BUDGET FY15-16 REVIEW

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"Work in Progress" Budget.

Lack any ideas to kick start growth immediately.

In our pre budget note we mentioned, this budget will be judged more on what it does at macro level? Key answers that market participants will be looking post budget would be 1) Does the budget provide ability to kick start growth in economy? 2) Can we expect Capex cycle to revive post budget? 3) Has the real action on flagship programs like "Make in India' got rolling? Unfortunately the *answers to majority of these questions are in negative. Overall we opine this budget as mixed bag & rate it as "Neutral".*

While there is no "out of box thinking" idea on capex cycle restart there are a few promises made regarding "black money', promulgating some policy on monetization of gold, deferment of GAAR by 2 years & setting up of dispute resolution committee. We will wait for details on these programs & how these will pan out. In our view the big negative is no particular program on "Make in India", Swatch Bharat Mission etc.

- As regards total income the budget assumes gross tax revenue growth of 15.8% v/s 9.9% achieved in FY15RE. The main reason for lower tax collection has been dismal performance of manufacturing sector leading to substantial fall in indirect taxes. In our opinion this time the tax revenue seems to be reasonable v/s in previous years where targets were set too high & were not achieved.
- On the Non tax revenue side, income from disinvestment has been pegged at Rs 695 bn (including disinvestment of ~Rs 410 bn and residual stake sale of ~Rs 285 bn). We believe the target has been kept low & will be over achieved depending upon capital market conditions.
- Total subsidy bill for FY16 is estimated to be Rs 2.3 tn (lower by 10% compared to FY15RE, ~1.6% of GDP as against ~2% in FY15). The major benefit has come from steep decline in crude prices resulting Fuel subsidy going down from Rs 603 bn in FY15 to Rs 300bn for FY16. However subsidy to be provided on food remains stable at Rs 1.24 tn (Rs 1.22 tn in FY15).
- There has been slippage in medium term Fiscal Deficit (FD) target. Against earlier announced estimates of reaching FD at 3% of GDP by FY17 the target has been extended by 1 more year. Now FD estimates are fixed at 3.9% for FY16E, 3.5% in FY17E & 3.0% in FY18E. In our view this year's target is below the market estimates (street was looking at FD between 3.6-3.8%). However Revenue Deficit (RD) at 2.8% of GDP is in line with market expectation.

Key highlights of this budget which will play out in medium to long term

- **Increase in disposable income at the hands of individuals:** While there is no change in threshold for personal income tax exemption limit, there has been increase in tax allowance limits for payments towards medical insurance for self & for senior citizens & savings invested in National Pension Fund (NPS). Transport allowance for salaried employees has also been doubled from existing Rs 800 pm to Rs 1600 pm. We believe these incentives will lead to slightly more disposable income at the hands of common people & inculcate habit of savings for long term amongst them. This is good for consumption sector etc.
- **Reduce Corporate tax by 5% in next 4 years at cost of removal of certain exemptions:** FM has announced intention to reduce corporate tax from current 30% to 25% over next 4 years but at the cost of relinquishing certain exemptions given currently. While this is a positive step as corporate can plan tax liability for next 4 years well in advance but more details are awaited especially on which exemptions are being taken away. Any benefit of this will impact only FY17 numbers. However as of FY16 actually corporate tax will go up to 34.6% v/s 34.0% .
- **GAAR deferred for next 2 years:** Till government is ready to adopt GAAR fully, FM has decided to defer applicability of this provision. In fact according to previous announcements GAAR was supposed to be applicable from April 01, 2015. This particular law was being opposed by many investors especially foreigners, hence deferment of it is a relief to them. However market participants were expecting total abandonment of GAAR which has not happened so to that extent it is a bit of disappointment.
- **Intent to bring law against "black money" or Unaccounted for tax money:** FM has proposed to come out with a new law on curbing corruption & laundering of money. FM mentioned some very strict provisions in upcoming law on curbing tax evasion especially in regards to funds transferred or parked abroad. As of now the details of this law are not known. However going by its intent, we believe such an act will result in long term benefit to the country.
- **Intent to promulgate a new scheme to monetize gold in some fashion:** In order to bring out huge quantity of gold lying idle in Indian households, the FM announced intent to bring some gold monetization scheme. Again the details of this new scheme are not known. In our view acceptability of this scheme will depend upon the granular details in it. By nature many Indians attach immense emotional value to gold hence it will be very difficult to get them onboard the scheme. However it shall be highly beneficial to the country as a whole as lot of idle money can be used for some productive use.

