Budget expectations

Union Budget-Preview

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Union Budget-Preview

- We expect fiscal deficit figures to be revised upwards from the interim budget targets.
- For financial services, we expect a roadmap to recapitalize public-sector banks and incentives to increase financial savings.
- For technology, we expect reduction in MAT and lowering of dividend tax from foreign subsidiaries.
- For consumer & retail, we expect increase in excise-duty for cigarettes and increased government spending in rural areas.
- For auto and auto parts, the most important budget expectation has been met - the reduced excise duty extended till Dec-end. We expect thrust on infrastructure development.
- For healthcare, MAT on SEZ / EOU units might be reversed and MAT may not be applicable to profit from SEZ units.
- For industrials, single-window clearance would help large infrastructure projects. There could be increased outlay for urban infrastructure.
- For cement & building materials, greater infrastructure investments could revive cement demand; we expect single-window clearance for large infra projects and real-estate projects.
- For construction, there could be increase in government spending on infrastructure and existing schemes. Also, we expect higher limit for tax-free bonds by government agencies for long-term infrastructure financing.
- For metals, higher infrastructure investments and capex trajectory, together with incentivising of end-product consumption, could revive steel demand.
- For textiles, we expect capital-investment incentives under the Technology Up-gradation Fund.

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Highlights

- FY15 fiscal deficit at ₹5.7trn
- Slower growth in income and corporate tax for the year
- Lower collections from customs and excise duties than budgeted
- Non-Plan expenditure growth higher than expected in the interim budget
- Plan expenditure likely to be unchanged
- Net market borrowings to be ₹4.4trn for FY15

Receipts to be lower than anticipated; overrun on expenditure

			Actual	Interim	AR Estimates
			Mar-14	Mar-15	Mar-15
Revenue receipts			10,153	11,671	11,662
	Personal income tax	(₹ bn)	2,378	3,005	2,925
	Corporate income tax	(₹ bn)	3,947	4,510	4,539
	Customs duty	(₹ bn)	1,721	2,013	1,928
	Excise duty	(₹ bn)	1,695	1,998	1,881
	Service tax	(₹ bn)	1,546	2,155	2,088
Expenditure			15,635	17,632	17,995
	Revenue expenditure	(₹ bn)	13,756	15,501	15,851
	Capital expenditure	(₹ bn)	1,879	2,132	2,145
	Non-Plan expenditure	(₹ bn)	11,104	12,079	12,429
	Plan expenditure	(₹ bn)	4,531	5,553	5,566
	Primary deficit	(₹ bn)	1,306	1,016	1,193
		% of GDP	*1.2*	*0.8*	*1.0*
	Revenue deficit	(₹ bn)	3,603	3,829	4,189
		% of GDP	*3.2*	*3.1*	*3.4*
	Gross fiscal deficit	(₹ bn)	5,081	5,286	5,659
		% of GDP	*4.5*	*4.3*	*4.6*

Source: Anand Rathi Research

Wish-list for Budget FY15

- Timeline for an early roll-out of the GST and DTC
- Clarity on the implementation of the Land Acquisition Bill
- Roadmap for resolution of NPA and restructured asset problems
- Incentives provided to increase financial savings by
  - (a) Reducing the lock-in period (five years) of fixed deposits qualifying for tax-benefits and
  - (b) Increasing the limit of tax-free retail infra bonds from ₹20,000 to ₹30,000.
  - (c) Continued restrictions on gold imports
- Strengthening labour laws, focusing on industry-required skill development
- Higher tariff on finished consumer electronic and luxury items

Fuel subsidies

- De-control of diesel prices
- Rationalisation and adequate targeting of LPG and kerosene subsidies
- Reducing the number of subsidised cylinders per person
- Gradual increase in kerosene prices

