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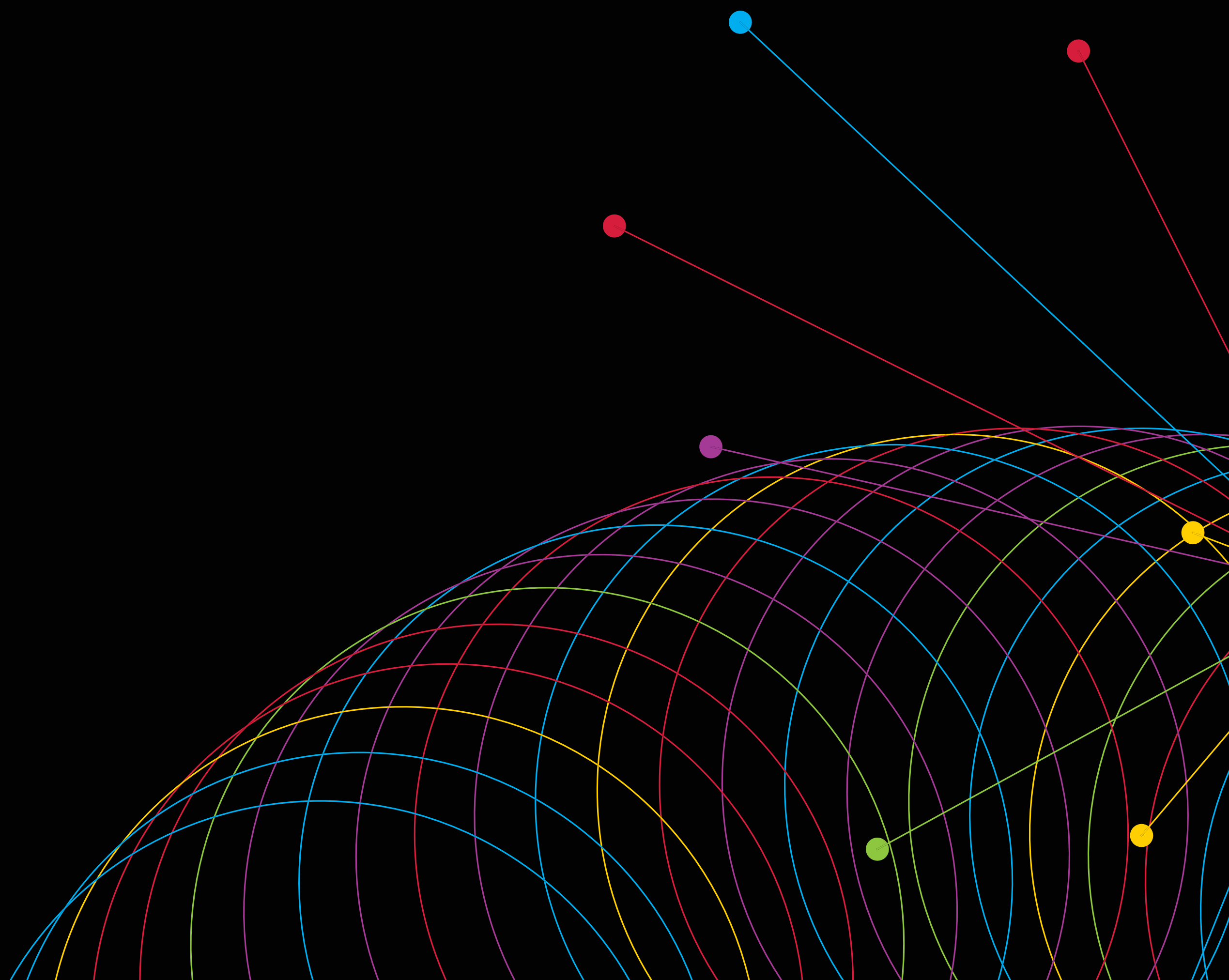
AN UNCOMMON SENSE
OF THE CONSUMER™

TOWARDS AN INCLUSIVE AND EMPOWERED INDIA

BUDGET 2016



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TOWARDS AN INCLUSIVE AND EMPOWERED INDIA

Businesses can breathe easy now that the government has shown commitment to fiscal consolidation. Union Budget 2016 holds an actionable promise of growth and casts the net much wider than in previous years, resulting in the inclusion of rural India alongside established urban economies. Considering businesses can thrive best in thriving communities, Budget 2016-17 has paved the way for sustained and inclusive growth. However, businesses that were expecting immediate sweeping changes, may be in for some disappointment.

Balanced Budget over short-term gains: There is considerable stress in rural India because of the poor rains, the investment environment is weak, public sector banks could do with a push and the global economy is still uncertain. Under these circumstances, the government has planned a measured increase in tax revenues, provisioned for growth of infrastructure and shown significant support for manufacturing in India.

Steady pace over populism: Global markets remain volatile and sizeable tremors have been felt as close to home as China. In a bid to remain strong against negative global economic influences, the government has been pushing the 'Make in India' agenda. To this end, the finance minister made several announcements including tax benefits to start-ups, 'Residency status' to foreign investors, and modifications in the structure of customs and excise duty to give impetus to domestic manufacturing by bringing down costs and increasing competitiveness. What is also reassuring is that Budget 2016-17 projects a realistic commitment by maintaining the fiscal deficit target at 3.5% of the Gross Domestic Product (GDP) for the financial year 2017.

Inclusion over indulgence: The clear focus of the Budget this year has been on inclusion. The reforms will bring much cheer to rural India, small tax payers across the country as well as citizens below the poverty line. These measures are aimed at bringing relief to the extremely stressed rural segment, which has been brought to its knees by poor rains and unfavourable circumstances. Substantial allocations have been made for farmer welfare, the development of safe groundwater, a dedicated irrigation fund and a digital literacy plan. For businesses marketing to rural India or considering and entry into these areas, this implies that consumers will have higher disposable incomes and more access. Small tax payers have got relief by way of an increase in the ceiling of tax rebate for people with an income of up to INR 500,000. The measures have been matched with announcements that cars will get costlier and the super-rich will have to pay an additional income tax surcharge.

Empowerment over entitlement: The government has made it clear that they will not hand benefits over on a platter, and would rather play the role of facilitating inclusive growth and performance. This is apparent in the provisions made to encourage start-ups, the impetus given to the Make in India initiative, enablement through digital programs and financial inclusion. The focus on infrastructure and roadways points to a strategy that seeks to connect, enable and empower in the long term.

What stands out in this Budget is the government's priority of promoting entrepreneurship to further the Make-in-India vision, and the development of rural India. By supporting capability development and promoting inclusion, the Budget shows foresight. What remains to be seen is how plans of infrastructure and development shape up and how businesses adapt to the rise of rural India and low income households.

FAST MOVING CONSUMER GOODS

SOMIK ROY
DIRECTOR
NIELSEN INDIA

The big expected consequence from Budget 2016-17, for the Fast Moving Consumers Goods (FMCG) sector, is the rise in demand from rural India. This is on the back of reforms that will raise the standard of living among rural citizens. Additionally, this is a candidly 'pro-poor' Budget with the raising of the tax rebate ceiling and deduction of additional interest for first time home buyers. Among other similar reforms, these measures make it very clear for marketers as to which end of the price scale their product innovations should focus on.

Stable inflation at 5.4%, GDP growth at 7.4%, a disciplined Budget and stability in the face of global uncertainty bode well for the FMCG sector. On the other hand, continued investment in infrastructure and rural development will take time to show results, although it will certainly help in lifting the sentiment even in the short term.

