

Union Budget 2014-15

IT'S A MARATHON & NOT A 100M DASH!



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IT'S A MARATHON & NOT A 100M DASH!

Key Observations:

The Union Budget has provided a roadmap that the Government wants to follow over its 5-year term in office. Mr Modi wants to put his team in place before signing off on any path breaking reforms (GST, land reforms, big infra projects). He also knows that India cannot fund its own infra requirements therefore PPP seems to be the right answer (we expect several US\$ 10 billion plus projects funded by multilateral agencies to be signed over the next 12/18 months). The biggest challenge for Mr Modi is re-adapting his policies to this new role where he can carry the entire country along with him; therefore we do not see him rushing through things for speedy delivery without paying enough attention to as many segments of the economy and society as possible. **To put it simply, the government seems to view India's growth path as a marathon rather than the 100 meter dash that the market had expected.**

DNA CHANGE: The Modi government wants to bring changes to the entire DNA of Indian governance and bureaucracy and make it more effective and transparent. This cannot be done within a quarter or two but will happen over 12/18 months. Mr Modi knows that improving the visibility is key to raising large amounts of fresh capital globally as well as domestically which is key to India's long term growth ... therefore more a marathon rather than a sprint!

FISCAL DEFICIT: The government also realises that the key to keeping people happy is controlling inflation. Inflation cannot be controlled with a rampant fiscal deficit. This seems to be the first major stand that Mr Modi's government has taken with the budget: marking the fiscal deficit at 4.1%.... therefore more of a marathon rather than a sprint!

INFRASTRUCTURE development remains the focal point of the Modi government. The message has been clearly delivered that de-bottlenecking and completion of ongoing infrastructure is as important as announcing new BIG BANG projects. Monitoring of existing projects and their smooth execution is TOP priority and we understand that the entire government machinery is being used to set up efficient monitoring and implementation of ongoing/delayed projects. It has been a common-sense-approach; finish the existing work at hand before trying to break new ground.

The PPP model for investment has been brought back into focus. We think that this will be more of a PPP at the multi lateral agency/country level rather than at the corporate level (DFC Mumbai/Delhi, DIC Mumbai/Bengaluru) etc. The government we believe will lead the initiative with liaison and providing guarantees (the way most very large infra projects are done globally). The biggest corporates in India with the balance-sheet muscle power will get involved, with the government providing adequate support... therefore more of a marathon rather than a sprint!

JOB CREATION: One highlight of this Budget has been the government's generous allocation towards Plan Expenditure. This has not been compromised in order to keep the fiscal deficit under control. This is heartening and will act as a growth driver. Growth of Plan Expenditure will also lead to job creation that has been the single biggest achievement of the Modi government over the last decade in Gujarat..... therefore more of a marathon rather than a sprint!

EFFECTIVE SAVINGS: The Modi government also realises that over the last decade the Indian saving pattern has become lopsided and therefore savings are not getting channeled back into growing the economy. This is because a very large portion of domestic savings are now getting invested into real estate and gold rather than in financial assets. We see the first foundation stones getting laid for changing this flow of capital therefore more of a marathon rather than a sprint!

EFFICIENT TAXATION: We also see the first steps to streamline, broaden the tax system and therefore improve its efficiency for both corporates and individuals with the announcement of a slew of small measures. As the government measures the impact we expect them to go full steam ahead on broad-basing the same therefore more of a marathon rather than a sprint!

IMPROVE INDIA'S VISIBILITY: Lastly there is a meaningful possibility that India's rating is upgraded by the international rating agencies as they gain confidence on India in the days ahead. This will surely bring down the cost of borrowing for Corporate India.

TOP PICKS: Our top picks from the Budget are L&T, Shree Cement, IDFC, HDFC, Gateway Distriparks, IRB Infrastructure and Ashoka Buildcon.

We believe that times ahead will be interesting and we will see progress; we also see the foundation stones of a structural bull market being laid "AACHE DIN AAYEGE!"

JAI HIND!

Budget 2014-15 – Meets expectations but should be seen as work in progress

The budget is an important step along the long road to regaining sustainable high growth rates in the Indian economy.

Although the new Government has come to power just 6 weeks back and on account of lack of time availability it was not possible to put in place many critical policy decisions the FM by duly mentioning them in his speech has highlighted the fact that the issues are in the Government's focus and action will be definitely taken in due course.

Sticking to a strict fiscal deficit target, raising the cap on foreign investment in insurance companies and clearing up tax anomalies are all positives for foreign inflows, both direct (FDI) and portfolio (FII). The commitment to refrain from further retrospective tax legislation is welcome, the failure to reverse earlier retrospective legislation a disappointment.

Infrastructure was expected to be a beneficiary of the budget, but in some areas the Finance Minister exceeded expectations. Creating a more flexible bank regime for infrastructure lending and allowing banks to fund long-term lending with long-term bonds is positive for housing and infrastructure finance companies, cement and other infrastructure companies.

The budget takes adequate steps towards increasing infrastructure funding, reviving capex cycle by increasing plan spending, provides a path for fiscal consolidation and gives more room to increase financial savings.

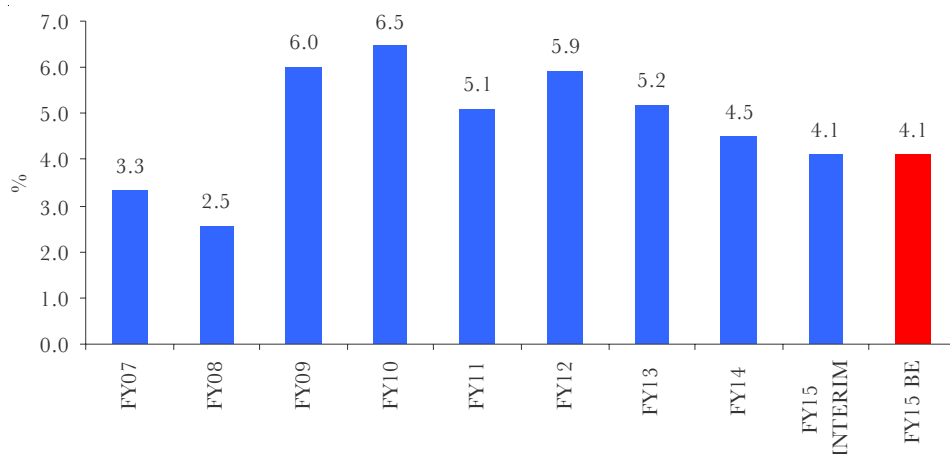
Key Highlights

- Fiscal deficit to be contained at 4.1% for FY15. Fiscal consolidation glide path maintained as per the interim budget with an aim to restrict fiscal deficit to 3.6% in FY16 and 3.0% in FY17.
- Net market borrowing for FY15 at Rs 4.61 trillion.
- Subsidy for FY15 marginally higher at Rs 2,606 bn due to additional provision for fertiliser subsidy. Medium term goal of reduction in subsidies and subsidy reforms remain on the agenda.
- Plan expenditure to rise by 25.0% for FY15 to Rs 5,750 bn. This is clearly a big positive as it shows the intent of the government to boost investments.
- Long term bond borrowing by banks to fund infrastructure to be exempt from CRR and SLR requirement. This would reduce the funding cost and benefit both lender and borrower.
- FDI in insurance and defence hiked to 49% from 26%.
- Clarity on taxation for FIIs: To be taxed as capital gains.
- Investment allowance of 15% for investment in plants and machinery in manufacturing sector lowered to Rs 25 crs from Rs 100 crs. This is likely to boost investments in MSME sector.
- Financial savings to get boost by hike in 80C to Rs 0.15 million (with PPF also hiked to Rs 0.15 million). This is a small step towards an attempt to raise financial savings which has fallen sharply to 7.6% of GDP.
- Personal tax exemption hiked to Rs .25 million from Rs 0.2 million.

- GST to be implemented at the earliest.
- Debt MF to be negatively impacted with the definition of long term capital gain in case of non equity MF enhanced to 3 years from 1 year and tax increased to 20% from 10%. This has been done to do away with the arbitrage opportunity available to MF's in comparison to investing in bank FD's.

Fiscal Deficit – Are the numbers Credible? Meeting fiscal deficit target of 4.1% of GDP (Rs 5.31 trillion) will be a challenge this year. The buoyancy estimated in the gross tax revenue (19.8%) seems a little optimistic when the nominal GDP growth is estimated at 13.7%. At this point in time we expect the revenue target to miss estimates by around Rs 200-300 bn. This would effectively increase fiscal deficit by 20 basis. Our estimate for fiscal deficit in FY15 is 4.3%. Fiscal consolidation road map of 3.6% fiscal deficit by FY16 and 3.0% by FY17 seems credible and should be strictly implemented.

Fiscal Deficit: Ambitious target?

