

# Union Budget 2016-17

Thrust in Infrastructure and Social Sectors while  
Fiscal prudence is the mantra

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- Fiscal prudence, the name of the game:** The key highlight of the budget was in maintaining the fiscal deficit at 3.9% of GDP for FY16 and reiterating the target at 3.5% for FY17. The budget need to be viewed from the challenges faced like a possible risk of further global slowdown and turbulence, additional pressure on expenditure due to 7<sup>th</sup> pay commission recommendations and OROP. The budget has given a target of fiscal prudence rather than growth at any cost. The roadmap of growth is clear with focus on infrastructure, agriculture, rural growth, health and education. While the budget also speaks of laying a roadmap for doubling the farmer income by 2020, improving the agriculture produce availability, streamlining the APMCs and agriculture produce across the country etc to boost the domestic demand and continue with the pace of economic reforms and policy initiatives to change the lives of the people for the better. While the Nominal GDP for REFY16 is at 10.2%(BE14.0%) estimates for FY17 is at 11%.
- Farm and Rural sector, social sector, infrastructure sector employment generation and recapitalization of banks are key areas of focus:** With slow private sector investments, government is focusing on investment in infrastructure to speed up growth.
- Nominal GDP growth estimates moderated: Gross tax revenues are expected to increase 11.7%, to Rs16.3trn and with direct taxes up 12.6% to Rs8.47trn and indirect tax up 10.8% to Rs7.83trn.
- Within the direct taxes, Corporate tax is expected to be up 9.0% to Rs4.93trn and income tax up 18.1% to Rs3.53trn. Within the indirect taxes, excise duties are expected to be up 12.2% to Rs3.18trn, customs duty up 9.8% to Rs2.3trn and service tax up 10% to Rs2.31trn.
- The subsidies are not expected to see any increase, given the low crude prices.
- The total plan expenditure is expected to be Rs5.5trn, up 15.3% from Rs4.7trn in REFY16.
- While there are efforts to focus on the vulnerable sections through PMFBY, new health insurance scheme to protect against hospitalization expenditure, facility for cooking gas for families.
- While there are no major tax changes in direct taxes, indirect taxes have been tinkered slightly. In addition, New Amnesty scheme announced for unaccounted money.

- Plans to introduce a bankruptcy law in FY17
- Plans to give a statutory backing to Aadhar to ensure that the benefit reach the deserving
- Free the transport sector from constraints and restrictions
- Undertake important banking sector reforms and public listing of general insurance companies and also undertake significant changes in FDI policy.
- Allocate Rs385bn for MGNREGS
- Allocate Rs1.51trn for social sector
- GOI to pay contribution of 8.33% for all new employees enrolling in EPFO for the first three years of their employment for salaries up to Rs15000 p m.
- Total investments in the road sector including PMGSY allocation at Rs970bn.
- To approve 10,000km National Highways in FY17
- New credit rating system for infrastructure projects.
- 100% FDI to be allowed in Food processing through FIPB route for food produced and manufactured in India.
- Introduce DBT on pilot basis for Fertilizer
- No changes in the income tax slabs
- Benefits for low cost housing with tax benefits for projects as well as buyers
- Certain exemptions for the high income segments withdrawn
- We maintain our top picks with our preferred picks Infosys, HDFC Bank, Coal India, Maruti Suzuki, Tata Motors, L&T, IOC, Indusind bank, Dabur India, Aurobindo Pharma, Britannia, Cummins India, GSK Healthcare, ACC, Glenmark pharma and Petronet LNG among large caps. ITC has had the lowest excise duty increase in the last few years.

- The government is continuing with the commitment to provide a predictable and stable taxation regime that would be investor friendly and spur growth.
- The FDI and FII split has been combined for investments, which should see an increased investments in companies where the FII limits have already reached.
- A number of tax saving proposals have been given to the middle class tax payers, which should spur growth I savings.
- The direct tax proposals should result in a revenue loss of Rs831.5bn while the indirect taxes should yield Rs228bn resulting into a net revenue gain of Rs1506.8bn.