BOOST TO RURAL ECONOMY

The Budget unveiled a target of 100% village electrification by May 1, 2018 alongside the vision to double farmer income by 2020.

To deliver on these targets, the Budget set aside an unprecedented amount for agriculture and farmer welfare - INR 47,912 crore - a rise of 84% from INR 25,988 crore last year. This includes INR 6,000 crore for groundwater management, INR 12,500 crore for irrigation, and INR 5,500 crore for crop insurance. Moreover, road infrastructure, including rural roads, has been allocated a sizeable INR 97,000 crore.

> “THE BUDGET UNVEILED A TARGET OF 100% VILLAGE ELECTRIFICATION BY MAY 1, 2018 ALONGSIDE THE VISION TO DOUBLE FARMER INCOME BY 2020.”

These measures should ease the burden of the monsoon shortfall of 14%, the receding groundwater and failing crops for the agriculture sector and farm workers. With higher disposable incomes, the next wave of growth for FMCG brands may well come from rural India.

SKILLS DEVELOPMENT & JOB CREATION

The Budget set aside INR 38,500 crore for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) – the world's largest public jobs programme. There was also a greater focus on skill-development schemes like the Digital Literacy Mission for villages. In addition, higher education financing schemes to the tune of INR 1000 crores and the development of a digital repository of educational certificates should both aid job-seekers.

By developing capabilities and creating jobs, consumers are more likely to make positive lifestyle changes creating a favourable impact on FMCG manufacturers.

> "BY DEVELOPING CAPABILITIES AND CREATING JOBS, CONSUMERS ARE MORE LIKELY TO MAKE POSITIVE LIFESTYLE CHANGES WITH FAVOURABLE REPERCUSSIONS FOR FMCG MANUFACTURERS."

PRO-POOR Budget

Citizens living below the poverty line have reason to cheer on a number of fronts. This section of society will get incentives through subsidised cooking gas. Financial inclusion will also get a shot in the arm with the increase in the number of ATMs and micro-ATMs in post offices. Together with the job creation and skill development schemes these measures will increase disposable income.

TAX MEASURES

This Budget has proposed a Krishi Kalyan Cess at 0.5%, for the welfare of farmers. This is applicable on all taxable services like hospitality, communication, property, insurance and travel, effectively making the central service tax 15%. This could possibly add to the expense of manufacturers and traders. Cars are set to become dearer and consumers saving up to buy a new set of wheels may want to curb their daily expenses as compensation. New taxes have also been introduced on cars across segments.

For the fifth successive year, taxes on cigarettes have been increased by the government. There is a 10-15% increase in excise duty on tobacco products apart from bidi, which will result in volume decline. However this excise hike is lower than what was expected and reflected positively on ITC share prices the day after the Budget.

FOOD AND RETAIL

The food-processing industry will see growth and increased competition from the likes of Walmart and Tesco, with foreign direct investment (FDI) being allowed for produce grown and processed in India. There will also be schemes to provide efficient access to markets and retail. In addition, increased investment in organic farming and produce, including honey, will drive the growth of organic produce in retail.

There is a proposal to allow small and mid-size shops to remain open on all days of the week if they choose to do so. All said, FMCG retail has complexities arising out of its largely unorganised nature. Consequently, the exact impact of this will need to be evaluated as and when it plays out. However, it is safe to assume that these measures have the potential to drive growth in lower volume-class outlets in traditional trade through increased competitiveness.

THE NIELSEN VIEW

Determined and sustained investment in infrastructure development initiatives will provide a constructive impetus in a scenario of stunted rural growth. The agriculture and farmer security measures will mean continued growth in disposable income, improved quality of life, improved accessibility to rural markets and therefore growth in FMCG.

The job creation and skills development measures will hasten the percolation of positive GDP growth to all economic stratas of society, and spur consumption across sectors including FMCG.

The middle-class will have to bear the burden of the ambitious rural plans, with increased costs of tickets for air and rail travel, readymade clothes, cars, diamonds, mobile bills, movies and cable television, gold, cigarettes and dining out.

With the big push for rural India in this and the previous Budget, the economically empowered consumer in the hinterland is expected to continue to drive growth. Though the middle class will feel the pinch of higher taxes, stable inflation may temper the tightening of the consumers' purse strings. This Budget could turn out to be the trigger to ignite much-needed domestic demand in an environment of global slowdown.

RURAL AND AGRICULTURE

DIBIYA CHATTERJEE
MANAGER
NIELSEN INDIA

The proposals in Budget 2016-17 are geared to give farmers income security. The aim is to double their income in five years, increase employability and improve infrastructure along the farming supply chain. Cognisant of the prolonged hardships due to weather uncertainties in the last two years, the reforms attempt to empower rural India.

FARMING ASSISTANCE

The government allocated INR 35,984 crore for agriculture and farmers' welfare. Irrigation, central to farm productivity and consequently farmer income, will have the Pradhan Mantri Krishi Sinchai Yojana to irrigate 28.5 lakh hectares. Another 80.6 lakh hectares would be irrigated, with INR 17,000 crore in the FY17 under the Accelerated Irrigation Benefits Programme, while a Long Term fund will be set up by the National Bank for Agriculture and Rural Development (NABARD) for INR 20,000 crore. INR 6,000 crore would go into a major programme for sustainable management of ground water resources, and at least 500,000 farm ponds and dug wells in rain-fed areas and 1 million compost pits for organic manure will be created by using the allocations under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA).

The Soil Health Card Scheme will cover all 140 million farm-holdings by FY17 and supply farmers with information about nutrient level of their soil. It will also suggest judicious uses of fertilizers with INR 368 crore provided for the National Project on Soil Health and Fertility. Fertilizer companies will start having soil and seed testing facilities in their retail outlets, and also co-market city waste converted into compost under the Swachh Bharat Abhiyan.

An impetus to organic farming in rain-fed areas will be given under two schemes that will cover 500,000 acres in three years, for INR 412 crore.

The biggest piece in safeguarding farm income will see INR 5,500 crore for the new crop insurance, Prime Minister's Fasal Bima Yojana, for compensation at a nominal premium amount. The target for agricultural credit has been set at INR 9 lakh-crore for FY17, an all-time high. Another INR 15,000 crore will go into interest subvention to reduce the burden of loan payments.

Animal husbandry, dairy and fisheries will get investments to improve productivity and self-reliance in rural areas.

"THE BIGGEST PIECE IN SAFEGUARDING FARM INCOME WILL SEE INR 5,500 CRORE FOR THE NEW CROP INSURANCE – PRIME MINISTER'S FASAL BIMA YOJANA, FOR COMPENSATION AT A NOMINAL PREMIUM AMOUNT."

EMPLOYABILITY

To boost employability, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) allocation stands at INR 38,500 crore in FY17. New urban clusters will provide infrastructure amenities and market access, and expand employment opportunities for the youth. There are also plans for a rural digital literacy scheme.

INFRASTRUCTURE HELP

The critical piece of market access is aimed at implementing the Unified Agriculture Marketing Scheme for a common e-market platform spanning 585 regulated wholesale markets. This can be effected once Agricultural Produce Market Committee (APMC) of the states are amended, for which 12 states are ready. To ensure the maximum selling price for farmers, states will be encouraged to decentralise procurement. The Food Corporation of India will undertake an online procurement system for transparency and convenience, and pulses procurement will be made more effective.