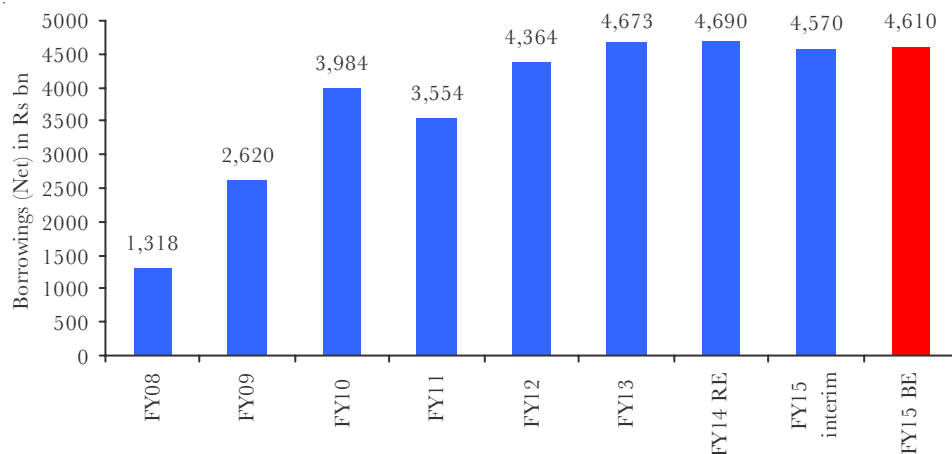


Source: Budget Papers

Market Borrowing

The estimated fiscal deficit will result in net market borrowing of Rs 4.6 trillion, almost unchanged from the interim budget.

Market Borrowing: Unchanged

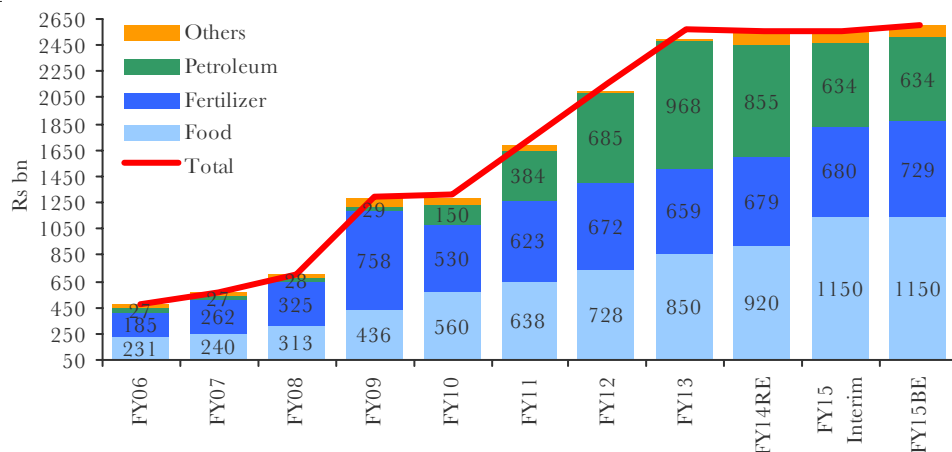


Source: Budget Papers

Subsidy

The budget subsidy number is Rs 2.61 trillion (2.02% of GDP). This is against Rs 2.55 trillion in the previous year. Food subsidy is unchanged at Rs 1.15 trillion, petroleum also unchanged at Rs 634 bn, fertiliser subsidy is increased to Rs 728 bn from Rs 680 bn.

Subsidy: Food subsidy could be a concern



Source: Budget Papers

Tax Revenues

Gross tax revenue assumed in FY15 is 19.8%. It seems a little optimistic especially as the GDP growth is yet sluggish and the nominal GDP growth assumed in budget is 13.7%. It will be challenging for the government to meet this target. **Gross tax to GDP ratio is 10.6%**

Tax collections: Ambitious target

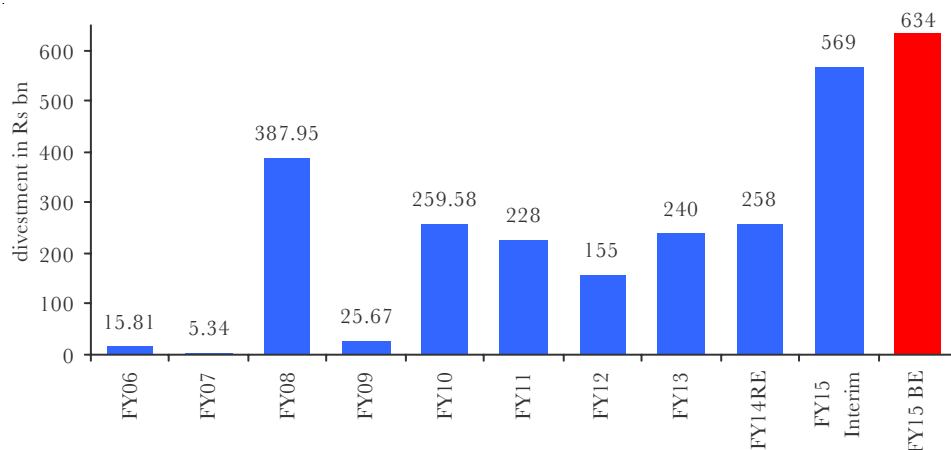
Tax Revenue	FY10	FY11	FY12	FY13	FY14RE	FY15	FY15 BE
YoY (%)	interim						
Gross Tax Revenue	0.8	24.5	14.4	15.1	9.7	21.1	19.8
Corporate Tax	14.9	16.2	10.6	9.5	9.7	14.6	14.6
Income Tax	7.2	13.4	15.3	19.9	17.3	26.8	17.6
Excise Duty	-5.9	35.1	9.4	14.1	4.4	11.8	15.4
Custom Duty	-21.8	56.0	16.1	7.7	6.3	15.0	15.2
Service Tax	-10.8	19.7	36.9	39.7	24.3	30.7	30.9

Non tax revenue estimated in FY15 is Rs 2.13 trillion. This assumes dividend of Rs 902 billion from PSU's and RBI and Rs 455 bn from spectrum sale and SUC etc.

Divestment

Total disinvestment receipt assumed in the budget is Rs 634 bn with Rs 434 bn divestment in government owned companies and the rest in non-government owned companies.

Divestment: To tap the positive sentiment



Source: Budget Papers

Expenditure

Total expenditure is expected to increase by 12.9% YoY, with plan expenditure expected to rise by 25% and non plan expenditure by 9%. Most of the non plan expenditure being committed (interest payments, subsidies, and defence), the scope for major reduction in this budget was minimal. Hike in defence capital expenditure from Rs 788 bn in FY14 to Rs 946 bn in FY15 is welcome.

Sharp rise in plan expenditure is also welcome and shows the FM's commitment to continue with social and economic plans.

Key programmes

Programs (Rs bn)	FY10	FY11	FY12	FY13BE	FY14	FY15 interim	FY 15
Pradhan Mantri Gram Sadak Yojana		195.00	124.00	160.00	217.00	130.00	101.5
Rashtriya Krishi Vikas Yojana (RKVY)	37.07	67.22	78.60	92.17	71.00	98.64	99.6
MGNREGA	391.00	358.00	310.00	330.00	330.00	340.00	333.5
Indira Awaas Yojana (IAY)	88.00	89.96	89.96	99.66	151.84	160.00	159.7
National Rural Health Mission	141.27	154.40	178.40	205.00	209.99		
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	63.30	75.60	75.52	68.22	71.90	148.73	70.4
National Highways Development Programme (NHDP)	159.48	198.94	103.43	88.00	54.22	54.22	95.65
Sarva Shiksha Abhiyan (SSA)	131.00	150.00	210.00	276.35	266.10	272.58	277.6
Mid-day Meal Scheme	80.00	94.40	103.80	131.50	121.90	132.15	132.2

Taxes

Direct Tax Measures:

- Income tax exemption hiked to Rs 0.25 million from Rs 0.2 million. Further exemption level for senior citizens hiked to Rs 0.3 million from 0.25 million.
- Investment limit under section 80C hiked to Rs 0.15 million from 0.1 million.
- Deduction limit on interest on housing loan hiked to Rs 0.2 mn from 0.15 mn
- Rate of long term capital gain tax on transfer of units of mutual funds other than equity mutual funds raised to 20% from 10%. Further the definition of long term changed to 3 years from the present 1 year.
- Dividend distribution tax (DDT) by domestic companies and Mutual Funds to be now taxed on gross basis instead of net basis. Thus effectively tax increases to 20% for companies and close to 29% for Mutual Funds.
- To review DTC in the current form.

PLAN EXPENDITURE ON INFRASTRUCTURE

Plan Expenditure on Infrastructure is up 4.6% in the Budget Estimates compared to 13.5% in the Revised estimates of last financial year. Most of the rise is contributed by Power, Railways, Urban Development and Irrigation & Flood Control.

