Stewart & Mackertich

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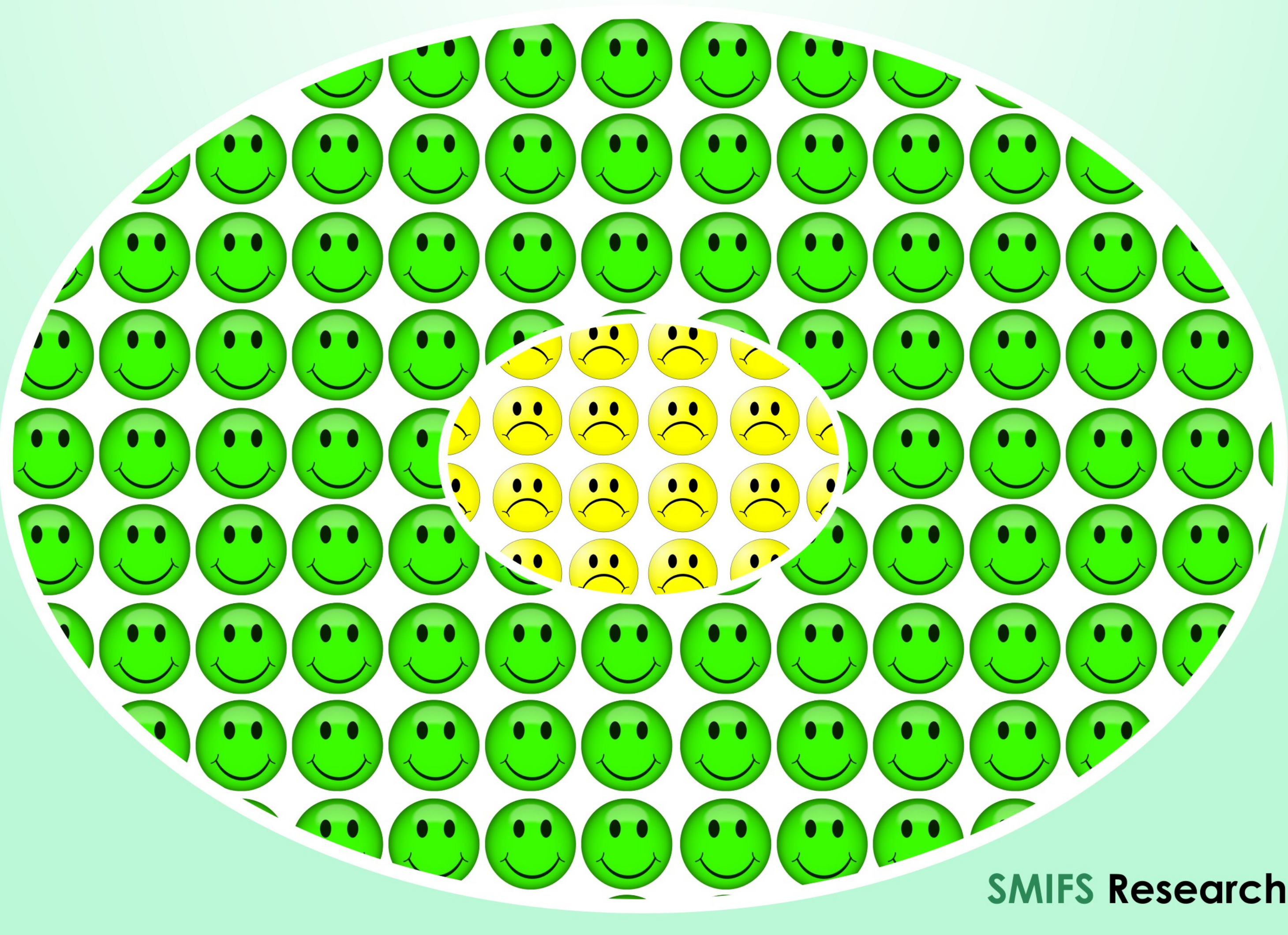
UNION BUDGET 2018-19

Update & Analysis

Angst for the classes; Cheers for the masses!



SMIFS Research

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Union Budget 2018-19: Angst for the classes, cheers for the masses!

PREFACE

Stewart & Mackertich Research believes the Union Budget 2018-19 has been a balancing act between populism with fiscal prudence. Fiscal prudence, despite two disruptive policies in the past 15 months of demonetization and GST implementation, which has broadened the formal economy. We believe Indian markets may trade lackluster for some days due to lack of interest from large participants. Eventually fundamentals would dictate market trends, which remains buoyant for the long term investor.

Budget 2018-19; Angst for the classes, cheers for the masses!

The Union Budget 2018-19 ends the suspense with ringing in the new era to thrill the masses at the cost of the classes. Although done with good intent and assuming most of the top strata of society would take it for a stride eventually, the short term pain of paying tax on long term gains in equity investments may persist for some days. However, given the disproportionate income distribution over the years, it brings parity to some extent by this measure of the government. Also, it demonstrates the confidence of the government that their measures are likely to create a vibrant and gainful markets in the years to come. While the decision to impose long-term capital gains tax on equity investments may not really dent investors' sentiment as investment options are so limited, the actual realization of INR20000 cr through LTCG is highly questionable. The Budget also fails to address fiscal deficit through easier moves like PSU divestment/strategic sale and is inflationary as revenue measures are highly questionable whereas the expenditure has increased.

The Union Budget for FY2018-19 was a script designed to please the voters with General elections 2019 in sight. Nevertheless, the cost of fiscal slippage is debatable given the expenditure allocated for rural and infrastructure development. This is the government's last full budget before the 2019 Lok Sabha elections. The Finance Minister has stepped on a tight rope to FY18-19 with lot of probabilities and only time will tell whether he crosses the same hail and hearty. An inflationary budget, a domestic oriented budget, at hind sight a budget bond market may be shy of. However, a budget that may re-ignite consumption and growth.

On Fiscal Deficit front, the budget projected a target of 3.3% of GDP for the year 2018-19. Fiscal Deficit was brought down to 4.1% in 2014-15, to 3.9% in 2015-16, and to 3.5% in 2016-17. Revised Fiscal Deficit estimates for 2017-18 are INR5.95 lakh crore at 3.5% of GDP against earlier estimate of 3.2%.

The Finance Minister further said that the country has grown on an average of 7.5% in the first three years of the current government and has become a USD 2.5 trillion economy. India has already become a 7th largest economy in the world and it is expected to become 5th largest economy very soon.

Incentivizing MSMEs, the corporate tax was reduced to 25% for companies with turnover of up to INR250 crore in FY2016-17. This will benefit the entire class of micro, small and medium enterprises which accounts for almost 99% of companies filing their tax returns, boosting CAPEX and employment.

The pledge to keep MSP for the all unannounced khariff crops at one and half times of their production cost is a surety to boost farmer's sentiment on the government; which eventually may boost a host of sectors, particularly consumption and agricultural sectors.

Stewart & Mackertich Research believes the Union Budget 2018-19 has been a sort of balancing act between populism with fiscal prudence, without really going anywhere. Fiscal prudence despite two disruptive policies in the past 15 months of demonetization and GST implementation, which has broadened the formal economy. We believe Indian markets may trade lackluster for some days due to lack of interest from large participants. Eventually fundamentals would dictate market trends, which would depend on the global economy and the real investments in the Indian economy on macro-factors.

