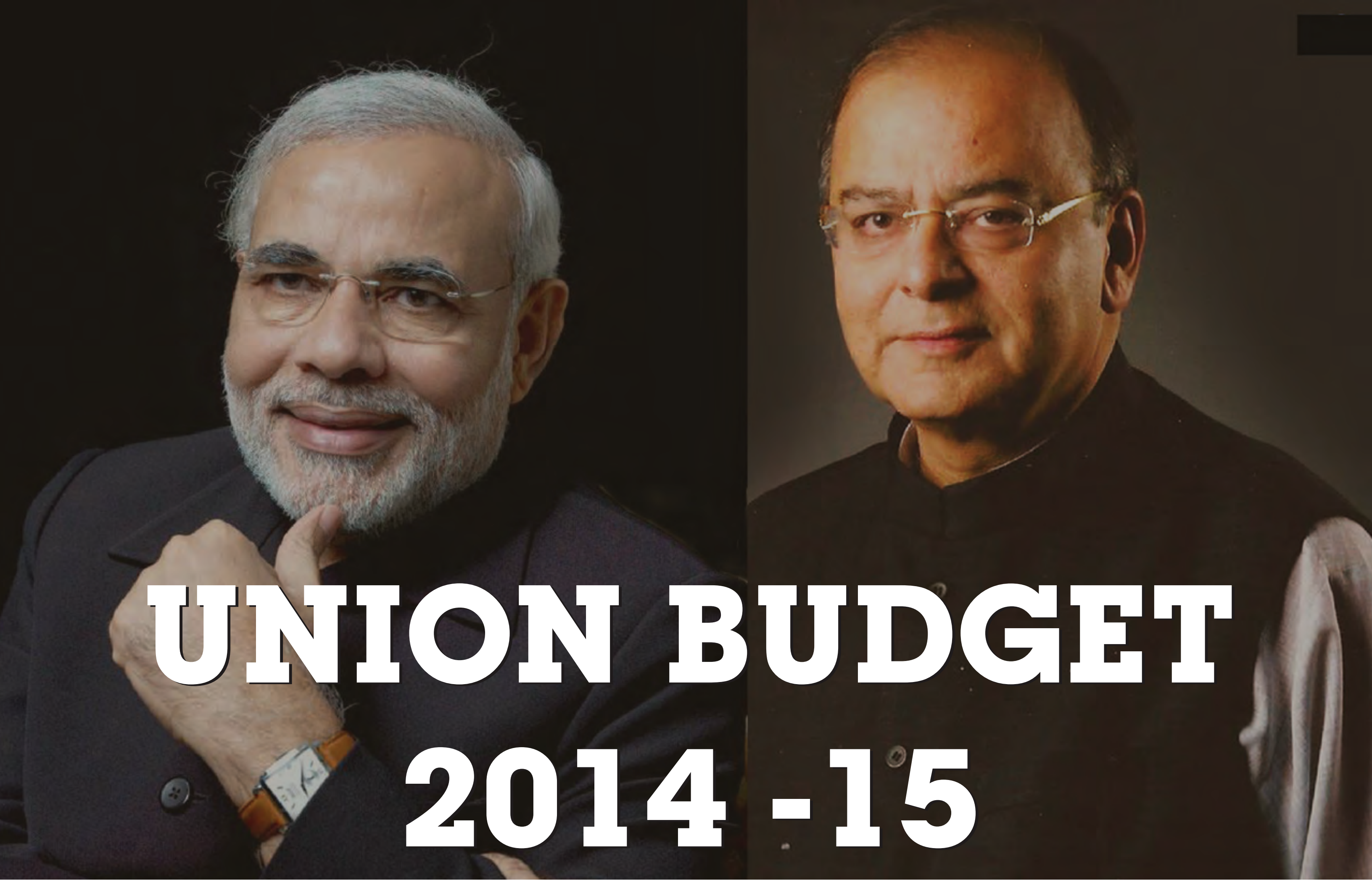

UNION BUDGET 2014 -15

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Step in the Right Direction…

Finance Minister Mr. Arun Jaitley presented his maiden budget in which he has not taken any big bang policy measures. However, he did provide a roadmap that suggested the government is taking steps in the right direction to revive growth. Emphasizing on growth and keeping a check on the fiscal deficit was a tall order for him. The FM focused on manufacturing, infrastructure, and agriculture sectors along with boosting capital flows and supporting development of the financial sector. He has pegged the fiscal deficit target for FY15 at 4.5%, but added that he would try to meet the fiscal deficit target of 4.1% set by his predecessor. He has also set the fiscal deficit target of 3.6%/3% for FY16/FY17. He has set the overall subsidy outgo for the year at INR 2.55 lakhs crore, roughly the same level of FY14. In this, we have seen that food subsidy has jumped by 25% to INR 1.15 lakhs crore primarily on the implementation of provisions of the Food Security Act. Simultaneously, petroleum subsidy is expected to decline by 26% to INR 63,426 crore as against INR 85,480 crore, while fertilizers subsidy is expected to be around INR 67970 crore, almost at the same levels at the revised estimate of FY14. The overall subsidy for this year is budgeted at 1.9% of GDP as against 2.2% of GDP in FY14. With better policy reforms, the FM is targeting to cut down the subsidy to 1.8%/1.6% of GDP during FY16/17. The budget has estimated plan expenditure of INR 5.75 lakhs crore for FY15, which is 21% more than the actual estimate of FY14. This fund will be spent mainly on agriculture, capacity creation in health and education, rural roads, and national highway infrastructure. The non-plan expenditure for the budgeted year will be INR 12.20 lakhs crore. The total expenditure is budgeted at INR 17.94 lakhs crore. The FM has pushed for reforms in the insurance, defense, and housing segments. He has proposed to raise the FDI limit in insurance and defense manufacturing from 26% to 49%. The management and control will remain Indian, but the investment will be through the Foreign Investment Promotion Board (FIPB).