Food subsidies

- Adopt responsible policies on MSP
- Efficient foodgrain management with greater de-centralization and private sector participation
- Improve agricultural productivity by raising investment
- Focus on irrigation by river-linking and small-dam construction
- Greater recourse to foreign trade in agro products. Encourage value-added exports rather than raw natural resources like iron ore

Fertiliser subsidies

- Avoid subsidies on chemical fertilisers and subsidise eco-friendly fertilisers and pesticides
- Phased decontrol of nitrogen-based fertiliser prices
- Greater balance in nutrient use
- Measures to improve operational efficiency of fertiliser companies
- Effective targeting of fertiliser subsidies

What we do not want

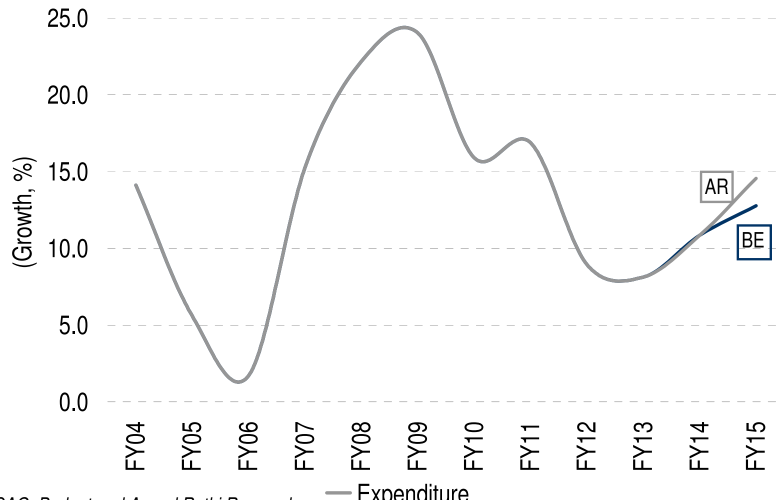
- Multiplicity of fragmented welfare schemes
- Increase in government's current expenditure at the cost of capital spending
- Focus on pure commercial activities
- Any rate hike in personal income tax, given the high level of inflation
- High net market borrowing to meet the fiscal gap
- Overly optimistic revenue targets, as in the interim budget
- Constrain non-Plan revenue expenditure to unrealistic targets

Interim Budget overview

			Actual	Budget Estimates
			Mar-14	Mar-15
Receipts		(Growth, %)	14.7	15.0
	Corporate tax	(Growth, %)	20.8	26.4
	Personal income tax	(Growth, %)	10.8	14.3
	Customs duty	(Growth, %)	4.1	17.0
	Excise duty	(Growth, %)	(3.6)	17.9
Expenditure		(Growth, %)	12.8	10.9
	Revenue	(Growth, %)	10.6	12.7
	Capital	(Growth, %)	12.6	13.4
	Non-plan	(Growth, %)	11.4	8.8
	Plan	(Growth, %)	9.5	22.6
Primary deficit		(₹ bn)	1,306	1,016
Revenue deficit		(₹ bn)	3,603	3,829
Fiscal deficit		(₹ bn)	5,081	5,286

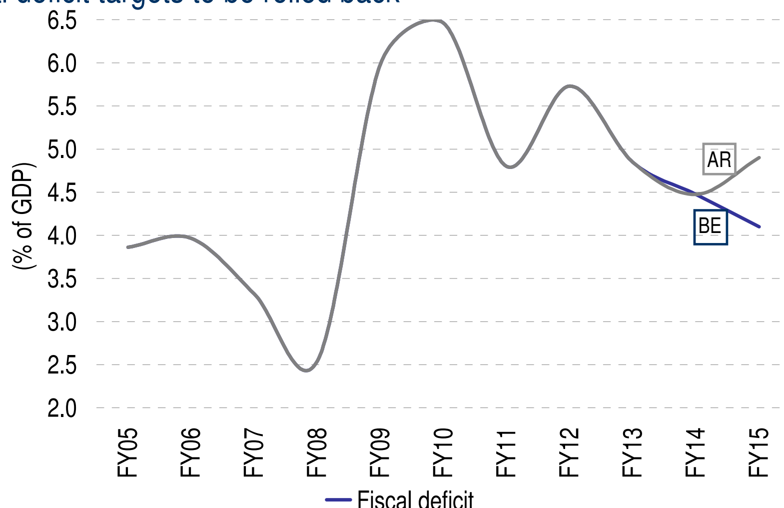
Source: CAG, Budget and Anand Rathi Research

