



Union Budget (2016-17)

FM finally gets it right!

Unlike the previous two occasions, the finance minister has finally managed to surprise positively this time by staying on course of fiscal prudence but still managing to find enough resources to propose a substantial outlay for capital spending, rural development and social schemes.

In the Union Budget for 2016-17, the government has set a fiscal deficit target of 3.5%, in line with the fiscal consolidation roadmap. But at the same time, it has earmarked Rs2.21 trillion for total infrastructure spending (largely focused on roads and railways) along with Rs87,765 crore for the rural sector and Rs1.51 trillion for the social sector (namely, education and health sectors). To achieve the same, the government has preferred not to disturb the tax structure in any major way, rather it has relied on modest tinkering in certain categories and on introduction of cess wherever possible.

The net government borrowing figure of Rs4.25 trillion for FY2016-17 is lower than the FY2015-16 revised estimate and a strong positive for the domestic financial sector in general and the bond market in particular. Consequently, it would provide enough room to the Reserve Bank of India (RBI) to retain its accommodative monetary stance and cut interest rates further. We expect the RBI to cut the key policy rates by 25-50 basis points in 2016.

Budget math

The budget is building an 11.7% growth in the gross tax revenues which seems realistic, given the assumption of a nominal growth of 10% in the gross domestic product (GDP) during FY2016-17. However, the budget pegs close to a 25% growth in the non-tax revenues, thereby resulting in a growth of 15.5% in the total net receipts for the year. The government seems to be depending on

receipts to tune of Rs99,000 crore from the spectrum auction (includes part payment of the earlier auctions) along with the savings on fuel subsidy due to soft crude oil prices.

For FY2015-16, the government reported a comfortable position on the revenue deficit front with a revised estimate of 2.5% as compared with the budgeted estimate (BE) of 2.8% as presented last year. A sharp increase in the indirect taxes (18.4% year on year [YoY] over the BE, thanks to savings on fuel subsidy and excise duty hikes on petroleum products) positively affected the revenue deficit. The revenue deficit target is set at 2.3% for FY2016-17.

More to cheer than fear

From the stock market's perspective, the thrust on economic stability, and focus on infrastructure and consumption are among the positive takeaways from the budget. The stress on increasing the savings rate and the shift towards financial assets are positive from medium-to long-term perspectives. Moreover, the government has not tinkered with the capital gains tax on listed equity investments and the basic service tax rate.

However, there will also be grunt on more steps that could have been taken to revive the financial sector apart from increasing the dividend distribution tax for dividends receipts of over Rs10 lakh, the securities transaction tax (STT; 0.017% to 0.05% on options) and lowering the corporate tax rates (no change in tax slabs for large corporates). Going ahead, the market will pay heed to the progress on the key legislations like the Goods and Services Tax (GST) and the bankruptcy law along with the RBI's monetary measures which if goes through could repair the weak sentiment.

Key budget data					(Rs '00 cr)
Particulars	FY13	FY14	FY15	FY16RE	FY17BE
Gross tax revenues	10,362.4	11,387.3	12,448.9	14,596.1	16,308.9
Y-o-Y change (%)	16.5	9.9	9.3	17.2	11.7
Net tax revenues	7,402.6	8,158.5	9,036.2	9,475.1	10,541.0
Y-o-Y change (%)	17.5	10.2	10.8	4.9	11.2
Non tax revenues	1,373.6	1,988.7	1,978.6	2,585.8	3,229.2
Total expenditure	14,103.7	15,594.5	16,636.7	17,853.9	19,780.6
Y-o-Y change (%)	8.1	10.6	6.7	7.3	10.8
Plan exp	4,136.3	4,533.3	4,626.4	4,772.0	5,500.1
Y-o-Y change (%)	0.3	9.6	2.1	3.1	15.3
Non plan exp	9,967.4	11,061.2	12,010.3	13,081.9	14,280.5
Y-o-Y change (%)	11.7	11.0	8.6	8.9	9.2
Fiscal deficit	4,906.0	5,028.6	5,107.2	5,350.9	5,339.0
as % of GDP	4.9	4.4	4.1	3.9	3.5
Revenue deficit	3,659.0	3,570.5	3,655.2	3,415.9	3,540.1
as % of GDP	3.6	3.2	2.9	2.5	2.3
Primary deficit	1,774.3	1,286.0	1,082.8	924.7	412.3
as % of GDP	1.8	1.1	0.9	0.7	0.3

Hits and misses (macros)

