Research

ICICI direct.com

It's Advice, Not Adventure

February 01, 2017

Budget Review 2017-18

Allays anxieties, reinforces TEC

Budget 2017-18: Allays anxieties, reinforces TEC

Union Budget 2017-18 is realistic, high on substance and has positively surprised the markets by defying expectations of populism amid demonetisation and impending state elections. As expected, the Budget focused on key areas such as agriculture, job generation, infrastructure, Housing for All and digital economy while maintaining fiscal discipline. The continued spending on rural infra and social schemes is likely to be a key driver for the consumption story. Similarly, the infrastructure theme focus is likely to be driven by increased allocation to roads, railways, energy and broadband infrastructure. There was also increased focus on areas such as healthcare, sanitation and other public services as the pillar of development. Consequently, it was aptly termed as a step towards TEC (Transform, Energise and Clean) India. All these measures are expected to provide the much needed boost to rural job creation and urban spending, which was running low on energy post demonetisation.

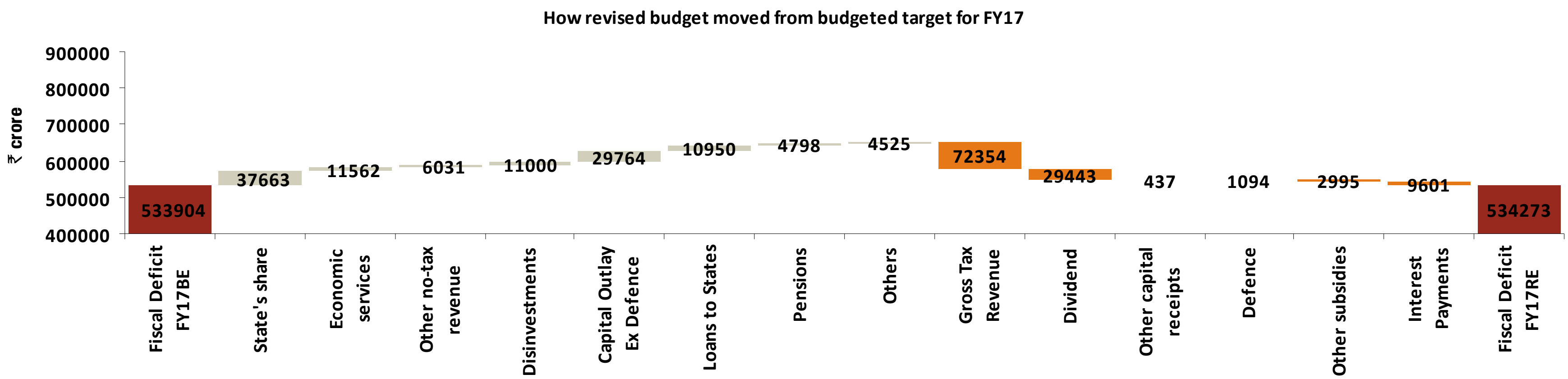
The Budget also marked an important step towards making the country a tax complaint one through tax administration and digital economy, which will bring more transparency and reduce the shadow economy. With stringent measures towards cash transaction limits and political funding, the Budget lived up to the theme of "effective governance".