The recent 'mayhem' with pulses has triggered an allocation of INR 500 crore under the National Food Security Mission for pulses, covering 622 districts, while INR 900 crore has been allocated for a Price Stabilization Fund.

The government has Budgeted to spend a total of INR 27,000 crore in FY17 together with the states, to connect 65,000 eligible habitations by 2019 with roads.

> "THE RECENT MAYHEM WITH PULSES HAS TRIGGERED AN ALLOCATION OF INR 500 CRORE UNDER THE NATIONAL FOOD SECURITY MISSION FOR PULSES, COVERING 622 DISTRICTS, WHILE INR 900 CRORE HAS BEEN ALLOCATED FOR A PRICE STABILIZATION FUND."

GOVERNANCE AND WELL-BEING

An enhanced allocation of INR 80 lakh in aid to each Gram Panchayat on the recommendation of the 14th Finance Commission, will transform villages. Panchayat Raj institutions will be restructured at a cost of INR 655 crore in FY17 for sustainable development. INR 150 crore will go into modernising national land records into an integrated land information management system. Electrification and sanitation in rural areas are already being orchestrated under nation-wide urban-rural schemes.

THE NIELSEN VIEW

Such large-scale farming assistance will lead to better yields, boosting income in the hand of farmers. Ground water recharging will revive fields where yields are deteriorating, and the organic farming impetus will open doors in both foreign and domestic markets, in a scenario where consumers grow health-conscious. Focus on pulses would not only address locals' protein deficiency but reduce dependence on imports and allow food companies to procure at stable prices and quantities.

The multi-disciplinary approach to the agrarian economy with support for animal husbandry and crop failure would infuse stability and sustain rural consumption. Crop insurance schemes could shield farmers from the vagaries of nature.

Efforts for fair price and better access would reduce farmers' dependence on debt because they will bring in more liquidity.

Turning to electronic platforms for farm commerce, stock-taking and information dissemination would lead a more connected rural populace to more income and employment opportunities, as would MNREGA's higher allocation. Companies without inroads to rural India could unlock a new segment in rural consumers.

Finally, by devising plans for rural governance and other amenities, the Budget lays the foundation for a more empowered and independent population, ready to be connected to the rest of the world.

FINANCIAL SERVICES

DEVBRAT KUMAR
DIRECTOR
NIELSEN INDIA

Despite a lingering uncertainty in the global economy, India continues to maintain a steady growth; GDP increased to 7.6% and the fiscal deficit target of 3.9% of GDP for the financial year 2015- 16 has been met. In this scenario, what is ambitious in Budget 2016-17 are the government's goals on the rural front, because the aim is to double farmer income over the next five years. To this end, rural employment, crop insurance and rural credits have been given a distinctive push in the right direction.

TAXATION AND THE TAX-PAYERS

While there has been no change in income tax slabs, the Budget made concessions for small and marginal income tax payers. Reforms include an additional tax rebate for those earning less than INR 5 lakh per annum and an increased deduction in house rent allowance from INR 20,000 to INR 60,000 for people living in rented houses. This will result in about two crore tax payers getting a relief of up to INR 3000. For first-time home buyers, there is also an additional exemption of INR 50,000 proposed for housing loans up to INR 35 lakh, on houses valued below INR 50 lakh. The home loan market will however, see a boost only if the Reserve Bank of India (RBI) follows up with an expected rate cut. Since the fiscal deficit is under check, there is definite room for the RBI to cut rates soon.

The proposed reforms are not as kind to the high-income group with the government tabling an additional 3% surcharge on income for those earning above INR 1 crore per annum. Other significant points are the Employees Provident Fund (EPF) contribution by the government at 8.33% for new employees, and the announcement that only 40% of withdrawal at the time of retirement under National Pension Scheme will be tax exempt. This last proposed reform has faced strong headwinds from the public resulting in its rollback.

The levy of Krishi Kalyan Cess on all taxable services has increased the overall service tax from 14.5% to 15%. It is clearly an effort by the government to bring the service tax closer to the proposed GST rate of 18%. However, the insurance sector is set to benefit with a reduction of service tax from 3.5% to 1.4% of the premium charged on single-premium annuity plans.

> WHILE THERE HAS BEEN NO CHANGE IN INCOME TAX SLABS, THE BUDGET MADE CONCESSIONS FOR SMALL AND MARGINAL INCOME TAX PAYERS. THE REFORMS WILL EFFECTIVELY RESULT IN ABOUT TWO CRORE TAX PAYERS GETTING A RELIEF OF UP TO INR 3000.

BANKING AND THE INSURANCE SECTOR

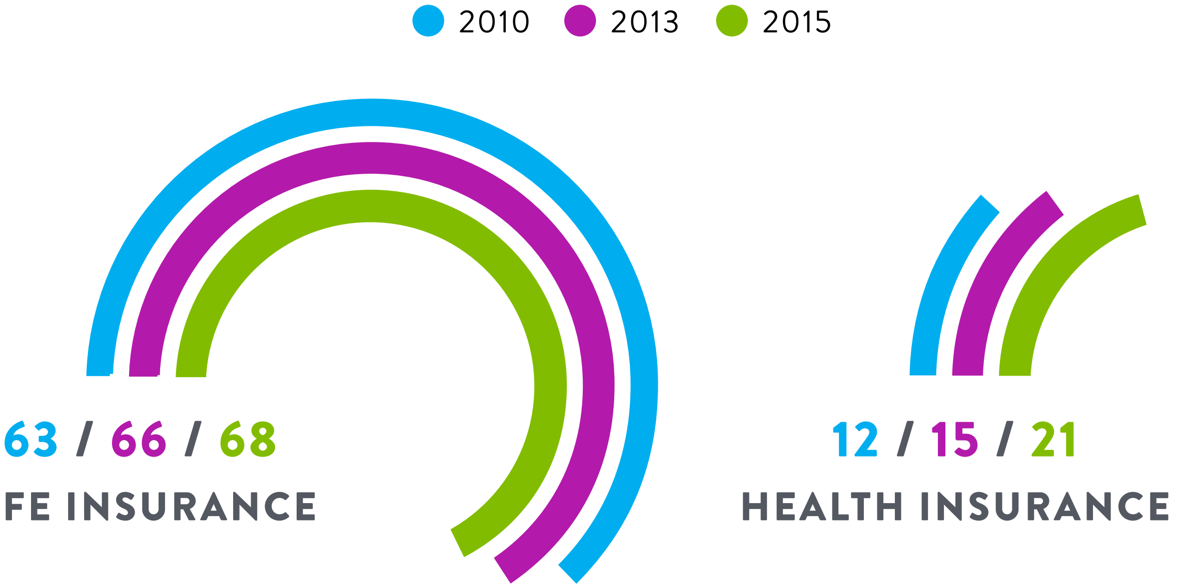
Public sector banks have reason to cheer with an allocation of a recapitalisation fund of INR 25,000 crore, aimed at easing their stressed asset situation. Meanwhile, Foreign Direct Investment (FDI) norms have been relaxed to encourage foreign funding in the insurance and pension sectors. Foreign investment will be allowed through the automatic route for up to 49%, subject to the guidelines on Indian management and control, and verification by the regulators. The resultant infusion of funds will help the capital-intensive insurance sector to grow aggressively. The limit of FDI in Asset Reconstruction Companies (ARC), has now catapulted to 100% from the earlier 49%. Moreover, foreign entities can now invest up to 15% in Indian stock exchanges. This is likely to enhance competitiveness and result in faster adoption of global market practices.

