



Union Budget Preview (2014-15)

Calls for credibility and pragmatism

Amid heightened hope of “*acche din*” in contrast to bitter ground realities, the Union Budget would be the first policy announcement from the newly elected government and consequently a big test of its resolve to walk to talk.

Mindful of the limited options to maneuver host of issues in single budget, the markets would be looking at pragmatic budget with credible numbers and intent of government on critical reforms (tax reforms, subsidies, divestment, FDI etc) from medium to long term perspective. Some of the critical areas of focus for the investor community would be:

- ◆ Roadmap to address fiscal imbalances (ie. rein in subsidies, improve delivery of social schemes and curtail fiscal deficit)
- ◆ Measures to revive growth and curtail inflation in spite of the weak onset of monsoons.
- ◆ Timeline for rollout of Goods and Services Tax (GST) and other critical reforms.

Our 10 picks to play the budget rally are

Arvind, Bharat Electronics, CMC, Cox & Kings, Fortis Healthcare, Gateway Distriparks, Jain Irrigation, Titan, Va-Tech Wabag, LIC Housing.

Some key proposals expected in the Union Budget

Tax proposals

- ◆ Extension of benefits under section 80IA and/or reduction in minimum alternate tax (MAT) rate
- ◆ Tax incentives for low cost housing and SEZ projects.
- ◆ Increase in tax exemptions under 80C for personal income tax by additional Rs50,000-1,00,000 for investment in the infrastructure related bonds
- ◆ Tax sops for textiles and some of the other large employment generating manufacturing sectors
- ◆ Roadmap for implementation of uniform Goods and Services Tax (GST)

Industry related proposals

- ◆ Intent to ease concerns in the Land Acquisition Act
- ◆ Roadmap to improve agriculture productivity through focus on better technology for irrigation, hybrid seeds and right usage of agri inputs
- ◆ Higher allocations for skill development (vocational skills) and defence sector
- ◆ Measures to attract foreign capital in infrastructure especially roads and railways; allow banks to issue infrastructure bonds and/or other long term sources of funds
- ◆ Development of water transport infrastructure; and revitalizing rivers and other water resources

Government finances

Rs '00 cr

Particulars	FY08	FY09	FY10	FY11	FY12	FY13	FY14RE	FY15BE
Gross tax revenues	5,931.5	6,053.0	6,245.3	7,930.7	8,891.8	10,362.4	11,589.1	13,792.0
<i>Growth (YoY,%)</i>	25.3	2.0	3.2	27.0	12.1	16.5	11.8	19.0
Direct Tax	2,955.6	3,194.4	3,770.4	4,452.7	4,931.6	5,578.1	6,353.7	7,574.7
<i>Growth (YoY,%)</i>	34.7	8.1	18.0	18.1	10.8	13.1	13.9	19.2
Corporation tax	1,929.1	2,134.0	2,447.3	2,986.9	3,228.2	3,563.3	3,936.8	4,510.1
<i>Growth (YoY,%)</i>	33.7	10.6	14.7	22.1	8.1	10.4	10.5	14.6
Income tax	1,026.4	1,060.5	1,323.2	1,465.9	1,703.4	2,014.9	2,416.9	3,064.7
<i>Growth (YoY,%)</i>	36.7	3.3	24.8	10.8	16.2	18.3	20.0	26.8
Indirect Tax	2,975.9	2,858.6	2,474.9	3,478.0	3,960.2	4,784.2	5,235.4	6,217.3
<i>Growth (YoY,%)</i>	17.1	-3.9	-13.4	40.5	13.9	20.8	9.4	18.8
Indirect tax/gross tax revenues (%)	50.2	47.2	39.6	43.9	44.5	46.2	45.2	45.1
Excise	1,236.1	1,086.1	1,036.2	1,383.0	1,456.1	1,765.4	1,795.4	2,005.9
<i>Growth (YoY,%)</i>	5.1	-12.1	-4.6	33.5	5.3	21.2	1.7	11.7
Import duty	1,041.2	998.8	833.2	1,358.1	1,493.3	1,653.5	1,750.6	2,013.1
<i>Growth (YoY,%)</i>	20.6	-4.1	-16.6	63.0	10.0	10.7	5.9	15.0
Service tax	513.0	609.4	584.2	710.2	975.1	1,326.0	1,649.3	2,154.8
<i>Growth (YoY,%)</i>	36.4	18.8	-4.1	21.6	37.3	36.0	24.4	30.7
Other tax revenues	185.6	164.2	21.2	26.7	35.7	39.4	40.2	43.5
<i>Growth (YoY,%)</i>	47.8	-11.5	-87.1	25.9	33.9	10.3	2.0	8.3

