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IMI Konnect

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A Grand Design

*Rajat Kathuria**

A widespread clamor for Big Bang reforms in the run up to Budget 2015 created enormous expectations and made this year's exercise of attempting to balance government books among the most anticipated since the path breaking Budget of 1991. If judged by this yardstick, the Finance Minister's (FM) first full budget came up short, for there were no grandiose announcements. Instead the focus was on 'persistent, encompassing and creative incrementalism that could cumulate to Big Bang reforms'. The mood had been set by an elegantly written Economic Survey released a day before the budget that cogently argued in favour of persistence and patience. Much of global empirical evidence is in favour of gradualism. Big Bang reforms in robust democracies like India are the exception rather than the rule and desirable only in times of crisis. Not only is India not in crisis today, it is strongly emerging from one of the worst slumps it has experienced since 1991.

Gradualism has merits for India. Economic reforms have for the most part had to contend with both ideological and substantive opposition that inevitably get created due to the presumed redistributive effects inherent in policy change. Gradualism affords the opportunity to retract in case of violent opposition to specific measures. Collective action in India therefore with its multiple institutions and actors has a logic of its own-sometimes described as 'fitful and opportunistic' and often reforms have been introduced by stealth.

In this budget however there was no indication of furtiveness. In his speech, the FM invoked the metaphor of a giant super tanker indicating a certain assurance with which he laid bare the future agenda of his government that included improvements to tax administration (TA), creating a better environment for business, announcement of a formal monetary policy framework, a much needed and enhanced bankruptcy law, a public-works dispute resolution mechanism, methods for increasing household savings, support for job creation, improving efficiency of the social welfare schemes through direct benefit transfers (DBT) and an altered glide path towards fiscal consolidation. Perhaps the biggest criticism of the budget was relaxation of achieving the fiscal deficit target of 3% by one year and the disturbing silence on reducing the revenue deficit to zero in line with what had been proposed many years ago in the FRBM Act. Eliminating the revenue deficit is absolutely essential to create the space for enhanced public funding of infrastructure, a key element of this budget. The case for the latter is clear in the short to medium term. Private investment remains depressed and bank balance sheets are over extended with infrastructure lending. Indeed it is the reason for the high non-performing assets (NPA) of public sector banks. With this kind of debt overhang, the chances of bank funding of private infrastructure will remain bleak. In such circumstances, public investment has to be the beacon.

At the same time, God has been kind to India. Dropping oil prices helped reduce the subsidy bill and rein in the current account deficit (CAD). But luck cannot be of much gain unless accompanied by sustained reform. Fortunately, the path to reform has been laid out in the budget and also in the several documents that preceded it–the Economic Survey, the Rail Budget not to mention the 14th Finance Commission report and there is remarkable consistency in design that could well propel India to double digit growth that a few years ago seemed a distant and elusive dream. At the heart of the design is handing more power to the states to determine their destiny consistent with the 14th Finance Commission's recommendation, reinvigorating investment in infrastructure and manufacturing, making government expenditure more transparent, productive and inclusive and improving tax collections. Over the medium to long term, the focus is on revitalizing the public-private partnership (PPP) model for infrastructure development since infrastructure will provide the much needed helping hand for manufacturing growth that ominously stagnated over the last 15 years. In short, there are many challenges for economic revival, but India also has a golden opportunity to build consensus for strong structural and fiscal reform.

In the last two years, growth had slipped due to execution

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bottlenecks especially in large infrastructure projects and massive declines in private and public investments. Fortuitously, the macro environment has now changed. Within the span of a year, India's macroeconomy is regarded as stable by all rating agencies, inflation has fallen rapidly, the current account is under control and the rupee has outperformed currencies of most other emerging markets. Against this backdrop, the FM's main objective was to enhance public investment in a bid to restore the environment for private investment and growth. Some measures are now in place, but that is the yardstick on which he and this budget should be judged.

