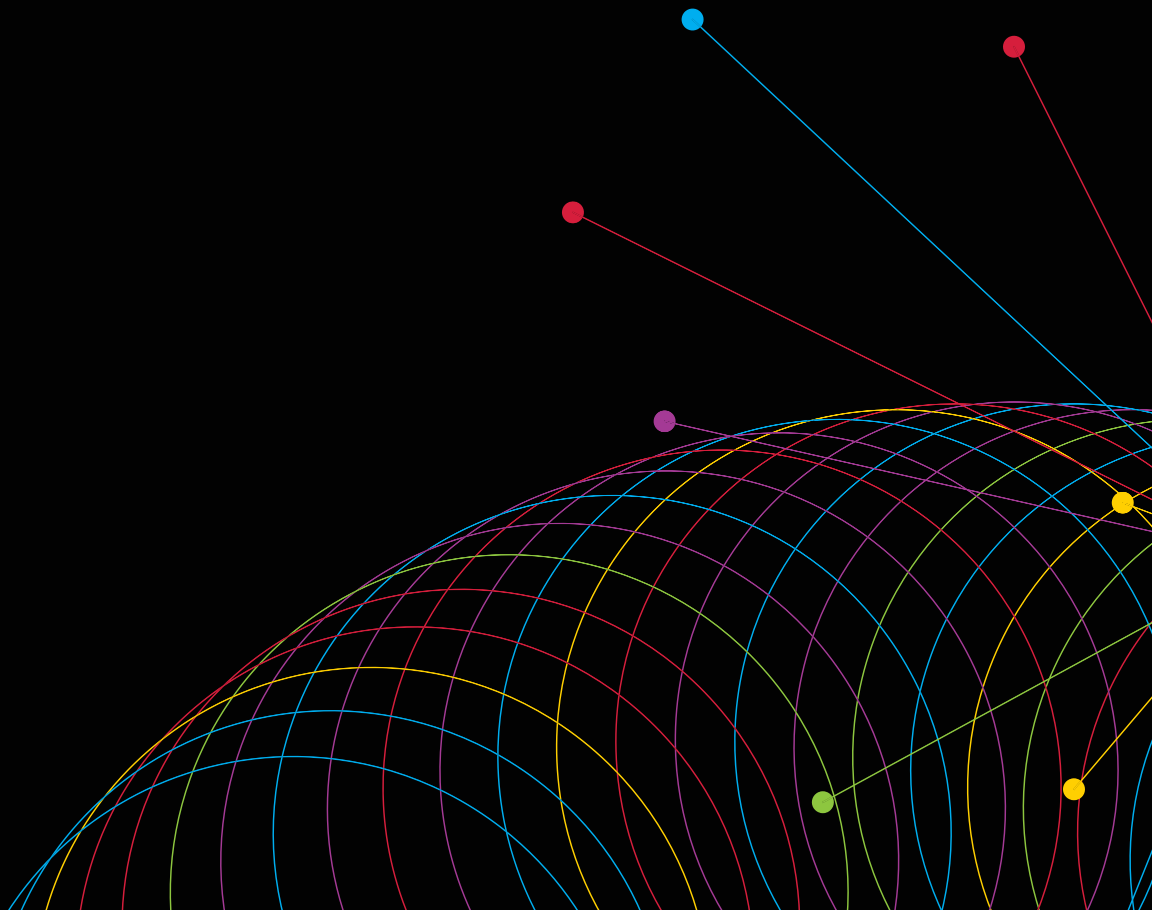
nielsen

DRIVING MOMENTUM, SUSTAINING GROWTH

BUDGET 2017: THE NIELSEN VIEW



CONTENTS

DRIVING MOMENTUM, SUSTAINING GROWTH

PRASUN BASU, PRESIDENT – SOUTH ASIA, NIELSEN

This was a Union Budget of many firsts, most notably, the first after the demand disruption in the wake of demonetisation. Conscious of consumer apprehension, the government has been careful to address specific needs of people from lower income groups who were most acutely affected by the currency overhaul. While addressing the immediate needs of these affected consumers, the government has also kept their eyes on the ball with a continued focus on infrastructure, development, fiscal consolidation and digital growth. Budget 2017 has largely been devoid of drama, choosing instead to carry on the consistent focus on cleaning up the system, improving the standard of living and becoming more inclusive by bringing marginalised sections of society into the formal fold of the administration. While the ensuing chapters by our domain experts offer insights on what the Budget means for specific sectors, there are a few overarching themes that stand out in the Finance Minister's Budgetary allocation this year.

