CRISIL RESEARCH

July 2014

CRISIL Budget Analysis

Customs duty

Social welfare

SME

GST

Inflation

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BUDGET 2014-15

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About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Key Messages

Economy

- **Fiscal target a steep one**: The Budget has set the fiscal deficit target at 4.1% of GDP for fiscal 2015, down from 4.6% the previous fiscal. CRISIL believes the target will be hard to achieve. The government is betting on a sharp increase in revenues in a slow growth year, especially in indirect taxes and disinvestment proceeds – Rs 584 billion to be raised in the nine months remaining this fiscal – while showing little progress on subsidy reduction.
- **Growth estimate realistic**: We believe the real GDP growth estimate of 5.4-5.9% for this fiscal is realistic. Notwithstanding the measures to revitalise the economy and lower inflation – given the poor monsoon (over 40% deficit till early July) and its adverse rub-off on industry and services – we lower our GDP growth estimate to 5.5% for fiscal 2015 from 6% estimated earlier.
- **Steps to control inflation and create jobs welcome**: Measures announced in the budget to raise agriculture output and productivity, improving irrigation and expanding the food processing industry will help lower persistently high food inflation in the medium term. The budget also placed a thrust on education and skill development, along with the expansion of labour-intensive sectors such as textiles, tourism, food processing, construction (mainly roads) and small and medium entreprises.

Industry

- **Infrastructure a key focus area**: The Budget has announced a slew of measures to boost infrastructure investments, which will provide opportunities for infrastructure and construction companies. Innovative funding structures have also been unveiled to improve availability of funds. While the budget provisions are positive, addressing on-the-ground issues like clearances and land acquisition will be equally important for investments to take-off in the sector.
- **Tax-breaks to push consumption growth**: The income tax breaks under section 80C, increase in the exemption limit to Rs 0.25 million, and increased subvention on home loan interest is expected to support volume growth for consumer sectors like FMCG, consumer durables, two-wheelers as well as housing.
- **Measures to improve investment climate**: Increase in foreign direct investment limits for defence and insurance sectors, clarity on retrospective taxation and liberalisation of investment-linked deductions are aimed at improving the investment climate.

Capital Markets

- **Negative implication for debt mutual funds**: Tax advantage of debt funds over fixed deposits eliminated. This may reduce the attractiveness of income funds, and in particular FMPs, and result in outflows from these categories to other alternatives such as fixed deposits and money market funds.
- **Initiatives to deepen bond markets and revive securitisation markets missing**: Growth in securitisation market, a critical element of the Indian debt markets has been impacted due to the issue of distribution tax on pass-through certificates (PTCs). Addressing this issue in the budget would have provided greater clarity to the investors, which could have helped in the revival of securitisation market volumes in 2014-15.

Economy

Shaky fiscal arithmetic

The fiscal arithmetic laid out in the Budget has its positives. The scope for fiscal slippage however, remains high.

Among others, the budget envisages the quality of expenditure to improve with an increase in capital spend, which is critical for a sustainable recovery in growth; subsidy rollovers lower than last fiscal; and Goods and Services Tax (GST) getting rolled out by the end of this fiscal.

However, tax revenue projections outlined in the budget are too optimistic and no action plan for reducing subsidies was laid out (there is, in fact, a high possibility of an overshoot from budgeted levels if oil prices rise due to the ongoing strife in Iraq). And on GST, one cannot forget that earlier timelines for its rollout have not been adhered to and progress cannot be taken for granted given the need for consensus among states on this issue.

We believe the fiscal deficit is likely to print higher at 4.5% of GDP rather than the budgeted 4.1% in fiscal 2015, unless the government cuts back on expenditure.

Revenues loaded with optimism

Chart 1: Tax buoyancy and nominal GDP growth

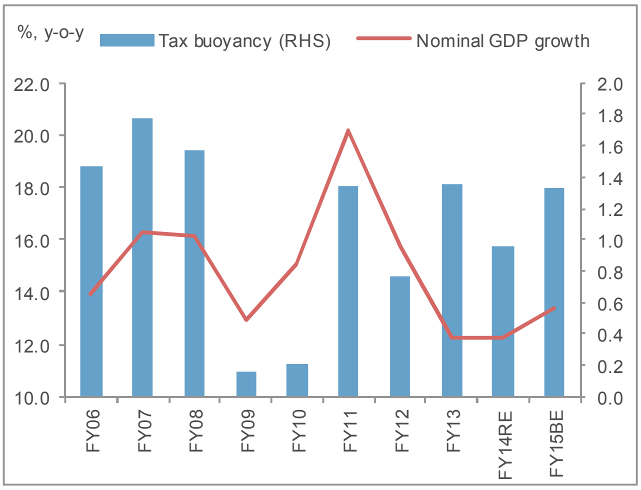
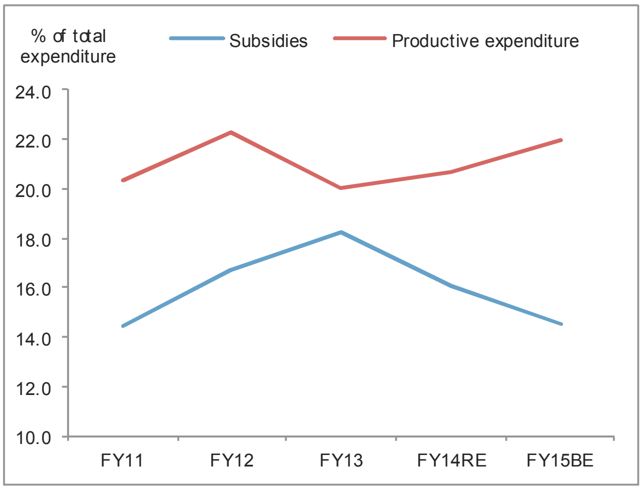


Chart 2: Expenditure mix



Note: RE: Revised Estimates, BE: Budget Estimates;
Productive spending includes capital expenditure and revenue grants for capital creation;
Source: Budget documents, CRISIL Research

- The budget assumes nominal GDP growth at 13.4%, up from 12.3% in the last 2 years. Growth in gross tax revenues has been budgeted at 17.7% (direct taxes at 15.7% and indirect taxes at 20.2%). This implies a tax buoyancy (percentage increase in tax revenue for every 1% increase in GDP) of 1.3 – which is higher than the last 10 years' average of 1.0 and too optimistic given muted GDP growth expectations (5.4-5.9%), no increase in tax rates and cuts in excise and customs duties.
- In particular, growth in corporation tax is budgeted to rise to 14.6%, up from an average 9.6% in the last three years. A kick to corporate tax collection is likely to come from an introduction of long term capital gains tax on debt-oriented mutual fund schemes, and through higher collections on account of dividend distribution tax (DDT). However, the

expectations on customs and excise duties are aggressive as these are budgeted to grow at over 15%, up from less than 6% growth last fiscal.

Front-loading disinvestments is key …

- The revenue targets rely heavily on disinvestments, which have been budgeted at Rs 584.25 billion. This is close to the cumulative disinvestment in the last three years. To meet these targets in the remaining 9 months of this fiscal, the government needs to start the disinvestment process right away and capitalise on current market buoyancy.
- Revenue gains from disinvestments are one-off and may not continue beyond fiscal 2015. For achieving its medium-term fiscal deficit targets, the government will have to focus on quick implementation of GST.

Expenditure shows growth focus

- The quality of expenditure is set to improve, with capital expenditure budgeted to grow at 18.8% compared with an average 7.0% in the last three years. Despite the increase, capital expenditure will be 1.8% of GDP – well under the pre-crisis high of 2.4% seen in fiscal 2008.
- Allocation to infrastructure and power in the plan outlay have been significantly increased from last fiscal, which is critical for a sustained recovery in growth. Outlay for power, ports and shipping has been almost doubled, and the outlay for irrigation is 4 times that of last fiscal.

No reduction plan on subsidies or their better targetting

- The Budget has adquately provided for all major subsidies such as petroleum, fertiliser and food. At the budgeted level of Rs 2.6 trillion, around Rs 450 billion of fuel and fertiliser subsidies will have to be rolled over into fiscal 2015. However, this is lower than last year's rollover of around Rs 650 billion. An intensification of the ongoing Iraq crisis however, could push crude oil prices higher and result in higher rollover burden - every $1 increase in oil prices raises government under-recoveries by Rs 50 billion.

Table1: Fiscal Math

Rs billion	FY13	FY14RE	FY15BE	Average growth L5 years	Growth in FY15BE
Tax revenue	7,419	8,360	9,773	13.8	16.9
Non-Tax revenue	1,374	1,932	2,125	23.4	10.0
Disinvestments	259	190	584	na	na
Total receipts net of borrowing	9,202	10,659	12,637	15.0	18.6
Non-plan expenditure	9,967	11,149	12,199	12.9	9.4
Of which: Subsidies	2,571	2,555	2,607	14.9	2.0
Interest	3,132	3,801	4,270	14.7	12.4
Plan expenditure	4,136	4,755	5,750	11.8	20.9
Total expenditure	14,104	15,904	17,949	12.5	12.9
Capital expenditure	1,669	1,909	2,268	17.0	18.8
Revenue expenditure	12,435	13,995	15,681	12.0	12.0
Fiscal deficit	4,902	5,245	5,312	10.7	1.3
As a % of GDP	4.8	4.6	4.1		
Revenue Deficit	3,643	3,703	3783	11.7	2.2
As a % of GDP	3.6	3.3	2.9		

na: Not applicable;

Source: Budget documents, CRISIL Research

Spurring manufacturing, reining in inflation

Monsoon casts a shadow

- The budget announced steps to raise private consumption growth as well as push growth in manufacturing and construction sectors. While these steps would help in industrial recovery, the failure of monsoon to progress significantly even in July has emerged as a key risk to growth now.

- CRISIL Research therefore, expects GDP to grow 5.5% in fiscal 2015, down from the 6% forecast earlier. The downward revision in forecast is on account of weak rainfall and consequent adverse implication for agriculture growth – we now expect agriculture GDP growth to fall to 1% in fiscal 2015 from 4.7% in fiscal 2014. As per the IMD's latest release (update upto July 9), rainfall deficiency for the country as a whole was 43% of normal. Northwest and central India, which contribute 67% of total foodgrain output, are worst hit with a rainfall deficiency of 48% and 63% of normal, respectively.

- Weaker monsoons will also have a spillover impact on industry and services sector growth. Similarly, private consumption demand (especially that led by farm incomes) could dampen to some extent. Still, higher growth compared with fiscal 2014 will be led by some push to manufacturing from the budget, an implementation of stalled projects, gradual pick-up in mining output and a recovery in industry on higher external demand.

- In manufacturing – a sector which has almost stagnated in the past two years - steps such as extended excise duty cuts in auto, and consumer durables should bring back growth as they support private consumption demand and spruce up capacity utilisation. The Budget has also given a thrust to expansion of labour-intensive sectors such as textiles, tourism, food processing, construction (mainly roads) and small and medium entreprises.