INFRASTRUCTURE SPENDING IN BUDGET

	Rs crore	ACTUALS				REVISED	BE	SHARE IN INFRA	
		FY10	FY11	FY12	FY13	FY14	FY15	% Share	
								FY14	FY15
1	Food Storage & Warehousing	235.0	502.2	703.0	764.3	655.2	727.4	0.3	0.4
	<i>% YoY</i>		<i>113.7</i>	<i>40.0</i>	<i>8.7</i>	<i>(14.3)</i>	<i>11.0</i>		
2	Irrigation & Flood control	423.3	476.5	506.1	439.4	464.2	1796.8	0.2	0.9
	<i>% YoY</i>		<i>12.5</i>	<i>6.2</i>	<i>(13.2)</i>	<i>5.6</i>	<i>287.1</i>		
3	Power	44493.1	46745.4	51844.0	57728.9	61918.2	70297.2	31.3	34.0
	<i>% YoY</i>		<i>5.1</i>	<i>10.9</i>	<i>11.4</i>	<i>7.3</i>	<i>13.5</i>		
4	Railways	38866.6	39857.5	47001.5	49280.9	58257.0	63949.0	29.5	31.0
	<i>% YoY</i>		<i>2.5</i>	<i>17.9</i>	<i>4.8</i>	<i>18.2</i>	<i>9.8</i>		
6	Ports	1260.7	1380.9	1920.1	1780.0	3862.4	2863.6	2.0	1.4
	<i>% YoY</i>		<i>9.5</i>	<i>39.0</i>	<i>(7.3)</i>	<i>117.0</i>	<i>(25.9)</i>		
5	Shipping	1118.9	3277.4	1907.8	2151.1	528.2	1369.1	0.3	0.7
	<i>% YoY</i>		<i>192.9</i>	<i>(41.8)</i>	<i>12.8</i>	<i>(75.4)</i>	<i>159.2</i>		
6	Airports	11148.2	6142.1	3866.1	8394.8	8502.7	9474.0	4.3	4.6
	<i>% YoY</i>		<i>(44.9)</i>	<i>(37.1)</i>	<i>117.1</i>	<i>1.3</i>	<i>11.4</i>		
7	Roads & Bridges	33842.1	43363.4	52654.2	28691.0	37667.6	38214.4	19.1	18.5
	<i>% YoY</i>		<i>28.1</i>	<i>21.4</i>	<i>(45.5)</i>	<i>31.3</i>	<i>1.5</i>		
8	Water Supply & Sanitation	9272.9	10674.7	10070.7	12988.4	10822.0	231.0	5.5	0.1
	<i>% YoY</i>		<i>15.1</i>	<i>(5.7)</i>	<i>29.0</i>	<i>(16.7)</i>	<i>(97.9)</i>		
9	Telecommunication	13876.1	9679.0	4339.8	3743.3	5600.9	5940.7	2.8	2.9
	<i>% YoY</i>		<i>(30.2)</i>	<i>(55.2)</i>	<i>(13.7)</i>	<i>49.6</i>	<i>6.1</i>		
10	Urban Development	7746.3	8630.1	8164.6	8783.8	9889.6	12480.6	5.0	6.0
	<i>% YoY</i>		<i>11.4</i>	<i>(5.4)</i>	<i>7.6</i>	<i>12.6</i>	<i>26.2</i>		
	SPENDING ON INFRA	162048.1	170226.7	182274.7	173981.6	197512.7	206616.3	100.0	100.0
	<i>% YoY</i>		<i>5.0</i>	<i>7.1</i>	<i>(4.5)</i>	<i>13.5</i>	<i>4.6</i>		

Government Finances

(Rs crore)	FY12	FY13	YoY (%)	FY14	YoY (%)	FY15 Interim	YoY (%)	FY15 BE	YoY (%)
Gross Tax Revenue	901,664	1,038,036	15.12	1,138,832	9.71	1,379,199	21.11	1,364,524	19.8
Corporate Tax	327,680	358,874	9.52	393,677	9.70	451,005	14.56	451,005	14.6
Income Tax	171,879	206,095	19.91	241,691	17.27	306,466	26.80	284,266	17.6
Excise Duty	150,696	171,996	14.13	179,538	4.38	200,585	11.72	207,110	15.4
Custom Duty	153,000	164,853	7.75	175,056	6.19	201,314	15.00	201,819	15.3
Service Tax	95,000	132,697	39.68	164,927	24.29	215,478	30.65	215,973	31.0
Devolvement to states and UT's	255,414	294,047	15.13	324,313		387,732		382,216	
Net Tax Revenue of Centre	642,252	742,115	15.55	836,026	12.65	986,417	17.99	977,258	16.9
Non Tax Revenue	124,737	129,713	3.99	199,233	53.60	180,714		212,512	
Total Revenue Receipt	766,989	871,828	13.67	1,015,279	16.45	1,167,131	14.96	1,189,763	17.2
Total Capital Receipts	576,395	564,148		546,182		596,083		587,969	
Recovery of Loans	14,258	14,073		12,502		10,527		10,527	
Divestment of PSU's etc	15,493	24,000	54.91	27,555	14.81	56,925		63,425	
Other items of Cap Receipts	100,221	37,851	-62.23	59,191	56.38	95,347			
Borrowings(Net)	436,414	467,384	7.10	468,911		457,000		461,000	
Gross Market Borrowings	510,000	55,800	-89.06	563,911		597,000		600,000	
Less - Repayments	73,586	90,616	23.14	95,000		189,679			
External Assistance(Net)	10,311			5,441		5,734			
Total Receipts	1,343,384	1,435,976	6.89	1,575,434		1,763,214	11.92	1,794,892	13.9
Gross Tax to GDP ratio		10.4		10.1		10.7		10.6	
Non Plan Expenditure	892,116	1,001,638	12.28	1,114,902	11.31	1,207,892	8.34	1,219,892	9.4
Interest Payments	275,618	316,674	14.90	380,066	20.02	427,011	12.35	427,011	12.4
Defence Expenditure	170,937	178,504	4.43	203,672	14.10	224,000	9.98	229,000	12.4
Defence Capital Expenditure	66,143	69,600	5.23	78,872	13.32	89,587	13.59	94,588	19.9
Subsidies	216,297	257,654	19.12	255,516	-0.83	255,708	0.08	260,658	2.0
Plan Expenditure	426,604	429,187	0.61	475,532	10.80	555,322	16.78	575,000	25.0
On Revenue Account	346,200	343,373	-0.82	371,851	8.29	442,273	18.94	453,503	
On Capital Account	80,404	85,814	6.73	103,681	20.82	113,049	9.04	121,497	17.2
TOTAL EXPENDITURE	1,318,720	1,430,825	8.50	1,590,434	11.16	1,763,214	10.86	1,794,892	12.9
On Revenue Account	1,161,940	1,263,072		1,399,540	10.80	1,550,054	10.75	1,568,111	
On Capital Account	156,780	167,753		190,894	13.79	213,160	11.66	226,781	
GDP at Market Price-	8,857,797	10,028,118		11,320,463		12,839,952	13.42	12,876,653	
Fiscal Deficit	521,980	520,924		508,149		528,631		531,177	
Fiscal Deficit as % of GDP	5.9%	5.2%		4.5%		4.1%		4.1%	

Agriculture Inputs

Impact: Neutral

Budget proposals

- Total fertiliser subsidy allocation increased to Rs 730 bn. Within fertiliser subsidy, Rs 100 bn increase in allocation for urea segment through reducing Rs 50 bn under non-urea. New urea policy to be formulated.
- Fund allocation for flagship agriculture development programmes like RKVY, etc. are maintained. Agriculture growth target remains at 4%.
- Prime Minister Farm Irrigation Scheme to be initiated with Rs 10 bn.
- Government to set up 100 mobile soil testing laboratories and allocates Rs 1 bn to provide soil health card for every farmer.
- Government to finance 500,000 Joint Farming Groups through NABARD. Interest subvention scheme for agriculture credit will continue and agriculture credit target is fixed at Rs 8 trn.
- Government to encourage development of Farmers' market in town areas. Rs 5 bn 'Price Stabilisation Fund' to mitigate the risk of price volatility.

Impact

- Increase in fertiliser subsidy is positive for fertiliser companies as it will improve their liquidity situation through lower working capital requirement. New urea policy will check imbalance use of different types of fertilisers.
- Fund allocation for agriculture development programmes will benefit the overall sector as it will help in increasing productivity of agriculture and increase income of farmers, which will lead to spending towards quality agriculture inputs.
- Mobile soil testing labs and soil health cards will help in monitoring of proper usage of different types of fertilisers and productivity increase. Financing of farming groups and agricultural credit will help in providing increased credit to the agriculture sector and thus positive for overall sector
- Development of Farmers' market and reforms in agriculture produce marketing is expected to help farmers get better realisation for the produce.

Key Winners (Cos): Chambal Fertilisers and Rallis India.

Auto & Auto Ancillaries

Impact: Neutral

In the budget, there is no major specific proposal for auto sector. However, announcements in sectors like Defence and Insurance will have impact on some Auto/Auto ancillary companies, due to their exposure in these sectors.

