Union Budget 2015 - 16

Making "One India" accomplish durable growth template

Making "One India" accomplish durable growth template

NDA's first full-fledged Budget was balanced between growth & fiscal prudence and saw a paradigm shift in its thinking to bring ideas of social security for the weaker section. It also expanded the savings pool by creating a fungibility mechanism to convert physical savings into financial savings. In its refined architecture, the government has realigned its relationship with the states by empowering them through higher devolution (62% of national revenue), which could be channelised towards on-the-ground spending. Though fiscal roadmap has been stretched by a year, incremental deficit is being earmarked for infrastructure spending while a concrete mechanism to dissuade black economy is encouraging. Overall, the Budget addresses three strategic pillars of the economy by inter-weaving pro-poor, pro-growth and pro-investors agenda in the same breath.

- The government has shifted its strategic focus to the JAM trinity (Jan Dhan, Aadhar and Mobile) along with Jan Suraksha as it plans to introduce universal social security system for all Indians. The JAM trinity would allow the government to transfer social benefits in a leakage-proof, well-targeted and cashless manner. The government plans to provide accidental death risk cover of ₹ 2 lakh for a premium of ₹ 12/year while another scheme would provide natural and accidental death risk cover of ₹ 2 lakh for a premium of ₹ 330 for the age group of 18-50 years
- The government's commitment towards another game changing reform, GST, is commendable. The FM highlighted that a state-of-the-art indirect tax system would be put in place by April 1, 2016, which could help increase tax-GDP (including states) ratio to 20% from 17.5% over two years. We believe, GST, would play a transformative role in our economy and could bring in both greater transparency as well as investments
- Surprisingly, the corporate tax rationalisation roadmap was introduced, which was not anticipated, in general. The government proposed to reduce the corporate tax rate to 25% from 30% over the next four years starting from FY17E. Rationalisation of tax rates could reduce tax related disputes, improve administration and could provide the necessary growth-fiscal template over the next five years
- The government simplified the procedure for Indian companies to attract foreign investment by doing away with the distinction between different types of foreign investments, especially foreign portfolio investments and foreign direct investments, and replaced them with composite caps

Key measures announced in this Budget:

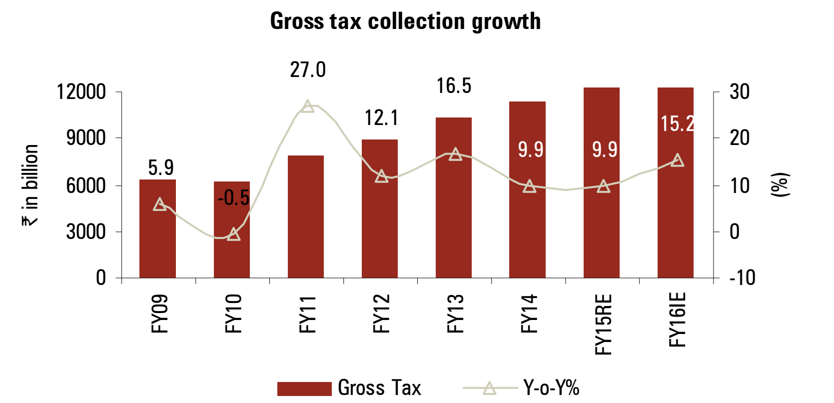
- On the tax receipt front, the government is targeting 15.2% YoY growth in gross tax revenues for FY16E vs. 9.9% in FY15E and appears reasonable given the increase in indirect taxes (full impact of excise hike for petroleum products and hike in service tax). However, net tax revenues could grow 1% YoY in FY16E given cooperative federalism
- Incidentally, the government for the first time highlighted its fiscal road map and aims to achieve fiscal deficit target of 3.9% in FY16E; 3.5% in FY17E and 3% in FY18E. Further, the quality of expenditure is also improving with a shift towards capital expenditure vs. revenue expenditure. Finally, though the government revised its FY16 fiscal deficit target to 3.9% vs. 3.6% pre-planned earlier, the incremental deficit is being utilised for infrastructure spending
- A new bill would be introduced to tackle benami transaction and domestic black money. The enforcement agencies would be empowered to attach assets. Further, undisclosed income would be taxed at the maximum marginal rate. Deductions and exemptions for such income will not be allowed while tax evasion could attract punishment of up to 10 years of rigorous imprisonment. The government also made quoting of PAN mandatory for transaction worth >₹ 1,00,000
- We believe the government's FY16E fiscal deficit target hinges on its disinvestment target of ₹ 69,500 crore
- Other key measures:
  - PSUs to undertake capex of ₹ 3,17,889 crore, 34% growth YoY
  - Creation of Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹ 20,000 crore and credit guarantee corpus of ₹ 3,000 crore
  - Forward Markets Commission (FMC) to be merged with Sebi
- **We are bullish on domestic oriented sectors like automobiles, cement, capital goods, and banks. Defensive sectors like FMCG, pharma and IT could perform in line with broader markets. We maintain our December 2015 Sensex and Nifty target of 32,500 and 9750, respectively**

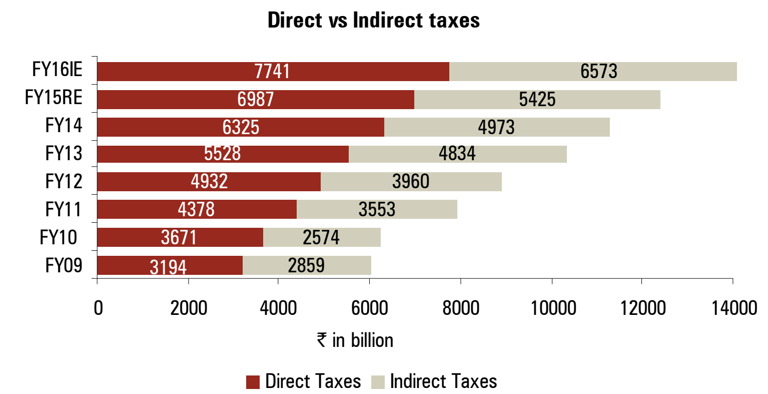
Containing deficit at 3.9% with enhanced fiscal federalism…

