



Balanced solution for sensitive issues sought in Union Budget: Minda Corp

DC Sharma | Mumbai | February 01, 2016 10:15 IST

In the budget 2016-2017, the automobile industry would be eagerly expecting from the Government to make initiatives for the core industry growth drivers such as concessional excise duty, Goods and Services Tax (GST) and the increased spending on infrastructure and roads.



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During April-December 2015, the overall auto sales volumes grew by just 2.2% year on year, which were mainly driven by passenger vehicle and commercial vehicle. The 2 wheeler segment has shown signs of stagnation with a marginal growth of 1.2% during this period.

In the budget 2016-2017, the automobile industry would be eagerly expecting from the Government to make initiatives for the core industry growth drivers such as concessional excise duty, Goods and Services Tax (GST) and the increased spending on infrastructure and roads.

Implementation of simpler tax structures such as GST is undoubtedly inevitable in today's economic scenario. Implementation of GST is expected to remove the cascading effect of taxes and thus, supporting cost reduction for businesses across the value chain. This will also likely to benefit exports, as embedded taxes in export prices will be excluded. Government focus on infrastructure spending would further support the commercial vehicle segment and other related industries.

The automobile sector has sought lower excise duty of 20% on mid-size, larger cars and sports utility vehicle (SUVs). Furthermore, all kinds of domestic indirect taxes such as road tax, R&D cess and Octroi should be included in the proposed GST along with the withdrawal of NCCD (National Calamity Contingent Duty) on the vehicles.

In the recent months, crude oil has fallen to below levels of \$35 per barrel providing a headroom for budgetary spend and further reduction in fuel prices for the end users. Increase in income tax slab from current Rs.2.5 lakhs to Rs.3.0 lakhs for individuals would support particularly 2 & 3 wheeler and passenger car sector as disposable income in the hands of the consumer would increase. Further, relief in financing cost of automobiles will provide support to the sector. In addition to the demand from urban areas, rural India continues to contribute in demand for automobile sector. Governmental support is required to further expand demand from these markets with greater financing availability and distribution reach.

We have recently seen ban in Delhi /NCR on diesel cars (with engine capacity over 2,000 CC) and subsequent change in diesel engine capacities by some of the OEMs. Some of the initiatives are essential for protecting our environment but sudden and unexpected decisions may severely impact existing OEMs capital investments and overall business sentiments. Similarly, stricter emission norms and adoption by India of Bharat Stage VI directly would require substantial investments from the auto industry.


Support from Government through reforms and initiatives in taxation and depreciation policy, availability of low finance costs, adequate subsidies / financial incentives etc would boost confidence in domestic players, foreign direct investments and enhance exports from India. Also, Government need to provide balanced solution for some of the sensitive issues such as 'End of Life Policy' for old vehicles.

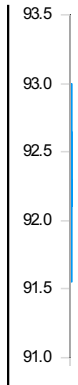
Providing investor friendly climate are equally important for Government campaigns like 'Make in India' and 'Start-Up India'. Penetration of passenger cars in India continues to remain relative low compared to the other emerging markets. On the back of expected increase in auto penetration levels and rising incomes in the country, I am optimistic on the growth prospects of the auto industry in a mid to long term basis. Auto Expo 2016 is expected to witness new product launches along with some refreshes across models, which would improve some sentiments although key growth drivers would be the union budget.

The author is Group CFO Minda Corporation

Minda Corporation Ltd

NSE  92.65 0.35 (0.38%)

BSE  93.25 0.60 (0.65%)



***Note: This is a NSE Chart

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