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Budget Simplified

POST-BUDGET ANALYSIS

UNION-BUDGET ANALYSIS

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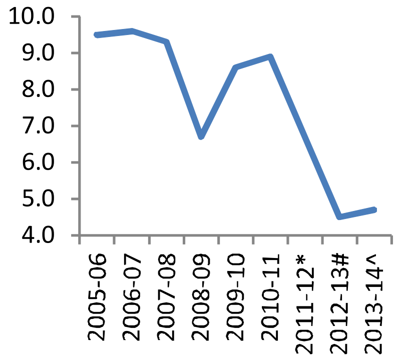
UNION BUDGET ANALYSIS: FY2014-15

The road ahead

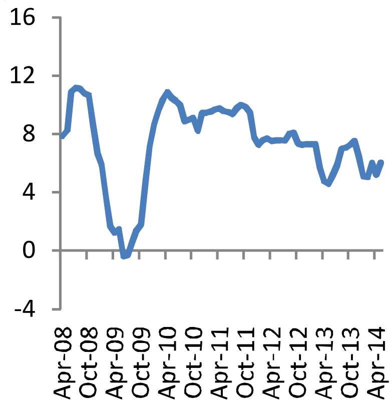
- The FM has, expectedly, used the budget to lay down the road map for the economy over the next few years. Various initiatives have been announced towards this goal. With limited time and fiscal space, no big bang policy reforms have been announced.
- The FM has targeted real growth of 5.9% for FY15, we believe. Plan expenditure is budgeted to grow by 21% YoY. Infrastructure and manufacturing, which can create several jobs, have received significant attention. Increased allocation from the Government towards ports/roads/ highways/renewable power, etc , Investment allowance for SMEs, Tax benefits for real estate and infrastructure (thorough trust route & FDI), duty benefits and exemptions for various manufactured goods, etc have been announced.
- To control inflation, the budget has rightly attacked the supply side constraints. Providing farmers with soil health cards, setting up of a 'Price Stabilisation Fund', re-orientation of APMC Acts of states, restructuring of FCI and encouragement to open market sales by farmers are all steps in this direction. Also, the proposed Warehousing Infrastructure Fund for creation of scientific warehousing infrastructure is a step towards reducing the wastages.
- The FM has also focused extensively on inclusive growth. Significant initiatives have been announced towards rural development, education, low-cost housing, development of North-East India / J&K, etc which, we believe, are steps in the right direction.
- On the fiscal side, the budget has projected a Fiscal Deficit of 4.1% of GDP. We believe that, the tax revenue numbers could be lower v/s targets whereas, the Government may be able to raise more from divestments v/s the target of Rs.630bn. Subsidy numbers are in line with our expectations. We believe the Government will not need to CF any fuel subsidy burden to the next fiscal. The food subsidy burden could be lower v/s budget if the implementation of the Food Security Act is delayed further. We project a FD of 4.1%.
- With the fisc providing little space, the FM has tried to attract more funds from the private sector as well as through FDI. Insurance and Defence have seen FDI limits being hiked to 49%. Various initiatives have been announced to increase ease of doing business and remove uncertainties on the taxation front eg. Removing uncertainty on retrospective taxes, more clarity on advanced ruling on tax liability, transfer pricing rules, a thrust on GST introduction, etc.

GDP growth (%)



*Source: Economic Survey FY14, MOSPI; * stands for Second Revised Estimate; # stands for First Revised Estimate; ^ stands for Provisional Estimate*

Inflation (%)



Source: Economic Survey 2014-15

Sectoral impact

Budget Impact	Sectors
Positive	Auto/Auto Ancillary, Banking & NBFC, Capital Goods & Engineering, Cement, Construction, Hotels, Logistics, Metals & Mining, Oil & Gas, Real Estate, Shipping & Shipbuilding
Neutral	Aviation, FMCG, Information Technology, Media & Entertainment, Power Utilities

Source: Kotak Securities - Private Client Research

- On the taxation front, individual tax payers will benefit with the increase of Rs.50000 each in in basic exemption limit, deduction under section 80C and deduction on interest for self-occupied house property. For companies, dividend distribution tax liability has been increased. Excise duty on cigarettes has been increased by 11% - 72%. From the stock market perspective, only some operational benefits have been provided. Treatment of FII's (based in India) profit as capital gains against business income is step in right direction.
- The budget has provided some more clarity on the retrospective taxation front but has not removed it completely, as expected by the markets. Though, FM has assured that no further notices would be issued without strict verification. Also, we had expected some reforms on the subsidy front, which have not materialized. No additional information was available on GST. We expect to get more clarity on these in the over the course of the fiscal.
- Overall, we believe that, the budget has the heart in the right place in trying to provide a significant thrust on growth through investment-related initiatives (increase in plan expenditure). This is a shift from previous government's demand pull growth (which resulted in high and sticky inflation) to supply push growth. More private sector investments will be encouraged only by reform initiatives taken outside the budget, though. We need to closely watch the revenue collections on which, the actual spending will depend.
- With the major event out of the way, the markets will likely focus on issues like monsoons, global economy and quarterly results in the short term. Off-budget action on budget initiatives will sustain the confidence of the markets over the medium term. Markets will also look forward to the rate action from RBI in its next policy. We expect RBI to keep rates unchanged, until inflationary pressures ease significantly. We believe that, a bottoms-up approach will be the best approach over this time-frame.

Budget lays down the long term roadmap for the economy

The Finance Minister has rightly used the opportunity to present a roadmap for the country over the next few years. Various new initiatives and reform measures have been announced to achieve long term sustainable growth rates. The measures also give a sense of the inclusive element contained therein. Extra emphasis is laid on the PPP mode, thought-out the investment projects.

For starters, the FM has indicated that FY15 will see a growth of 5.4-5.9%, rising all the way up to 7-8% during the term of the Government. The FD has been targeted at 4.1% (though challenging), 3.6% in FY16 and at 3% for FY17. Thus, the intent of the Government is to improve growth rates while keeping the deficit under control. On inflation, has announced various initiatives to address the supply side initiatives.

Infrastructure and manufacturing get significant attention

On growth, the FM has budgeted for a plan expenditure increase of 21% YoY. Allocations have been made to various areas like Ports, industrial corridors, Roads/ Highways, Rurbanisation of India, Renewable Energy, Housing, Mining, Manufacturing, etc.

Smart cities

The PM had spoken about creating 100 new cities in India. To provide the necessary focus to this, the FM has provided a sum of Rs.71bn for FY15. To encourage development of Smart Cities, the requirement of the built up area and capital conditions for FDI has been reduced from 50,000 sq mtrs to 20,000 sq mtrs and from $10mn to $5mn, respectively with a three year post completion lock in. Within this, projects which commit at least 30% of the total project cost for low cost affordable housing will be exempted from minimum built up area and capitalisation requirements, with the condition of three year lock-in. Master planning of 3 new smart cities will be completed in FY15.

A National Industrial Corridor Authority is also being set up to coordinate the development of the industrial corridors, with smart cities linked to transport connectivity.

REITs for real estate / infrastructure growth

With a view to support the real estate sector and bring fresh capital for infrastructure development, the budget has provided incentives for Real Estate Investment Trusts (REITs). Similar benefits are also proposed to be provided to the infrastructure sector through the formation of Infrastructure Investment Trusts (INVITS). Banks are exempt from maintaining CRR, SLR for funds raised for infrastructure. The Government has also increased the deduction for individuals on interest for self-occupied house property by Rs.50,000 to Rs.200,000.

Renewable Energy to address energy needs

Another new initiative announced in the budget is relating to renewable energy. The Government is looking at building Ultra Mega Solar Power projects in five states and has allocated Rs.5bn of initial funds. Solar power agricultural pump sets and pumping stations have also got allocation of Rs.4bn. A Green Energy Corridor is proposed to be implemented to facilitate evacuation of renewable energy across the country. Government aims to diversify India's energy sources. These initiatives can go a long way in reducing the power deficit and reducing the fuel scarcity and import bill.

The Government has also hinted at taking steps to supply electricity through separate feeders for agricultural and rural household, so as to eventually provide round-the-clock power (Gujarat Model). With a view to eliminate power producers concern of unavailability of coal, the FM has announced that, adequate quantity of coal will be provided for all power plants which have been commissioned or will be commissioned by March 2015.

River inter-linking

Another new idea floated by the Government has been the cleaning of river Ganga and making it a tourist destination. An allocation of Rs.20bn has been made for a Ganga Conservation Mission. Moreover, the budget has also moved forward on the BJP's river inter-linking program, by allocating Rs.1bn towards project preparation for the same. We believe inter-linkages of rivers could provide alternate mode of transportation and reduce burden and road and rail network.

Increased allocation for roads

For the road sector, the FM has allocated investments of Rs.378bn in NHAI and state roads. He has also set a target of constructing 8500kms of national highways in the fiscal. The Government has already committed to increase the target of road construction to 30 km / day as compared to the current average of 3 km / day, over the next two years. Funds of Rs.144bn have been allocated to the Pradhan Mantri Gram Sadak Yojana. Some help has already been provided to road BOT players in terms of premium re-setting, etc.

Others

The Government is launching a scheme for development of new airports in Tier I and Tier II, to be implemented through Airport Authority of India or PPPs. It has also proposed to develop SEZs in Kandla and JNPT.

One notable feature of the budget is the focus on implementation. Specific time lines have been laid down for completion of several initiatives. We believe, India can reap the benefits of budget spends only if there is effective implementation of the budget proposals.

Thus, various new initiatives have been taken in the budget by the FM, to sustain and improve growth rates through infrastructure investments.

Inclusive growth remains a corner-stone...

Equitable growth has been one of the important cornerstones of BJP's campaign. With a view to make the growth more sustainable, the Government has focused on inclusive growth. The budget has announced new schemes and initiatives to ensure rural upliftment, employment, education, agricultural growth and public health. Allocations have been made to the hitherto neglected states.

Rurbanising India has been one of the objectives of the new Government. Shyama Prasad Mukherji Rurban Mission has been announced for integrated project based infrastructure in the rural areas. The mission is aimed at providing basic infrastructure facilities to rural areas, such as roads, drinking water, electricity and sanitation, and could help to stem migration from the countryside to cities. Rs.5bn has been allocated for "Deen Dayal Upadhyaya Gram Jyoti Yojana" for feeder separation to augment power supply to the rural areas.

While 93% of urban households had electricity for lighting, only 55% of rural households had access to electricity, Census 2011 data shows. In terms of availability of water within the home, 71% of urban households had access, compared with only 35% of rural households. While 81% of urban households had latrines, only 31% of rural households had similar access. Around 63% of rural households had no drainage compared with 18% of urban households.

The FM has tweaked some entitlement schemes and further aligned them with specific tangible outcomes. Wage employment will be provided under MGNREGA but that has now been linked to more productivity, asset creation and has been linked with agriculture and allied activities.

With a view to inculcate entrepreneurship and independence, among village youth, an initial sum of Rs.1bn has been allocated to "Start Up Village Entrepreneurship Programme".

Growth in Real GDP (%)

2004-05 Prices	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*	2012-13#	2013-14^
Agriculture & Allied activities	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.7
Industry							3.5		
Mining & quarrying	1.3	7.5	3.7	2.1	5.9	6.5	0.1	-2.2	-1.4
Manufacturing	10.1	14.3	10.3	4.3	11.3	8.9	7.4	1.1	-0.7
Electricity, gas & water supply	7.1	9.3	8.3	4.6	6.2	5.3	8.4	2.3	5.9
Construction	12.8	10.3	10.8	5.3	6.7	5.7	10.8	1.1	1.6
Services							8.2		
Trade, Hotels, Transport, Communication	12.0	11.6	10.9	7.5	10.4	12.2	4.3	5.1	3.0
Finance, Real Estate, Other Businesses	12.6	14.0	12.0	12.0	9.7	10.0	11.3	10.9	12.9
Community, Social & Personal Services	7.1	2.8	6.9	12.5	11.7	4.2	4.9	5.3	5.6
Total	9.5	9.6	9.3	6.7	8.6	8.9	6.7	4.5	4.7

*Source: Economic Survey FY14, MOSPI; * stands for Second Revised Estimate; # stands for First Revised Estimate; ^ stands for Provisional Estimate*

With a view to reap the benefits of the demographic dividend, stress has been laid on education, skills and health. AIIMS like institutions are proposed to be set up in Andhra Pradesh, West Bengal, Vidarbha in Maharashtra and Poorvanchal in UP. A provision of Rs.5bn has been made for the same. 12 new government medical colleges are also proposed to be set up. A national program in Mission Mode is to be started in six months to halt the deteriorating malnutrition situation in India. A Skill India program will be launched by the Government to make people more employable and to inculcate entrepreneurial skills in them. Employment exchanges would be rebranded as skill counseling centers.

The hitherto neglected states in North East have been allocated funds. Rs.1bn has been allocated for development of organic farming in those states. Also, Rs.10bn has been provided for development of rail connectivity to that region. An allocation of Rs.30bn has been made for roads and highways in these regions. . FM made a commitment for allocation 10% of plan fund for North Eastern Region and had made them Non lapsable in nature. In FY15, an allocation of Rs. 537bn has been made for North Eastern Region, further an allocation of Rs.980bn for women and Rs.810bn crore for child welfare has been made.

