



Union Budget Review 2016-17

Agri Reform

Rural Infra

Healthcare

Job creation

Infra & Inv.

Fin. Reform

Governance

Fiscal

Tax Reform

GRID - **G**overnance, **R**eform, **S**ocial **I**nfrastructure & **I**nvestments, **F**iscal **D**iscipline

Laying the Growth "GRID"

Budget 2016-17 reflects the government's firm commitment to substantially boost investment in agriculture, social sector, infrastructure and employment generation, on the one hand, and sticking to the fiscal consolidation path, on the other. This is substantiated by a huge 15.3% jump in Plan outlay and 9% increase in non-Plan outlay in FY17BE over FY16RE while simultaneously conforming to the fiscal deficit target of 3.5%. Besides additional allocation to meet the obligations of the Seventh Pay Commission recommendation and implementation of One Rank One Pension (OROP) in defence have also been provided. One of the key positives also came in from the introduction of the Voluntary Declaration Scheme, which could provide a windfall for the government.

The budget emphasises the "*Growth Grid (Governance, Reform, Social Infrastructure & Investments, Fiscal Discipline)*" using nine distinct pillars to transform India.

The budget focuses on good '*Governance*' through process reforms and usage of technology. Rationalising human resource in government departments to achieve higher productivity. Effective implementation of Aadhaar framework targeted for delivery of financial and other subsidies. Also, implementing DBT for fertilisers subsidy on a pilot basis.

The Budget also focused on '*Reforms*' by increasing the tax and its base on high value purchases and initiated steps to phase out tax exemptions such as accelerated depreciation, lower tax rates for new manufacturing units and other incentives for employment generation.

The Budget has also ensured social and physical '*infrastructure*' initiatives by addressing rural (10.7% YoY growth in total allocation to ₹ 87,765 crore) and agriculture (₹ 35,984 crore, 94% YoY increase) stress through increased allocation and introduction of various agri-based schemes and high allocation in infra segments like roads and Railways.

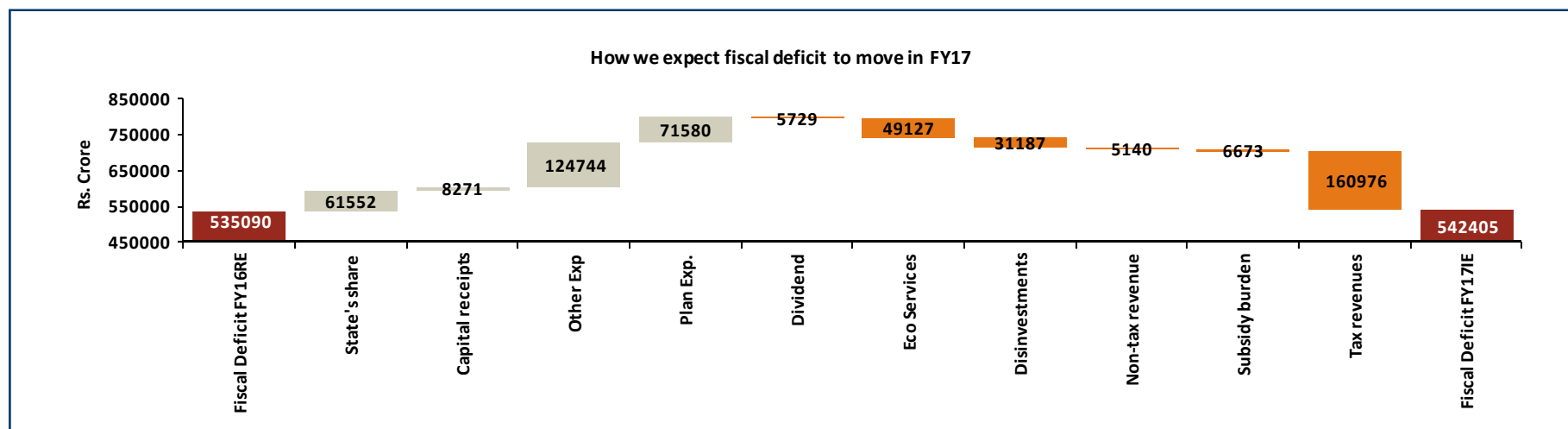
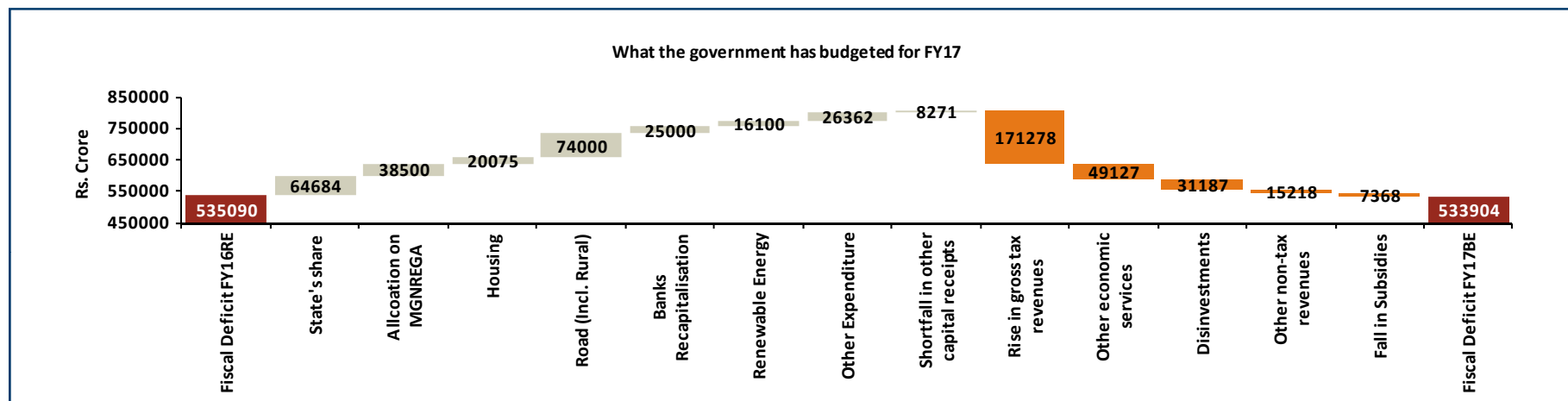
Fiscal "*discipline*" by sticking to fiscal targets to usher in lower interest rates. This, in turn, reduces the cost of the economy and spurs investment and viability. Public investment (15.3% YoY growth over current BE in planned expenditure to ₹ 5.5 lakh crore) must do the heavy lifting as private capital is limited in this environment and focus on alleviating pain in rural population will give an impetus to consumption.