The Economic Survey estimates that the stock of stalled investment in infrastructure projects represented roughly 7% of GDP, while savings rate as a percentage of GDP has declined from a peak of 34% to less than 30%. For the investment cycle to kick in, household savings will need to go up and away from physical assets like real estate and gold. To crowd in unwilling private investment in infrastructure the FM has proposed an increase in public investment in infrastructure by ₹70,000 crore over last year. This is a good step and must be accompanied by, as acknowledged by the FM in his speech, institutional and regulatory reform, including efficient dispute resolution processes especially for PPPs. PPPs must be viewed as an instrument to not only ease capacity and financing constraints, but also as an effective tool to promote competition in service delivery and improve the quality of service. If anything, in India, the government's evolving role in regulation could be the difference between good and 'not so good' outcomes. Effective and efficient regulation—including the setting of adequate tariff levels—is critical for infrastructure reform. The reintroduction of tax-free bonds, encouragement for households to invest in pension funds and development of a corporate bond market are the other instruments to kick start the stubborn investment cycle.

Why is economic growth crucial? Rapid GDP growth helped lift close to 140 million people in India out of poverty between 2004-05 and 2011-12. Restoring rapid growth is crucial to further sustained progress on poverty reduction. Falling growth, besides reducing the fiscal space to continue with untargeted subsidies, accentuates macroeconomic vulnerabilities. Rationalising subsidies in India must however be accompanied by an extensive transformation of India's social protection framework and using the Aadhaar platform to facilitate direct transfers that will allow for better targeting. If India can attain 8% annual GDP growth and higher thereafter, the fiscal constraint might loosen due to increased tax revenues.

The FM has indicated serious intent to widen the tax base, including introducing powerful deterrents for off shoring transactions to evade local taxes. Compliance to tax is abysmally low in India (only about 3% of the population pays direct taxes) and part of the reason is the trust deficit on the one hand between the TA and the corporate sector and the TA and individual tax payers on the other. An effort to address both these deficits is essential, in addition to modernising the TA. With cooperative federalism and evolution of powers necessitating 62% of all tax receipts for state governments, it will be vital to increase India's tax-to-GDP ratio. India's overall revenue-to-GDP ratio (for the general government) for 2014 is estimated at 19.5% by the IMF. This needs to be increased to about 25% of GDP, comparable to other similarly placed countries. A single GST rate (across States and products) to be implemented from 2016 will help in increased compliance and if set at competitive levels and with limited exemptions would catalyse growth and hasten the creation of the long awaited single market within the country.

The choice of pathway to growth is also fundamental. Over the next two decades, structural transformation will imply that 75% of India's GDP and 70% of all net new jobs will come from cities. How cities develop over the next few decades will be determined by choices made today. India's environmental externalities are already estimated to cost 5.7% of GDP and urban pollution is the cause of a disturbing number of premature deaths. India houses 13 of the G20's 20 most polluted cities. The FM admitted that environmental degradation hurts the poor more than others and committed to doubling the effective 'Carbon Tax' on coal from ₹100 to ₹200 per tonne, while acknowledging the difficulty of balancing the objectives of access to power and clean air. The good news is that he has started with a small step.

The new government had been reproached recently for the piecemeal nature of reform since assuming power – limited to streamlining procedures for certain government approvals – but a grand design for further and bigger reforms had been missing. Against the backdrop of enormous expectations, the FM has announced a number of small steps that might cumulate in a forthcoming 'Big Bang'. Thus a new tax regime, a framework for streamlining subsidies via DBT and revival of PPPs among others, makes for sound ingredients for a good fiscal that will create positive spillovers for growth and job creation, for Swach Bharat and for Make in India. But achieving the targets announced in the budget will necessarily be subject to complementary reforms elsewhere-in land, capital and labour markets and especially in the institutional and enforcement apparatus that more often than not limit benefits of good intent. For India's sake, let us hope that the road to sustained and inclusive growth begin with the good intentions outlined in this budget.

