

Union Budget 2017-18 expectations: Mr. Sumit Sawhney, Country CEO and Managing Director, Renault India Operations

A hope that Budget 2017-18 will reinvigorate the Indian automobile industry!

Background:

The Union Budget continues to be a centerpiece of economic policy as it puts in place the architecture for a new Indian economy. It is the most awaited announcement of the year that paves the path to stimulate the growth prospects with significant policy announcements related to reforming the tax system, improving infrastructure, agricultural boost, manufacturing output and generating employment. With a stable interest rate regime and control over inflation, fiscal deficit and current account deficit, the Union Budget might be the right time for the government to press the foot on the growth accelerator for economic revival.

Hailed as one of the key pillars of economic development, the Indian automobile industry is optimistic of a growth-propelling Union Budget. The industry's importance can be gauged from the fact that it contributes to 7.1% of the GDP, more than 45% of manufacturing GDP and employs an estimated 32 million people. What's more, Hon'ble Prime Minister's 'Make in India' ideology has laid a renewed emphasis in the Indian automobile industry. The successful culmination of the second year of the ambitious 'Make in India' program, with strong emphasis on the 'ease of doing business' has already made India the 6th largest manufacturing country in the world. With the right policy framework and support, the automobile industry has a huge potential to further contribute towards the country's economic development and growth.

Let's look at where the industry is poised at this stage. The year 2016 witnessed several ups and downs for the automobile industry. At the beginning of the year, there was expectation that the sector will see double digit growth. However, due to several macro-economic factors that impacted consumer sentiment and spends, the industry posted single-digit growth. The first quarter of 2017 will remain volatile and challenging, post which the economy should bounce back to normalcy.

The year 2017 will also see companies in India readying for the move from BS IV to BS VI emission norms, which is slated to come into effect from 2020. With this move, the expectation is for OEMs in India to do in four years, what Europe took 11 years to do. There is a need for a holistic approach in designing the policy framework for this transformation. There should be a full-game plan before its implementation, ensuring the availability of the higher-grade fuel across the country as a Euro IV car can run on Euro III fuel, but that is not possible in Euro VI cars. So, higher grade fuel must be made available across the country at least a year before the final rollout in 2020.

To increase demand for the automobile industry, the focus needs to be two-fold, driving domestic demand and pushing exports. To uplift domestic demand, the key growth triggers for the upcoming year will come in the form of moderate fuel prices and a stable interest rate regime. Together with stable interest rates, other areas that need focus to spur domestic demand include, fostering a stable and supportive regulatory environment (led by GST roll out), developing skilled workforce, encouraging R&D and innovation, measures to reduce supply chain cost and ensuring cost competencies. To push exports, emphasis will need to be on increasing FTAs and investment in port infrastructure, specifically emphasis on creation of coastal economic zones covering multiple states, ports and special economic zones with a uniform policy.

Expectations: Union Budget 2017-18

The budget becomes crucial for the industry, which expects the government to introduce pro-business measures, to boost the automotive industry. To uplift consumer sentiment and put the industry in a higher growth trajectory, the key expectations from the Union Budget 2017-18 are as follows:

Implementation of GST: Implementation of GST from next fiscal with a reasonable transition time period to adapt to the changing taxation environment tops the expectation list. It is a significant taxation reform and would bring a paradigm shift in the operation of businesses and tax laws in our country. The ease of doing business would also be enhanced since it would replace various multiple taxes applicable presently.

A flat GST rate of 28% should not be applied on all car segments. Small cars should continue to get the benefit as they are fuel efficient and should not be abruptly stopped because these were very long-term policy decisions and the manufacturers have already made a lot of investments in developing small cars. Definition of different segments (like Luxury cars) should also be clarified for GST.

Vehicle scrappage policy: The vehicle scrappage policy or the proposed 'Voluntary Vehicle Fleet Modernisation Plan (V-VMP)' which will keep older cars off the roads. This will benefit the environment, reduce fuel consumption and propel further demand for greener and efficient vehicles.

Income and corporate tax reduction: The upcoming Union Budget should bring down the taxes - both income tax as well as corporate tax, to give a boost to consumption and investment that has been severely hit by demonetisation in the last two months.

Restoration of weighted deduction of 200 per cent on R&D expenditure: To achieve world-class standard in the automobile industry, it is necessary to enhance spends on R&D and create relevant infrastructure. With significant changes in emission and safety regulations, it is imperative for the industry to enhance their R&D expenditure. It is therefore critical that the earlier weighted deduction of 200 per cent on R&D expenditure which has been brought down to 150% is immediately restored.

Enhancing the global competitiveness of the Indian auto industry: To improve India's positioning as an auto manufacturing hub, Govt. needs to increase India's competitiveness. This calls for some bold reforms to improve the quality of infrastructure and logistics, greater ease of doing business, a financial system that serves small- and medium-sized firms etc. Cost of funds and utility costs needs to come down in India, for better global competitiveness in the manufacturing sector. If you take the top 10 economies of the world, all of them are working on interest rate in the range of 0-5 per cent whereas India, which is described as the seventh largest economy, works at 8-13% rate.

Focus on FTAs for exports: We also need better FTAs with Europe, UK and the ASEAN countries. Australia and Middle-East have stopped manufacturing cars and everything they buy is imported into the country. Africa is another big opportunity. Also, India has the potential to be a big base for parts exports. Parts sourced for global operations from India is growing month on

month. There is lots of capacity in our country and if we have favourable FTAs, it can be optimised for exports.

Other proactive measures, which will give a further fillip to the industry in the coming year include reforms to improve the quality of infrastructure and logistics, focus on 'Skill India'- a multi-skill development programme with a mission for job creation and entrepreneurship for all socio-economic classes.

If the Government's objective is to increase the share of manufacturing in the GDP of the economy from an estimated 15 per cent to at least 25 per cent, so that employment gets a definite boost, the role of the auto industry is pivotal. The industry has already made substantial investments and have increased the capacity to levels that would be needed to achieve the objective. The industry requires the Government to support by providing it an atmosphere that facilitates growth. Taking cue from this, Automotive Mission Policy (AMP) 2016-26 has been aligned with 'Make in India' campaign. AMP's Vision 2016- 2026 will enable the Indian auto industry to contribute around 13% to GDP, generate additional 100 million jobs and attract more than US\$ 80 bn. investments.

The Indian automobile industry is the fifth largest and one of the most dynamic industries in the world. As a major employment generator and GDP contributor the automotive industry is instrumental in shaping the country's economy and hence regarded as a 'Sunrise sector' under 'Make in India'. The Government should facilitate a conducive environment for growth of auto industry by defining favourable long-term policies for investment.