DEMONETISATION: Instead of trying to please everyone with a populist budget, the government displayed foresight by focusing the cushioning on those most affected in the aftermath of the November 8th announcement. To begin with, the tax burden has been reduced on people earning less than INR 5 lakh a year. There is also a thrust on infrastructure with the allocation of additional budgetary resources to drive growth to counter the slowdown post demonetisation. Undeniably, the real estate sector has been badly hit by demonetisation, so the reduction in lending rates for housing loans came as a relief. All the measures undertaken to improve the lot of rural India will result in increased disposable incomes for them. However, the task of bringing more people under the tax umbrella seems to be half done. There could have been more progress made on that front.

INCLUSION: Well before the Budget, the government has been taking bold strides to bring marginalised Indians into the formal economy. The Budget followed up on this with decisive moves to further this agenda. The plan includes building one crore houses for those currently without homes, reduction of income tax and simple one-page returns for people in low income groups. Not only has the administration specified short-term dates for the completion of the efforts at inclusion, but has quantified every endeavour. The government has set a target of bringing one crore households out of poverty by 2019, and achieving 100% rural electrification by 2018.

ACCESS: The Budget has worked hard to incorporate digitisation to connect with consumers as well as bring efficiencies into the government's own administrative processes. From digital payments to digital identities and e-applications, the future promises to be transparent, efficient and devoid of bureaucratic layering. The massive push given to infrastructure includes the largest ever allocation to railways, and a concrete plan for improving road connectivity which will translate into lowered cost of logistics for companies. The focus on infrastructure is comprehensive in its coverage of road, railways, waterways and civil aviation.

CAPABILITY: To make India self-reliant has been the government's mission since coming into power. A critical component of this is capability development. The Skill India mission has been designed to deliver to this end. This year's Budget promises an innovation fund for secondary education, the focus on educationally backward blocks, the creation of additional post-graduation seats and courses on foreign languages.

What marks Budget 2017 is a single-minded focus on long term gains and the restraint displayed by not giving in to populist expectations. An empowered and capable India, with access for the rural population is the clear goal. Going forward, the industry and consumers alike will wait to see how the execution of these plans unfold.

THE THREE-POINT MANTRA OF BUDGET 2017 –

TRANSFORM, ENERGISE, CLEAN INDIA

AJAY MACADEN, EXECUTIVE DIRECTOR, NIELSEN INDIA

The annual Union Budget has traditionally had the onerous task of living up to widely differing expectations from citizens, industry and even political opponents. This year the anticipation was even more piqued because of the many firsts. It was the first one that integrated the rail budget, and the first to bring the date of the Budget forward.

Cognisant of these expectations, the finance minister delivered a Budget that was measured and consistent with the long-term goals of the government for the country, including sustained growth, a thrust on curbing black money, affordable housing, a digital economy, job creation, transparency in political funding and simplification of tax administration. The very clear three-point agenda is transform, energise and clean India. The core focus of the current Budget continued to be on infrastructure development with a definite emphasis on uplifting lower income groups and rural folk. Rural India has been promised improved infrastructure and rail development. The inclusive Budget also offered relief to middle-class tax payers as well as small and medium-sized companies. These measures can be expected to trigger spending and consumption in the long run.

Tax-slab reforms to increase disposable income: The continuation of 15% surcharge on incomes above INR 1 crore, the 10% surcharge on incomes between INR 50 lakh and INR 1 crore and the reduction of tax for incomes between INR 2.5 lakh and INR 5 lakh to 5% are aimed at bridging the income divide and integrating more of society into the formal economy. Advising the newly-formalised tax payers on investment and tax-saving, and understanding their needs will help businesses cater to them better.

Goods and Services Tax (GST) developments: The finance minister did mention that progress has been made on all fronts around the GST rollout, but stopped short of committing to a July 2017 implementation date. In the lead-up to Budget 2017, there was some talk of increasing the service tax rate from 15% to ~18%. However, the government's decision to not go ahead with the hike did come as a pleasant surprise to both industry and the common man.

