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WILL THIS BUDGET HEAL THE DEMONETIZATION PAIN?

Budget Preview Report

2017-18

Research Team

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Will this budget heal the demonetization pain?

The Finance Minister (FM) Arun Jaitley will present NDA's fourth budget under the current term on February 1, 2017. We believe that the government is likely to relax its FY2018E fiscal deficit target of 3% by 30-50 bps. This is likely to increase its spending ability by ₹50,000cr-₹80,000cr in FY2018E. While this could move the focus away from fiscal discipline path, the possible gains of ~₹1lakh crore by taxing the black money deposits would support the government's spending in FY2018E. We are positive on the interest rate, as banks are expected to witness lower cost of funds by retaining the low cost deposits received through demonetization. Overall we expect 1) increase the tax slab limits to boost consumption, 2) Infrastructure spending to revive capex cycle, and 3) rural schemes to remove distress from rural economy.

Demonetization has created short term pain for the economy

The sudden liquidity crunch after the note ban has seen consumption sectors such as auto, real estate, building materials, consumer durables, etc., take a severe beating. The rural economy has also been adversely affected, as cash crisis led to a slowdown in the small scale businesses resulting in job losses. However, the economy is expecting remedial action through the budget.

Budget likely to take corrective measures

We believe that the government is likely to take corrective measures which would offer remedy to the demonetisation wounds. In our opinion, increase in individual income tax slab limits and reduction in corporate tax rate is expected to be the highlight of the budget in order to revive the consumption cycle. The PM's address on December 30, 2016 announced various corrective measures to fix the rural economy, such as affordable housing, interest subvention, credit support for small businesses, etc. We expect more measures in the upcoming budget to remove distress from rural economy.

One-off gain to maintain fiscal discipline

Over the last three years, government has achieved significant progress towards achieving Fiscal Responsibility and Budget Management (FRBM) Act target of 3%. The government is likely to step up rural infrastructure spending, which may partially pressurize its financials; however the one-off gain of ~₹1 lakh crore by taxing the black money deposits supports these spends without pressurizing the financials. The collection of lower one-off taxes, however, may pose risk to FY2018E fiscal deficit.

Lower interest rates + tax cuts = Consumption boost

We believe that government's aim is to leave consumers with more disposable income and fuel the consumption demand. Therefore, increase in tax slabs and lowering corporate tax rate will play an important trigger, as interest rates have come off in a big way. With banks retaining low cost deposits, their cost of funds is expected to remain low for a long period, indicating that interest rates will also remain low going ahead. The low interest rate and low taxes would accelerate revival in consumption demand.

Budget conviction picks

With the focus on tax reduction we expect consumption sector is likely to be a direct beneficiary from this budget. We expect FMCG, consumer durables, automobile sectors to benefit going ahead. We prefer companies like ITC, P&G, Asian Granito, Mirza International, etc. in this space. We also expect the credit cycle to revive with lower interest rates and government's impetus on housing sector and companies like Axis Bank, LIC Housing and DHFL to remain our best play. We like L&T, Powergrid and KEI industries in the infrastructure space.

Exhibit 1: Budget Arithmetic

(₹ cr)	FY16BE	FY16RE	FY17BE	FY17E	FY18E	Comments
Direct Tax	797,995	752,021	847,097	854,250	922,590	Direct taxes to increase with widening tax base and higher tax compliance
Indirect Tax	651,495	707,590	783,791	882,000	1,014,300	Periodic revision of retail petroleum prices and digitization to boost indirect taxes
Total	1,449,490	1,459,611	1,630,888	1,736,250	1,936,890	
States	529,648	512,103	576,787	614,633	685,659	In-line with historical trend
Tax Revenue	**919,842**	**947,508**	**1,054,101**	**1,121,618**	**1,251,231**	
Non Tax Revenue	**221,733**	**258,576**	**322,921**	**279,593**	**316,265**	Decline in interest receipts to be offset by increase in dividends.
Disinvestment Revenue	69,500	25,312	56,500	30,849	40,000	Rationalization of disinvestment target
Other Capital Receipts	10,753	18,905	10,634	16,738	18,730	In-line with historical trend
Total Revenue	**1,221,828**	**1,250,301**	**1,444,156**	**1,448,797**	**1,626,226**	
Revenue Expenditure	1,536,047	1,547,673	1,731,036	1,732,630	1,831,461	Likely to remain lower due to lower subsidies
Capital Expenditure	241,430	237,718	247,024	247,683	306,063	Capex to increase significantly
Total Expenditure	**1,777,477**	**1,785,391**	**1,978,060**	**1,980,313**	**2,137,524**	
Fiscal Deficit	**555,649**	**535,090**	**533,904**	**531,516**	**511,298**	
% of GDP	**3.9**	**3.9**	**3.5**	**3.5**	**3.0**	**Govt. likely to remain on fiscal discipline path, however, govt. may ease FY18E pre-set fiscal deficit target by 30-50 bps**

Source: Budget Documents, Angel Research

Exhibit 2: Key Fiscal Indicators (% of GDP)

	FY14	FY15BE	FY15RE	FY16BE	FY16RE	FY17BE	FY17E	FY18E
Gross Tax Revenue	**10.0**	**10.6**	**9.9**	**10.3**	**10.8**	**10.8**	**11.4**	**11.4**
Devolution to State	**2.8**	**3.0**	**2.7**	**3.8**	**3.8**	**3.8**	**4.0**	**4.0**
Net Tax to Centre	7.2	7.6	7.2	6.5	7.0	7.0	7.4	7.4
Direct Tax	**5.6**	**5.7**	**5.6**	**5.7**	**5.5**	**5.6**	**5.6**	**5.4**
Indirect Tax	4.4	4.9	4.3	4.6	5.2	5.2	5.8	6.0
Capital Receipt (ex borrowing)	0.4	0.6	0.3	0.6	0.3	0.4	0.3	0.3
Plan Expenditure	4.0	4.5	3.7	3.3	3.5	3.7	3.6	3.4
Non-Plan Expenditure	9.7	9.5	9.6	9.3	9.6	9.5	9.4	9.2
Subsidies	2.2	2.0	2.1	1.7	1.9	1.7	1.6	1.5
Total Capital Expenditure	1.7	1.8	1.5	1.7	1.8	1.6	1.6	1.8
Total Expenditure	13.7	13.9	13.3	12.6	13.2	13.1	13.0	12.6
Of which grants and central assistance to states	3.1	3.2	2.8	2.2	0.0	0.0	0.0	0.0
Revenue Deficit	3.1	2.9	2.9	2.8	2.5	2.3	2.2	1.6
Fiscal Deficit	**4.4**	**4.1**	**4.1**	**3.9**	**3.9**	**3.5**	**3.5**	**3.0**

Source: Budget Documents, Angel Research

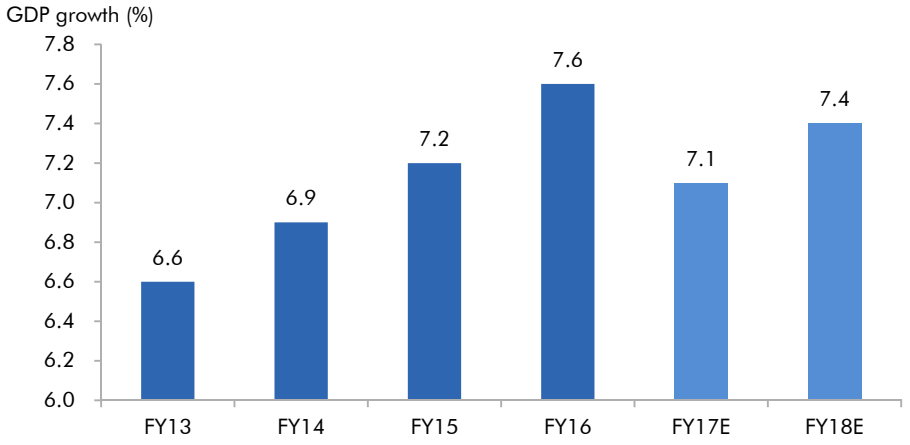
GDP growth likely to be lower owing to the demonetization

