ICRA

UNION BUDGET 2020-21: EXPECTATIONS

'Budget Estimates for FY2021 should adequately reflect the amount necessary for NIP'

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OVERVIEW

The Union Budget for FY2021 is likely to focus on providing a fiscal boost to economic growth, through enhanced focus on capital spending and infrastructure investment, particularly for sectors highlighted in the National Infrastructure Pipeline (NIP). Moreover, the Government of India (GoI) may announce new schemes to address rural distress, and increase the allocation for NREGA, which would also boost rural consumption sentiment. In our view, further major tax changes should be avoided at this juncture, given the lack of clarity regarding the revenue implications of the corporate tax cut. Moreover, the Budget Estimates (BE) for FY2021 for the GoI's expenditure and fiscal deficit levels should adequately reflect the amount required for the NIP, for the market to consider them credible and also clarify the sources of extra-budgetary funding for the Centre's share of the cost of the NIP. Accordingly, we expect the GoI's fiscal deficit for FY2021 to be significantly higher than the rolling target of 3.0% of GDP or Rs. 6.7 trillion, assuming a nominal growth 10.0-10.5% in the coming fiscal, relative to the Central Statistics Office's (CSO) advance estimate (AE) of GDP of Rs. 204.4 trillion for FY2020. We estimate that every 10 bps of expansion in the GoI's fiscal deficit to GDP ratio would allow for extra spending of ~Rs. 225 billion in FY2021.

FISCAL PERFORMANCE OF GOVERNMENT OF INDIA

The GoI had forecast a fiscal deficit of Rs. 7.0 trillion in its Revised Budget estimate (RBE) for FY2020 (refer Exhibit 1), higher than the provisional (Prov.) figure of Rs. 6.5 trillion for the previous fiscal. During April-November FY2020, the fiscal deficit of the GoI stood at Rs. 8.1 trillion, a considerable 12.7% higher (refer Exhibit 2) than the level recorded in April-November FY2019 (Rs. 7.2 trillion), and equivalent to 114.8% of the RBE. This was led by a significantly lower-than-budgeted expansion in revenue receipts (+13.0% vs. +25.6%), reflecting the muted growth in tax revenues. With the pace of growth of revenue spending (+13.0%) somewhat higher than that of the capital outlay and the net lending (+12.1%), the quality of expenditure (share of capital outlay and net lending in total expenditure) deteriorated mildly to 11.2% in April-November FY2020 from 11.3% in April-November FY2019. Moreover, the share of the revenue deficit in the total fiscal deficit rose marginally to 77.1% in April-November FY2020 from 77.0% in April-November FY2019.

Revenue and Capital Receipts: Net of refunds (gross of devolution to states), the GoI's tax revenues, rose by a mild 0.8% in April-November FY2020 (refer Exhibit 3 and 4), considerably lower than the 18.3% growth envisaged in the RBE for FY2020 over the FY2019 Prov. With a 2.3% YoY decline in taxes devolved to the states in April-November FY2020, the net tax revenues (net of devolution to states) grew by 2.6%, trailing the budgeted growth of 25.3%.

The GoI's major direct tax collections (corporation tax and income tax; gross of devolution to states) rose to Rs. 5.6 trillion in April-November FY2020 (41.7% of FY2020 RBE) from Rs. 5.4 trillion in April-November FY2019 (48.1% of FY2019 Prov.). The pace of growth of direct taxes in April-November FY2020 was a muted 2.7%, sharply lower than the growth of 18.6% included in FY2020 RBE. While income tax collections recorded a significantly lower-than-budgeted growth (+7.0% vs. +23.3%) in April-November FY2020, inflows from corporate tax recorded a YoY decline (-0.9%), against the budgeted YoY growth of 15.4%, reflecting the subdued economic growth as well as some impact of the cut in corporate tax rates. Income tax and corporate tax collections during April-November FY2020 stood at 47.1% and 37.7%, respectively, of the RBE for FY2020 (+54.2% and +43.9%, respectively, of FY2019 Prov. in April-November FY2019). In addition, in August 2019, the GoI had reversed its earlier decision of imposing the super-rich surcharge on foreign and domestic equity investors, which is estimated to result in a modest tax shortfall of ~Rs. 14 billion relative to the FY2020 RBE. ***Personal income tax collections and corporate tax collections would need to expand by a high 42.5% and 28.2%, respectively, in the remainder of the fiscal, to meet the budgeted target, which appears unlikely. In our view, the shortfall in direct taxes could be as large as Rs. 1.5-2.0 trillion in FY2020, relative to the budgeted level.***

Exhibit 1: Fiscal Balances for GoI for FY2018, FY2019 and FY2020

	FY2018 Actual		FY2019 Prov.		FY2020 RBE	
	Rs. billion	% GDP	Rs. billion	% GDP	Rs. billion	% GDP
Revenue Receipts	14,352.3	8.4%	15,631.7	8.2%	19,627.6	9.6%
Tax Revenues$	12,424.9	7.3%	13,169.5	6.9%	*16,495.8*	8.1%
Revenue Expend.	18,788.4	11.0%	20,084.6	10.5%	24,477.8	12.0%
Revenue Balance	**-4,436.0**	**2.6%**	**-4,452.9**	**2.3%**	**-4,850.2**	**2.4%**
Capital Receipts^	1,000.5	0.6%	850.5	0.4%	1,050.0	0.5%
Capital Exp, Net Lending	2,475.1	1.4%	2,851.2	1.5%	3,237.4	1.6%
Fiscal Balance	**-5,910.6**	**3.5%**	**-6,453.7**	**3.4%**	**-7,037.6**	**3.4%**

GDP estimates for FY2020 as per Advance Estimates released by CSO on January 7, 2020; ^Miscellaneous Capital Receipts
$ Net of Refunds, Net of States' share in Central Taxes
Source: GoI Budget Documents; CSO; ICRA research

Exhibit 2: GoI's Fiscal Balances in April–November FY2020

	FY2020 RBE		April– November FY2020		
	Rs. billion	Growth#	Rs. billion	% of RBE	Growth
Revenue Receipts	19,627.6	25.6%	9,832.1	50.1%	13.0%
Tax Revenues$	16,495.8	25.3%	7,506.1	45.5%	2.6%
Non-Tax Revenues	3,131.8	27.2%	2,326.0	74.3%	67.8%
Revenue Expenditure	24,477.8	21.9%	16,062.2	65.6%	13.0%
Revenue Balance	**-4,850.2**		**-6,230.0**	**128.4%**	
Miscellaneous Capital Receipts	1,050.0	23.5%	181.0	17.2%	14.5%
Capital Exp, Net Lending	3,237.4	13.5%	2,029.3	62.7%	12.1%
Fiscal Balance	**-7,037.6**		**-8,078.3**	**114.8%**	

 # As compared to FY2019 Prov.
Source: GoI Budget Documents; Controller General of Accounts (CGA), Ministry of Finance, GoI; ICRA research

Worryingly, the major indirect taxes (customs duty, excise duty, service tax, CGST, IGST and UTGST) recorded a YoY contraction of 1.0% to Rs. 5.5 trillion in April-November FY2020, in sharp contrast to the 20.4% growth targeted by the FY2020 RBE. Indirect taxes accounted for 53.6% of the FY2020 RBE in these months, considerably lower than the same in April-November FY2019 (65.2% of FY2019 Prov.).

