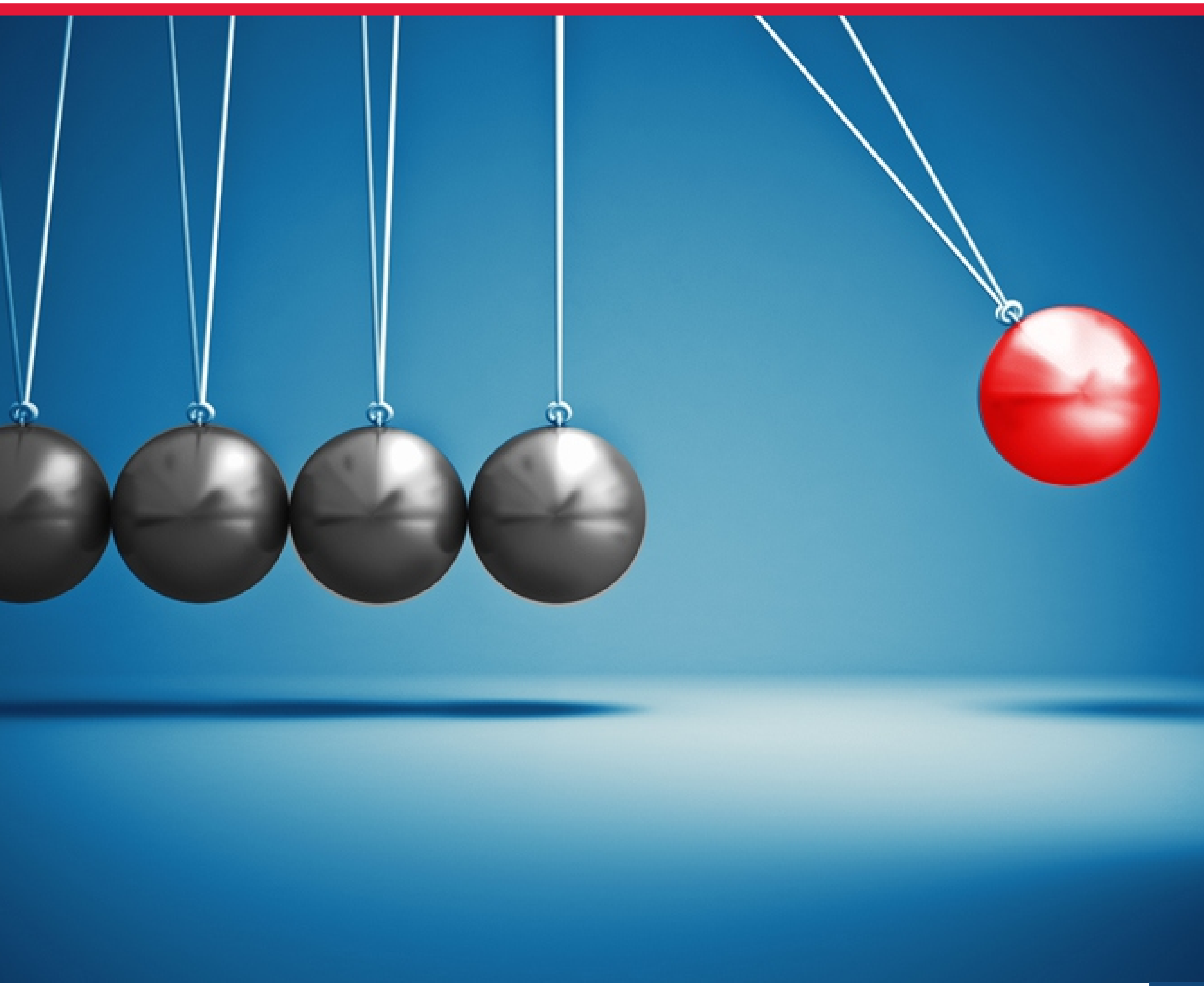
February 2016

CRISIL Budget Analysis



Fiscally prudent, socially redistributive

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL's majority shareholder is Standard and Poor's (S&P). Standard & Poor's, a part of McGraw Hill Financial, is the world's foremost provider of credit ratings.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

Disclaimer

Executive Summary

- **Fiscal math mostly ties up:** The government has done a fine balancing act and maintained its credibility by sticking to the Fiscal Responsibility and Budget Management (FRBM) target of bringing down fiscal deficit to 3.5% of GDP in fiscal 2017 after having met the 3.9% target for fiscal 2016. The government has assumed realistic nominal GDP growth and gross tax collections target of 11% and 11.7%, respectively for fiscal 2017 and most of the tax collection targets barring “income tax” and to some extent “corporate tax” appear manageable. While the overall subsidy bill is projected to come down to 1.66% of GDP in fiscal 2017 from 1.90% in fiscal 2016, thanks largely to lower oil subsidies, productive spending (capital spending + revenue grants for creation of capital assets) is only mildly up from 2.73% to 2.75%. Higher salaries and pensions have kept the revenue expenditure burden sticky and restrained government’s ability to significantly increase capex.
- **Lower rates, new measures to boost bond markets:** Sticking to the fiscal deficit target despite pressure to undertake stimulus measures to revive growth will pave the way for the Reserve Bank of India to cut policy rates. With expected improvement in monetary transmission with implementation of marginal cost of funds based lending rates, borrowing costs will decline. Heightened hopes in the market of a rate cut are indicated by the fall in bond yields post the Budget. In the long term, the bond market will be boosted by the push for long-term savings and pension products, clarification of taxation on securitised papers, proposed code for resolution of financial firms and encouragement for large borrowers to shift part of their fund raising from banks to the bond market.
- **Budget takes note of rural distress:** The rural flavour in this year’s Budget was strong. The farm sector saw a sharper increase in Budget spend, but the non-farm sector too got its fair share. The farm sector has seen a 94% increase in allocation, with crop insurance and irrigation being the biggest beneficiaries. For the non-farm community, while there are measures to provide a safety net, the increase in allocation is moderate compared with last fiscal. At an overall level, rural development spend (mostly non-farm) is budgeted to grow at a moderate pace of 11% on-year in fiscal 2017 compared with 15% in fiscal 2016. But within rural spend, the shift towards higher non-NREGA spend is evident. Overall, after years of neglect, some key issues facing rural India have received attention, but there still are a few misses. These include poor focus on agri-markets development and push to agriculture investment, inadequte steps to increase farm profitability and absence of long-term solution to impart skills training and create employment in the non-farm sector.
- **Push for rural consumption:** This push on rural sectors will propel consumption in rural-linked sectors such as tractors, two-wheelers and fast moving consumer goods. The fast-tracking of irrigation projects, increase in farm credit, higher allocation to NREGA and extension of interest rate subvention to farmers will boost rural incomes. By contrast, urban-driven sectors such as passenger vehicles will be negatively impacted due to levy of infrastructure cess. The higher excise duty on branded textiles and cigarettes could impact consumption marginally.
- **Getting public sector to revive investments:** The focus is sharp on infrastructure investments, which will have spillovers on growth if implemented effectively. Despite pressure on fiscal consolidation, enough room has been created for infrastructure spending through the government’s own resources and by nudging PSUs to invest more, specifically on roads, highways, agriculture and rural development. Also, outlined are measures to enhance the role of private sector in infrastructure development through better resolution of contractual issues and improving risk assessment and pricing of loans. Overall, the budget is growth-enhancing as it supports a mild pick-up in public

investments, which can draw in private investments over time. In the near-term, however, low commodity prices (which will inhibit investments in sectors such as oil and gas, and metals), depressed demand and low capacity utilisation will continue to drag recovery in private capex and delay the revival of the overall investment cycle.