Budget proposals

- Excise duty cut extended up to December 2014 for automobiles maintained in the budget.
- 15% investment allowance for new investments over and above Rs 250 mn by manufacturing companies in new plant and machinery up to 31.03.2017.
- Import duty on Butadiene reduced from 5% to 2½%. Butadiene is the raw material for SBR (Styrene Butadiene Rubber) and PBR (Poly Butadiene Rubber) used in tyre industry.

Impact

- Excise duty cut extended up to December 2014 for automobiles has been maintained in the budget and is expected to support improvement in auto demand and benefit all auto companies.
- The investment cap for additional deduction of income tax by way of investment allowance of 15% has been reduced from Rs 1,000 mn to Rs 250 mn. The reduction in investment cap to Rs 250 mn should be positive for auto industry, specifically for component manufacturers.
- Reduction in import duty on Butadiene will have marginal positive impact on tyre companies.
- Increase in FDI limit in insurance up to 49% will be positive for Exide Industries Limited and Tube Investment. Exide Industries hold 100% stake in Exide Life Insurance (erstwhile ING Vysya Life Insurance) and Tube Investment hold 74% in Cholamandalam MS General Insurance Limited (Balance 26% is held by Mitsui Sumitomo Insurance Company Limited, Japan).
- Increase in FDI limit up to 49% in defence sector will be positive for Bharat Forge and Ashok Leyland, as both companies are increasing their exposure in defence sector.

Key Winners (Cos)

- Exide Industries Limited
- Tube Investments Limited
- Bharat Forge
- Ashok Leyland

Aviation and Tourism

Impact: Neutral

Budget proposals

- The facility of Electronic Travel Authorization (e-Visa) would be introduced in a phased manner at nine airports in India where necessary infrastructure would be put in place within the next six months.
- Scheme for development of new airports in Tier I and Tier II will be launched for implementation through Airport Authority of India or PPPs.
- Creation of 5 tourist circuits around specific themes and set aside a sum of Rs 5 bn.
- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India.
- Excise duty exemption on aircraft engines and parts, when imported for servicing, repair or maintenance of aircrafts used for scheduled operations.
- Extension of the eligible date of borrowing in foreign currency: The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5% on interest payments.

Impact

- The government recently approved the extension of visa-on-arrival scheme to 180 countries (as against 11 earlier). In addition, e-visa facility would boost international tourist arrivals.
- The improvement of airports and creation of tourist circuits will increase the inbound and domestic passenger.
- The announcement regarding exemption of service tax for Indian tour operator is not expected to significantly impact the industry.
- Excise duty exemption on MRO, will reduce aircraft maintenance cost for domestic airlines.
- Borrowing in foreign currency is positive for aviation sector, since companies will be able to raise funds which are cheaper compared to costlier domestic loans.

Key Winners (Cos)

- Jet Airways (JET) having 50% revenue coming from international operation and with the boost in international passenger number, JET would be the beneficiary.
- Cox and Kings (COXK) having ~3% revenue coming from inbound and domestic tourism, however, having ~25% market share in organised domestic market, we believe COXK would benefit from the creation of 5 tourist circuits and e-visa facilities.
- Reduction in MRO cost and foreign currency borrowing will benefit Jet Airways and SpiceJet.

Banking

Impact: Marginally Positive

Budget proposals

- In-principle agreement for consolidation of PSU banks.
- FDI limit in Insurance raised to 49% from 26% with full Indian management and control through the FIPB route.
- PSU Capitalisation: Stake dilution in PSU banks in favor of retail investors but majority government holding to be maintained. Provided Rs 113 bn for PSU re-capitalisation.
- Banks to be permitted to raise long-term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL – reduction from ANBC).
- Increased investment limit under sec 80 C for long-term tax term deposits.
- Eligible holding period on debt funds to avail of long term capital gains benefit raised to 36 months from 12 months.
- Increased tax exemption limit on interest on housing loans and schemes for rural housing/lending.
- RBI to create a framework for licencing small banks, on tap banking and other differentiated banks.
- Examine the proposal to give greater autonomy to the banks while making them accountable.
- To open 6 Debt Recovery Tribunals in 6 cities.
- Agri loan target – Rs 8 trillion.
- Divestment through SUUTI stake sale of Rs 65 bn.
- Overall gross borrowing limited at Rs 4.6 trn.
- Dividend distribution tax to be now calculated on the Gross Dividend rather than the net distributable amount earlier.

Impact

- Consolidation among PSU banks looks difficult to implement, but at least shows willingness on incumbent government's part to facilitate consolidation unlike its predecessors. Small and relatively weak banks could be merged as & when it is implemented...like IDBI, Vijaya, Andhra, BOM, Corporation and United.
- Hike in FDI limit in Insurance – this could gradually release existing capital and bring-down future capital requirement for banks having insurance ventures. Notably positive for ICICI, SBI, PNB, Kotak, Canara, OBC and so on.
- PSU recapitalisation fund is insufficient given the higher requirement under BASEL III and thus govt. will have to find ways to fund the gap. No mention of holding company structure and clear indication that govt. is not ready to dilute its majority holding (51%) in PSU banks is disappointing. Given SBI is well capitalised and thus may not need government support, we believe other banks with lower Tier I and less than 58% government holding will benefit the most. ALBK and Union Bank where Tier I is much lower than 8% as well as govt. holding is less than 58% could get preference in capital allocation. Banks such as BOB, Vijaya and PNB where GOI holding is < 58% could also get preferred treatment so that they can then raise capital from market. Other banks where Tier I is low but have higher than 58% government holding like IOB, UNTDB, Punjab & Sind, BI, CBK, IDBI and so on can also raise capital via QIP.
- Banks to be permitted to raise long term funds for lending to infrastructure sector – Banks have been demanding this for long and if allowed (subject to RBI approval) will be prospectively positive (in terms of ALM) for banks engaged in infra lending (as of now no borrowings are specifically raised for on-lending to infra sector). This could address long term funding issue to some extent; however, we believe the real problem lies in current un-operational assets with banks, which we believe remain largely unaddressed. Some steps to promote take-out financing or SLR status to SEB bonds would have been appreciated. Positive for AXSB, ICICI, IDBI, SBI, Canara and so on, only in long run.

- Increased investment limit under sec 80 C for long-term tax term deposits – Should accelerate flows in long-term tax term deposits.
- Eligible holding period on debt funds to avail of long term capital gains benefit raised to 36 months from 12 months – this could improve the positioning of bank deposits vis-à-vis debt funds in attracting short/medium term corporate savings.
- Increased tax exemption limit on interest on housing loans – Banks with higher focus on housing could benefit. Positive mainly for ICICI, SBI and Axis.
- Examine the proposal to give greater autonomy to the banks while making them accountable – If some of the proposals like appointment of professional CEO by BIC and so on are implemented, it will be long-term positive for PSU banks.
- To open 6 Debt Recovery Tribunals – This will facilitate faster recovery process for banks.
- Agri loan target - Rs 8 trillion – Banks have been typically surpassing the target. However, given the likely drought in current year and farm loan waivers in some states, we believe agri NPAs pose bigger risk. PSU banks generally tend to take the burden of meeting agri loan targets and in the process suffer on NPA front as well.
- SUUTI holds stake in Axis Bank, which could be sold in the secondary market and thus impact the stock performance.
- Fiscal prudence – Could soften/stabilise G-sec yields and thus provide relief for banks, particularly PSU banks.

Key Winners/Losers (Cos)

Winners – Consolidation Proposal (IDBI, Vijaya, Andhra, BOM, Corporation and United), FDI hike in Insurance (ICICI, SBI, PNB, Kotak, Canara, OBC), PSU Capitalisation (ALBK, Union, OB, UNTDB, Punjab & Sind, BI, CBK, IDBI).

Cement

Impact: Positive

Budget proposals

- Excise duty rate maintained.
- Coal duty structure has been rationalised to 2.5% basic custom duty and at 2% CVD from various duty structures for different grades of coal.
- The clean energy cess levied on coal, peat and lignite has increased from Rs 50/tonne to Rs 100/tonne.
- Extension of investment allowance up to FY17.
- Increased allocation under various programmes.
- Thrust on development of smart city and affordable housing.
- Focus on development of new airports, ports, metro, road, industrial freight corridors and river linking projects.

Impact

- Rationalisation of duty structure on coal has neutral impact on cost structure of cement producers.
- Increase in clean energy cess would result into surge in cost of production by Rs 8/tonne (~1% of EBITDA/tonne).
- Extension of investment allowance up to FY17 would benefit the companies like UltraTech Cement, Shree Cement and The Ramco Cement.
- Increased allocation of Rs 144 bn for PMGSY, Rs 80 bn for NHB to support rural housing, development of smart city and affordable housing coupled with start of new various infrastructure projects would drive the cement demand. **All the companies in our cement universe would be beneficiary of improvement in demand.**

Key Winners

Our top picks are Shree Cement, India Cement and ACC.

