

Union Budget 2015-2016: Propelling Growth & Supporting The Weak

Narendra Modi led government presented the Union Budget for FY 2015-2016 outlining its policies and fiscal targets. The budget focused on six broad themes: curbing black money, job creation through revival of growth and investment and promotion of 'Make in India', improving the ease of doing business, benefits to middle class taxpayers and focus on Swach Bharat initiatives and emphasis on kick starting the economy by focus on infrastructure. Here are the key highlights from the budget with sector and stock impact of the key announcements:

Area	Measure
Direct taxation	Personal income tax: No change in the rate of income tax in respect of income earned in the FY16; the tax slabs for FY2016 continues to remain the same as in FY2015.
	Exemption limit on investment under section 80C of the Income Tax Act remains unchanged at Rs 1.5 lacs. Investments made under the Sukanya Samridhi Account Scheme (designed for a girl child) will be eligible for deduction u/s 80C. The interest accruing on the deposits in such account will be exempt from tax while the withdrawal from the scheme in accordance with the rules of the scheme will also be exempt from tax.
	Wealth tax abolished from this financial year.
	Tax on super rich individuals (those earning Rs 1 crore or more annually) to continue with the additional surcharge of @2%.
	To provide social safety net and the facility of pension to individuals, an additional deduction of Rs 50,000 provided for contribution to the New Pension Scheme under Section 80CCD.
	Limit on deduction on health insurance premium u/s 80D of the IT Act increased from Rs 15,000 to Rs 25,000 pa. For senior citizens, the same has been increased from Rs 20,000 to Rs 30,000 pa.
	Transport allowance exemption is being increased from Rs 800 to Rs 1,600 per month.
	Corporate Tax: Proposal to reduce the corporate tax from 30% to 25% over the next four years, starting from next financial year
	General Anti Avoidance Rule (GAAR) to be deferred by two years.
Indirect taxation	GST will be applicable from 1 st April, 2016.
	Service-tax plus education cess increased from 14% from current rate of 12.36%.
	Excise duty on leather footwear with retail price > Rs 1,000 per pair reduced to 6%. Excise duty on cigarettes increased: 25% for cigarettes of length < 65 mm and 15% for cigarettes of other lengths.
	Service Tax exemption on services provided by a mutual fund agent / distributor to a mutual fund or asset management company (AMC) stands withdrawn.
Capital Market	Permanent Establishment norm to be modified to encourage fund manager to relocate in India.
	Foreign investors allowed investment in Alternative Investment Funds (AIF).
Fiscal deficit	Journey for fiscal deficit target of 3% will be achieved in 3 years rather than 2 years. The fiscal deficit targets are 3.9%, 3.5% and 3.0% in FY2015-16, 2015-16 & 2016-17 respectively. Additional fiscal space will go for funding infrastructure investment.

