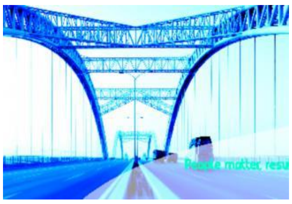
XMPUS™
Xmpus Financial Services LLP

ANALYSIS OF BUDGET 2016-17

Sectors Covered

Real Estate

Automobile



Infrastructure

Education

Financial Services

Healthcare

Introduction

Despite the urgency of the Modi government to 'Act' rather than 'contemplate' displayed by passing of ordinances during the first year of governance, the reservations raised by XMPUS during the budget report for 2015-16 proved correct as the Modi government is facing problems similar to the NDA government. The lack of majority in the Rajya Sabha proved fatal for the government to introduce major reforms like the GST bill in FY16. Similarly, external economic and social environment has had major impact on the implementation of budget and consolidation of economy.

Some of these major factors which need to be considered during budget 2016-17 are –

Fiscal deficit targets: The estimated fiscal deficit target for 2016-17 as per the last budget was about 3.5% of the GDP. Assuming a nominal growth of 11.5% in FY17 over an estimated GDP of Rs.141 lakh crore in FY16, the fiscal deficit in absolute terms translates to Rs.5.3 lakh crore for FY17 which is marginally less than the estimated Rs.5.6 lakh crore for FY16. However, with the expected increase in pay for the Government employees and the implementation of OROP scheme, the target seems more challenging for the year. Considering this, a mix of revenue amplification combined with correction in expenditure seems crucial to meet the fiscal deficit targets.

World Economic Scenario: The decline in oil prices has been a boon to the Indian economy. The sharp decline in oil prices has helped the Government in more than one ways. While spending on oil imports declined, the steady increase in excise duty on petrol and diesel has helped the Union Government to earn an additional gross revenue of up to Rs.59,000 crore in FY16. Moreover, additional Rs.30,000 crore was saved due to reduction in fuel subsidy allowing more finances for budgetary allocations. Unless the crude oil prices rise significantly over the USD 46 per barrel mark (which was the average import price for India in FY16), the Government may continue to derive this benefit.

Slowdown in investments and growth momentum: With an overall slowdown in the world economy, there has been a certain slowdown in investments in the country. Despite the Government promoting 'Make in India' campaign, the lack of investments has proven to be a major hindrance in the growth momentum. Though sizeable improvement in the execution of road and railway projects was seen, the impetus for private sector spending in the sector is lacking. However, Government allocation in the infrastructure sector has been sizeable with increase in allocation of budgetary funds for roads by Rs.1,40,300 crore and railways by

Rs.1,00,500 crore during the previous budget. Government spending and reforms have been crucial to the improvement seen in the sector in FY16. However, with the inclusion of the 'smart city campaign' much remains to be done in the sector pending which infrastructure allocation will continue to remain a crucial part of the current budget as well.

Concern over the banking system: There has been a 35.2% increase in the gross NPAs of 40 listed banks in the 9 months ended December 2015. The gross NPA amount has already crossed the Rs.2.4 lakh crore mark during this period with SBI accounting for 28% of these total NPA's. When combined with the large capital requirements to meet the Basel-III norms, the banking system will have to recover significantly from bad loans as well as raise capital in order to improve their solvency profile and support credit growth which is crucial to accelerate the economic growth. While most banks look up to additional provisioning for NPAs, RBI will have to come up with measures for the banks to address these problems so as to revive investor sentiments towards the sector. The Government's approach towards the banking system will be keenly awaited both in terms of allocations to curb the recapitalization issue and measures towards curbing the NPA rates.

Slowdown in the Agricultural Sector: Consecutive poor monsoons and subdued minimum support prices have dealt a heavy blow to the Agricultural sector which is one of the driving components on the Indian economy. Moreover, rural wage growth has not been able to keep up with the rising rural CPI inflation resulting in dampening of rural consumer demand. Budget allocation in the sector will be crucial for the overall development of the economy. Also, the Government approach and road-map in the sector will be clear depending on its budget allotment to generate agricultural infrastructure, provide social security to farmers or to mitigate produce related risks.

Financial Inclusion: The Government has come up with new innovative schemes for inclusion of majority of the Indian population in the financial domain. The Pradhan Mantri Jan Dhan Yojana facilitates the households who do not possess a bank account to open a zero savings account. Some of the other benefits garnishing the scheme include the Rupay Debit card and special Rupay credit card, an easy loan option, life insurance cover of up to Rs.30,000, an overdraft limit of Rs.5,000 activated after 6 months, etc. Other measures launched under the scheme include Pradhan Mantri Suraksha Bima Yojna which covers accidental death/disability risk of Rs.2 lakh for a premium of just Rs.12 per year and Pradhan Mantri Jeevan Jyoti Bima Yojana which covers both natural and accidental death risk of Rs.2 lakhs. Under the scheme, over 21 Crore accounts with overall deposit of Rs.33,075 crore have been opened. Moreover, about 9.37 Crore Suraksha Bima Policies and 2.95 Crore Jeevan Jyoti Bima Policies have been availed. The schemes have helped improve financial visibility in the domains which were previously not accounted for contributing to the overall GDP of the country. Also, the financial movement seen in the domain will help the rural population which previously had to resort to local money lenders. The availability of easy loans and borrowings from banks may help in development amongst the domain.