- Over the medium term, the government plans to boost agriculture growth to 4%. It has indicated implementation of a second green revolution to increase productivity. Other policy measures that support growth in the sector include improving irrigation facilties and creation of a long-term rural credit fund to improve access to credit.

Steps taken to tame food inflation

- A number of reforms announced in agriculture, if implemented, will help lower inflation pressures in coming years. Measures like setting up of a price stabilisation fund and higher budgetary allocation for rural infrastructure and warehousing will help improve the supply chain.

- In the short term, urging states to encourage setting up of private agriculture markets/farmers' markets, the government's intent to release foodgrain stocks if required and raising the minimum export prices on onions will keep food inflation at bay especially in a year when weak monsoon threatens to play havoc on food inflation.

- Lower inflation – we expect CPI inflation at 8% in fiscal 2015, lower than 9.5% last year - and easier liquidity due to better deposit growth and some pick-up in foreign capital inflows will also help ease pressure on the 10-year G-sec yield. Therefore, despite marginally higher net government borrowings this fiscal, we expect some moderation in the yield on 10-year benchmark G-sec from 8.8% last year to 8.5% by March-end 2015.

Table 2:India Macroeconomic Outlook

Outlook	2013-14	2014-15 (Previous forecast)	2014-15 (Revised forecast)
Total GDP (y-o-y %)	**4.7***	**6.0**	**5.5**
Agriculture	4.7	3.0	1.0
Industry	0.4	4.0	3.6
Services	6.8	7.6	7.3
Other macroeconomic variables			
CPI inflation (average, %)	9.5	8.0	8.0
Fiscal deficit (% of GDP)	4.6	4.3	4.5
10 year G-sec yield (%, March-end)	8.8	8.6	8.5

Note: *Revised estimates, **Provisional estimates

Source: CSO, Ministry of Commerce & Industry, Ministry of Finance, RBI, CRISIL Research

Push to employment creation

- The government has announced several measures to boost output in labour-intensive industries. For textiles, the budget has allocated Rs 3.3 billion, which includes a plan to set up 6 mega clusters around the country. The textiles sector has a labour intensity of 12.8, which implies that the sector needs nearly 13 workers to produce Rs 1 million of real output.

- In addition, the government lowered excise duty in labour intensive sectors such as footwear (from 12% to 6% for footwear with price between Rs 500 and Rs 1000 per pair) and food processing (lowered to 6% from 10% on specified food processing and packaging machinery). As these sectors expand, there is a large potential for job creation.

- The construction sector is another large employer in the economy, with a labour intensity of 12.2. The budget has increased allocation for investment in National Highways Authority of India, besides state roads and the Pradhan Mantri Gram Sadak Yojana to Rs 523 billion, which we believe will result in employment generation. Therefore, even if weak monsoons this year drag down agricultural growth and rural incomes, non-farming incomes may be cushioned.

- The budget also announced measures to promote the MSME sector, which employs close to 8% of the total labour force. It proposed to establish a Rs 100 billion fund to act as a catalyst to attract capital for start-up companies. Also announced were measures to make the legal environment entrepreneur-friendly for easy exit. These initiatives will lead to an increase in self-employment. The government has also showed an inclination to bring in suitable amendment of the Apprenticeship Act, which will boost employment in the MSME sector.

- Another sector to have received a boost in the budget is tourism. According to NSSO data, trade, hotels and restaurants have a labour intensity of 5.9, the second highest in the service sector. The proposed e-visa facility will boost foreign tourist arrivals. In addition, the budget has proposed to create 5 tourist circuits with an allocation of Rs 5 billion and to launch HRIDAY (National Heritage Development and Augmentation Yojana) with Rs 2 billion, among other projects.

- The government has focused on not only creating employment opportunities, but also developing skills for jobs. A programme called Skill India, which will impart skills to the youth with an emphasis on employability and entrepreneur skills, has been launched. It aims to also provide vocational training. In addition, the Budget proposed to set up a “Start-up Village Entrepreneurship Programme” for encouraging rural youth to take up local entrepreneurship programmes.

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Industry

Overall sectoral impact

For corporate India, four focus areas were clearly visible in the Union Budget 2014-15.

Infra push: The thrust on infrastructure development was unmistakable. Overall spending on infrastructure is budgeted to rise 24 per cent over last fiscal to Rs 2.1 trillion. Projects such as creation of 100 smart cities, and greater allocation to roads, irrigation and water projects will boost infrastructure investments. To strengthen the public-private partnership (PPP) framework, a new entity '3P India' will be set up. Innovative funding mechanisms like infra bonds for banks and Infrastructure Investment Trusts will channelise funds for infrastructure.

Creating conducive investment climate: Measures such as clarity on retrospective taxation, liberalisation of FDI in insurance and defence and extension of tax holiday for power sector are aimed at improving the investment climate and kickstarting the capex cycle.

Promoting SME/MSME growth: To boost the small and medium enterprises, the Budget proposes setting up of a Rs 100 billion venture capital fund to encourage entrepreneurship and a district level idea incubation programme, lowering of limit for investment allowance to Rs 250 million and putting in place a legal framework for easy exit for SMEs.

Boosting purchasing power and consumption: The relief offered to individual taxpayers through a hike in standard tax deduction, increase in investment limit under section 80C, and increased subvention on home loan interest is clearly intended to stoke consumption and, therefore, economic growth. At the same time, the changes in customs and excise duties will also make some consumer products such as soaps, low-end footwear and colour televisions, and personal computers cheaper, providing a fillip to demand for these items.

The budgetary proposals and their impact for key sectors are detailed below

Industry	Impact
Cement: Focus on infrastructure will benefit sector in the medium term	**Positive**

Key budget proposals:

- Outlays under various infrastructure schemes covering housing, irrigation, urban infrastructure and roads and highways stand at Rs 674 billion, with substantial increases in most segments.
- Clean Energy Cess on coal (domestic and imported) increased from Rs 50 per tonne to Rs 100 per tonne.
- Basic customs duty on imported coal increased from 2 per cent to 2.5 per cent.

CRISIL Research's View

Government outlays across cement-intensive segments have increased by 33 per cent in 2014-15 year on year. CRISIL Research believes this could boost annual cement consumption growth by 0.5-1.5 per cent. Further, steps taken to improve access to finance for infrastructure projects could aid higher offtake in the long term.

However, levy of Clean Energy Cess and the rise in basic customs duty on coal will increase power and fuel costs for the sector by 1 per cent from the current 20-22 per cent of revenues.

Consumer goods: A few smiles and tears — Neutral

Key budget proposals:

- Customs duty on key raw materials used in the manufacture of soaps reduced to zero.
- Excise duty on processing and packaging machinery used for agri-products lowered to 6 per cent from 10 per cent.
- Specific excise duty on tobacco products increased by 11-72 per cent.
- Excise duty on aerated waters containing sugar increased to 17 per cent from 12 per cent.
- Basic customs duty on colour picture tubes (CPT) reduced to zero.
- Basic customs duty on LCD-LED panels below 19 inches brought down from 10 per cent to zero.
- Personal income tax exemption limit raised from Rs 0.20 million to Rs 0.25 million, investment limit under Sec 80C increased.

CRISIL Research's View

The savings in income tax could marginally boost consumer sentiment and demand for consumer goods. Reduction in duty on CPT/LCD panels will bring down the prices of a typical CRT TV by Rs 500 and a typical 19-inch LCD-LED TV by Rs 1,000-1,400. The benefit from reduced import duty on raw materials used in manufacturing soaps is also likely to be passed on to consumers. The hike in excise duty will hurt sales volumes of the tobacco based product manufacturers and aerated drinks makers.

Financials: Big boost to infra lending, housing finance and insurance — Positive

Key budget proposals:

- Banks permitted to raise long-term funds for infrastructure lending with minimal regulatory restrictions such as CRR, SLR and priority sector lending.
- The capital support to public sector banks (PSBs) maintained at Rs 112 billion
- Proposal to provide greater autonomy to PSBs as well as to look at consolidation of these banks.
- Increased exemption for interest on home loans and enhanced limit for tax-saving investments
- Debt mutual funds' tax rate increased from 10 to 20 per cent; holding period for long term capital gains increased from 12 months to 36 months.
- FDI limit in insurance to be increased from 26 per cent to 49 per cent with full control and management by Indians.
- RBI to create a framework for licensing small banks and other differentiated banks

CRISIL Research's View

Proposed bonds for infrastructure sector will help banks to manage the asset-liability mismatch. Moreover, minimum regulatory pre-emption on such bonds will reduce their cost (by up to 120 bps). Capital support provided to PSBs is lower than the average of Rs 147 billion infused annually over the past four years. Providing autonomy to PSBs and encouraging consolidation is expected to improve their efficiency and help raise capital. Reduced attractiveness of debt mutual funds (total assets of Rs 7.4 trillion) may help banks attract a part of this money. Differentiated banks serving niche interests would benefit customers and also provide impetus to financial inclusion.

Increased exemption for interest on home loans and enhanced limit for tax-saving investments, and changes in tax slabs will boost the housing finance market. Increase in FDI limit in insurance is a positive for the sector.

Infrastructure: Investment boost, and focus on PPP — Positive

Key Budget Proposals:

- **Roads:** Rs. 144 billion provided towards PMGSY, and Rs. 379 billion for national highways and state roads (up 20 per cent and 12 per cent y-o-y, respectively). Rs. 5 billion set aside to initiate work on expressways.
- **Urban infra & irrigation:** Rs. 71 billion for developing smart cities, 20-fold increase in allocation for water resources (including Rs. 36 billion under National Rural Drinking Water Programme, Rs. 10 billion for a new irrigation scheme, Rs. 20 billion for cleaning up of River Ganga), and Rs. 1 billion viability gap funding for metro rail projects in Lucknow and Ahmedabad.
- **Railways:** Plan to introduce bullet train on the Mumbai-Ahmedabad sector, a diamond quadrilateral for high speed trains, and allowing foreign direct investment in railway projects.
- **Ports:** Sixteen new port projects to be awarded this year, development of inland waterway project, and special economic zones at Kandla and JNPT ports.
- **Funding availability:** Banks allowed to raise long-term funds with minimal requirement of cash reserve ratio, statutory liquidity ratio and priority sector lending to improve availability of funds and reduce the cost of funds. Corpus for Pooled Municipal Debt Obligation Facility has been increased by 10 fold to fund urban infrastructure projects.
- **Other measures:** Proposal to set up an institution called '3P India' with a corpus of Rs. 5 billion to ensure quick dispute redressal for PPP projects.

CRISIL Research's View

The budget provides a strong thrust to infrastructure development, with a 24 per cent increase in planned expenditure over the previous year's investments. The direct beneficiary of this increased construction opportunity will be EPC players. The companies could return to double-digit growth by the end of the fiscal, after posting almost flat revenues during the previous year.

While the budget provisions are a clear positive for the sector, addressing on the ground issues such as clearances and land acquisition will be equally important if there is to be significant improvement in infrastructure investments. In the past, these issues have resulted in lower implementation despite healthy awarding of PPP projects.