The combined CGST and IGST collections rose by a modest 4.7% to Rs. 3.3 trillion in April-November 2019 (60.4% of FY2020 RBE) from Rs. 3.2 trillion in April-November 2018 (65.6% of FY2019 Prov.). Subsequently, the Ministry of Finance indicated vide a press release that the aggregate GST collections rose by a healthy 8.9% to Rs. 1.0 trillion during December 2019, of which CGST stood at Rs. 199.6 billion, SGST at Rs. 267.9 billion, IGST at Rs. 481.0 billion, and compensation cess at Rs. 83.3 billion. After the settlement of IGST, between the Centre and the states, the CGST inflows aggregated to Rs. 417.8 billion in December 2019, as per the press release.

The average CGST and IGST inflows would need to increase to Rs. 549.1 billion per month in the remaining four months of FY2020, from Rs. 417.8 billion in April-November FY2020 for the budgeted target to be achieved. Moreover, we estimate that the combined CGST and IGST collections would need to expand by a significant 31.4% on a YoY basis in December-March FY2020, to meet the RBE for the year, which is unlikely given the recent trends. Overall, we estimate that CGST and IGST collections may together fall short of the FY2020 RBE by around Rs. 500 billion.

The customs duty, excise duty and service tax contracted by 9.2% to Rs. 2.1 trillion in April-November FY2020 (45.9% of FY2020 RBE) from Rs. 2.3 trillion in April-November 2018 (64.8% of FY2019 Prov.). Excise duty collections were budgeted to expand by a considerable 29.9% in FY2020 RBE, benefitting from the proposal to increase special additional excise duty as well as road and infrastructure cess by Rs. 1/litre each on petrol and diesel. However, excise duty has recorded a YoY contraction of 3.8% in April-November FY2020. Further, revenue from custom duties was budgeted to increase by a significant 32.2% in FY2020 RBE, driven by the hike in duty on gold and precious metals to 12.5% from 10.0%. However, it recorded a substantial YoY de-growth of 12.5% in April-November FY2020, which is likely to have been led by the YoY contraction in gold imports during many months of FY2020, driven by the rise in gold prices as well as the customs duty hike.

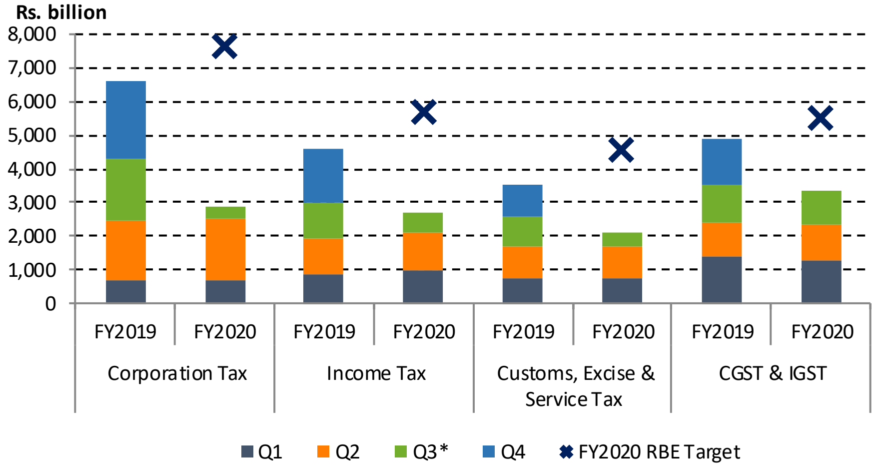
We estimate that the aggregate collections from customs duty, excise duty and service tax would need to nearly double (+96.8% expansion on a YoY basis) in December-March FY2020, to meet the RBE for FY2020, which is unlikely. ICRA estimates that the

Exhibit 3: Tax Collections (Net of Refunds, Gross of States' share in Central Taxes)

	FY2020 RBE		April–November FY2020		
	Rs. billion	Growth	Rs. billion	% of RBE	Growth
Gross Tax Revenues^	**24,612.0**	**18.3%**	**11,741.4**	**47.7%**	**0.8%**
Direct Taxes	13,350.0	18.6%	5,565.3	41.7%	2.7%
Corporation Tax	*7,660.0*	*15.4%*	*2,886.0*	*37.7%*	*-0.9%*
Income Tax	*5,690.0*	*23.3%*	*2,679.3*	*47.1%*	*7.0%*
Indirect Taxes	10,168.5	20.4%	5,454.2	53.6%	-1.0%
CGST	*5,260.0*	*15.0%*	*3,283.7*	*62.4%*	*10.5%*
UT- GST	*69.5*	*188.7%*	*17.0*	*24.4%*	*68.4%*
IGST	*280.0*	*-3.3%*	*59.9*	*21.4%*	*-72.8%*
Customs Duty	*1,559.0*	*32.2%*	*759.3*	*48.7%*	*-12.5%*
Union Excise Duty	*3,000.0*	*29.9%*	*1,329.0*	*44.3%*	*-3.8%*
Service Tax	*0.0*	*-100.0%*	*5.3*	*---*	*-90.6%*
Compensation cess for GST	1,093.4	15.0%	625.9	57.2%	0.0%

^Net of Refunds, Gross of States' share in Central Taxes
Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA Research

Exhibit 4: Quarterly Tax Collections (Net of Refunds, Gross of States' share in Central Taxes, Rs. billion)



**Q3 FY2020 refers to data for October-November 2019*
Source: CGA, Ministry of Finance, GoI; ICRA Research

shortfall in inflows from these sources may be as much as Rs. 1.0 trillion in FY2020, relative to the budgeted level.

Data released by the CGA indicates that inflows of GST compensation cess totalled Rs. 625.9 billion during April-November 2019, nearly unchanged from the level in April-November 2018. However, the collections as a percentage of the full year estimate declined to 57.2% of the FY2020 RBE in April-November 2019, from 65.8% of the FY2019 Prov. in April-November 2018.

Overall, the gross tax revenues of the GoI would need to expand by a sharp 40.6% in December-March FY2020, to meet the FY2020 RBE, which seems unlikely in light of the subdued performance in both direct and indirect tax revenues. ***ICRA expects the GoI's gross tax revenues to trail the FY2020 RBE of Rs. 24.6 trillion by a considerable Rs. 3.0-3.5 trillion, part of which (Rs. 1.1-1.5 trillion) would be borne by the state governments through lower tax devolution to them.***[1] Moreover, in FY2019, the GoI had transferred Rs. 7.6 trillion as Central tax devolution to the state governments, as per the CGA, which was presumably based on the GoI's gross tax collections of Rs. 22.5 trillion indicated in its RE for FY2019. However, the FY2019 Prov. had subsequently pegged the GoI's gross tax revenues at Rs. 20.8 trillion, a substantial Rs. 1.7 trillion lower than the RE for that year, which suggests that the devolution of taxes to the states in that year was higher than mandated. ***We estimate this excess transfer at around Rs. 0.6-0.7 trillion. Adjusting for this excess transfer of Central tax devolution in FY2019, we estimate the net tax shortfall of the GoI at Rs. 1.0-1.7 trillion in FY2020.***

The GoI's non-tax revenues posted a sharp growth of 67.8% on a YoY basis to Rs. 2.3 trillion in April-November FY2020, significantly higher than the 27.2% growth envisaged in FY2020 RBE, led by the considerable increase in the receipts from dividends and profits to Rs. 1.6 trillion in April-November FY2020 (96.9% of the RBE for FY2020) from Rs. 0.6 trillion during April-November FY2019 (refer Exhibit 5). The sharp uptick in the latter was driven by the significant rise in the transfer of funds from the RBI to the GoI, following the acceptance of the recommendations of the Jalan Committee. In line with the Committee's recommendations, the RBI's Central Board approved the transfer of Rs. 1.76 trillion from the Central Bank to the GoI in FY2020, of which Rs. 1.23 trillion represented the surplus for FY2019 and the balance Rs. 0.53 trillion was identified as excess provisions as per the ECF. Since Rs. 0.28 trillion had already been transferred as interim surplus to the GoI in FY2019,

