

HIGHLIGHTS OF BUDGET FOR FY 2016 - 17

29th February, 2016



Unlike 2015, the start to the year 2016 has been an eventful one. The month of January 2016 saw India getting impacted by global events. On February 25th 2016, railway minister Mr. Suresh Prabhu, stonewalled all expectations and focused on housekeeping. No new trains were announced and fares and tariff were unchanged and the budget as such lacked lustre. Hence, a lot of expectations lied with his counterpart at the finance ministry, Mr. Arun Jaitley; and he presented a rural- and socio- economic focussed, redistributive Budget, while adhering to fiscal prudence.

The budget for fiscal 2016-17 presented on 29th February, 2016 by Finance Minister, came at a time when the global economy is under serious crisis. The budget emphasised that "India has held its ground firmly" in tough times through global doldrums. Announcing the Budget, FM stated that the government has met its 2016 fiscal deficit target of 3.9% and has retained next year's target of 3.5%, which is in line with the fiscal consolidation roadmap set earlier. The union budget 2016-17 had the necessary ingredients to strengthen the growth in economy, boost the consumption based domestic demand and continue with the pace of economic reforms and policy initiatives.

Key Take Aways:

- Focus on enhancing expenditure in priority areas of - farm and rural sector, social sector, infrastructure sector employment generation and recapitalisation of the banks.
- Continue with the ongoing reform programme and ensure passage of the Goods and Service Tax bill and Insolvency and Bankruptcy law.
- Undertake reforms like:
 - ✓ Giving a statutory backing to AADHAR platform to ensure benefits reach the deserving
 - ✓ Freeing the transport sector from constraints and restrictions
 - ✓ Incentivising gas discovery and exploration by providing calibrated marketing freedom
 - ✓ Enactment of a comprehensive law to deal with resolution of financial firms
 - ✓ Provide legal framework for dispute resolution and re-negotiations in PPP projects and public utility contracts
 - ✓ Undertake important banking sector reforms and public listing of general insurance companies; make significant changes in FDI policy

- Special attention towards agriculture, village infrastructure, healthcare, employment generation
 - ✓ Allocation for Agriculture and Farmers' welfare is Rs. 35,984 crore
 - ✓ Allocation under Pradhan Mantri Gram Sadak Yojana increased to 19,000 crore and connect 65,000 eligible habitations by 2019
 - ✓ Rs.87,765 crore allocated for spending on rural sector.
 - ✓ A target of 100% village electrification by May, 2018

- Announcements on Personal Taxation
 - ✓ While making no change in personal Income Tax slabs, finance minister announced deduction of additional interests of Rs 50,000 per annum for loans up to Rs 35 lakh sanctioned in 2016-17 for first time home buyers, where house costs does not exceed Rs 50 lakh.
 - ✓ Budget proposed to increase the limit of deduction for rent paid from Rs 24,000 per annum to Rs 60,000 spelling respite to those who don't own any house and live in rented accommodation.
 - ✓ For those earning less than Rs 5 lakh per annum, ceiling of tax rebate to be raised from Rs 2000 to Rs 5000 giving an additional relief of Rs 3000 in their tax liability.

Challenges in 2016-17

- Risks of further global slowdown and turbulence.
- Additional fiscal burden due to 7th Central Pay Commission recommendations and OROP

Key Sectoral Impact

Sector	Major Budget Highlights	Impact
Health care	<ul style="list-style-type: none"> ➤ New health protection scheme is proposed to provide health cover up to Rs. 1 lakh per family. ➤ Senior citizens will get additional healthcare cover of Rs 30,000 under the new scheme ➤ National Dialysis Service Program with funds thru PPP mode to provide dialysis at all district hospitals. ➤ PM 'Jan Aushadhi Yojana' to be strengthened, 3000 generic drug store to be opened 	Positive to Neutral
Education	<ul style="list-style-type: none"> ➤ Higher Education Financing Agency to be set-up with initial capital base of Rs. 1000 Crores ➤ Rs. 1,700 crore for 1500 multi-skill development centres to be set up. ➤ 62 new Navodaya Vidyalayas to provide quality education ➤ Focus on giving impetus to Digital Literacy Scheme & Entrepreneurship training by conducting online courses ➤ 1500 Multi-skill training institutes proposed to be set up. 	Positive
Energy	<ul style="list-style-type: none"> ➤ Rs. 3000 crore earmarked for nuclear power generation ➤ Government drawing comprehensive plan to be implemented in next 15-20 years for exploiting nuclear energy ➤ Government to provide incentive for deep water gas exploration 	Neutral to positive
Agriculture	<ul style="list-style-type: none"> ➤ Idea to double farm income over next five years ➤ Dedicated irrigation fund in NABARD of Rs.20,000 Crores ➤ Total allocation for agriculture and farmer welfare at Rs 35984 crores ➤ 28.5 lakh hectares of land is proposed to be brought under irrigation. ➤ 5 lakh acres to be brought under organic farming over a three year period ➤ Rs. 6,000 crore for recharging of ground water due to an urgent need to focus on drought hit areas ➤ Nominal premium and highest ever compensation in case of crop loss under the PM Fasal Bima Yojna. 	Positive