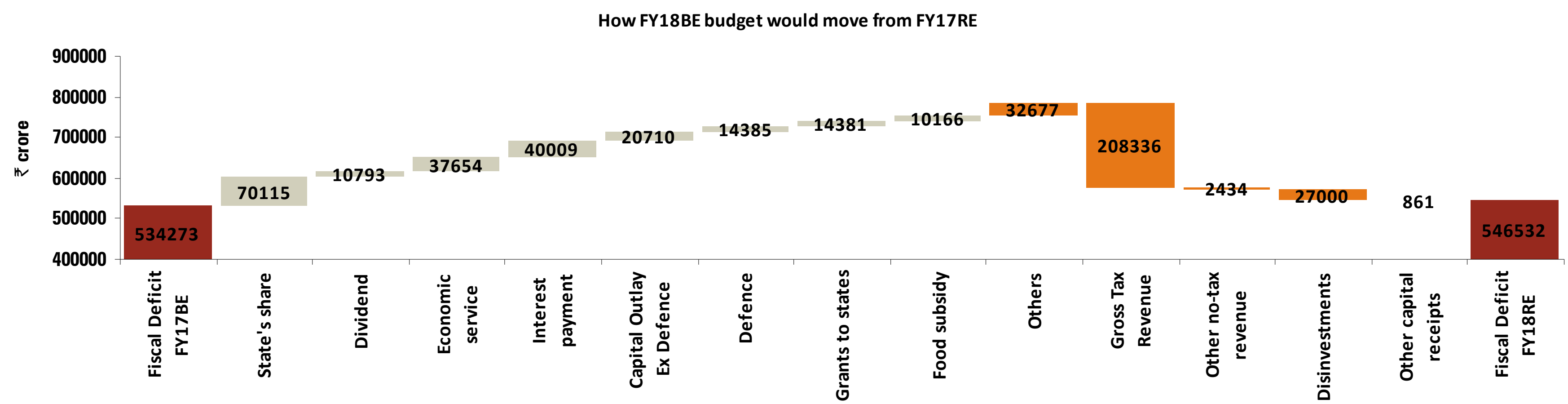
Key highlights of the Budget

- While the government has marginally deviated from its fiscal path, emphasis has clearly been laid on growth by focusing more on capital expenditure. With healthy tax collection growth & disinvestments, we expect the government to broadly maintain the fiscal deficit target for FY18BE. We expect tax collection growth to remain buoyant given the fact that the government is expected to benefit from tax transparency and better compliance. Further, with controlled spend on revenue expenditure, we believe the fiscal deficit target of 3.2% looks achievable
- The structural decline in primary deficit (fiscal deficit minus interest payment) augurs well for the balance sheet of the government. The primary deficit for FY18BE is pegged at 0.1% vs. 0.3% in FY17 RE and 0.7% in FY16. The decline in primary deficit implies a continuous improvement in quality of expenditure being pegged by the government. Allocation to capital expenditure is pegged at ~₹ 310000 crore for FY18BE. This will have a multiplier effect on the economy in terms of infrastructure creation, employment creation, which, in turn, will provide an impetus to growth
- There is a clear focus on achieving the aspiration of doubling farm income by 2022 with due emphasis on both productivity as well as better farm realisations. The total allocation towards agriculture & farmer welfare was increased 16% YoY to ₹ 41,855 crore in FY18E. Notably, a sizable increase in allocation to the insurance scheme PMFBY to ₹ 9000 crore (up 64% YoY) and irrigation scheme (PMKSY) to ₹ 7377 crore (up 28% YoY) during FY18E was encouraging and augurs well for growth in farm income
- The government has focused on employment generation through highest ever allocation in various social and rural schemes. In social schemes, MNREGA spending was revised significantly upwards at ₹ 47499 crore in FY17 vs. ₹ 38,500 crore budgeted earlier and made highest ever allocation of ₹ 48,000 crore for FY18BE. Similarly, rural development scheme such as PMGSY (₹ 27,000 crore in FY18BE) and PMAY(G) (₹ 23,000 crore in FY18BE with a target of 1 crore house completion in FY17E-19E) also witnessed highest ever allocation
- Budget FY18 is considered to be remarkable following merger of Railway Budget with the Union Budget. The capital allocation of ₹ 131000 crore for FY18 earmarks highest ever allocation in the history of Rail Budget. The key areas of investments are safety, capacity augmentation, cleanliness and accounting reforms. Affirming its goal of developmental agenda, the Centre has extended the gross budgetary support (GBS) by 19% by allocating ₹ 55000 crore to Railways
- Direct tax provisions focused on widening the tax base by lowering the tax rate for the lower income segment in both individual as well as corporate (MSME). On the corporate taxation front, there was an expectation that the government could begin the proposed cut of corporate tax from 30% to 25% in a phased manner as indicated earlier. However, there was no such announcement to this effect during this Budget. There is no alteration in the capital gains tax structure from capital markets as was widely expected, which has provided relief to the markets
- With budgeted receipts of ₹ 72,500 crore, the disinvestment spree is likely to continue with an accelerated momentum. This is likely to throw up lucrative opportunities for investors, to own stakes in good legacy business, especially in companies where the government is looking for strategic disinvestment (government. ownership <49%). The same is reiterated from the likely listing of general insurance companies and companies like IRCTC, IRCON, etc

FY18 fiscal deficit: Minor miss amid focus on inclusive growth

- While the government has marginally deviated from its fiscal path, emphasis has clearly been laid on growth by focusing more on capital expenditure. With healthy tax collection growth & disinvestments, we expect the government to broadly maintain the fiscal deficit target for FY18BE. We expect tax collection growth to remain buoyant given the fact that the government is expected to benefit from tax transparency and better compliance. Further, with controlled spend on revenue expenditure, we believe the fiscal deficit target of 3.2% looks achievable





Government's estimated fiscal position in our view...

Government Revenue & Expenditure									
Particulars	FY16	YoY (%)	FY17RE	YoY (%)	FY18BE	YoY (%)	FY18IE	YoY (%)	Comments
Gross Tax Revenues	1455648	16.9	1703243	17.0	1911579	12.2	1955470	14.8	As the major benefit of IDS and scrutiny cases would accrue in the fiscal FY18E, we expect the Gross tax revenue growth to remain higher than the budgeted estimates
Less: State Shares	511883	50.0	614450	20.0	684565	11.4	684637	11.4	
Net Tax revenue	943765	4.4	1088793	15.4	1227014	12.7	1270833	16.7	
Non Tax Revenues									
Dividend	112127	24.8	153223	36.7	142430	(7.0)	140000	(8.6)	Dividend income includes ₹ 76172 crore and ₹ 74900 crore from RBI for FY17RE and FY18BE, respectively. For FY18IE, we expect the government to receive a similar quantum of dividend from RBI
Economic services	91000	40.6	129889	42.7	92235	(29.0)	90000	(30.7)	
Others	48133	11.1	51658	7.3	54092	4.7	49500	(4.2)	
Total	1195025	8.5	1423563	19.1	1515771	6.5	1550333	8.9	
Capital Receipts									
Recovery of Loans	20835	51.7	11071	(46.9)	11932	7.8	11000	(0.6)	
Disinvestments	42132	11.6	45500	8.0	72500	59.3	50000	9.9	Figures for FY18BE include ₹ 15000 crore towards strategic stake sales & ₹ 11000 crore for listing of insurance companies. Given the historical track record, we remain conservative on this target
Total	62967	22.3	56571	(10.2)	84432	49.2	61000	7.8	
Total Receipts	**1257992**	**9.1**	**1480134**	**17.7**	**1600203**	**8.1**	**1611333**	**8.9**	
Scheme Expenditure:	725114	NA	869847	20.0	945078	8.6	945078	8.6	
On Revenue Account	545619	NA	631511	15.7	674057	6.7	NA	NA	
On Capital Account	179495	NA	238336	32.8	271021	13.7	NA	NA	
Exp other than Schemes:	624010	NA	661491	6.0	678579	2.6	678579	2.6	
On Revenue Account	550483	NA	619980	12.6	639799	3.2	NA	NA	
On Capital Account	73527	NA	41511	(43.5)	38780	(6.6)	NA	NA	
Interest payments	441659	NA	483069	9.4	523078	8.3	523078	8.3	
Total Expenditure	**1790783**	**7.6**	**2014407**	**12.5**	**2146735**	**6.6**	**2146735**	**6.6**	
On Revenue Account	1537761	NA	1734560	12.8	1836934	5.9	NA	NA	
On Capital Account	253022	NA	279847	10.6	309801	10.7	NA	NA	
Fiscal deficit	532791	NA	534273	0.3	546532	2.3	535402	0.2	
Primary Deficit	91132	NA	51204	(43.8)	23454	(54.2)	12324	(75.9)	
GDP estimates	13567192	7.2	15075429	11.1	16847455	11.8	16847455	11.8	
Fiscal deficit as % of GDP	**3.9%**	**NA**	**3.5%**	**NA**	**3.2%**	**NA**	**3.2%**		While the government have marginally diviated from its fiscal path, emphasis has clearly been made on the growth by focuding more on capital expenditure. With healthy tax collection growth & disinvestments we expect the government to broadly maintain the fiscal deficit target for FY18BE