We believe these are important initiatives which provide inclusive and balanced growth and reduce the migration to cities from towns and villages over the medium to long term

Allocation of Rs.821 bn has been made for Ministry of Rural Development, an increase of 33% over FY14RE. Also, Rs.271bn has been allocated to Ministry of Agriculture, which is an increase of 16%.

With the demographic dividend in mind, the FM has focused on public health and education. Allocation of Rs.670bn has been made to the Ministry of Human Resource Development, an increase of 8%. Also, Rs.286bn has been provided for Sarva Shiksha Abhiyaan (SSA).

Skills development has also been on the Government's agenda and the budget has taken specific initiatives to improve the employability of people have been taken. Allocation of Rs.334bn has been made for the Ministry of Health & Family Welfare whereas the New National Health Mission has got an allocation of Rs.219bn.

Social sector schemes allocations

Scheme/Initiatives	Allocation (in Rs bn)
PMGSY	144
Rural Housing	80
ICDS	182
NRDWP	110
Mid-Day Meal Scheme	132
SSA (Sarva Shiksha Abhiyan)	283
Ministry of Health and Family Welfare	307
Medical Education, traning and research	26
Urban development	205

Source: Annual Budget 2014-15

Central Plan Outlay by Sectors

(Rs bn)	FY13	% of Total	FY14BE	% of Total	FY14RE	% of Total	FY15BE	% of Total
Agriculture & Allied Activities	170.3	3.4%	186.2	2.7%	175.6	2.9%	115.3	2.4%
Rural Development*	365.8	7.3%	427.7	6.3%	387.8	6.3%	30.6	0.6%
Irrigation & Flood Control	4.4	0.1%	12.0	0.2%	4.6	0.1%	18.0	0.4%
Energy	1,321.5	26.5%	1,582.9	23.3%	1,787.8	29.1%	1,662.7	34.3%
Industry and Minerals	332.0	6.7%	480.1	7.1%	361.7	5.9%	402.1	8.3%
Transport**	905.2	18.2%	1,334.9	19.6%	1,090.3	17.8%	1,162.0	24.0%
Communications	62.9	1.3%	123.8	1.8%	93.3	1.5%	130.1	2.7%
Science Technology & Environment	120.5	2.4%	175.9	2.6%	135.8	2.2%	187.9	3.9%
General Economic Services	202.2	4.1%	316.0	4.6%	268.8	4.4%	263.2	5.4%
Social Services***	1,443.0	28.9%	2,067.1	30.4%	1,762.6	28.7%	794.3	16.4%
General Services	57.0	1.1%	93.1	1.4%	73.2	1.2%	79.1	1.6%
Grand Total	**4,984.8**	**100.0%**	**6,799.7**	**100.0%**	**6,141.3**	**100.0%**	**4,845.3**	**100.0%**

*Source: Annual Budget 2014-15; * Includes provision for rural housing but excludes provision for rural roads; ** Includes provision for rural roads; *** Excludes provision for Rural Housing; RE:Revised Estimate; BE:Budget Estimate*

Inflation - attacking supply side constraints in agriculture

With CPI inflation remaining at elevated levels, the FM has tried to address some structural issues in agriculture. These issues are expected to address the supply side constraints and ease inflation in the longer term. India's total foodgrain production in 2013-14 is expected to be around 264mn tonnes, almost 2.8% more than 2012-13. The budget has targeted a sustainable growth of 4% for agriculture.

The FM has allocated a sum of Rs.50bn for construction of warehouses, godowns, silos and cold storage units. These units will be useful in storing agricultural produce, both in the public and the private sectors. To that extent, the wastage on food-grains is sought to be reduced.

The budget has also indicated that, the Government will look at restructuring the Food Corporation of India (FCI). This is with a view to reduce the transportation and distribution losses.

With a view to increase productivity, Rs.1bn has been allocated to a scheme for providing soil health card in a Mission mode to farmers. Moreover, Rs.560mn has been allocated for setting up 100 Mobile Soil Testing Laboratories across the country.

Another important initiative which the Government is likely to take up is the setting up of a 'Price Stabilisation Fund' for which Rs.5bn has been allocated as initial contribution.

The budget has laid down strict timelines for achieving the objectives laid down. We opine that, effective implementation of the initiatives is the key to remove supply bottle-necks and bring about a structural shift in the rate of inflation. In the back-drop of a challenging fiscal situation, effective implementation rather than high spends, will alleviate the supply side issues effectively. The previous budgets had allocated money towards these initiatives. However, the same was not effectively utilized, resulting in continued wastage and high inflation.

The interest subvention scheme for providing short term crop loans to farmers at 7% interest has been continued for 2014-15, with additional subvention of 3% for prompt paying farmers. Effectively reducing the borrowing cost to 4% for non-defaulters, we believe this is a good incentive scheme rather than farm loan -waivers.

More funds from private sector; also attracting foreign funds

With the constraints presented by the fiscal picture, the budget has endeavored to bring in more private sector and foreign funds, by announcing various concessions / incentives. Various administrative bottle-necks and tax issues have been addressed. These funds can finance the Indian growth story without burdening the fisc.

FDI limits have been increased in the Defence and Insurance sectors from 26% to 49%. With Indian's defence requirements increasing significantly, large amount of FDI can be garnered in this sector.

In case of Smart Cities, the requirement of the built up area and capital conditions for FDI has been reduced from 50,000 square metres to 20,000 square metres and from $10mn to $5mn, respectively with a three year post-completion lock in.

The budget has provided incentives for Real Estate Investment Trusts (REITs). REITs will have pass through benefits for the purpose of taxation. Similar benefits are also proposed to be provided to the infrastructure sector through the formation of Infrastructure Investment Trusts (INVITS). These structures have the potential to attract long term finance from foreign and domestic sources including the NRIs.

As an innovation, the Government has included Slum Rehabilitation as a part of the Corporate Social Responsibility (CSR) initiative. This will also attract more corporate funds into the real estate sector.

The Government is also setting up an institution – 3P India - with a corpus of Rs.5bn, to review the sophisticated models of contracting and develop quick dispute redressal mechanism in PPP. This will go a long way in making the PPP initiative more robust.

With a view to increase the ease of doing business, Government has developed the eBiz platform which will make all business and investment-related clearances and compliances available on a 24x7 single portal, with an integrated payment gateway. All Central Government Departments and Ministries will integrate their services with the eBiz platform on priority by 31 December this year.

To encourage the SME private sector to invest in fixed capital formation, the budget had announced an investment allowance of 15% of the investments for companies investing more than Rs.250mn (as against Rs.1bn earlier) in plant and machinery. This benefit will be available for a period of three years upto 31-3-2017

On the other hand, the eligible date for projects in the power sector to avail benefit under Section 80-IA has been extended from 31.3.2014 to 31.3.2017, a departure from the earlier practice of extending it by one year.

One notable feature of the budget is the focus on implementation. Specific time lines have been laid down for completion of several initiatives. We believe, India can reap the benefits of budget spends only if there is effective implementation of the budget proposals.

Addressing 'tax'ing issues

In terms of the retrospective taxation issue, the Government has clarified that, it will not ordinarily bring about any change retrospectively which creates a fresh liability. Also, all fresh cases will be scrutinized by a High Level Committee to be constituted by the CBDT before any action is initiated in such cases. This should provide some comfort to the foreign investors though, repealing this provision would have made the foreign investors happier.

In terms of transfer pricing mechanism, the budget has proposed to strengthen the administrative set up to expedite disposal of applications. Also, an APA (Advance Pricing Agreement) entered into for future transactions may also be applied to international transactions undertaken in previous four years in specified circumstances.

The benefit of an advance ruling has now been made available to local tax-payers also as compared to only non-residents taxpayers and domestic Public Sector Undertakings currently. This shall reduce litigation risks.

We believe that, these amendments will go a long way in bringing about stability in tax-related matters and will provide more comfort to domestic and foreign investors.

Fiscal deficit

The FM has projected a nominal GDP growth of 13.4%. We believe that, the real GDP growth target has been set at about 5.9%, assuming a slightly higher inflation (7.5%). We expect real GDP growth to be 5.5% and inflation at 7%, yielding nominal GDP growth of 12.5% (90 bps lower than estimated). However, even if we assume the nominal GDP growth to be only 12%, fiscal deficit would be lower than 4.2% of GDP. Government has guided for 3.6% and 3% fiscal deficit target for the next two fiscal years, reiteration of 13th finance commission recommendations. Although, we opine that any significant improvement in fiscal situation hinges upon the economic recovery, such fiscal consolidation if achieved would be good for the economy.

The FM has projected a lower petroleum subsidy of Rs.634bn for FY15. We expect government to take steps towards rationalization of fuel subsidy outside budget.

The Finance Minister has rightly focused on improving the growth rates of the economy. The FM's projection of a real growth of about 5.9% for FY15 is higher than our estimate of 5.5%.

Trend in deficits

(%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14 BE	FY14 RE	FY15 BE
Fiscal Deficit	3.3	2.5	6.0	6.5	4.8	5.7	4.8	4.8	4.6	4.1
Revenue Deficit	1.9	1.1	4.5	5.2	3.2	4.4	3.6	3.3	3.3	2.9
Primary Deficit	-0.2	-0.9	2.6	3.2	1.8	2.7	1.8	1.5	1.3	0.8

Source: Economic Survey 2013-14, Annual Budget FY2014-15

Federal structure

Towards this objective, the FM has allocated increased sums towards investments in defense, infrastructure and social services. The plan expenditure has been increased by 21% as compared to the revised estimates for FY14.

In line with the PM's thought process, FM has emphasized on strengthening the federal structure by increasing the central assistance for state plans by 212% to Rs.3.2tn, while reducing central plan outlay by 24% to Rs.4.64tn from Rs.6.14tn.

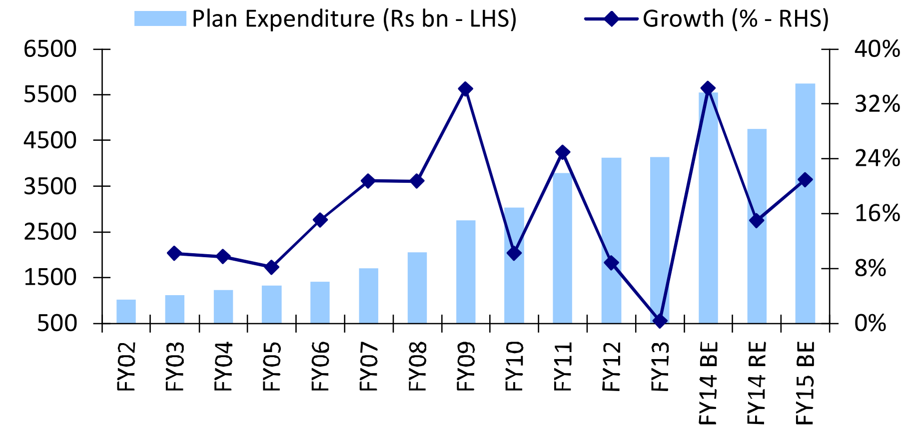
Budget Estimates

FM has budgeted for gross tax revenue to increase by 19% to (Rs.13.8tn from Rs.11.6tn) vs. 12% growth achieved in FY14. Corporate tax is budgeted to increase by 14.6% vs. 10.5% achieved in FY14 and Customs duty by 15% vs 6%. Excise duty is budgeted to increase by 12% vs 2% and Service tax is budgeted to grow by 31% vs 25% in FY14RE. The direct tax estimates and most of the indirect tax estimates look reasonable, under the assumption of increase in tax compliance and economic recovery. We also opine that, there could be a short fall in tax revenue if GDP growth remains subdued. Net tax revenue is budgeted at Rs.9.8 tn from Rs.8.4 tn in FY14, an increase of 16.86% against estimate of 13.4% increase in nominal GDP.

Non-tax revenue is budgeted at Rs.1.8 tn against Rs.1.9 tn realized in FY14. Government has budgeted for the Rs.773 bn capital revenue in form of profits from PSU/RBI, against 882 bn in FY14. We believe there is headroom for higher realization.

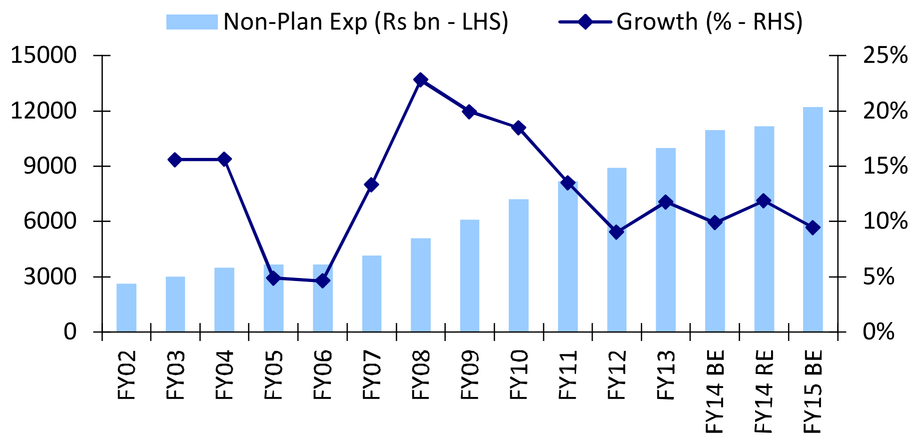
Receipts through PSU divestments are budgeted at Rs.434bn and Rs.150bn is budgeted from stake sell in non-government companies (SU-UTI, Hind Zinc, Balco). Although high from last year's realization, these estimates are achievable. Telecom licenses are budgeted to generate revenues to the tune of Rs.455bn v/s Rs.408bn achieved in FY14.