Continued focus on infrastructure: Expectedly, the Budget put its weight and money firmly behind infrastructure. Transport was allocated INR 2.41 lakh crore, the Bharat Net Project received INR 10,000 crore, highway allocation rose to INR 64,000 crore, a corpus of INR 100,000 crore was committed for the Rail Safety Fund over five years, a capital development expenditure of INR 1,31,000 crore was promised on railways, 25% increase in infrastructure spending has been planned and PMGAY was allocated INR 23,000 crore.

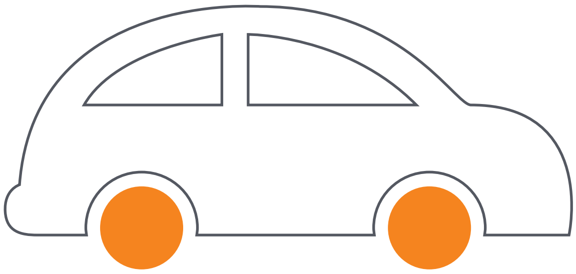
Impetus to rural India and agriculture sectors: A slew of measures designed to revitalise the rural space and agriculture, bode well for businesses catering to customers in these sectors. Significant measures include the construction of five lakh ponds for drought-proofing, increase in MGNREGA allocation to INR 48,000 crore, agricultural credit of INR 10 lakh crore, a total allocation of INR 1,87,223 crore towards rural, agriculture and allied sectors, and contract farming aimed at doubling farmers' income in five years. Moreover, the PM Fasal Bima Yojana now stands at INR 13,200 crore. Acreage covered under insurance will also go up to 50% by next year. The agriculture sector is set to **grow at 4.1%** in the current year, a dairy processing infrastructure fund of INR 8000 crore will be set up under NABARD, and short-term crop loans of INR 3 lakhs at 7% interest will be effected with a rebate of 3% if the loan is paid on time.

Swachh Bharat and job-creation: The government is committed to creating jobs and skilling people. Measures to this end include, schemes for employment in textile, leather and footwear sectors, the push to MSMEs with the reduction in corporate tax, FDI liberalisation after abolishing the Foreign Investment Promotion Board (FIPB), the setup of five special tourism zones, and the Pradhan Mantri Kaushal Kendra that aims to cover 600 districts. The continued focus on Swachh Bharat includes steps to give priority of piped water supply to open defecation-free villages, and the promise of housing for all by 2019. In a long-awaited move, affordable housing has been granted infrastructure status, this will promote access to priority lending thereby rekindling the focus on low-cost housing across India. This, combined with the inclusion of more people in the tax purview with disposable incomes, will drive demand.

While these highlights stand out starkly, Budget 2017 holds much more for each sector. The chapters that follow deep-dive into key sectors to analyse the major announcements and implications for all stakeholders.

THE AUTOMOBILE SECTOR

SANDEEP PANDE, DIRECTOR, NIELSEN INDIA



The Union Budget didn't hold much for the automobile sector this year, leaving both car buyers and manufacturers with very little to chew on. However, the significant announcements to boost infrastructure and rural development hold potential for the industry in the long-term.

PRO-POOR AND PRO-RURAL:

The 2018 allocation for the rural sector is a record INR 1,87,200 crore, reflecting a massive 24% increase over last year. Apart from boosting rural sentiment, the focus on farm credit is good news for the tractor and two-wheeler segments. The most significant pro-rural announcements include the increase of credit flow in the agriculture sector by raising the farm credit target to INR 10 lakh crore from INR 1 lakh crore. The INR 5000 crore micro-irrigation fund, the increase in MNERGA to INR 48,000 crore from INR 38,500 crore and the increase in rural housing targets to INR 1 crore, are other measures that are expected to have a long-term impact on the automobile sector.

The resultant increase in jobs, improved sentiment and better standard of living in the rural population will certainly translate to more customers for the automobile sector at the entry level. Additionally, the government's efforts to boost skill-development by increasing the establishment of skill centres by tenfold, is set to bring cheer to the automobile industry, long grappling with the issue of employable talent.

Certain segments within the automobile industry are heavily dependent on the rural economy. For instance, 60% of the total demand for entry-level motorcycles, and 30% of the demand for passenger vehicles come from rural markets. So, stabilising the volatility of rural income is expected to go a long way in growing the market.

