Corporate Debt Market

The extension of the 5% withholding tax on all corporate debt issued by Indian corporates abroad would bring about the much needed uniformity in tax treatment of investors. This move could help attract foreign investors towards Indian corporate bonds. It would also aid corporates in tapping the bond markets to raise funds.

Agriculture

The budget has laid much required emphasis on the agri-sector. The government is undertaking measures to ensure that the favorable performance (4% growth) of the sector in the previous fiscal is carried forward. The government has stated its aim for a second green revolution and has laid out measures to improve technology & investment in the sector to make it competitive. It has made allocation for short & long-term investment in the sector and for an agri – infrastructure fund. It is also providing the sector with strong level of credit (Rs.8 lakh crore to farmers for cropping purpose) and interest subvention/subsidy schemes, all of which will help provide the much needed funds to farmers and help ease their financial burden to an extent at a time when they are pressured by sub-normal monsoons. The budget has also focused on improving agri - infrastructure by making allocation for warehousing; this would help to increase the shelf life of agriculture produce and the earning capacity of the farmer. The government has also indicated its intent on reorienting the long-overdue APMC Act, this could potentially be beneficial for both producers and consumers alike.

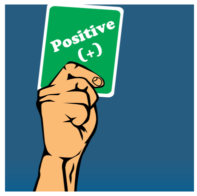
Manufacturing

There is clear headroom for the manufacturing sector to grow driven by more investments, increased job creation and easing of the tax burden. Several positive measures have been announced such as increasing the FDI limit to 49% in the defence sector, allowing manufacturing units to sell products through retail including E-commerce route without additional approvals, setting up industrial corridors, providing investment allowances at the rate of 15% to any company which invests more than Rs.25 crore on new machinery or plants, expanding the scope of industries under the investment linked deduction and finally reduction in basic customs duty on certain industries such as soap manufacturing, steel, battery, coal and textile will provide the much needed fillip to the sector as a whole.

Tourism

The Finance Minister, while tapping the rich cultural heritage and diverse geographical landscape, has displayed fresh focus on the tourism industry. Among the measures announced, introduction of E-Visa to provide visa on arrival at nine airports, creation of five tourist circuits with specified themes, preservation and restoration of archeological sites, city development of national heritage cities, promoting pilgrimage tourism, establishing Buddhist circuit between Sarnath-Gaya-Varanasi, developing the various river fronts and ghat beautification programmes will better the tourism prospects in the country. Growth of this sector will lead to additional job creation across the topography of the country.

Insurance

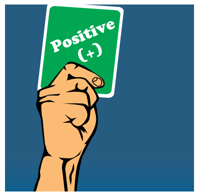


As benefits of insurance are yet to reach a larger section of people, the government attempts to address this in a multi-pronged manner. The FDI limit in insurance is raised to 49% via FIBP route, which will have a positive impact in terms of boosting investments as several segments of the insurance sector need expansion. This move of the government shall help in attracting new capital from overseas into Indian firms.

SMEs and MSMEs

The Union Budget can be viewed as largely positive for the Small & Medium Enterprises (SME) sector. The budget has made a sizeable allocation towards the development of the segment. One such proposal is to allocate Rs.10,000 crore towards setting up a fund to provide funding for start-up companies which would further help attract funding from private capital. The budget has also announced cuts in customs duties and excise duty for various industries of the SME and MSME segments. This would help boost output and overall growth of this segment.

Banking and Financial Services



The Union Budget 2014-2015 has proposed various measures that are expected to have an overall positive impact on the banking and financial services sector. The government has estimated a requirement of Rs.240,000 crore of equity infusion in banks by FY18 to be in line with the Basel III norms. The capital would be raised by increasing the public shareholding in the banks in a phased manner. The interim budget had an allocation of Rs.11,200 crore for capitalisation of the public sector banks, however, a large part of capitalization of the banks would rely on market funding. However, the government will maintain the majority shareholding in the public sector banks. The additional incentive of 3% for timely payment of concessional agriculture loan given at 7% under the Interest Subvention Scheme will help improve the credit culture among the farmers and have a positive impact on the asset quality of banks.