The government's unprecedented move to replace high value notes, has led to a sudden disruption in the economy. The impact can now be quantified on few sectors, most notably as below:

- Micro and small scale industries have suffered ~35% jobs losses and ~50% decline in their revenue in the last two months. Surveys indicate that there is ~60% higher demand for jobs in the rural economy.
- The housing sector has been hit massively with ~44% yoy drop in the sales volumes and ~61% yoy drop in the new project launches in Q3FY2017 in the top 8 cities.
- The December 2016 automobile sales declined by 19% yoy. Slower growth was visible in two wheelers, small cars and commercial vehicles. Utility vehicles and premium bikes, however, continued to grow. This indicates that the impact has been more on the rural side and on low income groups than the urban side and high income groups.

From the available data, it is clear that consumption and rural economy have taken a noticeable beating due to the note ban. In our opinion, demonetization would slash 60-70 bps of GDP growth each in FY2017E and FY2018E. We expect FY2017E and FY2018E GDP growth to be ~7.1% and ~7.4% respectively.

Exhibit 3: FY2017E and FY2018E GDP growth likely to be lower



Source: Bloomberg, Angel Research

2017 budget - Populist or Reformist?

With the economy going through some difficult times, it is the government's utmost priority to bring consumption back to the normal levels. For this, a fiscal boost is very much required. We believe that the fiscal boost is likely to come in the form of, 1) increasing the individual tax slab limits 2) lowering the corporate tax rates, 3) increasing the tax sops and interest subvention, and 4) higher spending on infrastructure/agriculture sector.

In our opinion, these measures appear to be low hanging fruits and somewhat populist in nature. The macro conditions in the last few months have changed with crude price crossing $50 mark and the Dollar strengthening against all major

currencies. Further, with the strengthening of the US economy, the Dollar should continue to firm up going ahead. The crude oil price may reach $60-$70 per barrel due to the production cuts by OPEC. This along with slower domestic growth may pressurize the government's fiscal position in case taxes are lowered.

The government has been ambitious of improving its credit rating and rank in the ease of doing business and hence, has initiated several reforms in the last three years. While government may relax the targeted fiscal deficit from 3% to 3.30%-3.50% in FY2018E in order to fuel the economic growth, the widening of the deficit beyond 3.50% could be seen negatively by the rating agencies and opposition. We believe that government will make a fine balance between the reformist and populist measures to spur the growth in the economy, while maintaining the fiscal discipline. According to us, demonetization will help the government if it collects ~₹1 lakh crore by taxing the black money deposits, which will cushion its next year's fiscal position.

Exhibit 4: Key reforms in last three years

Reform	Year
Simplification of FDI policy in defense and aviation sector	Aug-14
Real estate bill	Mar-16
AADHAR bill	Mar-16
Insolvency and bankruptcy code	Jun-16
Goods and Services Tax (GST)	Aug-16
Introduction of monetary policy committee	Sep-16
Land acquisition bill	Dec-16

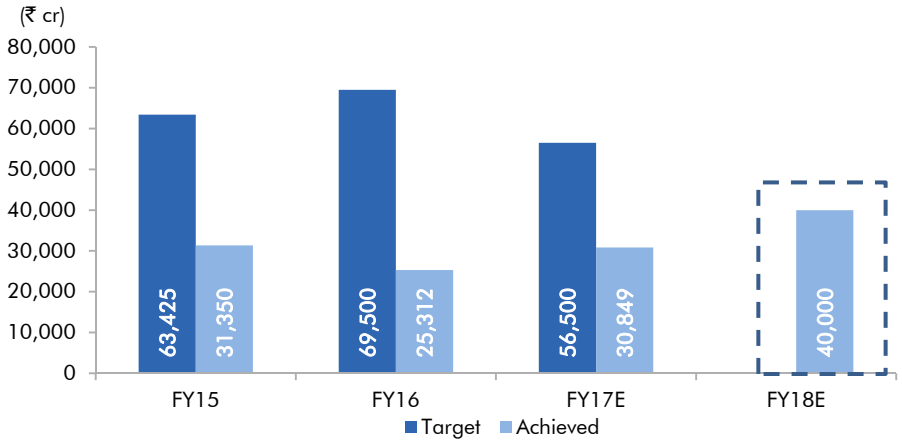
Source: Angel Research

FY2017E disinvestment receipts likely to miss the target, expect lower FY2018E target

The government has not met the divestment target over last many years and this trend is likely to continue for this year too. The government had set an ambitious disinvestment target of ₹56,500cr for FY2017E. Out of this, ₹36,000cr is to be raised by selling minority stakes in PSUs and the rest ₹20,500cr through strategic stake sales from Specified Undertaking of Unit Trust of India (SUUTI) holding. This year so far, ₹23,529cr has been raised through the disinvestment route (₹21,432cr through minority stake sale and ₹2,096cr through sale of L&T stake from SUUTI holdings).

The government plans to launch a 2nd tranche of the CPSE ETF in January-2016 to raise additional ₹6,000cr. It also has approved 26% stake sale in Bharat Earth Movers (BEML), which is likely to add ₹1,320cr in the total disinvestments. Adjusting the additional divestments of ~₹7,320cr in the remainder of the year, we believe that total disinvestments for FY2017E are expected to be ₹30,849cr. The government, however, is confident of raising ₹45,000-50,000cr, still missing the target by ~20%.

Exhibit 5: FY2017E divestments target missed, FY2018E to be rationalized



Source: Angel Research, Budget documents

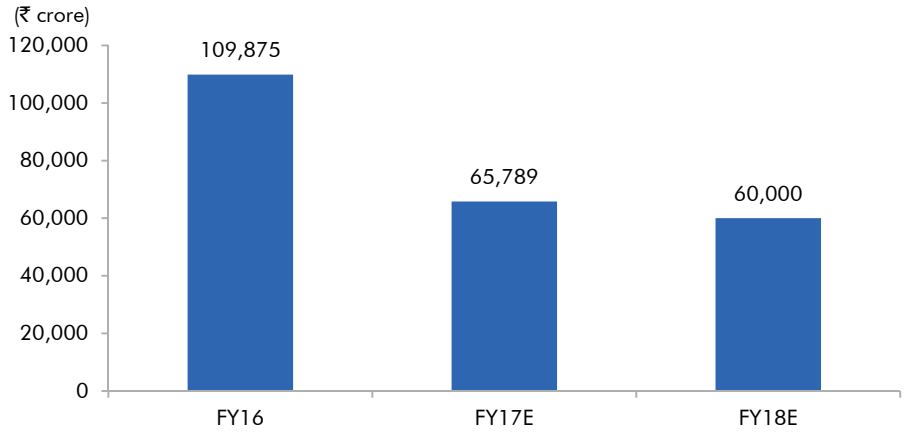
With the expectation of one-off tax collection in FY2017E, the disinvestment target for FY2018E is likely to be lower at ~₹40,000cr.

