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**Economics**
**INDIA**

1 March 2016

# FY17 Union Budget Review

## Somewhere between optimality and credibility

**Unlike last year, Union Budget 2016-17 chose to focus on fiscal prudence over growth, with the Finance Minister sticking to the fiscal consolidation path and retaining the FY17 fiscal target of 3.5%. But the fiscal math looks dubious, with revenue collection assumptions, especially non-tax revenues from telecom auctions, too optimistic and expenditure on wages/OROP hugely under-provided for. Amid slowing Govt. capex and muted private investment, we see downside risks to FY17 growth estimates.**

- **Optimality fine but credibility a concern…:** Amid market expectations that the fiscal consolidation roadmap would be relaxed again this year, the Finance Minister surprised positively by sticking to the path, notwithstanding concerns on fiscal assumptions. With the FY17 fiscal deficit target at 3.5% of GDP, the market borrowing number at Rs 4.25trn is much lower than that feared by the bond market.

- **… with optimistic assumptions on revenue collections…:** The budget pegs revenue receipts to increase by 11.2% led by an 18.1% growth in income tax and a whopping 72.5% growth in non-tax revenue from telecom spectrum sale proceeds. Given the outlook on economic activity and stretched balance sheets of Indian telcos, these numbers look very optimistic, especially assumptions on spectrum proceeds.

- **… and only partial provisioning for 7th CPC wage hike:** The Budget, as per the Finance Secretary's brief to the media, has provided for only Rs 700bn-Rs 730bn towards 7th CPC wage bill increases and OROP – much lower than the estimated Rs 1trn needed for the two payouts.

- **Enhanced focus on agri, rural and infra spending:** In a clear thrust to the rural economy, the Govt. has increased allocation for agriculture and farmers, proposed to bring 2.85mn hectares under irrigation in *Pradhan Mantri Krishi Sinchai Yojana*, bring several micro irrigation programmes under MGNREGA and launch the Unified Agricultural Marketing ePlatform to provide a common emarket platform for wholesale markets. It also increased allocation to *Pradhan Mantri Gram Sadak Yojana* to Rs 190bn, allocated Rs 150bn towards farmer loan interest rate subvention and Rs 880bn to the rural sector.

  Spending on road and rail infra is pegged at more than Rs 2.1trn in FY17, a jump of over 40% YoY. Given that capital expenditure is budgeted to remain almost flat with 3.9% growth, the focus seems to be on exploring extra-budgetary sources of financing.

- **Downside risks to FY17 growth estimate:** The fiscal stimulus expected from the 7th CPC via a consumption boost may not materialise if the budgeted fiscal consolidation path is relied upon. With Govt. spending slowing down and private investment unlikely to kick-start meaningfully given the slack in the economy, there are downside risks to growth in FY17.


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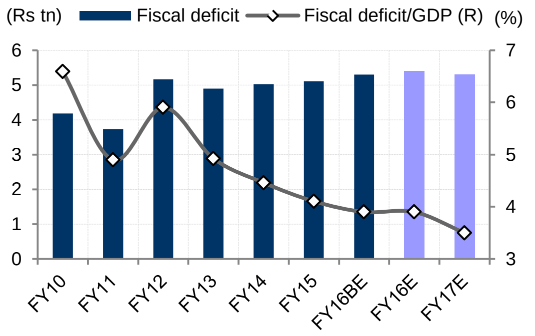
**Govt. sticks to fiscal consolidation path**




Source: Budget documents, RCML Research

**Fiscal snapshot**

| (Rs bn) | FY16 BE | FY16 RE | FY17 BE |
|---|---|---|---|
| Non debt receipts | 12,218 | 12,503 | 14,442 |
| Revenue Receipts | 11,416 | 12,061 | 13,770 |
| Tax revenue | 9,198 | 9,475 | 10,541 |
| Non-tax revenue | 2,217 | 2,586 | 3,229 |
| Non-debt capital receipts | 803 | 442 | 671 |
| Expenditure | 17,775 | 17,854 | 19,781 |
| Revenue expenditure | 15,360 | 15,477 | 17,310 |
| Interest payments | 4,561 | 4,426 | 4,927 |
| Subsidies | 2,438 | 2,578 | 2,504 |
| Other revenue expenditure | 8,361 | 8,473 | 9,879 |
| Capital expenditure | 2,414 | 2,377 | 2,470 |
| Gross Fiscal Deficit | 5,556 | 5,351 | 5,339 |
| Fiscal deficit/GDP | 3.9 | 3.9 | 3.5 |

Source: RCML Research | BE – Budget Estimate | RE – Revised Estimate



## Fiscal deficit - Govt. sticks to consolidation roadmap

The Central Govt. managed to contain the FY16 fiscal deficit target at 3.9% of GDP (RCMLe: 4%) despite slower growth in nominal GDP. A surge in indirect tax collections owing to multiple excise hikes on petrol and diesel enabled it to curtail the fiscal deficit at Rs 5.4trn vs. the budgeted number of Rs 5.6trn. The shift towards asset creating expenditure was the key highlight of last year's budget.

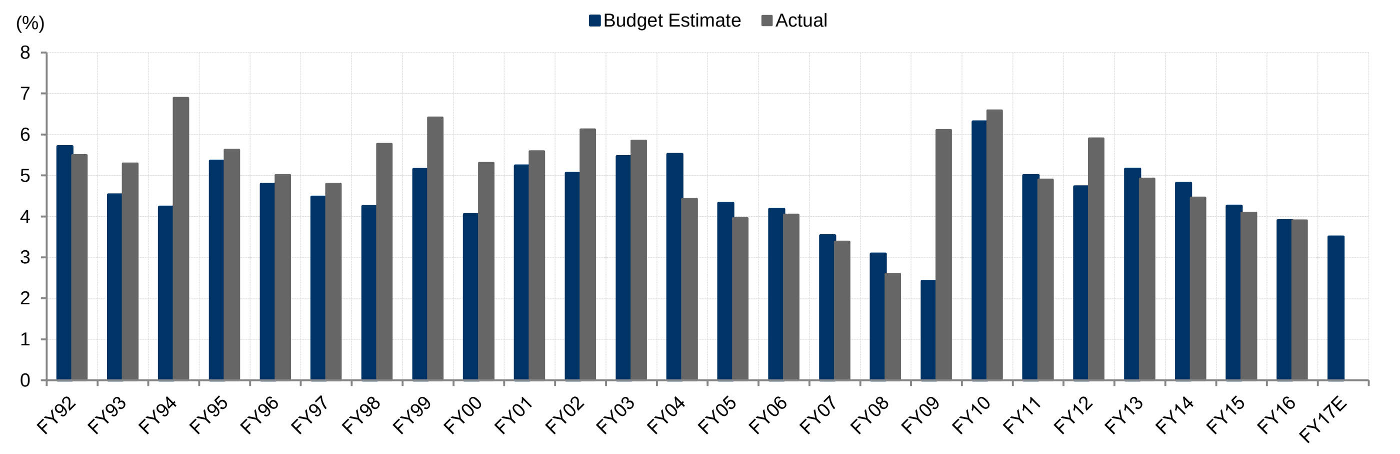
For FY17, the Centre has chosen fiscal prudence over growth, and has not strayed away from the fiscal consolidation roadmap by budgeting a 3.5% fiscal deficit. In absolute terms, the deficit at Rs 5.3trn is slightly lower than the FY16 number. Nevertheless, we have our doubts over the quality of consolidation.

**It's fiscal prudence over growth this time – FY17 fiscal deficit target at 3.5% retained**

The Govt. has accounted for the impact of the 7th Central Pay Commission (CPC) in the FY17 budget, but in our view has not taken the full impact into consideration. Besides, it has also budgeted for just a 3.9% rise in capital spending contrary to expectations of a surge in public capex; this should enable it to meet the deficit target for FY17.

On the revenue side, assumptions for growth in nominal GDP and direct and indirect taxes appear realistic. However, the Govt. has budgeted for a significant amount via the telecom spectrum auction, which we feel is rather optimistic with a shortfall likely at this end. Besides, receipts from disinvestment also seem on the higher side.