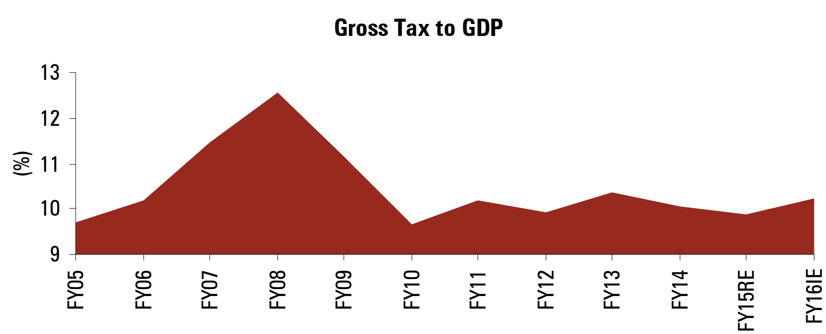
Government Revenue & Expenditure								
Particulars	FY14A	FY15RE	YoY (%)	FY16BE	YoY (%)	FY16IE	YoY (%)	Comments
Gross Tax Revenues	1138733	1251392	9.9	1449491	15.8	1442166	15.2	We anticipate gross tax revenues will grow 15.2% YoY on account of full impact of hike for excise duty on petroleum products & hike in service tax, along with full benefit of roll back of excise benefit for auto sector
Less: State Shares & Others	322,880	342,928	6.2	524,870	53.1	524,870	53	Share of states has been hiked to 42% from 32% in line with 14th Finance Commission recommendation to enhance cooperative federalism
Net Tax revenue	815853	908464	11.4	919843	1.3	917296	1.0	
Non Tax Revenues								
Dividend	90435	88781	-1.8	100651	13.4	100651	13.4	Dividend includes ~₹ 64477 crore in FY16 vs. ₹60358 crore in FY15 from RBI
Economic services	67657	83730	23.8	74017	-11.6	75000	(10.4)	The budgeted figure includes receipt of ₹ 42865 crore from telecommunication/spectrum auction, which is achievable if additional 3G spectrum is auctioned
Others	40778	45321	11.1	47065	3.8	47065	3.8	
Total	1014723	1126296	11.0	1141576	1.4	1140012	1.2	
Capital Receipts								
Recovery of Loans	12497	10886	-12.9	10753	-1.2	10753	(1.2)	
Disinvestments	29368	31350	6.7	69500	121.7	70000	123.3	With huge disinvestment pipeline such as ONGC, IOC, Balco, HZL along with IPO of HAL & RINL & monetisation of SUUTI, we believe FY16 disinvestment target is achievable
Total	41865	42236	0.9	80253	90.0	80753	91.2	
Total Receipts	1056588	1168532	10.6	1221829	4.6	1220765	4.5	
Non plan Expenditure								
Subsidies								
Fertilizer	72970	70967	-2.7	72969	2.8	72969	2.8	
Food	115000	122676	6.7	124419	1.4	125000	1.9	Food Security Bill allocation to remain higher as it is yet to be rolled out across states vis-a-vis 11 states currently
Petroleum	63427	60270	-5.0	30000	-50.2	30000	(50.2)	Petroleum subsidy also includes efficiency benefits from implementation of DBT mechanism in LPG & kerosense. Any delay to check leakages would lead to slippage in subsidies to ~₹ 39000 crore assuming crude oil at US$60 per barrel
Other subsidies	9260	12779	38.0	16423	28.5	16423	28.5	
Other expenditure	845462	946532	12.0	1068389	12.9	1068389	12.9	
Total	1106120	1213224	9.7	1312200	8.2	1312781	8.2	
Plan Expenditure	453327	467934	3.2	465277	-0.6	465000	(0.6)	Though plan expenditure is kept flat, the quality of expenditure has improved with higher allocation towards capital expenditure (up from 21.5% to 29%)
Total Expenditure	1559447	1681158	7.8	1777477	5.7	1777781	5.7	
Fiscal deficit	502859	512626	1.9	555648	8.4	557016	8.7	
GDP estimates	11345056	12653762	11.5	14108945	11.5	14108945	-	
Fiscal deficit as % of GDP	4.4%	4.1%	NA	3.9%	NA	3.9%	NA	Fiscal deficit is expected to come down by 20 bps despite higher state revenues sharing & focus towards development expenditure

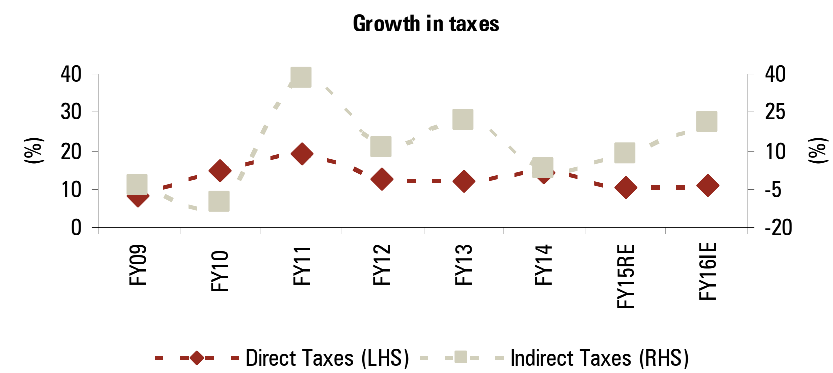
Hike in indirect taxes to drive tax collection growth…

We anticipate gross tax to GDP ratio will improve marginally to 10.2% in FY16E with 15% YoY growth in gross tax collection. While direct tax collection growth to remain moderate, indirect taxes are likely to grow 25% YoY to ₹ 6.6 lakh crore on account of a hike in excise duty for petroleum products & service tax from 12.36% to 14%), Furthermore, indirect taxes are also likely to see the full impact of rollback of excise benefit for auto sector in FY16, which will have a positive impact of ₹ 6000 crore. Consequently, the share of indirect taxes in total taxes will increase from 43.7% in FY15 to 45.9% in FY16.