FY2017E spectrum auction to collect lower upfront fees, target rationalization expected in FY2018E

For FY2017E, Finance Ministry had expected telecommunications revenues of ₹98,995cr. This included spectrum auction upfront payment of ₹64,581cr and the rest in the collection of previous auction arrears. While the government had expected to receive huge upfront payment from the October 2016 auctions, it only managed to sell auctions worth ₹65,789cr. Of this, ~₹32,434cr came as an upfront payment, missing the full year target by 49%. The auctions saw poor interest due to the stretched balance sheets of the telecom players, high bid price for 700 MHz band and competition and price war, which started after entry of Reliance Jio.

With the shortfall of ₹31,700cr, and no bidder for the 700MHz and 900MHz bands, FY2017 auctions failed to generate interests of telecom companies. In view of the hyper competition and leveraged balance sheets, the government may rationalize the spectrum auction target. Overall we expect telecommunications revenues of ₹60,000cr in FY18E.

Exhibit 6: Spectrum auctions miss target due to expensive bid prices



Source: Company, Angel Research

Subsidy burden to ease with lower crude prices and high grain storage by FCI

The subsidy burden is likely to remain lower this year due to periodic revision in the retail petroleum prices, stopping the gas subsidies to rich consumers, reducing the food subsidy leaks by removing fake ration cards, computerization of the public distribution system, etc.

In FY2016, while all other subsidies remained in-line with budget estimates, there was a 13% spike in the food subsidy from budgeted ₹1.24 lakh crore to actual ₹1.40 lakh crore. This was due to the hike in MSPs of wheat and paddy as well as lower storage of food by Food Corporation of India (FCI), which led to an increase in the cost of procurement and distribution. This year however, food subsidy is likely to meet the budgeted estimates due to excess food grain storage by FCI.

The government is also expected to meet the targeted fertilizer subsidy in FY2017E owing to the lower gas prices in the first half of the fiscal. The increased fertilizer volumes owing to a good monsoon and strong sowing of Rabi crops may cap the subsidy gains. We believe that the fertilizer subsidy burden for FY2018E is likely to be ₹72,322cr in view to boost the agriculture sector.

As a part of the government's fiscal consolidation efforts, petroleum subsidy has seen massive cuts, which declined from 38% of the total subsidy burden in FY2013 to 11.6% in FY2016. This year too, we believe that petroleum subsidy bill is likely to reduce with decline in the crude prices, revision in retail petroleum prices and lower gas subsidies; moreover, the government is likely to reduce the petroleum subsidy bill to ~₹15,653cr. With the emphasize remaining on reduction in petroleum subsidies, next year's petroleum subsidy bill is likely to be ₹15,040cr.

Exhibit 7: Subsidy Break-Down

(₹ cr)	FY13	FY14	FY15	FY16BE	FY16RE	FY17BE	FY17E	FY18E
Major Subsidies	**247,493**	**244,717**	**249,016**	**227,388**	**241,857**	**231,782**	**226,007**	**230,991**
Fertilizer Subsidy	65,613	67,339	71,076	72,969	72,438	70,000	69,540	72,322
Food Subsidy	85,000	92,000	117,671	124,419	139,419	134,835	140,813	143,629
Petroleum Subsidy	96,880	85,378	60,269	30,000	30,000	26,947	15,653	15,040
Interest Subsidy	7,270	8,137	7,632	14,903	13,808	15,523	14,361	15,079
Other Subsidy	2,316	1,778	1,610	1,520	2,136	3,128	3,128	4,066
Total Subsidy	**257,079**	**254,632**	**258,258**	**243,811**	**257,801**	**250,433**	**243,495**	**250,136**

Source: Budget Documents, Angel Research

FY2017 fiscal deficit target to be met with acceleration in indirect tax collection

The government in its first budget had kept an ambitious target to reach the Fiscal Responsibility and Budget Management (FRBM) Act limit (3% of GDP) in FY2018E. Due to the friendly external environment and recovery in the Indian economy, government has been able to reduce the fiscal deficit in the last two years, which stood at 3.9% of GDP in FY2016. This fiscal too, government is likely to meet the fiscal deficit target of 3.5%.

In 9MFY2017, the government has seen a strong collection of direct tax (₹ 5.53 lakh crore) and indirect tax (₹6.3 lakh crore), which translates in a yoy growth of 12% and 25% respectively. Indirect taxes have seen a strong growth mainly due to the introduction of Krishi Kalyan Cess and periodical revision of retail petroleum product prices.

India's fiscal deficit for the period of April-November 2016 stood at ₹4.6 lakh crore; 85.8% of FY2017 budget estimates v/s 79.3% for the period of April-October 2016. While the fiscal deficit saw fast acceleration in November 2016, the government is likely to meet its full year fiscal deficit target of ₹5.33 lakh crore or 3.5% of GDP for 2016-17 due to the strong tax collection.

Exhibit 8: Tax collection so far

(in ₹ Lakh cr)	9MFY17	9MFY16	YoY growth (%)	FY17 BE	% of FY17 BE completed
Indirect Tax collections					
Central Excise	2.8	2.0	43.1	3.2	87.6
Service Tax	1.8	1.5	23.9	2.3	79.2
Customs	1.7	1.6	4.1	2.3	72.6
Total Indirect Tax collections	**6.3**	**5.0**	**25.0**	**7.8**	**80.7**
Total Direct Tax collections	**5.5**	**4.9**	**12.0**	**8.5**	**65.3**
Fiscal deficit (Until Nov-2016)	**4.6**	**4.9**	**(6.1)**	**5.3**	**85.8**

Source: Budget documents, Angel Research

FY2017E likely to receive one-off tax gains from Income Declaration Scheme; commentary on the one-off tax collection critical

The 2016 Income Declaration Scheme (IDS) saw disclosure of black money worth ₹55,000cr. Through the 45% tax + surcharge on this income, government is expected to receive ~₹24,750cr through IDS-2016. This is likely to offset the tax receipts that may reduce due to the trade disruption caused by demonetization.

The newly announced Pradhan Mantri Garib Kalyan Yojana 2016 (PMGKY) is also anticipated to give higher tax collection to the government. As per government estimates, ₹3-4 lakh crore black money has been deposited in individual accounts during the demonetization period. The income tax authorities are tracking these deposits to find whether black money was actually legalized. ₹1 lakh crore of tax collection is expected from PMGKY which will provide a strong war chest for the government to revive the economy.

Government may relax FY2018E fiscal deficit target

Considering the lower economic growth and strong fiscal position, the government must undertake public spending to bring the economy back on the growth path. This is also required considering that the private sector capex may take some time for revival due to the slowdown in the economy.

On this backdrop, we believe that the government may relax the 3% fiscal deficit target for FY2018E. We are of the opinion that the government is likely to increase the public spending on infrastructure, rural and social schemes. Job creation is important, particularly in the rural segment where the impact of the demonetization has led to job losses. The government has already indicated of possible lower tax rates for personal and corporate income tax, which also is must to push the consumption growth.

The lower tax collection and higher expenditure may push up fiscal deficit from the targeted 3% in FY2018E. Our analysis suggests that if economy grows by 7.4% next year, then fiscal deficit of 3.3%-3.5% would increase the government's spending capacity by an additional ₹50,000-₹80,000cr (without assuming the PMGKY collection).

Key Budget Expectations

Reduction in taxes to boost the consumption demand

The 2016 budget proposed lower taxes for the small enterprises in tandem with government's objective of improving ease of doing business and promoting entrepreneurship. It also indicated of reducing the corporate tax rates from 30% to 25% over the period of four years (form FY2018E-FY2021E).