The composite cap in the insurance sector is proposed to be increased to 49% from the current 26% which will help the growth of the insurance sector.

The government's continued thrust on providing low cost affordable housing has been emphasized in the budget through various funds allocation and tax incentives provided in individual income tax. The increased allocation to Rs.8,000 crore for National Housing Bank (NHB) for Rural Housing Fund and sum of Rs.4,000 crore from the priority sector lending shortfall will support affordable housing to economically weaker segments (EWS) and low income group segment (LIG). This allocation would help the housing finance companies (HFC), especially those financing low income housing. In addition, the increase in tax incentives on servicing of home loans is a positive for HFCs and banks.

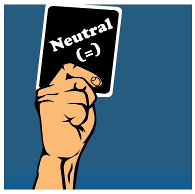
Cement

The Union Budget 2014-15 has proposed many schemes to boost the infrastructure and housing segments. This is expected to spur the cement demand. However, the rationalization of customs duty on all types of coal to 2.5% would result in custom duty on steam coal going up from 2%. The increase in custom duty on steam coal is likely to have a negative impact on the cement producers due to increase in the cost of production.

Hotels

The Union Budget 2014-15 has proposed schemes such as introduction of Electronic Travel Authorization (e-Visa) facilities at nine airports in the next six months. Furthermore, the budget also provides Rs.500 crores for creation of tourist circuits around specific themes. Both these aforesaid measures are expected to boost the tourism industry and concomitantly provide a positive impetus to the hospitality sector.

Telecom



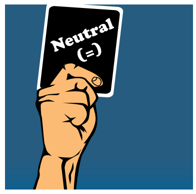
The Union Budget 2014-15 proposes to increase the Basic Customs Duty on specified telecommunication products not covered under the Information Technology Agreement from NIL to 10%. This will lead to an increase in the cost of telecom equipment increasing the cost of providing telecom services.

The Budget also provides Rs.500 crores for the National Rural Internet and Technology Mission for services in villages and schools, training in IT skills and E-Kranti for government service delivery and governance scheme. This will help in increasing rural telecom penetration further.

Real Estate

- **REITs (Real Estate Investment Trust) would be given a tax pass-through status to avoid double taxation** - It would enable flow of funds in the sector and provide access to investors the benefit of regular income and appreciation from real estate.
- **Increase in deduction limit on account of interest on home loan in respect of self-occupied house property from Rs.1.5 lakh to Rs.2 lakh** - This will encourage people to buy houses, providing impetus to the sector.
- **New Schemes for incentivizing the development of low cost affordable housing -** A boost for affordable housing development. Rs.4,000 crores to be provided to the National Housing Bank (NHB) for cheaper credit to Economically Weaker Section/ Low Income Group (EWS/ LIG) segment.
- **Smart cities**
  - Reduction in built up area from 50,000 sq mtr to 20,000 sq. mtr, and minimum capitalization from USD 10 million to USD 5 million -- The reduction in built-up area and size of projects will allow mid-sized and smaller developers better access to FDI.
  - An amount of Rs.7,060 crore is set aside in the current fiscal for developing 100 smart cities.

Coal



The Union Budget 2014-15 has rationalized duties on all types of coal and coal-based products (basic customs duty was rationalized to 2.5% on coking and non-coking coal in the last budget). In this regard, the budget has proposed to increase customs duty on metallurgical coke from nil to 2.5%. Furthermore, to finance clean energy initiatives, the clean energy cess has been increased from Rs.50/tonne to Rs.100/ tonne. The increase is generally a pass through to consuming industries and as such would not have any significant impact on coal operating/trading companies.