(contd…)

- **Step towards ease of doing business by setting up of dispute redressed mechanism:** The economic survey has clearly pointed out that a large number of projects are stalled (amount stuck in value terms is estimated to be around 7% of GDP). Most of the projects are involved in long drawn litigations due to land, labour or policy reasons. Now FM has announced setting up a committee to draft legislation to clearly define policies & steps to take for speedy resolution of such disputes. We believe this kind of law will be very helpful & save unnecessary wastage of time & effort. However we await details on content as well as timeline for this law.
- **Reduction in bureaucratic hurdles (permissions) in doing business & establishing clear & new bankruptcy laws:** Government has proposed to remove many hurdles in setting up new business by leveraging technology. Now prior permissions & well documented guidelines will help in setting up a new business in much easy way. Same way in case of things going awry one can close the business under clear bankruptcy laws. In our view this provision will bring in large number of new entrepreneurs & harness the strength of large young population.
- **Setting up of Bureau of banks+ RBI committee:** The Bureau will search and select heads of public sector banks and also help them in developing differentiated strategies of capital raising plans to innovative financial methods and instruments. This would be a step towards establishing a holding and investment company for banks. In our view, creation of bureau would over time enable the government to reduce ownership to 51% and also help banks to generate capital for the future growth.

  To target low inflation (below 6%), a Monetary Policy Committee (MPC) will be created for which the RBI Act will be amended. The FSLRC had suggested setting up a five member monetary policy committee headed by the governor. MPC will consist of members from within the central bank and experts in the country. In our view, it will make a radical shift in the way monetary policy is decided in the country.
- **Meager capital allocation towards banks recapitalization:** In order to meet Basel III norms PSU banks need very large amount of capital. The FM has provided only Rs 79.4 bn towards bank recapitalization which in our view is meager amount as compared to the total amount of Rs 2.4 tn required by FY18E.
- **No specific programs announced for pushing "Make in India" or "Smart City" projects:** The FM did not announce any specific or concrete plan for government's flagship program "Make in India" or "Smart City'. No particular sector was chosen as focus area & nothing on this count was announced.

What should investors do now?

This budget was much awaited & generally looked upon as “Make or Break” event. However, we believe the absence of any out of box thinking & lack of concrete ideas on various flagship programs has made this budget a miss on the expectation. We believe market was looking for announcements towards kick start of economic revival. Unfortunately those announcements have not come out. At the time of writing this report there is no clarity on Gold monetization scheme, actual roadmap on exemptions withdrawal/ corporate tax rates & setting up of holding company for banks. There is some confusion on fungiblity of investments in private banks. Over next 48 hours market participants will ponder more & dig deeper into details. We expect market behavior on Monday to be outcome of clarifications over these grey areas in next 2 days.

In the midst of so much of confusion on outcome of this year’s budget, it is natural for investors to ask a pertinent question --***what should the investors do now? Our answer to this question would be stay put***. For any meaningful upside in markets we await two important trigger points 1) Rate cut by RBI (market participants hope for 25 bps cut any time soon, 50 bps cut will be bonanza for markets) & 2) Upward revision of India’s sovereign rating by global credit rating agencies. However we believe possibility of such upwards revision in rating is still some time away. Corporate earnings however are likely to remain stressed for some more time. We expect FY16E& FY17E consensus earnings to be revised significantly downward. Hence we remain cautious of over stretched valuations & continue with stock specific approach.

Impact of budgetary provisions:

The impact of specific budget provisions on specific sectors is discussed in following pages. Please read on to know which sectors get impacted in which way.

AGROCHEMICALS/FERTLIZERS

EXPECTED BUDGET IMPACT: POSITIVE ***(Strong Govt. focus to drive growth)***

Impact of Budget on agrochemical/fertilizers sector was positive. Increase in agriculture sector outlay and rural credit; interest subvention scheme for short-term loans and wage employment provided under MGNREGA are key positives.