> FOREIGN INVESTMENT WILL BE ALLOWED THROUGH THE AUTOMATIC ROUTE FOR UP TO 49%, SUBJECT TO THE GUIDELINES ON INDIAN MANAGEMENT AND CONTROL, AND VERIFICATION BY THE REGULATORS. THE RESULTANT INFUSION OF FUNDS WILL HELP THE CAPITAL-INTENSIVE INSURANCE SECTOR TO GROW AGGRESSIVELY.

21%

IN THIS SCENARIO, WHICH SEEMS CONDUCIVE TO THE GROWTH OF THE INSURANCE SECTOR, HEALTH INSURANCE HAS THE SCOPE TO GROW FASTER, FROM ITS CURRENT MODEST PENETRATION OF 21% IN URBAN INDIA.

HEALTH INSURANCE IS GROWING, BUT COULD GROW FASTER



Source: Nielsen Syndicated Survey 2015 (Urban India)

In a move that is likely to generate awareness and drive growth in a small way for the health insurance sector, the government has announced a new health protection scheme of up to INR 1 lakh per household. On the general insurance front, companies in the public sector, like New India Assurance Company Ltd., National Insurance Company Ltd., Oriental Insurance Company Ltd. and United India Insurance Company Ltd., are proposed to be enlisted in the stock exchange. This is likely to give them a boost and level the general insurance playing field. The resultant aggressive involvement of public sector companies will improve awareness and the proliferation of general insurance.

THE NIELSEN VIEW

Budget 2016-17 stands out as pro-low-income group, with clear emphasis on rural development. Significantly, while the income tax slabs remain unchanged, small tax payers have been given relief at the cost of the super-rich.

Additional exemptions on housing loan interest for first time home buyers and waiver of service tax on small houses, are likely to help the housing sector. A corresponding reduction in home loan interest rate is however still required to provide a boost to home loans.

Finally, an increase in FDI limits in the insurance and pension sectors is likely to pave the way for their aggressive growth.

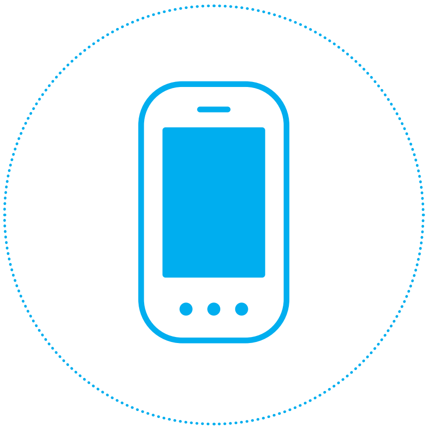
TELECOMMUNICATIONS

ABHIJIT MATKAR
DIRECTOR
NIELSEN INDIA

Tax revenues for the government are expected to go up by 11% over the current year's revised estimates, on the back of nearly INR 20,000 crore worth of fresh levies in the Budget. However, non-tax revenues are estimated to grow by more than double that amount - about 25% over the revised estimates. A look at Budget 2016-17 shows that a chunk of this is expected from the telecom sector.

THE MAKE IN INDIA AGENDA

The government's eagerness to see 'Make in India' through, is reflected in the Budgetary reforms for the coming fiscal. The vision holds true in the policy announcements made in this financial year on different aspects in the telecom sector including spectrum sharing and trading, and the proposed auctions for the 700 MHz spectrum scheduled for June-July 2016. To give an impetus to local manufacturing, an exemption of customs duty has been proposed on components for making telecom equipment like routers, broadband modems and set-top boxes. On the other hand, exemption on customs duty on batteries, chargers, adapters and wired headsets and speakers has been withdrawn to encourage local manufacturing. Finally, exemption is going to be withdrawn from Special Additional Duty (SAD) on populated Printed Circuit Boards (PCB) of mobile phones and tablets, while a concessional SAD of 2% is proposed on populated PCBs for the manufacture of mobile phones and tablets.



"TO GIVE AN IMPETUS TO LOCAL MANUFACTURING, AN EXEMPTION OF CUSTOMS DUTY HAS BEEN PROPOSED ON COMPONENTS FOR MAKING TELECOM EQUIPMENT LIKE ROUTERS, BROADBAND MODEMS AND SET-TOP BOXES."

TAX MATTERS

A welcome move in Budget 2016-17 is the declaration that taxability of assignment of right to use spectrum is a service. The implication is that value-added tax (VAT) will not be applicable, though service tax will. However, there is cause for concern for both operators as well as consumers with the introduction of a 0.5% Krishi Kalyan Cess which will result in higher costs for operators and costlier mobile bills for consumers if operators pass the burden on.

A sensitive area for telecom operators is the all-important relationship with distributors. Since distributors are practically the first 'customers' of telecom brands, a healthy working relationship with them is imperative for operators to win in a fiercely competitive marketplace. Yet, satisfaction studies undertaken by us show that over the last two or three years, telecom distributors rate their satisfaction with operators as just about average. Since most distributors in the industry are a part of the unorganised sector, it is essential for the sake of transparency and clarity, to resolve whether or not distributor margins are liable for withholding tax.

THE NIELSEN VIEW

The main thrust of the Budget for the telecom industry is on local manufacturing and clarity on certain key aspects. However, some other key demands, on the direct tax front for instance, have been pushed to the backburner. Overall, the telecom sector will certainly keep growing and will likely see an array of new developments around spectrum auctions, the ever-increasing demand for data, the rollout of 3G and 4G services by operators and an intensifying of the competitive landscape with the entry of new players both in mobility and broadband. Industry leaders are now waiting to see how these policies impact and increase the share of local manufacturing in India over the next few years.

"A WELCOME MOVE IN BUDGET 2016-17 IS THE DECLARATION THAT TAXABILITY OF ASSIGNMENT OF RIGHT TO USE SPECTRUM IS A SERVICE. THE IMPLICATION IS THAT VALUE-ADDED TAX (VAT) WILL NOT BE APPLICABLE, THOUGH SERVICE TAX WILL."

"SINCE MOST DISTRIBUTORS IN THE INDUSTRY ARE A PART OF THE UNORGANISED SECTOR, IT IS ESSENTIAL FOR THE SAKE OF TRANSPARENCY AND CLARITY, TO RESOLVE WHETHER OR NOT DISTRIBUTOR MARGINS ARE LIABLE FOR WITHHOLDING TAX."

INFORMATION TECHNOLOGY

RAJAT GUPTA
ASSOCIATE DIRECTOR
NIELSEN INDIA

The announcements around Information Technology (IT) in Budget 2016-17 have been described by apex body – the National Association of Software and Services Companies (NASSCOM), as a 'mixed bag'. While the government has broadly stayed true to its vision of transforming India through technology, there are demands like the removal of dual levies on software products, which remain unaddressed. An analysis of the Budget shows that the government integrated IT in four pronounced ways. It went on to boost domestic production of IT hardware to sync with its Make in India drive. E-platforms were also provisioned in various segments of the economy as a service to the public, aiding transparency and speed. It set out to improve the ease of doing business that would benefit more IT start-ups. And, keeping its Digital India drive in mind, pushed for digital literacy for a larger section of the population.