Team
Stewart & Mackertich Research

Budget Highlights

Economy

- Indian economy is expected to grow at more than 7% next fiscal.
- Exports are slated to report a 15% growth in FY2017-18.
- Agri exports have the potential of USD100 billion and therefore, state of art facility will be set up in 42 food parks for agri exports.
- MSP for Kharif crops will be 1.5x cost of production.
- 1.5 lakh health care centres will bring health closer to every household. Corpus will be roughly INR1,200 crore.
- 24 new medical colleges will be introduced, including upgrading certain existing colleges.
- INR32,600 crore has been budgeted to National Education Mission for FY2018-19
- INR17,800 crore has been budgeted to Swachh Bharat Mission for FY2018-19
- Proposed additional INR5.97 lakh crore for extra budgetary allocation for infrastructure
- INR1,48,528 crore allocated for Railways Capex for FY2018-19

Fiscal Snapshot

- Revised fiscal deficit for FY2017-18 is at INR5.95 lakh crore or 3.5% of GDP. Projecting fiscal deficit at 3.3% of GDP for FY2018-19.
- The growth rate of direct taxes in FY2017-18 has been significant of nearly 12.6% .
- The GST compensation cess has been budgeted at INR90,000 crore for FY2018-19, while revised estimates for FY2017-18 are at INR61,000 crore. The GST compensation cess funds are to be kept under public accounts.
- Revised estimate disinvestment of INR100000 crore for FY18. Divestment target for FY19 has been set at INR80,000 crore

Budget at a Glance

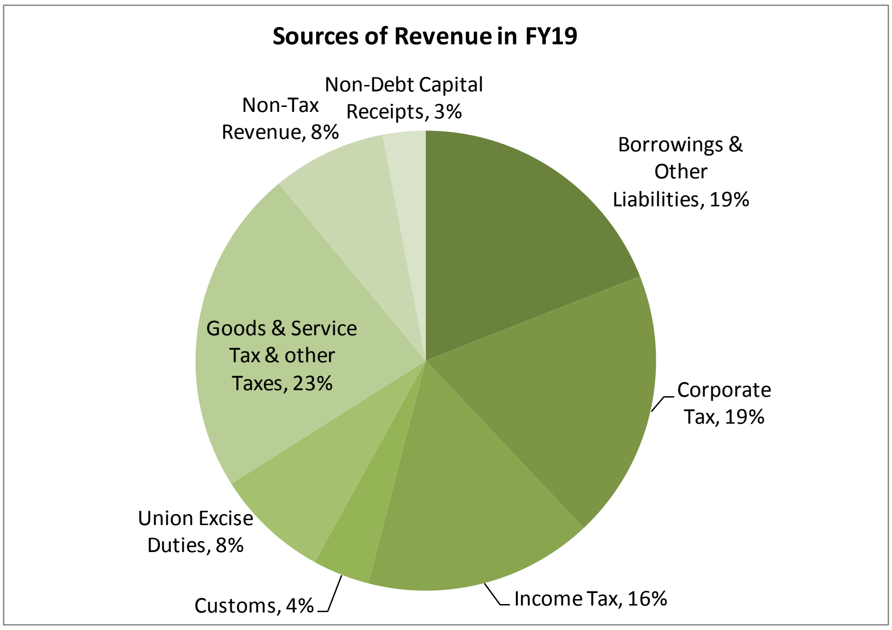
In Crores

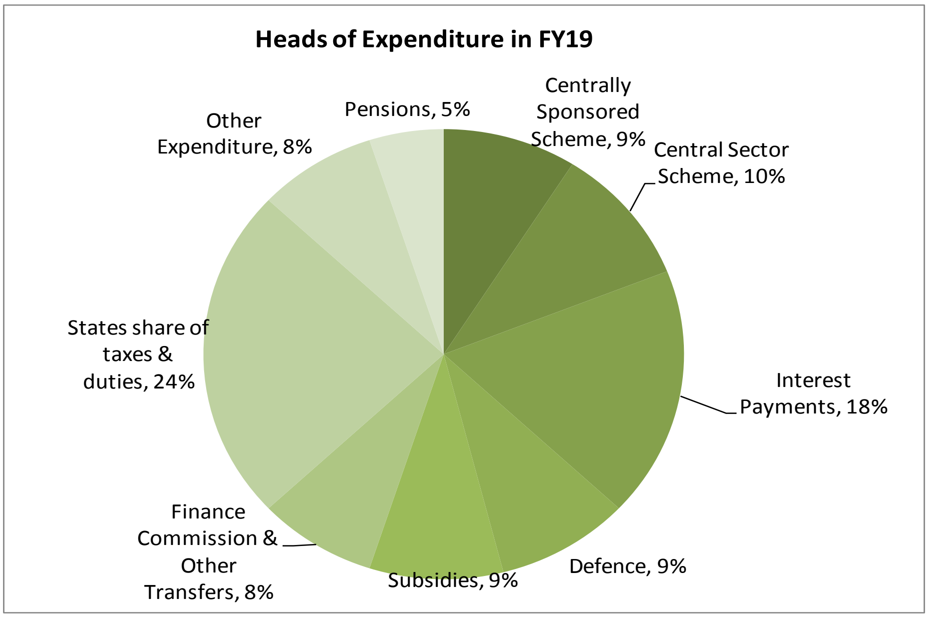
Sl. No.	Particulars	FY2016-17	FY2017-18	FY2017-18	FY2018-19
		Actual	Budget Estimates	Revised Estimates	Budget Estimates
1.	**Revenue Receipts**	**1374203**	**1515771**	**1505428**	**1725738**
	2. Tax Revenue (Net to Centre)	1101372	1227014	1269454	1480649
	3. Non-Tax Revenue	272831	288757	235974	245089
4.	**Capital Receipts 1**	**600991**	**630964**	**712322**	**716475**
	5. Recoveries of Loans	17630	11933	17473	12199
	6. Other Receipts	47743	72500	100000	80000
	7. Borrowing and Other Liabilities 2	535618	546531	594849	624276
8.	**Total Receipts (1+4)**	**1975194**	**2146735**	**2217750**	**2442213**
9.	**Total Expenditure (10+13)**	**1975194**	**2146735**	**2217750**	**2442213**
10.	**On Revenue Account of which**	1690584	1836934	1944305	2141772
11.	Interest Payment	480714	523078	530843	575795
12.	Grants in Aid for Creation of Capital Assets	165733	195350	189245	195345
13.	On Capital Account	284610	309801	273445	300441
14.	**Revenue Deficit (10-1)**	**316381**	**321163**	**438877**	**416034**
		-2.1	**-1.9**	**-2.6**	**-2.2**
15.	**Effective Revenue Deficit (14-12)**	**150648**	**125813**	**249632**	**220689**
		-1	**-0.7**	**-1.5**	**-1.2**
16.	**Fiscal Deficit {9-(1+5+6)}**	**535618**	**546531**	**594849**	**624276**
		-3.5	**-3.2**	**-3.5**	**-3.3**
17.	**Primary Deficit (16-11)**	**54904**	**23453**	**64006**	**48481**
		-0.4	**-0.1**	**-0.4**	**-0.3**

1 Excluding receipts under Market Stabilisation Scheme
2 Includes drawdown of Cash Balance

Notes: (i) GDP for BE FY2018-2019 has been projected at INR18722302 crore assuming 11.5% growth over the estimated GDP of INR16784679 crore for FY2017-18 (RE).

Budget at a Glance





Source: Budget Documents

Key Economic Indicators

Reflecting the cumulative actions to improve the business climate, India jumped 30 spots on the World Bank's Ease of Doing Business rankings.

GENERAL REVIEW

Macroeconomic developments in FY2017-18 have been marked by swings. In the first half, India's economy temporarily "decoupled," decelerating as the rest of the world accelerated – even as it remained the second-best performer amongst major countries, with strong macroeconomic fundamentals. The reason lay in the series of actions and developments that buffeted the economy: demonetization, teething difficulties in the new GST and sharp falls in certain food prices that impacted agricultural incomes. In the second half of the year, the economy witnessed robust signs of revival. Economic growth improved as the shocks began to fade, corrective actions were taken, and the synchronous global economic recovery boosted exports. Reflecting the cumulative actions to improve the business climate, India jumped 30 spots on the World Bank's Ease of Doing Business rankings, while similar actions to liberalize the foreign direct investment (FDI) regime helped increase flows by 20%. The cumulative policy record combined with brightening medium-term growth prospects received validation in the form of a sovereign ratings upgrade, the first in 14 years. These solid improvements were tinged with anxieties relating to macro-economic stability. Fiscal deficits, current account, and inflation were all higher than expected, albeit not threateningly so, reflecting in part higher international oil prices — India's historic macroeconomic vulnerability. These dualities of revival and risk have been reflected in the markets. For example, bond yields rose sharply, leading to an exceptionally marked steepening of the yield curve—even as stock prices continued to surge. Evidently, markets expect rapid growth, which would warrant the run-up in stock prices, but are also pricing in some macro-balance concerns. Similarly, even the ratings upgrade carried warnings of potential macro-economic challenges.

As per the first Advance Estimates, GVA growth is estimated at 6.1% YoY in FY2017-18 as compared to the growth of 7.1% YoY achieved in FY2016-17.

GDP:

Although India's GDP growth is expected to decline to 6.5% YoY in FY2017-18, the broad story of India's GDP growth to be significantly higher than most economies of the world does not alter. As per the first Advance Estimates, released by Central Statistics Office (CSO), growth rate of Gross Value of Added (GVA) at constant basic prices is estimated at 6.1% YoY in FY2017-18 as compared to the growth of 7.1% YoY achieved in FY2016-17. The growth in agriculture, industry and services is estimated at 2.1% YoY, 4.4% YoY and 8.3% YoY, respectively in FY2017-18 as compared to 4.9% YoY, 5.6% YoY and 7.7% YoY in FY2016-17. Growth rate of industry sector declined in FY2017-18, mainly on account of moderate growth in manufacturing sector. It was the services sector that contributed to more than half of the overall GVA growth rate. From the demand side, the final consumption expenditure has been the major driver of GDP growth. The growth of fixed investment at constant prices increased from 2.4% YoY in FY2016-17 to 4.5% YoY in FY2017-18.