Issues	Proposal	Impact on Companies
Agriculture Credit	Allocated Rs 8,500 bn (v/s Rs 8,000 bn) for agriculture credit during 2015-16.	**Positive - Coromandel**
Irrigation Projects	Allocated Rs.53 bn (v/s Rs.10 bn) under Pradhan Mantri krishi Sinchayee yojna for assured irrigation	**Positive - Jain irrigation, Shakti Pump, Kaveri Seed**
Rural Infra Fund	Allocated Rural Infrastructure Development Fund (Rs.250 bn) under NABARD scheme	**Positive** for overall industry
MGNREGA	Rs.346 bn allocated along with focus on improving the effectiveness	**Positive** for overall industry
Rural Financing	Allowed Rs.150 bn for Long Term Rural Credit Fund, Rs.450bn for Short Term Co-operative Rural Credit Refinance Fund, and Rs.150 bn for Short Term RRB Refinance Fund	**Positive** for overall industry
20% Additional Dep.	Allowed to new plant & machinery installed by a manufacturing/power Gen & Dist. companies	**Positive** – Cos. which have done capacity expansion before Sep-14 **(Meghmani)**
Customs Duty	Reduce on raw materials like [Ethylene dichloride, vinyl chloride monomer and styrene monomer from 2.5% to 2.0%]	**Positive** – Chemical & Agrochemical
CAD	Reduce on raw materials like [Ethylene dichloride, vinyl chloride monomer and styrene monomer from 4.0% to 2.0%]	**Positive** – Chemical & Agrochemical

Source: Budget Documents; IndiaNivesh Research

AUTOMOBILES

BUDGET IMPACT: NEUTRAL *(No concession on excise duty part)*

Budget was neutral for Auto sector. Uniform excise duty on cars and implementation of GST feature among the top expectations of the Indian automotive industry which in Union Budget has not been addressed. Excise duty reduction on chassis for ambulance from 24% to 12.5% and concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended up to 31.03.2016 were few positives for Industry. The government's focus on infrastructure will indirectly help the auto industry.

Issue	Proposal	Impact
Implementation of GST from April 2016	GST To Be implemented by April 1, 2016	**Positive** for sector as a whole. It will create a uniform tax structure across all states, but no clear framework in place.
Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended	Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended up to 31.03.2016.	**Neutral.** Sales volume is very small, positive for M&M and Bajaj Auto
Excise duty reduced on inputs for use in the manufacture of LED drivers	Excise duty reduced on inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and LED lamps from 12% to 6%.	**Positive** for Lumax Auto technology, Fiam Industry
Custom duty on commercial vehicle increased	Custom duty on commercial vehicle increased from 10 % to 40%	**Neutral**. Imported volume is negligible

Source: Budget Documents; IndiaNivesh Research

BANKING & FINANCIAL SERVICES

BUDGET IMPACT: NEUTRAL *(No major surprise)*

Budget Developments

Union Budget for FY16 was neutral for Banking & Financial services industry. Key takeaways for industry was capital infusion in the public sector banks which was much lower than expected, NBFCs to be considered under SARFAESI Act, target of housing for all by 2022 and higher deduction on health insurance premium.

Issues	Proposal	Companies Impacted
Capitalization	PSU Banks would need Rs ~2.5 tn capital by FY18 to comply with Basel III norms and in current budget, Government has allocated Rs 79.4 bn for capitalisation of public sector banks vs Rs 112 bn in FY15	**Negative:** Current allocation is much lower than last years allocation of Rs 112 bn. However out of Rs 112 bn allocated last year for FY15, revised plan outlay for capitalisation is lowered to Rs 69.9 bn. Negative for PSBs with lower capital adequacy and higher NPAs like Canara Bank, PNB, Allahabad Bank and Corporation Bank.
Agriculture credit	Increase Agri-credit target to Rs 8,500 bn for FY16 as against Rs 8,000 bn for FY15.	**Neutral:** No major impact as there is marginal increase compared to last year
Housing for all	Government has target of housing for all by 2022 and planned 20 mn houses in Urban area and 40 mn in Rural area	**Positive:** For all banks and housing finance companies like LIC Housing, Dewan Housing, GIC Housing and HDFC in long term as no specific housing scheme announced.

