

# UNION BUDGET 2017-18



**Transform  
Energise  
Clean India**





The Union Budget 2017-18 laid out by the Finance minister explicitly focuses on three point agenda- Transform-Energise-Clean.

The FM stuck to the path of fiscal consolidation along with focusing on infrastructure, rural economy, affordable housing, curbing of black money and digitisation. Though this was not even vividly a populist big bang budget as was widely anticipated by market participants, the FM clearly struck the right chords by hitting capital expenditure growth and social spending.

## Equity Market Perspective

The equity market has reacted positively post budget. The market participants feared that the government could raise the tax on long-term capital gains. The FM did not change long term capital gains tax norms. This is the big positive news for the equity market as any changes in tax norms related to the equity markets would have negatively hurt investors' sentiment. The fiscal deficit target for FY17 is pegged at 3.2% and 3% for the next three years. The budget has maintained the trend of a lower fiscal deficit without compromising on investment requirements. The Fiscal Responsibility and Budget Management ('FRBM') Review Committee has favoured total government debt to GDP of 60% by 2023. It will be positive for the economy as it implies lower market borrowings and lower interest rates. Cheaper interest rates and lower personal tax rate will boost consumption in the Indian economy.

The budget 2017-18 focused on fiscal prudence and capital thrust. It is a welcome move, given the current slack in private investment and hence, the need for higher public spending. The 4 key areas addressed were Agriculture, Infrastructure, Financial Services and Affordable Housing. Listing and trading of security receipts by ARCs on Stock Exchanges is a positive move and will help channelize investments in NPA pools. Extension of 5% concessional withholding rate on interest earned on ECB & Bonds to 2020 was affirmative. Issuance of Electoral bonds will further aid in developing the corporate bond market. Expectation of improved ratings by the Rating Agencies and better earnings growth should have a positive impact on markets going ahead.

Market ended in green on budget day. The BSE Sensex gained 485.68 points or 1.76% to 28141.64, while the CNX Nifty was up by 155.10 points or 1.81% to 8,716.40.

The 10 pillars (which the Budget outline was drawn by the FM) included farmers, rural population, youth, poor & underprivileged, infrastructure, financial sector, digital economy, public service, prudent fiscal management and tax administration. Highlights of the same are as follows:

### Farmers

- Target for agricultural credit in 2017-18 has been fixed at a record level of Rs 10 lakh crores.
- Farmers will also benefit from 60 days' interest waiver announced on 31 Dec 2016.
- To ensure flow of credit to small farmers, Government to support NABARD for computerisation and integration of all 63,000 functional Primary Agriculture Credit Societies.
- Coverage under Fasal Bima Yojana scheme will be increased to 40% in 2017-18 and 50% in 2018-19.
- New mini labs for soil sample testing.
- Long Term Irrigation Fund already set up in NABARD to be augmented by 100%.
- Coverage of National Agricultural Market (e-NAM) to be expanded from 250 markets to 585 APMCs with assistance up to Rs 75 lakhs to every e-NAM.
- Dairy Processing and Infrastructure Development Fund to be set up in NABARD.





## Rural Population

- Over Rs 3 lakh crores spent in rural areas every year.
- Aim to bring 1 crore households out of poverty and to make 50,000 Gram Panchayats poverty free by 2019.
- Women participation in MGNREGA has increased to 55% from less than 48%.
- MGNREGA allocation to be the highest ever at ` 48,000 crores in 2017-18.
- Pace of construction of PMGSY roads accelerated to 133 km roads per day in 2016-17, against an avg. of 73 km during 2011-2014.
- Allocation for Pradhan Mantri Awaas Yojana – Gramin increased from Rs 15,000 crores in BE 2016-17 to Rs 23,000 crores in 2017-18 with a target to complete 1 crore houses by 2019 for the houseless and those living in kutcha houses.
- Well on way to achieving 100% village electrification.
- Total allocation for Rural, Agriculture and Allied sectors is Rs 187223 crores.

## Youth

- Innovation Fund for Secondary Education proposed to encourage local innovation for ensuring universal access, gender parity and quality improvement to be introduced in 3479 educationally backward districts.
- Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme (SANKALP) to be launched at a cost of Rs 4000 crores. SANKALP will provide market relevant training to 3.5 crore youth.
- A scheme for creating employment in the leather and footwear industries along the lines in textiles sector to be launched.
- Incredible India 2.0 Campaign will be launched across the world to promote tourism and employment.

## The Poor & Underprivileged

- Mahila Shakti Kendra will be set up with an allocation of Rs 500 crores in 14 lakh ICDS Anganwadi Centres. This will provide one stop convergent support services for empowering rural women with opportunities for skill development, employment, digital literacy, health and nutrition.
- Under Maternity Benefit Scheme Rs 6,000 each will be transferred directly to the bank accounts of pregnant women who undergo institutional delivery and vaccinate their children.
- Affordable housing to be given infrastructure status.
- National Housing Bank will refinance individual housing loans of about Rs 20,000 crore in 2017-18.
- The allocation for Scheduled Castes has been increased by 35% compared to BE 2016-17. The allocation for Scheduled Tribes has been increased to Rs 31,920 crores and for Minority Affairs to Rs 4,195 crores.

