Union Budget 2015-16

Mr Modi reiterates that it is a Marathon, not a 100 meter dash!

The Union Budget 2015-16 has picked up exactly from where the previous Budget left. The allocations for infrastructure and public investment leave no doubt about where the government's priorities lie. A roadmap for simplifying regulatory framework and reduction in the corporate tax rate are clearly intended as growth drivers.

Highlighting that manufacturing output and exports need thrust is heartening. Mending subsidy leakages, targeting higher proceeds from divestment, doing away with a variety of tax exemptions and clampdown on black money are commendable measures to raise resources.

The Government has rightly pushed back the time-line for achieving the 3% fiscal deficit target by a year in order to prioritise necessary expenditure. Higher allocation of Central proceeds to States will improve autonomy and flexibility of spending. Social objectives in the areas of housing, sanitation, employment generation and health insurance provide a good balance.

This Union Budget provides a clear roadmap for addressing the issues at hand. It takes the next bold step forward, to build the foundation for a sustainable 7%+ growth. We think the Budget is reassuring for long-term investors.

Our top picks are Larsen & Toubro, Sun Pharmaceuticals, Yes Bank, UltraTech Cement and Tech Mahindra.

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The Top Beneficiaries

Chemicals

Impact: Positive

Budget proposals

- Export duty on Ilmenite, upgraded (beneficiated Ilmenite including Ilmenite ground) is being reduced from 5% to 2.5%.
- Special Additional Duty (SAD) on Naphtha for use in manufacture of excisable goods are being reduced from 4% to 2%.
- Basic customs duty on liquefied Butanes is being reduced from 5% to 2.5%.
- Basic customs duty on Sulphuric Acid for the manufacture of fertilisers is being reduced from 7.5% to 5%.
- Basic customs duty on Isoprene is being reduced from 5% to 2.5%.
- Basic customs duty on Styrene, Ethylene Dichloride (EDC) and Vinyl Chloride Monomer (VCM) is being reduced from 2.5% to 2%.
- Special Additional Duty (SAD) on Styrene, Ethylene Dichloride (EDC) and Vinyl Chloride Monomer (VCM) for use in manufacture of excisable goods is being reduced from 4% to 2%.
- Basic customs duty on Anthraquinone is being reduced from 7.5% to 2.5%.
- Basic customs duty on Butyl Acrylate is being reduced from 7.5% to 5%.

Impact

- 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 35-45% of raw materials. Therefore, the cut is expected to lower the raw material costs.

Key Winners

Atul, Aarti Industries, BASF India, Pidilite, SRF.

Engineering and Capital Goods

Impact: Positive

Budget proposals

- Coal bearing **States will have access to higher funds for investments** (from auctioning proceeds) – 42% share of taxes to states – to help devolution to States (Rs 5,240 bn).
- **Ease of doing business:** Set up expert committee for draft legislation to reduce multiple prior permissions with regulatory guidelines.
- **Govt funded & PPP based thrust on infrastructure**: Sharp rise in GBS for road (+Rs 140 bn) and railways (+Rs 100 bn). Cumulative Rs 808 bn increase over FY15 to Rs 3,178 bn (versus Rs 700 bn rise in FY15 RE). (NIIF) Rs 200 bn contribution from GoI p.a. to be introduced while Tax-free bonds will be allowed for road, rail and irrigation. Conversion of existing excise duty on petrol and diesel to the extent of Rs 4/litre into Road Cess to fund investment.
- **Power reboot**: 5 UMPPS of 4 GW each are targeted on PPP model in the Plug-and-Play mode to unlock Rs 1,000 bn investments. Other infra sectors to follow PPP route. Rs 45 bn corpus under DDUGJY (incl. RE).
- **Urban Infra gets impetus with smart cities, metro rails**: With a +15% increase in outlay by MoUD, at Rs 132 bn, equity contributions for metro rail projects are likely to see a 2.5x jump at Rs 84 bn versus FY15 BE while Urban rejuvenation mission (smart cities) attracted Rs 60 bn corpus.
- **DMIC sees acceleration**: Grants for DMIC increased by 74%, at Rs 12 bn to start with for basic infra works at Ahmedabad-Dhaulera Investment region and Shendra-Bidkin Industrial Park (Aurangabad). Rs 3.1 bn corpus for Make in India/investment promotion. Regulation likely by March 2015 for GIFT.
- **+15% increase in Defence capital outlay** versus RE at Rs 946 bn. Made in India and the Buy & Make in India policy pursued in the area of defence equipment including aircraft.
- Correction in inverted duty structure for Capital Goods by reduction in BCD & SAD reduction in various raw materials / intermediates.
- MNRE targets **aggressive renewable capacity addition** till 2022 – 175 GW [solar – 100 GW, 60 GW wind, 10 GW biomass and 5 GW for small hydro]**.** Clean energy cess doubled to Rs 200/metric tonne of coal to finance clean environment initiatives.
- Pradhan Mantri Krishi Sinchai Yojana – Rs 563 bn (Micro Irrigation, watershed development).
- Jump in number of Hospitals (AIIMs) & education institutions (IIT & IIMs).
- Significant scale up in Disinvestments – loss making units and Strategic units (BHEL, HAL IPO).
- **Benefits for new manufacturing units/capex:** Additional investment allowances (@ 15%) & depreciation benefits (@35%) for New manufacturing units set up in backward areas of Andhra Pradesh and Telangana during FY16-20. For P&M installed or used < 6 months by power utility (Generation and T&D) – Balance of 50% of additional depreciation @ 20%.
- Clean Ganga – 100% deduction allowed to companies.
- SAD fully exempted on inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and lamps.

Impact

- Steady push seen in budgetary allocations, especially Infra allied sector [Rail, Road and Power]. Ease in bottlenecks on government projects will accelerate execution and stuck up project awards.
- State sector now to resume more significance in the investment cycle and will ease cash flows and help capture the gap in government sector funding from States.
- Urban infra, Rail and defence capex improves following Make in India theme, though no specific exports incentives announced.

- DMIC gets a kick start and so will smart cities, DFC already covered under Railway budget.
- Inverted duty structure (BCD & SAD) correction to support competitive cost manufacturing and ease working capital issues.
- Push on renewable (solar & wind) equipment manufacturing continues.
- Though increase in service tax is a pass-through for most segments, but on a project basis, it will hurt margins.

Top Picks: L&T, Kalpataru Power, Texmaco Rail, Praj.

Capital outlay

(Rs bn)	FY14	FY15BE	FY15RE	FY16BE	Growth versus RE (%)
Department					
DIPP	11.1	17	17	22.65	33
Telecom	165.6	135	217.7	228.8	5
Electronics & IT	25.4	38.6	29.2	34.6	18
Agri. Research & Education	24.5	37.15	25	36.9	48
Space	39.98	60	45	60	33
Fertilizer	7.8	6.2	3.5	5.6	60
Pharma.	0.68	2.07	0.87	2.1	141
Ministry					
Hsg. & Urban Poverty Allev.	127.8	152.8	122.9	157.9	28
Mines	13.8	23.8	10.4	22.13	113
Textile	31.3	43.26	30.69	35.23	15
Power	579.5	603.8	554.8	614	11
Road Transpt. & Highways	286.6	352.38	281.14	826.97	194
Science & Tech.	51	67.2	54.9	72.9	33
Shipping	41.7	45.4	26	45.4	75
Tourism	8.1	15.1	6	14.6	143
Urban development	91.3	134	114.4	131.9	15
Railways	520	639.5	643	983.6	53

Sector-wise outlay

(Rs bn)	FY14	FY15BE	FY15RE	FY16BE	Growth versus RE (%)
Transport	1,040	1,162	1,062	1,934	82.1
Science Tech. & Environ.	135	188	148	190	28.3

Major capex related programme

(Rs bn)	FY15BE	FY16BE	YoY (%)
NHAI incl. toll remittance	240.1	294.2	23
Spl Accl. Road Devl.	30.0	40.0	33
Power – DDUGJY	53.3	45.0	(16)
Grid interactive & Dist renewable	10.0	24.1	141
Metro rail	24.2	83.8	246
DMIC	6.9	12.0	74
Smart cities	70.6	60.0	(15)
Namami Ganga Yojana	15.0	21.0	40
Digital India – Umbrella programme	14.5	25.1	73
TUFS	23.0	15.2	(34)
Grid interactive power capex (MW)	3,770	4,460	18

Railway capex

(km)	FY15BE	FY16BE	YoY(%)
Track renewal	2,100	2,500	19
Electrification	1,300	1,600	23
Gauge conv.	450	500	11
New Lines	300	300	–
Doubling	700	1,000	43
Locos addition	625	636	2

Defence (Revenue expense + Capex)