We believe that government is likely to increase the personal income tax slab limits and lower the corporate tax rates as well. The lower taxes are expected to increase the disposable income, which will lead to an increase in the discretionary spending, and thus, help in the revival of consumption demand as well as see increase in investments.

Higher allocation towards rural and agriculture schemes to revive rural India

As the rural economy has taken a noticeable hit due to demonetization, we believe that 2017 budget will emphasize on the rural and agriculture schemes. Agriculture and related sectors are major employment generators and any boost to these sectors should lift up the sentiment from the rural side. Government has already offered lower interest rates and interest subvention on low cost housing projects. The budget is likely to see more rural related schemes.

In view of the job losses in MSME sector, we expect this sector would also remain in focus during the budget. The PM on December 30, 2016 announced higher credit guarantees to MSME sector and further push may arise in form of tax waivers and lower interest rates.

Real estate and Infrastructure spending - key to increase jobs

The real estate sector has been negatively impacted due to demonetization. Housing alone directly contributes 5-6% in the GDP and has a multiplier impact on various other sectors such as cement, steel, consumer discretionary, etc. We believe that the government will focus on the revival of real estate sector, which in turn will also help to increase employment.

The private sector capex has been mute for the past few years and lower capacity utilization indicates that near term revival is difficult. In an absence of private capex, government has to step up with a public capex to revive the investment demand. The government has been vocal of the infrastructure needs of the country since beginning, and hence, we believe that, this is the best time for the government to announce higher infrastructure spending. These are likely to be used in renewal of roads, railway infrastructure, airports and ports.

Digital economy to be a focus area

The government is highly ambitious for popularizing the digital payments in the economy. This, we believe, is another step to formalize the economy. In the long run, we expect this will be beneficial for the country in garnering higher taxes, improving the ease of doing business and reduce the black money generation. In our view, government may announce tax incentives for using digital payments / card payments in transactions.

Commentary on capital gains tax to be watched by investors

This budget is likely to see how government goes ahead with its plans to tax the capital gains. There is no capital gains tax for equity investments held for more than one year (long term) while short term investments are taxed at 15%. Investors also pay tax in form of Securities Transaction Tax (STT) as well as dividend tax on if dividend received is above ₹10 lakh.

We do not expect significant change in the short term capital gain tax or dividend tax. The government however may change the holding period from one year to 2-3 years to avail long term capital gains benefit. The budgetary announcement on the capital gains tax will be critical for the investors.

Next stop - GST rollout

The GST bill was passed in August 2016 and progress has been achieved in finalizing the tax rates for various slabs. As per the GST constitutional amendment, current tax regime will expire by September 2017, and hence, there is also a constitutional compulsion to implement GST. The GST regime is expected to further widen the tax base, formalize the economy and also improve the ease of doing business.

The December session of the parliament was washed out due to demonetization however the centre and states have reached a consensus on dual control. GST council has also finalized the tax rates however setting the rates for various slabs is yet not completed. After this, key hurdles that need to be addressed are finalization of draft legislation and approval by respective authorities. As the pending issues are likely to take some time, GST most probably will miss the earlier target date of April 1, 2017 and would get implemented between July-2017 to September-2017.

The GST will widen the tax base and streamline the tax system, which will broadly ease off the concerns for businesses from the taxation perspective. The GST will clearly pronounce the applicable tax rates for various goods and services and also define a uniform service tax. The GST is expected to be a revenue neutral exercise, however, with more firms, mainly the ones in the unorganised sector to come under the tax purview, we can expect enhanced tax revenue collection by the government in the medium to long term.

Sector-wise Key expectations from the budget and expected overall impact

Sector	Key expectation from the budget	Expected Overall Impact
Automobile	Increase in the income tax slabs and uniform excise duty	Positive
Banking	Higher Recapitalization of PSU banks and addressing NPA issues, housing for all	Positive
Capital Goods	Expect higher allocation to the railways and defense which will provide fillip to the sector.	Positive
Cement	Infrastructure spending and housing scheme	Positive
FMCG	Increase in Rural spend, Increase in the income tax slabs to boost consumption	Positive
Infrastructure	Higher budgetary allocation, announcements towards flagship programs, could create more interest for private sector participation	Positive
IT	Some Tax benefits	Neutral
Metals & Mining	Expect measures to protect domestic aluminum players which are troubled with cheap imports	Neutral
Oil & Gas	Expect measures to boost the LNG industry	Positive
Pharmaceuticals	Higher budgetary allocation for healthcare and R&D tax benefits	Positive
Power	Tax exemptions for renewable energy sector, possible reduction in clean energy cess	Positive
Real Estate	Announcement on REITs tax structure and higher allocation towards Housing for All scheme could be made	Positive
Tyre	Re-imposition of anti dumping duty to curb tyre imports from China	Positive

Sector-wise Expectations

Automobile

Expected Impact: Positive

Automobile sector had been on a strong recovery path during the first half of the current fiscal. Especially, the passenger vehicles saw strong demand with revival in consumer sentiment, better monsoon and payout of 7th pay commission.

Demonetization, has however, impacted the industry severely with November 2016 and December 2016 sales showing weakness across the segments. Domestic two wheeler companies (except Eicher Motors) saw yoy volume decline of ~16%. Though the four wheeler companies saw flat volume growth yoy, a deep look in numbers suggests that entry level vehicles have seen decline, while the premium category vehicles have continued to grow. The commercial vehicles also saw a yoy decline of ~6%, indicating that revival of CV segment will be further delayed.

The auto industry was expected to post strong growth numbers in FY2017E; however, the recent performance is likely to be a drag on the full year numbers. The auto companies have also taken production cuts and dealer deliveries have also slowed. We believe that the March quarter numbers are also likely show a yoy decline.

Upcoming budget in this regards will be very important. Though the lower interest rates will benefit the industry going ahead, the lower tax rates will leave consumers with more disposable income and will help to revive the industry growth. Last year, payout of 7th pay commission played a very vital role for reviving the demand in the industry and similar effect would be witnessed if the government goes for personal income tax rate cuts.

On this expectation, we believe the budget to be positive for the industry and expect Maruti to emerge as beneficiary considering its large market share and Pan-India presence.

Exhibit 9: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Excise duty	Uniform excise duty on passenger cars	Currently passenger cars fall in different excise duties ranging from 6% to 30%. The industry expects to have a uniform excise duty structure	Under the GST regime, highest tax rate would be 28%, less than 30% currently paid on the SUVs. Going by this, we believe that government may reduce excise duty on SUVs.	**Positive** for SUV makers, amongst listed players **Maruti Suzuki**, **M&M**, **Tata Motors**, etc.
Income tax	Increase in the income tax slabs	Current income tax rates and slabs are 10% (₹2.5L -₹5L), 20% (>₹5L to ₹10L) and 30% (above ₹10L)	Sector expects government to increase the income tax slabs which will increase the disposable income and boost the automobile demand	We believe this will be positive for all passenger vehicle manufacturers

Source: Company, Angel Research

Banking

Expected Impact: Positive

The Banking sector has been undergoing a painful stage in India. While large scale defaults have weakened the balance sheet of banks on one hand, lower credit growth is exerting cost pressure on the other. Credit growth has been the lowest in a decade, while demonetization has resulted in deluge in bank deposits and consequently banks have reduced the MCLR based lending rates. Despite RBI's REPO rate cut by 175 bps since January, 2015, credit demand has been weak. As per the latest data, the yoy credit growth has decelerated to ~5% from 9-10% few months back. With effect from January 21017, leading banks have reduced the lending rates, which should help in credit demand revival to some extent.

