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PRE-BUDGET ANALYSIS

Budget 2015 Simplified

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PRE-BUDGET ANALYSIS

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EXPECTED SECTORAL IMPACT

POSITIVE: Banking/NBFCs, Capital Goods, Cement, Construction, Hotels, Information Technology, Media, Metals, Oil & Gas, Paints, and Power.

NEUTRAL: Auto, Aviation, FMCG, Pharmaceuticals, Real Estate

Disclaimer: *We do not have any information other than information available to general public with regard to budget proposals. The industry expectations are based on information got from sources like respective industry associations, FICCI, CII, companies, media and other public sources. This report contains budget expectations of our experts and its impact on specific sectors and companies, which may or may not come true.*

PRE BUDGET NOTE - FEBRUARY 2015

The Finance Minister, Mr. Arun Jaitley, will present budget amid high expectations. Markets are looking out for an 'achievable' budget and a budget which will lay the foundation for a sustained high growth in the economy. We expect the FM to lay down the new Government's vision for the economy over the next four years.

The FM's priority in the 2015-16 budget will be growth, along with fiscal rectitude, we believe. He will budget for higher plan expenditure (investments), financed by higher revenues (higher economic growth, divestment, auctions and better tax compliance) and a cut in non-plan expenditure (subsidies).

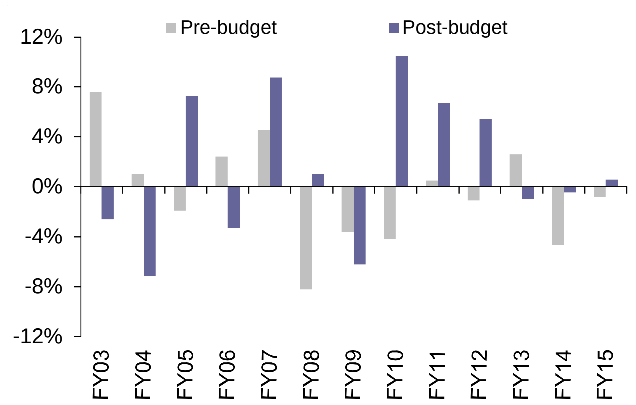
A lower fiscal deficit will leave more money available for the private sector, help in easing inflation and moderate interest rates further. Thus, we expect targets under the FRBM Act to be largely maintained. We expect the FM to target a fiscal deficit of 3.6% for FY16 and budget for a gradual reduction in fiscal deficit per annum to 2.5% deficit in 2018-19.

We also expect the FM to target real GDP growth of 7.5% in FY16 and bring it to over 8% in the next five years. Larger and targeted plan expenditure capital outlays, with strict implementation timelines, will likely be announced, to ensure economic recovery and sustainable growth. We expect plan expenditure growth target to be pegged at 14% over FY15RE. The budget will aim to provide an investment - led supply push to growth (with private sector participation) as against a consumption - led demand pull (higher subsidies, etc) of UPA era. Targets for subsidies will likely be curtailed, especially fuel and fertilizer subsidies, we opine.

The FM had made token allocations in his first budget towards initiatives like smart cities, renewable energy, river cleaning / inter-linking, etc. We expect enhanced allocations for these in the 2015-16 budget.

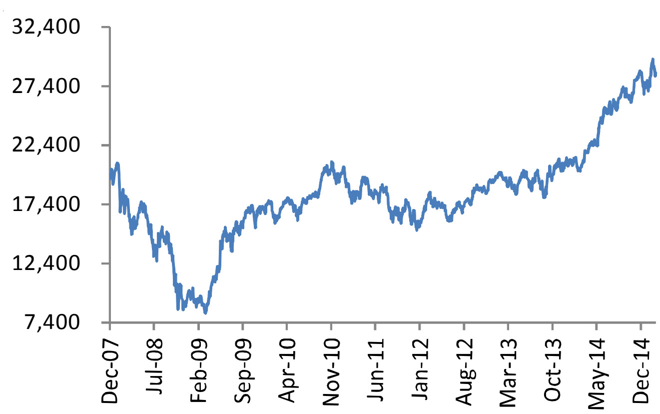
We expect additional expenditure towards easing the supply bottlenecks for food-grains and other primary articles to bring down inflation on a structural basis. Steps like soil health cards, Price Stabilisation Fund, re-orientation of APMC Acts of states, restructuring of FCI and encouragement to open market sales by farmers were taken in the previous budget and will be strengthened, we believe. A structurally low inflation will likely prompt the RBI to move ahead towards a softer policy regime.

Market movement - one month before and after budget



Source: Bloomberg

Sensex performance



Source: Bloomberg

We expect the divestment target to be increased to Rs.500bn v/s the RE of Rs.400bn for FY15. Tax revenue targets (net) may be set at Rs.10.3trn, a 13% growth over FY15RE. We expect stability in tax rates, though there may be some adjustments, keeping in mind the eventual movement to GST. Excise duties may be rationalized and customs duty may be imposed on several items to further the 'Make in India' theme. We expect implementation of GAAR to be postponed. We also expect tax exemptions on targeted investments (eg. - no MAT for Manufacturing SEZs) to be announced.

Mr. Jaitley may signal the Government's intention to move ahead with reforms on several fronts. We believe that, he will target the implementation of DTC WEF FY17. Some enabling measures may be announced in the budget. A definitive roadmap for reducing the subsidy burden will likely be announced. Effective targeting of the subsidies to the needy will also go a long way in reducing leakages. Implementation of several social sector schemes may be transferred to the States, along with a higher share of the budgeted revenues. This will be a step towards cooperative federalism with increased role of states. Some critical reforms like labour reforms, which need broader political consensus, may also be touched upon.

We do not expect any major initiatives for the stock markets. Reduction in STT, if any, will be cheered by the markets. Thus, we believe that, the focus of the markets will be on fiscal prudence, on effective implementation of investments, and on sectors which are impacted by the budget proposals. Off-budget investment and governance reforms announcements will continue to impact the markets.

We believe that, the budget may have the following implications for the sectors:

Expected sectoral impact

Budget impact	Sector
Positive	Banking/NBFCs, Capital Goods, Cement, Construction, Hotels, Information Technology, Media, Metals, Oil & Gas, Paints, Power.
Neutral	Auto, Aviation, FMCG, Pharmaceuticals, Real Estate

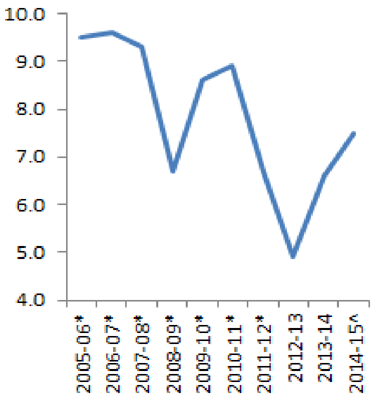
Source: Kotak Securities - Private Client Research

We expect the budget to lay down the foundation for a sustained high growth in the economy over the next several years. The FM will announce concrete initiatives in line with the Government's long term vision, which was laid down in the previous budget.

The Government has clearly highlighted its long-term priorities like infrastructure (smart cities, renewable energy, railways, roads, inland waterways, etc), manufacturing (Make in India), employment (skills development, education), predictable and non-adversial tax regime, Swacch Bharat (clean Ganga, etc), removing supply bottlenecks, ease of doing business, maximum governance, among others. We expect significant allocations / announcements towards the same.

However, the FM has also indicated that, he does not want India to grow on borrowed money. Thus, we feel that, the budget will continue on the path of fiscal rectitude and lay down targets for reduction in fiscal deficit. We expect the reforms process to be carried forward but with stress on effective and timely implementation.

GDP growth (%)



Source: CSO

Improving GDP growth

India's GDP growth rate has improved in FY15. Under the new method of measuring GDP (GDP at market prices), the growth in FY15 is estimated at 7.4% as compared to 6.9% in FY14. The growth in 9mFY15 is estimated at around 7.4%. This reflects the changes in the method of calculating the GDP as well as the change in the number of items on which data is collected). However, the challenge is now to sustain this growth and take it higher over the years.

In this backdrop, we expect the FM to increase allocations on investments with a view to improve the rate of growth. We also expect time-bound and effective implementation of these budgets. Sustenance and improvement of growth is very important to make the benefits of this growth reach all sections of the society. The target growth for real GDP may be set at 7.5% for FY16 as compared to 7.4% for FY15 (GDP at market prices).