Reduction in subsidy leakages: The Government's initiatives towards direct transfer of subsidy to the intended beneficiaries has shown wide-scale success over the past year as a part of the Government's Jan Dhan Yojana. Accordingly, Direct Benefit Transfer (DBT) for kerosene has been introduced in 26 districts from January 2016, intended at reducing widespread leakage of subsidized kerosene which is used to adulterate higher priced automobile fuels. The project will be monitored for three months after which reviewed and implemented on a larger scale. Similarly, termination of LPG subsidy for high income household will also help provide a further cushion for budgetary allocations.

Implementation of Goods and Services Tax (GST): One of the major tax regime changes to be implemented in the current era is the implementation of GST which is under debate in the Rajya Sabha. While the introduction of GST will not be possible on the set date of April 2016, the Government is certainly expected to impose certain reforms as a step towards the implementation of the tax. Moreover, as a part of phased reduction in corporate taxes from 30% to 25% by April 2019, the Government may introduce a minor reduction in corporate tax during Budget 2017.

Expectation from the Budget 2016-17

Despite hurdles in passage of Bills, the Government has been successful in instilling its propaganda for fiscal consolidation and economic growth. With the current economic scenario, it will be challenge for the Government to continue with its plan, drafted during the last budget and take a further step in the same direction.

According to XMPUS, Budget 2016-17 is expected to address three major scenarios for the Indian economy.

1. Fiscal consolidation and growth despite current economic scenario

2. Development of the underprivileged within India
3. Expectations from corporate India to address their growing worries

The following portion of the report presents XMPUS' views on budgetary allocations and alterations in certain sectors based on Mr. Arun Jaitley's budget announcement on February 29, 2016.

Overall Budget Analysis

The Government has addressed two of the three expectations. While fiscal consolidation will continue to remain on track with no revision in current deficit targets which will be maintained at 3.5%, the Government has focussed more on the upliftment of the underprivileged. The corporates will be disappointed due to lack of impetus towards reviving the sluggishness in the industry. Most corporates expected the budget to bring in traction in their respective fields given the low demand scenario and lack of investments over the world. However, barring infrastructure, no special focus is seen to be given in any particular industry.

The Government has especially emphasized on agriculture, farmers and low income individuals as well as on members of Scheduled Tribes and Castes and women who have all been provided with greater entrepreneurial opportunities. While the rural India has received grants and reforms, many noteworthy sector including textile, steel and shipbuilding have been left out of the budget.

Agriculture and farmers' welfare were emphasized and allocated Rs.35,984 crore to ensure reforms and growth in the sector while ensuring the welfare of the farmers. Accordingly, irrigation has been prioritized as 28.5 lakh hectares of cultivated land will be brought under irrigation. A dedicated long term fund will be created in NABARD with an initial corpus of about Rs.20,000 crore. Similarly, programs for sustainable management of ground water, undertaking of construction of farm ponds, dug well and compost pits for production of organic manure, coverage of 14 crore farm holdings through Soil Health Card by March 2017, soil and seed testing facilities, implementation of '*Parmparagat Krishi Vikas Yojana*' and 'Organic Value Chain Development in North East Region' for promotion of organic farming, common e-Farming platform, etc. will further help the sector. The Government has also made allocations for rural road development and Prime Minister Fasal Bima Yojana, made provisions to reduce the burden of loan repayment on farmers towards interest subvention, etc.

The Rural sector was allocated funds of Rs.87,765 crore. Additional grant of Rs.2.87 crore will be given to Gram Panchayats and Municipalities. Amongst other allocations and reforms in the sector, the Government has also promised 100% rural electrification by May 1, 2018.

The budget also emphasized some changes in tax regimes. New manufacturing companies incorporated on or after March 1, 2016 will be given an option to be taxed at 25% plus surcharge and cess, lower corporate tax rate of 29% plus surcharge plus cess was announced for corporates with a turnover of Rs.5 crore or less. Similarly, reforms to encourage pensions, affordable housing and clean environment were also cited.

The budget gave due importance to rationalize the taxation policies. The continued efforts are being made to bring majority population under taxation by allowing disclosure of undisclosed income, with a levy of 45% tax on such income. Moreover, 13 cesses levied by various ministries, in which the collection is less than Rs.50 crore in a year, were sentenced to be abolished.

Sectoral impact of budget on various sectors is given in the following report.

Budget Analysis for Real Estate Sector

Industry Scenario:

Real estate sector has huge multiplier effect on the economy and therefore plays an important role in the growth of the Indian economy. It contributes around 6-7% to the GDP of India and it is also one of the highest employment generating sectors. The real estate sector comprises of four sub sectors –housing, retail, hospitality and commercial. The growth of this sector depends on the growth of corporate environment and demand for office space as well as urban and semi-urban accommodations.

XMPUS's Pre-Budget View:

With muted investment environment along with real estate being in negative list of many financial institution, the real estate industry had a difficult past one year. Besides, getting choked for loan, industry is also facing sluggish demand, high inventory and delay in projects. With lower number of new project launches, consumer courts adopting harsh measures towards developers for delaying the projects and pro buyer real estate bill in pipeline, real estate industry requires strong budgetary push to kick start the enthusiasm back in the industry as seen last in 2006-07.

