India Equity Research
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Union Budget

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Union Budget FY2017

De-facto expansionary; austerity by tokenism

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De-facto expansionary; austerity by tokenism

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- **Overall, the budget is heavily oriented towards addressing rural & Agri sector distress, boosting demand and imperatives of upcoming state elections. Hence, subjects such as rural allocation and agri sectors (allocation increased by 94%), infra sector, job creation and income generation for people below poverty line are focused in the budget. Importantly, while OROP is included, the full impact of 7th Pay commission is withheld in the budget numbers, even as it is reflected partially.**
- **In choosing between Arvind's prescription of counter-cyclical fiscal expansion and Rajan's formula of fiscal containment, Jaitley has de-facto chosen to lean towards expansion while satisfying Rajan through his adherence to the 3.5% Fiscal deficit/GDP target, which looks untenable.**
- **Why is the budget expansionary?**
  - The higher expenditure growth of ~11% at Rs 19.8 tn, includes greater emphasis on revenue spending which is budgeted to growth of 12%. Capital outlay is increased only by 4.8% (comprising ~13% of total spending). The comparable numbers for FY16RE are 5.5% and 23.3% respectively. Importantly, this high order of revenue expenditure is excluding full provisioning for 7th Pay commission, for which there has been only a token provisioning (~Rs 15000crs). In our view, the 7th Pay commission, which has been implemented in some departments, will have to be rolled out entirely through the year, thereby increasing the revenue spending further to over 15%.
  - The 3.5% fiscal deficit/GDP number and a lower market borrowing number gives an impression of a fiscal containment as it is a reduction from 3.9% in FY16RE. But with optimistic tax revenue (11.5% growth) and non-tax revenue (25%) assumptions along with expansionary spending and understated expenditure, there is a possibility of slippage. Overall, the Union budget is an expansionary, which reduces the credibility of claims of being on the path of fiscal consolidation.
  - Hence, broadly, we continue to maintain our thesis that it is a stimulus oriented budget which will be followed by positive short-term consumption demand multiplier, higher inflation, widening in current account deficit, sustained tightness in liquidity and higher rates. Hence, we do not expect RBI to follow up with further rate reduction.

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- **Both tax and non-tax collections overstated in the budget**
  - **Total gross tax collection** is budgeted to grow by 11.7% YoY to Rs 16.3tn on a high base of 17.2% in FY16RE, which is primarily driven by 18% jump in income tax collection in FY17BE. This is puzzling because the Budget has not accounted for the full impact of 7th Pay Commission. Observing the long term average gross tax buoyancy (gross tax growth/ nominal GDP growth) of 0.8 and 2.0 in last fiscal, we believe tax buoyancy to dip much lower than 1.1 as budgeted in this fiscal.
  - **Corporate tax collection** growth is budgeted at 9% from 5.6% in FY16RE, despite consecutive decline of corporate tax payments reported in quarterly results.
  - **Excise tax collection** is budgeted to growth at 12.2% from a high base of 50% growth in FY16RE, 75% of which was contributed by hike in petroleum duties. Now with the limited scope of increasing the excise duty on the petroleum products, we believe the growth of 12.2% is highly optimistic.
  - **Non tax revenue** is projected to grow by 25% to Rs 3.2tn, primarily on the back of 72% growth in revenues from Telecom sector at Rs 980bn (Spectrum auction, licence renewal etc).
  - **Disinvestments** are projected to bring in Rs 565 bn. FY16RE at 250bn was just 35% of target and considerably lower than 57% average over the previous 5 years. Excluding disinvestments fiscal deficit is at 3.9% in FY17 as compared to 4.1% in FY16R.E.
- **Prospects of RBI following with rate easing?** Lower fiscal deficit target for FY17 set lower at 3.5% of GDP does not automatically imply a case for rate easing. On overall basis we believe that the budget is on the expansionary side with higher growth for revenue expenditure (up 12%) and lower capital allocation (up 4%); it reflects worsening of quality of fiscal spending, which might be inflationary. We do not expect RBI to follow up with rate easing. Quite apart from the constraint arising from the budget, the liquidity scenario currently is in severe deficit, which will make rate easing ineffective and meaningless. We maintain our target of 10-year Gsec hardening to at least 8.5%.

Emkay's top picks

Sectors	Top picks
Agrochemicals & Fertiliser	Chambal Fertilisers, Coromandel International and Dhanuka Agritech
Automobiles	Hero and Maruti
Banking & financial services	HDFC Bank, IndusInd Bank, Axis Bank and Chola Finance
Consumer	Britannia, Godrej Consumers, Asian Paints and Pidilite
Engineering & Capital Goods	ABB, Voltas and TD Power Systems
Fashion Retail	PC Jewellers and Page Industries
Infrastructure & Construction	Ahluwalia, KNR Infra, Adani Ports and IRB infra
Oil & Gas	RIL, HPCL, IOC, Petronet LNG, GSPL and GAIL
Pharmaceuticals	Aurobindo and Divis

Budget at a glance

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	(INR bn)						YoY (%)				
	FY15	FY16B.E	FY16R.E.	FY16 Emkay	FY17B.E.	FY17 Emkay	FY16B.E	FY16R.E.	FY16 Emkay	FY17B.E.	FY17 Emkay
Revenue Receipt	**11,015**	**11,416**	**12,061**	**12,372**	**13,770**	**12,993**	**3.6**	**9.5**	**12.3**	**14.2**	**7.7**
Net Tax Revenue	9,036	9,198	9,475	9,676	10,541	10,188	1.8	4.9	7.1	11.2	7.5
Non Tax	1,979	2,217	2,586	2,696	3,229	2,805	12.1	30.7	36.3	24.9	8.5
Capital Receipt	**4,844**	**6,239**	**6,016**	**6,003**	**5,878**	**7,047**	**28.8**	**24.2**	**23.9**	**(2.3)**	**17.1**
Disinvestments	377	695	253	127	565	695	84.2	(32.9)	(66.5)	123.2	174.6
Market Borrowing	4,531	4,865	4,406	4,865	4,252	4,597	7.4	(2.8)	7.4	(3.5)	4.3
Total Receipt	**15,859**	**17,654**	**18,077**	**18,376**	**19,649**	**20,040**	**11.3**	**14.0**	**15.9**	**8.7**	**10.9**
Non Plan Expenditure	**12,010**	**13,122**	**13,082**	**13,127**	**14,281**	**14,954**	**9.3**	**8.9**	**9.3**	**9.2**	**14.3**
Non Plan (Excl Intr)	7,897	8,561	8,656	8,745	9,354	10,112	8.4	9.6	10.7	8.1	16.8
Revenue	11,094	12,050	12,127	12,266	13,274	14,015	8.6	9.3	10.6	9.5	15.6
Interest	4,114	4,561	4,426	4,382	4,927	4,842	10.9	7.6	6.5	11.3	9.4
Capital	916	1,062	955	861	1,006	939	15.9	4.2	(6.0)	5.4	(1.7)
Plan Expenditure	**4,626**	**4,653**	**4,772**	**4,914**	**5,500**	**4,724**	**0.6**	**3.1**	**6.2**	**15.3**	**(1.0)**
Revenue	3,576	3,300	3,350	3,350	4,036	2,848	(7.7)	(6.3)	(6.3)	20.5	(15.0)
Capital	1,050	1,422	1,422	1,564	1,464	1,877	35.4	35.4	48.9	2.9	32.0
Total Expenditure	**16,637**	**17,775**	**17,854**	**18,041**	**19,781**	**19,678**	**6.8**	**7.3**	**8.4**	**10.8**	**10.2**
Revenue	14,670	15,351	15,477	15,616	17,310	16,862	4.6	5.5	6.4	11.8	9.0
Capital	1,967	2,484	2,377	2,425	2,470	2,816	26.3	20.9	23.3	3.9	18.4
Fiscal Deficit	5,107	5,556	5,351	5,353	5,339	5,793	8.8	4.8	4.8	(0.2)	8.3
Fiscal Deficit (excl disinv)	5,485	4,861	5,604	5,480	5,904	6,488	(11.4)	2.2	(0.1)	5.4	15.8
Revenue Deficit	3,655	3,945	3,416	3,243	3,540	3,869	7.9	(6.5)	(11.3)	3.6	13.3
Primary Deficit	1,083	995	925	971	412	951	(8.1)	(14.6)	(10.3)	(55.4)	2.9
GDP (mp)	1,24,882	1,41,089	1,35,672	1,35,622	1,50,650	1,49,862	13.0	8.6	8.6	11.0	10.5
% of GDP											
Fiscal Deficit	4.1	3.9	3.9	3.9	3.5	3.9					
Fiscal Deficit (excl disinv)	4.4	3.4	4.1	4.0	3.9	4.3					
Revenue Deficit	2.9	2.8	2.5	2.4	2.3	2.6					
Primary Deficit	0.9	0.7	0.7	0.7	0.3	0.6					

