in water sector; long term policy for addressing container shortages through encouraging Indian companies as major shipping lines
- **Road Transport:** Asset monetization through TOT / HAM models for 5000 km of roads; initiate rapid development of expressways; with rising input costs, work on alternate construction materials; address policy uncertainty that affects project cash flows, especially changes in GST
- **Urban Transport:** Initiate nation-wise studies on mobility planning; shift emphasis from specific modes to citizen needs to be served through well designed urban spaces and green modes

Budget Expectations for FY 22-23

- Complete the bidding and handover process of 13 more airports on PPP mode
- Expediting the development/expansion of new airports for improved regional connectivity (land allotment pending for 45 out of 61 planned airports)
- Completion of Western DFC & Eastern DFC during 2022 and initiate the development of new Dedicated Freight Corridors in southern, western and central India; introduction of Asset Monetisation models for the railways sector; new policy for Private Train Operations (PTO)
- Policy incentives for indigenous dredging equipment and ships, long term policy for India-flagged vessels in coastal shipping. Focus on NW1 and NW2 to systematically remove bottlenecks and lower cost of operation
- Policy support for PPP/HAM instruments to complete monetization target of 5000 kms of highways
- As against the current focus on specific modes like Metro, provide support for a policy that encourages integrated mobility plans for urban populations, factoring in pedestrians, green energy base for appropriate modes like EV, BRT, LRT, and Regional Rail systems

Expert View

Transportation infrastructure is a critical cog in the wheel of the Indian economy. In the present pandemic-hit scenario of the economy, capital expenditure in transport infrastructure will have a multi-pronged benefit over short and long terms. As an immediate benefit, it will create jobs and add to the economic activity in addition to the long-term benefits of mobility induced economic development.

In my opinion, given the focus on long-term environmental sustainability, rail-based future-looking transport systems like RRTS are strong candidates for prioritised budgetary outlay"

VK Singh, MD, NCRTC

LEVERAGING THE MOMENTUM ON RESPONSIBLE GREEN INVESTMENTS

Current situation

Climate Change and environmental degradation are one of the biggest challenges that the world is facing. Climate change has already hit India hard, causing huge economic and social losses in recent years. This year, for instance, India has witnessed severe floods and cyclones, cloudbursts and landslides in several states across the country, causing death and destruction. As per IPCC's 6th Assessment Report, in the future decades, India will see more frequent and intense heat waves, extreme rainfall events, and irregular monsoons, as well as increased cyclonic activity, requiring focused interventions in the areas of finance, technology and infrastructure.

Growth Outlook

Climate financing for mitigation and adaptation initiatives is gaining traction in the international community. For India, currently, a large share of climate finance is directed to actions focused on climate mitigation activities, with adaptation accounting for less than 20% of funds. In changing circumstances like today's, a shift is expected in deployment of climate finance for adaptation initiatives of the developing countries, giving more room for financing to National Adaptation Plans. Further, India's energy sector has also emerged as one of the fastest growing in the world and has been attracting substantial investments. Most of the climate change investments incurred by the private sector are skewed towards the renewable energy sector, owing to significant initiatives and policies developed by GoI. Considering the impetus, this trend is also likely to continue for next few years.

Top sector challenges

- **Reducing India's coal dependency:** Coal based power sector accounts for one-third of India's GHG emissions. India will continue to rely on coal to fulfil its energy needs at least till 2030. However, efforts and initiatives such as investing in carbon capture and storage must be made to reduce GHG emissions from coal
- **Balancing between growth and climate:** Like governments everywhere, the government in India also will have to strike a balance on inter-generational equity. This could be done by making policies for sustainable development, sector by sector
- **Access to climate finance:** As has been raised by India along with other developing countries in COP 26, access to climate finance will be a critical factor in reducing carbon emissions. India alone will need $1 trillion by 2030 to fund its decarbonization efforts and build its renewable energy capacity