For the Banking sector to see credit revival the Industrial credit has to pick up and that can be done only when capex is enhanced by both i.e. Government and Private Sector. Higher capital allocations to PSBs will be the key expectation from the Government during the budget. The new Bankruptcy code came into effect during the year and was one of the key reforms brought about in the Banking sector in last budget. There could be more provisions to strengthen the law during the year.

Higher allocation to infrastructure, housing and urban development will ease the stress level of corporate India's Balance Sheet: It is a known fact that the asset quality of the banking sector has deteriorated sharply due to compounding problems in the commodity sector. However, there has been some improvement in the pricing in the last few months and higher thrust in Infrastructure could help create additional demand for steel and other metals, which will indirectly benefit the banking sector, as the underlying companies would be able to service their debt.

Capital infusion should be hiked in FY2018: The Government had hiked its capital infusion allocation in PSU Banks to ₹25,000cr for FY2017. The RBI's call for AQR and subsequent recognition of troubled assets as NPAs by banks, have negatively impacted the capital adequacy position of a lot of PSU banks. With profitability under severe stress, some of the small banks will find it difficult to meet the regulatory requirement also. We believe, given the current capital adequacy of the PSU banks, the Government will have to set aside much higher capital for FY2018.

Strengthening of Banking Board Bureau: The Bank Board Bureau (BBB) started functioning during the year and the BBB Chairman had recently expressed that public sector banks will have attractive pay packages going ahead to attract and retain talents. Further frame work on this could be announced.

Overall, we expect the Budget to be positive for the BFSI Sector.

Exhibit 10: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Reviving the core sectors, including metals which account for large part of the stress	Slippages continue to be high in the commodity sector, due to underutilization of the industry. Clearance for infra still sluggish resulting in cost overruns.	Increased spending on infrastructure and focus on capex revival (both Govt and Pvt)	Lower slippages and consequent improvement in bottom-line
Further strengthening of Bankruptcy code:	Lengthy process of debt recovery.	Further simplifying the liquidation process of the defaulting companies	Higher recovery of NPAs
Higher Capital Allocation:	Most PSU banks under capitalized		Cleaning up of balance sheet and meeting loan growth
Strengthening Banking Board Bureau	Implemented from 1st April, 2016 & appointing industry veterans on board	Measures to bring in more accountability on PSU Banks and further guidelines on consolidation , provisions to attract fresh talent from the industry	More and direction towards consolidation among PSU banks. Resulting in enhanced ability to raise funds and reduce stress.
Raise the limit for deductions for principle repayment of home loans	Ceiling under tax benefit capped at ₹1.5lakh	Raise the limit to ₹2lakh	Higher incremental demand for housing
Increased the deduction of interest paid on home loan	Maximum of ₹2lakh for interest on home loan allowed for deductions	Raise it to ₹3lakh	Higher incremental demand for housing

Source: Company, Angel Research

Exhibit 11: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/BV (x)		ROE	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
Axis Bank	Buy	486	580	18.4	41.5	2.0	1.7	8.1	16.5
LIC Housing	Buy	532	630	39.0	46.0	2.6	2.1	19.9	20.1
DHFL	Buy	285	350	29.7	34.6	1.5	1.3	16.1	16.8
Equitas Holdings	Buy	155	235	5.8	8.2	2.4	2.1	10.9	11.5

Source: Company, Angel Research

Capital Goods

Expected Impact: Positive

Having come to power since ~3 years back, the government has taken several measures to revive the economy and has already identified areas of improvements/development, which will lead the economy on the inclusive growth path. However, the domestic economy has not yet witnessed any major signs of private sector capex recovery. The government has initiated strong awarding across Roads & Highways, Railways, Metros, and Defense sectors, which we expect would continue going forward. Considering the government's thrust on infrastructure, we expect awarding to proliferate into other sectors like, housing, Smart Cities, Inland Water Transport and water treatment.

Indian Railways

First time in 92 years, Railway Budget will be a part of the main Union Budget, and will not be presented separately. The move to discard the age-old practice of a separate Rail Budget is part of the NDA government's reform agenda. After merger, Railways would not have to pay the dividend (up to ₹10,000Cr) to the central government and its capital at charge would stand to be wiped off. The Railways is looking at close to ₹1.35lakh crore of financial outlay for FY2018 and plans to tap extra budgetary resources to stick to the FY2018 outlay. A major chunk of the incremental budgetary spend was towards Dedicated Freight Corridor Corp. (DFCC), construction of new lines, doubling of lines, and towards rolling stock (including engines, coaches, wagons). Also, Railways is exploring the PPP route across a few areas which should reduce its financing burden and at the same time help in raising funds to enable it to incur developmental capex.

Defense

Defense has got thrust since the NDA government came to power, but due to the complex procurement process, high gestation period for defense manufacturing historically and the sharp rise in manpower costs implies that capex has been under pressure. However, with the government stepping up local manufacturing and modernization efforts under 'Make in India' campaign, the hope is that capex will gather pace from 2017. Jane's Defense Budget report by IHS Markit forecasts India to re-emerge as a key growth market for defense suppliers over the next three years.

The challenge for the defense ministry is not budget allocation but execution. Standing committee's examination of past defense budgets revealed that the government's ability to spend has come under repeated pressure. The ministry of defense has surrendered about ₹35,000cr from its capital allocations in previous four years.

Nevertheless, due to cross border tensions, it is more likely that defense will receive higher allocation.

On the whole, we expect the Budget to be Positive for the Capital Goods sector.

Exhibit 12: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Capital Outlay towards Core Defense Services	Allocated ₹ 78586cr	Expect ~10% increase in allocation	**Positive** for Defensive players like, **BEML, BEL**
Allocation towards Railways	Increased allocation by 52.8% yoy to ₹100,011cr	Expect ~15% increase in allocation	**Positive** for **BEML, Titagarh Wagons, L&T, ABB, Siemens**
Allocation towards Roads & Highways	Allocated ₹55000cr	Expect 15%-20% increase in allocation	**Positive** for Construction Equipment players like, **TIL, Greaves Cotton, Voltas**
Allocation towards Rural Electrification Scheme	Allocated ₹3000cr	Expect 20% increase in allocation	**Positive** for companies like, **KEC, Jyoti Structure, Kalpataru Power**
Allocation towards Metros	Allocated ₹10000cr	Expect 20% increase in allocation	**Positive** for companies like, **BEML, Titagarh Wagons**
Allocation towards Water Resources, River Development & Ganga Rejuvenation	Allocated ₹3160cr	Expect allocation of ₹4000cr	**Positive** for companies like, **Thermax, VA Tech Wabag**

Source: Company, Angel Research

Cement

Expected Impact: Positive

New launches by real estate sectors was one of the lowest in recent years, this together with a sharp contraction in rural demand will take a toll on the overall demand for cement in the current year. Cement industry grew by ~6% in Q1FY2017, which slowed down to ~3.3% in Q2FY2017. However, during the current quarter, the industry is likely to see negative growth of 3-4%. Even if Q4 sees some demand pick then also it is highly possible that the industry will end up on a flat note for FY2017. Ideally, cement industry grows 1x-1.5x of GDP growth, however, the entire process of demonetization has taken a hit on the demand for real estate and even personal construction in the rural areas has slowed down to a large extent. Housing sector accounts for 67-70% of the cement industry demand, while balance comes from various infrastructure sectors. The Government has been taking large initiatives for Housing for all, and this could gain further momentum this year, which in turn would be a positive trigger for the cement sector.

