REACTIONS FROM THE INDUSTRY ON THE UNION BUDGET

Budget Reactions from the Industry players:

1) Barclays Capital Inc.

The Union Budget 2014-15 is the first major attempt by the Modi government to lay the groundwork for more reforms within the current fund-constrained environment. While the broader fiscal arithmetic remained the same as February's vote-on-account, the government adopted a steep consolidation path on the fiscal deficit. For long-term growth, it intends to introduce a national-level GST, raise FDI limits on insurance and defence, boost long-term lending by banks and enact other measures to support manufacturing and infrastructure.

Economics Research: Our economists observed that broader fiscal arithmetic for FY14-15 largely remained in line with the February vote-on-account. The headline fiscal deficit target has been kept unchanged at 4.1 percent of GDP for FY 14-15 while adopting a steep consolidation target to reach 3 percent by FY16-17. Our economists believe the government's revenue growth target of nearly 18 percent y/y in the current year may face headwinds given the lingering weakness in the economy. However, the government might enjoy better support from areas, such as disinvestment proceeds and subsidy rationalization, to eventually meet its deficit target rather than relying solely on cutting expenditure at large, which was the case in the recent past.

The economists highlight that the government shows the intent of supporting manufacturing and infrastructure projects, boosting FDI, rationalising labour laws and implementing critical tax reforms, such as the GST. They believe such initiatives should be growth-supportive longer term.

Rates Research: Our strategist views the budget as broadly in line with his expectations. But with no strong catalysts for bonds imminent, he recommends closing long duration trades and waiting for consolidation to re-position for a medium-term bullish India story.

Forex Research: Our FX strategists believe that while the budget may not have lived up to the most bullish expectations, it is broadly constructive for the INR. They continue to forecast USDINR to reach 59.0 in one month before gradually depreciating against the USD over the next 12 months as U.S. yields rise.

Credit Research: Our strategists believe that the budget would be greeted positively by investors. They expect S&P to move India's outlook to Stable over the coming months with the budget being viewed as a validation of the government's reform priorities. They maintain their overweight recommendation on India credit and expect the budget and a positive rating action in coming months would be catalysts for tighter spreads.

Equities Research: The budget underscores our equity strategy team's belief that the reform process will be long and slow. Positive sentiment already appears priced into stocks with the Indian market trading at more than 1 SD away from the mean on the team's market implied growth rate model. They believe that the sharp run-up in stock prices and the lack of near-term earnings triggers could keep the market range bound near term. Their top picks are Axis Bank (OW), Coal India (OW) and TCS (OW).

2) Veerasundar Veluswamy, EVP and Chief Financial Officer, CSS Corp.

Negatives:
- No major incentives for IT/ITES industry: Contrary to industry expectations, Minimum Alternate Tax (18.5 percent including surcharge and cess) still continues to apply for SEZs. Also there was no indication about time lines for removal or reduction of MAT rates. There is no change in the Corporate Tax rates (domestic companies almost 34 percent and foreign companies close to 43 percent). Industry expectations is that the government would take steps to align India's direct tax rates in line with those in ASEAN to make Indian Industries internationally competitive.
- Retrospective amendment still continues, however cases affected by such amendments will be handled by a committee
- Non Deductibity of mandated 2 percent CSR expenditure for Income tax purposes

Positives:
- Introduction of a "Roll Back" provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances.
This helps reduce long standing litigation affection the IT/ITES industry severely:
- Introduction of advance ruling for payments made to residents. This measure provides much needed clarity on the taxability of the transaction and avoiding litigation.
- To allow use of multiple year data for comparability analysis under transfer pricing regulations. This helps provide much needed respite/clarification from a long standing dispute pending before Indian Courts.
- Continuation of tax rate of 15 percent on foreign dividends received without any sunset clause. This helps continue the cash repatriation from foreign arms of India IT/ITES companies.