BANKING & FINANCIAL SERVICES *(contd…)*

Issues	Proposal	Companies Impacted
Setting up of Micro Units Development Refinance Agency (MUDRA) Bank	MUDRA Bank will be responsible for refinancing of all Micro-finance Institutions which are in the business of lending to small business through a Pradhan Mantri Mudra Yojana.	**Positive:** for listed Micro Finance like SKS Micro which are into Micro Financing.
NBFCs to be considered under SARFAESI Act, 2002	NBFCs with asset size of Rs 5 bn and above will be considered under SARFAESI Act which will help them in resolving problems with regards to NPAs.	**Positive:** for NBFCs like M&M Finance, L&T Finance & Bajaj Finance as this will help them in recovery or faster resolution of NPAs
Setting up of autonomous Bank Board Bureau	An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank	**Positive:** for all Public Sector Banks but a long term measure
Increased limit on deduction of Health Insurance Premium	Limit of deduction on health insurance premium is increased from Rs 15000 to Rs 25000 and for senior citizens, it is increased from Rs 20000 to Rs 30000.	**Positive:** for all banks having general insurance subsidiary like ICICI, HDFC and SBI. Also positive for Listed companies having general insurance like Max India

Source: Budget Documents; IndiaNivesh Research

CAPITAL GOODS

BUDGET IMPACT: POSITIVE *(Defence; the next key trigger)*

Government re-iterated emphasis on its various flagship schemes in the budget. Major take-aways for capital goods sector are focus on UMPP projects, ambitious renewable energy plans, rural electrification and increased spending on defence sector. Effective Implementation of this flagship programs will remain key factor to watch out.

Proposal	Impact on Sector	Companies Impacted
5 UMPPs each of 4000 MW proposed in plug and play mode	Big positive for the Power BTG and T&D equipment manufacturer. However details of implementation still awaited	**Positive:** BHEL, L&T, Thermax, Siemens ABB, Alstom T&D, Crompton Greaves
Revised Renewable Energy Target-2022 Solar-100,000 MW, Solar-60,000 MW, Wind-10,000,Biomass-5,000	Reiteration of government focus on renewable energy Positive for the niche renewable players and T&D (for grid connectivity) sector, implementation of this ambitious targets remains a key.	**Positive:** BHEL, Schneider Electric, Alstom India, ABB, Siemens, Alstom T&D, Crompton Greaves, Idosolar, Pennar Industries
With make in India focus Defence sector budget in 2015-16 increased y/y by ~11% to Rs 2,467.27 Bn	Positive for the defence equipment manufacturers	**Positive:** L&T, BEL, BEML,M&M
Electrification by 2020 for the remaining 20,000 villages	Positive for companies invloved in rural electrification scheme of the government	**Positive:** KEC International, TRIL,Voltamp

Source: Budget documents, IndiaNivesh Research

CEMENT

BUDGET IMPACT: POSITIVE *(Infra push can boost volume demand)*

Budget 2015-16 is overall positive for the Cement sector, as it emphasized on higher infra spending and housing schemes. Establishment of infra fund is also positive for the sector as it will further help in financing of infra projects. However, specific details of the implementation of these schemes are still awaited. Hike in cess on coal is negative for the cement sector. This is additional negative for the sector after increase in coal freight rates and hike in cement carriage freight by rail.

Proposal	Impact on Sector	Companies Impacted
Increase in investment in Infra to go up by Rs 700 bn in 2015-2016 over year 2014-2015 (Rs 2.1 tn)	Big Positive for the sector in time of slower Private investments would lead to dispatch growth	**Positive:** All Cement companies-Ultratech, ACC, Ambuja, Mangalam, Prism
Housing for all by 2022 -20 mn houses in Urban areas and 40 mn houses in Rural areas	Should drive cement volume demand	**Positive:** All Cement companies-Ultratech, ACC, Ambuja, Mangalam, Prism
Establishment of National Investment and Infrastructure Fund (NIIF) to be established with an annual flow of Rs 200 bn, Tax free bonds for the projects in the Rail, Road and Irrigation	Positive for the infra sector financing, Can boost private investments. More details on fund awaited	**Positive:** All cement companies would benefit due to likely increase in private investments
Effective rate of Clean Energy Cess (CES) on Coal, Lignite and Peat is being increased from Rs 100/tn to Rs 200/tn	This increase of CES on Coal (used for cement production & captive power plants) would increase the cost of production by ~1.5% or ~Rs 4-5 Rs / 50 kg bag	**Negative:** All Cement companies

Source: Budget documents, IndiaNivesh Research

CONSUMERS

BUDGET IMPACT: POSITIVE *(Except for cigarettes, positive for the sector)*

Higher economic growth is likely to improve consumer sentiments which is positive for the sector. The Union Budget concentrates on penalizing products which are harmful for health, thereby impacting the aerated water and cigarette products. The timeline for GST implementation by April 2016 has been advised which is a key positive for the entire sector.

