SAWDUST

# BUDGET 2018 - 19
# SECTOR IMPACT

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## INDIAN ECONOMY - AN OVERVIEW

Financial Year 2017-18 may pass out as a year of reforms for Indian economy. Remaining provisions of the Real Estate (Regulation and Development) Act, 2016 came into force on 1 May 2017. The transformational Goods and Services Tax (GST) was launched in July 2017. The new Indian Bankruptcy Code (IBC) has provided a resolution framework that will help corporates clean up their balance sheets and reduce their debts. And in another critical move, the government announced a large recapitalization package (about 1.2 percent of GDP) to strengthen the balance sheets of the public sector banks (PSBs).

In the first half, India's economy temporarily "decoupled," decelerating as the rest of the world accelerated – even as it remained the second-best performer amongst major countries, with strong macroeconomic fundamentals. The reason lay in the series of actions and developments that buffeted the economy: demonetization, teething difficulties in the new GST, high and rising real interest rates, an intensifying overhang from the TBS challenge, and sharp falls in certain food prices that impacted agricultural incomes.

In the second half of the year, the economy witnessed robust signs of revival. Economic growth improved as the shocks began to fade, corrective actions were taken, and the synchronous global economic recovery boosted exports. Reflecting the cumulative actions to improve the business climate, India jumped 30 spots on the World Bank's Ease of Doing Business rankings, while similar actions to liberalize the foreign direct investment (FDI) regime helped increase flows by 20 percent.

Despite major policy reforms and even in the absence of major new actions, the policy agenda remains full. Over the coming year, the government will need to focus on ensuring that the process of resolving the major indebted cases and recapitalizing the PSBs is carried to a successful conclusion. The government will also need to stabilize GST implementation to remove uncertainty for exporters, facilitate easier compliance, and expand the tax base; privatize AirIndia; and stave off any nascent threats to macroeconomic stability, notably from persistently high oil prices, and sharp, disruptive corrections to elevated asset prices.

It is in this backdrop that the Budget 2018-19 need to be approached and analysed.

## BUDGET 2018-19 HIGHLIGHTS

1. No change in Tax Slabs other than corporate tax.
2. Tax rate reduced to 25% for companies having Turnover up to 250 crores.
3. 4% Health and Education cess replaces all cess of 3%.
4. Standard deduction of Rs 40,000/- for Salaried and Pensioners.
5. Exemption on interest income for senior citizen increased from Rs 10,000/- to Rs 50,000/-
6. No TDS for Senior citizens up to Rs 50,000/- interest on post office or bank fixed deposit.
7. Medical Insurance premium exemption for senior citizen increased from Rs 30,000/- to Rs 50,000/- u/s 80D.
8. Long Term Capital Gains Tax on Shares etc. @ 10% without indexation above Rs 1 lakh.
9. LTCG Cost in case of Shares etc. replaced by peak rate on 31/1/2018 or cost whichever is higher.
10. Relief of 5% variation on Circle Rate on transfer of immovable property.
11. Cash Payments exceeding Rs 10,000/- in case of trust is disallowed.
12. Made way for E-assessment of on country wide level as a measure to curb corruption. (to be published in Gazette)
13. No significant change in Indirect tax announced in Budget.

## MAJOR DIRECT TAX CHANGES

***Income from property held for charitable or religious purposes (Section 11)***

Exemption in respect of income derived from property held under trust for charitable or religious purposes to the extent to which such income is applied or accumulated during the previous year for certain purposes.

It is proposed to insert a new Explanation to the said section so as to provide that for the purposes of determining the amount of application under clause 11(1)(a) or clause (b), the provisions of clause 40(a)(ia) and sections 40A(3) and (3A) shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head "Profits and gains of business or profession".

***Special provision for full value of consideration for transfer of assets other than capital assets in certain cases (Section 43CA)***

It is proposed to insert a proviso to sub-section (1) of the said section so as to provide that where the value adopted or assessed or assessable by the stamp valuation authority does not exceed one hundred and five per cent of the consideration received or accruing as a result of the transfer, the consideration so received or accruing as a result of the transfer shall, for the purposes of computing profits and gains from transfer of such asset, be deemed to be the full value of the consideration.