Metals: Sector to marginally benefit from sops given on key raw materials — Positive

Key budget proposals:

- Customs duty of 2.5 per cent (up from nil) levied on coking coal and metallurgical coke.
- However, countervailing duty on coking coal has been reduced to 2 per cent from 6 per cent.
- Customs duty on melting scrap of iron and steel halved to 2.5 per cent.
- Customs duty on imported flat-rolled stainless steel products increased to 7.5 per cent from 5 per cent.
- Export duty on bauxite doubled to 20 per cent.

CRISIL Research's View

For the Indian steel industry, the reduction in countervailing duty (CVD) on coking coal is expected to more than compensate the levy of customs duty. Coking coal is used by large manufacturers of steel. Production costs for these players, who account for half of India's of steel production, are likely decline by Rs 100-200 per tonne. The reduction in customs duty on melting scrap is also a positive -- for small and mid-sized steelmakers. The increase in customs duty on flat stainless steel products will make imports (accounting for 10-15 per cent of India's stainless steel consumption) dearer by Rs 5,000 per tonne, providing some cushion to domestic manufacturers. The stated intent to increase iron ore supply is also a long-term positive, but the Budget announced no specific measures in this regard.

Other measures such as an increase in export duty on bauxite will be favourable for aluminium players who will benefit from the resultant increase in domestic bauxite supply. India exported 4.6 million tonnes of bauxite (or 24 per cent of production) in 2013.

Power: Tax holiday, higher fund allocation to transmission and distribution, main benefits **Positive**

Key budget proposals:

- A 10-year tax holiday approved for power projects commissioning between 2014-15 and 2016-17.
- On the transmission and distribution front, budget allocation has nearly doubled to Rs. 80 billion
- Banks have been permitted to raise long-term financing for the infrastructure sector
- Funds of Rs 5 billion for development of ultra mega solar power projects, Rs. 4 billion to finance solar power driven water pump sets and Rs 1 billion to develop 1 MW solar parks on the banks of canals proposed
- Customs and excise duty cut on components requried for manufacture of wind and solar power equipment

CRISIL Research's View

The 10-year tax holiday to power plants will benefit 18-20 GW of competitively bid projects that are expected to be commissioned between 2014-15 and 2016-17. In the absence of this extension, equity IRR would be lower by 150-200 bps. Higher allocation of funds to the transmission and distribution (T&D) sectors will help reduce AT&C losses (through investments in metering, feeder seperation and grid modernisation) as well as improve demand, particularly from rural areas. Long-term financing for infrastructure by banks will help improve funding for the infrastructure sector. However, high exposure of banks to the power sector and implementation issues need to be addressed to boost capacity additions.

On the renewable energy front, we believe the Rs. 10 billion allocated to the solar power sector will be inadequate to aid capacity additions. Moreover, the impact of customs duty cut on specific inputs used in solar and wind power equipment will be negligible given that these components account for a small proportion of overall capital costs.

Real Estate: Tax sops to improve affordability; REIT, a long term positive **Positive**

Key budget proposals:

- An increase in (a) interest subvention to Rs. 0.20 million from Rs. 0.15 million, (b) overall limit of Section 80C exemption to Rs. 0.15 million from Rs. 0.10 million and (c) overall income tax slab to Rs 0.25 million from Rs 0.20 million
- Allocation of Rs. 120 billion to the National Housing Board (NHB) for providing cheaper credit to poor.
- Allocation of Rs. 71 billion for development of 100 smart cities
- Easing of FDI regulations for of residential projects: (i) Reduction of investment threshhold limit to $5 million from $10 million, (ii) Reduction in minimum project size to 20,000 sq metres from 50,000 sq metres
- 'Pass through' status for Real estate investment trusts (REITs) . Dividend distribution tax to be payable at SPV level (exempt at trust and individual unit-holder level)

CRISIL Research's View

Tax breaks like increase in exemption under Sec 80C, interest subvention and increase in tax slabs will improve affordability. This will mainly benefit buyers of residential units priced up to Rs 0.30 million which currently accounts for 12-15 per cent of the total upcoming supply in the top 10 cities.* Over the longer term, development of smart cities will also provide opportunities to real restate developers.

Liberalising FDI norms could potentially improve the flow of funds for developers who are currently facing liquidity crunch as it opens up new avenues for fund raising. which is likely to increase over the long term. Currently, nearly 15-17 per cent of the upcoming supply in these cities* will benefit from FDI liberlisation. Tax efficient REIT structure is likely to encourage the development of the REIT market. This will improve fund flow of developers who have considerable lease income.

*Cities - Ahmedabad, Bengaluru, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai, the NCR, Pune, Kochi

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Textiles: Increased allocation under TUFS, extension of excise duty cut on garments **Positive**

Key budget proposals:

- For 2014-15, budgetary allocation under the Technology Upgradation Funds Scheme (TUFS) increased to Rs 23 billion from the revised estimate of Rs 19.5 billion in 2013-14 .
- The zero excise duty on readymade garments (RMG) continued for 2014-15.
- Duty-free entitlement for imports of trimmings, embellishments and other specified items increased from 3 per cent to 5 per cent of the value of their exports.
- Rs 2 billion allocated to set up six new mega textiles clusters; support also extended to the handloom sector
- Basic customs duty on reformate (feedstock for polyester) is lowered to 2.5 per cent from 10 per cent.

CRISIL Research's View

Increased allocation to TUFS will continue to encourage capex. We expect spinners to add 1.0-1.5 million spindles in 2014-15. Domestic demand for RMG is expected to pick-up further to 5 per cent in volume terms in 2014-15 (from ~4 per cent in 2013-14). Continuation of zero excise duty will aid growth. Support extended for the development of mega textiles clusters and the handloom sector is a positive and will increase job creation. Duty reduction on reformate is likely to bring down polyester prices and improve demand marginally.

Capital markets

Equity market

Summary

From the equity market's perspective, the Union Budget touches the right chords by focusing on steps to boost the investment climate. With earnings outlook improving, supported by global liquidity, the outlook for Indian equities remains positive. We maintain our FY15-end fair value range for Nifty at 8200-8400.

Stage set for earnings re-rating

Expect Nifty at 8200-8400 by FY15-end

The Budget announcements only bolster the robust long-term outlook for Indian markets. Our fair value for the Nifty by the end of this fiscal, based on the valuation of its constituents by then, is in the range of 8200-8400.

Measures aimed at core sectors such as infrastructure, power, coal and iron ore mining are expected to bring these sectors out of a near-deadlock and result in a re-rating of earnings in the next two-three years. Correction of inverted duty structures in raw materials such as industrial grade crude oils to help the domestic manufacturers will aid this cause, as would sops like extension of 15% tax deduction on investments in plant and machinery until FY17 and lowering of the minimum qualifying amount from Rs. 1 billion to Rs. 250 million. Increase in FDI limits in defence and insurance, and allowing FDI participation in smaller real estate projects are welcome moves, too.

The external environment remains favourable for equities, with ample global liquidity due to the ongoing loose monetary stance taken by a number of developed economies. FIIs have already invested $6.3 billion in Indian equities in the first quarter of this fiscal on expectations of longer-term reforms and the budget extends the agenda in that direction. Re-assurance of a stable and predictive taxation regime should further help in enhancing the confidence of global investors in Indian equities.

Measures towards job creation, together with the increase in the personal tax exemption limits, should improve the overall purchasing power of consumers and boost consumption demand. We believe these measures will have a marginal positive impact on stocks in the consumer sector.

We feel it will be 2-3 years before core sectors participate in overall economic activity. In the near term, the risk-reward ratio continues to favour financial services and export-linked sectors such as information technology and pharmaceuticals, which should drive the momentum in the Nifty.

Nifty EPS is estimated to increase from Rs 436 in FY14 to Rs 464 in FY15 and Rs 540 in FY16, representing a CAGR of 11% over this period. The implied P/E multiples for this range are 17.7-18.1x FY15E EPS and 15.2-15.6x FY16E EPS.

In the interim, emergence of domestic risks such as deficient monsoons or external risks such as high oil prices playing out in the global markets could lead to short-term correction.

Such a correction would, however, provide a good opportunity for long-term investors to enter the market. The long-term outlook for Indian equities remains robust and we would not be surprised if the markets achieve our fair value sooner than expected.

Funds and Fixed Income

Overall the Budget did not hold out much for India's capital markets. While some marginal tax benefits were offered to retail and foreign investors, it was largely negative for mutual funds and didn't offer much to the fixed-income market.

Fixed-income market: The key measures announced in the Budget seek to enhance foreign investor participation in the fixed-income market. These include permission for international settlement of Indian debt securities, extension of the concessional tax rate of 5 per cent on interest payments for borrowings in foreign currency to all categories of bonds, and clarity on tax treatment of income earned by foreign institutional investors. The finance ministry has also advised regulators to take early steps for a vibrant, deep and liquid corporate bond market, which are keenly awaited.

The securitisation market, a critical element of India's debt market, was impacted last fiscal due to the introduction of distribution tax on pass-through certificates (PTCs). As a result, banks, who were dominant investors in PTC transactions, pulled back. Clarity on this count could have helped revive securitisation market volumes this fiscal.

Personal taxation: There is relief here, with the tax exemption limit increased from Rs. 0.20 million to Rs. 0.25 million for individual tax payers below 60 years, and from Rs. 0.25 million to Rs. 0.30 million for senior citizens. Additionally, the investment limit under Section 80C has been increased from Rs 0.10 million to Rs 0.15 million. Besides providing investors with an avenue to save taxes, this could augment flows into equity-linked savings schemes and Public Provident Fund. The above measures will increase the net income of tax payers to the extent of Rs. 22,060.

Financial products:

Mutual funds: The key tax measure announced pertains to debt funds, whereby long-term capital gains tax has been increased from 10% to 20%. This category had Rs 7.5 trillion assets under management (AUM) as on May 31, 2014, and accounts for 75% of industry AUM. Additionally, investments need to be locked for three years instead of one year earlier to be eligible for long-term capital gains. This may reduce inflows to debt funds going forward. Fixed maturity plans (FMPs, with Rs. 1.77 trillion AUM), which benefited the most from indexation on long-term capital gains, will bear the brunt of the change as there could be little appetite for maturities over 3 years. Actively managed products such as income and gilt funds are also likely to see erosion of interest. While we expect some of the money to flow into liquid and ultra-short funds, fixed deposits are also likely to see inflows.

Dividend distribution tax is now proposed to be calculated on the gross amount of distributable income and not the dividend received by the investor. Liquid funds, which have Rs. 2.84 trillion AUM, have significant investments in dividend plans. This measure is expected to be negative in the short term for fund flows as tax arbitrage available to mutual fund investors over fixed deposits now gets negated. Yet the funds may do well in the medium term as they may continue to offer higher returns with the additional benefit of liquidity over short-term fixed deposits.

