UNION BUDGET 2015-16

Walk, don't run !

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* *A 1954 composition by the American jazz guitarist Johnny Smith, rehashed by The Ventures in 1964*

With Budget 2015-16, Mr Jaitley has reiterated the adage that Rome wasn't built in a day. Hence, a realistic (if gradual) tilt is emerging towards investment. We think direction matters more than pace right now. This government is doing mostly the 'right' things on governance and economic policy.

We are confident that fiscal consolidation will be achieved despite the pushout, as taxes are simplified further. Manufacturing and infrastructure are being boosted, while financial inclusion will spread in a multitude of ways. The genuinely disenfranchised will receive a bigger (and better) helping hand even as natural resources will be transparently allocated. Yet, all of this will happen slower than aspired from India's first majority government in thirty years. Is this a reason to be disappointed ? We think not.

- Perhaps this is, after all, the sensible way to steer the third largest economy in the world (in PPP terms) towards sustainable prosperity. **Perhaps policy bravado is uncalled for**. Perhaps a massive economic transformation can happen in India only at a gradual pace, especially when the rot runs deep and the external environment is decidedly adverse. And perhaps a Budget is not really the magical sword with which to slay the demons of economic sclerosis.
- **Perhaps administrative, legislative and political actions outside the Budget matter much more.** The starry-eyed analyst types can keep waiting for a 'dream' Budget while the Government gets back to the boring (but more productive) activities of daily statecraft.
- Our bullish stance on this government now gets a generous coat of patience. But this gives us hope that tempered expectations will allow investors to diligently seek returns, rather than chase momentum and get swept away in excesses that may lead on to unsavoury outcomes. Vision and hope will both pay, but so will a hard nose.
- If a correction kicks in, it will offer selective but adequate risk-reward (given that medium term prospects in India are among the most enticing and robust in a global context). **Research (not style) will soon be back in fashion on Dalal Street !**

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Budget ready reckoner

FISCAL CONSOLIDATION PUSHED OUT

- FY15 fiscal deficit target of 4.1% met, with a cut back in Plan Expenditure. Target of 3% to be met in 3 years rather than 2.
- Fiscal deficit targets are 3.9%, 3.5% and 3.0% in FY16, FY17 and FY18 respectively.

DEVOLUTION TO THE FORE : WILL IT WORK ?

- States' share of Central taxes rises to 36% from 28%, total state transfers have risen by more than 220bps to 57.8% from 55.6%.

DIRECT TAXES : SIMPLIFICATION AND RELIEF

- Corporate tax rates unchanged for domestic and foreign companies, **to be cut to 25% over the next four years**. Wealth tax abolished and replaced by a surcharge on income above Rs 10 mn.
- **GAAR deferred by two years.** Tax rate reduced from 25% to 10% for royalty / FTS income of foreign entities. Income from Core Settlement Guarantee funds tax exempt for exchanges. Pass through status for Category I and Category II AIFs.
- **Personal tax rates and slabs left untouched.** Exemptions increased for pension contributions, transport and healthcare spend. Senior citizens' benefits extended.

INDIRECT TAXES : RATIONALISATION

- Service tax increased from 12% (eff 12.36%) to 14% from a notified date. Education cess eliminated. Swachh Bharat cess of 2% proposed.
- Excise duty increased from 12% (eff 12.36%) to 12.5%. Education cess eliminated. **GST implementation reiterated from 1 April 2016.**

INFRA THRUST, BUSINESS FRIENDLINESS

- **Infra push visible.** Capex outlay of PSUs increased by Rs 800bn via Central Funds and resources of CPSEs. Increased allocation of Rs 100bn and Rs 140bn for roads and railways.
- New fund for Infra (National Investment and Infrastructure Fund, NIIF) announced with an annual flow of Rs 200bn.
- FPI, FDI distinction eliminated. A composite cap replaces sub-caps.
- **Bankruptcy code to be introduced in FY15-16.**
- Tax free infrastructure bonds for projects in the rail, road and irrigation sectors.
- New UMPPs to be bidded out under Plug and Play model (fully pre-cleared). PPP model to be revamped, with sovereign risk sharing. Corporatisation of government owned ports.

BANKING & FINANCE : INTERESTING FINE PRINT

- **Forward Markets Commission to be merged with SEBI.**
- **Postal department to evolve into payment bank to further augment financial inclusion.**
- Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs 20bn, and credit guarantee corpus of Rs 3bn to be created.
- Public Debt Management Agency (PDMA) bringing both external and domestic borrowings under one roof to be set up this year.
- **Gold monetisation scheme** to allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account to be introduced. Sovereign Gold Bond, as an alternative to purchasing metal gold scheme to be developed.