It is further proposed to amend sub-section (4) of the said section so as to provide that where the date of agreement fixing the value of consideration for transfer of the asset and the date of registration of such transfer of asset are not the same, the value referred to in sub-section (1) may be taken as the value assessable by the authority for the purpose of payment of stamp duty in respect of such transfer on the date of the agreement where the amount of consideration or a part thereof has been received by way of an account payee cheque or an account payee bank draft or by use of electronic clearing system through a bank account on or before the date of agreement for transfer of the asset.

***Computation of income from construction and service contracts (New section 43CB)***

The proposed new section provides that profits and gains of a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145. It is further proposed to provide that in the case of a contract for providing services with duration less than ninety days, the profits and gains shall be determined on the basis of project completion method. It is also proposed to provide that in the case of a contract for provision of services involving indeterminate number of acts over a specific period of time, the profits and gains arising from such contract shall be determined on the basis of a straight line method.

It is also proposed to provide that for this purpose the contract revenue shall include retention money and the contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.

This amendment will take effect retrospectively from 1st April, 2017 (A. Y. 2017-2018)

***Capital gains not to be charged on investment in certain bonds (Section 54EC)***

It is proposed to amend the said section so as to provide that capital gains arising from the transfer of a long-term capital asset, being land or building or both, invested in the long-term specified asset at any time within a period of six months after the date of such transfer, the capital gains shall not be charged to tax subject to certain conditions specified in the said section.

It is proposed to substitute the said clause so as to provide that long term specified asset for making any investment under the said section on or after the 1st day of April, 2007 but before the 1st day of April, 2018 shall mean any bond, redeemable after three years and issued on or after the 1st day of April, 2007 but before the 1st day of April, 2018 and for making any investment under the section on or after the 1st day of April, 2018 shall mean any bond, redeemable after five years and issued on or after the 1st day of April, 2018 by the National Highways Authority of India or by the Rural Electrification Corporation Limited or any other bond notified by the Central Government in this behalf.

***Deduction not to be allowed unless return furnished (Section 80AC)***

It is proposed to substitute the said section so as to provide that in computing the total income of an assessee of the previous year relevant to the assessment year commencing on or after the 1st day of April, 2018, deduction under any other provisions of Chapter VIA under the heading “C.—Deductions in respect of certain incomes” (80H to 80TT) shall be allowed only if the return is filed within the due date specified under sub-section (1) of section 139. This amendment will take effect from 1st April, 2018 (A. Y. 2018-2019)

***eAssessement***

It is further proposed to insert sub-sections (3A), (3B) and (3C) in the said section so as to, inter alia, provide for a scheme, by notification in the Official Gazette, for the purpose of making assessment of total income or loss of the assessee under sub-section (3). These amendments will take effect from 1st April, 2018.

## MAJOR POLICY INITIATIVES

***Bamboo is ‘Green Gold’***

The government has proposed the launch of a Restructured National Bamboo Mission. The Finance Minister allocated a sum of Rs 1,290 crore to promote bamboo sector in a holistic manner. It may be remembered here that recently the Union Ministry of Environment, Forest and Climate Change had promulgated the Indian Forest (Amendment) Ordinance, 2017 to exempt bamboo grown in non-forest areas from definition of tree, thereby dispensing with the requirement of felling/transit permit for its economic use. Bamboo, though, taxonomically a grass, was legally defined as a tree under the Indian Forest Act, 1927.

Before this amendment, the felling and transit of bamboo grown on forest as well non-forest land attracted the provisions of the Indian Forest Act, 1927

(IFA, 1927). This was a major impediment for bamboo cultivation by farmers on non-forest land. With these measures bamboo cultivation is likely to get big boost, especially in the North East. Bamboo in India is widely used for construction as well as furniture making.