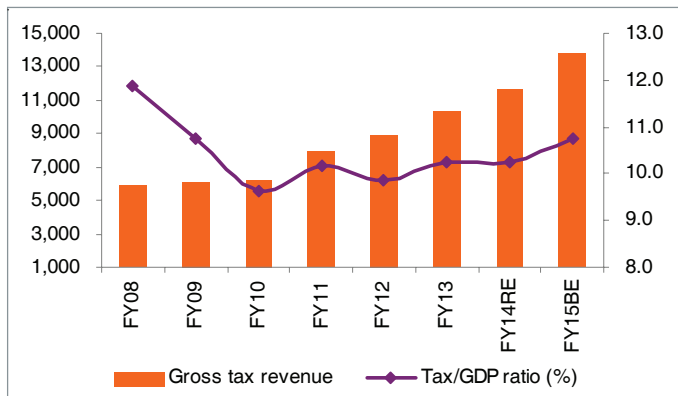
Correcting fiscal imbalances; likely revision in deficit targets: In view of deteriorating state of public finances, the government’s initial focus will be on correcting the fiscal imbalances by taking steps to rein in the subsidies especially fuel subsidy bill. Secondly, the government could announce rationalization of the social sector schemes with focus on plugging leakages and improving delivery mechanism. The fiscal deficit target of 4.1% for FY2015 (as per interim budget) seems quite tall (due to rollover of subsidies in FY2015) and therefore may be revised slightly upwards but may be backed by credible numbers on income and expenditure side. Government borrowings are likely to be maintained at ~ Rs 6 trillion, similar to interim budget.

Affirmative steps to address growth-inflation concerns: The governments intent is quite clear on certain areas such a building infrastructure, boosting manufacturing sector and increasing consumption hence most of the announcements could be directed in these areas. The low hanging fruits like fast-tracking the delayed projects, arrangement for single window clearances, sops for specific industries could be

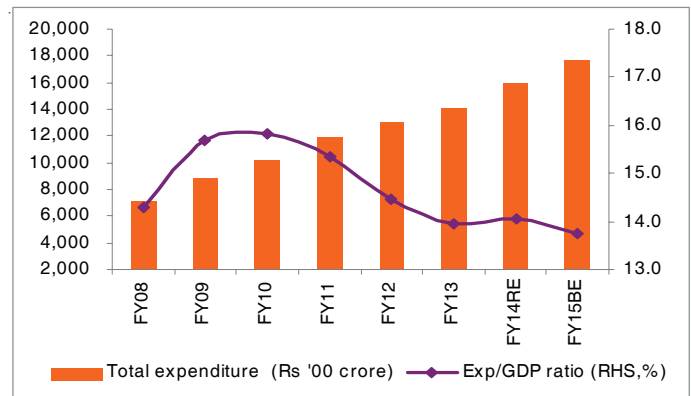
worked upon the revive growth. The continuation of excise duty benefits for auto sector suggests that more incentives could be worked out to revive the manufacturing sector especially the exports sector. On the other hand, given the weak monsoons and fuel price volatility (Iraq crisis) which threatens inflation, the government may announce some measures on this front also.

Dependence on non tax revenues to continue: Given the limited scope to maneuver the revenues in near term, the reliance on non-tax revenues (divestments, spectrum auctions) will continue in FY2015. Moreover, the recent buoyancy in capital markets and improved business confidence makes divestment easier compared to past couple of years. With respect to tax revenues (20% YoY growth budgeted for FY2015) clearly needs to be backed by recovery in the economy or may be revised downwards. Government may outline road map and timeline to implement tax reforms like GST while it is also expected to clarify its position of GAAR (General Anti Avoidance Rule) and retrospective tax amendments.

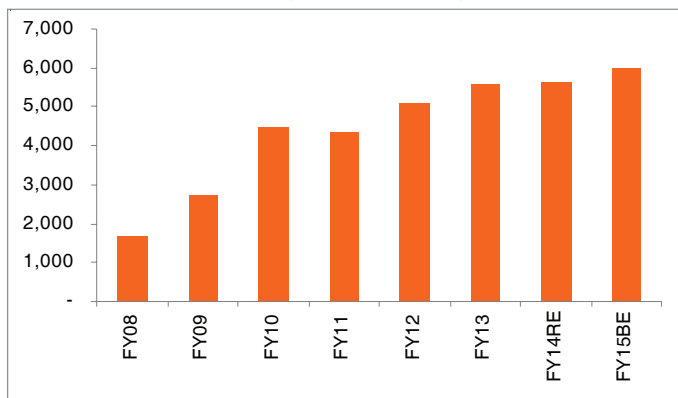
Gross tax revenues



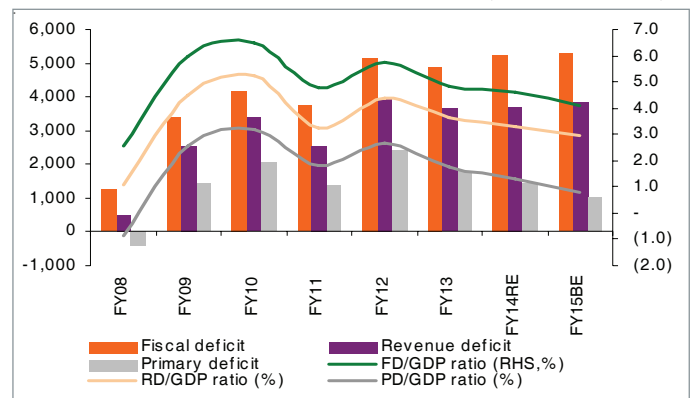
Total expenditure



Government borrowings (Rs in '00 crore)



