



BUDGET 2020-21

IMPACT ON

METALS AND ENERGY SECTOR

February 01, 2020

Budget 2020-21

Impact on Metals & Energy Sector

Finance Minister Nirmala Sitharaman on Saturday presented the second budget of Modi government 2.0. The budget revolved around three major themes-aspirational India, economic progress and social welfare. The focus of the budget was to put the economy back on growth track, and it tried to blend it well with social development which was substantiated by a multi billion dollar package for farmers welfare, wellness and education. Budget reflects the government’s commitment to boost investment in the economy with enhanced allocations on infrastructure, promoting exports, uplifting manufacturing activities, boost for MSMEs and bank reforms. The government has done a fine balancing act by increasing expenditure in order to kick start the economy, but at the same time maintaining fiscal prudence. The budget has revised fiscal deficit at 3.8 per cent of GDP for FY20, and 3.5 per cent for FY21. Though the government has relaxed fiscal deficit target, but it was the need of the hour considering the on going slow-down in economy. From the commodity markets perspective, one major welcome initiative is the proposed setting up of International Gold Exchange in GIFT city. With India being the second largest consumer of gold, this would enable efficient price discovery of gold and allow us to stand at par with other big consuming nations like China and Hong Kong. However, instead of addressing the high cost of trading in Indian commodity markets which is leading to a drop in volumes and liquidity, budget announcement that commodity indices would be brought under the CTT umbrella is negative for the growth of commodity markets.

There were certain misses and the budget fell short of market expectations to some extent as change in income tax slabs comes with a caveat, there has been no substantial relief for the auto and telecom industry and LTCG still stays. Also, the budget could have focused more on key areas that needed attention to boost growth.

Nonetheless, considering the limited resources due to lower tax collections, we see this budget as balanced and inclusive for all sections of society.

Key Highlights of the Union Budget 2020-21:

Direct and Indirect taxes

- Taxpayers will now be able to avail a lower income tax rate on various slabs by foregoing certain deductions and exemptions. The new regime will be optional and those who want to stick to claiming deductions will be allowed to do so
- Concessional corporate tax rate of 15 per cent to new domestic companies engaged in the generation of electricity
- Abolishment of Dividend Distribution Tax (DDT)

Taxable Income Slab (₹)	Existing Tax Rates	New Tax Rates
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

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- To launch new direct tax dispute settlement scheme-Vivaad se Vishwas scheme
- Tax burden on employees due to tax on ESOPs to be deferred by five years or till they leave the company or when they sell, whichever is earliest

Banking and Financial Markets

- Deposit Insurance Coverage to increase from `Rs.1 lakh to Rs.5 Lakh' per depositor
- Floating a new Debt-Exchange Traded Fund consisting primarily of government securities
- Certain specified categories of government securities would be opened fully for non-resident investors, apart from being available to domestic investors
- FPI limit in corporate bonds raised to 15% from 9%

Rural growth and women empowerment

- Rs.2.83 lakh crore to be allocated for the Agriculture sector
- Expansion of the PM KUSUM scheme to fund setting up stand-alone solar pumps for 20 lakh farmers; In addition, a scheme announced to enable farmers to set up solar power generation capacity on their fallow/barren lands and to sell it to the grid
- Creation of efficient warehouses
- SHGs run village storage scheme
- Integration of e-NWR with e-NAM, "Kisan Rail" and "Krishi Udaan"
- Facilitate doubling of milk processing capacity from 53.5 million MT to 108 million MT by 2025

Infrastructure

- Infrastructure Financing of Rs.103 lakh crore announced
- National Logistics Policy to be launched soon
- Accelerated development of Highways
- 100 more airports to be set up by 2024 to support UDAN scheme
- Delhi-Mumbai Expressway and two other packages would be completed by 2023. Chennai-Bengaluru Expressway would also be started

Focus on Jobs creation and Skill development

- New common eligibility test for non-gazetted government jobs and public sector banks
- Special bridge courses to be designed by the Ministries of Health, and Skill Development: To fulfill the demand for teachers, nurses, para-medical staff and care-givers abroad
- Urban local bodies to provide internships for young engineers for a period of up to one year

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Following are the key announcements in the Budget 2020-21 and their relevant impact on metals and energy sector.

Key areas of concern for commodity sector

Announcement

- CTT of 0.01% proposed on seller of commodity indices

Impact

- Negative for the commodities futures segment as it leads to increase in hedging cost, which may hamper the growth of domestic commodity markets

Precious Metals

Announcement

- GIFT city to set up an International Bullion exchange in GIFT-IFSC as an additional option for trade by global market participants
- Focus on encouraging manufacturing of mobile phones, electronic equipment and semi-conductor packaging
- A slew of schemes announced to boost investment in the rural sector and the upliftment of farmers. For the sector, an allocation of about Rs.2.83 lakh crore has been made for the year 2020-21

Impact

- Positive for Gold
With India being the second largest consumer of gold, Bullion exchange will enable India to enhance its position worldwide, be at par with major consumer markets like China and Hong Kong, create jobs in India and will lead to better price discovery of gold.
- Positive for Silver
Silver is the key component used in the electronic industry. Increased production of electronic goods shall boost demand for the white metal
- With more than 50% of gold jewelry demand coming from rural India, the budget's focus on boosting rural and farm incomes could boost the demand of gold and will be positive for prices

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Energy

Announcement

Total allocation of Rs.22,000 crore to power and renewable energy sector in 2020-21

Focus on regularizing gas markets

- Deepen gas markets in India
- Expansion of the national gas grid from the present 16,200 km to 27,000 km

Focus on clean energy

- Setting up a large solar power capacity alongside the rail tracks, on the land owned by the railways
- Scheme to provide 20 lakh farmers for setting up stand-alone solar pumps to reduce dependency on kerosene and diesel

Impact

- Positive for Oil and Natural gas industry
- Increased focus on the gas sector shall lead to transparent price discovery, increasing the ease of transactions
- This will incentivize companies to invest in exploration and extraction of natural gas and encourage them to move to lower carbon pathways, leading to increased green energy penetration in India
- Development of alternate sources of energy shall reduce demand for crude oil, thereby reducing burden on our current account deficit

Base Metals

Announcement

- Focus on development of infrastructure for increased use of solar energy

Impact

- Demand for base metals such as lead and nickel shall rise due to the increased demand for battery and solar panels

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Impact on Metals & Energy Sector

Base Metals

Announcement

Infrastructure

- A total of Rs.103 lakh crore allocated consisting of more than 6500 projects
- Launch of National Logistics Policy soon
- Accelerated development of highways
- 150 passenger trains through PPP mode. More Tejas type trains for tourist destinations.
- Corporatizing at least one major port
- 100 more airports to be developed under UDAAN

Impact

- Higher allocation towards infrastructure segment will be positive for demand of base metals and their prices

Key misses for Metals & Energy sector

- No reduction in Commodity Transaction Tax (CTT) applicable on commodity futures
- Import duty on gold remains unchanged at 12.50%
- No announcement with regards to Integrated Gold policy for integration of spot and futures market
- No increase in the import duty on refined copper to reduce the influx and protect the domestic industry

Research Team

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