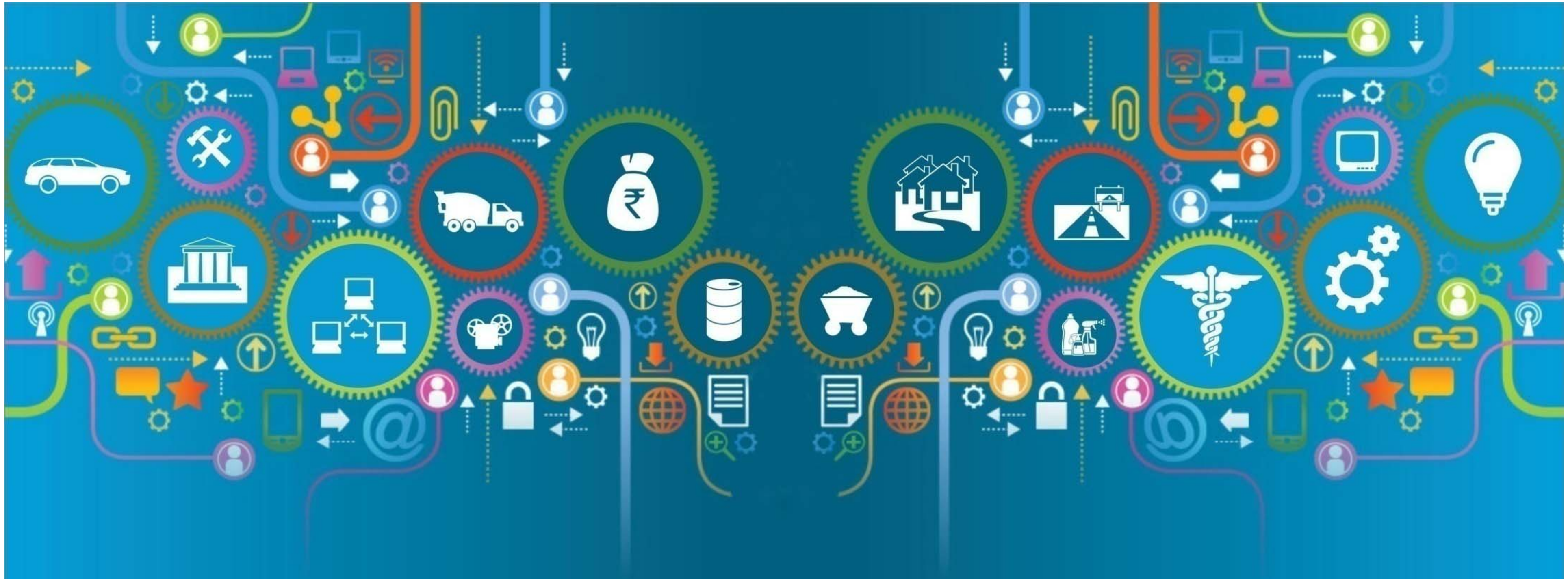

Budget Preview Report

On Key Sectors & Economy

UNION BUDGET 2015-16

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Union Budget 2015-16 Preview

Great Expectations: 'Pro-Growth' as well as 'Fiscal Prudence' expected from the Budget

The Union Budget 2015-16 is expected to lay out a medium term plan to achieve sustainable growth. One of the key hopes from the Budget is clarity on structural reforms and a roadmap for investment revival. The government is also expected to continue to adhere to fiscal prudence to attain macroeconomic balance and provide headroom for monetary easing.

The quality of fiscal consolidation is the key to macroeconomic stability amid expectation of spending pattern shifting in favour of capital expenditure, away from subsidies, to kick start the investment cycle which is seen as a bottleneck in moving to a high growth trajectory. On the tax front, we expect focus to shift to widening of tax base, clarity on implementation of GST and a stable tax regime through postponement of GAAR and dropping of retrospective taxation.

We have a positive outlook for the capital goods, cement, infrastructure, real estate and banking stocks amid expectation of higher budgetary allocations for capital expenditure and push for manufacturing. Tax incentives for metal and mining, power and tyres support positive outlook of these sectors. We expect the Budget to have a neutral impact on automobile, FMCG, IT and telecom sectors.

Union Budget 2015-16 Preview

Sector-wise Key expectations from the budget and expected overall impact

Sector	Key expectation from the budget	Expected Overall Impact
Automobile	Status quo on excise duty, higher disposable income in the hands of consumers to boost demand	Neutral
Banking	Fiscal consolidation, measures to encourage financial savings and capital infusion in PSUs.	Positive
Capital Goods	Expect Government to revive the capital expenditure cycle and encourage investment in manufacturing sector.	Positive
Cement	Status quo on excise duty, boost from higher infrastructure spending	Positive
FMCG	Reduction in rural spending, Excise duty on cigarettes and GST Implementation	Neutral
Infrastructure	Higher budgetary allocation, channelizing low-cost, long-term funding for projects and introducing measures to remove bottlenecks	Positive
IT	Incremental allocation under schemes to digitize various departments	Neutral
Media	Exemption of import duty on Set Top Boxes, Provide tax holiday of 5 years for new capital investment in Phase III radio auction and Reduction in customs duty on capital equipment for Radio broadcasting	Positve
Metals & Mining	Increase in Import duty on steel, lower export duty on low-grade iron ore fines	Positive
Oil & Gas	Clarity on subsidy sharing formula, customs duty on import of crude oil	Positive
Pharmaceuticals	Higher budgetary allocation for healthcare	Positive
Power	Tax exemptions for renewable energy sector, possible exemption of BCD and CVD on imported coal	Positive
Real Estate	More clarity on REITs tax structure, lowering tax rates on SEZs, enhancing tax breaks for potential home buyers	Neutral
Telecom	Rationalization of multiple levies	Neutral
Tyres	Rise in custom duty on tyre imports, insertion of tyres in negative list	Positive

Union Budget 2015-16 Preview

Performance on Fiscal Balance in FY2015 – Running behind targets

- Fiscal deficit for April – December 2014-15 accounted for 100.2% of the Budget Estimates for FY2015, vis-à-vis 95.2% in the previous fiscal due to lower than expected revenues.
- Tax collections for Apr-Dec FY2015 increased only 7%, compared to FY2015BE of 19.8%. While direct tax collections have increased by 7.3%, indirect taxes have risen by 6.2%. Within indirect taxes, services and customs collections have increased by 8.5% and 9.4% respectively.
- Government spending rose by just 6.2% in Apr-Dec FY2015, attributed to 8.8% jump in non-Plan spending. Plan spending grew by just 0.4%. In 3QFY2015, government spend increased by 5.5%, compared with 6.6% in 1HFY2015.