Education

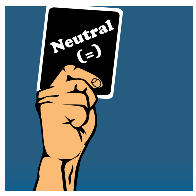
Government's focus on school education has continued in union budget 2014-15. An amount of Rs.28,635 crore (Rs.27,258 crore in the budget 2013-14) is allocated for Sarv Shiksha Abhiyan (SSA) and Rs.4,966 crore (Rs.3,983 crore) for Rashtriya Madhyamik Shiksha Abhiyan (RMSA). In a move towards assessment and improvement of quality in education, the government has proposed to launch a few programmes such as the school assessment program, which has been initiated at a cost of Rs.30 crore. An amount of Rs.500 crore has been provided for the 'Pandit Madan Mohan Malviya New Teachers Training Programme' which will focus on infusing new training tools and motivating the teachers.

In respect of higher education, the budget has proposal to set up five more IITs and IIMs, towards which a sum of Rs.500 crore has been set aside. It is proposed to add 12 more government medical colleges across India. The budget also has allocated Rs.500 crore towards setting up of four more AIIMS in the country.

The budget has made a provision for refund of customs duty paid at the time of import of scientific and technical instruments, apparatus, etc by public funded and other research institutions, subject to submission of a certificate of registration from the Department of Scientific & Industrial Research (DSIR). This move is expected to provide impetus to the research activities undertaken at various institutes of research and higher education. The budget also iterates on making the norms to facilitate education loans for higher studies simpler and easier, which is also a positive for the sector.

In case of service tax exemption for the services offered by eligible educational institutes, better clarity has been provided by omitting the concept of 'auxiliary educational services' which did not specify the scope & meaning of such services and instead, specifying the list of services which will be exempt.

Engineering & Capital Goods

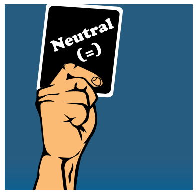


The Union Budget 2014-15 has proposed a capex of Rs.247,000 crore by Public Sector Undertakings (PSUs), which is largely in line with the last year's capex and is unlikely to provide any major boost to the ailing sector.

Lowering of limit for claiming investment allowance to Rs.25 crore would now also provide an incentive to SMEs to undertake capex, but is likely to be contingent upon revival of demand for end products.

While the announcements like creation of Infrastructure Investment Trusts, new ports and augmentation of pipeline network, increase in FDI ceiling for defence and thrust given to renewable energy (including the duty benefits) and continuation of tax benefits for power generation, transmission and distribution are likely to go a long way in providing fresh investments to the sector, flow of actual benefits from utilization of these initiatives would be important for revival of the sector.

Fertilizers

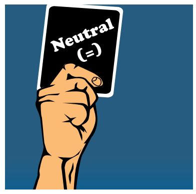


GoI has increased the fertilizer subsidy budget marginally for 2014-15. The increase in subsidy mainly came in the indigenous urea production category to address the increased cost of production while the subsidy for decontrolled fertilizer category was reduced. Marginal increase in subsidy with spill over of around Rs.35,000 crore of subsidy payables from previous year and higher estimated subsidy requirements for 2014-15 is likely to result in subsidy backlog of even greater amount for the current year.

The fertilizer companies would thus continue to resort to short term borrowings (including through special banking arrangement) mainly in the second half of the financial year.

Nevertheless, continued thrust on the agriculture sector with extension of interest subvention scheme, aim for second green revolution, setting up of agri-infrastructure fund and other forms of strong level of credit are likely to help in sustaining demand growth.

FMCG



The Union Budget 2014-15 has proposed the following changes for Fast Moving Consumer Goods (FMCG):

- ✓ Basic customs duty is being reduced on fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oils being reduced from 7.5% to nil for manufacture of soaps.
- ✓ Basic customs duty is being reduced on crude glycerine from 12.5% to nil for manufacture of soaps.
- × Excise duty has been increased from 12% to 16% on pan masala.
- × Excise duty has been increased from 50% to 55% on unmanufactured tobacco.
- × Excise duty has been increased from 60% to 70% on guthka and chewing tobacco.
- × Additional duty of excise is 5% on aerated waters containing added sugar.
- × Excise duty on cigarettes is being increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.

