

PRE-BUDGET

REPORT 2018-19

Major Announcements Expected
Major Beneficiary Industries
The Likely Impact

24th January, 2018

The Budget 2018 – 2019 is the fifth and last full budget of the NDA government before 2019 general elections. A government that has been marching ahead persistently with economic reforms may now take the time to pause and try to reduce the burden of inflation and taxation on the general public. It is expected that the government would focus on completing the reforms undertaken by it in over the last three years, instead of announcing new ones.

The GST which was implemented last year on July 1, has taken away half of the budget suspense in terms of indirect taxes and now it is the GST council that decides tax rates for goods and services. The Budget now is mostly about allocations, direct taxes and customs duties and levies. This is the first budget after the implementation of GST and given the stress in the economy that now looks per se only receding, everyone is eyeing on the budget on how the government can boost the economy in view of the tight fiscal situation. Hopes are running high, with investors pitching for more exemption in income tax slabs, a further boost to affordable housing and increase in TDS limit for bank interest, higher reimbursements for medical and travel expenses, higher tax exemption limit. Similarly, finance minister is expected to revisit the policy in regards to the medical reimbursement.

Besides, we may see government coming out with measures to tackle some big issue like Fiscal Deficit, Oil-Gas GST inclusion, Long Term Capital Gain in Stock Market, Doubling Farmer income, Cut in Gold Import duty from 10% to 4%, PSU Divestment, Surplus Land Sale smartly. Besides, government is expected to announce Merger of PSU Banks and Defense Budget.

Our expectations are divided into the following:

Macroeconomic balances: On the Fiscal Deficit front, undoubtedly retaining Fiscal Deficit target at 3% in FY19 would be very tough for the government in the scenario of rising crude oil Prices and rising Govt Spending and Borrowings. It is largely expected that FY18 and FY 19 fiscal deficit target would be revised. We may see a higher fiscal deficit target for the next fiscal and this will result in a higher borrowing by the government as expectations are building for a populist budget, targeted at rural/ agricultural development, job creation, and effective implementation of social sector schemes. In wake of lower tax collections and reduced RBI dividend, the government is eyeing to extend its disinvestment target near to Rs 1 lakh crore as against the FY18 budget target of Rs 72,500 crore.

Infrastructure and urban connectivity: Roads and construction are major drivers of infrastructure growth in India. The sector expects amendment of Section 80-IA to include benefits to upgradation of existing infrastructure facilities, abolishment of MAT on construction companies and restoration of section 10(23G), which exempted income on investments in infra companies in the form of debt or equity from tax under it. Also, it is expected that the long term capital gains holding period for real estate investment trusts (REITs) should be cut down to one year from three years. A major impediment to real estate development in India remains the approval process. Administrative reforms should be made to facilitate quicker approval process which will help developers complete and handover projects on time. In fact, the “housing for all” is one of the important areas where the government is expected to focus in its last opportunity before 2019 elections as it was a major poll promise in 2014 elections. In addition, as many as eight states will be going to the polls during the year, beginning with three in the Northeast in February. In order to achieve targets, the finance minister may enhance the budget allocation significantly in the budget. It is learnt that government has already identified land for affordable housing with six loss-making central public sector enterprises including IDPL, HMT, Hindustan Antibiotics and Tungabhadra Steel Products.

Agricultural and rural development: The Budget is expected to have higher outlays for infrastructure and key agricultural sectors, including rural road schemes as well as incentives, to opt for allied activities that are more remunerative than traditional crops, like dairy production, fish farming and horticulture production. Considering the stress on rural economy, it is expected that government would come up to cover farmer’s assets, households, cattle, etc. Undoubtedly, crop insurance cover in the form of Pradhan Mantri Fasal Bima Yojana (FMFBY) has been offering some protection and relief to some of the struggling farmers.

Employment: The government may announce an outline of a comprehensive road map for creation of quality jobs across sectors through economic, social and labour policy interventions and introduce reforms to attract enterprises and help medium and small scale industries, which are major job providers. The Budget is expected to provide fiscal support to units that create additional employment in the export sector. Job creation incentives or other indirect benefits to Textile, Gems and Jewellery are also expected from the budget. Lastly, there is need to focus on skill development as it is a crucial driver of employment.

Small and Medium enterprises: As the MSME segment is considered to be one of the biggest sectors for job creation, new initiatives and exemptions are expected to announce in this budget to boost the sector. The sector demands reduce interest rates, and easier financing options. Also the removal of the Minimum Alternative Tax (MAT) is the demand of the sector. The sector expects government to focus on improving infrastructure and subsidies for the agriculture and manufacturing sectors.

Insurance: The insurance industry expects more tax incentive for insurance investment and exemption of insurance policies from GST. Income tax benefit continues to be at the top expectation for the sector. A separate limit of Rs 50,000 per annum for life insurance will give a quick push to the industry. After the implementation of GST, the prices of insurance products have gone up by 3 to 18 percent. Abolition of GST will give a strong boost. Moreover, investors expect government to emphasize on home insurance. Thus, it is very important to a separate tax saving clause for promoting insurance for home so that people wake up to this need. The industry demands government to focus on pension annuity plan.