Quality of expenditure improving as primary deficit on structural decline

- Even though the government has pegged a higher fiscal deficit figure of 3.2% in FY18E vs. expected 3%, a structural decline in primary deficit (fiscal deficit minus interest payment) augurs well for balance sheet of government. Primary deficit for FY18BE is pegged at 0.1% vs. 0.3% in FY17 RE and 0.7% in FY16
- The decline in primary deficit implies the continuous improvement in quality of expenditure being pegged by the government. Despite a higher fiscal deficit and 10% YoY higher allocation to capital expenditure at ~₹ 310000 crore for FY18BE, the primary deficit will decline 20 bps YoY
- Out of the total capital expenditure, majority of the increased allocation is towards segments like railways (up 19.2% YoY), defence (up 20.6% YoY), roads and highways (up 31.8% YoY) and urban development (12.5% YoY). The increased allocation to these segments will have a multiplier effect on economy in terms of infrastructure creation, employment creation, which, in turn, will provide an impetus to growth

₹ crore	FY16	FY17BE	FY17RE	FY18BE	Growth (%)
Department of Atomic energy	4978	5888	4383	5197	18.6
Department of Telecommunications	2322	2859	3346	3386	1.2
Capital outlay on defence services	71675	78587	71700	86488	20.6
Department of Economic affairs	19958	4210	4177	7378	76.6
Department of financial services	27566	27840	28081	14718	-47.6
Transfers to states	12498	12500	17800	18500	3.9
Department of health and family welfare	891	1758	1675	3509	109.5
Police	9055	8971	9494	11156	17.5
Ministry of petroleum and natural gas	1153	2	2483	3847	54.9
Ministry of power	1276	3489	2378	3586	50.8
Ministry of railways	35007	45000	46155	55000	19.2
Ministry of road transport and highways	27532	17453	41103	54176	31.8
Department of space	3043	3353	3576	4155	16.2
Minsitry of Urban development	10589	11502	17182	19332	12.5
Total Capital expenditure	253021	247023	279847	309800	10.7

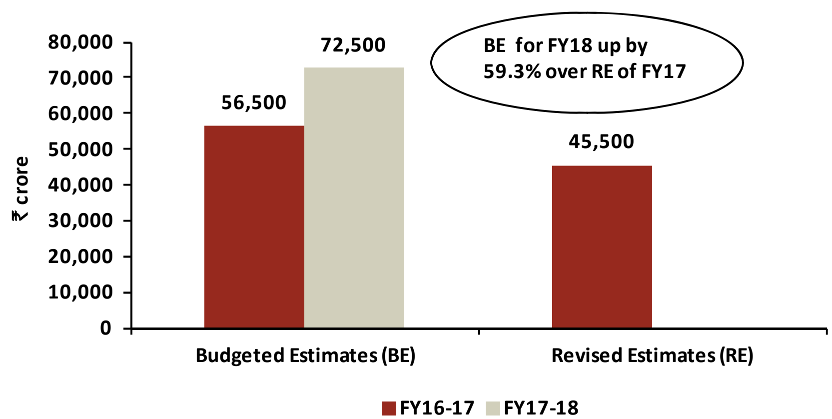
•The share of capital expenditure as percentage of total expenditure is at an all-time high of 14.4%

•Across all key areas of expenditure there is a trend of the government surpassing the Budget estimates. For instance, in FY17, in case of roads and highways, the budgeted expenditure was pegged at ₹ 17453 crore whereas the revised estimates surpassed at ₹ 41103 crore. Similar is the case with railways wherein the revised expenditure was at ₹ 46155 crore vs. budgeted number of ₹ 45000 crore

Source: Budget Documents, MoF, ICICIdirect.com Research

Disinvestment: At whopping ₹ 72,500 crore for FY18E

- For FY17-18, disinvestment receipts have been budgeted at a whopping~₹ 72,500 crore. The revised estimates for last year were at ₹ 45,500 crore. Thus , the budgeted estimates for this year are estimated to be up 59.3% YoY
- While we believe the government will continue to disinvest large companies like NBCC, NMDC, Coal India, Bharat Electronics, Container Corporation, Dredging Corporation, NHPC, NTPC, Nalco and Engineers India, this year will also see disinvestment of fresh companies like IRCTC, IRFC , IRCON and general insurance companies like Oriental Insurance, New India Insurance, National Insurance, United Insurance and General Insurance Company of India
- For disinvestments in FY18, Niti Aayog has proposed strategic sale of ~10 PSUs. In the strategic sale, the government is likely to bring down its stake to below 49% in such PSUs. Receipts form such PSUs are accounted at ₹ 15000 core in FY18. The government is also expecting healthy receipts from sale of steel plants of companies like NMDC and SAIL



Budgeted Estimates for FY17-18	Receipts
Disinvestment Receipts	46,500
Strategic Disinvestment	15,000
Others (Listing of Insurance Companies)	11,000
Total	72,500

Receipts for FY17-18 - Roadmap

NITI Aayog's recommendation	No. of PSUs identified for disinvestment
To be closed outright	26
Further action to be taken only after revival package is complete	22
To be considered for strategic sale/disinvestment	10
To be transferred only to states	6
To be transferred to states/pvt firms on long-term lease or otherwise	5
To be merged with parent PSUs	3
Status quo to be maintained	2
Total no. of PSUs identified	74

Disinvestment candidates – First timers

Budgeted Estimates for FY17-18
Indian Railway Catering and Tourism Corporation
Indian Railway Finance Corporation
Ircon International Limited
Insurance companies - Oriental Insurance, New India Insurance, National Insurance, United Insurance, General Insurance

Source: Budget Documents, MoF, ICICIdirect.com Research

Pro-farmer budget, well aligned to double farm income by 2022

• Amid the pro-farmer Budget expectations, the Union Budget 2017-18 was largely on expected lines in tandem with the government's vision to **double farm income** by 2022. The total allocation towards agriculture & farmer welfare was increased by 16%YoY to ₹ 41,855 crore in FY18E. This, along with increasing spending across other rural schemes like MGNREGA, will take total allocation to the rural sector to ₹ 1.87 lakh crore in FY18E, up 24% YoY