**Fig 1 - Fiscal deficit long-term trend (% of GDP)**




Source: India Budget, RCML Research

## Revenue receipts – Govt. betting big on spectrum auction

**Fig 2 - Revenue receipts**

| Items | FY16 (RE) | FY17 (BE) | YoY growth (%) | Comments |
|---|---|---|---|---|
| **GDP** | 8.6% | 11% | | We believe that the assumed nominal GDP growth number is realistic given that the deflationary trend has gradually reversed |
| **Non debt receipts** | 12,503 | 14,441 | 15.5 | The Govt. has made realistic projections for most taxes. However, we believe that it is overestimating receipts from telecom services by ~Rs 400bn. Besides, the disinvestment target is also slightly on the higher side |
| **Net tax revenue** | 9,475 | 10,541 | 11.2 | Achievable |
| **Gross tax revenue** | 14,596 | 16,309 | 11.7 | Realistic growth assumed across all taxes, except income tax |
| **Direct taxes** | 7,520 | 8,471 | 12.6 | Direct tax collection targets look achievable, although we believe that income tax collections estimates are slightly on the higher side |
| **Income tax** | 2,991 | 3,532 | 18.1 | The Govt. has assumed a tax buoyancy of 1.6 vs an average 1.4 over last five years. Thus, we believe that the Govt.'s estimate of an 18.1% rise in income tax collections is slightly on the higher side |
| **Corporate tax** | 4,530 | 4,939 | 9.0 | The Govt. did not reduce the corporate tax rate across the board as was largely expected. Instead it has (1) lowered the rate to 29% for small enterprises (companies with a turnover of less than Rs 50mn) (2) allowed manufacturing companies incorporated after 1 Mar'16 to be given an option to be taxed at 25% provided they do not claim profit linked or investment-linked deductions and do not avail of investment allowance and accelerated depreciation. These two measures are unlikely to lead to a significant drop in revenues. Besides, it did provide a roadmap for reducing exemptions; however, none of these come into effect in the next fiscal. Thus, we believe that 9% growth in corporate tax collections seems reasonable |
| **Indirect taxes** | 7,036 | 7,797 | 10.8 | Given the modest projections for all indirect taxes, a growth of 10.8% is achievable |
| **Customs duties** | 2,095 | 2,300 | 9.8 | We expect India's non-oil imports to rise by 8-10% (in rupee terms) in FY17. Thus, a 9.8% rise in customs duty collections seems to be a fairly rational assumption.<br><br>The Govt. made many changes in tariffs, **including a reduction in customs duty rates on** cold chains, refrigerator containers, wood in chips or particles for manufacture of paper, paperboard and news print, specified fibres and yarns, specified fabrics (for manufacture of textile garments for export) of value equivalent to 1% of FOB value of exports in the preceding financial year, magnetron of capacity of 1KW to 1.5KW for use in manufacture of domestic microwave ovens, capital goods and inputs for use in manufacture of micro fuses, sub-miniature fuses, resettable fuses and thermal fuses, brass scrap, tools and tool kits imported by MROs for maintenance, repair, and overhauling (MRO) of aircraft subject to certification by the Directorate General of Civil Aviation, coal, lignite, peat, coke, coal gas, tar, pitch coke, ethanol, electrolysers, resins, machinery, electrical equipment, instrument and parts thereof (except populated PCBs) for semiconductor wafer fabrication/LCD fabrication units, parts and components, subparts for manufacture of routers, broadband Modems, set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR)/network video recorder (NVR), CCTV camera/IP camera, lithium ion battery (other than those for mobile handsets)<br><br>**It increased the customs duty rate** on natural latex rubber made balloons, imitation jewellery, aluminium and aluminium products, zinc alloys, industrial solar water heaters, solar tempered glass, certain capital goods (falling under 96 tariff lines in chapters 84, 85 and 90), plans, designs and drawings, charger/adapter, battery and wired headsets/ speakers for manufacture of mobile phone, golf cars, direct imports of specified goods for defence purposes by GOI or State Governments, specified goods imported by contractors of Government of India PSUs or sub-contractors of such PSUs for defence purposes |



| Items | FY16 (RE) | FY17 (BE) | YoY growth (%) | Comments |
|---|---|---|---|---|
| **Excise duties** | 2,841 | 3,187 | 12.2 | We believe that the Govt.'s estimate for excise collections is slightly on the lower side, given that the full-year impact of excise duty hikes on petrol and diesel (undertaken during Nov'15-Jan'16) would be visible during FY17. Nevertheless, a conservative estimate may be prudent, given that a spike in oil prices may lead to rollback of some duty hikes.<br><br>Among major changes in excise duties, the Govt. levied an infrastructure cess on motor vehicles, increased excise duty on aerated waters, lemonade and other waters, containing added sugar or other sweetening matter, increased excise duty on cigarettes and tobacco products and Aviation Turbine Fuel and imposed duty on branded readymade garments and jewellery |
| **Service tax** | 2,100 | 2,310 | 10.0 | The Govt. has imposed a 0.5% Krishi Kalyan Cess on all taxable services with effect from 1 Jun'16. This is effectively a service tax hike, from 14.5% to 15%. Given this, we believe that a 10% growth in service tax collections appears to be reasonable |
| **States' share** | 5,062 | 5,703 | 12.7 | The Govt.'s transfer to the states is in line with the higher devolution as per the 14th Finance Commission |
| **Non-tax revenue** | 2,586 | 3,229 | 24.9 | A sharp rise in non-tax revenue seen owing to a substantial increase in telecom receipts. |
| **Of which** | | | | |
| **Dividends and profits** | 1,183 | 1,238 | 4.7 | Achievable |
| **Telecom receipts** | 574 | 990 | 72.5 | The Govt.is betting big on spectrum auctions. However, we don't expect windfall gains from the upcoming spectrum auctions as the pricing is high and balance sheets of telecom companies are stretched. Besides, in previous auctions, companies were allowed to pay one-third of the amount upfront and the remaining amount in a staggered manner over a longer time horizon. Thus, chances of a significant one-time gain in FY17 seem low. We believe that the Govt. has overestimated this number by ~Rs 400bn |
| **Non-debt capital receipts** | 442 | 671 | 51.8 | Number budgeted is on the higher side owing to a sharp increase in the BE for disinvestment. |
| **Of which** | | | | |
| **Disinvestment** | 253 | 565 | 123.2 | The Govt. has budgeted Rs 200bn for strategic stake sale in FY17 despite being unable to garner any proceeds in FY16 (till date). It has budgeted Rs 360bn for disinvestment, which we feel is achievable. However, the Govt. must start the disinvestment process early in the year and undertake sales in a staggered manner.<br><br>On the whole, we believe that the disinvestment target is on the higher side owing to the amount budgeted for strategic sales. The Govt. has managed to meet/surpass the disinvestment target in only nine of the last 24 years. We believe that selling the SUUTI holdings would be the key to meeting disinvestment targets |