Plan expenditure



Source: Annual Budget 2014-15

Non-plan expenditure



Source: Annual Budget 2014-15

Budget estimates for FY15 show a net increase of Rs.1.72tn in expenditure over the FY14 revised estimates. Plan expenditure is budgeted to increase by Rs.797bn. Increase in non-plan expenditure by Rs.990bn is due to higher food subsidy to Rs.1.15tn (increase of Rs.230bn towards implementation of National Food Security Act.), defense (+Rs.203bn), and reduction in petroleum subsidy by Rs.220bn to Rs.634bn. Total subsidy expenses are budgeted at Rs.2.6tn. While no reforms were announced, we believe that, the estimates for fuel subsidies are achievable. We also believe that, the Government may not need to carry forward the subsidy burden to the next fiscal. We believe that, if the implementation of the Food Security Act is delayed to the next year, the food subsidy may turn out to be lower than budgeted.

Fertilizer subsidy is up by 7% vs FY14 to Rs.730bn, likely hinting at increase in gas prices. The indigenous urea subsidy for FY15 has been budgeted at Rs.360bn (vs Rs.265bn in FY14), a hike of Rs.95bn. The fertilizer ministry has represented that the urea subsidy could rise by ~Rs.35bn for each US$1/mmBtu full-year-hike in domestic gas prices (all else remaining equal).

The FM has budgeted Rs.634bn as the government's share of the oil subsidy burden in FY15 vs Rs.855 bn in FY14, a cut of 26%. Total under-recoveries are slated to fall to Rs.1trn in FY15 vs Rs.1.4trn in FY14, a reduction of 24%. Hence, even if we assume that the ~Rs.236 bn of subsidy payment rollover to oil marketing firms from last year is not repeated in FY15 (and hence shall be funded fully from the Rs.634bn allocation), it is likely that upstream majors have to bear a combined subsidy of ~Rs.645bn (vs Rs.661bn in FY14, assuming a 55% sharing).

Gross borrowings are pegged at Rs.6tn, net market loans are estimated at Rs.4.61tn vs Rs.4.69tn in FY14. Public debt is expected to increase to Rs.49.5tn from Rs.44.3tn in FY14 (12% increase in in-debt ness over FY14RE). Lower government borrowing bodes well for the government bond yield. We expect G-Sec yield to moderate over the fiscal, along the lines of lower inflation and accommodating monetary policy.

We opine that, the fiscal consolidation should have been attained through both, an increase in recurring revenue and a moderate rise in spending. However, the FM has targeted a significant rise in plan expenditure (v/s FY14RE), which necessitates an equally large increase in revenues. Apart from the impetus from the union budget, strong recovery hinges on the monetary policy and global factors.

TAX PROPOSALS

Direct Taxes

In terms of tax rates, there is no change in the rate of surcharge either for the corporates or the individuals, HUFs, firms etc. Similarly, rate of 3% on education cess has been maintained. On major tax reforms, the FM said that the government would review the Direct Tax Code (DTC) in its present shape and take a view in the whole matter.

The FM has proposed some relief to the individual tax payers. Income-tax exemption limit raised by Rs.50,000/- from Rs.2 lacs to Rs.2.5 lacs in the case of individual taxpayers, below the age of 60 years. For senior citizens, the exemption limit has been raised from Rs 2.5lac to Rs 3lac. This measure will result in a tax saving of Rs.5000 pa for the assesse.

The FM raised the investment limit under section 80C of the IT Act from Rs.1lac to Rs 1.5lac, which should provide a relief of Rs.15000 to tax payers in the 30% tax bracket. Deduction limit on account of interest on loan in respect of self-occupied house property has been raised from Rs.1.5lac to Rs.2lac, which should result in further saving of Rs.15000 pa in 30% tax bracket.

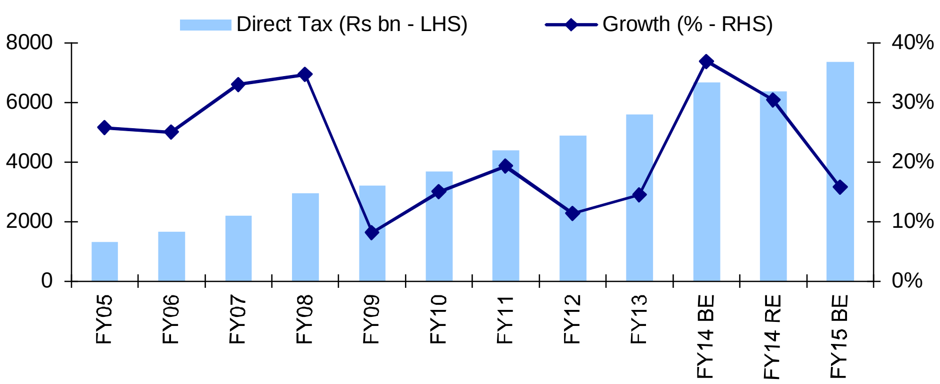
Income and dividend distribution tax is proposed to be levied on gross amount instead of amount paid net of taxes. In our view, this would result in a higher tax incidence for dividend payers.

To promote industrial growth, the FM has continued the Investment allowance at the rate of 15% for a manufacturing company. However, the threshold investment limit in Plant and Machinery for claiming deduction has been reduced from Rs.1bn and above earlier to Rs.250mn and above. This deduction has also been extended to two sectors, namely, slurry pipelines for the transportation of iron ore, and semiconductor wafer fabrication manufacturing units.

With a view to remove tax arbitrage, rate of tax on long term capital gains has been increased from 10% to 20% on transfer of units of Mutual Funds, other than equity oriented funds.

The FM has assessed the direct tax proposals would result in revenue loss of Rs.222 bn.

Direct tax



Source: Economic Survey 2013-14, Annual Budget FY2014-15

Indirect Taxes

The budget has kept the headline rates of excise duty, customs duty and service tax unchanged at 12%, 10% and 12% respectively, in line with our expectations. However, basic customs duty (BCD) has been reduced for some items (inputs) to boost domestic manufacturing.

Among the important changes, concessional basic customs duty of 5% has been extended to machinery and equipment required for setting up of a project for solar energy production. Anthracite coal, bituminous coal, coking coal, steam coal and other coal will attract higher duty of 2.5% BCD and 2% CVD.

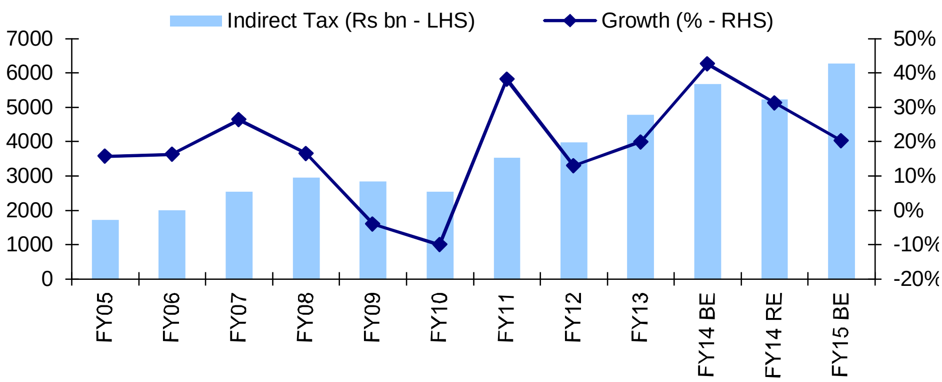
Basic customs duty on metallurgical coke has been increased from Nil to 2.5% in line with the duty on coking coal. BCD has been increased for imported flat-rolled stainless steel from 5% to 7.5%, to give an impetus to that industry. Export duty on bauxite increased from 10% to 20%.

Higher excise duty has been levied on Cigarettes (11% - 72% hike). To incentivize expansion of processing capacity, excise duty on specified food processing and packaging machinery has been reduced from 10% to 6%.

In service tax, the FM has added more services in the negative list.

The FM has assessed that, the indirect tax proposals would lead to a gain of Rs.75bn.

Indirect tax



Source: Economic Survey 2013-14, Annual Budget FY2014-15

Capital markets – marginal benefit

The budget has provided some operational benefits to the capital markets, which will have a marginal effect. However, through these measures, the FM has indicated his sensitivity to the markets.

The budget has proposed the introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector and introduction of one single operating demat account so that Indian financial sector consumers can access and transact all financial assets through this one account. This shall significantly ease operational hindrance for retail investors.

The incidence of dividend distribution tax on companies and mutual funds has increased as the budget has imposed the DDT on the Gross amounts as compared to the current Net amount (after deducting DDT). We expect the companies to adjust their dividend payouts. With a view to remove tax arbitrage, rate of tax on long term capital gains has been increased from 10% to 20% on transfer of units of Mutual Funds, other than equity oriented funds. Also, the definition of long term holding for these units has been changed from 12 months to 36 months. We opine, this measure would move money from the debt funds towards banking sector or capital markets.

With the major event out of the way, the markets will likely focus on issues like monsoons, global economy and quarterly results in the short term. Off-budget action on budget initiatives will sustain the confidence of the markets over the medium term. Markets will also look forward to the rate action from RBI in its next policy. We believe that, a bottoms-up approach will be the best approach over this time-frame.

Trend in Subsidies

	FY12	FY13	FY14BE	FY14RE	FY15BE
Food	**728.22**	**850.00**	**900.00**	**920.00**	**1,150.00**
Total Fertiliser Subsidy	**700.13**	**656.13**	**659.72**	**679.72**	**729.70**
Indigenous (Urea) fertilisers	202.08	151.32	155.45	120.45	123.00
Imported (Urea) fertilisers	137.16	200.00	210.00	265.00	360.00
Sale of decontrolled fertiliser with concession to farmers	360.89	304.80	294.27	294.27	246.70
Petroleum Subsidy	684.84	968.80	650.00	854.80	634.27
Interest subsidies	50.49	72.70	80.61	81.75	83.13
Other	15.73	23.16	20.51	18.90	9.47
Total Subsidies (Rs.bn)	**2,179.41**	**2,570.79**	**2,310.84**	**2,555.16**	**2,606.58**

Source: Annual Budget 2014-15

BUDGET HIGHLIGHTS FY2014-15

Customs duty

	Pre-budget	Post-budget
Metals/Mining		
Bituminous coal	2	2.5
Steam coal	2	2.5
Metallurgical coke	0	2.5
Coking coal	0	2.5
Anthracite coal	5	2.5
Bauxite (export duty)	10	20
Flat rolled products of stainless steel	5	7.5
Shibuilding scrap	5	2.5
Electronics		
LCD and LED TV panels	10	0
E-books	7.5	0
Renewable Power		
Forged steel rings for making bearings in Wind Turbine Generators	10	5
Miscellaneous		
Broken diamonds	0	2.5
Oils		
Fatty acids/crude oils	7.5	0

Source: Kotak Securities - Private Client Research

Excise duty

Item	Pre Budget	Post Budget
Metals		
Winding wires of copper	10%	12%
FMGC		
Rs/ 1000 sticks		
Filter:		
75mm-85mm	2725	3290
70mm-75mm	2027	2250
<70mm	1409	1650
<65mm	669	1150
Non-Filter		
<65mm	669	1150
Electronics/Hardware		
Metal Core PCB and LED driver	12%/10%	6%
Renewable Energy		
Forged steel rings used in the manufacture of bearings of wind operated electricity generators	12%	0%
Consumer Goods		
Footwear of retail price exceeding Rs.500 per pair but not exceeding Rs.1,000 per pair	12%	6%
Energy Sector		
Branded Petrol (Per Litre)	7.5	2.35