Source: Budget documents, Emkay Research

Break-up of tax collection

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(INR bn)	FY15	FY16 B.E.	FY16 R.E.	FY17 B.E.
Gross Tax Collection	12,449	14,495	14,596	16,309
Direct Taxes	6,947	7,980	7,520	8,471
Corporate Tax	4,289	4,706	4,530	4,939
Income Tax	2,657	3,274	2,991	3,532
Indirect Tax	5,502	6,515	7,076	7,838
Customs	1,880	2,083	2,095	2,300
Excise	1,900	2,298	2,841	3,187
Service Tax	1,680	2,098	2,100	2,310
Other Taxes	43	36	39	41
Less: Transfer to states	3,378	5,240	5,062	5,703
Net Taxes	9,036	9,198	9,475	10,541

% of GDP	FY15	FY16 B.E.	FY16 R.E.	FY17 B.E.
Gross Tax Collection	10.0	10.3	10.8	12.0
Direct Taxes	5.6	5.7	5.5	6.2
Corporate Tax	3.4	3.3	3.3	3.6
Income Tax	2.1	2.3	2.2	2.6
Indirect Tax	4.4	4.6	5.2	5.8
Customs	1.5	1.5	1.5	1.7
Excise	1.5	1.6	2.1	2.3
Service Tax	1.3	1.5	1.5	1.7
Other Taxes	0.0	0.0	0.0	0.0
Less: Transfer to states	2.7	3.7	3.7	4.2
Net Taxes	7.2	6.5	7.0	7.8

Source: Budget documents, Emkay Research

Higher devolution to state; Revenue expenditure to rise

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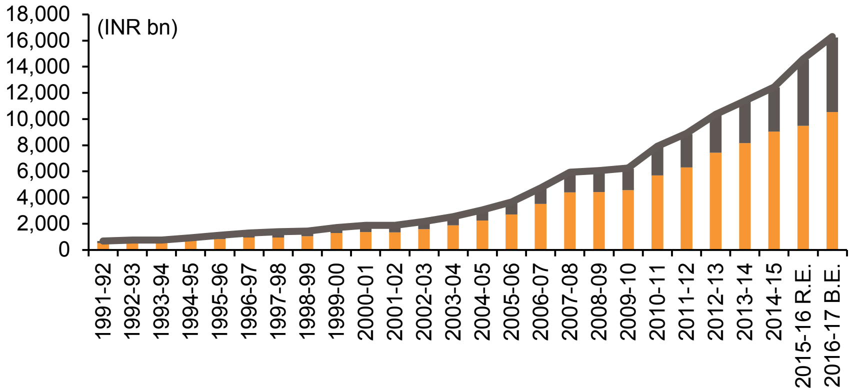
Distribution of gross tax collection of the central government



Net tax devolution to the states has risen by 12.7% YoY which is likely to be more of revenue in nature with impending elections in 7 states in 2017.

Combined (centre and states) revenue expenditure is likely to substantially overshoot last two years average of 36.8% of GDP

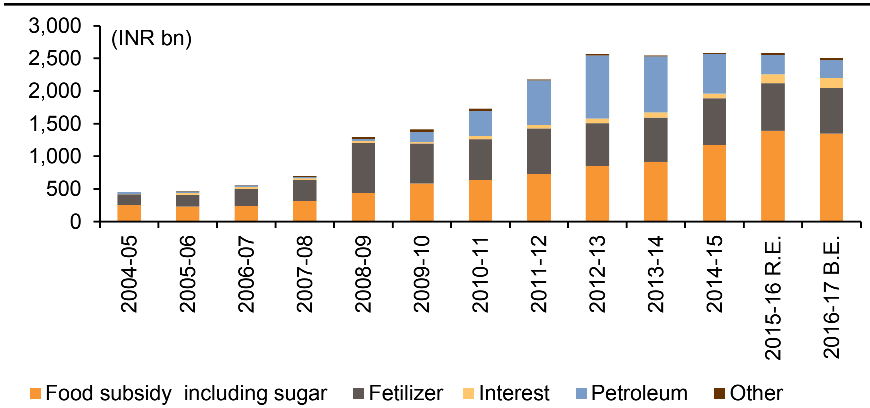
(INR bn)	FY15	FY16R.E.	FY17B.E.	FY16R.E.	FY17B.E.
Devolution of State's share in taxes	3,378.1	5,061.9	5,703.4	49.8	12.7
Non-Plan Grants and Loans	772.0	1,083.1	1,184.4	40.3	9.3
Central Assistance to States	2,708.3	2,161.1	2,419.0	(20.2)	11.9
Total (Grant & Loans)	3,480.3	3,244.2	3,603.4	(6.8)	11.1
Total Assistance	6,858.4	8,306.1	9,306.7	21.1	12.0
Less - Recovery of Loans &	106.6	90.9	94.7	(14.7)	4.2
Net Resources transferred to States & UT	6,751.8	8,215.2	9,212.0	21.7	12.1

Source: Budget documents, Emkay Research

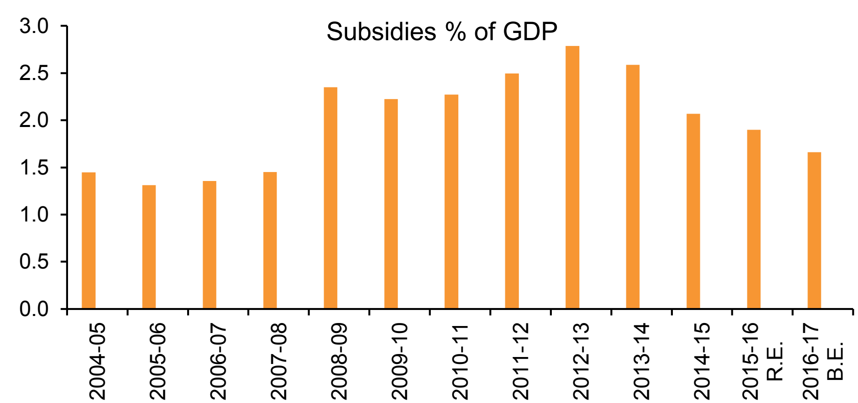
Food subsidy to provide savings in subsidy

(INR bn)	FY12	FY13	FY14	FY15	FY16R.E.	FY17B.E.	FY17 Emkay
Subsidies	**2,179**	**2,571**	**2,546**	**2,583**	**2,578**	**2,504**	**2,577**
Fertilizer	700	656	673	711	724	700	723
Food	728	850	920	1,177	1,394	1,348	1,567
Petroleum	685	969	854	603	300	269	102
Interest	50	73	81	76	138	155	166
Others	16	23	18	16	21	31	20
% growth							
Subsidies	**25.7**	**18.0**	**(1.0)**	**1.4**	**(0.2)**	**(2.9)**	**(0.0)**
Fertilizer	12.4	(6.3)	2.6	5.5	1.9	(3.4)	(0.2)
Food	14.1	16.7	8.2	27.9	18.5	(3.3)	12.4
Petroleum	78.5	41.5	(11.9)	(29.4)	(50.2)	(10.2)	(66.0)
Interest	7.9	44.0	11.9	(6.2)	80.9	12.4	20.0
Others	(62.8)	47.2	(23.2)	(9.4)	32.7	46.4	(8.0)