Exhibit 5: Trends in Dividends and Profits

Rs. Billion	FY2018	FY2019 RE	FY2019 Prov	FY2020 RBE
Dividends and Profit (1)	913.6	1,192.6	1,134.2	1,635.3
Surplus transferred by RBI (2)	*306.6*	*400.0*	*400.0*	1,060.4
Balance (3=1-2)	*607.0*	*792.6*	*734.2*	*574.9*

Source: GoI Budget Documents; CGA; ICRA research

[1]The Fourteenth Finance Commission had recommended that the states should receive 42% of the GoI's shareable tax collections during FY2016 to FY2020, which excludes items such as cess collections. In effect, the GoI's taxes devolved to the states are closer to 35% of the gross tax collections.

the funds actually transferred by the RBI in the current fiscal stand at Rs. 1.48 trillion. The latter is estimated to be around Rs. 0.6 trillion higher than the budgeted amount and would help offset a portion of the expected shortfall in the GoI's net tax revenues.

The GoI had budgeted Rs. 505.2 billion for Other Communication Services in FY2020 RBE, in line with ICRA's estimates for deferred spectrum charges, licence fees, spectrum usage charges and other levies for FY2020. In its order dated October 24, 2019, the Honourable Supreme Court allowed the Centre to recover sizeable funds from various licensees in India, on account of the retrospective changes in the calculation of adjusted gross revenues (AGR), in addition to penalties and interests. Further, the licence holders were directed to pay the charges within 90 days from the date of the order (by January 23, 2020). If this payment is received by the GoI within the stipulated time, from the telecom and non-telecom licence holders, then there could be a sizeable upside to the GoI's non-tax revenues relative to the FY2020 RBE. Moreover, the moratorium extended by the GoI to the telecom operators towards deferred spectrum charges relates to the payments due in FY2021 and FY2022 and does not affect the GoI's inflows for FY2020.

Some of the telecom companies affected by the Supreme Court order are no longer operating in the Indian market, while some telecom operators had filed a review petition with the Supreme Court seeking a waiver of a portion of the charges. ***Following the fresh modification plea filed by some telecom operators with the Supreme Court, the timing and magnitude of payments from the other telecom and non-telecom licence holders remain unclear.***

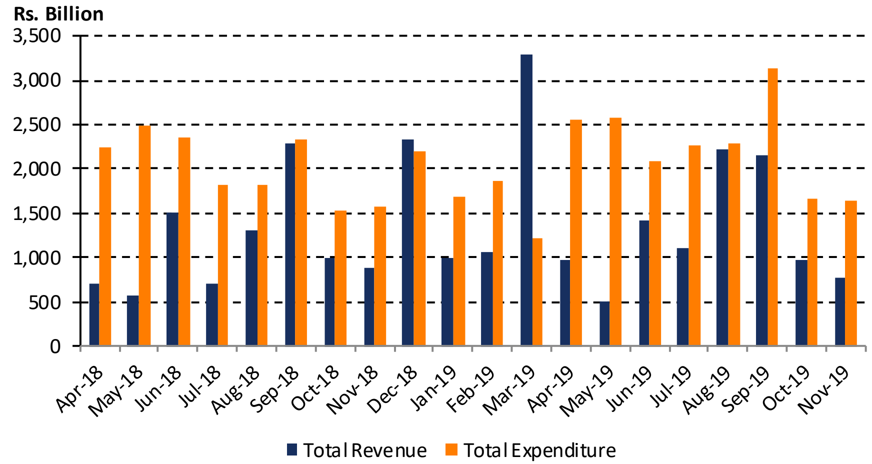
Disinvestment proceeds stood at Rs. 181.0 billion or 17.2% of the RBE for FY2020 in April-November FY2020, which includes the receipts from the sale of the GoI's stake in Rail Vikas Nigam Ltd, enemy shares, IPO for Indian Railway Catering and Tourism Corporation, Bharat 22 ETF etc. In November 2019, the GoI had also announced that it had given an in-principle approval for selling either its entire stake or a portion of its stake in Bharat Petroleum Corporation Limited (BPCL), Container Corporation of India Limited (CCIL), Shipping Corporation of India Limited (SCI), North Eastern Electric Power Corporation Limited (NEEPCO) and Tehri Hydro Development Corporation India Limited (THDCIL) in FY2020. The GoI also gave an in-principle approval for strategic disinvestment of five more smaller PSUs such as Neelachal Ispat Nigam Ltd, Minerals and Metals Trading Corporation Ltd, Bharat Heavy Electricals Ltd. etc. If the stake sale in all these entities is completed in the current fiscal, the GoI would likely meet its FY2020 disinvestment target of Rs. 1.05 trillion. ***However, completing the targeted disinvestment in all the identified entities during FY2020 appears increasingly unlikely. We expect a shortfall of Rs. 700-800 billion relative to the GoI's disinvestment target for this fiscal.***

Exhibit 6: Expenditure Headroom left for December-March FY2020

Expenditure Items	FY2020 RBE	Apr-Nov FY2020	Headroom for Dec-Mar FY2020	
			(Rs. Billion)	Growth
Total Expenditure	27,863.5	18,200.6	9,662.9	38.4%
Total Expenditure excl. subsidies	*24,846.6*	*15,850.4*	*8,996.1*	*24.9%*
Revenue Expenditure	24,477.8	16,062.2	8,415.7	43.4%
Capital Exp, Net Lending	3,237.4	2,029.3	1,208.1	16.0%
Total Expenditure (with Rs. 2.0 trillion curtailment)	27,863.5	18,200.6	*7,662.9*	*9.8%*

Source: GoI Budget Documents; CGA; ICRA research

Exhibit 7: Estimated Monthly Receipts and Expenditure of the GoI during FY2019 and FY2020 (Rs. billion)



Source: CGA, Ministry of Finance, GoI; ICRA

Revenue and Capital Expenditure: The GoI's revenue expenditure rose by 13.0% during April-November FY2020 (and stood at 65.6% of the FY2020 RBE), considerably lower than the budgeted growth of 21.9% (refer Exhibit 6 and 7). Outlay towards interest payments and transfers to states recorded a YoY de-growth of 1.8% and 2.3%, respectively, in April-November FY2020 and stood at 51.8% and 52.1%, respectively, of the FY2020 RBE (59.8% and 56.7%, respectively, of FY2019 Prov. in April-November FY2019). However, the outlay towards major subsidies recorded a YoY growth of 7.3% in April-November FY2020 and stood at 77.9% of the FY2020 RBE (111.2% of FY2019 Prov. in April-November FY2019).