As per the Fourth Advance Estimates released by Department of Agriculture, Cooperation and Farmer's Welfare, India achieved a record production of food grains estimated at 275.7 million tonnes in FY2016-17, which is higher by 10.7 million tonnes than the previous record production of food grains achieved in FY2013-14. As per the First Advance Estimates released on 22nd September 2017, food grains production during kharif season 2017-18 is estimated at 134.7 million tonnes against the production of 138.5 million tonnes during 2016-17.

Against the annual agriculture credit target of INR10 lakh crore for FY2017-18, banks have disbursed INR5.88 lakh crore as on 30th September, 2017

Agricultural credit in India has been growing consistently at above 17% annually during the last decade. During FY2017-18, banks have disbursed INR5.88 lakh crore (provisional as on 30th September, 2017) against the annual agriculture credit target of INR10 lakh crore for FY2017-18.

Eight core infrastructure industries registered a growth of 3.9% YoY during April-November 2017 as compared to 5.3% YoY during April-November 2016.

The performance of the industrial sectors based on the Index of Industrial Production (IIP) reveals that the industrial sector registered a growth of 3.2% YoY during April-November 2017, as compared to 5.5% YoY during the corresponding period of previous year. As per the sectoral classification, mining, manufacturing and electricity sectors registered 3.0% YoY , 3.1% YoY and 5.2% YoY growth during April-November 2017 over the corresponding period of previous year respectively. The eight core infrastructure supportive industries registered a cumulative growth of 3.9% YoY during April-November 2017 as compared to 5.3% YoY during April-November 2016. The production of coal, natural gas, refinery products, steel, cement and electricity increased during April-November 2017. Steel production increased substantially, while the production of crude oil and fertilizers fell marginally during this period.

Fiscal Developments

Sound public financial management has been one of the pillars of India's macro-economic stability in the last three years. Based on this firm footing, the Government, in partnership with the States, ushered in the long-awaited GST era. However there is a possibility that a substantial portion of the GST collections may spill over to the next year. Meanwhile, direct tax collections are expected to meet targets. And spending plans are broadly on track.

On the revenue front, as per the data on Central Government finances are available till November 2017 from the Controller general

Key Economic Indicators

The revised estimates place fiscal and revenue deficits at 3.5% of GDP and 2.6% of GDP respectively in FY2017-18.

of Accounts (CGA), the gross tax collections are reasonably on track, however, the non-tax revenues have visibly under-performed. On the other hand, non-debt capital receipts, mainly proceeds from disinvestment, are doing well. As against the budget estimate for FY2017-18 disinvestment of INR72,500 crore, an amount of about INR52,378.2 crore has been realized during April-November 2017. On the other hand, growth in direct tax collections of the Centre kept pace with the previous year. Pace of growth in indirect taxes during the first eight months is comforting. The budgeted growth for indirect taxes for the full year of FY2017-18 is only 7.6%; the growth so far is 18.3%. The eventual outcome in indirect taxes during this year will depend on the final settlement of GST accounts between the Centre and the States and the likelihood that only taxes for eleven months (excluding IGST on imports) will be realized.

On expenditure front, Central Government expenditure progressed at a robust pace during April-November 2017. Major subsidies increased by 4.2% during April-November 2017 as compared to April-November 2016. Food subsidy increased by INR12,196 crore and petroleum subsidy increased by INR2518 crore during April-November 2017 as compared to the corresponding period in FY2016-17 while fertilizer subsidy declined by INR6,437 crore. Fiscal deficit and revenue deficit at 112% of BE and 152.2% of the BE respectively in April-November of FY2017-18 was higher than the five-year average of 89.2% and 97.8% respectively. The revised estimates place fiscal and revenue deficits at 3.5% of GDP and 2.6% of GDP respectively in FY2017-18.

Central Government's Receipts during April-November

	FY2015-16	FY2016-17	FY2017-18	FY2015-16	FY2016-17	FY2017-18
	(Rs. In INR crore)			% of BE (for full year)		
Gross tax revenue	7.68	9.33	10.87	53.0	57.2	56.9
Net tax revenue (to centre)	4.65	6.21	6.99	50.5	58.9	57.0
Non tax-revenue	1.73	1.75	1.05	78.1	54.2	36.5
Revenue receipts	6.38	7.96	8.05	55.9	57.8	53.1
Non-debt capital receipts	0.21	0.33	0.62	25.8	48.5	73.3
Non-debt receipts	6.59	8.29	8.67	53.9	57.4	54.2

Source: Budget Documents

Key Economic Indicators

Average CPI inflation for FY2017-18 (Apr-Dec) stood at 3.3%, below the threshold of 4%. Average inflation based on WPI stood at 2.9% for FY2017-18 (Apr-Dec).

Average CPI food inflation for FY2017-18 (Apr- Dec) declined to a low of 1.2%.

Inflation

Inflation continued to moderate during FY2017-18. CPI based headline inflation averaged 3.3% during April-December FY2017-18, the lowest in the last six financial years. The significant reduction in food inflation, particularly of pulses and vegetables, moderated the general inflation. The average food inflation fell to 1.2% during April-December FY2017-18. Core inflation too declined during this period. Many States witnessed reduction in inflation across rural as well as urban areas during the year.

Headline inflation measured by the Consumer Price Index (CPI) has remained under control for the fourth successive year. Average CPI inflation for FY2017-18 (Apr-Dec) stood at 3.3%, below the threshold of 4%. Headline inflation rate reached its series low of 1.5% in the month of June 2017. The decline in the inflation in the first half of the current fiscal year was indicative of a benign food inflation which ranged between (-)2.1 to 1.5%. The moderate inflation rate of less than 4% was maintained for straight 12 months up to the end of October 2017. However, it started to accelerate in recent months and for the month of December, 2017 it stood at 5.2% as compared to 4.9% in November, 2017. The average inflation based on Wholesale Price Index (WPI) stood at 2.9% for FY2017-18 (Apr-Dec).

Good agricultural production helped to contain inflation, especially food inflation for most part of the year. Average CPI food inflation for FY2017-18 (Apr- Dec) declined to a low of 1.2%. Though decline in food inflation is broad-based, major drivers are meat & fish, oil & fats, spices and pulses & products. Pulses & products sub-group with a weight of 2.4 in CPI has recorded inflation of (-)22.1% in FY 2017-18 (Apr- Dec) as compared to 16.2% during the same period last year. Vegetables accounting for 6.04 weight in overall CPI recorded inflation of 2.4% during FY2017-18 (Apr- Dec). However, food inflation accelerated in recent months and stood at 5.0% in December, 2017. The rise in food inflation in recent months is mainly due to factors driving prices of vegetables and fruits.

Food inflation based on WPI has also declined, it averaged 2.3% in FY2017- 18 (Apr-Dec) as compared to 6.3% in FY2016-17 (Apr- Dec). WPI of Food Articles and Food Products has also shown decline in FY2017- 18 (Apr- Dec). WPI Food inflation stood at 2.9% in December, 2017.

Key Economic Indicators

Inflation in selected groups of CPI

	Weights	FY16-17	FY17-18 (Apr-Dec)	Dec-16	Nov-17	Dec-17(P)
All Groups	**100.0**	**4.5**	**3.3**	**3.4**	**4.9**	**5.2**
CFPI*	**39.1**	**4.2**	**1.2**	**1.4**	**4.4**	**5.0**
Food & beverages	45.9	4.4	1.7	2.0	4.4	4.9
Cereals & products	9.7	4.2	3.9	5.3	3.3	2.6
Milk & products	6.6	4.1	4.2	4.4	4.3	4.4
Vegetables	6.0	-2.2	2.4	-14.6	22.5	29.1
Pulses & products	2.4	9.3	-22.1	-1.6	-23.6	-23.5
Fuel & Light	6.8	3.3	6.0	3.8	8.2	7.9
CPI excl. food & fuel (core)	47.3	4.8	4.5	4.9	4.9	5.2

Inflation in selected groups of WPI

	Weights	FY16-17	FY17-18 (Apr-Dec)	Dec-16	Nov-17	Dec-17(P)
All Commodities	**100.0**	**1.7**	**2.9**	**2.1**	**3.9**	**3.6**
Food Index	**24.4**	**5.8**	**2.3**	**3.6**	**4.1**	**2.9**
Food Articles	15.3	4.0	2.3	0.1	6.1	4.7
Cereals	2.8	8.7	0.9	9.9	-2.1	-3.0
Pulses	0.6	17.6	-27.5	14.8	-35.5	-34.6
Vegetables	1.9	-5.3	19.3	-26.9	59.8	56.5
Fruits	1.6	6.0	3.6	0.6	4.2	12.0
Food Products	9.1	9.5	2.3	10.7	0.5	-0.2
Fuel & Power	13.2	-0.2	9.7	4.2	8.8	9.2
Non-Food Manufactured products (Core)	55.1	-0.1	2.6	1.0	3.0	3.2

Source: Budget Document

Trade deficit increased to $114.9 billion during April-December 2017 from $78.4 billion in the corresponding period of the previous year.