Banking & NBFCs	<ul style="list-style-type: none"> ➤ Rs 25,000 crore towards recapitalisation of public sector banks. ➤ Banking Board Bureau is proposed to be operationalised, strong backing given to public sector banks. ➤ Target of disbursement under MUDRA increased to 1,80,000 crore ➤ General Insurance companies are proposed to be listed in the stock exchange 	Positive
Infrastructure	<ul style="list-style-type: none"> ➤ Total outlay for infrastructure in Budget 2016 now stands at Rs. 2,21,246 crore ➤ Total allocation for road construction, including Pradhan Mantri Gram Sadak Yojana, - Rs 97,000 crore ➤ Allocation of Rs. 55,000 crore in the Budget for Roads. Additional Rs. 15,000 crore to be raised by NHAI through bonds. ➤ Revival of underserved airports. Centre to Partner with States to revive small airports for regional connectivity 	Positive
Investments and Taxes	<ul style="list-style-type: none"> ➤ 100% FDI in marketing of food products produced and marketed in India ➤ Dept. of Disinvestment to be renamed as Dept. of Investment and Public Asset Management ➤ It is proposed to amend Motor Vehicles Act to open up the road transport sector in the passenger segment. ➤ MAT is proposed to be applicable for startups that qualify for 100% tax exemption 	Positive to Neutral
Auto	<ul style="list-style-type: none"> ➤ 1% additional luxury tax on vehicles priced above Rs 10 Lacs ➤ The tax benefit of R&D spend would be reduced from 200% currently to 150% from FY2018 and 100% from FY2021 ➤ Imposition of infrastructure Cess of: <ul style="list-style-type: none"> ✓ 1% on small petrol/CNG/LPG vehicles ✓ 2.5% on small diesel vehicles ✓ 4% on large cars and SUVs 	Negative
FMCG	<ul style="list-style-type: none"> ➤ Increased duty of excise on cigarette and tobacco products other than bidis in the range of 10-15% ➤ The excise duty exemption in FMCG to continue with government allowing 100% FDI in the Food Processing Industry for marketing of food product produced and manufactured in India. 	Negative for cigarette companies. Positive for the sector

Metals & Mining	<ul style="list-style-type: none"> ➤ Proposal of increasing Clean Environmental Cess from Rs. 200 per tonne to Rs. 400 per tonne ➤ Proposal to increase the Basic Customs Duty from 5% to 7.5% ➤ Change in export duty 	<p>Negative Impact of increase of clean environmental cess & Export duty.</p> <p>Positive impact of increase of basic customs duty</p>
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To sum it up:

Amidst global uncertainties, India clearly emerged as a growing nation and to continue with this pace, the 2016-17 budget struck a balance between fiscal prudence and providing enhancement in growth. The presented budget clearly highlights the efforts of the government to enhance expenditure in priority areas of - farm and rural sector, infrastructure sector & employment generation. Along with these, the Finance Minister listed The Nine Pillars on which the government would base its "Transformative Agenda" for the economy in the coming year. All these, are expected to strengthen growth and place India in a position better than its peers.

With the government staying committed to the fiscal deficit target of 3.5% for the coming financial year, the focus shifts to the RBI and its stance on remaining accommodative even while maintaining a status quo on policy rates in its recent review. We believe the RBI would await further data on development of inflation until its next policy review unless global headwinds impacting domestic growth warrant an action sooner.

All in all, alleviating rural and agricultural distress, encouraging entrepreneurship through Startup India, focus on infrastructure and Make in India - Budget 2016 seems to be a 'game-changer' from finance minister.

Source: www.indiabudget.nic.in

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