Source: Budget documents, ICICIdirect.com Research

Disinvestment – Ambitious but achievable….

Disinvestment: Implementation is a key

- The government has set a disinvestment target of ₹ 69,500 crore for FY16E, which is almost double the amount targeted for FY15E
- Though it appears an ambitious target to achieve, we are hopeful that the government may achieve the target supported by an improved macroeconomic environment
- The government has garnered about ₹ 24500 crore through disinvestment of SAIL and Coal India and expects to raise further ₹ 6850 crore in the current fiscal

Historical trend of disinvestment proceeds

Year	Budgeted (₹ cr)	Actual (₹ cr)	Receipts From
FY98	4,800	910	MTNL
FY99	5,000	5,371	VSNL, CONCOR, GAIL, ONGC,IOC
FY00	10,000	1,860	GAIL, VSNL, BALCO, MFIL
FY01	10,000	1,871	KRL, CPCL, BRPL,BALCO, LJMC
FY02	12,000	5,658	CMC, HTL, VSNL, IBP, PPL, ITDC
FY03	12,000	3,348	HZL, IPCL, ITDC, MARUTI
FY04	14,500	15,547	JCL, HZL, MUL, IBP, IPCL, CMC, GAIL
FY05	4,000	2,765	NTPC, ONGC, IPCL
FY06	NST	1,570	MUL
FY07	NST	0	NA
FY08	NST	4,181	MUL, PGCIL, REC
FY09	NST	0	NA
FY10	NST	23,553	NHPC, OIL, NTPC, REC, NMDC
FY11	40,000	22,144	SJVN, EIL, COAL INDIA, PGCIL, MOIL
FY12	40,000	13,894	PFC, ONGC
FY13	30,000	23,956	NBCC, NMDC, OIL, NTPC, NALCO, SAIL
FY14	40,000	15,819	MMTC, NHPC, EIL, BHEL, CPSE-ETF, IOC, PGCIL
FY15*	58,425	31350*	Coal India, SAIL

- Secondly, the government needs to dilute its stake in 33 PSUs to comply with Sebi's minimum public holding norms till June, 2017. The table below highlights potential disinvestment candidates. However, note the list is not exhaustive.
- Thirdly, GoI can raise funds worth ~₹ 50,000 crore through Specified Undertaking of UTI (SUUTI). Formed in 2003, it is an offshoot of the erstwhile UTI and holds significant stakes in ITC Ltd (11.22%, ₹ ~35,000 crore), Larsen & Toubro (8.17%, ~₹ 12,800 crore) and Axis Bank (11.63%, ₹ 15,500 crore)

Disinvestment candidates

Company	(₹ crore)
SUUTI	50000
HZL & Balco; Strategic Stake Sale	25742
ONGC	14307
Coal India	11300
IOC	8145
NMDC	5500
BHEL	3400
PFC	1800
REC	1550
NALCO	1250

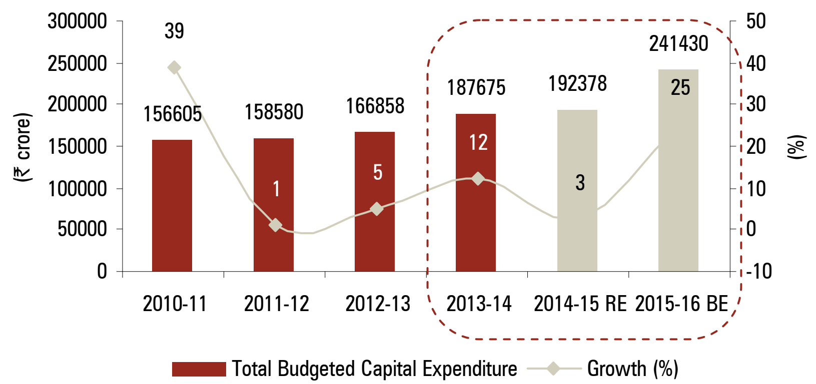
Telecom to fetch ₹ 42865 crore in FY16BE

- The government has budgeted ₹ 42865 crore from telecom in FY16, which appears to be achievable provided additional 3G spectrum is auctioned

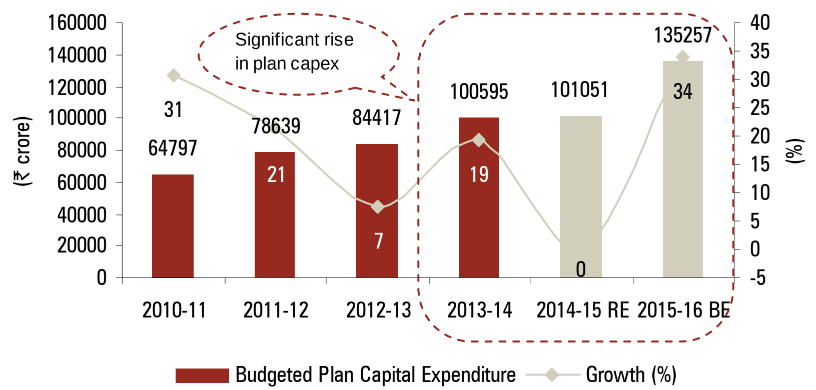
Source: Budget Documents, MoF, ICICIdirect.com Research **Provisional number*

