

UNION BUDGET 2018 EXPECTATION

Essence of Budget Expectation

- ❖ **Mix of Populism and Reforms:** On February 01, 2018, the Finance Minister Arun Jaitley will unveil the Union Budget 2018-19. This budget is very significant for the Modi government, as it is the first budget post GST and the last full budget before the general election in 2019. To appease the voters, government may announce some populist schemes. However, government may not want to shatter the image of a reformist government. Therefore, we expect Budget 2018-19 to be a right mix of populism and reforms.
- ❖ **Revenue:** Government may miss Revenue Receipts target due to below expected tax collection because of the GST transition. However, government may achieve the Capital Receipts (ex-borrowing) target, as the divestment target would be achieved.
- ❖ **Expenditure:** Government may miss the Total Expenditure target, as it has increased the government capex in the absence of private capex. In Budget 2018-19, government is expected to give thrust to capital expenditure to boost the economy and create jobs. The subsidy burden is also expected to rise due to increase in crude oil prices, expansion of price deficit MSP and affordable housing interest.
- ❖ **Government to Miss the Fiscal Target:** As the government is expected to miss the Revenue and Expenditure budgeted estimates, we expect government to miss the fiscal deficit target of 3.2% in FY18. For FY19, the government may increase the fiscal deficit target to 3.2% from 3% to boost the economy.

- ❖ **Focus on Infra and Rural India:** We estimate the FY18-19 budget to spur public spending on infrastructure (roads, power, irrigation and railways), rural development and agriculture since the government is committed to double farm income by 2022.
- ❖ **Accommodative Policies to Revive Private Capex:** The recent implementation of GST has adversely impacted the domestic economic growth. Besides, the government is already under pressure considering the distressed job market, particularly labor market. In our view, the government is likely to announce progressive policies for various sectors, particularly for MSME, thereby, boosting market sentiment and the economy.
- ❖ **Some Relief for Middle Class:** We expect a host of measures such as increase in tax exemption limit for the salaried class in order to please them.
- ❖ **Dark Clouds on Long Term Capital Gains:** There are rumors that the government is thinking of taxing long term capital gains from equity investments. Market sentiment may dampen if the government raises the long term capital gain tax definition beyond current one year period or taxes the long term capital gains.
- ❖ **Clarity on Recapitalization Bonds:** In the budget, clarity on recapitalization of banks is expected. In October 2017, the government made an announcement to recapitalize banks with ₹2.11 lakh cr (~1.6% of FY17 GDP) out of which ₹1,35,00cr will be in the form of front loaded recapitalization bonds. However, government yet to provide clarity on issuance of bonds and its impact on fiscal deficit.
- ❖ **Increase the limit under section 80C to ₹2 lakh:** In current scenario, the deduction of ₹1.5 lakh is not adequate since there are numerous schemes on which an individual can claim deduction under section 80C. Therefore, the government may increase the limit by ₹50,000 to ₹2 lakh, if not more.
- ❖ **Increase the deduction for contribution to NPS under Section 80CCD(1B) to ₹1 lakh:** Under section 80CCD(1B) a person can avail additional deduction on investments in NPS account up to ₹50,000 per financial year. Many investors do not invest in NPS since it does not have Exempt- Exempt- Exempt (EEE) status like EPF and PPF. Thus, the government may give investors an additional incentive of ₹50,000 to invest in NPS.
- ❖ **Deductions on Medical Insurance (Section 80D):** Considering the rising healthcare cost, government may increase limit under section 80D by ₹5,000 if the age is less than 60 years and ₹10,000 if the age is more than 60 years.

	Insurance of self, spouse and dependent children	Insurance of Parents
Current		
Less than 60 years old	₹25,000	₹25,000
More than 60 years old	₹30,000	₹30,000
Expected		
Less than 60 years old	₹30,000	₹30,000
More than 60 years old	₹40,000	₹40,000

CLARITY ON PSU. BANK RECAPITALISATION PROGRAMME

- ❖ A mega recapitalization programme was announced by the government in October 2017 to counter the rising bad loans of public sector banks. The plan was worth ₹2.11 lakh cr (~1.6% of FY17 GDP) out of which ₹1,35,00cr will be in the form of front loaded recapitalization bonds.
- ❖ This would allow the banks to agree on the haircuts needed to achieve successful resolution by state owned banks in resolving the bad loan problem and meet the new capital adequacy norms by FY19E.