- **Measures to boost demand and job creation:** Tax incentives for home buyers and developers are aimed at lifting housing demand. This will not only have spillover effect on cement and metal sectors, but is also positive for job creation given the high labour intensity of construction sector. Likewise, steps to encourage micro and small medium entrepreneurs to set up businesses is an effort at job creation. Tax exemptions and incentives for investing in start-ups are also expected aid employment generation in the medium term. The finance minister has also tinkered with customs and excise duties to encourage domestic value addition and provide a fillip to the Make in india programme.
- **Provision for PSB recapitalisation low:** Against the backdrop of sharp increase in non-performing and stressed assets and stricter Basel III norms, the Budget has fallen short of expecations. Though the Finance Minister reiterated the Government's commitment to support PSBs, the actual allocation of Rs 25,000 crore for their recapitalisation is clearly inadequate and will hurt banks' ability to fund growth. But, continuation of structural measures such as commencement of Bank Board Bureau's operations (as part of the Indradhanush programme to revamp PSBs), and consolidation of PSBs could improve governance and efficiencies. Introduction of bankruptcy code, relaxation of norms for ARCs and regulatory changes to speed up resolution of disputes/renegotiation of contracts in PPPs would help address asset quality issues in the banking system over the long term.

Indian economy outlook

	FY15	FY16	FY17	Budget impact
GDP (y-o-y %)	7.2	7.6	7.9	Supports a pick-up in infrastruture investments, which can crowd in private investments over time. In addition, measures to support agriculture and rural development will be positive for private consumption.
CPI inflation (%, average)	6.0	5.0	5.0	The government's commitment to adhere to fiscal consolidation targets is credible and will support the non-inflationary stance of the RBI. Inflation will stay soft given reasonable increases in the Seventh Pay Commission payouts, huge excess industrial capacities and weak domestic demand. Soft global oil and commodity prices to also help tame inflation.
Fiscal deficit (% of GDP)	4.1	3.9	3.5	Headroom created by savings on fuel subsidy bill and increased income from duty hikes has allowed the government to tread the fiscal consolidation path with ease
10-year G-sec yield (%, March-end)	7.7	7.6	7.5	A lower fiscal deficit target would result in restrained market borrowing programme of the government which would help ease yields

Note: F=CRISIL Forecast, *CSO advance estimate, **Budget estimate

Source: RBI, CSO, Ministry of Finance, Ministry of Commerce and Industry, CRISIL Research

The fiscal math is balanced out

- The fiscal math pretty much adds up, while sticking to the FRBM target of 3.5% fiscal deficit of GDP
- A large increase in revenue expenditure has restrained growth in capital expenditure
- A miss in disinvestment target likely, but higher spectrum revenues may do the balancing

Government sticks to the fiscal deficit target of 3.5%

The government has done a fine balancing act and maintained its credibility by sticking to the Fiscal Responsibility and Budget Management (FRBM) Act-mandated target of bringing down fiscal deficit to 3.5% of GDP in fiscal 2017 after having met the 3.9% target for fiscal 2016. The odds are all too visible. The economy faces global headwinds even as domestic private invetments are weak. There is a step-up in revenue expenditure on account of the Seventh Pay Commission (SPC) and One Rank One Pension (OROP) recommendations. The rural sector, too, is in need of a heavy booster dose after two successive monsoon faliures and there is a need to push public expenditure higher. In such a scenario, treading the fiscal consolidation path and honouring the FRBM target may be a tad too ambitious and the likelihood of slippages in meeting the various targets cannot be wished away. Having said that, the benefit the government could have derived by relaxing its fiscal deficit target would not have been large. A relaxation of say 30 basis points (bps) would have freed up only an additional Rs 386 billion.

In light of all this, the following points are worth highlighting with regard to the fiscal math:

- ***Tax collection targets manageable****:* While in FY16 direct tax collections were lower than what was budgeted as both corporate and income tax growth missed the target - the latter by a substantial amount - growth in indirect tax collections at 28.5% far exceeded the target of 18.5% on account of windfall gain from increased excise duty on petrol and diesel, which more than made up for the shortfall in other areas. For fiscal 2017, the overall tax collection target assumed in the Budget appears achievable. The government has projected a realistic nominal GDP growth target of 11% for fiscal 2017. This is in line with our forecast of 10.9%. The gross tax-to-GDP ratio for fiscal 2017 has been assumed at 10.8% -- same as that achieved in fiscal 2016. The government has also assumed a modest growth of 11.7% in gross tax revenues in fiscal 2017 after having achieved a growth of 17.2% this fiscal as the incremental benefits, especially on account of excise hike are limited. The government introduced a Krishi Kalyan cess of 0.5%. This would mean an effective service tax rate of 15.0% in fiscal 2017, including last year's 0.5% Swachh Bharat cess. Individually, the budgeted income tax growth appears to be too optimistic (see table below) and corporate tax collections may also pose a challenge amidst an environment of subdued demand.

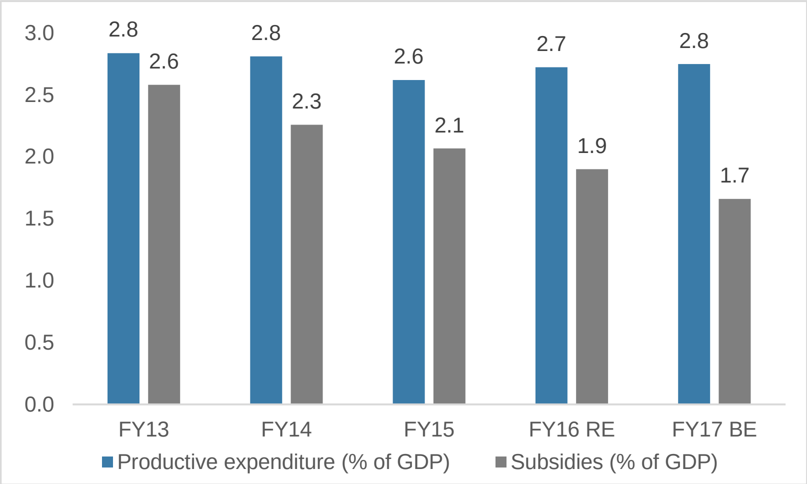
Major tax heads

	Rs. Billion				Growth (%)				
	FY14	FY15	FY16 RE	FY17 BE	FY14	FY15	FY16 RE	FY17 BE	Average FY14-FY16
Gross Tax Revenue	11387	12449	14596	16309	9.9	9.3	17.2	11.7	12.2
Corporation Tax	3947	4289	4530	4939	10.8	8.7	5.6	9.0	8.3
Income tax	2378	2657	2991	3532	21.0	11.7	12.5	18.1	15.1
Customs	1721	1880	2095	2300	4.1	9.3	11.4	9.8	8.3
Union Excise Duties	1695	1900	2841	3187	-3.6	12.1	49.6	12.2	19.3
Service Tax	1548	1680	2100	2310	16.7	8.5	25.0	10.0	16.8

Source: Budget documents

- ***Productive expenditure mildly up despite substantial reduction in subsidies***: Productive expenditure can be defined as the sum of capital expenditure and part of revenue expenditure for creation of capital assets -- as together, they have the potential to increase the productive capacity of the economy and generate income in the future. The government has budgeted capital expenditure at Rs. 2470 billion for fiscal 2017, an increase 3.9%, which is lower compared with 20.9% growth achieved in fiscal 2016 . However, if we add grants for creation of capital assets, the total budgeted productive spending comes to Rs. 3,132 billion or a rise of 14.2% in fiscal 2017, comparable with 16.2% in fiscal 2016. As a share in GDP, productive spending would mildly go up to 2.75% in fiscal 2017 from 2.73% in fiscal 2016. At the same time, government's subsidy burden continues to follow a downward path. Particularly, a lower fuel subsidy bill (more on this in the next point) would help the government's overall subsidy burden to come down to 1.66% of GDP in fiscal 2017 from 1.90% in fiscal 2016. Despite a lower subsidy bill, overall revenue expenditure in fiscal 2017 is budgeted to rise by 11.8% compared with an increase of only 5.5% in fiscal 2016, largely on account of increased Pay Commision and pension payouts. And that is why the government's productive expenditure rises only mildly in fiscal 2017.