External Sector:

The value of India's merchandise exports increased by 5.2% YoY to $275.9 billion in FY2016-17. In April-December 2017, exports increased by 12.1% YoY to $223.5 billion from $199.5 billion in the corresponding period of the previous year. Imports had also increased by 0.9% in FY2016-17. Imports stood at $338.4 billion in April-December 2017 showed an increase of 21.8% YoY from $277.9 billion in the corresponding period of the previous year. Imports of petroleum, oil and lubricants (POL) increased by 24.2% YoY in April-December 2017 to $76.1 billion from $61.3 billion in the corresponding period of the previous year, mainly due to the rise in international crude oil prices. Non-POL imports for April-December 2017 increased by 21.1% to $262.2 billion from $216.6 billion in the corresponding period of the previous year. Trade deficit increased to $114.9 billion during April-December 2017 from $78.4 billion in the corresponding period of the previous year.

Key Economic Indicators

During April-September of FY2017-18, net FDI was $19.6 billion as compared to $20.9 billion in the same period of FY2016-17.

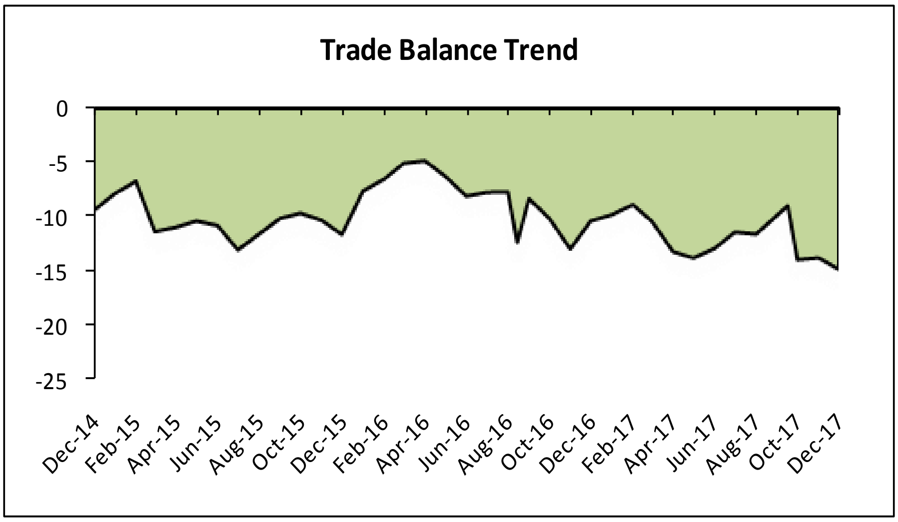
Current account deficit (CAD) increased from $3.8 billion (0.4% of GDP) in H1 of FY2016 -17 to $22.2 billion (1.8% of GDP) in H1 of FY2017-18.

Based on the Balance of Payments (BoP) data available for the first six months of FY2017-18, the trade deficit on BoP basis increased to $74.8 billion in April-September 2017 from $49.4 billion in April-September 2016. Net invisibles surplus in H1 of FY2017-18 increased to $52.5 billion from $45.7 billion in H1 of FY2016-17, with increase observed both in net services and net private transfers. Net services receipts increased by 14.6% YoY during H1 of FY2017-18.

During April-September of FY2017-18, net FDI was $19.6 billion as compared to $20.9 billion in the same period of FY2016-17, while net portfolio was $14.5 billion in April-September FY2017-18 against $8.2 billion in the corresponding period of the previous year.

India's current account deficit (CAD) increased from $3.8 billion (0.4% of GDP) in H1 of FY2016 -17 to $22.2 billion (1.8% of GDP) in H1 of FY2017-18. On BoP basis, there was net accretion to India's foreign exchange reserves by $20.9 billion in April-September of FY2017-18, while it increased by $30.3 billion including valuation changes. This resulted in increase in the stock of foreign exchange reserves, which stood at $400.2 billion at end September, 2017. The stock of foreign exchange reserves was $409.4 billion as on December 29, 2017. While trade deficit widened in H1 of FY2017-18, the improvement in invisibles balance and the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the CAD, leading to accretion in foreign exchange reserves.

The rupee had appreciated by 2.5 per cent from 65.88 per US dollar in March 2017 to `64.24 per US dollar in December 2017.



Source: Ministry of Commerce

Direct Tax Proposals

Tax on Long Term Capital Gains exceeding INR1 lakh at the rate of 10%, without allowing any indexation benefit. However, all gains up to 31st January, 2018 will be grandfathered.	Long Term Capital Gains has been proposed from sale of listed equity shares and units, exceeding INR1 lakh at the rate of 10 %, without allowing any indexation benefit. However, all gains up to 31st January, 2018 will be grandfathered. For example, if an equity share is purchased six months before 31st January, 2018 at INR100/- and the highest price quoted on 31st January, 2018 in respect of this share is INR120/-, there will be no tax on the gain of INR20/- if this share is sold after one year from the date of purchase. However, any gain in excess of INR20 earned after 31st January, 2018 will be taxed at 10% if this share is sold after 31st July, 2018. The gains from equity share held up to one year will remain short term capital gain and will continue to be taxed at the rate of 15%. (The has been no change in STT).
Proposal to introduce tax on distributed income by equity oriented mutual funds at the rate of 10 %.	The Finance Minister has also proposed to introduce a tax on distributed income by equity oriented mutual funds at the rate of 10%, to provide a level field across growth oriented funds and dividend distributing funds.
Reduced Corporate Tax rate of 25% to companies reporting turnover up to INR 250 crore in Financial Year 2016-17	In fulfilment of the promise to reduce the corporate tax rate in a phased manner, FM has proposed to extend the reduced rate of 25 % currently available for companies with turnover of less than 50 crore also to companies reporting turnover up to INR 250 crore in Financial Year 2016 -17. This would benefit the entire class of micro, small and medium enterprises, which account for almost 99 % of companies filing tax returns. This lower corporate income tax rate would leave such companies with higher investible surplus, which would create more jobs.
100% deduction to Farmer Producer Companies on profits up to five years	100 % deduction to companies registered as Farmer Producer Companies with an annual turnover up to INR 100 crore on profit derived from such activities, for a period of five years from financial year 2018-19. The Govt expect that it will promote post harvest agriculture activities and also encourage “Operation Greens” announced earlier and would give a boost to the Sampada Yojana.
Deduction of 30% on emoluments paid to new employees for footwear and leather industry	In order to encourage creation of new employment the deduction of 30 % Under Section 80-JJAA with a further relaxation to 150 days in the case of the apparel industry, has been proposed to be extended to the footwear and leather industry. Also a proposal to rationalise the deduction of 30% by allowing the benefit for a new employee employed for less than the minimum period during the first year, but continues to remain employed for the minimum period in the subsequent year.