Expectations from Budget 2016-17:

The Sector, reeling under pressure needs significant push in terms of project approvals, taxation policies, industry status etc. Also, if the Government wants to achieve its mission of 'Housing for All by 2020", easy financing options should be made available to developers and tax benefits should be given to boost affordable housing segment

Favourable policy developments expected in the union budget 2016-17 which will aid in having access to cheaper funds, faster clearances of approvals, revamp demand in the industry etc. are as follows:

- Increase in allocation towards affordable housing
- To improve affordability for the buyers in the residential housing segment, increased tax benefit on interest on home loans and increased 80C limit for home loan repayment
- To make REIT attractive for the developers / sponsors as well as investors, removal of long term capital gain & dividend distribution tax in case of REIT funds

- Relaxation of MAT & DDT for SEZ
- To expedite the implementation of the projects, introduction of Single window clearance system for project approvals
- To encourage higher participation of Real Estate Developers, lower interest rates should be allowed for affordable housing segments
- Clarity on the ‘100 smart cities’ concept and budget to be allocated for each smart city.

Proposals under Budget 2016-17:

Budget Proposals	Impact on the Industry
100% deduction of profits to an undertaking in housing projects for flats upto 30 sq. meters in four metro cities and 60 sq. meters in other cities approved during June 2016 to March 2019 and completed in three years of the approval.	**Positive:** It will benefit the real estate player specialising in low cost housing scheme and would also encourage new player to enter into low cost housing segment. It will also create considerable employment opportunities
Deduction of additional interest of Rs.50,000 per annum for loans up to Rs.35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs.50 lakhs Raise in ceiling of tax rebate under section 87A from Rs.2, 000 to Rs.5, 000.	**Positive:** Increase in disposable income and direct benefits on interest on housing loan augurs well for real estate industry, as it will help to increase demand.
Removal of Dividend distribution tax in respect of dividend distributed out of income of SPV of REITs and INVITs	**Positive for the investors and developers:** It makes the REIT more attractive for the investors. Thus, making available long term finance to developers
Exempt service tax on construction of affordable houses upto 60 sq. mtrs under any scheme of central or state government including PPP schemes.	**Positive for buyers:** It will lower the total purchase cost of property for buyers
Exempted excise duty on Ready mix concrete	**Positive for the developers:** It will lower the overall construction cost of the project

XMPUS Conclusion:

Overall, budget 2016-17 was positive for the real estate sector. In line with its mission of "Providing affordable housing for all by 2020", Finance Minister has focussed more on developing the affordable housing or low cost housing segment by way of incentives to the developers engaged in this segment. Further, budget also provided incentives in form of tax deductions, which will help to revive demand in the sector. However, impact of passage of real estate bill in the coming period will have a major structural change for real estate sector.

Budget Analysis for Infrastructure Sector

Industry Scenario:

Infrastructure sector includes development of power, roads, bridges, railways, airports, ports and urban & rural infrastructure. Sector being a key driver of economic development in the developing country like India, it remains one of the most focus area for NDA government in terms of initiating policies. Infrastructure sector is on an early path to recovery, after a long slowdown which was caused by challenging bidding process, policy paralysis, delays in getting clearances, higher raw material expenses, higher interest rates and levered Balance sheet.

NDA government is trying hard to ease the regulatory environment and revive the stalled projects. Government has also expedited process of awarding new projects and exploring a gamut of financing avenues for infra projects. Also, in last one year, NDA government has announced crucial programs such as 'Housing for All', Smart City', 'Make in India', and 'AMRUT' which will help to achieve robust growth of infrastructure in coming years.

However, despite above efforts of the government, infrastructure sector is struggling because of leveraged balance sheets of private EPC players, funds stuck in the stalled projects, environmental clearances and land acquisition hurdles, lack of cheaper financing options etc.

XMPUS's Pre-Budget View:

XMPUS believes, efforts of the NDA government in infrastructure have strengthened over the last couple of years and further impetus would be provided to the sector in the coming budgets as it is the foundation of the future economic growth of the country. XMPUS also expects the government to allocate higher funds to infrastructure sector by taking benefit of the huge saving from subsidies on oil bill due to recent crash in oil prices. Given the infrastructure companies depends mainly on bank finance and banks facing large NPA issues, government's strategy to revive private sector investments with innovative method of funding will be a major factor to be seen in the budget.