### *Swachh Bharat Mission*

Under Swachh Bharat Mission, Government has already constructed more than 6 crore toilets. The Government has announced its plans to construct around 2 crore more toilets in the coming year. Swachh Bharat Mission has not only contributed to the cleanliness drive of the government but also has turned around the ceramics industry in the country.

Government's extra drive to promote open defecation free environment in the country has come in an opportune time for the ceramics industry which has been struggling to maintain its growth momentum due to slowdown in real estate industry.

Good export market and Swachh Bharat Mission should help the ceramics industry to sustain itself till the real estate market recovers from the rut.

### *Affordable Housing Fund*

The government is planning to create a dedicated fund for affordable housing which may take care of demand side funding. This is good news for the realtors who have taken a plunge into affordable housing sector to take advantage of the profit-linked exemption provided in the previous Finance Act. Also, infrastructure status given to affordable housing has made the sector more attractive as the funding of the project has become much easier.

The fund will be created in collaboration with the National Housing Bank which will be funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India.

### *School of Planning and Architecture*

The Finance Minister has promised two more new full-fledged Schools of Planning and Architecture in the country. Location of the new SPAs is not decided yet and the Finance Minister has said it will be selected on challenge mode. The Finance Minister has also announced setting up of 18 new SPAs in the IITs and NITs as autonomous Schools. Again, the selection will be made on challenge mode.

At present, there are three SPAs in the country at New Delhi, Bhopal and Vijayawada. These SPAs are a group of autonomous public institutes of higher education under Ministry of Human Resource Development. The SPAs primarily offer undergraduate, postgraduate, doctoral and executive education programmes.

### *National Health Protection Scheme*

An ambitious and perhaps world's largest health cover scheme to be launched. The government announced the launching of National Health Protection Scheme to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization. In the first year, the scheme may cost the government Rs 10,000 crore and the outgo may go up substantially in the coming years.

### *Credit flow to MSME sector*

In order to support and ensure steady credit flow to Medium, Small and Micro Enterprises (MSMEs) the budget has provided Rs 3794 crore to MSME Sector. These funds will be used for giving credit support, capital and interest subsidy and innovations.

### *Online loan for MSMEs*

Online loan sanctioning facility for MSMEs will be revamped for prompt decision making by the banks. The government has proposed to onboard public sector banks and corporates on Trade Electronic Receivable Discounting System (TReDS) platform and link this with GSTN. Government will also soon announce measures for effectively addressing non-performing assets and stressed accounts of MSMEs which will enable larger financing of MSMEs and also considerably ease cash flow challenges faced by them.

### *EPF contribution for new employees*

The Government will contribute 12% of the wages of the new employees in the EPF for all the sectors for next three years. Earlier 12% contribution to EPF was restricted to sectors employing large number of people like textile, leather and footwear which has been now made applicable to all sectors. Also, the facility of fixed term employment will be extended to all sectors.

### *Women employees*

The government has decided to make amendments in the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to reduce women employees' contribution to 8% for first three years of their employment against existing rate of 12% or 10% with no change in employers' contribution. This is being done to incentivize employment of more women in the formal sector. Also, this will enable higher take-home wages for women.

***Textiles and Home Textiles***

The government has provided an outlay of Rs 7148 crore for the textile sector in 2018-19. It may be remembered here that in 2016, the government had approved a comprehensive textile sector package of Rs 6000 crore to boost the apparel and made-up segments.

Of the Rs. 6000 crore special package, which was announced in 2016, for the textiles sector, Rs. 1800 crore have already been released and Rs. 300 crore will be released during the current financial year. Another boost for the sector has come in the form of GST rate reduction. GST rate has been reduced on yarn from 18% to 12% and GST on job work has been brought down from 18% to 5%.