IT HARDWARE BOOST

As the government focuses on encouraging domestic manufacturing through its Make in India initiative, it rationalised customs and excise duties for raw materials and manufacturing for the IT hardware sector in the following ways:-

1. Domestic manufacture of cellular phones will attract only 2% excise duty, while imports of foreign-made phones will face 29.4% duty, giving a 27.4% protection to domestic cellular phone manufacturers vis-a-vis importers.
2. The duty on imports of IT components and their sub-components such as routers, modems, set-top boxes has been reduced (from 12.5% to 4% or even 0%).
3. A broad category of inputs, including parts, components and sub-parts, is exempt from excise, as well as Countervailing Duty (CVD) of customs when used for manufacture.

DIGITAL ENABLEMENT

The Budget illustrates the government's agenda to enable the rural population through digital literacy and skill development. It believes this will unlock the true benefits of India's democratic advantage.

"THE BUDGET ILLUSTRATES THE GOVERNMENT'S AGENDA TO ENABLE THE RURAL POPULATION THROUGH DIGITAL LITERACY AND SKILL DEVELOPMENT. IT BELIEVES THIS WILL UNLOCK THE TRUE BENEFITS OF INDIA'S DEMOCRATIC ADVANTAGE."

Besides Digital Saksharta Abhiyan (DISHA) or National Digital Literacy Mission (NDLM) scheme that has been formulated to promote digital learning and adoption, there will be a new Digital Literacy Mission Scheme just for rural India covering 60 million households in the next three years.

SKILL DEVELOPMENT FOR AND BY IT

There will be 1,500 new multi-skill training institutes across the country. This together with the National Skill Development Mission that is training lakhs of youth and the Pradhan Mantri Kaushal Vikas Yojana to promote entrepreneurship, will see spends worth INR 1,700 crore. Entrepreneurship education and training will be provided in 2,200 colleges, 300 schools, 500 government Industrial Training Institutes and 50 vocational training centres through massive open online courses. Aspiring entrepreneurs, particularly those from remote parts of the country, will be connected to mentors and credit markets.

> SERVICES HAVE BEEN LINED UP ON ELECTRONIC AND MOBILE PLATFORMS TO ENABLE EFFECTIVE CITIZEN SERVICES, PARTICULARLY FOR THE RURAL SECTOR.

PUBLIC SERVICE THROUGH E-PLATFORMS

Services have been lined up on electronic and mobile platforms to enable effective citizen services, particularly for the rural sector. The automation of 300,000 fair-price shops has been planned for farmers. Agricultural input information dissemination, food grain procurement markets, livestock markets would be put on electronic platforms for ready access by their users. Digital learning programmes too will go live on e-platforms.

A digital depository for educational certificates and marksheets to validate their veracity, easy retrieval and safe storage has been proposed, aimed at helping students, higher education institutions and employers alike. INR 1,000 crore has been set aside to form a Higher Education Financing Agency to improve the infrastructure of our institutions.

Digital record-keeping will be extended to an integrated land information management system with an allocation of INR 150 crore. Post offices will sport automated teller machines (ATM) in three years. 300 rurban clusters in rural areas are planned to act as both information and skilling centres through use of IT. In addition to these reforms, a grant of INR 2.87 lakh crore to Gram Panchayats and municipalities, an increase of 228%, will help speed up IT adoption too.

EASE OF DOING BUSINESS

The Budget extended the deduction under section 10AA of the Income Tax act for manufacturers commencing work in Special Economic Zones (SEZs) before 31 March, 2020. The allocation of INR 500 crore for the Stand Up India scheme would promote entrepreneurship among backward castes and women. Startups have been given 100% deduction on profits for three years out of five, except for Minimum Alternative Tax (MAT), which will apply from April 2016 to March 2019.

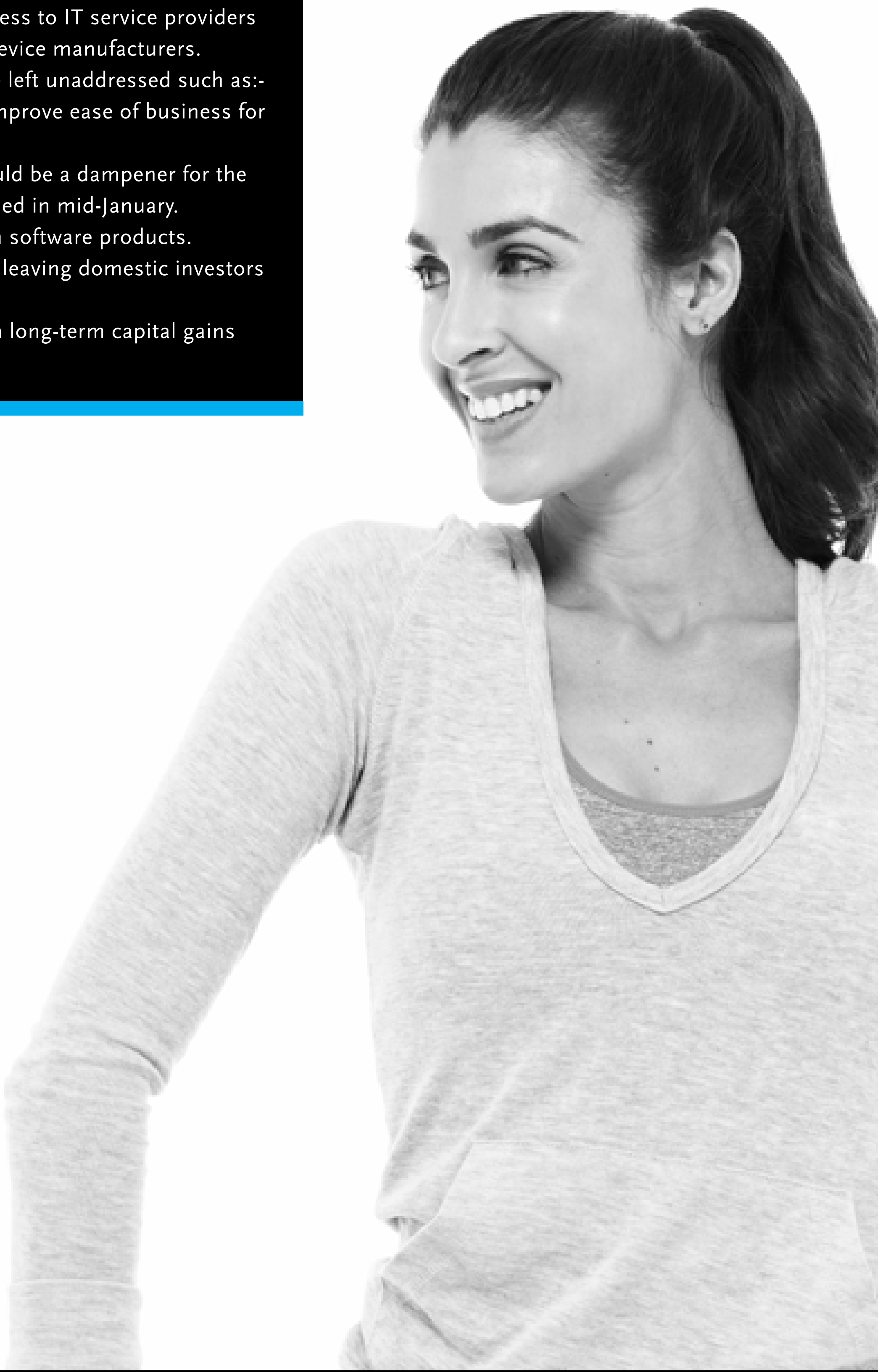
The profit-linked tax incentives will also get phased out by March 2020 enabling businesses to plan investments and expansions unhindered.