(Rs bn)	FY15BE	FY16BE	YoY (%)
Army	926.7	1,041.6	12.4
Navy	139.8	155.3	11.1
Airforce	205.1	230.0	12.2
R & D	59.8	65.7	9.8
Ordnance factories	12.8	28.8	126.2
Revenue outlay	1,344.1	1,521.4	13.2
Capital outlay	945.9	945.9	0.0
Total outlay	2,289.98	2,467.25	7.7

Pharmaceuticals

Impact: Positive

Budget proposals

- Phased reduction of Corporate Income tax from 30% to 25% over the next four years.
- Full exemption from Excise & Customs duty for HIV/AIDS drugs and diagnostic kits imported under National AIDS Control Programme (NACP) funded by Global Fund to fight AIDS, TB & Malaria (GFATM).
- Plan outlay for 2015-16 for Medical & Public Health is pegged at Rs 245.5 bn.
- The total outlay for the Pharmaceuticals department is Rs 2.1 bn (Rs 680 mn and Rs 870 mn in FY14 and FY15E, respectively) of which Rs 990 mn has been allocated to NIPER, Rs 350 mn to Jan Aushadhi scheme and Rs 150 mn for new schemes including development of clusters. 3 new National Institute of Pharmaceuticals Education and Research (NIPER) to be set up in Maharashtra, Rajasthan and Chhattisgarh.
- Outlay for biotechnology department is proposed at Rs 16 bn (biotech clusters planned at Faridabad, Bengaluru and North East).
- Rate of income tax on royalty and fees for technical services has been reduced to 10% from 25% earlier.
- Two National Institutes of Ageing to be set up at AIIMS, New Delhi and Madras Medical College, Chennai. New AIIMS centres being set up in Jammu & Kashmir, Tamil Nadu, Karnataka, Himachal Pradesh, Bihar, Assam (provision of Rs 22.1 bn earmarked for this scheme, including upgradation of existing State Government Hospitals).
- Basic custom duty and countervailing duties exempted on life saving drugs (subject to certificate that needs to be obtained from requisite authority).

Impact

- Lowering of corporate tax rate would improve profitability of the pharma MNCs as they remain in the highest tax bracket (33-34%) and do not enjoy any tax exemptions.
- R&D deduction at 200% (in-house) continues subject to maintenance and audit of accounts as specified by the government.

Key Winners/Losers

- Postive for companies like Pfizer, GSK Pharma, Sanofi and Lupin who are in 30% plus tax bracket at present. Lowering of the tax rate would boost their profitability in future.
- NACP programme would benefit Cipla to some extent.

Top tax payers in the pharma space

Company	CY13/FY14 (Rs mn)		
	PBT	Tax	Tax rate (%)
Sanofi*	3,061	1,090	35.6
Pfizer	3,396	1,187	35.0
Lupin	28,317	9,622	34.0
GSK	7,293	2,274	31.2

*CY14 numbers

Budget 2015-16 – A clear roadmap

The budget's thrust is on infrastructure. Medium term fiscal consolidation path stays although it is deferred by a year to aid growth during the current fiscal, by spending on capital expenditure. Investors wanted a credible fiscal consolidation path, a shift from subsidies to capital spending and specifics on the government's structural reform agenda.

The budget scores high from a medium term perspective, as it is pro growth and although it may not be a dream budget, obviously curtailed by fiscal space, we think that it shows the government means business.

Key highlights

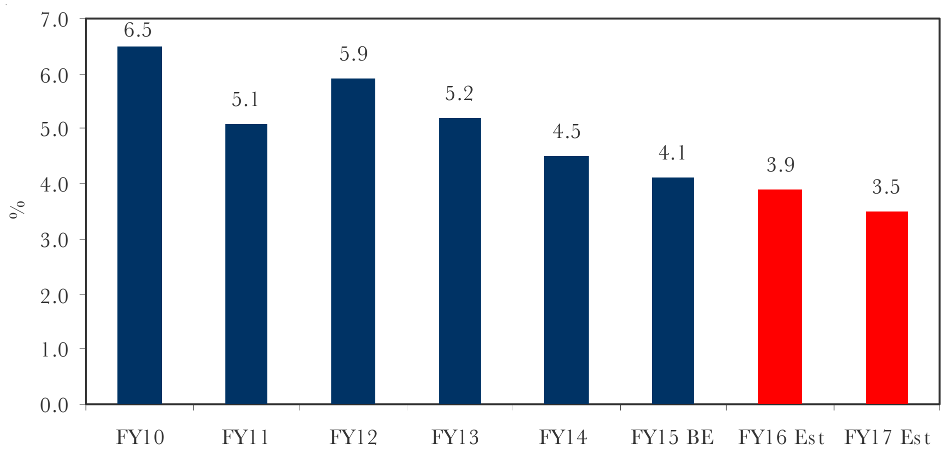
- GST to be implemented by April 2016.
- Monetary framework policy concluded with RBI. With inflation expected around 5.0%, space for interest rate cuts opens up.
- Housing for all: 20 mn houses in urban area and 40 mn houses in rural area by 2022.
- Will adhere to fiscal consolidation path in the medium term but to give impetus to growth and so as to have some space to spend on infra, have deferred the 3.0% target by year. Therefore, fiscal deficit target for FY15 at 4.1%, 3.9% for FY16, 3.5% for FY17 and 3.0% for FY18. The extras space will be used for infrastructure investment.
- Launched several social security schemes for the poor and elderly.
- Proposes Gold Monetisation scheme. To develop gold sovereign scheme with fixed interest rates.
- Public Debt Management Agency to be set up to help build debt market in India. Also to merge FMC with SEBI. This will be positive for commodities market.
- FDI and FII limits to be fungible.
- To cut basic corporate tax rate from 30% to 25% over four years. To rationalise and remove some exemptions allowed for companies.
- To defer GAAR by two years. When implemented it would be prospective.
- To abolish wealth tax. To tax additional surcharge of 2.0% for super rich (over Rs 10 mn income).
- Service tax raised to 14.0% from 12.36%.
- Central excise raised from 12.36% to 12.50%.
- Additional Rs 50,000 exemption for investment in new pension scheme to spur financial savings.

Fiscal deficit – Numbers look credible. "Fiscal prudence not at the cost of growth".

The budget has targeted 3.9% fiscal deficit for FY16. This is higher than 3.6% which was laid out in the medium term fiscal consolidation path. The government would like to use the extra money on infrastructure investment. The medium term fiscal target of 3.0% has been deferred by a year to FY18 (3.5% for FY17).

Fiscal numbers for FY16 look credible as the overall tax buoyancy is assumed at 15.8%. Excise duty is expected to rise 24% which is feasible due to hike in excise on petroleum product and service tax buoyancy of 24% is also possible with tax rate being hiked to 14.0%. Overall, indirect tax numbers look credible. On the expenditure side, non-plan expenditure goes up by 8.1%, while plan expenditure goes down marginally compared to RE FY15 (probably due to higher state devolution).

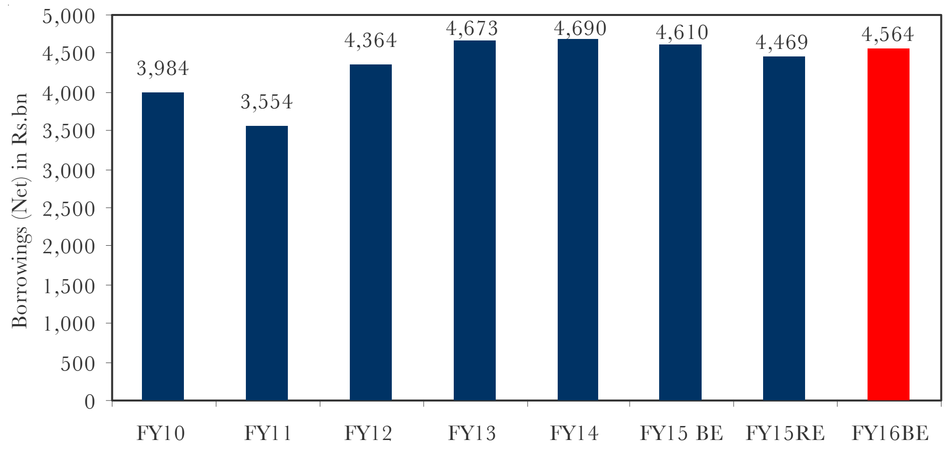
Fiscal deficit as % GDP



Market borrowing

The estimated fiscal deficit will result in net market borrowing of Rs 4.56 trillion, Rs 100 bn higher than FY15. This is only marginally higher than estimates and unlikely to impact yields. The higher fiscal deficit is unlikely to prevent RBI from its easing stance.