Direct Tax Proposals

Standard Deduction of INR40,000 to Salaried employees in lieu for transport allowance and medical expenses.	The Budget proposals also seek to provide relief to salaried tax payers by allowing a Standard Deduction of INR40,000 in place of the present exemption allowed for transport allowance and reimbursement of miscellaneous medical expenses. However, transport allowance at enhanced rate is proposed to be continued for differently abled persons. Further, it is also proposed to continue medical reimbursement benefits in case of hospitalization etc. for all employees.
Various relief to Senior Citizens proposed:	**<u>Relief to Senior Citizens has also been proposed. The proposals are :-</u>** • Exemption of interest income on deposits with banks and post offices are proposed to be increased from INR10,000 to INR50,000. TDS shall not be required to be deducted under section 194A. Benefit will also be available for interest from all fixed deposit schemes and recurring deposit schemes. • Hike in deduction limit for health insurance premium and/ or medical expenditure from INR30,000 to INR50,000 under section 80D. • Increase in deduction limit for medical expenditure for certain critical illness from INR 60,000 (in case of senior citizens) and from INR 80,000 (in case of very senior citizens) to INR 1 lakh for all senior citizens, under section 80DDB. • Proposed to extend Pradhan Mantri Vaya Vandana Yojana up to March, 2020. Current investment limit proposed to be increased to INR15 lakh from the existing limit of INR 7.5 lakh per senior citizen.
More concessions for International Financial Services Centre (IFSC), to promote trade in stock exchanges located in IFSC.	More concessions for International Financial Services Centre (IFSC), in order to promote trade in stock exchanges located in IFSC. The concessions propose transfer of derivatives and certain securities by non - residents from capital gains tax, and non corporate tax payers operating in IFSC to be charged Alternate Minimum Tax (AMT) at concessional rate of 9 % at par with Minimum Alternate Tax (MAT) applicable for corporates.
Cess to increase	Proposal to increase cess on personal income tax and corporation tax to 4 % from present 3 %.
Benefit in MAT & carry forward of losses for stressed companies under IBC	In respect of companies where an application under Insolvency and Bankruptcy Code (IBC), 2016 has been admitted, it is proposed to provide that Minimum Alternative Tax (MAT) the aggregate amount of unabsorbed depreciation and brought forward loss shall be allowed to be reduced from the book profit.Also proposed that the provision of section 79 of the Income-tax Act (the Act) regarding restriction on shareholding for the purpose of carry forward loss shall not apply in case of change of shareholding pursuant to an approved resolution plan under IBC, 2016

Direct Tax Proposals

MAT shall not apply in respect of foreign companies having income solely from businesses referred to in sections 44B, 44BB, 44BBA and 44BBB.	It is proposed to provide that provisions of MAT shall not apply in respect of foreign companies having income solely from businesses referred to in sections 44B (Shipping Business), 44BB(Exploration of mineral oil), 44BBA (Operation of aircraft), and 44BBB (Construction/ Erection of turnkey projects) of the Act provided such income has been offered to tax at the rates specified in these sections.
Miscellaneous	• It is proposed to provide that in the case of an amalgamated company, accumulated profits for the purpose of determining dividend shall also include the accumulated profits of the amalgamating company on the date of amalgamation. • It is proposed to provide that in respect of heavy goods vehicles (more than 12 tonnes), the presumptive income under section 44AE of the Act shall be computed at the rate of INR1000 per tonne per month. • It is proposed to provide that if stock-in-trade is converted into capital asset, the fair market value of the same on the date of conversion shall be taken into account for computing business income. • It is proposed to provide that trading in agricultural commodity derivatives on a recognized stock exchange shall not be treated as a speculative transaction even if no Commodities Transaction Tax (CTT)has been paid in respect of those derivative transactions. • In order to encourage start-ups, the definition of 'eligible business' for a start-up is proposed to extend the incorporation date for a start -up for availing benefit under section 80-IAC of the Act to 31st March, 2021 from 31st March, 2019. • It is proposed to extend the benefit of exemption for withdrawal up to 40% from National Pension System Trust (NPS) to all subscribers and not only to employees. • In a measure that proposes to control the cash economy, payments exceeding INR 10,000 in cash made by trusts and institutions shall be disallowed and would be subject to tax. Also in case of non deduction of tax, 30 % of the amount shall be disallowed and would be taxed.

Indirect Tax Proposals

First Budget after rollout of GST	This is the first budget after the roll out of the Goods and Service Tax. Excise duties to a large extent and service tax have been subsumed in GST, along with corresponding duties on imports.
Propose to change the name of Central Board of Excise and Customs [CBEC] to Central Board of Indirect Taxes and Customs (CBIC).	With the roll out of GST, the Union Minister for Finance and Corporate Affairs, has announced that the name of Central Board of Excise and Customs [CBEC] will be changed to Central Board of Indirect Taxes and Customs (CBIC). The necessary changes in law for this are proposed in the Finance Bill.
Changes Proposed to the Customs Act to improve Ease of Doing Business by smoothening dispute resolution process and reducing litigation	With the aim of further improving Ease of Doing Business in cross border trade, and to align certain provisions with the commitments under the Trade Facilitation Agreement, the FM has announced certain changes to the Customs Act, and to provide definite timelines for adjudication and deemed closure of cases if those timelines are not adhered to.
Change in Customs Duty on certain items such as Mobiles, TV Parts and Cashews.	To Incentivise Domestic Value addition and Make in India, it is proposed to increase customs duty on mobile phones from 15 % to 20 %, on some of their parts and accessories to 15 % and on certain parts of televisions to 15 %. Also, customs duty is proposed to be reduced on raw cashew from 5 % to 2.5 %, to help the cashew processing industry.
Abolishment of Education Cess and Secondary and Higher Education Cess on imported goods	The FM has proposed to abolish the Education Cess and Secondary and Higher Education Cess on imported goods in place of Social Welfare Surcharge at the rate of 10% of the aggregate duties of Customs, on imported goods, to provide for social welfare schemes of the government. However, goods which were so far exempt from Education Cesses on imported goods, will however continue to be so. In addition, certain specified goods, mentioned in the Budget speech (High speed diesel oil, silver, Gold), will attract the proposed Surcharge, at the rate of 3% of the aggregate duties of customs only.

Key Policy Announcements

Objectives	• To deliver corruption free governance, digitization, broadbase formal economy, increase tax compliance and transparency. • India a US$2.5-trillion economy now- 7th largest in the world; expected to become 5th very soon. On PPP basis, we are already the 3rd largest economy. • Fiscal Deficit expected for the 4th quarter is 3.5%, and for FY19 it is expected to be 3.3%. • In order to create employment and aid growth, Govt.'s estimated budgetary and extra budgetary expenditure on infrastructure for 2018-19 is being increased to INR5.97 trillion against estimated expenditure of 4.94 trillion rupees in 2017-18. • Corporate tax rate for companies, with turnover upto INR2.5 billion, cut to 25% from 30%. • INR100 billion in 2018-19 for creation and augmentation of Telecom infrastructure. • SEBI to mandate Corporates to meet about 1/4th of Debt requirements through the Bond Market. • The services, mainstay of our growth, have also resumed their high growth rates of 8% plus. Exports are expected to grow at 15% in 2017-18. • GDP growth at 6.3% in the second quarter signaled turnaround of the economy. We hope to grow at 7.2% to 7.5% in the second half. IMF, in its latest Update, has forecast that India will grow at 7.4% next year. Achieved average 7.5% growth in first 3 years of govt. • Hope to grow 7.2-7.5% in H2 FY18.
Rural and agricultural sector	• FY19 Budget aims to strengthen agri, rural economy; Seek paradigm shift to double farmers' income by 2022. • Aiming to generate high income (upto 2 times) for farmers. • Next kharif crop MSP to be at least 1.5 times of cost of production. • Agri export potential US$100 billion, against current potential of US$30 billion. • To launch Operation Green in line with Operation Flood; Allocation of INR5 billion for Operation Green. • Allocation for food processing sector INR14 billion FY19; Allocate INR2 billion for medicinal, aromatic crops. • To allocate INR20 billion for farm development fund.

Key Policy Announcements

- Agri credit target at 11 trillion rupees for FY19.
- To launch bamboo mission for INR12.9 billion.
- INR100 billion for animal husbandry, fisheries develop fund.
- To give 40 million power connections under Saubhagya Yojana.
- Total allocation for Rural, Agriculture and Allied sectors is INR1,87,223 crores.
- 100% rural electrification by May'18
- Target for agricultural credit in 2017-18 has been fixed at a record level of INR10 lakh crores.
- Farmers will also benefit from 60 days' interest waiver announced on 31 Dec 2016.
- To ensure flow of credit to small farmers, Government to support NABARD for computerisation and integration of all 63,000 functional Primary Agriculture Credit Societies with the Core Banking System of District Central Cooperative Banks. This will be done in 3 years at an estimated cost of INR1,900 crores
- To set up 2 new funds of total INR100 billion for fishery.

Policy Steps

- INR37.94 billion to MSME sector for credit support, capital and interest subsidy and innovations.
- To give 40 million power connections under Saubhagya Yojana.
- Outward Direct Investment (ODI) from India has grown to US$15 billion per annum.
- Disinvestment target of INR800 billion for FY19. Estimated disinvestment for FY18 is INR1 trillion.
- INR3 trillion lending target for MUDRA plan FY19.
- Smart City scheme outlay INR2.04 trillion rupees.

Social Sector

- Aim to give houses to all poor by 2022; Aim 5.1 million rural houses under affordable housing plan.
- Aim to build 20 million more toilets under Swachh Bharat.
- More than 60 million toilets built under Swachh Bharat plan.