Key measures announced in this Budget:

- On the tax receipt front, the government is targeting 11.7% YoY growth in gross tax revenues for FY17BE vs. 17.2% in FY16RE and appears reasonable given the increase in indirect taxes (full impact of excise hike for petroleum products and hike in service tax in FY16RE). However, net tax revenues could grow 10.5% YoY in FY16E after accounting for 12% YoY growth in share of tax towards states
- The gross budgetary allocation for plan expenditure is expected to grow 15.3% YoY to ₹ 5.5 lakh crore in FY17E. The major component of plan expenditure is focused on nine key pillars for economic development highlighted by the government such as agriculture and farming welfare, social sector and infrastructure development. The expenditure associated with these key pillar accounts for ~52% of total plan expenditure
- Direct & indirect tax measures have focused on providing relief to marginal tax payers while garnering additional revenue from high income individuals & large companies. With the focus on ease of doing business, the Budget has focused majorly on administrative reforms along with fast tracking pending tax litigations. However, bringing EPF under partial EET (Exempt-Exempt Tax) regime has been a disappointment for small savers
- We believe the government's FY17BE fiscal deficit target hinges on its disinvestment target of ₹ 56,500 crore and successful collections of spectrum fees of ₹99000 crore
- The Budget has proposed a limited period compliance window for domestic taxpayers to declare undisclosed income or income in the form of any asset and clear up their past tax transgressions by paying tax at 30%, surcharge at 7.5% and penalty at 7.5%, adding up to 45% of the undisclosed income. This may end in a windfall for the government
- **We are bullish on domestic oriented sectors like automobiles, cement, capital goods . Defensive sectors like FMCG, pharma and IT could perform in line with broader markets. We are negative on banks, metals and oil & gas**

Fiscal deficit: FY16E in line, to overshoot in FY17E @ 3.6% by 10 bps

- The government has budgeted a fiscal deficit target of ₹ 5,33,904 crore (i.e. 3.5% of GDP) by increasing revenue from economic services and disinvestments sharply by ₹ 49,127 crore and ₹ 31,187 crore. In our view, this remains a key lever to achieve the fiscal deficit target. We estimate a 10 bps slippage and expect a fiscal deficit of 3.6% for FY17E



Focus on non-tax revenue to attain fiscal discipline in FY17E...

Government Revenue & Expenditure								
Particulars	FY15A	FY16RE	YoY (%)	FY17BE	YoY (%)	FY17IE	YoY (%)	Comments
Gross Tax Revenues	1244886	1459611	17.2	1630889	11.7	1620587	11.0	While FY16RE tax collection growth may remain healthy led by hike in duties, we expect the same to normalise to 11% in FY17 on account of absence of any major changes in the tax structure (especially indirect taxes)
Less: State Shares	341,269	512,103	50.1	576,787	12.6	573,655	12.0	
Net Tax revenue	903617	947508	4.9	1054102	11.2	1046932	10.5	
Non Tax Revenues								
Dividend	89833	118271	31.7	123780	4.7	124000	4.8	Dividend income includes 73905 crore and 69897 crore from RBI for FY16RE and FY17BE, respectively. The balance is from public sector enterprises and other investments
Economic services	64718	92324	42.7	141451	53.2	141451	53.2	Under economic services, the government has made aggressive assumption towards income from communication which is 98,995 crore (up 72% YoY). In our view, achieving this growth looks difficult given the steep pricing of 700 MHz spectrum
Others	43306	47980	10.8	57689	20.2	53120	10.7	
Total	1101474	1206083	9.5	1377022	14.2	1365503	13.2	
Capital Receipts								
Recovery of Loans	13738	18905	37.6	10634	-43.8	10634	(43.8)	
Disinvestments	37737	25313	-32.9	56500	123.2	56500	123.2	56,500 crore includes strategic stake sale to the tune of 20000 crore. We believe, given the challenging macro environment, it will be back ended
Total	51475	44218	-14.1	67134	51.8	67134	51.8	
Total Receipts	1152949	1250301	8.4	1444156	15.5	1432637	14.6	
Non plan Expenditure								
Subsidies								
Fertilizer	71076	72438	1.9	70000	-3.4	70000	(3.4)	
Food	117671	139419	18.5	134835	-3.3	135000	(3.2)	Food subsidy bill for FY17BE is in line with our estimates
Petroleum	60269	30000	-50.2	26947	-10.2	27000	(10.0)	The allocation towards petroleum subsidy looks reasonable provided crude oil prices remain below \$40/barrel for entire fiscal year FY17
Other subsidies	9242	15945	72.5	18651	17.0	19128	20.0	
Other expenditure	942772	1050393	11.4	1177617	12.1	1175137	11.9	
Total	1201029	1308194	8.9	1428050	9.2	1426265	9.0	
Plan Expenditure	462644	477197	3.1	550010	15.3	548777	15.0	Given the high thrust on infrastructure growth and agriculture sector, we expect the government to stick to its budgeted growth target for FY17BE
Total Expenditure	1663674	1785391	7.3	1978060	10.8	1975042	10.6	
Fiscal deficit	510725	535090	4.8	533904	-0.2	542405	1.4	
GDP estimates	12653762	13567192	7.2	15065010	11.0	15065010	11.0	
Fiscal deficit as % of GDP	4.0%	3.9%	NA	3.5%	NA	3.6%	NA	The government is on the right track to achieve the fiscal deficit target set for FY16 with the controlled spend. However, for FY17, we expect it to revise its fiscal deficit target upward by 10 bps to 3.6% for FY17E vs. previous estimate of 3.5% to factor