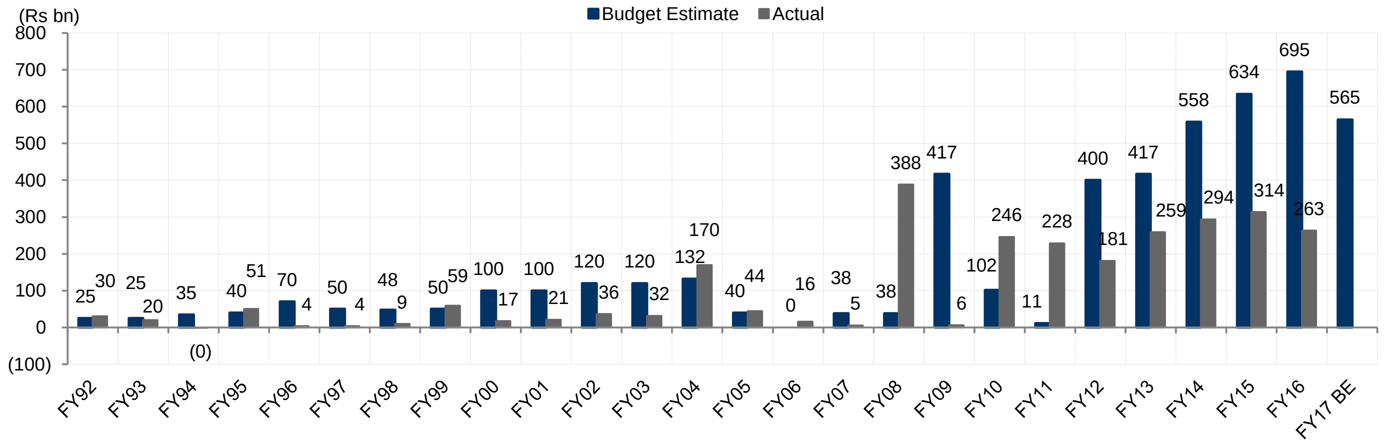
Source: RCML Research

**Fig 3 - Revenue math for FY16/FY17**

| | 2014-15 | YoY growth | 2015-16 (BE) | YoY growth | FY16 (RE) | YoY growth | FY17 (BE) | YoY growth |
|---|---|---|---|---|---|---|---|---|
| **Non debt receipts** | 11,529 | 9.1 | 12,218 | 6.0 | 12,503 | 8.4 | 14,441 | 15.5 |
| **Net tax revenue** | 9,036 | 10.8 | 9,198 | 1.8 | 9,475 | 4.9 | 10,541 | 11.2 |
| Gross tax revenue | 12,449 | 9.3 | 14,495 | 16.4 | 14,596 | 17.2 | 16,309 | 11.7 |
| **Direct taxes** | 6,947 | 9.8 | 7,980 | 14.9 | 7,520 | 8.3 | 8,471 | 12.6 |
| Income tax | 2,657 | 11.7 | 3,274 | 23.2 | 2,991 | 12.5 | 3,532 | 18.1 |
| Corporate tax | 4,289 | 8.7 | 4,706 | 9.7 | 4,530 | 5.6 | 4,939 | 9.0 |
| **Indirect taxes** | 5,459 | 10.0 | 6,479 | 18.7 | 7,036 | 28.9 | 7,797 | 10.8 |
| Customs duties | 1,880 | 9.3 | 2,083 | 10.8 | 2,095 | 11.4 | 2,300 | 9.8 |
| Excise duties | 1,900 | 12.1 | 2,298 | 21.0 | 2,841 | 49.6 | 3,187 | 12.2 |
| Service tax | 1,680 | 8.5 | 2,098 | 24.9 | 2,100 | 25.0 | 2,310 | 10.0 |
| Other taxes | 43 | (56.7) | 36 | (16.7) | 40 | (7.9) | 41 | 4.1 |
| **Non-tax revenue** | 1,979 | (0.5) | 2,217 | 12.1 | 2,586 | 30.7 | 3,229 | 24.9 |
| Dividends and profits | 898 | (0.7) | 1,007 | 12.0 | 1,183 | 31.7 | 1,238 | 4.7 |
| Telecom Receipts | 306 | (23.7) | 429 | 40.0 | 574 | 87.4 | 990 | 72.5 |
| **Non-debt capital receipts** | 515 | 23.0 | 803 | 55.9 | 442 | (14.1) | 671 | 51.8 |
| Disinvestment | 515 | 75.3 | 803 | 55.9 | 253 | (50.8) | 565 | 123.2 |

Source: Budget Documents, RCML Research

**Fig 4 - Divestment trend (FY92-FY16) – Actuals surpassed budget estimates in only 9 of 24 years**




Source: RCML Research

# FY17 Union Budget Review

## Somewhere between optimality and credibility

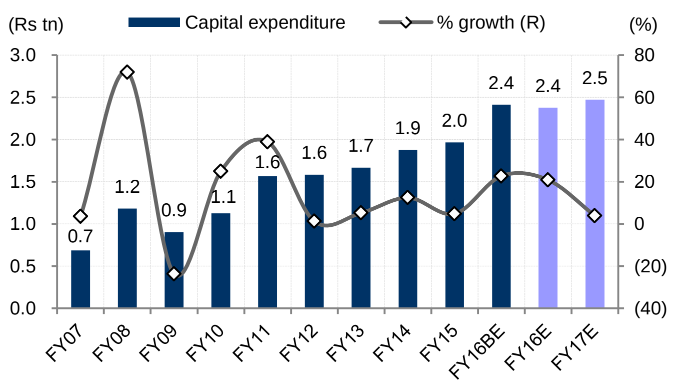


## Expenditure – Wages and OROP hugely underprovided

| Items | FY16 (RE) | FY17 (BE) | YoY growth | Comments |
|---|---|---|---|---|
| Expenditure | 17,854 | 19,781 | 10.8 | The Govt. has budgeted for lower growth in expenditure on account of a marginal hike in capex and an 11.8% growth in revenue expenditure. Besides, spending will hinge on revenues from spectrum auctions and disinvestment. If these come in lower than expected, the Govt. is likely to resort to spending cuts (particularly capex) towards the end of the year to meet its FY17 fiscal deficit target |
| Revenue expenditure | 15,477 | 17,153 | 11.8 | A 11.8% growth in revenue expenditure is on the lower side. We believe that the Govt. has not penciled in the full impact of the 7th CPC. |
| Interest payments | 4,426 | 4,927 | 11.3 | The Govt. has assumed reasonable growth in interest payments. Yield on the 10-year benchmark had averaged 20bps lower in FY16 |
| Subsidies | 2,578 | 2,504 | (2.9) | A marginally lower subsidy bill for FY17 is along expected lines given the drop in international crude oil and fertilizer prices. Nevertheless, the subsidy number for food may be on the lower side, given that the Govt. plans to roll out the Food Security Act on a nation-wide basis in FY17<br><br>Besides, like in previous budgets, the FY17 Budget does not talk about the arrear payments to the FCI and fertilizer companies. The Govt. has decided to start DBT for kerosene in 26 districts from 1 Apr'16 – this may lead to savings on account of lower leakages. It has also decided to start DBT for fertilizers in a few districts on a pilot basis. Among other initiatives, the Govt. aims to set up 300,000 fair price shops by Mar'17 – this could also reduce leakages. As per the FY16 Economic Survey, the annual fiscal cost of leakages from the PDS amounts to ~Rs 100bn for kerosene and ~Rs 184bn for foodgrains (wheat and rice) |
| 1. Food (incl. sugar) | 1,394 | 1,348 | (3.3) | |
| 2. Petroleum | 300 | 269 | (10.2) | |
| 3. Fertilizers | 724 | 700 | (3.4) | |
| (a) Urea | 505 | 510 | 1.0 | |
| (b) Decontrolled fertilizers | 219 | 190 | (13.4) | |
| 4. Other subsidies | 160 | 187 | 17.0 | |
| Other revenue expenditure | 8,472 | 9,879 | 16.6 | The Govt. seems to have allotted an additional amount of ~Rs 730bn for the 7th CPC and the OROP, lower than our estimate of ~Rs 1,000bn. At this juncture, it is unclear whether the Govt. has taken a partial impact of the 7th CPC, not accounted for arrears of the Jan-March quarter or has hiked salaries by lower than the proposed amount – these details were not explicitly mentioned in the Finance Minister's speech and are not given in the Budget documents . Nevertheless, the under-budgeting for the 7th CPC impact has enabled it to meet the targeted fiscal deficit number of 3.5% for FY17 |
| Capital expenditure | 2,377 | 2,470 | 3.9 | We are disappointed with the 3.9% hike in capex spending, and that too over a lower than budgeted number for FY16. The Govt. has controlled capex spending to be able to meet the fiscal deficit target of 3.5% for FY17. If it fails to generate the budgeted amount from spectrum auction/disinvestment, then it is likely to resort to capex cuts towards FY17-end in order to meet the fiscal deficit target |

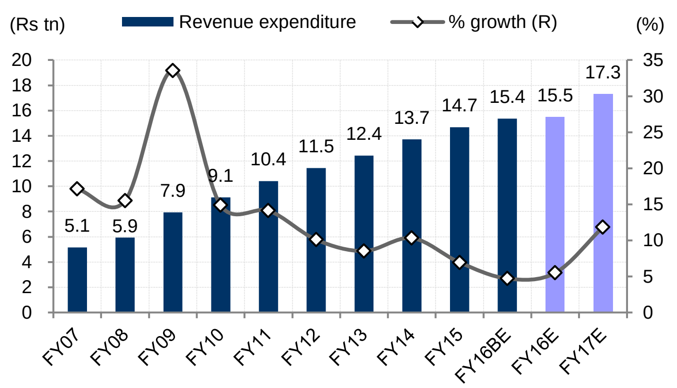
Source: RCML Research

**Fig 5 - Capital expenditure trend**




Source: Budget Documents, RCML Research.

**Fig 6 - Revenue expenditure trend**



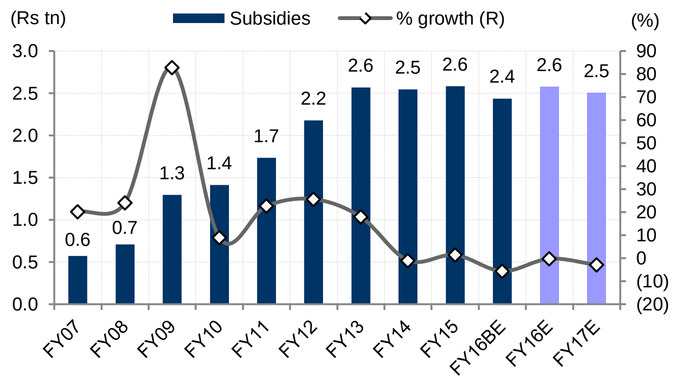

Source: Budget Documents, RCML Research.