(Rs billion)	2014-15 (A)	YoY gr.	2015-16E (BE)	2015-16E (RE)	YoY gr.	2016-17E (BE)	YoY gr.
<b>RECEIPTS</b>							
Revenue Receipts	11,015	8.5%	11,416	12,061	9.5%	13,770	14.2%
<i>% of total receipts</i>	<i>66.2%</i>		<i>64.2%</i>	<i>67.6%</i>		<i>69.6%</i>	
Tax Revenues (net to centre)	9,036	10.8%	9,198	9,475	4.9%	10,541	11.2%
<i>% of revenue receipts</i>	<i>82.0%</i>		<i>80.6%</i>	<i>78.6%</i>		<i>76.5%</i>	
Non-Tax Revenues	1,979	-0.5%	2,217	2,586	30.7%	3,229	24.9%
<i>% of revenue receipts</i>	<i>18.0%</i>		<i>19.4%</i>	<i>21.4%</i>		<i>23.5%</i>	
Capital Receipts (ex-Borrowings)	515	23.0%	803	442	-14.1%	671	51.8%
<i>% of total receipts</i>	<i>3.1%</i>		<i>4.5%</i>	<i>2.5%</i>		<i>3.4%</i>	
Recoveries of Loans	137	9.9%	108	189	37.6%	106	-43.8%
<i>% of capital receipts (ex-Borr.)</i>	<i>26.7%</i>		<i>13.4%</i>	<i>42.8%</i>		<i>15.8%</i>	
Other receipts	377	28.5%	695	253	-32.9%	565	123.2%
<i>% of capital receipts (ex-Borr.)</i>	<i>73.3%</i>		<i>86.6%</i>	<i>57.2%</i>		<i>84.2%</i>	
<b>Total Receipts</b>	<b>16,637</b>	<b>6.7%</b>	<b>17,775</b>	<b>17,854</b>	<b>7.3%</b>	<b>19,781</b>	<b>10.8%</b>
<b>EXPENDITURES</b>							
Revenue Expenditure	14,670	6.9%	15,360	15,477	5.5%	17,310	11.8%
<i>as a % of Total Expenditure</i>	<i>88.2%</i>		<i>86.4%</i>	<i>86.7%</i>		<i>87.5%</i>	
Capital Expenditure	1,967	4.8%	2,414	2,377	20.9%	2,470	3.9%
<i>as a % of Total Expenditure</i>	<i>11.8%</i>		<i>13.6%</i>	<i>13.3%</i>		<i>12.5%</i>	
<b>Total Expenditure</b>	<b>16,637</b>	<b>6.7%</b>	<b>17,775</b>	<b>17,854</b>	<b>7.3%</b>	<b>19,781</b>	<b>10.8%</b>
<b>Primary Deficit</b>	<b>1,083</b>	<b>-15.8%</b>	<b>995</b>	<b>925</b>	<b>-14.6%</b>	<b>412</b>	<b>-55.4%</b>
<i>% of GDP</i>	<i>0.9%</i>		<i>0.7%</i>	<i>0.7%</i>		<i>0.3%</i>	
<b>Revenue Deficit</b>	<b>3,655</b>	<b>2.4%</b>	<b>3,945</b>	<b>3,416</b>	<b>-6.5%</b>	<b>3,540</b>	<b>3.6%</b>
<i>% of GDP</i>	<i>2.9%</i>		<i>2.8%</i>	<i>2.5%</i>		<i>2.3%</i>	
<b>Fiscal Deficit</b>	<b>5,107</b>	<b>1.6%</b>	<b>5,556</b>	<b>5,351</b>	<b>4.8%</b>	<b>5,339</b>	<b>-0.2%</b>
<i>% of GDP</i>	<i>4.1%</i>		<i>3.9%</i>	<i>3.9%</i>		<i>3.5%</i>	
<b>Net Market Borrowings</b>	<b>4,564</b>	<b>0.6%</b>	<b>4,564</b>	<b>4,406</b>	<b>-3.5%</b>	<b>4,252</b>	<b>-3.5%</b>
<b>Gross Market Borrowings</b>	<b>5,580</b>	<b>-1.0%</b>	<b>6,000</b>	<b>6,000</b>	<b>7.5%</b>	<b>6,000</b>	<b>0.0%</b>
<b>Nominal GDP</b>	<b>124,567</b>	<b>9.0%</b>	<b>142,474</b>	<b>137,203</b>	<b>10.1%</b>	<b>152,544</b>	<b>11.2%</b>