Large subsidy savings from food



Subsidy burden to decline to 1.7% of GDP



Source: Budget documents, Emkay Research

Higher reliance on disinvestments

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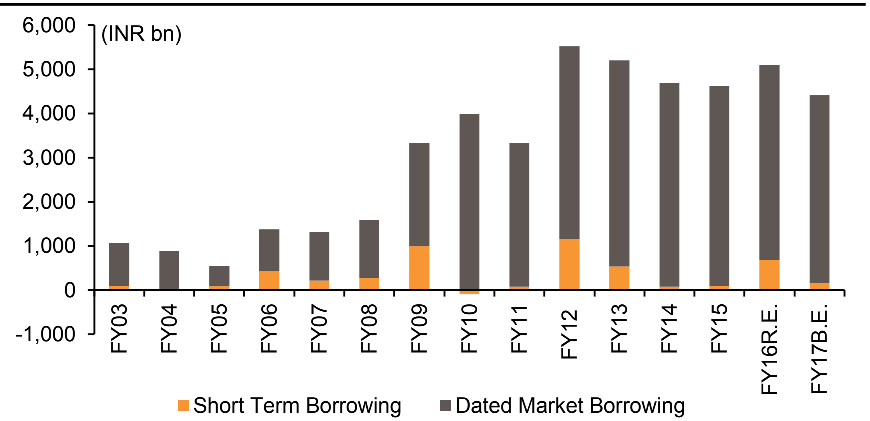
	(INR bn)						(% growth)				
	FY12	FY13	FY14	FY15	FY16R.E.	FY17B.E.	FY13	FY14	FY15	FY16R.E.	FY17B.E.
Capital Receipts	5,676	5,328	5,447	4,688	5,796	6,010	(6.1)	2.2	(13.9)	23.6	3.7
Non Debt Receipts	369	422	419	515	442	671	14.1	(0.7)	23.0	(14.1)	51.8
Recoveries of loans & advances	189	163	125	137	189	106	(13.7)	(23.2)	9.9	37.6	(43.8)
Disinvestments	181	259	294	377	253	565	43.1	13.4	28.5	(32.9)	123.2
Debt Receipts	5,466	5,412	5,220	4,330	5,574	5,207	(1.0)	(3.5)	(17.1)	28.7	(6.6)
Market Borrowing	5,525	5,207	4,690	4,623	5,093	4,418	(5.8)	(9.9)	(1.4)	10.2	(13.2)
Dated Securities	4,364	4,674	4,613	4,531	4,406	4,252	7.1	(1.3)	(1.8)	(2.8)	(3.5)
Short term securities	1,161	534	77	92	687	166	(54.0)	(85.5)	18.8	648.0	(75.8)
Securities against Small Savings	(103)	86	124	322	534	221	(183.7)	43.3	160.8	65.8	(58.6)
State Provident Funds	108	109	98	119	110	120	1.1	(10.7)	22.2	(7.7)	9.1
External Debt	124	72	73	129	115	191	(42.2)	1.3	77.4	(11.2)	66.3
Drawdown of Cash Balance	(160)	(506)	(192)	(157)	(221)	132	(216.7)	62.1	18.3	(40.9)	159.7
(contribution pps)											
Capital Receipts	39.8	(6.1)	2.2	(13.9)	23.6	3.7					
Non Debt Receipts	0.4	0.9	(0.1)	1.8	(1.5)	4.0					
Recoveries of loans & advances	1.6	(0.5)	(0.7)	0.2	1.1	(1.4)					
Disinvestments	(1.2)	1.4	0.7	1.5	(2.7)	5.4					
Debt Receipts	44.2	(1.0)	(3.6)	(16.3)	26.5	(6.3)					
Market Borrowing	54.0	(5.6)	(9.7)	(1.2)	10.0	(11.6)					
Dated Securities	27.3	5.5	(1.1)	(1.5)	(2.7)	(2.7)					
Short term securities	26.7	(11.1)	(8.6)	0.3	12.7	(9.0)					
Securities against Small Savings	(5.3)	3.3	0.7	3.6	4.5	(5.4)					
State Provident Funds	(0.4)	0.0	(0.2)	0.4	(0.2)	0.2					
External Debt	(2.7)	(0.9)	0.0	1.0	(0.3)	1.3					
Drawdown of Cash Balance	(5.5)	(6.1)	5.9	0.6	(1.4)	6.1					

Source: Budget documents, Emkay Research

Fiscal slippage to harden yields

- Lower fiscal deficit target for FY17 of 3.5% of GDP has translated to a decline in market borrowing of nearly 3.5%. Only 80% of the deficit is financed through market borrowing as compared to 82% in FY16R.E. and 89% in FY15.
- We believe that the budget is on the expansionary side with higher growth for revenue expenditure and lower capital allocation; it reflects worsening of quality of fiscal spending, which might be inflationary. Further, there is a high likelihood of fiscal slippage with full implementation of 7th Pay commission and lower revenue realisations which will harden the yields.
- We do not expect RBI to follow up with rate easing. Quite apart from the constraint we see arising from the budget, the liquidity scenario currently is in severe deficit, which will make rate easing ineffective and meaningless. We maintain our target of 10-year Gsec hardening to at least 8.5%.

Decline of 3.5% in Net market borrowing



Source: Budget documents, Emkay Research

Higher reliance on resources of PSU companies imply higher borrowings by them

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Plan Outlay 2015-2016

(INR bn)	FY14	FY15	FY16BE	FY16RE	FY17BE	FY16BE % YoY	FY16RE % YoY	FY17BE % YoY
Budgetary support for central plan	3404.8	1918.1	2604.9	2610.9	3081.1	35.8	36.1	18.0
Internal and extra budgetary resources of Public enterprises	2630.9	2291.7	3178.9	3216.2	3981.4	38.7	40.3	23.8
Central Plan Outlay	**6035.7**	**4208.8**	**5783.8**	**5827.1**	**7062.5**	**37.4**	**38.5**	**21.2**
Central Assistance for State and Union Territory Plans	1128.5	2708.3	2047.8	2161.1	2419.0	-24.4	-20.2	11.9

Higher focus on Agri, Roads and Rural development

				% Growth	
Ministry/Department	**FY15**	**FY16R.E.**	**FY17B.E.**	**FY16R.E.**	**FY17B.E.**
Agriculture And Farmers Welfare	259	230	445	(11.4)	93.8
Drinking Water And Sanitation	121	109	140	(9.8)	28.4
Health And Family Welfare	322	350	395	8.7	13.1
Housing And Urban Poverty	27	20	54	(28.1)	175.9
Human Resource Development	689	676	724	(1.9)	7.1
Micro Small And Medium	28	30	35	9.2	14.7
Minority Affairs	31	37	38	20.9	2.4
New And Renewable Energy	5	3	50	(49.1)	1,822.1
Road Transport And Highways	330	471	580	42.5	23.1
Rural Development	698	793	878	13.6	10.7
Skill Development And Entrprenuership	-	10	18	-	73.8
Social Justice And Empowerment	58	66	74	13.8	11.7
Urban Development	133	183	245	38.4	33.7
Water Resources, River Development And Ganga Rejuvenation	55	70	62	28.3	(11.8)
Women And Child Development	185	174	174	(6.4)	0.3

Source: Budget documents, Emkay Research

Rural India remains under focus, no major changes to individual income tax deductions

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- **Rural India remains under focus – allocation of Rs.877.7 billion**
  - Rs.2,870 billion will be given as grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission
  - Rs. 385 billion allocated toward MGNREGA
  - 300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission
  - Aims to achieve 100% village electrification by 1st May, 2018
  - Introduced a new Digital Literacy Mission Scheme for rural India to cover around Rs.60 million additional household within the next 3 year
  - Allocated Rs. 1,516 billion towards social sector – including health care and education
  - Rs. 20 bn will be initially spent on providing LPG connections to BPL families
  - Aims to start 3000 stores under Prime Minister's Jan Aushadhi Yojana during 2016-17
  - "Stand Up India Scheme" introduced for facilitating at least two projects per branch for the benefit of atleast 0.25 million entrepreneurs.
  - The government in the healthcare sector is introducing schemes like New health protection scheme that will provide health cover up to Rs. 0.1 million per family and plans to start National Dialysis Services Programme under National Health Mission through PPP mode
- **Committed to stable, predictable taxation regime**
  - No change in rates of personal income tax slabs
  - Tax rebate under section 87A increased from Rs.2000 to Rs. 5000 to reduce tax buden on individuals with income less than Rs. 0.5 million
  - Limit of deduction on rent paid under section 80 GG raised from Rs. 24,000 p.a to Rs. 60,000 p.a

Direct Tax Proposals

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Direct tax proposals – Corporate

- Government stays committed to the roadmap on the reduction in Corporate Tax rate (in the last budget had indicated an aim to bring it down to 25% from ~30% in 4 years). however intends to bring down the deductions/incentives alongside as the effective tax rate is already ~25%.
- Profit linked deductions for SEZ units under Section 10AA to be available only for units commencing operations before April 1'2020.
- No deduction to be available from April 1'2017 for expenditure on projects /schemes under Section 35AC (i.e donation/expenditure on certain eligible social development project or a scheme).
- The deduction on the expenditure incurred on Skill Development Projects under Section 35CCD to be reduced to100% from 150% currently
- Deduction in respect of profits under Section 80IA, 80IB, 80IAB namely on (a) development, operation and maintenance of an infrastructure facility (80-IA) (b) development of special economic zone (80-IAB) (c) production of mineral oil and natural gas [80-IB(9)] will not be available from April 1'2017 (V/s 100% profit linked deductions for specified periods currently) *(Refer Infrastructure Sector on slide no 32)*
- Accelerated depreciation benefit to be restricted to 40% effective April 1'2017 from 100% currently in respect to certain block of assets.
- To provide impetus to start ups, 100% of the profits will be allowed for deduction set up before April 1'2019.
- Reduction in deduction limits for expenditure incurred on Scientific Research under Section 35 of the Income Tax Act to be effective April 1'2018

Direct Tax Proposals

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Expenditure Head	Proposed Phase out plan of incentives
Accelerated Depreciation	Accelerated depreciation restricted to 40% w.e.f 01.4.2017 applicable on old as well as new assets
Contribution/Expenditure on scientific research	Weighted deduction on scientific research expenditure will be phased out gradually *(for details refer pharmaceutical sector on slide no 42)*
Deduction in respect of specified business	In case of a cold chain facility, warehousing facility for storage of agricultural produce, hospital, an affordable housing project, production of fertilizer, deduction shall be restricted to 100 per cent of capital expenditure w.e.f. 01.4.2017 V/s 150% earlier.
Expenditure on notified agricultural extension project	Deduction shall be restricted to 100 per cent from 1.4.2017 V/s 150% earlier

Direct Tax Proposals *(cont…)*

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Direct tax proposals – Individual

- No change in the Basis Income Tax slab limits for general taxpayers as well as senior citizens (note that these limits had been increased for senior citizens in Union Budget 2015-16).
- Dividend income in excess of Rs 1 mn p.a in the case of an individual, Hindu undivided family (HUF) or a firm who is resident in India, to be taxed at 10% on a gross basis. This is effective April 1’2017 and shall accordingly apply starting AY2018 and subsequent years.
- Surcharge for individuals earning an annual salary of Rs 10 mn increased from 12% to 15%.
- Section 24 of the Income Tax Act’1961 proposed to be amended to allow for a construction period of 5 years (V/s 3 years earlier) given the delays and the longer period of construction related to housing projects.
- Additional Incentive for first time home buyers availing home loans by providing deduction in respect of interest on loan from any financial institution upto Rs 50,000. This incentive is proposed for a house property with value less than Rs 5mn and on which loan amount does not exceed Rs 3.5 mn (loan to be sanctioned during FY17E) and is effective for AY2018 and subsequent years.
- Deduction under Section 80GG of the Income Tax Act’1961 increased to Rs 60k p.a (V/s Rs 24k p.a earlier) for employees who do not get Housing Rent Allowance. These amendments are proposed to be made effective from the April 1, 2017 and shall accordingly apply in relation to AY 2018 and subsequent years.
- Income and Capital Gains under Gold Monetization Scheme’2015 to be exempt from Income Tax. This would be effective from April 1’2016 and subsequent years.