Budget 2015-16 and India's "Vishva Guru" Dream

*Vighneswara Swamy**

Undoubtedly, India is hungry for rapid economic growth. Our Prime Minister views that 21st century will be India's century and India will rise to the position of "Vishva Guru". In this context, does his government's first full-fledged budget for 2015-16 lay the robust launch pad? Faster growth can set pace of the growth engine and thereby create more jobs for the burgeoning workforce leading to higher incomes. India can attain "Vishva Guru" status provided it attains excellence in three strategic global reputations as - global manufacturing factory, global knowledge hub and a global financial centre. How can they be attained? A well thought-out strategic plan supported by annual budgeting with missionary zeal in implementation is a prime requirement in this direction. Has the Modi government made good strides in this direction? The answer could be both 'yes' and a 'no'.

Let me illustrate the 'yes' first. Budget has made its determined stride towards '*Make in India*' by initiating measures for revival of growth and investment and promotion of domestic manufacturing for job creation. Funding the unfunded through the proposed Micro Units Development Refinance Agency (MUDRA) Bank with initial capital of ₹20000 crore is a measure in the right direction towards facilitating domestic micro-economic units. The push for infrastructure with an additional $11 billion more for modernising India's ageing roads and railways, while keeping borrowing in check is a welcome move. Holding on to their election slogan - *Sushasan*, the government has focused on good governance by some credible measures like those initiated for ease of doing business (minimum government, maximum governance) which though not substantive, are credible pointers of the purpose.

> India can attain "Vishva Guru" status provided it attains excellence in three strategic global reputations as - global manufacturing factory, global knowledge hub and a global financial centre. A well thought-out strategic plan supported by annual budgeting with missionary zeal in implementation is a prime requirement in this direction. The budget has won plaudit for three significant game changers: a. to cut corporate tax and make India more competitive b. promise to implement GST by 2016 and c. gold monetisation.

Committing to the process of rationalisation of subsidies, plugging the leakages in the subsidies and use of JAM Trinity - Jan Dhan, Aadhar and Mobile – to implement direct transfer of benefits to increase the well-targeted beneficiaries from 1 crore to 10.3 crore in cashless manner are laudable. A vowed approach towards targeting better delivery mechanisms for welfare schemes was much desired. Measures to curb black money by several administrative and legislative initiatives contribute significantly to good governance ambitions.

Measures on the financial development front deserve appreciation. Moving from *Jan Dhan* to *Jan Suraksha*, is a progressive step towards inclusive development and creating a functional social security system, especially for the poor and the underprivileged. Setting up of Public Debt Management Agency, merging Forward Markets Commission with SEBI and bringing in Indian Financial Code are some of the key initiatives taken towards the financial market development. The budget has won plaudit for three significant game changers - a. to cut corporate tax and make India more competitive, b. promise to implement Goods and Service Tax (GST) by 2016 and c. gold monetisation.

As *Skill India* needs closer coordination with *Make in India*, launching of National Skills Mission aimed at enhancing the employability of rural youth is vital to unlock India's demographic dividend. A *Digital India* networking 2.5 lakh villages through the National Optical Fibre Network Programme spreading across 7.5 lakh kms is a right step. Recognizing the potential of innovation in nation building by Atal Innovation Mission proposed to be established in NITI Ayog is a crucial move in the long run.

The 'no' part is now cogently articulated. Towards the beginning of the address presenting the $290 billion budget, Finance Minister posited, "incremental change is not going to take us anywhere. We have to think in terms of a quantum jump." Although futuristic in its approach and reformist in its spirit, the budget lacked much anticipated big-bang reform to usher in the "quantum jump". Investments pour in when there is a stable fiscal discipline combined with greater ease of doing business. On both these fronts, budget does not propose any swift structural reform. On the job front, it is hard to find a focused measure. Housing and related infrastructure could have been taken up in a massive scale to create more jobs in various sectors as well as boost demand in the economy.

There is no noteworthy effort to limit spending on the large fiscal programmes including the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA), the fertilizer

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Towards Excellence through Transformation

Mr. Aniruddha Basu

Managing Director, CESC Ltd.