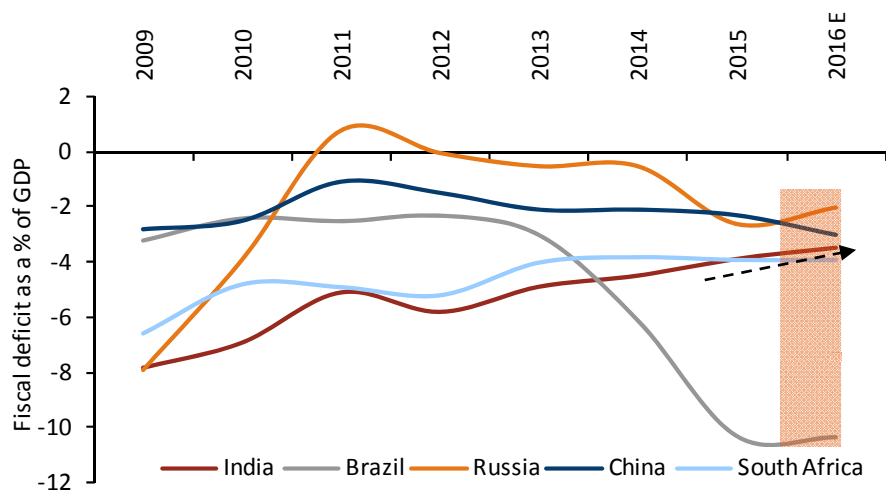
Indian economy moving up the ranks; *achhe din* ahead...

India on track to curb fiscal deficit - long term positive

- Union Budget 2016-17 is on track to maintain fiscal discipline by sticking to fiscal targets. This is expected to usher in lower interest rates, which, in turn, would reduce cost of capital in the economy and spur investment and viability
- Public investment (15.3% YoY growth over current BE in planned expenditure to ₹ 5.5 lakh crore) must do the heavy lifting as private capital is limited in this environment while the focus on alleviating pain in the rural population will give an impetus to consumption

Diverging fiscal deficit trend between India and other BRICS nations

India's fiscal deficit narrowing...



Source: Bloomberg.com, tradingeconomics.com, ICICIdirect.com Research

Rating agencies reacting to this deteriorating economic conditions by downgrading countries ratings.

Brazil, South Africa have seen rating downgrades

Agency	India	Brazil	Russia	China	S.Africa
Moody's	Baa3	Ba2	Ba1	Aa3	Baa2
S&P	BBB-u	BB	BB+	AA-	BBB-
Fitch	BBB-	BB+	BBB-	A+	BBB-

Marked in red are the rating downgrades by rating agencies of various economies

Brazil & South Africa downgraded...

- Brazil fell off the cliff in 2015 as a perfect storm of falling commodity prices, depressed demand from China and an intractable political crisis plunged the country into depression. This triggered a downgrade by S&P and Moody's (moved to junk rating)
- Unemployment in South Africa is still above 25%. The economy narrowly avoided a recession in the third quarter of 2015, posting 0.7% annualised growth compared to the previous quarter when it shrank 1.3%. This led Fitch to revise its rating lower to BBB-

China & Russia : Could face rating review ...

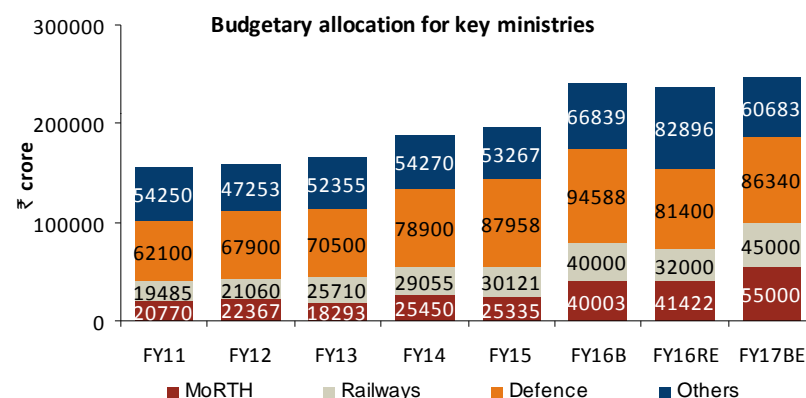
- China's GDP growth is at the lowest level in over two decades. The shadow banking and transformation from investment driven to consumption driven economy is taking its toll on growth. Chinese forex reserve depletion (used to stabilise currency and equity markets) is adding to woes
- Russia is a victim of lower crude and western sanctions. Given that the 2016 Budget is based on an oil price of \$40/bbl, the fiscal position may deteriorate to -4.4% of GDP at oil of \$30/bbl. This is a significant fiscal gap that would be the second largest in 20 years

Balancing expenditure on nine key pillars....