Expectations from Budget 2016-17:

Industry is expecting a detailed execution framework on the various initiatives announced in past one year by the government and higher budget allocations towards each of them. Further, the industry also expects a roadmap to revive the PPP space. Following were the expectations from the NDA government to boost the growth in infrastructure sector:

- Increase in allocation towards critical infrastructure schemes/projects in defence, roads, railways and ports sector
- Exemption from MAT under 80IA for infrastructure projects
- Higher budget allocation for the road sector from Rs.45,000 crore to Rs.60,000 to 65,000 crore
- Abolishment/reduction in MAT for road developers
- Abolition of DDT/CDT for Infrastructure company
- Measures to improve the speed of execution of existing projects in roads, railways, ports and urban infrastructure sector
- Measures to attract private sector investments by simplifying policies and providing incentives in form of:
  - ✓ Extension of tax holidays
  - ✓ Exemption from MAT under 80IA for Infrastructure projects
  - ✓ Allowing higher depreciation and import duty exemption for purchase of capital equipment
  - ✓ Coverage of projects involving up gradation of existing infrastructure under 80IA

Proposals under Budget 2016-17:

Budget Proposals	Impact on the Industry
• Allocation of Rs.55,000 crore for Roads and Highways, which will further topped up by additional Rs.15,000 crore to be raised by NHAI through bonds. • Allocation of additional Rs.27,000 crore towards Pradhan Mantri Gram Sadak Yojana (PMGSY) • Plans to approve nearly 10,000 kms of National Highways and upgradation of	**Positive for the road sector:** Higher allocations will strengthen the roads and highways infrastructure in India, which is one of the major hurdle in India's growth story. It will in turn definitely help boost trade and encourage investments in various industries.

Budget Proposals	Impact on the Industry
nearly 50,000 kms of state highways as National Highways. - Amendments to Motors Vehicle Act to open the road transport sector in the passenger segment - Allocation of Rs.4000 crore in National Investment and Infrastructure fund	Further, amendment to open road transport sector in the passenger segment, will be benefiting the general public in form of more efficient public transport facilities, greater public convenience, creation of new jobs etc.
- Plans to develop new Greenfield ports both in eastern and western coasts of the country. Allocations of Rs.800 crore has been made for these initiatives	**Positive for the port sector:** It will help to increase capacity to handle trade with the other countries.
- Proposals to provide calibrated marketing freedom in order to incentivise gas production from deep water, ultra-deep water and high pressure high temperature areas	**Positive:** India is blessed with rich natural resources including oil and gas. However, their discovery and exploitation has been below our potential. **These initiative will help India to achieve self-sufficiency and consequent decline in imports**
- Comprehensive plan to augment the investment in nuclear power generation spanning next 15 to 20 years. Budgetary allocation of Rs.3000 crore per annum has been made for these purpose	**Positive for power sector:** It will be helpful to meet the growing power demand of the country. It will help to diversify sources of power generation for long term stability of the sector.
- Announced steps to re-vitalize PPPs like plans to introduce public utility (Resolution of disputes) bill, guidelines for renegotiation of PPP concession agreements, plans to introduce new credit rating system for infrastructure projects - Infrastructure projects will be helped by LIC of India to provide credit enhancement by setting up a dedicated	**Positive:** Private sector plays an important role in development of infrastructure, many of which are implemented in the Public Private Partnership mode. These new initiatives will help to boost confidence and revive the investments from private players.

Budget Proposals	Impact on the Industry
fund, for which guidelines will be issued by RBI and private placement market for bonds will be developed by SEBI.	
Allocation of Rs.8500 crore to Deendayal Upadhyaya Gram Jyoti yojana and Integrated power development scheme	**Positive:** Allocations will be helpful to provide continuous power supply in rural areas.

XMPUS Conclusion:

Government’s clear intention to focus on growth of infrastructure sector can be seen in the budget 2016-17. Finance Minister has announced plenty of policies to develop infrastructure like roads, highways, airports, ports, power in rural and urban areas, which is a need of hour to achieve higher economic growth. Further, budget announced an introduction of new credit rating system for infrastructure projects, which will be big boost as it will provide new funding option to the sector.

Budget analysis on Banking and Finance sector

Industry scenario:

With prompt action and decision by RBI, the financial system of India is well formulated to decouple from the global turmoil with India still showing healthy pace of growth with high foreign investment. As per Reserve Bank of India, the financial and economic conditions in the country is robust than any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. Further, Indian capital markets specially - equity markets are well deepened and functioned.
RBI has been able to implement various measures to control the adverse conditions in the economy in the form of corporate debt restricting scheme, SARFAESI, 5/25 scheme for infrastructure loans, enough capital liquidity measures like CRR, SLR, etc.
Despite all the precautions and measures taken by RBI, in past few years, the banking system of India majorly PSU banks are facing challenges in controlling the loan assets quality especially in long term lending due to policy paralysis, delay in clearance, archaic credit appraisal process (which rely on collateral than cash flow), etc., Hence in recent months, many PSU banks have recognized huge assets as non-performing assets (NPA) and provided higher provisions in the accounts. Although this is a right approach towards clearing the past mistakes by banks and financial institutions, they need substantial capital infusion to support the future credit growth a must for India to continue growing at 6-7 %.

XMPUS Pre-Budget Views:

XMPUS believes, Indian financial system is lagging in secondary debt market for funding, hence various industries are dependent on bank source for financing the capital and operating projects. Further, with large NPA and /or stressed assets coming on books of banks/financial institutions, financial market needs more innovative and clear policies/rule to recover its bad debts. XMPUS believes that RBI alone cannot keep the state of Indian banks /FI in good health and government has to come up with additional capital in PSU banks and has to enact/create environment for other than bank participation for lending of long gestation infra projects.