Proposal	Impact	Companies Impacted
Excise duty on cigarettes of length not exceeding 65 mm is being increased by 25% and for cigarettes of other lengths is being increased by 15%.	Though the volume of less than 65mm length is likely to be less than 15% where the excise duty has been increased by 25% (which was earlier hiked by 72% in Interim Budget), it is likely to impact the companies adversely. The weighted average increase in duty is likely to be in the range of 18-20%. This duty hike is likely to impact the volume growth of the companies going forward.	**Negative:** The industry was expecting a lower increase in excise duty as Interim budget had already increased excise duty steeply. Companies impacted are ITC, VST Industries, Godfrey Phillips
Footwear – • For footwear with retail price exceeding Rs 1000 per pair – excise duty is being reduced from 12% to 6%	Reduction in excise duty is likely to be passed to the consumers, creating demand for products.	**Positive:** Bata, Liberty, Relaxo Footwear
GST implementation likely by April, 2016.	This is likely to streamline the taxation across the country and improve mobilization of products	**Positive** for the entire FMCG sector

Consumers *(contd...)*

Proposal	Impact	Companies Impacted
The allocation to employment generation has been maintained.	This is likely to improve the purchasing power of consumers	**Positive** for the entire FMCG sector
Gold – Gold Monetization Scheme and Sovereign Gold Bonds to be introduced.	Complete details on the functioning and implementation of these schemes need to be available to understand the impact. Prima-facie it seems to be positive. Import duty on gold was expected to be reduced by 2-4%, which has not happened. This would delay the improvement in demand for jewellery.	Neutral – All jewellery companies including Titan, TBZ, PC Jewellers
Exemption of Additional Excise Duty of 5% leviable on waters including mineral waters and aerated waters containing added sugar. However, basic excise duty on these products is being increased to 18% from 12% earlier	This is likely to result in marginal increase in the prices of aerated water products	**Negative:** Mostly unlisted MNC players in the segment
Excise duty - Instant tea, quick brewing black tea, tea aroma and iced tea, would be provided an abatement of 30% on Retail Sale Price	This is likely to reduce the prices for consumers though marginally.	**Positive** – HUL, Tata Global Beverages
Excise duty – lemonade and other beverages, would be provided an abatement of 35% on Retail Sale Price	This is likely to reduce the prices for consumers though marginally.	**Positive** –Tata Global Beverages

Source: Budget Documents; IndiaNivesh Research

Consumers *(contd…)*

Proposal	Impact	Companies Impacted
Consumer Durables: •Basic Customs Duty on OLED TV panels is being reduced from 10% to NIL. •Basic Customs Duty on Black Light Unit Module for use in the manufacture of LCD/LED TV panels is being reduced from 10% to Nil, subject to actual user condition.	This is likely to reduce the cost OLED TVs for consumers	**Positive:** Videocon Industries, Mirc Electronics
Consumer Durables – Basic Customs Duty on magnetron of upto 1 KW for use in the manufacture of domestic microwave ovens is being reduced from 5% to Nil	This is likely to reduce the cost of microwaves. We expect the companies to pass on the reduction in cost to pass to the consumers to improve demand which have been sluggish.	**Positive:** Whirlpool, IFB Industries, Bajaj Electricals
Consumer Durables – Basic Customs Duty on C- Block for Compressor, Over Load Protector (OLP) & Positive thermal co-efficient and Crank Shaft for compressor for use in the manufacture of Refrigerator compressors is being reduced from 7.5% to 5%	This is likely to reduce the cost of refrigerators. We expect the companies to pass on the reduction in cost to pass to the consumers to improve demand which have been sluggish.	**Positive:** Whirlpool, Videocon Industries, Hitachi Home
Consumer Durables – Excise duty on inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and lamps, is being reduced from 12% to 6%, subject to actual user condition. Also, Special Additional Duty on these inputs have been reduced to NIL.	This is likely to reduce the manufacturing cost and is likely to be passed on to the consumers. Reduction in cost may improve the demand.	**Positive:** Bajaj Electricals, Havells India, Phoenix Lamps

INFORMATION TECHNOLOGY

BUDGET IMPACT: NEUTRAL *(Untouched)*

IT/ITES/IT-Education sector largely remained untouched in Union Budget 2015-16. Government talked very high on increasing export but lacked in resolving transfer & advance pricing issue. In order to boost make in India, the government reduced duty on components used in manufacturing of computer and tablets. Government received ~Rs 210 bn (Rs 60 bn cleared/approved) of domestic electronic manufacturing proposal. On IT/ITES side demand outlook remains stable given the favourable order book and stability on global front .