# FY17 Union Budget Review

## Somewhere between optimality and credibility

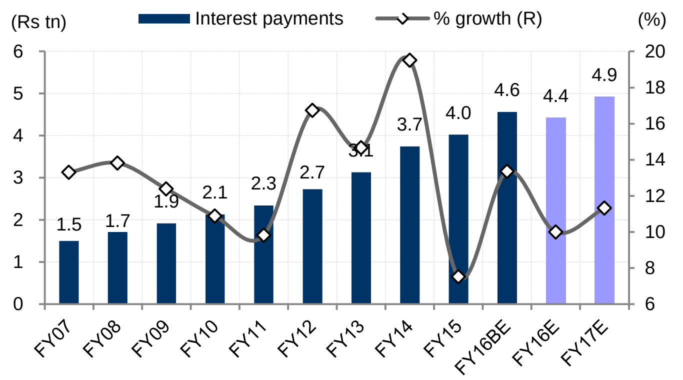


### Fig 7 - Trend in subsidies




Source: Budget Documents, RCML Research.

### Fig 8 - Trend in interest payments




Source: Budget Documents, RCML Research.

### Fig 9 - Fiscal model snapshot

| (Rs bn) | FY15 | % YoY | FY16 BE | % YoY | FY16 RCMLe | % YoY | FY17 RCMLe | % YoY |
|---|---|---|---|---|---|---|---|---|
| Non debt receipts | 11,529 | 9.1 | 12,218 | 6.0 | 12,503 | 8.4 | 14,441 | 15.5 |
| Tax revenue | 9,036 | 10.8 | 9,198 | 1.8 | 9,475 | 4.9 | 10,541 | 11.2 |
| Gross tax revenue | 12,449 | 9.3 | 14,495 | 16.4 | 14,596 | 17.2 | 16,309 | 11.7 |
| Income tax | 2,657 | 11.7 | 3,208 | 20.7 | 2,991 | 12.5 | 3,532 | 18.1 |
| Corporate tax | 4,289 | 8.7 | 4,706 | 9.7 | 4,530 | 5.6 | 4,939 | 9.0 |
| Customs duties | 1,880 | 9.3 | 2,083 | 10.8 | 2,095 | 11.4 | 2,300 | 9.8 |
| Excise duties | 1,900 | 12.1 | 2,291 | 20.6 | 2,841 | 49.6 | 3,187 | 12.2 |
| Service tax | 1,680 | 8.5 | 2,098 | 24.9 | 2,100 | 25.0 | 2,310 | 10.0 |
| States' share | 3,378 | 6.2 | 5,240 | 55.1 | 5,062 | 49.8 | 5,703 | 12.7 |
| NCCD transferred to the National Calamity/Disaster Fund | 35 | (25.6) | 57 | 64.4 | 59 | 70.8 | 65 | 9.1 |
| Non-tax revenue | 1,979 | (0.5) | 2,217 | 12.1 | 2,586 | 30.7 | 3,229 | 24.9 |
| *of which* | | | | | | | | |
| Dividends and profits | 898 | (0.7) | 1,007 | 12.0 | 1,183 | 31.7 | 1,238 | 4.7 |
| Non-debt capital receipts | 515 | 23.0 | 803 | 55.9 | 442 | (14.1) | 671 | 51.8 |
| *of which* | | | | | | | | |
| Disinvestment | 377 | 28.5 | 695 | 84.2 | 253 | (32.9) | 565 | 123.2 |
| Expenditure | 16,637 | 6.7 | 17,775 | 6.8 | 17,854 | 7.3 | 19,781 | 10.8 |
| Revenue expenditure | 14,669 | 6.9 | 15,360 | 4.7 | 15,476 | 5.5 | 17,310 | 11.9 |
| Interest payments | 4,024 | 7.5 | 4,561 | 13.3 | 4,426 | 10.0 | 4,927 | 11.3 |
| Subsidies | 2,583 | 1.4 | 2,438 | (5.6) | 2,578 | (0.2) | 2,504 | (2.9) |
| Food (incl. sugar) | 1,177 | 27.9 | 1,244 | 5.7 | 1,394 | 18.5 | 1,348 | (3.3) |
| Petroleum | 603 | (29.4) | 300 | (50.2) | 300 | (50.2) | 269 | (10.2) |
| Fertilizers | 710 | 5.4 | 730 | 2.8 | 724 | 2.1 | 700 | (3.4) |
| Other subsidies | 94 | (5.7) | 164 | 75.6 | 160 | 70.6 | 187 | 17.0 |
| Other revenue expenditure | 8,062 | 52.7 | 8,361 | 3.7 | 8,472 | 5.1 | 9,879 | 16.6 |
| Capital expenditure | 1,967 | 4.8 | 2,414 | 22.8 | 2,377 | 20.9 | 2,470 | 3.9 |
| Gross Fiscal Deficit | 5,107 | 1.6 | 5,556 | 8.8 | 5,351 | 4.8 | 5,339 | (0.2) |
| Fiscal deficit/GDP | 4.1 | | 3.9 | | 3.9 | | 3.5 | |
| Gross Revenue Deficit | 3,654 | 2.3 | 3,945 | 7.9 | 3,416 | (6.5) | 3,540 | 3.7 |
| Revenue Deficit/GDP | 2.9 | | 2.8 | | 2.5 | | 2.5 | |
| Gross Primary deficit | 1,083 | (15.8) | 995 | (8.1) | 925 | (14.6) | 412 | (55.4) |
| Primary Deficit/GDP | 0.9 | | 0.7 | | 0.7 | | 0.5 | |

Source: Budget documents, CGA, RCML Research



## Market borrowings contained, focus on states now

The Govt. managed to contain the FY16 fiscal deficit at Rs 5.4trn as against a budgeted estimate of Rs 5.6trn. This, along with higher than budgeted receipts from small savings schemes, enabled it to contain net market borrowings at Rs 4trn, the lowest in five years. As a percentage of fiscal deficit, net market borrowings stood at 75.1% (vs. an average 88.9% during the preceding five years).

The Govt. expects to contain the fiscal deficit at Rs 5.3trn in FY17 too. However, it has penciled in higher net market borrowings at Rs 4.3trn versus FY16, and assumed that 79.6% of the deficit will be financed through market borrowings. Gross market borrowings are expected to increase slightly to Rs 6trn in FY17 from Rs 5.9trn in FY16.

The Govt.'s move to stick to the fiscal roadmap is a positive for bond markets. Although market borrowings in FY17 are estimated to be higher than the preceding year, they are not significantly higher than estimated in case of a deviation from the fiscal roadmap. This is also positive for monetary easing given that the RBI has always signaled towards fiscal prudence as one of the preconditions for a rate cut. The moot question is the view that RBI takes on the maths of the Union budget.

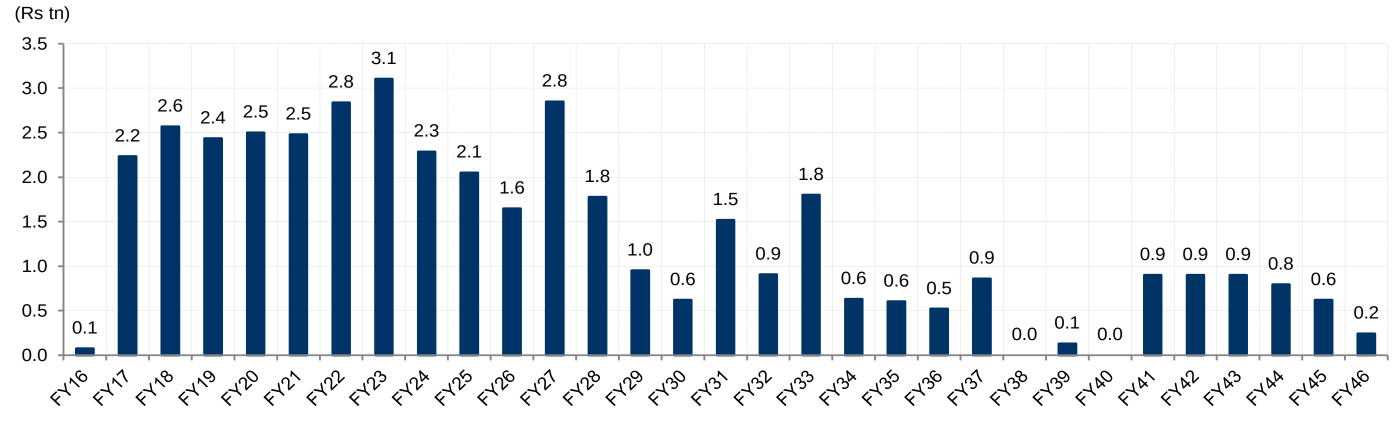
Nevertheless, we believe that yields may come under stress owing to bond issuances under the Ujwal Discom Assurance Yojana (UDAY) scheme and a likely increase in State Development Loans (SDLs), particularly at the long end of the curve; note that yields have remained sticky over the last one year despite a 125bps cut in the policy rate. We expect the yield curve to steepen further and the 10-year G-sec yield to cross the 8% mark during FY17.