Expenditure growth to be higher than expected



Source: CAG, Budget and Anand Rathi Research

Fiscal deficit targets to be rolled back



Source: CAG, Budget and Anand Rathi Research

Finances as in FY14

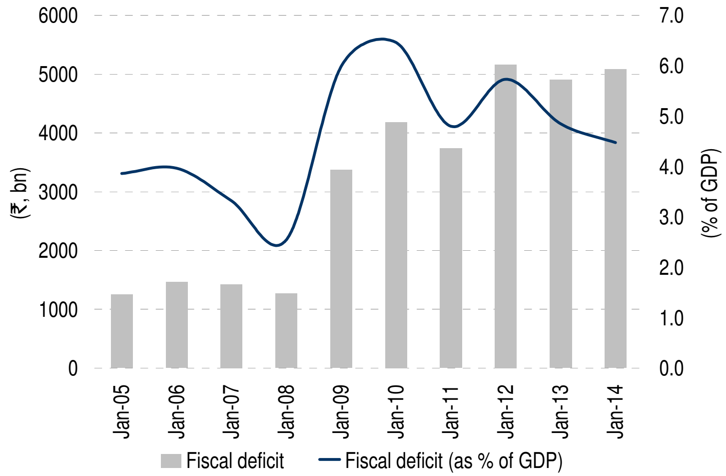
- Fiscal deficit in FY14 was 4.5% of GDP
- The deficit was ₹5.1trn, lower than the budgeted ₹5.3trn
- Revenue receipts in FY14 fell short by ₹261bn
- Plan expenditure in FY14 was shrunk by ₹224bn
- Revenue and expenditure in FY14 have grown 14.8% and 10.9%, respectively

Detailed government finances – FY14

		Actual		Budget Estimates	
		Mar-13	Mar-14	Mar-14	Shortfall
Revenue Receipts	(₹ bn)	8,792	10,153	10,292	(139)
Corporate tax	(₹ bn)	3,563	3,947	3,937	10
Personal income tax	(₹ bn)	1,968	2,378	2,362	16
Customs duty	(₹ bn)	1,658	1,721	1,751	29
Excise duty	(₹ bn)	1,759	1,695	1,788	93
Expenditure	(₹ bn)	14,094	15,635	15,904	269
Revenue	(₹ bn)	12,423	13,756	13,995	240
Capital	(₹ bn)	1,672	1,879	1,909	30
Non-Plan	(₹ bn)	9,951	11,104	11,149	45
Plan	(₹ bn)	4,143	4,531	4,755	224
Primary deficit	(₹ bn)	1,779	1,306	1,445	138
Revenue deficit	(₹ bn)	3,635	3,603	3,703	100
Fiscal deficit	(₹ bn)	4,899	5,081	5,245	164