- ❖ The proposed move will likely help re-rate state owned banks from their depressed valuations. Large state owned banks viz. SBI, BOB and PNB are likely to be the key beneficiaries of the government's action.
- ❖ Large state owned banks i.e. SBI, BOB and PNB, which are trading below their stated BVPS, are likely to witness a re-rating.
- ❖ The proposed recapitalization would not be BVPS dilutive. Reported profitability of state owned banks would remain depressed due to the accelerated provisioning requirement through FY19E.

Sectoral Expectations

Agro Chemicals, Fertilisers & Crop Insurance

Expectation	Stocksto bein focus
<p>Budget expected to issue directions for implementation and functioning of Direct Benefit Transfer (DBT) for fertilizers pan India. The current backlog of fertilizer subsidy amounting to ~`23,000cr is expected to be cleared before implementation of DBT pan India.</p>	<p>Positive for RCF, Chambal, GNFC, Coromandel International</p>
<p>It is expected that budget would provide for timely subsidy to insurance companies from State as well as Central Governments under PMFBY (Pradhan Mantri Fasal Bima Yojana).</p>	<p>Positive for ICICI Lombard, New India Assurance, GIC</p>
<p>The short term farm loan limit is expected to be increased to `5lakh from current level of `3lakh in order to increase the credit lending to agriculture sector and improvement in consumption of agri-inputs for better quality farm yields.</p>	<p>Positive for fertilizer and agro- chemical cos</p>
<p>Amendment to New Investment Policy (NIP) is expected involving revised investment benefits for Urea manufacturers, as the domestic urea capacity is falling short, and as a result, the government has to rely on imported urea for meeting the urea demand.</p>	<p>Positive for RCF, FACT, NFL</p>

At the pre-budget meeting with the Finance Minister, representatives of the agriculture sector have pitched for an income security law for farmers and reduction in tax rates on all farm inputs under GST.

Positive for fertilizer and agro-chemical cos

Automobiles & Auto ancillary

Expectation	Stockstobeinfoocus
Two GST tax rates for PVs vs multiple rates currently.	Positive forMaruti
Exemptionof10-13seaterambulancesfromlevyofcompensationcess(15%).	PositiveforForce Motors.
Phasing out vehicles older than 10-15 years	Positive for all OEMs
A tax-friendly framework for electrification of India's transport fleet. Incentives for charging infrastructure and import of EV components.	Amara Raja, Exide, Motherson Sumi
Adoption of Electric Vehicles (EVs) negative for companies manufacturing engine cooling products, clutches, pistons, carburetor, etc. These parts are not used in EVs.	Negative for Banco Products, Clutch Auto, Samkrg Pistons, Ucal Fuel
Higher bus orders under JNNURM scheme	Positive for Ashok Leyland, Eicher, Tata Motors

Banking

Expectation	Stockstobeinfocus
<p>Union Budget 2018-19 is expected to focus on improving credit inflow to MSME (Micro, Small & Medium Enterprises) and affordable housing.</p>	
<p>The government is expected to increase the allocation for Pradhan Mantri Mudra Yojana. This will help financial inclusion into the country aiding the MSMEs to finance their business needs and banks and NBFC's to improve their credit offtake.</p>	<p>Positive for ICICI Bank, HDFC Bank, SBI, Indian Bank, Karur Vysya Bank, HDFC, DHFL, GIC</p>
<p>The budget is expected to increase the fund limits on affordable housing or increase subsidy provided on interest rates for borrowers. Hence, the credit offtake for affordable housing will be increased, in-line with the government's agenda of 'Housing for All'.</p>	<p>Housing Finance, UJJivan Financial Services</p>
<p>In order to give a boost to affordable housing, the government might announce steps to make land acquisition easier.</p>	
<p>Improvement in NHB refinancing limits for housing finance companies from Rs20,00cr offered in 2017-18 budget (to lower their cost of funds and improve business).</p>	<p>Positive for HDFC Ltd, PNB Housing, DHFL, LIC Housing</p>

The government may allow 100% FDI in private banks (currently, up to 49% is allowed without government's permission and up to 74% with approval) and 49% in PSU banks (presently 20%).