Expectations from Budget 2016-17:

- To augment the capital of PSU banks, it was expected that the Government will propose measures to infuse additional funds in the banks.
- Further, to improve the recovery mechanism of stressed assets, it was expected that the government will propose measures related to the same.
- Specific exemption be granted from the applicability of MAT provision on conversion by foreign banks of their branches in to Indian subsidiary companies.
- TDS on the income of banks cause considerable inconvenience in view of huge volumes of TDS certificates to be collected by banks for commission received on cross selling etc. Since TDS is only a means of advance collection of tax and banks pay advance tax, it is recommended that banks be granted exemption from TDS under section 196 of the Act.

Union Budget 2016-17 proposal:

Budget Proposal	XMPUS view on its impact on the industry
Introduction of Bill related to Code on Resolution of Financial Firms during FY17 in parliament.	**Positive:** Proposed bill is expected to provide specialized resolution mechanism to deal with bankruptcy situations. This code when enacted together will Insolvency and Bankruptcy Code 2015, when enacted, will provide a comprehensive resolution mechanism for Indian economy.
Setting up of Financial Data Management Centre under the aegis of financial Stability Development Council (FSDC).	**Positive:** This will facilitate integrated data aggregation and analysis in the financial sector resulting to improved benchmarking.
Allocation of Rs. 25,000 crore towards recapitalisation of public sector banks.	**Positive:** Allocation of funds towards capitalization of PSU banks will boost the confidence of the investors as well as ensure the future requirement of the credit growth.
Propose to make amendments in the SARFAESI Act to enable sponsor of an Asset Reconstruction Company to hold up to 100%	**Positive:** Proposed amendments will result in faster disposal and realisation of repossessed

Budget Proposal	XMPUS view on its impact on the industry
in ARC and permit non-institutional investors to invest in Securitization receipts.	assets thereby resulting to higher recovery than before.
Amendment in RBI Act 1934, providing monetary policy and framework and monetary policy committee.	**Positive:** Committee based working will ensure balance decision making meeting the objectives of the Government and RBI.
Proposal to develop new derivative products by SEBI in the Commodity derivatives market.	**Positive:** New derivative products will improve the depth of the derivative market thereby reducing the volatility and improving the stability of the same.
Proposal to increase target sanctioned amount under Pradhan Mantri Mudra Yojana to Rs. 1,80,000 crore.	**Positive:** Enhanced amount under Mudra Yojana will ensure higher disbursements under microfinance segment thereby improving the future prospect for MFIs. Further, higher funds will facilitate the availability of funds to higher number of small borrowers building strong base of economic activity.
Amending SEBI Act, 1992 to provide more members and benches of the securities.	This will ensure effective and speedy completion of cases.
Developing Comprehensive Central legislation in 2016-17.	Such proposal will ensure actions against menace of illicit deposit schemes like Sahara case, Saradha case, etc.
Disinvestment of General Insurance companies by listing in the stock exchanges.	**Positive:** Disinvestment will result in to higher private involvement in the management thereby improving the efficiency and returns from the Companies.
Proposal to facilitate retail participation in government securities.	**Positive:** Retail participation in government securities will ensure transparency, better benchmarking, better valuation, etc.
Various proposals are made to deepen the corporate bond markets like setting up of dedicated fund under LIC to provide credit	Also proposals are made to will promote and motivate raising funds through

Budget Proposal	XMPUS view on its impact on the industry
enhancement to infrastructure projects, encouraging large borrowers to access financing through market mechanism, expansion of investment basket of foreign portfolio, electronic auction platform, development of complete information repository, framework for an electronic platform for repo market in corporate bonds	corporate/infrastructure bonds providing secondary market access to long gestation infra projects

XMPUS Conclusion:

Overall budget proposal for Banking and finance sector has been positive focusing on deepening of the financial markets, improving the recovery mechanism, providing support to PSU Banks, etc. Given huge amount of NPA and stress assets in the books, aid of Rs.25,000 may not be adequate.

Further, the stake sale proposal of IDBI to below 50% will open the door for future disinvestment in the banking sector where government is holding more than 51% stake.

Budget Analysis for Automobile Sector

Industry Scenario:

India produced 23.36 million vehicles during FY15 out of which two-wheelers constituted around 81% followed by passenger vehicles at 13% and commercial vehicles and 3-wheelers at 3% each. Annual production grew at CAGR of 11% from FY10 to FY15 majorly fueled by growth in 2-wheelers and passenger vehicles. However, commercial vehicles experienced compounded de-growth of around 9% for past three years till FY15. Manufacturing facilities are primarily located at Chennai (35% share), Pune, Nashik and Aurangabad (33%) and Gurgaon and Manesar (32%).

The sector plays viral role for Indian economy, directly and indirectly, contributing to 7% of overall GDP, around 49% to manufacturing GDP and around 4%-5% to overall exports. With growing consumable income and urbanization, middle income groups are on rise facilitating huge growth opportunities in the sector. Accordingly, it is expected to grow at CAGR of 15% to $300 billion by 2026 from $74 billion in 2014.

The sector is facing difficulties with pollution control measures taken by states of India. Recently, Delhi banned diesel cars with engine capacity of more than 2 litres. Further, Government is planning to upgrade the fuel directly to BS-VI grade by skipping BS-V grade fuel by 2023. However, the auto players and oil refineries are contemplating difficulties in funding the required technological change in the auto engines and refining process respectively.

Due to below normal monsoon for 2 years and overall decline in industrial activity majorly mining, commercial vehicle market has experienced de-growth in the production.