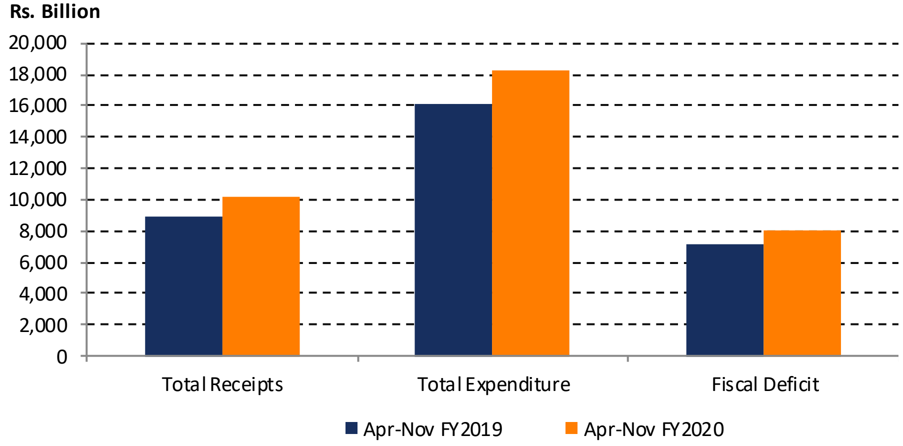
Capital outlay and net lending posted a growth of 12.1% in April-November FY2020, somewhat lower than the 13.5% rise targeted in the RBE for FY2020. Furthermore, the GoI's capital expenditure and net lending stood at 62.7% of FY2020 RBE during April-November FY2020, mildly lower than April-November FY2019 (63.5% of FY2019 Prov.).

Overall, the GoI's total expenditure has to expand by a considerable 38.4% or Rs. 9.7 trillion in December-March FY2020 (vs. an outgo of Rs. 7.0 trillion in December-March FY2019) to meet the FY2020 RBE. In disaggregated terms, revenue spending, and capital outlay and net lending have the headroom to expand by a significant 43.4% and a relatively lower 16.0%, respectively, on a YoY basis in the last four months of this fiscal to meet the RBE for FY2020.

In FY2019, a portion of the food subsidy expenditure, required to be provided to the Food Corporation of India (FCI), was funded through loans from the National Small Savings Fund (NSSF), instead of the GoI. As a result, the GoI's food subsidy outlay was considerably lower in FY2019 Prov. (Rs. 1.0 trillion), compared to the FY2019 RE (Rs. 1.7 trillion) as well as the FY2020 RBE (Rs. 1.8 trillion). Excluding subsidies, the balance total expenditure outgo of the GoI would need to expand by 24.9% or Rs. 9.0 trillion in December-March FY2020 (Rs. 7.2 trillion in December-March FY2019) to meet the RBE for the full fiscal, which is still considerable.

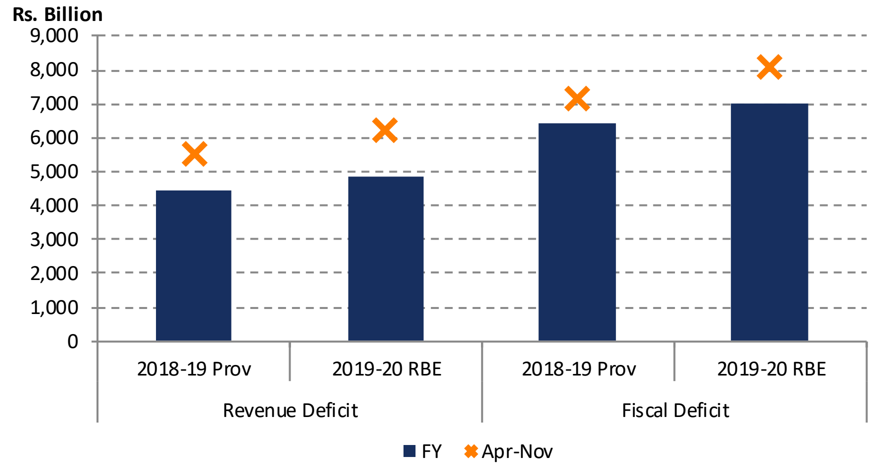
The GoI's total expenditure accounted for 65.3% of the FY2020 RBE in April-November FY2020. Notably, the Ministry of Finance revised its expenditure guidelines for Q4 FY2020 and March 2020, vide a memorandum issued in December 2019. As per the new guidelines, the GoI's permissible expenditure ceiling has been revised downwards to 25% of the RBE for Q4 FY2020 (from the erstwhile 33%) and 10% of the RBE for March 2020 (from the prevailing 15%). Accordingly, the GoI's expenditure in December 2019 would be crucial in determining whether a portion of the allocation ends up having to be surrendered.

Exhibit 8: Trends in GoI's Receipts, Expenditures and Fiscal Deficit (Rs. Billion)



Source: CGA; ICRA Research

Exhibit 9: Revenue and Fiscal Deficits in FY2019 and FY2020 (Rs. billion)



Source: CGA, Ministry of Finance, GoI; ICRA Research

Fiscal Balances: The revenue and fiscal deficits of the GoI in April-November FY2020 stood at 128.4% and 114.8% of the RBE for FY2020 (refer Exhibit 8 and 9), respectively, higher than the level in April-November FY2019 (123.8% and 111.0% of FY2019 Prov., respectively).

Based on the assumption that the nominal GDP for FY2020 would be Rs. 211.0 trillion, the Budget for FY2020 had pegged the fiscal deficit of Rs. 7.0 trillion for the current year at 3.34% of GDP. Subsequently, the CSO has placed the nominal GDP for FY2020 at a lower Rs. 204.4 trillion in its Advance Estimates (AE) for FY2020. ***Accordingly, if the GoI's fiscal deficit is retained at the RBE of Rs. 7.0 trillion, it would be equivalent to 3.44% of the GDP as per the FY2020 AE, higher than the budgeted level of 3.34% of the GDP. Alternatively, the GoI's fiscal deficit would need to be curtailed below the RBE by Rs. 219.6 billion to reach the level of 3.34% of the GDP, as per the FY2020 AE.***

There are several revenue uncertainties, such as the extent of shortfall in tax revenues, whether an interim dividend would be provided by the RBI, the final magnitude of AGR dues to be paid by telecom and non-telecom companies, and the size of the disinvestment proceeds, which would impact the GoI's fiscal balances (refer Exhibit 10). ***We have assumed a conservative scenario for the GoI's revenue risks, factoring in no interim dividend payment by the RBI (beyond the transfers made in August 2019), no receipt of AGR dues in FY2020, a net tax shortfall of Rs. 1.7 trillion and a gap of Rs. 0.8 trillion in terms of disinvestment proceeds. Accordingly, the GoI's revenues are estimated to be lower than the FY2020 RBE by around Rs. 1.9-2.0 trillion, which translates into a fiscal slippage of 93-100 bps, unless expenditure is curtailed.***

News reports suggest that the GoI is considering undertaking an expenditure cut of Rs. 2.0 trillion in FY2020, which is equivalent to around 1.0% of the GDP. ***While spending may need to be consciously trimmed in some departments and payments to contractors may get deferred, there could be substantial unspent balances that would be surrendered in some schemes.*** For instance, the PM-KISAN scheme has an outlay of Rs. 750.0 billion in the FY2020 RBE. News reports have suggested that technical and logistical constraints prevented several beneficiaries from getting enrolled in this scheme, which could curtail the outgo below the budgeted level.

In contrast, a considerable amount of unpaid subsidy was carried forward to FY2020 from FY2019, and we expect a spill-over to FY2021 as well. Moreover, it remains unclear if a portion of the food subsidy requirement would be funded through loans from the NSSF in FY2020. Additionally, given the modest collections of GST compensation cess in the current year, relative to the amount of compensation that needs to be released to the state governments, as well as the balance of previous years available in the GST compensation fund, there remains lack of clarity whether the GoI would provide funds for the same through the Consolidated Fund of India.