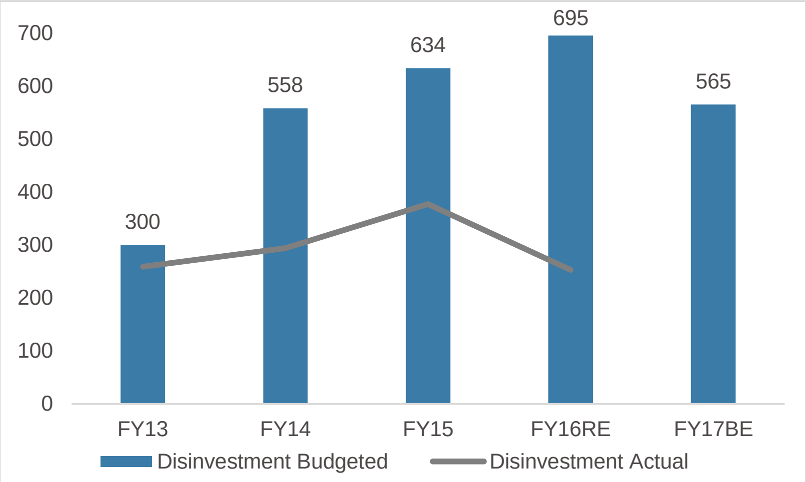
Expenditure share



Source: Budget documents, CSO

- ***Lower oil prices to aid revenues*****:** Oil prices are expected to continue their downward journey. After Brent crude prices almost halved from an average $86 per barrel to an estimated $48 per barrel in fiscal 2016, we expect oil prices to fall further to around $39 per barrel in fiscal 2017. The decline has reduced the government's oil subsidy burden, and allowed it to ramp up revenues stream by hiking excise duty on petrol and diesel. At current rate of excise hikes – of Rs 7.07 per litre for diesel and Rs 4.02 per litre for petrol which the government undertook between November 2015 and February 2016 – the government stands to earn extra revenue of Rs 179 billion and Rs 405 billion in fiscal 2016 and fiscal 2017, respectively. At the same time, the government's fuel subsidy bill is budgeted to drop from Rs 300 billion in fiscal 2016 to Rs 270 billion in fiscal 2017. However, we expect the fuel subsidy bill in fiscal 2017 to be lower than this.
- **Disinvestment target unrealistic**: The government has once again set an ambitious target of Rs.565 billion from disinvestment proceeds in fiscal 2017. Previous experience on this front suggests this would be difficult to achieve this target as market conditions remain unfavourable and the government doesn't seem to have a clear strategy to execute its divestment plan. For fiscal 2016, compared with the budgeted disinvestment target of Rs 695 billion, the government was able to garner only Rs 253 billion. So, a miss of the same proportion in the disinvestment target as last fiscal could increase the fiscal deficit by 0.14% in fiscal 2017. However, a miss in the disinvestment target may be made up by higher than budgeted spectrum revenues. If the spectrum sales happen as per government's plan, the revenues could exceed the budgeted target of Rs. 990 billion for fiscal 2017. In fiscal 2016, government earned spectrum revenues of Rs. 560 billion, higher than the budgeted Rs. 429 billion.

Disinvestment receipts (Rs. Billion)



Source: Budget documents

Budget takes note of rural distress: push towards agri and shift towards non-NREGA safety-net spend

- Spend on irrigation, crop insurance is up but innovative policy solutions to ensure effective implementation key
- Poor focus on agri-markets development, push to agriculture investment absent, steps to increase farm profitability far from adequate
- Significant support to rural safety net creation; spends up on NREGA, rural roads, push to food processing sector and rural housing

The rural flavour in this year's Budget was strong. The farm sector saw a sharper increase in Budget spend, but the non-farm sector too got its fair share. At an overall level, rural development spend is budget to grow at a slower pace of 10.8% in fiscal 2017 compared with 15.4% in fiscal 2016. But within rural spend, the shift towards higher non-NREGA spend is evident.

There is a 94% on-year increase in spend on agriculture and famers' welfare that includes 42% increase in irrigation spend, 86% increase in crop insurance allocation, and a Rs 150 billion provision towards interest subvention on loans. For the non-farm community, while the budget announces measures to provide a safety net, the increase in budgetary allocation is moderate compared to last fiscal. Within non-farm spend (rural development) though, there is a clear shift towards non-NREGA spend; a 50% increase under rural housing and a 25% increase in rural roads allocation (PMGSY) coupled with fast-tracking of road project completion, while NREGA spend is only up 7.7%. ***Overall, after years of neglect, some key issues facing rural India have received attention, but there still are a few which have been missed.***

Unaddressed vulnerabilities have long amplified stress in the farm sector. India's farm economy needs a holistic, structural approach, where resources, reforms and implementation go hand in hand to ensure long-term rural prosperity. Similarly, the non-farm sector, too, is crying for policy support to (i) create a safety net to mitigate losses to the farm sector in case of a weather shock and (ii) provide a long-term solution to impart skills training and create employment. Hurt by weak rains and falling export prices, agriculture growth was at -0.2% in fiscal 2015 and is estimated at a dismal 1.1% in fiscal 2016. About 58% of rural households engage in agriculture and within this, two-thirds are heavily reliant on it. Alongside, in the non-agriculture sector, a continued fall in wage growth (due to limited extension of NREGA and decelerating growth in manufacturing and mining output – half of which is produced in rural India) hurt those dependent on wage income. As rural India suffers, the biggest blow has been to demand (see our report on this).

Figure 1: Shift in rural spending focus

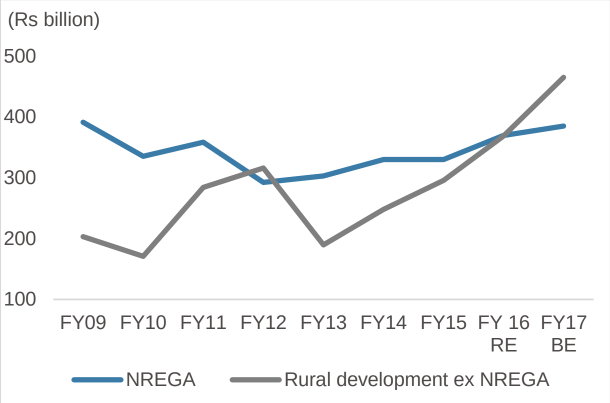
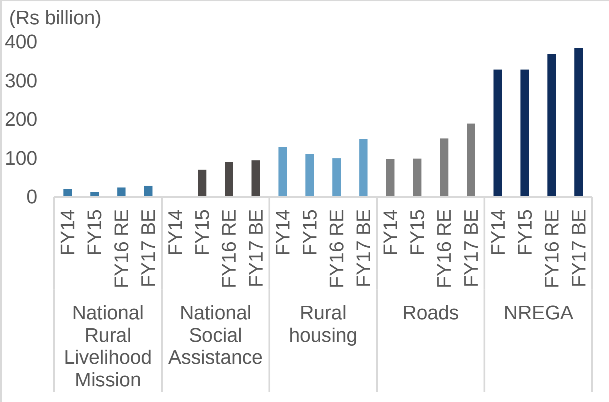


Figure 2: Higher spending on other rural development



RE: Revised estimate, BE: Budgeted estimate

Source: Budget documents

Farm sector

In the agricultural sector, seven broad areas require policy support – expansion of irrigation cover, development of agricultural markets, a big push to crop insurance, need to make agriculture profitable, focus on farm investment versus subsidy, extension of direct benefit transfer (DBT) to fertiliser subsidies to plug leakages and generate non-farm employment. The Budget has made some attempt to provide a framework to address some of these issues. What is missing is a holistic approach to rekindle the agriculture sector.

- **Crop insurance spend is budgeted** to nearly double under the Pradhan Mantri Fasal Bima Yojana (PMFBY) to Rs 55 billion in fiscal 2017. Earlier this fiscal, the government launched this crop insurance scheme which promises to contribute a larger share of the premium. The scheme will be operational from fiscal 2017. Here, ***effective implementation will be key to meeting the target of 50% coverage in the first two years. At the same time, adequacy of coverage per farmer per crop will be critical to ensure the usefulness of the scheme. This, however, will need a sharper increases in Budget allocation.*** Other challenges include ensuring transparent assessment of crop damage within a specified time following weather shocks, and the ability to adequately compensate farmers for the losses within the shortest possible time.
- **Irrigation spend** is budgeted to increase by 42% to Rs 77 billion, focussed at fast-tracking and revival of irrigation projects. It also envisages creation of a Long Term Irrigation Fund in NABARD to an initial corpus of Rs 200 crore, in addition to ecouraging multilateral funding for ground water management. ***Such spending needs to be encouraged more and linked to employment generation. Focus on irrigation will require the government to deploy sustainable micro-irrigation schemes and creation of assets for rainwater harvesting and storage. This will go a long way in drought-proofing the economy.*** While there is some push to irrigation, the coverage is far from adequate and will have to increased rapidly. In India, poor irrigation cover exposes agriculture to shocks from uneven rainfall patterns. At the all-India level, irrigation covers only 46.9% of the total cropped area, exposing the rest to monsoon shocks. Around 84% of pulses, 80% of horticulture, 72% of oil seeds, 64% of cotton and 42% of cereals are cultivated in unirrigated conditions. The combined spending of Centre and states on irrigation has been a mere 2% per year of their total spending in the last five years. This is also less than the 3% per year spent in the 5 preceding years.