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REVENUES : achhe din…

REVENUES (Rs bn)	FY14	FY15RE	FY15RE over FY14	FY16BE	FY16BE over FY15RE
Corporate tax	3,947	4,261	8.0%	4,706	10%
Income tax	2,429	2,786	14.7%	3,274	18%
Customs	1,721	1,887	9.7%	2,083	10%
Excise	1,702	1,855	9.0%	2,298	24%
Service tax	1,548	1,681	8.6%	2,098	25%
Others	41	44	6.0%	36	-18%
Gross tax revenue	**11,387**	**12,514**	**9.9%**	**14,495**	**16%**
States' share	3,182	3,378	6.2%	5,240	55%
Central tax revenue	**8,159**	**9,085**	**11.4%**	**9,198**	**1%**
Dividends etc	1,123	1,109	-1.2%	1,243	12%
Spectrum auction	408	455	11.3%	429	-6%
Others	457	614	34.3%	546	-11%
Non-tax revenue	**1,989**	**2,178**	**9.5%**	**2,217**	**2%**
Market borrowings	4,536	4,469	-1.5%	4,564	2%
Recovery of loans	125	109	-12.9%	108	-1%
Divestments	294	314	6.7%	695	122%
Other items	685	814	18.8%	872	7%
Capital Receipts	**5,639**	**5,705**	**1.2%**	**6,239**	**9%**
TOTAL RECEIPTS	**15,594**	**16,812**	**7.8%**	**17,775**	**6%**

Source: Budget Documents, HDFC sec Inst Research

Growth in Corporate tax looks feasible; however 18% growth in Income tax is unrealistic, despite the wealth tax and surcharge rejig of 2%.

10% growth in Customs is achievable, but will be difficult if import duty on gold (10% of total customs) goes anytime soon.

IIP is sluggish (+2% YTD FY15). The 24% jump in Excise is optimistic, despite the low base. The strangle on cigarettes (~9% of total excise) may not be quite enough.

Service tax growth of 25% is realistic with a higher rate (14% from 12.36%) and a shorter negative list.

FFC recommendations on full display. States' share rises 55% YoY to Rs 5,240bn.

Non-tax revenue growth will be helped by spectrum auction flows. But bumper dividends from PSUs may not recur, as PSEs' capex kicks in.

Disinvestment receipts at Rs 695bn look challenging given the poor FY15 show. Unless the SUUTI stake sale comes through…

EXPENDITURE : the elephant in the room...

Rs bn	FY14	FY15RE	FY15RE over FY14	FY16BE	FY16BE over FY15RE
Interest payments	3,743	4,114	9.9%	4,561	11%
Defence	2,035	2,224	9.3%	2,467	11%
Subsidies	2,546	2,667	4.7%	2,438	-9%
Food	*920*	*1,227*	*33.3%*	*1,244*	*1%*
Fuel	*854*	*603*	*-29.4%*	*300*	*-50%*
Fertilisers	*673*	*710*	*5.4%*	*730*	*3%*
Grants to states	606	803	32.5%	1,086	35%
Pensions	749	817	9.1%	885	8%
Police	421	481	14.3%	518	8%
Other non-plan exp	802	902	12.5%	1,017	13%
Non-plan capital outlay	74	78	4.6%	106	36%
Others	85	48	-44.4%	44	-8%
Total Non-Plan exp	**11,061**	**12,132**	**9.7%**	**13,122**	**8%**
Total Plan exp	**4,533**	**4,679**	**3.2%**	**4,653**	**-1%**
TOTAL EXPENDITURE	**15,594**	**16,812**	**7.8%**	**17,775**	**6%**