	2014-15		2015-16		2015-16		2016-17	
Receipts - (Rs billion)	(A)	YoY gr.	(BE)	(RE)	YoY gr.	(BE)	YoY gr.	
<b>Gross tax revenue</b>	<b>12,449</b>	<b>9.3%</b>	<b>14,495</b>	<b>14,596</b>	<b>17.2%</b>	<b>16,309</b>	<b>11.7%</b>	
<b>Direct tax</b>	<b>6,947</b>	<b>9.0%</b>	<b>7,980</b>	<b>7,520</b>	<b>8.3%</b>	<b>8,471</b>	<b>12.6%</b>	
<i>% of Gross Tax Revenue</i>	<i>55.8%</i>		<i>55.1%</i>	<i>51.5%</i>		<i>51.9%</i>		
Corporation tax	4,289	8.7%	4,706	4,530	5.6%	4,939	9.0%	
<i>% of Direct Tax</i>	<i>61.7%</i>		<i>59.0%</i>	<i>60.2%</i>		<i>58.3%</i>		
Income tax	2,657	9.4%	3,274	2,991	12.5%	3,532	18.1%	
<i>% of Direct Tax</i>	<i>38.3%</i>		<i>41.0%</i>	<i>39.8%</i>		<i>41.7%</i>		
<b>Indirect tax</b>	<b>5,502</b>	<b>9.8%</b>	<b>6,515</b>	<b>7,076</b>	<b>28.6%</b>	<b>7,838</b>	<b>10.8%</b>	
<i>% of Gross Tax Revenue</i>	<i>44.2%</i>		<i>44.9%</i>	<i>48.5%</i>		<i>48.1%</i>		
Excise duties	1,900	11.6%	2,298	2,841	49.6%	3,187	12.2%	
<i>% of Indirect Tax</i>	<i>34.5%</i>		<i>35.3%</i>	<i>40.2%</i>		<i>40.7%</i>		
Customs	1,880	9.3%	2,083	2,095	11.4%	2,300	9.8%	
<i>% of Indirect Tax</i>	<i>34.2%</i>		<i>32.0%</i>	<i>29.6%</i>		<i>29.3%</i>		
Service tax	1,680	8.5%	2,098	2,100	25.0%	2,310	10.0%	
<i>% of Indirect Tax</i>	<i>30.5%</i>		<i>32.2%</i>	<i>29.7%</i>		<i>29.5%</i>		
Less states share	3,378	6.2%	5,240	5,062	49.8%	5,703	12.7%	
<i>% of total receipts</i>	<i>20.3%</i>		<i>29.5%</i>	<i>28.4%</i>		<i>28.8%</i>		
<b>Net tax revenue</b>	<b>9,036</b>	<b>10.8%</b>	<b>9,198</b>	<b>9,475</b>	<b>4.9%</b>	<b>10,541</b>	<b>11.2%</b>	
<i>% of total receipts</i>	<i>54.3%</i>		<i>51.7%</i>	<i>53.1%</i>		<i>53.3%</i>		
Proceeds from telecom sector	306	-23.7%	429	560	83.0%	990	76.7%	
Dividends & profits	898	-0.7%	1,007	1,183	31.7%	1,238	4.7%	
<b>Total nontax revenue</b>	<b>1,979</b>	<b>-0.5%</b>	<b>2,217</b>	<b>2,586</b>	<b>30.7%</b>	<b>3,229</b>	<b>24.9%</b>	
<i>% of total receipts</i>	<i>11.9%</i>		<i>12.5%</i>	<i>14.5%</i>		<i>16.3%</i>		
<b>Total revenue receipts</b>	<b>11,015</b>	<b>8.5%</b>	<b>11,416</b>	<b>12,061</b>	<b>9.5%</b>	<b>13,770</b>	<b>14.2%</b>	
<i>% of total receipts</i>	<i>66.2%</i>		<i>64.2%</i>	<i>67.6%</i>		<i>69.6%</i>		
<b>Capital receipts</b>								
Non debt receipts	515	23.0%	803	442	-14.1%	671	51.8%	
<i>% of total capital receipts</i>	<i>10.6%</i>		<i>12.9%</i>	<i>7.4%</i>		<i>11.4%</i>		
Debt receipts	4,330	-17.1%	5,436	5,572	28.7%	5,207	-6.5%	
<i>% of total capital receipts</i>	<i>89.4%</i>		<i>87.1%</i>	<i>92.6%</i>		<i>88.6%</i>		
<b>Total Capital receipts</b>	<b>4,844</b>	<b>-14.1%</b>	<b>6,239</b>	<b>6,014</b>	<b>24.1%</b>	<b>5,878</b>	<b>-2.3%</b>	
<i>% of total receipts</i>	<i>29.1%</i>		<i>35.1%</i>	<i>33.7%</i>		<i>29.7%</i>		
<b>Total Receipts</b>	<b>16,637</b>	<b>6.7%</b>	<b>17,775</b>	<b>17,854</b>	<b>7.3%</b>	<b>19,781</b>	<b>10.8%</b>	