Budget Expectations for FY 22-23

- Time for India's public financial system and union budget to become climate responsive by adopting a national framework to mainstream climate priorities in the annual budgeting and planning process
- To give impetus to sustainable farming and food security, budget for schemes like, Paramparagat Krishi Vikas Yojana (PKVY), National Project on Organic Farming, Organic Value Chain Development for North East Region etc. needs to be increased. On similar lines, reduction in budget allocated for fertilizer subsidy will send the right message
- National Clean Air programme has emerged as a critical programme for survival. Today, there are 122 cities under NCAP and the allocation for it is around INR 470 crores. There is an immediate need for more fund allocation along with a suggestive implementation framework
- The total budgetary allocation for India's MoEF&CC had been reduced to INR 28.7 billion compared to INR 31 billion in 2020-2021. There is a need to increase the budgetary allocation to this nodal Ministry for Climate Change, so that it can pursue dedicated plans and activities
- This budget can also play a very important role in faster adaptation of EV. Some key expectations in this area include attractive financing options for electric vehicles, implementation of a faster roll-out of tax refunds and incentives, setting aside funds for establishing fabrication units which will lead to low-cost manufacturing of electronic components, batteries etc
- Walking friendly cities, dedicated cycling infrastructure, funds for planning transition of public transport to clean energy, also need to be priority areas for the upcoming union budget. It will also be a good idea for Government to earmark significant budget for electric buses and necessary supporting infrastructure
- To reduce demand for coal-based energy, it will be encouraging to see Government's support to decentralized renewable energy projects, particularly, solar roof top projects. Dedicated funds need to be deployed to carry out R&D activities and determine options for innovation and reduction in storage costs of renewable energy

COMPREHENSIVE ENERGY MIX IS NEEDED TO BALANCE GROWTH AND SUSTAINABILITY

Current situation

1. India is, at present 4th largest in wind power, 5th largest in solar power and 4th largest in overall renewable power.
2. Renewable Energy (excluding hydro) has increased by three times from 35.52 GW in 2014-15 to 104.88 GW in 2021-22. If we add hydro of 46.51GW capacity (which is considered RE world over) it has already crossed 151.39 GW and another around 68.97 GW is under installation which makes it around 38.49% of total capacity.
3. The Hon'ble Prime Minister launched a National Hydrogen Mission from the Red Fort on August 15, 2021 (Independence Day) and stated the goal to make India a global hub for Green Hydrogen production and export.

Growth Outlook

Renewable energy installed capacity is aimed to reach 175 GW in 2022 and 500 GW by 2030 with a total mix of 100 GW from solar, 60 GW from wind, 10 GW from bio-power and 5 GW from small hydro power projects. India aims to become a net-zero economy by 2070.

Top sector challenges

- **Planning for Coal Phase-Down:** Coal consumption in the power sector can be reduced by 25 per cent through co-firing with biomass pellets. While a mandate has been issued, a reliable supply chain for bio-mass has not been established
- **High Electrolyser Cost:** Government has announced the National Hydrogen Mission to cut carbon emissions and align India's efforts with global best practices in technology, policy and regulation. Electrolysers used to manufacture Hydrogen are expensive resulting in an increase in the cost of production. Given low sales volume and low scalability, electrolyser manufacturing has seen the least growth
- **Stranded Gas Assets:** Out of the total installed capacity of about 345 GW, 24.9 MW (7%) is gas-based power plants. However, 14.30 GW (57%) of this gas-based capacity is stranded due to a shortage of domestic gas supply and a competitive tariff scenario
- **Cost Of Offshore Wind:** India's energy needs are projected to increase by 3% annually through 2040 and meeting these needs in a sustainable manner requires clean energy sources. An important source can be offshore wind but this remains largely untapped due to the higher costs of installing offshore turbines
- **More Pumped Hydro Storage:** To mitigate the operational and technical challenges posed by RE deployment, an energy storage system is a major infrastructural requirement and Pumped Hydro Storage can play an important role. The pace of Pumped Hydro Storage installation is very slow because of the high cost, the long gestation period, and the low recovery from the existing pricing mechanism of PHS

Budget Expectations for FY 22-23

- Availability of biomass pellets in sufficient quantity at appropriate rate can be achieved by promoting manufacturing of biomass pellets through suitable incentives, primarily from agro residue, also addressing pollution due to burning of stubble
- Bringing down the cost of green hydrogen can help meeting the target of establishment of 10 gigawatt (GW) of domestic manufacturing capacity as well as making India a global leader in the sector. A production linked incentive (PLI) scheme can support indigenization of electrolysers and scaling up of green hydrogen production at optimized cost
- The potential of Pumped Hydro Storage can be tapped only if budgetary support is provided for enabling infrastructure, and tariff rationalization measures similar to the benefits under Hydro policy are introduced
- Providing viability gap funding (VGF) or grants for offshore wind and storage projects

Expert View

Clean Energy Cess can be used for funding FGD installations through partial grants or any other suitable mechanism; this softens the impact of tariff increases on the end consumers. The Cess can also support stranded gas based power plants."