Indirect Tax Proposal - Excise

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Noteworthy positives in excise

- Excise duty on rubber sheets resin rubber sheets for soles and heels reduced from 12.5% to 6%
- Excise duty on electric motor, shafts, sleeve, chamber, impeller, washer required for the manufacture of centrifugal pump reduced from 12.5% to 6%
- Excise duty on refrigerated containers reduced from 12.5% to 6%

Noteworthy negatives in excise

- Excise duty on cigarettes is increased by 10% *(for details please refer FMCG sector on slide no 35)*
- Excise duty of 1% without CENVAT credit or 12.5% with CENVAT credit on articles of jewellery (excluding silver jewellery, other than studded with diamonds or other precious stones) with a higher threshold exemption upto Rs.6 crores in a year and eligibility limit of Rs.12 crores
- Clean energy cess renamed as Clean environment cess and rate increased from Rs200 per tonne to Rs400 per tonne
- Infrastructure Cess will be levied on motor vehicles *(for details please refer Automobile sector on slide no 28)*
- Excise duty on mineral water, aerated water, containing added sugar or other sweetening matter or flavored increased from 18% to 21%
- Excise duty on branded readymade garments and made up articles of textile of retail sale price of R.1000 or more changed from Nil without CENVAT credit or 6%/12.5% with CENVAT credit to 2% without CENVAT credit or 12.5% with CENVAT credit *(for details please refer Retail sector on slide no 43)*

Indirect Tax Proposal - Custom

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Noteworthy reduction in duty

- Export duty on specified categories of Iron ore, Chromium ore have been exempted (V/s 10-30% duty earlier) and export duty on Bauxite (natural) has been reduced to 15% V/s20% earlier *(for details refer Metal Mining sector on slide no 38)*
- Basic custom duty on refrigerated containers reduced from 10% to 5%.
- Basic custom duty on polypropylene granules/ resins for the manufacture of capacitor grade plastic films reduced from 7.5% to Nil.

Noteworthy increase in duty

- Custom duty on Primary aluminum and Zinc alloys has been increased to 7.5% each V/s 5% earlier *(for details refer Metal Mining sector on slide no 38)*
- CVD on specified machinery required for construction of roads increased from nil to 12.5%
- Duty on Imitation jewellery increased from 10% to 15%.
- Basic Custom Duty increased on preform of silica for manufacture of telecom grade optical fibre/cables from Nil to 10%.
- Basic custom duty/CVD of 12.5% and SAD of 4% imposed on charger/adapter, battery and wired headsets/speakers for manufacture of mobile phone.
- Increase in basic custom duty of cashew nuts in shell from nil to 5%
- Duty on natural latex rubber made balloons falling under specified headings increased from 10% to 20%.

Indirect Tax Proposal – Service Tax (noteworthy changes)

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- **Additional Krishi Kalyan Cess of 0.5% will be levied on all taxable services from 1st June, 2016.**
- **Service tax to be levied on following services:**
  - Services of a senior advocate to an advocate or partnership firm of advocates providing legal service; and services of a person represented on an arbitral tribunal to an arbitral tribunal (14%)
  - construction, erection, commissioning or installation of original works pertaining to monorail or metro (5.6%)
  - services of transport of passengers, with or without accompanied belongings, by ropeway, cable car or aerial tramway (14%)
  - Services of transportation of passengers by air conditioned stage carriage (5.6%)
  - services provided by Indian Shipping lines by way of transportation of goods by a vessel from outside India up to the customs station in India (14%)
- **Noteworthy exemptions for Service tax are as follows:**
  - Services of construction of ports, airports (Nil from 5.6% earlier)* #
  - Services provided by way of construction, maintenance etc. of canal, dam or other irrigation works provided to bodies set up by Government (Nil from 5.6% earlier)#
  - Services by way of construction etc. in respect of (i) housing projects under Housing For All (HFA) (Urban) Mission/Pradhan Mantri Awas Yojana (PMAY); (ii) low cost houses up to a carpet area of 60 square metres in a housing project under "Affordable housing in Partnership" component of PMAY, (iii) low cost houses up to a carpet area of 60 square metres in a housing project under any housing scheme of the State Government (Nil from 5.6% earlier)
  - The rate of Service Tax on single premium annuity (insurance) policies is being reduced from 3.5% to 1.4% of the premium, in cases where the amount allocated for investment, or savings on behalf of policy holder is not intimated to the policy holder at the time of providing of service

* These benefits were withdrawn with effect from 01.04.2015 which are being restored now (including for interim period projects).

(Refer Infrastructure Sector on slide no 32)

Rural, Agri, Consumption led sectors are the key gainers

- **Agri sector:** The budget promises to double the income for farmers in 5 years or a 15% annual growth. For this, the government intends to enhance investments in irrigation and social safety, rural roads, connectivity with markets and allowing 100% FDI in food processing. While the Agri lending growth target is set at 9,00,000 crs or a modest 6% higher than last year, interest subvention provision has been increased to Rs 15000 crs. Launching DBT on a pilot basis for fertiliser in few districts and introductiuon of Krishi Kalyan Cess, at 0.5% on all taxable services. Proceeds to be used for financing initiatives for improvement of agriculture and welfare of farmers. There is clear case for revisiting our UW position on the rural sector government is responding aggressively to the farm sector. Our top buys for the sector are **Dhanuka, Chambal Fertilizers and Coromandal Intl**
- **Allocation for rural sector** has been increased by 11% to Rs 87765 crs; Importantly, the allocation for MNREGA has been increased to Rs 38500 crs , 11% higher than Rs 34699 crs last year and ~15% higher than last three year average. Hence, of the incremental allocation under rural sector, 45% comes from MNREGA.
- **Social sector** also allocation has been enhanced to Rs 1,51,581 crs, 13% higher than FY16RE to take care of education and health care.
- **Road infrastructure:** Capital allocation for MORTH has been reduced to 17000 crs, 37% lower than last year. Higher allocation under MORTH is under revenue expenditure which is increased BY 63% to Rs 26000 crs, This takes into account higher devolution to the state government. Hence, higher target for roads is dependent on internal and external budgetary support of MORTH and higher borrowings of NHAI. Revised estimate for FY16RE has been scaled down to Rs 28000 crs from Rs 46000 crs as per FY16BE. In our view, the prevailing allocation reflects back-ending of payments form the road projects, hence, we expect more of Hybrid projects rather than pure EPC. Our top picks are Ahluwalia, KNR Infra, Adani Ports and IRB infra.

Rural, Agri, Consumption led sectors are the key gainers

- With respect to the banking sector: The fact that the recapitalisation budget has been pegged at Rs 25000 crs, is in line with the Indradhanush guidance but falls short of what is required to resurrect the PSU banks. While the adherence to the fiscal deficit target at 3.5% for FY17BE appears to be positive for interest rate scenario, the fact that the revenue spending budget is on the higher side, there is a fair possibility to missing these optimistic targets in our views. In the context that we expect the credit cost still remains high, lower treasury income would continue to exert significant pressure on their profitability. Lack of visibility of enhanced recapitalisation does not give us too much of confort on the PSU bank stock even at these valuations. Our pics for the banking space remain **HDFC bank, IndusInd bank and Axis Bank**. Bankruptcy code and Code on resolution of financial firms is likely to be introduced in eh parliament during FY17, which would help speed recovery efforts of banks in stressed assets.
- **Consumers discretionary:** Higher allocation for rural, specially MNREGA (+11% YoY) , agri sector, urban (33.7%) and provisioning towards 7th Pay commission are boosters to household disposable income, thereby likely improve consumption.
  - **FMCG:** We see positive spill over for the entire FMCG space. Reduction in duty for leather products is appositive for Bata, Liberty and Relaxo. Sin categories like Cigarettes continue to be taxed higher (10% excise duty hike; Negative for ITC, Godfrey Phillips). Higher excise duty (from 0% to 1%) for jewellery and 1% tax on cash transactions above Rs 2lacs are negative developments for organized jewellers (Titan, PC Jewellers and TBZ). There been some increase in branded garments (negative for Arvind, ABFRL, Shoppers Stop etc). Our top picks are: Britannia, Godrej Consumers, Asian Paints and Pidilite.
  - **Automobiles:** Improved household disposable income should more than offset the increase in excise rates in passenger cars, owing to the introduction of the Infrastructure Cess (1-4%). We see the increased government allocations as a positive for Hero Motocorp, Maruti Suzuki & TVS Motors.
- **Cement:** Clean energy cess on coal has been increased by Rs200/tn to Rs400/tn, which is minor negative for cement companies and will lead to marginal increase in opex/tn by Rs28-30/tn. Impetus on “Affordable Housing” and road construction (government’s indication towards concrete roads earlier) may lead to improvement in cement demand which has remained lukewarm in last 4 years. Our tap picks here are