- The gross budgetary allocation for plan expenditure is expected to grow 15.3% YoY to ₹ 5.5 lakh crore in FY17E. The major component of plan expenditure is focused on nine key pillars for economic development highlighted by the government such as agriculture and farming welfare, social sector, infrastructure development. The expenditure associated with these key pillar accounts for ~52% of total plan expenditure
- In agriculture and farmer's welfare, the government is planning to bring the net cultivated area under irrigation of 28.5 lakh hectares under Pradhan Mantri Krishi Sinchai Yojana. Additionally, it is looking to create a dedicated long term irrigation fund with an initial corpus of ~₹ 20,000 crore under Nabard
- In the rural sector, the government has allocated the highest ever fund of ₹ 38,500 crore for MGNREGS

Expenditure aligned to govt key pillars	(₹ crore)	%
Agriculture & farmers welfare		
Agriculture	17849	3.2
Irrigation	5840	1.1
Rural sector		
Rural Development	33000	6.0
Social Sector including healthcare		
Health	22950	4.2
Women and Child Development	17167	3.1
Education, skill development and job creation		
School Education & Literacy	35900	6.5
Employment generation	44964	8.2
Infrastructure & Investment		
Roads & highways	55000	10.0
Urban development	19705	3.6
Financial sector Reforms		
Finance	29150	5.3
Governance and ease of doing business		
IT upgradation for improving transparency	2500	0.5
Total	284025	51.6
Total Planned Expenditure	550010	100.0

- In the infrastructure sector, the government has clearly shown its intent to boost infrastructure spending despite fiscal constraints with outlined allocation of ₹ 2.21 lakh crore for infrastructure development. The major focus of spending has been on roads (overall ₹ 97,000 crore has been assigned with budgetary support of ₹ 55,000 crore), railway (₹ 45000 crore) and defence (₹ 86340 crore). Beside this, the government has shown its intent in key measures to revitalise the PPP mode for infrastructure through renegotiation of the concession agreement and new credit rating system for infrastructure projects



Key announcement for infrastructure sector

Total Outlay of ₹ 221246 crore for infrastructure sector

Government is focusing on revitalising PPPs through renegotiation of concession agreement, Public Utility (Dispute Resolution) Bill, and new credit rating system for infrastructure projects

Exemption of dividend distribution tax for passing of dividend by SPV to INVITs. The development should pave the way for INVIT listing and free up BOT developer's balance sheet to deploy into new projects

Introduced infrastructure cess on vehicles

Source: Budget Documents, MoF, ICICIdirect.com Research

Income Declaration Scheme...can it provide the required windfall?

Income Declaration Scheme

- The Budget has proposed a limited period compliance window for domestic taxpayers to declare undisclosed income or income in the form of any asset and clear up their past tax transgressions by paying tax at 30%, surcharge at 7.5% and penalty at 7.5%, adding up to 45% of the undisclosed income
- The Finance Ministry has mentioned that there will be no scrutiny or inquiry regarding tax in these declaration under Income Tax Act or Wealth Tax Act and declarations will have immunity from prosecution. The government plans to open the compliance window under the Income Tax Disclosure Scheme from June 1, 2016 to September 30, 2016 with the option of paying the due amount within two months of declaration

Can income declaration scheme be a trump card?

- The current scheme cannot be directly compared to earlier schemes as it includes a penalty of 7.5%. However, we have gone back in history and looked at various disclosure schemes that have been implemented in India in the past to gauge the potential tax collection. In 1997, a total 3.5 lakhs individuals and a limited number of companies declared their income in the scheme while tax collection of ₹ 9745 crore was made by the government
- Though one cannot quantify the amount that can be collected in the current scheme, it will surely provide enough headroom for the government to help manage the fiscal balance via this Black Swan. Even if we assume an income declaration of ₹ 30,000 crore in the current fiscal, similar to the 1997 income declaration, then an incremental tax collection of ~₹ 13,500 crore (@45%) can be garnered from the current years' Income Declaration Scheme

History of Disclosure Schemes			
Year	Name	Income declared (₹ crore)	Tax collected (₹ crore)
1951	Voluntary disclosure scheme (VDS)	70.2	10.9
1965	VDS-I	52.2	30.8
1965	VDS-II	145.0	19.5
1975	Voluntary disclosure of income act	746.0	249.0
1975	Voluntary disclosure of wealth act	844.7	7.7
1981	Bearer bonds act	400.0	160.0
1985	Finance Act	2840.4	388.0
1985	Finance Act	7838.0	70.7
1997	VDIS	33289.7	9745.5

Source: Media Articles, Budget Document, ICICIdirect.com Research

Corporate Tax implication

The government maintained the corporate tax rate at 30% for FY17 vs. anticipation of declining trend which would take the same to 25% in a staggered fashion by FY19E. However, corporates with income less than ₹ 5 crore would be taxed at 29%. Moreover, exemptions with the already existing sunset clause would not be advanced. However, those deductions without a sunset clause would start expiring from FY18E onwards. We believe the removal of deductions under accelerated depreciation would add ~₹ 20000-22000 crore to the government's revenue from FY18 onwards. Similarly, region based expiry of deductions would add ₹ 25000 crore to the exchequer in a phased manner.

	Incentives currently available	Proposed phased out measures	Impact
Deduction & exemption with already existing sunset date	Profit linked deduction for units in SEZs	No deduction for units commencing operations after April 1, 2020	This would add ~₹ 18000 crore to the government's receipts over the years
	Weighted deduction of 150% on expenditure incurred on skill development projects	Deduction shall be restricted to 100% from April 1, 2020	
Deduction & exemption without any already existing sunset date	Accelerated depreciation to certain industrial sectors is available up to 100% with respect to certain blocks of assets	Highest rate of depreciation will be restricted to 40% w.e.f April 1, 2017	This would add ~₹ 25000-27000 crore to the government's receipts from FY18 onwards
	100% profit linked deduction for specific periods on eligible business by industrial undertaking or enterprises	No deduction shall be available if specific activity commences after April 1, 2017	This would add ~₹ 25000 crore to governments receipts
	Weighted deduction of 150% of capital expenditure is allowed for cold chain facility, warehousing facility, affordable housing project, fertiliser production & hospitals	Deduction is restricted to 100% of capital expenditure w.e.f April 1, 2017	
	Deduction for expenditure on scientific research	Deduction will be restricted to 100% till FY21. Exemptions would be removed in a phased manner starting from April 1, 2017	This move should add ~₹ 3000-4000 crore to government's receipts