Key Policy Announcements

	• To give 80 million LPG connections under Ujjwala scheme. • To spend INR1 trillion on education infra over 4 years. • To subsidise removal of crop residue to tackle pollution. • Allocate INR99.75 billion for social security plan FY19. • Allocation to National Livelihood Mission INR57.50 billion. • Allocate INR26 billion underground water irrigation plan. • Health protection scheme to cover 100 million poor families. • Allocate INR12 billion for health wellness centres. • INR6 billion nutritional support for Tuberculosis patients • Health scheme coverage of INR500,000/family/year, to benefit 10 crore poor families.
Infrastructure	• Allocate INR14.3 trillion for rural infra FY19. • Ambitious Bharatmala Pariyojana has been approved for providing seamless connectivity of interior and backward areas and borders of the country, to develop about 35000 kms in Phase-I at an estimated cost of INR5.35 trillion.
Digitization	• The system of toll payments physically by cash at road toll plazas is being fast replaced with Fastags and other electronic payment systems. • To move from blackboard to digital board, in the education space. • 600 Railway stations to have elevators (min 25000 footfall), CCTV & Wi-Fi. • Allocation to Digital India doubled to INR30.73 billion. • Use of Fintech in financing space will help growth of MSMEs.
Miscellaneous	• Airport Capacity to be increased upto 5 times. • To develop 10 prominent tourist places as iconic tourism destinations. • The Government will establish a unified authority for regulating all financial services in IFSCs in India.

Sectoral Impact & Analysis

Sectoral Impact Analysis

Agriculture and Agrochemicals

Proposals	Impact
Government decided to keep MSP for the all unannounced crops of kharif at least at one and half times of their production cost.	Positive for all the seed companies like Kaveri Seed Co Ltd, Nath Bio, JK Agri Genetics etc.
Farm Credit Target has been raised by 10% for FY'19 to INR11 Lakh Crore.	Positive for Agro and Agrochemical companies like Rallis India, NACL Industries etc.
After Establishing the Dairy Infrastructure Fund, Govt. allocated INR10,000 for setting up Fisheries and Aqua Culture Infra Development Fund (FAIDF) for fisheries sector and Animal Husbandry Infrastructure Development Fund (AHIDF) for animal husbandry sector.	Positive for aquaculture companies like Avanti Feeds, Waterbase Ltd. etc.
Government allocated INR500 Crore for a new scheme called "Operations Green" for perishable commodities like tomato, potato and onion. This scheme is built on lines of "Operation Flood" launched for dairy development in India.	The move will provide agri-logistic support to perishable commodities and will keep a check on their price volatilities. Positive for Agricultural companies.
It also pledged to strengthen 22,000 rural 'haats' by converting them into Gramin Agricultural Markets (GrAMs) and connecting them to e-NAM.	This would help farmers to make direct sale to customers and bulk purchasers. Positive for all agri commodity companies
A fund of INR2000 Crore has been allocated for developing and upgrading agricultural market Infrastructure	Positive for all Agri Commodity companies
Allocation to the Ministry of Food Processing has been doubled from INR715 Crore in 2017-18 to INR1400 Crore in 2018-19	Positive for Food processing Companies like Hatsun Agro, GSKline Consumers among others.
Allocation of INR200 Crore for organized cultivation of highly specialized medicinal and aromatic plants.	Positive for bio pharmaceutical and aromatic companies.
Under Prime Minister Krishi Sinchai Yojna-Har Khet Ko Pani, 96 deprived irrigation districts were allocated INR2600 Crore.	Positive for Agriculture related companies and Agri equipment companies.
Govt also proposed to liberalize export of agri commodities and sets a target of $100 Billion as against the current $30 Billion export value	Positive for all Agro companies.

Sectoral Impact Analysis

Auto & Auto Ancillary

Proposals	Impact
Customs duty has been hiked from (7.5%/10%) level to 15% level for the automobile parts like internal combustion engine, diesel or semi-diesel engines, Transmission shafts, Electrical ignition equipment and parts/accessories of Tractor & Motorcycles exceeding 350cc	Companies like Cummins, Kirloskar Oil Engines Limited, Greaves Cotton, Bharat Forge, Ramkrishna Forging, Minda Corporation Limited etc. are likely to be benefitted from this move.
Rise in Customs duty from 10% to 15% on Completely Knocked Down (CKD) imports of motor vehicle, motor cars, motor cycles	This move is likely to increase the prices of the premium cars like Mercedes, Audi, BMW but the Indian auto component companies are likely to get benefitted from this localization drive.
Rise in Customs duty from 20% to 25% on Completely Built Unit (CBU) imports of motor vehicles.	Prices of Super luxury cars like Ferrari, Lamborghini, Porsche are likely to experience an upward movement.
Increase in Customs duty from 10% to 15% for Truck & Bus radial tyres	This move will discourage cheap tyre import from China and is likely to boost the sales of Indian Tyre Companies like JK Tyre, MRF, CEAT, Apollo Tyre etc.
The target for agricultural credit in 2018-19 has been fixed at a record level of INR11 lakh crores from INR10 lakh crores in 2017-18.	Auto manufacturing companies, especially two-wheelers (Hero, Bajaj, TVS), Tractor manufacturing and Firm equipment companies may experience higher sales. M&M, Escorts, HMT, Jain irrigation could be major beneficiaries from this high allocation.

Consumer Durables

Proposals	Impact
Launched Prime Minister Saubhagya Yojana to provide electricity to 4 crores poor households free of charge	Positive for Bajaj Electricals, Crompton Greaves Consumers
Custom Duty on Watches and Clocks increased from 10% to 20%	Positive for Titan, HMT

Sectoral Impact Analysis

BFSI

Proposals	Impact
Government proposes to revamp the system of sanctioning of loans to SMEs.	It will help to grant the loans quickly and will help in reducing processing time.
Housing for all by 2022 as the Government will establish a dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India.	Housing Finance Companies like PNB Housing Finance,L&T Finance Holdings will see exponential growth.
Bank recapitalization program has been launched with bonds of INR80,000 crore being issued this year.	This recapitalization will pave the way for the public sector banks to lend additional credit of INR5 lakh crore.
NBFCs can be very powerful vehicle for delivering loans under MUDRA.	This will give boost to the NBFC companies like M&M Finance, Bajaj Finance as this will enable larger financing of MSMEs and also considerably ease cash flow challenges faced by them.
It is proposed to allow strong Regional Rural Banks to raise capital from the market to enable them increase their credit to rural economy.	This shall infuse liquidity in rural economy thus leading to rise in purchasing power.
Reserve Bank of India has issued guidelines to nudge Corporates access bond market. SEBI will also consider mandating, beginning with large Corporates, to meet about one-fourth of their financing needs from the bond market.	This increase in financing from the bond market will increase demand for bonds leading to increase in price of On the Run issues.
Three Public Sector Insurance companies- National Insurance Co. Ltd., United India Assurance Co. Ltd., and Oriental India insurance Co. Ltd., will be merged into a single insurance entity and will be subsequently listed.	The listing post merger will increase the flow of equity in the books.
Corporate bonds rated 'BBB' or equivalent are investment grade. In India, most regulators permit bonds with the 'AA' rating only as eligible for investment. It is now time to move from 'AA' to 'A' grade ratings. The government and concerned regulators will take necessary action.	The move from ''AA" rating to "A" rating will increase the possibility to earn a higher yield.

Sectoral Impact Analysis

IT

Proposal	Impact
The Finance Minister said that NITI Aayog will initiate a national program to direct efforts in artificial intelligence. The Budget doubled the allocation on Digital India program to Rs.3073 crore in 2018-19.	
Govt. plans to explore Block Chain Technology towards implementation of cashless Economy.	