Chemicals

Impact: Positive

Budget proposals

- Allocation of Rs 2 bn to set up six more textile mega-clusters at Bareilly, Lucknow, Surat, Kutch, Bhagalpur, Mysore and one in Tamil Nadu.
- In order to encourage new investment and capacity addition in the chemicals and petrochemicals sector, Budget proposed to reduce basic customs duty on reformat from 10% to 2.5%; on ethane, propane, ethylene, propylene, butadiene and ortho-xylene from 5% to 2.5%; on methyl alcohol and denatured ethyl alcohol from 7.5% to 5%; and on crude naphthalene from 10% to 5%.
- Basic Customs Duty on fatty acids, crude palm stearin, RBD and specified industrial grade crude oil is being reduced from 7.5% to Nil for manufacture of soaps and oleo-chemicals.

Impact

- Positive for companies manufacturing dyes and dyes stuff as textile industry is the major consumer.
- Positive for chemical companies as these are the basic ingredients for raw materials. Most of the companies are dependent on imports for raw material requirement. Imports for most of the companies ranges from 34-45% of raw materials. Therefore, the cut is expected to lower the raw material costs.
- To improve availability and sourcing of raw materials.

Key Winners

Atul Ltd., Aarti Industries, BASF India, SRF and Adi Fine Chem.

Conglomerates

Impact: Positive

Budget proposals

- Allocations towards education programs like Sarva Shiksha Abhiyaan (Rs 286.35 bn) and Rashtriya Madhyamik Shiksha Abhiyan (Rs 49.66 bn).
- Low cost affordable housing promoted through Rs 40 bn allocation to National Housing Bank (NHB) in FY15. Additional Rs 80 bn allocated to NHB to support rural housing.

Impact

- Increased spending on housing and education programmes indirectly benefits infrastructure companies.

Key Winners/Losers (Cos)

Sintex Industries Ltd.

Engineering & Capital Goods

Impact: Positive

Budget proposals

- 10-year tax holiday under 80-I(A) for power utilities extended by three years up to 31/03/17.
- Composite cap of FDI in defence raised to 49% (from 26%) with full Indian management control through FIPB route. +20% YoY increase in defence capex to Rs 946 bn (+Rs 50 bn over the interim budget, includes Rs 10 bn for rail infra along border).
- Increase warehousing capacity and infrastructure with allocation of Rs 50 bn.
- Power T&D: New feeder separation scheme with initial corpus of Rs 5 bn under DDUGJY, Rs 49 bn for RGGVY and Rs 12.6 bn for R-APDRP, Green Energy corridor for power evacuation.
- Renewable energy – Rs 5 bn provided for solar UMPPs in five states, Rs 4 bn for solar powered agri pumpsets, reduction in customs and excise duty for key raw materials of solar and wind equipments.
- Gas pipeline grid covering about 15,000 km to be done, preferably through PPP route.
- Urban Infra: GoI to support light rail systems in towns via VGF. Lucknow and Ahmedabad Metro rail to get initial support of Rs 1 bn in FY15. Rs 70.6 bn provided for developing smart cities.
- Road projects: Rs 378.8 bn capex for NHAI and State highways (8,500 km targeted construction) and Rs 5 bn for DPR for expressways along industrial corridors.
- Assured irrigation: Rs 10 bn provided under PMKSY.

Impact

- Focus on T&D reforms, extended fiscal benefit to power utilities and increase in corpus will add to T&D investments.
- FDI in defence up to 49% positive for private sector players like L&T, Ashok Leyland, Tata's and M&M. Neutral for defence incumbents. However, increase in defence capex and streamlining the procurement system will improve project execution and accelerate delayed order pipeline.
- Thrust on infra projects will accelerate project awards, drive construction activities and demand for infra and capital goods.
- Increase in allocation for renewable (especially solar) will accelerate EPC project awards. In addition, reduction in custom and excise duty favors domestic manufacturing by lowering material costs of these equipments and components for solar and wind industry.

Despite budgetary constraints, by increasing capex for key sectors and laying the roadmap for large mega infra projects, an attempt has been made to highlight the focus on growth and capacity creation, thereby strengthening investment visibility for medium to long-term growth drivers of capital goods companies. With the intentions to attract large multilateral international funding to fuel growth, efforts are firm on improving the efficiency in capacity creation and project implementation. With +11% YoY power sector (Rs 604 bn) and +20% YoY defence (Rs 946 bn) capex outlay, we believe near term growth trajectory will be led by Power T&D, Defence, Renewable and Infra.

Top picks: L&T, Voltas, Alstom T&D, Kalpataru Power.

FMCG

Impact: Neutral

Budget proposals

- Excise duty on cigarettes increased by 11-72%. Excise increase is 72% on filter cigarettes below 65 mm, 17% on filter cigarettes exceeding 65 mm but not exceeding 70 mm, 11% on filter cigarettes exceeding 70 mm but not exceeding 75 mm and 21% on filter cigarettes exceeding 75 mm but not exceeding 85 mm and other cigarettes.
- Customs duty on crude glycerin used in the manufacture of soaps reduced from 12.5% to Nil; and on fatty acids, RBD and other palm stearin, specified industrial grade crude oils from 7.5% to Nil.
- Continued support to rural schemes, mainly MGNREGA, with increase in allocation from Rs 330 bn to Rs 340 bn.
- Increase in personal income tax exemption limit by Rs 50,000, from Rs 0.2 mn to Rs 0.25 mn for individual taxpayers, below 60 years, and from Rs 0.25 mn to Rs 3 mn for senior citizens.
- Increase in the rate of tax on long-term capital gains from 10% to 20% on transfer of mutual fund units, excluding equity oriented funds, and increase in the period of holding in respect of such units from 12 months to 36 months for this purpose.

Impact

- Average excise increase for ITC's portfolio is 22%, which is lower than market expectation of a steep excise increase. We believe ITC can maintain 18%+ EBIT growth, with an average 18% price increase and a 3-4% volume decline.
- Reduction in excise duty on inputs for soap manufacturing will help in reducing cost pressure and aid margin expansion for soap manufacturers. Soaps contribute 20% to sales of Hindustan Unilever and 18% of Godrej Consumer.
- Increase in the rate of tax on long-term capital gains and period of holding of mutual fund units, excluding equity oriented funds, would reduce interest income to companies from these units, as debt mutual fund units form a major part of most companies liquid investments.
- Increase in income tax exemptions and continued support towards rural schemes will be marginally positive, increasing disposable income and driving consumptions spends.

Key Winners/Losers (Cos)

Positive for ITC, as excise hike though at 22% is below market expectations and can be passed through to consumers, thereby maintaining its earnings growth.

Hindustan Unilever and Godrej Consumer will be key beneficiaries of reduction in duties on inputs for manufacturing for soaps.

Healthcare

Impact: Neutral

Budget proposals

- Proposed 12 more government medical colleges apart from 58 approved government medical colleges.
- The facility of Electronic Travel Authorization (e-Visa) would be introduced in a phased manner at nine airports in India where necessary infrastructure would be put in place within the next six months.

Impact

- India having only 6.5 physicians per 10,000 populations against world average of 14.2, thus, with the opening of more medical colleges the gap will minimise and help hospital companies in their expansion plans.
- The government recently approved the extension of visa-on-arrival scheme to 180 countries (as against 11 earlier). In addition, the E-Visa facility announced in the Budget would enable medical tourists to plan visits swiftly to the selected urban centres in India for their treatment.
- No infrastructure status is granted to the industry, is expected to continue the poor condition of the sector. However, increase in proposed fund allocation to the industry through various schemes is positive for the sector.

Key Winners (Cos)

No material impact for hospital companies from budget. However, with the e-visa/more visa on arrivals, would boost medical tourism. Apollo hospitals and Fortis Healthcare accounts ~10% of hospital revenues from foreign patients.

Information Technology

Impact: Neutral

Budget proposals

- 5 more IIT's to be set-up in Jammu & Kashmir, Chhattisgarh, Goa, Andhra Pradesh and Kerala.
- Facilitating and incentivizing software product start-ups by allotting Rs 5 bn.
- E-governance measure for the delivery of services.
- Incentives for domestic manufacturing of telecom, electronic and IT hardware equipments.
- Focus on job creation through IT hardware manufacturing and changes in apprenticeship act.
- In case of Mutual funds – increase of a) long-term capital gain tax rate from 10% to 20% and b) holding period from 12 months to 36 months.

Impact

- Set-up of IIT's is a step in direction to bridge talent gap in terms of quality and quantity for IT sector. Impact to be marginal and long-term.
- Software product start-ups won't have any impact on listed players.
- E-governance measure may result in government projects for the IT services companies like Mindtree, NIIT Technologies, MphasiS, Tata Consultancy Services, Wipro, etc. However, it is important to note that companies like MphasiS, NIIT Technologies, etc. are ramping down exposure to Government's businesses due to receivables issues.
- Incentives on telecom, electronic and IT hardware equipments won't have any impact on IT services companies. It will benefit on the margins from local design and development work in the long-term only – beneficiaries would be Persistent Systems, Mindtree, KPIT Technologies and Geometric.
- Focus on job creation will have positive impact on job market – beneficiaries would be Info Edge.
- Marginal negative impact on IT companies as have more proportion of liquid investments.