XMPUS Pre-Budget view:

XMPUS believes, that declining interest rates, low oil prices and reduced inflation, resulted in to higher consumable income facilitating higher demand for vehicles in past 2 years. However, retaining this growth rate in future will require support in the form of overall economic improvement.

In our view, in line with developed economies which have domestic manufacturing setup, India has huge opportunity to align its Make in India Initiative with more domestic manufacturing of automobile. Hence, Government of India shall focus on making favorable environment to promote integrated manufacturing given immense domestic and export opportunities coupled with significant contribution of auto sector to employment and GDP.

Expectations from Budget 2016-17

- Currently, there is differential excise duty for small cars (below 4 meters in length at 12.5%) and bigger cars (above 4 meters in length – ranging from 24% to 30%). To promote production of bigger cars, sector demanded reduction in excise duty to 20%.
- Currently, there is no differentiation in excise duty on petrol and diesel cars and thus with fuel price difference narrowing, it was expected that rebate on excise duty would be provided for petrol cars to further promote the same.
- With BS-IV expected to be compliant till April 2017, it was expected that incentive scheme for scrapping of old cars will be introduced which are not even BS-III compliant.
- To boost the investment in electric cars, introduction of subsidy was expected.
- Government was expected to propose related measure to promote manufacturing of value added products in auto sector.

Proposal under Budget 2016-17:

Budget Proposal	XMPUS view on its impact on the Industry
Proposal to levy infrastructure cess of 1% on small petrol, LPG, CNG cars; 2.5% on diesel cars up to 1500 cc capacity and 4% on higher engine capacity vehicles and SUVs.	**Negative:** On the contrary to demand for reduction in excise duty on smaller cars, the additional excise duty on vehicles will increase the cost of vehicle by around 1-4%. This is expected to adversely affect commercial segment, which is already in downturn.
Proposal to deduct 1% tax at source on purchase of luxury cars exceeding value of Rs.10 lakh.	**Negative:** Deducting 1% tax at source will increase the cost to the final buyer. Also base limit for imposing tax collection is

Budget Proposal	XMPUS view on its impact on the Industry
	kept low affecting higher base of the consumers.
Reduction in basic customs duty on aluminum oxide for manufacture of Wash Coats,	**Positive:** Reduction in basic customs duty will reduce the import cost of the required raw material.
Proposal to change in classification of HV engine thereby reducing the excise duty from 12.5% to 6%.	**Positive:** Reduction in excise duty on hybrid vehicle will reduce the end cost thereby promoting its usage
Positive proposals for Rural development, agriculture and farmer's welfare like development of Rurban clusters, dedicated irrigation funds, Rashtriya Gram Swaraj Abhiyan, Digital literacy mission, etc.	**Positive:** Various measures proposed in the current budget were pro-farmer and towards rural development. Further, it is aimed to double the farmer's income by 2020. Such proposals are expected to improve the consumable income of farmers and rural population resulting to improvement in demand for farm equipment/ tractors.

XMPUS conclusion:

Current budget proposals have direct as well as indirect impact on the automobile sector of India. Direct proposals are expected to increase the cost of vehicles due to levy of additional excise duty. Further, objective to promote hybrid vehicles is clear from the reduction in excise duty on the hybrid vehicle engines.

Indirectly, the overall budget is favourable towards rural development and increasing the income levels of farmers. As automobile segment is considerable reflection of overall Indian economy, upliftment of major population of India (rural population) augurs well for the automobile sector. However, successful implementation and execution of such measures becomes vital and it is also a long term process. Hence, the quantum of benefit to the automobile sector is highly dependent on the success of such measures.

Budget Analysis for Education Sector

Industry scenario:

Education sector of India is the largest in the world with 30.1million students and around 48000 colleges and institutions. In terms of market size, higher education contributes 59.7 per cent of the market size, school education 38.1 per cent, pre-school segment 1.6 per cent, and technology and multi-media the remaining 0.6 per cent. Education sector is estimated to reach $144 billion in 2020 from $100 billion in 2015 in terms of market size. Growth is backed by huge opportunity in the sector given low gross enrolment ratio of 20% in higher education against targeted 30% by 2020.

However, still there are many challenges to overcome in the education sector to meet the future requirement and support growth of Indian economy –

- Primarily, there is huge shortage of number of universities as India has 722 universities against recommendation of 1500 universities by National Knowledge Commission.
- Another challenge that confronts India is in the disparities in access to education, especially in terms of economic class, gender and caste especially the difference is huge between urban and rural area.
- Further, the regulated education institutions need to be registered as not for profit organisation proving inefficient due to lack of transparency and existence of political linkages thereby hampering the foreign investment in the sector
- Also, more of the investment is done at higher education levels by which primary education facing the neglect of investments to improve the quality of education. Quality of education has been serious problem with respect to physical infrastructure, strength of syllabus, competence and availability of faculty, etc.
- Insufficient funding in research and development activities has resulted in to brain drain of professors to foreign universities.

XMPUS Pre-Budget Views:

XMPUS believes that many of Government initiatives can be only materialised when Indian education improves to a level from “education to all” to “education to all for employment”.