Net market borrowing

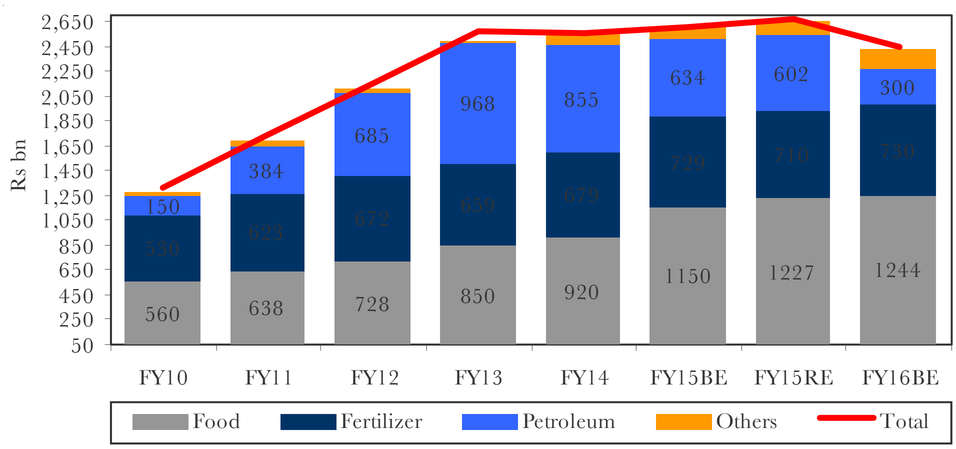


Subsidy

The budget subsidy number is Rs 2.47 trillion (1.7% of GDP). This is against Rs 2.67 trillion in the previous year. Food subsidy is estimated at Rs 1.24 trillion (against Rs 1.23 trillion in FY15).

Petroleum subsidy is expected to fall to Rs 300 bn from Rs 602 bn on lower crude price.

Key subsidies



Tax revenues

Gross tax revenue assumed in FY15 is 15.8%. With nominal GDP growth assumption of 11.5%, corporate tax YoY rise of 10.5% seems achievable. Excise duty will get a fillip from hike in excise on diesel and petrol while service tax rate hike to 14.0% will give buoyancy to Service tax revenue. **Gross tax to GDP ratio remains low at 10.3%.**

Tax revenue YoY Growth

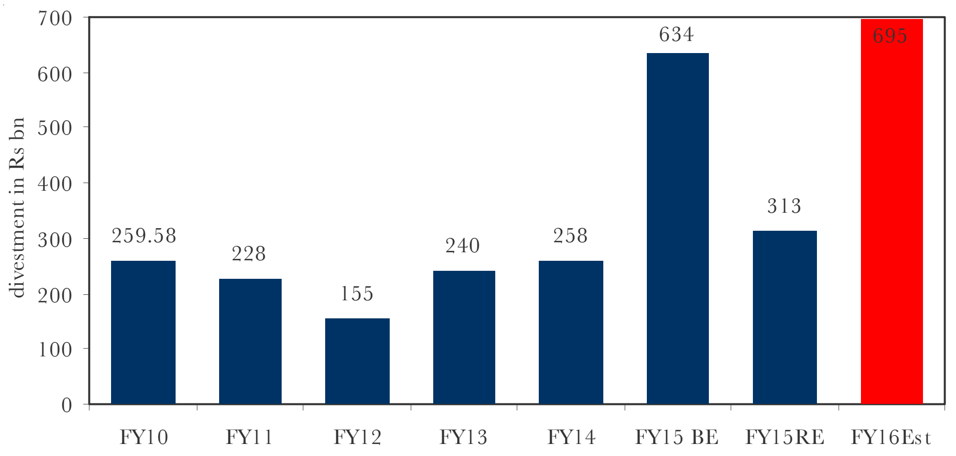
Tax Revenue YoY	FY10	FY11	FY12	FY13	FY14	FY15RE	FY16BE
Gross Tax Revenue	0.8	24.5	14.4	15.1	9.7	9.9	15.8
Corporate Tax	14.9	16.2	10.6	9.5	9.7	8.2	10.5
Income Tax	7.2	13.4	15.3	19.9	17.3	15.3	17.5
Excise Duty	-5.9	35.1	9.4	14.1	4.4	3.3	23.9
Custom Duty	-21.8	56.0	16.1	7.7	6.3	7.8	10.4
Service Tax	-10.8	19.7	36.9	39.7	24.3	2.0	24.8

Non-tax revenue estimated in FY16 is Rs 2.21 trillion. This assumes dividend of Rs 1 trillion from Public sector enterprises, RBI and PSU banks and Rs 430 bn from spectrum sale and SUC, etc.

Divestment

Total disinvestment receipt assumed in the budget is Rs 695 bn with Rs 410 bn divestment in government owned companies and strategic divestment of Rs 285 bn (including HZL and SUUTI).

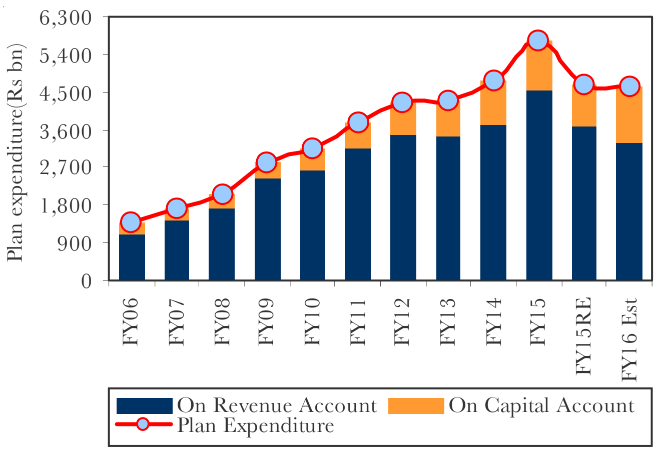
Divestment trend



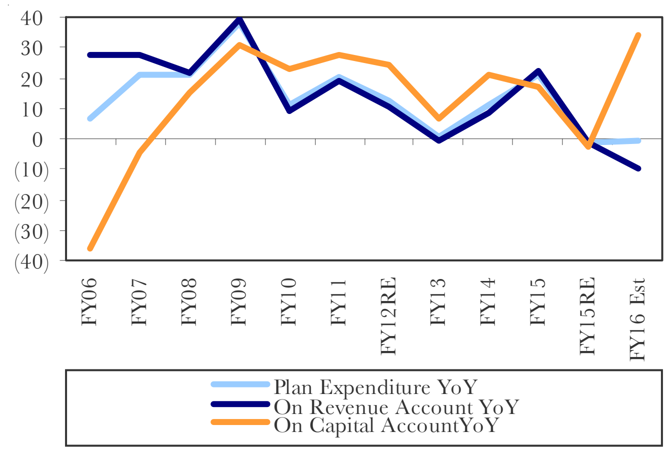
Expenditure

Total expenditure is expected to rise only 5.7% with non-plan expenditure expected to rise by 8.2% and plan expenditure falls marginally (-0.5%) compared with RE FY15. Plan expenditure on capital will rise by 34.0% while plan revenue expenditure contracts 10% (mainly due to higher devolution to states).

Plan expenditure trend

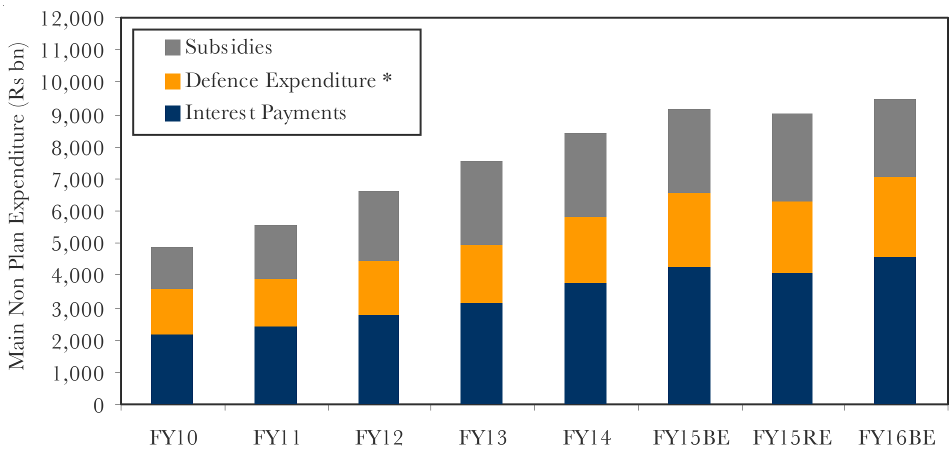


Plan expenditure YoY



Non-plan expenditure: Fall in crude has given some respite to subsidy outlay and non-plan expenditure will rise only 8.2% YoY with subsidy falling 9.0% YoY. Most other non-plan expenditure is committed expenditure (like interest payments) and difficult to curtail.