Positives

- **Fiscal prudence with significant capital spending and rural development allocation:** The budget proposes to continue on path of fiscal prudence with a revised fiscal deficit estimate of 3.9% for FY2015-16 and that of 3.5% for FY2016-17. Thus, it has maintained macro stability in the face of global uncertainties and higher expenditure on the rural side along with the burden of the proposed pay hikes to government employees.
- **Net government borrowings of Rs4.25 trillion lower than expected:** The gross government borrowing figure of Rs6 trillion and the net borrowing figure of Rs4.25 trillion are lower than the market's expectations. In addition to adhering to fiscal prudence and lowering the government's market borrowings, it leaves enough room for the RBI to take ahead its accommodative monetary policy and the bond market has reacted positively.
- **Limited increase in service tax burden:** Contrary to consensus expectation, the budget proposals have avoided raising the base service tax (from 14% to 16%) but have levied an additional Krishi Kalyan cess of 0.5% on taxable services.
- **No change in capital gains tax on equity and stress on allaying fears on retro tax:** Again the finance minister has avoided changing the capital gains tax regime on listed equity investments as was speculated by a section of the media and market participants. This is a big positive for equity investors.
- **Decent allocation for capital spending on infrastructure and support to rural demand:** The budget proposes to allocate close to Rs2.2 trillion for infrastructure projects with a large part of allocation made for the road sector (highways + rural roads) and the railways (Rs2.18 trillion). Along with the capital spending the government has made substantial allocations worth Rs87,665 crore to cushion the stress in the rural economy. It includes allocation of Rs38,500 crore for rural employment schemes (Mahatma Gandhi National Rural Employment Guarantee Act) and a 228% hike in allocation to the Gram Panchayats (average additional allocation of Rs80 lakh for each gram panchayat) and urban bodies (municipalities; average additional allocation of Rs21 crore for each).

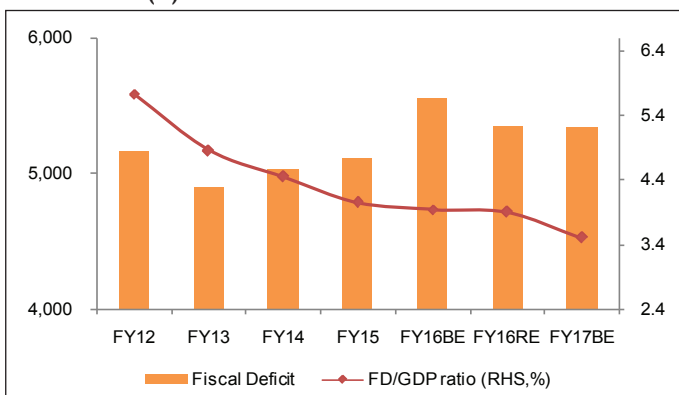
Negatives

- **Additional tax of 10% on dividend earnings of over Rs10 lakh and hike in STT on options:** The budget proposes to generate additional revenues by putting extra tax burden of 10% on dividend earnings of over Rs10 lakh per annum which is double taxation in the hands of equity investors. Also, there is a proposal to increase the STT from 0.017% to 0.05% now.
- **Allocation of PSU recap limited to Rs25,000 crore initially:** The market was expecting the finance minister to allocate greater resources to recap the public sector banks (PSBs) to deal with asset quality issues and strengthen the backbone of the economy. However, to the credit of the finance minister, the budget proposes to find additional resources (in case of need) over and above the allocated amount of Rs25,000 crore. Plus, the low borrowing figure brings down bond yields and results in profit on the investment book of banks.
- **No reduction in income tax rate for large corporates:** Contrary to expectations, the government has not cut the corporate tax rates despite its stated objective of cutting the rate for the highest slab to 25% over time. The lower tax rate of 25% for new businesses would limit the benefits to very few and small entities.
- **Continued uncertainty on implementation of GST:** Unlike the past two budgets, the finance minister has avoided highlighting the implementation of the GST in this year's budget speech. Clearly, there still lacks a political consensus on the implementation of the key indirect tax reform.
- **High excise duty on passenger vehicles and additional infra cess on service tax:** A hike in the excise duty on passenger car vehicles (of higher capacity and luxury segment) and additional cess of 0.5% on service tax would affect the demand for certain products and limit the upside from the expected uptick in urban discretionary spending.

Fiscal deficit targets retained

The fiscal deficit target for FY2017 has been maintained at 3.5% which itself is a tall order in the current environment but will be taken positively by the rating agencies and foreign investors. Consequently, the government's borrowings (net) are pegged at Rs4.25 trillion, lower compared with FY2016, which is music to the ears of the bond market. In order to achieve the goal, the government is building an 11.7% growth in the gross tax revenues. and ~25% growth in non-tax revenues (divestments, spectrum proceeds).