> AN ALLOCATION OF INR 500 CRORE FOR THE STAND UP INDIA SCHEME WOULD PROMOTE ENTREPRENEURSHIP AMONG BACKWARD CASTES AND WOMEN.

THE NIELSEN VIEW

This year's Budget has primarily focused on taking the merits of IT to India's lesser developed demographics, right down to the person at the very bottom of the hierarchy. The digital literacy mission and Skill India initiative will enable the youth to use technology to their advantage, increasing penetration of the Internet. This will have a positive effect on IT hardware manufacturers and service providers. Also, the e-service delivery platforms shall bring business to IT service providers as well as system integrators and device manufacturers. However, there were gaps that were left unaddressed such as:-

1. No policy announcements to improve ease of business for the IT services sector.
2. Imposing MAT on start-ups could be a dampener for the Startup India action plan unveiled in mid-January.
3. No change in the dual levies on software products.
4. Continuation of angel taxation, leaving domestic investors to face a higher tax rate.
5. There remain the issues of high long-term capital gains taxes and transfer-pricing.

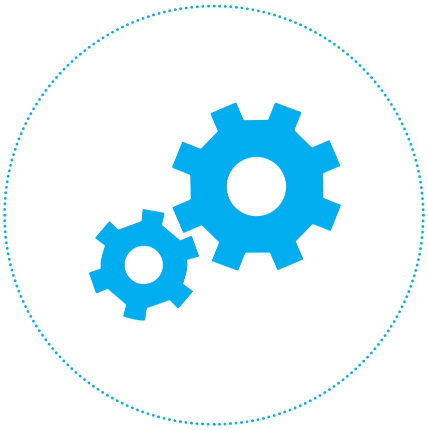


KEY INDUSTRIAL SECTORS

ARJUN VASHISHTHA
ASSOCIATE DIRECTOR
NIELSEN INDIA

The Union Budget 2016 - 17 has been crafted in a fairly challenging economic environment, made up of rising rural distress due to poor rains, sluggish domestic demand, stressed banks and private sector, weak investment environment and a volatile global economy. Even then, the Budget sticks to a realistic commitment by maintaining the fiscal deficit target at 3.5% of Gross Domestic Product (GDP) for the financial year (FY) 2017, after having achieved the target of 3.9% in FY16.

The total Budgeted productive spending, that is capital spending and the money for assets for capital creation, amounts to INR 3.13 lakh-crore, representing a rise of 14.2%. Rather than increase outlays in one or two key sectors, this Budget approaches infrastructure in an all-inclusive way with substantial boosts to all the critical sectors such as road, railways, airports and ports.



The total outlay for infrastructure development is INR 2.21 lakh-crore. Of this the total investments in the road sector, including the Pradhan Mantri Gram Sadak Yojana allocation, is INR 97,000 crore for FY17.

> RATHER THAN INCREASE OUTLAYS IN ONE OR TWO KEY SECTORS, THIS BUDGET APPROACHES INFRASTRUCTURE IN AN ALL-INCLUSIVE WAY WITH SUBSTANTIAL BOOSTS TO ALL THE CRITICAL SECTORS SUCH AS ROAD, RAILWAYS, AIRPORTS AND PORTS.

There is also a new credit rating system proposed for infrastructure projects.

Provisions facilitating the entry of private players to run buses in state transport have also been introduced.

The Budget reiterated the goal announced in 2015 to electrify over 18,000 villages by 2018, with 5,542 villages already covered till February, 2016.

The Budget announced incentivising gas production from areas that are not exploited due to high cost risk. It would involve calibrated marketing freedom, at pre-determined prices, for new discoveries and areas which are yet to commence production.

There will also be a comprehensive plan, spanning the next 15 to 20 years, to augment investment in nuclear power generation.

A Public Utility (Resolution of Disputes) Bill will be introduced during FY17, along with guidelines for re-negotiation of public-private-partnership (PPP) concession agreements.

There were also service tax exemptions and additional exemptions made towards affordable housing such as a 100% deduction for profits, except Minimum Alternative Tax, from affordable housing projects in cities. Home-buyers of affordable housing will also get income tax deduction on additional interest of INR 50,000 a year on loans of up to INR 35 lakh for houses costing not more than INR 50 lakh.

To spur the food industry and benefit farmers, 100% foreign direct investment (FDI) was allowed through Foreign Investment Promotion Board (FIPB) - government permission, in marketing of food products made in India. There were also various changes made in customs and excise duties on components needed in sectors like IT hardware, capital goods, defence production, textiles, mineral fuels and mineral oils, chemicals and petrochemicals, paper, paperboard and newsprint, maintenance repair and overhauling of aircrafts and ship repair; all geared to improve competitiveness of domestic production.

“TO SPUR THE FOOD INDUSTRY AND BENEFIT FARMERS, 100% FOREIGN DIRECT INVESTMENT (FDI) WAS ALLOWED THROUGH FOREIGN INVESTMENT PROMOTION BOARD (FIPB) - GOVERNMENT PERMISSION, IN MARKETING OF FOOD PRODUCTS MADE IN INDIA.”

THE NIELSEN VIEW

The Budget has an all-inclusive approach to boosting infrastructure.

Constructive competition is expected in transport, with the entry of private buses in state transport.

Improving road connectivity and conditions will bring down a major cost component in logistics of building materials such as cement and paint that is transported over long distances by road. So, the government's focus on roads will raise manufacturers' confidence and help them achieve better economic efficiency in the long term.

The expenditure on rapid electrification is bound to bring smiles to electrical and lighting players. Even though these sectors are set to grow, their manufacturers will have to innovate to offer products that can effectively address the needs of the rural consumer.

The Budget also commits to freeing up gas price, which should help to speed up gas exploration and production in the Oil & Gas sector. The Public Utility (Resolution of Disputes) Bill will almost certainly revitalise PPPs in this industry.

Exemptions in taxes for affordable housing makers will bridge the significant supply gap, while exemptions for buyers will let pent-up demand materialise into actual purchase.

The changes in customs and excise duty rates on input components for a host of industries producing in India will improve domestic competitiveness and boost the Make in India initiative.

PHARMACEUTICALS

PATTABHIRAMAN IYER
ASSOCIATE DIRECTOR
NIELSEN INDIA

Budget 2016-17 was a mixed bag for the pharmaceuticals industry. On the one hand, there is reason to celebrate the tax rebate on earnings from global patent filings, but on the other, there is the proposed cut on tax rebates on Research and Development (R&D) expenditure. Public health measures saw further encouragement in this Budget.

PRO-POOR Budget

In a hugely significant move, a health insurance scheme was announced, which protects one-third of India's population against hospitalisation expenditure. The government will provide INR 1 lakh to families from weak economic backgrounds in the event of catastrophic health events, where related costs will push the family below the poverty line. There will be a top-up of INR 30,000 for people in this category who are above 60 years.

Below-poverty-line (BPL) families will benefit from a new initiative to ensure a cooking gas or Liquefied Petroleum Gas (LPG) connection supported by government subsidy. This is to reduce the suffering from the pollution due to chulha cooking, which is particularly harmful to women's health. INR 2,000 crore has been set aside for such connections that will reach 15 million BPL in FY17 and expand in two years to cover 50 million such households.