On the revenue front, the FM has aimed to get INR 63,425 crore from disinvestments of government stakes in central public sector enterprises. The target announced is 145% higher than the revised target for FY14. Gross tax receipts will be INR 13.65 lakhs crore and non-tax revenue will be INR 2.12 lakhs crore. With this above estimate, fiscal deficit will be 4.1% of GDP and revenue deficit will be 2.9% of GDP.

INDUSTRY HIGHLIGHTS

Defense

Government plans to promote FDI in selective sectors. The composite cap of foreign investment is to be raised to 49% with full Indian management through FIPB route in the defense sector.

Impact: Positive on BEML and BEL

Information Technology and Broadcasting

- Pan India programme “Digital India” with an outlay of INR 500 Crore
- INR 100 Crore would be allocated for 600 new and existing Community Radio Stations
- Manufacturing units are allowed to sell their products through the e-commerce platform, which would enhance their sales and revenue largely

Impact: will increase significant domestic revenue of all IT companies

Top picks: HCL Tech, Tech Mahindra, and Infosys

Infrastructure, Housing, and Real Estate

- A sum of INR 7060 Crore would be allocated for the project for developing 100 smart cities
- Incentives would be given for Real Estate Investment Trusts (REITS). A modified REITS structure would be created for infrastructure projects and would be called Infrastructure Investment Trusts (INVITS)
- A sum of INR 4000 Crore for NHB from the priority sector lending
- The built up area and capital conditions for FDI to be reduced from 50,000 square meters to 20,000 meters and from USD 10 million to 5 million for development of smart cities

Impact: Positive for all real estate companies

Agriculture and Rural Development

- A sustainable growth of 4% in agriculture is proposed to be achieved
- Institutional finance would be provided to landless farmers. “Long-Term Rural Credit Fund” to be set up for the purpose of providing refinance support to cooperative banks and Regional Rural Banks (RRBs) with an initial corpus of INR 5000 Crore

Roads

- The sector needs huge amount of investment along with debottlenecking from a maze of clearances. An investment of INR 37,880 Crores in NHAI and State Roads is proposed, which includes INR 3000 Crores for the North East

- Development of industrial corridors with emphasis on smart cities linked to transport connectivity would be taken as a measure to spur growth in manufacturing and urbanization

Impact: Positive for IRB infra and IL&FS Transport

Energy and Power

- INR 100 Crore would be allocated for a new scheme "Ultra-Modern Super Critical Coal Based Thermal Power Technology"
- Adequate quantity of coal will be provided to power plants, which are already commissioned or would be commissioned by March 2015. An exercise to rationalize coal linkages to optimize transport of coal and reduce cost of power is underway
- Ten-year tax holiday extended to the undertakings, which begin generation, distribution, and transmission of power by March 31, 2017

New and Renewable Energy

- INR 500 Crores would be provided for Ultra-Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, Andhra Pradesh, and Ladakh
- INR 400 Crores would be provided for a scheme for solar power driven agricultural pump sets and water pumping stations. INR 100 Crore would be provided for the development of 1 MW Solar Parks on the banks of canals

Banking and Insurance sector

- Banks to be permitted to raise long-term funds for lending to the infrastructure sector with minimum regulatory pre-emption such as CRR, SLR, and Priority Sector Lending (PSL)
- To enable banks to meet with the Base III norms, a capital of INR 2,40,000 Crores is required, which will be met by increasing the direct shareholding of public in a phased manner

Impact: Positive for IDFC

Manufacturing Industries

- To give an impetus to the stainless steel industry, increase in basic customs duty on imported flat-rolled products of stainless steel from 5% to 7.5%. Concessional basic customs duty of 5% extended to machinery and equipment would be required for setting up of a project for solar energy production

Impact: Positive for Jindal Stainless

Electronics Industry

Colour picture tubes would be exempted from basic customs duty to make cathode ray TVs affordable to weaker sections. To encourage production of LCD and LED TVs below 19 inches in India, basic customs duty on LCD and LED TV panels of below 19 inches reduced from 10% to Nil

Tax Proposals

- Tax changes factored into the Budget Estimates 2014-15 are the measures taken to revive the economy, promote investment in manufacturing, rationalize tax provisions to reduce litigation, address the problem of inverted duty structure in certain areas. Tax reliefs would be given to individual tax payers
- Personal Income-tax exemption limit raised by INR 50,000/- that is, from INR 2 lakh to INR 2.5 lakh in the case of individual taxpayers below the age of 60 years. Exemption limit raised from INR 2.5 lakh to INR 3 lakh in the case of senior citizens
- Education cess is to continue at 3%. Investment limit under section 80C of the Income-Tax Act raised from INR 1 lakh to INR 1.5 lakh. Deduction limit because of interest on loan in respect of self-occupied house property raised from INR 1.5 lakh to INR 2 lakh.
- Tax arbitrage would be removed, rate of tax on long-term capital gains would be increased from 10% to 20% on transfer of units of Mutual Funds, other than equity oriented funds. Net Effect of the direct tax proposals to result in revenue loss of INR 22,200 Crore.

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