Rural, Agri, Consumption led sectors are the key gainers

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- **Capital goods**
  - **Proposal:** 100% village electrification by May 2018.
  - **Impact:** Will benefit companies in the conductors, cables and distribution transformers space. (KEC international, Kalpataru Power, Technofab Engg, Bharat Bijli, TRIL & Apar)
  - **Proposal:** Comprehensive plan to augment the investment in nuclear power generation spanning next 15-20 years
  - **Impact:** With increasing focus on non-fossil fuels and increase in Cess on Coal, the coal fired power projects are likely to lose prominence (negative for BHEL, L&T)
- **Pharma:** Phased removal of weighted in house R&D tax reduction from 200% to 100% by FY21 is a negative for all Pharam companies.
- **Oil & Gas**
  - **No UR burden for oil PSUs:** O&G subsidy for FY17BE at Rs290bn on cooking fuel (Kero & LPG) is marginally 3% lower than last year. In our assessment the under-recovery based on current crude oil prices and exchange rate works to Rs 270bn, which is completely accounted for in the Budget. *This implies Upstream and OMC's will not be required to share the under-recovery burden. This is a significant positive for Up-stream and OMCs.*
  - **Reduction in cess to 20% on price against Rs4500/t fixed on production of crude**– this is lower than expected (~10%) by the industry. Thus, the impact on upstream company is marginally positive considering the current crude oil price of $35/bbl ($7/bbl against $9/bbl earlier).
  - **Incentivize Natural Gas exploration in difficult fields through providing-Longer term positive for ONGC and RIL.**
- **Telecom:** The government is projecting Rs989.9bn of revenues from telecom sector (77% jump over FY16 projected revenues). Jump is primarily on account of expected receipts from sale of spectrum in auction to be held in FY17E. As per our estimates, government is estimating receipts of Rs485bn from sale of spectrum in FY17E. Further, government would also receive ~Rs50bn as deferred payment (including interest) for spectrum sale held in February 2014. Other components of revenue remain similar to last, which include annual license fee and spectrum charge and accounting of one-time spectrum charge. One-time spectrum charge (Rs230bn) has been accounted by government every year while receipt of the same seems tough as matter is sub-judice.

Budget Winners and Losers

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Sector	Winners / Losers
Agrochemicals & Fertiliser	
Adequate subsidy provided	Coromandel International, Chambal Fertiliser
Automobiles	
Infrastructure cess of 1%-4% levied on Passenger Vehicles	M&M, MSIL
Higher allocation for rural sector & implementation of 7th Pay Commission & OROP	Hero, MSIL, M&M, TVS Motor
Higher spending on Road Infrastructure	Ashok Leyland, Tata Motors, Eicher Motors
Proposal to amend Motor Vehicles Act to open up Passenger transport	Ashok Leyland, Eicher Motors, Tata Motors
Banking and Financial Services	
Fiscal deficit targets maintained at 3.5% in FY17e, 3% in FY18e	All government-owned banks
ARCs: (1) the sponsor would be permitted to hold up to 100% stake, (2) non-institutional investors would be allowed to invest in Securitization Receipts of these ARCs (3) 100% FDI allowed in ARCs through the automatic route	All banks ARCs like Edelweiss Financial Services, JM Financial
Capital infusion of Rs25bn in PSU Banks by the government	Relatively stronger government-owned banks
	Weak government-owned banks
Securities transaction tax on sale of an option hiked from 0.017% of the option premium to 0.5%	Edelweiss Financial Services, Motilal Oswal Financial Services, IIFL Holdings
Code on Resolution of Financial Firms to be introduced in Parliament	All banks
Deduction of up to 5% of the total income on account of provision for bad and doubtful debts	All NBFCs

Budget Winners and Losers

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Sector	Winners / Losers
Cement	
Increase in clean energy cess by Rs200/tonne to Rs400/tonne	Marginally negative for all cement companies
Impetus on Housing, road construction and infrastructure sectors	Positive for all companies
Construction & Infrastructure	
Total central plan outlay for MORTH for 2016-17 BE Rs440 bn and state outlay for MORTH stood at Rs109.93, taking total plan outlay for MORTH at Rs550 bn.	Road constructors like IRB Infra, Sadbhav, IL&FS Transportation, Ashoka Buildcon, L&T, Simplex Infra, J. Kumar Infra, NCC, KNR Construction, ITD Cem, MBL Infra, PNC Infra
Implementation of 89 irrigation projects under AIBP, which have been languishing, will be fast tracked. This will help to irrigate 80.6 lakh hectares. These projects require Rs170 bn next year and 865 bn in the next five years. Govt will ensure that 23 of these projects are completed before 31st March, 2017	NCC, KNR Construction, Sadbhav,
No Dividend distribution tax out of income of SPV to the REITs and INVITs	IRB Infra, Sadbhav, Ashoka Buildcon, IL&FS Transportation, L&T
To extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work at such site to Ready Mix Concrete	NCC, Simplex Infra, L&T, Ahluwalia Contracts, J. Kumar Infra, ITD Cem, and others
To increase Counter vailing duty (CVD) on specified Machinery required for construction of roads from NIL to 12.5%.	No significant impact
It is proposed to amend section 80IA of the Income-tax Act so as to provide that no deduction shall be available to enterprise which starts development, operation and maintenance of any infrastructure facility on or after 1st April, 2017	No significant impact
Consumer	
Increased excise duty for cigarettes by 10%	VST Industries, ITC & Godfrey Philips
Allocation of Rs 90bn towards Swachh Bharat Mission	HSIL & Cera Sanitaryware
Introduction of Krishi Kalyan Cess @ 0.5% for all taxable services	QSR & Hospitality Sector

Budget Winners and Losers

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Sector	Winners / Losers
Eng. & Capital Goods	
Rs85bn provided for 100% electrification of villages by May 2018.	KEC International, Kalpataru Power, Technofab Engineering, Techno Electric.
	Bharat Bijlee, EMCO, IMP Power, TRF ltd, Apar Industries.
Outlay of Rs.22.5 bn for Namami Gange	ION exchange, VA Tech Wabag, Triveni Engineering.
Outlay of Rs.102bn for New and Renewable energy.	INOX Wind, Suzlon, ABB, Schneider electric.
Increase in cess on coal from Rs.200 /tone to Rs.400 /tone	BHEL, Thermax
Media and Telecom	
Revision in excise duty structure on Set up box	MSO/DTH players
Exempted excise duty on parts and components of Set-top-box and broadband routers	MSO/DTH players (If STB will be manufactured in India
Introduction of Krishi Kalyan Cess @ 0.5% for all taxable services	DTH, Cable TV companies and Telecom service providers
Withdrawal of custom duty exemption on preform of Silica for manufacture of optical fibre/cable	Sterlite Technologies and other optic fibre companies
Specified telecommunication equipment on which 10% BCD was imposed in 2015 budget being excluded from the purview of the other exemption also	Telecom service providers

Budget Winners and Losers

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Sector	Winners / Losers
Metals & Mining	
Increase in Clean environment cess by Rs 200/ tonne	Hindalco, NALCO, Vedanta
Reduction in export duty for Iron ore with Fe content below 58% to Nil	Vedanta
Increase in BCD for primary Aluminium by 2.5%	Hindalco, NALCO, Vedanta
Increase in BCD for other Aluminium products by 2.5%	Hindalco, Vedanta
Reduction in export duty for Chromium ores and concentrates to Nil	Tata Steel
Reduction in export duty for Bauxite by 5%	Vedanta
Increase in BCD for Zinc alloys by 2.5%	Hindustan Zinc
Oil & Gas	
Reduction in cess to 20% on price against Rs4500/t fixed on production	Marginally positive for ONGC, Oil India, Cairn
No change in custom duties on crude oil	BPCL, IOCL, HPCL and RIL
Pharmaceuticals	
Phased removal of weighted R&D deduction by FY21	Negative for all pharmaceutical companies
Retail	
Increased excise duty for branded garments by 1.2%	Arvind Ltd, Page Industries, Shoppers Stop, ABFRL, Trent
Excise duty on rubber sheets & abatement for footwear reduced from 9.4% to 4.2%	Bata, Relaxo & Liberty Shoes
Excise duty on gold bars and jewellery increased by 0.5%-1% 1% TDS on purchase of goods and services in cash >Rs 200000	PC Jeweller, Titan, TBZ

