Budget 2016 : 10 things to track in Arun Jaitley's speech today

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DELHI: As investors await with bated breath, the Union Budget 2016 is expected to boost investment spending despite the pressure on the government to stick to the path of fiscal consolidation.

Later today, the Finance Minister (FM) will present the Union Budget 2016-17, which will be the third budget from the NDA-led government in its current term. It is not going to be easy for Finance Minister Arun Jaitley to strike a balance between the huge demand on his resources and the imperative to stick to fiscal prudence.

The Budget has to push growth if the government wants to attain the 8-10 per cent growth target as envisioned in the Economic Survey.

The S&P BSE Sensex has already corrected over 11 per cent so far in calendar year 2016 in the runup to the Budget. Any positive surprise from the Budget can trigger a sentiment-driven rally.

To speed up growth in Asia's third-largest economy, the government has to allocate more towards infrastructure spends. The Finance Minister could make higher allocation towards the housing and infrastructure sectors.

A majority of the incremental budgetary allocation would be allocated towards defence at Rs 12,980 crore, followed by roads and highways Rs 9,915 crore and rural development & housing Rs 4,453 crore, among others," brokerage Angel Broking estimated in a report.

So what are the key things you should watch out for in the Finance Minister's Budget speech?

Fiscal consolidation: This is one aspect of the Budget Speech which holds utmost importance not just from investors' point of view, but also for the international rating agencies, who would be watching it closely.

Fiscal deficit in simple terms means the gap between the government's expenditure and revenue generation. If there is fiscal deficit, the government needs to find additional ways to increase its revenue or resort to higher borrowing.

Most analysts across brokerage firms expect the FY2016 target set under the Fiscal Responsibility and Budget Management (FRBM) Act of restricting the fiscal deficit to under 3.9 per cent of GDP to be attained. However, the FY2017 fiscal deficit target of 3.5 per cent of GDP appears slightly challenging.

Reduction in corporate tax: The Economic Survey hinted at reducing the corporate tax rate but widening the tax net, as nearly 85 per cent of the economy remains outside the tax net.

In the last Union Budget, the government announced the phase-wise reduction of corporate tax to 25% from the current 30% in the next four years. "We expect the government to provide the quantum of reduction of corporate tax in the upcoming budget, which will be overall positive for high tax paying companies," said a Sharekhan report.

Stocks to watch: *ITC, Britannia Industries, Tata Global Beverages, GlaxoSmithKline Consumer Healthcare, HDFC Bank, Bajaj Finance, IndusInd BankBSE -1.08 %, Kalpataru Power Transmission, Thermax, PTC India, Granules India and all MNCs like Abbott India, GlaxoSmithKline Pharmaceuticals, Merck, Sanofi, Pfizer India, AstraZeneca*

Roadmap for GST rollout: A positive outcome on GST implementation will provide further respite to the industry. The GST Bill is expected to roll out by April 2017 which shall help in removing the tax inefficiency in the system.

If GST bill gets implemented or if the government gives a clear roadmap it will be positive for several sectors like retail, automobiles, media, paints, plywood and logistics, among others.

Boost to infrastructure: Higher budgetary allocation is likely towards housing and infrastructure schemes. Most analysts expect capital expenditure to increase by Rs 43500 or 0.3% of GDP which should aid investment climate.

Roads & highways, defence, urban development (towards Metros and Smart Cities), and rural development (rural housing and infrastructure), among others, are some of the areas which will be on the government's radar.

The government is likely to focus more on building rural infrastructures such as roads, bridges, and houses. Higher allocation towards various schemes like, Pradhan Mantri Gram Sadak Yojna, Indira Awas Yojna.

Stocks to watch: *Larsen & Toubro, BEML, Va Tech Wabag, Supreme Industries, IRB Infrastructure, NBCC, Ashoka Buildcon, Gayatri Projects, Container Corporation of India, GDL, LIC HousingBSE -3.95 % Finance, and HDFC, among others.*

Implementation of Seventh Pay Commission award: Implementation of the 7th Pay Commission award is likely to boost urban as well as rural consumption. Rural growth has really taken a back seat on the back of two below-normal monsoons.