But government likely to achieve fiscal deficit of 4.1% through:

- Improved tax buoyancy in 4QFY2015 as witnessed in previous years coupled with higher indirect taxes from increase in excise on petrol (~₹20,000cr) and withdrawal of excise benefits to the automotive sector.
- Collection of non-tax revenue from dividends, telecom auctions and coal auctions.
- Disinvestment receipts kicking in post successful Coal India OFS (~₹22,000cr).
- 10% cut in plan expenditure as already indicated by the government.

Union Budget 2015-16 Preview

Fiscal Performance: April 2014 - December 2014

	2015 Budget Estimates		Apr-Dec'14			2015 Estimates	
	₹ Crore	(% YoY)	₹ Crore	% of Budget	(% YoY)	₹ Crore	(% YoY)
Gross Tax Revenue	1,364,524	19.8	795,686	58.3	7.0	1,292,975	13.5
Non Tax Revenue	212,505	6.7	148,059	69.7	27.3	206,742	3.8
Recovery of Loans	10,527	(15.8)	8282	78.7	3.0	10,527	(15.8)
Disinvestment	63,425	130.2	1952	3.1	(64.1)	50,000	81.5
Non Plan Expenditure	1,219,892	9.9	883,757	72.4	8.8	1,205,770	8.6
Plan Expenditure	575,000	26.9	352,631	61.3	0.4	517,500	14.2
Total Expenditure	1,794,892	14.8	1,236,388	68.9	6.2	1,723,270	10.2
Fiscal Deficit	531,177	4.5	532,381	100.2	3.1	529,986	4.3
% GDP	*4.1*					*4.1*	

Source: CAG; Angel Research

FY2016 Fiscal deficit target expected at 3.6% with higher capital expenditure

- We expect the government to adhere to the fiscal deficit of 3.6% for FY2016 with revenue deficit target coming down to 2% from 2.9%.
- Gross tax revenue is expected to increase from 10.1% of GDP to 10.6% of GDP, largely on account of higher indirect tax collection (petrol excise, auto excise) and greater tax buoyancy on higher growth.
- Non-tax revenue is expected to improve to 1.9% from 1.6% of GDP through auction receipts and dividend from PSUs and RBI.
- Disinvestment receipts are expected to be maintained at ₹50,000cr.
- We expect expenditure to be maintained at 13.5% of GDP with shift to capital expenditure which is expected to rise to 2% of GDP from 1.7% of GDP while subsidy may fall to 1.7% of GDP from 1.9% on account of lower petroleum and fertilizer subsidy.

Union Budget 2015-16 Preview

Budget Expectations FY16: Adherence to fiscal deficit target of 3.6% of GDP

	₹ Crore			% GDP		
	FY15BE	FY15E	FY16E	FY15BE	FY15E	FY16E
Gross Tax Revenue	1,364,524	1,292,975	1,535,373	10.6	10.1	10.6
Non Tax Revenue	212,505	206,742	275,208	1.7	1.6	1.9
Recovery of Loans	10,527	10,527	10,000	0.1	0.1	0.1
Disinvestment	63,425	50,000	50,000	0.5	0.4	0.3
Non Plan Expenditure	1,219,892	1,205,770	1,333,619	9.5	9.4	9.2
Revenue Expenditure	1,114,609	1,100,487	1,203,257	8.7	8.6	8.3
Capital Expenditure	105,283	105,283	130,362	0.8	0.8	0.9
Plan Expenditure	575,000	517,500	622,840	4.5	4.0	4.3
Revenue-Expenditure	453,503	408,153	463,509	3.5	3.2	3.2
Capital-Expenditure	121,497	109,347	159,331	0.9	0.9	1.1
Total Expenditure	1,794,892	1,723,270	1,956,459	14.0	13.5	13.5
Fiscal Deficit	531,177	529,986	521,632	4.1	4.1	3.6
Revenue Deficit	378,349	375,882	291,939	2.9	2.9	2.0

Source: Angel Research; Budget Statements (E denotes Angel Research expectations; BE is budget expectation)

Tax revenue expected to increase to 10.6% of GDP

Non-tax revenue to rise to 1.9% of GDP as dividends and profits expected to rise to 0.8% of GDP

Lower subsidy outgo for petroleum and fertilizer to bring down non-plan revenue expenditure to 8.3% of GDP

Capital expenses to get larger allocations – may rise to 2% of GDP

Capital Expenditure expected to rise:

The government is expected to move towards improving quality of spending, taking a shift away from subsidy based spending to propelling the investment cycle by increasing capital allocations. The government is expected to raise the target spend on capital expenditure to 2% of GDP in FY2016 vis-à-vis an estimated 1.7% of GDP in FY2015 in an attempt to crowd in private investment. Capital expenditure remained at an average of sub-2% of GDP in the last decade.

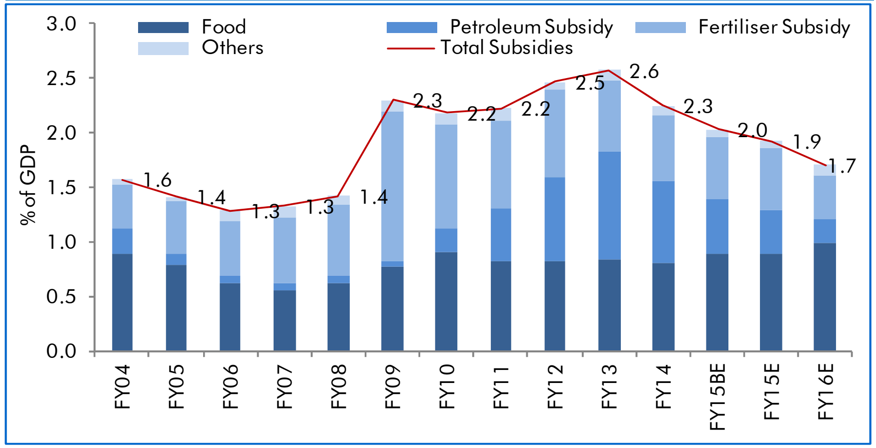
The government may attempt to boost growth multiplier by increasing allocations to national highways, roads, railways, rural and urban housing apart from likely push towards building smart cities.