In conversation with the Editorial Team of *IMI Konnect*

IMI Konnect: *CESC is operating for more than hundred years and it remained to be a private monopoly. To what factors do you ascribe CESC's sustainability for so long?*

AB: The primary factor behind CESC's sustainability for more than 100 years is the culture to accept transformations and transitions both external and internal. Over these years CESC has been a witness to socio-economic transitions as well as technological advancements and CESC also adapted itself to them: a change from a 100% British Power Utility to 100% Indian Private Power Utility; from raw coal as fuel to pulverized coal as fuel. Also, the faith shown by the owners and shareholders on the leadership team of the company has empowered them to take strategic decisions resulting to the smooth functioning of the organization. Also, CESC has invested thousands of crores in the past few years to increase the generation capacity and upgrade distribution infrastructure to cope with the rising demand of the city. All measures are being taken to bring about reliability. Thus we have been able to serve our customers by successfully providing uninterrupted power supply. Measures are also being taken even to deal with small outages. This is unique in our country where a major geographical portion is reeling under load-shed for hours.

With consumer's expectation skyrocketing where even a power cut for a short duration is not accepted and new age consumers demand a different value proposition, CESC is undergoing another transformation from being a power utility to a service provider. Launching a wide spectrum of value added services both online as well as offline is part of that endeavour. Today a consumer can apply for a connection, pay monthly bills, lodge a complaint etc. by a click of the mouse or a mobile button.

CESC's passion for excellence is another key factor for its sustainability. The high level of operational excellence achieved by it is best illustrated by the awards and recognitions received in the recent past like the Asian Power Awards 2014 for Innovative Power Technology, prestigious CBIP Award for Best Performing Utility in Power Distribution Sector in recognition of outstanding contribution towards development of the Power Sector in India, C.E.A awards for Budge Budge Generating Station for both performance and environment management, Innovation Award 2014 by Independent Power Producers Association of India, awarded twice as Top Infrastructure Company under Power Distribution category by Dun and Bradstreet Infra Award 2013 & 2014 etc.

IMI Konnect: *CESC presently serves 29 lakhs of urban consumers of which more than 85% are households. What kind of trends do you observe in terms of demand of electricity in Kolkata and Howrah in recent times? What expansion plans are you making to meet the growth in future demand?*

AB: In the city area, most of our demand comes from domestic consumers because there is hardly any scope of industrial growth due to stringent environmental norms. We experience about 3-4% growth in demand per annum. Due to change in lifestyle many domestic consumers are installing air-conditioners. Power demand is increasing considerably owing to the expansion of high-rise buildings, especially in the outskirts.

CESC is geared up to meet the growth keeping the future in perspective.

IMI Konnect: *What are the strategies of CESC for growth in next 10 years?*

AB: CESC is keeping all options of growth open, both organic and inorganic, with all growth initiatives aiming at adding value to our shareholders.

IMI Konnect: *Do you feel CESC will be a household name in other metro cities in India in next 20 years?*

AB: I am pretty certain about it and it is the mandate of our Chairman to be the preferred choice of the customer. In fact the entire organization is currently moving towards a customer centric culture. Lot of initiatives are being taken to make it an iconic utility and provide leadership in all facets of operations like generation, distribution, HR practices and above all, customer service. In pursuit of excellence CESC has also tied up with one of world's leading consultancy firms, to bring about external orientation in all the operations. We are trying to strengthen our emotional connect with the customers.

IMI Konnect: *As per the government's commitment on climate change mitigation, by 2016, more than 50 conventional power plants (CPPs) must be modernized. Is CESC doing anything about it?*

AB: Yes, the company has taken a number of initiatives to be the forerunner and won many awards that validate its efforts. Our performance is well ahead in terms of pollution norms set by the authorities.