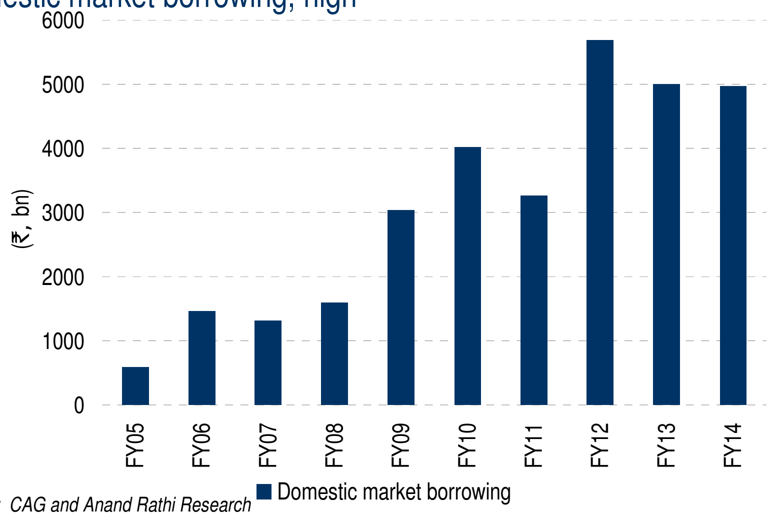
Source: CAG and Anand Rathi Research

Fiscal deficit at 4.5% of GDP



Source: CAG and Anand Rathi Research

Domestic market borrowing, high

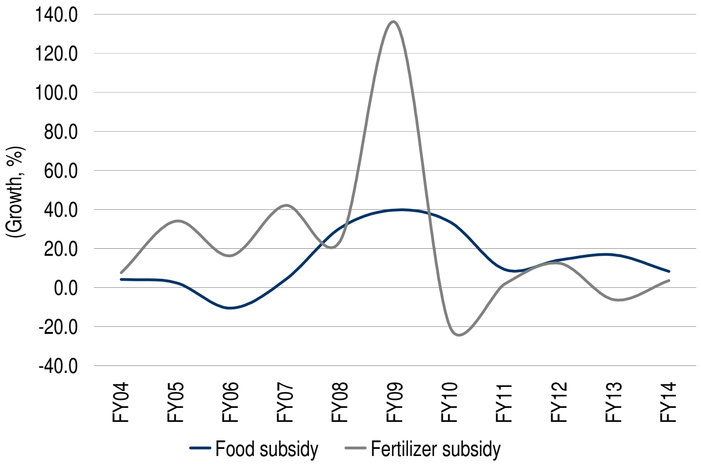


Source: CAG and Anand Rathi Research

Subsidies soar, while collections are unmet

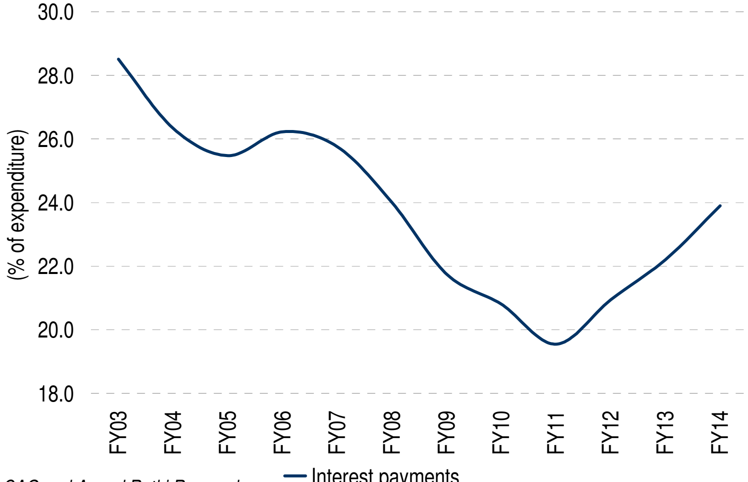
- Subsidies were 23% of the non-plan expenditure in FY14
- Food subsidy was ₹920bn in FY14; it has posted CAGR of 21.2% during 2007-14
- Fertilizer subsidy, which is 27% of the overall major subsidies, grew at CAGR of 14.2% during 2007-14
- Interest payments, as percentage of expenditure, has grown since FY11 and has reached the FY08 level
- Excise duty collections growth dropped (-3.4%) from last year
- Custom collections growth had also slowed