**Fig 10 - Gross market borrowings**

| (Rs bn) | FY14 | % YoY | FY15 | % YoY | FY16BE | % YoY | FY16RE | % YoY | FY17BE | % YoY |
|---|---|---|---|---|---|---|---|---|---|---|
| Sources of financing | | | | | | | | | | |
| Net market borrowings | 4,536 | (3.0) | 4,451 | (1.9) | 4,564 | 2.5 | 4,019 | (11.9) | 4,252 | 5.8 |
| Net external assistance | 73 | 1.3 | 129 | 77.4 | 112 | (13.6) | 115 | 2.8 | 191 | 66.3 |
| Receipts from small savings, PPF and deposit schemes | 124 | 43.3 | 322 | 160.8 | 224 | (30.5) | 534 | 138.4 | 221 | (58.6) |
| Receipts from state provident fund | 98 | (10.7) | 119 | 22.2 | 100 | (16.1) | 110 | 10.0 | 120 | 9.1 |
| Other capital receipts | 391 | (17.0) | 85 | (78.2) | 436 | 412.7 | 573 | 31.3 | 997 | 74.2 |
| Cash balance (decrease(+)/increase(- )) | (192) | | 778 | | 120 | | (221) | | 132 | |
| Fiscal deficit | 5,029 | 2.6 | 5,107 | (84.5) | 5,556 | 8.8 | 5,351 | (3.7) | 5,339 | (0.2) |
| Redemptions | 1,106 | 22.0 | 1,469 | 32.8 | 1,436 | (2.2) | 1,831 | 27.5 | 1,748 | (4.5) |
| Gross market borrowings | 5,641 | 1.1 | 5,920 | 4.9 | 6,000 | 1.4 | 5,850 | (2.5) | 6,000 | 2.6 |

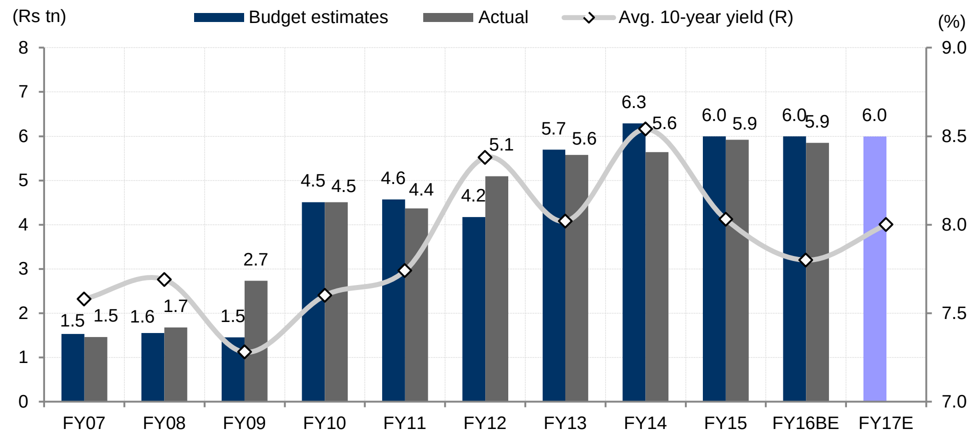
Source: CGA, Budget documents, RCML Research

### Fig 11 - India's debt maturity profile




Source: RBI, RCML Research

### Fig 12 - Govt. borrowings vs. 10-year bond yields




Source: Bloomberg, RCML Research

## Sector-wise Implications

**Fig 13 - Sector-wise implications of Union Budget 2016-17**

| Sector | Budget announcements | Implications |
|---|---|---|
| **Auto & Auto Ancs.** | "Infrastructure cess introduced on passenger vehicles:<br>(a) 1% on small petrol, LPG, CNG cars: For vehicles not exceeding 4m in length and engine capacity below 1200cc<br>(b) 2.5% on diesel cars: For vehicles not exceeding 4m in length and engine capacity below 1500cc<br>(c) 4% on higher engine capacity vehicles and SUVs | • While this is negative for 4Ws Maruti and Mahindra, it could be eventually passed on to customers |
| | • Increased spending on rural economy and agriculture, along with allocation for pay commission | • Positive for 2Ws and tractor demand |
| **Capital Goods & Infrastructure** | • Allocation of Rs 550bn to Roads & Highways sector, up 37.5% YoY | • Likely to aid revenue visibility of construction companies in the road sector. Positive for Sadbhav Engg, Ashoka Buildcon, IRB and L&T |
| | • Initiatives on PPP partnership, including an independent redressal mechanism, guidelines for renegotiation of PPP concession agreements, and new credit rating systems | • Likely to aid dispute resolution in stranded projects and also in the exit of existing developers. Positive for road BOT projects and the power sector. |
| | • Allocation to PM's Rural Roads Program increased by 32% YoY to Rs 190bn | • Likely to aid smaller road contractors |
| **Cement** | • Clean environment cess (previously clean energy cess) on coal, lignite and peat has been increased to Rs 400PMT from Rs 200PMT | • Marginally negative impact of ~Rs 1.8/bag for cement manufacturers; would be passed on to customers |
| **Consumer** | • Weighted average hike on cigarettes of 10% YoY across segments | • Weighted excise duty hike for cigarettes of 10% YoY (RCMLe 15% YoY) as against a >15% YoY hike taken in each of the last four years. Positive for ITC |
| | • 1% excise duty on jewellery imposed as against nil currently. Concessional CVD on gold-doré bar increased from 8% to 8.75% | • Negative for TTAN as it is likely to pass on the increase in duty to consumers |
| | • Service tax increased to 15% (RCMLe: 16%) from 14.5% on all taxable services due to the imposition of *Krishi Kalyan Cess* of 0.5%. | • Negative for JUBI as it is most likely to pass on the increase in duty to consumers |
| | • Abatement rate from retail sale price (RSP) for purpose of RSP-based assessment of excise duty for all categories of footwear revised from 25% to 30% | • Positive for BATA India |
| | • Allocation to MNREGS increased to Rs 385bn for FY17 | • Positive for consumer staples companies |
| **Financials** | • No change in capital infusion for PSBs – a big negative | • The Govt. has not increased capital infusion as laid down under Mission *Indradhanush* at Rs 250bn for FY17. We think the Rs 250bn infusion is low considering that NPAs have risen sharply and earnings have suffered due to elevated provisions. In our view, higher capital is required not for growth but for the very survival of many small PSBs. This is a major negative for PSBs, especially poorly capitalised banks such as UNBK, BOI and CBK. |
| | • Tax deduction for provisions on bad debts for NBFCs | • Currently, provisions made by NBFCs towards bad and doubtful debtors are not allowed as deduction under Income tax Act. From FY17 onwards, NBFCs shall be eligible for deduction to the extent of 5% of their income with respect to provisions for bad and doubtful debts. This is positive for NBFCs but impact will not be meaningful in our view as most of the listed NBFCs offer short-tenure (3-4 years) asset backed financing. Unlike banks, write-offs for NBFCs are higher than provisions (for many NBFCs, bad loan write-offs are 50-60% of their credit cost). |