Fiscal, revenue and primary deficit trend (Rs in '00 crore)



Key Sectorwise expectations

Sector	Key Sectorwise expectations	Potential Budget Impact	Companies impacted
Agri Inputs	(1) Increase in subsidy to meet the arrears of around Rs30,000 crore in FY2014 (2) Reduction of excise duty and uniform rate of VAT for agro chemicals (3) Increase in spending related to irrigation projects (4) Allowing further usage of hybrid seeds	Positive	UPL, Jain Irrigation, Monsanto India, Kaveri Seeds and Dhanuka Agritech
Autos/Auto Ancillaries	(1) Incentives for electric/hybrid vehicles (2) Withdrawal of the National Calamity Contingent Duty (NCCD) (3) Scrappage scheme for old vehicles	Positive	M&M, Ashok Leyland and TVS Motors
Banking/NBFC	(1) Long term infra bonds for infra sector funding (2) Raise exemption limit under section 80 C (3) Income tax benefit on provisioning for NBFCs (4) Recapitalisation of PSBs (5) Increase FDI in insurance	Positive	ICICI, SBI, BOB, Federal Bank and LIC Housing, Bajaj Finance, Max India among NBFCs.
Capital Goods	(1) Increase in allocation to Infrastructure sector (2) Relaxing of ECB limits and CCI limit for faster project clearance (3) increase in allocation for water related projects (4) Increase in capital allocation for upgradation and connectivity of railways network	Positive	L&T, Crompton Greaves, Finolex cables, VaTech Wabag, Texmaco, Titagarh Wagons, Kernex Microsystems, Kalpataru Power and KEC
Cement	(1) Excise duty is likely to remain at current levels (2) Abatement on Excise duty, currently abatement of 30% on retail price is allowed (3) Customs Duty on pet coke be abolished	Neutral	Ramco Cement and Shree Cement
Defence	(1) Increase in allocation for defence spends (2) Increase in FDI limit in defence sector from 26% currently	Positive	BEL, Astra Microwave and L&T
FMCG	(1) Increase in tax slabs to Rs3 lakhs from Rs2 lakhs (2) Increase in excise duty on cigarette (3) Interest subvention on loans for re-plantation of tea	Neutral	Jyothy Laboratories and Mcleod Russel
Healthcare/Hospitals	(1) Grant infrastructure status under section 80 IA (2) Exemption on replacement of old equipment / machinery in hospitals	Positive	Fortis Healthcare and Apollo Hospitals
Hospitality/Tourism	(1) Grant infrastructure status under section 80 IA (2) FHRAI has proposed to increase the depreciation rate to 20% (3) The proposal is to grant export industry status to the tourism sector	Positive	Cox & Kings (India), Indian Hotels and Taj GVK
Infrastructure/Construction	(1) Ten year tax holiday about to expire in 2015-16, to extend to another 10 years (2) MAT could get abolished or reduced during tax holiday period under Section 80IA. (3) 100% refinancing of existing debt by ECB	Positive	ITNL, IRB and Mahindra Lifespace
Information Technology	Increase in budget allocation for e-governance projects	Neutral	CMC and TCS
Logistics	(1) A defined time line on rollout of GST (2) extension of IT benefits u/s 35AD	Positive	Gateway Distriparks and Container Corporation of India
Media	(1) GST rollout roadmap to be set (2) Waiver of entertainment tax for DTH companies engaged in migration from analogue to digital (3) Basic custom duty on STBs should be relaxed to zero until the 4 phases of digitization are complete.	Neutral	Dish TV

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Key Sectorwise expectations/ wishlists

Sector	Key Sectorwise expectations/ wishlists	Potential Budget Impact	Companies impacted
Oil and Gas	Extension of benefit under section 80-IB(9) from 7 to 10 years,	Neutral	Not specific
Pharma	(1) Extend the benefits of EoUs, the provisions of section 10B, which provides certain tax concessions for Export Oriented Units, should be continued (2) Deduction with respect to R&D expenditure u/s 35(2AB) for expenditure incurred on products registration, clinical trials, bioequivalence study etc	Neutral	Not specific
Power	(1) Incentives for Renewables Energy in terms of accelerated depreciation, tax benefits, fulfillment of renewables purchase obligation	Neutral	Not specific
Retail	(1) Reduction in custom duty for gold (2) GST rollout roadmap to be set (3) Increase in tax slabs to Rs3 lakhs from Rs2 lakhs	Positive	Titan Industries, Muthoot Finance and Mannapuram Finance
Textiles	Subsidy and additional allocation under Technology Upgradation Fund Scheme (TUFS) for the textile industry	Positive	Arvind Mills and Vardhaman

Source: Industry expectations; Sharekhan Research

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