Key non-plan expenditure

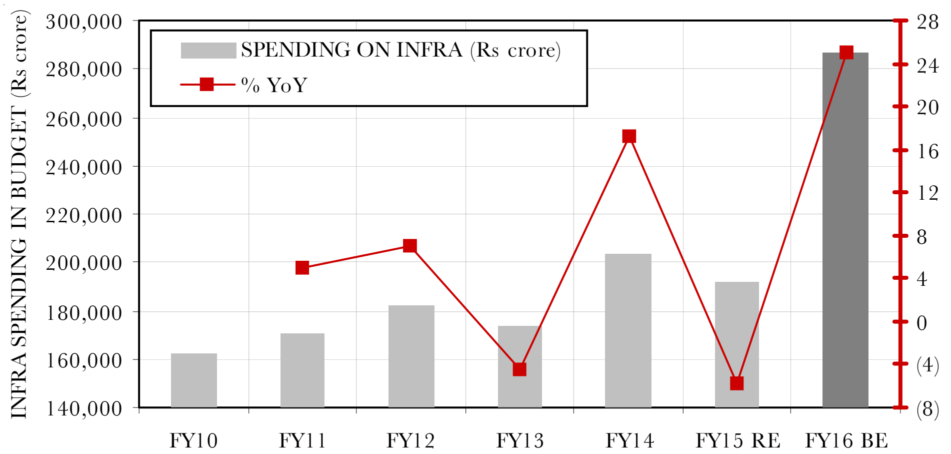


Budget has given infrastructure a big thrust with infra spending rising by Rs 700 bn. Allowing roads, rails and irrigation sectors to issue tax free bonds and the special infrastructure fund (a Rs 200 bn fund) will further spur the sector.

INFRASTRUCTURE SPENDING IN BUDGET

(Rs crore)	ACTUALS					REVISED	BE	% SHARE IN INFRA	
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY15	FY16
Food Storage & Warehousing	235	502	703	764	1,222	1,169	1,090	**0.6**	**0.4**
% YoY		113.7	40.0	8.7	59.9	(4.3)	(6.7)		
Irrigation & Flood control	423	476	506	439	441	896	772	**0.5**	**0.0**
% YoY		12.5	6.2	-13.2	0.3	103.3	(13.9)		
Power	44,493	46,745	51,844	57,729	64,951	64,044	73,993	**33.3**	**25.8**
% YoY		5.1	10.9	11.4	12.5	(1.4)	15.5		
Railways	38,867	39,857	47,001	49,281	52,006	64,302	98,365	**33.5**	**34.3**
% YoY		2.5	17.9	4.8	5.5	23.6	53.0		
Ports	1,261	1,381	1,920	1,780	3,650	2,428	2,593	**1.3**	**0.9**
% YoY		9.5	39.0	(7.3)	105.1	(33.5)	6.8		
Shipping	1,119	3,277	1,908	2,151	366	13	1,136	**0.0**	**0.4**
% YoY		192.9	(41.8)	12.8	(83.0)	(96.4)	8639.3		
Airports	11,148	6,142	3,866	8,395	8,117	8,300	5,361	**4.3**	**1.9**
% YoY		(44.9)	(37.1)	117.1	(3.3)	2.3	(35.4)		
Roads & Bridges	33,842	43,363	52,654	28,691	39,612	31,037	85,182	**16.2**	**29.7**
% YoY		28.1	21.4	(45.5)	38.1	(21.6)	174.5		
Water Supply & Sanitation	9,273	10,675	10,071	12,988	11,956	158	231	**0.1**	**0.1**
% YoY		15.1	(5.7)	29.0	(7.9)	(98.7)	46.0		
Telecommunication	13,876	9,679	4,340	3,743	13,183	10,209	6,890	**5.3**	**2.4**
% YoY		(30.2)	(55.2)	(13.7)	252.2	(22.6)	(32.5)		
Urban Development	7,746	8,630	8,165	8,784	9,548	10,719	12,015	**5.6**	**4.2**
% YoY		11.4	(5.4)	7.6	8.7	12.3	12.1		
SPENDING ON INFRA (Rs crore)	162,048	170,227	182,275	173,982	203,829	192,107	286,539	100.0	100.0

%YoY



Budget numbers (Rs crores)

	FY14	YoY (%)	FY15BE	FY15RE	YoY (%)	FY16BE	YoY (%)
Gross Tax Revenue	**1,138,832**	**9.71**	**1,364,524**	**1,251,391**	**9.88**	**1,449,490**	**15.83**
Corporate Tax	393,677	9.7	451,005	426,079	8.23	470,628	10.46
Income Tax	241,691	17.27	284,266	278,599	15.27	327,367	17.5
Excise Duty	179,538	4.38	207,110	185,480	3.31	229,808	23.9
Custom Duty	175,056	6.19	201,819	188,713	7.8	208,336	10.4
Service Tax	164,927	24.29	215,973	168,132	1.94	209,774	24.77
Devolvement to states and UT's	324,313		382,216	337,808	4.16	523,958	55.11
Net Tax Revenue of Centre	**836,026**	**12.65**	**977,258**	**908,463**	**8.66**	**919,842**	**1.25**
Non-Tax Revenue	199,233	53.6	212,512	217,831	9.33	221,733	1.79
Total Revenue Receipt (c+d)	**1,015,279**	**16.45**	**1,189,763**	**1,126,294**	**10.93**	**1,141,575**	**1.36**
% YoY							
Total Capital Receipts	**546,182**	**-3.18**	**587,969**	**570,535**	**4.46**	**623,861**	**9.35**
Divestment of PSU's etc	27,555	14.81	63,425	31,350	13.77	69,500	121.69
Borrowings (Net)	**453,550**	**-2.96**	**461,205**	**446,922**		**456,405**	**2.12**
1.01 Gross Market Borrowings	563,911		600,000	592,000	4.98	600,000	1.35
1.02 Less - Repayments	95,000						
2. External Assistance(Net)	5,441						
Total Receipts	**1,575,434**		**1,794,892**	**1,681,158**	**6.71**	**1,777,477**	**5.73**
Gross Tax to GDP ratio				**9.9**		**10.3**	
Non-plan Expenditure	**1,114,902**	**11.31**	**1,219,892**	**1,213,224**	**8.82**	**1,312,200**	**8.16**
1. Interest Payments	380,066	20.02	427,011	411,354	8.23	456,145	10.89
2. Defence Expenditure *	203,672	14.1	229,000	222,370	9.18	246,727	10.95
Defence Capital Expenditure	78,872	13.32	94,588	81,965	3.92	94,588	15.4
3. Subsidies	255,516	-0.83	260,658	266,692	4.37	243,811	-8.58
Plan Expenditure	**475,532**	**10.8**	**575,000**	**467,934**	**-1.6**	**465,277**	**-0.57**
On Revenue Account	371,851	8.29	453,503	366,883	-1.34	330,020	-10.05
On Capital Account	103,681	20.82		101,051	-2.54	135,257	33.85
Total Expenditure	1,590,434	11.16	1,794,892	1,681,158	5.7	1,777,477	5.73
On Revenue Account	1,399,540	10.8		1,488,780	6.38	1,536,047	3.17
On Capital Account	190,894	13.79		192,378	0.78	241,430	25.5
GDP at Market Price							
GDP at Market Price- New Base	11,320,463		12,653,762	12,653,762		14,108,945	
Fiscal Deficit	**508,149**		**531,177**	**512,628**		**555,649**	**8.39**
Fiscal Deficit as % of GDP	**4.48**		**4.13**	**4.1**		**3.9**	**-2.79**

Agriculture Inputs

Impact: Negative

Budget proposals

- Fertiliser subsidy – Indigenous urea allocation of Rs 382 bn (revised FY15 subsidy of Rs 382 bn), imported urea allocation of Rs 123 bn (revised FY15 subsidy of Rs 121 bn), decontrolled fertiliser subsidy of Rs 225 bn (revised FY15 subsidy of Rs 207 bn). Overall, fertiliser subsidy allocated for FY16 is Rs 730 bn (revised FY15 subsidy of Rs 710 bn). There is a marginal increase in overall subsidy allocation through increase in decontrolled fertiliser subsidy.
- Urea prices remain unchanged.
- Government to allocate Rs 53 bn to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana. On better tax buoyancy, then over and above the budgetary allocation, enhancement of allocations to Pradhan Mantri Krishi Sinchayee Yojana by Rs 30 bn.
- Reduction in customs duty on sulphuric acid for use in the manufacture of fertilisers from 7.5% to 5.0%.
- Agri credit target increased to Rs 8,500 bn (In FY15, Agri credit target was set at Rs 8,000 bn).
- Government to allocate Rs 347 bn for Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme. On better tax buoyancy, then over and above the budgetary allocation, enhancement of allocations to MGNREGA by Rs 50 bn.
- Government to allocate Rs 250 bn for Rural Infrastructure Development Fund (RIDF) set up in NABARD, Rs 150 bn for Long Term Rural Credit Fund, Rs 450 bn for Short Term Cooperative Rural Credit Refinance Fund and Rs 150 bn for Short Term RRB Refinance Fund.
- Soil health card scheme has been launched to improve soil fertility. To further improve soil health, support for Agriculture ministry's organic farming scheme – "Paramparagat Krishi Vikas Yojana" is provided.
- Horticulture research institute to be set up at Amritsar.
- Government to work with states in NITI, for the creation of a Unified National Agriculture Market.
- Tax free infrastructure bonds for the projects in irrigation sectors.