Mr. Ashok Kumar Khurana, Director General, Association of Power Producers (APP)

MAKING THE MSMES MORE RESILIENT WILL BE ESSENTIAL TO DRIVE HOLISTIC GROWTH

Current situation

Micro Small and Medium Enterprises (MSMEs) are the life-blood of the Indian economy as they account for more than 30% of the GDP, generate nearly 11 Crore jobs across rural-urban India, and drive nearly 50% of India's exports. The pandemic has thrown multiple challenges towards MSMEs, from consistent disruptions to market demand, to a supply-chain crisis which is pinching the costs of input materials. Therefore, capacity of the Micro, Small and Medium enterprises to manoeuvre the challenges will be a defining factor for stability of the economy.

Growth Outlook

MSMEs are a cross-sectoral component of the economy and their growth will rely on structural parameters. A mix of consumption-demand, and future trajectory of energy costs will play a defining role in the bottom-line of MSMEs. However, with the continued uncertainties of COVID playing out with a new variant, the outlook remains that of cautious optimism. In the long-term, focused-interventions from the Government such as the credit schemes, as well as creating opportunities for MSMEs in schemes such as the PLIs will provide the support for MSMEs to grow.

Top sector challenges

- In continuance to dealing with market disruptions of the pandemic, a key challenge for MSMEs has been a rise in cost of raw materials. Between April'20 to October'21 prices of input materials such as aluminium alloy, mild steel plate, copper, CRCA sheet, pig iron, kraft paper etc. have increased between 53%-154%
- Mandatory GST registration for businesses to sell online will be a key challenge – particularly for small and household businesses. Currently, businesses intending to sell online have to mandatorily get a GST registration, while businesses selling offline are required to get a GST registration post crossing a revenue threshold of INR 40 Lakhs per annum. While there are higher revenue prospects in online marketplaces, GST registration and compliances potentially become a challenge for small businesses to leverage e-commerce
- Improving finances of small businesses (MSME sector) will continue to be a priority for enterprises to maintain working capital as small businesses have suffered heavy losses due to the pandemic with disruptions to market demand and volatility in GST rates

Budget Expectations for FY 22-23

- Rationalizing import duties & anti-dumping duties on input materials such as aluminium, steel etc.
- Continuing the tenure of Emergency Credit Linked Guarantee Scheme beyond Mar'22 to sustain credit access for small businesses
- Allowing traders registered under Composite GST scheme to sell online, and bringing parity in GST-registration requirements for businesses selling online and offline

Expert View

MSMEs today need a mix of measures to achieve a booster shot from this pandemic. We need to improve implementation timelines for projects – possibly by exploring plug-and-play model for timely operationalization of factories & office space.

It's also time to consider a separate banking policy which can dedicatedly focus on ease in application and disbursement of credit. Lastly, we need to reduce the GST barriers to make it easier for MSMEs to sell via online marketplaces."

Mr. Vinod Kumar, President, India SME Forum

NIP & NMP

Current situation

Current NIP targets INR 111 lakh crore of capex across sectors, and is supplemented by NMP for Rs 6 lakh crore to provide kick-off funding. Government has also launched the Gati Shakti platform as an enabling window for project planning. NIP, NMP and Gati Shakti can work together for seamless movement of goods and services and employment opportunities.