***Smart City Project***

The government has hiked the budget allocation for this project to Rs 6,169 crore in this budget as against Rs 4,000 crore allocation in the previous budget which is 54.22% increase. It should be noted that the Housing and Urban Affairs (HUA) Ministry's total budgetary provisions have been pegged at over Rs 41,765 crore for the next fiscal which is just a hike of 2.82 per cent over 2017-18. Till now 99 Cities have been selected under this program with an outlay of Rs 2.04 lakh crore.

There is no doubt that the Smart City Mission has come out of its initial inertia and is making good progress. Till now 82 SPVs have been formed. There are about 3000 projects worth Rs.1,40,000 crores at various stages of implementation. Tenders for projects worth Rs 16,000 crore have been called, and more than Rupees 1 lakh crore worth of projects are being readied for issuance of tenders. This remains one of the fastest ever project implementations at this scale and geographic spread in urban sector.

***Heritage City Development Program***

The budget finds a mention about preservation of heritage sites which is a rare phenomenon. According to the government, to preserve and revitalize soul of the heritage cities in India, National Heritage City Development and Augmentation Yojana (HRIDAY) has been taken up in a major way. In addition, tourist amenities at 100 Adarsh monuments of the Archaeological Survey of India will be upgraded to enhance visitor experience.

It may be recalled here that the Ministry of Tourism had launched 'Adopt a Heritage Scheme' last year on World Tourism Day. Thereafter, Ministry of Tourism had invited Private Sector Companies, Public Sector Companies and Corporate individuals to adopt the sites and to take up the responsibility for making our heritage and tourism more sustainable through conservation and development. This scheme is a unique endeavour of Ministry of Tourism in close collaboration with Ministry of Culture and Archaeological Survey of India (ASI) which envisages developing monuments, heritage and tourist sites across India and making them tourist friendly to enhance their tourism potential and cultural importance, in a planned and phased manner.

Developing heritage sites in the country as tourist destination has multiple advantages. It will not only promote tourism but also help the heritage sites to earn revenue to sustain themselves.

***Credit rating of cities***

According to the government, credit rating of cities is progressing well. According to the FM,482 cities have started credit rating and 144 cities have got investment grade rating. This is good progress as the plan to credit rate the cities was announced only in September 2016.

In a bid to make cities get their act together and become active in the bond market so that local municipal bodies can mobilise resources, a first-of-its-kind credit rating was launched in 2016 by the Ministry of Urban Development. Further, under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the ministry had asked 500 cities to get their ratings done.

Credit Ratings are assigned based on assets and liabilities of Urban Local Bodies, revenue streams, resources available for capital investments, Double Entry Accounting practice and other governance practices. Besides the Credit Rating of Urban Local Bodies, ratings for individual projects for which resources are to be mobilised through Municipal Bonds would have a bearing on the response to such bonds. Of the total 20 ratings ranging from AAA to D, BBB- is the 'Investment Grade' ratings and cities rated below BBB- need to undertake necessary interventions to improve their ratings for obtaining positive response to the Municipal Bonds to be issued.

However, Municipal Bond market is yet take off in a significant manner. It is estimated that there is scope for raising Rs 1,000 - 1,500 crore annually through issuing bonds by the municipal corporations. Except few municipal corporations like Bengaluru, Ahmedabad and Pune, none of the municipal corporations have looked at the bond market for raising money.

Conservative approach of insurance and pension firms to invest in Municipal bonds is considered to be the main challenge for the development of Municipal Bond Market in the country. However, the budget doesn't contain any provision to make this market attractive.

### *National Housing Bank*

The Finance Minister has announced that the National Housing Bank Act is being amended to transfer its equity from the Reserve Bank of India to the Government. This may be pre-cursor to its disinvestment. The government has set an uphill market of raising Rs 80,000 crore from disinvestment for the year 2018-19.

### *Circle rate in real estate*

At present, while taxing income from capital gains, business profits and other sources in respect of transactions in immovable property, the consideration or circle rate value, whichever is higher, is adopted and the difference is counted as income both in the hands of the purchaser and seller. Sometimes, this variation can occur in respect of different properties in the same area because of a variety of factors including shape of the plot and location. Realtors were vocal in their demand to treat the actual sale value while calculating gain from property sale. The Finance Minister has provided only minor concession in the budget by providing that no adjustment shall be made in a case where the circle rate value does not exceed 5% of the consideration.