Fiscal deficit (%)

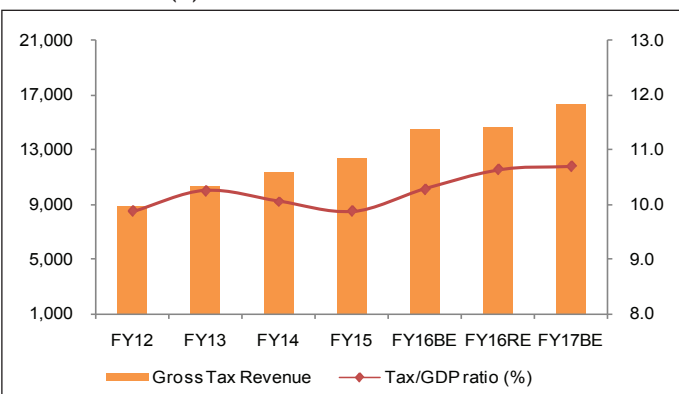


Source: India Budget 2016-17

Revenue deficit improved in FY2016

The government has been able to reduce the revenue deficit to 2.5% of the GDP in FY2016 (vs 2.8% budgeted) aided by a strong growth in the indirect taxes (up 28.6% YoY). Moving on to FY2017, the growth of 11.7% YoY in the gross tax revenues seems realistic though the assumption of higher non-tax revenues (especially the pegging of the realisation from the spectrum auction at Rs99,000 crore vs Rs42,800 crore in FY2016) is on the higher side. In terms of tax rates, the government has preferred a non-disruptive approach and plans to tap additional revenues via surcharges on service tax, introduction of a new cess, and hike in the dividend distribution tax, STT etc. The government affirmed its commitment of reducing

Tax to GDP ratio (%)



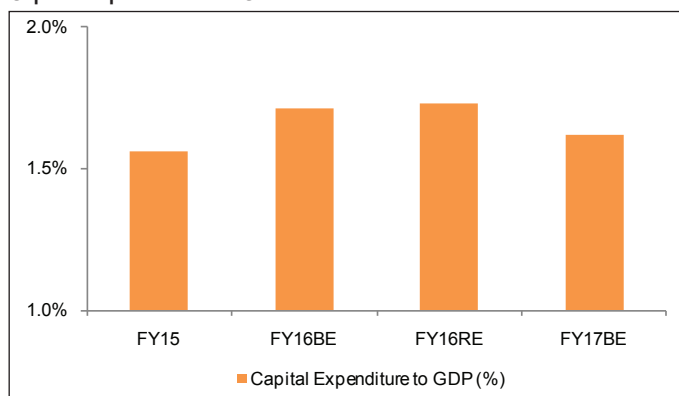
Source: India Budget 2016-17

the corporate tax rates (not much done in FY2016), simplifying the tax structures and seeking resolution of the pending tax dispute (launching a voluntary income disclosure scheme).

Capital spending to sustain, rural/social schemes gain prominence

On the expenditure front, the government seems to be throwing weight behind capital spending even being mindful of the social sector objectives. It plans about a 15% increase in the planned expenditure with focus on agriculture, irrigation, employment and health aspects (plan, non-plan bifurcation will be done away from FY2018). In order to plug the leakages and improve efficiency of delivery of schemes the government has rationalised 1,500 central schemes into 300 schemes and is contemplating a substantial increase in the DBT-based transfers. Private investment clearly remains a drag and needs to top up government spending via favourable policies for an overall revival in capital expenditure (capex) and growth.

Capital expenditure to GDP



Source: India Budget 2016-17

Financial sector hogs focus, capital infusion in PSBs inadequate

While the capital infusion plan (of Rs25,000 crore) was lower than market expectations, the government reiterated its medium- to long-term reforms for the sector. The Bank Board Bureau (BBB) will become operational from FY2017 which will improve the governance of the PSBs and the bureau may advise on several aspects including capital raising. The BBB is also expected to come out with a roadmap for the consolidation of the PSBs. To address asset quality issues the government has acknowledged the need to empower Asset Reconstruction Companies by amending the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, increase the sponsors' holding up to 100% and strengthening the debt recovery tribunals.

Personal tax

The tax slabs, surcharge and education cess remain unchanged. For larger individual tax payers, the income tax surcharge has been increased from 12% to 15% where the income exceeds Rs1 crore per annum.

Relief to small tax payers

- With a view to giving relief to small tax payers, the budget has announced a rebate under section 87A from Rs2,000 to Rs5,000 to lessen the tax burden of individuals with income of up to Rs5 lakh.
- The limit of deduction of rent paid under section 80GG has been increased from Rs24,000 per annum to Rs60,000 per annum to provide relief to those who live in rented houses and do not have House Rent Allowance as a component of their salary.