Sectoral Impact

Agrochemicals & Fertiliser

- Aiming to double farmer's income in next five years, total allocation for agriculture and farmer's welfare at Rs 360bn
- Launching DBT on a pilot basis for fertiliser in few districts in the country is a step in the right direction.
- Allocation to Prime Minister Fasal Bima Yojana at Rs 55bn.
- Fertiliser subsidy for FY17 has been reduced to Rs 700bn vs Rs 735bn in FY16RE, inline with our estimates
- Agriculture credit target of Rs 9.0 trn vs Rs 8.5 trn in FY16
- MNREGA outlay pegged at Rs 385bn, in line with expectation
- To reduce the burden of loan repayment on farmers, a provision of Rs150bn towards interest subvention on farm loans
- To enhance production of pulses, assigned Rs 5bn under National Food Security Mission
- Introduced Krishi Kalyan Cess, at 0.5% on all taxable services. Proceeds to be used for financing initiatives for improvement of agriculture and welfare of farmers
- **Agri infrastructure focused initiatives:**
  - Rs 57bn allocated for Pradhan Mantri Krishi Sinchai Yojana, includes Rs 23.4bn for micro irrigation (per drop more crop)
  - Allocated Rs 200bn for Long Term Irrigation Fund in NABARD and Rs 60bn for ground water resource management programme
- **Qualitative measures:** Specific initiatives to ensure benefit of MSP reaches farmers and setting up of National Agriculture Market through Agri-Tech Infrastructure Fund

Current Status	Proposals	Impact
Fertiliser subsidy at Rs 735bn	Subsidy proposed at Rs 700 bn	Although subsidy provision is marginally lower than last year it is still adequate as falling gas prices will lower the cost of production.
MNREGA outlay at Rs 337bn and agri credit at Rs8.5trn	MNREGA outlay increased to Rs 385bn and agri credit at Rs 9.0trn	Positive for agri companies
N. A.	DBT on pilot basis for fertiliser in few districts	Positive for fertiliser companies

Automobiles

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- Proposed hike in excise duty with the introduction of the Infrastructure Cess on passenger vehicles of 1-4% (as below). We see this as a big negative for large car manufacturers like M&M and mildly negative for MSIL; should impact all other unlisted players as well.

Category	Before	Now
Two-wheelers	12.5	12.5
Small Petrol/CNG cars (<4m, <1200 cc)	12.5	13.5
Small Diesel cars (<4m, <1500 cc)	12.5	15.0
Mid-size cars (>4 m, <1500 cc)	24.0	28.0
Large Cars (>4 m, >1500 cc)	27.0	31.0
Utility vehicles	30.0	34.0
Commercial Vehicles	12.5	12.5

- Proposed collection of tax at source at the rate of 1% on purchase of luxury cars exceeding value of Rs. 1 mn. We see this as more of a procedural step and is unlikely to have any impact on the car buyers cost of purchase.
- Weighted deduction for R&D in the Income Tax Act (currently 200%) to be reduced to 150% by April '17 and 100% post FY20. This could lead to higher tax rates by OEMs, unless the government reduces corporate tax rate as promised in the budget speech.
- Government to enact necessary amendments in the Motor Vehicles Act and open up (abolition of permit-raj) the road transport sector in the passenger segment. Depending on the final proposal, this could positively impact bus demand from private operators. Positive for Ashok Leyland, Eicher Motors.
- Pro-rural measures coupled with implementation of OROP and the 7th Pay Commission are all likely to lead to increased disposable income in the hands of households. Positive for domestic/rural plays like Hero Motocorp, M&M, Maruti Suzuki and TVS Motors. Allocation under various schemes have been increased as follows:
  - Higher allocation for Agriculture and Farmers' Welfare, with focus on doubling farmers' income in 5 years. Farm credit target up +6% YoY
  - Pradhan Mantri Gram Sadak Yojana outlay +33% YoY. Total investment for Roads up +13% YoY
  - MNREGA allocation up 11% YoY

Banking & Financial Services

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- The fiscal deficit targets of 3.5% for FY17E is a sentiment booster for the sector, but meeting it will be a stretch.
- Capital infusion of Rs250bn in PSU banks (for FY17) remains significantly lower than our expectation, and is not likely to be material in resolving the low capital adequacy of these banks. However, it also considerably reduces the possibility of excessive book-value dilution in the near-term
- A comprehensive Code on Resolution of Financial Firms will be introduced as a Bill in the Parliament in FY17, to deal with bankruptcy situations in banks, insurance companies and financial sector entities. This is likely to aid banks in their bad loan recovery efforts
- For asset reconstruction companies (ARCs), there are four positive announcements: (1) the sponsor would be permitted to hold up to 100% stake, (2) Foreign Portfolio Investors (FPIs) to be allowed up to 100% of each tranche in securities receipts issued by ARCs, (3) non-institutional investors would be allowed to invest in Securitization Receipts of these ARCs, (4) 100% FDI allowed in ARCs through the automatic route. This would ease the operating environment for ARCs, and lead to better resolution of NPAs
- The hike in securities transaction tax on sale of an option (where option is not exercised), from 0.017% of the option premium to 0.05%, is negative for equity brokerage businesses of Edelweiss Financial Services, Motilal Oswal Financial Services and IIFL Holdings
- For NBFCs, a deduction of up to 5% of the total income on account of provision for bad and doubtful debts to be allowed w.e.f. 1st April 2017, is a positive for asset financing NBFCs such as Shriram Transport Finance, Mahindra Finance, Chola Finance etc. The deduction against bad and doubtful debts creates a level playing field between banks and NBFCs.

Banking & Financial Services *(Cont...)*

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Current Status	Budget Proposal	Impact
Fiscal deficit target of 3.5% in FY17E, 3% in FY18E	Fiscal deficit targets maintained	Positive for bond yields
Capital infusion of Rs250bn budgeted for FY17 in the Indradhanush (PSU Banks revamp plan)	No change from the budgeted plan - capital infusion of Rs250bn for FY16	Neutral – not material enough to solve capital adequacy issues, but also limits possibility of excessive equity dilution below book-value
	Code on Resolution of Financial Firms to be introduced in Parliament	Positive - likely to be help banks in their bad loan recovery efforts
ARC: sponsor can hold up to 50% stake, FDI capped at 74%	Sponsors to be allowed to hold up to 100% stake in ARCs, FDI hiked to 100%; FPIs allowed to hold up to 100% in each tranche of securities receipts issued by ARCs subject to sectoral caps	Positive - improves the operating environment for ARCs like Edelweiss Financial Services, JM Financial
ARC: FIIs are allowed up to 74% of each tranche in securities receipts issued by ARCs	Foreign Portfolio Investors (FPIs) to be allowed up to 100% of each tranche in securities receipts issued by ARCs	Positive - improves the operating environment for ARCs like Edelweiss Financial Services, JM Financial
Farm credit target for banks – Rs8.5trillion in FY16	Farm credit target for banks – Rs9trillion in FY17	Neutral
PMMY credit target for banks and NBFCs – Rs1.2trillion in FY17	PMMY credit target for banks and NBFCs – Rs1.8trillion in FY17	Positive for banks and NBFCs in meeting priority sector requirements
Securities transaction tax (STT) on sale of an option, where option is not exercised is 0.017% of the option premium	Hiked to 0.05% of the option premium w.e.f. 1st June 2016	Negative for companies (involved in stock broking activities) like Edelweiss, Motilal Oswal, IIFL Holdings
No deduction from total income is allowed towards provisions for bad and doubtful debts	Deduction of up to 5% of the total income on account of provision for bad and doubtful debts to be allowed w.e.f. 1st April 2017	Positive for all asset financing NBFCs
Interest deduction of Rs200,000 allowed u/s24 on self-occupied property	Additional interest deduction of up to Rs50,000 to be allowed over and above the existing limit, on a house property valued less than Rs5mn, in respect of which a loan of an amount not exceeding Rs3.5mn has been sanctioned in FY17.	Positive for HFCs focusing on middle and low income segments and predominantly present in the tier II and beyond centres – like LIC Housing Finance, Repco Home Finance, Dewan Housing, Gruh Finance

Cement

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- Clean energy cess, which is presently levied on coal, peat and lignite for the purposes of financing and funding in the area of clean energy, currently stands at Rs 200/tonne and has been proposed to increase by Rs 200/tonne to Rs400/tonne. This is likely to increase the power & fuel cost by Rs 28-32/tonne. Thus, it is marginal negative for all cement companies
- Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from FY18. Currently accelerated depreciation could be charged to the extent of 100% on few of the items like pollution control devices. It will not have much impact as it is not a major portion of the capex
- Government's impetus on "Affordable Housing" will help to boost consumption of cement. It has allowed 100% deduction for profits to an undertaking in housing project for flats (30/60 sq. meters in metros/other cities) approved during June '16 to March '19 and completed in three years
- In Infrastructure sector, the allocation for Roads and Highways has been increased to Rs970bn. For Roads & Highways, total allocation is Rs550bn from the Central government and Rs150bn will be through issue of Bonds by NHAI. Also, under Pradhan Mantri Gram Sadak Yojana (PMGSY) total allocation is Rs270bn (including state contribution)