Cement attracts higher excise duty at 12.5% v/s. other core industries, which attract ~6%. Cement is one of the key inputs for any infrastructure activity, and hence, to sustain higher GDP growth, continuous capacity addition will be required going ahead, therefore rationalization of tax is expected.

Housing for all schemes is one of the pet projects of the Government with a focus on rural housing. The Government has already announced interest subvention of 4% on loans up to ₹9 lakh and 3% on loans up to ₹12 lakh. More clarity on this could help revival in cement demand in the medium term.

Overall, we expect the Budget to be positive for the Cement sector.

Exhibit 13: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Higher allocation for Infrastructure Increased thrust on Affordable Housing	Low volume growth	Pick up in volume and	Higher volume growth and in turn improved realization
Reduction in excise duty	Attracts excise 12.5% duty	Reduction to ~6-7%	Improvement in Margin.

Source: Company, Angel Research

FMCG

Expected Impact: Positive

Since the last two years, we have not witnessed any significant revenue growth in the FMCG sector due to the slowdown in rural demand. However, during FY2016, a positive sentiment was created in the FMCG industry on the back of better monsoon and 7th pay commission. Nonetheless, owing to demonetization the positive impact was subdued and the industry went through a slowdown due to liquidity crunch. However, going forward, we expect an improvement in the situation with the effect of demonetization and liquidity crunch easing subsequently. We believe that the FMCG sector will benefit from the easing liquidity and possible tax benefits going ahead.

Overall, we expect the Budget to be broadly Neutral for the FMCG sector.

Exhibit 14: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Increase in rural spending	Relatively lower allocation in last budget	Increase in allocation to marquee programs such as the Pradhan Mantri Krishi Sinchai Yojana, Rashtriya Krishi Vikas Yojana, Pradhan Mantri Gram Sadak Yojana etc.	Will provide a boost to the overall rural economy. **Positive** for the entire FMCG sector which has **significant rural exposure**
No Increase in Excise Duties on Cigarettes	Duty varies as per the length of the cigarette stick	No change	**Positive** for companies like **ITC, Godfrey Phillips, VST Industries** etc.
Increase in the income tax slabs	Current income tax rates and slabs are 10% (₹2.5L -₹5L), 20% (>₹5L to ₹10L) and 30% (above ₹10L)	Sector expects government to increase the income tax slabs which will increase the disposable income and boost the automobile demand	It will leave more money in the hands of consumers which would boost demand for FMCG companies

Source: Company, Angel Research

Exhibit 15: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
ITC	Buy	252	284	8.8	9.9	28.6	25.5	18.5	16.3
P&G	Accumulate	6,750	7,369	141.9	158.3	47.6	42.6	30.8	27.0

Source: Company, Angel Research

Infrastructure

Expected Impact: Positive

According to the last three budgets, it is amply clear that the Government has realized the importance of focusing on the infrastructure sector as one of the key cornerstones to achieve overall progress. The total allocation for infrastructure sector in the last budget was ₹2,21,246cr (including capex on railways). The Indian infrastructure sector still continues to be one of the major thrusts pushing the economy in the upward direction. With this background, let us look at the budgetary expectations for the infrastructure sector.

Roads & Highways

In the previous budget, the government had set a target of awarding ₹55,000cr for road projects. For 9MFY2017, NHAI has already awarded projects worth ₹36,588cr while remaining ₹55,000cr of NHAI road projects are at various stages of tendering and awarding.

Exhibit 16: MoRTH Funding mix

(₹ in cr)	FY2015	FY2016	FY2017
NHAI+MoRTH	21,000	75,000	70,000
Borrowings	4,230	42,000	55,000
Budget Allocation	16,770	33,000	15,000

Source: Angel Research, Budget Docs

Exhibit 17: NHAI awarding details

	kms	Value
YTD (Dec-2016)	5,642	36,588
- EPC	4,043	15,961
- BOT	422.17	4,616
- Hybrid	1176.66	16,011

Source: NHAI, Angel Research

Assuming that NHAI would set an awarding target of 15,000kms in FY2018 and given the current tendering pipeline, we are expecting a 30% increase in budgetary allocation towards the Roads & Highways Ministry.

Exhibit 18: Allocation towards MoRTH

(₹ cr)	FY2014	FY2015RE	FY2016BE	FY2017BE	FY2018E
Ministry of Road Transport & Highways (MoRTH)	14,891	16,770	33,049	57,976	63,774

Source: Budget Docs, Angel Research

'Smart City', 'AMRUT' & 'Housing for All' in focus again

Some other thrust areas for the government are the 'Smart City', 'AMRUT', and 'Housing for All' schemes. Under the Smart Cities Mission, the government proposes to develop 100 cities as Smart Cities over the next three years. With the 27 cities announced in the third list, the total number of Smart Cities chosen has

increased to 60. Early stage work has commenced across the selected cities, with awarding momentum expected to catch-up from FY2018 onwards. We sense that very little of the allocated ~₹7,205cr has been utilized towards the 'Smart City' & 'AMRUT' schemes. However, with awarding for selected Smart Cities nearing project life cycles, allocation towards Smart Cities would increase by 20%. Also, more clarity on the broader funding mechanism of Smart Cities will emerge soon.

On the whole, we expect ~20% increase in allocation towards these 2 schemes.

Exhibit 19: Allocation towards 'Housing for All' (under various Ministries)

(₹ cr)	FY2014	FY2015RE	FY2016BE	FY2017BE	FY2018E
Housing & Poverty Alleviation	12,759	14,752	20,217	25,486	28,035
Rural Development	22,787	25,195	24,316	33,000	36,300
Allocation to Rural Infra and 'Housing for All'	35,546	39,947	44,533	58,486	64,335

Source: Budget Docs, Angel Research

In the previous budget 'Housing for All' got decent interest, we expect momentum to remain in system and ~10% increase in allocation towards rural infrastructure (including roads and bridges) schemes.

In addition to the allocation details shared, we have high conviction that announcements on following fronts would be made:

(1) More details on National Investment and Infrastructure Fund (NIIF) and to setup more similar funds to boost infrastructure growth.

(2) Roadmap on how the PPP space could be revived.

(3) Commentary on faster execution of the Dedicated Freight Corridors and Industrial Corridors.

We also expect some announcements towards the Ports sector and inland waterways.

Amendment of Section 80-IA Regarding Upgrading Existing Infrastructure

We expect suitable amendments should be made in the Act to clarify that the up-gradation/extension of the existing infrastructure facility would also be eligible for the benefit under section 80-IA of the Act or under section 35AD of the Act (as per the amendment made by the Finance Act, 2016). Clarification on this issue would boost the investor sentiment, and thereby, lead to modernization of antiquated infrastructure of the country.