•A lot of emphasis was laid on both **productivity** as well as **better farm realisations**. On the productivity front, incentives are being rolled out for increasing the penetration of **irrigation, insurance**, optimum utilisation of water through **micro-irrigation & farm ponds** and increase in **institutional credit limit**. On the farm produce realisation front, emphasis was laid on expanding the **e-NAM** network from 250 markets currently to 585 APMCs in FY18E. It also focuses on setting up food processing units for perishable farm produce i.e. fruits and vegetables, which will also help limit the post harvest losses for domestic farmers

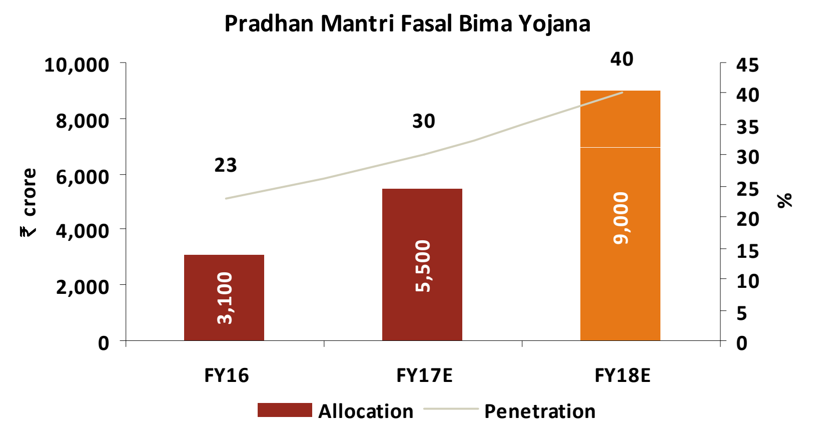
The **institutional credit** target to the farm sector has been increased to **₹ 10 lakh crore**, up 11% YoY. This will help lower finance costs as well as greater capex spend by farmers to increase farm productivity

Allocation to various agriculture schemes

Schemes	Units	FY16A	FY17BE	FY17RE	FY18BE
Insurance Scheme (PMFBY)	₹ crore	2,983	5,500	13,240	9,000
Increase YoY	*%*		*84*		*64*
Irrigation (PMKSY)	₹ crore	5,300	5,767	5,189	7,377
Increase YoY	*%*		*9*		*28*
Micro-Irrigation (MIS)	₹ crore	1,556	2,340	1,990	3,400
Increase YoY	*%*		*50*		*45*
Sub-Mission on Agri Mechanization	₹ crore	139	165	358	525
Increase YoY	*%*		*19*		*218*
Ministry of Agriculture	₹ crore	15,296	35,984	39,840	41,855
Increase YoY	*%*		*135*		*16*
Institutional Credit Target	₹ lakh crore	8.5	9.0	9.0	10.0
Increase YoY	*%*		*6*		*11*

Allocation to the quite essential farm insurance scheme i.e. **Pradhan Mantri Fasal Bima Yojana** has been increased to **₹ 9000** crore in FY18E. In FY17E, against the budget estimates of ₹ 5500 crore, the government actual outlay was ₹ 13,000 crore, which included the payment of arrears in the system.

The government has also increased its share of subsidy for micro-irrigation to **₹ 3400 crore** in FY18E vs. ₹ 2340 crore in FY17E. It also proposes to set up a fund under Nabard for micro-irrigation with initial corpus of **₹ 5000 crore**



Amid an encouraging response in FY17E with total farm ponds installation of ~10 lakh ponds, the government intends to continue the scheme with further **5 lakh farm ponds** construction target set for FY18E

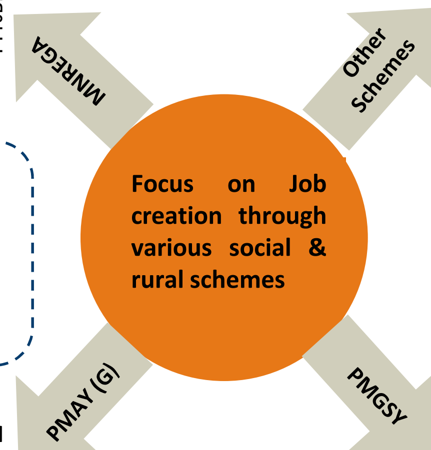
Notably, the government also proposed to increase the corpus under Nabard for long term irrigation projects to **₹ 40,000 crore** from the earlier limit of ₹ 20,000 crore. Government also increased allocation towards farm mechanisation with allocation at ₹ 525 crore in FY18E (₹ 358 crore in FY17E)

Thus, Union Budget 2017-18 is a step in right direction with no digression in its mission to double farm income in five years i.e. by 2022. Increasingly focus has been laid on further capital expenditure in the agri space to derive enhanced productivity and better farm realisations

Source: Budget 2017-18 documents, Government of India , ICICIdirect.com Research

Highest allocation = social + rural scheme = boost employment generation

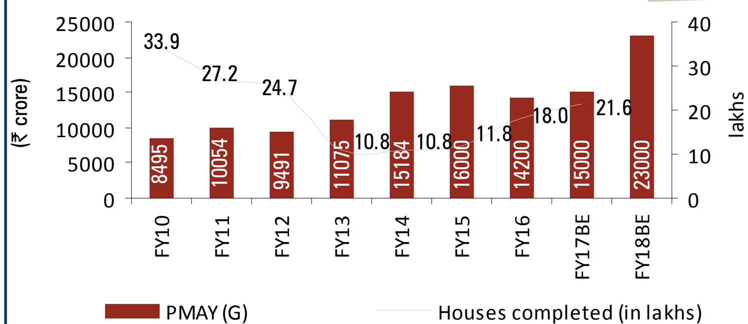
In Budget 2017-18, the government has focused on job creation through higher allocation towards social scheme such as MNREGA (all-time high allocation), PM employment generation scheme and Rural development schemes such as PM Awas Yojana and PM Gram Sadak Yojana