Source: Budget Documents, HDFC sec Inst Research

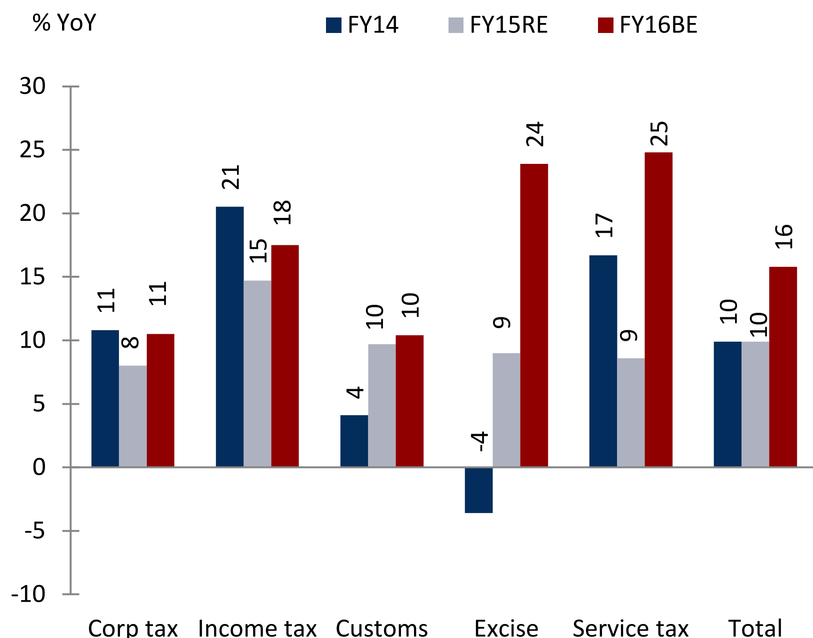
Interest payments are now 24% of revenue receipts. This elephant will take years of fiscal prudence to tame.
The rise in defence spend is welcome and can trigger several Make in India opportunities.

Subsidies will fall, driven primarily by fortuitously lower crude prices (which also poses upside risks now !). Fertiliser and food subsidy are flat, but contain hopes of better targetting.

Plan expenditure was curtailed drastically in FY15 (3% vs 27% YoY in BE) to achieve the fiscal deficit target.
We think government-induced capital formation may drag, despite the higher allocation to States.

The shortfall in revenues owing to higher devolution to the States has been partially recouped by cutting Plan exp (-1%YoY).

Slower fiscal healing, higher devolution



Source: Budget Documents, HDFC sec Inst Research

	FY13	FY14	FY15RE	FY16BE
Corp tax/GDP	3.57%	3.48%	3.37%	3.34%
Income tax/GDP	2.02%	2.14%	2.20%	2.32%
Customs/GDP	1.66%	1.52%	1.49%	1.48%
Excise/GDP	1.77%	1.50%	1.47%	1.63%
Service tax/GDP	1.33%	1.36%	1.33%	1.49%
Tax/GDP	10.37%	10.04%	9.89%	10.27%
States' share/GDP	2.92%	2.81%	2.67%	3.71%
Net tax/GDP	**7.41%**	**7.19%**	**7.18%**	**6.52%**
Non tax/GDP	1.38%	1.75%	1.72%	1.57%
Capital receipts/GDP	5.84%	4.97%	4.51%	4.42%
TOTAL	**14.12%**	**13.75%**	**13.29%**	**12.60%**
Interest/GDP	3.14%	3.30%	3.25%	3.23%
Defence/GDP	1.82%	1.79%	1.76%	1.75%
Subsidies/GDP	2.57%	2.24%	2.11%	1.73%
Non Plan exp/GDP	**9.98%**	**9.75%**	**9.59%**	**9.30%**
Revenue account/GDP	3.30%	3.11%	2.90%	2.34%
Capital account/GDP	0.85%	0.89%	0.80%	0.96%
Plan expenditure/GDP	**4.14%**	**4.00%**	**3.70%**	**3.30%**
Total exp/GDP	**14.12%**	**13.75%**	**13.29%**	**12.60%**
State transfer/Total tax	43.3%	43.2%	55.6%	57.8%
Fiscal deficit	4.9%	4.5%	4.1%	3.9%
Fiscal deficit (ex divest)	**5.2%**	**4.7%**	**4.3%**	**4.4%**

Source: Budget Documents, HDFC sec Inst Research

The biggest risk to revenue collections is from the aspired hike in Excise of 24%, given the sluggishness in Autos, Capital goods and Consumer products. Service tax revenue growth at 25% YoY in FY16BE is achievable, but evaders may give government a good run for its money. Growth in Customs duty will be at risk should gold imports be liberalised.

Total State transfers have risen by more than 220bps despite the minor pruning of Plan exp. Fiscal deficit (ex-divestments) is higher than FY15RE. Fiscal consolidation has yielded some ground to the urge to kick start the economy. Fuel subsidies are much lower than headline print; govt is probably using the headroom to reduce carry forward.