Trends in Government Expenditure (% of GDP) – Capital Expenditure expected to rise

	Avg (FY07-14)	FY15BE	FY15E	FY16E
Non Plan Expenditure	9.8	9.5	9.4	9.2
Revenue Expenditure	8.8	8.7	8.6	8.3
Interest Payments	3.3	3.3	3.3	3.4
Subsidies	2.1	2.0	1.9	1.7
Others	3.1	3.3	3.3	3.2
Capital Expenditure	1.0	0.8	0.8	0.9
Plan Expenditure	4.4	4.5	4.0	4.3
Revenue Expenditure	3.6	3.5	3.2	3.2
Capital Expenditure	0.8	0.9	0.9	1.1
Total Expenditure	14.2	14.0	13.5	13.5

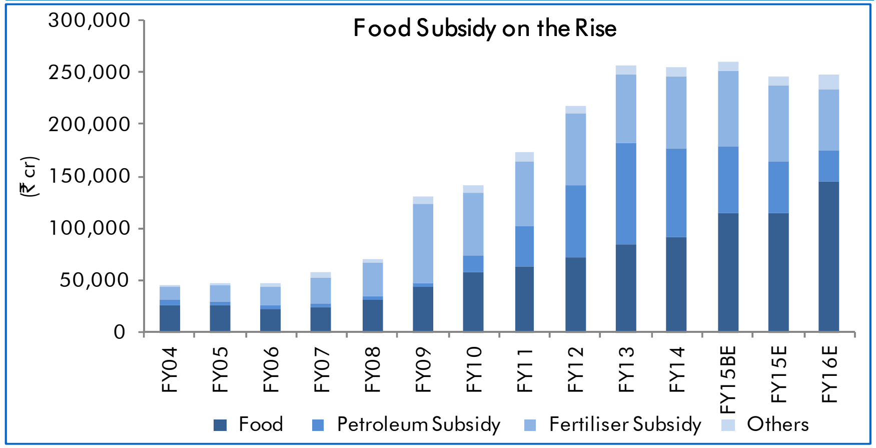
Source: Budget Statements, Angel Research

Subsidy Burden as % of GDP has come off the highs



Source: Budget Statements, Angel Research

Food subsidy is the largest component of subsidy



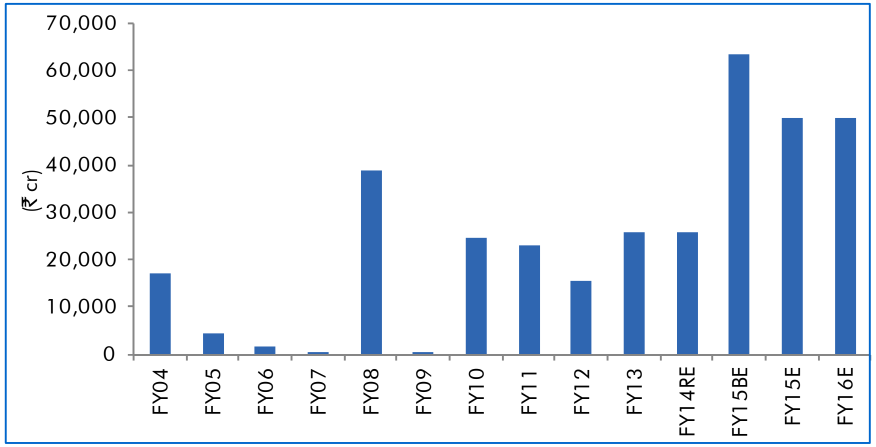
Source: Budget Statement, Angel Research

Under-recovery for oil companies had totaled ₹67,091 crore of which the government shared ₹24,270 crore in the three quarters ended December 2014. We estimate petroleum subsidy to total ₹39,000cr in the current fiscal and drop further to ₹25,000cr in FY2016 (0.2% of GDP). Accordingly, petroleum subsidy is expected to decline to 16% of total subsidy and 0.3% of GDP in FY2015 mainly on account of diesel deregulation.

Food subsidy, estimated at 1% of GDP (provisioning for National Food Security), is expected to account for more than half of the total subsidy burden. Fertilser subsidy is expected to come off the highs on account of gas price moderation, DBT and rationalization of urea based subsidy.

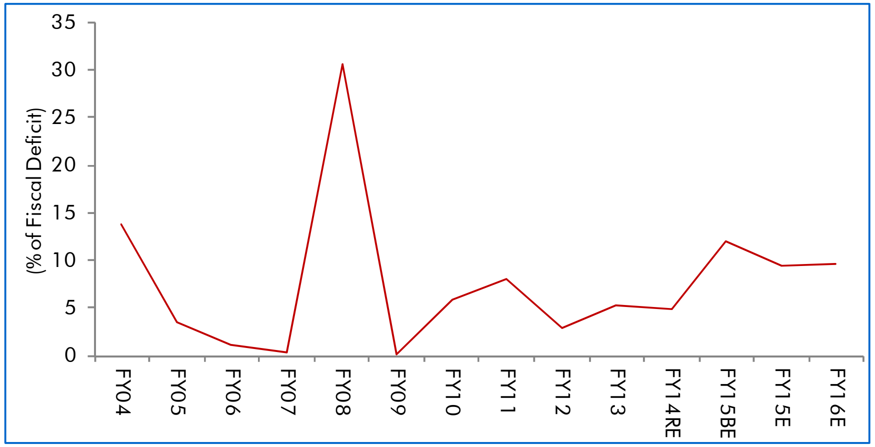
Total subsidy is expected to dip below 2% of GDP.

Disinvestments may gain momentum



Source: Budget Statements, Angel Research

Disinvestment - key source for financing deficit



Source: Budget Statement, Angel Research

The government is expected to attain disinvestment amounting to ₹50,000cr in the current fiscal and maintain disinvestment of at least ₹50,000cr in FY2016. Our analysis suggests that government has ample headroom for achieving these disinvestment targets. Offloading 10% stake in listed PSUs (excluding banks) with current market cap of more than ₹1,000cr and government holding in excess of 65% can generate ₹93,630cr providing ample headroom for achieving the target in current and next fiscal. In the medium term, the government can opt for phased disinvestment in PSUs to bring their shareholding down to 51% and subsequently raise ₹2,66,631cr. Disinvestment in PSUs where public shareholding is less than 25% have a potential to generate ₹25,344cr per current market cap.

Structural Reforms expected in the Budget

Good and Services Tax (GST) – Implementation roadmap for April 2016

The government is expected to lay more specifics regarding the roadmap for GST implementation. The impending legislation is aimed at creating a unified market for goods and services by replacing all indirect taxes at central (like excise and service tax) and state level (like octroi and sales tax). The implementation of GST is likely to broaden the tax base, simplify tax structure and increase the tax to GDP ratio. The central government has to tackle opposition from states amid concerns about revenue sharing and loss of fiscal autonomy.