Growth Outlook

Gross fixed capital formation has been trending lower at about 33% of GDP, and the pandemic has impacted it adversely. To reverse the trend, Government has been making diligent efforts, both on fiscal and monetary fronts, which are aided by policy interventions. The setting up of a dedicated office in DEA to monitor NIP and actioning of plans for the NaBFID are a good indicator of a push on infrastructure building. With economic activity gathering steam as India comes out of the pandemic period, the growth outlook for the sector is positive

Top sector challenges

India has set the ball rolling for capital recycling through asset monetisation for brownfield projects (National Monetisation Pipeline), greenfield infrastructure development (National Infrastructure Pipeline (NIP)), and creation of suitable institutional structures for meeting the long-term, low-cost financing requirement for infrastructure development in India. The Budget established NaBFID (DFI) with a lending portfolio target of INR 5 lakh crores (up to FY 25).

Some of the challenges :

- With a stated aim to bring down fiscal deficit, find alternate financing to accelerate the mega-infrastructure development plans (NIP, NMP)
- Introduce incentives for innovative financing mechanisms for financing the 15-18% funding gap under the NMP
- Take a longer term view and establish targets for next 3 years, along with a stated aim for ensuring policy certainty over awarded project life cycles
- Deepening the capacity of infrastructure sectors to absorb the investment flows – ensure capacity, and availability of capital assets to deliver on time

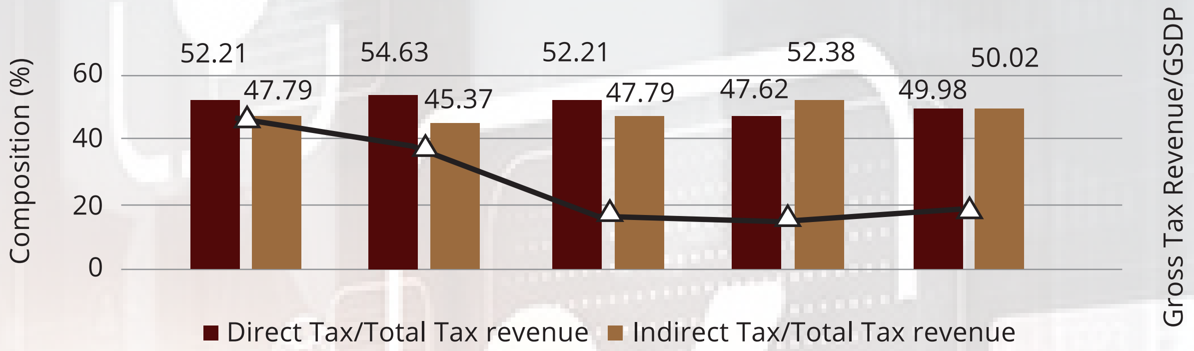
Budget Expectations for FY 22-23

- Introduce innovative financing mechanisms for meeting NIP and NMP targets (such as: project bonds, green bonds, strengthening India's bond markets, etc. for economic infrastructure development; and municipal bonds, land value capture mechanisms etc. for social infrastructure development; credit guarantee etc.)
- Expand the scope of (i) Direct Contractual Approach (e.g. TOT, OMDA models) and (ii) Structured Financing Models (InvITs, REITs etc) to all infrastructure sectors
- Introduce Industrial REITs and REITs for warehousing and logistics infrastructure
- SEZ units be permitted to sell in domestic market
- Encourage investments in green and smart technologies across sectors
- Operationalise an empowered office in DEA to set up institutional mechanisms to track and deliver the NIP and NMP

HOW CAN THE GOVERNMENT BALANCE THE STRAIN ON REVENUES AND INDUSTRY EXPECTATIONS FROM THE BUDGET 2022-23?

How will domestic trends define the way forward?

Figure 1: Trends in Direct and Indirect Taxes of Central Government



It has been observed from Figure 1 that the gross tax revenue of central government as percent to GDP is declining. It has declined from 11.36 percent in 2017-18 to 9.90 percent in 2019-20. After the unforeseen attack of the COVID-19 pandemic, it has further declined to 9.75 percent in the 2020-21 RE. While a prolonged period of halt in nationwide economic activities as a response to the fight against the pandemic caused the tax revenue and GDP contraction, however, such low and declining tax-GDP ratio is a serious cause of concern for the central government.