Pension schemes

- Withdrawal of up to 40% of the corpus at the time of retirement exempt from tax in the case of the National Pension Scheme.
- In case of superannuation funds and recognised provident funds, including Employee Provident Fund, the same norm of 40% of corpus to be tax-free will apply to corpus created out of contributions made after April 1, 2016.
- Further, the annuity fund which goes to the legal heir after the death of a pensioner will not be taxable in all three cases.
- It also proposes to reduce the service tax on single premium annuity (insurance) policies from 3.5% to 1.4% of the premium paid in certain cases.

First home buyers

- An additional deduction of Rs50,000 per annum has been given on interest for loans of up to Rs35 lakh sanctioned between April 1, 2016 to March 31, 2017, provided the value of the house does not exceed Rs50 lakh. The existing provision under section 80EE provides a deduction of Rs1 lakh.

Dividend tax on persons with higher income

- It is proposed that in addition to the dividend distribution tax paid by the companies, tax at the rate of 10% of the gross amount of dividend will be payable by the recipients, ie individuals, HUFs and firms receiving dividend in excess of Rs10 lakh per annum.

Indicative deductions/benefits available

Sections	Deduction	Amount
Section 80C, 80CCC, 80CCD(1) and 80 CCD(1B)	Contribution to life insurance, saving instruments, pension schemes etc	2,00,000
Section 80CCG	Investments in listed shares and listed units as per notified scheme	25,000
Section 80D	Medical insurance	25,000
Section 80 EE	Deduction in respect of interest on residential house property	1,50,000
Sections 80 GG	Deduction in respect of house rent paid	60,000
Section 24B	Interest on house property loan	2,00,000
Exemption U/S 10	Transport allowance	19,200

* The above list is not exhasutive and does not include deductions under certain sections like 80G, 80E, 80G, 80DD and 80U

80EE and 80GG cannot be claimed simultaneously

FY2016-17

Tax slabs	Tax rate #
(Rs)	(%)
Up to 250,000	Nil
250,001-500,000	10.3
500,001-1,000,000	20.3
Above 1,000,000	30.9

including education cess on income tax, and secondary and higher education cess on income tax at the rate of 2% and 1% respectively plus 15% surcharge on income exceeding Rs1 crore

Hits & misses (Sectors/Companies)

Positive:

- **Infrastructure/Roadways:** Investments of Rs97,000 crore in roads and Rs2,21,000 crore in the overall infrastructure. The government has a target to approve nearly 10,000km of national highways in the year 2016-17. No dividend distribution tax if special purpose vehicles (SPVs) give dividends to real estate investment trusts (REITS).

Companies in focus: IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and DLF.

- **Rural consumptions:** With focus on improving rural areas, the government has increased allocation on various schemes, such as Mahatma Gandhi National Rural Employment guarantee Act (MNREGA), irrigation funds and other schemes. Further, 100% electrification of villages by 2018 is a significant step forward. Accelerated rural investments and job creation will result in a higher consumption power and thereby benefit rural demand-focused companies.

Companies in focus: Hindustan Unilever Ltd (HUL), Dabur, Emami, Godrej Consumer Products, Jyothy Laboratories and Britannia Industries, and to certain extent two-wheeler companies (Hero MotoCorp and Bajaj Auto) and Mahindra & Mahindra (M&M).

- **Irrigation:** Emphasise on irrigation through irrigation fund, implementation of 89 irrigation projects under Accelerated Irrigation Benefits Programme (AIBP) to fast track and Pradhan Mantri Krishi Sinchai Yojana (28.5 lakh hectares will be brought under irrigation).

Companies in focus: Jain Irrigation, Finolex Industries and Supreme Industries.

- **Banking/NBFC:** Though the capital infusion of Rs25,000 crore in public sector undertaking (PSU) banks feels short of expectations, yet the recommendations of Bank Board Bureau (BBB) for non-performing assets (NPAs) and consolidation of bank as outlined in the budget can be a long-term positive. Another positive is streamlining the recovery procedure through bankruptcy code and financial stability code. Further, adherence to fiscal targets to lower government borrowings (Rs4.25 trillion) ease bond yields and will enable monetary easing by the Reserve Bank of India (RBI). Additionally, listing of PSU general insurance companies and amendment in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act for increase in ownership by sponsors in asset reconstruction company (ARC), are another positives.

Companies in focus: SBI, BoB, Axis Bank, ICICI Bank, PNB, Bajaj Finserv, Edelweiss Financial and Kotak Mahindra Bank among others.

Negative:

- **Autos:** Levy of infrastructure cess to the extent of 1% on petrol cars and 2.5% on diesel cars, and reduction in R&D exemption limits from 200% to 150%, seem as a negative. Further, levied tax at source at 1% on luxury cars priced above Rs10 lakh and absence of announcement on incentive for scrapping of old vehicles are other negatives for sector.