With lack of basic infrastructure, quality teachers, practical training, scope of improvement in education sector is huge. However, with limited funding availability from the government, it shall thrive to propose innovative public private partnership model motivating private investments at universities level. Further, we believe another prime focus should be overall improvement in academic quality coupled and collaboration with global educational institutes which can build a strong base for various other initiatives of the Government.

Expectations from Budget 2016-17

- As higher education segment is facing huge challenges, the sector expected various proposals to promote capital additions and quality improvement in this sector –
    - Expedition of launch of National Mission for faculty development and provide tax relief for spending and capacity development and training of staff.
    - Tax reliefs for skill development centres, fresh investments in higher educational institutions, education fees, etc.
- To enhance the education quality and increase the capacity of the existing institutions, it was expected that Budget would involve proposal to set up new specialized research and training activities with focus on areas such as standardized assessments, school leaderships, early literacy, etc.
- Given low public allocation and lack of motivation form private investment on account of non-profit nature, there is overall shortage of funds for the sector. Hence, it was expected that government shall propose initiatives to boost private investment.

Union Budget 2016-17 proposal:

Budget Proposal	XMPUS view on its impact on the industry
Increased allocation by Rs.500 crore to Rs.22,500 crore under Sarva Shiksha Abhiyan to improve the quality of education.	**Positive:** Increased funding will provide boost in an effort to improve quality of education at grass root levels. However, a clear road map towards the same is awaited.
Setting up of Higher Education Financing Agency (HEFA) with initial capital base of Rs. 1,000 crore for improvement in infrastructure of top institutions.	Further, separate creation of financing agency will facilitate easy availability of funds to improve infrastructure at higher education level.
62 new Navodaya Vidyalayas will be opened in the remaining uncovered districts over the next two years.	**Positive:** Addition of Navodaya Vidyalayas will facilitate spreading of education to rural sector along with finding the capable talent.

Budget Proposal	XMPUS view on its impact on the industry
	Further such schemes held to reduce the education divide across economic segment.
Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions.	**Positive:** Regulatory architecture will provide long term guidance to the sector in building top class teaching and research institutions.
Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.	**Positive:** Digital depository will streamline the data base of the education sector facilitating easy data and efficient mining analysis, data retrieval and long data life.
Allocation for skill development – Rs. 1,700 crore and proposed setting up of 1,500 Multi Skill Training Institutes.	**Positive:** Since last two budgets, we are observing continuous dedication of the Government towards skill development. During this year also, it has proposed additional fund of Rs. 1,700 crore which will ensure funds availability to meet the objective. Further, the proposed certification of such skill development courses will improve credibility of skilled labour ensuring higher chances of employment.
Setting up of National Board for Skill Development Certification in partnership with the industry and academia and scale up Pradhan Mantri Kaushal Vikas Yojna to skill one crore youth over next three years.	
Entrepreneurship Education and Training through Massive Open Online Courses to be provided to 2200 colleges, 300 schools, 500 Government ITIs and 50 vocational training centres.	

XMPUS Conclusion:

Overall, the education budget was focused towards improving the quality of education, spreading the education to rural sector and facilitating skill development. Though the government has allocated higher amount towards Sarva Shikhsha Abhiyan, road map for improving the education quality is not yet clear.

Further, the budget proposal has not focused on prime challenge - to improve the gross enrolment ratio. Besides, sector expectation towards faculty development, measures to motivate foreign investment also did not get mention in the budget.

Education is vital segment supporting the growth of Indian economy, hence it will have special attention by the Government. In long term, the government shall endeavour to reduce the rural urban divide by promoting quality education in the rural areas, promote foreign investment in the sector and imbibe practical learning in the regular academic's curriculum.

Budget Analysis for Healthcare Sector

Industry Scenario:

The overall Indian Healthcare market today is worth about USD 100 billion and is expected to grow at a Compounded Annual Growth Rate of 22.9% to USD 280 billion by 2020. However, about 74% of the country's healthcare expenditure is benefitted to the private sector leaving much scope for improvement in the public sector. The public healthcare system comprises limited secondary and tertiary healthcare institutions in key cities and basic primary healthcare centres (PHCs) in rural areas which comprise above 70% of the Indian population leaving much scope for improvement in the sector.

In FY13, Indian Public healthcare spending comprised only about 1.3% of its GDP as against China's 3% and US spending 8.1% of its GDP on healthcare. Private sector expenditure to healthcare comprised about 3% of the GDP. In the last budget, allocation to public healthcare formed only about 1.2% of the GDP despite major reforms in the sector promised by the Modi Government. The Government aimed for State Governments to spare funds from their own budgets for further expenditure in the sector.

While, the budget allocation of Rs.33,152 Crore was comparable to previous years, it was fairly modest given the aggressive plans announced in the sector by the Government and when compared to the GDP growth.

While the National Health Mission plan is showing considerably slow progress given the high corpus required for its implementation, the Modi Government instead focused on providing easier insurance to maximum population through the private sector reducing the burden on the budget. However, the rural population will still require major developments in the healthcare sector to avail the necessary healthcare facilities.

XMPUS Pre-budget view:

An Indian family has traditionally been a closed unit supporting each other financially. However, with the recent shift to nuclear families the access to financial support in times of emergency has become a challenge. Accordingly, healthcare has been statistically proven to be the biggest reason for decline in the financial status of a family due to the lack of medical insurance in the country. Accordingly, XMPUS expects major reforms in the sector to widen the reach of medical insurance especially in rural India.

