

AS per the Union Budget 2013-2014, companies investing ₹ 100 crore or more in plant and machinery, during the period April 1, 2013 to March 31, 2015, will be entitled to deduct an investment allowance of 15 per cent of the investment. This deduction will be in addition to the regular depreciation benefits enjoyed by these companies. People associated with the chemical industry strongly believe that this step could help in boosting

for investment in plant and machinery to ₹ 10 crore in two years instead of ₹ 100 crore, as indicated in the Budget. Lowering the eligibility limit would provide the much-needed momentum to the small entrepreneurs, for whom this support could be crucial. In the Indian chemical industry, majority of players belong to the SME sector," he points out. Such step will encourage SMEs to invest in their plants, which is at present low

around ₹ 5,00,000 crore in 400 projects in the next two financial years. "There will be a saving of up to five per cent from our capital cost and this will help new units to break even faster. The estimated saving of around ₹ 25,000 crore on project cost is equivalent to 7.3 per cent of the aggregate profits of BSE-500 companies in FY12. The savings will flow directly into their bottom line and improve the financial viability of projects," he says.

Will it provide a booster dose to the Indian chemical industry?

PRASENJIT CHAKRABORTY

The government move proposed in the Union Budget 2013-14 to provide investment allowance of 15 per cent to manufacturing companies would provide fillip to chemical manufacturers, as this is expected to bring in investments to the sector. This is not all; it will also result in the creation of job opportunities.

capital expenditure (Capex) that has been almost stalled for past one year owing to slowdown in the economy. It will also provide job opportunities in the chemical sector.

Benefits galore

According to Amit Kapur, Director, Everest Group, this (investment allowance of 15 per cent) may enhance the viability of investments by improving the internal rate of return for such projects by 200 bps to 300 bps (depending upon the debt-equity mix and duration of the project). The economic equivalent to this is an interest rate reduction in cost of debt for projects to the tune of over 75 bps. "Many trade and industrial organisations are requesting the government to lower the threshold

Amit Kapur
Director, Everest Group



Many trade organisations are requesting the government to lower the threshold for investment in plant and machinery to ₹ 10 crore in two years instead of ₹ 100 crore.

key. Experts believe that, this step would benefit companies mainly with a turnover of ₹ 500-600 crore, as smaller companies will have to stretch their balance sheet for an investment of ₹ 100 crore.

With such an allowance, companies are expected to get a total benefit of ₹ 25,000 crore. According to an estimate by the Centre for Monitoring Indian Economy, India Inc plans fresh Capex of



Implication on the chemical industry

This would imply an almost doubling of the commissioning of manufacturing projects compared to what has been seen in the previous two years, observes Kapur. By giving a two-year window, the government intends to induce companies with capacity expansion plans

to achieve maximum project progress in the next 24 months. "Taking cue from such sops announced in the past, I believe that manufacturing companies will go for fast-paced implementation of their projects to avail of the benefits from the proposed allowance," he adds. Hence, this shall definitely spur growth of the chemical industry in India. ■

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