IT & ITES

The Union Budget 2014-15 has proposed to exempt all inputs/components used in manufacture of personal computers (laptops/desktops) and tablet computers from 4% special additional duty (SAD). Presently, an inverted duty structure prevails with effective tax rate on finished product less than tax on imported components. However, the proposal for exemption of SAD is likely to boost domestic production and reduce the dependence on imports.

PIPES

The Union Budget 2014-15 has proposed to initiate the scheme “Pradhan Mantri Krishi Sinchayee Yojana” with an allocation Rs.1,000 crore for irrigation and allocated Rs.3,600 crore under National Rural Drinking Water Programme to provide safe drinking water in approximately 20,000 habitations affected with arsenic, etc. Additionally, the government has set a target to cover every household with total sanitation by the year 2019. This is expected to drive the demand for DI (Ductile Iron), plastic and cement pipes which are preferred pipe categories for water supply and sanitation projects. The budget has also proposed to create additional 15,000 km of pipelines using PPP (Public Private Partnership) model to increase the usage of domestic as well as imported gas. This is expected to enhance the demand for SAW and ERW pipes in the country. Furthermore, investment linked deduction extended to slurry pipelines for the transportation of iron ore will possibly boost investment in this sector and consequently the demand for SAW pipes.

Textiles

The Union Budget 2014-15 has provided a sum of Rs.500 crore for setting up a textile mega cluster at Varanasi and six more textile cluster. Furthermore, Rs.50 crore is provided for setting up trade felicitation centre and crafts museum at Varanasi, Rs.20 crore for setting up Hastkala academy in Delhi and Rs.50 crore to start Pashmina Promotion Programme. All these initiatives are likely to increase investments in the textile sector.

The customs duty on raw material for manufacture of Spandex Yarn reduced from 5% to Nil. Certain items have been added for duty free import by garment manufacturers for exports. Duty free entitlement for import of trimming & embellishments and other goods used by garment manufacturer for export is increased from 3% to 5%. These steps are expected to improve the competitiveness of Indian garment exporters.

Excise duty at the rate of 2% (without CENVAT) or 6% (with CENVAT) is being imposed on PSF and PFY manufactured from plastic waste or scrap or plastic waste including waste PET bottles.

Service tax is exempted on loading, unloading, storage, warehousing and transportation of cotton, whether ginned or baled.

Consumer Durables

The Union Budget 2014-15 has proposed to reduce basic customs duty for manufacturing of cathode ray TVs, LCD and LED TV panels of below 19 inches from 10% to Nil. Furthermore, the Union Budget 2014-15 has proposed to reduce basic customs duty on E-Book readers from 7.5% to Nil. The same is likely to have a marginally positive impact on the consumer durables industry as the price reduction owing to lower duties is expected to be passed on to the consumers leading to an increase in demand.

Hospitals and Healthcare

Union Budget 2014-15 makes reference to the government's plans to move towards 'Health for All' through its 'Free Drug Service' and 'Free Diagnosis Service'.

The spending on improving access to health services for treating TB and dental studies in government institutes is positive. Setting up of 4 new AIIMS-like institutes (in underserved areas of Maharashtra, West Bengal, Andhra Pradesh, and Uttar Pradesh, Rs.500 crore provided), 15 Model Rural Health Research

Centres and 12 new medical colleges are expected to aid reach of health services and facilitate better local health research.

The Central Government's aid to strengthen existing and increasing new drug testing laboratory capacity of States' Drug Regulatory Authorities is a major positive step towards ensuring modernisation of provincial bodies.