Positive for HDFC Bank,
IndusInd Bank, YES Bank,
BOB, PNB, SBI

Capital Goods

Expectation	Stockstobeinfocus
Increase of ~10% yoy in budgetary allocation (~ 3.96 lakh cr in budget 2017-18) to infrastructure (road, rail, shipping, railways) will drive order book.	Positive for L&T, BHEL, Thermax, BEML, ABB India, Siemens India
Increase in custom duty on certain products (boiler, generator, etc.) to encourage domestic manufacturing. Currently, power equipments attract 7.5-10% custom duty.	

Cement

Expectation	Stocks to be in focus
Levy of basic customs duty on cement imports into India or alternatively exemption of import duties on key inputs (coal, pet coke, gypsum, etc.) for cement manufacturing.	Positive for all Cement companies
Government's focus on higher allocation of funds towards construction of infrastructure, irrigation, etc. to continue.	
Encouragement to the 'Housing for All' scheme	
Levy of Clean Energy Cess on Pet Coke	Negative for all players

Consumer Durables and FMCG

Expectation	Stocks to be in focus
<p>Revision in GST rates for refrigerators, TVs, etc. to 18% from 28%, as these are no longer luxuries in an Indian household.</p> <p>Increase in basic customs duty to 20% on appliances/consumer electronics to discourage imports, currently custom duty is ~10%</p>	<p>Positive for Bajaj Electricals, Crompton Greaves Consumer, IFB industries, Whirlpool of India</p>
<p>Focus on improvement of rural income - Fund allocation under various schemes like Pradhan Mantri Fasal Bima Yojana, land under irrigation under Pradhan Mantri Krishi Sinchai Yojana and agricultural credit likely to increase</p>	<p>Positive for FMCG companies</p>
<p>Dairy Sector - Priority sector status to the dairy farming (will encourage dairy farming).</p>	<p>Positive for all dairy companies</p>
<p>Rationalization of GST rates and compensation cess on cigarettes in order to resolve the ongoing crisis of tobacco farmers.</p>	<p>Positive for ITC, VST Industries, Godfrey Phillip</p>
<p>Clarity on the area-based tax exemptions under the GST regime</p>	<p>Positive for Dabur, Marico, HUL, Emami, JLL</p>

Logistics

Expectation	Stockstobeinfocus
Increased allocation and faster execution of Bharatmala and Sagarmala projects.	Positive for VRL Logistics, Gati, Transport Corp., Container Corp.
E-way bill to reduce transit time for goods transportation by using electronic transit pass, which can be used across multiple states (nationwide roll out by Feb 1, 2018).	Sector wide Benefit

Media & Entertainment

Expectation	Stockstobeinfocus
Entertainment duty exemption scheme by states to regional cinema exhibitors (for 5-7 years) to be further continued in the GST regime	Positive for PVR, INOX Leisure
Local body tax by various states is expected to be subsumed in SGST and suitable allocation to the local body should be made to compensate them for their shortfall, if any.	

Metals & Mining

Expectation	Stocks to be in focus
Reduction in customs duty from 5% to NIL for Chromium and Nickel ores.	Positive for Jindal Stainless (Hisar)
Copper concentrate could be exempted from import duty.	Positive for Hindalco, Vedanta

Power

Expectation	Stocks to be in focus
Electrification of 18,452 villages pending under SAUBHAGYA with the balance ₹7,487.5cr for rural allocation in FY19E	Sector-wide benefit
GST on goods and services for setting up and operating renewable energy to be NIL.	Positive for Adani Enterprises, NLC India, Suzlon, Inox Wind

Retail, Gems & Jewellery

Expectation

Government may announce reduction in import duty on Gold from current duty of 10%.

Stocks to be in focus

Positive for Rajesh exports

Textile & Leather

Expectation

In Budget 2018-19, Government may increase duty draw back rates from ~2% to ~7% on garment exports in order to boost the exports.

Stocks to be in focus

Positive for Siyaram Silk Mills, Raymond

Reduction in GST rates on finished leather and composition leather from 12% to 5% (pre-GST level) is expected, as finished leather is essential raw material for value added products.