Key Winners/Losers (Cos)

We do not see any major beneficiary to be specifically called out.

Infrastructure

Impact: Positive

Budget proposals

- **Encourage banks to extend long term funding:** Banks to be permitted to raise long-term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and PSL.
- **Incentivised withholding tax structure:** In order to incentivise low cost long-term borrowings by Indian corporate from a source outside India, benefits of concessional rate of withholding tax (5%) is proposed to be extended by two years for borrowings made in any long-term bond (not limited to a long-term infrastructure bond).
- **Thrust on road infrastructure development:** Proposed budgetary allocation of ~Rs 379 bn for National and State highways. Out of the total allocation, ~8% i.e. Rs 30 bn is allocated for development of roads in North East India. Road construction target pegged at ~8,500 kms for FY15. Budgetary allocation of ~Rs 144 bn under Pradhan Mantri Gram Sadak Yojna (PMGSY).
- **New airports proposed:** Scheme for development of new airports in Tier-I and Tier-II cities through Airport Authority of India (AAI) or PPP model.
- **Create urban infrastructure:** Proposed a budgetary provision of ~Rs 71 bn for developing “One hundred Smart cities”. Proposed urban metro projects in cities with population in excess of 2 mn - to begin with an allocation of ~Rs 1 bn for Metro projects in Lucknow and Ahmedabad. Planned to set up National Industrial Corridor with an initial corpus of ~Rs 1 bn. Various Industrial corridors also planned.
- **Launched irrigation scheme:** Proposed to allocate Rs 10 bn for Pradhan Mantri Krishi Sinchayee Yojana (PMKSY).
- **New ports planned:** Proposed development of 16 new port projects with a focus on port connectivity.
- **Tax holiday extended for Power:** Proposed to extend 10 year tax holiday under section 80IA of Income Tax Act to undertakings which begin generation, transmission and distribution of power by 31 March 2017.
- **Solar projects:** Proposed a budgetary allocation of Rs 5 bn for Ultra Mega Solar Power Projects to be taken up in Rajasthan, Gujarat, Tamil Nadu and Laddakh. Also, full exemption from excise duty is being granted in respect of machinery, equipments, etc required for setting up of solar energy production projects.
- **Others:** a) Additional 15,000 kms of gas pipeline to be developed through PPP, b) road construction machinery imported duty free can be sold within 5 years of importation subject to payment of customs duty on depreciated value, c) requirement of certification by Ministry of Road Transport (or NHAI) for availing of customs duty exemption on goods required for construction of roads proposed to be done away with, d) raised corpus of Rural Infrastructure Development Fund (RIDF) by ~Rs 50 bn to ~Rs 250 bn for FY15 and e) concerned state governments to be notified as sponsoring authority for Metro Rail Projects.

Impact

- **Encouraging private sector participation:** Lack of availability of long-term funding had long been a major constraint for private sector's participation in long gestation infrastructure projects. Improved funding scenario would help revive PPP model in infrastructure sector. Also, with lower withholding tax, Indian debt is likely to appear attractive to foreign investors.
- **Increased opportunities for EPC and BOT players:** Budgetary allocation/proposed plans for road projects, airport development, metros, industrial corridors, irrigation, gas pipeline, renewable energy and “smart cities” would throw open variety of business opportunities for construction players. Intent to evolve the PPP framework, we believe, is a step in the right direction. This would help to provide much needed boost to the sector.
- **Revival in sight:** Greater emphasis on completion of stuck/delayed projects appears to be a prudent decision. Recently elected NDA government clearly identifies faster clearances and decision-making as the need of hour which is likely to bring back the buoyancy in the sector.

Key Winners (Cos)

IRB Infrastructure, Sadbhav Engineering, Ashoka Buildcon and KNR Constructions.

Logistics & Shipping

Impact: Neutral

Budget proposals

- Commitment to implement GST, however, jurisdiction and CST compensation for the states remain the key pending issues.
- Revival of Special Economic Zones (SEZ).
- Rs 50 bn to increase the warehousing capacity.
- Increase in Indian controlled tonnage.
- 16 new port projects proposed to be awarded in FY15.
- Rs 116.35 bn allocated for development of existing ports and harbours.
- Rs 1 bn provided for Detailed Project Reports for linking of rivers.
- Development of inland waterways to be promoted by developing a project on Ganges between Allahabad and Haldia.

Impact

- GST – Merging of various taxes into a single tax structure, consolidation of warehouses and transition from unorganised to organised sector.
- We believe SEZ revival could increase investor's interest to develop better infrastructure and to effectively and efficiently use the available unutilised land.
- The government's thrust to increase the warehousing capacity would lower the wastage in fruits and vegetables which was pegged at Rs 700 bn. Companies involved in cold-chain business like Gateway Distriparks could benefit from investments in warehousing sector.
- We believe investment in new port projects would be on PPP mode and thus companies like Adani Port which has targeted to achieve capacity of 200 mn tonnes by 2020 could partner such investments
- River linking involves dredging activity which could benefit dredging companies and development of inland waterways would improve capacity for transportation of goods within the country.

Key Winners/Losers

- Introduction of GST would be beneficial for the entire logistics sector.
- Revival in SEZ and investment in new port projects would be beneficial for APSEZ.
- Increase in warehousing capacity could benefit Gateway Distriparks, CONCOR and Allcargo Logistics.
- River linking and increase in transportation capacity via development of inland waterways would be long-term positive for companies present in dredging and inland waterway transportation like Dredging Corporation of India and Transport Corporation of India, respectively.

Media & Entertainment

Impact: Neutral

Budget proposals

- Customs duty on flat panel TV (LEDs/LCDs) smaller than 19” and CRT TVs to be reduced from 10% to nil.
- Sale of advertisement space on internet and mobiles to come under service tax ambit.
- Education cess of 3% imposed on imported electronic products.
- Rs 5 bn set aside for national rural internet and technology Mission.
- Union Budget proposes to allocate Rs 1 bn for Community radio stations.

Impact

- Customs duty cut on TVs would indirectly benefit MSOs and DTH companies, due to expected boost to TV penetration in low-income markets. Marginally positive for Dish TV (could benefit most owing to high exposure to low income market). Marginally positive for Dish TV (could benefit most owing to high exposure to low income market).
- Bringing advertising on internet and mobiles under service tax net could tilt the balance away from digital media and in favour of conventional media (especially print, radio).
- Education cess on imported electronic goods would raise prices of products used in media consumption (TVs, mobiles, computers, STBs). This is marginally negative for DTH companies, MSOs.
- National rural internet and technology Mission could help increase reach and consumption of media in rural markets in the long-term.

Key Winners/Losers (Cos)

Overall budget was largely neutral for media & entertainment sector. While commitment to GST implementation could be sentimentally positive, lack of firm time-line in the budget speech is a letdown for film and TV companies, in our view. We believe the budget proposals have no major affect (either positive or negative) on media companies.

Metals and Mining

Impact: Positive

Budget proposals

Pipe sector

- Emphasis made on inland water transportation, linking of rivers, potable and sewage water pipeline project, etc. The corpus of Pooled Municipal Debt Obligation Facility has been enhanced by 10x to Rs 500 bn to focus on providing infrastructure, transport, waste disposal, sewerage treatment and drinking water in the urban areas.
- Accelerating the work on the gas grid pipeline of 15,000 kms using PPP model.

Metals and Mining sector

- Extended investment linked deduction to slurry pipelines for the transportation of iron ore (for projects commencing operations after 01 April 2014).
- The export duty on bauxite has been increased from 10% to 20%.
- Royalty rates to be reviewed on minerals to provide better revenue sharing to the State governments.
- To encourage mining in iron ore, faster clearances would be incorporated. This could also involve changes in the MMDR Bill.
- The import duty on stainless steel has been increased from 5.0% to 7.5% (flat rolled products).
- Basic customs duty on metallurgical coke is increased from Nil to 2.5%.
- Excise duty on winding wires of copper is being increased from 10% to 12%.
- Excise duty is being reduced from 12% to Nil on forged steel rings used in the manufacturing of bearings of wind farms.

Power sector

- Tax holiday extended from March 2014 to March 2017 for the power plants commissioning during this period (sunset clause).
- Custom duty on steam coal and bituminous coal is increased from 2.0% to 2.5%.
- The rate of Clean Energy Cess levied on coal, lignite and peat is being increased from Rs 50 per tonne to Rs 100 per tonne.
- Adequate quantity of coal will be provided to power plants which are already commissioned or would be commissioning by March 2015.

Impact

Pipe: Increasing efforts to provide water for irrigation, for drinking and improving sewage system would result in substantial DI and large diameter pipe (HSAW) demand in water segment. Constructing a pan-India gas grid would also provide good opportunities to welded pipe producers.