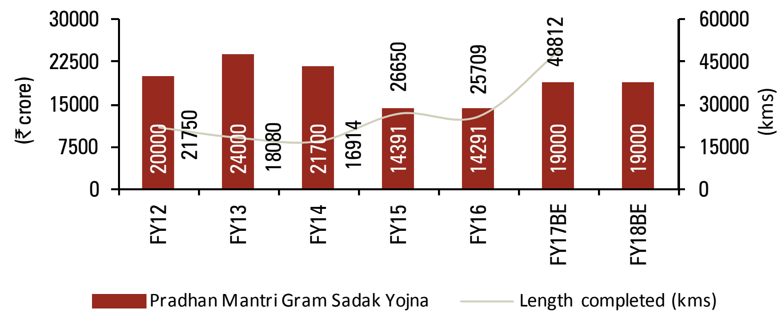
Schemes	FY16A	FY17BE	FY17RE	FY18BE	YoY growth
MNREGA	37341	38500	47499	48000	1.1%
Pradhan Mantri Krishi Sinchai Yojna	7781	5767	5189	7377	42.2%
Pradhan Mantri Gram Sadak Yojna	18290	19000	19000	19000	0.0%
Pradhan Mantri Awas Yojana (Rural)	10116	15000	16000	23000	43.8%
Swachh Bharat Mission (Rural)	6703	9000	10500	13948	32.8%
National Rural Health Mission	18254	18087	19462	21189	8.9%
National Education Mission	27066	28330	28251	29556	4.6%
Prdhan Mantri Fasal Bima Yojana	2983	5500	13240	9000	-32.0%
PM Employment Generation Programm	1352	1189	3138	4027	28.3%
Total	**129886**	**140373**	**162279**	**175097**	**7.9%**

Implementation of PMGSY has been drastically improved with average construction pace accelerating from 73 km per day in 2014 to 133 km per day currently. Together, with states, the government have budgeted an outlay of ₹ 27000 crore for the scheme

PMAY (G) allocation & house construction trend



PMGSY Allocation & road constructed trend

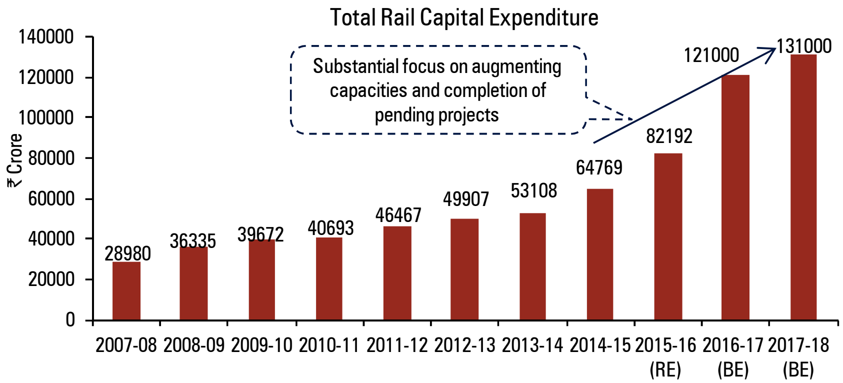


Source: Bloomberg, ICICIdirect.com Research

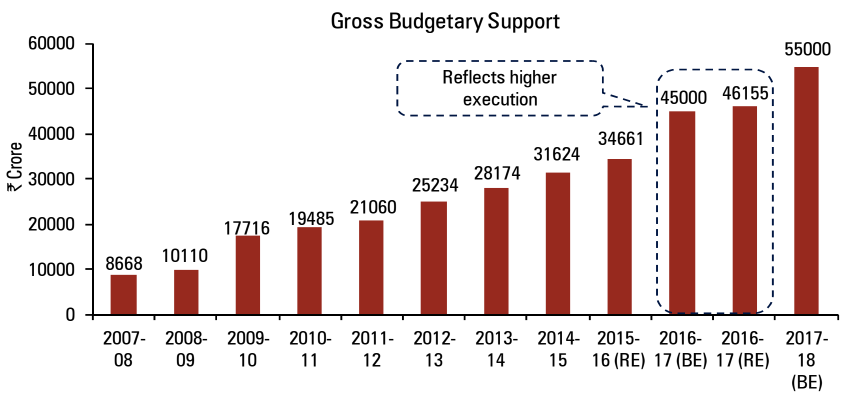
Merger of Rail Budget with General Budget - Railways at centre stage

Railways – Accelerating investment growth engine..

The Budget FY17-18 earmarked the merger of the Rail budget with Union Budget. Investment in Railways continues to remain the top priority of the Central government. Given the renewed focus of the current government on Railways, planned investments have more than doubled to ₹ 131000 crore compared to ₹ 65000 crore in FY15

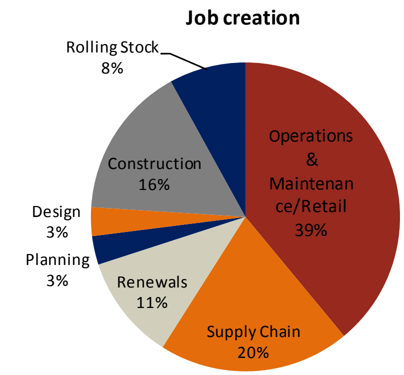


Increased GBS to set off impact of Seventh Pay Commission…



Railways – Job creation engine…

Capital investment in Railways leads to creation of a number of direct employment (skilled + unskilled) opportunities for planning, design, construction and long-term renewals of infrastructure and trains. In addition, supply chain procurement would result into a ripple effect on job generation. A multiplier of ~2x indirect jobs is generated, which evolves around the operations and maintenance of the system.



Given the huge investments required over the next 10 years, Vision 2030 has earmarked an investment of ~₹ 850000 crore ($130 billion).