Positive for Bata and Relaxo

Roads, Construction, Real Estate

Expectation**Stockstobeinfocus**

The government is looking forward to fund the road development projects such as Bharatmala (₹ 6.92lakh crore over five years) through market borrowings, central road funds monetising government owned road assets, insurance and pension funds.

Positive for all road & infrastructure developers

The government may provide tax benefits and compensation for delay in payments to incentivize the private sector under the PPP model.

Positive for all road & infrastructure developers

On tax front, Sec 80IA related to upgradation of existing infrastructure may get amended. Minimum Alternate Tax may get abolished. Sec 10(23G), which provides exemption to investors investing in infrastructure projects, could get restored.

Positive for all road developers and construction companies

The government may announce incentives such as increase in subsidy on interest rate for low-mid income housing loans and increase in carpet area per unit to acquire affordable housing status. The deduction limit on housing interest and principal on housing loan may be increased. Holding Period for long term capital gain on REITs may be reduced. Stamp duty on transfer of assets into REITs may get exempted.

Positive for Omaxe, Prestige Estates, Sobha, Purvankara, Oberoi, Indiabulls Real Estate, Godrej Properties, DLF, Brigade Enterprise

Real estate sector may be granted industrial status.

Positive for all real estate developers

BUDGET RATIONALE VIEW :

Expected levels as on 22 nd Feb. 2018		Nifty	Bank Nifty	Total Payoff
Nifty	Bank Nifty			
11,500	26,500	+410	-70	`27,950
11,200	26,000	+110	-70	`5,450
10,800	25,000	-90	-70	-
10,500	24,500	-90	430	`9,550
				`10,450

Important Note:

Please execute the above mentioned 2 leg strategy at the same time. Each of the 2 legs is a sub-part of the main strategy, so trading based on bifurcation of each leg should be avoided, as it may result in unwanted payoffs.

FUND ALLOCATION OF PREVIOUS BUDGETS :

Sector	2015-16 (in `Crore) Actuals	2016-17 (in `Crore) Revised Estimates	YoY Change	2017-18 (in `Crore) Budget Estimates	YoY Change
Pension	96,771	1,28,166	32%	1,31,201	2.4%
Defence	2,25,895	2,48,005	10%	2,62,390	5.8%
Subsidy	2,41,833	2,32,705	-4%	2,40,339	3.3%
AgricultureandAlliedActivities	23,694	53,806	127%	56,992	5.9%
Commerce andIndustry	16,247	22,947	41%	24,660	7.5%
Education	67,239	73,599	9%	79,686	8.3%
Energy	21,123	30,065	42%	36,718	22.1%
Health	34,131	39,879	17%	48,878	22.6%
IT and Telecom	15,079	18,542	23%	20,787	12.1%
Others	46,008	61,496	34%	67,724	10.1%
Rural Development	90,235	1,14,947	27%	1,28,560	11.8%
Scientific Departments	17,432	20,069	15%	22,299	11.1%
Social Welfare	31,691	33,647	6%	39,382	17.0%
Transport	87,413	1,03,508	18%	1,24,375	20.2%
Urban Development	20,180	37,835	87%	40,618	7.4%

SNAPSHOT OF PREVIOUS BUDGETS :

	2015-16 (in ` Crore) Actuals	2016-17 (in ` Crore) Budget Estimates	2016-17 (in ` Crore) Revised Estimates	2017-18 (in ` Crore) Budget Estimates
Revenue Receipts	11,95,025	13,77,022	14,23,562	15,15,771
Capital Receipts	5,95,758	6,01,038	5,90,845	6,30,964
Total Receipts	17,90,783	19,78,060	20,14,407	21,46,735
Scheme Expenditure	7,25,114	8,01,966	8,69,847	9,45,078
Expenditure on Other than Schemes	10,65,669	11,76,094	11,44,560	12,01,657
Total Expenditure	17,90,783	19,78,060	20,14,407	21,46,735
Fiscal Deficit	5,32,791	5,33,904	5,34,274	5,46,532
Fiscal Deficit (% of GDP)	3.90%	3.50%	3.50%	3.20%

DISCLAIMER :

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by we are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. Our any persons connected with it do not accept any liability arising from the use of this document.

Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.

Please refer to <http://www.fortunescrypt.com/disclaimer/> for additional recommendation parameters, analyst disclaimer and other disclosures.

For Research related queries, write to us at info@fortunescrypt.com