However, such concern is further compounded by the fact of changing shares of direct and indirect taxes in total tax revenue receipts, which could be elucidated from the above figure. It can be seen that the share of direct taxes in total tax revenue has declined from 52.21 percent in 2017-18 to 47.62 percent in 2020-21 RE. In contrast, the share of indirect taxes in total tax revenue has correspondingly increased from 47.79 percent to 52.38 percent during the same period.

These two key findings, one, decline in tax-GDP ratio over the years; and two, declining share of direct taxes in total tax revenue, clearly suggest that the central government should emphasize in the Union Budget 2022-23 on substantially improving the tax revenue. The policies regarding 'tax effort' could be designed through various ways such as, rationalizing tax rates, policies regarding widening tax base and net, and improving tax compliance and tax administration. This process would have enormous implications on ameliorating economic growth. In sum, a holistic policy on tax revenue mobilization has been one of the major points for analysis in the upcoming Union budget.

Budget Expectations: DIRECT TAXES

Rationalization of Corporate Tax Rates

With major global economies signing up to the Two-Pillar approach of OECD to address tax challenges, global corporate tax rates are destined to gravitate towards the minimum rate of 15%. While India has initiated the move towards the minimum tax rate, foreign companies operating in India are still taxed at 40%. The tax rate difference has become more pronounced post withdrawal of Dividend Distribution Tax. Hence, corporate tax rates both for foreign & Indian companies are likely to see rationalization.

Taxability of Crypto currency

Crypto currencies have been the new investment trend across the globe. While some ambiguity exists on the valuation and the control of crypto currencies, one thing which is certain is that this is a mode that is here to stay for the near future. The Government has been evaluating various options to bring gains from transitions to crypto currencies. Hence, Crypto currencies are expected to be included in the ambit of 'capital assets' and the gain from transaction of crypto currencies is expected to be taxed as capital gains.

Tax certainty & pre-agreement

Global experience has shown that the biggest influencer for a healthy investment environment, is a predictable and certain tax exposure. In the Indian context, Advance Pricing Agreements (APA) have shown the way to limit transfer pricing disputes. With the window of Authority of Advance Rulings gone, a new scheme to enable investors to discuss & negotiate the income tax exposure on specific transactions is expected.

Budget Expectations: INDIRECT TAXES

Legal changes likely to be addressed in this budget

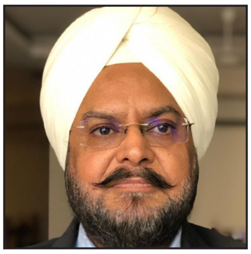
- Discussion on bringing Petrol and Diesel under ambit of GST regime
- Interest is applicable for non-payment to vendors within 180 days, from the date of availment and not from the date of utilization, not in line with 45th GST Council Meeting
- Removal of GST on ocean freight under reverse charge, when the said value is included in CIF value, resulting in double taxation
- Upon rejection of refund under Inverted Duty for input services, based on Apex Court instruction, the anomaly in Rule 89(5) can be removed, wherein the formula makes a presumption that the output tax payable on supplies has been entirely discharged from the input tax credit (ITC) accumulated on account of inputs and there has been no utilization of the ITC on input services

Rationalization on controversial GST issues

- Permanent transfer of IRP is supply of goods or services
- Sale of developed plot is taxable or not, and valuation for same
- Eligibility of credit on immovable property, wherein the property is let-out. Further, rationalization of same for non-SEZ developers in comparison with SEZ developers, wherein such supplies to SEZ developers is zero-rated
- Clarification on overlapping provision of job-worker and manufacturer
- Modifications in Form GSTR 3B, in order to provide negative figures
- Reimbursement of expenses like electricity, water charges, etc., at actuals, whether liable to GST or not?

Girish Vanvari, Founder, Transactions Square

Our Leadership


Davindra Sandhu
Co-founder & Chairman


Nilaya Verma
Co-founder & CEO


Aarti Harbhajanka
Co-founder & Managing Director


Adarsh Sharma
Managing Director


Anurag Singh
Managing Director


Charu Malhotra
Co-founder & Managing Director


Devroop Dhar
Co-founder & Managing Director


Kanishk Maheshwari
Co-founder & Managing Director


Sameer Jain
Managing Director


Shravan Shetty
Managing Director

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About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

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