IMI Konnect: ***Is CESC promoting the concept of energy audit in Kolkata?***

AB: As a leading utility we regularly carry out energy audit of our transmission and distribution system. We also have a dedicated team for advising our bulk consumers to go for energy audit in their installation through 'Certified Energy Auditor(s)'.

IMI Konnect: ***What measures is CESC taking to ensure energy efficiency?***

AB: CESC is actively pursuing energy efficiency for its own office buildings to reduce the carbon footprint. CESC House, recently bagged the unique distinction of being the First Heritage Building in India to get a LEED Gold rating from the United States Green Building Council (USGBC) under Existing Building Category as a recognition towards electricity saving of 25% by replacing all lights with energy efficient ones and old central air-conditioning plants by modern energy efficient ones, water savings of more than 2 lakh litres per annum and improvement in air quality.

CESC is also educating its consumers about energy efficiency through a well-designed booklet which talks about use of CFLs instead of incandescent lamps or normal fluorescent tubes. Not only lights, CESC is also advocating use of energy efficient air-conditioners and refrigerators.

IMI Konnect: ***With the government encouraging more private players in the distribution of electricity, how is CESC planning to face the competition?***

AB: CESC is aiming at being a model utility with all actions being taken proactively for transforming the company from good to great.

We have already taken many innovative services for the customers, some of which are web, mobile apps and e-services. With a user friendly website incorporating specially designed Quick Links and Tabs, the consumers can access all relevant services. Another initiative is 'Office on the Move', the mobile app meant to make the consumers' life easier in terms of billing, payment and consumption history, AC application, status of new connections etc. The other one is E-services like online new connection, online AC application, online change of name and multiple E-payment channels. Through the online E-payment channels, one can make payment online through a variety of easily available modes which include net banking, credit/debit cards, RTGS/NEFT, ECS etc.

IMI Konnect: ***What message would you like to convey for future managers?***

AB: The only unchanging attribute of any successful company is to develop new ideas, translate them into action and take strategic advantage. I would like to advise the future managers to make excellence in execution as their core belief. As young managers they should aim high and think big and set an exciting goal for themselves. Performance brings recognition and recognition brings respect. One should also lay emphasis on trustworthiness and team building, which are very important and can only happen by walking the talk and having abundant generosity.

BUDGET

Continued from page 3

subsidy and the likes. Though there is a mention on disinvestment, the budget conveys no sense of exigency on this front. With the commitment to contain fiscal deficit at 4.1% of GDP in the current year and setting a target at 3.9% for 2015-16 as against the earlier announced target of 3.6%, the budgeted deficit for next year will only be 0.2%. Higher level of fiscal deficit leads to mounting public debt resulting in increased interest payment burden. Interest payments constitute almost 45% of the net tax revenues. Besides, higher borrowing by government shrinks the space available for private sector. Hence missing the fiscal consolidation road map might hurt the government's agenda.

With the headline CPI inflation in terms of the revised series hovering at 5.1% and threats from the vagaries of monsoon and untimely rains continuing, it would be a herculean task to tame inflation. The risks of higher deficit to accommodate higher public expenditure and enlarged devolution to states, may not meet the ire of sovereign rating agencies, hopefully, in the short span. Thanks to the methodological change at Central Statistics Office (CSO), Indian economy is expected to grow at 7.4% in 2014-15, as compared to a growth of 6.9% in 2013-14. GDP growth in 2015-16 is projected to be between 8 to 8.5%. However, aiming at double-digit growth very soon would be unfeasible.

Despite a number of initiatives, much of it looks random and sloganeering. In the absence of clear measures to harness the demographic dividend, a perception has been gaining ground that budget has no distinct strategy for swift take-off for the economy. In the absence of inventive strategies and swift measures, the budget falls short in its measures in meeting its own expectation of becoming "Vishva Guru".