"THE 2018 ALLOCATION FOR THE RURAL SECTOR IS A RECORD **INR 1,87,200 CRORE,** REFLECTING A MASSIVE **24% INCREASE** OVER LAST YEAR."

INVESTMENT IN INFRASTRUCTURE:

The total infrastructure allocation for FY2017 was a record INR 3,96,135 crore, and the allocation for the transport sector was INR 2,41,387. For the road segment in particular, the government has increased the allocation to INR 64,000 crore in FY17, compared to INR 57,676 crore in the previous year. There is also a marginally higher allocation of INR 64,000 crore for highway development alone. In a move that will yield benefits in the long term, the work on the roads for the Pradhan Mantri Gram Sadak Yojna has been accelerated to 133 km of roads per day.

Improved infrastructure can fairly be expected to boost the sale of commercial vehicles, making this year's announcements in this sector beneficial for the automobile industry in the long run.

REDUCED TAX BURDEN IN THE LOWER BRACKETS:

The reduction of income tax on earnings up to INR 5 lakh to 5%, from the earlier 10% is expected to translate into sales for the entry-level passenger car segment in particular. On the corporate front, the reduction of income tax for companies with a turnover of below INR 50 crore has been a welcome announcement, but the industry was disappointed by the lack of any relief for large entities.

The tax benefit announcements will go a long way in improving consumer sentiment, especially in lower income brackets. This is likely to translate into better sales for the entry-level car, two-wheeler and tractor segments. The reduction of corporate tax is expected to benefit tier-2 and tier-3 automobile component manufacturers and allow them to invest in critical needs like R&D and expansion plans.

PROMOTING CLEANER AND SAFER VEHICLES – FASTER ADOPTION OF MANUFACTURING OF HYBRID AND ELECTRIC VEHICLES (FAME):

FAME was allocated INR 175 crore for FY18 as against INR 123 crore in FY17. This is a significant rise from the INR 75 crore allocation for FY15 at the time of the inception of the initiative, implying that the support for it has increased to reflect growing interest on the industry. This announcement was one that brought considerable cheer to the industry and gave impetus to the vision of making all vehicles with safer fuels by the year 2030.

THE REDUCTION OF CORPORATE TAX IS EXPECTED TO BENEFIT TIER-2 AND TIER-3 AUTOMOBILE COMPONENT MANUFACTURERS AND ALLOW THEM TO INVEST IN CRITICAL NEEDS LIKE R&D AND EXPANSION PLANS.

DISAPPOINTMENTS FOR THE INDUSTRY:

One of the most significant misses was that nothing has been done to boost R&D, a critical imperative for the industry. Specifically, the components sector had hoped that the Budget would reinstate the weighted reduction on R&D to 200%, but that never came to pass. Moreover, there was no announcement on the vehicle-scrapping policy, despite the fact that the replacement of old vehicles is a basic prerequisite to ensuring a clean environment. Also, removal of old vehicles makes room for safer and advanced vehicles. In a bid to move decisively towards a cashless economy, the budget proposed to link car purchase to tax compliance. Additionally, cash dealings above INR 3 lakh have been prohibited starting 1st April, 2017. This is expected to affect both the used car and the luxury car markets.

From the consumers' perspective, there is little to boost immediate demand. Even the minor tax relief is not enough to drastically change demand. The industry has now pinned their hopes on the rollout of GST, which was cited as the reason for holding back changes to the excise and duty structures.

THE COMPONENTS SECTOR HAD HOPED THAT THE BUDGET WOULD REINSTATE THE WEIGHTED REDUCTION ON R&D TO 200%, BUT WAS DISAPPOINTED. MOREOVER, THERE WAS NO ANNOUNCEMENT ON THE VEHICLE-SCRAPPING POLICY, DESPITE THE FACT THAT THE REPLACEMENT OF OLD VEHICLES IS A BASIC PREREQUISITE TO ENSURING A CLEAN ENVIRONMENT.

(With inputs from Sucheta Jha and Apeksha Jain, Nielsen Auto team)

FINANCIAL SERVICES

DEVBRAT KUMAR, DIRECTOR, NIELSEN INDIA

With the Union Budget 2017, though the centre made a few populist concessions, it largely chose to concentrate on macro-economic stability with low fiscal deficit, rural and agricultural growth, and development of infrastructure.