Enhanced focus on budgeted capital expenditure…

Trend in Budgeted Capital Expenditure



Trend in Budgeted Plan Capital Expenditure



Significant focus has been given to budgeted plan capital expenditure, which increased 34% YoY to ₹ 1,35,257 crore in FY16 BE whereas budgeted plan revenue expenditure has been reduced by 10% YoY to ₹ 3,30,020 crore in FY16BE

Key proposals to execute planned capex

Road Sector

•Completing 1 lakh km of roads currently under construction plus sanctioning and building another 1 lakh km of road is of topmost priority. Consequently, an outlay of ₹ 29,420 crore to NHAI, ₹ 14,291 crore to PMGSY and ₹ 4,000 crore towards Special Accelerated Road Development Programme for the North Eastern region has been allotted for FY16BE

•Increase in road cess from ₹ 2/litre to ₹ 4/litre on petrol and diesel would lead to an additional sum of ₹ 40,000 crore being available for roads and other infrastructure

Power Sector

•Proposal to launch five UMPPs with a capex of ₹ 100,000 crore subject to receipt of key clearances

•To enhance renewable energy capacity of 175 GW (solar – 100 GW, wind – 60 GW, biomass – 10 GW and 5 GW small hydro) from current level of ~40 GW

• Total ₹ 4,500 crore allocated to Deen Dayal Upadhyay Gram Jyoti Yojana that will augment power supply to rural areas

Others

•Total ₹ 6,000 crore allocated to Urban Rejuvenation Mission to provide 500 habitation & mission for development of 100 smart cities

•Total ₹ 8,385 crore towards equity investment in Metro Rail Projects

•Total ₹ 1,200 crore for grants to the Delhi Mumbai Industrial Corridor Project

•Total ₹ 5,300 crore to PMKSY for development of micro irrigation & IWD program

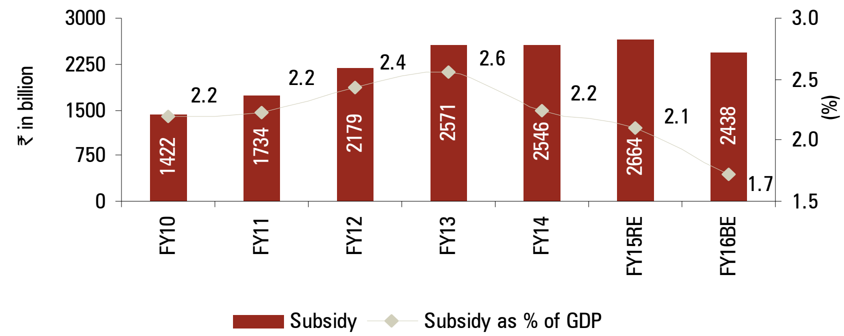
*Source: Budget Documents, MoF, ICICIdirect.com Research * BE*

Drop in petroleum subsidy aids in containing India's subsidy bill

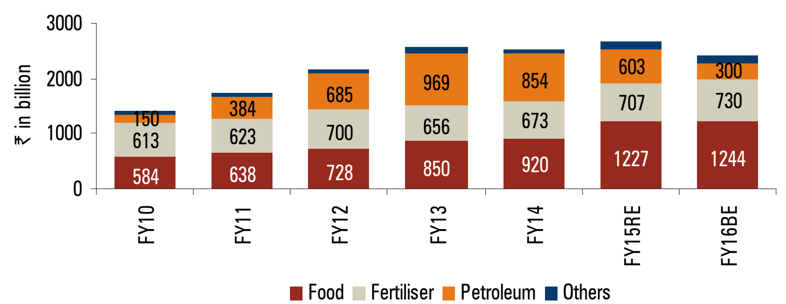
- The government's subsidy burden that has been increasing sharply over the last few years is expected to decline 8.5% YoY at ₹ 243,800 crore in FY16E. This will be possible due to a sharp decline in crude oil prices and rationalisation of subsidies that will lower the total oil subsidy burden in the next fiscal
- On fuel subsidy front, the government expects a subsidy burden of ~₹ 30,000 crore in FY16E (that includes ₹ 22,000 crore for LPG & ₹ 8,000 crore for kerosene), which is substantially lower than the FY15E government's budgeted estimate of ~₹ 60,300 crore. However, the key risk to government's estimate is implementation of direct benefit scheme (DBT) in LPG and kerosene & higher crude oil prices. Oil subsidies would increase to ₹ 39,000 crore in FY16E if there is any delay in implementation of DBT schemes (assuming crude oil prices at US$60/barrel). Another upside risk to government's FY16E estimates for oil subsidy is non accounting of Q4FY15 expected subsidy of ~₹ 13,000 crore
- The food subsidy bill for FY16E is expected at ₹ 124,000 crore, up 1.4% YoY (that also includes a provision of ₹ 65,000 crore for implementation of National Food Security Act) while fertiliser subsidy is expected at ₹ 73,000 crore, up 3.2% YoY

We expect the subsidy burden as a percentage of GDP to decline from 2.2% in FY14 to 1.7% in FY16E on account of a sharp decline in oil subsidy from 0.8% of GDP in FY14 to 0.2% of GDP in FY16E

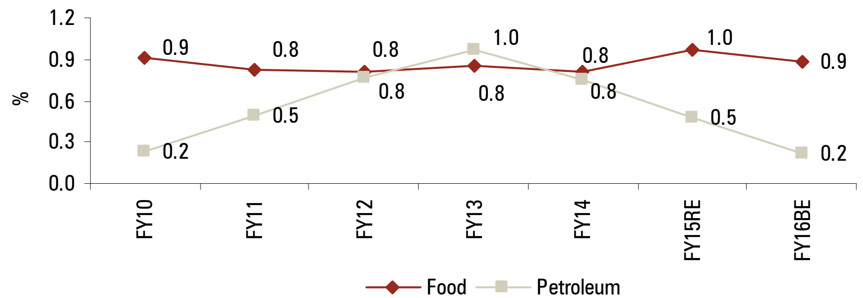
Subsidy as percentage of GDP



Subsidies break-up



Food & Oil Subsidy as percentage of GDP



Source: Budget Documents, MoF, ICICIdirect.com Research

Make In India – Clearing the ground for successful implementation

GST, which is expected to remove the cascading anomalies of taxation, is a key requisite to boost manufacturing in India. FM laid the groundwork for transition to GST by increasing service-tax plus education cess from 12.36% to 14%