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IMI-K holds FDP on Paper Writing

IMI Kolkata organized a one-day Faculty Development Programme on *The Art of Paper Writing and Publishing* on March 10, 2015. The programme aimed at not only developing the requisite skills needed for good research writing but also focused on inspiring the participants to explore other non-academic avenues of writing. The programme covered topics such as developing ideas, writing different sections of the paper, kinds of writing, ethical issues in writing etc. The workshop received an overwhelming response with 38 participants from various premier institutes such as IIT Kharagpur, St. Xaviers's College, University of Calcutta and Jadavpur University, to name a few.

Resource Person: Dr. Padma Prakash, Editor of e-Social Sciences and former Associate Editor of Economic and Political Weekly.

Programme Co-ordinator: Dr. Khushbu Agrawal

Towards Higher Orbit

A two weeks Induction Programme was conducted during March 2–14, 2015, for new joinees of Garden Reach Ship Builders & Engineers Ltd. The batch of 48 Assistant Managers joined GRSE on January 22, 2015 and was taken through different functions and departments of GRSE till February 28, 2015. From March 2 onwards they were inducted into different management practices and lessons on Team Building, Business English, Corporate Presentations, Project Management and Conflict Resolution. The valedictory function was held on March 14. Mr. R. C. Nautiyal, Director (Personnel), GRSE and Dr. Arindam Banik, Director IMI Kolkata gave away the completion certificates. The programme was well appreciated.

Programme Director: Dr. Nandita Mishra

Resource Persons: Dr. Sarojakshya Chatterjee, Dr. Rachana Chattopadhyay, Dr. Devjani Chatterjee, Dr. Rituparna Basu and Dr. Nandita Misha

Induction Programme for New Recruits of Axis Bank

Taking forward the Induction Programmes of six days duration for new recruits of AXIS BANK which commenced from January 27, 2015, the training of 6th and 7th batch aggregating 54 participants were conducted during March 9-14 with excellent feedback.

Programme Director: Dr. Sarojakshya Chatterjee

Building and Developing High Performance Teams

An In-company MDP on Building and Leading High Performance Teams was conducted for the executives of CESC Ltd. during February 3-5, 2015. It covered topics such as Understanding of Basic Business Economics, Statistical Tools for Managers, Developing Interpersonal Communication, Leadership and Decision Science etc.

Programme Director: Dr. Nandita Mishra

FACULTY ACHIEVEMENT

The paper titled "Purchase Preference Factors for Traditional Rural Retailers: A Cross-Sectional Conceptual Study" by **Himadri Roy Chaudhuri** (jointly with Dev Narayan Sarkar and Kaushik Kundu) has been accepted for publication in *Vikalpa.*

Researchers have highlighted the importance of traditional rural retailers in the context of rural marketing in developing nations. Inferences from their work, and the indications on what could influence a traditional rural retailer to stock and sell a marketer's offerings, seemingly appear as the peripheral inferences of studies on other aspects of rural marketing. The present work looks into the factors which influence purchase preference of traditional rural retailers. An initial review of literature leads to fourteen propositions on the factors which may influence purchase decisions. These propositions are studied further through a statistical content analysis of relevant literature and an importance-based ranking of the factors is developed. This paper subsequently analyses the temporal evolution of the possible factors of traditional rural retailers' purchase preference as presented by researchers. The principal purpose of this study is to present a set of factors, along with their hierarchy of importance, to help rural marketers utilize the existing rural retail channel successfully.

Micro Vs Macro Impact of Union Budget 2015

*Abhishikta Acharyya Roychowdhury**
Deputy Director, Economic Research Cell, Confederation of Indian Industry

The Broad Contour

Any budget is always like a half glass of water - some may perceive it as half full and some as half empty. For the common mass a budget is always lucrative if they get incremental exemption in income tax slab and can enjoy reduced prices (due to cut in excise or customs duty) on some important commodities.

This budget has not offered most of such tangible sops for the common man. Rather it would pinch them due to higher service tax which has been increased from 12.36% to 14% with an enabling provision for up to 2% Swach Bharat Cess in case of certain services. It may be a prelude to the upcoming GST of 2016, as announced in the budget. The reduction of Corporate Tax from 30% to 25% in 4 years though excited the corporate sector initially but the ultimate benefit is uncertain as certain exemptions will also be withdrawn. However, overall economy should get a boost as the budget aims for double digit GDP growth, buoyant tax-GDP ratio, while containing fiscal deficit, current account deficit and inflation.