The measures may also affect the money markets in the short to medium term. As on May 31, 2014, mutual funds had Rs. 1.49 trillion invested in commercial papers (CP) and Rs. 2.77 trillion in certificates of deposits (CD). That's about 82% and 79% of the total outstanding in CPs and CDs, respectively. A significant decline in investor interest can, in turn, adversely impact the source of funding and thereby cost of borrowing for these instruments.

Retirement funds: The launch of a uniform account number by the EPFO will help portability of accounts.

Insurance: The cap on foreign investment has been increased to 49% from 26% while management and control will be with Indians. This is expected to increase capital infusion and, in turn, improve insurance penetration in the country.

Additionally, introduction of uniform KYC norms and inter-usability of KYC records across the financial sector through a single demat account will reduce operational bottlenecks and enhance retail participation in the capital markets.

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Annexure: Sector wise Impact

Boost to tourism to help improve demand

Company	Impact	Impact Factors
SpiceJet Ltd.	↔	A
Jet Airways	↔	A

Source: CRISIL Research

Impact factors

A. With the introduction of Electronic Travel Authorization (e-Visa) at nine airports, foreign tourist arrivals will get a fillip. Though the short term impact is unlikely to be material, over the long term the move will give a push to foreign arrivals and boost airline traffic. In 2013-14, international traffic constituted about 18 per cent of total traffic carried by domestic airlines.

B. The proposed development of the Sarnath-Gaya-Varanasi Buddhist circuit as a world-class tourist destination and the creation of five other tourist circuits will help boost leisure traffic over the longer term.

C. The government has proposed an equity infusion of Rs. 65 billion in Air India. However, despite the infusion the company will remain overleveraged with debt totalling Rs. 420 billion as on March 31, 2014.

Airport Infrastructure

New airports a long-term positive for developers

Company	Impact	Impact factors
GMR Infrastructure Ltd.	↔	**A**
GVK Power and Infrastructure Ltd.	↔	**A**

Source: CRISIL Research

Impact factors

A. The Budget proposes the construction of greenfield airports in tier-I and tier-II cities on a public-private partnership (PPP) basis or under the aegis of the Airports Authority of India (AAI). This move presents a long-term opportunity for airport developers. While the Airport Authority of India Act was amended in 1994 to allow PPP in airport projects, till now, only 2 greenfield airports – Bengaluru and Hyderbad –have been developed on a PPP basis. (Currently, out of the 30 greenfield airports announced, construction is underway in only five projects.)

Auto components & tyres

Budget 2014 to have neutral impact on auto component and tyre manufacturers

Company	Impact	Impact factors
Apollo Tyres	↔	C
Exide	↔	B
Motherson Sumi	↔	A
Bosch	↔	A
Bharat Forge	↔	A

Source: CRISIL Research

Impact factors

A. Extension of excise duty rate cuts to 10 per cent from 12 per cent (announced pre-budget) for certain automotive components up to December 2014 is not expected to have any major impact on the auto component industry. We expect the benefit from excise duty reductions to be passed on to OEMs (original equipment manufacturers), given the pricing pressures, owing to subdued demand across the automobiles segment. This will result in lower component costs for the OEMs in addition to excise duty reductions in automobiles.

B. Reduction in basic customs duty (BCD) on battery waste and battery scrap to 5 per cent from 10 per cent is not likely to have a major impact, as we believe it forms a small proportion of leading automobile battery manufacturers.

C. Reduction in BCD on butadiene to 2.5 per cent from 5 per cent is expected to have a marginal benefit as tyre manufacturers directly import the deravatives. This is true for styrene butadiene rubber (SBR) since the entire production is directly imported. However, there could be a marginal benefit in case of polybutadiene rubber (PBR) which constitutes about 25 per cent of the cost of a tyre, since just over 50 per cent is produced domestically.

Auto parts: Tariffs

(per cent)	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15"
Engine and engine parts	7.7	7.7	12.4	10.3
Drive transmission, steering, suspension, braking parts,silencer, exhaust pipes and radiators	10.3	10.3	12.4	12.4
Electrical parts1	7.7	7.7	12.4	10.3
Raw materials for auto components	7.7	7.7	12.4	12.4

" Duties changed in interim budget and extended up to 31/12/2014

Excise duties include education cess @ 3 per cent.

Notes:

1) Raw materials for auto components include galvanised plate (GP)/galvanised coil (GC) steel, hot rolled (HR) steel, aluminium, copper and lead.

2) Duty-free imports from ASEAN countries except Philippines are allowed for engine and engine parts, drive transmission, steering, suspension, braking parts, silencer, exhaust pipes and radiators under Free Trade Agreement, from January 2014.

Source: CRISIL Research

Tyres: Tariffs, prices and landed costs

	Tariffs (per cent)				Prices (June 2014)		Landed costs (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)		
New tyres	10.3	10.3	10.3	10.3	-	-	-	-
Used/retreaded tyres								
Truck and bus	10.3	10.3	10.3	10.3	-	-	-	-
Car cross ply/ Radials	10.3	10.3	10.3	10.3	-	-	-	-
Raw materials for tyres								
Natural rubber	20	(Note 2)	(Note 1)	(Note 1)	145460	2087	162936	162936
SBR (1502)	10.3	10.3	10.3	12.4	n.a.	1938	127648	127648
PBR (1220)	10.3	10.3	10.3	12.4	118000	1850	124321	124321
NTC fabric	10.3	10.3	10.3	12.4	n.a.	4200	279014	279014
Carbon black (N330)	5.2	5.2	10.3	12.4	*243.6	n.a.	n.a.	n.a.

NTC: Nylon tyre cord; PBR: Polybutadiene rubber; SBR: Styrene butadiene rubber

n.a.: Not available

* Domestic carbon black prices are available on quarterly basis, for the first quarter of 2014-15.

Notes

1) For natural rubber, there is a cess of Rs 2 per kg in lieu of excise duty with effect from September 1, 2011.

2) Customs duty on natural rubber will be charged at 20% or Rs 30 per kg, whichever is lower, w.e.f. December 20, 2013.

3) China and South Korea enjoy a preferential customs duty of 8.6% on tyres under the Asia-Pacific Trade Agreement.

4) New tyres include the following categories: Truck and bus, light truck, car (cross ply and radial), tractor front, tractor rear, tractor trailor, moped, scooter and motorcycle.

5) An additional countervailing duty of 4% is levied on raw materials except for NTCF

6) Prices and landed cost are average rates for June 2014.

Source: CRISIL Research

Automobiles

Extension of excise duty cuts positive for the industry

Company	Impact	Impact factors
Maruti Suzuki India Ltd	↑	A
Tata Motors Ltd	↑	A
Ashok Leyland Ltd	↑	A
Bajaj Auto Ltd	↑	A,B,C
Hero Motocorp Ltd	↑	A,B,C
Mahindra & Mahindra Ltd	↑	A, C

Source: CRISIL Research

Impact factors

A. Prior to the Budget, the government announced an extension of reduction in excise duty on commercial vehicles to 9 per cent from 12 per cent, on small cars and two wheelers to 8 per cent from 12 per cent, on mid-segment and large cars to 20 and 24 per cent, from 24 and 27 per cent, respectively, and on utility vehicles from 30 per cent to 24 per cent till December 2014. Although fuel costs are likely to remain firm, decline in the cost of vehicles as a result of reduction in excise duty and a gradual pick up in economic growth and consumer sentiment will support demand.

B. Increase in basic exemption limit by Rs 50,000 for individual tax payers is likely to lead to an increase in disposable incomes of addressable households, and thus marginally aid two wheeler sales.

C. Focus on rural and agricultural initiatives like extension of interest rate subvention to farmers, increase in agricultural credit, provision of institutional finance to landless farmers, etc. is a positive for the tractor and the two wheeler industry, which derives almost half its sales from rural areas. Nonetheless, the monsoons will play a critical role in how the eventual growth numbers pan out.

Automobiles: Tariffs

(per cent)	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15"
New cars[1]				
-Completely knocked down units (CKD)#	10.3	10.3	-	-
-Semi-knocked down units (SKD)	61.8	61.8	-	-
-Completely built units (CBU)^^	61.8	61.8	-	-
-Specified small cars[2]	-		12.4	8.2
-Other than specified small cars[3]	-		24.7*	20.6*
Utility vehicles (less than 1500 cc)	61.8	61.8	24.7	20.6**
SUVs (including utility vehicles exceeding 1500 cc and length exceeding 4000 mm, ground clearance of 170 mm and more)			30.9	24.7
Two-wheelers^	61.8	61.8	12.4	8.2
Trucks (LCVs and MHCVs)	10.3	10.3	12.4@	9.27@
Buses (LCVs and MHCVs)	10.3	10.3	12.4@	9.27@
Tractors	10.3	10.3	-	-
Steel items	7.7	7.7	12.4	12.4
Pig iron	5.2	5.2	12.4	12.4
Engine and engine parts				
- Four-wheelers	7.7	7.7	12.4	10.3
- Two-wheelers	7.7	7.7	12.4	10.3
Drive transmission, steering, suspension, braking parts,silencer, exhaust pipes and radiators				
- Four-wheelers	10.3	10.3	12.4	10.3
- Two-wheelers	10.3	10.3	12.4	10.3
Electrical parts[4]	7.7	7.7	12.4	10.3

" Duties changed in Interim Budget 2014 and extended up to 31/12/2014

Excise duties inclides education cess @ 3 per cent.

LCV: Light commercial vehicles; MHCV: Medium and heavy commercial vehicles

[1] All Hybrid cars and cars based on fuel cell or Hydrogen cell technologies enjoy concessional excise duty of 4 per cent

2 Specified small cars include cars with length not exceeding 4,000 mm and engine capacity not exceeding 1,200 cc for petrol cars and 1,500 cc for diesel cars.

[3] Others will include cars with length exceeding 4,000 mm and engine capacity not exceeding 1,200 cc for petrol cars and 1,500 cc for diesel cars.

4 Customs duty for air conditioner machine parts is at 10.3 per cent

@Tax of 14 per cent or 25 per cent is applicable on transactions where only commercial vehicles chassis is sold currently. However, an appropriate reduction in the excise duties on chassis and trailers is proposed. Final rates are awaited for regular budget.

* Additional duty of 3 per cent will be charged on cars and utility vehicles exceeding length of 4000 mm and which are of 1500 cc and above

**Duty for utility vehicles with engine capacity exceeding 1500 cc length exceeding 4000 mm and having ground clearance of 170 mm is 24.72 per cent

CKD for vehicles with pre assembled engine and transmission parts is 30 per cent

^^Customs duty on CBUs priced (CIF) over $40,000, with engine capacity exceeding 3000cc for petrol-run vehicles, 2500 cc for diesel-run vehicles, is 103 per cent

^Customs duty on motorcycles with engine capacity of 800 cc or more has been increased from 60 per cent to 75 per cent

Source: CRISIL Research

Big boost to infra lending, housing finance and insurance; consolidation of PSBs on the cards

Company	Impact	Impact factors
State Bank of India	↑	**A, B, C, D, E, F**
Punjab National Bank	↑	**A, B, C, D, E, F**
Bank of Baroda	↑	**A, B, C, D, E, F**
ICICI Bank	↑	**A, C, D, E, F**
HDFC Bank	↑	**A, C, D, E, F**

Source: CRISIL Research

Impact factors

A. Banks will be permitted to raise long-term funds for lending to the infrastructure sector. Proposed minimal regulatory restrictions of CRR, SLR and priority sector lending on these bonds will reduce their cost (by up to 120 bps) and also help banks to manage asset-liability mismatch.