Source: Union Budget Document 2012-2013

BUDGET AT A GLANCE

Central Government Finances

(Rs bn)		FY2013	FY2014BE	FY2014RE	FY2015BE
Receipts					
1.	Revenue receipts (2d + 3)	8,792	10,563	10,293	11,898
2.	Gross tax revenue (2a + 2b)	10,362	12,359	11,589	13,645
2a.	**Direct taxes**	**5,587**	**6,681**	**6,363**	**7,362**
2a1.	Corporation tax	3,563	4,195	3,937	4,510
2a2.	Income tax	2,015	2,476	2,417	2,843
2a3.	Other taxes	8	10	10	10
2b.	**Indirect taxes**	**4,776**	**5,678**	**5,226**	**6,283**
2b1.	Customs duty	1,653	1,873	1,751	2,018
2b2.	Excise duty	1,765	1,976	1,795	2,071
2b3.	Service tax	1,326	1,801	1,649	2,160
	Taxes on UTs	31	28	31	34
2c	Transfers to States and UTs	2,915	3,470	3,182	3,822
2ci	Transfers to Nat Calamity fund	28	48	47	51
2d	Tax revenue (Net of Centre)	7,419	8,841	8,360	9,773
3.	**Non-tax revenue**	**1,374**	**1,723**	**1,932**	**2,125**
4.	**Capital receipts (4a + 4b + 4c)**	**5,311**	**6,090**	**5,612**	**6,051**
4a.	Recovery of loans	151	107	108	105
4b.	Other receipts (Disinvestments)	259	558	258	634
4c.	Borrowings and other liabilities	4,902	5,425	5,245	5,312
5.	**Total receipts (1 + 4)**	**14,104**	**16,653**	**15,904**	**17,949**
Expenditure					
6.	**Non-plan expenditure (7 + 8)**	**9,967**	**11,100**	**11,149**	**12,199**
7.	**Non-plan revenue expenditure**	**9,143**	**9,929**	**10,277**	**11,146**
7a.	Interest payments	3,132	3,707	3,801	4,270
7b.	Subsidies	2,571	2,311	2,555	2,607
7b1.	Food	850	900	920	1,150
7b2.	Fertilizer	656	660	680	730
7b3.	Petroleum	969	650	855	634
7b4.	Others	96	101	101	93
7c.	Grants to States and UTs	480	770	616	699
7d.	Others	2,961	3,142	3,305	3,570
8.	Non-plan capital exp.	824	1,171	872	1,053
9.	**Plan expenditure (10 + 11)**	**4,136**	**5,553**	**4,755**	**5,750**
10.	Plan revenue expenditure	3,292	4,433	3,719	4,535
11.	Plan capital expenditure	844	1,121	1,037	1,215
12.	**Total expenditure (6 + 9)**	**14,104**	**16,653**	**15,904**	**17,949**
13.	Revenue expenditure (7+10)	12,435	14,362	13,995	15,681
14.	Capital expenditure (8+11)	1,669	2,291	1,909	2,268
Memo Items					
15.	Revenue Deficit (13-1)	3,643	3,798	3,703	3,783
16.	Fiscal Deficit (12-{1+4a+4b})	4,902	5,425	5,245	5,312
17.	Primary Deficit (16-7a)	1,770	1,718	1,445	1,042
18.	Gross domestic product (GDP)	101,133	113,719	113,205	128,767
PD/GDP (%)		1.8	1.5	1.3	0.8
RD/GDP (%)		3.6	3.3	3.3	2.9
FD/GDP (%)		4.8	4.8	4.6	4.1

Source: Annual Budget 2014-15

7.6% of GDP in FY15BE vs 7.4% of GDP in FY14RE

Coal India (Rs.200bn), Hindustan Zinc & Balco (Rs.200bn), SU-UTI (Rs.200bn) & others

13.4% Nominal growth in GDP (5.9% real GDP growth and 7.5% inflation)

SECTOR SUMMARY

Sector Summary

Sector	Budget Impact	Preferred Picks
Automobiles	Positive	Tata Motors, Mahindra & Mahindra
Aviation	Neutral	-
Banking & NBFC	Positive	ICICI Bank, Axis Bank, HDFC Bank, State Bank of India
Capital Goods and Engg.	Positive	L&T, Blue Star, Engineers India, Voltas
		Thermax
Cement	Positive	Grasim Industries
Construction	Positive	JP Associates
FMCG	Neutral	Dabur India, Marico
Hotels	Positive	-
Information Technology	Neutral	TCS, KPIT Cummins
Logistics	Positive	Adani Port, Gujarat Pipavav Port, Concor, Gateway Distriparks
Media	Neutral	DB Corp, ENIL, Jagran Prakashan, Sun TV Network, Zee Entertainment
Metals & Mining	Positive	-
Oil & Gas	Positive	MRPL, Petronet LNG
Power	Neutral	Tata Power
Real Estate	Positive	Phoenix Mills
Shipping	Positive	Great Eastern Shipping Company, Shipping Corporation of India

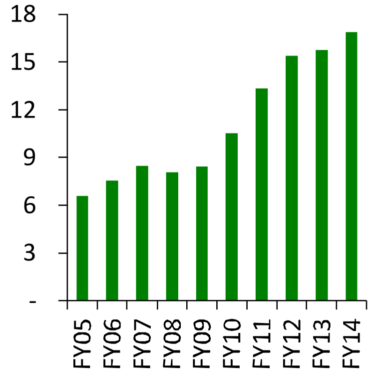
Source: Kotak Securities - Private Client Research

SECTOR IMPACT ANALYSIS

Budget Impact: Positive

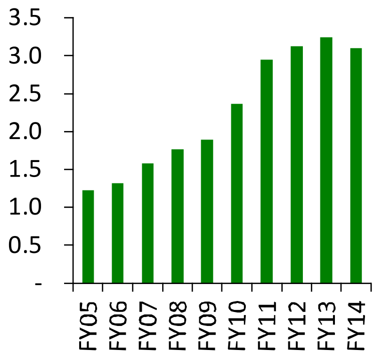
Automobiles

2 Wheeler - Sales volume (mn units)



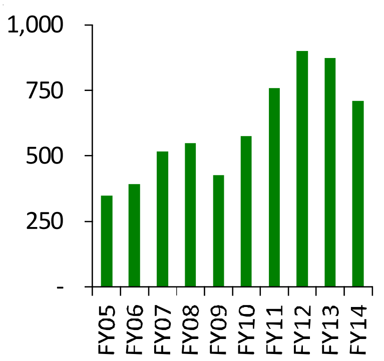
Source: SIAM

Passenger vehicles - Sales volume (mn units)



Source: SIAM

CVs - Sales volume ('000 units)



Source: SIAM

Budget highlights & Impact

Investment allowance benefit extended to SME

Impact: Finance Minister extended investment allowance to cover manufacturers who invest at least Rs250mn in new assets (plant and machinery) upto 31st March 2017. Under this scheme, eligible manufacturer shall be allowed a deduction of 15% of cost of new assets. Earlier, this allowance was available for manufacturers whose investment in new asset creation was in excess of Rs1bn.

In our view, this will be positive for small and mid-sized auto ancillary companies whose investments are generally under Rs1bn. We believe that this step will make new investments more attractive for mid and small sized auto ancillary companies.

Reduction in basic custom duty on battery scrap

Impact: The FM announced reduction in basic custom duty on battery waste and battery scrap from 10% to 5%.

Indian battery manufacturers use scrap as input and we thereby view reduction in custom duty on battery scrap as positive for Amara Raja and Exide Industries.

Reduction in excise duty on Metal Core PCB and LED driver

Impact: Excise duty on Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps, is being reduced from 12%/10% to 6%.

In the auto ancillary space, FIEM Industries manufactures LED lights/lamps. Reduction in LED light prices will help in increasing penetration for LED luminaires in the domestic market.

Agriculture continues to receive emphasis

Impact: Government continued to lay stress on the development of the agriculture sector. Target for agriculture credit has been set at Rs8 trillion. Interest subvention scheme for short term loans at 7% is been continued into FY15. Also, additional subvention of 3% will be provided to farmers making timely payments.

We believe that the above mentioned steps will be positive for the tractor makers like Escorts and M&M. Further, 2W sector could also gain because of relatively high penetration in the rural areas.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY15E	Price	Price
Preferred picks						
Tata Motors	52.3	61.4	52.3	61.4	453	487
M&M	60.3	71.6	60.3	71.6	1,166	1,298
Others						
Hero MotoCorp	141.5	171.3	141.5	171.3	2,439	2,569
Escorts	13.1	17.0	13.1	17.0	123	136
TVS Motors	7.4	9.0	7.4	9.0	159	99
Apollo Tyres	19.5	21.1	19.5	21.1	176	190
Eicher Motors *	232.2	349.5	232.2	349.5	8,128	6,866
Bajaj Auto	127.9	147.5	127.9	147.5	2,152	2,361

*Source: Kotak Securities - Private Client Research; Note: * Eicher is a December year ending company, EPS estimates are for CY14 and CY15*

BUDGET IMPACT: NEUTRAL

AVIATION

BUDGET HIGHLIGHTS & IMPACT

- **New Airports in Tier 1 and Tier 2 cities**

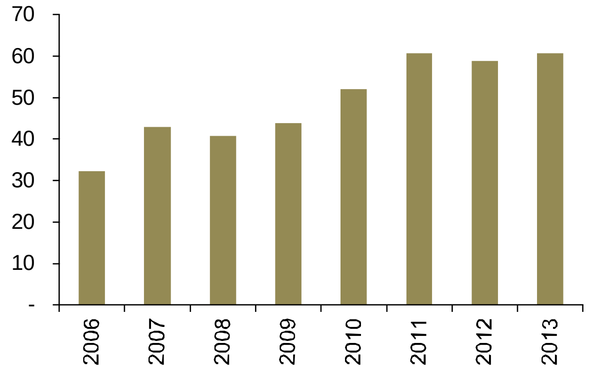
  Impact: Finance Minister said that Scheme for development of new airports in Tier I and Tier II will be launched for implementation through Airport Authority of India or PPPs.

  Given that airport building is a long gestation projects, we do not see any positive impact of this in the near to medium term. From a long term perspective, it would be beneficial as new airports will bring additional passengers to the industry.

  Key industry demand of reduction in sales tax on ATF remains unfulfilled making this budget neutral for the sector.

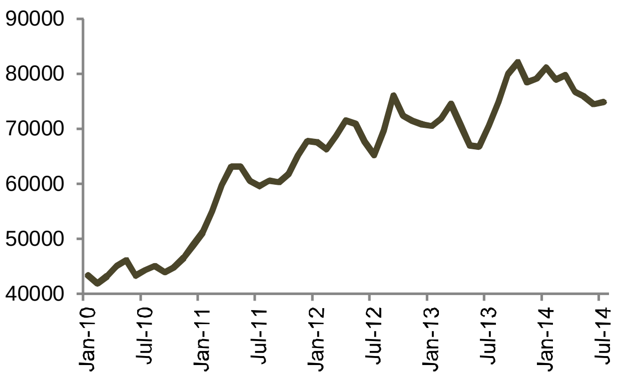
We do not have active coverage on this sector

Domestic passenger traffic (mn passengers)



Source - Civil Aviation Ministry, DGCA

ATF prices (Rs/KL)



Source - IOCL

BUDGET IMPACT: POSITIVE

BANKING & NBFCs

BUDGET HIGHLIGHTS & IMPACT

- **The budget has provided Rs.113 bn for recapitalization of state-run banks.**

  Impact: Rs.113 bn has been earmarked for recapitalization of PSU banks during FY15 (vs. Rs.161 bn in FY14) to augment their core equity capital and enhance their future lending capabilities. As per the GOI's estimate, Indian banks would require Rs.2.4 tn worth of equity capital by the end of FY18 to meet BASEL-III norms. However, with government having limited fiscal maneuverability, these banks are likely to be allowed to issue fresh equity to public in a phased manner, without affecting the majority shareholding status of GOI.

- **Net market borrowing is estimated at Rs.4.61 tn during FY15 (BE) as against Rs.4.69 tn during FY14 (RE).**

  Impact: Government's net borrowing estimate for FY15 is lower than the street expectations and hence it is not likely to put much pressure on the government bond yields through crowding out of private investment. This in turn will not be negative for PSU banks from MTM provisions risk on their Investment book.

- **Banks will be permitted to raise long term funds for lending to Infrastructure sector with minimum regulatory preemption such as CRR, SLR and PSL.**

  Impact: This will enable banks to raise cost-effective long term bonds to fund Infrastructure book. Banks have to maintain CRR/SLR on their NDTL (net demand and time liabilities), which is a kind of tax with the negative carry. Banks would also be encouraged to raise very long-term bonds, without these regulatory burdens to fund infra projects without taking asset liability mismatches. However, we will wait for more clarity on this.

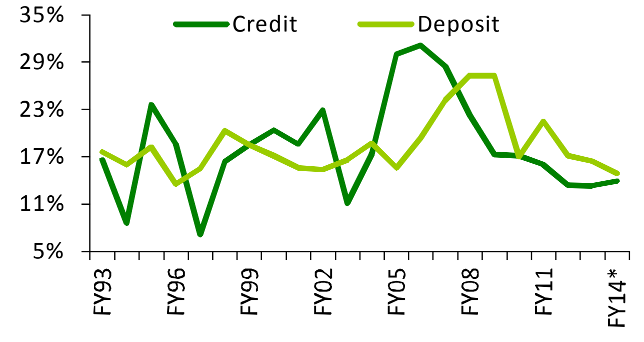
- **The target of credit flow to the farmers has been hiked from Rs.7.0 tn in FY14 to Rs.8.0 tn in FY15 (BE).**

  Impact: It implies PSU banks are likely to be forced to lend more (~14% YoY) to PSL segment. However, % increase is lower than the planned banking agri disbursement target given last year (~22% YoY). Hence, it is slightly negative for state owned banks which are witnessing higher asset quality deterioration. GOI has also extended the 3% interest rate subvention on short term farm loans during FY15, for timely payment.