Metals & Mining: Increased duties on bauxite will benefit domestic aluminum manufacturers (better alumina price and ore availability). Faster clearances/grievance redressal for mining projects, increased duty on stainless steel (flat rolled products), higher excise on copper wire and investment linked deductions are positives for the sector. However, increased duty on metallurgical coke and indications of revising royalty upward are negatives.

Power: Metal companies having interest in power segment also stands to benefit from proposed extension of sunset clause. This would help to boost the investment cycle in the sector. Increased custom duty on imported coal and higher clean energy cess are marginally negative for the sector.

Key Winners/Losers (Cos)

Pipe companies (Winners) – Jindal SAW and Welspun Corp.

Metals & Mining – Most metal companies would benefit. No single winner or loser.

NBFC

Impact: Positive

Budget proposals

- To augment long-term financing for infrastructure and increase private sector participation, banks will be allowed to raise long-term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL).
- Housing for all by 2022; increase in tax exemption limit on interest on housing loan for self occupied house property from Rs 150,000 to Rs 200,000.
- Rs 40 bn allocated for Mission on Low Cost Affordable Housing to be implemented through NHB (extending cheaper loans for affordable housing to urban poor/EWS/LIG).
- Removal of tax arbitrage between debt mutual funds and bank deposits by i) increasing the long-term capital gains tax from 10% to 20% on such instruments and ii) increasing the holding period in such instruments from 12 to 36 months for exemption from short term capital gains tax.
- RBI to create framework for licencing small banks and other differentiated banks (local area banks, payment banks, etc.) to meet credit and remittance needs of small businesses, unorganised sector, low income households, farmers and migrant work force.
- Adequate quantity of coal will be provided to power plants which are already commissioned or would be commissioned by March 2015.

Impact

- Allowing banks to raise long term bonds for infra financing and exempting them CRR, SLR, PSL requirements is a big positive for IDFC as it transitions into a bank. Although, clarity is awaited on whether the exemption will be available on the extant book or on incremental book only and the quantum of minimum regulatory requirement. Even if allowed on incremental basis only, it allows IDFC to grow the infra portfolio (core strength) while transitioning to a bank which otherwise it was expected to run-down to become PSL complaint. The growth will now be higher and the dilution in RoA/RoE will be limited, which otherwise would be significant (~4-5%) due to the regulatory requirements on its large balance sheet.
- Increase in tax incentives will boost demand for houses; positive for housing finance companies.
- Removal of tax arbitrage could significantly affect the AUMs of debt funds (mainly FMPs) and in turn affect the NBFCs who borrow from such funds. Although, debt issuances of major NBFCs are through longer tenure paper (three-five years) and hence this change should not affect them in a major way.
- On tap banking; opportunity for those NBFCs who wants to convert to a bank.
- Ensuring fuel availability to power plants will significantly reduce the uncertainty of defaults and improve asset quality for infra financiers; positive for RECL, POWF, IDFC.

Key Winners

IDFC, HDFC, LICHE, RECL, POWF

Oil & Gas

Impact: Neutral

Budget proposals

- The fuel subsidy allocation is at Rs 634 bn in FY15 of which the carried forward amount is ~Rs 300 bn from FY14 which leaves Rs 330 bn for FY15.
- Overhauling of fuel subsidies.
- The usage of PNG will be rapidly scaled up as a clean and efficient fuel.
- Proposal to Augment Gas Pipeline network in the country from current 15,000 kms to 30,000 kms through PPP mode.
- Reduction in custom duties for petrochemicals.
- Excise duty on branded petrol reduced from Rs 7.50 per litre to Rs 2.35 per litre.
- Focus on CBM Policy.
- Introduction of NIL custom duty on R-LNG used for re-exports.

Impact

- In FY15, we expect gross under-recoveries at Rs 1,187 bn as against Rs 1,398 bn in FY14. Of the gross under-recoveries, we expect ~Rs 645 bn would be shared by upstream which means ~Rs 540 bn would be shared by government translating into additional allocation of Rs 220 bn which is far lower compared to previous years. Remain positive on OMCs as we expect government share to fall significantly in FY16 which would free-up working capital requirements for OMCs.
- Focus on PNG augurs well for the CGD companies (including IGL and Gujarat Gas) as the CGD market in India is largely unexplored and has huge growth potential.
- Gas pipeline augmentation is a positive for the sector as whole; however, the direct beneficiaries would be the transmission companies (GAIL and GSPL).
- Reduction in custom duties on petrochemicals is marginally positive for RIL as it is a net importer of chemicals proposed for duty revision excluding Butadiene.
- Reduction in excise duty of branded petrol would be marginally positive for OMCs given its small share in overall marketing slate.
- NIL custom duty will make R-LNG more affordable for re-exports to Pakistan benefiting GAIL.

Key Winners/Losers (Cos)

Winners – RIL, ONGC, OIL, IGL, GGAS, GAIL, GSPL (Though the positive impact is just marginal).

Paints

Impact: Positive

Budget proposals

- Budgetary allocation of Rs 70 bn for setting up 100 smart cities by creating new satellite towns of larger cities and by modernising the existing mid-sized cities.
- Proposed measures to push affordable housing segment, allocated ~Rs 40 bn to promote affordable housing. Scheme to be implemented through NHB.
- Emphasis on improvement in the sanitation through “Swachh Bharat Abhiyan” which would cover every household with sanitation facility by the year 2019.
- GST implementation is proposed by 2014-15, however, jurisdiction and CST compensation for the states remain the key pending issues for GST implementation.

Impact

- These proposals augur well for long-term prospects for Paint industry as it would generate painting and repainting demand.
- Emphasis on sanitation is expected to drive focus on Home Décor which would be beneficial for Asian Paints in the long run.

Key Winners

Asian Paints and Berger Paints.

Pharmaceutical

Impact: Neutral

Budget proposals

- Two key initiatives towards “Health for All” i.e. Free Drug Service & Free Diagnosis service to be taken up on priority.
- Create new drug testing labs and strengthen existing Drug & Food Regulatory Systems in states.
- 15 Model Rural Health Research Centre to be set-up in states – focus on Rural Health issues.
- Service tax exemptions withdrawn for technical testing of newly developed drugs on human participants.
- Development of biotech clusters in Faridabad and Bengaluru to be scaled up and taken to highest international quality. Effort to include global partnerships in accessing model-organism resources for disease biology, stem cell biology and high-end electron microscopy.
- HIV/AIDS drugs and diagnostic kits imported under National AIDS Control Program (NACP) funded by ‘Global Fund to Fight AIDS, TB and Malaria (GFATM)’ have been fully exempted from the customs duty as well as the excise duty bracket.

Impact

- Most of the proposals are aimed at improving access to healthcare facilities for a large part of the population (especially rural areas). Government’s proposal to initiate “Health for All” is a welcome step to provide drugs and diagnosis services to the under-privileged.
- New drug testing labs and strengthening regulatory systems is positive step in improving quality compliance in the sector.
- Withdrawal of service tax exemptions on clinical trials related to new drug development could be a little dampener for all Indian pharma companies and service providers like Suven Life Science, Vimta Labs and Clinigene/Syngene (Biocon’s subsidiary).
- Exemption of HIV drugs supplied under National AIDS Control Programme from excise and custom duty bracket is mildly positive for Cipla considering its strong presence in anti-retrovirals and it is also a supplier of drugs to Global Fund.
- We do not expect any impact (neutral) from the above proposals on Indian pharma companies.

Winners/Losers

No direct beneficiary from these measures. Mildly positive for Cipla. Marginally negative for Indian pharma companies regarding withdrawal of service tax exemptions on clinical trials related to new drug development.

Following is the allocation of budget for the healthcare sector in the Union Budget 2014-15.

Ministry of Health and Family Welfare

Department wise allocation (Rs bn)	FY14		FY15E Allocated	(%) Change from	
	Allocated	Revised		Allocated FY14	Revised FY14
Department of Health and Family Welfare	332.8	275.3	351.6	5.7	27.7
Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy (AYUSH)	12.6	9.4	12.7	1.0	35.9
Department of Health Research	10.1	8.8	10.2	1.0	15.6
Department of AIDS Control	17.9	15.0	17.9	–	19.0
Total	373.3	308.5	392.4	5.1	27.2

Power Utilities & Coal

Impact: Positive

Budget proposals

Generation

- The government intends to undertake measures that would allow banks to increase lending to infra sector.
- The 10-year tax holiday under 80-I(A) for generation companies has been extended by three years up to March 2017.
- The budget highlighted rationalising coal linkages and setting up of coal washeries to improve quality of coal. Also budget emphasised on providing coal linkage to projects commissioned till March 2015.
- With focus on renewable energy, the budget allotted Rs 5 bn for setting up ultra modern solar power project. Also Rs 1 bn has been allotted to undertake study for ultra modern super-critical technology

Transmission and Distribution

- The budget has emphasised on expediting the green energy corridor.
- The budget has allocated Rs 2 bn to Delhi to undertake power sector reforms.
- Rs 12.6 bn for APDRP and Rs 51 bn for RGGVY has been allocated.
- FY15 budget allotted Rs 5 bn for feeder separation and strengthening of T&D to achieve the goal of 24x7 electricity.