Some other critical issues failed to find adequate policy addressal in this year's budget. These include steps to encourage private sector investment in agriculture and development of agriculture markets, both of which are key to improving profitability of the farm sector

- **Farm profitability** is low and declining as the cost of inputs continues to soar. Input and output cost dynamics have been turning unfavourable year after year, reducing the farmer's profit margin. The disparity is particularly glaring in pulses, and growing. Within pulses, the largest disparity between cost of cultivation and output prices is in *urad*, *gram* and *tur*. In *urad*, while output prices in the last decade have risen 12%, the cost of cultivation in major producer-states have risen 12-26%. Similarly, in *gram* and *tur*, output prices grew about 10%, but cost of cultivation rose 12-18%. The Bharatiya Janata Party had in its 2014 general elections manifesto announced its intention to take steps to ensure a minimum 50% profit over the the cost of cultivation. This will require, among other things, ensuring availability of high-yield seeds at reasonable costs, reducing the cost of transportation, effective market pricing of agricultural produce, drought-proofing the sector by expanding irrigation cover and introducing the latest technologies for farming. The budget refrained from making any announcements to address these issues.
- **Likewise, farm investment** has to be encouraged. After coming to power, the National Democratic Alliance government promised a technology-driven second Green Revolution in India. Crucial to this objective is investment, but public sector investment in agriculture is low and poor, while private investors don't have enough incentives. Of the government's total spending on agriculture, less than 10% is towards public outlay on capital formation, while the rest is in the form of subsidies for food and fertilisers. Therefore, for investments in agriculture to increase, the government will have to take the first step forward. And to make room for spending, it will have to reorient expenditure from subsidies to public sector investment in agriculture. For instance, during fiscals 2013 and 2014, while public sector gross capital formation in agriculture grew by an average 4.7%, spending on food subsidy rose nearly three times faster.

Non-farm sector

A push to non-farm income tends to create a demand-pull in the economy and improves welfare. Construction, trade and transport have historically acted as engines of rural non-farm employment growth. But these sectors, though labour-intensive, contribute just about a fourth to GDP at the aggregate India level, and therefore may not be able to solely drive rural employment. In addition, in recent years, a slowdown in mining and manufacturing output - more than half of which is produced in rural areas – is likely to have brought down wage growth. Policy focus, therefore, needs to sharpen on other rural non-farm sectors such as food processing and even tourism.

As in the past, this year's budget, too, gave a push to construction-driven rural jobs, but there was also a push to the food processing sector. Also, recent years have seen that the scale of NREGA expansion has been limited, there has been increased focus on other rural development spending such as roads and social assistance.

- **NREGA spend** this budget has seen a lower increase of 7.7%, to Rs 385 billion. Last year, the government had spent 1% higher than the budgeted amount as demand for funds rose during the year. But the increase in fund allocation does not appear to be commensurate with job creation. In recent fiscals, budgetary allocation for NREGA have seen only saw small increases. Incidentally, in these years, number of jobs created under NREGA also appears to have come down. Latest data[1] show that employment generation under the scheme has slowed. In fiscal 2015, at an all-India level, only 23 million households were provided employment compared with nearly 50 million in each of the preceding 5 years. And in the first four months of fiscal 2016, average employment days per household halved. Overtime however, there has been increased focus on improving the quality of works under NREGA while linking it to irrigation and water conservation projects.

[1] As reported by Indiastat.com

- **Rural roads** continued to be favoured in terms of budgetary allocation. The Budget has put aside Rs 190 billion towards rural spending on roads (Pradhan Mantri Gram Sadak Yojana – PMGSY) where the allocation is up 25.2% in fiscal 2017 over a 52.4% increase in fiscal 2016. The current government has also sharpened focus on rural road project completion with a plan to further increase the pace of road construction per day, from the current 100 km. It has accordingly advanced the year of road project completion to 2019, from 2021. This will to some extent cushion non-farm rural income through job creation.
- **Food processing** sector received an impetus with 100% FDI proposed through the direct approval route for marketing of food products produced in India. This could provide a significant push to this sector which employs more than 8 million people and contributes about 2% to value added.

Boost from public investments?

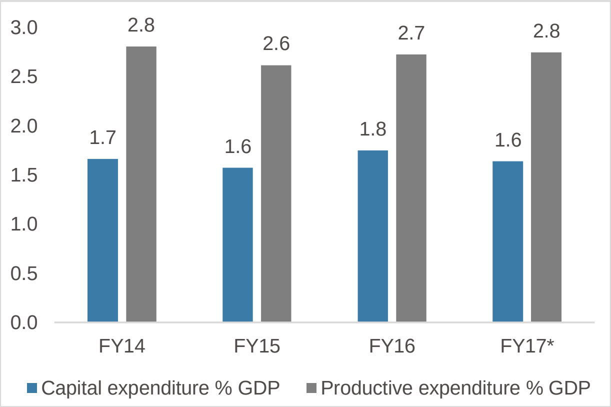
- Capital expenditure to moderate to 1.64% of GDP in 2016-17 from 1.75% last fiscal. However, on adding assets for capital creation, ratio increases mildly to 2.75% to 2.73%
- The budget has continued to push investment in infrastructure sectors such as roads & national highways
- We expect higher infrastructure investment to crowd in private capex in fiscal 2017

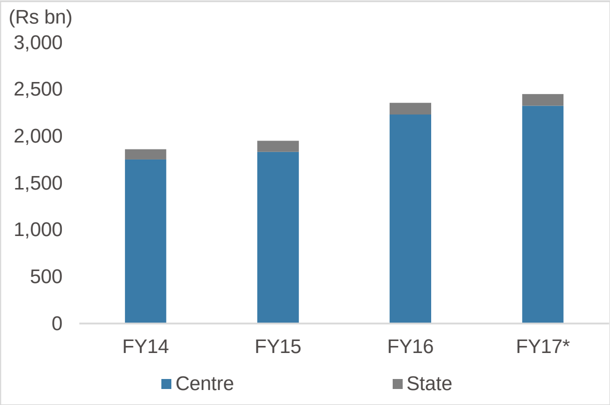
Growth is gradually looking up, inflation is within the Reserve Bank of India's comfort band and current account deficit is firmly under control. Debottlenecking steps by the government are improving the ease of doing business, while declining inflation and lower interest rates are expected to support private consumption. Yet, India Inc remains cautious on fresh investments. A revival in investments hinges on increased public investments, especially in infrastructure – specifically roads, power transmission/distribution and railways – because spending on it has a significant multiplier effect of creating demand for steel, cement, capital goods and commercial vehicles, and spurring investments in the manufacturing space as well.

What the budget says about public investments and infrastructure creation?

- The budget plans a 3.9% increase in capital expenditure in fiscal 2017 compared with a 21% increase in fiscal 2016, taking its ratio in GDP down by 11 basis points to 1.64%. However, productive spending (capital expenditure plus revenue spending on assets for capital creation), still shows a mild improvement to 2.75% of GDP in fiscal 2017 from 2.73% in fiscal 2016. Plan capital expenditure is budgeted to remain broadly unchanged at 0.97% of GDP in fiscal 2017 from 1.04% last year. Overall increase in plan outlay (revenue and capital expenditure) is budgeted to rise by 45% compared to an increase of 36% last fiscal.

Capital expenditure moderates slightly in 2016-17





Note: Total capital expenditure is the sum of planned and non-planned capital expenditure for the Centre and states.