Sectoral Impact



Sector	Measure	Stock Picks
Auto: Neutral	Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended upto 31 st Mar 2016. Custom duty on commercial vehicle increased from 10% to 40%	No major impact on bigger players
Banking & Financial services: Positive	Postal network with 1,54,000 points of presence spread across villages to be used for increasing access of general public to the formal financial system. An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank NBFCs registered with RBI and having asset size of Rs 500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act'.	+ve for SBI, BoB, DHFL & REC
Real Estate : Positive	Housing for all: 2 crore houses in urban areas and 4 crore houses in rural areas to be built. Rs 224 billion allocated for housing urban development fund in FY16.	+ve for Brigade, Sobha developers & Godrej properties
Oil & Gas : Neutral	Cutting subsidy leakages will lead to lower subsidies.	+ve for ONGC, BPCL, HPCL, IOC
Metals : Positive	Custom duty metallurgical coke increased from 2.5 % to 5%. Custom duty on iron and steel and articles of iron and steel increased from 10% to 15%.	+ve for JSW steel, No impact on Hindalco
Power : Neutral	5 new Ultra Mega Power Projects, each of 4000 MW, in the Plug-and-Play mode. Target of renewable energy capacity revised to 175000 MW till 2022, comprising 100000 MW Solar, 60000 MW Wind, 10000 MW Biomass and 5000 MW Small Hydro. Clean energy cess increased from Rs 100 to Rs 200 per metric tonne of coal, etc. to finance clean environment initiatives.	Clean energy cess is -ve for power companies. We prefer JSW energy and Adani power
Infrastructure : Positive	Rs. 25,000 crore allocated in FY16 to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD; Rs. 15,000 crore for Long Term Rural Credit Fund; Rs. 45,000 crore for Short Term Co-operative Rural Credit Refinance Fund; and Rs. 15,000 crore for Short Term RRB Refinance Fund. Sharp increase in outlays of roads and railways. Capital expenditure of public sector units to also go up. National Investment and Infrastructure Fund (NIIF), to be established with an annual outflow of Rs 20,000 crore to it. Proposed tax free infrastructure bonds for the projects in rail, road and irrigation sectors. PPP mode of infrastructure development to be revisited and revitalised. Conversion of existing excise duty on petrol and diesel to the extent of Rs 4 per litre into Road Cess to fund investment	+ve for L&T, IRB Infra & IL&FS Transportation Networks Ltd



Cement : Negative	Clean energy cess increased from Rs 100 to Rs 200 per metric tonne of coal, etc. to finance clean environment initiatives.	Marginal impact on cement companies. Ultratech, Ambuja cement remain our preferred picks
Defence : Positive	Defence allocation of Rs 2.47 trillion in FY16	+ve for BEL, Bharat Forge
	Make in India and Buy and Make in India policy are being carefully pursued to achieve greater self-sufficiency in the area of defence equipment including air-craft.	
Others	Hike in Excise duty on cigarettes.	-ve for ITC
	Increased spending on education.	
	GST to be implemented from FY16. Excise duty on footwear with leather uppers and having retail price of more than Rs 1,000 per pair reduced to 6%.	+ve for Bata, Relaxo & Liberty shoes
	Rs 5,300 crores allocated for micro irrigation project.	+ve for Jain irrigation
	MUDRA Bank will be responsible for refinancing all micro-finance Institutions which are in the business of lending to such small entities of business through Pradhan Mantri Mudra Yojana	+ve for SKS Micro finance
	Forward Markets Commission (FMC) to be merged with SEBI.	+ve for MCX
	Visas on arrival to be increased to 150 countries from 43 countries currently in a staggered manner	+ve for Indian Hotel
	Rate of income tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow	+ve for Infosys, KPIT, Persistent

OTHER HIGHLIGHTS

Swachh Bharat	100% deduction for contributions, other than by the way of CSR contribution, to <i>Swachh Bharat Kosh</i> and Clean Ganga Fund
	Excise duty on sacks and bags of polymers of ethylene other than for industrial use increased from 12% to 15%.
	Enabling provision to levy <i>Swachh Bharat</i> cess at a rate of 2% or less on all or certain services, if need arises.
Gold	a) Gold Monetization Scheme: Introducing gold deposit accounts wherein depositors will earn interest on their gold account and jewellers can obtain loans on it; b) Sovereign gold bonds: fixed rate of interest, will be redeemable and c) Mint gold coins in India with Ashok Chakra to reduce demand for gold coins made outside India.
Domestic Investors	Prevention of Money Laundering (PML) Act, 2002 and FEMA will be amended to enable administration of a new Act on black money.



PAN will now be mandatory for any purchase or sale exceeding Rs 1 lac.

The benefit of concessional tax i.e. @15% on Short Term Capital Gains (STCG) and exemption on Long Term Capital Gains (LTCG) will now be available to the sponsors of REITs / INVITs on sale of units received in lieu of shares of the Special Purpose Vehicle (SPV) subject to the levy of STT.

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