## Infrastructure

- For transportation sector as a whole, including rail, roads, shipping, provision of Rs 2,41,387 crores has been made in 2017-18.
- For 2017-18, the total capital and development expenditure of Railways has been pegged at Rs 1,31,000 crores. This includes Rs 55,000 crores provided by the Government.
- For passenger safety, a Rashtriya Rail Sanraksha Kosh will be created with a corpus of Rs 1 lakh crores over 5 years.
- Railway lines of 3,500 kms will be commissioned in 2017-18. During 2017-18, at least 25 stations are expected to be awarded for station redevelopment.
- It is proposed to feed about 7,000 stations with solar power in the medium term.
- In the road sector, Budget allocation for highways increased from Rs 57,976 crores in BE 2016-17 to Rs 64,900 crores in 2017-18.
- 2,000 kms of coastal connectivity roads have been identified for construction and development.
- Select airports in Tier 2 cities will be taken up for operation and maintenance in the PPP mode.
- By the end of 2017-18, high speed broadband connectivity on optical fibre will be available in more than 1,50,000 gram panchayats, under BharatNet.







- Proposed to set up strategic crude oil reserves at 2 more locations, namely, Chandikhole in Odisha and Bikaner in Rajasthan. This will take our strategic reserve capacity to 15.33 MMT.
- Second phase of Solar Park development to be taken up for additional 20,000 MW capacity.

## Financial Sector

- Foreign Investment Promotion Board to be abolished in 2017-18 and further liberalisation of FDI policy is under consideration.
- In line with the 'Indradhanush' roadmap, Rs 10,000 crores for recapitalisation of Banks provided in 2017-18.
- Lending target under Pradhan Mantri Mudra Yojana to be set at Rs 2.44 lakh crores. Priority will be given to Dalits, Tribals, Backward Classes and Women.
- Propose to create an integrated public sector 'oil major' which will be able to match the performance of international and domestic private sector oil and gas companies.
- Government will put in place a revised mechanism and procedure to ensure time bound listing of identified CPSEs on stock exchanges. The shares of Railway PSEs like IRCTC, IRFC and IRCON will be listed in stock exchanges.

## Digital Economy

- 125 lakh people have adopted the BHIM app so far. The Government will launch two new schemes to promote the usage of BHIM; these are, Referral Bonus Scheme for individuals and a Cashback Scheme for merchants.
- Aadhar Pay, a merchant version of Aadhar Enabled Payment System, will be launched shortly.
- Banks have targeted to introduce additional 10 lakh new POS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhar based POS by September 2017.
- No transaction above Rs 3 lakh would be permitted in cash subject to certain exceptions.

## Prudent Fiscal Management

- Stepped up allocation for Capital expenditure by 25.4% over the previous year.
- Total resources being transferred to the States and the Union Territories with Legislatures is Rs 4.11 lakh crores, against Rs 3.60 lakh crores in BE 2016-17.
- FRBM Committee has recommended 3% fiscal deficit for the next three years, keeping in mind the sustainable debt target and need for public investment, fiscal deficit for 2017-18 is targeted at 3.2% of GDP and Government remains committed to achieve 3% in the following year.
- Net market borrowing of Government restricted to Rs 3.48 lakh crores after buyback in 2017-18, much lower than Rs 4.25 lakh crores of the previous year.
- Revenue Deficit of 2.3% in BE 2016-17 stands reduced to 2.1% in the Revised Estimates. The Revenue Deficit for next year is pegged at 1.9%, against 2% mandated by the FRBM Act.

## Affordable Housing & Real Estate

- Under the scheme for profit-linked income tax deduction for promotion of affordable housing, carpet area instead of built up area of 30 and 60 Sq.mtr. will be counted.
- The 30 Sq.mtr. limit will apply only in case of municipal limits of 4 metropolitan cities while for the rest of the country including in the peripheral areas of metros, limit of 60 Sq.mtr. will apply.
- Reduction in the holding period for computing long term capital gains from transfer of immovable property from 3 years to 2 years.
- For builders for whom constructed buildings are stock-in-trade, tax on notional rental income will only apply after one year of the end of the year in which completion certificate is received.





## Tax

- Existing rate of taxation for individual assesses between income of Rs 2.5 lakhs to Rs 5 lakhs reduced to 5% from the present rate of 10%.
- Surcharge of 10% of tax payable on categories of individuals whose annual taxable income is between Rs 50 lakhs and Rs 1 crore.
- Appeal to all citizens of India to contribute to Nation Building by making a small payment of 5% tax if their income is falling in the lowest slab of Rs 2.5 lakhs to Rs 5 lakhs.