Real GDP Growth (%)

	2005-06*	2006-07*	2007-08*	2008-09*	2009-10*	2010-11*	2011-12*	2012-13	2013-14	2014-15^
Agriculture & Allied activities	**5.1**	**4.2**	**5.8**	**0.1**	**0.8**	**8.6**	**5.0**	**1.2**	**3.7**	**1.1**
Industry										
Mining & quarrying	1.3	7.5	3.7	2.1	5.9	6.5	0.1	-0.2	5.4	2.3
Manufacturing	10.1	14.3	10.3	4.3	11.3	8.9	7.4	6.2	5.3	6.8
Electricity, gas & water supply	7.1	9.3	8.3	4.6	6.2	5.3	8.4	4.0	4.8	9.6
Construction	12.8	10.3	10.8	5.3	6.7	5.7	10.8	-4.3	2.5	4.5
Services										
Trade, Hotels, Transport, Communication	12.0	11.6	10.9	7.5	10.4	12.2	4.3	9.6	11.1	8.4
Finance, Real Estate, Other Businesses	12.6	14.0	12.0	12.0	9.7	10.0	11.3	8.8	7.9	13.7
Community, Social & Personal Services	7.1	2.8	6.9	12.5	11.7	4.2	4.9	4.7	7.9	9.0
Total	**9.5**	**9.6**	**9.3**	**6.7**	**8.6**	**8.9**	**6.7**	**4.9**	**6.6**	**7.5**

*Source: Economic Survey FY14, MOSPI; * stands for GDP on 2004-05 prices; ^ stands for Advanced Estimate*

Infrastructure and manufacturing to get significant attention

Higher allocations for investments, mainly in infrastructure, are expected to continue. Infrastructure construction accounts for the maximum share (about 54%) of construction activities. Industrial expansion contributes to about 36% of overall construction activity, and residential and commercial are at 5% each.

In his first budget, the FM had listed down token allocations for various ambitious projects. We expect higher allocations to these.

Smart cities

The PM had spoken about creating 100 new cities in India. To provide the necessary focus to this, the FM had provided a sum of Rs.71bn for FY15. We expect higher allocations for this in the budget. Three cities - Allahabad, Ajmer and Visakhapatnam - have already been identified, in line with the budget announcements. We also note that, to encourage development of Smart Cities, the requirement of the built up area and capital conditions for FDI had 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.

Renewable Energy to address energy needs

Continued emphasis is expected on other renewable resources, especially on expanding wind power generation and in the emerging area of solar thermal and solar photovoltaic. The total capacity in renewable power is about 70,000 MW currently. The Government has clearly spelt out its focus on increasing the share of renewable power in the country. The Government is looking at building Ultra Mega Solar Power projects in five states and had allocated Rs.5bn of initial funds. We expect the allocation to increase substantially. These initiatives can go a long way in reducing the power deficit and reducing the fuel scarcity and import bill.

River inter-linking

Another idea which may get additional allocation is river inter-linking. An allocation of Rs.1bn was made towards this in the previous budget, towards project preparation for the same. We believe that, despite some concerns on environmental and other aspects, inter-linkages of rivers could provide alternate mode of transportation and reduce burden and road and rail network.

Increased allocation for roads / railways

The Government has 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. On the other hand, the Government has set a target for making Indian Railways the largest freight carrier in the world. Railways currently carry about 1.1bn tons of freight volumes. Dedicated freight corridors, additional lines for evacuating coal, among other, are major focus areas of the Government. We expect increased fund allocation for the same.

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. We also expect various announcements towards infrastructure creation in North-East regions. Providing investment allowance benefit to infrastructure sector and to larger companies will attract more private sector investment.

We expect measures to ensure effective implementation of such initiatives. Stricter monitoring of progress of projects and linking the release of budgets to actual performance can be good ways of ensuring better implementation. Regular reviews, say, on a quarterly basis, will ensure even spending across the fiscal and not bunching up of spends towards the end of the fiscal. Un-locking the value stuck in various public-private-partnership (PPP) projects by re-pricing some of these and changing the rules in others will also provide impetus to the sector.

We understand that, several issues may not really fall under the purview of the Budget and the intent of effective implementation will have to be seen in legislative and administrative action over the next few months.

Focus to be on equitable growth

Equitable growth has been one of the important cornerstones of the Government's campaign and we expect the same to be reflected in the budget. We expect measures to provide further impetus to these schemes to ensure rural upliftment, employment, education, agricultural growth and public health. Initiatives on agriculture also help in easing supply side constraints and sustaining the GDP growth rate.

We expect additional contributions towards the schemes like Shyama Prasad Mukherji Rurban Mission, Deen Dayal Upadhyaya Gram Jyoti Yojana (for feeder separation to augment power supply to the rural areas), Start Up Village Entrepreneurship Programme, etc.

However, we also expect some of these schemes to be discontinued or merged with other schemes. The Government may tweak some entitlement schemes and further align them with specific tangible outcomes. Several of these schemes may also be handed over to the State Governments with commensurate share of resources, for their effective execution.

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.

To improve the employability level of the Indian demography, we expect the FM to announce more initiatives on education, skills and health. A Skill India program has already been announced by the Government to make people more employable and to inculcate entrepreneurial skills in them.

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

Reforms

The first few months of the NDA Government has seen few reforms being taken up. We saw initiation of coal block auction / allocation process, ordinances for Land Acquisition Bill, Insurance in Defence / Insurance, speedy project clearances, easing the process of getting environmental clearances for several projects, etc.

The implementation of important reforms like GST will be a priority. We expect the FM to make some more announcements towards these. Thus, there may be some enabling measures which may be announced.

We also expect the FM to increase the scope of Direct Benefit Transfer, in a bid to control the subsidy burden. We also expect more clarifications on issues like retrospective amendment to tax capital gains on indirect transfer of shares, transfer pricing adjustment, pass-through benefit for REITs/ INVITS, etc. We expect implementation of GAAR to be postponed.

Apart from these, several initiatives in administrative reforms may be outlined in the budget. We believe that, labour reforms, which need wider political consensus, may be touched upon also.

Fiscal deficit - Hoping for an achievable budget

The fiscal deficit picture remains concerning. The FD was pegged at 4.1% for FY15. However, the deficit number has been reached in the first 9 months itself. This is largely due to the shortfall in both, tax and non-tax revenues. Thus, in FY15 also, expenditure cuts will have to be implemented to achieve the target. We expect a fiscal deficit of 4.3% for FY15.

We expect that, the FY16 budget will be an achievable budget and will progress on the path of fiscal prudence. We expect the FM to spell out a roadmap to reduce the FD over the next few years. For FY16, we expect the FM to target a fiscal deficit of 3.6%, based on achievable numbers.

Revenues

On the revenue front, we expect the FM to budget for a 12.5% increase in revenue receipts, on the back of a 13% rise in tax receipts. An expected improvement in economic activity and the GDP growth will justify the higher growth target. We expect nominal GDP growth to be pegged at 13% in FY16.

We do not expect any changes in direct tax or corporation tax rates. Thus, we expect the growth in direct tax collections to be pegged at 13% as against 11% in FY15RE.

On indirect taxes, we expect some adjustments. There may be some rejig in excise duties / service tax rates, to bring them in line with the expected rate of GST. Moreover, we expect import duties few items to be increased and excise duties on the same to be reduced. This will be in line with the Government's 'Make in India' initiative. The Excise duty on cigarettes is expected to rise.

We also believe that, a road cess will be levied on petrol / diesel to raise additional resources. A Rs.1/2 per litre of cess can bring in an additional amount of Rs.100bn - 200bn for the Government. Consequently, we expect that, the indirect taxes will be projected to rise by 13% yoy as against 11.6% in FY15RE.

We expect the target for proceeds from disinvestment to be raised to Rs.500bn as compared to Rs.400bn in FY15RE. Also auctions of NELP blocks and radio/telecom frequencies will help in reducing deficit. We also believe that, the Government may look at selling some of its assets (eg. Railway land, etc) to raise funds for infrastructure.

Expenditure

We expect greater focus on capital expenditure in the budget (the Government is reportedly looking at removing the distinction between plan and non-plan expenditure). The private sector is burdened with high debt and is also not operating at full capacity utilization levels. Thus, it is imperative for the Government to support infrastructure spends. We expect the FM to budget for a 12% increase in plan expenditure. Allocations to important infrastructure sectors like Power, Railways, Roads, Ports, Rivers, etc will likely be enhanced, in line with the PM's goals. The focus will be on stricter and time-bound implementation of these budgets. Also, in line with the recent indications, we expect allocations for defense to be higher.