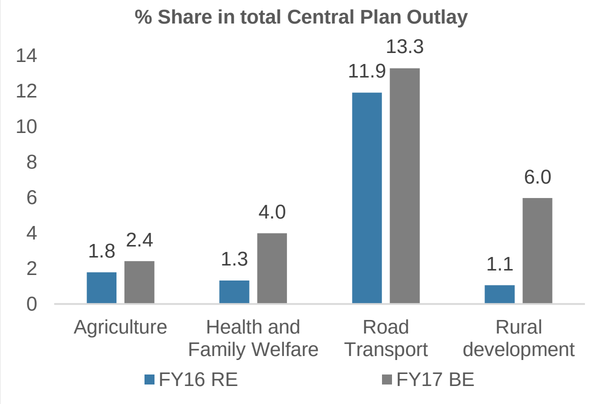
Source: Budget documents

Composition of public investment

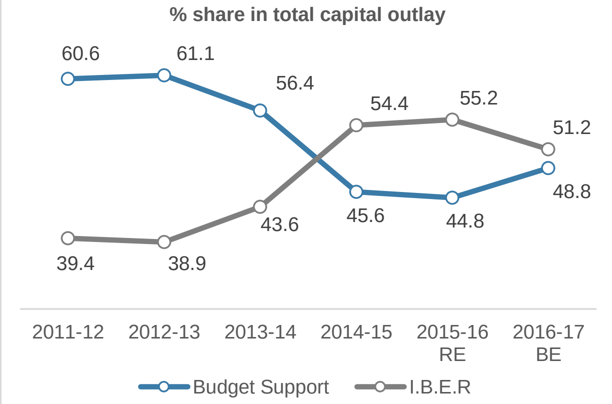
- Allocation for infrastructure-related sectors has risen by 42.7% y-o-y for fiscal 2017. The highest increase in allocation has been recorded for rural development, followed by roads, shipping and railways.
- In crucial infrastructure sectors such as roads, highways and railways the cumulative capital outlay is about Rs 2.2 trillion, which is about 34% higher on-year.
- In 2015, nearly 85% of stalled projects have been put on track. **The budget has taken further steps to speed up the process of road construction** by allocating Rs. 55,000 crore for roads and highways on top of Rs 15,000 crore to be raised by NHAI through bonds. Thus the total investment in the road sector, including PMGSY allocation, is close to Rs 97,000 crore for fiscal 2017.
- **On national highways**, additional 10,000 kms are expected to be approved in fiscal 2017 - much higher than the last two years. Also, 50,000 kms of state highways will also be taken by for upgradation as national highways.
- Apart from infrastructure, **sectors that have seen a significant increase in budget allocation in fiscal 2017** are agriculture, food and public distribution, food processing industries, and health and family welfare. On the other hand, sectors that were not in the limelight (saw lower growth in budgetary allocation compared with fiscal 2016) were textiles, chemicals, communication and information technology and housing and urban poverty alleviation.

Overall, despite the pressure on fiscal consolidation, the budget has managed to create room for infrastructure spending through a mix of its own resources as well as by nudging PSUs to invest more. However, an increase in resources available for funding infrastructure and the government's implementation capacity to ensure efficient delivery remain a concern. This, therefore, should be the next area of focus for the government.

Sectors with higher plan outlay



CPSUs shoulder more than half of capex spending



Note: I.E.B.R.: Internal and extra budgetary resources which are raised by central PSUs through profits, loans and equity; RE: Revised estimate, BE: Budgeted estimate

Source: Budget documents

Crowding in private investment

- In order to develop the role of the private sector in infrastructure development, the budget announced three new initiatives: 1) the Public Utility Bill will be introduced to deal with resolution of disputes in construction contracts, PPP, etc; 2) guidelines for renegotiation of PPP concession agreements will be issued; and 3) a new credit rating system for infrastructure projects to better perceive risks of projects and as a result have better pricing of loans.
- The budget announced 100% FDI will be allowed in marketing of food products produced and manufactured in India. This will provide benefit to farmers, create employment and boost the food processing industry.
- These measures, along with higher public investment spending in infrastructure, we believe will also raise private investment. According to a recent IMF study (2015), public investment on infrastructure such as roads, railways and power will raise private investment by raising the productivity of capital. A Re 1 increase in public investment is shown to crowd in private investment by Rs 0.60, Rs 0.31 and Rs 0.17 after one, two and three years, respectively.

Box 1: Corporate tax exemptions – bringing down the Exemption Raj

Last Budget, the government communicated its intent to lower the corporate tax rate to from 30% to 25% by fiscal 2020, while gradually withdrawing corporate tax exemptions. This Budget, the government has taken the plunge, although there is more road to cover. The budget proposes a lower tax rate of 25% for new manufacturing companies, provided they opt out of exemptions. In addition, it has also proposed a lower corporate tax rate of 29% on small units having a turnover of Rs 5 crore. This is expected to reduce the revenue foregone on account of tax exemptions, which in fiscal 2015 stood at 4.7% of GDP. Still, the amount budgeted to be spent on tax exemptions – or tax expenditures measured as revenue foregone – remains large. Tax expenditures incurred by the government on various stakeholders is also a form of subsidy. Add the direct spending on subsidies – petroleum, food, fertilisers and interest costs, which help reduce individuals' cost of consumption – and the total subsidy spending by the government actually amounts to over Rs 9 trillion or about 6% of GDP.

Besides, the presence of a large number of exemptions erodes the tax base and has for long impeded a reduction in tax rate. Presence of multiple layers of taxes is also inconvenient to businesses and is hurting India's competitiveness. The government's intent in reducing corporate tax exemptions is right. But it takes care of only corporate tax, which is 61% of the total revenue foregone on direct taxes but a mere 11% of total revenue foregone (direct plus indirect taxes). A larger share of total revenue foregone goes to customs duty – at 51% – followed by Union excise duty exemptions at 31% (see table). The government will need to reassess the costs and benefits on these exemptions because revenue foregone on indirect taxes is as high as 83% of the total revenue foregone and 89% of the indirect tax collections.

In case of direct subsidy spending, the government's push towards direct benefit transfer of subsidies is a welcome step. In case of tax expenditure, too, the government should focus on better targeting. A few – but minimal – exemptions with targeted goals can stay, such as concessions for engaging in economic activity in the hilly and backward areas, tax breaks on household savings, research & development activities and few exemptions to the exports sector. Withdrawing tax exemptions will be no mean feat for the government. But there is larger good to be had in the form of efficiency gains – from lesser taxes paid by producers to savings on tax administration as the cost of enforcement comes down.

Box 2: Subsidy dispensation

Direct benefit transfer (DBT), or the mechanism for channelling subsidy through bank accounts directly to the beneficiary, is proving to be successful for liquefied petroleum gas (DBT-L) users. Leakages in LPG are estimated at 24%. Since the scheme was launced at an all-India basis in January 2015, the total beneficiaries has reached 151 million, while the leakages have come down by 24%. There is still some way to go in terms of reach and coverage. The Economic Survey also recommends that the household cap on LPG cylinders be brought down to 10 from 12..Potential annual fiscal saving of full implementation of DBT-L is Rs 127 billion in the subsequent year. The government is also planning to implement DBT for kerosene users from April 1 in eight states. About 11% of the total subsidy spending by the government is on fuel (LPG and kerosene) and the extent of leakages has necessitated adoption of DBT.

On similar lines, the government is now also proposing to implement DBT for fertiliser subsidy on a pilot basis. The government spends 28% of its subsidy burden (or Rs 700 billion) per year on fertilliser subsidies – a large part of which gets wasted in leakages. Leakages in fertiliser subsidies are estimated at 40%. Also, only 35% of the total fertiliser subsidy reaches the intended beneficiaries. The Economic Survey finds fertiliser subsidy a good candidate for DBT through the JAM ecosystem if three pre-conditions are met: (i) there is a high leakage rate; (ii) higher central government control over dispensation; and, (iii) there is greater control on the first and middle-mile reach. Still, there are several challenges associated with its implementation. The Survey also says, "The disbursal of subsidy on fertilisers should shift to DBT, the benefits of which will be maximised, if all controls (including imports) on the fertiliser industry / outputs are lifted simultaneously" Identification of subsidy per farmer is another area; here subsidy will have to be determined based on crops produced and soil conditions. Yet, there is some ground that has been covered. The government has in place a Fertiliser Monitoring System which captures distributor and dealer – level data on fertiliser sales. The challenge now is to capture retail and farmer level sales data so that adequate subsidy can be transferred to beneficiaries. Once implemented at an all-India level, it will in addition to plugging leakages, help balance the nutrient intake for crops. Currently, disproportionately higher subsidy on urea (nearly 70% of the total) has encouraged overuse and unfavourably tilted the nutrient balance.