Reforms taken in the insurance space are expected to aid penetration of health insurance.
Budget 2014-15 allocations to the Ministry of Health and Family Welfare have witnessed 26% increase over Revised Estimated 2013-14. However, capital expenditure allocations have risen only 12%, limiting the ability of the government to spend more on creating new capacity.

Media & Entertainment

The Union Budget 2014-15 has proposed to include online and mobile advertising under service tax. The same is likely to have a marginally negative impact on the digital advertising industry. Given the increased cost of digital advertising, the advertisers may resort to alternate traditional media channels.

Non-Ferrous Metals

The Union Budget 2014-15 has proposed to increase the export duty on bauxite from the current 10% to 20%. The same is likely to have a marginally positive impact on the aluminium-manufacturing players not having captive sources of bauxite. However, the export volume is not significant and as such, the impact is not much. Further, full exemption from Basic Customs Duty is being provided on flat copper wire for use in the manufacture of PV ribbons (tinned copper interconnect) for solar PV cells or modules; this is likely to have a marginally positive impact on the copper value-added products manufacturers.

The customs duty on steam coal is being raised from 2% to 2.5%, which is likely to have a negative impact on the non-ferrous metal producers due to increase in cost of production.

Oil & Gas

The Union Budget 2014-15 has proposed to scale up PNG usage in terms of mainly reducing the overall cooking fuel subsidy. The government focus in this budget was to increase the domestic oil and gas production. The government's proposal to expedite production from CBM would increase domestic gas availability. Also, using modern technology, it is proposed to revive aged and closed wells. Also, the government focus to increase gas pipeline grid will be positive for the sector. However, in terms of duty structure, there was not much of a change. The custom duty on crude oil and LNG remained nil and 5% respectively. Excise duty on petrol and diesel remained untouched. The decrease in custom duty on ethane, propane, ethylene, propylene would be positive for petrochemicals producers as cost of production decreases.

Power (including Renewable Energy Sources)

The Union Budget 2014-15 has proposed an extension of a 10 year tax holiday (u/s 80IA) till FY17 which means all the power sector companies commissioning projects till FY17 would continue to avail the benefit of concessional tax-rate. In order to strengthen sub-transmission and distribution systems in rural areas, a feeder separation scheme has been launched with a budget allocation of Rs.5 billion.

To encourage setting up of Ultra Mega Solar Power Projects (to be taken up in Rajasthan, Tamil Nadu and Ladakh), the budget proposed an allocation of Rs.5 billion. Various power plant components in the renewable energy industry (solar, wind and biogas) are proposed to be exempted from customs duty. To promote clean energy initiatives, Clean Energy cess on coal has been increased, from Rs.50/tonne to Rs.100/tonne, which will contribute more funds towards National Clean Energy Fund (NCEF) and shall be utilized to promote renewable based energy projects.

Roads and Highways

The Budget emphasizes ramping up the construction pace with a priority on the execution front rather than awarding new projects. In line with its intent, the government has set a steep target of constructing 8,500 km of National Highways in FY2015 and allocation of Rs. 37,880 crores in National Highways Authority of India and State Roads alongwith Rs.14,389 crore towards the Pradhan Mantri Gram Sadak Yojna in 2014-15. In a bid to revive the languishing interest in private participation, government proposes to modify the contractual arrangements by developing more nuanced models of contracting and quick dispute redressal mechanism. All these, are expected to aid the recovery of the ailing road sector in the near to medium term. Furthermore, in order to reduce the pressure on the banking system, impetus to augment the source of long term funding avenues in the form of Infrastructure Investment Trusts, pooled municipal debt obligation have been proposed. Banks are being encouraged to extend long term loans to the infrastructure sector with flexible structuring. These measures augur well for the road sector in the long term.

Mining and Minerals

The Union Budget 2014-15 has proposed to increase the royalty rate, which is due for revision in order to ensure greater revenue to the state governments. It is also proposed to increase the clean energy cess from Rs.50 per tonne to Rs.100 per tonne. The export duty on bauxite is proposed to be increased to 20% from the existing 10%, which will restrict miners from exporting bauxite. These measures are likely to negatively impact the Indian mining and minerals industry.