## BUDGET 2017-18 at a glance

(Source: [www.unionbudget.nic.in](http://www.unionbudget.nic.in))

Particulars	FY15	FY16BE	FY16RE	FY17BE
<b>Revenue Receipt</b>	<b>1358521</b>	<b>1573741</b>	<b>1601025</b>	<b>1784288</b>
<b>Gross Tax Revenue</b>	<b>1455891</b>	<b>1631138</b>	<b>1703493</b>	<b>1911829</b>
<b>Tax Revenue</b>				
Total Corporation tax	428924.7	470628	452969.7	493923.6
Taxes on Income	265732.9	327367	299051.2	353173.7
Wealth Tax	1086.21			
Custom duties	188016.2	208336	209500	230000
Union Excise Duties	188787.3	229808.5	284142.3	318669.5
Service Tax	167969	209774	210000	231000
Other taxes	1164.43			
Taxes of Union territories	3203.75	3577.02	3947.83	4121.08
<b>Non-tax Revenue</b>				
Interest receipt	23803.91	23599.33	23142.16	29620.43
Dividend and profits receipts	89833.04	100651.1	118271.4	123780.1
Others				
<b>Capital Receipts</b>	<b>505792.3</b>	<b>566720.8</b>	<b>514811.8</b>	<b>508964</b>
Recoveries of loans & Adv	13738.22	10752.83	18904.86	10634.31
Misc. Capital Receipts	37736.85	69500	25312.6	56500
Borrowings & other Liabilities	454317.2	486468	470594.3	441829.7
<b>Total Receipts (A+B)</b>	<b>1864314</b>	<b>2140462</b>	<b>2115836</b>	<b>2293252</b>
<b>Plan Expenditure</b>	<b>2102229</b>	<b>2376199</b>	<b>2420797</b>	<b>2531762</b>
Revenue Expenditure	1537761	1731037	1734560	1836934
Capital Expenditure	564468.2	645162.5	686236.9	694828.2
<b>Non plan expenditure</b>	<b>1201029</b>	<b>1312200</b>	<b>1308194</b>	<b>1428050</b>
<b>Fiscal Deficit</b>	<b>510725</b>	<b>555649</b>	<b>535090</b>	<b>533904</b>
<b>Revenue Deficit</b>	<b>357048</b>	<b>365519</b>	<b>341589</b>	<b>354015</b>
<b>Primary deficit</b>	<b>128604</b>	<b>108281</b>	<b>92469</b>	<b>41233</b>

Note: BE - Budget Estimates, RE - Revised Estimates





## Sector Specific Pointers

### **BFSI – Positive**

- Rs 10,000 crore was allocated towards recapitalization of PSU Banks for 2017-18. This was in-line with the 'Indradhanush roadmap'. Though slightly below expectations it is not expected to have major implications on high CRAR banks.
- Fiscal deficit target was set at 3.2% compared to the earlier mandate of 3% which implies there has been an increase in deficit number. This would essentially be financed by borrowing which would lead to lowering of bond yields, provided inflation near to 3.4% RBI enjoys sufficient headroom to reduce rates.
- Tax allowance of 7.5% for provision against NPAs was increased to 8.5%. This is expected to marginally benefit the ailing profitability (about 0.33% of loan portfolio).
- Incentives for cashless payments would further channelize the transactions through banks. All banks to benefit with private banks gaining the most because of their increased digital push benefit all banks

### **IT – Positive**

- Government to support NABARD for computerisation and integration of all 63,000 functional primary agriculture credit societies with core banking system which generates an opportunity for replacement of core banking systems.
- Aadhar Enabled payment system to be launched as well as Aadhar based smart card containing health details which generates an opportunity to deploy the technology infrastructure.

### **Automobile – Positive**

Government has taken two large initiatives for rural and infrastructure development which indirectly boost to automotive industry.

- Income tax reduced to 5% from 10% earlier on income bracket of Rs 2,50,000 to Rs 5,00,000 which result in higher disposable income which leads to higher sales of automobiles, especially two wheelers and Passenger vehicles.
- 21% increase in allocation for highway construction to Rs 649bn which leads to generate higher demand for construction trucks.(LCV's and CV's)

### **Infrastructure - Positive**

- Highest ever allocation of Rs 2.4 tn is a big positive for the sector. This will boost order flows across rails, roads and shipping.
- Affordable housing allocation stood 38% higher and was also awarded infrastructure status. This will encourage investments in this segment and is positive driver in demand for cement.
- 12% higher Road sector allocation and coastal connectivity roads of 2,000 km identified for construction and development should improve cement volumes.

### **Capital Market - Positive**

- The budget did not carry any negative surprises as there were no changes in capital gain tax rates or security transaction taxes.
- Divestment target has been set at Rs 72,500 cr and plans to list railway PSEs like IRCTC, IRFC and IRCON & indicated to launch ETF with diversified CPSE stocks.  
Holding period reduced to 2 years for computing long term capital gains tax for immovable property.
- Holding period reduced to 2 years for computing long term capital gains tax for immovable property.

### **Stocks Recommendations**

Sadbhav Engineering, Ramco Cement, KNR Construction, J Kumar Infraprojects, M&M Finance





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