Oil and Gas

Proposals	Impact
Ujjwala Yojana (Free cooking gas scheme) expanded to 8 crore poor families. The government gives security deposit for a cylinder and regulator to the oil companies on behalf of the customer, but the subscriber must pay for the gas.	This will push the cylinder manufacturer sales like EKC and Confidence Petroleum. In the other way, all OMCs company like IOCL, HPCL & BPCL will get a large customer base.
Petrol, Diesel to get cheaper by up to INR2 per litre due to reduced basic excise duty on unbranded petrol to INR4.48 to INR6.48 and unbranded diesel to INR6.33 to INR8.33 crore.	Neutral

Textiles

Proposals	Impact
The Government had approved a comprehensive textile sector package of INR6000 crore in 2016 to boost the apparel and made-up segments. In FY18-19 they have proposed to provide an outlay of INR7148 crore.	Textiles exports company like Gokaldas Export, PGIL, PDS Multinational Fashions & Kitex Garments will get benefit out of that.
The contribution of 12% to EPF for new employees for three years by the Government in sectors employing a large number of people like textile, leather, and footwear.	This is positive for all the MSMEs players in footwear, leather and textile segment like Sreeleathers, Khadims, Relaxo, Mirza International Ltd, LUX Ind, Dollar Ind.
Customs duty on silk fabrics has increased from 10% to 20%.	Neutral
Customs duty on footwear has increased from 10% to 20%.	Neutral

Sectoral Impact Analysis

Infrastructure & Capital Goods

Proposals	Impact
Increase of budgetary allocation on infrastructure for 2018 -19 to INR5.97 lakh crore against estimated expenditure of INR4.94 lakh crore in 2017-18	Positive for Road Construction, Real Estate, Cement and Capital Goods Companies
Railways Capital Expenditure has been pegged at INR1.48 lakh crore against INR1.31 lakh crore on 2017-18. Around 18000 Km of railway line will be doubled to eliminate capacity constraints. The railway will re-develop 600 major railway stations. The Mumbai transport system will be expanded and suburban network of 160 km planned for Bengaluru. It will also set up an institute in Vadodara to train the manpower for the high-speed bullet train project.	Positive for the companies which are serving Indian railways.
Bharatmala project approved for better road connectivity at INR5.35 lakh crore. Under PMGSY 19000 crore has been allocated against 16900 crore last year Budget.	Positive for Road construction companies and Construction Equipment companies
An outlay of INR2.09 lakh crore under smart city programme. Under Prime Minister Awas Scheme, 51 lakh houses during 2018-19 will be constructed in rural areas and 37 lakh houses will be constructed in urban areas.	Positive for Real estate, Cement, Steel and capital Goods companies. Also, L&T technology services Ltd.
Approval of INR16000 crore under Saubhagya Yojana for the electrification of four crores poor households free of charge	Positive for Power T&D and Equipment companies. Also positive for REC.
Import of solar tempered glass for manufacture of solar cells exempted from customs duty. Excess Solar power from solar pumps to be purchased by distribution companies at reasonably remunerative rates.	Positive for the Renewable power companies and pump manufacturers.
A dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India will be established to provide buoyancy to the sector	Positive for Real estate and construction companies.
A special Scheme will be implemented to address air pollution and to subsidize machinery required for management of crop residue	Positive for Capital goods companies like Thermax Ltd.
Under the AMRUT programme, which focuses on providing water supply to all households in 500 cities, state level plans of INR77640 crore have been approved. Water supply contracts for 494 projects worth INR19,428 crore and sewerage work contract for 272 projects costing INR12,429 crore has been awarded.	Positive for water distribution and sewage treatment companies like Praj Industries and VA tech Wabag Ltd.

Sectoral Impact Analysis

Metals and Minerals

Proposals	Impact
Exploration of Coal & Lignite	Governments intends to spend INR500 Cr for regional and detailed exploration intended to add up to 2.7 billion tonnes of resources. Positive impact for Coal India, SCCL and NLC.
Reduction of duty of siliceous bricks from 10% to 7.5%	Siliceous bricks, blocks and ceramic goods are used in construction sector. Positive impact for affordable housing and building material companies like DLF, Jaypee and other real estate developers
Surcharge on Gold and Silver	3% Surcharge on aggregate Custom duties on Gold and Silver purchases. This will increase the Gold and Silver prices
Largest Capex allocation for Railways of INR1.48 lakh Cr	Track renewal of 3600 km, new track laid of 1000 km and modernization of 600 stations, will boost domestic demand of Steel and Rail Steel. Positive for SAIL and JSPL
Creation of additional Irrigation Potential of 10 lakh hectare by June 2019 and 34 lakh hectare by Dec 2019 through INR6000 Cr funding	Demand in domestic water sector pipes to get boosted. Positive for Jindal Saw and Maharashtra Seamless
Export Tariff on Graphite Electrode up to 20%	Since Indian electrode makers export more than 60% of the electrodes, this will have a negative impact. Negative impact on HEG and Graphite India whose businesses depend almost entirely on exports

Healthcare Sector

Proposals	Impact
Govt. proposes to cover 100 million families via healthcare protection scheme. Govt. also proposes up to Rs. 5 Lakh per family per year of health coverage for secondary & tertiary care hospitalization.	

Sectoral Impact Analysis

Telecom

Proposals	Impact
Allocation of INR10000 crore for creation and augmentation of Telecom infrastructure to connect one lakh gram panchayat through high speed optical fibre network which will provide broadband access to 5 crore rural citizens	Companies like Sterlite Technologies, Vindhya Telelinks, Hathway, Airtel, Idea, BSNL, Reliance JIO are likely to get positively impacted.
Establishment of an indigenous 5G Test Bed at IIT, Chennai to harness the benefit of emerging new technologies, particularly 5G technologies and its adoption	Faster upgradation to 5G technologies from the current level.
Optical Fibre Cable based network for Defense Services	Government has allocated INR4500 crore (from earlier INR3750 crore) for optical fibre based Network for Defense services. Positive for HFCL, Sterlite Technologies, Vindhya Telelinks and other companies in optical fibre making.

FMCG

Proposals	Impact
Imposed 20% duty on sugar export	Promoting domestic availability and moderating price rise
Restriction on export of branded consumer packs of edible oils of up to 5 KG with a minimum export price of USD900/ MT has been removed (except palm oil, mustard oil and sunflower oil)	Positive for domestic packaged edible oil companies such as Adani Enterprise, Marico
Allocation to food processing sector doubled to INR1400 crores in FY2018-19	Positive for Hatsun Agro, ITC
Planning to construct 2 crore toilets under Swachh Bharat Mission	Positive for hygiene companies such as HUL, ITC
Allocated INR14.34 lakh crore for creation of livelihood and infrastructure in rural areas	Positive for the sector as a whole
Custom duty on raw cashew reduced to 2.5% from 5%	Positive for biscuit manufacturing companies such as Britannia, ITC
Custom duty on Perfumes and toilet waters increased from 10% to 20%	Positive for fragnance companies such as SH Kelkar
Custom duty on preparations for hair use, dental hygiene and grooming products increased from 10% to 20%	Positive for GCPL, PGHH, Gillette India, GSKLine Consumers
Custom duty on Diamonds and precious stones increased from 2.5% to 5%	Negative for Jewellery companies such as Titan, PC Jewellers
Aggregate duty on Custom increased from Nil to 3% in gold and silver	Neutral for Jewellery companies such as Titan, PC Jewellers

Sectoral Impact Analysis

Aviation

Proposals	Impact
Regional connectivity scheme of UDAN (Ude Desh ka Aam Nagrik) initiated by the Government last year shall connect 56 unserved airports and 31 unserved helipads across the country. Operations have already started at 16 such airports.	The FM states that the airline companies have already placed orders for 900 aircrafts and there has been a robust growth of 18% CAGR for the last three years. The Government intends to reduce the demand—supply mismatch. These are positive for companies like Interglobe Aviation, SpiceJet and Jet Airways.
Airport Authority of India (AAI) has 124 airports. The Government proposes to expand airport capacity more than five times to handle a billion trips a year under a new initiative - NABH Nirman.	The Government intend to increase the capacity at airports to handle the robust passenger growth. This is positive for airport infrastructure development players like GMR Infrastructure, Reliance Infrastructure, GVK Power & Infrastructure Ltd, etc.
The Government proposes to revive and upgrade airports / airstrips	Governments intends to spend INR890.09 Cr for up gradation and revival of 50 airports / air strips under Regional Connectivity schemes. This is positive for airport infrastructure development players.
The GOI also proposes to upgrade facilities at various airports.	Government intends to spend around INR4086 Cr for facilities such as hangars, ATC, towers, security, IT. These will increase the capacity to handle traffic. Supporting infrastructure like MRO will reduce foreign currency exposure for the airlines.