Subsidies account for about 16% of the Government's total expenditure. The sharp fall in crude prices as well as the de-control of diesel/ petrol prices will allow the Government to provide a lower amount for fuel subsidies in FY16. Direct Benefit Transfer scheme has been implemented and subsidy is reportedly being directly transferred to more than 150mn families for LPG since January 1. We believe the FM will limit the subsidies only to the BPL families and carve out families that don't need these subsidies. We expect the subsidy target to be reduced by about 13% to Rs.2.25trn in FY16. We do not expect any subsidies to be carried forward.

We have not penciled in any reduction in kerosene and LPG subsidies v/s FY14. If the Government brings down the number of subsidized LPG cylinders or increases the prices (kerosene and LPG) gradually, the subsidy numbers may be lower.

Supply side initiatives expected to be strengthened

The CPI inflation has moderated in the recent past. It is at 5.1% mark (January 2015). Within this, the core inflation is at about 4%. While the core inflation has fallen, the economic growth may put a floor to the same, in the months ahead. There are various supply constraints which may prevent food inflation from moderating.

In our opinion, the FM will focus on addressing the supply side constraints. Additional sums towards warehouses and cold storages will be allocated. We also expect further steps towards unbundling Food Corporation of India operations into procurement, storage and distribution for greater efficiency. We also expect further announcements on the Price Stabilisation Fund, which has been set up with initial contribution of Rs.5bn.

The Public Distribution System (PDS) in the country facilitates the supply of food grains to the poor at a subsidised price. The PDS needs to be restructured and we expect a further roadmap for a more targeted subsidy distribution.

Moreover, we expect that, the movement of food-grains between states may be made simpler and speedier. As of now, there are state level restrictions on food-grains moving between states. This leads to shortages in several states and excesses in the remaining in turn, resulting in wastage. Removing these restrictions can reduce the periodic and geographical shortages.

In terms of manufacturing inflation, attempts are already being made to reduce supply constraints through initiatives in areas like mining, power, etc.

Thus, we believe that, the FM will focus on removing supply bottle-necks to improve supplies in the short term, while increasing agricultural investments to address long term supply issues.

No major changes expected in direct tax rates...

We do not expect any major changes in the direct tax rates. Various industries have asked for a lower MAT rate or abolition of MAT. However, we feel that, revenue considerations may prevent the FM from providing significant benefits on MAT. We do expect that, it may be reduced only for SMEs and SEZs. We do expect implementation of GAAR to be postponed.

The PM is focused on demographic dividend, skills and education. Considering this and the high cost of education expenses, delinking the deduction for educational expenses for children from section 80C and providing a deduction under a separate provision would reduce the burden on the middle class.

...and marginal changes in Indirect taxes

We believe that, excise duty and service tax rates may be tweaked to bring them in line with the targeted GST rate. We do expect cigarettes to attract higher excise duty.

Moreover, we expect import duties on few items to be increased and excise duties on the same to be reduced. This will be in line with the Government's 'Make in India' initiative. Apart from this, the inverted duty structure will be set right for several products and their inputs.

Stock markets

We do not expect any significant measures for the stock markets. Markets will be pleasantly surprised if there are downward revisions in STT rates - especially for delivery-based transactions.

We also expect some alterations to the Rajiv Gandhi Equity Savings Scheme (RGESS), which may be made more attractive for investments. We opine that, if the budget focuses strongly on fiscal consolidation and lays down a roadmap for improving investment climate, markets may not be disappointed.

Sectoral implications

We believe that, the focus of the markets will be more on :

- Maintaining fiscal rectitude,
- Initiatives to sustain and improve the GDP growth through better implementation,
- Announcement and speedier implementation of reform initiatives,
- Steps to control inflation - LT as well as ST measures and
- Sectors which will be positively impacted by the budget proposals

We expect the following sectors to be positively impacted by the budget :

Expected sectoral impact

Budget impact	Sector
Positive	Banking/NBFCs, Capital Goods, Cement, Construction, Hotels, Information Technology, Media, Metals, Oil & Gas, Paints, Power.
Neutral	Auto, Aviation, FMCG, Pharmaceuticals, Real Estate

Source: Kotak Securities - Private Client Research

Budget estimates

(Rs bn)		FY2013	FY2014	FY2015 BE	FY2015 RE	FY2016 BE
Receipts						
1.	**Revenue receipts (2d + 3)**	**8,792**	**10,293**	**11,898**	**10,986**	**12,363**
2.	**Gross tax revenue (2a + 2b)**	**10,362**	**11,589**	**13,645**	**12,884**	**14,580**
2a.	**Direct taxes**	**5,587**	**6,363**	**7,362**	**7,051**	**7,969**
	2a1. Corporation tax	3,563	3,937	4,510	4,252	4,762
	2a2. Income tax	2,015	2,417	2,843	2,789	3,196
	2a3. Other taxes	8	10	10	10	11
2b.	**Indirect taxes**	**4,776**	**5,226**	**6,283**	**5,833**	**6,611**
	2b1. Customs duty	1,653	1,751	2,018	1,926	2,137
	2b2. Excise duty	1,765	1,795	2,071	2,065	2,374
	2b3. Service tax	1,326	1,649	2,160	1,798	2,049
	Taxes on UTs	31	31	34	45	50
2c	**Transfers to States and UTs**	**2,915**	**3,182**	**3,822**	**3,734**	**4,228**
	2ci Transfers to Nat Calamity fund	28	47	51	50	55
2d	**Tax revenue (Net to Centre)**	**7,419**	**8,360**	**9,773**	**9,101**	**10,297**
3.	**Non-tax revenue**	**1,374**	**1,932**	**2,125**	**1,885**	**2,066**
4.	**Capital receipts (4a + 4b + 4c)**	**5,311**	**5,612**	**6,051**	**505**	**610**
4a.	Recovery of loans	151	108	105	105	110
4b.	Other receipts (Disinvestments)	259	258	634	400	500
4c.	Borrowings and other liabilities	4,902	5,245	5,312		
5.	**Total receipts (1 + 4)**	**14,104**	**15,904**	**17,949**	**11,491**	**12,973**
Expenditure						
6.	**Non-plan expenditure (7 + 8)**	**9,967**	**11,149**	**12,199**	**11,885**	**12,390**
7.	**Non-plan revenue expenditure**	**9,143**	**10,277**	**11,146**	**11,094**	**11,520**
7a.	Interest payments	3,132	3,801	4,270	4,270	4,697
7b.	Subsidies	2,571	2,555	2,607	2,589	2,245
	7b1. Food	850	920	1,150	1,100	1,250
	7b2. Fertilizer	656	680	730	700	650
	7b3. Petroleum	969	855	634	695	250
	7b4. Others	96	101	93	94	95
7c.	Grants to States and UTs	480	616	699	680	720
7d.	Others	2,961	3,305	3,570	3,555	3,858
8.	**Non-plan capital exp.**	**824**	**872**	**1,053**	**791**	**870**
9.	**Plan expenditure (10 + 11)**	**4,136**	**4,755**	**5,750**	**5,063**	**5,770**
10.	Plan revenue expenditure	3,292	3,719	4,535	3,947	4,497
11.	Plan capital expenditure	844	1,037	1,215	1,116	1,272
12.	**Total expenditure (6 + 9)**	**14,104**	**15,904**	**17,949**	**16,948**	**18,159**
13.	Revenue expenditure (7+10)	12,435	13,995	15,681	15,041	16,017
14.	Capital expenditure (8+11)	1,669	1,909	2,268	1,907	2,142
Memo Items						
15.	Revenue Deficit (13-1)	3,643	3,703	3,783	4,055	3,654
16.	Fiscal Deficit (12-{1+4a+4b})	4,902	5,245	5,312	5,457	5,186
17.	Primary Deficit (16-7a)	1,770	1,445	1,042	1,187	489
18.	Gross domestic product (GDP)	101,133	113,205	128,767	126,537	142,987
PD/GDP (%)		1.8	1.3	0.8	0.9	0.3
RD/GDP (%)		3.6	3.3	2.9	3.2	2.6
FD/GDP (%)		**4.80**	**4.60**	**4.12**	**4.31**	**3.63**

