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Two New Subsidies:
Sweet Spot for NBFCs and Asset Leasing Companies

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Preface

The present government ushers 2016 with all round developments in the country – from more and more renewable sources of energy to better quality of homemade garments.
On 30th December, 2015, the policy makers gave nod to two of the most important subsidies:

1. Amended Technology Upgradation Fund Scheme – for the textile sector.
2. Subsidy for grid conned rooftop solar power projects.

These two subsidy schemes are directed towards generation of employment, green energy and better quality of domestic garments.

In the brink of these reforms stand the financial institutions of the nation. Before going into the discussion, on how these subsidy schemes are sweet spot for the financial institutions, let us first understand about these subsidies in a gist.

Amended Technology Upgradation Fund Scheme (ATUFS)

The Amended Technology Upgradation Fund Scheme (ATUFS) for textiles came into force replacing the Revised Restructured Technology Upgradation Fund Scheme (RR-TUFS) on 30th December, 2015. This may be seen as an action by the policy makers to boost the national campaign of "Make in India" for the textiles industry. The government is hopeful that this will increase employment in the country as the textiles industry is largely labour intensive. A report by CRISIL pointed out that a minimum of 16 nos. workers are required to produce an output of Rs. 1 million[1].

With the new ATUFS the government is looking forward to address a number of issue with this industry as well as some other issues of the nation. First the government intends to bring in uniform regulation across all manufacturing industry, secondly it intends to bring down unemployment in the country by promoting and providing support to this industry as this industry is largest employer in the country after agriculture.

The ATUFS divides the industry in two segments:

1. Apparel, Garment and Technical Textiles; and
2. Other Sub Segments.

The new scheme will allow capital subsidies of 15% to the first segment, subjected to celling of Rs. 30 Cr. over a period of five years, and 10% to the second segment, subjected to celling of Rs. 20 Cr. on similar lines. While there will be increased capital subsidy on upgradation of technology, the ATUFS, unlike the RR-TUFS will not allow subsidies on interests and margin money.

[1] http://www.tribuneindia.com/news/business/amended-technology-upgradation-fund-scheme-for-textiles-gets-nod/177397.html

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This may be seen as a desperate attempt by the government to remove various interest subsidies across industries and bring down the distorting effect of these subsidies on the interest rate market[2]. This may also be seen as an action aimed for better transmission of the monetary policies. The major beneficiaries of these interest rate subsidies were the farmers and the exporters.

Subsidy for grid conned rooftop solar power projects

This scheme came into force on the very last day of the year 2015, i.e. 31st December, 2015. This is brought into force by the policy makers to address the problems of power shortages in the country, by encouraging public to set up roof top solar power units, which are connected to the grid[3]. The public will have dual benefits from these grid connected solar power units – firstly the benefit of upfront capital subsidy and secondly an extra source of income by the way of selling the power generated from these units to the national grids.

This scheme is more viable for the cities of the country where the skyline is constantly increasing exposing them to further clear skies and sun, which is ideal for solar power generation projects. The government seems to have plans to transform the cities into self-sufficient power generation centres which are capable to feed itself and also support the surrounding underdeveloped areas to satisfy the power needs.

Under this scheme the government has allowed subsidy of upto 70% for installing rooftop solar power plants in the North-eastern and Himalayan States along with Lakshadweep and Andaman & Nicobar Islands, and upto 30% for the remaining portion of the country. The government aims to generate 42,000 mv of electricity from these rooftop solar power plants under the National Solar Mission.

Sweet Spot for Leasing Companies

The subsidies ATUFS and Rooftop Solar Power Plant are surely brought into action to address various national issues, but these can also be utilised by the leasing companies to generate income with almost no capital investments at all. The ATUFS subsidy which is 15% of the capital investment in technology for production can be utilised by the leasing companies as down payments towards their asset value and the rest can be paid off by them with the rentals which they receive on their leased out assets, this signifies that the leasing company can earn from their leasing business without any investments , but this is available to leasing company only if it leases textile production assets to the textile manufacture under operating lease agreement.

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[2] http://www.financialexpress.com/article/industry/companies/interest-sop-to-textile-mills-may-end/147613/

[3] http://timesofindia.indiatimes.com/india/Govt-jacks-up-subsidy-for-rooftop-solar-to-Rs-5k-crore/articleshow/50384678.cms

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Similarly in case of Grid connected rooftop solar power plants, the leasing company will have the benefit of enjoying capital subsidy, as well as the accelerated depreciation on new solar assets which means, that the leasing company will be in much better position if the assets leased out are solar power equipments, as the leasing company stands the chance to recover substantially the whole of asset cost by 30% or 70% in form of subsidy and 80% in form of accelerated depreciation as tax benefits.

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