It should be noted that even now at commissioner and ITO level 5% variation from circle rate is allowed while computing the gain. The FM through his budget announcement has formalized this practice. However, this change is not going to alter the ground reality much.

Section 43CA, inserted by Finance Act 2013, on lines of Section 50C, provides for considering valuation assessed or assessable by any authority of State Govt. for the purpose of payment of Stamp Duty as the value of consideration received or accruing as a result of transfer of an asset being land or building or both, by the assessee. Stamp duty is generally calculated on valuation of asset based on circle rate fixed by State Governments, which are in many cases higher than the market value or the value negotiated between seller and buyer. This makes seller and buyer both liable to pay tax on notional gain / profit under the provisions of sections 43CA, 50C and 56(2)(vii)(b), making the case of double taxation. Therefore, realtors were demanding that the actual sale value should only be the basis for computing tax on profit and gain from land and building assets and not the notional income.

### *Income tax rate reduction*

In his first budget speech, the Finance Minister had promised to bring down the corporate tax rate from 30% to 25% over a period of five years. In last year's budget, he had announced the reduction of corporate tax rate to 25% for companies whose turnover was less than Rs 50 crore in financial year 2015-16. In this budget, he has proposed to extend the benefit of this reduced rate of 25% also to companies who have reported turnover up to Rs 250 crore in the financial year 2016-17. This will benefit the entire class of micro, small and medium enterprises which accounts for almost 99% of companies filing their tax returns.

It should be noted that world over trend is towards lower rate of tax. At 30% corporate tax, India's rate is one of the highest. On the one hand, the government wants to attract investment through policies like "Make in India" and on the other, it shows reluctance to move towards lower tax regime. This kind of attitude will not send right signals to the prospective investors.

### *Health and Education Cess*

At present, there is a three per cent cess on personal income tax and corporation tax consisting of two per cent cess for primary education and one per cent cess for secondary and higher education. In order to take care of the needs of education and health of BPL and rural families the government has proposed to increase the cess by one per cent. Thus, the existing three per cent education cess will be replaced by a four per cent "Health and Education Cess" to be levied on the tax payable. This will enable government to collect an estimated additional amount of Rs 11,000 crores.

Prospective investors will look at India as an investment option only when there is continuity and predictability in the policies of the government. Frequent fiddling with the tax rates under whatever reasoning and name will only deter the investors from committing their funds to the country. Present action only shows lack of long term strategy on the part of the government.

### *Capital gain bonds*

The FM has proposed to rationalise the existing provision relating to investment in capital gain bonds by providing that the exemption shall be available only in respect of long-term capital gains arising out of sale of immoveable property and investment in the bond shall be for a minimum period of 5 year from the existing 3 years.

Capital gains bonds have been the best option to save tax if an individual profited from selling assets such as gold, bonds, house and unlisted stocks, after holding them for over three years. However, the latest provision restricts capital gains bonds only to property and also increased the tenure of such bonds from three to five years. Tax payers now have very limited option to save long-term capital gains from assets other than property.

# BUDGET IMPACT STUDY

***Roofing products***

Roofing products mainly consists of asbestos roofing sheets and steel corrugated sheet. Introduction of GST proved to be a blessing in disguise for asbestos roofing sheet manufacturers as the duties were about 28% before GST which has come down to 18% now. 10% reduction in rate has brought asbestos roofing sheets at par with the steel. This has helped the asbestos roofing sheet manufacturers to reduce the price and also price gap between organised and unorganised sector has narrowed down.

Institutional demand for asbestos roofing sheets is almost nil. This segment estimated to be of the size of Rs 4,500 crore is dominated by steel sheets. Demand for asbestos roofing sheets is mainly from Rural India which has seen a demand growth of around 5%.