Progress so far

GST Bill which was tabled in Lok Sabha in December 2014 proposes to rollout the unified levy by April 2016 on all goods and services, with exception of alcohol. The Bill proposes to include petroleum under GST but has left the decision of when to start levying GST on the GST council — a body to be formed with one-third representation from the centre and two-third from the states. Approvals would require three-fourth majority within the council. The Bill proposes to compensate 100% of state losses in the first three years, followed by 75% in the fourth year and 50% in the fifth year. In addition, states will be allowed to levy an additional 1% tax on inter-state supply of goods for the initial two years (levied and retained by producing states). The legislation will need to be approved by a two-thirds majority in both houses of Parliament and will need to be ratified by 50% of state legislative assemblies before coming into effect.

General Anti-Avoidance Rules (GAAR) – Adding a 'Prospective' clause

Implementation of GAAR, proposed to be levied on companies and investors routing money through tax havens, was deferred to April 2016 from April 2014. Market is seeking a new timeline for GAAR (postponement by 2 years) and applying the tax prospectively, and not since 2010 amid expectation of investor friendly measures. The government may also look at exempting transactions under tax-treaties which have built in checks against tax avoidance.

'Make in India' to get a boost

The government is expected to roll out incentives to boost manufacturing in an effort to support the government's 'Make in India' campaign. We see the government opting for a stable tax regime through no retrospective taxation and transparent resolution of tax disputes, apart from addressing inverted duty structure on certain domestic manufactured goods. Differential rates of Minimum Alternate Tax for SEZ and MSMEs may be possible. (MAT was introduced to ensure no profit-making company is exempted from tax liability. The current rate for MAT is 18.5%.)

Banking Reforms

The government may opt for setting up of holding company to improve operational efficiency in management of the state run entities and also allocate funds towards further capitalization of banks. Earlier this month, the government allocated ₹6,990cr towards capital infusion in nine PSBs which were found efficient in recent years, in a move viewed as a major shift in approach towards performance based capital infusion.

Aggressive rollout of Direct Benefit Transfer (DBT) and Jan Dhan Yojana

The vision of the DBT is to transfer cash or benefits directly to the beneficiaries' accounts, primarily targeting Aadhar linked accounts, in order to achieve timely and leakage free payments to intended beneficiaries. The government is expected to continue with progress in expansion of Direct Benefit Transfer (DBT) for kerosene, LPG, fertiliser and other welfare schemes in conjunction with deepening of financial inclusion under the Pradhan Mantri Jan Dhan Yojana (PMJDY).

The government is expected to leverage and expand the PMJDY as a platform for DBT to avoid leakages in subsidies and provide savings to the exchequer. A record number of 11.50cr bank accounts were opened under PMJDY as on 17th January 2015 against the original target of 7.5cr by 26th January, 2015.

Sector-wise Expectations

Automobile

Expected Impact: Neutral

FY2015 has been a year of recovery for the automobile industry. Improved economic outlook, positive consumer sentiments post the election of a stable and reform driven government at the centre, and reduction in excise duty (during March 2014 to December 2014) have created optimism leading to improvement in auto volumes. In 9MFY2015, the automotive volumes have grown by 9% yoy. Two-wheelers have been the biggest beneficiaries, reporting an 11% yoy growth, followed by passenger cars which grew by 3% yoy. Even the MHCV segment has improved, showing flat volumes as against a double-digit decline in the last two years. We expect the industry's growth to accelerate over the next two years given the better economic outlook, downtrend in fuel prices and reduction in interest rates. The government, in December 2014, reversed the excise duty cuts (of 4 to 6% provided earlier) in light of improvement in volumes; therefore we expect status quo to be maintained on this front.

The sector however will stand to benefit from indirect sops such as increased budgetary allocation for infrastructure spending (increase in road freight) and increase in income tax benefits.

Overall, we expect the Budget to be broadly Neutral for the Automobile sector.

Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Excise Duty	Small cars, two-wheelers, three-wheelers, tractors and commercial vehicles	Charged at 12%	No change	Status quo with respect to excise duty; impact to be neutral
	Large cars and utility vehicles	Charged at 24% to 30%	No change	Status quo with respect to excise duty; impact to be neutral

Top Picks

Company	Reco	CMP (₹)	Target Price (₹)	EPS (₹)		P/E (x)		EV/EBITDA (x)	
				FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
Ashok Leyland	Buy	67	78	0.8	2.8	80.5	23.8	20.1	12.3
Hero Motocorp	Accumulate	2,853	3,242	131.4	159.3	21.7	17.9	14.2	11.4

Source: Company, Angel Research

Banking

Expected Impact: Positive

In January 2015, the RBI started the rate-cutting cycle with a 25bp cut due to structural downward movement in inflation. Further rate cuts also depend on the government sticking to fiscal consolidation targets. We do expect the government to meet the fiscal deficit target in this budget, which is expected to provide room for further monetary easing by the RBI. Moreover, the usual measures to encourage savings and investments, such as increase investment limits and home loan limits for tax breaks to individuals, are expected in this budget too.

PSU banks are facing capital constraints, requiring an estimated ₹15,400cr of capital to increase Common Equity Tier1 (CET 1) to even the bare 8% level. Newly adopted criteria for capital infusion on the basis of a bank's efficiency in performance is a step in the right direction. More measures that target efficiency improvement in PSU banks would be watched out for. Also, on the off-chance that a structural roadmap for possible consolidation or reduction of government stake in PSU banks is announced, that could be a significant structural re-rating trigger for PSU banks.

The key issue for PSU banks is the huge pile-up of NPAs and restructured loans. Up to 75-80% of all restructured loans are stemming from problem sectors like metals & mining, infra & engineering, textiles and chemicals/bulk drugs. Government measures to revive these sectors that can accelerate recovery of NPAs, would be a major positive that could come out of this budget for PSU banks.