Budget arithmetic

Rs bn	FY13	FY14	FY15RE	FY16BE
Corporate tax	3,563	3,947	4,261	4,706
Income tax	2,015	2,429	2,786	3,274
Indirect taxes	4,745	4,971	5,423	6,479
Gross tax revenue	10,362	11,387	12,514	14,495
States' Share	*2,915*	*3,182*	*3,378*	*5,240*
Net tax revenue	**7,403**	**8,159**	**9,085**	**9,198**
Non-tax revenue	1,374	1,989	2,178	2,217
Capital receipts	5,834	5,639	5,705	6,239
TOTAL RECEIPTS	**14,104**	**15,594**	**16,812**	**17,775**
Interest payments	3,132	3,743	4,114	4,561
Defence expenditure	1,818	2,035	2,224	2,467
Subsidies	2,571	2,546	2,667	2,438
Others	2,447	2,737	3,128	3,655
Non-plan expenditure	**9,967**	**11,061**	**12,132**	**13,122**
Plan expenditure	**4,136**	**4,533**	**4,679**	**4,653**
TOTAL EXPENDITURE	**14,104**	**15,594**	**16,812**	**17,775**
Fiscal deficit	**4,906**	**5,081**	**5,126**	**5,556**

% of GDP	FY13	FY14	FY15RE	FY16BE
Corporate tax	3.57%	3.48%	3.37%	3.34%
Income tax	2.02%	2.14%	2.20%	2.32%
Indirect taxes	4.75%	4.38%	4.29%	4.59%
Gross tax revenue	10.37%	10.04%	9.89%	10.27%
States' Share	*2.92%*	*2.81%*	*2.67%*	*3.71%*
Net tax revenue	7.41%	7.19%	7.18%	6.52%
Non-tax revenue	1.38%	1.75%	1.72%	1.57%
Capital receipts	5.84%	4.97%	4.51%	4.42%
REVENUE	**14.12%**	**13.75%**	**13.29%**	**12.60%**
Interest payments	3.14%	3.30%	3.25%	3.23%
Defence expenditure	1.82%	1.79%	1.76%	1.75%
Subsidies	2.57%	2.24%	2.11%	1.73%
Others	2.45%	2.41%	2.47%	2.59%
Non-plan expenditure	**9.98%**	**9.75%**	**9.59%**	**9.30%**
Plan expenditure	**4.14%**	**4.00%**	**3.70%**	**3.30%**
TOTAL EXPENDITURE	**14.12%**	**13.75%**	**13.29%**	**12.60%**
Fiscal deficit	**4.9%**	**4.5%**	**4.1%**	**3.9%**

Fiscal deficit at 3.9% of GDP is achievable despite a likely slip in tax revenues (Excise and Income), in our view. Gross market borrowing is pegged at Rs 6tn in FY16. Net market borrowing at Rs 4.56tn in FY16 (Rs 4.68/4.53tn in FY14/15) will not squeeze out private borrowers incrementally. Plan Expenditure, unfortunately, will bear the brunt of a possible fiscal squeeze. For now, government has prioritised investment over consumption.

Auto

Sector	Budget Highlights	Impact	Recommendations
Auto	▪ Basic customs duty on Commercial Vehicles raised from 10% to 40%. Duty on CKD and electrically operated vehicles continues to remain at 10%.	▪ Customs rates in most other markets are higher than in India. While commercial vehicle imports are fairly small, SIAM believes that the higher duty rates would improve its negotiating position in India-EU or other FTA discussions.	▪ Mildly positive for domestic CV manufacturers including Tata Motors and Ashok Leyland.
	▪ Thrust on road infrastructure improvement by increasing outlay by Rs 140 bn.	▪ Improves connectivity and efficiency of road transport .	▪ Beneficial for all commercial vehicle manufacturers over mid-long term.

BFSI

Sector	Budget Highlights	Impact	Recommendations
BFSI	▪ Capital allocation of a mere Rs 79.4bn vs Rs 70bn in FY15. Falls short of the proposed Rs ~120bn. ▪ **MISS : No clear roadmap towards consolidation or formation of PSBs' holdco**	▪ Lower recapitalisation (vs. Rs 150bn expected) will hit business prospects of PSBs with lower CRAR/ Tier I. It will nudge them towards capital markets, a negative for current holders. ▪ Weaker PSBs will be forced to focus on improving business efficiencies and ROA profile.	▪ Negative for PSBs (with lower CRAR/Tier I) like ALBK, UNBK, CBK and BOI. ▪ PVT Banks likely to further gain market-share, led by ICICI, Axis, Indusind, Kotak and Yes Bank.
	▪ Fiscal deficit target at 3.9% of GDP for FY16. **Target of 3% fiscal deficit was pushed back by a year to FY18.**	▪ Although fiscal deficit target is lower than previous years (4.1% in FY15), it remains higher than estimate of 3.6%. ▪ The 30bps miss will mostly be utilised towards infrastructure investments .	▪ Marginal negative for Banks (especially PSBs) and NBFCs, given upside impact on yields and interest rates. ▪ The incremental infrastructure spend will be positive for credit growth.
	▪ Autonomous bank board bureau. ▪ Stronger bankruptcy norms.	▪ Over the medium term, can improve corporate governance (esp. PSBs). ▪ Enables PSBs to improve earnings profile , strengthen B/S and bring discipline within borrowers	▪ Positive for PSBs. ▪ Overall positive for banking sector, especially PSBs.
	▪ **Potential merger of FDI and FPI limits.** ▪ NBFCs to be considered under SARFAESI Act.	▪ **Foreign holding-sub caps do not apply for FDI and FPI.** ▪ Further enhances recovery mechanism for NBFCs, as they are now at parity with Banks.	▪ **Strong positive for private banks.** ▪ **Positive for NBFCs, especially at the larger ticket end such as L&T Fin, Chola Fin.**