	2014-15		2015-16E		2014-15E		2016-17	
Expenditure - (Rs billion)	(A)	YoY gr.	(BE)	(RE)	YoY gr.	(BE)	YoY gr.	
<b>Revenue expenditure</b>								
Interest payments	4,024	7.5%	4,561	4,426	10.0%	4,927	11.3%	
Defence	1,368	10.0%	1,521	1,432	4.7%	1,628	13.6%	
Subsidies	2,583	1.4%	2,438	2,578	-0.2%	2,504	-2.9%	
Food	1,177	27.9%	1,244	1,394	18.5%	1,348	-3.3%	
Fertilizers	711	5.5%	730	724	1.9%	700	-3.4%	
Petroleum	603	-29.4%	300	300	-50.2%	269	-10.2%	
Others	92	-6.8%	164	159	72.5%	187	17.0%	
Others	3,119	17.3%	3,539	3,690	18.3%	4,215	14.2%	
<b>Total revenue non-plan expenditure</b>	<b>11,094</b>	<b>8.9%</b>	<b>12,060</b>	<b>12,127</b>	<b>9.3%</b>	<b>13,274</b>	<b>9.5%</b>	
<i>% of total expenditure</i>	<i>66.7%</i>		<i>67.9%</i>	<i>67.9%</i>		<i>67.1%</i>		
<b>Capital expenditure</b>								
Defence	819	3.5%	946	814	-0.6%	863	6.1%	
Other expenditures	97	22.5%	116	141	44.9%	143	1.1%	
<b>Total capital non-plan expenditure</b>	<b>916</b>	<b>5.2%</b>	<b>1,062</b>	<b>955</b>	<b>4.2%</b>	<b>1,006</b>	<b>5.3%</b>	
<i>% of total expenditure</i>	<i>5.5%</i>		<i>6.0%</i>	<i>5.4%</i>		<i>5.1%</i>		
<b>Total non-plan expenditure</b>	<b>12,010</b>	<b>8.6%</b>	<b>13,122</b>	<b>13,082</b>	<b>8.9%</b>	<b>14,280</b>	<b>9.2%</b>	
<i>% of total expenditure</i>	<i>72.2%</i>		<i>73.8%</i>	<i>73.3%</i>		<i>72.2%</i>		
<b>Plan expenditure</b>								
<b>Revenue expenditure</b>								
Central plan	1,001	-60.3%	1,397	1,332	33.2%	1,761	32.1%	
Central assistance to state	2,575	156.2%	1,904	2,018	-21.7%	2,276	12.8%	
<i>% of total expenditure</i>	<i>15.5%</i>		<i>10.7%</i>	<i>11.3%</i>		<i>11.5%</i>		
<b>Total revenue plan expenditure</b>	<b>3,576</b>	<b>1.4%</b>	<b>3,300</b>	<b>3,350</b>	<b>-6.3%</b>	<b>4,036</b>	<b>20.5%</b>	
<i>% of total expenditure</i>	<i>21.5%</i>		<i>18.6%</i>	<i>18.8%</i>		<i>20.4%</i>		
<b>Capital expenditure</b>								
Central plan	918	4.0%	1,208	1,278	39.3%	1,320	3.3%	
Central assistance to state	133	7.7%	144	143	7.9%	143	0.0%	
<i>% of total expenditure</i>	<i>0.8%</i>		<i>0.8%</i>	<i>0.8%</i>		<i>0.7%</i>		
State plan	119	-1.0%	125	125	5.1%	126	0.1%	
<i>% of central assistance</i>	<i>89.7%</i>		<i>86.9%</i>	<i>87.4%</i>		<i>87.5%</i>		
Union territory plan	14	3.6%	19	18	32.7%	18	-0.8%	
<i>% of central assistance</i>	<i>11.5%</i>		<i>15.1%</i>	<i>14.5%</i>		<i>14.3%</i>		
<b>Total capital plan expenditure</b>	<b>1,050</b>	<b>4.4%</b>	<b>1,353</b>	<b>1,422</b>	<b>35.4%</b>	<b>1,464</b>	<b>2.9%</b>	
<b>Total plan expenditure</b>	<b>4,626</b>	<b>2.1%</b>	<b>4,653</b>	<b>4,772</b>	<b>3.1%</b>	<b>5,500</b>	<b>15.3%</b>	
<i>% of total expenditure</i>	<i>27.8%</i>		<i>26.2%</i>	<i>26.7%</i>		<i>27.8%</i>		
<b>Total expenditure</b>	<b>16,637</b>	<b>6.7%</b>	<b>17,775</b>	<b>17,854</b>	<b>7.3%</b>	<b>19,780</b>	<b>10.8%</b>	



Central Government Programme Outlay	2014-15 (BE)	2015-16 (BE)	2016-17 (BE)	YoY gr.
<b>MNREGA</b>	<b>340.0</b>	<b>347.0</b>	<b>385.0</b>	<b>11.0%</b>
<b>Natl Livelihood Mission</b>	<b>40.0</b>	<b>33.4</b>	<b>33.3</b>	<b>-0.5%</b>
- PM Employment Generation Programme	14.2	10.5	14.4	37.0%
- PM Kaushal Vikas Yojana			17.0	
<b>Housing for all (Rural &amp; Urban)</b>	<b>160.0</b>	<b>142.0</b>	<b>200.8</b>	<b>41.4%</b>
PM Gram Sadak Yojana	143.9	142.9	190.0	33.0%
Swacch Bharat for Rural Sanitation	42.6	35.0	90.0	157.1%
National Rural Drinking Water Program	110.0	25.0	50.0	100.0%
<b>Irrigation</b>				
PM Krishi Sinchai Yojana	10.0	53.0	58.4	10.2%
- Development of Micro Irrigation		18.0	23.4	30.0%
- Integration Watershed Development Programme	21.4	15.0	15.0	0.0%
- Pradhan Mantri Krishi Sichai Yojana		20.0	20.0	0.0%
<b>Agriculture</b>				
Krishonnati Yojana		122.6	178.5	45.6%
- Rashtriya Krishi Vikas Yojana (State Plan)	99.5	45.0	54.0	20.0%
- National Crop Insurance Programme	28.2	28.2	55.0	94.8%
- Krishi Unnati Yojana			69.5	
- National Food Security Mission		13.0		
- National Mission for Sustainable Agriculture	15.5	8.4		
<b>School Education &amp; Literacy</b>				
Sarva Shiksha Abiyyaan	282.6	220.0	225.0	2.3%
National Programme of Mid Day Meals in Schools	132.2	89.0	97.0	9.0%
Rashtriya Madhyamik Shiksha Abhiyan	50.0	35.7	37.0	3.8%
Higher Technical Education		67.1	57.6	-14.2%
<b>Health</b>				
National Health Mission	219.1	180.0	190.0	5.6%
Medial and Public Health		51.7	39.5	-23.7%
Medical Institutions	5.0	6.3		
<b>Urban Development</b>				
Urban Rejuvenation Mission - 500 habitation and mission for development of 100 smart cities	70.6	60.0	72.1	20.1%
Equity investment in Metro Rail Projects	24.2	83.9	100.0	19.3%

