India Budget 2017

In India's latest budget 2017, the Government continues its focus on renewable addition and has announced the second phase of solar park addition of 20,000 MW, which is keeping in track with India's commitment to achieve 175,000 MW of Renewable Power capacity by 2022.

The budget has announced several initiatives to boost the SME and MSME industries. It is hoped that due to this, industrial demand will revive and may help the companies improve their capacity utilization. The Government has re-iterated its commitment to provide electricity to all villages by May 2018 and has increased the allocation of funds to rural electrification programme. The Government continues its focus on renewable addition and has announced the second phase of solar park addition of 20,000 MW, which is keeping in track with India's commitment to achieve 175,000 MW of Renewable Power capacity by 2022.

On an overall basis, the Budget provision offer a substantive promises to the energy & resources sector, however, as has been seen with earlier budgets of the extant Government, more detailing is required for implementation / delivery mechanism and follow-up of on the budget promises.

Policy Updates

Conventional Power

Budget announcement

- The Government has maintained its target to achieve 100% village electrification by 2018 and continued with its plan for solar capacity addition to achieve 175 GW renewable capacity by 2022

Other recent policy updates

- As of January 2017, 21 States & Union Territories have joined Ujwal DISCOM Assurance Yojana (UDAY), covering 90% of the debt and allowing it to be restructured to lower interest rates.
- Government launched DEEP e-bidding & e-reverseauction portal for

POWER SECTOR

procurement of short termpower. Distribution utilities have been mandatedto purchase short term power from either DEEP orPower Exchanges.

- Government launched national program for replacement of energy efficient agricultural pumps and ceiling fans. Government distributed 200 million LED bulbs under the UJALA scheme.
- Union Cabinet approved National Tariff Policy to exempt hydro projects from competitive bidding and allowed them to enter into long term Power Purchase Agreements till 2022.
- Boost given to Micro Grids, the power generated would now be purchased by the Grid as and when the Grid reaches such areas.

Renewable Energy/Power

Budget announcement

- Government has proposed to use solar power in 7,000 railway stations. Work on 2,000 railway stations will beundertaken as part of 1,000 MW solar mission.
- Additional 20,000 MW of solar projects to be developed under second phase of Solar Park Development.

Other recent policy updates

- Procurement of 8% solar power to be mandatory by 2022.
- Bids invited for the first time for battery storage solar power plant.
- Competitive bidding introduced for wind power plants and bids called for 1,000 MW capacity. Bids received for more than 2,600 MW.
- Union Cabinet approved National Tariff Policy: Zero inter-state transmission charges and losses for solar and wind power.
  Introduced renewable generation obligation for new coal/ lignite projects - after a date to be announced later.
  Ancillary services to be introduced to support renewable energy integration.
- Solar rooftop installed capacity crossed 1,000 MW.

Oil and Gas

Budget announcement

- Government has decided to increase strategic crude oil reserves from 5.33 MMT to 15.33 MMT. India had three oilreserves in Visakhapatnam (1.33 MMT), Mangalore (1.5MMT) and Padur (2.5 MMT). The additional reserves will be created at Chandikhole in Odisha and Bikaner in Rajasthan.
- Chandigarh and 8 districts in Harayana have become kerosene free.
- Government has continued the allocation to PM Ujjwala Yojana for providing free LPG connections at INR 25,000 million.
- The Government has reduced basic customs duty on LNG from 5% to 2.5%.
- The Government has announced formation of an integrated public sector oil company. The Government believes that this entity shall be able to take higher risks, will enjoy economies of scale, take higher investment decisions and create more value for shareholders.

Other recent policy updates

- Under Discovered Small Fields policy, 134 e-bids were received for 34 contract areas from 42 companies.
- To provide connectivity of gas in eastern India and incentivize industrial and fertilizer plants in the region, government has agreed to provide 40% monetary support of capital cost to GAIL for implementation of Jagdishpur-Haldia pipeline of almost 1,850 km.
- Under the Pradhan Mantri Ujjwala Yojana launched on 1 May 2016, the OMCs have provided 16.6 million free LPG connections to BPL families as of January 2017, increasing the overall coverage of LPG to 70%.
- Promotion for production of Biofuels in India by promoting production of ethanol from non-food feedstocks.
- Jharkhand became first state to implement the direct benefit transfer scheme for Kerosene.
- Various online initiatives introduced for cashless payment for petroleum products including petrol, diesel, LPG and even PNG.

