

The government released its last full year Budget before the next General Elections.

Focus on farm, infra, housing, MSME and healthcare sectors was the underlying theme of the Union Budget. Even with higher allocation to pension and subsidies, fiscal deficit has been restricted to 3.5% and 3.3% of GDP in FY18 and FY19 respectively on the back of improvement in GST collections.

### Key Highlights of the Union Budget for 2018-19 (Apr-Mar)

#### Agricultural and Rural

Increase in MSP prices for kharif crop to 1.5 times of the production cost: This is expected to raise Kharif MSPs by 20-25% and will result in higher inflation. Other measures include higher allocation for food processing, food parks and irrigation schemes. All these initiatives are part of the government's key policy 'Doubling Farm Income' which will result in spurring demand from rural India.



#### Autos

- Basic customs duty (BCD) on truck and bus radials (TBR) tyres has been increased from 10% to 15%.
- Customs duty on imports of Completely Knocked Down (CKD) kits has been hiked from 10% to 15%; similarly, customs duty on imports of Completely Built Units (CBU) has been increased from 20% to 25%.
- Customs duty on select auto components has been hiked by 5-7.5%.



#### BFSI (Banking and Financial services)

- **Housing for all by 2022:** Government announced **Dedicated Affordable Housing Fund**. 3.7 million homes will be built in urban areas in 2018-19 and 5.1 million homes in rural areas.
- **Mandatory bond issuances by large corporate:** Budget proposes that SEBI could mandate large corporates to meet one-fourth of their fund requirements through bond issuances.
- The budget has proposed higher lending targets for traditionally under-served segments such as self-help groups and SMEs (under the MUDRA scheme).
- Introduction of National Health Protection Scheme to cover 50 Cr beneficiaries.
- Merger of 3 public sector general insurance companies - National Insurance Company Ltd., United India Assurance Company Limited and Oriental India Insurance Company Limited will be merged into a single insurance entity and will be subsequently listed.



### Consumer Staples & Discretionary

- Custom duty hike from 2.5% to 5% for diamonds.
- Import duty on wrist watches, smart watches/ wearables customs duty increased from 10% to 20%.
- No change in cigarette taxation.



### Taxation

- **Long Term Capital Gains (LTCG) exceeding Rs 1lakh will be taxed at 10% without benefit of indexation.** All gains till 31<sup>st</sup> Jan 2018 will be grandfathered.
- Introduction of **DDT of 10% on dividend distributed by equity oriented mutual funds** to provide a level playing field across growth and dividend schemes.
- Health & Education Cess raised from 3% to 4%.
- Lower income tax (25%) for corporate upto Rs 250Cr turnover.
- New scheme for E-assessment, to minimize human interaction and subjectivity.
- PAN must for any entity that transacts for Rs 2.5 lakh.



### Method for Calculation of Long-Term Capital Gains

Tax would be levied on transfer of shares from April 1, and the gains will be computed by deducting the cost of acquisition from the value on transfer. To explain it better, following four scenarios:

Particulars	Scenario A	Scenario B	Scenario C	Scenario D
Purchase Price on 1/1/2017	100	100	100	100
Fair Market Value on 31/1/2018	200	200	50	200
Sale Price 1/4/2018 (X)	250	150	150	50
Cost of Acquisition (based on prescribed method of computation) (Y)	200	150	100	100
Capital Gains / (Loss) (X-Y)	50	Nil	50	-50

\*Fair market value means the highest price of such share or unit quoted on a recognized stock exchange on 31<sup>st</sup> of January, 2018.

Other Scenario	Tax Implications
Purchase before 31/1/2018 Sale after 31/1/2018 but before 1/4/2018	Exempt under Section 10(38)
Purchase and sale before 31/1/2018	Exempt under Section 10(38)

- **Treatment of long-term capital loss arising from transfer made on or after 1<sup>st</sup> April, 2018.**
- Losses incurred from selling shares held for over a year can be set off against any other long-term capital gains and carried forward for eight years if the transaction takes place after April 1.
- Losses can't be set off or carried forward if the transaction takes place between Feb 1 and March 31.

### Infrastructure

- Government's estimated budgetary expenditure on infrastructure for 2018-19 is being increased to Rs 5.97 lakh crore against estimated expenditure of Rs 4.94 lakh crore in 2017-18.
- Under the **Bharatmala Pariyojana**, about 35,000 kms road construction in Phase-I at an estimated cost of Rs 5,35,000 crore has been approved.
- **Railways capex** is pegged at Rs 1,48,528 crores and focus is more towards capacity creation.
- Airport capacity to be increased to more than 5 times to handle a billion trips a year. Allocation of 2.04 lakh crore to 99 cities under smart cities and Mumbai rail network is allocated with Rs. 11000 crores and allocation of 17000 crore to Bangalore.



### Health, Education and Social Protection:

- The estimated budgetary expenditure on health, education and social protection for 2018-19 is Rs 1.38 lakh crore against estimated expenditure of Rs 1.22 lakh crore in 2017-18.
- Launched a flagship National Health Protection Scheme to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization.
- Ujjwala (free cooking gas) for 80mn households from 50mn.
- Saubhagya (free power connections) for 40mn households.