Capital Goods

Sector	Budget Highlights	Impact	Recommendations
Capital Goods	▪ Defence capital expenditure increased to Rs 946bn in FY16E from Rs 820bn in FY15.	▪ With emphasis on 'Make in India', large proportion of this increase may come to Indian companies.	▪ **Positive for L&T, Tata Power, BEML, BEL and Astra Microwave.**
	▪ Increased outlays on both roads and gross budgetary support to railways, by Rs 140bn and Rs 101bn respectively.	▪ Will aid in financing of new projects for roads and railways.	▪ **Direct positive for all capital goods and construction companies.**
	▪ To establish a National Investment and Infrastructure Fund to ensure an annual flow of Rs 200bn to it. This will enable the trust to raise debt, and in turn, invest as equity in infrastructure finance companies. These companies can then leverage this extra equity.	▪ Will aid in financing of new projects for road and railways.	▪ Positive for all capital goods and construction companies.
	▪ PPP mode of infrastructure development to be revisited. In infrastructure projects, the sovereign will have to bear a major part of the risk without, of course, absorbing it entirely.	▪ To provide reduced risk environment to private project developers.	▪ Positive for all capital goods and construction companies.

Capital Goods... *Cont'd*

Sector	Budget Highlights	Impact	Recommendations
Capital Goods	▪ Additional investment allowance of 15% (over existing 15%) to a manufacturing company that invests in notified backward areas of Andhra Pradesh and Telangana.	▪ May lead companies to fast track their capex plans in AP and Telangana.	▪ Positive for all capital goods companies.
	▪ Infra Investment Trust (InvIT) taxation for sponsor has been brought at par with normal listing. Also, dividend income will be allowed to pass through and to be taxed in the hands of the unit holders of the InvIT.	▪ Provides a viable avenue for asset developers to raise funds and monetize assets.	▪ Positive for L&T and also other capital goods companies.

Cement

Sector	Budget Highlights	Impact	Recommendations
Cement	▪ Effective excise duty on cement to increase from 12.36% to 12.50%.	▪ Excise incidence will be marginally higher.	▪ **We remain cautious on the sector given high valuations of cement companies. Overall, the budget does not seem to be a significant event for the sector.**
	Impact on freight ▪ Hike in service tax from 12.36% to 14.00%. ▪ Lowered abatement for road transport to 70% (from 75% earlier). ▪ For rail transport, the abatement remains same, while for vessels, abatement is increased from 60% to 70%.	▪ Freight costs for cement companies transporting by road will increase, assuming transporters are able to pass it on to the cement cos. ▪ Hike will be lower for companies dispatching cement by sea (e.g. Ambuja, UltraTech from Gujarat to Mumbai).	
	▪ Clean energy cess increased to Rs 200 (from Rs 100).	▪ Marginal increase in coal costs	

Exchanges

Sector	Budget Highlights	Impact	Recommendations
Exchanges	▪ Merger of the forward markets commission (FMC) with SEBI to strengthen regulation of commodity market futures.	▪ Commodity exchanges may soon be able to launch new products including options, indices, equity and currency derivatives. ▪ An empowered regulator would have raiding and seizure powers, and would thereby be able to curb illegal Dabba trading (bucket shops). As per industry estimates, Dabba trading volumes are ~10x commodity exchange volumes. Thus, there is significant potential for increased exchange volume due to crack-down of Dabba Trading. ▪ This will reduce cost of commodity derivatives trading, as brokers/members common to equity and commodity exchanges would be able to sustain with reduced overheads. Further, client margins could be made fungible across asset classes.	▪ **STRONG positive for MCX**
	▪ The distinction between foreign portfolio investment and foreign direct investment has been done away with.	▪ Currently, investment limits are 23% and 26% each for foreign portfolio investments (FPI) and foreign direct investments (FDI). FPI in MCX stood at 20.5% (Q3FY15), against a limit of 23%, indicating very limited headroom for incremental FPI investment. There is no FDI holding currently (erstwhile FDI investors had sold off their shares), thus leaving scope for further foreign investments. **We see foreign shareholding headroom emerging upto 49% now with the sub-caps of FPI and FII investors being merged.**	
	▪ Exemption of income of core settlement guarantee fund (SGF) of clearing corporations.	▪ Currently, for commodity exchanges, clearing is managed in-house. ▪ Commodity exchanges pay tax on income earned on SGF. This tax will be saved.	