Green manufacturing has been encouraged as effluent treatment plants are exempted from service tax. Wealth tax has been abolished. Now only surcharge of 2% will be imposed on the super-rich with a taxable income of over ₹1 crore.

Overall emphasis was given on good governance with special focus on subsidy rationalisation which would promote efficiency. To attract capital particularly for Small and Medium Enterprises and start-ups for "Make in India" to happen Tax 'pass through' is proposed to be allowed to both Category-I and Category-II Alternative Investment Funds, so that tax is levied on the investors in these Funds and not on the Funds per se. Customs duty has also been cut on some intermediate inputs towards this objective. General Anti-Avoidance Rule (GAAR) has been deferred for two years which should encourage foreign firms to manufacture here.

The budget has also proposed to do away with the distinction between different types of foreign direct investment, especially between FDI and FPI. This is expected to go a long way in making the process of investment through equity, debt and other forms smoother.

Research and development will be encouraged as the rate of income tax on royalty and fees for technical services has been reduced. Three new institutes of Pharmaceutical Education and Research in Maharashtra, Chhattisgarh and Rajasthan will help innovation and research for formulation of new drugs. Ease of doing business has been ensured by rationalisation of penalty provision of indirect taxes and provision of digitally signed invoice of central tax/service tax assesses.

An innovative measure of gold monetisation scheme has been announced to bring buoyancy in the economy by unlocking the resource in privately held gold. The proposed bill on black money intended to bring it back from undisclosed foreign account and penalising offenders which if really implemented would generate huge resource for the development of the country. The bill is expected to have voluntary disclosure scheme and not amnesty.

Agriculture

Due emphasis on agricultural development has been given in this budget by supporting "The Pradhanmantri Gram Sinchai Yojana" aimed at irrigating the field of every farmer and improving water use efficiency to provide 'Per Drop More Crop'. ₹5,300 crore was allocated to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana. While ₹25,000 crore was allocated to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD, ₹15,000 crore was alloted for Long Term Rural Credit Fund, ₹45,000 crore for Short Term Cooperative Rural Credit Refinance Fund and ₹15,000 crore for Short Term RRB Refinance Fund.

Infrastructure

Availability of funds will improve through the establishment of a National Investment and Infrastructure Fund (NIIF) and rationalization of taxes for Infrastructure Investment Trusts.

Road

The proposed 178% year-on-year increase in investments for development of NHs could boost NH execution by around 5,800 km annually and create strong construction opportunity for road EPC companies. A major portion of this increase will be funded by a ₹4 per litre hike in road cess on petrol and diesel. Tax-free bonds for roads and setting up of National Investment and Infrastructure Fund will provide additional funds. Rationalization of the tax regime for infrastructure investment trusts may help free up muted private capital. Intent to table Public Contracts Resolution of Disputes Bill is positive.

Power

Power generation cost is likely to increase by ₹0.09 a unit as the clean energy cess levied on coal has been doubled to ₹200 a tonne while the rail freight rate has been hiked by 6.3%. Fixed-return projects, though, will not be impacted as they can pass through these costs. Additional 20% depreciation for new projects would allow companies to set off the amount against profits. This will benefit capacities of about 15GW to be commissioned in 2015-16.

* Views are personal

Renewable Energy

The government has reiterated its renewable energy capacity target of 175GW led by solar power (100GW) by 2022 and raised budgetary allocation by 5%. Also, there is a target to electrify the remaining 20,000 villages in the country by 2020 including electrification by off-grid solar power generation. The budget took a few steps to correct the inverted duty structure in renewable energy by reducing the customs duty on solar PV parts and solar thermal projects. Excise duty on pig iron SG grade and ferro-silicon-magnesium used in wind project cast components has been reduced to nil. Additional 20% depreciation on new plants will boost investments.