Central Government Programme Outlay	2014-15 (BE)	2015-16 (BE)	2016-17 (BE)	YoY gr.
<b>Industry</b>				
Grants to Delhi Mumbai Industrial Corridor	6.9	12.0	14.0	16.7%
Investment Promotion for Make in India		-	2.0	
<b>Min of Road Transport &amp; Highways</b>	<b>270.1</b>	<b>400.0</b>	<b>550.0</b>	<b>37.5%</b>
Internal and Extra Budgetary Resources for National Highways Authority of India	90.0			
Investment of National Highways Authority of India including Remittance of Toll	150.1	294.2	121.5	-58.7%
Special Accelerated Road Development Programme for North East Region	30.0	40.0	50.0	25.0%
National Highway (original works)			155.0	
<b>Power</b>				
Rajiv Gandhi Grameen Vidyutikaran Yojana	51.4			
Restructured Accelerated Power Development and Reforms Programme	12.6			
Deen Dayal Upadhyay Gram JyotiYojana	5.0	45.0	30.0	-33.3%
Integrated Power Development Scheme			55.0	
<b>Finance</b>				
Recapitalisation of Public Sector Banks	112.0	79.4	250.0	214.9%
Equity support to EXIM Bank	13.0	13.0		
Other support to SIDBI, IIFCL & others	20.4	5.5	41.5	654.5%
<b>Water Resources River Development &amp; Ganga Rejuvenation</b>				
Namami Gange for cleaning of the Holy Ganga	15.0	21.0	22.5	7.1%
<b>Renewable Energy</b>				
Solar Energy Programme		10.0	40.0	300.0%
Wind Energy Programme			4.0	

## Key Proposals

Tax Rebate U/s 87A increased from Rs 2000 to Rs 5000

Deduction limit U/s 80GG for Rent paid increased from Rs 24000 per annum to Rs 60000 per annum.

Annual Dividend income in excess of Rs 10 lakhs shall be chargeable in the case of an Individual, HUF or firm who is resident in India @ 10%.

Additional Rs 50000 per annum deduction for housing loan interest for 1st time House buyers for loans upto Rs 35 lakhs and value of house upto a maximum of Rs 50lakhs.

Surcharge on persons other than companies, firms and co-op societies with income more than Rs 10m increased from 12% to 15%.

LTCG in case of unlisted companies to be reduced from 3 years to 2 years.

STT rate in case of 'Options' to be increased from 0.017% to 0.05%.

40% of corpus created out of contributions made after 1.04.2016 to superannuation funds and recognized Provident Fund including EPF to be tax free instead of earlier 100% tax free.

Additional Cess called the Krishi Kalyan Cess @ 0.5% to be levied on all taxable services.

Tax at Source to be collected by seller @ 1% on sale of luxury cars above Rs 10lakhs and goods/services in cash exceeding Rs 2 lakh.



# SECTORS

Key Proposal	Impact
Infrastructure cess levied at 1% /2.5% /4% on small petrol, CNG & LPG vehicles/ small diesel vehicles/ other higher engine capacity UVs and sedans	Negative for PV demand as cost of acquisition increases; negative impact on Maruti, M&M, Tata Motors
Tax collection at source @1% on purchase of luxury cars exceeding value Rs1m	Marginal negative for higher end sedans and UVs; negative for M&M and Tata Motors
Allocation under MGNREGA, rural and infrastructure focus	Continued allocation under MGNREGA and infrastructure focus are positive for the auto sector; biggest beneficiaries M&M, Hero MotoCorp on rural side and CV companies on infra side
Amendments in Motor Vehicle Act to open up road transport in the passenger segment	Private ownership of buses can get encouraged; positive for SML Isuzu, Force Motors, Ashok Leyland, Eicher Motors, Tata Motors
Reduction in weighted R&D deduction from 200% to 150% FY18 onwards and 100% FY21 onwards	Negative for promoting indigenous R&D
Customs duty and Excise duty exemption on specified goods used in electric and hybrid vehicles extended	Originally scheduled to expire in March 2016, this has been extended for an indefinite period; marginal positive for Maruti, M&M, Tata Motors
<b>Beneficiaries: CV companies</b>	
<b>Losers: PV companies</b>	
<b>Top Picks: Maruti Suzuki, Tata Motors</b>	

Key Proposal	Impact
Announced budgetary allocation for recapitalization of PSU banks totaling Rs250bn	The outlay for capital infusion is smaller than street expectations and is similar to what government has already announced earlier as part of Indradhanush plan. We expect PSU banks to remain challenged on capitalization front given weak underlying profitability and high credit cost.
Additional interest benefit of Rs50,000 to boost affordable housing	This would be applicable for first time home buyers on loans up to Rs3.5mn where the value of the property is <Rs5m. This will be positive for HFCs and select banks.
Statutory basis for a Monetary Policy Framework and setting up of Monetary Policy Committee	Government will make necessary amendments to RBI act to enable the constitution of Monetary Policy Committee which will be responsible for interest rate decisions
Amendment in SARFAESI Act to enable 100% holding of the sponsor in ARC	This will enable ARC sponsor to increase stake up to 100%. Government also plans to allow non-institutional investors to invest in SRs. This will help ease capital constraints for the ARC and aid banks to sell down the SRs and focus on business growth.
To introduce Bankruptcy code bill and operationalize Bank Board Bureau (BBB) in FY17	This will provide a specialized resolution mechanism to lenders to deal with bankruptcy situations. BBB will help create a roadmap for consolidation of PSU banks and help improve their governance standards.