Companies in focus: Maruti Suzuki, M&M, Tata Motors and Ashok Leyland among others,

- **Cigarettes:** Tobacco product manufacturers would attract higher excise duty (fifth consecutive year of increase), thus putting pressure on these companies to increase prices. In the budget excise duty increased by 10%, however it is much lower than 16-20% excise duty hike implemented in the earlier years. Further, with no price hikes in the last six months, companies will swiftly pass on the excise hikes to the consumers in the coming months.

Companies in focus: ITC and Godfrey Phillips.

- **Oil and Gas:** The cess on domestically produced crude oil is revised from currently fixed structure (Rs4,500/PMT) to ad valorem structure at 20% rate, which was expected to be 10%.

Companies in focus: ONGC and Oil India.

- **Excise duty on ATF increased to 14% from 8%.**

Companies in focus: Jet Airways, Indigo and SpiceJet

- **Branded apparels:** Excise duty on branded apparel with MRP over Rs1,000 increased from nil to 2% (also the same increased from 6% to 12.5% with input tax credit) with a tariff value at 60% MRP.

Companies in focus: Arvind, Raymond, Aditya Birla Fashion & Retail Ltd and Kewal Kiran Clothing Ltd (KKCL).

Effect of 10% increase in excise duty on cigarettes on ITC

- In the Union Budget 2016-17, the government undertook an average excise duty hike of 10% in cigarettes, which is less than our as well as Street expectation of 15-18% for FY2017. Further, the rate hike of 10% is much lower than 16-20% excise duty hike implemented in the earlier years.
- For ITC, weighted average excise duty hike stands at 10%. We expect ITC to pass on the excise hike through an average price increase of 10% in the cigarette portfolio in the coming months. Also, the company has not undertaken any significant price increase in the past six to eight months, which provides it a cushion to take prudent price increase in the coming months.
- We have broadly maintained our earnings estimates for FY2016 and FY2017. We have factored in a volume decline of 2-3% for FY2017, which will be lesser than 12% volume decline expected for FY2016 (volume decline was 10% in FY2015).
- The quantum of increase in excise duty hike on cigarettes has reduced from mid-teens to low double digits. We expect the sales volume of cigarette to stabilise in the coming quarters. However, increase in the value added tax in respective state budgets would be keenly monitored in the coming months. ITC's stock price has corrected prior to the announcement of the Union Budget and the current valuations of 18.1x its FY2018E earnings are at a discount to some of the large-cap FMCG stocks. We maintain our Buy recommendation on the stock.

Excise duty increase on cigarettes in the Union Budget 2016-17

Budget document 2016-17

Size	Items	Rs per 1,000 cigarettes		Chg (%)	Weighted average excise hike for ITC (%)
		2015-16	2015-17		
Small	Cigarettes filter > 60 =<65 mm	1437.5	1582.5	10.1	
Regulars	Cigarettes filter > 65 =<70 mm	1897.5	2087.5	10.0	
Longs	Cigarettes filter > 70 =<75 mm	2587.5	2847.5	10.0	
Kings	Cigarettes filter > 75 =<85 mm	3783.5	4163.5	10.0	
	Cigarettes filter > 85 mm	3783.5	4163.5	10.0	10.0

Source: India Budget, Sharekhan Research

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Budget impact: Negative			
Sector view: Positive (preferred picks: Ashok Leyland, M&M, Hero MotoCorp)			
Automobiles	Levied tax at source at 1% on luxury cars priced above Rs10 lakh: This move shall increase the cost of buying a car and hence will be a deterrent to the demand for luxury cars.	Negative	Maruti Suzuki
	Levied infrastructure cess of 1% on small cars (petrol, LPG and CNG); 2.5% on diesel cars (up to 1,500 cc engine capacity) and 4% on SUVs, bigger sedans and higher engine capacity vehicles: This will increase the cost of vehicles and can have a adverse impact on the demand for diesel cars, bigger sedans and SUVs.	Negative	Maruti Suzuki, M&M, Tata Motors & Ashok Leyland, Eicher Motors (CV segment)
	Benefits for R&D will be restricted to 150% from April 1, 2017 and 100% from April 1, 2020: This move will reduce the benefits in the form of deduction (on account of R&D expense) from taxable income for auto companies. Albeit we expect this to be mildly negative as the companies could benefit from lower tax rates in the coming years.	Negative	Maruti Suzuki, M&M, Tata Motors
	No announcement on incentive for scrapping of old vehicles. This would be treated as a negative development as it would hamper the replacement/incremental demand for vehicles, especially commercial vehicles	Negative	Maruti Suzuki, M&M, Tata Motors, Ashok Leyland, Eicher Motors (CV segment)
	NIL basic customs duty and 6% excise duty/CVD being extended to parts of electric vehicles and hybrid vehicles. The earlier deadline of March 31, 2016 shall be done away. The extension of these benefits is a positive development; however major gains are unlikely to come in given the lower share of electric vehicles.	Positive	M&M, Maruti Suzuki
Budget impact: Positive			
Sector view: Positive (preferred picks: PI Industries, UPL, Jain Irrigation and Finolex Industries)			
Agri - Inputs	Steps taken to implement Direct Benefit Transfer in fertiliser after success in LPG. Marginal decline in fertiliser subsidy of around 3% to Rs70,000 crore.	Positive	Coromandel Fertilizer, Tata Chemicals, GSFC, RCF, NFL
	Emphasise on irrigation through irrigation fund, implementation of 89 irrigation projects under AIBP to fast track and Pradhan Mantri Krishi Sinchai Yojana (28.5 lakh hectare will be brought under irrigation)	Positive	Jain Irrigation, Finolex Industries, Ratnamani Metals
	In case of the production of fertiliser, deduction shall be restricted to 100% of capital expenditure (currently 150% is allowed) w.e.f. April 01, 2017 (ie from next fiscal year 2017-18 onwards).	Neutral	