The economy is firmly on the growth path with expected GDP rate for 2017-18 projected at 6.75-7.5%, and planned fiscal deficit pegged at 3.5% of GDP for this year with a promise of bringing it down to 3.2% next year.

TAXATION:

Unlike last year, the government made revisions to income tax slabs this year. The rate for the lowest slab has been halved to 5% for consumers whose incomes are between INR 2.5 to INR 5 lakh. Individuals with income exceeding INR 5 lakh will also enjoy tax savings up to INR 12,875 as a consequence. This is likely to increase disposable income available to individuals and increase their spending capacity.

While taxation on incomes above INR 1 crore remains the same, an additional surcharge of 10% has been levied on individuals with incomes between INR 50 lakh to INR 1 crore.

In an announcement that brings cheer to small and medium enterprises, the government has reduced the tax rate for companies with an annual turnover of upto INR 50 crore from 30% to 25%. This move is expected to benefit a whopping 96% .i.e. close to seven lakh organisations.

> **"THE GOVERNMENT HAS REDUCED THE TAX RATE FOR COMPANIES WITH AN ANNUAL TURNOVER OF UP TO INR 50 CRORE FROM 30% TO 25%."**

Affordable housing will now enjoy 'infrastructure' status, a long-standing demand by real-estate developers who can claim benefits of lower borrowing rates, tax concessions and increased flow of foreign and private capital into their projects.

To qualify as long-term capital assets, immovable properties can now be held only for a period of two years instead of the earlier three. This move is likely to keep property prices under check since home owners will not be required to hold property for a longer duration to save tax and buyers in turn will have more options to choose from.

BANKING:

In line with its policy of infusing INR 70,000 crore in state-run banks over a period of four years, the government will pump in INR 10,000 crore into public sector banks (PSBs) in the next financial year. This measure was announced in order to aid PSBs in meeting their capital requirements for effectively managing difficulties due to mounting non-performing assets (NPAs).

However, given the stressed assets that the banking sector is bearing right now – bad and restructured loans constitute over 12 % of total loans, this infusion may not be sufficient and the market is expecting much more.

The government has also proposed an increase in the allowable provision for NPAs from 7.5% to 8.5% which in turn will reduce tax liability of banks.

On a positive note, the surplus liquidity that the banking system is experiencing due to demonetisation is expected to give a much required boost to credit disbursal leading to a multiplier effect on other economic activities. The Reserve Bank of India (RBI) is best placed to further reduce rates as a result of this cash flow coupled with lower fiscal deficit. Banks will then be able to lend at lower rates.

ON A POSITIVE NOTE, THE SURPLUS LIQUIDITY THAT THE BANKING SYSTEM IS EXPERIENCING DUE TO DEMONETISATION IS EXPECTED TO GIVE A MUCH REQUIRED BOOST TO CREDIT DISBURSAL LEADING TO A MULTIPLIER EFFECT ON OTHER ECONOMIC ACTIVITIES.

INSURANCE:

The increased coverage from 30% to 40%, under the Pradhan Mantri Fasal Bima Yojana in 2017-'18, is being seen as an important step towards food security and financial stability for farmers.

At a time when interest rates offered on bank fixed deposits and under the public provident fund scheme (PPF) are being reduced, the announcement of an assured pension scheme with 8% guaranteed returns through the Varishta Pension Bima Yojana offered by Life Insurance Corporation (LIC) is a welcome move.

Giving due recognition to the role that agents play in creating awareness around insurance products, the budget has lifted the 5% levied as tax deducted at source on commissions payable to individual insurance agents with incomes below the taxable limit.

PROMOTING DIGITAL TRANSACTIONS:

Contributing to the government's agenda of moving towards a cashless society, the Budget announced several initiatives such as a bonus scheme for individuals and a cashback scheme for merchants.

To incentivise downloads and usage of the Bharat Interface for Money (BHIM app), the government plans to promote setting up of digital payment systems at public places such as petrol pumps, fertiliser depots, municipalities, block offices, road transport offices, universities, colleges, hospitals, and others.