3) MA Yousuf Ali, Managing Director of Lulu Group and Abu Dhabi Chamber Board Member

It was a realistic budget with long term view rather than relying on quick fix remedies or populist soaps, MA Yousuf Ali, Managing Director of Lulu Group and Abu Dhabi Chamber Board Member, said.

"From industry point of view I am pleased to note bold steps like FDI in insurance and defence sectors which is sure to boost many related industries also and generate much needed employment. As a person who has been very actively involved in India's first PPP initiative, the Kochi International Airport, I fully endorse the FM's thrust in this direction. India badly needs major boost in infrastructure development and PPP is the best way forward."

He said Innovative steps like startup fund and skill India are right steps forward, as India is known for its human asset and youth will be better equipped to go up to the next level. Needless to say the high funds allocated for highways development, agriculture sector and education sector especially for the girls are need of the hour and will surely have major long term impact on the future.

The introduction of E-visa and along with creating of tourism circuits will give fillip to tourism sector which I think can be grown further in synch with current global trends. Obviously hiking of income tax limits and cheaper loans is sure to bring smiles on the faces of large segment of our population, so is the special emphasis given to empowerment and security of women.

From the NRI point of view, hiking the duty free allowance to Rs45,000 will be welcomed by many, especially during the current holiday season.

4) Mr. Vikram Kirloskar, President, SIAM
welcomed the focused approach on infrastructure development and on simplified taxation in the General Budget 2014-15 presented by Shri Arun Jaitley, Hon'ble Finance Minister. Mr. Kirloskar said that under the current tight fiscal situation, the Finance Minister has tried to balance and manage the expectations from different quarters with a need for growth and fiscal prudence. The budget has rightly given a positive direction on issues like implementation of GST, retrospective taxation as well as simplification of the tax regime. This will revive investor sentiment and

kick start growth and development in the medium to long term.

5) Dr. Pawan Goenka, Executive Director, Mahindra & Mahindra Ltd., said, “The Finance Minister has delivered a well defined and prudent budget with specific focus on infrastructure, manufacturing and rural schemes. To view it in the macroeconomic perspective, it has laid clear emphasis on supporting investment. Though there were no big bang announcements, the intent of the budget is clearIn fact, I see this budget as a blueprint to the direction the Government will take over the next nine months.”

6) Mr. Vinay Piparsania- Executive Director, Marketing, Sales and Service, Ford India said, "The Union Budget is growth oriented and presents a progressive roadmap to spur investments and infrastructure development. The ongoing excise benefits, along with the Finance Minister’s proposal to boost savings through revised tax structure, will surely strengthen consumer sentiment. We hope the Government will continue its pro-reform outlook and will soon introduce a roadmap for the implementation of GST to benefit business environment as well as the auto industry.”

7) Congratulating the Union Finance Minister, Arun Jaitley, President Automotive Component Manufacturers Association of India, Mr. Harish Lakshman, said,

“We are glad that the Hon’ble Finance Minister has unveiled a pragmatic budget with adequate focus on development of the social sector as well as that of the industry and infrastructure. ACMA also welcomes the announcement of the intent for implementation of GST and DTC at an earliest, as well as measures to encourage the Micro, Small and Medium sector (MSMEs) including revision of its definition. MSMEs constitute over 70% of ACMA’s membership and scaling-up has been a challenge for the sector”.

8) Dr PR Swarup Director General CIDC, Secy Gen UNECE- CIDC Centre of Excellence for PPP

- Need to lay down a policy to improve execution of PPP projects – railways as well as infrastructure.
- Definite policy on HRD and making available naturally produced materials.
- Put institutional dispute resolution mechanism – dispute arbitration.
- Revamp the land acquisition Bill immediately.
- Taxation regime especially pending cases related to service tax, sales tax, income tax, excise fee should be settled to start with a clean slate.
- Social security to people employed in construction industry wage upgrades, benefits on paper and not given such as medical insurance, loan for constructing houses, life

insurance, treatment, allowances for education of dependents and pension at the end of work life. Should be implemented give money to employer who can deliver this.