Rate of income tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow

The Budget also proposed to lower the corporate tax rate from 30% to 25% over the next four years, starting from FY17. This move would rationalise the tax burden in line with global competition

FM also provided for an additional investment allowance @15% and additional depreciation @35% for new manufacturing units set up in FY16-20 in notified areas of Andhra Pradesh and Telangana. This move is expected to boost the manufacturing activity in said states as a part of Make in India

The basic custom duty & special additional duty (SAD) on raw materials for 22 products including LED lights & panels, renewable powersystem inverters, solar water heaters, insulated cable & wires and chemicals have been reduced mainly to address the inverted duty structure in given segments and, thereby, encourage manufacturing in India

For tax purpose, additional depreciation @ 20% has been allowed on new plant and machinery installed by a manufacturing unit or a unit engaged in generation and distribution of power. The resultant saving in tax, we believe, would act as another catalyst for manufacturing activity

Regulatory bottlenecks were addressed to boost 'Make in India' initiative. E.g. rationalisation of capital gains regime for sponsors exiting at the time of listing of units of REITs and InvITs

Source: Budget Documents, MoF, ICICIdirect.com Research

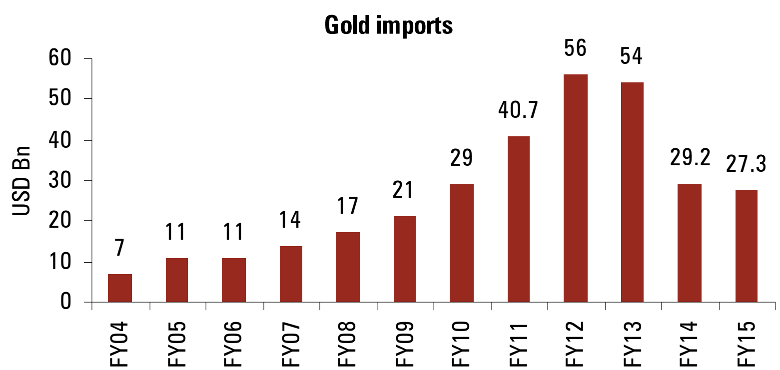
Physical to financial savings: Monetise assets, disincentivise cash

- Increasing focus to raise financial savings and reduce the burden on CAD. Gold imports were curbed in FY14, impacting physical savings to 11% of GDP in FY14 vs. 13.2% in FY13

Savings as percentage of GDP	2011-12	2012-13	2013-14
Gross Savings	33.9	31.8	30.6
Public	1.4	1.7	1.6
Private Corporate	9.7	10.0	10.9
Household	22.8	20.2	18.2
Physical*	15.5	13.2	11.0
Financial	7.3	7.0	7.2

*Household physical savings include valuables like gold and property

Gold imports peaked in FY12 posing challenges on the CAD front (imports peaked at $56 billion). The government now plans to physically channelise these physical savings into financial savings by facilitating monetising of gold through the below-mentioned measures



Monetising gold - long term positive

- Sovereign gold bond to be issued on gold deposits in lieu of interest
- Gold deposit scheme to allow depositors of gold to earn interest in their metal accounts and jewellers to obtain loans in their metal account
- Introduction of Indian gold coins with imprint of Ashoka Chakra can aid in reducing consumption of imported gold coins

REITs – Monetising existing real estate assets

- Incentive in the form of tax pass through status for REITs to pave the way for REITs listing in India. It will help compression in capital rate and better valuation for developers. Additionally, it will free up capital for developers

Alternate investment funds (AIFs)

- Foreign investment in AIF has been allowed along with tax pass-through status for alternate investment funds
- The government would do away with different categories like foreign portfolio investors (FPI) and foreign direct investment (FDI) for such investments with a view to making it easier for overseas investors to invest in AIFs. The measure is expected to give a boost to private equity industry in India

Measures to disincentivise cash transactions

- To incentivise debit and credit card transactions in order to facilitate cashless economy
- PAN being made mandatory for any purchase or sale exceeding ₹ 100000
- Acceptance or re-payment of an advance of ₹ 20,000 or more in cash for purchase of immovable property to be prohibited

Source: Budget Documents, MoF, ICICIdirect.com Research

Income tax: Sops to encourage increased pension and medical spend

We believe the measures introduced serve two purpose:

- Encourage individuals to increase their expenditure towards health and built retirement corpus
- Channelise retirement savings to equity/debt markets through medium of New Pension Scheme