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Service tax is exempted on loading, unloading, storage, warehousing and transportation of cotton, whether ginned or baled.

Steel

The Union Budget 2014-15 has rationalized duties on all types of coal and coal-based products. In this regard, the budget has proposed to increase customs duty on metallurgical coke and coking coal from nil to 2.5% and on steam coal and bituminous coal from 2 to 2.5%. Increase in customs duty on coal (bituminous coal, steam coal and coking coal) and metallurgical coke is likely to result in increase in cost of production of steel manufacturers, who import coal & coke for production of sponge iron & pig iron and use steam coal as a fuel in captive thermal power plants. Accordingly, while the margins of sponge iron players will be negatively impacted, that of pig iron players will be moderately impacted due to reduction of custom duty on anthracite coal from 5% to 2.5% and countervailing duty (CVD) on anthracite coal and coking coal from 6% to 2%.

The domestic producers of stainless steel flat products are expected to enjoy better price realizations based on the higher landed costs of imports due to hike in customs duty of imported stainless steel flat products from 5% to 7.5%.

The production of forged steel ring will get an impetus with the abolition of excise duty (earlier 12%).

Construction

The Union Budget 2014-15 has proposed allocation of Rs.7,060 crore towards development of smart cities and modernization of the existing cities, Rs.11,635 crore for construction of 16 new ports and Rs.2,142 crore for new water shed development scheme named Niranchal.

The policies/schemes proposed by Finance Ministry are expected to boost order inflows to the construction industry by setting up National Industrial Corridor Authority for development of smart cities linked to transport connectivity, construction of Jal Marg Vikas (National Waterways – I) between Allahabad and Haldia, development of airports in Tier I and Tier-II cities through Airport Authority of India or PPP mode, development of metro projects in Lucknow and Ahmedabad, construction of expressways parallel to industrial corridors and target construction of 8,500 km of national highways by the end of FY15. The Union Budget 2014 has also encouraged banks to extend long-term finance to the infrastructure sector by allowing them to raise long-term funds with minimum regulatory requirement. Thus higher budgeted allocation towards infrastructure projects and ease in availability of long-term finance are expected to augur well for the construction sector.

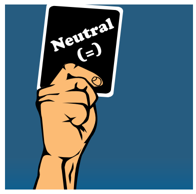
Ports

The Union Budget 2014-15 has proposed to award 16 new port projects in FY15 (refers to the period April 01 to March 31). Furthermore, it has also allocated Rs.11,635 crore for the development of outer harbour project in Tuticorin. This is expected to enhance the overall capacity of the Indian port sector, thereby decongesting the existing ports.

Shipping

The Union Budget 2014-15 has proposed a policy for encouraging the growth of Indian controlled tonnage. This would encourage the foreign flag liners controlled by Indian owners to register in India and get all tax benefits and cheaper credit that foreign flag carriers enjoy over the domestic carriers. This in turn would increase the national tonnage. Furthermore, it is also expected to reduce the shortage of manpower for Indian flagged vessels as the Indian seafarers would get the same benefits as they get while working under the foreign flagged vessels.

Gems & Jewellery



The Union Budget 2014-15 has a neutral impact on G&J industry

Flip side

1. It proposed to increase Basic Custom Duty (BCD) on cut and polished diamonds and coloured gemstones to 2.5% from previous duty rate of 2%.
2. Semi-processed, half cut or broken diamonds will attract BCD of 2.5% which were earlier exempt

Up side

1. Pre-forms of precious and semi-precious stones are being fully exempted from BCD which earlier carried duty rate of 2%.

Impact

Duty exemption on pre-forms of precious and semi-precious stones is likely to have a minimal impact for exports of G&J industry as a whole.