Source: India Budget 2015, ICICIdirect.com Research

Tax implications (Individual)

Tax structure

1. Income < ₹ 5 lakh:

Tax slabs	Individual with income <₹ 5 lakh	
	Current	New
0-250000	nil	nil
250001-500000	10% - ₹ 2000	10% - ₹ 5000
Education Cess	3.0%	3.0%
Krishi Kalyan Cess	nil	0.5%

2. Income > ₹ 5 lakh but < 1 crore: No change

3. Income > ₹ 1 crore: Surcharge rate increased from 12% to 15%

Krishi Kalyan Cess of 0.5% has been introduced for all taxable services including personal income tax.

Income tax deduction

1. Deduction u/s 80GG for people living in rented house & not getting any HRA. Will now get a deduction of ₹ 60000 vs. current ₹ 24000.

2. First time home buyers will get a deduction for additional interest of ₹ 50,000 per annum for loans up to ₹ 35 lakh sanctioned during FY17, provided the value of the house does not exceed ₹ 50 lakh.

NPS and EPF made partial EET: In National Pension Scheme (NPS), withdrawal up to 40% of the corpus at the time of retirement created out of contributions made after April 1, 2016 will be exempt from tax. EPF withdrawal taxation has also been made similar to NPS. Withdrawal of corpus accumulated out of contributions made after April 1, 2016 has also been made taxable to the extent of 60%. Also, 40% will be exempted from tax. However, a clarification to this effect may clear the some ambiguity.

Source: India Budget 2015, ICICIdirect.com Research

Budget action on tax litigations and disputes

Focus to reduce tax litigations and dispute

- To reduce tax disputes (~ 3 lakh tax cases pending with the first appellate authority with disputed amount being ₹ 5.5 lakh crore), the Budget proposes to set up a Dispute Resolution Scheme (DRS). Under the new DRS, a taxpayer who has an appeal pending as of today before the Commissioner (Appeals) can settle his case by paying the disputed tax and interest up to the date of assessment. No penalty with respect to income tax cases with disputed tax up to ₹ 10 lakh will be levied. Cases with disputed tax exceeding ₹ 10 lakh will be subjected to only 25% of the minimum of the imposable penalty for both direct and indirect taxes. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty.
- For the ongoing tax cases under the retrospective amendment, the Budget has proposed a one-time scheme of Dispute Resolution, in which, subject to assessee agreeing to withdraw any pending case in any court or tribunal or any proceeding for arbitration, mediation etc., they can settle the case by paying only the tax arrears in which case the liability of the interest and penalty shall be waived.
- To remove the backlog of tax cases, the Budget has proposed to create 11 new benches of customs, excise and Service Tax Appellate Tribunal (CESTAT).
- The Budget has also proposed to provide a time limit of a year for disposing petitions of tax payers seeking waiver of interest and penalty.
- To reduce the multiplicity of taxes, associated cascading and to reduce cost of collection, the Budget has proposed to abolish 13 cesses levied by various ministries in which revenue collection is less than ₹ 50 crore in a year.

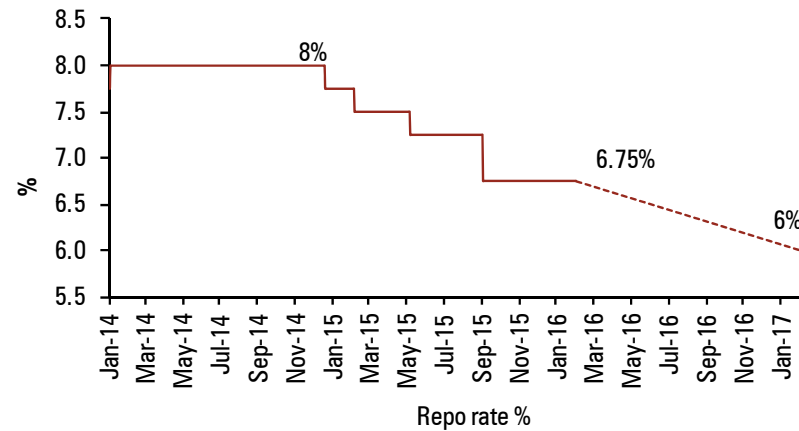
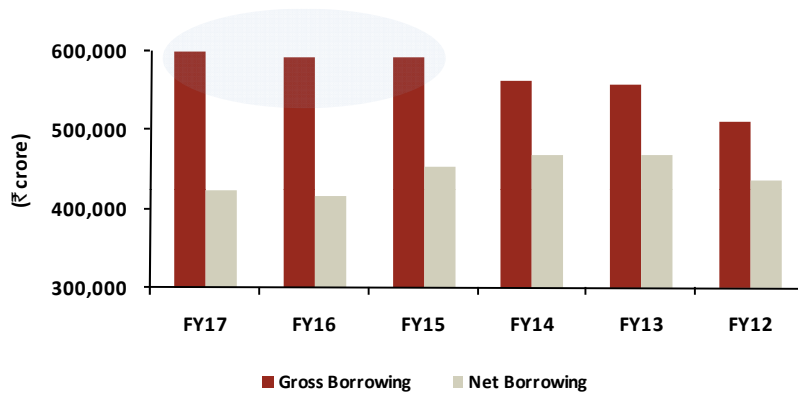
Source: India Budget 2015, ICICIdirect.com Research

Government borrowing lower than expected, increases room for rate cuts

Lower than expected borrowing can be a key catalyst for monetary easing

- The government has stuck to the fiscal deficit target of 3.5% for FY16-17. The net market borrowing has been announced at ₹ 4.25 lakh crore while the gross borrowing has been pegged at ₹ 6 lakh crore. The borrowing amount is lower than market expectation of around 6.4 lakh crore.