- **The composite cap in the Insurance sector is proposed to be increased up to 49% from the current level of 26%.**

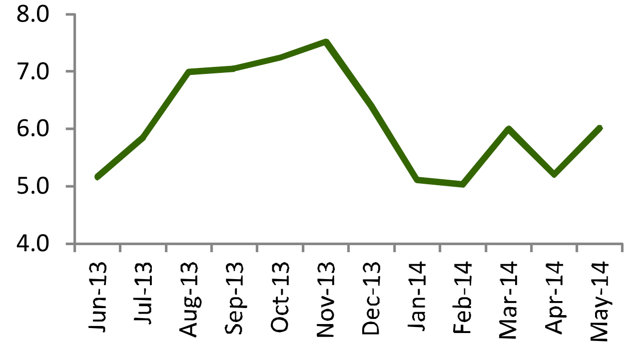
  Impact: GOI has proposed to increase the composite cap in the Insurance sector from the current level of 26% to 49% with full Indian management and control, through the FIPB route. As insurance sector is starved of investment, this step would help insurance companies to get much needed capital from the overseas partners.

Deposit and credit growth (%)



Source - Civil Aviation Ministry, DGCA

Inflation (%)



Source - IOCL

Impact on ABV (Rs)

Company	Pre-Budget ABV		Post-Budget ABV		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
ICICI Bank	665.0	740.8	665.0	740.8	1,389	1,626
HDFC Bank	209.8	254.2	209.8	254.2	823	810
Axis Bank	881.7	983.5	881.7	983.5	1,860	2,080
SBI	1,254.1	1,333.1	1,254.1	1,333.1	2,546	2,987
Others						
Allahabad Bank	100.1	108.1	100.1	108.1	90	87
Andhra Bank	85.2	88.0	85.2	88.0	90	62
BoB	735.3	841.8	735.3	841.8	825	935
DCB	49.0	56.1	49.0	56.1	80	76
HDFC Ltd	189.9	212.8	189.9	212.8	1,023	940
Indian Bank	195.7	201.9	195.7	201.9	168	152
Indian Overseas Bank	71.2	71.4	71.2	71.4	74	50
J&K Bank	1,353.0	1,624.0	1,353.0	1,624.0	1,592	2,070
LIC Housing	166.6	192.4	166.6	192.4	325	336
M&M Finance	92.2	105.0	92.2	105.0	256	273
PNB	753.8	826.5	753.8	826.5	914	750
STFC	404.2	464.9	404.2	464.9	907	790
Union Bank	194.8	205.3	194.8	205.3	198	143

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

CAPITAL GOODS & ENGINEERING

BUDGET HIGHLIGHTS & IMPACT

- **Extension of investment allowance on new plant and machinery**

  Impact: Positive. Investment allowance at the rate of 15% to a manufacturing company that invests more than Rs 250 mn (earlier Rs 1.0 bn) in any year in new plant and machinery. The benefit to be available for three years i.e. for investments upto 31.03.2017. In current times of weak industrial capex, this measure is an incentive for manufacturers to undertake capex plans.

- **Extension of sunset clause on 80IA**

  Impact: Neutral. 10 year tax holiday extended to the undertakings which began generation, distribution and transmission of power by 31/03/2017. Removes a major uncertainty relating to this sunset clause. The move is mainly positive for power utilities as a major uncertainty has been put out of the way and should lead to higher demand for downstream equipment suppliers.

- **Defense capex raised by 6%**

  Impact: Neutral.Capital expenditure on defense for 2014-15 has been raised by modest amount of Rs 50 bn to Rs.910 bn. Neutral for BEL

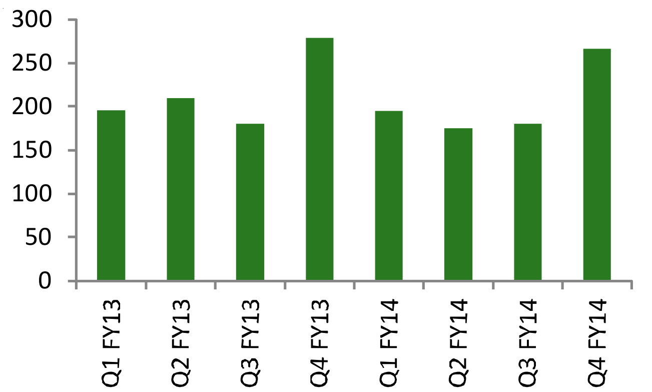
- **FDI cap in defence raised to 49%**

  Impact: Neutral. FDI cap in defence raised to 49% is a positive. However, whether is it enough to encourage foreign defence vendors to set up shop in India is debatable. We understand that foreign vendors may not be very keen to transfer technology without a significant majority stake. Optimistically speaking, it is a positive for domestic defence contractors like L&T, BEL, Pipavav Shipyard and Astra Microwave etc.

- **Allocation on road building**

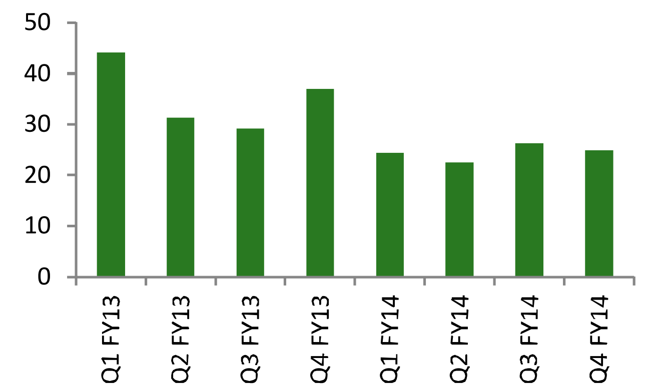
  An investment of an amount of Rs 378 bn in NHAI and State Roads is proposed which includes Rs 30 bn for the North East. Target of NH construction of 8500 km will be achieved in current financial year. Minor positive for Greaves Cotton and Cummins.

L&T's order intake (Rs bn)



Source: Company

Crompton Greaves order intake (Rs bn)



Source: Company

- **Thrust on solar energy**

  An investment of an amount of Rs 5 bn has been provided for ultra mega solar power projects in Rajasthan, TN, AP and Gujarat. Minor positive for BHEL as it is one of the prime contenders to build these projects. Development of 1 MW of solar parks on the banks of canals. Positive for solar EPC players like Ujaas Energy and Swelect Energy (both not covered).

- **Higher allocation on urban infrastructure**

  Present corpus of Pooled Municipal Debt Obligation Facility to be enlarged to Rs 500 bn from Rs 50 bn. Positive for VA Tech Wabag and L&T.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
L&T	62.4	76.0	62.4	76.0	1,652	1,757
Blue Star	15.9	19.8	15.9	19.8	292	328
EIL	17.5	20.2	17.5	20.2	293	380
Voltas	9.0	11.9	9.0	11.9	200	229
Thermax	32.4	43.8	32.4	43.8	923	1,095
Others						
ABB	17.7	22.7	17.7	22.7	1,051	1,051
Alstom T&D	6.2	8.1	6.2	8.1	325	325
AIA Engg	37.3	47.5	37.3	47.5	734	760
Bajaj Electricals	16.1	21.4	16.1	21.4	342	325
BEL	130.8	150.3	130.8	150.3	1,961	1,995
BHEL	11.6	12.9	11.6	12.9	243	215
CGL	8.7	11.2	8.7	11.2	191	205
Cummins	24.6	28.4	24.6	28.4	648	710
Elgi Equipment	3.6	4.6	3.6	4.6	125	95
Greaves Cotton	8.7	11.2	8.7	11.2	112	88
Havells	48.6	55.1	48.6	55.1	1,216	980
Kalpataru Power	10.6	11.8	10.6	11.8	174	175
Pidilite	10.0	12.6	10.0	12.6	330	315
Siemens	15.8	21.0	15.8	21.0	880	545
VA Tech Wabag	56.8	74.8	56.8	74.8	1,400	1,121
Voltamp	40.0	48.0	40.0	48.0	657	600
Time Technoplast	5.9	7.8	5.9	7.8	48	229

Source: Kotak Securites - Private Client Research; Note: Due to increase in surcharge on corporate tax, there is only a marginal impact on our EPS estimates.

BUDGET IMPACT: POSITIVE

CEMENT

BUDGET HIGHLIGHTS & IMPACT

- **Focus on infrastructure development and low cost housing to add to cement demand growth**

  Impact: Positive. Cement demand is expected to gain momentum with continuous thrust of government on infrastructure creation. FM has announced increased investment in road sector as well as in Pradhan Mantri Gram Sadak Yojana along with higher allocation for National Housing Bank to support rural and low cost housing. This is likely to boost cement demand growth which has dragged in past two years due to lack of infrastructure creation and slowdown in real estate. Along with this, additional income tax benefit given to individuals is also likely to boost demand for housing which will add to cement demand growth. This is expected to be positive for cement companies.

- **Creation of smart cities to boost cement demand**

  Impact: Positive. Government has a vision to develop 100 smart cities as satellite towns of larger cities and by modernizing the existing mid-sized cities. This is likely to be positive for cement demand growth and hence is expected to be positive for cement companies.

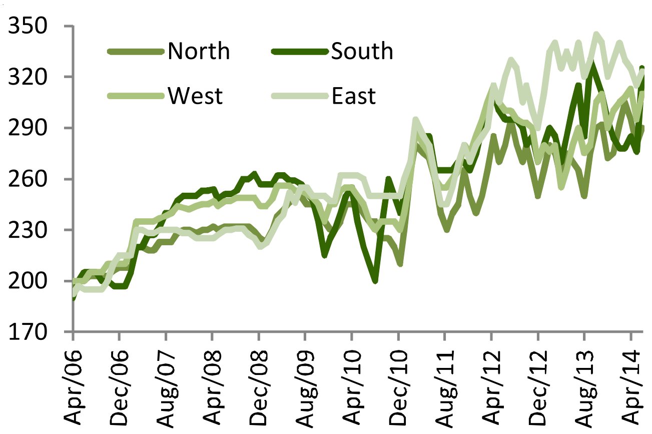
- **Investment allowance for new investments**

  Impact: Positive. Investment allowance at the rate of 15 percent to a manufacturing company that invests more than Rs 250 mn in any year in new plant and machinery. This benefit will be available for three years i.e. for investments upto 31.03.2017. The Scheme announced last year will continue to operate in parallel till 31.03.2015. This would be positive for most of the cement companies as they are investing regularly to augment and enhance their capacities.

- **Amendment of Section 115-O for determining dividend distribution tax**

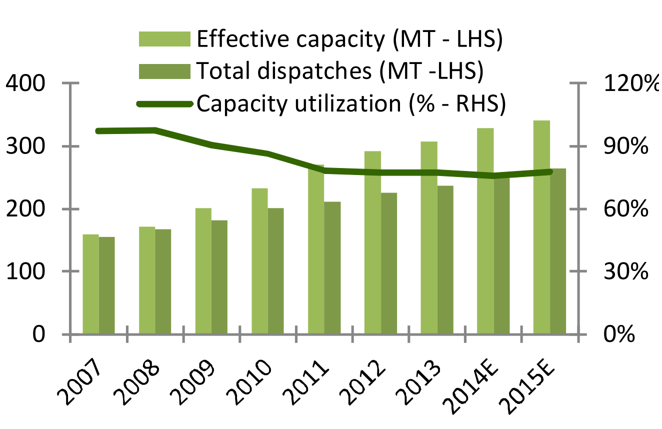
  Impact: Marginally negative. The amount of distributable income and the dividends which are actually received by the shareholders of the domestic company need to be grossed up for the purpose of computing the additional tax. This is likely to result in marginally higher tax at the company level. However, we believe that companies are likely to adjust their cash flows by reducing the amount of dividend to be paid to the shareholders.

Cement prices trend (Rs/50 kg bag)



Source: Dealer feedback

Trend in capacity utilizations



Source: Kotak Securities - Private Client Research, CMA

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
Grasim	257.3	293.6	257.3	293.6	3,310	3,079
Others						
ACC	64.3	84.2	64.3	84.2	1,459	1,357
Ultratech Cements	87.4	102.5	87.4	102.5	2,511	2,005
Shree Cements	255.2	286.9	255.2	286.9	7,321	5,703
India Cements	4.8	6.8	4.8	6.8	105	87

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

CONSTRUCTION

BUDGET HIGHLIGHTS & IMPACT

- **Infrastructure investment trust**

  Impact: Positive. Setting up of infrastructure investment trust has been announced to enable easier long term financing for infrastructure projects. Such trust can raise funds either by way of issue of units to be listed on stock exchanges or by debt directly from resident as well as non-resident investors. Trust would hold assets either by acquiring controlling or specific interest from any SPV.

  Tax efficient pass through status has been given to the trust. The income by way of interest received by the business trust from SPV is accorded pass through treatment i.e., there is no taxation of such interest income in the hands of the trust and no withholding tax at the level of SPV. The dividend received by the trust shall be subject to dividend distribution tax at the level of SPV but will be exempt in the hands of the trust. And the dividend component of the income distributed by the trust to unit holders will also be exempt. The listed units of a business trust, when traded on a recognised stock exchange, would attract same levy of securities transaction tax (STT), and would be given the same tax benefits in respect of taxability of capital gains as equity shares of a company i.e., long term capital gains, would be exempt and short term capital gains would be taxable at the rate of 15%.