Current Status	Proposals	Impact
Clean Energy cess on coal levied at Rs200/tn	Increase of Rs200/tn to Rs400/tn	Minor negative for all cement companies as it will lead to increase in cost of production by ~Rs30/tn
Accelarated depreciation @ 100% on few items such as pollution control devices	Capped at 40% maximum from FY18	Will not have much impact as it is not a major portion of total capex
Thrust on "Affordable Housing", increased allocation for Roads	Promoting affordable housing by allowing 100% deduction for profits to an undertaking in housing project for flats (30/60 sq. metres in metros/other cities) approved during June '16 to March '19 and completed in three years, allocation for Roads increased to Rs970bn (including PMGSY)	Positive for cement demand

Construction & Infrastructure

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Road sector: Allocation to the state plan outlay increased, revenue expenditure increases significantly

- Total centre Plan outlay for MORTH for 2016-17 BE Rs440 bn and state outlay for MORTH stood at Rs109.93 , taking total plan outlay for MORTH at Rs550 bn.
- We have seen increase in allocation to state plan from Rs28.1 bn in 2015-16 RE to Rs108.33 bn in 2016-17BE and union territory by Rs1.6 bn.
- The total central plan outlay including IEBR (Market borrowing) for MORTH (Ministry of road and transport) revised downwards for 2015-16 RE by 16% to Rs694 bn from 2015-16 BE of Rs827 bn. We believe that delay in awarding of projects led to downward revision in the allocation.
- The total Plan outlay for 2016-17BE is pegged at Rs1033 bn implies growth of 48.8% over 2015-16E revised estimate.
- We have seen the increase in the revenue expenditure in the total central plan outlay by Rs126 bn to Rs265.5 bn in the total central plan outlay of Rs440 bn.
- Rural roads: Allocation to Pradhan Manti Gram Sadak Yojana for 2016-17 estimated Rs176.02 bn versus Rs2015-16 RE Rs182.91 bn.

Irrigation

- Implementation of 89 irrigation projects under AIBP, which have been languishing, will be fast tracked. This will help to irrigate 80.6 lakh hectares. These projects require Rs170 bn next year and 865 bn in the next five years. We will ensure that 23 of these projects are completed before 31st March, 2017.
- A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs200 bn. To achieve all these, a total provision of Rs125.17 bn has been made through budgetary support and market borrowings in 2016-17.

Steps to re-vitalise PPPs

- Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17
- Guidelines for renegotiation of PPP Concession Agreements will be issued
- New credit rating system for infrastructure projects to be introduced

Major Announcements

- No Dividend distribution tax out of income of SPV to the REITs and INVITs. Gives clarity to road developers like IRB Infrastructure, Sadbhav engineering, Ashoka Buildcon, ITNL, L&T applying for InVT structure.
- It is proposed to exempt service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes Currently the companies are paying 40% tax rate on 14% service tax , though it will not benefit any contractors as service tax are generally are paid by the clients.
- Exemption on services of
  - Construction provided to the government, a local authority or a governmental authority, in respect of construction of govt, schools, hospitals,
  - Construction of ports and Airports
- No benefit to any contractors as service tax are generally are paid by the clients.
- To extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work at such site to Ready Mix Concrete. Though the current contractors like NCC, Ahluwalia contracts, L&T are paying excise if they purchase RMC from outside or third party. The current budget gives clarity that no excise duty will be paid on RMC manufactured by the contractors on his own site.
- To increase Counter vailing duty (CVD) on specified Machinery required for construction of roads from NIL to 12.5%.

Section 80-IA of the Income-tax Act: Deduction for development of infrastructure facility

- It is proposed to amend section 80IA of the Income-tax Act so as to provide that no deduction shall be available to enterprise which starts development, operation and maintenance of any infrastructure facility on or after 1st April, 2017. It is further proposed to provide that the development, operation and maintenance of an infrastructure facility beginning on or after 1st April, 2017 shall be eligible for investment linked deduction under section 35AD of the Income-tax Act.
- The above statement implies that any project which starts development which should mean construction work after 1st April, 2017 will not be eligible for 80-IA benefit. We don’t see any impact to the existing developers projects because of protection from change in law mentioned in the model concession agreement (MCA). However for newer projects the bidder will account for new tax applicable while bidding for fresh projects (ultimately will increase the cost of infrastructure).

Construction & Infrastructure *(Cont…)*

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Current Status	Proposals	Impact
Excise duty exemption presently available to Concrete Mix manufactured at site for use in construction work	To extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work at such site to Ready Mix Concrete	Neutral
Counter vailing duty (CVD) on specified Machinery required for construction of roads is NIL.	To increase Counter vailing duty (CVD) on specified Machinery required for construction of roads from NIL to 12.5%.	No significant impact
As per section 80IA of the Income-tax Act deduction is available to enterprise for development, operation and maintenance of any infrastructure facility	To amend section 80IA of the Income-tax Act so as to provide that no deduction shall be available to enterprise which starts development, operation and maintenance of any infrastructure facility on or after 1st April, 2017	No significant impact

Consumer

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- Increase in basic excise duty on cigarettes by 10% across all lengths – This will imply an increase of 10% in cigarette prices, largely in line with expectations. Another price hike would mean pressure on volumes, but the extent may be lower than expected.
- Increased allocation towards MGNREGA from Rs 346.7bn in FY15 to Rs 385bn (+11%). Further, Government has set a target of doubling farmer income by 2022 – Positive for rural consumption
- Raise ceiling limit under section 87A from Rs 2000 to Rs 5000 for individuals with income upto Rs 500000. Further, increased limit of deduction for rent paid under section 80GG from Rs 24000 to Rs 60000. – This is a nominal increase in income for small tax payers.
- Introduction of Krishi Kalyan Cess @ 0.5% for all taxable services – Negative for all QSR players and Hospitality sector, as it will entail another price increase, in a muted demand environment.
- Allocation of Rs 90bn towards Swachh Bharat Mission towards improving sanitation in the country – Positive for sanitaryware players like HSIL and Cera Sanitaryware.

Current Status	Proposals	Impact
Excise duty on cigarettes/1000 sticks upto 65mm - 1.44 >65mm upto 70mm - 1.90 >70mm upto 75mm - 2.59 >75mm & above - 3.79	Hiked excise duty by 10% for cigarettes across all lengths. Revised excise duty/1000 sticks is: upto 65mm - 1.59 >65mm upto 70mm - 2.09 >70mm upto 75mm - 2.85 >75mm & above - 4.17	Negative for ITC, Godfrey Philips & VST. Cigarette players will have to take price hike of 10%. Expect pressure on volumes to continue, albeit at a lower pace than expected

Engineering & Capital Goods

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- 100% electrification of villages by May 2018. Rs 85bn have been provided under the Deendayal Upadhayaya Gram Jyoti Yojna and Integrated Power Development Schemes. Benefits likely to flow to rural electrification project and equipment companies.
- Outlay of Rs.22.5bn for Namami Gange for beautification of Ganga river front. The funds for national Ganga plan would be met from National clean energy fund. Order flows from Namami Gange will benefit water treatment companies.
- Outlay of Rs.102bn for New and Renewable energy. The targets for solar and wind energy for FY17 is 12,000 MW and 4100 MW respectively. Will be beneficial for EPC and product companies in the renewable segment.
- Clean energy cess on coal doubled to Rs.400 /tone will make coal based projects less viable. Negative for BTG companies.
- Comprehensive plan spanning 15-20 years to augment investment in nuclear power generation could potentially spur the transition from fossil (coal -fired) power projects.

Media & Telecom

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- Introduction of Krishi Kalyan Cess @ 0.5% for all taxable services – Negative for DTH, Cable TV and Telecom service providers
- Assignment by the government of the right to use the radio-frequency spectrum and its subsequent transfers being declared as a service so as to make it clear that assignment of right to use the spectrum is a service leviable to service tax and not sale of intangible goods, with effect from date of enforcement of Finance Bill, 2016- This will increase payout for the seller on M&A and for spectrum trading purpose.