Hospitality

Proposals	Impact
In the Urban Infrastructure Sector, the Government proposes to develop ten prominent tourist sites as Iconic Tourism destinations through holistic infrastructure and skill development. In addition, tourist amenities will be upgraded at 100 Adarsh monuments of the Archaeological Survey of India (ASI).	Governments intends to spend INR1100 Cr for completion of 15 and undertaking 13 new projects alongside developing 10 Iconic Tourist Zones and developing two Special Tourism Zones. This will help to increase tourist arrival and increase in both revenue and employment. This is positive for both tourism and hotel industry.
The FM has announced that for promoting tourism and emergency medical care, the Government will make the necessary frame work for encouraging investment in sea plane activities.	India will put in place necessary frameworks for higher investments in sea plane operations. This is positive for low cost carrier SpiceJet which has already signed a pact with Japan's Setouchi Holdings.
The Budget proposes to do a lot more in Promotion and Publicity of Indian tourism including Hospitality and Training. It also proposes to promote India as a destination for Medical and Well-ness tourism.	This is going to create a lot more awareness about the major initiatives by the tourism ministry and promote tourism in the country to increase domestic and foreign tourists. This is positive for hospitality players like Indian Hotels Company Ltd, East India Hotels, Royal Orchid Hotels Ltd, Mahindra Holidays and Resorts Ltd, Cox & Kings, etc.

Budget Top Picks

Budget Top Picks

Hindustan Unilever Ltd

CMP: INR1371.25

Market Cap: INR296825.77 crores

Background:

Hindustan Unilever Ltd is India's largest FMCG company with leadership in Home & Personal Care segments. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit.

Key Points:

- With the government's allocation of INR14.34 lakh crore for creation of livelihood and infrastructure in rural areas, the Company is expected to be the biggest beneficiary with its large product portfolio. Its foothold in rural areas will help in achieving high volume growth.

- Government's initiative to construct 2 crore toilets under Swachh Bharat Mission will help in consumption of hygiene products.

- Increase in Custom duty from 10% to 20%in dental hygiene will help in gaining more market share under the toothpaste category.

Budget Top Picks

Mahindra & Mahindra

CMP: INR798.75

Market Cap: INR99300 crores

Background:

Mahindra & Mahindra manufactures automobiles, firm equipment and automotive components. The company's automobile products include light, medium, heavy commercial vehicles and utility vehicles. It also manufactures agricultural tractors, agricultural implements, internal combustion engines, industrial petrol engines, spare parts and machine tools. When it comes to agricultural segment, M&M is the undisputed leader with a staggering market share closer to 50%.

Key Points:

- The target for agricultural credit in 2018-19 has been fixed at a record level of INR11 lakh crores from INR10 lakh crores in 2017-18. With this, the agriculture related infrastructure will be improved and the demand for tractors and other automotive will rise further.

- Government is committed to double farmer's income in five years by setting a MSP 1.5 times of the cost and has also decided to strengthen 22,000 rural 'haats' by converting them into Grameen Agricultural Markets which will in turn lead to higher realization for the farmers. This will boost the overall connectivity and the spending on development of agriculture infrastructure.

- Implementation of fleet modernization scheme, enactment of weigh-in-motion to curb the overloading in trucks, higher demand from consumption driven sector, consolidation of warehouses on the back of the implementation of GST and stringent emission norms are likely to augur well for the commercial vehicle segment.

- Consecutive good monsoons, rise in MSP, increasing disposable rural income, easy access to financing and Government's increased focus on agriculture sector are likely to boost the sales of the company's Tractor and Firming equipment.

Budget Top Picks

Rallis India Ltd

CMP: INR245.40

Market Cap: INR4772.27 Crores

Background:

Rallis India Ltd, a subsidiary of Tata Chemicals, is one of the leading agrochemical companies of India with a history of around 160 years. Its core business is crop protection. The company undertakes contract farming and also exports technical-grade pesticides, branded formulations across the world. Rallis also has marketing alliance with several multinational agrochemical companies and is a preferred partner for contract manufacturing by leading global corporations.

Key Points:

- MSP on Kharif Crops is to be 1.5 times input cost. The Kharif crops include maize, Soyabean and pulses. This would help generate higher incomes to farmers which would raise demand for high yielding varieties of seeds and agrochemicals. Rallis India's product portfolio includes both crop protection chemicals as well as seeds. This would give the company enough rooms to grow.

- INR2,000 crore has been set aside for developing and upgrading agricultural infrastructure. This will also bode well for the company.

- INR2600 Crore that has been allocated for 96 deprived irrigation districts under Prime Minister Krishi Sinchai Yojna-Har Khet Ko Pani will also boost agricultural activities in these districts and will increase demand for agri inputs.

- FM also proposed to liberalize export of farm commodities. This is also positive for companies like Rallis India. Rallis India exports technical grade pesticides, bulk and branded formulations and contract manufactured products to more than 70 countries around the globe. International business is a key contributor to the overall revenue generation of Rallis .

Budget Top Picks

L&T Technology Services Ltd

CMP: INR1311

Market Cap: INR13429crores

Background:

L&T Technology Services is a leading global ER&D services company, backed by the rich Engineering expertise and experience of parent company, Larsen & Toubro Limited. They are the only Indian pure play engineering R&D Company of its kind to offer ER &D services and solutions to all major industries viz. Transportation, Industrial Products, Telecom & Hi-Tech, Medical Devices and Process Industry. With a strong focus on digitalisation, the Company is well equipped to provide smart solutions for city surveillance, intelligent traffic management systems, transport and logistics, as it partners the Indian Government in its Smart City mission, among other key national initiatives.

Key Points:

- With India already on huge expansion of its infrastructure, spending on 1,200km+ metro is under consideration at an estimated cost of INR 3.5tn (USD 55bn). Also aviation Industry starting to flourish extensively in India. This is creating new demand for India-centric engineering services and product engineering. India's Smart City initiative is another driver of end-demand for products, ranging from smart meters to smart mobility and smart lighting solutions. L&T being major player in metro construction and smart city program expertise, it will enable the company to optimize its full potential and capitalize every opportunity.

- In the new digital era, the engineering services landscape is expanding and maturing at a rapid pace. The addressable market for opportunities in R&D Globalisation and Services is expected to grow to USD302 Billion in 2021 from USD232 Billion in 2016. India will be one of the global R&D frontiers. India's ER&D Services market is expected to reach USD38 Billion by 2021 from USD22.2 Billion in 2016 at a growth rate of 13.7% LTTS is well poised to make the most of this opportunity.

- In Aerospace, they reported a 50 million deal with a global Aerospace electronic system manufacturer. This deal which will kick off in quarter 4 itself, in Q4FY18 itself involving working on the customer's next generation suite of in-flight systems which is its focus area. Also the company is ramping up projects at a newer client in the commercial segment which will continue to grow in coming quarters. We expect large opportunities in this pipeline and we expect growth to pick up in the coming quarters in this segment as well.

Budget Top Picks

Jk Tyre and Industries Ltd.

CMP: INR187.95

Market Cap: INR4261.83 crores

Background:

JK Tyre & Industries Ltd. (JKIT) is an India-based company engaged in the business of manufacturing of automotive tires, tubes, and flaps, the Company had an installed capacity of 9.861 million automotive tires and 1.382 million automotive tubes. They have annual capacity of 32mn tyres with 12 manufacturing plants globally and wide range of products with a presence in over 105 countries. Currently they are dealing with vast distribution and service network with over 4,000 dealers in India.

Key Points:

- Increasing demand of CV's radial tyre levels & replacement demand bode well.
- Anti-dumping duty on import of cheap Chinese tyres, has helped domestic manufacturers increase their capacity. The import of cheap Chinese tyre has fallen by 50% end Dec 2017.
- JK Tyre plans to invest around INR5 billion to increase its capacity. Around 60 per cent of the investment will be in the recently acquired Laksar-based Cavendish Industries. The balance will be spread over across its facilities.
- The government has increased the import duty on Truck and Bus radial tyres from 10% to 15% which will benefit the domestic tyre companies.

Budget Top Picks

SH Kelkar & Co Ltd.

CMP: INR302.25

Market Cap: INR4394.30 crores

Background:

S H Kelkar is the manufacturer and exporter of Aroma/Perfumery/ Fragrance/Flavour chemicals as well as Fragrances/Perfumes and Flavours. It has a long standing reputation in the fragrance industry developed in 90 years of experience. Its fragrance products and ingredients are used as a raw material in personal wash, fabric care, skin and hair care, fine fragrances and household products. Its flavor products are used as a raw material by producers of baked goods, dairy products, beverages and pharmaceutical products. The Company has a diverse and large client base of over 4,100 customers including leading national and multi-national FMCG companies, blenders of fragrances & flavors and fragrance & flavor producers.

Key Points:

- Custom duty on Perfumes increased from 10% to 20%. It is very positive for the company.
- The business is likely to grow on the back of the rising FMCG consumption.
- 30% of the company's revenue is comes from export. The company recently acquired 51% of Italy-based Creative Flavours & Fragrances S.p.A (CFF) to strengthen global product offerings particularly in fine fragrances and fabric care segments. This acquisition will help in gaining footholds outside India.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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