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Union Budget 2023-24 Highlights Auto Sector





India's Finance Minister, Nirmala Sitharaman presented the Union budget 2023-24 mentioning Seven Priorities of the Government during Amrut Kaal as inclusive development, last mile connectivity, infrastructure & investment, unleashing potential, green growth, youth power, financial sector with a strong focus on green energy and making electric vehicles affordable to the masses.

The top highlights for the auto sector in the Union Budget 2023 are:-

Emphasis on Electric vehicles (EVs)

The government has announced the removal of customs duty on the import of specified goods and machinery required to manufacture lithium-ion batteries for EVs which is expected to reduce the price of domestically manufactured EVs in the country and encourage electric vehicle manufacturers to increase their product line-up.

Stronger focus on flex-fuel vehicles


The Indian government has denatured Ethanol for use in the manufacture of industrial chemicals. The government plans to boost ethanol production and expects vehicles to be fully flex-fuel-ready by 2025. The cars are required to be ethanol-material compliant from April 2023.

Special emphasis on vehicle scrappage policy

The finance minister stated that more funds will be allocated to scraping old vehicles, owned by Governments including ambulances. Though there is no change in benefits for the scrapping of private vehicles, the new development will create continuous demand for auto manufacturers from near future.

The Budget seems to be 'green budget' for the automotive and mobility sectors. The sustainability measures taken through announcements on green hydrogen and other energy sectors will help in furthering the government's target of carbon neutrality by 2070. The increased Capex outlay on energy transition is likely to spur investments and skill development in a green economy.

The viability gap funding for battery energy storage systems is also likely to create critical infrastructure, while custom duty reduction on capital goods for Lithium batteries manufacturing will facilitate faster adoption of EVs.




Increase in spending on infrastructure, setting up of 50 new airports and heliports, creation of 100 transport infrastructure projects and decision for replacing old vehicles is expected drive consumption and overall demand of vehicles.

With the automotive sector being one of the largest industries contributing about 7.1% to India's GDP and generating huge direct and indirect employment, she touched upon the key areas for the mobility sector as follows.

It can be observed that through the Budget, the Central Government has clearly shown its intention of working towards achieving the target of promises made at Paris Accord on Global Warming as follows :

1. **Net Zero Carbon:** INR 35,000 crore outlay has been announced for energy transition with a focus on achieving the country's goal of net zero carbon emissions by 2070.
2. **Hydrogen economy:** In order to facilitate transition to low carbon intensity economy, an outlay of INR 19,700 crores for the National Green Hydrogen Mission is announced. The government is targeting to reach annual production of 5 metric million tonne by 2030.
3. **Electric Vehicles:** Customs duty reduction from 21% to 13% on lithium-ion cells and an extension of the subsidies on electric vehicle (EV) batteries for one more year are major demand boosters. Viability gap funding support for battery storage systems with capacity of 4,000 MWh is also announced. With green mobility identified as one of the priority areas, manufacturing and adoption of alternative fuel vehicles, including EVs, has also received impetus. As part of the earlier announced INR 10,000 crore outlay, the allocation for FAME-2 scheme has now been doubled for FY24.
4. **Scrapage Policy:** FM Nirmala Sitharaman said adequate funds are allocated to scrap old vehicles of the central government, states will also be supported in replacing old vehicles, including ambulances.
5. **Transport infrastructure projects:** The minister said that 100 critical transport infrastructure projects for last and first mile connectivity for ports, coal, steel, fertilizer and food grain sectors are identified with investment of INR 75000 crores, including INR 15,000 from the private sector.
6. **MSMEs:** The FM announced INR 9,000-crore corpus for a revamped credit guarantee scheme for micro, small and medium enterprises (MSMEs), which would be effective April 1, 2023. The new credit guarantee scheme is expected to lower cost of credit by 1%. The significantly higher allocation of INR 10 lakh crore towards capital investments and INR 79,000 crore towards affordable housing in the Union Budget FY24 augurs well for commercial vehicle demand, especially the heavier multi-axle vehicles and



tippers. The LCV segment would also benefit from the outlay of INR 75,000 crore towards improving first and last-mile connectivity for select sectors.

However, the auto sector anticipated relief in the form of uniform GST on components, concession on R&D expenses and higher taxation on hybrid vehicles which was not talked about during the Budget speech.

1. **Custom duty hike:** The Government has proposed to increase the duties on completely built units (CBUs) to 70% from 60% earlier and a broad increase of duty to 35% from 33% on semi knocked down (SKD). This may remain a hindrance in leveraging the potential for the luxury car market in the country.
2. **No uniform GST for Auto Parts:** The Industry has been demanding for a uniform rate of GST @ 18% of all components as various rates of inputs always create issues for input credits/excess duty balances always remaining with the Governments and extra efforts in reconciliation of figures at the time of filing GST>Returns.
3. **No Incentivising of R&D:** The auto sector was anticipating tax benefits in the form of Research & Development incentives, as the emerging and new technologies need substantial R&D support.
4. **Duty hike on compounded rubber:** An increase in the duty rates on compounded rubber from 10% to INR 25 (or) INR 30 per kg, whichever is less, is a challenge for the tyre industry which largely depends on imported rubber.
5. **Lower GST on hybrid vehicles:** India aims at reducing carbon emissions and promoting green mobility. Hybrid vehicles offer optimal utilization of fuel by offering higher mileage. They are still taxed as luxury goods at 43%.
6. **Scrappage policy with a caveat:** FM announced that only the polluting government vehicles will be replaced whose numbers are limited. Central government vehicle scrapping will be funded directly and State Government vehicle scrapping will be supported financially.



SCV's Take Away

The Budget for 2023-24 seems to be growth-oriented and it is expected that the proposed measures will drive sustainable/inclusive growth at a rapid pace as a 33 per cent increase in capital outlay with an effective provision of Rs 13.7 lakh crore is expected to spur growth in the economy and domestic automobile industry. The measure taken by Government through the budget in putting more money in the hands of the individuals by lowering effective personal income tax rates is expected to increase consumption and consequently lead to more demand for Auto Industry Products Demand at various Levels leading to Economic Growth.

Finance Minister Nirmala Sitharaman has proposed to further provide impetus to green mobility. "Customs duty exemption is being extended to import of capital goods and machinery required for the manufacture of lithium-ion cells for batteries used in electric vehicles," she stated.

However as observed by us, there are still many parts of EV componentry such as lithium cells, permanent magnets for electric motors, semiconductors etc that will need to be imported and we expect rationalisation of customs duty on such essential imports will help keep the EV prices in check.

Another major step is Exemption from BCD is being provided to vehicles, specified automobile parts/components, sub-systems and tyres, when imported by notified testing agencies for the purpose of testing and/ or certification, subject to specified conditions thereby clearly showing the intention of making India as testing hub for Auto Industry.

To conclude, the Budget not only focuses on inclusiveness, youth empowerment and skill development but also aims to give impetus to "Green Growth" with sufficient outlays for supporting the recently announced National Green Hydrogen Mission, doubling of allocation for FAME 2 scheme and for providing viability gap funding for Battery Energy Storage System (BESS).

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