> "IN A HUGELY SIGNIFICANT MOVE, A HEALTH INSURANCE SCHEME WAS ANNOUNCED, WHICH PROTECTS ONE-THIRD OF INDIA'S POPULATION AGAINST HOSPITALISATION EXPENDITURE. THE GOVERNMENT WILL PROVIDE INR 1 LAKH TO FAMILIES FROM WEAK ECONOMIC BACKGROUNDS FOR CATASTROPHIC HEALTH EVENTS, IN WHICH RELATED COSTS WILL PUSH THE FAMILY BELOW THE POVERTY LINE."

REDUCED BURDEN ON HEALTHCARE EXPENSES

Health insurance premium deduction was hiked from INR 15,000 to INR 25,000 and for senior citizens to INR 30,000. The rebate would encourage enhanced coverage, thereby reducing the burden on 'out of pocket expenses'. Consumers would be less constrained by the tax limit and would maximize their health coverage.

For senior citizens, the tax exemption on expenditure on specific illness such as heart ailments or cancer has been increased from INR 60,000 to INR 80,000. For those above 80 years, tax exemption has been allowed up to INR 30,000 for any medical treatment for self.

Increased tax exemption would have a domino effect among payers. Increased penetration could persuade insurance companies to decide inclusion of drugs in the reimbursement list.

Deductions under expenditure towards specific diseases of a serious nature would see the launch of more disease-specific insurance. The affordability of drugs, too, will rise given the insurance coverage.

General insurance services provided under the 'Niramaya' Health Insurance Scheme launched by the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability have been exempted from service tax. Moreover, generic drugs, which are lower priced than branded drugs but are as effective, will have 3,000 new Jan Aushadhi stores selling them in FY17.

The Budget also launched a National Dialysis Services programme with funds from a public-private-partnership (PPP) model. There is a demand from 220,000 new patients with renal failure every year for dialysis centres. Tragically, only half the demand is met, and that too only in major towns and private hospitals. To answer this pressing need, the Finance Minister announced dialysis services in all district hospitals. To cap the cost of each session at about INR 2,000, he exempted certain parts of dialysis equipment from basic customs duty, excise or Countervailing Duty (CVD), and Special Additional Duty (SAD).

The Budget limited the benefit of weighted deductions on research spends to 150% from 200%, starting FY18, and to 100% starting FY2020, that would have an impact on pharmaceutical and biotech companies.

In a positive move, a 10% tax rebate was announced on income from patents developed and registered in India, which would help pharmaceutical companies who heavily rely on patents for new drug filings.

"IN A POSITIVE MOVE, A 10% TAX REBATE WAS ANNOUNCED ON INCOME FROM PATENTS DEVELOPED AND REGISTERED IN INDIA, WHICH WOULD HELP PHARMACEUTICAL COMPANIES WHO HEAVILY RELY ON PATENTS FOR NEW DRUG FILINGS."

THE NIELSEN VIEW

The reforms are a welcome move to enhance health coverage for the poor, especially hospitalisation charges. So far, India had only the Rashtriya Swasthya Bima Yojana providing health insurance to BPL families with hospitalisation coverage of up to INR 30,000 for most diseases. The top-up clause will reduce the burden of healthcare expenditure on the aged, a section which needs it the most.

The national dialysis programme will go a long way to improve the situation in the country, as dialysis is a recurring treatment, needed almost every week, with patients having to travel miles to reach the nearest centre. According to the Budget, about 220,000 new patients with end-stage renal disease emerge every year and there is an additional annual demand for 34 million dialysis sessions. But there are only around 4,950 dialysis centres in all of India to service the demand. The PPP-funded programme would help save patients' money thereby improving their quality of life. In future, similar policies could be hoped for cancer care, easing the burden of chemotherapy and radiation, and increasing access.

The push for wider distribution for generic drugs will bring quality medicines at affordable prices to people. It alleviates the huge stress created by medical expenditure in households with diabetes, for example; given that India has the dubious distinction of being the Diabetes capital of the world, this would have a sizeable impact.

It would lead to drug compliance, in turn leading to better control on disease management. Indigenous pharmaceutical companies would see demand rise while multinational branded players would be forced to come up with India-friendly pricing.

However, the pharmaceutical and biotechnology players will be affected by the proposed reduction of weight tax rebate on R&D expenditure as they heavily depend on it for growth.

For pharmaceutical companies looking at expansion, the tax rebate on income from global use of patents developed and registered in India, would be a boon, though.

The digital literacy drive in rural India may pave the way for start-ups to develop new-age healthcare structures to reach rural India. It would make it easier to educate the rural audience about disease awareness, early diagnosis and timely intervention.

MEDIA AND ENTERTAINMENT

ANUPAM ASTHANA
DIRECTOR
NIELSEN INDIA

November 2015 saw some significant announcements made for the media and entertainment (M&E) sector. These included the much-awaited increase of FDI limit in news channels and FM Radio stations to 49%, and 100% overseas ownership of digital cable and Direct to Home (DTH) services. Under these circumstances, Budget 2016-17 understandably, had little to offer the industry. However, it does stand out as being 'inclusive'. Though not ground-breaking, there are three announcements that are going to impact consumers.

1

13.8% INCREASE IN THE OVERALL Budget ALLOCATION TO THE INFORMATION AND BROADCAST (I&B) MINISTRY

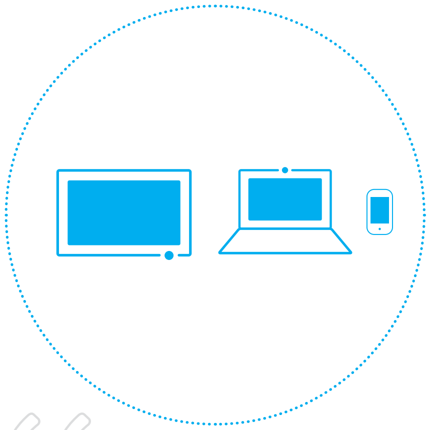
A 13.8% increase from the 2015 allocation amounts to INR 4084 crore. Of this, a mere INR 30 crore has been set aside to 'strengthen broadcast activities'. These 'broadcast activities' include the I&B ministry's Electronic Media Monitoring Centre (EMMC), contribution to the Asian Institute of Broadcasting Development, digitization, building and machinery, private FM radio stations, as well as the Community Radio Support Scheme that provides financial assistance to community radio stations.

The increase also includes an allocation of INR 52 crore for Doordarshan's Kisan channel, up from a revised estimate of INR 26.25 crore last year. The channel was set up in 2015 to educate farmers on the latest technologies in the sector.

2

BOOST TO THE RURAL SECTOR

Beyond the I&B Budget, there is a sizeable allocation of INR 87,765 crore for the development of the rural sector. This amount is aimed at facilitating the creation of jobs, promoting education, boosting connectivity and achieving the goal of 100% electrification by May 2018. Our studies in rural India and smaller cities have indicated that television viewership is linked to electrification and general wellbeing, brought about by availability of jobs and an increase in disposable income. This boost to the rural sector is likely to result in a corresponding surge of television viewership in the mid to long term.



"OUR STUDIES IN RURAL INDIA AND SMALLER CITIES HAVE INDICATED THAT TELEVISION VIEWERSHIP IS LINKED TO ELECTRIFICATION AND GENERAL WELLBEING, BROUGHT ABOUT BY AVAILABILITY OF JOBS AND AN INCREASE IN DISPOSABLE INCOME. THIS BOOST TO THE RURAL SECTOR IS LIKELY TO RESULT IN A CORRESPONDING SURGE OF TELEVISION VIEWERSHIP IN THE MID TO LONG-TERM."