No significant increase in market borrowing augurs well for bond market



- With the government sticking to its stated fiscal deficit target that the RBI mentioned as one of the key parameters to determine further rate cuts, expectations of a rate cut have increased

- The latest economic survey expects monsoons to be normal. We, therefore, expect the room for further repo rate cuts to have increased to 75-100 bps from the earlier 50 bps

Source: India Budget 2015, ICICIdirect.com Research

Other key highlights

- Proposes to introduce Krishi Kalyan Cess of 0.5% on all taxable services wef 1st June, 2016.
- Proposed reduction in percentage for weighed deduction in R&D expenditure from 200% to 150% from FY18 to FY20 and 100% from FY21.
- Proposes to reduce service tax on single premium annuity (Insurance) policies from 3.5% to 1.4% of the premium paid
- Government general insurance companies to be listed on stock exchanges
- Long term capital gain regime in case of unlisted companies to be reduced from three to two years
- Dividend received above ₹ 10 lakh per annum would be liable to pay tax at the rate of 10% over and above DDT
- Rate of securities transaction tax in case of 'Options' to be increased from .017% to .05%. The increase in STT is likely to have a low impact on traders as STT is charged on the options premium value instead of contract value as in the case of futures. Thus for a premium of ₹ 100 (Premium value=100*75=7500 for Nifty) STT was charged at ₹ 1.27 per lot earlier and now it will be ₹ 3.75 per lot.
- Abolition of permit-raj as medium term goal & necessary amendments in Motor Vehicle act to enable entrepreneurs to operate buses on various routes, subject to conditions
- Creation of a unified agriculture marketing e-platform. Amendments to the APMC Acts of the states are a pre-requisite to join this e-platform.
- Greenfield ports in the eastern and western coasts of the country augmenting cargo carrying capacity. Expedite work on National Waterways with allocation of ₹ 800 crore
- 'Clean Energy Cess' levied on coal, lignite and peat increased from ₹ 200/tonne to ₹ 400/tonne.
- Pre-ponement of SEZ benefits under sector 10AA by one year. No deductions for units starting on or after 2020 vs. 2021 earlier.
- Additional interest deduction of ₹50,000 pa for first time home buyer for loans upto ₹35 lakh and house cost upto ₹50 lakh
- Excise duty on parts and components, subparts for manufacture of Routers, broadband Modems, STB's for access to internet & TV, DVR to be exempted from the current levy of 12.5%.
- New derivative products will be developed by SEBI in the Commodity Derivatives market.

Sectoral Impact

Measure	Sectors Impacted	Impact	Key stocks
An infrastructure cess, imposed on motor vehicles. 1% on petrol/LPG/CNG with < 4m length & engine capacity<1200 cc; 2.5% on diesel (< 4 m & engine capacity<1500 cc); 4% for rest of the cars (>1500 cc & >4 m). No such cess for 3W, taxis, hybrid & electric vehicles	Auto	Negative	Maruti, M&M & Tata Motors
A 1% tax collection at source (TCS) for passenger vehicles whose value exceeds ₹ 10 lakh	Auto	Negative	Maruti, M&M & Tata Motors
Capital outlay by defence sector on MHCV vehicles from ₹ 2025 crore in FY16 to ₹ 3574 crore (up 76% YoY)	Auto	Positive	Ashok Leyland, Tata Motors
Implementation of 89 irrigation projects under AIBP, to be fast tracked, dedicated long term irrigation fund with Nabard with an initial corpus of about ₹ 20,000 crore. ₹ 500 crore to be assigned under National Food Security Mission to increase production of pulses	Agriculture	Positive	EPC Industrie, KSB Pumps, Rallis India
Hike in excise duty on ATF from 8% to 14%	Aviation	Negative	Jet Airways
Exemption of excise duty and custom duty on tool kits procured by MROs for maintenance, repair, and overhauling of aircraft	Aviation	Positive	Jet Airways
Allocation of ₹ 25000 crore towards recapitalisation of PSU banks. Considering the quantum of stressed assets in PSU banks, this allocation appears inadequate	Banks	Negative	PNB, SBI
NBFCs eligible for tax deduction up to 5% of income in respect of NPA provisions	NBFCs	Positive	HDFC, LICHF
Higher interest deduction of ₹ 50000, on first time residential buyers (house value < ₹ 50 lakh, loan < ₹ 35 lakh)	NBFCs	Positive	HDFC, LICHF, Axis Bank, SBI
Increase in STT on options from 0.017% to 0.05%, could hamper trading volume in options segment, thereby impacting brokerage income	Brokerages	Negative	Kotak Mahindra Bank and brokerages
Amendments in the SARFAESI Act 2002, to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in securitisation receipt could lead to higher capitalisation of ARC as well as widen scope for security receipts market	Banks / NBFCs	Positive	Banks and NBFC
Allocation of ₹ 218000 crore for capex in roads and Railways, development of 160 small airports, greenfield ports on the eastern and western ports to create opportunity for EPC players	Capital Goods	Positive	Larsen & Toubro, KEC, Kalpataru
Allocation of ₹ 9860 crore for nuclear power schemes	Capital Goods	Positive	Larsen & Toubro
Capital expenditure allocation in defence increased by 6.1% from ₹ 81400 crore in 2015-16 (RE) to ₹ 86340 crore in 2016-17 (BE)	Defence	Neutral	Bharat Electronics
Phasing out of Section 80-IA from FY2018	Power	Negative	Sector as a whole
Allocation of ₹ 4000 crore and ₹ 400 for solar and wind energy programmes, respectively	Power	Positive	NTPC (developer/aggregator), L&T, KEC, Kalpataru (EPC)
Removal of excise duty of 12.5% for RMC manufactured at the site of construction	Cement	Positive	UltraTech and ACC
Excise duty on cigarettes hiked by 10%. We believe that price hike to the tune of 5-7% could completely pass on the burden of this excise hike	FMCG	Neutral	ITC, VST Industries