Issues	Proposal	Impact on Companies
Basic Customs Duty (BCD) **Countervailing duties (CVD)** **Special Additional Duty (SAD)**	Fully exempted on parts, components and accessories use in the manufacture of tablet computers	**Positive: SMART LINK**
Excise Duty	Reduced duty on tablets from 12.0% to 2.0% without CENVAT credit	**Positive: Domestic Hardware Manufacturer**
Income Tax on Royalty & Fees	Reduced from 25% to 10% on royalty and fees on technical services	**Positive: CMC, INFO, WIPRO, HCLT**

Source: Budget Documents; IndiaNivesh Research

OIL & GAS

BUDGET IMPACT: NEGATIVE *(No reforms)*

The Budget was slightly negative for the Oil & Gas sector. The government has revised petroleum subsidy for FY15 to Rs. 602 bn from Rs. 634 bn earlier, including subsidy of Rs. 350 bn payable for FY14, implying Rs. 252 bn available for FY15. We were expecting FY15 subsidy sharing from govt. at Rs. 337 bn, hence reduction of Rs. 85 bn. However for FY16, the government has allocated budgetary support of Rs 300 bn (includes Rs. 220 bn for subsidy on LPG and Rs. 80 bn for Kerosene subsidy) towards petroleum subsidy. For FY16 we were assuming total subsidy of Rs. 550 bn, out of which, govt. will share Rs. 300 bn (54%), implying upstream sharing at 46%, which is positive for upstream companies. Reduction in Basic Customs Duty of Ethylene dichloride (EDC), vinyl chloride monomer (VCM) and styrene monomer (SM) from 2.5% to 2%, slightly negative for RIL

Issues	Proposal	Impact on Companies
Refund of Service tax on Services consumed in E&P of Oil and Gas	No action taken	**Neutral.** No action taken

Source: Budget Documents; IndiaNivesh Research

PHARMACEUTICALS

BUDGET IMPACT : NEUTRAL

There was no specific announcement for pharma sector in Budget 2015-16 except few small ones. The government would be spending Rs331bn on health sector, which would help in improving infrastructure of public health system. The government has proposed to increase the limit of deduction u/s 80D of the IT Act on health insurance premium which would help in improvement of quality of healthcare service. The government has also proposed to set up new All India Institute of Medical Science (AIIMS) in J&K, Punjab, Tamil, Nadu, Himachal Pradesh and Assam. Another AIIMS to be set up in Bihar. A provision of Rs22bn has been made for setting up institutions and upgrading of existing state hospitals. The setting up of institute would add to existing infrastructure for developing human capital which would have long term benefit for pharma companies. 3 new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chattisgarh and one institute of Science and Education Research is to be set up in Nagaland & Orissa each. This may boost R&D activities of pharma companies.

Issues	Industry wish list was	Budget Outcome	Impact
Service tax on Clinical trials of Drugs	Removal of service tax	No change	No Impact
Weighted deduction under section 35(2AB) for computing book profit	The amount of weighted deduction under section 35(2AB) of the Act should be deducted while computing book profit for the purpose of MAT.	No change	No Impact
Safe Harbor rules (SHR) for contract manufacturers	Extension of SHR covering sectors like IT/ITES, KPO to Pharma sector as well	No change	No Impact
Weighted deduction under section 35(2AB) for In-house R&D	Weighted Deduction u/s 35(2AB) to be enhanced from existing 200% to 250% for next 10 years i.e. up to 31 March 2014	No change	No Impact

Source: Budget Documents; IndiaNivesh Research

POWER

BUDGET IMPACT: NEUTRAL *(Lack of visibility)*

The Budget was Neutral for the Power sector. However, the increase in clean energy cess from Rs. 100 to Rs. 200 per metric tonne of coal, was marginally negative. Additional depreciation @ 20% is allowed on new plant and machinery installed in generation and distribution of power is positive for the sector.