Direct Tax

- Corporate tax rate for Financial Year ('FY') 2017-18 remains unchanged @ 30% plus surcharge and cess (except for Small & Medium Enterprise (SME) companies stated below). The proposed effective maximum marginal rate for Indian companies is 34.61% and for foreign companies is 43.26%.
- Corporate tax rate for FY 2017-18 proposed to be reduced to 25% plus surcharge and cess for SME companies with turnover or gross

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receipts not exceeding INR 500 million in the FY 2015-16. The proposed effective maximum marginal rate for Indian companies would be 28.84%.

- Determination of residency of foreign companies on the basis of Place of Effective Management applicable from assessment year 2017-18.
- In line with the Base Erosion and Profit Shifting plan, thin capitalisation norms have been introduced. Where debt has been issued by non-resident associated enterprises, the maximum amount of interest deductible would be 30% of earnings before interest, tax and depreciation. The rule also seeks to cover soft lending / guarantee by associated enterprises.
- Income from transfer of carbon credit to be taxed at the concessional rate of 10% (plus applicable surcharge and cess) on the gross amount of such income.

Indirect Tax

- Research & development cess, as being levied on import of technology, is proposed to be repealed.
- Basic Customs Duty (BCD) is being reduced from 7.5% to 5% and Special Additional Customs Duty (SAD) has been completely exempted on Catalyst [38159000] and Resin [39094090] for use in the manufacture of cast components of wind operated electricity generator subject to actual user condition. Exemption from SAD will be valid till 30 June 2017.
- Excise duty / Counterveiling Duty (CVD) is also being exempted on Catalyst [38159000] and Resin [39094090] for use in the manufacture of cast components of wind operated electricity generator subject to actual user condition.
- Rationalization of customs and excise duty structure for solar tempered glass:
  BCD is being reduced from 5% to NIL on solar tempered glass or solar tempered (anti-reflective coated) glass for manufacture of solar cells / panels / modules, subject to actual user condition.
  Excise duty exemption on solar tempered glass for use in the manufacture of solar photovoltaic cells or modules, solar power generating equipment or systems, flat plate solar collectors;or solar photovoltaic module and panel for water pumping and other applications is being withdrawn and 6% concessional excise duty is proposed to be imposed on the same, subject to actual user condition. This 6% concessional excise duty will bevalid till 30 June 2017.
  Excise duty is being reduced from 12.5% to 6% on parts / raw material for use in the manufacture of solar tempered glass, for use in solar photovoltaic cells or modules, solar power generating equipment or systems, flat plate solar collectors, or solar photovoltaic module and panel for water pumping and other applications, subject to actual user condition. This 6% concessional excise duty will be valid till 30 June 2017.
- Rationalization of custom and excise duty proposed for fuelcell based power generation systems:
  BCD is proposed to be reduced from 10% / 7.5% to 5% on all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for initial setting up of fuel cell based system for generation of power or for demonstration purposes subject to certain conditions.
  Concessional excise duty at 6% is proposed for all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components/parts, required for initial setting up of fuel cell based system for generation of power or for demonstration purposes subject to certain conditions. The concessional excise duty will be valid till 30 June, 2017.
- Changes in custom and excise duty proposed for biogas or bio-methane or by-product hydrogen power plant.
- BCD is proposed to be reduced from 10%/7.5% to 5% on all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for balance of systems operating on biogas or bio-methane or by-product hydrogen subject to certain conditions.

Source: Deloitte Budget Analysis "Impact on Energy & Resources"

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Industry Opinion on the Budget

Hemal Zobalia,
Partner, Deloitte Haskins & Sells LLP.

Budgetary allocation to infrastructure sector has been announced to be at record high of INR 3.96 lakh crore - this reflects Government's commitment to meeting people's expectations of higher growth and development.