FMCG

Sector	Budget Highlights	Impact	Recommendations
FMCG	▪ Cigarettes : Excise duty on cigarettes hiked by 25% for filter cigarettes upto 65mm (micro) and by 15% for cigarettes of other lengths (against our expectation of 10% across categories).	▪ ITC will require ~10% price hike to offset the current excise hike. VST and Godfrey Phillips with larger share in micro cigarettes are more impacted.	▪ **Negative for all cigarette companies.** Our preference for ITC (TP Rs 402/sh) is driven by earnings visibility and enhanced focus on FMCG business.
	▪ Service tax increased from 12.36% to 14.00%	▪ Will further hurt demand in an already sluggish macro environment	▪ **Negative for Jubilant Foodworks and Speciality Restaurants.**
	▪ Excise duty on leather footwear (MRP > Rs 1,000/pair) reduced from 12% to 6%	▪ This will help reduce footwear prices thereby benefitting demand	▪ **Positive for Bata India, Liberty Shoes and Relaxo Footwears.**

Fertiliser

Sector	Budget Highlights	Impact	Recommendations
Fertiliser	▪ FY15 : Revised subsidy is reduced to Rs 710bn (vs Rs 731bn).	▪ No discussion on prior period subsidy arrears of ~Rs 250bn. Fertiliser players' financials will remain stretched with 3-4 months of subsidy receivables.	▪ **Negative for the sector. Subsidy remains the key issue to be addressed.**
	▪ FY16E : Budgeted subsidy has increased only by Rs 20bn to Rs 730bn.	▪ Subsidy will be sufficient for FY16E. However, prior period subsidy will affect balance sheets in 2HFY16.	▪ **Negative.**
	▪ Reduction in basic custom duty on sulphuric acid from 7.5% to 5%.	▪ No major impact.	▪ Marginal positive for complex fertiliser manufacturers.
	▪ Launched the program for Soil Health cards for better productivity in agriculture	▪ Soil testing and removal of pricing disparity between urea and complex fertilisers are essential to ensure balanced usage of nutrients.	▪ The focus on balanced usage (possible only after addressing pricing issue) will be a positive for complex players like Coromandel International, Zuari Agro, GSFC.
	▪ No change in import duty gap between raw materials and finished goods for complex fertilisers	▪ Status quo. However, import duties can be changed or rationalised during the year.	▪ **Positive for NPK traders like Chambal Fertilisers.** ▪ **Negative for manufacturers like Coromandel Int, GSFC.**

Infrastructure (Roads, Ports & Other Infra)

Sector	Budget Highlights	Impact	Recommendations
Infrastructure (Roads, Ports and Other Infra)	▪ Capital Gains for sponsors of Infrastructure Investment Trusts (InVITs) has been brought on par with tax treatment for IPOs.	▪ Will encourage road /infra asset developers to list InVITs as capital gains that was earlier deferred but payable will now be exempt from Long Term Capital Gains Tax. Short Term Capital Gains of 15% will be applicable similar to that for sale of units listed through an IPO	▪ **Positive for players with a large BOT asset portfolio such as Sadbhav Engineering, Ashoka Buildcon, IRB Infra and IL&FS Transportation Networks.**
	▪ Pass through status given for income distributed by SPV held directly by a REIT. The REIT shall effect TDS of 10% on payment of interest to a resident holder .	▪ Will result in double taxation being avoided at SPV and InVIT level. Will reduce the tax leakage for InVITs	▪ Positive if post tax income at SPV level is paid out as interest to the REIT and the REIT again pays interest to the unit holder.
	▪ Increase in sectoral outlay for roads and railways by Rs 140bn and Rs 100bn respectively.	▪ Increased spend on both segments will improve construction companies order books.	▪ All construction companies to benefit.
	▪ Establishment of a National Investment and Infrastructure Fund (NIIF), and find monies to ensure an annual flow of Rs 200bn to it.	▪ This will enable the Trust to raise debt, and in turn, invest as equity, in infrastructure finance companies such as the IRFC and NHB.	▪ Will help to bridge shortfall in public funding for infrastructure projects in light of stretched balance sheets of construction companies
	▪ Permit tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.	▪ Will open an additional source of funding for infrastructure projects.	▪ Clarity is required on whether these bonds can be issued only by PSUs.
	▪ Ports in public sector will be encouraged to corporatize, and become companies under the Companies Act.	▪ High on intent and a long term positive for the sector if implemented.	▪ Seems difficult to implement as employees of major ports are opposing corporatisation.