Though the budget doesn't contain anything directly affecting, either favourably or otherwise, big push given for affordable housing and construction of toilets is good news for the roofing products industry which is facing subdued demand due to poor condition of realty sector.

***Furniture***

Budget 2018, has hiked customs duty on certain furniture accessories to protect the domestic industry. Customs duty on seats and parts of seats [except aircraft seats and parts thereof] and other furniture and parts has been increased from 10% to 20%. Budget 2018 being the first budget after the introduction of GST, changes were made only relating to Customs duties as other indirect taxes are covered under GST.

While increasing the customs duty, the Finance Minister's focus was on those sectors which have high employment generation potential. One way to look at it is that the government wants to give boost to its much hyped 'Make in India' program. However, furniture making in India is highly decentralised and unorganised. Domestic furniture industry which is reeling under the onslaught of GST may get some reprieve from this move of the government. This move of the government, however, may force the foreign companies like IKEA to rethink their strategy.

***Mattress***

Budget 2018 has hiked the import duty on Mattresses supports; articles of bedding and similar furnishing from 10% to 20%. However, this might not make much difference to the domestic manufacturers for mattresses. At the same time, many international mattress manufacturing companies are planning to enter Indian market and some have already entered the Indian market. Government's decision to hike customs duty on mattress will encourage them either to set up own manufacturing unit in India or source locally through contract manufacturing.

However, there is something to smile about for the mattress manufacturers in the latest budget as it has given special emphasis to rural economy and healthcare sector which will have positive impact on demand scenario for mattresses.

Rs 10,000 crore mattress industry is going through roller coaster ride thanks mainly to some of the disruptive decisions taken by the government in last one year. Mattress manufacturers were unhappy about the GST rate as they considered the rates were discriminatory. While GST rate on coir mattress was kept at 18%, other mattresses like spring mattresses attracted GST of 28%. In November, however, the GST Council brought down the rate on mattresses of all types to 18%.

This has brought down the price gap between the mattresses manufactured by organised sector and unorganised sector. Earlier, the mattress sold by the manufacturers in organised sector for, say, Rs 5,000 was sold by the manufacturer in unorganised sector for Rs 3,500 - Rs 4000. Now the same mattress is sold by the manufacturers in organised sector for less than Rs 4,500.

Mattress manufacturers in organised sector are pinning their hope on introduction of E-Way Bill System which according to them will bring in transparency in the system and also provide level playing field.

***Cement Sector***

Though there is no direct benefit for the cement sector in terms of duty/tax reduction in Budget 2018, the sector is tipped to be one of the largest indirect beneficiaries of various measures listed in the budget.

The budget has given big boost to affordable housing by doubling the allocation to the sector to $ 124 million. It should be noted that nearly 67% of the cement manufactured in the country is consumed by the housing sector. In addition, several infrastructure projects like freight corridor project, metro projects, highway projects and projects by Railways - all will add up to its demand for the sector. 100 Smart Cities project under Smart City Mission and development of 500 new cities by the Urban Development Ministry too are going to increase the demand for cement. The government has already stated that cement is the preferred material for road construction.

India is already world's second largest market for cement, both in terms of production and consumption. India presently has 425 MTPA cement manufacturing capacity which is expected to touch 550 MTPA by 2025. The industry is expected see 5-6% CAGR till 2020. So, sunny days are ahead for the industry.

***Plywood and Boards***

Plywood industry got what they wanted even before the budget was announced. In November 2017, GST Council had reduced GST rates on several products including plywood from 28% to 18%. This has narrowed down the price gap between organised and unorganised manufacturers in the industry. Another event which is likely to cheer up the plywood manufacturers in organised sector is the introduction of E-Way Bill System in the country.

Though the E-Way Bill System was introduced on February 1st, the attempt was unsuccessful as the software was not able to take the load. As a result, the government had to defer its introduction to April 1st. Introduction of E-Way Bill System is expected to provide level playing field for manufacturers in the organised sector. However, it is also feared that the introduction is expected to cause disruption in the system initially. In the long run it is expected that the new system will bring in transparency and also cause consolidation in the industry.