In ₹ Crores	Amount	%
Network Decongestion (incl. DFC, Electrification, Doubling, etc.)	199320	23.3
Network expansion (incl. electrification)	193000	22.5
National Projects (North Eastern & Kashmir connectivity projects)	39000	4.6
Safety (Track renewal, bridge works, ROB & Telecom)	127000	14.8
Information Technology / Research	5000	0.6
Rolling Stock (Locomotives, coaches & maintainence)	102000	11.9
Passenger Amenities	12500	1.5
High Speed Rail & Elevated corridor	65000	7.6
Station redevelopment and logistic parks	100000	11.7
Other	13200	1.5
TOTAL	856020	100.0

Source: Congressional Bicameral caucus on High Speed rail, The Think Tank, Birmingham Science Museum, ICICIdirect.com Research, Bn – billion

Key focus areas to drive rail expenditure for FY18…

Safety

- Finance Ministry aid of ₹ 100000 crore to create Rashtriya Rail Sanraksha Kosh for rail safety
- Unmanned level crossings on broad gauge lines to be eliminated by 2020
- 'Coach Mitra' to be launched, which would enable a single window interface, to register all coach related complaints and requirements

Development

- Modernisation and up-gradation to enhance the throughput by 10%
- New lines of 3500 km to be constructed vs. 2500 km in FY17
- Metro Rail Policy to focus on innovative models of implementation and financing
- 25 stations are expected to be awarded for station redevelopment

Cleanliness

- SMS based "Clean My Coach Service" has been launched
- All coaches to be fitted with bio toilets by FY19
- Focus in clean energy by implementation of solar power across ~7000 stations

Reform in Reporting / Accounting

- Withdrawal of service charges on e-tickets booked through IRCTC
- Accrual based financial statements to be rolled out by FY19
- Facilitate multi modal transport planning between railways, highways and inland waterways

Source: Congressional Bicameral caucus on High Speed rail, The Think Tank, Birmingham Science Museum, ICICIdirect.com Research, Bn – billion

Augmenting digitised economy to improve government finances

In order to reduce the existence of a shadow economy (which is as high as 20.0% of GDP), increase tax base and promote cashless transaction, the government has proposed the below -mentioned steps:

- To promote BHIM app, the government has proposed two schemes 1) referral bonus scheme for individuals and 2) cashback scheme for merchants
- Aadhaar Pay, a merchant version of Aadhaar Enabled Payment System, will be launched shortly
- A mission will be set up with a target of 2,500 crore digital transactions for 2017-18 through UPI, USSD, Aadhaar Pay, IMPS and debit cards
- Banks to introduce additional 10 lakh new POS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhaar based POS by September 2017
- No transaction above ₹ 3 lakh would be permitted in cash subject to certain exceptions
- No deduction shall be allowed under Section 80G for any amount exceeding ₹ 2,000 unless such payment is made by any mode other than cash.
- If any capital expenditure for which payment is done in cash exceeds ₹ 10,000 in a day then such expenditure shall be ignored for determination of actual cost of such assets
- Withdrawal of service charge on e-tickets booked through IRCTC
- Any cash payment made to a person in a day exceeds ₹ 10,000 then such payment shall not be allowed as deduction in computation of income from profits and gains of business or profession
- Deeming a payment as profits and gains of business of profession if the expenditure is incurred in a particular year but the cash payment is made in any subsequent year of a sum exceeding ₹ 10,000 to a person in a single day

In order to promote digital transactions, the Government of India has announced income tax benefit schemes for small businesses having a turnover of up to ₹ 2 crore

Particulars	100% Cash Turnover (₹)	60% Digital Turnover (₹)	100% Digital Turnover (₹)
Total Turnover	2 Crore	2 Crore	2 Crore
Cash Turnover	2 Crore	0.80 Crore	0
Digital Turnover	0	1.2 Crore	2 Crore
Profit on Cash Turnover @8%	16 lakhs	6.4 lakhs	0
Profit on Digital Turnover @ 6%	0	7.2 lakhs	12 lakhs
Total Profit	16 lakhs	13.6 lakhs	12 lakhs
Deduction u/s 80C	1.5 lakhs	1.5 lakhs	1.5 lakhs
Taxable Income	14.5 lakhs	12.1 lakhs	10.50 lakhs
Tax Payable	2,67,800	193640	144200
Tax Saving	0	74160	123600

- Under the above scheme, if a trader makes his transactions in cash on a turnover of ₹ 2 crore then his income under the presumptive scheme will be presumed to be ₹ 16 lakh @ 8% of turnover (as shown in table above). After availing ₹ 1.5 lakh of deduction under Section 80C, his total tax liability will be ₹ 2,67,800. However, if he shifts to 100% digital transactions under the new announcement, his income will be presumed to be ₹ 12 lakh @ 6% of turnover. After availing of ₹ 1.5 lakh under Section 80C, his tax liability now will be only ₹ 1,44,200. Hence, a trader would be able to save 46% of his tax
- There are 361.8 lakh small and micro enterprises, which have revenues of less than ₹ 2.0 crore. Out of total SMEs, ~15.6 lakh is registered enterprise while 346.1 are unregistered. Considering that unregistered enterprise is 22.2 times, there is significant scope for an increase in GDP and taxable income

Source:Ministry of finance, ICICIdirect.com research

Direct tax: Focus on inclusive coverage

- The Finance Minister has proposed to slash the tax rate for individuals in the lowest income tax slab of ₹ 2.5-5 lakh to 5% instead of 10%. The existing rebate under Section 87A (currently given to people with income up to ₹ 5 lakh) is proposed to be reduced to ₹ 2500 from the existing ₹ 5000 for individuals earning between ₹ 2.5 lakh and ₹ 3.5 lakh. As a result, the combined effect of the new Section 87A rebate and the reduction in the lowest slab tax rate to 5%, the tax burden for those with income up to ₹ 3 lakh would be zero
- The new changes will effectively reduce the tax liability by ₹ 12875 (including cess) for assesses in higher tax bracket
- An additional surcharge @10% has been levied for assesses having taxable annual income between ₹ 50 lakh and ₹ 1 crore

Current		New	
Income (₹)	Tax slabs	Income (₹)	Tax slabs
0 - 2.5 Lakhs	0%	0 - 2.5 Lakhs	0%
2.5 - 5.0 Lakhs	10%	2.5 - 5.0 Lakhs	5%
5.0 - 10 Lakhs	20%	5.0 - 10 Lakhs	20%
>10.0 Lakhs	30%	>10.0 Lakhs	30%