Similarly, DBT is also expected to be a game changer in food subsidy. But the Budget refrained from announcing focussed measures on this. Food subsidy is currently the single-largest subsidy burden of the government, and at Rs 1.3 trillion eats up nearly half of total subsidies. We estimate that DBT can help the government save as much as 20% (or Rs 250 billion) in food subsidy expenditure by eliminating costs associated with procuring, distributing and storing foodgrains. Moreover, DBT will help bring millions of poor households that currently do not have access to public distribution system into the food subsidy net. We estimate that at fiscal 2016 prices, the cash transfers under the DBT will amount to almost Rs 5,800 per year for a family of five. This will implicitly raise their disposable income as the amount is higher than the reported total annual expenditure (food +non-food) of the poorest 5% of the rural households and more than half the annual expenditure of the poorest 10% of urban households. Given the high marginal propensity to consume at lower income levels, such a significant unconditional cash transfer will undoubtedly raise discretionary spending of the recipient households, providing a consumption boost to the economy

Sectoral impact

Industry	Impact

Automobiles: Negative for passenger vehicles; other segments to gain — Neutral

Key budget proposals:

- Infrastructure cess of 1% on small petrol/ compressed natural gas/ liquefied petroleum gas cars, 2.5% on small diesel cars, 4% on big sedans and sports utility vehicles (SUVs) and a 1% additional luxury tax on passenger vehicles priced over Rs 1 million
- Expenditure of Rs 1.03 trillion for construction of national highways
- Fast-tracking of irrigation projects, increase in farm credit (by Rs 500 billion) to Rs 9 trillion, an 11% increase in allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and extension of interest rate subvention to farmers

Our view

The focus on rural incomes and infrastructure development is structurally positive for the automobiles sector. In the near term, however, the infrastructure cess and additional luxury tax on passenger vehicles (excluding taxis) will drive up prices and reduce demand. Within passenger vehicles, demand for diesel vehicles, large sedans and SUVs will be relatively more impacted. Higher spending on national highway projects will spur sales of construction trucks. Continued focus on rural development schemes will also indirectly aid sales of tractors and two-wheelers.

Cement: Higher spending on infrastructure to benefit in medium term — Positive

Key budget proposals:

- Deduction for interest enhanced for first-time home buyers to Rs 2,50,000 from Rs 2,00,000 per annum.
- 100% deduction for profits of companies undertaking specific housing projects (only for flats up to 30 sq m in four metro cities and 60 sq m in others) and service tax exemptions on construction of affordable houses (up to 60 sq m under any scheme of the central or state government).
- Investment towards national highways increased by 49% to Rs 1032 billion (budgetary +internal and extra budgetary resources).
- Rs 170 bn for irrigation projects under Accelerated Irrigation Benefit Project.
- Outlay towards urban infrastructure increased 11% to Rs 166 billion.
- Ready mix concrete manufactured at the site of construction exempted from excise duty.
- Clean energy cess on coal (domestic and imported) doubled to Rs 400 per tonne.

CRISIL Research's View:

The government's focus on infrastructure is evident with the total targeted spending in FY17 increasing 28% over FY16. This, along with a number of benefits provided on affordable housing, would aid recovery in cement demand. Further, the rise in duties and tariffs in the form of clean cess on coal is expected to have a muted impact on total cost, which is expected to increase 0.2%. Power and fuel cost (~25% of cost of sales) will increase 1%. However, amid rising demand, players will be able to offset this with a hike in prices.

Consumer goods: Little to savour — Neutral

Key budget proposals:

- Additional excise duty hiked 200-270% on cigarettes and by 15-16% on other tobacco products
- Basic excise duty on pan masala increased from 16% to 19%
- Excise duty on water (mineral and aerated) increased from 18% to 21%

CRISIL Research's view

Increased focus on sustainability of rural income and infrastructure is a long-term positive for consumer goods manufacturing sector. Excise duty hike will hurt demand for tobacco-based products as companies will pass on the increase in cost. Resultantly, revenue of key players such as ITC Ltd, VST Industries Ltd and Godfrey Phillips Ltd will take a hit. Increase in excise duty on mineral water and aerated beverages will lead to marginal increase in prices.

Financials: Allocation for capitalising PSBs inadequate — Marginally negative

Key budget proposals:

- Rs 250 billion to be provided as capital support to public sector banks (PSBs) in FY17, with a commitment to provide additional funds, if required
- Focus renewed on creating a route for consolidation of PSBs
- Commitment to introduce bankruptcy code and stregnthening debt recovery tribunals
- Target for banks and NBFC-MFIs to sanction loans increased to Rs 1,800 billion for FY17 vis-à-vis Rs 1,000 billion sanctioned till early February 2016 under the Pradhan Mantri Mudra Yojana
- No taxes on profits of companies offering housing projects with flats up to 30 sq mtrs in four metro cities and 60 sq mtrs in others. Also, additional housing loan interest deduction of Rs 50,000 per annum for first-time home buyers on loans up to Rs 3.50 million and maximum house value of Rs 5 million
- Period for acquisition or construction of self-occupied house property increased from 3 years to 5 years for claiming deduction of interest
- NBFCs to be eligible for deduction to the extent of 5% of their income provisioned for bad and doubtful debts
- Sponsor of an asset reconstruction company (ARC) to hold up to 100% stake in the ARC and non-institutional investors to invest in securitisation receipts through amendments in the SARFAESI Act 2002.

CRISIL Research's view

- Funds for capitalising PSBs seems inadequate, given the high capital requirements to meet Basel-III commitments and high gross NPAs
- Proposal to focus on consolidation of PSBs would be a positive, along with introduction of bankruptcy codes Tax rebates in real estate companies' profits on affordable housing projects and loan interest deduction for first-time home buyers will give a boost to the real estate sector and create credit growth opportunities
- As provision for bad debts, limited to 5% of income, would be tax deductible, NBFCs' net margin will improve.

Proposal related to ARCs effectively allows a single foreign entity to own 100 percent stake in an ARC (compared to 49 percent currently). This might not have a significant impact in the near term as it does not resolve issues such as mismatch in price expectations of banks and ARCs, as well as higher equity required by ARCs while purchasing assets.

Infrastructure: Focus on dispute redressal, tax clarifications to aid investor confidence — Positive

Key budget proposals:

- Budgetary allocation: Total outlay for infrastructure has been increased 28% to Rs 3.4 trillion (roads, railways and power the biggest beneficiaries). Of this, Rs 1.29 trillion is on account of budgetary support
- Roads: Investments for development of national highways is proposed to be hiked 49% on-year to Rs 1032 billion. This is on the backdrop of spending being 16% lower than FY16 budgeted estimates in the segment
- Railways: Total outlay raised by 24% to Rs 1,210 billion. In Railway Budget FY17, there have been numerous announcements for improvement of port connectivity and three new dedicated freight corridors
- Airports & ports: No new projects announced barring Rs 8 billion earmarked for greenfield ports and national waterways. Overall, outlay for civil aviation has been reduced by 30% to Rs 44 billion, mainly in line with reduced equity support to Air India
- Funding availability: The government has provided flexibility for select state entities to raise capital up to Rs 313 billion by way of bonds across infra segments
- Other measures: Dividend distribution tax waiver to be applicable on income distributed from SPVs to INVIT holding entity. Furthermore, a mechanism to renegotiate of contracts and a public utility bill will be introduced to streamline resolution of disputes in infrastructure related construction contracts

CRISIL's View

The Budget reiterated focus on roads and railways with almost 76% of the incremental government spending (budgetary allocation + inter and extra budgetary resources) focused on these two segments. Also, the increase in budgetary allocations of Rs 250 billion towards various infra segments were muted compared with Rs 1090 billion in the last Budget. This clearly reinforces a shift in funding dependence from government outlays to cashflows of government entities and their borrowing capability to drive public investments in the sector.