Exhibit 10: Revenue Risks of the GoI in FY2020

Deviation from RBE	(Rs. Trillion)
Net Tax Shortfall	**-1.7**
RBI Surplus Received	0.6
Other Communication Receipts	0.0
Disinvestment Proceeds	-0.8
Net Revenue Impact	**-1.9 to -2.0**

Source: GoI Budget Documents; CGA; ICRA research

An expenditure cut of Rs. 2.0 trillion relative to the level budgeted for FY2020 would still leave a headroom of incremental spending of Rs. 7.7 trillion in the last four months of FY2020, entailing a moderate growth of 9.8%, relative to the expenditure in these months of FY2019. In our view, a spending cut of this magnitude by the GoI relative to its budgeted level for FY2020, would not pose a sharp risk to the pace of economic growth in H2 FY2020. However, likely cutbacks in spending by the state governments dictated by their revenue considerations, are likely to constrain the pace of the economic recovery in H2 FY2020. This remains the key risk to the pace of GDP growth in the remainder of FY2020.

There are several revenue and expenditure uncertainties, which are clouding the outlook for the size of the GoI's eventual fiscal deficit for FY2020. Overall, the expansion of 25.6% and 20.5%, respectively, included in the FY2020 RBE relative to the FY2019 Prov. for the GoI's revenue receipts and total expenditure is likely to prove to be optimistic. In our assessment, an expenditure cut of Rs. 2.0 trillion would be adequate to offset the likely revenue risks and contain the fiscal deficit around the budgeted level on an absolute basis. We do not expect the GoI's fiscal deficit to cross 3.5% of GDP in FY2020, unless various off-Budget items are brought on-Budget, or a sizeable amount of GST compensation is provided through the GoI's own revenue sources.

Key expectations for FY2021: ICRA expects a pickup in growth of real GDP to ~6.0% in FY2021 from ~5.3% in FY2019. We expect the Union Budget for FY2021 to assume a nominal GDP growth of 10.0-10.5% in FY2021, lower than the 11.5% assumption that was made in the Budget for FY2020. The rolling target included in the Union Budget for 2019-20, had placed the fiscal deficit at 3.0% of GDP for FY2021. However, the upcoming Budget is likely to focus on providing some fiscal boost to economic growth, which ICRA believes should come through higher expenditure, rather than through a tax cut. Accordingly, the GoI is likely to consider a significantly wider fiscal deficit for FY2021 in the Budget, compared to the rolling target of 3.0% of GDP.

In ICRA's view, the Union Budget FY2021 would prioritise capital expenditure or infrastructure spending, which would boost the core sectors of the economy and create a higher multiplier effect on the economy. Higher capital spending would also help bridge the large infrastructure deficits in some areas, thereby easing logistical challenges faced by various sectors. Moreover, given the moderate capacity utilisation levels and relatively subdued commodity prices, the uptick in capital spending would not be inflationary in the short term. In addition, lower supply-side constraints would help bring down inflationary pressures in the longer term.

The recent report of the task force for the NIP indicated that there are plans to invest over Rs. 102.0 trillion in various infrastructure projects during FY2020-FY2025. The share of total infrastructure investment by the GoI and the states was placed at 39% each, in the NIP, whereas the same for private sector is lower at 22%. As per the NIP, a combined investment of Rs. 19.5 trillion is estimated for FY2021 by the Centre, states, and the private sector. Of this, Rs. 4.6 trillion would be provided by the GoI through capital outlay, although the budgetary support from the Centre is meant to be restricted to Rs. 1.9 trillion (up from Rs. 1.5 trillion in FY2020), which is only ~41% of the total infrastructure outlay for FY2021, while the financing for the remaining ~59% remains unclear at present. The upcoming Budget should provide clarity on the sources of funding of the project pipeline included in the NIP, particularly, with respect to the share of the extra-budgetary sources, capital expenditure, grants for creation of capital assets etc. ***The BE for FY2021 for the GoI's expenditure and fiscal deficit levels should adequately reflect the amount required for the NIP, for the market to consider them credible, and clarify the sources of extra-budgetary funding for the Centre's share of the cost of the NIP.***

Sectors, such as roads, urban development and housing, railways, power (renewable and conventional) and irrigation comprised ~80% of the NIP. Accordingly, we expect an enhancement in the GoI's allocations towards some of these sectors, particularly, affordable housing, roads, railways, power etc., supplemented by extra-budgetary sources of funds such as institutional finance and market borrowings of the CPSEs and the NIIF.

Apart from capital expenditure and infrastructure spending, ICRA believes that the GoI could step up the allocation for NREGA, which would alleviate rural distress, while also leading to asset creation. The pickup in the allocation for NREGA would also boost rural consumption demand, which would further support the growth prospects of the economy. Given the lower-than-expected number of beneficiaries enrolled under PM-Kisan scheme so far, the Government could consider increasing the amount of income support per beneficiary. Moreover, some new schemes to support the rural economy and the MSMEs and to support job creation, may also be announced in the Budget.

In terms of tax changes, the GoI had already announced a cut in the corporate tax rates in September 2019, the revenue implications of which remain unclear. In light of the latter, ICRA believes that major changes in direct taxes, such as the personal income tax, should not be undertaken in the upcoming Budget. Moreover, after the implementation of the GST, indirect tax rates on few items remain under the control of the GoI, as the GST Council decides on changes in the GST rates. With a modest recovery expected in economic growth, a tax growth of around 10-12% in FY2021 is likely to be realistic.

In terms of non-tax revenues from the telecom sector, the GoI has already announced the deferral of the instalments related to the earlier spectrum auctions for FY2021 and FY2022. Although there could be a considerable upside if a portion of the AGR payments by the telecom and non-telecom licence holders to the GoI are made in FY2021, there persists a considerable uncertainty regarding the timing and magnitude of the same. Moreover, the timing of the 5G spectrum auctions remains unclear. Regardless, the unfavourable financial situation of some telecom companies may limit their ability to participate in such auctions.

Dividends from the CPSEs and the PSU banks in FY2020 would take a cue from profitability in FY2021, as well as the extent to which interim dividends are provided during the current year. In line with the previous few years, we expect the RBI to transfer a sizeable chunk of its surplus to the GoI. The RBI's interest earned on holdings of rupee securities would have benefitted from the interest receipts of the OMO purchases of Rs. 525.0 billion in FY2020 (excluding the Twist OMO operation). Moreover, the RBI's interest income from foreign securities would rise, commensurate with the increase in the foreign currency assets held by the RBI. In contrast, the significant reserve repo operations conducted in FY2020 due to surplus liquidity would dampen the RBI's revenues. Overall, the magnitude of the RBI's surplus transfer in FY2021 will be considerably lower than the surplus of Rs. 1.76 trillion transferred in FY2020.

In our view, the disinvestment and strategic divestment programme is likely to be pursued actively in FY2021, particularly if the market conditions are appropriate. In addition, a portion of the already announced sale of the GoI's stake in Air India, BPCL, CCIL, SCI, NEEPCO and THDCIL, may be completed in FY2021, which would be included in the disinvestment target for FY2021. In addition, the Cabinet has already given an in-principal approval of five more smaller PSUs such as Neelachal Ispat Nigam Ltd, Minerals and Metals Trading Corporation Ltd, Bharat Heavy Electricals Ltd. etc. The strategic sale of these PSUs may also be completed in FY2021, which would also be included in the disinvestment target for FY2021.

We estimate that every 10 bps of expansion in the GoI's fiscal deficit to GDP ratio would allow for extra spending of ~Rs. 225 billion in FY2021. Accordingly, if the GoI places its fiscal deficit for FY2021 at 3.5-3.8% of GDP, this would roughly translate to a fiscal deficit of Rs. 7.9-8.5 trillion, in absolute terms. Given the uptick in the projected fiscal deficit for FY2020, coupled with the rise in repayments falling due in the coming year (to Rs. 2.6 trillion in FY2021 from Rs. 2.5 trillion in FY2020), we expect the GoI to announce the dated market borrowings of around Rs. 8.0-8.4 trillion, up from the current estimate of Rs. 7.1 trillion for FY2020.