Impact

- Fertiliser subsidy allocation is inadequate as from last few years, every year there has been pending rollover of ~Rs 300-350 bn. Working capital is a major issue for all fertiliser companies as urea subsidy is delayed on an average by four-five months while complex fertiliser subsidy is delayed on an average by three-four months. Budgeted allocation for FY16 is likely to result in same fate of pending rollovers.
- As urea prices remain unchanged, it's negative for urea as well as complex fertiliser players.
- Fund allocation to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana will be positive for players like Jain Irrigation, EPC Industries.
- Reduction in customs duty on sulphuric acid is marginally positive for players like Coromandel International.
- Increased agri credit would support farm production. It would eventually lead to increased usage of agri inputs like fertilisers, seeds, agrochemicals.
- Allocation for MGNREGA for rural employment will be positive for rural India.
- Fund allocation for rural development will be positive for rural India.
- Soil health card scheme will improve soil fertility and thus positive for farming sector.
- Horticulture research institute at Amritsar will be positive for farming sector.

- National agricultural market will help farmers to realise better prices for their produce.
- Tax free infrastructure bonds for irrigation projects will be positive for investments.

Key Winners/Losers (Cos.)

Jain Irrigation, EPC Industries/Urea players like Chambal Fertilisers, RCF.

Auto & Auto Ancillaries

Impact: Marginally Positive

Budget proposals

- Initial allocation of Rs 750 mn for adoption and manufacturing electric vehicles.
- Proposal to implement GST by 01 April 2016.
- Allocation of funds for micro irrigation systems, increase in Farm Credit allocation and continuation of interest subvention scheme for farmers to improve farm mechanisation.
- Expedition and increase in defence spends.

Impact

- Allocation of Rs 750 mn – positive for electric vehicle in longer run.
- Implementation of GST by 01 April 2016 to be positive for auto sector.
- Thrust on farm productivity and increase in farm credit allocation to improve farm equipments demand.

Key Winners (Cos.)

- M&M to benefit from improvement in farm equipment sector (farm equipment contributed ~55% of EBIT in FY14), presence in MIS by EPC Industries (subsidiary) and expected improvement in electric vehicle demand.
- Ashok Leyland and Bharat Forge expected to benefit from presence in defence sector and improvement in domestic MHCV demand on increased infrastructure spending.

Aviation and Tourism

Impact: Neutral

Budget proposals

- Proposal to increase the VoA to 150 countries from current 43 countries in stages.
- Heritage city development programmes: Proposal for development of nine heritage site in country.
- Corporate tax rate to be cut from 30% to 25% over the next four years and surcharge on income tax to be increased from 10% to 12%.
- Service tax revised: Service tax plus education cesses increased from 12.36% to 14% to facilitate transition to GST.
- Relating to service tax, the abatement for executive (business/first class) air travel, wherein the service element is higher, is being reduced from 60% to 40%. Consequently, service tax would be payable on 60% of the value of fare for business class.

Impact

- The introduction of more VoA at airports will boost international tourist arrivals.
- Development of heritage site will increase the inbound and domestic passenger.
- The impact of correction in corporate tax rate in phase-wise will be neutralised with the increase in surcharge to some extent for FY17; however, surcharge hike will impact earnings in FY16.
- Proposed increase in service tax will hike air fare; however, it will not impact passenger volume number.

Key Winners/Losers (Cos.)

- Jet Airways (JET) having >50% revenue coming from international operation and with the boost in international passengers number, JET would be the beneficiary.
- Cox and Kings (COXK) having ~3% revenue coming from inbound and domestic tourism, however, having ~30% market share in the organised domestic market, we believe COXK would benefit from the development of 9 heritage site in country and more VoA facilities.
- With increase in services charges and specially for executive (business/first class) air travel, will be negative for full service carriers, however, the quantum would be very low.

Banking

Impact: Neutral

Proposal

- Distinction between FII/FDI to be done away with and thus replacement with a composite cap of 74% (instead of earlier 49% sub-limit for FII within overall FII/FDI limit of 74%).
- Govt has formed a close ended SUTTI ETF of Rs 500 bn.
- Reduction in corporate tax rate from 30% to 25% over four years beginning FY17, but to also reduce available exemptions; Surcharge increased to 12% effective FY16.
- Fiscal deficit (FD) target for FY16 - 3.9% versus 3.6% earlier budgeted and 3% target to be achieved over three years instead of two years. Government borrowing net at Rs 4.6 trn versus Rs 4.5 trn in FY15.
- Agri credit target – Rs 8.5 lakh cr increased from Rs 8 lakh cr announced in interim budget and Rs 7 lakh cr in last year.
- Setting up of Public Debt Management Agency and monetary policy framework agreement with RBI to keep inflation below 6%- thus taking away some powers from RBI.
- Setting up of Autonomous Bank Board Bureau as recommended by P J Nayak Committee; Equity investment in PSU bank for FY16 pegged at Rs 79 bn.
- Incentivise Credit/Debit card transactions (particularly Rupay Credit Credit) to reduce cash based transactions.
- Comprehensive bankruptcy law in FY15-16 and establishment of Financial Court to facilitate speedy redressal/recovery of NPAs.
- Enhancement of financial inclusion drive via- (1) Launch of Sukanya Samriddhi Deposit Scheme (incl. full tax deduction on interest earned under Sec 80C), (2) additional schemes under the Jan Dhan Yojana via direct benefit transfer to households and (3) increasing penetration of life/accidental insurance among under-banked population.

Impact

- Removal of FII sub-limit of 49% or fungibility between FII/FDI will open up FII caps/limit in private banks, particularly for Axis/ Yes Bank and also facilitate their re-entry into MSCI Index. Better fiscal numbers and thus likely decision to not divest stake in Axis Bank (creation of close ended SUTTI ETF) could be positive.
- The reduction in tax rate over a span of four years (30% to 25%), assuming a proportionate reduction, does not change our numbers for FY17 materially for both EPS/BV, as the increase in surcharge by 2% in FY16 largely offsets the gain of 1.5% reduction in tax rate in FY17.

Impact of change in tax rate on EPS/BV

	EPS (%)		BV (%)	
% change	FY16E	FY17E	FY16E	FY17E
PSBs	-0.99	1.98	-0.09	0.13
Pvts	-1.03	2.06	-0.17	0.21

- We still see a 75-100 bps rate cut uptill March 2016, but the raising of deficit target to 3.9% vs 3.6%, could bring down the expectation of accelerated rate cut in the near future. This could contain the deceleration in G-sec yields and thus hopes of higher treasury gains for PSBs.
- Setting up of an Autonomous Bank Board Bureau would facilitate appointment of executives, improved corporate governance and capital raising, as an intermediate step towards setting up of holding company. Budgeted capital infusion at Rs 79.9 bn for FY16 versus Rs 110 bn (disbursed only Rs 69.9 bn) for FY15 is lower than expectation given the deficient capital position of PSU banks.

- **Overall view – Neutral to negative for PSBs; marginally positive for select private banks**: We believe that budget has not done much to accelerate credit growth and contain asset impairment, particularly from infra sector. Enabling resolution to increase import duty for metal as and when implemented would marginally ease-off pressure on the otherwise stressed sector. Increase in tax rate including surcharge will be near term negative, while cut in tax rate beginning FY17 too would be marginally positive, which also needs to be seen in the light of likely withdrawal of limited tax exemptions/benefits available to banks. Thus, only meaningfully positive for select private banks has been introduction of composite cap/incentive for cards. We do not see any positive for PSBs, which are already reeling under weak growth, margin and asset quality pressure.

Winners

- Select Private banks – Axis and Yes Bank.

Cement and Building Products

Impact: Neutral

Budget proposals

- Marginal increase in overall excise duty from 12.36% to 12.5%.
- Increase in clean energy cess from Rs 100 to Rs 200 per tonne of coal.
- Implementation of 20 mn houses in urban area and 40 mn houses in rural area by 2020.
- In Swach Bharat 5 mn toilets already built and 60 mn incremental toilets are targeted to build.
- Priority to build 1 lac km road and increased allocation for rural infrastructure development and large infrastructure projects (Rs 250 bn for rural infrastructure, incremental investment on infrastructure of Rs 700 bn, tax free bonds).

