

# Union Budget 2018-19

## Post-Budget sectoral point of view



### Transport and Logistics

## Increased allocations and boost to MSMEs likely to provide thrust to the Indian Transport and Logistics sector

### Budget analysis

Last year, the Union Budget 2017-18 highlighted infrastructure development as a key theme, with several investment and policy proposals for the transport and logistics sector. The focus on facilitating multi-modal transport infrastructure, comprising maritime, road, rail, air, riverine and associated logistics infrastructure (e.g., logistics parks, warehousing and cold chain) has been a key ingredient of a comprehensive transport policy.

The Transport and Logistics sector is the backbone of national development and a significant contributor to economic growth and prosperity. Considering the high cost of logistics and transportation in India, at approximately 14 per cent of the Gross Domestic Product (GDP), in comparison to 8 to 10 per cent of the GDP for developed nations<sup>1</sup>, the industry expected Union Budget 2018-19 to introduce measures to enhance India's transport infrastructure, and improve country competitiveness.

Continuing on the same theme, the Budget is built on forward-looking measures for holistic multi-modal growth in the sector. The Finance Minister has emphasised on the development of infrastructure by stressing the need for over INR50 lakh crore in investment to connect and integrate the country with a comprehensive network of roads, railways, airports, ports and inland waterways.

### Budget impact

The Union Budget 2018-19 bears positive signs for the overall business community — especially the Micro, Small and Medium Enterprises (MSMEs), which comprises approximately 99 per cent of the businesses filing tax returns in India.<sup>2</sup> This Budget witnessed an all-time high allocation of funds. The Budget introduced considerable emphasis across all sectors, e.g. civil aviation, railways, shipping, and road transport and highways.

- Increased allocation in the development of road network including the 'Bharatmala Pariyojana' would enable the creation of seamless connectivity to remote areas and country borders, improving the safety and reducing the cost of transportation while also allowing business activities to flourish in such areas
- The plans put forth for the Indian Railways, once executed effectively, would make rail travel convenient as well as safe, fast and passenger-friendly, proving to be prosperous for the organisation on the whole
- Improvement in urban transportation within major metros such as Mumbai and Bengaluru is expected to ease travel for commuters and enhance the business prospects for the cities
- The proposed expansion of 'Ude Desh ka Aam Nagrik' (UDAN) scheme is expected to make air travel affordable for the masses, and could prove to be an impetus for the airline industry by driving volumes up and helping players achieve greater economies of scale

<sup>1</sup> The Dynamics of the Logistics Industry in India, Investors are Idiots, 7 September 2017

<sup>2</sup> Budget Speech by Finance Minister Arun Jaitley, 1 February 2018

- The continued focus on enhancing capacity of major ports and improving hinterland connectivity are expected to boost the maritime sector in the long-term.

Various policies announced for the agriculture and farm sector including fisheries would have a positive impact on the transport and logistics businesses. 'Operation Green' proposed in the Budget would promote Farmer Producer Organisations that would include agricultural logistics like cold chains and warehouses.

In summary, policies and initiatives announced in the Union Budget 2018-19, along with various other continuing investments and reforms are critical to India's competitiveness. India jumped nearly 20 places in The World Bank Logistics Performance Index in 2016<sup>3</sup>; an effective implementation of infrastructure initiatives could potentially catapult us much higher rank in the global marketplace.

## Key announcements

### Policy-related announcements

For the upcoming financial year, the Ministry of Civil Aviation, the Ministry of Railways, the Ministry of Road Transport and Highways, and the Ministry of Shipping have been collectively allocated approximately INR2.76 lakh crore — comprising 46.3 per cent of the total capital outlay on infrastructure.