- The revenue loss on account of changes in the above-mentioned direct tax provisions will be around ₹ 20000 crore
- Set off of loss under the head "Income from house property" against any other head of income shall be restricted to ₹ 2 lakh. Therefore, effectively deduction of interest on housing loan has been restricted to ₹ 200000
- The LIC will implement a scheme for senior citizens (those above 60 years of age) to provide assured pension, with a guaranteed return of 8% per annum for 10 years on deposits up to ₹ 7.5 lakh. The announcement of the same was made by the Prime Minister in his address to the nation on December 2016

- No alteration has been made to the capital gains tax structure from capital markets as was widely expected, which has provided relief to the markets
- In case of transfer of an immovable property being land or building or both, the period for treating it as a short-term capital asset will be two years instead of three years earlier
- On the corporate taxation front, there was an expectation that the government could begin the proposed cut of corporate tax from 30% to 25% in a phased manner as indicated earlier. However, there was no such announcement to this effect during this Budget
- In order to make MSME companies more viable and encourage firms to migrate to company format, income tax for companies with annual turnover up to ₹ 50 crore has been reduced to 25% from earlier 30%. As per the Finance Minister, 2.85 lakh companies earning profit of less than ₹ 1 crore pay effective tax rate of 30.26% vs. 298 companies earning profit above ₹ 500 crore pay effective tax rate of 25.90%. We believe the government has rightly focused on incentivising "inclusive" development by cutting the tax rate for MSMEs, which are involved in the bulk of economic activity as well as 96% of companies filing tax returns
- Similarly, the government also refrained from abolition of MAT, as expected by the market. Instead, MAT credit has been allowed to be carried forward up to a period of 15 years vs. current provisions, which allows carry forward of MAT credit for 10 years

Source: RBI, Government of India, ICICIdirect.com Research

Other key highlights

- Foreign portfolio investor (FPI) Category I & II exempted from indirect transfer provision. Indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of or arising out of redemption or sale of investment in India, which is chargeable to tax in India

- FIPB to be phased out by 2017-18. New FDI policy under consideration

- Threshold limit for audit of business entities who opt for presumptive income scheme increased from ₹ 1 crore to ₹ 2 crore. Similarly, the threshold for maintenance of books for individuals and HUF was increased from turnover of ₹ 10 lakh to ₹ 25 lakh or income from ₹ 1.2 lakh to ₹ 2.5 lakh

- Concessional withholding rate of 5% charged on interest earned by foreign entities in external commercial borrowings or in bonds and government securities was extended to June 30, 2020. This benefit was also extended to rupee denominated (Masala) bonds

- Proposed to set up strategic crude oil reserves at two more locations, namely, Chandikhole in Odisha and Bikaner in Rajasthan. This will take our strategic reserve capacity to 15.33 MMT

- In order to make MSME companies more viable, income tax for companies with annual turnover up to ₹ 50 crore has been reduced to 25%

- Maximum amount of cash donation, a political party can receive, will be ₹ 2000/- from one person. Political parties will be entitled to receive donations by cheque or digital mode from their donors

- MAT credit has been allowed to be carried forward up to a period of 15 years instead of 10 years at present

- Dairy processing and infrastructure development fund to be set up in Nabard with a corpus of ₹ 2000 crore and will be increased to ₹ 8000 crore over three years

- Aim to bring one crore households out of poverty and make 50,000 Gram Panchayats poverty free by 2019, the 150th birth anniversary of Gandhiji

- For the purpose of carry forward of losses with respect to start-ups, the condition of continuous holding of 51% of voting rights has been relaxed subject to the condition that the holding of the original promoter/promoters continues. Also, the profit (linked deduction) exemption available to start-ups for three years out of five years has been changed to three years out of seven years

- Sanitation coverage in rural India has gone up from 42% in October 2014 to about 60%

- It is proposed to feed about 7,000 railway stations with solar power in the medium-term

- Second phase of Solar Park development to be taken up for additional 20,000 MW capacity

- Government has allocated ₹ 9,000 crore towards the Urban Rejuvenation Mission – AMRUT

Source:Ministry of finance, ICICIdirect.com research

Sectoral Impact

Measure	Sectors Impacted	Impact	Key stocks
Allocation for MoRTH (for highways) hiked by 11.9% YoY to ₹ 64,900 crore. Further, an increase of 31% YoY to ₹ 3376 crore towards heavy commercial vehicles by defence. A sum of ₹ 241,387 crore was alloted for the transport sector as a strong focus on infrastructure development	Auto (CV)	Positive	Tata Motors, Ashok Leyland
Allocation of funds for faster adoption and manufacturing of (hybrid and) electric vehicle in India -	Auto (2W + 3W + I	Positive	Maruti Suzuki, Hero MotoCorp, Bajaj Auto
Focus of the budget is on rural economy - rural, agriculture & allied allocation up 24% YoY to ₹ 187,223 crore, increase in credit flow to agriculture sector up 11% YoY to ₹10 lakh crore	Auto (2W + tractors)	Positive	Hero MotoCorp, Escorts
Increase in institutional credit flow to agriculture sector amounting to ₹ 10 lakh crore, up 11% YoY	Agriculture	Positive	Rallis India
Increase in the corpus under Nabard for long term irrigation projects to ₹ 40,000 crore	Pumps	Positive	KSB Pumps
Increase in Centre's share of subsidy towards micro-irrigation to ₹ 3400 crore in FY18E vs. ₹ 2340 crore in FY17E. Also made provision for separate micro-irrigation (MIS) fund under Nabard with initial corpus of ₹ 5000 crore	Micro-irrigation	Positive	EPC Industrie
Construction of five lakh farm ponds in FY18E	Technical Textiles	Positive	Emmbi Industries
Allocation of sub-mission on agriculture mechanisation to ₹ 525 crore in FY18E vs. ₹ 358 crore	Farm Mechanization	Positive	VST Tillers & Tractors, Swaraj Engines
Allocation of ₹ 10000 crore towards recapitalisation of PSU banks. Considering the quantum of stressed assets in PSU banks, this allocation appears inadequate	PSU banks	Negative	PNB, SBI
Allowable provision related to NPA increased from 7.5% to 8.5%	Banks	Positive	Axis Bank, SBI, PNB
Increased coverage of kharif and rabi crop under Pradhan Mantri Fasal Bima Yojana from currently 30% to 40%, to benefit general insurers	General Insurance	Positive	HDFC Ltd, Bajaj Finserv
Listing and trading of security receipts issued by a securitisation company or a reconstruction company under the SARFAESI Act will widen scope for security receipts market	Banks / NBFCs	Positive	Banks and NBFC
Referral bonus scheme for individuals and cashback scheme for merchant in order to promote digital transactions	Banks	Positive	HDFC Bank, Axis Bank, SBI
Capital expenditure allocation in defence increased by 20.6% from ₹ 71700 crore in 2016-17 (RE) to ₹86448 crore in 2017-18 (BE)	Capital Goods	Positive	L&T, Bharat Electronics
100% of electrification of vilalges by May 2018	Power/Capital Goods	Positive	Power generation/Power T&D equiptment
Increased allocation of capex in railways to the tune of 8% YoY.	Capital Goods	Positive	L&T, KEC, Timken India, SKF India
Increased allocation of 14.6% to ₹ 15700 crore towards MRTS and Metro Projects	Capital Goods	Positive	L&T, Timken India, SKF India
Increased allocations of 56% to ₹ 2250 crore towards Namami Gange	Capital Goods	Positive	Va Tech Wabag
Exemption from capital gain tax for persons holding land in Andhra Pradesh (AP) on June 2, 2014 (the date on which was AP was reorganised) and whose land is being pooled for creation of capital city (Amravathi) under the government scheme	Cement	Positive	India Cements, Sagar Cements, Deccan Cements, NCL Industries
Excise duty on cigarettes hiked by 6% will translate into nominal price hike requirement of ~3% to completely pass on the impact of this increaase. Additionally, the excise hike in the non-smoking tobacco category from range of 4.2-6% to 8.3-12% may boost volumes for low priced cigarette	FMCG	Positive	ITC, VST Industries