Impact

- Higher excise duty would increase the cost by ~Rs 6-8/tonne considering the earlier structure of calculation (12.5% ad valorem on retail sales price with 30% abatement +Rs 120/bag). However, there is no clarity on calculation process.
- Higher clean energy cess would increase the cost by ~Rs 8-12/tonne based on usage of coal.
- Increased thrust on infrastructure spending and rural development (roads, rural/urban housing, infrastructure, etc) would boost the demand of cement and building products.

Key Winners/Losers (Cos.)

We believe cement producers have to absorb the incremental cost in near term due to weak demand. However, the industry would increase the cement prices to pass on the incremental cost during busy season. We have positive view on the sector.

FMCG & Retail

Impact: Neutral

Budget proposals

- Excise duty on cigarettes increased by 25% for cigarettes of length not exceeding 65 mm and by 15% for cigarettes of other lengths.
- Continued support to rural schemes, mainly MGNREGA, with increase in allocation from Rs 340 bn to Rs 347 bn.
- Rate of income tax on royalty and fees for technical services reduced from 25% to 10%.
- Excise duty on leather footwear of retail sale price exceeding Rs 1,000 reduced from 12% to 6%. However, abatement was reduced from 35% to 25% for all footwear, resulting in a net excise reduction of 3.3%.
- Reduction in corporate tax from 30% to 25% over the next four years, accompanied with removal of tax exemptions. Surcharge on domestic companies and on additional income-tax payable by companies on distribution of dividends and buyback of shares increased from 10% to 12%.

Impact

- Negative for ITC as steep excise increase of 16%, post three years of 18-20% excise increases, can lead to a higher decline in cigarette volumes. We believe ITC will need an average 15% price increase to deliver 15-16% EBIT growth with a ~5% volume decline. However, downside risks to earnings remain from a higher than expected cigarette volume decline.
- Reduction in corporate tax over the next four years will be marginally positive for Colgate, Hindustan Unilever and GlaxoSmithKline Consumer Healthcare which come under full tax rate regime.
- Reduction in excise duty on leather footwear will be positive for Bata.
- Continued support to rural schemes, marginally positive for the sector.

Key Winners/Losers (Cos.)

Key beneficiaries – Colgate, GlaxoSmithKline Consumer Healthcare, Hindustan Unilever and Bata.

Key losers – ITC.

Healthcare

Impact: Neutral

Budget proposals

- **Health insurance:** Increase of exemption limit under section 80D for health insurance from Rs 15,000 to Rs 25,000 and for senior citizens to Rs 30,000.
- **Medical tourism:** Proposal to increase the VoA to 150 countries from current 43 countries in stages.
- **Proposed Medical Colleges:** Proposed new AIIMS centres to be set up in Jammu & Kashmir, Punjab, Tamil Nadu, Himachal Pradesh and Assam and another AIIMS like institutions to be set up in Bihar.
- Corporate tax rate to be cut from 30% to 25% over the next four years and surcharge on income tax to be increased from 10% to 12%.

Impact

- Increase of health insurance exemption is positive for sector and would lead to increase in patient volumes in organised sector.
- The physicians per population in India is very low against world average of ~15, thus, with the opening of more medical colleges the gap will minimise and help hospital companies in their expansion plans.
- The increase of VoA in India will boost international tourist arrivals, so as medical tourism.

Key Winners/Losers (Cos.)

- No material impact for healthcare services companies, however, they will benefit from increase in patient volume on account of increase in exemption limit for health insurance and VoA and will also benefit with the availability of physicians and consultants in the country.
- The increase in surcharge on income tax will be short term negative for healthcare services companies.

Information Technology

Impact: Positive

Budget proposals

- Proposal to lower corporate tax in a phased manner from 30% to 25%.
- Proposal for pan-India programme "Digital India" with an outlay of Rs 5 bn.
- Proposal to provide Rs 70 bn to develop 100 Smart Cities.
- To provide Rs 1,500 mn under Atal Innovation Mission (AIM) for innovation promotion platform.
- Liberal funding system to be in place for raising global capital and incubation facility in centres of excellence.
- Self Employment and Talent Utilisation (SETU) to be set up as techno-financial incubation and facilitation programme to support start-ups.
- Proposal to remove Special Additional Duty on IT products.

Impact

- Phased lowering of corporate tax will improve profitability for IT companies marginally.
- Removal of Special Additional Duty will be positive for IT product companies which has ~10% revenue from India.
- All the other proposal are positive for IT industry, however, no benefit seen in our coverage universe (IT services companies).

Key Winners/Losers (Cos.)

- Winners: Product companies like OFSS.

Infrastructure & Construction

Impact: Marginally Positive

Budget proposals

- **Dispute resolution and reforms to be formalised:** Proposed introduction of a Public Contracts (resolution of disputes) Bill is aimed at streamlining the institutional arrangements for resolution of disputes. Additionally, the budget also proposes to introduce a regulatory reform bill that will bring about a cogency of approach across various infrastructure sectors.
- **Streamlining of approval process:** An expert committee to be established to examine whether the need for multiple prior permission can be replaced by a pre-existing regulatory mechanism. The government would consider plug and play model in infrastructure projects where all clearances are in place before the project is awarded.
- **Setting up of National Investment and Infrastructure Fund (NIIF):** Proposed setting up of NIIF with an annual allocation of Rs 200 bn by the Government. The idea is to leverage Government contribution to raise debt capital and invest in infrastructure finance companies as equity.
- **Increased budgetary allocation for infrastructure**: ~Rs 250 bn provided to the corpus of Rural Infrastructure Development Fund (RIDF) set up under NABARD. Proposed a total increase in outlay for infrastructure by ~Rs 700 bn with an increase in outlay of ~Rs 140 bn for roads and ~Rs 101 bn for railways among others. Allocation under the Pradhan Mantri Krishi Sinchayee Yojana increased to ~Rs 53 bn (from ~Rs 10 bn in the previous year). Further, ~Rs 12 bn has been allocated to kick start execution on Ahmedabad-Dhaulera Investment region and Shendra-Bidkin Industrial Park, a part of the Delhi – Mumbai Industrial Corridor.
- **Focus on improving PPP model:** PPP mode of infrastructure development would be revisited and revitalised so as to provide long term solutions to the sector. One of the aspects to delve would be rebalancing of risks, wherein the sovereign would also look at sharing the risks involved in such projects.
- **Increased thrust on improving Urban Infrastructure:** "Housing for all by 2020" plan proposes 20 mn houses in Urban areas and 40 mn houses in rural areas. Apart from this, a) an IIT to be set up in Karnataka, b) Indian School of Mines, Dhanbad to be upgraded into a full fledged IIT, c) AIIMS to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh, Assam and Bihar.
- **Others:** a) Tax free infrastructure bonds for projects in the rail, road and irrigations sectors, b) Focus on completion of one lakh kms of roads under construction and adding another one lakh kms, c) Proposal to reduce corporate tax rate from 30% to 25% over the next four years starting next financial year, d) Increase in service tax from 12.36% to 14%, and e) Service tax exemption to construction, erection, commissioning or installation of original works pertaining to an airport or port withdrawn.

Impact

- **Streamlining of processes:** Several steps are being proposed to revive the sector through streamlining of processes by providing faster clearances and faster dispute resolution. Further, introduction of a regulatory reform bill has been proposed. All these measures would help streamline the process right from awarding stage. Faster dispute resolution would mean payments are not stuck with the authorities.
- **Steps towards improving funding scenario taken:** Allocation of ~Rs 200 bn annually towards NIIF which would be aided by further debt taken by the fund to finance infrastructure finance companies along with rebalancing of project risk would help improve the funding scenario for infrastructure projects.
- **Increased opportunities for EPC and BOT players:** Budgetary allocation for roads, irrigation, urban infrastructure & rural infrastructure and renewable energy would throw open variety of business opportunities for the construction players. Intent to improve PPP model and rebalancing of risks in projects, we believe, is also a step in the right direction. This would help provide a much needed boost to the sector.

Key Winners (Cos.)

Ashoka Buildcon, NCC, Sadbhav Engineering and KNR Constructions.

Logistics & Shipping

Impact: Neutral

Budget proposals

- GST implementation deadline of 01 April 2016.
- Raising for service tax 12% plus education surcharge to 14%.
- Ports in public sector will be encouraged, to corporatise and become companies under the Companies Act.
- Service tax, exemption is being extended to certain pre-cold storage services in relation to fruits and vegetables to incentivise value addition.