On the whole, announcement on the above lines could lead to an uptick in awarding cycle from the government's side, which would be favorable for the sector. **All in all, we expect the upcoming Budget to be Positive for the Infrastructure sector.**

Exhibit 20: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Capital Outlay on Roads & Highways	Allocated ₹55000cr	Expect ~30% increase in allocation	**Positive** for Road sector focused EPC players like, **KNR, MBL**
Budgetary Allocation by Ministry of Housing & Poverty Alleviation	Allocated ₹25,486cr	Expect 10% increase in allocation	**Positive** for smaller EPC players
Allocation towards Ministry of Rural Development (schemes focused on rural housing, roads and bridges)	Allocated ₹25795cr	Expect 10% increase in allocation	**Positive** for unlisted EPC players
Allocation towards Urban Development Ministry (covers Smart City & AMRUT scheme)	Allocated ₹7205cr towards these 2 flagship programs	Expect ~20% increase in allocation towards these schemes	**Positive** for Infra players like, **NBCC, L&T**

Source: Company, Angel Research

Exhibit 21: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
L&T	Accumulate	1,446	1,634	61.1	66.7	22.6	20.7	7.2	6.6

Source: Company, Angel Research

Information Technology

Expected Impact: Neutral

For the IT sector, FY2017 has not been as expected. The industry started the year, with expectations of growing by 12-14% in Constant Currency (CC) terms (Nasscom projections). However, this was later trimmed down to 10-12% to US$119-121bn in Constant Currency terms. Hence, the growth has fallen into the lower range of the previous guidance provided by the industry body. The guidance has been pruned down on the back of the macro-economic environment marked by volatility in equity and investment markets, currency fluctuations and political instability in global markets as well as higher visa fee in the US & UK (on the back of Brexit). India's IT-BPO sector's total revenue is projected to reach US$350bn by 2025, a CAGR of 10.5%.

The Indian outsourcing industry, which has the largest market share of the global outsourcing market, followed by China, Malaysia and Indonesia, grew to 56% in FY2016 from 55% in FY2015. According to R. Chandrasekhar, President of Nasscom, the industry needs to fundamentally transform its business models, solution offerings, organization structure and capabilities to strengthen its market leadership position. Further, going forward, revenue growth alone may not be an adequate indicator for the growing capability and capacity of the Indian technology industry and factors such as investments, valuations, digital solutions portfolio, etc. would also need to be considered in assessing the industry performance and contribution to the economy.

As per the Budget, the Industry is not looking forward to any major incentives, barring few, like tax benefits. **Overall, we expect the Budget to be broadly neutral for the sector.**

Exhibit 22: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Deductions on R&D expenditure	Extend Deduction under Section 35(2AB) of the Income Tax Act to Computer Software. Currently, weighted deduction of 200% is available for expenditure incurred on scientific research on in-house research & development facility as approved by Department of Scientific & Industrial Research.	There is an ambiguity whether in-house Research & Development facility for computer software is covered within the ambit of section 35(2AB) and whether the software product should be eventually owned by the company.		Will be positive for the Industry, though marginally as very few companies are into R&D.
Accelerated Depreciation on IT and Telecom Hardware Products	As per the announcement made by the Finance Bill, 2016, the highest rate of depreciation will now be restricted to 40% with effect from 1 April 2017 (i.e. from previous year 2017-18 and subsequent years). The accelerated depreciation on assets like computers (including computer software) is provided not as an incentive but considering their fast obsolescence due to rapidly changing technology. It is accordingly recommended that accelerated depreciation on computers and computer software be retained as even the current rate of 60% on computers (including computer software) is not sufficient keeping in mind the pace of technological obsolescence.	Further, most IT products have approximately the same, if not shorter, life cycle as computers and computer software, however, accelerated depreciation is not allowed on them. It is recommended that the rate of depreciation in relation to computers, software and other IT products (i.e. all ITA goods) be increased.		Will be positive for the Industry.

Source: Company, Angel Research

Exhibit 23: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
HCL Tech	Buy	836	1,000	55.7	64.1	15.0	13.0	11.0	8.9
Infosys	Buy	956	1,249	62.5	69.4	15.3	13.8	9.8	8.5

Source: Company, Angel Research

Metals & Mining

Expected Impact: Neutral

The Indian steel industry has been reeling under immense stress from import glut and predatory pricing for last couple of years. The inbound shipments from China, Japan and South Korea have been persistently hampering the domestic steel business. In order to secure them, the government has already taken protective measures to support the domestic steel industry. Firstly, on February 5, 2016, the government had imposed an MIP on 173 steel products ranging between USD 341-752 per tonne, for a period of six months to guard the local industry against cheap Chinese imports. This list was later pruned to 66 items in August 2016 and subsequently to 19 products in December 2016. MIP has now been extended on 19 steel products in the range of USD 643- 752, till February 4, 2017. Secondly, in the month of May 2016, government made BIS (Bureau of Indian Standards) norms mandatory on steel products. Thirdly, Government extended safeguard duty till March 2018, just before the expiry of the provisional safe guard duty on steel on March 31, 2016. Recently, India has imposed anti-dumping duty (USD 849 per tonne) on certain varieties of steel products imported from China and European Union.

We believe, a lot of measures have already been taken pre budget and we do not expect the government to make any major announcements for the metals sector.

However, we expect some protection to be extended to the aluminium sector (MIP, removing the anti-dumping duty on caustic soda import and change in classification to lower freight cost); Indian producers have faced an increasing onslaught of cheap aluminium from overseas during the past several years, especially from the Mideast and the People's Republic of China.

We believe, the government's thrust on the infrastructure sector and steps to revive the investment cycle would, in general, be positive for the metals/mining sector.

Overall, we expect the Budget to be broadly Neutral for the Metals and Mining sector.

Exhibit 24: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Duties	Import Duty on Stainless Steel	7.5% Stainless Steel	Increase to 15%	**Positive** for domestic steel players such as **JSW Steel, Tata Steel, Sail**
Duties	Customs Duty on Coking Coal	2.5% Currently	Reduce to Nil	**Positive** for domestic steel players
Duties	Import Duty On Nickel	5% Currently	Reduce to Nil	**Positive** for domestic steel players
Duties	Basic Customs Duty on Metallurgical Coke	5% Currently	Reduce to Nil	**Positive** for domestic steel players such as **JSW Steel, Tata Steel, Sail**
Cess	Removal of Clean Energy Cess	Increased from ₹200 tone to 400tone in last budget	Reduce to ₹200 tonne	**Positive** for **JSPL**
Duties	Basic Customs Duty on Aluminium Products	7.5% Currently	Increase to 15%	**Positive** for **Hindalco, Nalco, Vedanta**
Duties	Import Duty on Caustic soda	7.5% Currently	Reduce to 2.5%	**Positive** for **Hindalco, Nalco, Vedanta**

Source: Company, Angel Research

Oil & Gas

Expected Impact: Positive

From 2010 until mid-2014, world oil prices had been fairly stable, at around $110 a barrel. Subsequently prices fell precipitately to around $30 a barrel. But lately, with OPEC agreeing to cut production, prices have stabilised with a positive bias.

We expect government to provide exemption on transportation of LNG from a foreign country as well as its re-gasification from levy of GST and service tax in order to promote gas based industry in India. The government would also consider changing the various income tax norms pertaining to tax holiday for companies and provide incentives for the shift towards cleaner fuel for downstream companies.

Overall, we expect the Budget to be Positive for the Oil & Gas sector.

Exhibit 25: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Duties	Customs Duty for new Refineries/Refinery Expansions and other Imports	22.85% Currently	Reduce to NIL	**Positives** for **Upstream Companies**
Duties	Customs Duty on LNG	LNG imports attract a customs duty of 5%	Reduce to NIL	**Positive** for **Petronet LNG, MGL**

Source: Company, Angel Research

Pharmaceutical

Expected Impact: Positive

FY2017 has been the same in terms of the macro environment being challenging with respect to the USFDA, with majority of the plants under the scanner, and also with NPPA doing price cuts (which impacted the domestic growth). While many companies are taking the corrective actions and are expected to come out of the same in some time, while others like Ranbaxy Labs and Wockhardt have been struggling with the same for years. Also, some companies have taken third party sourcing as a way to mitigate the risk like Sun Pharmaceuticals and Dr Reddy's Labs, while others like IPCA Labs, have decided to resume the US operations once they get approvals. With increased vigilance of the USFDA, the event risk associated with the Pharmaceutical companies have increased much more than earlier, as US now forms more than 20-50% of the exports of most of the companies, with bigger companies having a larger exposure in the region.