Various measures for railway sector in terms of bringing safety and maintenance standards to international levels, redevelopment of railway stations with focus on use of solar energy, new metro rail policy will give the boost to this private investment in this socially relevant infrastructure sector. With the proposed abolition of FIPB and expected liberalizations is welcome move to boost foreign investment in the sector. The oil and gas sector is set up for major reforms with the creation of an integrated oil major which will help India to withstand global competition.

The scope of domestic transfer pricing regulations has been reduced to only the transactions involving an entity availing profit-linked tax incentives thereby restricting the application primarily to energy & infrastructure sectors who avail tax holiday. Extension of Minimum Alternate Tax credit from 10 years to 15 years has partially offset the impact of phasing out of incentives to infrastructure sector. Reduced tax of 5% on interest income of foreign currency borrowings and Masala Bonds has been extended to 2020 which will incentivize foreign financing in energy and infrastructure sector.

Mr Anil Chaudhry,
Country President and Managing Director, Schneider Electric India.

"With India being the fifth largest energy consumer in the world, the country needs to make a concerted effort in promoting energy efficiency by reducing its dependence on fossil fuels and curtailing carbon footprints.

While access to energy is a basic human right, we need to make it sustainable. Today's budget gave a clear indication of the government's focus to achieve 'sustainable energy for all', with two of its critical steps; firstly, by providing a boost to rural electrification with a 25% increase in the outlay for key power schemes like Integrated Power Development Scheme and Deen Dayal Upadhyaya Gram Jyoti Yojna. This is expected to fast track the rural electrification drive of the Government, which is now planned to be completed by May 1, 2018. Secondly, by strengthening its focus on renewable energy forms with the inflow of another 20 GW in the next fiscal.

This however, will require investments in grid management and digitisation of the grid to ensure supply of quality reliable and safe power. It is important to stress that along with rural electrification, it is equally important to provide reliable and quality power which requires investments towards modernisation of the country's transmission and distribution power networks and use of digitisation in grid management."

Mr. Tulsi Tanti,
CMD, Suzlon Group on the Union Budget.

This budget is expected to lead an inclusive growth with a clear focus to lift the rural economy and create the right infrastructure.

With a special mention about the drive towards 100% electrification, the renewable industry was hopeful that there would be an announcement to support the achievement of the Government's RE target 175 GW, and long-term policy framework to achieve our INDCs and commitment made at COP-21 to reduce carbon emission to 30-35% by 2030.

On manufacturing front, It is indeed encouraging that India is now ranked sixth globally. The budget promises a very robust forex reserve, with resilient domestic market, further capitalisation of PSU banks, and launch of trade infrastructure for export scheme (TIES), can truly position the 'Make in India' apart from establishing the country as a global hub for engineering goods.

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India Media Monitor

POWER SECTOR

Mr. Vedamoorthy Namasivayam,
Partner, Deloitte India

The overall budget proposal has to be viewed in the current macro-economic context and the 3 specific challenges 1) US Fed decision on interest rate 2) Future of Global Oil prices and 3) Implications of developed nations retreating on globalization. These 3 challenges create uncertainty which require some preparedness to deal with them and the budget proposal are responding to these requirements in a balanced way.

As we know low global oil prices in the last few years have helped our economy in terms of lower inflation and also more importantly in terms of revenue generation for Government. To deal with the above mentioned challenges the Finance Minister announced two important initiatives with regard Oil and Gas sector. He has proposed reduction of basic customs duty for imported LNG from current 5% to 2.5%. This will help to enhance the share of gas in our energy mix which is currently relatively low. Gas being the cleaner fossil fuel it will have beneficial impact on our environment as well as help boost the utilization of our stranded power assets.

The other significant announcement in the budget is related to National Oil Companies. His proposal is to restructure these companies to match the global companies in terms of its financial heft. Such a restructuring will not only help to enhance their value of stock in the market, it will also help them to mobilize future financial resources for their expansion and growth. Many of the large NOCs from other major countries are today listed in other international stock markets. Recently Saudi Aramco announced its plan for gradual listing to pave way for internationalization of Saudi economy. We need to wait for the detailed road map of the proposed restructuring to understand the fuller implications. The real challenge will be in terms of alignment of internal structure, staff and systems to get the necessary real synergy out of such consolidation.