**Other measures:**

- i. To list General Insurance Companies on stock exchanges; SEBI to introduce new derivatives product in the commodities market.
- ii. To strengthen Debt Recovery Tribunals to support reduction in the number of hearings and faster disposal of cases.
- iii. NPS made more attractive by allowing tax-free withdrawal of 40% of the corpus. Annuity fund to legal heir also made non-taxable.
- iv. Sanction target under Pradhan Mantri Mudra Yojana increased to Rs1.8tn.
- v. NBFCs will be allowed a deduction of upto 5% of income in respect of provision for bad and doubtful debts.

**Beneficiaries:** HFCs (Gruh, Dewan, LIC, HDFC) and AXSB, ICICIBC. Capital starved PSU banks (BOI, UNBK, IOB, ALBK, CBK, ANDB, DBNK).

**Losers:** None

**Top Picks:** HDFC Bank, IndusInd Bank, Capital First and J&K Bank

Key Proposal	Impact
Allocation to Road sector increased to Rs 550bn in FY17 from Rs 400bn in FY16 and Allocation to Pradhan Mantri Gram Sadak Yojna (PMGSY) to Rs190bn in FY17 from Rs140bn in FY16	+Ve for Road players like KNR/MBL/Ashoka/Sadbhav/PNCInfratech/L&T/IRB
Increased allocation to railways to RS 450bn from Rs 300bn FY16.	+Ve for players like L&T/KEC /Kalptaru/Textmaco-rail/ABB/SIEMENS
Committed to 100% electrification by March '2018. Allocation of Rs 85bn in FY17 against Rs 42bn in FY16 in Rural electrification - Deen Dayal Upadhyaya Gram Jyoti Yojna / (DDUGJY)	+Ve for KEC/Kalpataru/Ashoka Buildcon/Techno electric etc).
Accelerated depreciation for wind energy to be reduced to 40% from 80% by April'17	Negative for wind turbine manufacturers like Suzlon Energy and Inox wind
Customs duties exemption on direct imports of specified goods for defense purposes by Government of India or State Governments being withdrawn, with effect from 01.04.2016 in line with Make In India vision	Positive for domestic manufacturers like L&T/BEL etc
<b>Beneficiaries:</b> KNR/MBL/Ashoka/Sadbhav/PNCInfratech/L&T/IRB/L&T/KEC /Kalptaru/Textmaco-rail/ABB/SIEMENS	
<b>Losers:</b> Suzlon/Inox Wind	
<b>Top Picks:</b> Sadbhav/Ashoka/L&T/KEC	

Key Proposal	Impact
36% increase in allocation to Pradhan Mantri Gram Sadak Yojana (PMGSY) to Rs190bn and 38% higher allocation to Ministry of Road and Transport to Rs550bn	Increased govt spending in road sector will boost demand for the sector. This will help sector to recover from the vicious cycle of tepid demand and overcapacity.
Increase in energy cess on coal from current Rs200 to Rs400/t. This cess is not applicable on pet coke.	Cost would increase marginally by Rs35/t or Rs1.8/bag for the plants having thermal coal as the only source of fuel. Based on the average pet coke mix at 50%, the impact would be limited to Rs15/t or Rs0.8/bag.
<b>Beneficiaries: Entire sector</b>	
<b>Losers: None</b>	
<b>Top Picks: ACC, Ultratech cement and JK Lakshmi</b>	

Key Proposal	Impact
<b>Cigarette:</b> 10% increase in excise Duty cigarettes (Additional excise duty), no change in the basic excise duty	The excise duty increase of 10% seems reasonable given ~19% p.a excise duty in the last 3 years . We estimate that ITC would need to take a price increase of 7% to neutralize the impact and ~10% to achieve high single digit EBIT growth with low single digit volume decline. Near term hangover seems to be over.
<b>Jewellery:</b> Excise duty of 1% (without Cenvat) and 12.5% (with Cenvat credit) on Jewellery (excluding plain silver jewellery) on sales exceeding Rs120mn in a year.	The excise duty will bring all the organized player under the ambit, however small jewelers will be spared from this. Move in tandem with proposed GST bill. Negative for Titan, PCJ and TBZ
<b>Apparel:</b> 2% Excise duty (without Cenvat) and 12.5% (with Cenvat credit) on readymade garments of RSP > Rs1000. Tariff value for payment of excise increased from 30% of RSP to 60% of RSP.	Move will increase excise from 0.6% to 1.2%, however it is in line with the expectations under the GST. Small negative in the near term, will be neutralized in the long term once the full set off is available under GST for lease rent and other taxes.
Model shop and establishment bill to be circulated to states	Model shop act will give discretion to mom and pop stores to remain open 7 days a week which will increase competition for modern trade and E commerce. Negative for Future retail, Spencer's etc
Increased Allocation for MGNREGS, Irrigation, crop Insurance, Allocation for Gram Panchayats and Rural Infrastructure	Increased spends in Rural India will improve the liquidity and employment generation which will boost rural demand
Unified Agricultural marketing E-platform subject to implementation of Model APMC ACT and 4 Dairy projects	These aim at doubling rural farm incomes by 2020 which will significantly boost the rural demand in coming years
<b>Beneficiaries: ITC, HUVR, Dabur, Britannia, Marico</b>	
<b>Losers: Titan Company, Shoppers Stop, ABFRL, FRL</b>	
<b>Top Picks: Britannia, Dabur India and GSK Consumer</b>	