Of the Rs 250 billion incremental budgetary support, almost Rs 130 billion is directed towards railways, followed by Rs 40 billion towards power, Rs 30 billion for urban development and Rs 25 billion, for roads, respectively. Given the targets relating to electrification of villages, the Budget provides a thrust on investments in the distribution segment of power with a 84% on-year increase in planned expenditure for key schemes.

For EXIM-focused sectors such as airports and ports, focus on single window customs clearance, backed by process simplification, is targeted towards debottlenecking of capacity amid lower budgetary allocations.

The Budget continued to build up investor confidence for investing in infrastructure segments by providing clarity on dividend distribution tax for entities like INVITs and giving confirmation on contract renegotiation and intriduction of the public disputes utility bill. This comes at a time when private sector interest in infrastructure development is low and the balancesheets of many developers in the sector remain stretched.

We believe the rise in overall government spends will boost execution of national highway projects to about 5,200 km annually in 2016-17 and create a robust construction opportunity for road and railway engineering procurement & construction companies.

While the Budget provisions are positive, it will continue to put to test the execution capability of implementing agencies such as the National Highways Authority of India and Indian Railways. This comes on the backdrop of overall spending in national highways being 16% lower in FY16 as compared with the allocations. Addressing on-ground issues such as clearances and land acquisition becomes extremely critical to ensure a sharp increase in project execution.

Metals: No big announcements for metals — Neutral

Key budget proposals

- Customs duty on aluminium increased to 7.5% from 5%
- Clean environment cess doubled to Rs 400 per tonne
- Export duty on low grade (below 58% iron content) iron ore lumps and fines scrapped
- Export duty on bauxite reduced to 15% from 20%

CRISIL Research's view

- Hike in customs duty on aluminium will narrow the gap between landed cost of aluminium and domestic aluminium prices, thereby curbing aluminium imports
- Doubling of clean environment cess to Rs 400 per tonne is a negative – aluminium manufacturers' power cost is expected to rise by ~3% and sponge iron manufacturers' total production cost is expected to increase by 2-3%
- Scrapping of export duty on low grade iron ore lumps and fines will benefit iron ore exporters – primarily from Goa, which has the largest concentration of low grade iron ore – as their tax burden will reduce by ~Rs 950 per tonne and ~Rs 250 for lumps and fines, respectively
- Lowering of export duty on bauxite will benefit exporters such as Nalco

Oil & Gas: Higher government share in under-recovery burden and lower cess on domestic oil production bode well for oil companies — Positive

Key budget proposals:

- Government to bear initial cost of providing LPG connections to 15 million below poverty line (BPL) households in 2016-17
- Oil subsidy for 2016-17 at Rs 270 billion, a decline of 11% from 2015-16
- Cess on domestic crude oil production changed from a fixed rate of Rs 4,500 per tonne to ad-valorem 20% of crude oil prices
- Gas production from deep-water, ultra-deep water and high pressure-high temperature areas to be incentivised by giving caliberated marketing freedom to gas produced from these difficult terrain but ceiling prices will be pegged to alternate fuels.

CRISIL Research's View

- Ad valorem cess on crude oil to improve realisations of upstream companies by $2/barrel and reduce government receipts by ~Rs 40 billion
- Addition of 15 milllion rural connections (equivalent to ~55% of rural connections added over the last five years) to boost LPG demand by an additional 3% on-year in FY17

- Budgeted subsidy of Rs 27,000 crore for petroleum products for FY17 to be sufficient to cover under-recovery in LPG and kerosene. Upstream companies to be spared from subsidy burdden, while downstream to share 3-5% of the burden.
- Proposal to grant marketing freedom for gas produced from difficult terrain is a step in the right direction. However, ceiling prices of gas based on alternate fuels, which are already under pressure, is unlikely to attract large investments

Power and renewable energy: Higher budgetary allocation to boost investments in T&D; halving of accelerated depreciation negative for renewable energy — Positive

Key budget proposals

- **Budgetary allocation:** Allocation to centrally-funded power distribution schemes (Deendayal Upadhyaya Gram Jyoti Yojana and Integrated Power Development Scheme) has increased by 85% to Rs 85 billion. Also, allocation to renewable energy for viability gap funding, preparation of requests for prequalification and any other central financial assistance has been increased by 65% to Rs 102 billion. Additionally, to augment nuclear power investments, Rs 30 billion is to be allocated annually over the next 15-20 years.
- **Duties and levies:** Clean energy cess on coal has been doubled to Rs 400 per tonne. Also, basic customs duty has been increased on industrial water heaters (10% vs 7.5%) and solar-tempered glass (5% vs nil). However, excise duty on solar lanterns was removed from 12.5% levied earlier.
- **Taxation**: Power transmission assets will be eligible for additional depreciation of 20% in the year of acquisition or commission, with effect from April 2017 will benefit both public and private transmission companies. However, for renewable energy projects, accelerated depreciation has been halved to 40%, effective from April 2017.

CRISIL Research's View

The budget reiterates the government's strong thrust on the power transmission & distribution and renewable energy. This is evident from the signifincant rise in budgetary allocation through various schemes and tax breaks, which will supplement recent reforms such as the Ujjwal Discom Assurance Yojana scheme, amendments to the National Tariff Policy and proposed Electricity Act. Timely implementation and effective monitoring, though, will be crucial.

While halving of accelerated depreciation will adversely impact additions in the wind and rooftop solar segments (as industrial and commercial consumers avail this to reduce cost), significant government thrust is expected to continue through central funding, facilitation in project execution and concessional duties & charges.

Real Estate: Affordable housing gets a shot in the arm; commercial realtors also benefit — Positive

Key budget proposals:

- Measures on affordable housing projects
  - Interest deduction limit under Sec 80EE increased from Rs 1 lakh to Rs 1.5 lakh for first-time home buyers (applicable only on loans not exceeding Rs 35 lakh for houses costing below Rs 50 lakh and sanctioned during April 1, 2016, to March 31, 2017) for the entire loan duration
  - Under the Pradhan Mantri Awas Yojana, 100% deduction on profits from housing projects approved between June 2016 and March 2019, and completed in three years of getting approval and satisfying the following conditions:

(sq mt)	4 Metros	Other cities
Maximum size of house	30	60
Minimum size of land parcel	1,000	2,000
Other	Within 25 km of municipal limit	

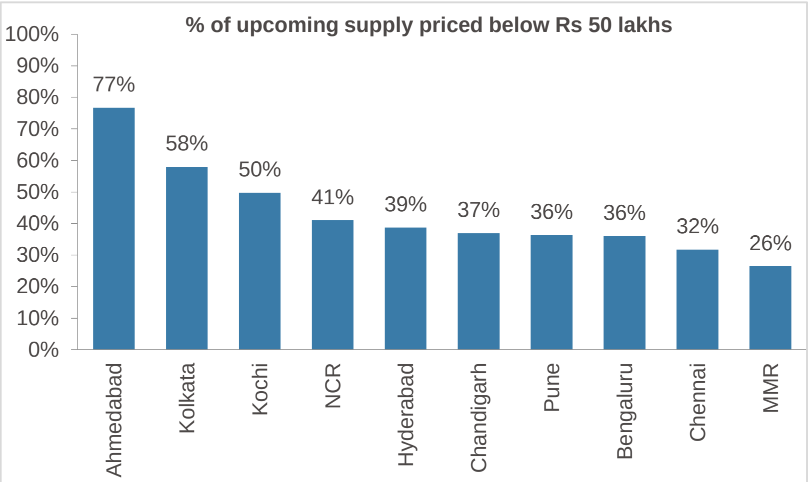
However, minimum alternate tax will apply.

- Service tax exemption on construction of affordable houses up to 60 square metres (646 sq ft) under any central or state government scheme, including public-private partnerships (PPPs)
- Phasing out of deductions allowed on capital expenditure (other than land, goodwill and financial assets) under Sec 35AD from 150% to 100% w.e.f. April 1, 2017, for affordable housing projects

- Exemption of dividend distribution tax (DDT) on distribution made by special purpose vehicles (SPVs) to real estate investment trusts (REITs)
- Revival of national land record digitisation scheme with a funding of Rs 1.5 billion
- 0.5% Krishi Kalyan Cess on all taxable services

CRISIL Research's View

- Boost to affordable housing - especially tier II and tier III cities
  - Affordable housing segment has received a shot in the arm with the abovementioned measures
  - Increase in interest deduction for first-time home buyers will boost demand for homes priced in that bracket. Currently, nearly 40% of the upcoming supply in the 10 major cities tracked by CRISIL Research is priced under Rs 50 lakh. Upcoming supply in this price bracket in tier II and tier III cities is expected to be even higher.



