

Union Budget 2018-19

Our Point of View

Energy and Natural Resources



More 'energy' to the masses

Budget analysis

The Government has consistently endeavoured to shift policy action from the annual Budget event. This prompt approach is perhaps visible to a greater degree in the Energy sector. The Government over the last 12 months has introduced various schemes for furthering the Energy sector's agenda of access and affordability to the least common denominator as against relying on Budget announcements.

- 'Pradhan Mantri Sahaj Bijli Har Ghar Yojana- Saubhagya' was launched with an aim to achieve universal household electrification by 31 March 2019. The scheme entails a Budget outlay of INR163.20 billion
- Greater focus on implementation and information transparency has been brought in. The Ministry of Power has facilitated information flow on markets and central schemes via portals such as Vidyutpravah (day ahead market), GARV (rural electrification), DEEP (power purchase).
- Pricing freedom has been granted for difficult, marginal gas fields to enhance exploration activity for domestic gas.

In this Budget, the Finance Minister rightfully emphasized the need to manifest the aspiration of the people to have 'ease of living'.

The Budget proposes to enhance the ambit of existing schemes to reach the marginalised section of the society:

- The Ujjwala Scheme, which aims to provide free LPG cooking gas connections has proposed to be expanded to include 80 million women
- Farmers who set up distributed solar power projects on their land can avail of remunerative tariff for surplus power sold to discoms.

Debottlenecking measures have been proposed for rail network which should enhance coal access to thermal power stations. Rolling stock of 12000 wagons and approximately 700 locomotives are being procured during Financial Year (FY) 2018-19. Indian Railways has also initiated a program to strengthen infrastructure at the goods sheds and fast track commissioning of private sidings.

The Budget has enhanced overall infrastructure outlay by the Government by 20 per cent. Furthermore, various measures to enhance access to financing of infrastructure players have been proposed:

- It is proposed to allow 'A' rated issuers to access institutional long term debt capital from pension, provident fund and like institutions
- The Securities Exchange Board of India (SEBI) has been advised to consider mandating certain large corporates to meet about 25 per cent of their financing needs from bond markets
- The Central Public Sector Enterprises would be encouraged to launch Infrastructure Investment Trusts (InvITs) to access equity capital and

- The Budget also proposes that Government would launch a separate policy for accessing capital via hybrid instruments.

These measures are in addition to the actions taken under bank recapitalisation and resolving the twin balance sheet challenge (limited room with banking system for credit push to power sector, and stressed balance sheets of market players) with implementation of the Insolvency and Bankruptcy Code, 2016. We expect these measures to ease access to financing for the sector.

Overall, the Budget focusses on stimulating customer level demand for energy usage and aims to socialize the recent gains made in energy security by the country. The Budget does lay down a path for achieving the twin objective of 'Access' and 'Affordability' of energy to the masses.

Budget impact

- Historically, the Energy sector has focused on upstream and mid-stream capacity creation i.e. power generation and transmission, refineries, pipelines etc. The Budget moves the compass and points towards the end-user
- An end-user focus on energy infrastructure access to last man coupled with overall focus to improve rural household income shall enhance overall demand and reap long-term benefits for the sector
- Reduction of corporate tax rates for corporates with turnover below INR250 crore would benefit renewable energy companies and distributed power players and may enhance the tariff competitiveness
- Allowing 'A' rated issuers to access bond capital via institutional investors is a welcome move and we expect a large number of energy sector companies to access such finance particularly in clean energy space.

Key announcements

Tax

- Corporate tax rate of a domestic company with a turnover of INR 250 crore or less in FY2016-17, is reduced to 25 percent
- Long-term capital gains derived on transfer of equity shares or a unit of an equity oriented funds or a business trust (including unit of InvITs) taxable at concessional rate of 10 per cent subject to conditions
- Benefit of deductions in respect of certain incomes (Part C) under chapter VIA of the Income Tax Act, 1961 ('the Act') available only when the return is filed within the prescribed time limit
- Transfer of a capital asset between holding and subsidiary not liable to tax in the hands of recipient
- Non individual entities (including a foreign company) having financial transactions of INR 2.5 lakhs in a financial year obligated to obtain Permanent Account Number (PAN)
- Minimum Alternate Tax (MAT) provisions not applicable to foreign companies engaged in the business of:
 - Civil construction, erection of plant and machinery or testing or commission in connection of a turnkey power project approved by the central government.
 - Clarified that MAT would not apply to profits earned by foreign entities providing services/facilities/ assets on hire for exploration and production activities, which are taxable under presumptive tax regime under section 44BB of the Act.
- Maximum effective tax rate for entities offering their income to tax under section 44BB of the Act is increased to 4.368 per cent from 4.326 per cent

The above amendment is applicable retrospectively from Assessment year (AY) 2001-02

- Cases under the Insolvency and Bankruptcy Code, 2016 where resolution plan has been approved by the authority are relieved from MAT on loss brought forward and unabsorbed depreciation and rigors of section 79 of the Act which restricts the benefit of carry forward and set off business loss
- Benefit under section 54EC of the Act restricted to long-term capital assets being land, building or both
- Tax exemption extended to income from sale of leftover stock of crude oil from a facility in India in the hands of foreign company on termination of the agreement with the Government.

Indirect tax

- Introduction of new levy by the name Social Welfare Surcharge (SWS) at the rate of 10 per cent on imported goods in lieu of Education Cess (2 per cent) and Secondary and Higher Education Cess (1 per cent) resulting into marginal increase in effective Customs Duty rate for most products
- Exemption from service tax for the period 1 April 2016 to 30 June 2017, on consideration paid to the Government in the form of its profit petroleum share in respect of services provided by the Government by way of grant of licence or lease to explore or mine petroleum, crude or natural gas or both
- Effective tax incidence on petrol and high speed diesel remains neutral-

Excise Duty on petrol and high speed diesel

Nature of levy	From	To
Road Cess	INR6 per litre	-
Road and Infrastructure Cess	-	INR8 per litre*
Basic Excise Duty:		
Petrol (unbranded)	INR6.48 per litre	INR4.48 per litre
Petrol (branded)	INR7.66 per litre	INR5.66 per litre
HSD (unbranded)	INR8.33 per litre	INR6.33 per litre
HSD (branded)	INR10.69 per litre	INR8.69 per litre

*INR4 per litre in case manufactured and cleared from specified refineries located in North-East

Customs Duty on petrol and high speed diesel

Nature of levy	From	To
Education Cess and Secondary and Higher Education Cess	3 per cent	-
Social Welfare Surcharge	-	3 per cent
Road Cess	INR6 per litre	-
Road and Infrastructure Cess	-	INR8 per litre
Additional duty of Customs		
Petrol	INR6.48 per litre	INR4.48 per litre
HSD	INR8.33 per litre	INR6.33 per litre
Road and Infrastructure Cess on 5% ethanol blended petrol, 10% ethanol blended petrol and Bio-diesel, upto 20% by volume subject to specified conditions	-	Nil

Basic Customs Duty rate on solar tempered glass or solar tempered (anti-reflective coated) glass for manufacture of solar cells/ panels/modules reduced from 5 per cent to Nil.

ⁱSource: www.powermin/nic.in



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