Moreover, the demand-supply gap in both healthcare infrastructures as well as professionals in huge in the country. Sufficient measures are expected in these terms for development of the healthcare sector. XMPUS believes that affordable medical facilities with widened reach and accessibility will the focus of the Government for the sector.

Expectations from Budget 2016-17:

Popular opinion in the sector demands the development of skillset for which quality institutions need to be developed to churn out skilled professionals in the sector. India lacks both in its number of medical professionals as well as nurses per individuals when compared to other countries. The Government has already shown an understanding of this need and has introduced various institutes in the sector. Some of the expectations in the sector include,

- Greater provisioning for the National Health Mission programme
- Incentives for voluntary organ donors with a view to encourage organ donation
- Mandatory health insurance coverage for every employee
- Subsidized medical insurance premium for senior citizens up to Rs.50,000 per annum
- Service tax exemption on health and mediclaim insurance premium, service and maintenance contracts for medical equipment, input services in cancer treatment, and healthcare education and training services
- Direct Tax incentives:
  - ✓ Tax exemption on Preventive Health check-up should be raised u/s 80D
  - ✓ Increase in limit for health insurance policies u/s 80D be enhanced to Rs 50,000
  - ✓ Increase in Tax holiday up to 10 years u/s 80-IB for private healthcare providers in non-metros for min. of 50 bed hospitals instead of 100
  - ✓ Income Tax/ MAT exemption for at least 15 years for domestically Manufactured Medical Technology products
  - ✓ 100 % deduction on approved expenditure incurred for securing accreditation from National Accreditation Board for Hospitals and Healthcare Providers (NABH) and National Accreditation Board for Testing and Calibration of Laboratories (NABL).
  - ✓ Financial incentives/grants for implementation of Electronic Health Record
  - ✓ Amendment in law to provide that any sum paid by the employer for medical treatment of the employee or a member of his family is exempt from tax if the treatment is in an

institution which is empanelled with any registered health insurance company in India as a provider of health insurance

- ✓ Healthcare sector should be exempt from Minimum Alternate Tax

Proposals under Budget 2016-17:

Budget Proposal	XMPUS view on its impact on the industry
New health protection scheme will provide health cover up to Rs.1 lakh per family. For senior citizens an additional top-up package up to Rs.30,000 will be provided	**Positive:** Given the low insurance coverage in the healthcare sector in India, healthcare expenses form one of the major reasons for the disposable family income to fall below the BPL. The increased health cover will help families to deal with this difficulty improving their overall social standing
3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17	**Positive:** The move is directed towards making available affordable quality medicine which will help improve general public health
'National Dialysis Services Programme' to be started under National Health Mission through PPP mode	**Positive:** About 2.2 lakh new patients of End Stage Renal Disease get added in India every year resulting in additional demand for 3.4 crore dialysis sessions. With around 4,950 dialysis centres in India there exists a huge demand supply gap. Moreover, the per session cost for dialysis is about Rs.2,000 besides the other affiliated expenses. The programme will procure funds through the PPP model under the National Health Mission and dialysis will be provided in district hospitals to

Budget Proposal	XMPUS view on its impact on the industry
	ensure low cost and timely sessions for the affected individuals.
Proposal to amend section 35 of the Income-tax Act so as to reduce the weighted deduction under section 35(1)(ii), 35 (2AA) and 35 (2AB) to 150% from the financial year 2017-18 to financial year 2019-20 and from the financial year 2020-21 onwards the reduction shall be restricted to 100%. It is also proposed that deduction under section 35(1) (iia) and (iii) of the Income-tax Act shall be reduced from 125% to 100% with effect from 01.04.2017	**Negative:** Research comprises major portion of expenditure for pharma companies. Reduction in deduction of this expenditure will increase the tax burden of these companies.
Special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India	**Positive:** Reduction in taxes on income from registered patents will encourage ingenuity in the field. However, the effect may be dimed by the reduced deduction allowed on research expenses.
Amendment of section 10AA of the Income-tax Act to provide for a sunset date of 31.03.2020 for commencement of activity of manufacture or production of any article or thing or providing services by a unit located in a Special Economic Zone for availing the deduction under said section.	**Negative:** The Pharma as well as other sectors will be negatively affected as they would be deprived of the benefits from locating their units in the SEZ's from the said date.

XMPUS Conclusion:

The Healthcare sector was allocated Rs.39,533 crore in Budget 2016-17 as against Rs.33,150 crore in the previous budget. The National Health Mission was allocated Rs.20,037 crore in the current budget promoting the continuing sector development in both rural and urban healthcare under the scheme. Similarly, Rashtriya Swastha Suraksha Yojana has been allocated Rs.1,500 crore.

However, despite the increase in allocation by about 19%, the overall Budget seems neutral for the sector due to the added impositions and reduced incentives for the Pharmaceutical companies which may ultimately result in increase in prices of medicines. The move comes as a surprise as the Government is taking measures to make generic drugs more affordable to the masses. XMPUS believes much work is needed in the sector to achieve quality healthcare for all segments across the nation.