Source: Budget documents 2014-15; Kotak Securities - Private Client Research

SECTORWISE EXPECTATION

AUTOMOBILES

EXPECTED BUDGET IMPACT: Neutral

LONG TERM OUTLOOK: Positive

Current view

- Auto sector witnessed difficult time in the past 2-3 years as demand was weak. Factors like economic slowdown, rising fuel prices, higher interest rates and elevated inflation levels severely impacted demand sentiments. As compared with previous two years, FY15 was relatively a better year for the auto industry as certain segments did see demand coming back. Having said that, the overall demand scenario is still weak as demand recovery is not broad based.
- Within the auto sector, MHCV segment has seen improvement in demand in the past few months. After experiencing downturn for a prolonged period, the industry is showing early signs of turnaround However, LCV segment continues to report volume de-growth. Passenger vehicle segment volume growth has been specific to certain sub-segments and models. Overall discounting in the industry stays high, indicating that recovery is still some time away. In the two-wheeler segment, scooter segment continues to do well, but motorcycle demand is still sluggish.
- Thus, the auto sector in FY15 has seen improvement but only in certain segments/sub-segments. On a broader basis, the demand scenario is still largely weak. In view of this, the auto industry is expecting some positive announcement that could lead to growth revival for the industry.
- Industry is expecting reduction in excise duty. Recently, the government restored earlier excise cuts and the industry is hoping the government will provide some relief, given the industry is still not out of the woods. Industry demand also includes uniform excise duty on passenger vehicles. We believe the government would like promoting fuel efficient cars by keeping differential excise duty intact. Apart from this, the industry is looking for incentive for fleet modernization through replacement of 15 year old vehicles. Given some segments (like MHCV segment) has shown signs of turnaround, we do not expect any incentive from the government on this front. We do not expect any major direct announcement for the auto sector and thereby expect the budget to be neutral.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Reduction in excise duty	Incentives to boost sales	Status quo	Recently the government restored excise cuts	Neutral
Differential excise duty	Remove differential excise duty on small and large cars	Status quo	Promoting fuel efficient cars as fuel import is a concern	Neutral
Scrappage Policy	Industry wants scrapping of old vehciles	Don't expect any announcement on this decision	Ceratin segment like MHCV has already showing signs of turnaround	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
Maruti Suzuki	3575	119.5	190.0	29.9	19.8	BUY
Tata Motors	559	53.6	62.4	10.8	9.0	BUY

Source: Kotak Securities - Private Client Research

AVIATION

***EXPECTED BUDGET IMPACT:* Neutral**

***LONG TERM OUTLOOK:* Neutral**

Current view

- Aviation industry has had a difficult period for the last 2-3 years; however, the situation has been improving off late. Various factors like economic slowdown, sustained higher ATF prices and price wars led to industry reporting massive losses. Recent fall in crude oil price has come as a major relief to the airline operators.
- In the past 2-3 years, the government undertook few steps like 49% FDI in aviation by foreign carriers and direct import of ATF, but the same had limited impact for the industry. In our view, the key concern for the airport operators is the high sales tax component on ATF and thereby bringing ATF under declared goods category remains the foremost hope for the industry. Given, that the sales tax comes under the purview of state government, it will be difficult for the finance minister to make any announcement on this regard. Though there could be some other small announcements in order to revive the industry. We expect the budget to be neutral for the aviation sector.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Declared goods status for Aviation Turbine Fuel (ATF)	■ Include ATF under declared goods	■ Unlikely	■ Lowering sales tax on ATF will require approval from state governemnts	■ Neutral
Concessions	■ Reduction in airport charges and other related charges	■ Unlikely	■ Key airports are under private ownerships who are already incurring losses	■ Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

BANKING & NBFCs

EXPECTED BUDGET IMPACT:
Positive

LONG TERM OUTLOOK:
Positive

Current view

- The credit growth for the banking system has remained muted at 10.4% YoY (as on January 23, 2015) while deposit mobilization has grown at slightly faster pace (11.2% YoY). This has led to improvement in the balance sheet liquidity (C/D ratio declined to 76.1% as on January 23, 2015 vs. ~77% a quarter back). However, private sector banks have done relatively better on back of healthy growth in the retail segments. Banks have been aggressive in building retail portfolio in absence of enough corporate demand and as a result there is some pressure on yield of interest earning portfolio.
- Banks' performance on NIM has been mixed. Several private sector banks and few PSU banks have seen stable NIM during Q3FY15, largely driven by falling cost of funds. However, many PSU banks have reported compression in NIM (QoQ) largely due to reversal of interest income as fresh slippage spiked in recent quarters. Although we expect cost of funds to come off from current levels, there is likelihood of higher pressure on yield on assets due to shift in bargaining power in favor of borrowers along with shift in asset mix towards lower yielding secured retail portfolio (Mortgages). Therefore, we are modeling marginal compression in NIM, going forward.
- Although there are few green shoots visible along with improvement in overall macro-environment, Indian banks, especially PSU banks, are not out of woods. We continue to be cautious on high exposure to stressed sectors like Infrastructure, Iron & Steel, Textiles, Agriculture, Construction and SMEs etc. Infrastructure especially power sector is under stress mainly due to delay in project implementation and shortage of fuel-linkages. Although some measures have been taken in right direction, it will take some time to show material difference. For many PSU banks, stressed portfolio (Net NPA + Restructured book) has crossed 12-13% of their loan book which continues to be a risk, going forward.
- There has been sharp rise in fresh loan impairment for many banks (including select large size private banks) during Q3FY15. We are of the view that Q4FY15 would mirror the similar trends as regulatory forbearance on restructuring would vanish from the beginning of FY16.
- Last but not the least, consolidation in the industry has so far only been restricted to roundtables (except few deals). Now is the time to act on this, as duplication of IT infrastructure, manpower and capital is becoming prohibitively costly.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Recapitalization of PSU banks	■ Capital infusion in the form of tier-I capital for PSU banks	■ Likely	■ To improve Tier-I capital (CAR) needed for B/S growth	■ Positive, it will provide adequate capital to support increased lending in the economy.
Increase in agri lending target	■ Status Quo (FY15: Rs.8.0 tn)	■ Likely to be increased by ~15%	■ For better financial inclusion, target could be hiked along with keeping interest subvention scheme at 3%.	■ Negative for PSU banks, as this segment is witnessing sharp rise in NPAs.

Banking & NBFCs (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Infrastructure status to Affordable Housing	Grant Infrastructure status to Affordable Housing	Likely	Ease credit inflow to this sector.	Positive, it will enhance the supply of housing and hence more financing opportunity for HFCs & banks.
Relaxation in the lock-in period for savings to qualify for tax benefits (Under section 80C)	Reduce from five years lock-in period to three years.	Status quo likely to be maintained	Banks are comfortable on balance sheet liquidity	Neutral
Increase the TDS limit on interest on bank deposits	Increase from 10K to 50K	Status quo likely to be maintained	Attract more high-value term deposits	Neutral

Source: Kotak Securities - Private Client Research

Top picks

Company	Price (Rs)	PE (x) FY16E	PE (x) FY17E	P/ABV (x) FY16E	P/ABV (x) FY17E	Recommendation as per our last report
Axis Bank	579.3	16.1	13.9	2.9	2.6	BUY
ICICI Bank	339.2	17.5	15.8	2.4	2.2	ACCUMULATE
IDFC	172.1	16.9	14.1	1.5	1.4	BUY

Source: Companies; Kotak Securities - Private Client Research

CAPITAL GOODS

EXPECTED BUDGET IMPACT: ***Positive***

LONG TERM OUTLOOK: ***Positive***

Current scenario

- There is broad consensus within corporate India that the economy is at the cusp of a capex cycle. Although, there are signals to the contrary, we believe improving macro indicators confirm an impending capex cycle. However, there could be some timing differences.
- The RBI's quarterly survey of industrial capacity utilization and order books, indicated that the capacity utilization at 71% was lower at the end of the second quarter compared to the corresponding quarter of the previous year. Even order books have remained subdued, the RBI report states. Projects tendered during the first nine months of the current fiscal, indicates a drop of 11% over the corresponding quarter of the previous fiscal (partly due to election code of conduct). There has been some progress on declogging of the projects that were stuck for want of clearances. However, this is yet to translate into revival of capex plans from the private sector.
- Having said that, advance indicators of industrial activity - indirect tax collections; non-oil non-gold import growth; and new business reported in purchasing managers surveys - point to a modest improvement in the months ahead. Policy initiatives in land acquisition, as well as efforts underway to unlock mining activity and to attract foreign direct investment in defence, insurance and railways, should create a more conducive setting for industrial revival, we believe.
- Mergers and acquisitions in the roads and power sector is another positive sign as it helps deleverage stressed balance sheets of infra-developers.
- The Budget may need to address key concerns such as declining share of domestic manufacturers following the rise in imports, resulting from free trade agreements/preferential trade agreements signed with various countries. These agreements have not only dented the share of domestic manufacturers, resulting in under-utilisation of capacity, but have also led to inverted duty structures, which have created an uneven playing field between domestically made goods and imported products, thereby imposing higher costs on domestic manufacturers
- At this stage, between expectation of a recovery and actual recovery, we prefer companies which have stronger earnings delivery potential and limited scope for disappointment over the next 12-18 months. Thus, we advise buying in Cummins, Voltas, AIA Engineering, Greaves Cotton, Carborundum Universal and Crompton Greaves.
- On the other hand, late-cycle companies like BHEL, Thermax, EIL, Siemens and L&T would see broad-based traction in order flows only 3-4 quarters down the line.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
GST	Implementation of GST	Likely wef FY17	Significant groundwork has been done	Positive for Finolex Cables, Havells
Duty on raw materials	To bring it in line with that on finished products	Likely	To correct the inverted duty structure and promote "Make in India"	Positive for Siemens, ABB and Alstom
Hike in SAD	Hike Special Additional Duty by 4%	Unlikely	To boost domestic manufacturing	Positive for Siemens, ABB and Alstom