# FY17 Union Budget Review

## Somewhere between optimality and credibility



| Sector | Budget announcements | Implications |
|---|---|---|
| Financials | • 49% FDI in insurance and pension sector via automatic route | • Earlier, FDI up to 26% was permitted through the automatic route, while for additional FDI up to 49% FIPB approval was required. The increase in FDI limit up to 49% via the automatic route is sentimentally positive for insurance/ pension companies such as HDFC and Max India, even as the impact of their valuations is likely to be insignificant. |
| | • Deduction for additional interest of Rs 50k for loans up to Rs 3.5mn | • An additional interest deduction worth Rs 50k for loans up to Rs 3.5mn has been given to first-time home buyers provided the value of the house does not exceed Rs 5mn. This move is targeted towards boosting affordable housing and should benefit HFCs like REPCO, CANF and DEWH that operate largely in tier 2/3 and other smaller cities. |
| | • A comprehensive Code on Resolution of Financial Firms | • This Code will provide a specialised resolution mechanism to deal with bankruptcy situations in banks, insurance companies and financial sector entities. The code is likely to be introduced along with the Insolvency and Bankruptcy Bill, 2015. Further details are awaited. |
| | • 100% (49% currently) FDI in ARCs; 100% (51% currently) ownership by the sponsor in ARCs and FPIs allowed to invest up to 100% in security receipts (SRs) of ARCs | • The move is positive for ARCs as many of them are unable to grow sizably due to lack to capital. 100% ownership by sponsor and 100% FDI in ARCs will enable ARCs to raise more capital. Foreign investors (mainly debt) will be allowed to own SRs of ARCs, which will help ARCs to deleverage and diversify sources of funds. |
| | • Tax clarity on securitisation trust – positive for NBFCs and ARCs | • The Govt. stated that there will be a complete pass-through of income tax to securitisation trusts, including trusts of ARCs. The income in the hands of investors will be taxed instead of the trust. |
| | • High foreign limit for investment in stock exchanges | • Investment limit for foreign entities in the Indian stock exchanges will be enhanced from 5% to 15%, at par with domestic institutions. This is positive for MCX. |
| Energy | **Change in cess:**<br>• Rate of oil industries development cess on domestically produced crude oil (OIDB Cess under the Oil Industry Development Act, 1974) reduced from Rs4,500/MT to a 20% ad valorem rate | • Marginally positive for ONGC, OIL and Cairn India. Reduction is below estimates |
| | **Change in custom duty for:** | |
| | **Petroleum exploration and production:**<br>• Goods required for E&P of hydrocarbon activities undertaken under Petroleum Exploration Licenses (PEL) or Mining Leases (ML) issued or renewed before 1 April 1999 – exempted from BCD and CVD | • Marginally positive for E&P companies |
| | **Chemicals & Petrochemicals:**<br>• All acyclic hydrocarbons and all cyclic hydrocarbons (other than para-xylene which attracts Nil BCD and styrene which attracts 2% BCD) from 5%/2.5% to 2.5% | • Marginally positive for petrochemical companies |
| | • Denatured ethyl alcohol (Ethanol) subject to actual user condition from 5% to 2.5% | |
| | • Orthoxylene for the manufacture of phthalic anhydride subject to actual user condition –SAD reduced from 4% to 2% | |
| | • Electrolysers, membranes and their parts required by caustic soda/potash unit using membrane cell technology reduced from 2.5% to Nil | |

| Sector | Budget announcements | Implications |
|---|---|---|
| Energy | **Measures to phase out deductions:**<br>• It is proposed to amend section 80-IB(9)(ii), (iv) & (v) of the Income Tax Act so as to provide that no deduction shall be available to an undertaking engaged in production of mineral oil or natural gas if the production commences on or after 1 Apr'17 | • On expected lines. To be set off against market pricing for gas produced from these fields |
| | **Measures for promoting economic growth:**<br>• Exemption of income of foreign company from storage and sale of crude oil stored as a part of strategic reserves | • Neutral |
| | • To provide LPG connection in the name of women members of poor households. Sum of Rs 20bn set aside to meet the initial cost of providing these LPG connections | • Positive for OMCs. Will lead to accelerated reduction in Kerosene consumption and subsidies. |
| | • Govt. is considering to incentivise gas production from deep-water, ultra deep-water and high pressure-high temperature areas, which are presently not exploited on account of higher cost and higher risks. Price to be linked to prevailing alternate fuels. | • Positive for RIL and ONGC. Further details needed to gauge precise impact. |
| Media | • Excise duty cut to nil from 12.5% on STBs | • Positive for DTH/cable players like Dish TV, Citi Cable |
| Metals & Mining | • Increase in clean environment cess by Rs 200/t on coal | • Negative for Hindalco/Vedanta as will increase costs by US$45-50mn. Impact on steel companies to be lower |
| | • Basic customs duty increase by 250bps in primary aluminum | • Positive for Hindalco/Vedanta as will them generate US$ 25mn-30mn in cash flows |
| | • Export duty on iron ore made zero 58% grade | • Negligible benefit to iron ore players given low prices. Vedanta to marginally benefit; no impact for NMDC |
| | • Export duty on bauxite reduced to 15% from 20% | • Negative as this will reduce availability of bauxite. Negative for Vedanta |
| Pharma | • Benefit of deductions for Research to be limited to 150% from 1 Apr'17 and 100% from 1 Apr'20 vs. 200% currently | • The deduction is applicable only for in-house R&D (recognised by the Department of Scientific & Industrial Research or DSIR) and clinical trials are not included (a huge cost for large companies). With lower exemption, we expect a hit of 1-1.5% for Lupin, Aurobindo Pharma and Dr. Reddy's, 3% for Cipla, and 0.5% for Glenmark Pharma in FY18. For Sun Pharma, DIVI, Torrent Pharma and Natco Pharma, we expect the impact to be to be set-off against MAT credit |
| | • The benefit of section 10AA to new SEZ units to be available to units commencing activity before 31 Mar'20 | • This is positive as the general expectation was that SEZ benefits will be taken off from FY17/FY18 onwards |
| Real Estate | • REITS to be kept out of dividend distribution tax | • Positive for commercial real estate developers (DLF, Prestige Estates, Phoenix Mills) as this help them improve visibility towards REIT listing |
| | • 100% tax deduction for construction of flats with size 30 sqm/60sqm approved by 2016-2019 and completed in three years | • Positive for mass housing developers (Puravankara, HDIL, Ashiana) |
| | • Additional interest benefit of Rs 50,000/- p.a. for loans up to Rs 35,00,000 for houses valuing less than Rs 50,00,000 | • Positive for mid-income home developers (Ashiana, Sobha Developers, Prestige Estates) |



| Sector | Budget announcements | Implications |
|---|---|---|
| Telecom | • Govt. budgeting Rs 989bn from communications. | Typically, telcos pay a license/spectrum fee of<br>• Rs 190bn-Rs 200bn. This implies the Govt. is budgeting ~Rs 799bn from spectrum auctions in FY17 – ambitious in our view as telcos have limited balance sheet headroom to incur such a large quantum of money on spectrum. Further, this comes on the back of Rs 560bn of RE for FY16. |
| | • "Right to use the radio-frequency spectrum and its subsequent transfers being declared as a service, to make it clear that assignment of right to use the<br>• spectrum is a service leviable to service tax and not sale of intangible goods" | • Negative for telcos |
| Agriculture | • To double income of farmers by 2022. Total allocation for agriculture & farmers welfare: Rs 359.8bn | • Positive for farm input companies such as Jain Irrigation, Rallis India and Kaveri Seeds |
| | • Increase in target farm credit to Rs 9trn from Rs 8.5trn | • Positive for farm input companies like Jain Irrigation, Rallis India and Kaveri Seeds |
| | • 2.85mn hectares of area to be brought under irrigation in 'Pradhan Mantri Krishi Sinchai Yojana' | • Positive for companies such as Jain Irrigation, EPC Industries, Finolex Industries, Astral Polytechnik and Supreme Industries |
| | • Implementation of 89 languishing irrigation projects under AIBP to be fastracked | • Positive for pipe companies such as Finolex Industries and Jain irrigation |
| | • A dedicated long-term irrigation fund to be created under NABARD with an initial corpus of Rs 200bn | • Positive for companies such as Jain Irrigation, EPC Industries, Finolex Industries, Astral Polytechnik and Supreme Industries |
| | • Interest subvention of Rs 150bn to be provided for farmers to reduce the burden of loan repayment | • Positive for farm incomes |
| | • Increase in target farm credit to Rs 9trn from Rs 8.5trn | • Positive for farm input companies like Jain Irrigation, Rallis India and Kaveri Seeds |
| | • Allocation of Rs 55bn for crop insurance scheme under Prime Minister Fasal Bima Yojana | • Positive for farm input companies |
| Building Material | • Rs 90bn allocation for Swachh Bharat Abhiyan | • Positive for sanitaryware/tile companies like Kajaria Ceramics, Somany Ceramics and Cera Sanitaryware |
| | • Implementation of 7th CPC recommendation | • Positive for Kajaria Ceramics, Somany Ceramics, Greenply industries and Pidilite Industries |

Source: RCML Research, Company



## Budget highlights

### Agriculture and farmers welfare

- Allocation for Agriculture and Farmers' welfare is Rs359.8 bn
- Pradhan Mantri Krishi Sinchai Yojana to be implemented in mission mode. 2.85mn hectares will be brought under irrigation.
- Implementation of 89 irrigation projects under AIBP, which are languishing for a long time, will be fast tracked
- A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs200 bn
- Programme for sustainable management of ground water resources with an estimated cost of Rs60 bn will be implemented through multilateral funding
- 0.5 mn farm ponds and dug wells in rain fed areas and 1 mn compost pits for production of organic manure will be taken up under MGNREGA
- Soil Health Card scheme will cover all 140 mn farm holdings by March 2017.
- 2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years
- Promote organic farming through '*Parmparagat Krishi Vikas Yojana*'and 'Organic Value Chain Development in North East Region
- Unified Agricultural Marketing ePlatform to provide a common emarket platform for wholesale markets
- Allocation under *Pradhan Mantri Gram Sadak Yojana* increased to Rs190 bn. Will connect remaining 65,000 eligible habitations by 2019.
- To reduce the burden of loan repayment on farmers, a provision of Rs150 bn has been made in the BE FY17 towards interest subvention
  Allocation under Prime Minister Fasal Bima Yojana Rs 55bn
- Rs8.5 bn for four dairying projects - '*Pashudhan Sanjivani', 'Nakul Swasthya Patra', 'E-Pashudhan Haat*' and National Genomic Centre for indigenous breeds

### Rural sector

- Allocation for rural sector – Rs877.7 bn.
- Rs2.87 tn will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission
- Every block under drought and rural distress will be taken up as an intensive Block under the *Deen Dayal Antyodaya* Mission
- A sum of Rs385 bn allocated for MGNREGS
- 300 Rurban Clusters will be developed under the Shyama PrasadMukherjee Rurban Mission
- 100% village electrification by 1st May, 2018.