Mr. Saurabh Kumar,
Managing Director, Energy Efficiency Services Limited (EESL)

"The Honorable Finance Minister mentioned during his Budget speech that we are well on our way to achieving 100% village electrification by May 2018. It is globally accepted that access to energy is fundamental to economic growth and human development. Energy Efficiency Services Limited is proud to have contributed to immense energy savings which help avoid additional capacity, thereby increasing access to electricity.

Today's Budgetary announcements demonstrate the futuristic approach of our government cutting across key themes of economic and social development. Duty cuts in LED manufacturing will encourage further innovation and support our ongoing efforts to reduce the cost of cutting-edge technology. This is a stepping stone towards India becoming a global leader in energy efficiency programmes.

Mr. Ashish Khanna,
ED &CEO, Tata Power Solar

"The budget does focus on a few areas for the solar sector and demonstrates the Government's commitment to being a frontrunner in renewables. The proposed solarization of railway stations is a positive step and will boost the demand for infrastructure going green. The announcement of 20 GW for the second phase of solar mission and focus on pushing for the solar projects is very heartening. However, we need more clarity in the coming days on its roll out.

We also anticipate some indirect impact for solar with the Government's ambition of 100% electrification of villages, and we hope this to have a solar component. A set timeline for rolling out GST is a welcome move, however requires further clarity on its implementation and how much it will impact the solar sector."

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Mr. Sarvesh Kumar,
Chairman, Indian Wind Turbine Manufacturers Association (IWTMA)

"Indian Wind Turbine Manufacturers Association (IWTMA) would like to welcome the budget presented by the honorable Finance Minister Mr.ArunJaitely. As a professional stakeholder body, we are not too happy with the budget 2017 as there is nothing concrete on the renewable energy sector, considering it is one of the growing sectors in the country. The Government has completely overlooked the wind energy division. The sector is in a developing phase and needs attention from the government as we are facing various issues. Service tax could have been rationalized and at least some state level reforms and policies should have been introduced that could have helped us in our road plan for the goal of achieving 60GW by2022."

Mr. Manoj Kumar Upadhyay,
Founder & Chairman, ACME Group

"We consider it as a good budget at macro level. However, we need to examine the same more in detail. We feel that budget is taking direction towards reforms. For solar sector, it's really a boon with the announcement of 20,000MW Solar in the second phase and abolishing FIPB which will help attracting FDI. Further Government has committed to achieve 100% electrification of all villages by May 2018 which will further boost the power demand in the country and digitalization of the villages. Capital and development expenditure pegged at 1.31 lacs crore for railways in 2017-18 which will include feeding solar power to 7000 railway station in the medium term. Overall a very good budget for the solar industry"

Vineet Mittal,
Director, Navitas Solar

Well, for Renewable energy segment, there has not been too many announcements in the Union Budget 2017. However, withdrawal of 10 year Income tax holiday for projects commissioned after March 2017 is a big blow to captive and independent power producers and will impact the future growth of the sector.

In terms of overall budget, it is good to see the rise in proposal for infrastructure investment by 24% approximately.

Reducing the Corporate tax rate to 25% for SME companies having turnover less than 50cr is also a welcome step that will impact 96% of companies in India.

Mr. Andrew Hines,
Business Development Head, South India, CleanMax Solar Pvt. Ltd.

"There are no major surprises in the budget for the solar industry. Reductions in Accelerated Depreciation and Section 80-IA benefits had been announced last year, and the budget is consistent with those announcements. While removal of those incentives can be expected to increase solar tariffs across the board, we are still expecting very strong growth in the industry in FY 2017-18, and particularly in the commercial and industrial rooftop and open access segments, based on strong fundamental economics for solar power, as well as a push from governments for solarisation of government rooftops and educational institutions. Particularly for rooftop solar, where CleanMax is the market leader, we expect FY 2017-18 to be a big year."