Capital Goods (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Allocation to TUFS	■ Increase in allocation to Textile Upgradation fund	■ Likely	■ Industry is labour intensive and needs to be supported	■ Positive for LMW and Voltas
Plan expenditure	■ Increase in plan expenditure	■ Likely	■ Increase is needed to boost growth but actual implemntation is key	■ Positive for general capital goods

Source: Kotak Securities - Private Client Research

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
L&T	1650	45.0	59.0	26.0	28.0	ACCUMULATE
Praj Industries	66	3.1	4.4	21.0	14.9	BUY
Voltas	257	9.6	11.5	27.0	22.4	ACCUMULATE
AIA Engineering	1034	36.5	46.3	28.3	22.3	ACCUMULATE

Source: Kotak Securities - Private Client Research

CEMENT

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- Union Budget 2015-16 is expected to be positive for cement sector which is linked with the growth in infrastructure sector. Higher allocations for infrastructure sector coupled with focus on affordable housing is expected to drive cement demand growth going forward. We also expect government to provide impetus for implementing smart cities, airports, river linking projects which are also expected to boost cement demand.
- Cement industry expects reduction in the excise duty rates as the commodity is highly taxed but we expect excise duty structure to remain same. Industry is currently burdened with high taxes and cost pressure. Though costs are likely to remain at similar levels but with implementation of GST, cement industry expects reduction in overall taxes.
- Key beneficiaries from demand improvement are expected to be Grasim Industries, Ultratech Cement, Shree Cement, ACC, Ambuja Cements etc. We continue to remain positive on Grasim Industries and Shree Cement.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Higher focus on infrastructure sector	Higher spend on infrastructure segments such as roads, urban infra, irrigation, buildings etc to boost cement demand	Spending to be increased	Inline with government's target to revive the infrastructure sector	Positive for the sector
Smart city development	Incremental spend on smart city development to drive cement demand growth	Spending to be increased	In line with government's vision to develop smart cities as satellite towns of larger cities	Positive for the sector
Focus on low cost housing	Higher focus on low cost housing development	Incentives for investment in low cost housing to be announced	In line with government's vision of Affordable housing by 2022	Positive for the sector
GST implementation	Expects sooner implementation of GST	May get implemented only by Apr,16	Streamline the economy and provide stimulus to GDP and may also reduce taxes for the sector	Neutral for the sector

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
GRASIM	3827	205.4	276.4	18.6	13.8	ACCUMULATE
SHREE CEMENTS*	11100	418	631	26.6	17.6	ACCUMULATE

*Source: Kotak Securities - Private Client Research; * Cash EPS for Shree Cements*

CONSTRUCTION

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- Construction sector has witnessed increased activity from government projects, specifically from the buildings, hospitality and electrical projects but sector is awaiting 'on the ground' improvement in terms of project awards across all segments. Private sector capex has slowed down considerably due to high interest rates and huge debt burden on companies coupled with delays in project clearances. Thus, initiatives such as faster land acquisition and project clearances to boost private sector investment are also expected in the Union Budget 2015-16.
- We expect government to enhance allocations for roads, irrigation, urban infrastructure, ports, airports, railways, power etc to put infrastructure development on fast track. We also expect further allocations for smart cities project and river interlinking project which would also be positive for the sector. In order to improve land acquisition process, we expect further action on recently passed land ordinance. To improve the viability of the infrastructure projects, industry expects MAT to be abolished for the tax holiday period during Section 80IA benefits; though we don't expect the same to happen.
- Key beneficiaries from higher order inflows in roads, irrigation and urban infra are expected to be IL&FS transportation network, IRB Infra, NCC, JKumar Infra, Pratibha Industries, Simplex Infrastructure etc. We continue to maintain positive stance on IRB Infra, ILFS Transportation networks, NCC and Simplex Infrastructures and would recommend buying these stocks on declines.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Single window clearance	Industry expects a single window clearance for faster project execution	To be implemented	Eases the bottlenecks in implementing large sized projects and augment growth	Positive for the sector
Fund allocation	Higher budgetary allocation for Bharat Nirman and NHDP, Accelerated Irrigation Benefit Programme, JNNURM	Higher allocation in budget; Increased private participation	Would support infrastructure creation which has been impacted by lack of order inflows	Positive for the sector
Smart city development	Increased allocation for development of smart cities	Higher allocation to come through in Budget	"In line with Government's vision vision to develop 100 smart cities as satellite"towns of larger cities"	Positive for the sector
Launch of integrated transport project	Integrated Public transport project to include roadways, railways and waterways and enhance project awards in each segment	Initial ground work can commence	Would support infrastructure creation.	Positive for the sector
MAT during the period of availment of Section 80IA	MAT should be abolished for the tax holiday period during Section 80IA benefits to improve viability of projects	Status quo maintained	Tax collection for government may get impacted	Neutral for the sector

Construction (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Long term infra-structure bonds	Hike in deduction limit to Rs 50,000 as against Rs 20,000 currently	Expected to be hiked	To promote investment in infrastructure sector	Positive for the sector

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
IL&FS Transportation networks	209	12.8	13.9	16.3	15.0	ACCUMULATE
IRB Infrastructure	259	16	18.7	16.2	13.9	BUY
NCC	84	1.1	2.6	76.4	32.3	BUY
Simplex Infrastructure	400	12.6	19.6	31.7	20.4	ACCUMULATE

Source: Kotak Securities - Private Client Research

FMCG

***EXPECTED BUDGET IMPACT:* Neutral**

***LONG TERM OUTLOOK:* Neutral**

Current view

- Recent reports indicate that some progress has been made on GST negotiations, and rollout in FY17 should be expected. As such, a roadmap/ timeline shall be watched for. GST shall provide long-term benefits to FMCG sector, on account of: 1/ greater parity with unorganized sector (hitherto non-tax paying) shall enable FMCG organized sector to register higher, long-term growth, 2/ supply chain benefits that accrue on account of GST.
- The inclusion agenda of the previous (UPA) government in both terms has been a crucial driver of FMCG sector growth. We believe that purely by way of subsidies/ allocation to flagship schemes of the government, this budget is unlikely to beat relatively modest expectations.
- Excise duties on cigarettes, is an area having a fair degree of uncertainty. Assuming that the objective of the government shall primarily be to ensure atleast a modest growth in excise revenues from cigarettes, we believe the government shall judge that an excise duty hike of low double digits may solve the purpose.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Inclusive growth agenda	Cotinued focus on empowering bottom of income pyramid	Expect modest rise in expenditures on rural sector	Fiscal deficit prime concern	Modest impact on FMCG stocks
Progress on GST	Timelines for GST rollout	Expect positive stance on implementation from FY17	New government has made some headway in ironing out issues related with GST	FMCG stocks to benefit from positive comments
Excise duties on cigarettes	No change, excessive taxation having undesirable impact on demand, also on growth in illegal cigarettes	Expect 10-15% rise in excise duties	Excise revenues will likely decline if duties are not raised, we expect budget to ensure at least steady excise revenues from cigarettes	Negative for cigarette industry

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
Dabur India	267	6.1	7.9	43.8	33.8	ACCUMULATE
Godrej Consumer	1146	27.1	35.4	42.3	32.4	ACCUMULATE
Marico	351	8.9	11.1	39.5	31.7	ACCUMULATE