The industry is seeing a shift in the demand from premium segment to lower quality plywood and recent push given to affordable housing in the budget may further increase the demand for lower segment plywood. Again, impetus given for rural economy in the budget should help to maintain demand curve upward. But the rural demand too will be for lower segment plywood.

***Ceramics and tiles***

Like plywood industry, Ceramics and tiles too didn't get any tax or duty concessions in the budget. But the reduction of corporate tax rate to 25% should benefit many manufacturers in the industry.

Also, ceramics manufacturers in the organised sector expect the scale to tilt in their favour once the government introduces E-Way Bill in the country. According to the industry, full impact of the GST on the industry can be ascertained only when E-Way Bill is introduced which is going to happen from 1st April onwards. Once that happens, organised sector will have a level playing field and can help it to increase its market share in the industry.

Latest budget's emphasis on rural India and affordable housing also would help the industry maintain growth trajectory intact. In the budget, the Government has announced its plans to construct around 2 crore more toilets in the coming year. This will also help the manufacturers to keep their order book position ticking.

However, demand in the domestic market is likely to emerge in mid segment and premium segment may see slower growth in demand in the short to medium term.

***Home Textiles***

The Budget 2018 contains some positives for textiles industry including home textiles. The budget has announced higher allocation of Rs7,148 crore for textile sector for the FY 2018-19. Of this, Rs2,300 crore has been allotted to Amended Technology Upgradation Fund Scheme and Rs2,164 Crore for Remission of State Levies. In 2016, the government had announced a special package of Rs 6,000 crore for the same purpose. ROSL incentives has seen 16.6% jump from the allocation for 2017-18. But after considering the huge backlog of ROSL refund for 2017 hiked provision may appear to be too little. Also, the ROSL rate has been kept unchanged.

Another positive is in the form of Integrated Scheme for Skill Development for the textile sector which has received a budget allocation of Rs. 200 crores which is operational for last several years.

Further, reduction in corporate tax from 30% to 25% will benefit large number of medium scale home textiles makers in the country.

The government has reiterated its goal of doubling farmers' income by 2022 which will be done by increasing Minimum Support Price (MSP). Increased MSP for cotton may be bad news for home textiles makers.

Last year the government came out with modified duty drawback rates for exporters, which came into effect from October 1, 2017. The government drastically reduced the rates to 2% as compared to 7.5% earlier. Further, the ROSL rate was revised downwards to 1.55% from 3.9% earlier which was again made applicable from October 1, 2017. This had an overall impact of 2-2.5% on the margins of the exporters. After the representation by the industry to the government, the rates for incentives under an export promotion scheme were doubled — MEIS — to 4 per cent for readymade garments and made-ups.

There is every reason to be optimistic on the export front because in China several home textile units were closed down during the year due to pollution problems and now the business is concentrated in few Chinese manufacturers. This has impacted competitiveness of the Chinese suppliers in the international market. Also, competitiveness of Vietnam has diminished due to steep rise in the labour cost. All these factors automatically improve India's competitiveness.

***Paints Industry***

One of the vocal demands of the Paints industry was the GST rate reduction from 28% to 18%. Interestingly, when GST for most of the building materials were reduced to 18% in November last year, Paints and Cement sectors were spared from rate reduction. The industry was hoping for rate reduction in the budget but that has not happened.

Further, rising price of TiO2 has been a matter of concern for the paint manufacturers since the beginning of last year. Since there is no significant capacity addition envisaged in the market, the trend (of rising price) may persist for longer duration unless Chinese suppliers who had faced some constraint during the last few months in terms of production restart their production. Paint manufacturers expected the government would come to their rescue in the budget by reducing the import duty. But, the government has left duty rates unchanged.

However, the industry will be one of the indirect beneficiaries of several announcements made by the government in the budget. Increased allocation to affordable housing, smart city projects and push given for the rural economy through various measures are likely to push up the demand for paints in the coming months.

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