Sectoral Impact

Measure	Sectors Impacted	Impact	Key stocks
Total allocation of ₹ 87765 crore (including MGNREGA, Swachh Bharat Abhiyan, rural electrification) towards development of rural India as a whole would boost volumes for FMCG & consumer durables	FMCG, cons. durab	Positive	HUL, Dabur, Havells, Bajaj Electrical, Symphony, Supreme Industries
Higher allocation of ₹ 97000 crore for road sector to boost order inflow for companies	Infrastructure	Positive	PNC Infratech, Ashoka Buildcon, NBCC, NCC, Sadbhav Engineering and IRB Infrastructure
Government is looking to revitalise PPPs through renegotiation of concession agreement, which should sort out policy issues and new credit rating system for infrastructure projects, which should lower borrowing cost	Infrastructure	Positive	IRB Infrastructure, Ashoka Buildcon, Sadbhav Engineering & GMR Infrastructure
Exemption of dividend distribution tax for passing of dividend by SPV to INVITs. The development should pave the way for INVIT listing and free up BOT developer's balance sheet	Infrastructure	Positive	IRB Infrastructure & GMR Infrastructure
Unified agricultural marketing e-platform, statutory backing to AADHAR, digital literacy mission and rural ATM rollouts in post offices could drive opportunities for Indian IT vendors	IT	Positive	Infosys, TCS, Wipro
Basic custom on refrigerated containers reduced to 5% from 10% and excise duty reduced to 6% from 12.5% resulting in lower tax outflow for companies engaged in cold storage business	Logistics	Positive	Gati
Amendment in section 35AD to reduce deduction for accelerated depreciation from 150% to 100% in case of a cold chain facility	Logistics	Negative	Gati
Basic customs duty on primary aluminium has increased from 5% to 7.5%	Metals	Positive	Hindalco, Vedanta
Clean environment cess on coal has been increased from ₹ 200/tonne to ₹ 400/tonne	Metals	Negative	Hindalco, Vedanta
Export duty on iron ore lumps and fines (with Fe content below 58%) reduced to nil	Mining	Positive	Vedanta
Cess rate applicable on crude oil production revised from ₹ 4500/tonne to 20% ad valorem rate. It is below our expectation. At current prices, it is marginally positive but if crude prices rise to \$45/barrel and above, it would be negative	Upstream Oil & Gas	Neutral	ONGC, Cairn India, Oil India
Proposal to allow calibrated marketing freedom for gas produced from deep water, ultra deep-water and high pressure-high temperature areas	Upstream Oil & Gas	Positive	ONGC, Oil India
Exemption of dividend distribution tax for passing of dividend by SPV to REITs should pave way for REIT listing resulting in freeing up of capital for developers and improving their liquidity position	Real Estate	Positive	Oberoi Realty
Benefits of section 10AA to new SEZ units will be available to those units, which commence activity before March 31, 2020	Real Estate	Positive	Mahindra Lifespace
Excise duty cut for rubber sheet & resin rubber sheet (for soles & heels) from 12.5% to 6%	Footwear	Positive	Bata
Collection of tax at source of 1% on cash purchases of goods & services exceeding ₹ 2 lakh	Jewellery	Negative	Titan
Basic customs duty on newsprint reduced from existing 5% to nil	Media	Positive	Jagran Prakashan, HT Media, DB Corp
Excise duty on routers, broadband modems, set-top boxes (STB) for internet & TV, DVR changed from existing 12.5% to 4% without input tax credit and 12.5% with input tax credit	Media	Positive	Dish TV, Hathway Cable, D-Link India
Excise duty hike by 2% on readymade garments & madeups with retail price of ₹1000 or more. Tariff value of excise duty would be 60% of retail selling price	Textiles	Negative	Arvind, Siyaram Silk