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Budget Impact: Positive			
Sector view: Neutral (preferred picks: IndusInd Bank, Bajaj Finance, LIC Housing Finance, Max Financial)			
Banks	Capital infusion of Rs25,000 crore in PSU banks (short of expectations), commitment for further infusion based on need.	Neutral	Allahabad Bank, Punjab National Bank, Union Bank of India, Bank of India
	Operationalisation of Bank Board Bureau and road map for consolidation of PSU banks, IDBI Bank govt stake to be reduced below 50%.	Positive	All PSU banks
	Adherence to fiscal targets and lower government borrowings (Rs4.25 trillion) to ease bond yields and will enable monetary easing by the RBI.	Positive	SBI, BoB, Axis Bank, ICICI Bank, PNB
NBFCs	NBFCs to be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.	Positive	Bajaj Finance, Capital First, PFS
	Amendment in SARFAESI Act for increase in ownership by sponsors in ARC (upto 100%) ,complete pass thru income tax to trusts and non-institutional participation in security receipts.	Positive	Edelweiss Financial, Kotak Mahindra Bank
	Listing of PSU general insurance companies	Positive	Bajaj Finserv, Reliance Capital
	Additional interest deduction of Rs50,000 on home loans up to Rs35 lakh for new house buyers (FY2017)	Positive	LIC Housing, HDFC
	Increase in STT on "options" from 0.017% to 0.05%	Negative	Edeweiss Financial, Motilal Oswal
	FDI in insurance and pension upped to 49% via automatic route	Positive	Bajaj Finserv, Max Financial Services
Budget impact: Positive			
Sector view: Neutral (Preferred picks: L&T, Kalpataru Power Transmission, KEC International, Va Tech Wabag)			
Capital Goods/Power	<p>1) Infra spending-Huge capital expenditure announced in transport infrastructure (roads and railways) to the tune of Rs2,18,000 crore in 2016-17, which will create opportunities for capital goods companies. Key plans announced-MRTS and Metro Project:Rs10,000 crore and Delhi Mumbai Industrial Corridor: Rs1,400 crore. Allocation of Rs7,296 crore for Urban Rejuvenation Mission (AMRUT and Mission for Development of 100 Smart Cities and Rs1,448 crore for National Industrial Corridors.</p> <p>2) Electrification-With commitment to achieve 100% village electrification by May 2018, the government has provided Rs8,500 crore for Deendayal Upadhyaya Gram Jyoti Yojna and has allocated Rs5,500 crore for Integrated Power Development Schemes.</p> <p>3) Water and Pumps-Higher allocation for drinking water and sanitation by 27% to Rs14,010 crore and retained allocation of around Rs6,000 crore for water resources, river development and Ganga rejuvenation. Allocation for National Ganga Plan "Namami Gange" stands at Rs2,250 crore. Further, excise duty on electric motor and various other equipments required for the manufacture of centrifugal pump (largely used in agriculture) is being reduced from 12.5% to 6%.</p>	Positive	L&T, Kalpataru Power Transmission, KEC International, Skipper, Va Tech Wabag, Shakti Pumps

