Forward looking budget for chemical sector which is significantly contributing to India’s recovery

In 2020, the Honourable Finance Minister had announced various economic and policy measures through various stimulus packages to overcome the negative impact of Covid-19 pandemic on the Indian economy. Accordingly, there was an expectation that the Budget 2021 will focus on reforms and measures to provide a further impetus to the recovering Indian economy to achieve a sharp V trajectory growth.

India’s chemical sector is a solution provider and backbone to all other sectors, covering more than 80,000 commercial products. The Budget 2021 is a forward-looking and positive budget containing various reforms and outlays to provide a growth impetus to various sectors such as health, infrastructure, automotive, agriculture, housing and textiles which are critical for the growth of the chemical sector.

The policies announced in the Budget 2021 should generate demand for various specialty chemicals such as intermediaries or raw materials used for producing active pharmaceutical ingredients, technical textiles chemicals like dyes and intermediaries, colorants and paints, PVC, water treatment chemicals, emission control catalyst, construction chemicals, polycarbonates, TPUs, etc

Overall, the Budget 2021 scores high in the current environment as the Indian chemical sector continues to provide strong support to the Indian economy and significantly contributes to India’s objective of being self-reliant.

Aashish Kasad
Partner and Tax Leader – Chemical and Agriculture Sector
EY – India
How does the budget impact chemical sector?

<table>
<thead>
<tr>
<th>Proposals in budget</th>
<th>Positive impact on chemical subsegments</th>
</tr>
</thead>
<tbody>
<tr>
<td>► PM Atma Nirbhar Swasth Bharat Yojana announced with an outlay of INR642 billion</td>
<td>► intermediaries or raw materials used for producing active pharmaceutical</td>
</tr>
<tr>
<td>over 6 years, for creating new healthcare institutions and for detecting and curing</td>
<td>ingredients</td>
</tr>
<tr>
<td>new and emerging diseases and INR350 billion allocated for COVID19 vaccine.</td>
<td></td>
</tr>
<tr>
<td>► Allocation of INR2870 billion under ‘Jal Jeevan Mission (Urban)’ to be implemented</td>
<td>► PVC, water treatment chemicals, etc</td>
</tr>
<tr>
<td>over a period of five years – aiming at universal water supply in 4,378 Urban</td>
<td></td>
</tr>
<tr>
<td>Local Bodies with 28.6 million household tap connections</td>
<td></td>
</tr>
<tr>
<td>► A scheme of Mega Investment Textiles Parks (MITRA) is proposed to boost</td>
<td>► Dye and intermediaries, colourants and paints, speciality chemicals, etc</td>
</tr>
<tr>
<td>manufacturing of technical textiles in India and its exports. Seven textile</td>
<td></td>
</tr>
<tr>
<td>parks will be established over three years</td>
<td></td>
</tr>
<tr>
<td>► Continued focus on infrastructure projects such as road, highways, railways,</td>
<td>► Varied speciality chemicals including construction chemicals</td>
</tr>
<tr>
<td>urban infrastructure through expansion of metro projects and city bus service and</td>
<td></td>
</tr>
<tr>
<td>affordable housing</td>
<td></td>
</tr>
<tr>
<td>► Hydrogen Energy Mission to be launched for generating hydrogen from green power</td>
<td>► Hydrogen producing companies</td>
</tr>
<tr>
<td>sources</td>
<td></td>
</tr>
<tr>
<td>► Voluntary vehicle scrapping policy announced to scrap old and unfit vehicles</td>
<td>► Emission control catalyst, polyurethane and TPU</td>
</tr>
<tr>
<td>and encourage fuel efficient and environmentally friendly vehicles</td>
<td></td>
</tr>
</tbody>
</table>

**Highlights**

- INR350 billion allocated for COVID-19 vaccine
- Capital expenditure increased to INR5450 billion, with focus on creation of infrastructure
- Jal Jeevan Mission to be implemented
- Scheme of Mega Investment Textile Parks proposed
- Hydrogen Energy Mission to be launched
- Scheme to encourage environment friendly vehicles

**POSITIVE IMPACT on chemical sub-segments**
Key tax amendments

► Changes in Basic Custom Duty (BCD) rates:

<table>
<thead>
<tr>
<th>Chapter heading</th>
<th>Nature of goods</th>
<th>Existing BCD Rate</th>
<th>Proposed BCD Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2803 00 10</td>
<td>Carbon Black</td>
<td>5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2710</td>
<td>Naphtha</td>
<td>4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2907 23 00</td>
<td>Bis-phenol A</td>
<td>Nil</td>
<td>7.5%</td>
</tr>
<tr>
<td>2910 30 00</td>
<td>Epichlorohydrin</td>
<td>2.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2933 71 00</td>
<td>Caprolactam</td>
<td>7.5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

► Agricultural Infrastructure and Development Cess (AIDC) is proposed to be levied on following chemical sector goods with effect from 2 February 2021. Since the reduction in existing BCD is replaced by AIDC there is no overall impact on the cost due to introduction of AIDC.

<table>
<thead>
<tr>
<th>Chapter heading</th>
<th>Nature of goods</th>
<th>AIDC</th>
<th>Existing BCD</th>
<th>Proposed BCD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2701</td>
<td>Various types of coal</td>
<td>1.5%</td>
<td>2.5%</td>
<td>1%</td>
</tr>
<tr>
<td>2702</td>
<td>Lignite, whether or not agglomerated</td>
<td>1.5%</td>
<td>2.5%</td>
<td>1%</td>
</tr>
<tr>
<td>2703</td>
<td>Peat, whether or not agglomerated</td>
<td>1.5%</td>
<td>2.5%</td>
<td>1%</td>
</tr>
<tr>
<td>3102 10 00</td>
<td>Urea</td>
<td>5%</td>
<td>5%</td>
<td>Nil</td>
</tr>
<tr>
<td>3102 30 00</td>
<td>Ammonium nitrate</td>
<td>5%</td>
<td>7.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>31</td>
<td>Muriate of potash, for use as manure or for the production of complex fertilizers</td>
<td>5%</td>
<td>5%</td>
<td>Nil</td>
</tr>
<tr>
<td>3105 30 00</td>
<td>Diammonium phosphate, for use as manure or for the production of complex fertilizers</td>
<td>5%</td>
<td>5%</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Impact analysis

The various policies announced in the Budget 2021 should certainly attract investment and shore-up demand for various specialty chemicals such as intermediaries and raw materials used for producing active pharmaceutical ingredients, technical textiles chemicals like dyes and intermediaries, colorants and paints, PVC, water treatment chemicals, textile chemicals, emission control catalysts, construction chemicals, polycarbonates, TPUs, etc.

As India races ahead towards a V trajectory growth, the chemical sector would gradually expect certain specific measures to support it in being more competitive in the global economy, such as including the chemical sector in the production linked incentive scheme, providing tax benefits for undertaking research and development activities and for setting up a unit in Petroleum, Chemicals and Petrochemicals Investment Region(s), apart from introducing the much awaited comprehensive national plan/vision document for chemical sector. For now, the Indian chemical sector continues to strongly contribute to the Indian economy and support India in its march towards a high GDP growth rate recovery.

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