- Lowest excise increase since 2012: Budget has increased excise duty by 10% which is in line with expectations. This is the lowest increase in the past 5 years. Last 4 years have seen 20% increase in excise duty.
- Expect ITC to Increase prices by 7-10%: ITC requires 7% price increase to neutralize the impact assuming constant sales mix and VAT rate. However expect ITC to increase prices by ~10% which would enable ~8% EBIT growth in cigarettes.
- Near term headwinds over: We believe near term headwinds regarding excise are over. However medium term issues regarding high VAT under GST, pictorial warnings etc sustain
- Valuations at a discount to Consumer universe: ITC trades at 20x FY18 EPS which is at a discount of 25%-30% to our coverage universe. Downside from current levels seems limited. Retain Accumulate with target price of Rs325, a 10% upside.

Cigarette (length in mm)	FY16			FY17			Increase
	Basic duty	Additional Duty	Total	Basic duty	Additional Duty	Total	
Non filter not exceeding 65	1368	70	1438	1368	215	1583	10.1%
Non filter 65-70	2703	110	2813	2703	370	3073	9.2%
Filter not exceeding 65	1368	70	1438	1368	215	1583	10.1%
Filter 65-70	1828	70	1898	1828	260	2088	10.0%
Filter 70-75	2478	110	2588	2478	370	2848	10.0%
Others	3604	180	3784	3604	560	4164	10.0%

## Excise duty on cigarettes

Rs/1,000 sticks	Length (mm)	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Micros	<60	819	669	669	669	669	1,150	1,438	1,581	1,739
Plains	65-70	1,323	1,473	1,473	1,768	2,027	2,250	2,813	3,094	3,403
Small Filter	<65mm	-	669	669	669	669	1,150	1,438	1,581	1,739
Filter - Regular	<70	819	969	969	1,163	1,409	1,650	1,898	2,087	2,296
Filter - Long	71-75	1,323	1,473	1,473	1,768	2,027	2,250	2,588	2,846	3,131
Filter - King	76-85	1,759	1,959	1,959	2,351	2,725	3,290	3,784	4,162	4,578
Filter - Extra large	86-100	2,163	2,363	2,363	2,836	3,290	3,290	3,784	4,162	4,578
Excise Duty Change (%)		0	11	0	20	18	21	<65mm 25%	10	10
			RFC - 18					>65mm 15%		
VAT (%)		14.5	14.5	18.0	20.8	23.7	23.5	24.0	24.0	24.0
Volume Growth (%)		7.2	-2.8	6.4	2.0	-2.0	-8.3	-10.5	-4.5	1.7
Excise (% of realisation)		46	47	45	46	47	45	47	46	46
Net Realisation Gr (%)		15.2	16.6	9.6	11.1	13.5	18.6	13.4	12.1	8.5
EBIT Growth (%)		18.0	16.8	19.8	20.5	20.3	11.8	5.1	7.8	11.2



Key Proposal	Impact
Increase in clean energy cess on coal from current Rs200 to Rs400/t	The hike would increase the cost of production by Rs1600/t (US\$25) for aluminium producers. In case of steel producers, cost would increase by Rs170/t (US\$2.5).
Custom duty hiked on primary aluminium/other aluminium products from 5%/7.5% to 7.5%/10%	Blended realisations would improve by US\$30/t for Vedanta and Hindalco. But, the same would get negated by increase in energy cess.
Custom duty hiked on Zinc alloys from 5% to 7.5%	Blended Zinc realisations for Hindustan zinc would improve by US\$36/t. Adjusted for cost push of US\$6/t due to higher clean energy cess, EBITDA/t would increase by US\$30/t. EPS would increase by 1.6% on the back of higher custom duty.
Export duty on low grade ore (Fe below 58%) fines/Lumps withdrawn completely from current 10%/30%	Unlikely to have material impact on domestic miners due to un-remunerative global prices and high regulatory costs.

**Beneficiaries: Hindustan Zinc**

**Losers: Entire steel sector**

**Top Picks: Coal India**

Key Proposal	Impact
Cess rate on crude oil is now at ad-valorem rate of 20% against current fixed rate of Rs 4,500/ton (US\$9/bbl).	ONGC, OIL India earnings hit by 2.7%/4.5% at base crude price of US\$50/bbl; EPS will be + ve for crude prices below US\$45/bbl.
Proposal to incentivize deep water gas exploration with calibrated market price on prospective basis. Final decision awaited.	Positive for ONGC's KG basin development.
Oil subsidy provision has been provided at Rs290bn for FY17 (Rs 300bn in FY16).	With crude prices likely to be lower than FY16 average of US\$50/bbl, OMC's are likely to be excluded from subsidy net.