B. **The capital support to public sector banks (PSBs) maintained at Rs. 112 billion:** Capital support for PSBs was maintained at Rs. 112 billion, which is lower compared to an average of Rs. 147 billion infused annually over the past four years.

C. The government has agreed to consider the proposal of providing greater autonomy to PSBs as well as to look at consolidation of these banks: Providing greater autonomy and consolidation of PSBs is expected to improve their efficiency and help them raise capital required for Basel III compliance. A policy for continuous authorisation of universal banks in the private sector and providing differentiated banking licences would benefit the customers as well as provide thrust to financial inclusion.

D. Debt funds tax rate increased to 20 per cent from 10 per cent; holding period for long term capital gains increased to 36 months from 12 months: Higher tax rate and lock-in period could reduce the attractiveness of debt mutual funds (total assets of Rs. 7.4 trillion). Banks may be able to attract part of this money.

E. Foreign direct investment (FDI) limit in insurance has been increased to 49 per cent from 26 per cent with full Indian management and control through the FIPB (Foreign Investment Promotion Board) route: The increase in FDI limits in insurance will help boost investments in the insurance sector. Additionally, suitable incentives are proposed to be given to banking correspondents to sell micro-insurance which will help increase insurance penetration.

F. Increased exemption for interest on home loans and enhanced limit for tax saving investments, and changes in tax slabs will boost the housing finance market: The clear focus on giving a boost to the housing market is also positive for financiers. Income tax exemption for interest payment on housing loan has been increased by Rs. 50,000 (from the existing Rs. 150,000 deduction). In addition, income tax exemption for tax saving investments has been increased to Rs. 150,000 from Rs. 100,000; principal repayment for housing loan is a part of investments. This will also help boost demand for housing finance.

G. For 2014-15, banks have been directed to lend Rs. 8,000 billion to the agriculture sector, just 9-10 per cent higher than that actually achieved in 2013-14. The additional 3 per cent interest subvention scheme for farmers making loan repayments on time would continue even in 2014-15. This is expected to help agriculture sector growth and the rural economy.

Measures to boost construction activity positive for cement

Company	Impact	Impact factors
ACC Ltd.	↑	A.B
Ambuja Cements Ltd.	↑	A.B
India Cements Ltd.	↑	A.B
Shree Cement Ltd.	↑	A.B
UltraTech Cement Ltd.	↑	A.B

Source: CRISIL Research

Impact factors

A. The Budget outlays for the infrastructure and housing sector, CRISIL Research believes, could drive up annual cement consumption growth by 0.5-1.5 per cent. The key outlays showing significant rise over last year spends are -

- The outlay for roads & highways has been hiked by 13 per cent y-o-y to Rs 379 billion.
- The allocation for urban infrastructure has increased by 38 per cent y-o-y to Rs 131 billion. However, this is just the central government's outlay; while the amount spent through state budgets would be higher.
- The Centre's outlay for the housing sector has been almost doubled to Rs 150 billion. For Irrigation, the outlay has been increased by 325 per cent y-o-y to Rs 15 billion. Both irrigation and housing would have state outlays as well.

B. The above moves would improve demand for cement over the medium term. Further, steps taken to improve access to finance for infrastructure projects could aid higher offtake over the long term. We therefore believe the overall impact to be positive on the sector.

C. Duties & tariffs directly levied on cement have been left unchanged. The clean energy cess on coal (domestic & imported) has been hiked to Rs 100 per tonne from Rs 50 per tonne, while the basic customs duty on imported coal has been hiked to 2.5 per cent from 2 per cent. CRISIL Research believes that these moves would increase power & fuel cost (that forms 20-22 per cent of sales), by 1 per cent.

Cement: Tariffs

(Per cent)	Customs		Excise		Abatement rate	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
Portland cement	0	0	12.4 +Rs120/tonne	12.4 +Rs120/tonne	0	0
White cement	10.3	10.3	12.4	12.4	30	30
Cement clinker	10.3	10.3	12.4	12.4	0	0
Limestone	5.2	5.2	0	0	0	0
Gypsum	2.6	2.6	0	0	0	0
Pet coke	2.5	2.5	14.4	14.4	0	0
Imported coal	2.0% BD+2.0% CVD	2.5% BD+2.0% CVD	0	0	0	0

BD: Basic duty; CVD: Counter veiling duty

Source: CRISIL Research

Construction

Slew of measures introduced to boost construction investments

Company	Impact	Impact Factors
Larsen & Toubro Ltd	↑	A,B,C,D,E
Hindustan Construction Co Ltd	↑	A,B,C,D,E
IVRCL Ltd	↑	A,B,C,D,E
Punj Lloyd Ltd	↑	A,B,C,D,E
Simplex Infrstructures Ltd	↑	A,B,C,D,E

Source: CRISIL Research

Impact factors

A. The budget proposes to increases the allocation towards Infrastructure by about 24 per cent, which will provide a significant boost to the construction industry. The water supply and sanitation segment has been one of the major thrust areas in the budget, with the announcement of new schemes such as Pradhan Mantri Krishi Sinchayee Yojana, Neeranchal, and Namami Ganga.

B. The budget has also focused on urban infrastructure through funding allocation for smart cities and metro rail projects in Ahmedabad and Lucknow.

C. In the case of roads, which comprises about a third of total construction opportunity, there has been an increase in planned outlay by 12 per cent for national highways and state roads, and by 20 per cent for rural roads.

D. In power, there is a significant increase in planned transmission and distribution investments.

E. Banks have been allowed to raise long term funds with minimum cash reserve ratio, statutory liquidity ratio and priority sector lendingrequirements with an aim to improve availability and reduce the cost of funds.Also, the corpus of Pooled Municipal Debt Obligation Facility has been increasedby 10 times to Rs. 500 billion, with the facility extended up to March 31, 2019.

F. In the railways sector, the outlay has been increased by 10 per cent, with plans to increase private investments, introduce bullet train on the Mumbai-Ahmedabad route, a diamond quadrilateral for high-speed trains, and allow FDI in railways.

Fertilisers

Announced subsidy still inadequate; details on urea policy awaited

Company	Impact	Impact factors
Nagarjuna International Ltd.	↔	A
Chambal Fertilisers & Chemicals Ltd	↔	A
Coromandel Fertilisers Ltd	↔	A
Gujarat State Fertilisers Company Ltd	↔	A
National Fertilisers Ltd	↔	A
Rashtriya Chemicals and Fertilisers Ltd	↔	A
Zuari Industries Ltd	↔	A

Source: CRISIL Research

Impact factors

A. The subsidy burden for 2014-15 is expected to increase by 4 per cent to Rs 676 billion with an increase in complex fertiliser sales and domestic gas prices. The subsidy of Rs 729 billion announced for 2014-15 will be adequate and will reduce the spillover to 2015-16 to Rs 250 billion from Rs 300 billion in this year. The government has proposed to formulate a new urea policy, for which details are awaited.

Fertilisers: Tariffs, prices and landed costs

	Tariffs (per cent)				Prices (May 2014)		Landed costs (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-	Post-
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)	budget	budget
Urea	5.0	5.0	1.0	1.0	5,360.0	285	19,082	19,082
DAP	5.0	5.0	1.0	1.0	24,000.0	441	31,195	31,195
MOP	5.0	5.0	1.0	1.0	17,000.0	320	21,656	21,656
Ammonia	5.0	5.0	1.0	1.0	n.a.	486	32,996	32,996
Phosphoric acid	5.0	5.0	-	-	NT	715	45,479	45,479
Sulphur	2.5	2.5	-	-	n.a.	165	10,187	10,187
Rock phosphate	2.5	2.5	-	-	NT	110	8,587	8,587
Naphtha	0	0	-	-	59,520.0	965	61,803	61,803
Fuel oil	0	0	-	-	39,400.0	619	37,614	37,614
Contracted LNG[2]	5.0	5.0	-	-	-	702	44,079	44,079

DAP: Di-ammonium phosphate; LNG: Liquified natural gas

MOP: Muriate of potash; NT: Not traded; n.a.: Not available

"-" indicates not applicable

Notes:

1) There is no excise and customs duty on naphtha and fuel oil used for production of fertilisers.

2) International prices are FOB prices.

Source: CRISIL Research

Household Appliances

Tax exemptions, basic customs duty exemption to have miniscule impact

Company	Impact	Impact factors
Videocon Industries Limited	↔	A,B,C
Whirlpool of India Limited	↔	A
MIRC Electronics Limited	↔	A,B,C
Voltas Limited	↔	A

Source: CRISIL Research

Impact factors

A. The personal income tax exemption limit has been raised to Rs 2.5 lakh from Rs 2.0 lakh. The increase in the basic tax exemption limit will reduce individual tax outgo by around Rs 5,000 and lead to a marginal rise in demand for consumer durables.

B. The basic customs duty exemption for colour picture tubes used in cathode ray tube (CRT) televisions would reduce their prices by about Rs 500. Sales of CRT TVs are declining rapidly and are projected toaccount for a 30 per cent of total television sales in 2014-15.

C. The basic customs duty exemption for LCD and LED panels of below 19 inches would reduce prices by Rs 1,000-1400 for a typical 19 inch LCD-LED TV. Such panel TVs account for only about 2 per cent of the television sales volumes and hence this reduction would only slightly prop up sales.

Household Appliances: Tariffs

(Per cent)	Customs		Excise		Abatement rate	
	2013-14	2014-15	2013-14	2014-15*	2013-14	2014-15
B/W TVs	10.3	10.3	12.4	10.3	-	-
Colour TVs (CRT, LCD, LED)	10.3	10.3	12.4	10.3	30	30
Refrigerators	10.3	10.3	12.4	10.3	35	35
Room ACs	10.3	10.3	12.4	10.3	25	25
Washing machines	10.3	10.3	12.4	10.3	35	35
CPT	10.3	0.0	12.4	10.3	-	-
LCD and LED panels	0#	0##	12.4	10.3	-	-
Compressors	7.7	7.7	12.4	10.3	-	-
Thermostat and tubes	7.7	7.7	12.4	12.4	-	-
Steel coils	7.5	7.5	12.4	12.4	-	-
Polymers	5.2	5.2	12.4	12.4	-	-

CRT: Cathode ray tube, LCD: Liquid crystal display, Light Emitting Diode, CPT: Colour picture tube

#Basic Custom duty on 20 inch and above panels was 0% before the current budget

##Basic custom duty on 19 inch and below reduced to 0% in the current budget

*Change in Excise duty for 2014-15 has been in effect with interim budget announced during February 2014

Source: CRISIL Research

Information Technology

No significant impact on information technology

Company	Impact	Impact factors
TCS	↔	A,B
Infosys	↔	A,B
Wipro	↔	A,B
HCL Technologies	↔	A,B
Tech Mahindra	↔	A,B

Source: CRISIL Research

Impact factors

A. Exemption from 4 per cent special additional duty (SAD) on import of all inputs/components used in the manufacture of personal computers (laptops, desktops and tablet computers) will make computers cheaper and increase the demand marginally.