Coal

- The clean energy cess has been increased from Rs 50/tonne to Rs 100/tonne.
- The government would undertake amendment to MMDR act and undertake revision of royalty on minerals which would lead to higher revenue to state government.
- Concessional rate of 15% on dividend from foreign subsidiaries is maintained similar to previous year.
- Uniform import duty would be imposed on all grades of coal comprising 2.5% custom duty and 2% CVD. The custom duty has increased from 2% to 2.5%.

Impact

- Speedier execution of green energy corridor would be positive for PWGR and also aid evacuation of renewable energy.
- The increase in clean energy cess from Rs 50/tonne to Rs 100/tonne will mainly increase the variable cost by 3% (Re 0.03/kwh) from domestic coal and 0.5% (Re 0.01/kwh) from imported coal. This will be a pass-through in the change in law clause of the PPA and will marginally impact the merchant power prices.
- The increase in tax holiday would be positive for all generation companies. Under our coverage universe in 12th plan NTPC, Adani Power, CESC, JPVL, NHPC and PWGR are expected to add capacity in 12th plan. Also emphasis on improving coal availability would be positive for all utilities.
- Increase in custom duty on imported coal would be mildly negative for IPP's with merchant capacity.
- Revision of royalty on metals will be negative for merchant players. The amendment to MMDR act would be positive step towards ensuring clarity.
- Increase in allocation to APDRP and RGGVY will give boost to electrification process and also improve demand.

Key Winners: Power Grid and Tata Power.

Key Losers: JSW Energy and Adani Power.

Real Estate

Impact: Marginally Positive

Budget proposals

- **Proposed to ease FDI norms:** Area requirement for construction development projects brought down to 20k sq mt from earlier 50k sq mt. Minimum capitalisation norm for wholly owned subsidiaries (WOS) proposed to be eased to US\$ 5 mn from US\$ 10 mn earlier. Additionally, projects which commit 30% of the total cost for low cost housing not required to comply with the FDI norms.
- **Tax pass through status to REITs:** Proposed to accord complete tax pass through status to Real Estate Investment Trusts (REITs).
- **Tax benefits on re-investment of capital gains on sale of residential unit:** Benefit of re-investment in a residential house is proposed to be restricted only to acquisition of one residential house situated in India.
- **Thrust on affordable housing/rural housing:** In addition to benign FDI norms, proposed a budgetary allocation of Rs 40 bn for development of low cost affordable housing. Also, proposed allocation of Rs 80 bn to support rural housing. Both the schemes to be implemented through National Housing Bank (NHB).
- **Urbanisation:** Budgetary allocation of ~Rs 71 bn for the project of developing “one hundred Smart Cities”.
- **Special Economic Zones:** Procedural simplification related to Central Excise and Service tax.
- **Other proposals:** a) Proposed to increase the tax break on home loan from current Rs 150k to Rs 200k, b) tax exempted limit of income proposed to be raised by Rs 50k to Rs 250k for individuals up to 60 years of age and Rs 300k for senior citizens, c) tax exemption limit under section 80C raised by Rs 50k to Rs 150k and d) proposed to include slum development in the list of activities permitted under Corporate Social Responsibility (CSR).

Impact

- **Proposed to ease FDI norms:** It holds potential to ease liquidity pressure for this beleaguered sector. Proposed changes could make investment appear more attractive to foreign investors willing to invest in Indian Real Estate. Lowered area requirement would mean even smaller projects (generally taken up by small developers) become eligible to receive foreign equity funding.
- **Tax pass through status to REITs:** A step in right direction as proposed amendments endeavour to clarify on the income tax treatment of REITs. However, proposed amendment (deferred capital gains tax and removal of double DDT) does not appear to be enticing enough (income at SPV level taxable and dividend by SPV to the Trust to also attract DDT). Await some more clarity on taxation treatment especially in cases if assets are owned by LLP or a partnership firm.
- **Tax benefits on re-investment of capital gains on sale of residential unit:** Proposal seems to be aimed at curbing speculative activity and encourage up-trading. If capital gains from sale of an existing residential property utilised to buy multiple houses, exemption proposed to be available only for one house that too should be situated in India.
- **Thrust on affordable housing/rural housing:** Currently, no developer from listed space operates in the segment in true sense. The move seems to be aimed at attracting developers to take up projects in this segment and make election agenda of “housing for all” a reality.
- **Thrust on urbanisation:** To achieve targeted development of “one hundred Smart Cities”, private sector would need to participate. This, in effect, means increased business opportunity for developers with financing and execution capabilities.
- **Special Economic Zones:** Mere procedural simplification is unlikely to bolster demand for space in SEZs. Sustained economic revival and fiscal benefit, we believe, remain critical for any meaningful change in demand dynamics for SEZs.
- **Other proposals:** Proposed tax breaks and higher disposable income in the hands of end-users could come to encourage individuals to own a home of their own. Await clarity on whether slum development includes slum rehabilitation. If includes, companies like HDIL and Hubtown would emerge as the indirect beneficiaries (as corporates could hire them to execute projects).

Key Winners (Cos)

Prestige Estates Projects, The Phoenix Mills, DLF and Brigade Enterprises.

Telecom

Impact: Neutral

Budget proposals

- Total inflow from communications services is pegged at ~Rs 454 bn (against ~Rs 408 bn budgeted for FY14). This includes one-time charges, Licence & Spectrum fees and proceeds from spectrum auction. Licence fees and spectrum usage charges receipts would be somewhere ~Rs 200 to ~Rs 210 bn for FY15E from back of the envelop calculations. Assuming inflow from the spectrum auction in the range of ~Rs 100 bn to ~Rs 120 bn (upfront payment), Government is expecting to collect rest of the amount from one-time charges. One-time charges are already in litigation, hence inflow of ~Rs 454 bn looks like an aggressive assumption in our view, if all other receipts came in as per our assessment.
- Custom duty on certain telecom products that are outside purview of information technology agreement has been increased from NIL to 10%.
- Excise duties on mobile phones to be 1% without CENVAT credit or 6% with CENVAT credit.
- Pan-India programme 'Digital India' to ensure broadband connectivity at village level.

Impact

- Increase in customs duty on telecom products may marginally increase certain network related costs, but no major impact here.
- No direct impact on the sector for excise duties on mobile phones.
- Data market growth is expected to accelerate with higher broadband penetration.

Key Winners/Losers (Cos)

- Acceleration of data market growth would benefit Bharti, Idea, Tata Communications, Reliance Jio, Reliance Communications and Bharti Infratel.
- Increase in customs duty on certain telecom products is marginally negative for Bharti, Idea and Reliance Communications.
- Overall, the budget has neutral impact on telecom sector.

Textile

Impact: Neutral

Budget proposals

- Rs 2 bn to set up 6 textile mega clusters in Bareilly, Surat, Kutch, Bhagalpur, Mysore and one in Tamil Nadu.
- Service tax on loading, unloading, warehousing and transportation of cotton (ginned or baled) is being exempted to bring it on par with certain other agricultural produce.

Impact

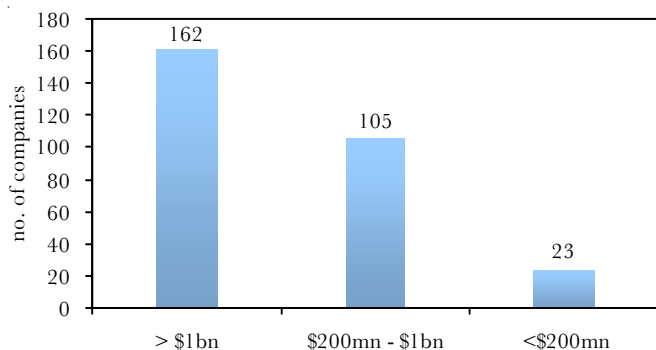
- No significant impact expected on the textile sector as the Rs 2 bn investment will be largely focused on the handloom space. This market is largely unorganized and highly fragmented.

Key Winners/Losers (Cos)

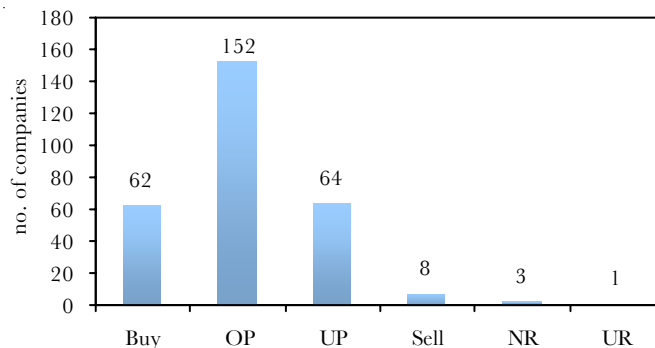
N/A

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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B&K Investment Ratings

- | | | | |
|------------------------------------|---------------------------|---------------------------------------|---------------------------|
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