Overall, the Union Budget for FY2021 is likely to focus on providing a fiscal boost to economic growth, through enhanced focus on capital spending and infrastructure investment, particularly for sectors highlighted in the NIP. Moreover, the GoI may announce new schemes to address rural distress, and increase the allocation for NREGA, which would also boost rural consumption sentiment. In our view, further major tax changes should be avoided at this juncture. Moreover, the BE for FY2021 for the GoI's expenditure and fiscal deficit levels should adequately reflect the amount required for the NIP, for the market to consider them credible, and also clarify the sources of extra-budgetary funding for the Centre's share of the cost of the NIP.

BANKING AND FINANCE

- Increased allocation to the Pradhan Mantri Awas Yojana (PMAY) coupled with higher tax incentives for first time home buyers likely to support demand for home loans
- Decline in interest rates notwithstanding, ICRA is apprehensive that asset-quality pressures in the retail segment could worsen
- PSBs could require Rs70,000 - Rs. 1 lakh crore for transition to IND-AS system and any large capital infusion by the GoI is expected to be towards this

After the sizeable capital infusion of Rs 2.66 lakh crore into public sector banks (PSBs) during FY2018-2020, their capital position has improved from that of FY2017. With further provisioning on stressed loans, we expect the remaining PSBs to also exit the RBI's prompt corrective action framework and turn profitable in FY2021. Accordingly, the capital requirements are expected to be limited to Rs 10,000-20,000 crore during FY2021 for 8-10% credit growth. Since the capital requirements are not sizeable and are based on the expectation of improved earnings, we expect banks to raise this amount themselves from the markets. However, if the GoI decides to provide capital to enable PSBs transition to IND-AS, banks will be required to make credit provisions on expected loss basis for standard but overdue exposures. In such a scenario, we expect the capital requirements of PSBs to be higher, at around Rs 70,000-1 lakh crore.

The growth in the NBFC/HFC loan books was lower in 2019-20, when compared with the five-year average, largely because of the funding challenges faced by the NBFCs/HFCs. At the same time, the credit demand was impacted as retail borrowers adopted a wait-and-watch policy, especially in the case of home loan purchases. Increased tax incentives, for first-time home buyers, such as extension of additional tax deduction for interest paid on loans borrowed beyond 31st March, 2020 and increased allocation under PMAY, could help boost the demand for housing loans, especially in the affordable housing segment. Also, increased allocation under Affordable Housing Fund (AHF) will provide long-term funds to HFCs/Banks for housing loans and extension of the partial credit guarantee scheme for first loss beyond June 30, 2020, for purchase of high-rated pooled assets of NBFCs could help in improving the fund flow to the NBFC/HFC sector. Further, in line with the Government's focus on infrastructure growth, the Credit Guarantee Enhancement Corporation for infrastructure financing could be set up, as announced in the previous budget, and more clarity on the role of Government-sponsored NBFCs in the infrastructure financing space could be provided.

Despite the decline in interest rates in the last year, ICRA is apprehensive that the asset quality pressure in the retail segment would worsen, given the slow GDP growth; consequently, the uptick in consumption would be imperative for improvement in the credit profile of entities in the financial sector.

FERTILISER

- Enhancement in the budgetary allocation for fertiliser subsidy given the large backlog
- Rationalisation of nutrient based subsidy (NBS) for phosphatic fertilisers given the decline in the international prices of raw materials and finished fertilisers
- Roadmap on moving to the next phase of Direct Benefit Transfer (DBT)

The fertiliser industry continues to face delay in the receipt of subsidy from the Government of India (GoI) owing to inadequate provisioning for fertiliser subsidy in the Budget. As a result, the industry's reliance on the working capital borrowings to meet the cash flow mismatches remains a major headwind for the sector's profitability. Given the fiscal constraints faced by the GoI, ICRA does not expect any supplementary grant to meet the subsidy outgo for FY2020. However, a Special Banking Arrangement (SBA) to cover some of the dues cannot be ruled out. For FY2021, given the fiscal constraint, the budgetary support for fertiliser subsidy is unlikely to be materially different from FY2020 levels. With the decline in international prices of raw materials and fertilisers, ICRA expects the GoI to rationalize the nutrient-based subsidy (NBS) rates for phosphatic fertilisers. The GoI is also expected to outline further steps for implementation of the next phase of the Direct Benefit Transfer (DBT) and integration with various schemes like Soil Health Card (SHC) etc. ICRA expects the GoI to continue its focus on improving farmer income through various schemes, promoting irrigation, income supplementation, crop insurance and ensuring adequate flow of farm credit.

HEALTHCARE

- The allocation on the healthcare sector in the budget is required to increase sharply to enable the Government to achieve its target of spending 2.5% of GDP on healthcare by 2025 from the current ~1.3%
- Public sector investment on healthcare in India is one of the lowest globally, at ~1.3% of GDP. In the absence of significant increase in allocation on the healthcare sector in the budget, India would continue to lag in healthcare expenditure
- The budgetary outlay for the Rashtriya Swasthya Bima Yojna (RSBY), the flagship health insurance scheme of the central government remains low (Rs. 6400 crore in BE 2019-20) vis-a-vis its funding requirement. Increase in the budgetary support to the scheme will help expand the network and the coverage, while providing affordable healthcare facilities to beneficiaries. The same is also expected to be positive for hospitals in Tier II and III cities and smaller towns, particularly for those that have low occupancies or those that are positioned for affordable care

India currently has seven beds per 10,000 population, against the global average of 27 beds per 10,000. Given the paucity of beds in the country, higher tax incentives to private sector investments in modernising medical facilities and developing green field hospitals will be a welcome step. This will boost the much-needed investments in the sector, and the infrastructure developed can also be utilised to cater to the growing medical tourism in the country, generating employment and export revenues.

INFRASTRUCTURE

- Given the backdrop of the recently announced National Infrastructure Pipeline (NIP), which projects a significant increase in infrastructure investment, the budgetary allocation towards various infrastructure sectors, including key implementing agencies like the NHAI needs to be further increased.
- Further, given the crucial role, which the private sector is expected to play in the NIP, measures to attract private sector investments by way of easing regulatory environment, speedier resolution of claims/disputes etc need to be taken to improve private sector sentiments.
- Measures to improve availability of long-term funds to the sector, including credit enhancement, strengthening corporate bond market, and higher allocation towards the National Investment and Infrastructure Fund (NIIF) are expected
- Select infrastructure companies/finance companies can be allowed to raise long-term funds in the form of Infrastructure Bonds / Tax-free Bonds. More clarity on the NHAI’s plans of raising funds through InvITs is also expected in the Budget.