Key highlights

- Small disappointment to individual tax payers as there was "no change" in the rate of personal income tax and the income tax slab for FY15-16 (expectation was to increase the basic exemption limit to ₹ 300000).
- Wealth tax has been abolished. However, surcharge on super rich (individuals/HUFs/AOPs, BOIs, firms, cooperative societies and local authorities having income exceeding ₹ 1 crore) has increased to 12% from the current rate of 10%. The effective tax rate for super-rich, therefore, increases to 34.6% from 34%
- Education cess on income tax @ 2% and secondary and higher education cess @ 1% continued for 2015-16
- For salaried individuals, transport allowance exemption is being increased from ₹ 800 per month to ₹1,600 per month. Total exemption during the year, therefore, increases from ₹ 9600 to ₹ 19200
- For contribution made towards the New Pension Scheme (NPS), additional deduction of ₹ 50000 is allowed under section 80CCD(1B), which is over and above the existing deductions
- Limit for deduction under Section 80 CCC for investment in pension schemes raised to ₹ 150000 from ₹ 100000. However, the overall limit of ₹ 150000 under section 80CCE i.e. combined deduction U/s 80C, 80CCC and 80CCD(1) remains same as before
- The option to choose between NPS and EPF is also provided. However, clarification is required as NPS has EET taxation regime while EPF has EEE tax benefit
- Deduction under section 80D for payment of mediclaim premium, limit increased from ₹ 15000 to ₹ 25000 and that for senior citizen increased to ₹ 30000 from ₹ 20000 earlier. For very senior citizen of the age of 80 years or more, who are not covered by health insurance, deduction of ₹30,000 towards actual expenditure incurred on the treatment will be allowed
- Additional deduction of ₹ 25,000 allowed for differently abled persons under Section 80DD and Section 80U
- The additional deductions/exemption as aforesaid introduced in the Union Budget 2015-16, translates into incremental tax savings of ₹ 7168, ₹ 14337, ₹ 21506 for individual tax payer falling under the 10%, 20% and 30% tax slab, respectively

Source: Budget Documents, ICICIdirect.com Research

Other notable highlights…

Vision 2020

- Housing for all - 2 crore houses in urban areas and 4 crore houses in rural areas
- Electrification of the remaining 20,000 villages including off-grid Solar Power- by 2020

Banking, financial services and insurance (BFSI)

- Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹ 20,000 crore, and credit guarantee corpus of ₹ 3,000 crore to be created. It will be responsible for refinancing all micro-finance institutions, which are in the business of lending to such small entities
- Leverage postal network with 1,54,000 points of presence spread across villages to increase access to the formal financial system
- Forward Markets commission (FMC) to be merged with Securities and Exchange Board of India (Sebi)

Social schemes

- Pradhan Mantri Suraksha Bima Yojna to cover accidental death risk of ₹ 2 Lakh for a premium of just ₹ 12 per year. Pradhan Mantri Jeevan Jyoti Bima Yojana to cover both natural and accidental death risk of ₹ 2 lakh at premium of ₹330 per year for the age group of 18-50
- Total 50 lakh toilets already constructed in 2014-15 and on track to achieve target of building six crore toilets
- Allocated ₹ 68,968 crore to the education sector, ₹ 33,152 crore to the health sector and ₹ 79,526 crore for rural development activities including MGNREGA, ₹ 22,407 crore for housing and urban development, ₹ 10,351 crore for women and child development, ₹ 4,173 crore for Water Resources and Namami Gange
- Roll out of MGNREGS on DBT platform in 300 districts with higher Aadhar enrolment. This will ensure flow of funds to the tune of ₹ 15000 crore per annum on DBT platform and will affect 4.3 crore beneficiaries
- Total ₹ 5,300 crore to support micro-irrigation, watershed development and the 'Pradhan Mantri Krishi Sinchai Yojana
- One IIT, five AIIMS, three pharmaceutical and two science research institutions to be set up across the country

Taxation

- Service tax exemption extended to pre-cold storage services in relation to fruits and vegetables
- Replaced wealth tax with 2% surcharge on the super-rich (taxable income over ₹ 1 crore) and could result in a gain of ₹ 8,000 crore
- Abandoned Direct Taxes Code (DTC)
- Service tax exemptions withdrawn for
  - Construction, erection, commissioning or installation of original works pertaining to an airport or port
  - Access to amusement facility, entertainment events or concerts, pageants, non recognised sporting events etc
  - service provided by the government to business entities shall become taxable once the amendment is in effect

Source: Budget Documents, ICICIdirect.com Research

Other notable highlights…

Moving towards Goods and Services Tax (GST)

- Increase the present rate of service tax plus education cess from 12.36% to a consolidated rate of 14%
- Education cess and the secondary and higher education cess to be subsumed in central excise duty
- Time limit for taking Cenvat credit on inputs and input services is being increased from six months to one year
- Central excise/service tax assesees are being allowed to issue digitally signed invoices and maintain other records electronically

Infrastructure

- Earmarked an initial sum of ₹ 1,200 crore for DMIC corridors: the Ahmedabad-Dholera Investment Region in Gujarat, and the Shendra–Bidkin Industrial Park near Aurangabad, in Maharashtra. It will soon launch the first phase of Gujarat International Finance Tec-City (GIFT). First phase of Gujarat International Finance Tec-City (GIFT) could soon become a reality
- Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended up to March 31, 2016
- Ports in public sector will be encouraged, to corporatise and become companies under the Companies Act to attract investment and leverage the huge land resources

Technology

- Reduced income tax on royalty and fees for technical services from 25% to 10% to facilitate technology inflow to small businesses
- Self-Employment and Talent Utilisation (SETU) to be established as techno-financial, incubation and facilitation programme to support all aspects of start-up business. Total ₹1000 crore to be set aside as initial amount in NITI
- To expand e-visa on arrival facility to 150 countries in stages from 42 countries currently