Subsidies high



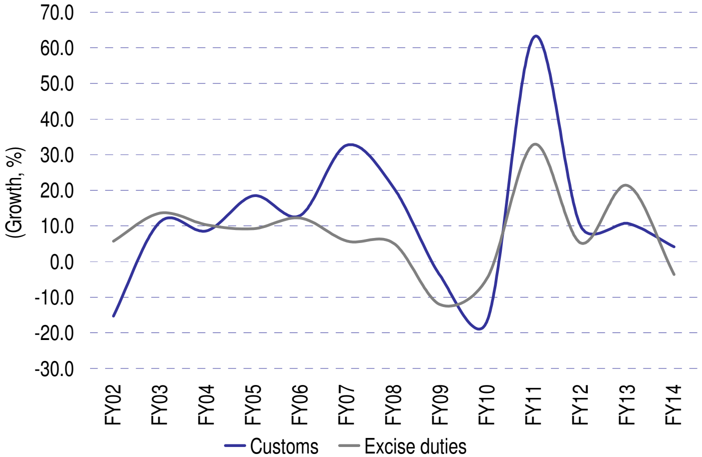
Source: CAG and Anand Rathi Research

Interest payments, as percent of expenditure, rise



Source: CAG and Anand Rathi Research

Collections from customs and excise duties slip



Source: CAG and Anand Rathi Research

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Financial Services

The Budget is likely to be positive for the financial services sector, based on the following expected measures:

- The government announcing its roadmap to recapitalise public-sector banks.
- Incentives provided to increase financial savings by: (a) Reducing the lock-in period (five years) of fixed deposits qualifying for tax-benefits and (b) increasing the limit of tax-free retail infra bonds from ₹20,000 to ₹30,000.
- Government's fiscal deficit to be limited to ~4.6% of GDP, which could augur well for government bond yields. Consequently, banks could see Treasury gains, as they have large investments in government securities.
- For NBFCs, access to tax-free infrastructure bonds would help diversify the borrowing mix and improve asset-liability mismatches.

Impact on the sector and stocks

Expected measures	Impact on sector	Companies impacted
Government's fiscal deficit not to rise significantly, to be ~4.9% of GDP	Positive	All banks
Capital infusion in PSU banks	Positive	All PSU banks
Reduction in lock-in period for FDs to qualify for tax benefits	Positive	All banks
Increase in the ceiling for non-deduction of tax at source on fixed deposits	Positive	All banks
Issuance of tax-free infrastructure bonds by banks	Positive	All banks, PFC, REC
Rise in limit of tax-free retail infra bonds from ₹20,000 to ₹30,000	Positive	PFC, REC, IDFC
NPA provisions to be classified as tax-deductible expense for NBFCs	Positive	All NBFCs

Source: Anand Rathi Research

Key company calls

Companies	Impact of expected measures
Bank of Baroda	**Positive:** A likely low fiscal deficit would augur well for G-Sec yields, resulting in large Treasury gains. Capital infusion would also be positive for growth and to meet Basel-3 norms
ICICI Bank	**Positive:** Relaxation of the fixed-deposit lock-in clause for tax-deduction eligibility and issuance of tax-free infra bonds would improve access to long-term funding sources for ICICI Bank
PFC	**Positive:** PFC would have better access to longer-duration funding. Positive announcements for the power sector would improve loan growth and reduce stress on the balance sheet

Source: Anand Rathi Research

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Technology

The Budget is likely to be positive for the technology sector, based on the following expected measures:

- In 2011, the government had imposed an 18.5% Minimum Alternative Tax (MAT) on booked profits of SEZ developers and units. This rate, if reduced to 7.5%, would lower tax rates for many IT companies, especially those where effective tax rates at the company level are closer to the MAT rates.
- Dividend tax from foreign subsidiaries, if lowered, could help the sector in terms of efficient cash movement across countries. Increase in the withholding tax on Royalties and Fees for Technical Services essentially increases costs of doing business for Indian IT
- National e-Governance Plan: Allocation (including new projects) would be positive for Indian IT companies
- Tax sops to create employment in tier-2 cities, given infrastructure challenges faced in these areas