IT Services

Sector	Budget Highlights	Impact	Recommendations
IT Services	▪ Road map to cut corporate tax rate to 25% from the current rate of 30% over a four year period	▪ Currently, units operating in STPI are paying full tax rate. Hence reduction in corporate tax rate is positive.	▪ Positive for all IT companies
	▪ Reduction of rate of tax on royalty and fees for technical services (FTS) from 25% to 10%.	▪ Positive for product and start up companies	
	▪ Launch of Digital India programme.	▪ This could lead to new projects for companies focused on domestic market.	▪ Positive for TCS, Wipro.

Jewellery Retailers/Gold

Sector	Budget Highlights	Impact	Recommendations
Jewellery Retailers/Gold	▪ Introduction of a Gold Monetisation Scheme to replace the existing Gold Deposit and Metal Loan Schemes. The new scheme will allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account. Banks/other dealers would also be able to monetize this gold.	▪ Seeks to monetise the existing stock of gold in India of over 20,000 tonnes. Aims to reduce dependence on gold imports. However, difficult to asses the attractiveness or likely success of such a Scheme as details are not yet available.	▪ Serves as an alternative to Gold on Lease, i.e. sourcing gold from outside India. However, we do not see any incremental benefit for jewellers, though lower gold imports may be positive for CAD.
	▪ Develop an alternate financial asset, a Sovereign Gold Bond, as an alternative to purchasing metal gold. The Bonds will carry a fixed rate of interest, and also be redeemable in cash in terms of the face value of the gold, at the time of redemption by the holder of the Bond.	▪ Seeks to convert demand for physical gold into financial assets	▪ May impact jewellers in terms of investment demand for gold. We see no impact for consumption led demand for gold jewellery.
	▪ Commence work on developing an Indian Gold Coin, which will carry the Ashok Chakra on its face.	▪ Seeks to discourage gold coin imports and encourage recycling of gold in India.	▪ No impact for jewellers.

Media

Sector	Budget Highlights	Impact	Recommendations
Media	▪ Service tax rate increased from 12.36% to 14.00%.	▪ MSOs and DTH operators will attempt to pass on the service tax increase to customers. This will come in the way of ARPU improvements ▪ DTH will be impacted more than MSOs as the former pays service tax for all customers, while MSOs continue to under-declare in analog areas.	▪ Mild negative for Dish TV, Hathway Cable and Datacom, Den Networks, Siti Cable.
	▪ Corporate tax rate to progressively decline to 25% in four years (currently at 30%).	▪ This is beneficial for television broadcasting companies on account of the high corporate tax they currently pay.	▪ **Positive for Zee TV, Sun TV.**
	▪ Basic customs duty on black light unit modules used in LCD/LED TV panel manufacture reduced from 10% to NIL. ▪ Basic customs duty on organic LED TV panels reduced from 10% to NIL.	▪ Marginal positive for television broadcasters, DTH and MSOs on account of slight reduction in television prices.	▪ **Positive for Zee TV, Sun TV, Dish TV, Hathway Cable and Datacom, Den Networks, Siti Cable.**
	▪ Fungibility of foreign portfolio investment and foreign direct investment limit.	▪ Positive for MSO/DTH, news broadcasters, newsprint companies.	▪ **Positive for Dish TV, Hathway Cable and Datacom, Den Networks, Siti Cable, TV Today, NDTV, DB Corp, Jagran Prakashan, HT Media, HMVL**

Metals & mining

Sector	Budget Highlights	Impact	Recommendations
Metals & Mining	▪ Tariff rate on basic customs duty increased to 15% (from 10%). However, the effective rates of customs duty remain the same. ▪ Basic Customs Duty on metallurgical coke is being increased from 2.5% to 5.0%. ▪ Clean energy cess increased to Rs 200 (from Rs 100)	▪ No impact. ▪ Increase in input cost for companies without coke oven capacity. Will not impact large cos. ▪ Marginal increase in coal costs.	▪ We are positive on JSW Steel, driven by its improving product mix and likely improvement in availability of domestic iron ore.