Overall, we expect Budget to be positive for the Banking Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Tax-saving fixed deposits	5-year lock-in period	3-year lock-in period	Positive for banks
Life Insurance, Mutual Funds	₹1.5lakh investment limit	₹2lakh investment limit	Positive for Max India, Reliance Capital, etc.
Home Loans	Tax deduction available on interest and principle repayment of home loans	Further increase in limits	Positive for banks and housing finance companies
Reviving problem sectors of the economy	Metals, infra, textiles, chemicals account for 75-80% of restructured loans	Revival measures/reforms such as accelerated auctions, land acquisition, anti-dumping duties to protect against imports, etc.	Visibility on improvement of asset quality would be a significant positive for PSU banks
Capital infusion in PSU banks + structural reforms encouraging efficiency/consolidation	₹15,400cr shortage just for taking CET 1 capital adequacy to 8%. Structural operating inefficiencies & lack of continuity of top management, etc.	Recapitalising bank; structural reforms for improving efficiency	Positive for PSU banks

Top Picks

Company	Reco	CMP (₹)	Target Price (₹)	EPS (₹)		PE (x)		P/ABV (x)	
				FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
Axis Bank	Buy	581	686	31.3	37.1	18.6	15.7	3.1	2.7
Canara Bank	Buy	417	482	61.8	76.1	6.7	5.5	0.8	0.7
SBI	Accumulate	307	345	18.2	24.0	16.9	12.8	1.9	1.7
Yes Bank	Buy	835	1,031	48.8	60.7	17.1	13.8	3.0	2.5

Source: Company, Angel Research

Capital Goods

Expected Impact: Positive

The Capital goods industry has been suffering due to lack of investment across various sectors, thus resulting in slowing industrial growth. The macro environment too has been challenging. However, with the launch of the ‘Make in India’ campaign and related structural announcements, we expect the government to pave way for private sector capex revival.

In order to encourage investment cycle, the government has increased FDI limits (1) across most of the rail infrastructure sub-segments to 100%, and (2) to 49% in the defense sectors from 26% earlier.

The government recently passed the land acquisition ordinance and is working on setting-up single-window clearance for all infrastructure projects. With the government focusing on addressing land acquisition and clearance related issues, we are of the view that a favorable ecosystem for the ‘Make in India’ campaign is emerging.

Additionally, fund allocation to various programs including the R-APDRP and RGGVY would continue to provide a fillip to the transmission line players. We also expect more funding towards water treatment, railways, and the defense segment.

Favorable announcements towards manufacturing and a conducive Infra policy would also lead to revival in demand for capital good players.

Overall, we expect the Budget to be Positive for the Capital Goods sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Fund Allocation for T & D.	Funds are being allocated for various programs including the APDRP and RGGVY.	Fund allocation expected to continue.	It will be positive for various transmission line players, as it provides a continuing business opportunity. This will be positive for stocks like KEC, Kalpataru Power, Jyoti Structure, and Alstom T&D.
Improving the infrastructure of Railways	-	Improve rail connectivity, electrify the existing rail network, modernize tracks, fund new wagon purchase and improve safety.	It will be positive for various rail infra players, as it provides a continuing business opportunity.
Promote Domestic Defense manufacturing	-	Exemptions and incentives for domestic defense manufacturing.	It will be positive for capital goods companies manufacturing defense equipment like Bharat Electricals and Bharat Forge.
Fund allocation for water resources and cleaning of Ganga	One of the most important projects of this ruling government. In the last budget, the government allotted ₹2,047cr for this project.	We expect fund allocation to increase for this NAMAMI Ganga project.	It will be positive for companies who are into water desalination, and waste & sewage water treatment segment. Among the companies to benefit on this account would be VA Tech Wabag.

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
Crompton Greaves	Buy	174	220	6.7	10.3	26.8	17.3	15.0	11.0

Source: Company, Angel Research

Cement

Expected Impact: Positive

The Cement industry is expected to grow at the rate of 6-8% during FY2015 though on a lower base of the previous year as cement demand grew by just 3% during FY2014. The price increase taken by cement manufacturers during 1HFY2015 could not be sustained due to lack of demand. We expect cost pressure to remain benign due to fall in the prices of key commodities, ie. of coal and crude oil. This would stabilize the profitability of cement manufacturers.

The large savings accrued by the government on account of lower subsidy burden due to fall in crude prices could be used for infrastructure development. The cement sector expects fund allocation to increase towards infrastructure projects such as roads, freight corridor, 100 smart cities, and housing for all etc, which would boost cement demand. The housing construction segment constitutes 65-67% of the total cement demand; hence allocating funds for schemes like 100 smart cities and housing for all will provide the much need boost to the cement demand.

Overall we expect the Budget to be Positive for the Cement sector.

Budget Expectations

Head	Current Status	Expectation	Potential Impact
Infrastructure spending	Government aims to increase spending on infrastructure to revive econommic growth	Announcement of major infra projects related to highways, freight corridors 100 smart cities, housing for all, and irrigation	Announcement on new infrastructure projects would be positive as it would boost cement demand.
Excise duty on cement	As per the current duty structure, excise duty on cement plants is 12%, along with additional charge of ₹120/ton. The duty will be charged on the retail selling price with an abatement of 30%.	No change	Status quo with respect to excise duty on cement will be a positive for the sector.
Rail Fare	Freight fares were hiked by 6.5% in the last budget (highest rise in the last 15 years)	Expect price to remain unchanged due to sharp fall in crude prices	Neutral for cement industry.

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
JK Lakshmi Cement	Buy	384	443	14.6	18.3	26.1	20.9	13.2	9.1
Mangalam Cement	Buy	283	361	9.6	20.5	30.6	14.4	10.4	7.1

Source: Company, Angel Research

FMCG

Expected Impact: Neutral

A significant amount of revenue of the FMCG industry comes from the rural market. Rural markets have undergone a slowdown in the past few quarters due to lower income of rural households. This has been owing to lower crop output due to deficient monsoon and due to lower hike in MSP which has impacted rural discretionary spending. In the upcoming budget, the FMCG sector would be hoping for announcements that would boost demand such as lowering of personal taxes, etc which would boost disposable incomes in the hands of consumers. Apart from this, the industry is expecting a clear roadmap with regards GST implementation. However, based on the recent government spending pattern, lower allocation towards social schemes could restrict rural spending. This could affect the growth prospects of FMCG companies which are highly dependent on rural markets.

Overall, we expect the Budget to be Neutral for the FMCG sector.

Budget Expectations

Head	Current Status	Expectation	Potential Impact
Reduction in rural spending	Higher allocation to social schemes like NREGS, Indira Gandhi Vikas Yojana	lower yoy allocation towards social schemes	Negative for the entire sector as rural spending pattern would be under pressure. FMCG companies with higher dependency on rural markets including Dabur, Marico, Godrej Consumer, HUL, Emami, etc would be impacted the most.
Excise duty on cigarettes	Duty varies as per the length of the cigarette sticks	Hike expected to be marginal	Every year government is taking excise duty hike on cigarettes and we expect a marginal hike in excise duty in the forthcoming budget as well. The same is not likely to impact ITC as it would pass on the hike to the customer.
GST Implementation	Multiple taxes such as excise duty charged by Union Government and Value Added Tax (VAT) charged by state governments	Concrete announcement regarding GST	Implementation of GST would result in uniform taxation for products and services across the country and also do away with the cascading effect of tax. GST would also result in reducing the overall tax burden on products and services, thereby propelling demand.