  This type of structure helps in easing the long term funding requirements for the sector from foreign and domestic sources and is expected to be positive for the sector.

- **Increased investment in roads segment**

  Impact: Positive. Road sector has suffered in last two years due to funding constraints and lack of interest from private developers. Government has proposed an investment of Rs 378.8 bn in NHAI and state roads which is expected to translate into order inflows for the road players in order to meet the target of 8500 km for NHAI for current financial year. This is expected to be positive for road BOT players like IRB, ITNL, NCC, Sadbhav Engineering and Ashoka Buildcon.

- **Higher allocations for Pradhan Mantri Gram Sadak Yojana and National Rural Drinking water programme**

  Impact: Positive. In order to improve development of rural roads, allocation of Rs 144 bn has been made for Pradhan Mantri Gram Sadak Yojana. This is expected to be positive for companies like NCC, IVRCL, Simplex Infrastructure etc which has expertise in constructing roads. Along with this, allocation of Rs 36 bn for National Rural Drinking water programme is expected to result in large projects for water supply and sanitation and is likely to be positive for companies having expertise in this segment such as NCC, Pratibha Industries, Unity Infraprojects, IVRCL etc

- **Easier funding from banks**

  Impact: Positive. Banks had been reluctant to lend to the infrastructure sector in the past couple of quarters. Banks have now been encouraged to provide long term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies. Banks will be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and priority sector lending. This is expected to ease long term funding requirement for long gestation road BOT projects and is expected to be positive for road BOT players like IRB Infra, IL&FS Transportation networks, NCC etc.

- **Focus on Urban development**

  Impact: Positive. Government has emphasized its focus towards providing good infrastructure, including public transport, solid waste disposal, sewerage treatment and drinking water in the urban areas. Municipal Debt Obligation Facility was set up in 2006 to promote and finance infrastructure projects in Urban Area on shared risk basis. It has thus proposed to enlarge the corpus of Municipal Debt Obligation Facility to Rs 500 bn from Rs 50 bn currently which is likely to be positive for players engaged in urban infrastructure projects such as IL&FS Transportation network, NCC, JKIL, IVRCL, Pratibha Industries, Simplex Infrastructure and Unity Infraprojects. Funds to the tune of Rs 1bn are also set aside for Urban Metro projects in Lucknow and Ahmedabad.

- **Focus on setting up of industrial corridors and smart cities**

  Impact: Positive. National Industrial Corridor Authority has been set up with an initial corpus of Rs 1bn to coordinate the development of the industrial corridors with smart cities. Amritsar Kolkata Industrial master planning will be completed expeditiously for the establishment of industrial smart cities in seven States of India. The master planning of three new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka will also be completed. This is expected to be positive for infrastructure companies.

- **Easier dispute resolution mechanism**

  Impact: Positive. In order to ease dispute resolution mechanism for road EPC players, an institution to provide support to mainstreaming PPPs called 3P India will be set up with a corpus of Rs 5 bn. This is expected to be positive for players executing PPP projects where a large amount of funds are stuck up in disputes with various authorities.

- **Amendment of Section 115-O for determining dividend distribution tax**

  Impact: Marginally negative. The amount of distributable income and the dividends which are actually received by the shareholders of the domestic company need to be grossed up for the purpose of computing the additional tax. This is likely to result in marginally higher tax at the company level. However, we believe that companies are likely to adjust their cash flows by reducing the amount of dividend to be paid to the shareholders.

Impact on EPS (Rs)

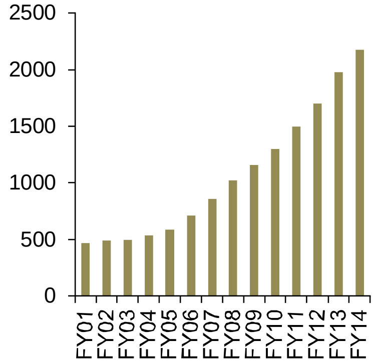
Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
JP Associates	1.6	1.6	1.6	1.6	65	80
Others						
IRB Infra	12.9	-	12.9	-	246	116
IL&FS Transportation Network	14	14.9	14	14.9	217	174
NCC	3.2	5.1	3.2	5.1	72	64
Simplex Infra	15.8	23.6	15.8	23.6	343	305

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

FMCG

FMCG Industry Size (Rs bn)



Source: Industry Reports, Kotak Securities - Private Client Research

BUDGET HIGHLIGHTS & IMPACT

- **Changes in excise duties for cigarettes:**

  The budget has raised excise duties on cigarettes, with hikes ranging from 11% (70-75mm slab) to 72% (<65mm slab). The weighted average rise in excise would work out to be around 23% for ITC (assuming constant product mix). Although demand for cigarettes is known to be inelastic, we believe that this (being the) third successive punitive hike, will have a negative impact on volumes, as also on long-term cigarette consumption. A weighted average realization hike of 16% would lead to a demand contraction of about 2-3%%, as per our estimates. The hike is ahead of our expectations; however, we expect ITC to maintain earnings growth in the near-term with price hikes.

- **Modest Benefits to consumption on account of changes in income tax slabs/ expected softness in subsidies spends**

  As expected, the subsidies and social services spends of the government have budgeted for a miniscule rise (2% and 0% respectively); this implies that rural incomes growth shall likely see moderation, and this is an (expected) negative. There will be a modest benefit from raising the lowest taxable bar on individuals' income.

- **The FM has made promising statements on GST implementation.**

  GST is a significant positive for FMCG companies on account of greater parity with unorganized sector, as also supply chain benefits.

- **Customs duties on fatty acids, crude palm stearin, and crude glycerine**

  The budget has reduced the customs duty on fatty acids, crude palm stearin from 7.5% to nil, and that of crude glycerie from 12.5% to nil (in the specific case of soap manufacture). This shall have a positive impact on soap demand (assuming that the benefits are passed on by the industry). HUL, GCPL are most exposed.

  Post budget, we leave our EPS estimates for ITC unchanged (expect only modest impact, depending on the quantum and timing of price hikes); we believe HUL/ GCPL earnings estimates shall be positively impacted by c. 2% (with commensurate rise in target price).

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
Dabur India	6.2	7.4	6.2	7.4	194	201
Marico	8.4	9.4	8.4	9.4	239	226
Others						
Colgate Palmolive India	41.2	45.3	41.2	45.3	1,535	1,358
Godrej Consumer	25.1	31.5	26.1	32.2	804	804
Hindustan Unilever	18.2	19.9	18.6	20.3	632	590
ITC	12.4	14.2	12.4	14.2	342	343
Nestle India	119.6	132.0	119.6	132.0	4,954	4,224

Source: Kotak Securites - Private Client Research

Excise Duties : Cigarettes (Rs/ '000 sticks)

Rs/ 1000 sticks	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Filter:												
75mm-85mm	1,450	1,450	1,595	1,675	1,759	1,759	1,759	1,959	1,959	2,309	2,725	3,290
70mm-75mm	1,090	1,090	1,200	1,260	1,323	1,323	1,323	1,473	1,473	1,718	2,027	2,250
<70mm	670	670	740	780	819	819	819	969	969	1,194	1,409	2,250
<65mm	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	669	669	1,150
<60mm								669	669	(Cl. FY13)	(Cl. FY13)	(Cl. FY13)
Non-Filter												
60mm-70mm	450	450	495	520	546	1,323	1,323	1,473	1,473	(Cl. FY13)	(Cl. FY13)	(Cl. FY13)
<60mm	135	135	150	160	168	819	669	669	669	(Cl. FY13)	(Cl. FY13)	(Cl. FY13)
<65mm	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	(Int. FY13)	669	669	1,150

Source: Budget documents; Note - Int FY13 = Introduced in FY13, CLFY13 = The slab is not applicable any more/subsumed in other slabs FY13 onward

BUDGET IMPACT: POSITIVE

HOTELS

BUDGET HIGHLIGHTS & IMPACT

- **Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India**

  Impact: Positive. The finance minister has exempted services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India.

  We believe this will be positive for tour operators

- **5 tourist circuits around specific themes**

  Impact: Positive. The Union budget 2014-2015 has proposed to create 5 tourist circuits around specific themes. The finance minister has set aside a sum of Rs. 5 Bn for this purpose. India's rich cultural, historical, religious and natural heritage provides a huge potential for the development of tourism and job creation as an Industry.

  We believe this will be positive for hospitality sector.

- **Electronic Travel Authorization (e-Visa)**

  Impact: Positive. The Union budget 2014-2015 has tried to give a major boost to tourism in India by introducing the facility of Electronic Travel Authorization (e-Visa) in a phased manner at nine airports in India where necessary infrastructure would be put in place within the next six months. The countries to which the Electronic Travel authorisation facility would be extended would be identified in a phased manner. This would further facilitate the visa on arrival facility.

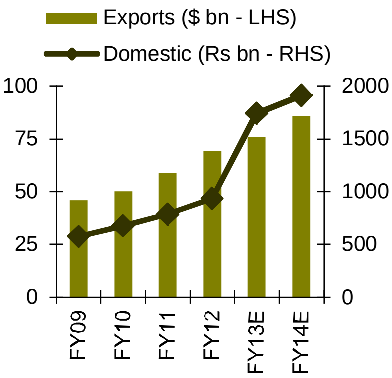
  We believe this is major step that will boost the tourism sector. Positive for Hospitality sector

We do not have active coverage on this sector

BUDGET IMPACT: NEUTRAL

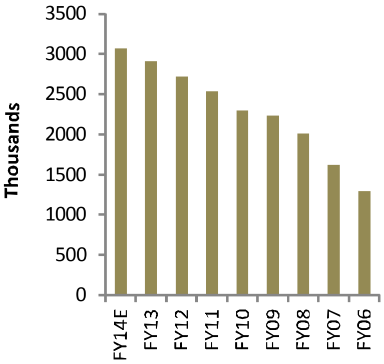
INFORMATION TECHNOLOGY

Indian IT Services-BPO Industry; exports & domestic



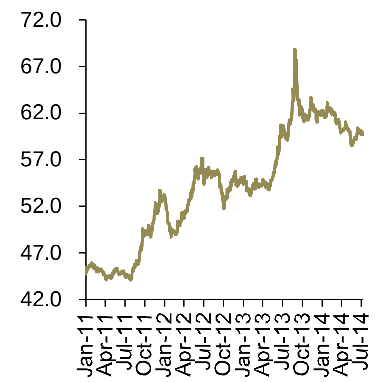
Source : Nasscom

Growth in number of employees



Source : Nasscom

Rupee / US$



Source : Bloomberg

BUDGET HIGHLIGHTS & IMPACT

- **Dividend Distribution Tax on Gross Amount**

  Impact: This will marginally increase the incidence of taxon companies. However, we believe that, companies will adjust their dividend declaration to manage their tax outgo.

- **Setting up of a Rs.100bn fund for start-ups and entrepreneurs**

  Impact: This will be positive for the industry and will act as a booster for the start-up companies. It will likely drive innovation and solutions.

- **Leveraging technology in governance - Ebiz initiative, E-kranti, Virtual classroom, E-visas, etc**

  Impact: This is another positive for the sector as it will lead to an increase in usage of technology in India, in turn, providing more business to Indian companies. However, India forms a very small part of the overall revenues of most listed IT companies. Companies like CMC, which have a larger domestic focus, will benefit.

- **Clarity on Transfer pricing, Advance pricing Agreements, Retrospective tax**

  Impact: These clarifications will improve the business environment for IT companies. The provisions of the Union Budget have been largely neutral to marginally positive for the sector, in our opinion.

We remain optimistic on the longer term prospects of the industry. Indian vendors have moved up the value chain. They are focusing on newer opportunities like cloud computing, analytics, mobility, etc. Newer pricing models will likely make them participate more in the growth prospects of the clients while also making business more non-linear. Also, focused smaller companies with expertise on select verticals will be able to move up the value chain and attract larger clients, thereby, improving their longer term prospects. Companies, however, need to contend with higher competitive pressures and improve efficiencies.

We expect decent returns for the stocks over the medium term, subject to near term volatility. We like TCS among larger names. We also retain our positive bias for select mid-caps like KPIT Cummins.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
TCS	111.8	125.1	111.8	125.1	2,352	2,513
KPIT Cummins	16.1	18	16.1	18	174	195
Others						
Infosys	203.8	222.8	203.8	222.8	3,293	3,579
Wipro	36.2	40.4	36.2	40.4	545	616
HCL Tech	96.7	106.4	96.7	106.4	1,472	1,509
NIIT Technologies	44.3	48.5	44.3	48.5	466	467
Mphasis	36.6	39.1	36.6	39.1	420	395
Cyient	30.6	33.8	30.6	33.8	333	366
NIIT Limited	4.4	5.9	4.4	5.9	49	46
Oracle	165.1	176.6	165.1	176.6	3,078	3,196
Geometric	15.3	17.6	15.3	17.6	143	143
Zensar	57.5	64.6	57.5	64.6	430	422

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

LOGISTICS

BUDGET HIGHLIGHTS & IMPACT

- **Progress on GST implementation**

  Impact: Positive. While no timeline has provided for shifting to GST, the FM observed that decisions on the GST have to be taken in concert with the States with whom the central government's discussions have made considerable progress in the last one year. Areas of divergence have been narrowed. Work is also underway on drafting of the model legislation for the Central and State GST. Among the other steps that are being taken for the introduction of GST is the establishment of a strong IT infrastructure.