Current Status	Proposed	Impact
Basic customs duty on wood in chips or particles for manufacture of paper, paperboard and news print is currently 5%	Exempted	Positive for print media companies as input cost will reduced
Excise duty on parts/components of Set-top boxes for Internet/TV is 12.5%	Exempted	Positive for DTH and Cable TV companies, if STB's will be manufactured in India
Excise duty on Set-top boxes for gaining access to internet/TV is 12.5%	Revised to 4% [without ITC] or 12.5% [with ITC]	
Specified telecommunication equipment on which 10% BCD was imposed in 2015 budget being excluded from the purview of the other exemption also	10% duty	Negative for telecom service providers
BCD on preform of silica for manufacture of telecom grade optical fibre /cables is Nil	BCD of 10% implemented	Positive for Sterlite Technologies and other optic fibre manufactures
Basic custom duty on Silica sand is currently 5%	Revised to 2.5%	Positive for Sterlite Technologies and other optic fibre manufactures

Metals & Mining

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- Slightly negative for steel producers (JSW Steel, Tata Steel and SAIL), as abolition of export duty on Iron ore (Fe content below 58%) and hike in clean environment cess on coal to Rs 400/ tonne are not likely to increase any significant costs. Among miners, Vedanta will be benefitted for their mining operation in Goa. Non integrated sponge iron producers may get affected more due to rise in their coal cost
- Non ferrous metals sector is likely to benefit from increase in basic custom duty for Aluminium and its products. Rise in clean environment cess for coal will be negative on the other hand
- Increase in BCD for primary aluminium and other aluminium products by 2.5% will benefit Hindalco, NALCO and Vedanta as it is likely to make them more competitive against cheap imports. Taking 2.5% flat increase in import duty on current spot LME, it works out to be ~US$ 40/ tonne
- As we understand, the increase in clean environment cess will be a pass through for Coal India and thus it will increase the cost of production for non power users especially the aluminium producers by around US$ 25/ tonne
- Abolishing export duty on Chromium ores and concentrates should be positive for Tata Steel as their chrome ore mine lease was renewed in merchant category for five years and the company now can take advantage of this move by exporting
- Reduction in export duty for Bauxite by 5% will not have any significant beneficiary as such but sentimentally may be considered as negative for non integrated players like Vedanta
- Rise in BCD for Zinc alloy by 2.5% should be positive for Hindustan Zinc

Metals & Mining *(Cont…)*

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Current Status	Proposals	Impact
Clean environment cess at Rs 200/ tonne	Increase cess by Rs 200 to Rs 400/ tonne	Would have no impact on Coal India as it will be passed through but will be negative for all the aluminium producers and to some extent steel and sponge iron players
Export duty on Iron ore with Fe content below 58% at 10% for fines and 30% for lumps	Reduce export duty to Nil	Would be positive for Vedanta to some extent as operations in Goa aren't contributing much and has very less value in SOTP value of the company
BCD for primary Aluminium at 5%	Increase BCD to 7.5%	Would be positive for Hindalco, Nalco and Vedanta, however the industry was expecting the BCD on primary Aluminium to go upto 10%
BCD for other Aluminium products at 7.5%	Increase BCD to 10%	Would be positive for Hindalco, Nalco and Vedanta, however the industry was expecting higher BCD on scraps also, which was kept unchanged
Export duty for Chromium ores and concentrates at 30%	Reduce export duty to Nil	Would be positive for Tata Steel, as their chrome ore mine was renewed in merchant category and they can now take advantage by exporting chrome ore
Export duty for Bauxite at 20%	Reduce export duty to 15%	Would not have any major impact on any of the major producer but sentimentally may be considered as negative for non integrated players like Vedanta
BCD for Zinc alloys at 5%	Increase BCD to 7.5%	Would have marginal indirect benefit to Hindustan Zinc

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Subsidy payout for FY17 at Rs290bn

- Government has budgeted Rs290bn as cooking fuel subsidy for FY17 against Rs300bn for FY16, marginally lower on YoY basis. Assuming average crude oil price of $40/bbl for FY17 and exchange rate of Rs68/$ full year U/R comes at ~Rs270bn against which Rs290bn has budgeted by the government. ***This implies no burden on Upstream and OMC's which we believe is significantly +ve for upstream and OMC's given the lower crude oil price and a bit weak GRM. Also for FY16 total U/R comes at Rs280bn where govt. has made provision of Rs290bn. Thus, we have not factored in any burden on OMC's in FY16/17 as well.***

FY16	Rs cr
Gross Under recovery	27,584
Upstream contribution	1,980
OMCs contribution	299
Government contribution	25,305
Rollover to FY17	0

FY17	Rs cr
Provision for FY17	**29,000**
Assuming Crude at $40/bbl; Exchange rate Rs68/$	
Gross under recovery for FY17	27,000
Government Allocation	29,000
Upstream contribution	0

Reduction in cess to 20% on price against Rs4,500/t fixed on production

- Lower than expected change in the Upstream cess rate to 20% as against 10% expected by the industry. The impact on upstream company is Neutral considering the current crude oil price of $35/bbl (cess of $7/bbl against $9/bbl earlier). Also for the 9MFY16 upstream has bear $2.5/bbl subsidy burden. So no loss/gain to the companies.
- It is positive in long term in higher crude oil price scenario and with the no/hardly any U/R(assumed DBT in Kerosene as well).
- **However, considering the current scenario we believe this event is neutral for upstream companies.**

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Incentivize Natural Gas exploration in difficult fields

- The government intends to encourage exploration and production of natural gas from deep-sea, ultra deep-water high temperature, high pressure areas. Market-linked price for such discoveries will be capped by a pre-determined ceiling based on landed price of alternate fuels like imported LNG/Naphtha, FO in India. In near term, we see limited benefits to the companies, as government is planning to allow higher gas prices for incremental discoveries only, which indeed requires a significant time period from exploration to development in difficult fields. ONGC and RIL are the two beneficiaries in the long run.

No change in custom duties on crude oil (currently Zero)

- We see this as a significant relief to downstream PSUs mainly BPCL, HPCL IOCL and RIL, as the government has retained duty protection for the domestic refining sector.

Current Status	Proposals	Impact
Cess on crude oil at Rs4,500/t	Propose to 20% of crude oil price	The impact on upstream company is Neutral considering the current crude oil price of $35/bbl ($7/bbl against $9/bbl earlier). Marginally positive for upstream companies.
Currently, there is no pricing policy for Natural gas produce from deep water, ultra deep water and high temperature-high pressure areas	A proposal is under consideration for new discoveries and areas which are yet to commence production, firstly, to provide calibrated marketing freedom; and secondly, to do so at a pre-determined ceiling price to be discovered on the principle of landed price of alternative fuels.	In near term, we see limited benefits to the companies, as government is planning to allow higher gas prices for incremental discoveries only, which indeed requires a significant time period from exploration to development in difficult fields. ONGC and RIL are the two beneficiaries in the long run.

Pharmaceuticals

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- Lower weighted R&D deduction of 150% over FY18-FY20. The industry was expecting the 200% super deduction benefit which is available till 31st March, 2017 to continue. This will have negative impact for all pharmaceutical companies
- Deduction to be phased out completely by FY21.
- **Introduction of special patent regime:** Royalty income in lieu of a patent developed and registered in India shall be taxable at a concessional rate of 10% (plus applicable surcharge and cess) from FY18.

Current Status	Proposals	Impact
Weighted deduction of 200% on in-house R&D set to expire on 31st March 2017	Weighted deduction of 150% on in-house R&D from FY18-FY20. Normal deduction of 100% from FY21.	Negative for all pharmaceutical companies
Weighted deduction of 125% on R&D contribution to an approved scientific research company, University/ College	Weighted deduction of 100% on R&D contribution to an approved scientific research company, University/ College	Negative for all pharmaceutical companies sourcing R&D work from approved research company, universities
Weighted deduction of 200% on R&D contribution to a National Laboratory, IIT	Weighted deduction of 150% over FY18-FY20. Normal deduction of 100% from FY21.	Negative for all pharmaceutical companies sourcing R&D work from National Laboratories

Retail

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- Increase in tariff of readymade garments (from 30% to 60%) and subsequently, increase in excise duty on readymade garments of retail price above Rs 1000 to 2% - This entails effective increase of 1.5%, which negative for organised retailers, as they would have to effect price hikes in a muted demand environment.
- Custom duty on specified fibres and yarn reduced from 5% to 2.5% - positive for textile player, as cost of inputs reduce.
- Decrease in excise duty on rubber sheets (from 12.5% to 6%) and increase in abatement on retail sale price (from 25% to 30%) – This bodes well for the footwear industry as it helps in reducing cost of inputs
- Increased excise duty on gold bars and articles of jewellery by 0.5% and 1% respectively would entail increase in prices by organised jewellery retailers. Further, introduction of 1% TDS on purchase of goods in cash above Rs 200,000 is a negative development for organised jewellers. Case in example, Titan/PC Jewellers have 10%/15% sales above Rs 200,000.

Current Status	Proposals	Impact
Tariff of readymade garments at 30% of retail sale price. Excise duty on branded readymade garments of retail sale price of Rs 1000 or more at * 0% (without CENVAT credit)	Tariff increased to 60% of retail sale price. Excise duty increased to 2% (without CENVAT credit)	Effective increase of 1.2%, which means branded retailers will have to effect price increases. Negative for fashion retailers such as Arvind Ltd, Shoppers Stop, ABFRL, Trent, Page Industries
Excise duty on rubber sheets & resin rubber sheets for soles and heels at 12.5% Abatement on retail sale price for excite duty assessment at 25%	Excise duty reduced to 6% Abatement increased to 30%	Positive for Bata, Relaxo & Liberty Shoes. Would reduce cost of key inputs costs
Excise duty on refined gold bars at 9% No excise duty on articles of jewellery (excluding silver jewellery, other than studded jewellery)	Excise duty on gold bars increase by 0.5%. Excise duty on articles of jewellery increased to 1%	Negative for jewellery retailers like Titan, PC Jeweller, TBZ. Organised jewellers will have to effect price hikes
No TDS for purchase of goods and services in cash exceeding Rs 200000	1% TDS for purchase of goods and services in cash exceeding Rs 200000	Negative for organised jewellery retailers

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