Infrastructure

Expected Impact: Positive

In the last few years, the entire Infra sector had been impacted due to slow-down in capex cycle, leading to a decline in order books. The sector faced delays in getting requisite clearances (resulting in time and cost over-runs), policy paralysis, higher interest rates, and stretched balance sheets. As a result, the bottom-line shrunk for most of the Infra companies. After the new government came into power at the centre in 2014, Infra stocks witnessed a strong run-up, with some of them outperforming the broader markets. This run-up was on expectation of major reforms and favorable policy changes.

New project launches were muted in 2014, owing to delays in getting clearances and impending structural issues surrounding the respective sub-sectors. Sensing urgency to address key issues, the new government went ahead with an ordinance amending the Land Acquisition Act, and is now working on setting-up a single window for granting clearances. These two initiatives depict the government's inclination to address the two big challenges, land acquisition and getting EC, which are currently coming in way of take-off of large Infra projects.

The recent crash in oil prices, upcoming spectrum auction, and ongoing PSU divestment, pave way for the government to initiate higher Infra spending. Hence, the government would focus on higher allocation towards flagship programs of Bharat Nirman, JNNURM, APDRP, AIBP and NHDP. Besides higher allocation towards the sector, to encourage higher investor participation, the budget could announce tax breaks for Infra Investment Trusts (InvITs). Further, some tax breaks and incentives could be announced for the Construction companies as well.

Overall, we expect the Budget to be Positive for the Infrastructure Sector.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
E&C cos to get incentives for construction of group housing & rural homes	N.A.		This could encourage higher participation by E&C segment towards Group & Rural Housing
Extend Sec 80-IA benefits to upgrade/ extend any existing Infra facility	N.A.		This could lead to private sector capex revival and help E&C players grow their Order Books
MAT on Infra players	Currently levied @20%	Abolish it	Infra players would save on tax outgo, and would lead to betterment of their financial health. Projects would get attractive. Also, this would encourage Infra capex revival.
Exempt Income by way of Dividends (other than dividends u/s 115-O)/ interest/ long-term CG of Infra Cap Fund/ Infra Capital Co. across approved eligible businesses	No exemption available	Restoration of exemption under section 10 (23G)	Would open-up one more avenue for lower cost of capital, helpful in fund raising.
Increased allocation to the sector	Current infra spend is ~5-6.0% of GDP, much below the requirement	Take Infra spending to 8-9% of GDP	Will lead to capex revival and help Indian economy achieve 8+%-plus growth

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
L&T	Accumulate	1,662	1,855	50.6	56.7	32.8	29.3	25.6	22.7
MBL Infra	Buy	427	561	40.9	48.5	10.4	8.8	7.4	6.7

Source: Company, Angel Research; Note: Standalone No's

IT

Expected Impact: Positive

Union Budget 2015-16 is likely to be positive for the Indian IT sector. Some of the expectations are as follows-

a) **GST: Clarity on place of supply rules-** While the government has floated a bill for common Goods and Service Tax (GST) across the country last month, contemplations appear with respect to various aspects of GST design, including price and threshold exemptions. Since the rules are yet to be released in the public, the industry is also unclear whether the tax is to be levied based on the state where a company branch is located or where its headquarters are based.

b) **Relief from double taxation on software-**The government in its previous budget failed to provide any relief from multiple levels of taxes: sales tax/VAT, CVD/excise duty and service tax on procurement of new software. This comes as a major hindrance for organizations in the country to buy original software. It is expected that the upcoming budget must ensure a simplified tax regime to relieve the burden of exorbitant taxes on this account.

Overall, we expect the Budget to be positive for the IT Sector.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
GST	Yet to be implemented	Clarity on- location of levy of taxes, GST design including price and threshold exemptions	Will be positive for the sector
Relief from double taxation on software	Multiple levels of taxes- sales tax/VAT, CVD/excise duty and service tax on procurement of new software.	Relief from multiple levels of taxes	Positive for the sector

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
Infosys	Accumulate	82	113	10.9	10.1	7.5	8.1	4.8	4.4
TCS	Buy	996	1,110	95.8	110.7	10.4	9.0	9.4	8.6

Source: Company, Angel Research

Media

Expected Impact: Positve

According to FICCI, the Indian media and entertainment sector is expected to post a strong CAGR of 14.2% through CY2012-18 to ₹1,78,600cr on the back of growth in regional markets, digitization push and strength in the film sector, and fast increasing new media businesses. Going forward, we believe that radio would be a high growth segment for the industry owing to the upcoming Phase 3 Radio auction which has already been approved by the cabinet (~839 radio stations expected across 227 new cities). In the upcoming budget, the media industry is hoping for announcements with regards exemption of import duty on setup boxes and on capital equipment for Radio broadcasting, tax holiday of 5 years for new capital investment in Phase III, and uniformity in taxation under the GST.

We expect the Budget to be positive for the Media Sector.

Budget Expectations

Head	Current Status	Expectation	Potential Impact
Phase III of Digitization: Provide tax holiday of 5 years for new capital investment in Phase III	-	Initial years of business are not profitable. So hoping for some tax benefit from the government.	Beneficial for all the Radio broadcasting companies like ENIL and companies like HT Media, DB Corp etc who have radio subsidiaries.
Custom Duty: Reduce customs duty on capital equipment for Radio broadcasting	-	Expected to reduce upto 4%.	Beneficial for all the Radio broadcasting companies like ENIL and companies like HT Media, DB Corp etc who have radio subsidiaries.
Import duty on set top boxes	The set top boxes are subject to a import duty of 5%	Removal of import duty	Removal of import duty on set up boxes would reduce cost burden on DTH and cable companies, facilitating rapid digitization. Positive for DTH and cable industry
Uniformity in taxation under GST	Entertainment tax levied by various states at different rates	Roadmap for implementation of GST	Positive for multiplexes a uniformity is created in the tax structure instead of multiple taxes

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
Jagran Prakashan	Buy	136	156	7.7	8.3	17.8	16.3	9.1	8.2
HMVL	Buy	225	292	17.8	19.2	12.7	11.7	7.6	6.7

Source: Company, Angel Research

Metals & Mining

Expected Impact: Positive

We expect the government to likely increase import duty on steel, in view of the increasing steel imports from China and Russia. Total steel imports in India during 9MFY2015 have increased 57.5% yoy, led by a slowdown in the Chinese economy, steep depreciation in Russian Rouble and free trade agreement with Korea. The Steel Ministry is also seeking a waiver of the 2.5% import duty on all its raw materials such as iron ore, coking coal, limestone, dolomite and scrap. We do not believe this is likely.