**Beneficiaries: IOC, HPCL, BPCL**

**Losers: ONGC, Oil India**

**Top Picks: IOC, Petronet LNG**

Key Proposal	Impact
Allocation of Rs 1.51trn for Education and Healthcare	The allocation <b>marginally positive</b> and is increased by 49% YoY though Helathcare 's contribution is 32%. Hence, allocation for healthcare segment to be Rs 48,000Cr (vs Rs32,000Cr). It will <b>facilitate tender based</b> business in Anti-AIDS, anti-TB, anti-Malaria and polio vaccine. <b>With higher volume of low margin revenues. The allocation is marginally positive</b> are Panacea Biotech, IPCA, Lupin and Cipla
New Healthcare protection scheme cover up to Rs 1 lakh/Family and with Sr. citizen it will be Rs 1.3 lakh/Family	This will increase commercial activities among un-organised small-scale hospitals or nursing-homes. This could also impact large players in case state govt. wants to utilise 15% of its bed for BPL families. This will increase revenues of large healthcare providers at a cost of lower operating margin. Hence, <b>the provision is positive for small, un-organised and local healthcare service providers while not-so-positive for large healthcare providers.</b> Expect <b>Narayana Healthcare</b> to impact with larger revenues from low margin business
To open additional 3, 000 stores under Jan Aushadhi Yojna in 2016-17	The new stores will be promoting and facilitate more access of generic –generic medicine. This is negative development for India Pharma players (both domestic and MNC pharma co) as revenues of these companies are highly dominated by branded generics. However, 3,000 stores in India practically will not impact business of the branded companies
National Dialysis Services Prog through PPP model	This will help in opening up Dialysis Centers in rural India by small and local service provides and do not expect large or branded players to open up even tertiary centers.
R&D benefits reduced from 200% to 150% of its expenses as tax exemption till 2020, post which it will be reduced further to 100%	The development is negative for large Indian Pharma companies as R&D exps are increasing to 8-12% of sales from 5-6% due to decreasing pool of generic opportunities. Loser: Sun Pharma, Dr Reddy's Lab, Lupin, Cipla, Glenmark, Biocon, Cadila and many large and mid-cap listed companies
10% tax on Royalty/milestone income from out-license molecules (developed in India) to outside India	The proposal is positive for India as it will encourage for R&D in India and promote out-license income repatriated back to India. The Tax rate is competitive as most attractive tax rate on R&D income is 12% in Switzerland. Beneficial: Glenmark, Lupin, Cipla, Biocon, Strides Shasun , SPARC
<b>Beneficiaries: Panacea Biotech, IPCA, Lupin, Cipla, Glenmark, Biocon, Strides, SPARC, Dr Reddy's Lab</b>	
<b>Losers: Narayana Hrudhyalaya, Biocon, Dr Reddy's Lab</b>	
<b>Top Picks: Aurobindo, Jubilant Life, Glenmark</b>	

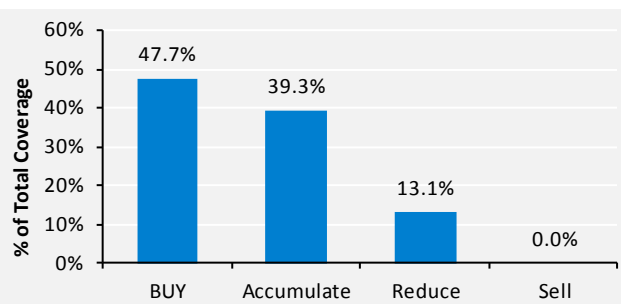
Key Proposal	Impact
<b>Agri Inputs</b>	
Increase in Agri-Lending Target to Rs 9 Trillion from Rs 8.5 Trillion	Flow of institutional credit is a key Agri input industry enabler. Positive for the rural economy and Agri Inputs sector at large.
Allocated Rs 150bn for interest subvention on the farm credit, Rs 55bn for the new crop protection scheme and Rs 5bn to boost pulses output	Reduce the burden of loan repayment on farmers, Provide insurance scheme on crop losses during errant weather.
Creation of Rs 200bn dedicated Irrigation Fund in NABARD (Govt earmarked Rs 125bn in the budget and balance from market borrowings)	Timely implementation of the 28 projects identified under this scheme will boost the sagging rural demand. Positive for Supreme Industries, Finolex Industries and Jain Irrigation
<b>Logistics</b>	
Amendment of Motor vehicle act to promote Passenger services across states	Ease in operating passenger bus services inter-state with rationalisation of Permit Requirement, More efficient public transport facilities, Scope of increase in investments and creation of jobs, Level playing field with State Transport services . Positive for Passenger transport operators
<b>Technology</b>	
Government will pay the Employee Pension Scheme contribution of 8.33% for all new employees enrolling in EPFO for the first three years of their employment. The scheme will be applicable to those with salary up to Rs15,000 per month. A provision of Rs10bn has been made for this scheme.	This will incentivize the employers to bring into books the informal employees. This will create level playing field between organized and unorganized staffing companies. Currently, the small and unorganized staffing companies under -report the number of employees and thus get an undue advantage against organized companies. Now Govt will pay the PF contribution and hence the advantage to unorganized companies will reduce substantially and hence benefit organized companies such as Team Lease.
<b>Beneficiaries: Rallis India, PI Industries, Supreme Industries, Finolex Industries, VRL Logistics, Team Lease</b>	
<b>Losers: None</b>	
<b>Top Picks: Rallis India, VRL Logistics, Team Lease</b>	

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