  Introduction of GST will lead to rationalization and simplification of the tax structure at both the centre and state levels and there would be continuous tax credit; right from the producer to the final consumer level. This is overall positive for the logistics industry as it would facilitate easier interstate movement of goods and shift of business from the unorganized to the organized sector, thereby providing additional logistics opportunities.

- **Development of SEZs in Kandla and JNPT**

  Impact: Positive. This is expected to develop infrastructure, promote industrialization, and generate additional economic activity and increase trade at the two ports benefiting companies like Concor, Allcargo and Gateway Distriparks who have container train operations and Container Freight Stations at both the ports.

- **Development of Outer Harbour Project in Tuticorin with an investment of Rs 116 bn**

  Impact: Positive. The project is expected to be built under PPP model commencing January 2015 and is expected to give a push to the export import sector in southern India benefitting all the companies across segments in the Logistics space including ports.

- **Fast progress on the Delhi Mumbai Industrial Corridor (DMIC)**

  Impact: Positive. The Delhi Mumbai Industrial Corridor (DMIC) is being put on fast track. It is being developed on either side along the alignment of the Western Dedicated Rail Freight Corridor. The project has made significant progress. The Indian government has provided assistance of Rs 185 bn which would be spread over a period of 5 years. Japanese financial assistance of US$ 45 billion is also expected for the project. The project is expected to be completed in the next 5 years and would significantly benefit companies like Gateway and Concor with faster speed, lower turnaround time and reduced operating cost.

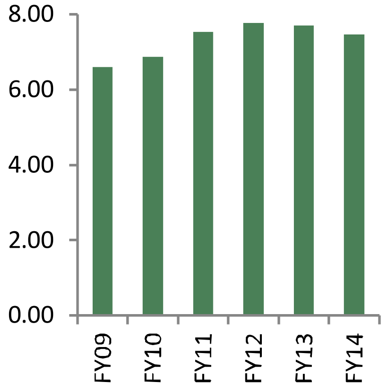
- **Allocation of Rs 50 bn for the Warehouse Infrastructure Fund**

  Impact: Positive. A sum of Rs 50 bn will be made available to NABARD to finance construction of warehouses, godowns, silos and cold storage units designed to store agricultural produce, both in the public and the private sectors. This we believe should benefit companies like Gati, TCI and Aegis Logistics who would have easy access to funds for starting a new warehouse to store agricultural produce.

- **Awarding of sixteen new port projects in FY15**

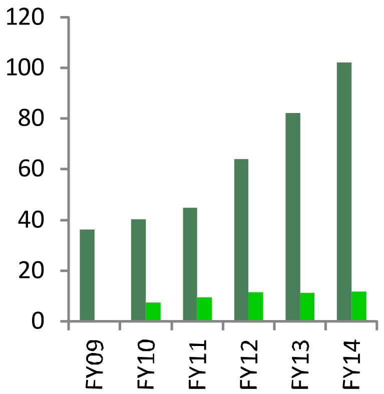
  Impact: Positive. We estimate here the intention of the government is to improve port connectivity, thereby giving a thrust to trade in the country. Consequently it should benefit companies across the entire Logistics chain including Concor, Gateway Distriparks, Allcargo Logistics, Aegis, Gati and TCI.

Container volumes at 12 major ports (mn TEUs)



Source: Kotak Securities - Private Client Research, Indian Ports Association

Volumes for Adani Port and Gujarat Pipavav Port



Source: Company

Increase in Dividend Distribution Tax

Impact: Negative. Companies would have to gross up dividend and dividend distribution tax to arrive at the final figure of tax to be paid by the company while distributing dividends. We estimate this would increase the effective rate of taxation on dividend distribution from 15% to 17.7% for corporates

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
Concor	60.0	66.6	60.0	66.6	1,300	1,330
Adani Port	11.3	13.0	11.3	13.0	270	250
Gateway Distriparks	13.9	16.4	13.9	16.4	240	256
Gujarat Pipavav Port	4.8	5.0	4.8	5.0	127	125
Others						
Allcargo Logistics	17.9	19.6	17.9	19.6	240	196
Bluedart Express	63.0	73.0	63.0	73.0	4,000	2,980

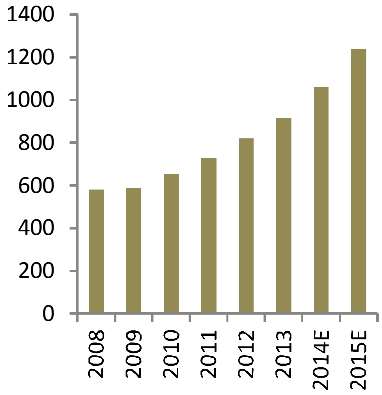
Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

MEDIA

BUDGET HIGHLIGHTS & IMPACT

Industry size - Media & Entertainment (Rs bn)



Source: xxxx

- **Changes in customs duties on TV components**

  Impact: The budget has reduced the customs duty on import of LCD/ LED TV panels to 0% (10% earlier). The budget has also reduced the customs duty on cathode ray TVs' picture tubes from 10% to nil. The same is likely to impact the DTH industry positively, albeit marginally. New TV sales tend to generate customers for DTH (sales happen in significant numbers, from electronic stores, and simultaneously with the TV set).

- **Online/ digital advertising brought under the ambit of service tax**

  Impact: The budget has maintained status quo on the differential treatment of TV/ radio versus print: Print will continue to remain outside the ambit of the service tax on advertising. The budget has also added online/ mobile advertising to service tax net; the impact of this on the industry is likely to be modest - as of now, online contributes 8% to India's advertising pie, to most listed entities it contributes lesser than 5%.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
DB Corp	18.9	22.5	18.9	22.5	317	337
ENIL	19.6	21.8	19.6	21.8	400	435
Jagran Prakashan	7.5	9.3	7.5	9.3	123	122
Sun TV Network	21.3	24.6	21.3	24.6	450	470
Zee Entertainment	10.2	12.2	10.2	12.2	287	280
Others						
Dish TV		0.2	-	0.2	58	55
TV18 Broadcast	1.2	1.8	1.2	1.8	31	34

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

METALS & MINING

BUDGET HIGHLIGHTS & IMPACT

- **Sustained infrastructure thrust to stimulate steel demand (a) Promote housing for low/medium income groups.(b) Reviving road construction with setting up target of awarding 8500kms in FY15 (c) emphasis on setting up of 16 new ports**

  Impact: Positive for steel companies as higher outlay for housing, road, port, urban and rural housing and infrastructure development would help improve steel consumption.

- **Export duty on bauxite is increased from 10% to 20%**

  Impact: Marginally positive (indirectly) for companies like Hindalco and Sesa Sterlite. This could be negative for Ashapura Minechem (Bauxite Exporter)

- **Reduction in import duty on dolomite from 5% to 2.5%**

  Impact: Marginally positive for most of the steel companies.

- **Increase in custom duty on imported flat-rolled products of stainless steel from 5% to 7.5%**

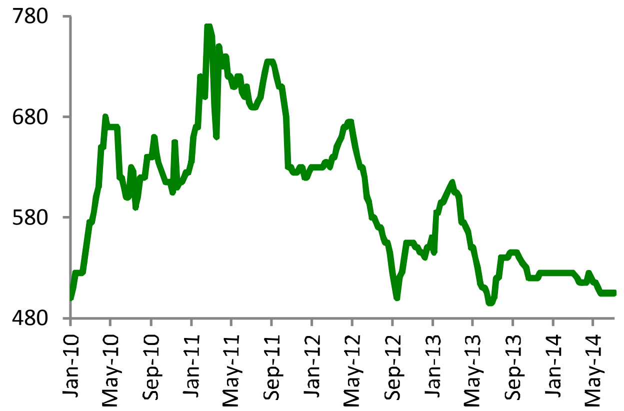
  Impact: The domestic stainless industry is suffering from underutilization of capacity. The move could benefit companies like JSW Steel and Jindal Stainless.

- **Increase in custom duty on coking coal from nil to 2.5%**

  Impact: The move could negatively impact Sail and JSW Steel, which are majorly dependent on coking coal import. Tata Steel could be partly impacted as it imports nearly 60% of its required coking coal.

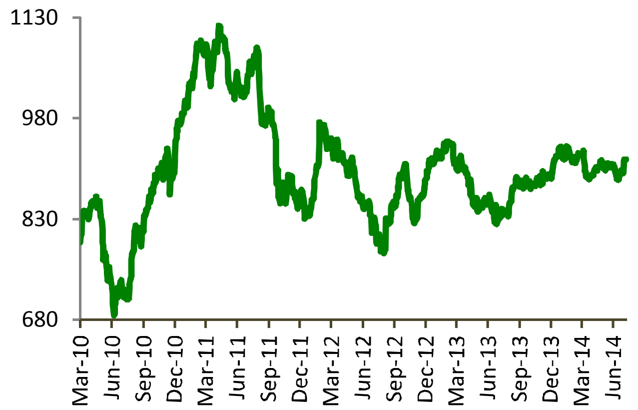
We do not have active coverage on this sector

China HRC Export Price (US$/t)



Source: Bloomberg

CRB Metals Index



Source: Bloomberg

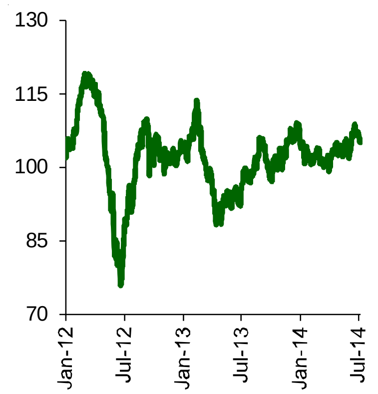
BUDGET IMPACT: POSITIVE

OIL & GAS

Crude Oil ($/bbl)

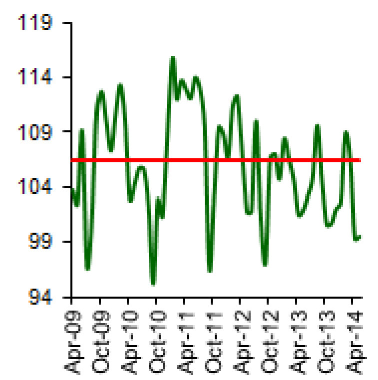
Source: Bloomberg

Naphtha ($/bbls)



Source: Bloomberg

India's Capacity Utlisation



Source: Bloomberg

BUDGET HIGHLIGHTS & IMPACT

- **Focus on coal bed methane (CBM)**

  Impact: Positive. The finance minister has focused on acceleration of production from CBM blocks and exploitation of CBM reserves by using modern technology and also on reviving old or closed CBM wells.

  We believe this is a positive development for CBM players such as Essar Oil and Reliance Industries, etc.

- **Gas grid to expand from 15000 km to 30000 Km through PPP model**

  Impact: Positive. The Union budget 2014-2015 has proposed expansion of gas pipeline systems in the country. In order to complete the gas grid across the country, an additional 15,000 km of pipelines will be implemented. It is proposed to develop these pipelines using appropriate PPP models. This will increase the usage of gas, domestic as well as imported.

  We believe this will be significantly positive for GSPL, IGL, Gujarat Gas, GAIL, etc

- **Ramp-up in the usage of PNG as it is "clean" and efficient to deliver**

  Impact: Positive. The finance minister has proposed usage of PNG to be rapidly scaled up in a Mission mode.

  We believe this will be positive for all city gas distribution companies (CGDs) such as IGL, Gujarat Gas, GAIL, etc.

- **Exemption from Basic Customs Duty is being granted on re-gasified LNG for supply to Pakistan**

  Impact: Positive. The Union budget 2014-2015 has proposed exemption from basic customs duty on re-gasified LNG for supply to Pakistan. Gail may import the LNG either at Petronet's LNG terminal in Dahej or at GAIL's Dabhol facility after regassifying it. Later, GAIL will transport gas through Dadri-Bawana-Nangal pipeline network to Jalandhar. From Jalandhar, Gail may plan to lay a 110-km pipeline to transport the gas near Lahore for delivery into Pakistan. Initially, ~ 5 mmscmd of RLNG will be supplied but later it may increase.

  We believe this is positive for GAIL INDIA and PLNG.

- **Propane and Butane imported by OMCs for supply to NDEC customers is being fully exempted retrospectively**

  Impact: Positive. The Union budget 2014-2015 has proposed retrospective exemption (w.e.f. 8thFeb'13) of Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) imported by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited, for supply to Non-Domestic Exempted Category (NDEC) customers. NDEC consumers include schools, colleges and Anganwadi centres (hostel or mid-day meal schemes). We believe this is Neutral for OMCs.

- **Reduction in basic customs duty on certain petrochemicals products**

  Impact: Neutral. Basic customs duty is being reduced on certain petrochemicals-ethane, propane, ethylene, propylene, butadiene and ortho-xylene from 5% to 2.5%.