The infrastructure sector expects the Government to take steps towards achieving a Rs. 102-trillion infrastructure investment as per the NIP. Hence, increased allocations towards the infrastructure sector are expected with the focus on roads, railways and urban infrastructure segments. Dedicated allocations for specified large infrastructure projects announced such as Bullet Trains, Bharat Mala, Sagar Mala, Smart Cities, inland waterways development, etc can help expedite these projects. Further, the budgetary allocation towards the NHAI can be increased keeping in view the increased capital outlay on national highway development. To revive private sector interest in taking up new projects, measures towards the resolution of bottlenecks and further improvement in the regulatory environment, including the resolution of stuck claims are expected. The infrastructure sector is also looking at further steps to improve long-term funding availability for the sector. In this regard, a higher allocation towards the National Investment and Infrastructure Fund (NIIF) and steps towards strengthening the corporate bond market are likely. Permitting some reputed public-sector enterprises to raise long-term funds by way of Infrastructure Bonds or Tax-free Bonds, may also support funding availability for the infrastructure sector. Further, the NHAI has plans of raising funds through the Infrastructure Investment Trust (InvIT), however, more clarity on the same is expected in the Budget

OIL AND GAS

- Rationalisation of cess, which currently stands at an ad-valorem rate of 20%
- Adequate provision of subsidy to the oil marketing companies (OMCs) to clear the backlog of past subsidy arrears
- Reduction in MAT rate for exploration and production operations
- Natural Gas and Petroleum products be brought under GST
- Reduction in custom duty on LNG import to encourage consumption in various sectors, especially in view of the GoI's efforts to increase gas consumption in total energy mix and low prices of competing liquid fuels
- Reconsider the proposal to deny full MAT credit on opting for Section 115BAA

With the implementation of production cuts and an increasingly active role by OPEC+ in managing supplies, crude oil prices have remained elevated. Additionally, sanctions on Iran and Venezuela and a subsequent decline in crude oil exports from these countries have supported prices. Thus, crude oil prices may not decline significantly in the near to medium term from the $64/barrel levels currently. At such high crude oil prices, the ad-valorem cess of 20% limits the realisations and cash accruals of upstream companies compared to the earlier fixed cess per MT. Thus, a downward revision in the cess on crude oil production from the current level may help upstream companies improve their earnings in a higher crude oil price regime. Additionally, one of the prominent demands of the upstream industry has been the exemption of exploration activity from the levy of GST. The GoI should also clarify the eligibility to avail tax holiday under Section 80-IB of the act and that the definition of 'mineral oil' that should include natural gas retrospectively, which has been a long-time demand of the industry. Additionally, in September 2019, the Finance Minister had announced cut in corporate tax rates. However, domestic companies opting for Section 115BAA will not be able to claim Minimum Alternate Tax (MAT) credits for taxes paid under MAT during the tax holiday period. Accordingly, companies would not be able to reduce their tax liabilities under Section 115BAA by claiming MAT credits. The industry wants the GoI to reconsider the proposal to deny full MAT credit.

Further, the industry has been demanding that natural gas and petroleum products be brought under GST to enable free flow of credits and avoid stranded taxes. In order to promote use of natural gas as fuel, liquified natural gas (LNG) imports should be exempt from customs duty as crude attracts nil duty whereas LNG attracts 2.5% duty.

As regards the downstream segment, the industry demands include that the GoI provides for adequate provision of subsidy. ICRA projects GURs of OMCs at ~Rs. 275 billion for FY2021 (assuming average Indian basket crude prices of US$65/barrel and the forex rate at ~Rs 71/USD) against the subsidy provision of Rs. 336 billion for FY2020. However, opening subsidy arrears of Rs. 259 billion in FY2021 are likely owing to the carryover subsidy from FY2020. In the absence of higher subsidy allocation, OMCs would have to bear additional interest costs on elevated working capital debt, as has been the case in FY2020.

PORTS

- Higher budgetary allocation to Sagarmala and inland waterway projects
- Incentives or other measures to boost private investor interest

Over the last few years, the Government has reiterated its support towards the plans under the Sagarmala project to develop the country's ports and coastal areas by making several policy changes. Already, significant work is underway for the development of the National Waterway-I and the Government has also announced plans to speed up development of other inland waterways.

However, in the past, the allocation to Sagarmala and inland waterway projects in terms of budgetary support has remained low (about Rs. 500-600 crore) compared to the cost of planned initiatives under these schemes, indicating that the reliance is largely on private sector participation for execution of the plans. In this context, even if the Government continues with its past policy and does not introduce higher budgetary allocation for these plans, some incentives or measures to boost the interest of private investors that facilitate more active participation could be expected.

POWER

- Higher budgetary allocation to strengthen power distribution infrastructure to enable an improvement in operating efficiencies of state-owned distribution utilities
- Measures to revive power distribution segment, given the weak finances of discoms and their large overdues to the power generation segment
- Support measures to revive stranded, gas-based power projects, including using them to meet peak power demand and as balancing source for renewable energy (RE) generation
- Measures to augment availability of financing avenues for RE projects in view of the policy target of achieving 175 GW capacity by December 2022
- Focus to accelerate green energy corridor (intra- and inter-state) RE evacuation projects with higher budgetary allocation

The progress in improving the financial profile of discoms as envisaged under the earlier UDAY scheme has remained slow, given that the reduction in AT&C losses has been lower than expected in some of the key states and as the tariff revisions across most states has remained inadequate, not reflecting the movement in the cost structure. Further, with higher subsidy dependence (expected to continue), the discoms booked losses, showing an uptrend in FY2020 at an all-India level. This is also reflected by their large overdue payments towards power generation entities/IPPs. In this context, ICRA expects announcement of policy measures to incentivise the power distribution segment including higher budgetary allocation for strengthening the distribution infrastructure to enable an improvement in the operating efficiencies of discoms. Nonetheless, timely implementation of such capex by discoms to curtail inefficiencies in line with regulatory targets, remains important. In addition, the adequacy of tariff as well as timely and adequate subsidy support from respective state governments to the discoms remains critical for ensuring the sustainable improvement in their financial position.

Further, in view of the policy target of 175 GW by FY2022, the strong focus on the RE sector and the challenges faced by IPPs in achieving financial closure for RE projects, ICRA expects announcement of measures to enable the availability of adequate financing avenues for such projects. Within the renewable segment, a significant push is thus required from both the Central and state governments to promote investments in the roof-top solar segment by providing incentives and an enabling regulatory framework to ensure the consistency and supportive net metering regulations as well as a single window approach to ensure procedural approvals. In addition, ICRA expects policy measures to revive the stranded, gas-based projects similar to the scheme implemented earlier to operate these projects using imported R-LNG and subsidy support. Such gas-based projects can be used to meet peak power demand and as a balancing power source as well, given the rising share of renewable generation in the overall energy mix.

Also, the execution of transmission network strengthening projects (both at intra-state and inter-state levels) for evacuation of renewables must be accelerated, with higher budgetary allocation. This also requires a fast track approach by Central/state nodal agencies as well as regulatory bodies for obtaining requisite approvals in a timely manner. Wind and solar power projects are likely to be concentrated in regions suitable for wind and solar power generation, respectively, while energy consumption is distributed across states, necessitating augmentation of the inter-state transmission network in a timely manner.

REAL ESTATE

- ICRA is looking forward to Budget announcements that can help counter the continuing demand weakness and remove supply-side constraints faced by developers
- Special programmes for refinancing of NBFC debt to help restore investor confidence and lending activity to the sector
- Fast-tracking of the project evaluations and disbursement of last mile funding under the special window for stuck projects
- For the commercial real estate sector, the GST input credit availability for leased properties and reduction in holding period for long-term capital gains taxation for REIT units

Given the significant contribution of the real estate and construction sector to the overall economic activity, the housing sector will be looking forward to Budget announcements that can help counter the continuing demand weakness and remove supply side constraints faced by developers. Expansion of the current income tax benefits available for home owners, especially for first time buyers, can boost new purchases. The flagship scheme of the Government for achieving its Housing for All target has witnessed challenges in implementation because of constraints in budgetary allocations. Increased spending through such schemes can improve access of the low-to-mid-income segments to housing. The liquidity constraints faced by NBFCs, especially those focused on the real-estate sector, affected the fund flow to the sector. Special programmes for refinancing of NBFC debt can help restore investor confidence and lending activities towards the sector. Fast tracking of projects evaluation and disbursement of the last mile funding under the special window for stuck projects can further reduce stress in the sector. As the high cost of land is another major constraint faced by the sector, steps taken by the government to unlock the value of land parcels held by government agencies / PSUs through partnerships with affordable housing developers can be a significant step. For the commercial real estate sector, availability of GST input credit for leased properties and reduction in holding period for long-term capital gains taxation for real estate investment trusts (REIT) can further spur investor interest in the sector.