Implications

- While we expect implementation of GST to be still sometime away it is expected to result in increased outsourcing for logistics requirements from unorganised to organised sector.
- Increase in service tax from 12.36% to 14% would impact most logistics companies including rail operators, however, expected to be pass-through.
- Listed names like Gujarat Pipavav is non major port and Adani Ports has limited exposure to public sector ports hence corporatisation of public companies would have limited impact on them.
- Listed names like Snowman are not present in pre-cold storage services hence the service tax exemption would be neutral.

Key Winners/Losers

Most logistics companies would benefit from the implementation of GST.

Media & Entertainment

Impact: Neutral

The budget had no major, specific proposals with respect to media sector. As far as general proposals are concerned, while increase in service tax rates and surcharge on income taxes would impact earnings, the proposed, phase-wise reduction in corporate income tax rates would offset the impact.

Budget proposals

- GST to be implemented from April 2016.
- Film exhibition and print media would continue to be out of service tax ambit.
- Service tax to be increased from 12.36% to 14.0%.
- Surcharge on income tax to be increased by 200 bps to 12%.
- Corporate income tax to be reduced in phase wise manner from 30% to 25%, from FY17 onwards.

Impact

- Improved visibility on GST implementation is sentimentally positive for the sector, owing to high incidence of indirect taxes (service ax + entertainment taxes).
- In case of TV and radio broadcasters, earnings would be impacted by increase in service tax by increase in service tax and income tax surcharge. However, lower corporate tax should lead to tax savings of similar amount over the four year period.
- The budget proposals are positive from print media companies – they would pay low taxes on, and their print ad revenues would continue to remain outside the service tax net (hence not impacted by increase in service tax). However, one has to watch out for implications of GST implementation on tax status of print advertisement.
- The union budget would be negative for cable and satellite companies from a medium term perspective. They would be impacted by higher service tax, but don't have much to gain from corporate tax cuts (low tax incidence expected for the next few years).
- Film exhibition companies and cable & satellite companies were let down by the union budget considering their wish list of rationalisation of multiple/high taxes (incl. entertainment tax) and tax sops on importing/manufacturing STBs.

Key Winners

- Print media companies (DB Corp, Jagran Prakashan, HT Media, HMVL) would benefit from proposed reduction in corporate tax rates.

Metals and Mining

Impact: Negative

Budget proposals

- The government has passed an enabling resolution to increase the import duty on iron and steel to 15% from10%. Current effective rate remains unchanged.
- Duty on metallurgical coke is being increased from 2.5% to 5.0%.
- Effective Clean Energy Cess on coal, lignite and peat has been increased from Rs 100/tonne to Rs 200/tonne.
- Special additional duty of customs on melting scrap of iron or steel, stainless steel scrap, copper scrap, brass scrap and aluminium scrap has been reduced from 4% to 2%.
- Balance of 50% of additional depreciation @ 20% for new plant and machinery (power) installed and used for less than six months by a manufacturing unit or a unit engaged in generation and distribution of power is to be allowed immediately in the next year.
- Surcharge increased to 12% from 10% currently.
- Corporate tax rate would be receded gradually from 30% to 25% over the next four years starting FY17. Deduction/exemptions would be withdrawn.

Impact

- The proposed increase in import duty to 15% is not effective yet. The government in future may come up with a notification regarding the implementation of the same. We were expecting an implementation of this in this budget, however, now there could be delays and the industry could suffer further in the interim. This is a negative in the short run.
- Increased duty on metallurgical coke is negative for some steel companies importing coke (small to mid size steel companies).
- Increase in clean energy cess is applicable on imported coal. This is a big negative for all the steel companies in our coverage space. EBITDA/tonne for all the companies would be lower to this extent (barring Tata Steel (50% integrated), other all companies' import 100% of their coking coal requirement). This would also hurt the non-ferrous companies given they are exposed for their thermal coal requirement.
- Reduction of duties on scrap of various metals to 2% would be marginally positive for the secondary producers.
- Declining tax rate would aid the improvement in net earnings of the company. However, the applicable deduction rate for each of the year would be notified by the government at the later date. Also considering the government is looking to tone down other exemptions/benefits enjoyed by the company, we are unable to comment on the actual benefits to be deriving going forward.

Key Winners/Losers (Cos.)

Winners: Monnet Ispat (1,050 MW of Monnet Power), Sesa Sterlite (Talwandi Sabo) and JSPL (for last unit of Tamnar II of JPL) would benefit from the provision of the accelerated depreciation.

Losers: All the ferrous companies producing steel through blast furnace route stand to lose owing to increase in Clean Energy Cess on coal (SAIL, JSW Steel, Tata Steel would see the major hit). Also non-ferrous companies like Hindalco, Nalco and Sesa Sterlite which are exposed for their thermal coal requirement would witness coal cost increase by Rs 100/tonne.

NBFC

Impact: Positive

Budget proposals

- NBFCs registered with RBI and having assets of Rs 5 bn and above will be covered under SARFAESI Act, 2002.
- Plan to build 20 mn houses in urban areas and 40 mn houses in rural India.
- Reduction of corporate tax from 30% to 25% over the next four years, starting from next financial year.
- Set-up of 5 new Ultra Mega Power Projects, each of 4,000 MW in the Plug-and-Play mode. All clearances and linkages will be in place before the project is awarded by a transparent auction system.
- Focus on improving rural infrastructure through better roads, increasing area under irrigation, rural housing among others.
- Creation of Micro Units Development Refinance Agency (MUDRA) Bank with a corpus of Rs 200 bn and credit guarantee corpus of Rs 30 bn. MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana.

Impact

- Covering NBFCs under the SARFAESI Act will improve their ability to repossess assets (even if land is used as collateral) in case of borrower default; it will provide legal support to their recovery efforts. This is very positive for asset finance companies such as SHTF, MMFS, SCUF and CIFC among others.
- "Housing for all by 2022" provides big opportunity for housing finance and is very positive for HFCs like HDFC, LICHF, GRHF, REPCO, DEWH among others.
- Reduction of corporate tax will decrease the tax liability for all the NBFCs under our coverage; asset finance companies such as SHTF, MMFS, CIFC, SCUF among others which do not have any tax exemptions and fall under the highest tax bracket should benefit the most.
- Setting up of the new Ultra Mega Power projects should unlock investments to the extent of Rs 1 trn and will provide funding opportunities to IFCs like POWF and RECL.
- Pick-up in rural infrastructure activities will help improve rural credit, cash flows and in-turn recoveries. This is positive for MMFS, CIFC and SHTF among others.

Key Winners

SHTF, CIFC, MMFS.

Oil & Gas

Impact: Neutral

Budget proposals

- Provisioned Rs 600 bn/Rs 300 bn towards fuel under-recoveries for FY15/16.
- Consistent focus on containing under-recoveries with focus on Direct Benefit Transfer (DBT).
- The additional Customs duty on Petrol and Diesel is increased from Rs 2/ltr to Rs 8/ltr.
- Change in CENVAT, Specific Additional Excise duty, Additional Excise duty and exemption of Education Cess for Petrol and Diesel.
- Reduction in Basic Customs Duty of Ethylene Di-Chloride (EDC) and Vinyl Chloride Monomer (VCM).

Impact

- In the table below, we believe that the provision for under-recoveries in FY15/16 is reasonable and the expected rollovers would be realistic and far lower than what witnessed in previous years. In worst case upstream may have to share ~Rs 100 bn towards under-recoveries in FY16 of which ONGC's share could be Rs 80 bn translating into US$ 8-9/bbl which at gross realisation of US$ 60/bbl would still yield a net realisation of US$ 51-52/bbl. Impact – Marginally Positive for upstream.

FY15/16 under-recovery snapshot

(Rs mn)	FY15E	FY16E
Carried forward from previous year	350,000	58,196
Gross UR	732,278	365,387
Upstream share*	428,222	–
Expected Government share	304,056	365,387
Total requirement by Government	**654,056**	**423,583**
Budgeted (ex-NE subsidies)	**595,860**	**300,000**
Expected Roll-over	*58,196*	*123,583*

*Assuming NIL under-recovery share for upstream in 4QFY15 and FY16. Crude prices at US$ 60/bbl.

- The increase in Additional Customs duty on Petrol and Diesel is applicable for imported products which is negligible portion of the domestic consumption. Impact – Neutral.
- The total incidence of change in various duties on Petrol and Diesel, negate each other and the net incidence is unchanged. Impact – Neutral.
- Reduction in custom duty for above mentioned petrochemicals is marginally positive for RIL which imports part of its product requirements.

Key Winners/Losers (Cos.)

- Though the budget was broadly a non-event for Oil & Gas sector, the budget provisioning for under-recoveries and consistent focus on containing the same is positive for ONGC/OIL. Lower under-recoveries would also benefit OMCs.