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Capital Goods/Power	4) Allocation to Ministry of New and Renewable Energy is increased from Rs262 crore to Rs5,036 crore.	Positive	Suzlon Energy, PTC India Financial Services, Ujjas Energy
	5) Clean energy cess is increased from Rs200 to Rs400 per metric tonne of coal.	Neutral	Cost of power generation would go up but regulated plants would pass it on in tariff; so does Coal India will pass on to generators.
Budget impact: Netural			
Sector view: Positive (preferred picks: UltraTech Cement and The Ramco Cements)			
Cement & cement products	The total outlay for infrastructure is slated to be Rs2,21,246 crore during 2016-17.	Positive	UltraTech Cement, Shree Cement, The Ramco Cements
	Increase in cess of clean energy on coal from Rs200 to Rs400 per tonne will lead to increase in cost of cement production around 1%	Netural	
Budget impact: Negative			
Sector view: Positive (preferred picks-Relaxo Footwear, Century Plyboards, Wonderla Holidays, Cox & Kings and Thomas Cook India)			
Consumer discretionary goods & services	Branded apparel: Excise duty on branded apparel with MRP over Rs1,000 increased from nil to 2% (also the same increased from 6% to 12.5% with input tax credit) with a tariff value at 60% MRP.	Negative	Arvind, Raymond, Aditya Birla Fashion & Retail Ltd and KKCL.
	Restaurant & amusement parks: Service tax was expected to be increased by 200BPS to 16%. However, the government has introduced additional cess in the name of Krishi Kalyan proposed to be levied at 0.5% on all taxable services.	Marginally negative	The companies operating restaurants and amusement parks will pass on the additional cess of 0.5% to the consumers. It is marginally negative for restaurant and amusement park companies, such as Speciality Restaurants, Jubilant FoodWorks, Coffee Day Enterprises and Wonderla Holidays.
	Consumer durables: Basic custom duty on refrigerated containers reduced from 10% to 5%. Excise duty on refrigerated containers also reduced from 12.5% to 6%.	Positive	Whirlpool, IFB Industries, Llyod Electrical
	Textiles: Excise duty on PSF/PFY manufactured plastic scrap or plastic waste including waste PET bottles increased from 6% to 12.5% with an input tax credit.	Negative	Ganesha Ecosphere
	Textiles: Duty drawback scheme being widened and deepened to include more products and countries. Government to continue to take measures to support the export sector.	Positive	Welspun India, Indo Count Industries, Hlmatsingka Seide, Orbit Exports and Trident.
	Jewellery: Imposition of excise duty on articles of jewellery (other than silver) at 1%.	Negative	Titan, PC Jeweller and Tribhovandas Bhimji Zaveri.
	Rubber footwear: Reduction in excise duty on rubber sheets and resin rubber sheets for soles and heels from 12.5% to 6% (also the abatement rate is increased from 25% to 30%), thus the effective excie duty has been reduced from 9.4% to 4.2%.	Positive	Bata India, Relaxo Footwear

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Consumer discretionary goods & services	Tour operators: Abatement rates in respect of services by tour operators has been standardised at 70% (from 60% to 75% earlier depending on various packages).	Neutral	It is neutral for tour operators, such as Cox & Kings and Thomas Cook India. Also, no substantial increase in the rate of service tax bodes well for tour operator companies.
	Kitchen appliances: Excise duty on improved cook stoves abolished from the current level of 12.5%.	Positive	TTK Prestige and Butterfly Gandhimathi Appliances.
Budget impact: Marginally positive			
Sector view: Selective (preferred picks: Britannia, Marico, GCPL and ITC)			
Consumer goods	With focus on improving rural areas, the government has increased allocation on various schemes, such as MNREGA, irrigation funds and other schemes.	Positive	Increase in allocation under various schemes for rural development is positive for FMCG companies. It is positive for FMCG companies, such as HUL, Godrej Consumer Products, Emami Jyothy Laboratories and Britannia.
	The basic customs duty on pulp of wood used for manufacturing of goods, such as sanitary towels, napkins, diapers etc is reduced to 5% from 10% earlier.	Positive	Positive for Procter & Gamble Hygiene and Emami
	The basic customs duty on wood in chips for manufacturing of paper, paperboard and news print is been reduced to nil from 5%.	Positive	Positive for ITC's paper business and TCPL Packaging
	The excise duty on aerated water and mineral water increased to 21% from 18% earlier.	Negative	Marginally negative for Tata Global Beverages
	The excise duty exempted on specific goods to be used for the installation of cold storage, cold room or refrigerator vehicle for preservation and storage of dairy, marine products, meat and agricultural products.	Positive	Positive for companies, such as Hatsun Agro, Heritage Foods and Venkys India
Budget impact: Neutral			
Sector view: Positive (preferred picks: BEL)			
Defence	Capital outlay for defence raised marginally by Rs2,372 crore over interim budget to Rs2.49 lakh crore	Neutral	
Budget impact: Positive			
Sector view: Positive (preferred picks: IRB Infrastructure, IL&FS Transportation, L&T, Gayatri Projects, Ashoka Buildcon)			
Infrastructure	The total investment in the road sector of Rs97,000 crore (PMGSY along with state support-Rs27,000 crore, budget for roads-Rs55,000 crore and NHAI bonds-Rs15,000 crore) during 2016-17. To approve nearly 10,000km of national highways in 2016-17.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and KNR Constructions among others
	Steps to re-vitalise PPPs: (1) Resolution of Disputes Bill will be introduced during 2016-17; (2) Guidelines for renegotiation of PPP concession agreements will be issued; (3) New credit rating system for infrastructure projects to be introduced	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Sadbhav Engineering and KNR Constructions among others

