



Impact on Capital Goods, Supply Chain & Procurement

Budget Proposal

Ever since the announcement of National Capital Goods Policy, 2016, Government has taken a slew of measures to increase & encourage local production of capital goods. Industry keenly awaited Government to take further steps, in Budget 2022-23, to protect/enhance a potential market share for indigenous players, who have done substantial investments in this area.

Budget 2022 aims at further bolstering these objectives by a two-fold action plan (a) imposition of additional import tariffs; and (b) more preferential treatment to indigenous players in Government procurements. The proposals announced by Union Budget 2022-23 are certainly a step in the right direction.

Government's theme on the custom tariff front has been to phase out various exemptions and increase tariff on capital goods. Illustratively, exemption on various machinery for garment sector is proposed to be withdrawn effective April 1, 2023. Prominently, new projects registered after September 30, 2022 under the popular Project Import scheme will attract Basic Custom Duty of 7.5% vs. hitherto these rates ranged from 0-5%. The benefit to all existing projects, at old rates, will be grandfathered till September 30, 2023.

Government has also announced a gradual phasing out of import duty exemptions on capital goods specifically linked to sectors such as power, fertilizer, textiles, leather, footwear, food processing and fertilizers amongst others.

On spending front, Government has committed to increase capital procurement budget in defence to 68% from 58%, for domestic industry in 2022-23. Further, outlay for capital expenditure is being stepped up by 35.4% to 7.50 lakh crore in 2022-23. Needless to add that, the capital goods industry would be a major beneficiary of said proposals & commitments.

Impact

Local manufacturers shall get a level-playing field to supply capital goods for various infrastructure projects in identified sectors.

Changes in custom tariff emboldens Government's commitment to promote 'AtmaNirbhar Bharat' and the Government's flagship 'Make-In-India' scheme. Further, phased removal of exemptions is certainly laudable, giving certainty from supply chain planning perspective.

A surge in registration of projects for Project Import scheme is imminent.

ELP's Insights

The suggested tariff changes could prove to be counter-productive for investments in the short run, with several proposals at the evaluation stage will now have to re-draw their strategy and feasibility analysis. History evidences that tariff changes for industries, where indigenous players do not immediately match up to requirements being earlier met through global supply chain could portray certain operational challenges.

Already talks of representation to defer the proposal by a year so as to allow more preparation time for investors and industry is doing rounds in media circles.

The investments plans should carefully analyze the timing of capex implementation thereunder and align position vis-à-vis the present changes.

It remains to be seen whether the Export Promotion Capital Goods Scheme under the Foreign Trade Policy would also be revamped or discontinued, when the 2022 policy is announced, in light of developments on the import tariff position above.