Source: Kotak Securities - Private Client Research

HOTELS

EXPECTED BUDGET IMPACT:
Neutral

LONG TERM OUTLOOK:
Neutral

Current view

- The Federation of Hotel & Restaurant Associations of India (FHRAI) has presented its pre-budget memorandum for 2015-16 to the Union Ministry of Finance, encompassing recommendations on various issues of direct/ indirect taxation and financial policy, pertaining to the hospitality sector.
- Indian hotel industry has huge growth potential. However, we stand poorly in terms of hotel infrastructure when compared to develop and developing countries.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Grant of Infrastructure status to the Hotel industry	■ Hotels to be included as an infrastructural facility eligible for benefits under Section 80 I A of the Income Tax Act.	■ We expect infrastructure status to the Hotel industry	■ This will lead hotels to re-invest their profits in the hospitality sector, channelize huge investment in the tourism sector and help bridge the shortfall of hotel rooms. There is a shortage of 150000 rooms that calls for an investment of around Rs 600 Bn in the coming 5 year period. This investment will also lead to substantial employment generation	■ Positive for Indian Hotels Co, EIH, Hotel Leela Venture, etc
Hike in depreciation rate on Hotel Buildings	■ Depreciation on Hotel Buildings to be increased to 20% from the present 10%	■ We expect hike in depreciation rate	■ Hotels have to make heavy investment in plant and machinery due to their running on a 24 hour basis and in renovation, up gradation and upkeep.	■ Positive for Indian Hotels Co, EIH, Hotel Leela Venture, etc
Rationalization of industry's multiple tax structure	■ Industry key priority is the rationalization of industry's multiple tax structure	■ Partly some benefits can be offered	■ To position India as a globally competitive tourist destination	■ Positive for Indian Hotels Co, EIH, Hotel Leela Venture, etc

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

INFORMATION TECHNOLOGY

***EXPECTED BUDGET IMPACT:* Positive**

***LONG TERM OUTLOOK:* Positive**

Current view

- FY15 has been a relatively better year for the IT sector, more so for exports. Exports are expected to grow at 13% in FY15. NASSCOM has projected a growth of 12%-14% for FY16 in CC terms. There is stability in USA, while Indian companies are trying to increase market share in Europe. Decision making and consequently order-flows are encouraging. Digital spends are increasing, giving an impetus to discretionary spending.
- The industry is expected to have provided direct employment to 3.5mn people in FY15 and indirect employment to another 10mn. In this backdrop, the budget is expected to focus on maintaining an environment conducive to the future growth of this largely export-oriented industry. The sector has asked for abolition of / reduction in rates of MAT on SEZs, tax support for SMEs, Tier II / III cities, etc, though we do not expect these demands to be fulfilled.
- The FM may address issues such as providing more clarity on royalty on software (both retrospective and on services), transfer pricing, etc. We expect the focus of the budget to be on Make in India as well as Digitalising India and hence, we expect various enabling measures for the sector, which is one of the facilitators for the same.
- 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, mobility, Social, Analytics, etc. Newer pricing models will likely make them participate 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.
- Stocks of most IT companies have under-performed over the past few months, largely on concerns over the currency movements. We expect the rupee to remain in a range of 60 - 62 / USD, which will not be a major concern for the sector. We expect decent returns over the medium term, subject to near term volatility. At current levels, we prefer larger names like TCS; we also retain our positive bias for select mid-caps like Geometric and KPIT.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Taxation on digital transactions	Taxation on digital transactions to be at par or lower than the physical world	Government will address this issue	Government has stressed on adoption of internet and e-commerce	Positive
Support for SMEs and start - ups	Regulatory and tax challenges for technology start-ups to be addressed	Government will address this issue	Government has stressed on IT as one of the tools for improving efficiency and encouraging innivation	Positive
Transfer Pricing	Three-pronged approach to clear backlog and provide certainty for future 'Transfer pricing' issues	May happen	Uncertainty / litigation relating to transfer pricing is an irritant for the industry	Positive

Information Technology (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Dual levies on software	■ Treat software as service (and not goods) so as to avoid double taxation from centre and states	■ May not happen	■ Treating software as 'service' will deprive states of revenues	■ Neutral
MAT on SEZs	■ No recommendation	■ May happen	■ Government wants higher investments in infrastructure	■ Positive

Source: Kotak Securities - Private Client Research, Industry, NASSCOM

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY15E	FY16E	FY15E	FY16E	
TCS	2542.0	110.4	126.1	23.0	20.2	BUY
Geometric	124.0	10.6	13.3	11.7	9.3	BUY
KPIT Technologies	210.0	13.4	16.8	15.7	12.5	ACCUMULATE

Source : Kotak Securities - Private Client Research

MEDIA

EXPECTED BUDGET IMPACT: ***Positive***

LONG TERM OUTLOOK: ***Positive***

Current view

- Expectations from the budget in the media sector revolve largely around digitization, and taxation rationalization.
- Cable/ DTH companies would, over the long-term benefit from GST rollout, given the multiplicity of taxes. In the meanwhile, they have also made representation to the FM for some relief in terms of offsets around their taxes.
- There are two possibilities in terms of lower expenses for Set-Top-Boxes - reduction of customs duties, and provision of sops for indigenous manufacturing. We think the government is more likely to provide sops for indigenous manufacturing of STBs.
- The cable/ DTH industry has been arguing for infrastructure status, in order to access funds at lower rates.
- In the radio industry, it is being viewed as a certainty that migration of Phase - 2 licenses/ auction of new frequencies in Phase- 3 will take place in the coming few months.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Rationalization of taxes/ GST	Relief from multiplicity of taxes for platform providers (DTH/ MSOs) until these are subsumed in GST. Of course, overall hoping for GST rollout at the earliest	Expectations of GST rollout should be furthered in the budget comments. We do not expect any relief in the interim (till GST implementation)	GST rollout expected in the near future, unlikely that government will believe immediate measures are needed	Positive if implemented, for DTH companies/ MSOs
Reduction in customs duties for Set-Top-Boxes	Government should help the process of digitization (DAS -3/ 4) by cutting the customs duties on set - top- boxes	Unlikely	Long-standing demand; unlikley that the government should believe that STB price is a significant constraint to digitization	Positive if implemented, for DTH companies/ MSOs
Funding for DAS-3/ DAS-4	Granting infrastructure status to cable / DTH	Possible	Government would be able to push digitization while not affecting its budget; development could help free up funds for National Broadband Plan	Positive if implemented, for DTH companies/ MSOs
Indegeneous manufacturing of Set-Top-Boxes	Sops for indegenous manufacturing of STBs	Possible	Goes along with "Make in India" theme	Positive if implemented, for DTH companies/ MSOs
Phase - 3 of radio FM auctions	Positive Expression on auctions in the current fiscal	Likely	Cabinet nod already in place	Positive for radio industry, ENIL only significant pure-play on radio

Source: Kotak Securities - Private Client Research, Industry

Media (contd...)

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY15E	FY16E	FY15E	FY16E	
Dish TV	80	NM	0.6	NM	132.5	BUY
HMVL	225	18.1	22	12.4	10.2	BUY
TV18 Broadcast	33	0.8	1.4	41.4	23.6	BUY
Zee Entertainment	361	9.5	12	38.0	30.1	ACCUMULATE

Source: Kotak Securities - Private Client Research

METALS & MINING

EXPECTED BUDGET IMPACT: ***Positive***

LONG TERM OUTLOOK: ***Neutral***

Current view

- We expect the union budget to have a positive impact on the prospects of Metals & Mining Industry and companies operating within it.
- We believe that higher fund allocation for infrastructure development of road, power, railways, ports and airports would lead to improved steel demand
- The focus on simplifying land acquisition process and single window clearances for the mining projects or for the expansion plan will provide big relief to the sector
- We also believe that various measures by the government in terms raw material security would go a long way to make metal sector more competitive.
- We expect budget to have a positive impact on the sector, however, near term outlook remain cautious

Key budget expectations - Metals & Mining

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Increase in import duty on steel from 7.5%	10%	10%	58.1% YoY increase in import had huge impact on steel players profitability	Positive for all steel players
Reduction in iron ore export duty from 30%	Nil	Unlikely	Due to paucity of domestic iron ore, we do not foresee any reduction in iron ore export duty	Neutral
Thrust on Infrastructure	Infra push	Likely	Significant increase in allocation to key infrastructure projects will drive demand	Positive for steel companies present in long product segments
Removal of custom duty	Iron ore to NIL from 2.5% Coking coal to NIL from 5%	Likely	Import duty on key raw materials is affecting the cost competitiveness of domestic steel industry	Positive for steel players