3

KRISHI KALYAN CESS

An additional Krishi Kalyan Cess of 0.5%, to be levied on all taxable services, has been proposed in the Budget. It has been provisioned to finance and promote initiatives to improve agriculture. This is likely to positively impact the lifestyle of rural India, leading to increased media consumption.

There are some other factors which are likely to supplement the Budgetary momentum and positively impact television viewership in rural areas and towns with less than 100,000 population.

1. Aggressive marketing and affordable pricing of Doordarshan's DTH arm; DD free Dish has increased viewership.
2. The new joint industry council for audience measurement; the Broadcast Audience Research Council (BARC), has now started releasing viewership numbers on rural areas and towns with a population of less than 100,000. Since the introduction of these measures, marketers and media professionals are looking at these markets afresh.

POSSIBLE DRAWBACKS

Though fairly insignificant, there may be some negative ramifications of the reforms proposed in the Budget. For instance, an increase in service tax as a result of two cesses, namely Swachh Bharat Cess and Krishi Kalyan Cess makes the tax figure on services 15%. This is likely to have an impact on marketing spends and other service-related expenses. Since Internet, cable, television and DTH are considered services, consumers' monthly bills will rise. To add to this, entertainment will get dearer. Film tickets will get marginally costlier. Apart from the consumer, a short term impact will probably be felt by broadcasters and publishers as well with the added expenses affecting advertising revenues. Although not a big increase, these expenses will pinch the penny-wise public, and may result in a temporary plateau in entertainment revenues in urban areas.

> "BEYOND THE I&B BUDGET, THERE IS A SIZEABLE ALLOCATION OF INR 87,765 CRORE FOR THE DEVELOPMENT OF THE RURAL SECTOR. THIS AMOUNT IS AIMED AT FACILITATING THE CREATION OF JOBS, PROMOTING EDUCATION, BOOSTING CONNECTIVITY AND ACHIEVING THE GOAL OF 100% ELECTRIFICATION BY MAY 2018."

THE NIELSEN VIEW

With a 7.6% growth of GDP, India is viewed as the relatively grounded and steady economy in a gloomy global scenario. Moreover, initiatives like 'Make in India', 'Digital India', and 'Skill India' have generated a lot of interest in corporate circles resulting in more investments coming India's way. It will also result in more marketing spends therefore keeping advertising spends healthy.

Overall, the 2016-17 Budget is likely to push media consumption higher in rural areas and towns with a population of less than 100,000. Along with the transformation push, the overall investments and advertising spends are also likely to remain positive.

THE AUTOMOBILE SECTOR

SANDEEP PANDE
DIRECTOR
NIELSEN INDIA

The automobile industry in 2015 saw one of the highest production growths so far. There were plenty of new vehicle launches and introduction of new segments such as crossovers and compact sports utility vehicles (SUVs). But this also meant more cars on the roads, leading to high air pollution and traffic, especially in the capital city. The finance ministry took cognisance of the repercussions and devised the Budget accordingly.

INCREASE OF TAXES ON DIESEL VEHICLES, SUVs AND LUXURY CARS

With the correlation between automobile fumes and air pollution in mind, diesel vehicles under four meters and with less than 1500 cc engines, will now attract a 2.5% infrastructure cess. This will compound the effect of continuous increase in diesel prices, and affect demand for diesel cars such as SUVs. Such moves are in contrast with the government's focus on 'dieselisation' not too long ago. Currently, 40% of passenger vehicles are diesel variants. Larger vehicles with large engines also mean more emissions. Hence, high-capacity vehicle and SUV sales will be charged an addition levy of 4%.

Small petrol cars which are under four meters with under 1200cc engines, will have an extra 1% infrastructure cess.

There is also a 1% tax on luxury car sales of above INR 10 lakh. In a move towards sustainability, electric, hybrid, and hydrogen fuel-driven vehicles have been exempted from additional taxes.

> "IN A MOVE TOWARDS SUSTAINABILITY, ELECTRIC, HYBRID, AND HYDROGEN FUEL-DRIVEN VEHICLES HAVE BEEN EXEMPTED FROM ALL THE ADDITIONAL TAXES PROPOSED IN THE BUDGET."

THE PROMISE OF BETTER INFRASTRUCTURE AND ROADWAYS

While it may be taxing times for the passenger cars market, the Budget held out the promise for better road connectivity and easing of traffic with a whopping allocation of INR 97,000 crore for roads and highways. Of this, INR 27,000 crore will be spent on rural roads, connecting the remaining 65,000 eligible habitations by constructing 223,000 km of roads. Nearly 85% of 70 road projects spanning 8,300 km at the beginning of FY16, have been put back on track, the Finance Minister said.

The Budget also welcomes private sector participation in public transport. The move will enable private players to operate buses for the masses that will consequently make public transport efficient.

UNADDRESSED INDUSTRY EXPECTATIONS

There were some changes expected to be announced in the Budget but were missing. The industry was expecting a scrappage policy announcement to address environmental pollution, but was disappointed. There was also no indication of an anti-dumping policy for the tyre sector against cheap imports from China, which has been a sore point for some time now.

THE NIELSEN VIEW

Even though steps have been taken to improve infrastructure and public transport, the overall focus of the Budget was to limit the sales of passenger vehicles.

The 4% levy on SUVs would aggravate buyer apprehension as it did in December, 2015, when the Supreme Court had banned sale of diesel vehicles with engines of or bigger than 2,000 cc in the National Capital Region till March 31, 2016.

The idea behind increasing taxes on luxury cars is to promote the use of hybrid and electric vehicles, but there is limited availability and infrastructure to support such cars. Hence, the desired impact may elude the government.

Passenger car manufacturers have already initiated the switch to costlier Euro 6 norms, an advanced norm for limiting vehicle emissions and bring down pollution, by 2020. Taxation, then, may dent sales as the upfront and running costs of vehicles will both increase. People with low income or those yet to graduate to a car would think twice before doing so and stick to two-wheelers for now.

The Budget did not apply any tax burden on two-wheelers. Couple with a resurgence in rural demand, this will, in all probability, lead to an increase in two-wheeler sales.

While excise duty on petrol and diesel have been hiked by the central government many times in the past year along with different state governments levying increased VAT, there were no mentions of a reduction. This will keep fuel prices at the same level as a year ago, despite the fact that globally they have come down by 50%, further discouraging passenger vehicle segment growth.

The investment in road connectivity is good news for both the passenger vehicle segment and public transport, though the effects are long term and won't be seen immediately.

The disposable income unlocked by tax relief given to home loan-payers and those who rent homes will lead to automobile sales. But again, this would come into effect in the long term while limiting penalties such as taxes would have an immediate effect. So, in the near term, the Budget will have a negative impact on the sector but will usher in stable growth over a period of time by improving purchasing capacity of a wider audience.

> “WHILE THERE MAY BE TAXING TIMES AHEAD FOR THE PASSENGER CARS MARKET, THE BUDGET HELD OUT THE PROMISE FOR BETTER ROAD CONNECTIVITY AND EASING OF TRAFFIC WITH A WHOPPING ALLOCATION OF INR 97,000 CRORE FOR ROADS AND HIGHWAYS.”

Soumendra Dutta, Sucheta Jha and Apeksha Jain contributed to this report.

ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.