Aiding the rural populace, which may not be as adept at using digital modes of financial transactions, a new Aadhaar-based payment system based on biometrics, has been proposed.

Digital transactions, carried out through various modes such as UPI, IMPS, credit and debit cards, are expected to cross INR 2,500 crore this year.

DIGITAL TRANSACTIONS, CARRIED OUT THROUGH VARIOUS MODES SUCH AS UPI, IMPS, CREDIT AND DEBIT CARDS, ARE EXPECTED TO CROSS INR 2,500 CRORE THIS YEAR.

THE NIELSEN VIEW

Without entirely succumbing to the pressure of announcing a slew of populist measures, the government has followed up its demonetisation measures with a budget-focused strongly on core macro-economic stability.

The middle class and smaller companies have been offered tax sops while the super-rich continue to bear higher tax liabilities. Individuals with taxable income higher than INR 5 lakh can save up to INR 12,875. The ball is now in the court of financial service providers to incentivise channelisation of these savings as investments either in part or full.

Bank credit growth has fallen to around 5%, a record low in the past two decades, after the November 8 announcement by the government to withdraw more than 86% of currency in circulation. The RBI is uniquely placed to further reduce rates considering lower fiscal deficit that has resulted in lower net borrowings. Banks too will focus on pushing borrowings, having got a shot in the arm due to surplus liquidity and the possibility of a rate cut.

Financial and social security of senior citizens clearly form the basis of announcements made under the insurance sector while ensuring that agent channels, the most important when it comes to life insurance, get a boost. These measures are likely to positively impact insurance penetration which is currently 3.4 % of the country's gross domestic product (GDP).

Staying on course to realize 'Make in India' dream, the Government has been making significant reforms in FDI policy to attract investments from abroad. In a logical move, the Foreign Investment Promotion Board has been abolished to further ease the inflow of Foreign Direct Investment (FDI).

(With inputs from Sandeep Salunke and Sagar Sheth from the Nielsen Finance team)

FAST MOVING CONSUMER GOODS

SAMEER SHUKLA, EXECUTIVE DIRECTOR, NIELSEN INDIA

At the end of Q4 2016, India's Consumer Confidence Index (CCI) was at an all-time high of 136 points, indicating a bullish outlook towards the future. The announcements in Budget 2017 promise to boost confidence further on the back of a slew of measures around infrastructure, rural initiatives, tax liberalisation, clean India, job creation, etc. Additionally, the digital impetus and the eagerly anticipated implementation of GST look set to cleanse the system and spur economic growth.

RURAL DEMAND:

India's had a good monsoon, barring a few states in the south. So, the production of grain is expected to be consistently high. This, coupled with the measures announced in the budget to improve agricultural productivity and the rural economy, are going to boost demand in rural areas. Against this backdrop the Dairy Infrastructure Development Fund of INR 8,000 crore under NABARD, and measures to make villages draft-proof by constructing five lakh ponds, will go a long way in meeting India's growing demand for milk and maintaining its position as the largest producer of milk. On the downside however, the State of India's Livelihood (SOIL) report paints a gloomy picture of fodder availability by 2020, considering only 4% of agricultural land is reserved for this.

THE DAIRY INFRASTRUCTURE DEVELOPMENT FUND OF INR 8,000 CRORE UNDER NABARD, AND MEASURES TO MAKE VILLAGES DRAFT-PROOF BY CONSTRUCTING FIVE LAKH PONDS, WILL GO A LONG WAY IN MEETING INDIA'S GROWING DEMAND FOR MILK AND MAINTAINING ITS POSITION AS THE LARGEST PRODUCER OF MILK.

THE CURRENT SITUATION IN INDIA

- OF 850 MILLION PEOPLE IN RURAL INDIA, **60%** DEPEND ON FARMING
- OF THE **260 MILLION** PEOPLE BELOW POVERTY LINE, **80%** ARE IN VILLAGES
- AVERAGE PLOT SIZE OF **1.16 HECTARES**, HAS **DECREASED** FROM 1.84 HECTARES IN 1980
- **RICE** AND **WHEAT** PRODUCTIVITY ARE **46%** AND **39%** RESPECTIVELY, COMPARED TO CHINA. LESS THAN **50%** OF INDIAN FARMS ARE **IRRIGATED**
- RURAL VS URBAN **WAGE GAP-45%** IN INDIA COMPARED TO 10% IN CHINA
- MEDIAN ANNUAL WAGE FOR FARMERS STANDS AT **$290 PER ANNUM**

HOW IS BUDGET GOING TO HELP?

