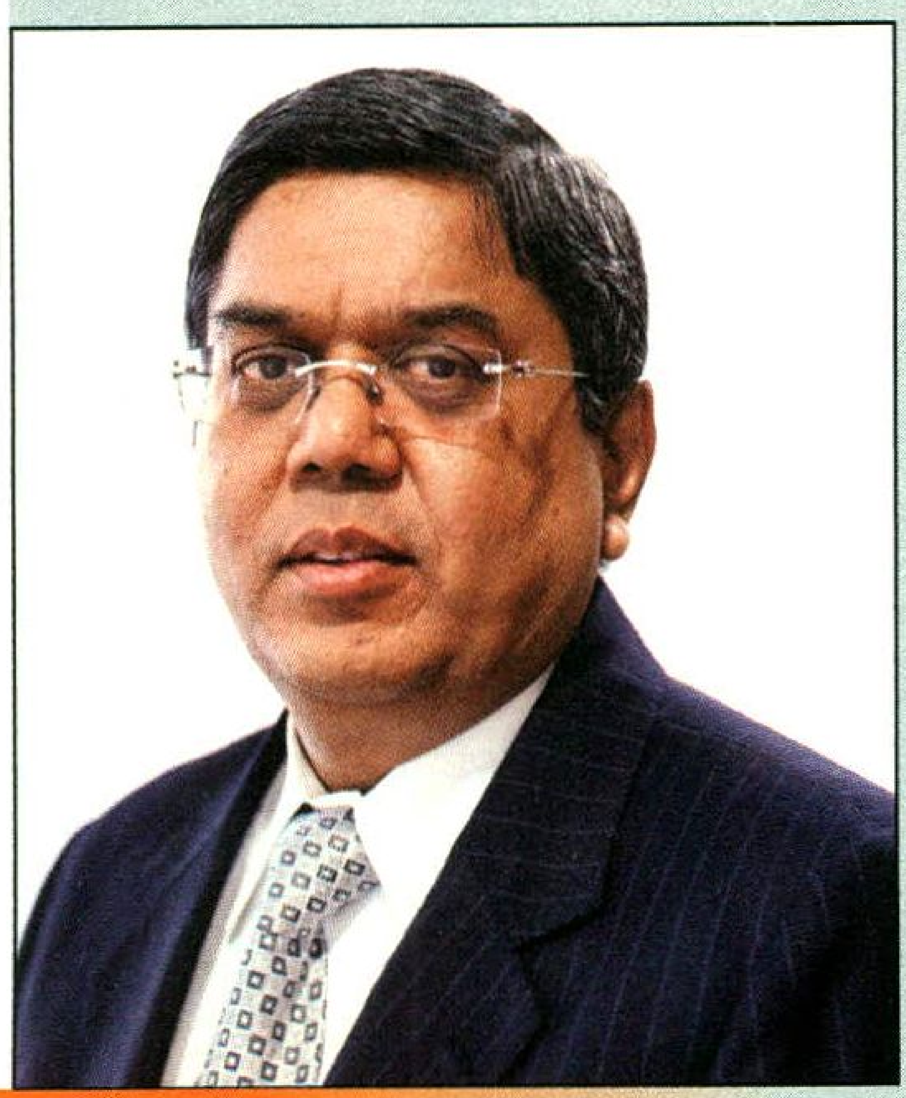
BUDGET 2016 EXPECTATIONS



Tulsi Tanti, CMD, Suzlon Group

Today, India is an increasingly attractive investment destination, and the 2016 Union Budget should undertake reforms necessary to support this momentum.

The budget needs to address the looming global slowdown and make adequate provisions to protect the economy from changes such as the anticipated oil prices rise. Two aspects that need special focus to ensure macroeconomic stability and protection from Rupee depreciation are:

- Higher consumer demand which can be spurred through growth-oriented mechanisms such as reduced tax value and consequent purchasing power increase.
- Higher exports facilitated by providing economic stimuli and incentives.

At the same time, it is equally important that various initiatives like Goods and Service Tax (GST), clarity about capitalisation of banks and other reforms be undertaken on a fast-track basis. Coming to the renewable energy sector, we are looking at targets including:

- 175 GW of renewable energy by 2022
- 30% to 35% carbon emission reduction by 2030
- RE constituting 40% of the energy mix by 2030.

This is a $200 billion opportunity and can be very beneficial to national economic development. The budget should, hence, pay special attention to facilitating efficient financing in renewable energy. Continuing with the current fiscal benefits will bring certainty in investment and is imperative to maintain the momentum that the sector has obtained in the last year. Major expectations from the budget are:

1. Accelerated Depreciation and Section 80 IA benefits need to be maintained at least for 5 years
2. Continuation of Generation-Based Incentives (GBI) and long-term visibility on GBI beyond 2017, at least for 5 years.
3. GST for renewable energy should be pegged at zero rate, since electricity is not subsumed under the proposed GST framework
4. SMEs should be supported by 5% interest rebate for using renewable energy for captive requirement
5. Finance should be made available at a reduced rate (for instance a rebate of 5%) for projects that procure products having 70% content in value terms from domestic suppliers [similar to Brasilian Make in Brasil policy by BNDES (Brazilian Economic and Social Development Bank) through FINAME code].
6. Companies should be allowed to issue tax-free bonds, especially those holding certain credit ratings
7. Draft a policy for sharing hedging risk for borrowings in the sector (manufacturing and projects), thereby reducing the cost of energy, making renewable energy more competitive and acceptable to utilities and addressing the forex risk involved in obtaining international funding
8. Provide manufacturing with support to facilitate innovative financing, increase capabilities, facilitate job creation and meet the Make in India initiative and goal. Some recommendations are:

i. Duty and excise exemption on certain components' import needs to be continued
ii. Wind and solar sectors should be provided with the same incentives
iii. Provide financial incentives to encourage domestic manufacturing of solar photovoltaic (PV) cells, thereby reducing the dependence on imports
iv. Implement the practices of China – EXIM and USA – EXIM that give a line of credit of $1 billion and $2 billion respectively, in the case of exports by local companies. In India, EXIM offering is limited to $200 million per year. RBI should remove the 10% limit imposed to one company or infuse $5 billion fresh equity to EXIM.
v. Clarity on tax and other regulatory matters relating to InvIT will help in developing new streams of financing which is at par with other countries.

The budget needs to focus on giving a boost to RE, enabling energy security for the nation, facilitating a low carbon economy and providing sustainable and affordable energy for all.