Budget Impact on Sensex stocks

Company	Budget Impact
Adani Ports	The Budget provided ₹ 800 crore to expedite work on National Waterways. Additional allocation towards Sagamala would enable shift of cargo from road to waterways. The company being one of the largest private ports would be the biggest beneficiary
Asian Paints	Implementation of the Seventh Pay Commission, OROP and simultaneous focus on increasing farm income (higher allocation to MGNREGA and social schemes) would boost volume growth for Asian Paints
Axis Bank Ltd	Additional interest deduction of ₹ 50000 on home loans to support loan growth while decline of ~10 bps in G-sec yields could lead to treasury income. Comprehensive bankruptcy code and DBT infrastructure strengthening could help in better handling of NPAs
Bajaj Auto Ltd	Bajaj Auto is one of the few Indian manufacturing OEMs with a global presence/market share. It has rightly adopted the strategy of launching new products in higher growth segments (economy & premium). Hence, we have a positive stance
Bharat Heavy Electricals Ltd	With no specific announcement in the Budget, FY17 would be a challenging year for Bhel as the order pipeline seems dull and ordering activity will be sporadic coming mainly from central and state utilities. Also, execution of low margin orders will put pressure on margins and profitability
Bharti Airtel Ltd	There has been no major policy changes for Bharti Airtel. Airtel, the largest telecom player with the best spectrum portfolio & first mover advantage in terms of high speed data offerings is best placed to cash in on the data boom. We expect further consolidation in the sector leading to lower competitive intensity, hence, benefiting the market leader.
Cipla Ltd	Proposed reduction in percentage for weighed deduction in R&D expenditure from 200% to 150% from FY18 to FY20 and 100% from FY21. This amendment would be marginally negative for Cipla as its R&D spending is ~8% of total revenue
Coal India Ltd	Clean environment cess on coal has been increased from ₹ 200/tonne to ₹ 400/tonne. Cess is a pass through for Coal India and will be borne by end customers. Hence, this will have no impact on the company
Dr Reddy's Laboratories	Proposed reduction in percentage for weighed deduction in R&D expenditure from 200% to 150% from FY18 to FY20 and 100% from FY21. This amendment would be marginally negative for Dr Reddy's as its R&D spending is ~10% of total revenue
Gail India	No announcement was made related to the midstream gas sector. However, a 2.5% infrastructure cess on diesel vehicles vs. 1% infrastructure cess on CNG vehicle is marginally positive as it would incentivise ownership of CNG vehicles and benefit CGD companies like Gail
HDFC Bank Ltd	Bankruptcy code and DBT infrastructure strengthening could enable better handling of NPAs. Further, a decline of ~10 bps in G-sec yields could lead to treasury gains. Being a strong auto financier, infrastructure cess on vehicles could marginally impact demand for cars and, thereby, loans
Hero MotoCorp	Higher focus on rural development is likely to benefit Hero Motocorp, which derives ~50% of volumes from rural areas. HMCL looks fairly valued, considering the intensifying competition & fewer launches, going forward
Hindustan Unilever	With ₹ 87765 crore allocated to rural development as a whole & ₹ 9000 crore towards Swachh Bharat Abhiyan, in particular, it could spur volume growth for HUL as it derives ~35% of its sales from rural India
Housing Development Finance C	Allowing NBFCs deduction up to 5% of income for NPA provisions is positive. This will improve profitability. Additional interest deduction of ₹ 50,000 per annum for loans up to ₹ 35 lakh for first time home buyers (house cost < ₹ 50 lakh) would be positive

Budget Impact on Sensex stocks

Company	Budget Impact
Infosys Ltd	Domestic IT spends could be driven by unified agricultural marketing e-platform, statutory backing to Aadhaar platform, digital literacy mission to cover six lakh additional households and rural ATM rollouts in post offices. Infosys has implemented Finacle core banking solution at India Post
ITC Ltd	Excise duty on cigarettes increased by 10%, which requires ITC to take 5-6% price hike to completely pass on this increase. We believe most negatives of the Budget have been priced in the stock price. We remain positive on ITC from a two to three year perspective
Larsen & Toubro Ltd	Allocation of ₹ 218000 crore for capex in roads and Railways, development of 160 small airports to improve regional connectivity, incentivising new gas discoveries (increased hydrocarbon capex) and announcement of greenfield ports on the eastern and western ports will create EPC ordering opportunities for diversified conglomerate like L&T
Lupin	Proposed reduction in percentage for weighed deduction in R&D expenditure from 200% to 150% from FY18 to FY20 and 100% from FY21. This amendment would be marginally negative for Lupin as its R&D spending is ~11% of total revenue
Mahindra & Mahindra	For M&M, its tractor segment will benefit from the government's focus on rural development & its aim to double farmer's income by 2022. However, it will be partially offset by introduction of infrastructure cess impacting its automotive segment
Maruti Suzuki India	An infrastructure cess on cars is marginally negative for Maruti Suzuki. However, we believe MSIL would benefit from new launches & incremental demand resulting from the Seventh Pay Commission. Hence, we remain positive
NTPC Ltd	Initiative to implement 100% electrification of villages by 2018 will increase demand for power and, hence, benefit companies like NTPC. The increase in coal cess from ₹ 200 to ₹ 400 per tonne is likely to have a neutral impact on NTPC as it is a pass through for the company
Oil & Natural Gas Corp	The change in levy cess to 20% ad valorem instead of ₹ 4500/tonne on domestic oil production is below our expectations. It would negatively impact ONGC if oil prices are at \$45/barrel or higher. Proposal to allow calibrated marketing freedom for gas production from deep-water, ultra deep-water, etc, is positive
SBI	Allocation of ₹ 25000 crore towards recapitalisation of PSU banks came in lower than expectation; capital infusion remaining same as announced in Indradhanush. Lower borrowing has helped G-sec yields to correct ~10 bps to ~7.66%, thereby assisting bond portfolio MTM gains in FY16
Sun Pharmaceutical Industries	Proposed reduction in percentage for weighed deduction in R&D expenditure from 200% to 150% from FY18 to FY20 and 100% from FY21. This amendment would be marginally negative for Sun Pharma as its R&D spending is ~7% of total revenue
Tata Consultancy Services	Domestic IT spends could be driven by unified agricultural marketing e-platform, statutory backing to Aadhaar platform, digital literacy mission and rural ATM rollouts in post offices. TCS could be a major beneficiary given its deeper focus on government contracts and healthy domestic revenues (~6.5%, \$1 billion in FY15)
Tata Motors	We remain positive on Tata Motors mainly on the back of its sustained earnings growth for the JLR business; as the product pipeline grows and market share increases across geographies
Tata Steel Ltd	Focus on infrastructure development is likely to aid in reviving domestic steel demand, auguring well for the company
Wipro Ltd	Domestic IT spends could be driven by unified agricultural marketing e-platform, statutory backing to Aadhaar platform, digital literacy mission. Wipro could be a key beneficiary given its focus on domestic hardware and infrastructure business (India & Middle-East 9.7%, \$690 million)
Reliance Industries	There is a proposal to allow calibrated marketing freedom, subject to ceiling price linked to imported price of alternative fuels for gas production from deep-water, ultra deep-water, etc. No immediate benefit but may make development of RIL's new discoveries viable

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