Issues	Proposal	Impact on Companies
Ultra Mega Power Project	Proposed to establish 5 new Ultra Mega Power Projects, each of 4000 MW. Under the latter, all the clearances and linkages will be provided before the auctions begin. Given that this was one of the key worries which led to the concerns surrounding the recently failed auctions.	**Positive** for sector as a whole. Positive for NTPC, Tata Power, Adani Power, RPower etc.
Increase in Clean Energy Cess	Clean energy cess increased from Rs. 100 to Rs. 200 per metric tonne of coal, etc. to finance clean environment initiatives.	**Negative**. This will be slight negative for all private power generation companies like Adani, Tata power, JSW energy, RPower. It is also negative for Coal India
Target of renewable energy capacity revised to 175000 MW till 2022	Target of renewable energy capacity revised to 175000 MW till 2022, comprising 100000 MW Solar, 60000 MW Wind, 10000 MW Biomass and 5000 MW Small Hydro.	**Positive** for sector as a whole, but no specific proposal. Beneficiaries would be NTPC, NHPC, Tata Power, RPower etc
Additional depreciation @ 20% is allowed on new plant and machinery	Additional depreciation @ 20% is allowed on new plant and machinery installed in generation and distribution of power. However, if the asset is installed after 30th September of the previous year only 10% of the additional depreciation is allowed.	**Positive** for sector as a whole, Positive for NTPC, Tata Power, Adani Power, CESC and RPower etc.

Source: Budget Documents; IndiaNivesh Research

TELECOM

BUDGET IMPACT: NEUTRAL *(Digital India to drive growth)*

The expectations from the Union Budget 2015-16 was not much, but finance minister tried to cheer the Telecom/Media sector through following measures: (1) higher budget allocation on making rural India smarter and digital, and (2) exemption in custom and excise duties on equipment's and raw material use in production of solar energy. Despite huge potential (Rural-43% v/s Urban-145% teledensity), regulatory overhang, intense competition and leveraged balance sheet resulted in sector underperformance. The government has budgeted Rs 431 bn (v/s Rs 428 bn) from spectrum auction in FY16.

Issues	Proposal	Impact on Companies
NOFNP	National Optical Fibre Network Programme (NOFNP) of 7.5 lakh kms networking 2.5 lakh villages	**Positive:** Sterlite Tech
Digital India	Allocation of total Rs.75 bn on building smart cities and pan India digitalization program	**Positive:** Idea, RCom, Bharti, Sterlite Tech, Bharti Infratel
Service Tax	Service tax plus education cesses increased from 12.4% to a consolidated rate of 14.0%	**Neutral:** Bharti, Idea, Rcom (Cos. will pass on to the customers)
Custom Duty	Reduced – from 7.5% to NIL on HDPE use in the manufacture of telecommunication grade optical fibre cables	**Positive:** Sterlite Tech
Excise Duty	Reduced - from 12.5% to 6.0% (Inc. CENVAT) on mobiles handsets including cellular phones	**Positive:** Idea, RCom, Bharti

Source: Budget Documents; IndiaNivesh Research

OTHERS

BUDGET IMPACT: POSITIVE

Proposal	Impact	Companies Impacted
Rs 36.25 bn allocated to Swachh Bharat Abhiyan vs. Rs 28.5 bn in revised estimates 2014-15	Improve sanitation facilities in rural areas and increase demand for products like sanitaryware, tiles, faucets, etc.	**Positive:** HSIL, Cera Sanitaryware, Kajaria Ceramics, Somany Ceramics among others
Rural Housing has been allocated Rs 100.25 bn (vs. 110 bn in revised estimates 2014-15) and urban housing has been allocated Rs 56.25 bn (vs. Rs 33.85 bn in revised estimates 2014-15)	These new houses would positively impact the demand for sanitation facilities including tiles and toilets	**Positive:** HSIL, Cera Sanitaryware, Kajaria Ceramics, Somany Ceramics among others
Tourism •Visa on arrival to be increased to 150 countries gradually from 41 countries currently •Allocation to ministry of tourism has been reduced to Rs 15.73 bn from Rs 11.83 bn in revised estimates 2014-15. In this, allocation to tourist infrastructure has been increased to Rs 7.3 bn from Rs 5.6 bn in revised estimates 2014-15.	This is likely to create favourable tourist inflow (both domestic and foreign) in India. This is likely to be positive for hotels and tour operators	**Positive:** Indian Hotels Company, Taj GVK, Thomas Cook, Cox and Kings, Mahindra Holidays

Source: Budget Documents, IndiaNivesh Research

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