- District Level Committees under Chairmanship of senior most Lok Sabha MP from the district for monitoring and implementation of designated Central Sector and Centrally Sponsored Schemes.
- Priority allocation from Centrally Sponsored Schemes to be made to reward villages that have become free from open defecation.
- A new Digital Literacy Mission Scheme for rural India to cover around 60mn additional household within the next 3 years.
- National Land Record Modernisation Programme has been revamped.
- New scheme *Rashtriya Gram Swaraj Abhiyan* proposed with allocation of Rs6.6bn.

### Social sector including health

- Allocation for social sector including education and health care  Rs1.5 bn.
- Rs20 bn allocated for initial cost of providing LPG connections to BPL families.
- New health protection scheme will provide health cover up to Rs1,00,000 per family. For senior citizens an additional top-up package up to Rs30,000 will be provided.
- 3,000 Stores under Prime Minister's *Jan Aushadhi* Yojana will be opened during FY17.
- *National Dialysis Services Programme*' to be started under National Health Mission through PPP mode
- "*Stand Up India Scheme*" to facilitate at least two projects per bank branch. This will benefit at least 2,50,000 entrepreneurs.
- National Scheduled Caste and Scheduled Tribe Hub to be set up in partnership with industry associations

### Education, skills and job creation

- 62 new *Navodaya Vidyalayas* will be opened
- *Sarva Shiksha Abhiyan* to increasing focus on quality of education
- Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions
- Higher Education Financing Agency to be set-up with initial capital base of Rs10 bn
- Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.

### Skill Development

- Allocation for skill development – ` Rs18.bn.
- 1500 Multi Skill Training Institutes to be set-up.
- National Board for Skill Development Certification to be setup in partnership with the industry and academia
- Entrepreneurship Education and Training through Massive Open Online Courses

### Job creation

- GoI will pay contribution of 8.33% for of all new employees enrolling in EPFO for the first three years of their employment. Budget provision of Rs10 bn for this scheme.
- Deduction under Section 80JJAA of the Income Tax Act will be available to all assesses who are subject to statutory audit under the Act
- 100 Model Career Centres to operational by the end of FY17 under National Career Service.
- Model Shops and Establishments Bill to be circulated to States.

### Infrastructure and investment

- Total investment in the road sector, including PMGSY allocation, would be ` Rs970 bn during FY17.
- India's highest ever kilometres of new highways were awarded in 2015.
- To approve nearly 10,000 kms of National Highways in FY17.
- Allocation of Rs550 bn in the Budget for Roads. Additional Rs150 bn to be raised by NHAI through bonds.
- Total outlay for infrastructure – Rs.2.21 tn
- Amendments to be made in Motor Vehicles Act to open up the road transport sector in the passenger segment
- Action plan for revival of unserved and underserved airports to be drawn up in partnership with State Governments.
- To provide calibrated marketing freedom in order to incentivise gas production from deep-water, ultra deep-water and high pressure-high temperature areas
- Comprehensive plan, spanning next 15 to 20 years, to augment the investment in nuclear power generation to be drawn up.
- Steps to re-vitalise PPPs -Public Utility (Resolution of Disputes) Bill will be introduced during FY17, Guidelines for renegotiation of PPP Concession Agreements will be Issued and New credit rating system for infrastructure projects to be introduced
- Reforms in FDI policy in the areas of Insurance and Pension, Asset Reconstruction Companies, Stock Exchanges.
- 100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India.
- A new policy for management of Government investment in Public Sector Enterprises, including disinvestment and strategic sale approved

### Financial sector reforms

- A comprehensive Code on Resolution of Financial Firms to beintroduced.
- Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.
- A Financial Data Management Centre to be set up.



- RBI to facilitate retail participation in Government securities.
- New derivative products will be developed by SEBI in the Commodity Derivatives market.
- 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 Securitization Receipts.
- Comprehensive Central Legislation to be bought to deal with the menace of illicit deposit taking schemes.
- Increasing members and benches of the Securities Appellate Tribunal.
- Allocation of Rs250bn towards recapitalisation of Public Sector Banks.
- Target of amount sanctioned under *Pradhan Mantri Mudra Yojana* increased to ` Rs1.8 tn.
- General Insurance Companies owned by the Government to be listed in the stock exchanges.

### Governance and ease of doing business

- A Task Force has been constituted for rationalisation of human resources in various Ministries.
- Comprehensive review and rationalisation of Autonomous Bodies.
- Bill for Targeted Delivery of Financial and Other Subsidies, Benefits and Services by using the *Aadhar* framework to be introduced.
- Introduce DBT on pilot basis for fertilizer.
- Automation facilities will be provided in 3,00,000 fair price shops by March 2017.
- Amendments in Companies Act to improve enabling environment for start-ups.
- Price Stabilisation Fund with a corpus of Rs9 bn to help maintain stable prices of Pulses.
- *"Ek Bharat Shreshtha Bharat"* programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.

### Relief to small tax payers

- Raise the ceiling of tax rebate under section 87A from `2000 to `5000 to lessen tax burden on individuals with income upto Rs 0.5mn.
- Increase the limit of deduction of rent paid under section 80GG from`Rs24,000 per annum to Rs60,000, to provide relief to those who live in rented houses.

### Fiscal discipline

- Fiscal deficit in RE FY16 and BE FY17 retained at 3.9% and 3.5%.
- Revenue Deficit target from 2.8% to 2.5% in RE FY16
- Mobilisation of additional finances to the extent of Rs 313bn by

- NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority by raising Bonds.
- Plan / Non-Plan classification to be done away with from FY18.
- Every new scheme sanctioned will have a sunset date and outcome review.
- Rationalised and restructured more than 1500 Central Plan Schemes into about 300 Central Sector and 30 Centrally Sponsored Schemes.
- Committee to review the implementation of the FRBM Act.

### Tax reforms

- Increase the turnover limit under Presumptive taxation scheme under section 44AD of the Income Tax Act to Rs 20mn to bring big relief to a large number of assessees in the MSME category.
- Extend the presumptive taxation scheme with profit deemed to be 50%, to professionals with gross receipts up to Rs 5mn.
- With regard to corporate taxes, accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1.4.2017
- Benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020
- Benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020.
- The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020
- New manufacturing companies incorporated on or after 1.3.2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.
- Lower the corporate tax rate for the next financial year for relatively small enterprises i.e companies with turnover not exceeding Rs 50mn (in the financial year ending March 2015), to 29% plus surcharge and cess.
- 100% deduction of profits for 3 out of 5 years for startups setup during April, 2016 to March, 2019. MAT will apply in such cases.
- 10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident.
- Complete pass through of income-tax to securitization trusts including trusts of ARCs. Securitisation trusts required to deduct tax at source.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three to two years.
- Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.
- Determination of residency of foreign company on the basis of Place of Effective Management (POEM) is proposed to be deferred by one year.



- Commitment to implement General Anti Avoidance Rules (GAAR) from 1.4.2017.
- Exemption of service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship.
- Exemption of Service tax on general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability.
- Basic custom and excise duty on refrigerated containers reduced to 5% and 6%.
- Changes in customs and excise duty rates on certain inputs to reduce costs and improve competitiveness of domestic industry in sectors like Information technology hardware, capital goods, defence production, textiles, mineral fuels & mineral oils, chemicals & petrochemicals, paper, paperboard & newsprint, Maintenance repair and overhauling [MRO] of aircrafts and ship repair
- Withdrawal up to 40% of the corpus at the time of retirement to be tax exempt in the case of National Pension Scheme (NPS). Annuity fund which goes to legal heir will not be taxable.
- In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made on or from 1.4.2016.
- Limit for contribution of employer in recognized Provident and Superannuation Fund of Rs 0.15mn per annum for taking tax benefit.
- Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.
- Reduce service tax on Single premium Annuity (Insurance) Policies from 3.5% to 1.4% of the premium paid in certain cases.
- 100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.
- Deduction for additional interest of `50,000 per annum for loans up to Rs 3.5mn sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs 5mn.
- Distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax, in respect of dividend distributed after the specified date.
- Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes.
- Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work to Ready Mix Concrete.
- Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of Rs 1mn per annum.



- Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above Rs 1mn.
- Tax to be deducted at source at the rate of 1 % on purchase of luxury cars exceeding value of Rs. 1mn and purchase of goods and services in cash exceeding Rs 200,000.
- Securities Transaction tax in case of ‘Options’ is proposed to be increased from .017% to .05%.
- Equalization levy of 6% of gross amount for payment made to nonresidents exceeding Rs 1,00,000 a year in case of B2B transactions.
- Krishi Kalyan Cess, @ 0.5% on all taxable services, w.e.f. 1 June 2016. Proceeds would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers. Input tax credit of this cess will be available for payment of this cess.
- Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. No credit of this cess will be available nor credit of any other tax or duty be utilized for paying this cess.
- Excise duty of ‘1% without input tax credit or 12.5% with input tax credit’ on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of Rs 60mn and Rs 1.2bn respectively.
- Excise on readymade garments with retail price of ` 1000 or more raised to 2% without input tax credit or 12.5% with input tax credit.
- ‘Clean Energy Cess’ levied on coal, lignite and peat renamed to ‘Clean Environment Cess’ and rate increased from `200 per tonne to `400 per tonne.
- Excise duties on various tobacco products other than beedi raised by about 10 to 15%.
- Assignment of right to use the spectrum and its transfers has been deducted as a service leviable to service tax and not sale of intangible goods.
- Committed to providing a stable and predictable taxation regime and reduce black money.
- Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.
- Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.
- New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to Rs 1mn. Cases with disputed tax exceeding Rs 1mn to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.

- High Level Committee chaired by Revenue Secretary to oversee fresh cases where assessing officer applies the retrospective amendment.
- One-time scheme of Dispute Resolution for ongoing cases under retrospective amendment.
- Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.
- Disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Section 14A of Income Tax Act.
- Time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.
- Mandatory for the assessing officer to grant stay of demand once the assesse pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals).
- Monetary limit for deciding an appeal by a single member Bench of ITAT enhanced from Rs 1.5mn to Rs 5mn.
- 11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).
- 13 cesses, levied by various Ministries in which revenue collection is less than Rs 0.5bn in a year to be abolished.
- For non-residents providing alternative documents to PAN card, higher TDS not to apply.
- Revision of return extended to Central Excise assesses.
- Additional options to banking companies and financial institutions, including NBFCs, for reversal of input tax credits with respect to nontaxable services.
- Customs Act to provide for deferred payment of customs duties for importers and exporters with proven track record.
- Customs Single Window Project to be implemented at major ports and airports starting from beginning of next financial year.
- Increase in free baggage allowance for international passengers. Filing of baggage only for those carrying dutiable goods.
- Expansion in the scope of e-assessments to all assessees in 7 mega cities in the coming years.
- Interest at the rate of 9% p.a against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days.
- 'e-Sahyog' to be expanded to reduce compliance cost, especially for small taxpayers.

**Fig 14 - Forecasts – Key macroeconomic indicators**

| | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| GVA at basic prices (% YoY; constant prices 2011-12) | 5.4 | 6.3 | 7.1 | 7.3 | 7.8 |
| Agriculture, forestry and fishing | 1.5 | 4.2 | (0.2) | 1.8 | 2.3 |
| Industry | 3.6 | 5.0 | 5.9 | 7.3 | 7.7 |
| Services | 8.1 | 7.8 | 10.3 | 8.9 | 9.5 |
| GDP (% YoY) | 5.6 | 6.6 | 7.2 | 7.1 | 7.5 |
| PFCE | 5.3 | 6.8 | 6.2 | 7.2 | 8.0 |
| GFCE | 0.5 | 0.4 | 12.8 | 2.9 | 4.0 |
| GCF | 6.8 | (1.9) | 6.4 | 7.5 | 7.8 |
| Exports of goods and services | 6.8 | 7.8 | 1.7 | (5.0) | 1.0 |
| Imports of goods and services | 6.0 | (8.2) | 0.8 | (4.3) | 1.5 |
| GDP (%) - Current Prices | 13.9 | 13.3 | 10.8 | 7.6 | 10.5 |
| GDP deflator (%) | 7.9 | 6.2 | 3.3 | 0.5 | 2.8 |
| IIP (% YoY) | 1.1 | (0.1) | 2.8 | 4.3 | 5.0 |
| Mining and quarrying | (2.3) | (0.6) | 1.5 | 2.3 | 3.0 |
| Manufacturing | 1.3 | (0.8) | 2.3 | 4.4 | 5.0 |
| Electricity | 4.0 | 6.1 | 8.4 | 5.1 | 7.0 |
| Fiscal Deficit (Centre) (% of GDP) | 4.9 | 4.4 | 4.1 | 4.0 | 3.8 |
| Fiscal Deficit (Centre + states) (% of GDP) | 6.9 | 6.9 | 6.5 | 6.8 | 7.0 |
| Inflation | | | | | |
| WPI (average; % YoY) | 7.4 | 6.0 | 2.0 | (2.2) | 2.1 |
| CPI (average; % YoY) | 10.1 | 9.3 | 5.9 | 4.9 | 5.0 |
| Credit | | | | | |
| Bank credit (% YoY) | 14.1 | 13.9 | 9.0 | 9.9 | 11.5 |
| Aggregate deposit (% YoY) | 14.2 | 14.1 | 10.7 | 10.4 | 12.0 |
| CRR (EOP) (%) | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| SLR (EOP) (%) | 23.00 | 23.00 | 21.50 | 21.3 | 20.3 |
| Repo Rate (EOP) (%) | 7.50 | 8.00 | 7.50 | 6.75 | 6.75 |
| Crude oil (US$/bbl) - Avg | 110.1 | 107.6 | 85.5 | 49.0 | 40.0 |
| (% YoY) | (4.0) | (2.3) | (20.5) | (42.7) | (18.4) |
| Exports (USD bn) | 300.2 | 314.9 | 309.3 | 253.1 | 266.0 |
| (% YoY) | | 4.9 | (1.8) | (18.2) | 5.1 |
| POL (USD bn) | 60.8 | 63.3 | 56.5 | 29.5 | 29.6 |
| (% YoY) | | 4.3 | (10.7) | (47.8) | 0.3 |
| Non-POL (USD bn) | 239.4 | 251.5 | 252.8 | 223.5 | 236.4 |
| (% YoY) | | 5.1 | 0.5 | (11.6) | 5.8 |
| Imports (USD bn) | 490.2 | 448.8 | 447.1 | 382.9 | 402.7 |
| (% YoY) | | (8.4) | (0.4) | (14.4) | 5.2 |
| POL (USD bn) | 163.8 | 164.9 | 137.8 | 85.6 | 83.5 |
| (% YoY) | | 0.7 | (16.4) | (37.9) | (2.4) |
| Non-POL (USD bn) | 326.4 | 283.9 | 309.3 | 297.3 | 319.2 |
| (% YoY) | | (13.0) | 8.9 | (3.9) | 7.4 |
| Trade balance: DGCI&S (USD bn) | (190.1) | (134.0) | (137.7) | (129.8) | (136.7) |
| Current account as % of GDP | (4.8) | (1.7) | (1.3) | (1.0) | (1.3) |
| Current account (USD bn) | (87.8) | (32.4) | (26.7) | (19.8) | (28.2) |
| Trade Balance (RBI) (USD bn) | (195.7) | (147.6) | (144.9) | (138.7) | (147.8) |
| Services (USD bn) | 64.9 | 73.0 | 76.6 | 77.8 | 82.3 |
| Primary Income (USD bn) | (21.5) | (23.0) | (24.1) | (24.0) | (27.7) |
| Secondary Income (USD bn) | 64.4 | 65.3 | 65.8 | 65.1 | 65.1 |
| Capital flows (USD bn) | 89.1 | 48.7 | 89.2 | 52.3 | 59.3 |
| Direct investments (USD bn) | 19.8 | 21.6 | 31.3 | 32.4 | 35.3 |
| Portfolio investments (USD bn) | 26.7 | 4.8 | 40.9 | (5.7) | 10.1 |
| Change in Reserve assets (USD bn) | 3.8 | 15.5 | (61.4) | (32.1) | (31.2) |
| Exchange rate (year-end) (vs. USD) | 54.39 | 60.10 | 62.59 | 67.0 | 70.0 |
| Appn/depn | | (9.5) | (4.0) | (6.6) | (4.3) |

Source: RCML Research

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