Paints

Impact: Neutral

Budget proposals

- To build 20 mn houses in Urban areas and 40 mn houses in Rural areas by 2022.
- To allocate Rs 224 bn for housing and urban development.
- To reduce corporate tax rate from 30% to 25% over the next four years, starting from next financial year i.e. FY16-17.
- To allocate Rs 347 bn for MGNREGA scheme. On better tax buoyancy, then over and above the budgetary allocation, enhancement of allocations to MGNREGA by Rs 50 bn.

Impact

- Increased thrust on housing and MGNREGA scheme is expected to enhance the demand for paints (in the long-term) which augurs well for all the paint companies.
- Reduction is corporate tax rate from 30% to 25% over the next four years, starting from next financial year i.e. FY16-17 is positive for companies like Asian Paints and Kansai Nerolac Paints as tax rate for these companies is already at peak rate i.e. ~33%.

Key Winners

Asian Paints and Kansai Nerolac Paints.

Power

Impact: Marginally Negative

Policy announcements in budget to have marginal negative impact on the sector led by increase in the clean energy cess from Rs 100/ tonne to Rs 200/tonne and increase in corporate surcharge from 10% to 12%. We understand there was disappointment w.r.t. status quo on MAT rate, no extension of tax holiday for power project commissioning post 31st March 2015 and clarity missing on fiscal benefits for renewable capacity addition.

Budget proposals

- Clean energy cess increased from Rs 100/tonne to Rs 200/tonne on coal to finance and promote initiatives towards Swachh Bharat.
- 5 new Ultra Mega Power Projects, each of 4,000 MW, in the Plug-and-Play mode (i.e. all clearance and linkages will be in place before the project is awarded).
- Target of renewable energy capacity addition revised to 175 GW till 2022 versus 20 GW now.
- National Investment and Infrastructure Fund (NIIF), to be established with an annual flow of Rs 200 bn to it.

Impact

- Increase in Clean energy cess will lead to increase in the fuel cost and impact companies with no pass-through model (Merchant).
- Implementation of UMPPs is positive for the sector but need to revise the bid document w.r.t. fallout of DBFOT model, rules of fuel cost pass through, role of independent inspector.
- Renewable addition of 175,000 MW comprises 100,000 MW Solar, 60,000 MW Wind, 10,000 MW Biomass and 5,000 MW Small Hydro. Renewable capacity revision is positive for the sector but announcement on tax benefit/incentives for economic viability for renewable were missed in the budget.
- With banks reaching the sectoral limit of funding, NIIF will provide avenue for funding of the sector.

Key Winners/Losers (Cos.)

- Increase in coal cess will have negative impact of 2-3% on JSW Energy earnings. And neutral event for developers with Power Purchase Agreement (PPA) as increase to be considered as change in law.
- Increase in surcharge from 10% to 12% is marginal negative for all the companies. However, reduction in basic rate of corporate tax from 30% to 25% (to be implemented over FY17-20) is long-term positive for Coal India and GMDC.
- No extension of tax holiday for project commissioning beyond 31st March 2015 is negative for Bara/Nigrie project of Jaiprakash Power and RattanIndia projects.

Real Estate

Impact: Neutral

Budget proposals

- **Preferential capital gains tax for REITs:** Proposed preferential capital gains tax regime (consequential to levy of STT) for the sponsor of REITs on transfer of assets to the business trust.
- **Pass-through status to income from assets directly owned by REITs:** In order to make REITs tax efficient / appealing, the finance bill proposes to make any income which is in the nature of income by renting, leasing or letting of any real estate asset owned directly by the trust (not through SPV) tax free. Such income is proposed to be taxed in the hands of the unitholders upon distribution (as per investors' applicable tax slab).
- **Housing for all by 2020:** The budget proposes construction of 20 mn units in urban areas and 40 mn units in rural areas by 2020.
- **Stricter laws for Benami properties:** Budget proposes to introduce new law to curb domestic black money in real estate space. The law is proposed to provide for confiscation of benami properties and prosecution of the benamies.
- **Service tax increased:** Levy proposed to be increased from 12.36% to 14.0%.
- **Corporate tax rate to be reduced in a staggered manner:** To bring down base corporate tax rate from current 30% to 25% over the four years, starting from next financial year.

Impact

- **Proposals pertaining to REITs:** The intent clearly appears to make REITs a success story. Relatively efficient taxation structure would clearly come to make this funding avenue much more appealing. However, disconnect in yield on offer (based on current capital values and rentals) and yield expectation (by investors) could prove to be a stumbling block. Nevertheless, the announcement seems progressive and holds long term potential to ease liquidity pressure for the beleaguered sector.
- **Housing for all by 2020:** The move is largely aimed at creating supply in low income housing. However, 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.
- **Stricter laws for Benami properties:** Aimed at containing black money transactions, the move, we believe, would make holders of these assets to liquidate holdings at the earliest to avoid any proceedings. This could increase real estate supply (especially land assets) in the short term and reduce speculative activity in the long run.
- **Service tax increased:** The move could have an adverse impact on demand for both commercial as well as residential developments. Acquisition cost for residential developments (where Completion Certificate awaited) would stand increased by ~0.4% if developers pass on the burden to end-users. For commercial real estate, increased rentals could come to have a marginal impact on demand. If not passed on to tenants, profitability for the developer / owner would come down marginally.
- **Corporate tax rate to be reduced in a staggered manner:** The proposal is positive in general as it would ensure better profitability for the entire sector. However, the proposal appears negative for Mahindra Lifespace's SEZ developments as competitiveness of units set up inside SEZs would come down as for reduced tax differential between units inside SEZs vis-à-vis units outside SEZs.

Key Winners (Cos.)

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

Telecom

Impact: Neutral

Budget proposals

- Total inflow from communication services has been pegged at ~Rs 428.6 bn for FY16. This includes proceeds from spectrum auction and Licence fees & Spectrum charges for FY16. Government of India has already indicated 3G spectrum (2100 MHz band) auction in December 2015/January 2016. At the ***current reserve price*** and for 3 blocks of spectrum in that band, proceeds for the government would be in the range of Rs 190-200 bn (upfront payment) in FY16 while rest is expected from licence fees and spectrum charges (estimated to be in the range of Rs 220-230 bn in FY16).
- Basic custom duty on HDPE for use in the manufacture of optical fibre cables is being reduced from 7.5% to NIL.
- Excise duty on *mobile phones* has been changed from 1% without CENVAT credit or 6% with CENVAT credit **to** 1% without CENVAT credit or 12% with CENVAT credit.
- Excise duty of 2% without CENVAT credit or 12.5% with credit is being prescribed for *tablet computers.*
- Proposal to lower corporate tax in phase manner from 30% to 25%.

Impact

- Phased lowering of corporate tax will improve profitability marginally.
- No direct impact on the sector for excise duty change for mobile phones, tablets.

Key Winners/Losers (Cos.)

- Overall, the budget has neutral impact on telecom sector.

Textiles

Impact: Neutral

Budget proposals

- TUFS allocation of Rs 15.2 bn.
- Implementation of GST from 01 April 2016.

Impact

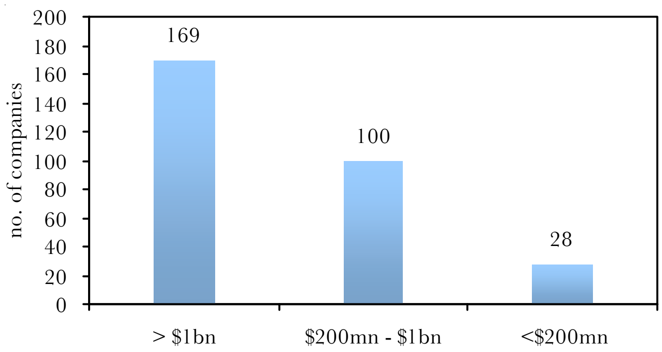
- TUFS allocation is as per the expectation.
- Implementation of GST will subsume various indirect taxes levied by the union and state government. In addition to this, it will bring lot of companies into the official system leading to improvement in the competitive positioning of organised players.

Key Winners/Losers

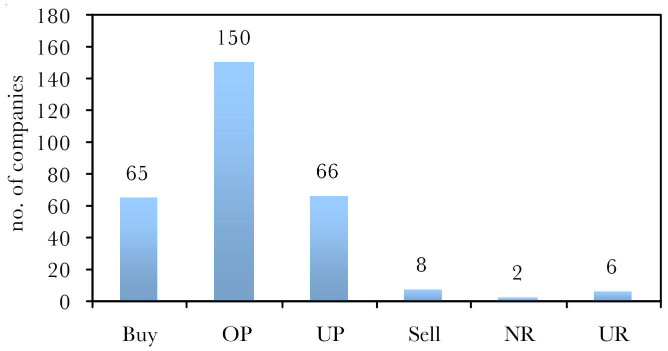
Implementation of GST will benefit the entire consumer facing textile companies (Arvind, Raymond, Page Industries and Siyaram Silk Mills).

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap <USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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