

Key Highlights of Budget 2017-2018 from the Equity Desk

POSITIVES

Financial Sector

- Fiscal deficit target of 3.2% in FY18 and 3% in FY19 shows fiscal prudence which will help contain inflation and lower yields which should be positive for the Banking sector. Additionally changes in the provisioning requirements for non-performing loans and capital infusion of Rs 10,000 crs for PSUs are all positive developments for the Banking sector
- No change in long term capital gains tax positive for equity markets and is accommodative for equity arbitrage & hybrid funds which will continue to benefit from equity taxation laws for investment holdings of one year or more
- Clarification on the outstanding issue of indirect transfer taxations of FPI investments in Indian listed companies removes the overhang from the markets and will be viewed positively by foreign investors. This should facilitate incremental FII flows into India

Infrastructure, Rural

- Heavy investments in infrastructure like rural power, rural housing, roads and railways, including railway safety
- Continuation of steps to improve rural incomes and productivity
- Continued focus on doubling of farmers income by 2022 - expect agriculture to grow 4.1% in the current year
- The target for agricultural credit in 2017-18 has been fixed at a record level of INR 10 lakh crores
- Government has taken steps to enable farmers to get better prices for their produce in the markets with expansion of E-NAM from the current 250 markets to 585 APMCs. This will give opportunity to farmers to sell their produce and get better prices
- Additional amount of INR 20,000 Cr is allocated to irrigation fund; this will take the total corpus of this Fund to INR 40,000 Cr.
- A dedicated Micro Irrigation Fund will be set up in NABARD to achieve the goal, 'per drop more crop'. The Fund will have an initial corpus of INR 5,000 Cr.
- The coverage of PM Fasal Bima Yojana is proposed to increase from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19. The sum insured under this Yojana has more than doubled from INR 0.69 lakh Cr in Kharif 2015 to INR 1.41 lakh Cr in Kharif 2016
- MNERGA allocation increased from INR 385bn to INR 480bn is positive for most consumer companies
- Allocation of INR 23000cr to affordable housing and the target to build 1cr houses by 2019 to boost demand for building material products such as paints, tiles, sanitary ware and plywood
- For transportation sector as a whole, including rail, roads, shipping, provision of INR 2,41,387cr has been made in 2017-18. For 2017-18, the total capital and development expenditure of Railways has been pegged at INR 1,31,000cr. This includes INR 55,000cr provided by the Government for passenger safety, a Rashtriya Rail Sanraksha Kosh will be created with a corpus of INR 1lakh cr over a period of 5 years
- PM Gram Sadak Yojana (PMGSY) – Scheme for rural roads has been allocated INR190bn. Together with states will spend INR 270bn. Pace of construction of roads has increased to 135kms per day. This will give an impetus to rural infrastructure activity driving rural incomes and positive tertiary impact from it
- Rural, Railways, Infrastructure spending going up substantially through existing schemes, cumulative spending on Infrastructure all put together will be 3.96 Lakh Cr, an increase of 14% on yoy basis. The total capital and development expenditure of Railways within this has been pegged at INR 1.31 Cr.
- Railway lines of 3,500 kms will be commissioned in 2017-18, as against 2,800 kms in 2016-17. Under the station redevelopment program, 7k stations are proposed to feed with solar power, works will be taken up for 2,000 railway stations as part of 1000 MW solar mission, 500 stations will be provided lifts and escalators

Housing

- Affordable housing to be granted infrastructure status: This will provide access to longer tenure financing at lower costs
- Change in definition of Affordable Housing: Instead of built-up area of 30 sq meters & 60 sq meters, it is now changed to carpet area. The tenure of this scheme has been increased from 3 years to 5 years. PMAY - the rural housing scheme's allocation has been increased from INR 150 bn to INR 230 bn
- Affordable housing segment to be given Infrastructure status which will enable these projects to avail the associated benefits, also the Interest Subvention Scheme of 3% and 4% for loans up to INR 12 lakh and INR 9 Lakh respectively under Pradhan Mantri Awas Yojana can give big boost to housing which constitutes close to 60% of cement demand

Macro

- Introduction of measures to improve transparency of political funding
- Foreign Investment Promotion Board to be abolished in 2017-18 and further liberalization of FDI policy is under consideration. This is line with the government's intention of increasing the ease of doing business in India

Energy

- The custom duty on LNG has reduced from 5% to 2.5% which will increase industrial consumption of LNG

Consumption

- Reduction of taxes for the middle classes (Tax rate for 2.50-5.00 lacs slab reduced from 10% to 5%) and the smaller enterprises. (30% to 25% for turnover of 50 cr or less)
- No major tax increase
- Cigarettes excise increased by 6% across its length which is less than last few years excise hike (more than 10%+) however GST rate for sin goods will be keenly awaited

NEGATIVES

- Expected reduction in corporate tax rates did not happen for all corporate. But, the government has given a boost to MSMEs sector with a turnover of INR 50cr or less in the form of reduced taxation rates to 25% from 30%. This would cover 96% of the companies registered in India
- No concrete steps announced to increase tax-GDP ratio. Only intent has been expressed. The government through demonetization, reduction in tax rates to 5% (from 2.5lacs – 5lakh slab) and the potential implementation of GST targets a much wider tax base

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