

# Budget

2020

2021

2022

2023

2024

## Indian chemical sector to benefit from policy announcements but the wait for PLI continues



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In the face of various global challenges, the Indian chemical industry continued to be resilient in 2022 and has shifted gears in the right direction of becoming a noteworthy global player. The Indian Chemical industry continues to be a significant contributor to India's "Make in India" or Atmanirbhar Bharat Abhiyaan reform. Accordingly, it was expected that Budget 2023 would provide further impetus to the Indian chemical sector which has witnessed a record growth in exports and capacity expansion in the last 2 to 3 years.

Budget 2023 is a growth oriented, progressive and prudent budget with specific focus on stability, sustainable and inclusive development, announcing various policies which will generate demand for a variety of chemicals including construction chemicals, emission control catalyst, polyurethanes, TPUs, bio-pesticides, etc. Further changes in BCD rates of various goods like crude glycerin, denatured ethyl alcohol, acid grade fluorspar, specified chemicals for manufacture of pre-calcined Ferrite Powder, etc would provide impetus to increase domestic demand for these products/ Make in India policy. However, the Indian chemical sector, which has all the ingredients to become a global manufacturing hub, continues to await the much expected and anticipated production linked incentive scheme, which has unfortunately not been announced in Budget 2023.

# How does the budget impact the chemical sector?

## Key policy announcements

Proposals in budget	Impact on chemical subsegments
Capital investment outlay is being increased by 33% to INR10 lakh crore. A capital outlay of INR2.40 lakh crore has also been provided for Railways. Further, the newly established Infrastructure Finance Secretariat will provide a boost to private investment in infrastructure including railways, roads, urban infrastructure and power	This would positively impact varied specialty chemicals including construction chemicals
100 critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors have been identified. They are proposed to be taken up on priority with investment of INR75,000 crore, including INR15,000 crore from private sources	This would positively address the logistic issues faced by the chemical and fertilizer sector
Research & Development grant provided to one of the IITs for 5 years to encourage indigenous production of Lab Grown Diamonds	Positive impact for chemicals and gases used in Chemical Vapor Deposition process undertaken for producing Lab grown diamonds
Focus on green growth and announcement of green credit programme for incentivising environmentally sustainable and responsive actions by companies, individuals and local bodies	The same would boost green chemistry products and also aid ESG initiatives undertaken by various chemical companies
Target of 5MMT by 2030 for production of Green Hydrogen under National Green Hydrogen Mission	Positive impact for hydrogen producing companies
Allocation of funds to scrap old vehicles and ambulances	Positive impact for emission control catalyst, polyurethane and TPU
Boost to research & development to promote innovation in pharmaceutical sector	Positive impact for laboratory chemicals, including reagents

## Highlights



Capital investment outlay increased to INR10 lakh crore, with focus on infrastructure on infrastructure



Green hydrogen production target of 5 MMT by 2030

Impetus to research & development

Boost to indigenous production of Lab Grown Diamonds

**POSITIVE IMPACT**  
on chemical sub-segments

# Key tax proposals

## Direct tax

- ▶ No change in corporate tax rates
- ▶ No specific announcement for chemical sector

## Indirect tax

- ▶ As part of rationalisation of Customs duty rate structure, BCD rates on certain goods other than textile and agriculture is being reduced.
- ▶ Exemption on Denatured ethyl alcohol is proposed to support the Ethanol Blending Programme and facilitate Government's endeavour for energy transition.
- ▶ Reduction in BCD is proposed for acid grade fluorspar from 5% to 2.5% to make the domestic fluorochemicals industry competitive.
- ▶ Following key changes in the BCD rates will be effective from 2 February 2023:

Chapter heading	Nature of goods	Rate movement (%)		Movement
		Basic Customs Duty		
		From	To	
15200000	Crude glycerin for use in manufacture of epichlorohydrin through IGCR route	7.5	2.5	Reduced
22072000	Denatured ethyl alcohol for use in the manufacture of industrial chemicals through IGCR route	5	NIL	Reduced
25292200	Acid grade fluorspar (containing by weight more than 97% of calcium fluoride)	5	2.5	Reduced
27101221, 27101222, 27101229	Naphtha	1	2.5	Increased
29025000	Styrene	2	2.5	Increased
29032100	Vinyl chloride monomer	2	2.5	Increased
38249900	Palladium Tetra Amine Sulphate for manufacture of parts of connectors	7.5	NIL	Reduced
25, 28, 32, 39, 40, 69, 73, 85	Specified chemicals for manufacture of pre-calcined Ferrite Powder	7.5	NIL	Reduced

- ▶ Following existing Chapter headings will be substituted with the following new entries and description of goods with effect from 1 May 2023:

Existing Chapter heading	Substituted Chapter heading	Nature of goods	BCD rate (%)
29302000	29302010 29302090	Cartap Hydrochloride Other	7.5
29333919	2933 39 21 2933 39 22 2933 39 29	Acetamiprid Imazethapyr Other	7.5
2935 50 00	2935 50 10 2935 50 90	Flubendiamide Other	7.5
3102 10 00	3102 10 10 3102 10 90	Fertilizer grade, conforming to Standard IS 5406 Other	10

- ▶ Following new entries will be included in the Customs Tariff with effect from 1 May 2023:

Chapter heading	Nature of goods	BCD rate (%)
29	Bifenthrin, Pretilachlor, Acephate, Glyphosate, Emamectin Benzoate, Chlorantraniliprole, Bispribac-sodium, Carbendazim, Buprofezin	7.5
38	Specified products	10

*Note: Chapter heading and nature of goods mentioned in the above table is indicative and exact details of the same needs to be referred from the relevant notifications/ Finance Bill 2023*

- ▶ In order to promote green fuel, central excise duty exemption is being provided to blended Compressed Natural Gas from so much of the amount as is equal to the GST paid on Bio Gas/Compressed Bio Gas contained in the blended CNG with effect from 2 February 2023

## Impact analysis

Budget 2023 is a growth and domestic consumption-oriented budget. Given that Indian chemical sector provides several building blocks and raw materials for many industries, the sector will benefit from India's strong macroeconomic indicators. This is apart from the transformational opportunities arising out of the Indian chemical sector, now being viewed favourably as a reliable supplier for global majors designing a China+1 and Europe+1 strategy to de-risk their operations. The sector has been strongly supported by various government reforms for e.g., "Make in India" or Atmanirbhar Bharat Abhiyaan reform, increased focus on infrastructure projects, concessional income tax rate of 15% for new manufacturing companies, etc.

Various policies announced in the Budget 2023 would certainly generate demand for a variety of chemicals including construction chemicals, emission control catalyst, polyurethane, TPUs, bio-pesticides, etc. Further the rationalisation of customs duty rate structure and basic custom duty has been proposed from perspective of enhancing domestic production, exports and executing green initiative programme of the Government.

The industry was expecting the much awaited production-linked incentive scheme to be announced in Budget 2023 to further boost capex apart from provisions regarding incentives for R&D, enabling single window clearances of approvals for greenfield / brownfield plants, etc., which remains an unfinished agenda.

However, the Finance Minister has navigated a challenging task of ensuring careful fiscal management (with an aim to bring the fiscal deficit below 4.5% of GDP by 2025-26) and at the same time continuing to give a push to various structural reforms (for e.g. infrastructure projects, agriculture and rural development, sustainable and inclusive development, etc). This in turn would surely support the Indian chemical sector, a sunrise sector of India, to continue on its growth trajectory and contribute effectively to the Indian GDP!

## Glossary

BCD	Basic Customs Duty
CNG	Compressed natural gas
ESG	Environment, Social and Governance
GDP	Gross Domestic Product
GST	Goods and Services Tax
IIT	Indian Institute of Technology
PLI	Production-linked incentive
TPU	Thermoplastic polyurethanes



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