Source: Budget Documents, ICICIdirect.com Research

Sectoral Impact

Measure	Sectors Impacted	Impact	Key stocks
Entertainment sector brought under the service tax net	Entertainment	Negative	PVR, Inox Leisure, Eros, Dish TV, Hathway
Clean energy cess on coal from ₹ 100/tonne to ₹ 200/tonne	Metals and Mining / Power	Negative / Neutral	Hindalco, Sesa Sterlite / NTPC, Tata power, CESC
Proposal to launch 5 UMPP subject to receipt of key clearances	Power/Capital goods	Positive	Bhel, L&T, Thermax, NTPC, Tata Power
Proposal to set up 1,75,000 MW renewable capacity	Power/Capital goods	Positive	Tata Power, NTPC, Power Grid, Kalpataru
Reduction of excise duty on manufacture of footwear from 12% to 6% (on retail price exceeding ₹ 1000/pair)	Retail	Positive	Bata India, Liberty Shoes, Relaxo Footwear
Comprehensive Bankruptcy Code to be brought in FY15-16	BFSI	Positive	PNB, BOB
NBFCs to be considered 'Financial Institution' for SARFAESI Act	NBFCs	Positive	HDFC, IDFC
Forward Markets commission (FMC) to be merged with Sebi	BFSI	Positive	Kotak Mahindra Bank, MCX
Increase in deduction limit for health insurance premium	BFSI	Positive	Reliance Capital, Max India and HDFC Ltd
Distinction between different types of foreign investments, especially between FPI & FDI has been done away with	BFSI	Positive	Axis bank, Indusind Bank
Government to infuse ₹ 7940 crore in PSU banks during FY16	BFSI	Negative	PNB, BoI, Syndicate Bank, Dena Bank
Increase in credit to agricultural sector at ₹ 8.5 lakh crore	Agriculture	Positive	Rallis India, EPC Industrie, KSB Pumps
Allocation of ₹ 5300 crore to support various irrigation schemes	Agriculture	Positive	EPC Industrie, KSB Pumps
Excise increase in below 65 mm cigarettes by 25% & above 65 mm by 15%	FMCG	Negative	ITC, VST industries
Increase in excise duty from 12% to 18% on plastic products (polymers)	Consumer Durable	Negative	Wimplast
Completing 1 lakh km of roads currently under construction and sanctioning and building another 1 lakh km. Increased outlays on roads by ₹ 14,031 crore	Infrastructure	Positive	Ashoka Buildcon, IRB Infrastructure, Simplex Infrastruture & NCC
Increase in road cess from ₹ 2 per litre to ₹ 4 per litre on petrol and diesel	Infrastructure	Positive	Ashoka Buildcon, IRB Infrastructure, Simplex Infrastruture, NCC & L&T
Establishment of National Investment and Infrastructure Fund (NIIF) with an initial annual flow of ₹ 20,000 crore	Infrastructure	Positive	Ashoka Buildcon, IRB Infrastructure, Simplex Infrastruture, NCC & L&T
Tax free infrastructure bonds for projects in rail, road and irrigation sectors	Infrastructure	Positive	Simplex Infrastructure, NCC & L&T
Rationalisation of capital gains regime for sponsors and tax pass through status for Infrastructure investment Trusts (InvITs)	Infrastructure	Positive	Ashoka Buildcon & IRB Infrastructure
Rationalisation of capital gains regime for sponsors and tax pass through status for REITs	Real Estate	Positive	Oberoi Realty
Government to increase visa on arrival facilities to 150 countries from 43 at present. Further, the government to invest in 22 world heritage sites to promote tourism	Hotels	Positive	IHCL, Cox&Kings, EIH
Government committed to rationalise subsidies	Oil & Gas	Positive	Oil India, HPCL, IOC, Gail
Basic custom duty on Metallurgical coke increase from 2.5% to 5%	Metals and Mining	Negative	Kalyani Steel

Budget impact on Index Stocks

Company	Impact
Axis Bank Ltd	Comprehensive Bankruptcy Code to enable banks to deal with NPA issues in a better manner. Introducion of Regulatory Reform law for infrastructure would be positive for the bank as it has ~20% exposure to infrastruture. Further, distinction between different types of foreign investments, especially between foreign portfolio investments and FDI has been done away with, which should be positive
Bajaj Auto Ltd	It is one of the few Indian manufacturing OEMs with a global presence/market share coupled with global R&D standards along with quality management. With new product launches to aid revenues, earnings growth in FY15-17E it is attractively priced at ~12x FY17E EPS
Bharat Heavy Electricals Ltd	Announcement of five new ultra mega power projects, each of 4000 MW, in the plug-and-play mode will lead to strong ordering opportunity for generation equipment players like Bhel (largest capacity of 20000 MW) will help Bhel to grow its order backlog and visbility over the next two to three years
Bharti Airtel Ltd	There have been no major policy changes for Bharti Airtel. It has a subscriber, revenue share of 23%, 31%, respectively, and high speed data footprint in 20 circles. We expect further consolidation in the sector, which could reduce competitive intensity. Also, it is best placed in terms of fall back spectrum and balance sheet strength in the upcoming spectrum auction
Cipla Ltd/India	The Budget remains silent regarding the enhancement of percentage for weighed deduction in R&D expenditure benefit as was the case in the previous few Budgets. Overall, the Budget is neutral for the pharma sector, as a whole
Coal India Ltd	Clean energy cess on coal has been increased from ₹ 100/tonne to ₹ 200/tonne to finance clean environment initiatives. Cess is a pass through for Coal India and will be borne by end customers. Hence, this will have no impact on the company.
Dr Reddy's Laboratories Ltd	The Budget remains silent regarding the enhancement of percentage for weighed deduction in R&D expenditure benefit as was the case in the previous few Budgets. Overall, the Budget is neutral for the pharma sector, as a whole
Gail India Ltd	No announcement was made related to the gas sector. However, focus on reducing the oil subsidy through direct benefit transfer is positive. Going forward, domestic gas allocation priority to petchem & LPG business and clarification regarding abolition/reduction in subsidy burden would be growth drivers. The stock is currently trading at 12.7x FY17E EPS of ₹ 32.1
HDFC Bank Ltd	Incentivisation of debit and credit card transactions and utilisation of postal network with 1,54,000 points of presence spread across villages to increase access of the people to the formal financial system would benefit the bank over the medium to long term owing to its enhanced focus towards rural areas.Comprehensive Bankruptcy Code to enable the bank to deal with NPA issues in a better manner. Introduction of regulatory reform law for infrastructure would be positive for the bank
Hero MotoCorp Ltd	HMCL's dependence on a single (Indian) market, that too with major rural dependance makes us cautious. The response to new product launches holds the key . At ~13x FY17E EPS, the stock looks relatively fairly valued, especially in comparison to its peers like Bajaj Auto
Hindalco Industries Ltd	Clean energy cess on coal has been increased from ₹ 100/tonne to ₹ 200/tonne to finance clean environment initiatives. This will increase the power cost for the company.
Hindustan Unilever Ltd	With the expected increase in MGNREGA and other rural wealfare schemes allocation, rural income levels would get some boost, which would help in creating more rural demand for FMCG companies including HUL