Sectoral Impact

Measure	Sectors Impacted	Impact	Key stocks
Infrastructure status to affordable housing and higher allocation for affordable housing under Pradhan Mantri Awas Yojana Higher budgetary allocation towards roads under Pradhan Mantri Gram Sadak Yojana (increased 42% YoY to ~₹ 27000 crore) and NHAI (up ~11% to ₹ 64000 crore).	Cement	Positive	Ultratech Cement, Ambuja
Total rural outlay of ₹ 1.87 lakh crore up 24% YoY coupled with 'Housing for All' would help drive volumes for consumer G companies with higher proportion of rural revenue contribution	FMCG & Consumer d	Positive	HUL, Asian paints, Dabur, Symphony, Supreme Industries
Budgetary allocation for highways, Pradhan Mantri Gram Sadak Yojana could result in higher awarding opportunities for EPC & BOT players, going forward	Road	Positive	NCC Limited, Simplex Infrastructure. PNC Infratech, NBCC, Sadbhav Engg, Ashoka Buildcon, IRB Infra
Amendment to the 'Arbitration and Conciliation Act 1996' will be introduced to streamline institutional	Infrastructure	Positive	HCC, IRB Infrastructure, Simplex & NCC
Initiatives like "Digital India" and "Make in India" focusing predominantly on digital ecosystem, digital delivery of services along with GST implementation to drive opportunities for IT vendors		Neutral	Infosys, TCS, Wipro
Railways would implement end-to-end integrated transport solutions for select commodities through partnership with logistics players, who would provide both front and back-end connectivity	Container Train Opera	Positive	Concor
In order to conserve domestic reserve, the government has proposed to levy an export duty of 15% (from nil earlier) on the aluminium ore including laterite	Aluminium	Positive	Vedanta
The government proposes to reduce the basic custom duty on hot rolled coils used in the manufacture of welded tubes and pipes from 12.5% to 10%	Steel Pipes	Positive	Jindal Saw
Proposal to create an integrated PSU oil major company is likely to be positive as Oil & gas companies would achieve benefits of scale, in addition to a reduction in project/business specific risks	Oil and Gas	Positive	ONGC, IOCL, BPCL, HPCL, MRPL, GAIL, CPCL
The announcement of reduction in basic custom duty on LNG from 5% to 2.5% is a positive for gas transmission and petrochemicals businesses as it will help boost LNG demand from industrial and commercial sectors, and reduce costs	Gas Utility Companie	Positive	GAIL, GSPL, Petronet LNG, Indraprastha Gas, Gujarat Gas, Mahanagar Gas
Allocation of infrastructure status to affordable housing would give the developers access to low cost debt. Also, the tax exemption for affordable housing projects has been revisited. The size of houses	Real Estate	Positive	Ashiana Housing
Government to restrict loss from house property against income under any other head during the current year up to ₹ 2 lakh, which could impact real estate demand	Real Estate	Negative	All real estate developers
Tax on notional rental income will apply if the inventory is unsold within a year from date of receiving an occupancy certificate.	Real Estate	Negative	Oberoi Realty
Likewise textile sector, keeping job generation as primary agenda, a scheme is expected to be implemented for leather and footwear industries, which would incentivise the footwear sector	Footwear	Positive	Bata
Government has increased its allocation towards Bharat Net project to ₹ 10000 crore in FY17-18 (₹ 6000 in FY17 RE) & intends to connect 150000 Gram Panchayats via optic fibre cable(OFC)	OF/OFC Manufacturer	Positive	Sterlite Technologies
Thrust of the government towards Digital India will increase demand for broadband equipment	Broadband equipmer	Positive	D-Link India
New Metro Rail Act will be enacted by rationalising existing laws, which will facilitate greater private participation & could result in higher awarding opportunities for EPC players	Infrastructure	Positive	NCC Limited, Simplex Infrastructure, Jkumar Infra

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Pankaj Pandey, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Pankaj Pandey Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities has received an investment banking mandate from Government of India for disinvestment in ONGC. This report is prepared based on publicly available information

ICICI Securities has received an investment banking mandate from Government of India for disinvestment in Bharat Electronics. This report is prepared based on publicly available information.