The government may however look to reduce the export duty on low grade (<58% fe) iron ore fines, as Indian steel-makers do not use these low-grade iron ore fines for making steel. We believe based on the recommendation of the Mines And Steel Minister, the government may give a differential treatment to the export of low grade iron ore fines.

We believe a thrust to the infrastructure sector and steps to revive the investment cycle would in general be positive for the metals/mining sector.

Overall, we expect the Budget to be Positive for Metal companies.

Budget Expectations

Head	Current Status	Expected change	Potential Impact
Import duty on steel	7.5% on flat products, 5% on long products	Increase to 10%	Positive for domestic steel players such as JSW Steel, Tata Steel, Sail
Export duty on iron ore	30% duty on lumps and fines	Decrease in duty for low-grade fines	Positive for iron ore exporters such as Sesa Sterlite.
Waiver of import duty on raw materials	2.5% on iron ore, coking coal, limestone and scrap	No change	Neutral for metal/mining companies.

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
JSW Steel	Buy	990	1165	81.3	72.2	12.2	13.7	6.3	6.3
Tata Steel	Buy	367	458	31.4	37.3	11.7	9.8	6.9	6.3

Source: Company, Angel Research

Oil & Gas

Expected Impact: Positive

Falling crude prices have resulted in lower under-recoveries and working capital requirements for oil marketing companies (OMC). However, it has affected the profitability of upstream companies such as ONGC and OIL.

We expect budgetary measures to be focused on providing clarity on the subsidy sharing formula for oil companies. The oil ministry has proposed a new subsidy sharing proposal by which upstream companies would not make any contributions towards subsidy burden if crude prices are at or below $60 per barrel, would bear 85% subsidy burden when crude oil prices exceed $60 a barrel and is less than or equal to $100 a barrel, and would bear 90% subsidy burden if crude oil price exceeds $100 per barrel. A concrete subsidy sharing formula would provide visibility over earnings of upstream oil companies and hence, it would be positive for them (ONGC, Oil India and GAIL).

The government is also likely to re-introduce 2.5-5% customs duty on import of crude oil, which will be positive for Cairn India and negative for private refiners and OMCs.

We expect the budget to be Positive for the upstream companies and negative for OMCs.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Subsidy sharing by upstream companies and OMCs	Lack of clarity over subsidy sharing mechanism by OMCs, upstream companies, and government	Subsidy burden for oil companies may be reduced as crude prices are expected to remain low and the government is looking to divest stakes in upstream PSUs.	Positive for ONGC, OIL, GAIL
Customs duty on crude oil	No customs duty currently	Introduction of 2.5-5% customs duty on crude oil	Positive for Cairn India. Negative for OMCs and private refiners (Reliance)

Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2015E	FY2016E	FY2015E	FY2016E	FY2015E	FY2016E
RIL	Buy	917	1,034	75.5	81.5	12.2	11.2	9.5	8.3

Source: Company, Angel Research

Pharmaceuticals

Expected Impact: Positive

The Union Budget 2015-16 is likely to be positive for the pharmaceutical sector. Apart from continued increased allocation towards healthcare, other demands by the sector are:

a) **Weighted deduction under Section 35(2AB) for computing book profits:** Presently, while computing the 'book profit' under Section 115JB, the amount of weighted deduction under Section 35(2AB) is not deducted. In order to promote in-house R&D in India, the amount of weighted deduction under section 35(2AB) of the Act should be deducted while computing book profit for the purpose of MAT.

b) **Clinical Trials - Weighted deduction u/s 35(2AB):** Weighted Deduction u/s 35(2AB) should be enhanced from the existing 200% to 250% for a period of next 10 years, ie up to 31st March, 2024. The current provisions for deduction u/s 35(2AB) cover only expenditure incidental to research carried on at the in-house R&D facility. As clinical trials are specialized and expensive most, R&D facilities outsource these trials. Hence, in order to successfully launch any new drug, the innovator has to get the clinical trial done outside approved facilities within India and abroad.

Overall, we expect the Budget to be Positive for the Pharmaceutical Sector.

Budget Expectations

Head	Current Status	Expectation	Potential Impact
Weighted deduction under Section 35(2AB) for computing book profits	Presently, while computing the 'book profit' under Section 115JB, the amount of weighted deduction under Section 35(2AB) is not deducted.	In order to promote in-house R&D in India, the amount of weighted deduction under section 35(2AB) of the Act should be deducted while computing book profit for the purpose of MAT.	Positive for all pharma companies.
R&D expenditure tax deductions	Currently 200%.	Weighted Deduction u/s 35(2AB) should be enhanced from the existing 200% to 250% for a period of next 10 years, ie up to 31st March, 2024.	Positive for all pharma companies.

Top Picks

Company	Reco	CMP (₹)	Target Price (₹)	EPS (₹) FY2015E	FY2016E	P/E (x) FY2015E	FY2016E	EV/EBITDA (x) FY2015E	FY2016E
IPCA Labs	Buy	681	817	24.1	44.7	28.2	15.3	18.3	10.5
Dr Reddy's Labs	Buy	3,336	3,878	149.0	184.7	22.4	18.1	16.3	13.3

*Source: Company, Angel Research; Note: *Recurring EPS*

Power

Expected Impact: Positive

The government has set an ambitious target of 100GW of solar power and 60GW of wind energy by 2022, with an estimated investment of $200bn. In line with these targets, we expect the government to promote the renewable energy sector by extending various tax incentives.

Power producers are forced to import coal, as domestic supply is insufficient to meet their requirement. They have therefore sought exemption of Basic Customs Duty (BCD) and Countervailing Duty (CVD) of 2% each. They also seek exemption of customs duty on fly ash for a power plant set up in a SEZ. We believe any reduction in duties would be positive for power producers.

We expect the budget to be Positive for the Power Sector.

Budget Expectations

Head	Current Status	Expected	Potential Impact
Reduction in Basic Customs Duty (BCD) and Countervailing Duty (CVD) on coal imports	Coal imports attract 2% BCD and CVD each.	Possible exemption of BCD and CVD on imported coal.	Positive for domestic power producers

Real Estate

Expected Impact: Neutral

The Real Estate sector has faced a slump in the past one year period, as volume absorption (reflecting demand) in India's top seven cities has either been flat or declined on a yoy basis. Muted growth in bank lending towards the sector has also led to the slowdown, creating liquidity crunch for many of the developers. After the new government came into power at the centre in 2014, real estate prices across top 7 cities have witnessed single digit gains. We are of the view that it is the absorption and not price appreciation which would drive the residential segment growth, going forward. Absorption of New launches in recent times has not been up to expectations, despite developers launching the projects at 10-15% discount to the ongoing market rates; due to higher interest rates and a weak demand cycle. Further, barring a few pockets, higher inventory continues to hamper recovery in commercial real estate markets. We expect rental trends to remain in the northward direction for the next 12-15 months.