Oil and Gas

Total incidence of excise duties on petrol and diesel remains unchanged as road cess is increased and basic excise duty is reduced. The overall impact is marginally positive. With the government contributing ₹30,000 crore to fuel subsidies, upstream companies will see 5% fall in under-recoveries contribution.

Telecom

Excise duty structure for mobile handsets (which cost more than ₹2,000) has been changed from 6% with CENVAT (central value added tax) credit to 12.5%, which may slightly slow the growth in smartphone adoption. The hike in service tax to 14% from 12.36% would drive up bills of post-paid subscribers. The states will be reimbursed if they undertake extension of fibre network. This will throw new opportunities for telecom equipment and infrastructure players.

Banking and Finance

The allocation for capitalisation of Public Sector Banks is less than the allocation of past three years and it seems inadequate given their requirement. However, the proposal to create a Holding and Investment Company and an autonomous bank board bureau would provide greater autonomy and help banks raise funds. A Micro Units Development Refinance Agency (MUDRA) Bank will increase availability of funds for small entrepreneurs.

Non Banking Financial Companies (NBFCs) with more than or equal to ₹500 crore of asset would be covered under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) which will be helpful for bad loan recovery. Proposed Bankruptcy Code will further provide necessary judicial capacity.

IT Services

No significant impact is expected. Funds of ₹1,000 crore have been allocated for establishing Self-Employment and Talent Utilization (SETU) - a techno-financial incubation and facilitation programme (mainly for technology firms) to support start-ups and self-employment activities. Exemption of basic customs duty, countervailing duty (CVD) and special additional duty (SAD) on parts, components and accessories used in the manufacture of tablet computers and their sub-parts will make tablet computers cheaper.

Metals

Hike in customs duty on metallurgical coke to 5% from 2.5% is expected to have a negligible impact as most steel players import cooking coal and convert it into coke in their captive ovens. With basic excise duty hiked to 12.5% from 12.36%, prices of steel and aluminium will inch up marginally, by ₹50 a tonne and ₹200 a tonne, respectively, according to a CRISIL analysis. Clean energy cess on coal has been doubled to ₹200 per tonne. This is expected to mildly impact both sponge iron and aluminium industries, as players will be unable to pass on the hike to customers. While the effective customs duty on steel is unchanged, tariff rates have been hiked to 15%, from 10% which would give the government leeway to hike import duties if too much import happens which may affect domestic industry.

Real Estate

An increase in service tax to 14% from 12.4% will marginally drive up the cost of under-construction residential and commercial real estate space. Rationalization of capital gains tax for sponsors exiting at the time of listing of real estate investment trusts (REITs) is positive for developers with significant exposure in rental-yielding real estate assets.

FMCG

Higher MGNREGA allocation could boost rural wages, resulting in an increase in demand for FMCG products. The impact of an increase in excise duty on tobacco products is expected to be passed on to consumers and is likely to further pull down volume growth. Excise duty of 2% without CENVAT credit or 6% with CENVAT credit levied on condensed milk and peanut butter is expected to increase product prices slightly and impact volumes marginally. Excise duty on mineral water and aerated water with added sugar or flavour has been increased 18% from 12%, though they will be exempted from an additional excise duty of 5% which may lead to marginal increase in prices.

Automobiles

Impact is expected to be neutral. Hike in funds allocated to farm credit and agricultural initiatives such as MGNREGA and institutions such as NABARD, will marginally boost tractor sales. Hike in customs duty on fully built CVs to 20% and cut in excise duty on ambulance chassis to 12.5% will not have a major impact, as these comprise a tiny proportion of CV sales. Lowering of tax on royalty payments to foreign companies to 10% will marginally benefit companies that import technology.

The Ultimate Gain/Loss

Although the budget is not a big bang one, it has taken some innovative steps. Much will depend on the notifications with technical details and the structure of upcoming GST framework.

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