B. Allocation of Rs 100 crores for setting up virtual classrooms and Rs 500 crores for setting up National Rural Internet and Technology Mission is marginally positive for the domestic IT services segment.

Information technology: Tariffs

(Per cent) 1	Customs *		Excise	
	2013-14	2014-15	2013-14	2014-15
Packaged software	0.0	0.0	0.0	0.0
Personal computers	0.0	0.0	12.4	12.4
Monitor	0.0	0.0	12.4	12.4
Keyboard	0.0	0.0	12.4	12.4
Mouse	0.0	0.0	12.4	12.4
Printer	0.0	0.0	12.4	12.4
FDD, HDD, CD-ROM drive and other storage drives[2]	0.0	0.0	12.4	12.4
Motherboards	0.0	0.0	12.4	12.4
Microprocessors[3]	0.0	0.0	12.4	12.4
Routers	0.0	0.0	12.4	12.4
Modems	0.0	0.0	12.4	12.4

[1] Tax rate is inclusive of education cess.

[2] FDD: Floppy disk drive; HDD: Hard disk drive; CD-ROM: Compact disk-read only memory.

[3] Microprocessors meant for fitment inside the CPU housing/laptop body.

[*] Basic customs duty and does not include CVD,SAD

Source: CRISIL Research

Media & Entertainment

Broadening of service tax levy not to have any significant impact

Company	Impact	Impact factors
Balaji Telefilms	↔	-
HT Media	↔	A
PVR	↔	-
Zee Entertainment Enterprises	↔	A
Dish TV	↔	-
Hathway Cable & Datacom	↔	-
Entertainment Network India	↔	A

Source: CRISIL Research

Impact factors

A. The Budget has proposed that service tax, currently levied on sale of advertisement space or time in broadcast media (television / radio), should also cover other segments, such as online and mobile advertising. This is not expected to have a significant impact on the industry, as online and mobile advertising currently constitute only 5-6 per cent of total advertising revenues. Such a levy is an attempt to create a level-playing field among media streams.

Media & Entertainment: Tariffs

(Per cent)	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15
Digital cinema equipment	7.7	7.7	12.4	12.4
Broadcast equipment	10.3	10.3	12.4	12.4
Set-top boxes	10.3	10.3	12.4	12.4

Source: CRISIL Research

Increase in export duty on bauxite to benefit aluminium manufacturers

Company	Impact	Impact factors
Hindalco Industries Ltd	↑	A,B
Hindustan Copper Ltd	↔	-
Hindustan Zinc Ltd	↔	-
National Aluminium Co. Ltd	↔	A,B
Sesa Sterlite Limited	↑	A,B

Source: CRISIL Research

Impact factors

A. Increase in export duty on bauxite to 20 per cent from 10 per cent is a positive for aluminium players as this will result in higher domestic availability of bauxite. About 24 per cent of India's production was exported in 2013.

B. The basic customs duty on coal tar pitch was reduced to 5 per cent from 10 per cent. However, as coal tar pitch accounts for only 5 per cent of raw material consumed by an aluminium player, the benefit arising from lower custom duty will be negligible.

Non-ferrous metals: Tariffs, prices and landed costs

	Tariff (per cent)[1]				Prices (June 2014)		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic[2]	International[3]	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)		
Aluminium ingots	5.2	5.2	12.4	12.4	153,000	2,200	162,509	162,509
Aluminium products								
- Flat-rolled products	5.2	5.2	12.4	12.4	-	-	-	-
- Foils	5.2	5.2	12.4	12.4	-	-	-	-
Aluminium scrap	5.2	5.2	12.4	12.4	-	-	-	-
Non-coking coal	2.1	2.6	6.2	6.2	-	-	-	-
Caustic soda	7.7	7.7	12.4	12.4	-	-	-	-
Calcined petroleum coke	2.6	2.6	14.4	14.4	-	-	-	-
Copper	5.2	5.2	12.4	12.4	517,750	6,790	499,266	499,266
Copper scrap	5.2	5.2	12.4	12.4	-	-	-	-
Copper ore and concentrates[4]	2.6	2.6	4.1	4.1	-	-	-	-
Lead	5.2	5.2	12.4	12.4	141,000	2,101	155,246	155,246
Lead ore and concentrates	2.6	2.6	4.1	4.1	-	-	-	-
Zinc	5.2	5.2	12.4	12.4	174,500	2,124	156,933	156,933
Zinc ore and concentrates	2.6	2.6	4.1	4.1	-	-	-	-

Note:

1) Tariff rates are inclusive of 3 per cent education cess

2) International prices are average LME cash prices

3) Domestic prices are average prices for June 2014

4) International LME aluminium prices include premiums

Source: CRISIL Research

Oil and Gas

Higher budgeted subsidy in FY15 marginally positive for oil marketing companies

Company	Impact	Impact factors
Oil and Natural Gas Corporation Ltd	↔	-
Reliance Industries Ltd	↔	-
Cairn India Ltd	↔	-
Oil India Ltd	↔	-
Indian Oil Corporation Ltd.	↑	A,B
Bharat Petroleum Corporat.ion Ltd	↑	A,B
Hindustan Petroleum Corporation Ltd	↑	A,B

Source: CRISIL Research

Impact factors

A. Overall under-recoveries are estimated to decline to Rs 900-1,000 billion in 2014-15, from Rs 1,400 billion in 2013-14, due to hike in retail diesel prices, strengthening of the rupee and stable crude oil prices y-o-y. The government is expected to share 50 per cent of the under-recovery burden, amounting to Rs 450-500 billion. The total subsidy burden works out to Rs 795-845 billion, including the roll-over from 2013-14. Considering the budgeted amount of Rs 635 billion for 2014-15, the roll-over to 2015-16 will decline to Rs 160-210 billion. The lower subsidy roll-over will lower OMCs' interest burden and their working capital requirements. Hence, overall impact on the sector is marginally positive, only for OMCs.

B. The central excise duty on branded petrol has been reduced to Rs 2.35 per litre, from Rs 7.5 per litre. However, this is unlikely to impact oil marketing companies (OMCs) significantly as branded petrol accounts for less than 5 per cent of overall petrol sales.

Oil and Gas: Tariffs

	Tariffs (per cent)				Prices (June 2014)		Landed costs (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-	Post-
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)	Budget	Budget
Motor spirit (MS)	2.6	2.6	Rs 9.2/ltr	Rs 9.2/ltr	96,622	1,011	63,132	63,132
Aviation turbine fuel (ATF)	8.2	8.2	8.2	8.2	86,536	1,143	75,975	75,975
Naphtha	5.2	5.2	14.4	14.4	57,624	965	62,412	62,412
Superior kerosene oil (SKO)								
- *Industrial use*	5.2	5.2	14.4	14.4	60,806	948	61,354	61,354
- *Domestic use*	0.0	0.0	0.0	0.0	18,561	948	58,349	58,349
High-speed diesel (HSD)	2.6	2.6	Rs 3.46/ltr	Rs 3.46/ltr	68,272	919	57,287	57,287
Fuel oil	5.2	5.2	14.4	14.4	39,538	619	40,253	40,253
Liquefied petroleum gas (LPG)	5.2	5.2	0.0	0.0	59,479	832	55,175	55,175
Bitumen	5.2	5.2	14.4	14.4	40,760	619	41,534	41,534
Crude oil [1]	0.0	0.0	0.0	0.0	n.a.	820	-	-
LNG[3]	5.0	5.0	-	-	-	702	43,857	43,857
CNG	-	-	14.0	14.0	-	-	-	-

'-' indicates not applicable

n.a.: Not available

[1] Cess on crude oil (in lieu of excise) is Rs 4,500 per tonne , National Calamity Contingent Duty (NCCD) of Rs 50/mt levied on imports of crude oil

[2] Price per '000 scm

[3] Prices are for contracted LNG

Notes

1) International prices are FoB Arab Gulf prices.

2) Domestic price of petroleum products are ex-storage point prices.

3) Priority sectors for natural gas include power and fertiliser.

4) Domestic natural gas prices represent landfall prices for each category.

5) Customs duty and excise duty on naphtha used for fertiliser is nil.

6) Customs duty and excise duty on fuel oil used in fertiliser is nil.

7) Additional customs duty of Rs 2/litre is levied on Motor spirit and HSD

Source: CRISIL Research

Marginal increase in education to maintain demand for writing and printing paper

Company	Impact	Impact factors
Andhra Pradesh Paper Mills Ltd.	↔	**A**
Ballarpur Industries Ltd.	↔	**A**
Sirpur Paper Ltd	↔	**A**
Seshasayee Paper and Boards Ltd.	↔	**A**
Tamil Nadu Newsprint and Papers Ltd.	↔	**A**
West Coast Paper Mills Ltd.	↔	**A**

Source: CRISIL Research

Impact factors

A. Budgetary allocation for education has been increased by 3.3 per cent to Rs 821.4 billion, which is expected to maintain the demand for creamwove and maplitho variety of Writing & Printing paper. These varieties, primarily used in the manufacture of textbooks, notebooks and other stationery for education, account for about 25 per cent of paper and paperboard demand.

Paper: Tariffs

(per cent)	Tariff (per cent)				Prices (June 2014)		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)		
Newsprint	0.0	0.0	0.0	0.0	38250	620	37,033	37,033
Maplitho	0.0	0.0	6.2	6.2	67000 [1]	n.a.	-	-
Duplex board	0.0	0.0	6.2	6.2	35600 [1]	n.a.	-	-
Art board	0.0	0.0	6.2	6.2	63000 [1]	n.a.	-	-
Wood pulp (hard)	0.0	0.0	2.1	2.1	NT	630	38,406	38,406
Wood pulp (soft)	0.0	0.0	2.1	2.1	NT	735	44,806	44,806
Waste paper (OCC)	0.0	0.0	6.2	6.2	13,000	245	15,538	15,538

n.a. - Not available

NT: Not traded

[1] Prices are delivered prices excluding VAT (delivered: basic+excise+octroi+avg freight prices)

Source: CRISIL Research

Petrochemical

Reduction in basic customs duty on feedstock is positive for industry

Company	Impact	Impact factors
Basic petrochemicals and intermediates		
Reliance Industries Ltd	↑	**A**
GAIL	↑	**A**
Supreme Petrochem Ltd	↔	-
Finolex Industries Ltd	↔	-
Chemplast Sanmar Ltd	↔	-
Styrolution ABS Ltd	↑	**A**
Bhansali Engineering Polymers Ltd	↑	**A**
Haldia Petrochemicals Ltd	↔	-

Note: The impact specified is only for the petrochemicals business of the companies listed above.