For the upcoming Union Budget, we expect the government to increase the tax limit under Sec 80c from ₹1lakh to ₹3lakhs, which will lend a boost to the housing segment. Re-introduction of tax holiday for housing projects under Sec 80-IB and relaxation of end-use restrictions on the use of External Commercial Borrowings (ECBs) is on the developers' wish list. Further, tax benefits or appropriate subsidies for promoting green projects also appear in their wish list.

Overall, we do not expect these measures to have a significant near-term impact on our estimates. **Hence, we expect the Budget to be Neutral for the Real Estate Sector.**

Budget Expectations

Head	Current Status	Expected	Potential Impact
Tax clarity on Dividend Distribution Tax (DDT) with respect to REITs.	No clarity	Abolish DDT on distribution of dividends by SPVs to REITs	This could make REITs attractive. Developers like DLF, PML, Parsvnath, will be key beneficiaries.
Income Tax Deduction under Sec 80-C	Income tax exemption on home loan principal re-payment up to ₹1.5 lakh	Increase exemption limit to ₹3.0lakhs	Improved affordability will induce property buyers, thereby benefitting residential housing segment. Developers like DLF, Oberoi, Ashiana, Unitech, Sobha will be the key beneficiaries.
MAT & DDT exemption on SEZs	Currently MAT charged at 20%;	Reduce MAT to 7.5% and remove DDT	This would make SEZ investments attractive.
Infra status to large townships	No provision	Give Infra status to large townships	This would encourage higher participation of Real Estate Developers, as they could claim benefits under sec-80-IA.

Telecom

Expected Impact: Neutral

The telecom sector is currently facing a number of challenges on the regulatory front, relating to spectrum allocation, license fee, spectrum charges, tariffs and M&As. We expect Budget 2015-16 to be a non-event for the telecom sector as the National Telecom Policy would be announced soon this year, which will address most of the above mentioned issues. The budget could pencil in the expected revenue to be generated from the upcoming auction of 2G and 3G spectrum, licensing fees, spectrum usage charges and other receipts (the latest estimates stand at ₹45,471cr). In FY 2013-2014, the government was able to raise ₹40,847cr, meeting the target it had set.

The telecom sector is among the heavily taxed sectors in India, attracting various levies such as license fees and spectrum charges. A uniform tax structure would help reduce operational costs, in turn increasing profitability, which is highly important right now for telecom companies, which are facing high interest costs and amortization charges. However, the probability of some announcement in this regard is highly unlikely in this budget.

Overall, we expect Budget to be Neutral for the Telecom sector.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Rationalization of multiple levies to put a simple industry-friendly tax structure.	Currently, the telecom industry is subject to service tax, license fees and spectrum charges, all of which work out to ~35% of total revenue as against Malaysia, Sri Lanka and China, where it is < ~10%. Besides, the state levies additional taxes such as Octroi, VAT, stamp duty and entry tax on towers.	Rationalization of multiple levies imposed on telecom sector	Favorable for the sector as it will reduce the cost of services. However, any announcement regarding this is highly unlikely in the budget.

Tyres

Expected Impact: Positive

The tyre industry has been suffering from the inverted duty structure wherein customs duty on finished product (tyres) is lower (peak duty of 10%) while the customs duty on raw material (rubber) is at a higher rate of 20%. Also, natural rubber features in the negative list (implying rubber cannot be imported at lower rate under various free trade agreements) whereas tyres are being imported at even lower duty of 0% to 5% under several preferential trade agreements. This has created a double whammy for tyre manufacturers as lower duties have led to surge in imports and the industry cannot fully benefit from falling international rubber prices. Imports currently constitute about 6% of the overall industry and are prevalent in the commercial vehicle industry.

We expect the government to correct this anomaly and raise peak import duty on tyres to at least 20% (in line with duty on rubber). We also expect tyres to be put in the negative list implying that tyres cannot be imported at lower rate.

Overall, we expect Budget to be positive for the Tyre sector.

Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Import Duty	Tyres	Charged at 10%	Raised to 20%	Increase in import duty would be positive for domestic tyre companies
Insertion in negative list	Tyres	Exempt from negative list	Insertion in negative list	Addition of tyres in the negative list would be positive for domestic tyre companies

Top Picks

Company	Reco	CMP (₹)	Target Price (₹)	EPS (₹)		P/E (x)		EV/EBITDA (x)	
				FY2013E	FY2014E	FY2013E	FY2014E	FY2013E	FY2014E
Ceat	Buy	718	897	81.6	89.1	8.8	8.1	5.2	4.9
JK Tyres	Accumulate	124	140	13.9	18.6	8.9	6.7	5.3	4.7

Source: Company, Angel Research

Budget Expectations

Sectors	Head	Current Status	Expected change	Potential Impact
Gold	Reduction in import duty	10% import duty as of now	Considering falling crude oil prices and easing current account deficit, we expect a reduction in import duty by upto 2%	Duty cut on gold imports is expected to favour the Jewellery industry, leading to volume improvement.
Plastic	Higher import duty on Chinese products	5% import duty as of now	We expect an import duty hike to upto 15%	Increase in duty on finished imported goods would promote domestic manufacturing industry.
Fertilizer	Fertilizer subsidies	Currently fertilizer companies get direct subsidies from the government	Using Jan Dhan Yojna the government is expected to implement direct cash transfer towards fertilizer subsidies to the needy farmers	The key beneficiaries would be poor and marginal farmers, which would be good for Indian agriculture.
Logistics	Higher fund allocation for roads, rail, ports, warehouse etc.	-	-	In India, logistics costs are higher due to poor infrastructure. An increase in government spending on infrastructure would improve the operating efficiency of the logistics sector.
Textile	Reduction in excise duty on man made fibres (MMF) and cotton/cotton fabric	12% excise duty as of now	Reduction in excise duty to upto 6%	Any reduction in excise duty would boost the growth of technical textiles which are major consumers of MMF.
Sanitaryware	Construction of 11cr toilets under the 'Swachh Bharat Abhiyan'	-	Higher fund allocation	Positive for sanitaryware companies such as Cera Sanitaryware, HSIL, etc

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