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Infrastructure	Mobilisation of additional finances to the extent of Rs31,300 crore by NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority through raising of bonds during 2016-17.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Sadbhav Engineering and KNR Constructions among others
	To develop new greenfield ports both in the eastern and western coasts of the country. The work on national waterways is expedited. An amount of Rs800 crore has been provided for these purposes.	Positive	L&T, GMR Infrastructure, GVK Infraprojects
	Distribution made out of income of SPV to the Infrastructure Investment Trust (Invits) will not be subjected to Dividend Distribution Tax.	Positive	IRB Infrastructure
Budget impact: Neutral			
Sector view: Positive			
Logistics	The basic customs duty on cold chain including pre-cooling unit, packhouses, sorting and grading lines and ripening chambers and refrigerated containers reduced to 5% from 10%	Positive	Snowman Logistics, Gateway Distriparks, Allcargo Logistics, Gati
	In case of a cold chain facility and warehousing facility for storage of agricultural produce, deduction shall be restricted to 100% of capital expenditure (currently 150% is allowed) w.e.f. April 01, 2017 (ie from previous year 2017-18 onwards).	Negative	Snowman Logistics, Gateway Distriparks, Allcargo Logistics, Gati
Budget impact: Neutral			
Sector view: Neutral (preferred picks: RIL)			
Oil & Gas	1) The cess on domestically produced crude oil is revised from currently fixed structure (Rs4,500/PMT) to ad valorem structure at 20% rate (higher than expected). 2) Incentivise production from deep sea, ultra deep, high pressure and high temperature fields.	Negative (below expectations)	ONGC, Oil India
	No excise duty is imposed on crude oil imports	Positive	IOCL, HPCL, BPCL, RIL
Budget impact: Neutral			
Sector view: Selective (preferred picks: Aurobindo, Divis, Lupin, Sun Pharma & Torrent Pharma)			
Pharmaceuticals	Proposal to exempt parts of dialysis equipment from basic customs duty	Neutral	Opto Circuits
	10% tax rebate on earnings from global patent filings (on new chemical entities + new technologies), a step to boost local innovation and manufacturing.	Positive	Sun Pharma, Dr Reddy, Lupin, Wockhardt, Biocon
	Accelerated depreciation on R&D to be reduced to 150% from FY2018 and eventually phasing out from FY2021 (200% currently).	Negative	Minimal effect on earnings as the quantum of R&D spend in-house (India) is usually less
	Rural healthcare push: Quality medicines to be made available by opening 3,000 stores in rural India under the Jan Aushadi Yojana.	Neutral	
	SEZ benefits to be allowed if plant commercialisation happens only before March 31, 2020.	Neutral	

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Budget impact: Neutral Sector view: Negative			
Real Estate	100% deduction for profit to an undertaking in housing project for flats upto 30 square metre in four metro cities and 60 square metre in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.	Positive	Ashiana Housing, Godrej Properties
	Deduction for additional interest of Rs50,000 per annum for loans up to Rs35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs50 lakh.	Positive	Ashiana Housing, Godrej Properties
	The time period for acquisition or construction of self-occupied house property for claiming deduction of interest has been revised to five years from three years earlier.	Positive	Ashiana Housing, Godrej Properties
	Distribution made out of income of SPV to the Real Estate Investment Trusts (REITs) will not be subjected to Dividend Distribution Tax	Positive	DLF
	Exemption from service tax on construction of affordable houses up to 60 square metre	Positive	Ashiana Housing, Godrej Properties
	In case of an affordable housing project, deduction shall be restricted to 100% of capital expenditure (currently 150% is allowed) w.e.f. April 01, 2017 (ie from previous year 2017-18 onwards).	Negative	Ashiana Housing, Godrej Properties
Others			
Others	Pumps: Excise duty on inputs for use in the manufacture of centrifugal pumps is being reduced from 12% to 6.5%.	Positive	Pump manufacturers like Shakti Pumps, KSB Pumps and Kirloskar Brothers.
	Pipes/ irrigation equipment suppliers: Various incentives to increase area under irrigation	Positive	Irrigation equipment supplier like Jain Irrigation, EPC Industries and agricultural pipes manufacturers like Supreme Industries, Finolex industries and Astral Polytechnik.
	Railway: Excise duty on parts of railway locomotives and safety and traffic control equipment is reduced from 12.5% to 6%.	Positive	BEML, Titagarh Wagons, Texmaco, Kalindee Rail

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