9) Avani Davda, CEO, Tata Starbucks Limited

"I am pleased to see the government's focus on employability and skills development. Educating and vocational training for the youth to help their employability is crucial to harness the resource pool and will encourage their participation in the country's growth. The introduction of the Young Leaders Program and the proposed national skill program - 'Skill India', are important steps to empower today's youth with skills, improve employability and create jobs. This will indeed provide a boost to the retail and service sector which is so heavily dependent on people.

The hike in exemption limits will provide respite to consumers and in turn, boost their spending power. This is encouraging for the sector as it will help increase consumption and demand. I also welcome the government's move to introduce Goods and Services Tax (GST) later this year."

10) Sharad Venkta, MD & CEO, Toonz Retail India Pvt. Ltd

"The budget is more of directional in nature and has focus on fiscal prudence and administrative improvements. FM stayed away from any big bang announcements and remained focused on basics. There was a clear cut focus on manufacturing and infrastructure sector. Personal income tax exemptions is a welcome move in this inflationary scenario for middle class population.
The move by the government to allow manufacturing units to sell their products through retail including e-commerce platforms is welcome and among other will give a boost to employment in both urban and rural India.
FM has promised to give introduction of GST a thrust which is a welcome move and industry look forward for a clear cut road map."

11) Gaurav Gupta, Senior Director, Deloitte in India

"While people were expecting some significant changes, the budget still puts additional money in people's hand and also makes items like processed foods, soaps, LCD/LEDs, footwear etc cheaper. There is an increase in duty on aerated drinks but it should not significantly impact the overall industry. These changes will hopefully lead to better demand and along with the incentives to invest in manufacturing, should help increase the manufacturing base in India. One additional benefit for consumer goods and electronics sector is that they can now sell

through eCommerce channel and while we will wait for the fine print, this should include MNC firms that have manufacturing capabilities in India"

12) Sandip Shah, Co-Founder & Managing Director of ShopYourWorld.

"The Modi Government has withheld Foreign Direct Investments (FDI) in the e-commerce industry and has decided to only allow foreign companies manufacturing products in India (like Puma, Benetton, Marks & Spencer, Decathlon and others) to sell their merchandise through the e-commerce route. This shall greatly benefit these brands.
At the same time, not allowing FDI a free reign in the Indian market protects the indigenous players from external competition, thereby winning the Government their favour and support. We hope that more research goes into the understanding of the e-commerce sector, as it is clearly the way of the future. A planned approach needs to be made to help channelize and refine it, and it is hoped that the Modi Government invests considerable time, money and energy in its expansion. "

13) Sanjay Sethi, CEO & Co-Founder, Shopclues.com

"It's a satisfactory Budget for the industry. ShopClues is truly a marketplace for the masses and we heartily welcome the focus laid by the Budget on empowering the new middle class in India - whether it is with a higher tax exemptions for salaried individuals and on home loans, greater benefits in provident fund provisions, pension schemes, etc. The announcement on building of airports and better connectivity for tier 2/3 cities is very encouraging since it will bring them into the mainstream of commerce in the country. We're delighted that the government is committed to simplifying the indirect tax regime by bringing about the Goods & Services Tax (GST) by end of the year. Also, we commend the measures outlined for encouraging entrepreneurship in the country, including the fund for boosting capital flow to startups and SMEs. "

14) Anuj Sawhney, Managing Director, Swiss Military Worldwide

From the retail sector point of view, the implementation of GST is crucial in order to get rid of the bottlenecks the industry is facing and increase efficiency. A clear strategy for GST to be rolled out will not just help the retailers but benefit the entire ecosystem with several cost related issues being addressed. Also, the tax policies and laws need to be re-looked in order to improve the investor confidence in this sector. This sector can be benefited from this move and will help build a stronger retail sector with not just increased competition, but will also add to enhanced manufacturing and economic recovery.