With the interest rate and inflation tapering off, the focus will be on the timeline of implementation of 7th Pay Commission and One Rank, One Pension (OROP), which will increase the overall disposal income in the hand of consumers, say exp.

The government would likely focus on boosting the rural economy after back-to-back years of drought, through populist schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

Stocks to watch: *PVR, INOX Leisure, Maruti, Wonderla Holidays, Cox and Kings, Thomas CookBSE -1.12 % India, Blue Star, Voltas, Hitachi Home, Whirlpool, Lloyd Electric and Engineering, among others.*

Increase in excise duty: Any increase in excise duty on cigarette and Indian manufactured liquor to curb consumptions is likely to hurt players like ITC and liquor companies such as United Spirits and Radico Khaitan.

The government might opt for another double-digit hike in excise duty on cigarettes. If the average excise duty hike is above 15% it will further affect the cigarette sales volume of companies, such as ITC and Godfrey Phillips.

However, brokerage firm Sharekhan said if the excise duty hike is less than 10%, the pressure on sales volume would be much lesser.

Stocks to Watch: *ITC, Godfrey Phillips, United Spirits and Radico Khaitan.*

Capital infusion in PSBs: In the Economic Survey, the government said that it plans to infuse Rs 70,000 crore in the next few years, but PSU banks would need at least Rs 1.8 lakh crore by FY19. Any roadmap laid down by the government in terms of recapitalization will be positive for PSU banks.

The public sector banks especially the capital-starved banks like Union Bank of India, Bank of India, IDBI Bank, Allahabad Bank etc. will be positively affected by capital infusion plans of government.

Additionally, the new bankruptcy code can be potentially positive for the banks and subsequently, for the credit markets.

Stocks to Watch: *Union Bank of India, Bank of India, IDBI Bank, Allahabad Bank among others.*

Eye on renewable energy: The government has set an ambitious target of 100GW of solar power generation and 60GW of wind energy generation, with a total of 175GW of renewable power by 2022 at an estimated investment of $200 billion.

"In line with these targets, we expect the government to definitively take measures to promote the renewable energy sector by extending various tax incentives. The industry is demanding for measures such as treatment of solar parks at par with SEZs with MAT exemption provided to projects within these solar parks," Angel Broking said in a note.

The government has initiated the Ujwal DISCOM Assurance Yojana (UDAY) which aims at achieving a permanent resolution to the concerns faced by the electricity distribution companies of India (DISCOMs). The accumulated losses of the SEBs put together stood at Rs 3,80,000cr as of March 2015.

Under the UDAY scheme, the state Governments will take over 75% of DISCOM debts as on Sept-15 (50% in FY16 & 25% in FY17)," said the report.

Booster dose for real estate: There are high expectations on some announcement towards the simplified tax structure related to Real Estate Infrastructure Trusts (REITs) and higher allocation towards 'Housing for All, 2022' scheme in the upcoming budget.

In order to make the yields attractive, DDT on dividend payouts by SPVs to the REITs could be removed. The move will be positive for commercial developers like DLF, Phoenix Mills, Prestige Estates.

Also, there .. could be an announcement related to DDT relaxation for SEZs. This could be in order to make the government's 'Make in India' campaign more attractive. The move will be positive for SEZ developers like Mahindra Lifespace.

Stocks to watch: *DLF, Phoenix Mills, Prestige Estates, and Mahindra Lifespace.*

Long-term capital gains tax: If the government increases holding period from one year to three years, it will be negative for the equity market at a time when stocks markets are trading in a bearish phase.

At present, gain on a listed security attracts no tax if a stock is sold a year after its purchase. But if it is sold within a year of purchase, the transaction attracts 15 per cent tax on such exits.