#### Roads and rail

- The Government has allocated approximately INR1.2 lakh crore for the Ministry of Road Transport and Highways, which comprises an investment of INR91,663 crore in National Highways Authority of India (NHAI) and INR29,762 crore in roads and bridges
  - The government expects completion of national highways exceeding 9,000km in length by the end of FY18; it has also approved the 'Bharatmala Pariyojana' which aims to develop a 35,000km road network (in Phase I) providing connectivity to interior and border areas of the country — at an estimated cost of INR5.35 lakh crore
  - To raise funds, the NHAI would consider organising its road assets into Special Purpose Vehicles and use innovative monetising structures such as Toll, Operate and Transfer (TOT) and Infrastructure Investment Funds (InvITs).
- Fastags and other electronic payments would replace cash payments at toll plazas; the government is also planning to introduce a policy for a toll system on a 'pay as you use' basis
- During FY19, Indian Railways' capital expenditure has been estimated at INR1.48 lakh crore, large part of which would be allocated to capacity creation
  - Capacity constraints would be tackled through 18,000km of doubling, third and fourth line works
  - Almost the entire railway network would be converted into broad gauge with 5,000km of gauge conversion.
- The Railways would also undertake the following initiatives to enhance passenger comfort and safety:
  - Electrification of rail network spanning 4,000km by the end of FY18
  - Rolling stock for Dedicated Freight Corridors comprising 12,000 wagons, 5,160 coaches and 700 locomotives to be procured during FY19
  - Track renewal of rail network ranging 3,600km is targeted during the current fiscal; moreover, the use of technologies such as 'Fog Safe' and 'Train Protection and Warning System' would be increased
  - Elimination of 4,267 unmanned level crossings in the broad gauge network over the next two years
  - The Indian Railway Station Development Co. Ltd. would be undertaking the redevelopment of 600 major railway stations; further, all stations with footfalls over 25,000 to have escalators, and all railway stations and trains would be equipped with Wi-Fi and CCTV cameras
  - Modern trainsets with leading amenities and features are being designed at Integrated Coach Factory, Perambur — with the first such train-set to be commissioned in FY19

<sup>3</sup> [lpi.worldbank.org](http://lpi.worldbank.org), accessed on 1 February 2018

- The government would also be setting up a specialised Railways University and an institute to train manpower for high-speed rail projects (such as the Mumbai–Ahmedabad bullet train project) in Vadodara.

### **Urban transport**

- The government is expanding the Mumbai local rail network by adding 90km of double line tracks at an investment of INR11,000 crore; in addition, 150km of suburban rail network is being planned with an estimated cost of INR40,000 crore
- For Bengaluru, a suburban network spanning approximately 160km is being planned at a cost of INR17,000 crore.

### **Civil aviation**

- Through the Regional Connectivity Scheme of UDAN, the government plans to connect 56 unserved airports and 31 unserved helipads across the country
- The government also plans to expand the airport handling capacity of the Airport Authority of India (AAI) by five times under a new initiative called 'NABH Nirman' initiative.

### **Ports**

- The Ministry of Shipping has been allocated INR4,292 crore for port and marine infrastructure development, with the following allocations:
  - INR250 crore for Sagarmala project — a 100 per cent increase over last year's allocation
  - INR2,065 crore for Jawaharlal Nehru Port Trust
  - INR495 crore for Cochin Shipyard Limited
  - INR458 crore for Deen Dayal Port Trust (Kandla)
  - INR432 crore for Mumbai Port Trust
  - INR342 crore for V.O. Chidambaranar Port Trust
  - INR250 crore for Kamarajar Port Trust

## **Tax-related announcements**

With the Goods and Services Tax (GST) having already been introduced in the ongoing fiscal year, the Finance Minister did not make any sector-specific announcements in the Budget speech. The market had expectations around inclusion of petroleum and natural gas products under the GST regime, which went unanswered as well.

### **Direct tax**

- To encourage MSMEs, the Government has expanded the ambit of 25 per cent corporate tax to include companies having turnover up to INR250 crore, from INR50 crore announced the previous year. These MSMEs comprise roughly 99 percent of all companies that file tax returns.
- A Health and Education Cess shall be levied on income tax at the rate of 4 per cent, replacing the existing Education Cess of 3 per cent.
- Clarity has been provided on non-applicability of MAT provisions to foreign companies which are engaged in the business of operation of aircraft and covered by the presumptive taxation regime under section 44BBA.
- The presumptive income of heavy goods vehicle under section 44AE has been increased from INR7,500 to INR1,000 per tonne of gross vehicle weight or unladen weight per month.
- To promote start-ups, the definition of eligible business u/s 80-IAC has been expanded to provide that the benefit would be available if it is engaged in innovation, development or improvement of products, processes or services, or a scalable business model with high potential to generate employment or create wealth.

## Indirect tax

The Finance Minister's speech reflected the government's intent to boost the 'Make in India' initiative. Accordingly, customs duty on finished goods has been increased across many industries, while inputs / raw materials have witnessed a reduction in the customs duty – indicating an impetus to the domestic manufacturing sector and creation of more jobs in the country.

The basic customs duty has been increased for the following goods:

- Truck and bus radial tyres from 10 per cent to 20 per cent
- Specified parts/accessories of motor vehicles and motor cars from 7.5/10 per cent to 15 per cent
- Completely knocked down import of motor vehicles and motor cars from 10 per cent to 15 per cent
- Completely built unit import of motor vehicles from 20 per cent to 25 per cent.



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