Source: CRISIL Research

Impact factors

A. Reduction in customs duty on ethane, propane, ethylene, propylene, butadiene and ortho-xylene to 2.5 per cent from 5 per cent will lower the feedstock cost for the domestic petrochemicals industry and expand the margins of gas-based producers by 100-150 basis points.

Petrochemicals: Tariffs, domestic prices and landed cost

(per cent)	Tariff (per cent)				Prices (June 2014)		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)		
Polymers								
hdPE (IM)	7.7	7.7	12.4	12.4	121,089 [1]	1,589 [3]	120,419	120,419
ldPE	7.7	7.7	12.4	12.4	130,214 [1]	1,583 [3]	119,965	119,965
lldPE	7.7	7.7	12.4	12.4	126,450 [1]	1,585 [3]	120,116	120,116
PPHP (IM)	7.7	7.7	12.4	12.4	119,796 [1]	1,573 [3]	119,207	119,207
PVC	7.7	7.7	12.4	12.4	86,367 [1]	1,043 [3]	79,042	79,042
PS (GP)	7.7	7.7	12.4	12.4	130,000 [1]	1,720 [3]	130,347	130,347
ABS	7.7	7.7	12.4	12.4	164,000	1,960 [3]	148,535	148,535
SBR (1502)	10.3	10.3	12.4	12.4	n.a.	1,937 [3]	150,206	150,206
PBR (1220)	10.3	10.3	12.4	12.4	132,500	1,850 [3]	143,459	143,459
Basic petrochemicals and intermediates								
EDC	2.6	2.6	12.4	12.4	n.a.	440 [3]	31,794	31,794
VCM	2.6	2.6	12.4	12.4	n.a.	954 [3]	68,934	68,934
Styrene	2.6	2.6	12.4	12.4	n.a.	1,609 [2]	116,264	116,264
Ethylene	5.2	2.6	12.4	12.4	n.a.	1,429 [2]	105,776	103,257
Propylene	5.2	2.6	12.4	12.4	n.a.	1,295 [2]	95,857	93,575
Butadiene	5.2	2.6	12.4	12.4	76,000	1,305 [2]	96,597	94,297
Benzene	5.2	5.2	12.4	12.4	94,382	1,365 [2]	101,038	101,038
Toluene	5.2	5.2	12.4	12.4	79,776	1,138 [2]	84,236	84,236
Naphtha	5.2	5.2	14.4	14.4	65,932	965 [4]	72,740	72,740

[1] Market prices, [2] FoB prices, [3] C&F South-East Asia, [4] C&F Japan, n.a.: Not available

Notes:

1) Education cess of 3 per cent has been included in the customs duty and excise duty.

2) Additional CVD of 4 per cent has been levied on polymers and basic petrochemicals and intermediates.

3) Landed cost also includes handling charges.

Source: CRISIL Research

Pharmaceuticals

No major impact on industry revenues and profitability

Company	Impact	Impact factors
Sun Pharmaceuticals Ltd	↔	A,B
Cipla Ltd.	↔	A,B
Dr Reddy's Laboratories Ltd.	↔	A,B
Ranbaxy Laboratories Ltd.	↔	A,B
Glenmark Pharmaceuticals Ltd.	↔	A,B

Source: CRISIL Research

Impact factors

A. Bringing technical testing of newly developed drugs on human participants, under the services tax gamut, would only have a marginally negative impact. Costs of human clinical trials may rise slightly; however, large pharmaceutical companies, which typically spend 6-8 per cent of revenues on R&D activities, may not see a significant impact on their overall bottomlines. This is because most players are majorly into abbreviated new drug applications (ANDAs), which only require bio-availability and bio-equivalence (BA/BE) studies as opposed to human drug trials.

B. The budgetary announcement to create new drug testing laboratories and strengthen 31 existing state labs, is a key policy move, aimed at further supporting state and food regulatory labs. As such, large pharma companies are already making efforts to meet regulatory compliance, both at international and domestic plants, especially in light of the recent US FDA scrutiny. The government move could now possibly usher a more stringent domestic regulatory environment for smaller manufacturers.

C. Exempting anti-retroviral drugs from customs and excise duties, under the National Aids Control Programme, is expected to help lower cost of these drugs, used in HIV treatment. However, this is not going to impact Indian manufacturers significantly as these drugs account for less than 1 per cent of the overall pharmaceutical market, estimated at Rs 660 billion as of 2013-14.

Pharmaceuticals: Tariffs

(Per cent)	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15
Bulk drugs	7.7	7.7	12.4	12.4
Formulations	12.4	12.4	6.2	6.2

Source: CRISIL Research

Development of Tuticorin port to not materially impact the companies

Company	Impact	Impact factors
Adani Ports and SEZ Ltd	↔	A
Gujarat Pipavav Ports Ltd	↔	A

Source: CRISIL Research

Impact factors

A. The Budget has allocated Rs 116 billion for the development of an outer harbour at the Tuticorin port, and 15 other port projects. A hardware manufacturing zone near the Kakinada Port and special economic zones (SEZs) near the JNPT and Kandla ports are also proposed. These initiatives could help improve traffic at these ports over the long term.

Power

Extension of 10-year tax holiday to benefit 18-20 GW of competitively bid projects

Company	Impact	Impact factors
NTPC	↔	B,C,D
Adani Power	↑	A,B,C
Tata Power	↑	A,B,C,D
Reliance Power	↑	A,B,C,D
JSW Energy	↑	A,B,C
Indiabulls Power	↑	A,B,C
CESC	↑	A,B,C
Torrent Power	↑	A,B,C
GMR Infra	↑	A,B,C
GVK Power & Infra	↑	A,B,C
Lanco Infratech	↑	A,B,C,D
Power Grid	↑	A,B,C
NHPC	↔	B,C

Source: CRISIL Research

Impact factors

A. The Union Budget has proposed a 10-year tax holiday for power plants that will commission between 2014-15 and 2016-17. CRISIL Research believes that this will benefit 18-20 GW of competitively bid projects that are expected to commission over this period. In the absence of this extension, equity IRRs would be lower by 150-200 bps.

B. In order to ease liquidity issues, banks have been permitted to raise long-term financing for the infrastructure sector. However, existing debt exposure to the sector and implementation issues need to be addressed to boost capacity additions.

C. Outlay for transmission and distribution (T&D) has nearly doubled to Rs 80 billion under schemes such as R-APDRP, RGGVY and feeder seperation. Higher investments in T&D will reduce AT&C losses and increase demand, particularly from rural areas.

D. On the renewable energy front, we believe that Rs 10 billion allocated to the solar power sector will be inadequate to boost capacity additions. Moreover, the impact of custom duty cut on specific inputs used in solar and wind power equipment will be negligible given that these components account for a small proportion of overall capital costs.

Increased tax incentives and liberalisation of FDI beneficial for the sector

Company	Impact	Impact factors
DLF Ltd	↑	**B**
Unitech Ltd	↑	**A, B**
Indiabulls Real Estate Ltd	↑	**B**
Puravankara Projects Ltd	↑	**A, B**
Godrej Properties Ltd	↑	**A, B**

Source: CRISIL Research

Impact factors

A. Tax breaks like increase in exemption under Sec 80C, interest subvention and increase in tax slabs will improve affordability. This will mainly benefit buyers of residential units priced up to Rs 30 lakhs which currently accounts for 12-15 per cent of the total upcoming supply in the top 10 cities.*

B. Liberalising FDI norms could potentially improve the flow of funds for developers who are currently facing liquidity crunch as it opens up new avenues for fund raising. Currently, nearly 15-17 per cent of the upcoming supply in the top 10 cities falls in this category, which is likely to increase over the long term.

C. ‘Pass through’ status is accorded for Real estate investment trusts (REITs) . Dividend distribution tax to be payable at SPV level (exempt at trust and individual unit-holder level). Tax efficient REIT structure is likely to encourage the development of the REIT market. This will improve fund flow of developers who have considerable lease income.

**Cities - Ahmedabad, Bengaluru, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai, the NCR, Pune, Kochi.*

Roads

Budget addresses funding concerns and delays

Company	Impact	Impact Factors
Larsen & Toubro Ltd.	↑	**A,B,C**
Hindustan Construction Co Ltd.	↑	**A,B,C**
IVRCL Ltd.	↑	**A,B,C**
IRB Infrastructure Developers Ltd.	↑	**A,B,C**
Gammon India Ltd.	↑	**A,B,C**
Ashoka Buildcon Ltd.	↑	**A,B,C**
ITNL	↑	**A,B,C**

Source: CRISIL Research

Impact factors

A. The Budget has proposed investments worth Rs 37,880 crores – up 12 per cent from the previous year's spend – for the development of national highways and state roads. Additionally, Rs 500 crores has been set aside for expressways, which could help kickstart some expressway projects that have been on the drawing board for long.

B. There is a plan to set up an institution called '3P India' with a corpus of Rs 500 crores which will develop various models for PPP projects and also ensure quick dispute redressal mechanism. We believe this move will benefit PPP projects.

C. With an aim to improve availabilty and reduce the cost of funds, banks have been allowed to raise long term funds with minimum requirements for cash reserve ratio, statutory liquidity ratio and priority sector lending.

D. A sum of Rs 14,389 crores – up 20 per cent from the previous year's spend – has been allocated for rural roads being developed under the Pradhan Mantri Gram Sadak Yojana (PMGSY). This is expected to benefit the small local road contractors.

Sector to benefit from sops given on key raw materials

Company	Impact	Impact factors
Steel Authority of India Ltd.	↑	A,B,C
Tata Steel Ltd.	↑	B,C
JSW Steel Ltd.	↑	B,C
Rashtriya Ispat and Nigam Ltd.	↑	B,C
Jindal Steel & Power	↑	B,C
Bhushan Steel Ltd.	↑	B,C

Source: CRISIL Research

Impact factors

A. Basic customs duty (BCD) on imported flat-rolled products of stainless steel increased to 7.5 per cent from 5.0 per cent:

B. Indian stainless steel manufacturers are facing stiff competition from China, which has become a net exporter of stainless steel over the last 3 years. In the wake of an increasing threat from imports, an increase in BCD on flat stainless steel products would make the landed cost of importing various flat stainless steel products dearer by Rs 5,000 per tonne. This would partially shield the domestic stainless steel industry from cheaper imports (accounting for 10-15 per cent of India's stainless steel consumption).

C. BCD on the following raw materials have been changed:

- BCD on coking coal levied to 2.5 per cent from Nil. The countervailing duty (CVD) on the other hand, is reduced to 2 per cent from 6 per cent

D. For the Indian steel industry, the reduction in the countervailing duty on coking coal is expected to more than compensate for the levy of customs duty on the same. Coking coal is used by large integrated steel players to manufacture steel. These players, accounting for 50 per cent of domestic steel production, are likely to see a Rs 100-200 per tonne reduction in the cost of production.