Oil & Gas

Sector	Budget Highlights	Impact	Recommendations
Oil & Gas	▪ FY15 : Revised subsidy marginally down to Rs 627bn (vs Rs 635bn).	▪ Subsidy is adequately provided. We estimate Govt's share in FY15E to fall below Rs 300bn. There is a carry forward subsidy of ~Rs 300bn from FY14. Hence, the carry forward in FY16 will be significantly low.	▪ Adequate subsidy is a positive for the OMCs (IOC, BPCL and HPCL) and ONGC/OIL.
	▪ FY16E : Budgeted subsidy is lower from Rs 326bn YoY to Rs 301bn.	▪ Subsidy is adequately provided. We estimate Govt's share in FY16E to fall below Rs 250bn, unless there is a significant upmove in crude prices.	▪ Adequate subsidy is a positive for the OMCs (IOC, BPCL and HPCL) and ONGC/OIL. However, there was nothing related to timely payments for them, or higher returns for upstream oil producers.
	▪ Rebalancing of various duties of excise on petrol and diesel. However, the total incidence remains unchanged .	▪ No impact.	▪ Neutral.
	▪ Focus on DBT and to curb subsidy leakages.	▪ Total oil under recovery should reduce.	▪ Positive for all stake holders.

Power

Sector	Budget Highlights	Impact	Recommendations
Power	▪ Setting up of five new UMPPs. Bids will be called after getting all required clearances.	▪ Gives companies an additional growth avenue with reduced risks of execution.	▪ Positive for all generation companies under our coverage.
	▪ Reduction in corporate tax rate to 25% from 30% over next four years, to be accompanied by phasing out of tax exemptions.	▪ May lead to abolition of MAT and other exemptions (e.g. 80IA) to the companies.	▪ **No immediate impact. However can be negative for companies on MAT rate (with no pass through clause) in the medium term.**
	▪ Clean energy cess on coal increased from Rs 100/tonne to Rs 200/tonne.	▪ Negative for companies with no cost pass through PPAs.	▪ Impacts JSW Energy from our coverage universe. EPS can be impacted negatively by 2-3%.
	▪ Proposal to set up Public Contracts (Resolution of Disputes) Bill to streamline the institutional arrangements for resolution of contract disputes	▪ Faster dispute resolution for PPPs under contention.	• Positive for Tata Power, Adani Power and other IPPs where PPAs are stuck in judicial hurdles.

Real Estate

Sector	Budget Highlights	Impact	Recommendations
Real Estate	▪ Capital Gains for sponsors of Real Estate Investment Trusts (REITs) has been brought on par with tax treatment for IPOs	▪ Will encourage developers to list REITs as capital gains that was earlier deferred but payable will now be exempt from Long Term Capital Gains Tax. Short Term Capital Gains of 15% will be applicable similar to that for sale of units listed through an IPO	▪ **Positive for players with a large rental portfolio such as DLF, Prestige Estates, Phoenix Mills and Brigade Enterprises.**
	▪ Pass through status given for income distributed by SPV held directly by a REIT. The REIT shall effect TDS of 10% on payment of interest to a resident holder	▪ Will result in double taxation being avoided at SPV and REIT level. Will reduce the tax leakage for REITs.	▪ Positive if post tax income at SPV level is paid out as interest to the REIT and the REIT again pays interest to the unit holder. Clarity is awaited on prevalence of Dividend Distribution Tax.
	▪ Service tax rate raised to 14% (including surcharge) from 12.36%.	▪ Will result in effective service tax on purchase of residential property rising from a range of 3.09-3.5% to 3.5-4%.	▪ Marginally negative for apartment sales as it increases cost of purchase by 0.5% for buyers in under construction projects.
	▪ Reiteration of 'Housing for all' by 2022 that would require construction of 20mn houses in urban areas and 40mn houses in rural areas.	▪ Will help to spur overall construction activity. However, implementation remains a question mark .	▪ See no immediate benefits for listed developers.

Telecom

Sector	Budget Highlights	Impact	Recommendations
Telecom	▪ Service tax rate increased from 12.36% to 14.00%	▪ Telecom service companies will be negatively impacted as their realisations will reduce under current tariffs ▪ Improvement in realisations will be challenging on account of the increased service tax burden	▪ **Negative for Bharti Airtel, Idea Cellular, Reliance Communications, Tata Teleservices Maharashtra.**
	▪ Corporate tax rate to progressively decline to 25% in 4 years (currently at 30%)	▪ This is beneficial for telecom service and telecom tower companies on account of the high corporate tax they currently pay.	▪ **Positive for Bharti Infratel, Idea Cellular.**
	▪ Basic customs duty on HDPE for use in manufacture of telecommunication grade optical fibre cables reduced from 7.5% to NIL.	▪ This will marginally reduce the cost of optic fibre cables for telecom service firms.	▪ Positive for Bharti Airtel, Idea Cellular, Reliance Communications, Tata Teleservices Maharashtra.

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