**Health &  
Education**

**BUDGET 2018-19 at a Glance**

(In Rs. crore)					
	Particulars	FY17 Actuals	FY18 Budget Estimates	FY18 Revised Estimates	FY19 Budget Estimates
<b>1</b>	<b>Revenue Receipts</b>	<b>1374203</b>	<b>1515771</b>	<b>1505428</b>	<b>1725738</b>
	2. Tax Revenue	1101372	1227014	1269454	1480649
	3. Non-Tax Revenue	272831	288757	235974	245089
<b>4</b>	<b>Capital Receipts<sup>1</sup></b>	<b>600991</b>	<b>630964</b>	<b>712322</b>	<b>716475</b>
	5. Recovery of Loans	17630	11933	17473	12199
	6. Other Receipts	47743	72500	100000	80000
	7. Borrowings and Other Liabilities <sup>2</sup>	535618	546531	594849	624276
<b>8</b>	<b>Total Receipts (1+4)</b>	<b>1975194</b>	<b>2146735</b>	<b>2217750</b>	<b>2442213</b>
<b>9</b>	<b>Total Expenditure (10+13)</b>	<b>1975194</b>	<b>2146735</b>	<b>2217750</b>	<b>2442213</b>
	10. On Revenue Account of which	1690584	1836934	1944305	2141772
	11. Interest Payments	480714	523078	530843	575795
	12. Grants in Aid for creation of capital assets	165733	195350	189245	195345
	13. On Capital Account	284610	309801	273445	300441
<b>14</b>	<b>Revenue Deficit (10-1)</b>	<b>316381</b>	<b>321163</b>	<b>438877</b>	<b>416034</b>
<b>15</b>	<b>Effective Revenue Deficit (14-12)</b>	<b>150648</b>	<b>125813</b>	<b>249632</b>	<b>220689</b>
<b>16</b>	<b>Fiscal Deficit [9-(1+5+6)]</b>	<b>535618</b>	<b>546531</b>	<b>594849</b>	<b>624276</b>
<b>17</b>	<b>Primary Deficit (16-11)</b>	<b>54904</b>	<b>23453</b>	<b>64006</b>	<b>48481</b>

**Notes:**

1 Excluding receipts under Market Stabilisation Scheme

2 Includes drawdown of Cash Balance

**Key themes and stock to watch**

**Automobile**

Announcements	Stocks/Industry to be in focus
Import duty has been increased on Truck and Bus radial tyres from 10% to 15%	Positive for companies having higher exposure to the MHCV segment: J.K Tyres Balkrishna Industries
Import duty on CKD and CBU imports of motor vehicles, motor cars, motor cycles has been increased from 10% to 15%.	Positive for domestic Automobile Companies: Maruti Suzuki M&M

### Agriculture and related activities

Announcements	Stocks/Industry to be in focus
With an emphasis on generating higher income for farmers, MSP for Kharif Crops to be 1.5x of production cost.	Across all agri-input stocks  As this would promote higher spends on seeds, fertilizer and farm equipment

### Banking/NBFCs

Announcements	Stocks/Industry to be in focus
Housing for all by 2022 as the Government will establish a dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India.	Positive for Housing Finance Companies like:  DHFL L&T Finance Holdings
Increased allocation under MUDRA loans to Rs 3tn	Positive for micro credit and micro finance companies like: Ujjivan

### Consumer Goods

Announcements	Stocks/Industry to be in focus
Hike in MSP plus jump in welfare spends to drive rural demand.  Import duty increased from 30% to 50% on Fruit juices (Orange Fruit Juice from 30% to 35%)	Positive for rural-oriented companies such as: HUL Godrej C.P Dabur India
Higher custom duty of 20% (from earlier 10%) on perfumes and toiletries preparation would lead to rise in input cost.	Positive for perfume manufacturer like:  S.H Kelkar

### Defence

Announcements	Stocks/Industry to be in focus
Measures to develop two defence industrial production corridors. Rs 2,95,511 crore to be spent on Defence during 2018-19.	Positive for defence equipment manufacturing firms like:  Bharat Electronics Ltd (BEL)

### Infrastructure

Announcements	Stocks/Industry to be in focus
NHAI to spend to Rs 91,564 Cr on roads and highway Rs 29,762Cr to be spent on bridges and road.  35,000 kms to be built during the Bharatmala project under Phase-1	Positive for Cement industry and Road construction companies:  UltraTech Cement Dilip Buildcon

<p>Increase of budgetary allocation on infrastructure for 2018 -19 to Rs 5.97 lakh crore.</p> <p>Dedicated Affordable Housing Fund (AHF) in National Housing Bank.</p> <p>Allocation of Rs 27,505cr under PMAY (gramin and urban) for construction of total of 100 lakh houses in rural and 37 lakh houses in urban area.</p>	<p>Positive for Real estate and construction companies:</p> <p>Brigade enterprises Godrej properties</p>
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### Insurance

Announcements	Stocks/Industry to be in focus
<p>Raising the limit of deduction for health insurance premium and/ or medical expenditure from Rs 30,000/- to Rs 50,000/- under section 80D</p> <p>Rs 50,000 for senior citizens. Health and family welfare expenditure will be Rs 52,800 Cr in FY18-19.</p> <p>National Health Protection Scheme to cover over 10 crore poor families (50 crore beneficiaries) providing coverage up to 5lakh per family per year for secondary and tertiary care hospitalization.</p>	<p>Positive for insurance companies</p> <p>HDFC Life ICICI Lombard</p>

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