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

Oil & Gas

EXPECTED BUDGET IMPACT: ***Positive***

LONG TERM OUTLOOK: ***Positive***

Current view

- We expect Union Budget to lay down road map for the sector. It will focus on reforms which are crucial for the sector and overall economy. In order to ensure energy security for the economy, the Government of India has accorded high priority to extraction & production of crude, Petroleum oil and Natural gas. The new petroleum minister has assured to make policies predictable, transparent and fair to investors. We expect government to make policies which would attract large foreign investments in the sector. Just to highlight few of them, the government may share its intention on the protracted subsidy problem, subsidy allocation and subsidy sharing formula, lay out a system which can encourage targeting the true subsidy beneficiaries, which will result in reduction of total subsidy, etc.
- The focus will be more on ramping up domestic crude oil and natural gas production. Some announcements are more policy-related and may not be announced in the budget such as - uniform licensing policy, open acreage and revenue-sharing model. Even so, some direction on the timelines will be welcome.
- One major breakthrough by the new government could be to auction oil and gas blocks with all statutory clearances.
- Clarification on the divestment policy is also required.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Tax Holiday for Exploration and Production activities relating to natural gas and CBM	Explicitly provided that the term 'mineral oil' will include natural gas and CBM for all past and future rounds of NELP for the purposes of Section 80-IB of the Act.	We expect clarity on the same.	This will avoid uncertainty among upstream players.	Positive for CAIRN India, RIL, HOEC, Selan exploration.
Custom duty on crude	Upstream companies may like govt. to hike custom duty on crude oil imports	Custom duty will be restored	To provide relief to upstream companies and boost tax revenue for govt. Lower crude oil prices offers enough cushion to the govt.	Improve earnings for upstream companies such as ONGC, OINL, Selan exploration, etc. Negative for OMCs.
Cess on domestic production	Upstream companies want to reduce the same	Reduce from Rs.4500/mt to Rs.2500/mt	To provide relief to upstream companies. Govt. can recoup the same by hiking excise duty on petrol and diesel.	Positive for upstream companies
Exempt LNG from 5% import duty	Import duty on LNG to be reduced from 5% to NIL.	We do not expect any reduction	It will significantly impact government revenues. GOI may prefer direct subsidy to power and Fertilizer sector.	Neutral

Oil & Gas (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Uniform licensing policy (ULP) -block auctions with all statutory clearances	Replace NELP with a ULP to facilitate production of all forms of hydrocarbons - from oil to shale gas - under a single policy regime.	We expect govt. to implement some long-lasting policies	To attract large foreign investments in the oil and gas sector.	Positive for upstream exploration and related service providers.-Cairn India, OIL India, ONGC, etc.
Hike in import duty on polymers like polyethylene, products polypropylene, PVC and polystyrene	Import duty on polymers should be increased from 5% to 7.5%	Govt. can increase the duty	To protect the petro-chemical industry. Product prices has fallen along with crude oil prices.	Positive for GAIL and RIL
Road cess on petrol and diesel	The Ministry of Road Transport and Highways has proposed an increase. Currently, road cess is Rs 2/litre.	We expect hike in cess on petrol and diesel	To boost spending on roads and highways	Neutral for OMCs

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY15E	FY16E	FY15E	FY16E	
Petonet LNG	190	10.13	12.76	18.8	14.9	ACCUMULATE
Indraprastha Gas	429	33.00	42.20	13.0	10.2	BUY

Source: Kotak Securities - Private Client Research

PAINTS

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- Performance of the paint sector is strongly correlated to GDP growth in the country. The volumes for paint companies would be driven by factors like: 1) Growth of the real estate sector, 2) Push for infrastructure projects, 3) Increase in construction activities and 4) Demand for passenger vehicles.
- Paint companies want the government to continue with its reform process in the real estate and infrastructure segment which would indirectly stimulate demand both for decorative and industrial paints.
- Paint companies also want the government to further increase the Home/Housing Interest Exemption amount under section 24 further from Rs 1.5 lakh to Rs. 2 lakh, which would motivate individuals to take home loan and buy houses thereby creating demand for decorative paints.
- Raising the exemption limit of income tax from Rs 2 lakh to Rs 2.5 lakh for all individual tax payers below 60 years which would leave more disposable income in the hands of individuals and creation of smart cities are some of the other measures that paint companies are hopeful about.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Current status of real estate sector and infra projects in the country	Reforms for Infra push	Likely	India is lacking in infrastructure	Would create demand for industrial paints directly/ decorative paints indirectly
Home/Housing loan Interest Exemption	Increase in the interest exemption amount	Unlikely	Already in the previous budget the government had increased the exemption limit from Rs 1.5 lakh to Rs 2 Lakh	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
Kansai Nerolac	2350	65.4	80.4	35.9	29.2	BUY

Source: Kotak Securities - Private Client Research

Pharmaceuticals

***EXPECTED BUDGET IMPACT:* Neutral**

***LONG TERM OUTLOOK:* Positive**

Current view

- Indian pharma market (ITM) has witnessed a robust 13% CAGR over last ten years, except in 2013, due to the new NLEM (National List of essential medicines) implementation. The NLEM policy led significant price reductions in medicines which resulted in a mere ~6% growth in IPM in 2013. Year 2014 has been a muted year as companies regained their composure and the lost sales, however growth gradually inched up to double digits. We believe, companies will continue to face bouts of price controls which will continue to impact profitability. However, as the contribution from Indian market for individual companies are on slide, we do not foresee any threat per se.
- On the exports front India continues to be a major supplier and has showcased its cost competitiveness as well as R&D capabilities well enough. India has been third largest supplier of drugs globally and is expected to continue to grow at mid-teens CAGR over the next few years.
- However, as far as local API consumption is concerned, India has become highly dependent on China for APIs (Active Pharmaceutical Ingredient) especially for widely prescribed antibiotics like, Pencilin-based drugs, India is 100% dependent on China. Companies have lost to Chinese competitors on the API front only because of the lack of cost competitiveness.
- With the new government's focus on 'Made in India', Industry expects some rebate on pharma SEZ's, which will encourage manufacturing expansion locally. The sector also expects some relief on R&D tax exemptions. As of now the companies can claim up to 200% on R&D expenses incurred in India. But companies are expecting this deduction to be extended to the R&D expenses incurred abroad which is usually done for filings in export markets.
- We expect the budget to be Neutral for the sector. Key things to watch: Changes in government spend on Healthcare, Tax relief to pharma SEZ's, Tax benefits on R&D expense.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Weighted deduction on R&D expenses	Expand weighted deduction on R&D expenses to outsourced clinical trials/R&D and DMF/ ANDA filings with the US FDA	Status Quo	Weighted deduction to R&D is for encouraging innovative medicines in India only and will be limited to the same	Neutral
Tax incentive on SEZ	Exempt SEZs from MAT once again	Expect some relief	India has become highly dependent on Chinese imports for APIs, tax rebates would encourage expansions locally	Positive

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
Lupin Ltd	1617	54.1	63.3	29.9	25.5	BUY
Torrent Pharma	1153	45.8	54.6	25.2	21.1	BUY

Source: Kotak Securities - Private Client Research

POWER

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Neutral

Current scenario

- During Apr-Dec period of FY15, the power generation capacity addition stood at 10610 MW vs 8728 MW during the corresponding period of the previous fiscal
- As against a demand of 86.8 bn units in December 2014, the power availability was 79.4 bn units, implying a power deficit of 3.9% in the month. The deficit was highest in the Northern region at 7.0% followed by the Southern region.
- Merchant power tariffs have remained weak due to transmission and open access related constraints. Average merchant power rates stood at Rs 3.21 per unit in December 2014, largely stable. The Southern region continued to face transmission bottlenecks thus losing out on excess power available in Western and Eastern region at economical rates.
- The rapid acceleration in power generation capacity has not been complemented by commensurate growth in Coal production. As a result, Coal India Ltd is struggling to meet the demand from power sector. The total coal requirement at the end of 12th plan is estimated to be 604 mn tons, leaving a shortfall of 238 mn tons, which is expected to be met through imports.
- International coal prices have remained weak since 2012, which has come as a major relief (partly offset by INR depreciation) for Indian utilities that are firing imported coal.
- At the current juncture, the most critical issue for the power sector is that of fuel crunch both coal and gas. Captive coal mining needs to be encouraged as, on its own, CIL is not in a position to accelerate production. In this regard, we hope that the ongoing round of coal auctions could kickstart captive coal mining in a major way.
- In addition to this, for the sake of long term health of the sector, distribution sector reforms are a must. However, even as broad distribution sector reforms have been in place, the implementation of the same has not been in the true spirit. Thus, state interference in tariff fixation continues, regulators have not been able to push utilities to improve performance and raise tariffs in timely manner.
- The Gujarat power model needs to be emulated by other states as well, if power deficit is to be wiped out.
- Power sector stocks have rallied in recent months on the back of hopes of speedier environment/forest clearances by the new government, bold measures to address fuel crunch (Pooling of gas). There could be disappointment if some of the measures proposed fail to achieve the desired objective.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Continuation of 80IA benefit	Extend the benefit by another 3 years	Likely	Need to kick-start investment in core sectors	Enhances the returns on power sector
MAT	Abolition of MAT	Unlikely	Neet to sustain government revenues	Neutral for Adani Power
Duty on raw materials	Abolition of import duty on coal	Unlikely	Neet to sustain government revenues	Neutral

Source: Kotak Securities - Private Client Research, Industry

Power (contd...)