ROAD

- FY2021 remains a crucial year for Bharatmala and allied programmes; allocation should increase at least by 40% to around Rs. 1.01 lakh crore to make up for the shortfall in the last two years
- With Bharatmala and allied programmes facing funding challenges, investors expect funding roadmap for the ambitious National Infrastructure Pipeline, which involves an outlay of around Rs. 19.38 lakh crore over the next five years
- Given the limited fiscal headroom, the fiscal deficit targets are expected to be relaxed to meet the huge funding requirements for productive asset creation
- Complete overhaul of existing BOT (Toll) concession framework with balanced risk sharing remains key for the revival of private sector interest in BOT (Toll) road projects

The total budgetary allocation (including PBFF, CRF and GBS) to fund the ambitious new highway development programme is estimated at Rs. 3,43,045 crore over FY2019-FY2022 – averaging around Rs. 86,000 crore per annum. The budgetary allocations in the last two years were consistently lower than anticipated. With FY2021 being the mid-point of the initially envisaged timelines for the Bharatmala and allied programmes, it remains a crucial year and allocations are expected to catch up. Therefore, ICRA expects the allocation to increase by at least 40% to Rs. 1.01 lakh crore. With Bharatmala and allied programmes facing funding challenges (involving Rs. 6.92 lakh crore outlay), investors expect funding roadmap for the ambitious National Infrastructure Pipeline (NIP), which involves an outlay of around Rs. 19.38 lakh crore over the next five years (FY2020-FY2025). Given the limited fiscal headroom, the fiscal deficit targets are expected to be relaxed to meet the huge funding requirements for productive asset creation, failing which both the Bharatmala and the NIP could get jeopardised.

The fact that the BOT (Toll) awards have been at low levels in the last five years (compared to the past when most of the awards were through the BOT (Toll) route), reflects reduced risk appetite for the private sector. The road network itself is undergoing significant changes with some of the economic corridors under Bharatmala competing with few existing stretches. Overall, these factors would make the traffic forecasting extremely challenging. Therefore, BOT (Toll) model, in its current form, may not have many takers till the developers are adequately compensated for such losses on account of new competing programmes, which remained unaddressed in the recently published modified model concession agreement. Achieving financial closure would also be a challenge given these uncertainties. Therefore, a complete overhaul of the existing BOT (Toll) concession framework with balanced risk sharing is the need of the hour for revival of private sector interest. The provision to renegotiate the contracts is an important suggestion made by the Kelkar Committee to balance the risk sharing among the stakeholders in the PPP model. Therefore, setting up of the PPP Project Review Committee and the Infrastructure PPP Adjudication Tribunal for re-negotiating concessions if there is evidence of distress in projects (not because of aggressive assumptions/irrational bids), which may result in a default (if the direct cost implications on account of re-negotiation are less than the financial outcome of doing nothing), would be a step in the right direction.

TELECOM

- Reduction in levies paid by the telecom sector like licence fee and spectrum usage charges
- Steps to boost infrastructure in rural and remote areas and stimulus on broadband penetration
- Removal of duties from telecom equipment

The Indian telecom industry has been facing headwinds in terms of intense competition and pricing pressure, which in addition to the need for continued capex have kept the industry saddled with elevated debt levels, estimated at Rs. 5.0 lakh crore as on March 31, 2019. Moreover, the Supreme Court order dated October 24, 2019, which mandated telcos to pay retrospective dues related to the revised definition of adjusted gross revenues (AGR), has added to the woes of the sector.
This led the industry to repeatedly seek financial incentives from the Government, which can lower costs of equipment or services. The industry has been demanding a reduction in the overall charges paid by operators (mainly licence fee and spectrum usage charges) to ease the financial burden on the already stressed sector. Apart from the levies, the industry is also looking forward to a resolution on pending issues like clarity on levy of service tax on spectrum acquired in auctions prior to October 2016, one-time spectrum charges, resolution of retrospective taxation matters rebate on levy of withholding tax on mobile SIM distributors, and release of GST input credit dues. For a long time now, the industry has been asking for removal of the sector from the ambit of TDS and removal of telecom equipment, especially the 4G/5G equipment, from the basic customs duty. Moreover, with the dismissal of the review petition of telcos by the Supreme Court on AGR payout, Government intervention is critical to safeguard viability of existing operators, ensuring continued investments in technology and spectrum as well as preventing any cascading impact on ancillary sectors and financial systems.

Fiscal incentive schemes for driving domestic innovations and indigenous manufacturing as well as promoting the development of ecosystems around new technologies like artificial intelligence and machine learning, should be considered. Further, steps to boost infrastructure in rural and remote areas should remain in focus, with stimulus on increasing broadband penetration.

TEXTILE

- Adequate provisioning for Amended Technology Upgradation Fund Scheme (ATUFS) subsidy
- Clarity and adequate provisioning for export incentive schemes

Adequate provisioning for Amended Technology Upgradation Fund Scheme (ATUFS) subsidy – There had been a considerable reduction in budgetary allocation towards one of the flagship schemes of the sector, namely ATUFS, from Rs. 2,300 crore for 2018-19 to Rs. 700 crore for 2019-20. This primarily aims at incentivising capital investments in the downstream segments of the textile sector. Even though the amount was nearly in line with the actual spend of Rs. 623 crore, estimated for 2018-19, a low spend points to the slower pace of incremental capital investments in the sector and/or slow pace of releases. Continued access to these incentives remains crucial for encouraging investments in India's downstream textile segments.

Clarity and adequate provisioning for export incentive schemes – The export segment of the domestic textile sector is facing multiple challenges, including intense competition, heightened by preferential duty access available to certain peer nations, the subdued demand from some of the key markets and continued uncertainty on the export incentive structure. Also, delays experienced in clearance of some export incentives have affected the liquidity profiles of the exporters, further constraining their performance. In March 2019, the Government of India had notified the replacement of the Remission of State Levies (RoSL) scheme with the scrip-based Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) for export of garments and made-ups. This was done as a step towards eventual withdrawal of the export incentives, which are not compliant with the World Trade Organisation (WTO) norms. Accordingly, in the last Budget for 2019-20, allocation towards RoSL scheme had been reduced to Nil vis-a-vis Rs. 3,664 crore estimated for 2018-19. Although the RoSCTL scheme, with a wider scope for rebates, together with continued provision of the Merchandise Exports from India Scheme (MEIS) benefits, was expected to provide a temporary impetus to profitability of the apparel and made-up exporters, procedural issues and resultant delays in clearance of the RoSCTL dues have been observed in the current financial year. This apart, the scheme benefits are available only to apparel and made-up exporters. As some other segments such as cotton spinning are also facing headwinds in the export market, there have been increasing demands from the industry to expand the scope of RoSCTL to ensure refund of all input taxes across segments. Accordingly, clarity on rates and procedures as well as adequate provisioning for the export incentive schemes remains crucial for the liquidity and hence performance of the textile exporters.

ICRA

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
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