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Reduction of MAT	Positive	Low ETR companies like HCLT, Mindtree, Wipro and TCS
Dividend tax from foreign subsidiaries	Positive	All companies, specifically HGSL
Withholding tax – no change	Neutral	All companies
Safe harbour rules	Positive	All companies
NeGP	Positive	TCS, Mindtree, Wipro
Tax sops for tier-2 cities	Positive	All companies, specifically BPOs

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
TCS	**Positive:** Large e-governance allocations and tax sops for employment in tier-2 cities could act as triggers
Wipro / Mindtree	**Positive:** MAT reduction and e-governance allocations could act as triggers
HGSL	**Positive:** Dividend tax from subsidiaries, if reduced, and sops for employment in tier-2 cities could act as triggers

Source: Anand Rathi Research

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Consumer & Retail

The Budget could have a neutral impact on the consumer sector, based on the following expected measures:

- Excise-duty increase of ~15% on cigarettes, though it may not be uniform across various cigarette lengths
- As the cigarette sector has seen down-trading in FY14, excise on 64mm cigarettes may move up sharply (20%+)
- Considering the delayed monsoon, government spending in rural areas could rise, boosting rural consumption
- Roadmap to GST could be announced, which would benefit the entire consumer and retail sectors
- Increase in efforts to curb food inflation would help drive consumer offtake and control input costs of food companies

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Increase in excise on cigarettes <15%	Neutral	Cigarette companies
Increase in excise on cigarettes >15%	Negative	Cigarette companies
Sharp increase in excise on 64mm cigarettes	Negative	VST
Increase in government spending in rural areas	Positive	All companies
Roadmap to roll out GST	Positive	All companies
Efforts to curb food inflation	Positive	Food companies

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
ITC	If excise duty on cigarettes is raised by 15%+, cigarette volumes would drop, resulting in restrained earnings growth
VST	If excise duty on 64mm cigarettes is not raised by more than 20%, VST would see improvement in market share

Source: Anand Rathi Research

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Autos and Auto Parts

The Budget is likely to be positive for the auto and auto-part sectors, based on the following expected measures:

- With the term of the reduced excise duty extended till Dec-end (from Jun-end as announced in the interim Budget previously) prior to the actual Budget, one of the most important Budget expectations has already been met
- Thrust on infrastructure development, including allocation to a JNNURM-type urban-transportation-development program would benefit commercial-vehicle manufacturers
- Rural / agri-related schemes in the context of a deficient initial month of rainfall would help arrest the rate of decline in tractor sales, and boost two-wheeler sales
- Extension of basic customs duty on specified inputs to manufacture electric-hybrid vehicles (nil till Mar'15).

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Focus on infrastructure	Positive	Ashok Leyland, Tata Motors, Eicher Motors
Agri -focus	Positive	M&M, Hero MotoCorp., VST Tillers
Incentive for electric-hybrid vehicles	Positive	M&M, Tata Motors
Special package for Andhra Pradesh	Positive	Amara Raja Batteries
GST roadmap	Positive	All companies

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
Tata Motors, Eicher Motors, Ashok Leyland	**Positive**: Focus on infrastructure development would help the CV manufacturer recover from the cyclical downturn
Hero MotoCorp , VST Tillers	**Positive**: As these companies derive a significant portion of revenue from the rural region, any incentive towards the agri segment would be beneficial
Amara Raja Batteries	**Positive:** A special economic package for Andhra Pradesh could be beneficial

Source: Anand Rathi Research

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Healthcare

The Budget is likely to be marginally positive for the healthcare sector, based on the following expected measures:

- Minimum Alternative Tax (MAT) on SEZ / EOU units might be reversed and MAT may not be applicable to profit from SEZ units
- Weighted deduction benefit of 200% for in-house R&D expenses could continue
- Increased investment-linked deduction of 150% for capital expenditure incurred by hospitals could continue
- Subsidised excise and customs duties on drugs for life-threatening diseases could continue

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
MAT on SEZ/EOU may be reversed and not be applicable to MAT	Positive	All companies under MAT
200% weighted deduction on in-house R&D	Neutral	All companies
150% investment linked deduction on capital expenditure by hospitals	Positive	Apollo Hospitals, Fortis Healthcare
Subsidised excise and custom duties on drugs for life-threatening diseases	Neutral	Companies focused on the domestic market

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
Sun Pharma	**Positive**: Removal of MAT applicability would significantly reduce the tax rate
Apollo Hospitals	**Positive**: Continuation of 150% investment linked deduction on capital expenditure would improve profitability

Source: Anand Rathi Research

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Industrials

The Budget is likely to be positive for the industrials sector, based on the following expected measures:

- Announcement concerning the framework for a single-window clearance for large infrastructure projects
- Increased outlay for urban infrastructure under the auspices of the JNNURM or similar schemes
- Higher budgetary allocation to the Railways to expand the present network and improve safety
- Rise in the FDI limits in the Defence sector, which could see more partnerships emerging in equipment manufacturing
- Any sops announced for power distribution would have a positive impact on power generators and equipment suppliers

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Greater outlay for urban infra	Positive	Siemens, ABB, L&T
Sops for the power sector	Positive	BHEL, L&T, Thermax
Increased allocation for the Railways	Positive	BHEL, L&T, Siemens
Single-window-clearance mechanism	Positive	L&T, BHEL

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
L&T	**Positive:** To benefit from more orders in road and power infrastructure. Nascent Defence business could get a fillip
BHEL	**Positive:** Sops for power sector could see stalled projects being cleared. Improved visibility for balance-sheet recovery and order inflows
Siemens	**Positive:** Investments in power transmission and urban infrastructure could see improved order booking

Source: Anand Rathi Research

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Cement & Building Material

The Budget is likely to be positive for the cement and building material sectors, based on the following expected measures:

- Greater infrastructure investments could revive cement demand, along with resolving issues related to funding and the re-start of stalled infra and large manufacturing projects
- Expedited decision-making, project-clearance, single-window clearance for large infra projects and real-estate projects
- Development of 100 'smart' cities and projects like 'Housing for All by 2022' by providing every family in India with a *pucca* (brick and cement) house with water connection and toilet facilities. Set timeline for early roll-out of GST
- Increase coal production to meet industry needs and at the same time reduce huge forex outgo for coal imports

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Infrastructure-investment-push to lead to higher cement demand	Positive	All cement companies
Fast-track clearances for infra and real-estate projects	Positive	All cement and building material companies
Development of 100 'smart' cities	Positive	All cement companies
Projects like 'Housing for All by 2022' by providing every family in India with a *pucca* (brick and cement) house with water connection and toilet facilities	Positive	All cement and building material companies
Provide a timeline for early roll-out of GST	Positive	All building material companies
Increase coal production to reduce costs	Positive	All cement companies

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
Orient Cement	**Positive:** Increasing housing activities is a positive, given the company's focus on semi-urban and tier-2 and -3 towns. Also, better domestic coal availability augurs well, it being the key input
Cera Sanitaryware	**Positive**: Rollout of GST, and greater thrust on housing along-side improving sanitation facilities are clear positives
Kajaria Ceramic	**Positive**: Rollout of GST, and greater thrust on housing along-side improving sanitation facilities are clear positives

Source: Anand Rathi Research

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Construction

The Budget is likely to be positive for the construction sector, based on the following expected measures:

- Increase in government spending on infrastructure (especially roads, urban infrastructure) and schemes such as AIBP, PMGSY, R-APDRP, RIDF
- Higher limit of tax-free bonds by government agencies for long-term infrastructure financing
- Providing single-window clearance for major segments in infrastructure; increase in target for NHAI for road completion and award
- Modernisation of the Railways and announcement of high-speed corridors
- Allocation of funds towards cleaning of the Ganga and the use of water bodies for transportation

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Increase in government outlay on infrastructure	Positive	All companies
Increase in the limit of tax-free bonds by government agencies for infrastructure financing	Positive	All companies
Providing single-window-clearance for major segments in infra, especially roads	Positive	KNR, J Kumar, Supreme, NCC, and other road companies
Modernisation of the Railways and announcement of high-speed corridors	Positive	All companies
Allocate funds towards cleaning of the Ganga and the use of water bodies for transportation	Positive	Pratibha, J Kumar, Supreme I

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
KNR Construction	**Positive:** Increased allocation for roads would benefit KNR
J Kumar Infraprojects	**Positive:** Increased allocation towards urban infra and metro rail would benefit J Kumar
Pratibha Industries	**Positive:** Increased allocation towards water transport, urban infra and river cleaning projects would benefit Pratibha

Source: Anand Rathi Research

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Metals

The Budget is likely to be positive for the metals sector, based on the following expected measures:

- Higher infrastructure investments and capex trajectory, together with incentivising of end-product consumption could revive steel demand (down to ~2-4% yoy since FY13, against ~6-8% yoy in FY04 –FY13)
- Further clarity on divestment agenda for Balco, HZL and PSUs: ~₹200bn
- Higher import duty on metal products to support domestic manufacturers; FTA with Japan and Korea, particularly, has led to 300% yoy increase in steel imports due to reduction in duty from ~5% to 2.5%
- Reduction in basic customs duty on steam / thermal coal from 2% to nil could reduce power-production costs

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Infrastructure-investment push would lead to greater demand for metal products	Positive	All companies
Divestment agenda for Balco and HZL, with clear timelines and procedures	Neutral	Sesa Sterlite
Higher import duty on metal products	Positive	All companies
Reduction in excise duty on steam / thermal coal from 2% to nil	Positive	All companies except Coal India
Reduction in excise duty on the manufacturing sector would lead to greater demand	Positive	All sector
Reduction in the tax rate and incentives for capital investment	Positive	All sector

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
Sesa Sterlite	**Positive**: Divestment of Balco and HZL stake by government would give access to ₹270bn in cash
Tata Steel	**Positive**: Biggest market share in auto steel and strong retail penetration to leverage demand growth and faster upcoming capacity utilisation

Source: Anand Rathi Research

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Textiles

The Budget is likely to be positive for the textiles sector, based on the following expected measures:

- Capital-investment incentives under the Technology Up-gradation Fund (TUF) provided to the cotton textiles industry be extended further and applicable to man-made fibres also
- Present integrated-skill-development scheme for productivity and employment generation to be modified to train prospective employees rather than only through training centers or associations
- Working-capital interest cost, particularly for cotton inventory, would be subsidised to reduce manufacturing cost and increase competitiveness

Impact on the sector and stocks

Budget announcements	Impact on sector	Companies impacted
Reduction in the tax rate, and incentives for capital investment through extension of TUFs and applicability to manmade fibres	Positive	All companies
Integrated Skill-Development Scheme be made applicable to mills	Positive	All companies
Lower import duty on raw material and dyes required for processing	Positive	All companies
Interest subvention for exports be extended	Positive	All companies
Working-capital financing cost reduction with subsidised funding	Positive	All companies particularly cotton yarn spinning
Reduction in the income-tax rate	Positive	All sector

Source: Anand Rathi Research

Key company calls

Companies	Impact of Budget
Vardhman Textiles	**Positive**: Push for value addition would assist in further upgrading processing and finishing capability
Welspun India	**Positive**: Working-capital financing cost subsidy would improve the interest-coverage ratio and return ratios

Source: Anand Rathi Research

Appendix

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