Source: ICICIdirect.com Research

Budget impact on Index Stocks

Company	Impact
Housing Development Finance Corp	Considering NBFCs having an asset size of ₹ 500 crore and above as ‘financial institution’ in terms of the SARFAESI Act, 2002 would help in accelerating the recovery process. Further, an increase in deduction limit regarding health insurance premium from ₹ 15000 to ₹ 25000 will be positive for HDFC's general insurance subsidiary. Execution as expected of the housing for all vision by 2022 to benefit the company over the long term
Infosys Ltd	Domestic IT spend could be driven by 1) “Smart City” initiative announced in the earlier Budget (₹ 7,060 crore allocation), 2) “Digital India” pan-India programme and 3) government's focus on e-governance initiatives to integrate all central government departments and ministries. Infosys could be a beneficiary in this space given the company is working on the e-Biz platform (2.6%, $214 million)
ITC Ltd	Excise duty on below 65 mm category has been increased by 25% while excise duty on above 65 mm category has been increased by 15%. We expect the company to continue to pass on this excise increase by price hikes. This would result in a further decline in cigarettes volumes in future. We expect 6-8% volume decline in FY16E
Larsen & Toubro Ltd	Revitalising the PPP model, announcement of 5 UMPPs of 4000 MW entailing a ₹ 1 lakh crore capex, ordering of 100000 km of road projects, YoY increase of ₹ 14000 crore towards roads sector, rationalisation of tax structures for sponsors and pass through status for REITS augur well for L&T
Mahindra & Mahindra Ltd	Soft steps towards reigniting rural/farm income is a positive for the tractors business. However, lower-than-expected concessions for electric/hybrid vehicles is a negative for M&M's hybrid vehicle portfolio. At 11x core PE the stock remains attractively priced considering the product launch pipeline
Maruti Suzuki India Ltd	Low penetration levels for PVs provide headroom for sustained growth. MSIL's petrol dominated portfolio is likely to benefit from improved economic sentiments and continuance of diesel-petrol price rationalisation. However, at 18x FY17E EPS, current valuations capture many positives
NTPC Ltd	The proposal to come up with five UMPP (20 GW) and 175 GW of renewable capacity addition will provide robust capacity addition opportunity for NTPC. NTPC has already proposed to add 10,000 MW of solar capacity over next five years. The increase of coal cess from ₹ 100 to ₹ 200 per tonne is likely to have a neutral impact on NTPC as it is a pass through for the company
Oil & Natural Gas Corp Ltd	The Budget's focus on reducing the oil subsidy through direct benefit transfer is positive. However, no clarity/roadmap was given on the subsidy sharing mechanism, which is highly awaited. Going forward,, clarity on the subsidy sharing formula will hold the key for future profitability. The stock currently trades at 8.9x FY17E EPS of ₹ 37.6
Sesa Sterlite Ltd	Clean energy cess on coal has been increased from ₹ 100/tonne to ₹ 200/tonne to finance clean environment initiatives. This will increase the power cost for the company. However, considering the diverse nature of business of Sesa Sterlite, the overall impact on the company will be negligible in nature
Sun Pharmaceutical Industries Ltd	The Budget remains silent regarding the enhancement of percentage for weighed deduction in R&D expenditure benefit as was the case in the previous few Budgets. Overall, the Budget is neutral for the pharma sector, as a whole

** ICICI Securities has received an investment banking mandate from Government of India for disinvestment in ONGC and has been assigned an advisory mandate by Ranbaxy Laboratories Limited with regard to Sun Pharmaceutical Industries Limited’s acquisition of Ranbaxy Laboratories Limited.*

Source: ICICIdirect.com Research

Budget impact on Index Stocks

Company	Impact
Tata Consultancy Services Ltd	Domestic IT spend could be driven by 1) “Smart City” initiative announced in earlier budget (₹ 7,060 crore allocation), 2) “Digital India” pan-India programme and 3) government's focus on e-Governance initiatives to integrate all central government departments and ministries. TCS could be a major beneficiary given its deeper focus on government contracts and healthy domestic revenues (~6.7%, $900 million)
Tata Motors Ltd	An increase in customs duty on CVs is a positive for domestic manufacturers. JLR, on the other hand, is likely to continue growing on the back of its strong product pipeline and new China JV ramp up. Turnaround in the domestic business losses is a key monitorable
Tata Power Co Ltd	A reduction in excise duty from 12.5% to nil on pig iron SG grade and ferro silicon magnesium, used in the manufacture of cast component of wind power generators will benefit Tata Power’s upcoming 81 MW wind project. Also, a proposal to set up 175 GW of renewable capacity and launching of 5 UMPP post provision of all necesaary clearances (forest, environment etc) will provide ample growth opportunity for the company. Increase in coal cess will have a neutral impact as its a pass through
Tata Steel Ltd	Allocation of funds for rural infrastructure development and development of road and ports will in aid in augmenting steel demand which augurs well for the company.
Wipro Ltd	Domestic IT spend could be driven by 1) “Smart City” initiative announced in earlier budget (₹ 7,060 crore allocation), 2) “Digital India” pan-India programme and 3) government's focus on e-Governance initiatives to integrate all central government departments and ministries. Wipro could be a key beneficiary given its focus on domestic hardware and infrastructure business (India & Middle-East 8.6%, $570 million)

Source: CICIdirect.com Research

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