Hence, after a lackluster FY2016 & FY2017, we expect a gradual improvement in FY2018. Apart from this, the sector is mostly unlikely to benefit from events like budget, unless budget announces tax benefits either on R&D or corporate front. Other benefits, in the form of indirect sops such as increased budgetary allocation for healthcare will provide some boost to the sector.

Overall, we expect the Budget to be broadly positive for the Pharmaceuticals sector.

Exhibit 26: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
R&D exp	Expect R&D exemption limit to be raised from 200 to 250 percent – expect list qualifying as R&D expense to be expanded (filing fees, few clinical trial expenses not exempted currently)	200% of the R&D expenditure exempted	250% of the R&D expenditure exempted	Will benefit all the companies

Source: Company, Angel Research

Exhibit 27: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
Aurobindo Pharma	Buy	706	877	41.4	47.3	17.1	14.9	12.0	10.4
Sun Pharmaceuticals	Buy	648	847	30.2	35.3	21.5	18.4	14.3	11.7

Source: Company, Angel Research

Power

Expected Impact: Positive

The country has already made inroads into the renewable energy sector. The government has set an ambitious target of 100GW of solar power and 60GW of wind energy, with a total of 175GW of renewable power by 2022, with an estimated investment of $200bn. Keeping in mind these targets, we expect the government to take measures to promote the renewable energy sector by extending various tax incentives. The industry is also demanding for measures such as treatment of solar parks at par with SEZs with MAT exemption provided to projects within these solar parks. Solar sector should also be allowed to issues green bonds once projects achieve CoD, which will reduce their borrowing costs to 7%-7.5%.

The government has initiated the Ujwal DISCOM Assurance Yojana (UDAY) which aims at a permanent resolution of electricity distribution companies of India (DISCOMs), which will enable them to sign new power purchase agreements (PPA) going forward. Most of the large states having high debts have already joined the UDAY scheme. Reduction in AT&C losses is an important objective of UDAY and we expect the government to increase budgetary allocations towards the same.

In the previous budget the Govt had hiked the clean energy cess on coal to ₹400/ Ton from ₹200/ Ton, as against expectations of reduction in the same. This had a negative impact on the power producers. There could be partial withdrawal in the same.

Overall, we expect the Budget to be positive for the sector.

Exhibit 28: Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Cess	Clean Energy Cess	₹400/tonne	Reduction in cess by ₹200/tone	Marginally **positive** for power producers such as **NTPC, JSW Energy, etc**

Source: Company, Angel Research

Exhibit 29: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
Power Grid	Buy	198	223	14.2	17.2	14.0	11.5	9.9	8.9
KEI Industries	Accumulate	140	153	10.1	11.8	13.9	11.8	6.0	5.5

Source: Company, Angel Research

Real Estate

Expected Impact: Positive

The activity in the real estate sector over the last few years has been muted. New launches and absorption dropped drastically, which lead to the higher inventory pile. Government took some measures on policy per say to revive the sector, like passage of RERA, REIT, InvITs, etc. But there are some areas where government needs to pay attention and device strategies which can create positive sentiment for overall sector.

Last year's budget made key announcements promoted low cost housing and offered cheaper home loans to individuals who opted for amount of up to Rs. 35 lakh during the 2016-2017 fiscal year. These benefits might be extended for the 2017-18 period. Additional tax breaks for those involved in the construction of such affordable housing are also expected.

The government should increase the tax deduction limit for housing loans, especially for buyers in metropolitan cities. The ₹2 lakh limit is insignificant for metropolitan home buyers, as ticket size is over and above ₹60lakh. Also, tax concessions on house insurance premiums could be introduced to encourage end-users to insure their homes.

Salaried persons get house rent allowance (HRA) as a component of their total salary, and can therefore claim a deduction. However, self-employed persons and those who draw lump sum pays without an HRA component can only claim a maximum deduction of ₹2,000 a month under Section 80GG. The Budget can and should address this anomaly.

Clarification on tax rate and its quantum on the real estate and construction industry is required along with whether credit for input tax would be allowed if the composition scheme has been availed by developers.

The government should recognize the capacity of REITs to improve market conditions for the real estate sector and remove the policies constraining their growth. Until tax hurdles are removed for developers and asset holders, it is highly unlikely that any REIT will list.

Exhibit 30: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Long-term capital gains for REITs	Long-term capital gains tax make yield on REITs unattractive	Clarity on capital gain tax in the hands of REIT	**Positive** for Commercial developers like, **DLF, Phoenix Mills, Prestige Estates**
Implementation of 'Housing for All', 2022 scheme and other housing schemes	Allocated ₹53075cr towards 'Housing for All' and other Rural Development works, through various ministries	Expect 10% increase in allocation	**Neutral** for Real Estate developers
DDT relaxation for SEZ on fresh investments	DDT is applicable	Exempt the entire DDT on fresh investments in SEZs	**Positive** for SEZ developers like, **Mahindra Lifespace**
Raise the limit for deductions for principle repayment of home loans	Ceiling under tax benefit capped at ₹1.5lakh	Raise the limit to ₹2lakh	Higher incremental demand for housing
Increased the deduction of interest paid on home loan	Maximum of `2lakh for interest on home loan allowed for deductions	Raise it to ₹3lakh	Higher incremental demand for housing
Increased focus on affordable housing	1% interest subvention on home loans (for first time buyers) of up to ₹25 lakhs, with house value of ₹40 lakhs	Extension of the ongoing scheme to continue	**Neutral** for Affordable Housing focused developers like, **Ashiana Housing, Puravankara**

Source: Company, Angel Research

Exhibit 31: Top Picks

Company	Reco	CMP	Target Price	EPS (₹)		P/E (x)		EV/EBITDA (x)	
		(₹)	(₹)	FY2017E	FY2018E	FY2017E	FY2018E	FY2017E	FY2018E
Mahindra Lifespace	Buy	363	522	29.9	35.8	12.1	10.1	14.3	8.8

Source: Company, Angel Research

Tyre

Expected Impact: Positive

The threat of cheap imports of Chinese tyres remains the biggest risk to the Indian tyre companies. The import of truck and bus radial (TBR) tyres grew by 40% yoy in June 2016 quarter. This was despite slower growth in the commercial vehicle segment during this period.

Chinese tyres constitute ~35% of the total replacement for TBR tyres. The strong growth witnessed by the Chinese tryes is troublesome for the Indian players. The total tyre imports have increased 3.5x from ~40,883 units per month in FY2014 to ~139,869 units per month in FY2017E

While the bulk share of the radial tyres segment is held by the Chinese companies, the heat is also felt in the passenger car tyres. Compared to the Indian tyres, Chinese tryes are 50% lower in prices. The threat has all the more increased as rubber, the major raw material used in tyre manufacturing, has seen ~25% yoy increase to ₹1.44 lakh per ton.

The industry expects government to levy an anti-dumping duty on imports from China. The increased Chinese imports would lead to underutilization of the Indian capacities, impacting their profitability.

Exhibit 32: Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Anti-dumping duty on Chinese imports	Nil	Imposition of anti-dumping duty to the tune of USD25/radial tyre	Anti-dumping duty would ensure a level playing field for Indian companies, enabling them to gain market share.

Source: Company, Angel Research

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