  Similarly, basic customs duty is being reduced on reformate from 10% to 2.5%. Basic customs duty is being reduced on methyl alcohol and denatured ethyl alcohol from 7.5% to 5%. Basic customs duty is being reduced on crude naphthalene from 10.0% to 5.0%. To set at rest an on-going dispute, the finance minister has proposed to exempt PSF and PFY manufactured from plastic waste and scrap including PET bottles from excise duty with effect from 29th June, 2010 to 7th May, 2012. Also, the finance minister has also proposed to levy prospectively a nominal duty of 2% without Cenvat benefit and 6% with Cenvat benefit on such PSF and PFY.

We believe this will address the issue of inverted duties.

- **Central excise duty on branded petrol**

  Impact: Neutral. The Union budget 2014-2015 has proposed reduction in central excise duty on branded petrol from Rs.7.5/ltrs to Rs.2.35/ltrs.

  We believe this will not have any material impact as the volumes of branded fuel have fallen in the recent past.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
MRPL	3.5	3.5	3.5	3.5	68	79
PLNG	10.2	12.4	12.4	12.4	177	180
Others						
Cairn India Ltd	52.6	52.6	52.6	52.6	353	370
Castrol India Ltd	10.3	11.5	10.3	11.5	330	276
Chennai Petroleum Corporation Ltd	7.7	15.2	7.7	15.2	91	99
Gujarat State Petronet Ltd (GSPL)	7.6	8.6	7.6	8.6	88	77
Indraprastha Gas (IGL)	28.1	34.5	28.1	34.5	361	332
Oil India Ltd	54.1	67.4	54.1	67.4	582	538

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

POWER

BUDGET HIGHLIGHTS & IMPACT

- **Extension of sunset clause on 80IA benefit**

  Impact: The Finance Minister has proposed an extension of the sunset date for power sector undertakings to on or before March 31, 2014 for claiming 100 per cent deduction of profits for 10 years. This move is a positive move but was largely expected.

- **Increase in import duty on coal**

  Impact: The FM has increased import duty on steam coal from 2% to 2.5%. CVD on steam coal has been maintain at 2%. This move would negatively impact (though in a minor way) power producers based on imported coal including Tata Power and JSW Energy (not covered).

- **Reduction in duties on wind power components**

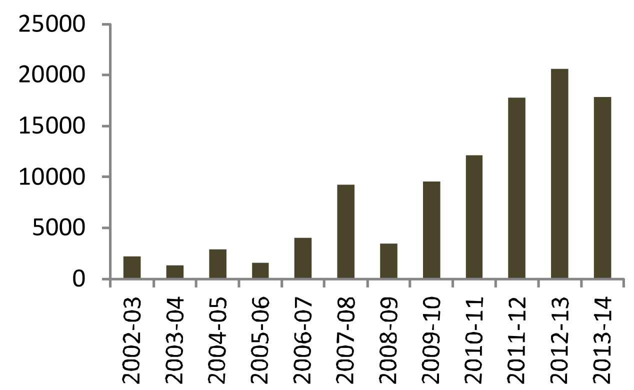
  Impact: Reduction in basic customs duty from 10% to 5% on forged steel rings used in the manufacture of bearings of wind operated electricity generators. Exemption from SAD of 4% on parts and raw materials required for the manufacture of wind operated generators. These measures would be positive for wind power developers including Tata Power etc.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
Tata Power	6.1	8.0	6.1	8.0	103	106
Others						
NTPC	11.9	11.7	11.9	11.7	151	143

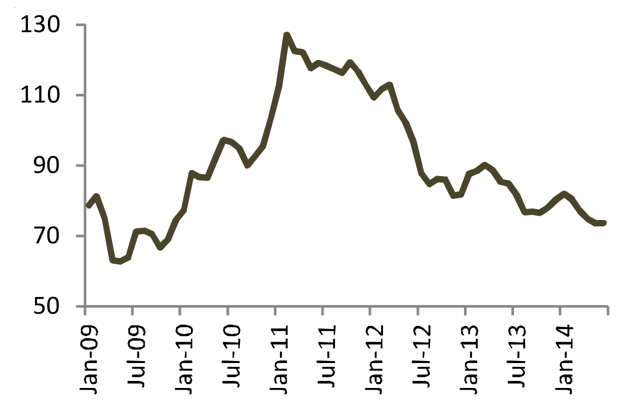
Source: Kotak Securites - Private Client Research; Note: Due to increase in surcharge on corporate tax, there is only a marginal impact on our EPS estimates.

Installed power capacity (MW)



Source: CEA

HBA coal price (Indonesia) USD/ton



Source: Bloomberg

BUDGET IMPACT: POSITIVE

REAL ESTATE

BUDGET HIGHLIGHTS & IMPACT

- **Outlay for development of smart cities**

  Impact: Positive. Government has a vision to develop 100 smart cities as satellite towns of larger cities and by modernizing the existing mid-sized cities. Allocation of Rs 70.6 bn has been made for the same. This would be positive for companies engaged in large sized township development.

- **Easing of conditions for FDI investment to encourage development of Smart cities**

  Impact: Positive. To encourage the development of smart cities, conditions for built up area have been reduced to 20,000 sq m from 50,000 sq m and capital requirement has been reduced from USD 10 million to USD 5 million respectively with a three year post completion lock in. Also, projects which are committing atleast 30% of the total project cost for low cost affordable housing, will be exempted from minimum built up area and capitalisation requirements, with the condition of three year lock-in. This is expected to encourage investments in real estate sector, especially in low cost housing projects and would be positive for companies engaged in low cost housing projects.

- **Tax efficient pass through status for Real Estate Investment Trusts (REITS)**

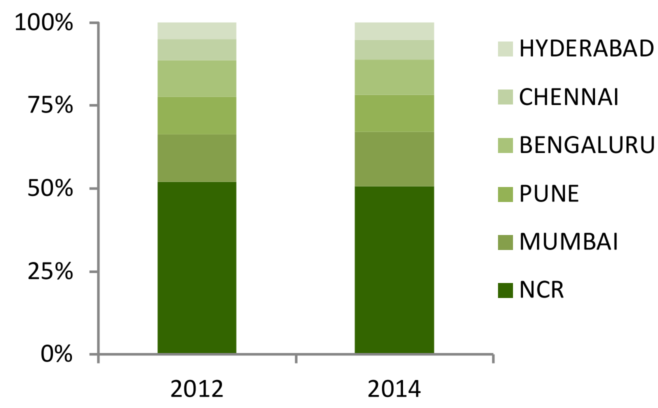
  Impact: Positive. In order to attract long term financing for real estate projects from foreign and domestic sources, specific taxation regime has been proposed for providing the way income in the hands of trusts is taxed. Certainty in the taxation aspects of REITS has been given. Tax efficient pass through status has been given to the trust. The income by way of interest received by the business trust from SPV is accorded pass through treatment i.e., there is no taxation of such interest income in the hands of the trust and no withholding tax at the level of SPV. The dividend received by the trust shall be subject to dividend distribution tax at the level of SPV but will be exempt in the hands of the trust. And the dividend component of the income distributed by the trust to unit holders will also be exempt.

  Certainty in terms of taxation is likely to result in launch of REITs as an investment vehicle and is likely to be positive for the real estate sector and companies holding specifically rental assets.

- **Increased allocation for National housing Bank**

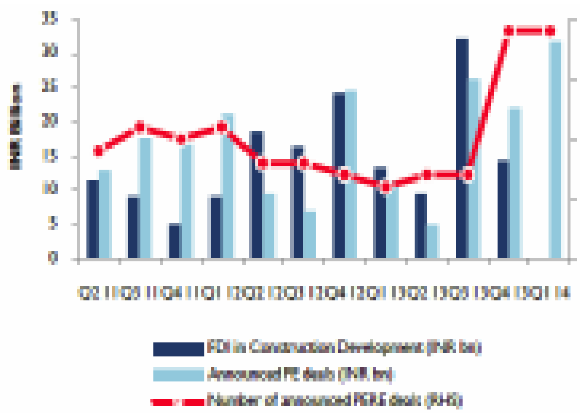
  Impact: Positive. Allocation for National housing Bank has been increased to Rs 80 bn to expand and support rural Housing in the country. This would be positive for companies engaged in rural housing.

Demand outlook (mn sq ft)



Source: CRISIL

Announced pere deals - value & number



Source: Cushman & Wakefield Research

- **Slum development to be part of Corporate Social Responsibility**

  Impact: Positive. In order to encourage private investment in slum development projects, it has been proposed to be included as a part of corporate social responsibility. This is expected to benefit players engaged in slum development projects.

- **Higher deduction limit for interest on loans for self-occupied property**

  Impact: Positive. Deduction limit on account of interest on loan for self-occupied property has been increased from Rs 1.5 lakh to Rs 2 lakh. This is expected to be positive for the sector as it gives more disposable income in the hands of property buyers and hence increases further investment opportunities in the sector.

- **Amendment of Section 115-O for determining dividend distribution tax**

  Impact: Marginally negative. The amount of distributable income and the dividends which are actually received by the shareholders of the domestic company need to be grossed up for the purpose of computing the additional tax. This is likely to result in marginally higher tax at the company level. However, we believe that companies are likely to adjust their cash flows by reducing the amount of dividend to be paid to the shareholders.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current	Target
	FY15E	FY16E	FY15E	FY16E	Price	Price
Preferred picks						
Phoenix Mills	10.9	-	10.9	-	346	279

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

SHIPPING

BUDGET HIGHLIGHTS & IMPACT

- **Defence capital expenditure hiked by Rs 50 bn to Rs 917 bn**

  Impact: Positive. The government in the current budget has increased the allocation from Rs 867 bn to Rs 917 bn (+6% YoY) for defence capital expenditure. Around 20% of this capital expenditure is for the navy. We estimate this to be positive for shipyard companies like Pipavav and ABG. These shipyards may receive some of these orders who are struggling to get any order from the commercial segment

- **Comprehensive policy expected shortly to promote Indian ship building industry**

  Impact: Positive. Government has given commitment that it would shortly announce a new comprehensive shipbuilding policy to give respite to shipbuilders who are currently making losses. We estimate the new policy could cover areas like subsidy for shipbuilders, infrastructure status for shipbuilding industry, interest subvention and indigenization. This new policy is expected to help the domestic shipbuilding companies like ABG Shipyard, Bharati Shipyard and Pipavav Defence to improve their cashflow and also make them more competitive.

- **Reduction in basic customs duty on ships imported for breaking from 5% to 2.5%**

  Impact: Positive. The budget has rationailsed the basic custom duty on ships imported for breaking and brought it at par with other metal scraps. We believe this will give fillip to domestic shipbuilding industry to attract ship-breaking business which recently has lost business to countries like Bangladesh and Pakistan. This should benefit companies like ABG and Bharati who get a small percentage of their income from ship- breaking and also benefit other private yards based out of Alang, Gujarat.

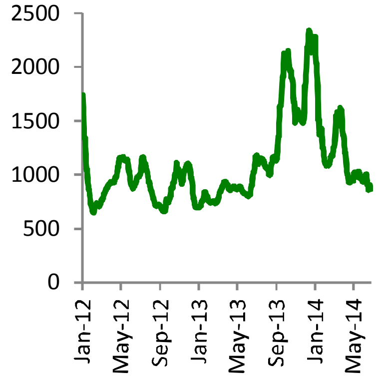
- **Tax incidence to be reduced on transport of goods through coastal vessels**

  Impact: Positive. This is expected to boost sea-borne trade and release pressure on road and rail infrastructure. Currently no listed Indian shipping company is into coastal trade. We estimate the government is making a fair attempt to encourage Indian companies to enter this segment.

- **Increase in Dividend Distribution Tax**

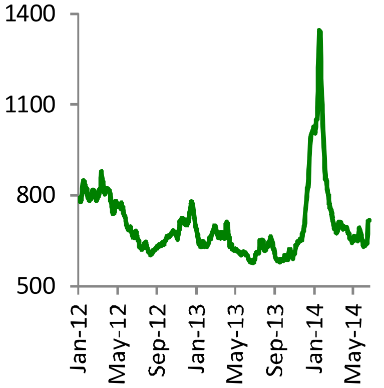
  Impact: Negative. Companies would have to gross up dividend and dividend distribution tax to arrive at the final figure of tax to be paid by the company while distributing dividends. We estimate this would increase the effective rate of taxation on dividend distribution from 15% to 17.7% for corporates

Baltic Dry Index (points)



Source: Bloomberg

Baltic dirty tanker index (points)



Source: Bloomberg

Impact on EPS (Rs)

Company	Pre-Budget EPS FY15E	Pre-Budget EPS FY16E	Post-Budget EPS FY15E	Post-Budget EPS FY16E	Current Price	Target Price
Preferred picks						
GE Shipping	48.6	57.2	48.6	57.2	368	385
SCI	2.7	5.7	2.7	5.7	62	77
Others						
ABG Shipyard	-26.3	-14.0	-26.3	-14.0	259	278
Pipavav Defence	1.1	1.1	1.1	1.1	64	61

Source: Kotak Securites - Private Client Research

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