Tax Issues: Two Tax issues namely dividend distribution rate and minimum alternative tax are likely to be addressed by the finance minister in the budget. The expectation of a reduction in rates of dividend distribution tax (DDT) is aligned to the expectation of lower corporate tax rates. A reduction in the DDT rate to 10% from the current 15%, coupled with a 5% cut in the corporate tax rate benefit the Indian corporates. The MAT rate should be aligned with the reduced corporate tax rate. It is also anticipated that the Budget will provide further clarity on the amendments introduced in MAT provisions pursuant to Indian Accounting Standard. Currently, units in SEZ enjoy a tax holiday under the normal provisions of the Income-tax Act, 1961. However, they are subject to tax under the provisions of MAT. It is expected that government would exclude units in SEZ from the purview of MAT to boost exports and creation of jobs.

Indian Capital market: The much-talked-about Long-Term Capital Gains (LTCG) tax could make its way back to the domestic markets. Capital markets demand that Securities Transaction Tax should be abolished; if Long Term Capital Gains on listed equities were to return. And 'long-term' is expected to be extended to two or three years. The investors are expecting government to revisit on the 10 percent tax on dividends above Rs 1 million that was recently introduced. Meanwhile, a regulatory boost to new investment through the newly-introduced Masala Bonds (overseas rupee dominated bonds) is expected from this budget.

BANKING, FINANCIAL SERVICES AND INSURANCE

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Bank Recapitalisation plan for Public Sector banks	Positive	All Bank Stocks
Hike in Section 80D limit, subsidise elderly on health insurance premium	Positive	All insurance companies
Reducing GST rate applicable to insurance premiums	Positive	All insurance companies

POWER

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Higher budgetary allocation to partly meet the funding requirements in rural electrification & energy efficiency driven projects	Positive	Kalpataru Power, KEC International
Clarity on the import duty / provisional safeguard duty for Photovoltaic modules	Positive	All solar power companies
Measures to improve the long term debt funding for the renewable energy sector	Positive	NTPC, NHPC, SJVN

OIL & GAS

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Cut in excise duty on petrol and diesel	Positive	All Companies
Oil& gas to bring under the purview of GST	Positive	All Oil & Gas Companies

METAL & MINING

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Maintained customs duty for iron and steel products	Positive	All Metal Companies
Decline in customs duty from 5% to NIL for Chromium and Nickel ores	Positive	

CAPITAL GOODS

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Provide impetus to infrastructure and agriculture	Positive	All Capital Goods Companies
Spending towards Water Resources & Ganga innovation	Positive	VA Tech Wabag
Spending towards government plans under electrification related to Make in India, Startup India	Positive	Siemens, KEC International, ABB India, Kalpataru Power, PFC, REC
Increased budgetary support and, in turn, spending by the Indian Railways.	Positive	L&T, Crompton Greaves, KEC Intl.
Spending towards government plans under electrification related to Make in India, Startup India	Positive	Siemens, KEC International, ABB India, Kalpataru Power, PFC, REC

AUTOMOBILE

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Government restore incentives on R&D in form of weighted tax deduction	Positive	All Auto Companies
Inclusion of certain imported electric vehicle parts in preferential tariff list to help promote the eco-friendly technology	Positive	
Consider income tax rebates for consumers to promote purchase and use of electric vehicles	Positive	

IT, ITES Sectors

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Streamlining with respect to taxation post GST	Positive	All IT Companies
Clarity on the place of effective management, service tax and tax refunds	Positive	
Tax holiday in 11-15 years of operation of SEZ is available only on creation and utilization of the SEZ reinvestment reserve. The sector expects clarifications on (i) if reserve can be utilized in the year of creation and (ii) if the reserve can be used for any other unit	Positive	

TELECOMMUNICATION

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Rules to standardise processes and fix charges regarding the setting up of telecom infrastructure, including towers and optical fibre cables.	Positive	All Telecom Companies
Cuts in key telecom levies such as spectrum usage charges (SUC), licence fee and Universal Service Obligation Fund (USOF) fees.	Positive	
Customs duty exemption for LTE equipment	Positive	

FMCG

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Focus on improvement of rural income	Positive	All FMCG Companies
Government would increase the income tax slabs in order to raise the money in the hands of the consumer, especially those from middle class and rural India	Positive	

PHARMACEUTICALS

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Simplification of approval process with regard to clinical trials	Positive	Sun Pharma, Lupin, Biocon
The tax credit to spread over a period of two to three years	Positive	All Pharma companies
The weighted deduction on R&D should be brought back from 150 per cent to 200 per cent	Positive	All R&D and Pharma companies

CEMENT

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Higher allocation of funds towards construction of infrastructure, irrigation, etc. to continue.	Positive	All Cement Companies (ACC, Ambuja cement, Ultratech Cement, Ramco cement)
Freight rationalisation for cement transportation	Positive	All Cement Companies
Tax concessions to the middle class	Positive	All Cement Companies

TEXTILE

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Allocation of fund to boost the industry	Positive	All textile Companies
To provide Job creation incentives	Positive	

REAL ESTATE

MEASURES EXPECTED	LIKELY IMPACT	KEY STOCKS TO FOCUS
Higher budget allocation toward PMAY scheme	Positive	All housing companies
Help developers in getting better access to funds and also incentivise homebuyers to create demand for the sector	Positive	All construction and real estate companies
Increase the cap on interest paid on home loan by buyers from Rs 2 lakh to Rs 3 lakh.	Positive	All housing companies

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