- BCD on melting scrap of iron or steel halved to 2.5 per cent

E. India imported about 8.2 million tonnes of scrap in 2012-13, an increase of 180 per cent from 2010-11. However, a sharp depreciation in the Indian rupee in 2013-14 made scrap imports dearer as a result of which scrap imports fell by 41.6 per cent y-o-y to 4.8 million tonnes in 2013-14. The move to reduce BCD on scrap is a postive for the Indian steel industry in general and small and mid-sized players in particular (reliance on scrap is more) as this would translate to lower imported cost of scrap. With the reduction of BCD on scrap, the landed cost of imported scrap is slated to reduce by Rs 600-750 per tonne.

- BCD on steel grade limestone and steel grade dolomite halved to 2.5 per cent

F. This is expected to have a negligible postive impact as limestone and dolomite together account for ~2 per cent of the cost of manufacturing steel.

- BCD on metallurgical coke has been levied at 2.5 per cent from Nil

G. This will have a negligible positive impact as India imports an insignificant quantum of metallurgical coke. For the manufacture of steel, coking coal needs to be coverted to coke in coke ovens. All the large integrated steel players import coking coal and covert it into coke in their own coke ovens. Hence, the reliance on coke imports is very low.

H. The Government has stated it's intent to expeditiously resolve the current impasse in the mining sector, including, iron ore mining by changing, if necessary, the Mines and Minerals Development and Regulation Act) MMDR Act.

I. The stated intent to increase iron ore supply is also a long-term positive, but the budget announced no specific measures in this regard. However, the government also stated that it will undertake the revision of the rate of royalty on all minerals, including iron ore (the current royalty rate stands at 10 per cent ad volerem). The revision, if and when implemented, will translate in to higher mining costs.

Steel: Tariffs

	Tariff (per cent)[1]				Prices		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic	International	Pre-budget	Post-budget
	2013-14		2013-14		(Rs/tonne)			
GP/GC	7.7	7.7	12.4	12.4	50,750	650	50,170	50,170
CR coils	7.7	7.7	12.4	12.4	46,250	625	48,284	48,284
HR coils	7.7	7.7	12.4	12.4	42,000	550	42,626	42,626
Bars and rods	5.2	5.2	12.4	12.4	40,000	608	45,860	45,860
Hot rolled stainless steel (East Asia)	5.2	7.7	12.4	12.4	163,933	2,700	199,721	204,691
Alloy steel	5.2	5.2	12.4	12.4	-	-	-	-
Billets/slabs	5.2	5.2	12.4	12.4	39,300	495	37,542	37,542
Pig iron	5.2	5.2	12.4	12.4	28,000	385	29,446	29,446
Steel melting scrap	5.2	2.6	12.4	12.4	30,833	335	26,866	26,198
Iron ore	2.6	2.6	12.4	12.4	-	-	-	-
Coking coal	-	2.6	6.2	2.1	-	-	-	-
Metallurgical coke	-	2.6	12.4	12.4	-	-	-	-
Non-coking coal	2.1	2.6	6.2	2.1	-	-	-	-

[1] Tariff rates are inclusive of 3 per cent education cess.

Notes

1) International prices are on FOB (CIS Black Sea) basis for June 2014

2) Domestic prices are average prices for June 2014

Source: Metal Bulletin, CRISIL Research

No proposals for the sugar sector

Company	Impact
Bajaj Hindustan Ltd	↔
Balrampur Chini Mills Ltd	↔
Bannari Amman Sugars Ltd	↔
EID Parry Ltd	↔
Shree Renuka Sugars Ltd	↔

Source: CRISIL Research

There was no specific proposal for the sugar industry in the Union Budget 2014-15

Sugar: Tariffs, prices and landed costs

	Tariff				Prices (June 2014)		Landed cost (Rs/tonne)	
	Customs (per cent)		Excise (Rs per tonne)		Domestic (Rs/tonne)	International ($/tonne)	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15				
Domestically produced sugar	n.a. n.a.	n.a. n.a.	980	980	3,105	n.a.	n.a.	n.a.
Imported white sugar	15.0	40.0	n.a.	n.a.	-	476	28,248	28,248
Imported raw sugar	15.0	40.0	n.a.	n.a.	-	401	23,955	23,955
Molasses	10.3	10.3	1,000	1,000	-	-	-	-

n.a.: Not applicable

Notes

1) Domestic and international prices are the average for June 2014.

2) Excise duty includes basic duty, additional duty and education cess.

3) Landed cost includes the duties, freight, port handling and transport costs.

4) Customs duty for imported white and raw sugar was hiked to 40 per cent in June 2014 before the Budget

Source: CRISIL Research

Telecom

Revenues from telecom services budgeted to be higher than in 2013-14

Company	Impact	Impact factors
Bharti Airtel	↔	**B**
Idea Cellular	↔	**B**
Reliance Communications	↔	**B**
MTNL	↔	**B**
Tata Communications	↔	-

Source: CRISIL Research

Impact factors

A. Basic customs duty of 10 per cent has been imposed on specified telecommunication products. However, since a large portion of the equipment used will remain subject to Nil import duty as per the Information Technology Agreement, this is not expected to significantly impact the industry.

B. Budgeted receipts from auction of spectrum and levy of one-time charges has been estimated at Rs 454 billion for 2014-15, as against the Rs 408 billion received in 2013-14.

Telecom: Tariffs

(Per cent)	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15
Cellular phones (price <= Rs 2000)	0.0	0.0	1.0	1.0
Cellular phones (price > Rs 2000)	0.0	0.0	6.2	6.2
Telecom networking equipment	0.0	0.0	12.4	12.4
Base stations	0.0	0.0	12.4	12.4
Wireless internet data card	0.0	0.0	0.0	0.0
HDSL	0.0	0.0	12.4	12.4

HDSL: High bit-rate digital subscriber line

Source: CRISIL Research

Textiles

Increased allocation under TUFS, extension of excise duty cut on garments beneficial for the sector

Company	Impact	Impact factors
Alok Industries Ltd	↑	A
Gokaldas Exports Ltd	↔	
Indo Rama Synthetics (India) Ltd	↔	
Vardhaman Textiles Ltd	↑	A
Welspun India Ltd	↔	
JBF Industries Ltd	↔	
Arvind Mills Ltd	↑	A,B
Raymond Ltd	↑	B
Grasim Industries Ltd	↔	
Aditya Birla Nuvo Ltd	↑	B

Source: CRISIL Research

Impact factors

A. Budgetary allocation under the Technology Upgradation Funds Scheme (TUFS) has been increased to Rs 23 billion from the revised estimate of Rs 19.5 billion in 2013-14. Increased allocation to TUFS will encourage capex. We expect spinners to add about 1-1.5 million spindles in 2014-15.

B. Domestic demand for readymade garments is expected to pick up from about 4 per cent (volume terms) in 2013-14 to 5 per cent in 2014-15. Further, the continuation of zero excise duty will also support growth.

Additional notes

A. To encourage exports of readymade garments, the duty free entitlement for the import of trimmings, embellishments and other specified items has been increased to 5 per cent from 3 per cent of the value of their exports.

B. Allocation of Rs 2 billion has been made for setting up six new mega textiles clusters in Bareily, Lucknow, Surat, Kuttch, Bhagalpur, Mysore and one in Tamil Nadu; support has also been extended to the handloom sector and pashmina products. This will increase job creation in the sector.

C. Loading, unloading, storage, warehousing and transportation of cotton have been exempted from service tax levy. This will marginally lower costs for cotton ginners and spinning mills. Players are, however, unlikely to pass on the benefits to their customers.

D. Basic customs duty on reformate (feedstock for polyester) has been lowered to 2.5 per cent from 10 per cent. Customs duty on specified inputs for the manufacture of spandex yarn has been reduced to zero from 5 per cent. This is likely to bring down prices and improve demand, though marginally.

Cotton and cotton yarn: Tariffs, prices and landed costs

	Tariff (per cent)				Prices (June 2014)		Landed cost[4]	
	Customs		Excise[2]		Domestic	Inter-national[3]	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)	(Rs/tonne)	(Rs/tonne)
Cotton yarn (40s)	10.3	10.3	6.2	6.2	209,000	4,100	272,042	272,042
Cotton[1]	0.0	0.0	0.0	0.0	118,000	2,053	123,470	123,470

[1] Domestic price of S-6 variety and international cotton price of a comparable variety

[2] Concessional and optional excise duty

[3] FOB prices

[4] Landed cost includes handling charges of 1 per cent

Source: CRISIL Research

Man-made fibres and intermediates: Tariffs, prices and landed costs

	Tariff (per cent)				Prices (June 2014)		Landed cost[2]	
	Customs		Excise		Domestic	Inter-national[1]	Pre-budget	Post-budget
	2013-14	2014-15	2013-14	2014-15	(Rs/tonne)	($/tonne)	(Rs/tonne)	(Rs/tonne)
PSF 1.5d	5.2	5.2	12.4	12.4	102,000	1,607	106,016	106,016
VSF 1.4d	5.2	5.2	12.4	12.4	128,000	1,932	127,457	127,457
POY 150d	5.2	5.2	12.4	12.4	118,000	1,789	118,023	118,023
VFY 150d	5.2	5.2	12.4	12.4	290,000	4,318	284,865	284,865
PV 30s (70:30)	10.3	10.3	12.4	12.4	180,000	n.a.	n.a.	n.a.
PTA	5.2	5.2	12.4	12.4	61,750	993	65,477	65,477
MEG	5.2	5.2	12.4	12.4	61,975	1,000	65,972	65,972
Paraxylene	0.0	0.0	12.4	12.4	n.a.	1,369	104,230	104,230

PSF: Polyester staple fibre; VSF: Viscose staple fibre; POY: Partially oriented yarn; VFY: Viscose filament yarn;

PV: Polyester viscose; PTA: Purified terephthalic acid; MEG: Mono-ethylene glycol

n.a.: Not available

[1] FOB prices

[2] Landed cost includes handling charges of 1 per cent

Source: CRISIL Research

Apparels and fabrics: Tariffs

	Tariff (per cent)			
	Customs		Excise	
	2013-14	2014-15	2013-14	2014-15
Cotton-based apparels	10.3	10.3	12.36*	12.36*
Non-cotton-based apparels	10.3	10.3	12.4	12.4
Cotton woven fabrics	10.3	10.3	6.2^	6.2^
Non-cotton woven fabrics	10.3	10.3	12.4	12.4
Cotton knitted fabrics	10.3	10.3	6.2^	6.2^
Non-cotton knitted fabrics	10.3	10.3	12.4	12.4

^ Concessional and optional excise duty on cotton fabrics

* Excise duty on readymade garments was made optional, thus effectively bringing it down to zero in 2013-14

Education cess of 3 per cent on basic customs and excise duty

Source: CRISIL Research

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