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
NTPC	142	11.1	11.1	12.8	12.8	ACCUMULATE

Source: Kotak Securities - Private Client Research

REAL ESTATE

EXPECTED BUDGET IMPACT: Neutral

LONG TERM OUTLOOK: Cautious

Current view

- We expect Union Budget 2015-16 to be largely neutral for real estate sector. Sector has been plagued by demand slowdown, high interest rates and delays in approvals from past several quarters. Problems associated with land acquisition, lack of transparency and clarity in land titles compounded the issues impacting sector.
- From Union Budget, industry is expecting measures to boost demand for the sector which include higher disposable income as well as subsidized interest rates for low cost housing. In order to fast track the projects, industry also expects measures to ease land acquisition, single window clearance as well as implementation of real estate regulatory bill. We do not expect major changes in direct taxation in Union Budget 2015-16 as it may impact tax collection for the government but we expect further action on recently passed land ordinance.
- We also expect clarity to emerge on tax treatment of REITs which may fast track the launch of REITs and hence will be positive for the sector. Industry is also expecting faster implementation of GST which we believe would take time and may get implemented from Apr, 2016.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Income tax exemption limit on interest payment	Increase the limit from Rs 2 lac to Rs 3 lac	Status quo maintained	Provides benefit to home buyers but may impact tax collections	Neutral for the sector
Income tax exemption limit for principal repayment	The deduction for principal repayment of housing loan under Section 80C should be either increased from the existing limit of Rs 1,00,000 or the principal repayments considered for a separate tax exemption	Status quo maintained	Provides benefit to home buyers but may impact tax collections	Neutral for the sector
Tax incentives for rental housing	Tax breaks specific to rental housing to boost rental supply in cities	Status quo maintained	It may take a while before it gets implemented	Neutral for the sector
Tax treatment of REITs	Long term capital gains on the disposal of units by the sponsor should be done away with	Can be implemented	Provides clarity on taxation on REITs and may fast track launch of REITs	Positive for the sector
Real estate Regulatory Bill	Implementation of Real Estate Regulatory Bill to improve transparency, efficiency in the sector	Status quo maintained	It may take a while before it gets implemented	Neutral for the sector

Real Estate (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Industry status	■ Sector seeks industry status as it generates countless jobs across its verticals and would also enable easier lending for the sector	■ Status quo maintained	■ It may take a while before it gets implemented	■ Neutral for the sector
Single window clearance for projects	■ Industry expects a single window clearance to enable faster execution of projects	■ Status quo maintained	■ It may take a while before it gets implemented	■ Neutral for the sector
Infrastructure status for development of integrated townships	■ Industry expects infrastructure status for township development as the development is at par with BOT projects	■ Can be implemented	■ Development of large townships will mitigate the housing shortage	■ Positive for the sector
GST implementation	■ Expects sooner implementation of GST	■ May get implemented only by Apr,16	■ Streamline the economy and provide stimulus to GDP and hence to the housing sector	■ Neutral for the sector

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY15E	FY16E	FY15E	FY16E	
PHOENIX MILLS	380	10.9	12.2	34.9	31.1	ACCUMULATE

Source: Kotak Securities - Private Client Research

Shipping & Logistics

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- Despite fresh ordering in the last 6 months, the order book to fleet ratio in the dry bulk segment has improved to 22.5% from 23.5% QoQ and from 30% YoY, while in dirty tanker segment the ratio has improved remained flat at 12% QoQ and improved from 19% YoY. Even asset prices across segments have improved ~2% QoQ and ~10% YoY which would help the NAV of shipping companies. With demand improving especially from China for bulk and for crude from Europe and US, the shipping markets have improved in the last 2 quarters. Currently we estimate scrapping to be equal to or more than new order placement which is positive for the sector. With continuous reduction in global shipping order book, we expect stable shipping market for H2FY15 and FY16 with shipping companies including SCI and GE Shipping reporting improved financial performance.

Reduction in global shipping order book

(mn dwt)	Dec-14		Dec-13	
	Order book (dwt)	% of fleet	Order book (dwt)	% of fleet
Dry Bulk fleet	156,770	22.5	218,756	30.0
Tanker fleet	46,736	12.5	70,846	19.0
Container fleet	42,391	19.6	44,039	21.1

Source: Bloomberg

- We estimate one significant measure from the government for the shipbuilding industry to revive the old shipbuilding subsidy policy. Shipbuilding is a capital intensive industry and Indian yards are competing with global yards in Korea, Japan and China where their industry receives direct and indirect support from the government.
- The logistics sector in India has today become an area of priority. One prime reason for the same stems from the reason that years of high growth in the Indian economy have resulted in a significant rise in the volume of freight traffic moved. This large volume of traffic has provided growth opportunities in all facets of logistics including transportation, warehousing, freight forwarding, express cargo delivery, container services, shipping services etc. The growth path has also meant that increased demand is being placed on the sector to provide the solutions required for supporting future growth.
- Despite holding promise the logistics sector in India remains mired in several complexities which have the potential of holding it back. These include significant inefficiencies in transportation, poor storage infrastructure, a complex tax structure, low rate of technology adoption and poor skills of the logistics professionals.
- In the listed space in Logistics in India, companies are primarily operating in the areas of warehousing, container freight station (CFS), container rail, freight forwarding, non-vessel owning container carrier (NVOCC) and trucking. In our discussion with companies, most of the companies including Concor, Gateway Distriparks Limited (GDL) and Allcargo are expecting the Finance Minister to announce measures for speedy implementation of the dedicated freight corridor (DFC), speedy implementation of the ongoing infrastructure projects and faster roll out of the Goods and Services Tax (GST) which would help the industry in terms of efficiency and reduced cost.
- An industry status to the Logistics sector by the government would help the companies in the sector in the form of reduced interest cost, strong regulation (a regulator may be in place) and more discipline leading to increased equity investment.

Shipping & Logistics (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Subsidy for Indian shipbuilding industry	New shipbuilding subsidy policy to be introduced in the budget	Likely	Shipbuilding is a global business and globally Indian Shipbuilding companies receive plenty of tax sops and other financial sops from the government	Positive as it will enable the shipbuilding companies to become competitive and attract more orders
Inter state tax regime - GST roll out	Inter state tax regime to go	Likely in FY17	The Logistics has to go through red-tapism, bottlenecks and lots of documentation leading to delays.	Positive as it would avoid lot of documentation and complexity and lead to speedy and simplified work
Transport infrastructure	Speedy implementation of the projects drawn for the development of transport infrastructure	Likely	Transport infrastructure is still underdeveloped in the country and is integral for economic development	Positive as it would lead to better transport infrastructure, better utilisation, reduce cost, improve efficiency and improve volumes.
Dedicated Freight Corridor (DFC)	Faster roll- out of DFC	Likely	Passenger rail services are given priority over container/cargo train which increases the turnaround time and operating cost rendering them inefficient.	Positive as it would lead to lower turn-around time for rail companies, increase container volumes and decongest the roads.
FDI	FDI in key logistics infrastructure development areas like dredging, port connectivity and so on.	Unlikely	Government considers segments like road and ports to be very strategic and don't want these segments to be exposed to foreign investors because of security reasons	Neutral
Industry status	Industry Status to Logistics Industry	Likely	Logistics industry contributes ~13% to the GDP but is largely fragmented and unorganised and works with high operational expense	Positive as it would facilitate easier access to finance, robust regulatory mechanisms and a better image for the industry

Shipping & Logistics (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Decentralising Indian Railways	■ Delinking of Indian Railways and Ministry of Rail to avoid conflict of interest	■ Unlikely	■ Indian Railways is the largest employment generator and one of the largest revenue generator for the government and hence the government would like to keep complete control on the segment through a ministry	■ Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	PE (x) FY15E	PE (x) FY16E	Recommendation as per our last report
Allcargo Global Logistics	324	18.9	24.5	17.1	13.2	BUY
Gateway Distriparks Ltd	395	16.4	19.5	24.1	20.3	BUY
Gujarat Pipavav Port Ltd (GPPL)	205	8.6	10.1	23.8	20.3	BUY
Adani Port & Special Economic Zone	310	11.2	14.7	27.7	21.1	BUY

Source: Kotak Securities - Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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