Source: CRISIL Research

  - However, the phasing out of deductions on capital expenditure will be a dampener to some extent.
- Removal of DDT for SPVs distributing income to REITs is a positive for developers with significant exposure to rental-yielding real estate assets
- Digitisation of land records will aid transparency in the real estate sector and help tap foreign capital inflows in the medium to long term
- Krishi Kalyan cess, applicable for under-construction projects, will hurt the industry marginally

Capital markets

Planning for old age – on the path for greater inclusion

Social security, especially retirement planning, has been a key agenda for Finance Minister Jaitley. In keeping with that, Union Budget 2016-17 focuses on two important metrics – penetration and sufficiency of corpus.

To bring parity between retirement funds in the country, the Budget has provided tax exemption of 40% of the pension wealth received by an employee from a product. This is a positive for the National Pension System (NPS) which was originally introduced with the objective of expanding pension coverage within the unorganised sector. To bring more people into the social security net, the government has decided to pay the Employee Pension Scheme (EPS) contribution of 8.33% for all new employees in Employees Provident Fund Organisation (EPFO) with salaries up to Rs 15,000 per month. This will incentivise employers to bring a larger number of people from the informal to the formal sector. On similar lines, the Budget has proposed to increase the tax benefit for employers contributing to recognised provident funds and superannuation funds from Rs 1 lakh to Rs 1.5 lakh per annum.

Further, as a small benefit, service tax has been exempted for annuity buyers from NPS and EPFO to increase payouts to pensioners.

The right intent to deepen capital markets

Developing the corporate bond market has been discussed for several years now, and the Budget lists the steps needed to deepen the bond market. Notable amongst them are proposals to transition bank borrowings to bond markets, introduce an electronic auction platform for primary offers and develop the corporate bond repo market. These measures are expected to increase transparency and liquidity, enhance price discovery and help establish a more efficient corporate bond market in the long term. The government is, however, yet to notify the details.

The government has proposed to set up a dedicated fund under Life Insurance Corporation of India (LIC) to enhance credit to infrastructure projects. This is expected to facilitate higher rated issuances by lower rating entities, which will help meet the investment criteria for several large institutional investors such as retirement funds, insurance companies and mutual funds. If successful, this initiative can lay the foundation for the entry of a larger number of institutions in the credit enhancement space.

The Budget also proposes to introduce a comprehensive code on resolution of financial firms which, together with the Insolvency and Bankruptcy Code 2015, will provide a resolution mechanism for the economy. A strong bankruptcy code has been a long-pending demand of investors. Such an initiative is expected to boost the confidence of local and global investors in India’s debt market.

The proposal to provide complete pass-through status to securitisation trusts and tax the income in the hands of the investor at applicable tax rates is expected to bring greater clarity on taxation of such products and likely to encourage investment. The measure may renew the interest of institutional investors in the securitisation market, especially mutual funds who were key investors in these products earlier.

The measure to encourage retail participation in government securities through trading platforms is expected to have a marginally positive effect on the fixed income market. Although this will add another investment avenue for retail investors, the potential for returns is limited compared with fixed deposits and other small savings schemes. Lower liquidity and mark-to-market risk are additional impediments.

The investment basket for foreign portfolio investors is proposed to be expanded to include unlisted debt securities and pass-through securities issued by securitisation special purpose vehicles. Besides increasing avenues available for foreign investors, this measure enhances the investor universe for such issuers.

Very little for mutual funds

Last year, the Budget announced tax exemption for merger or consolidation of mutual fund schemes. This year, the provision has been extended to cover consolidation of mutual fund plans within a scheme. This measure is expected to result in consolidation within plans of a mutual fund scheme and is consistent with Securities and Exchange Board of India's (SEBI's) guidelines for single plans.

Efforts to channelise physical gold savings to financial savings continue

In last year's Budget, the government announced the Sovereign Gold Bond Fund and the Gold Monetisation Scheme as measures for productive use. To increase the attractiveness of these schemes, this year's Budget proposes to exempt the interest earned and capital gains arising from these schemes. Further, long-term capital gains on transfer of sovereign gold bond will be eligible for indexation benefits. Although these are steps in the right direction, their efficacy, given the country's penchant for physical holdings, remains to be seen.

Our Capabilities

Making Markets Function Better

Economy and Industry Research

- Largest team of economy and industry research analysts in India
- Acknowledged premium, high quality research provider with track record spanning two decades
- 95% of India's commercial banking industry by asset base uses our industry research for credit decisions
- Coverage on 86 sectors: We provide analysis and forecast on key industry parameters including demand, supply, prices, investments and profitability, along with insightful opinions on emerging trends and impact of key events
- Research on sectors and clusters dominated by small and medium enterprises covering analysis of relative attractiveness, growth prospects and financial performance
- Special coverage on key sectors like Agriculture & NBFC providing opinion on the growth prospects, competitive scenario & attractiveness of these segments supported with analytical tools
- High-end customised research for many leading Indian and global corporates in areas such as market sizing, demand forecasting, project feasibility and entry strategy

Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 18,000 securities
- Largest provider of fixed income valuations in India
- Provide valuation for more than Rs.81 trillion (USD 1,275 billion) of Indian debt securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 37 standard indices and over 100 customised indices
- Ranking of Indian mutual fund schemes covering 75% of assets under management and Rs.9 trillion (USD 144 billion) by value
- Business review consultants to The Employees' Provident Fund Organisation (EPFO) and The National Pension System (NPS) Trust in monitoring performance of their fund managers

Equity and Company Research

- Assigned the first IPO grade in India; graded more than 100 IPOs till date
- Due Diligence and Valuation services across sectors; executed close to 100 valuation assignments
- Due Diligence, IPO Grading and Independent Equity Research for SME companies planning to list or already listed in NSE Emerge platform
- First research house to release exchange-commissioned equity research reports in India; covered 1,488 firms listed and traded on the National Stock Exchange

Executive Training

- Conducted 1200+ training programs on a wide spectrum of topics including credit, risk, retail finance, treasury, and corporate advisory; trained more than 24,000 professionals till date
- Training programs being conducted in India, Sri Lanka and Bangladesh through an extensive network of well-qualified financial professionals

Our Offices

Ahmedabad
Unit No. 706, 7th Floor
Venus Atlantis, Prahladnagar,
Satellite, Ahmedabad - 380015
India
Phone: +91 79 4024 4500
Fax: +91 79 4024 4520

Bengaluru
W - 101, 1st floor, Sunrise Chambers
22, Ulsoor Road, Bengaluru - 560042
India
Phone: +91 80 4244 5399
Fax: +91 80 4244 5300

Chennai
Thapar House, Mezzanine Floor
No. 37 Montieth Road, Egmore
Chennai - 600 008
India
Phone: +91 44 2854 6205 - 06/
+91 44 854 6093
Fax: +91 44 2854 7531

Gurgaon
CRISIL House
Plot No. 46, Sector 44
Opp PF Office, Gurgaon, Haryana
India
Phone: +91 0124 672 2000

Hyderabad
Uma Chambers, 3rd Floor
Plot No. 9&10, Nagarjuna Hills
Near Punjagutta Cross Road
Hyderabad - 500 082
India
Phone: +91 40 2335 8103/05
Fax: +91 40 2335 7507

Kolkata
Convergence Building
3rd Floor, D2/2, EPGP Block
Sector V, Salt Lake City
Kolkata - 700 091
India
Phone: +91 33 4011 8200
Fax: +91 33 4011 8250

Pune
1187/17, Ghole Road
Shivaji Nagar
Pune - 411 005
India
Phone: +91 20 4018 1900
Fax: +91 20 4018 1930

Stay Connected | Twitter | LinkedIn | YouTube | Facebook

CRISIL Limited
CRISIL House, Central Avenue
Hiranandani Business Park, Powai, Mumbai - 400 076. India
Phone: +91 22 3342 3000 | Fax: +91 22 3342 8088
www.crisil.com

CRISIL Ltd is a Standard & Poor's company