FIVE LAKH PONDS TO BE CONSTRUCTED FOR DROUGHT-PROOFING

THE REAL ESTATE SECTOR HAS TAKEN A BEATING, AND BAD MONSOONS OVER THE LAST TWO YEARS HAVE PUSHED THE RURAL POPULATION TO THE EDGE. THE INCREASED BUDGET ALLOCATION TO MNREGA OF INR 48,000 CRORE, UP FROM INR 38,500 CRORE WILL HELP

INR 10 LAKH CRORE FIXED FOR AGRICULTURAL CREDIT

TOTAL ALLOCATION FOR RURAL, AGRICULTURAL AND ALLIED SECTORS IS INR 1,87,223 CRORE

CONTRACT FARMING WILL DOUBLE FARMERS' INCOME IN FIVE YEARS

PM'S FASAL BIMA YOJANA HAS BEEN INCREASED TO INR 13,200 CRORE FROM INR 5,500 CRORE. AVERAGE COVERED UNDER INSURANCE TO GO UP TO 50% BY NEXT YEAR

SHORT TERM CROP LOANS OF THREE LAKHS AT 7% INTEREST AND 3% REBATE, IF THE LOAN IS PAID ON TIME

RE-ENERGISING INDIA:

The growth rate of hygienic products is better than the overall growth figures of FMCG in 2016. This is heartening, especially in light of the low Human Development Index (HDI), particularly in some of the most populous states. Measures to improve hygiene, education and employability, are imperative for the betterment of India.

- Open defecation free (ODF) villages to be given priority for piped water supply. Already, 34 million toilets built since October 2014
- Pradhan Mantri Kaushal Kendra to cover 600 districts. According to the OECD survey 2017, 30% of Indians in the 15-29 age group are neither employed nor in education and training
- Strengthening the systems of social security, health care and affordable housing (housing for all by 2019)
- Post-graduate seats to be increased by 5,000 per annum to ensure adequate availability of specialist doctors to strengthen secondary and tertiary levels of health care
- Innovation fund for secondary education has been proposed to encourage local innovation, particularly in 3,479 educationally backward districts. The aim is to ensure universal access, gender parity and quality improvement

Job creation, improved perception and increase in disposable incomes According to the OECD economic survey 2017, despite the easing of the FDI policy over the period of 2011 to 2016, India remains amongst the most restrictive countries. So, the move to abolish FIPB is a step in the right direction with the potential to create more jobs. Steps taken to reduce tax for SMEs, the reduction of personal income tax rate and measures to make more people taxable are steps that were long overdue. Some significant downsides include high NPA among Indian banks (second only to Russia), excessive public debt, high tax rates and low income tax collection of ~2% of GDP.

- Public sector bank recapitalisation; INR 10,000 crore allocated, but can be increased if needed
- Five special tourism zones to be set up
- Corporate tax reduced to 25%; 90% companies to benefit especially MSMEs
- Schemes for employment in textile, leather and footwear sectors
- Housing for all by 2019
- Transport sector allocated INR 2.41 lakh crore
- Bharat Net Project allocated INR 10,000 crore
- Highway allocation up to INR 64,000 crore
- Rail safety fund with a corpus of INR 100,000 crore to be created over five years
- Capital, development expenditure on railways to be INR 1,31,000 crore
- 25% increase in infrastructure spending
- PMGAY allocated INR 23,000 crore

ACCORDING TO THE OECD ECONOMIC SURVEY 2017, DESPITE THE EASING OF FDI POLICY OVER THE PERIOD OF 2011 TO 2016, INDIA REMAINS AMONGST THE MOST RESTRICTIVE COUNTRIES.

THE NIELSEN VIEW

The Budget 2017 announcements have broadly been positive for the FMCG sector in India.

Tax and pay commission: Announcements on this front have led to an increase in disposable income with the 7^{th} pay commission and income tax restructuring for the lower middle class. An increase in disposable income usually results in a fall of the average propensity to consume. With income tax helping BOP while taxing the middle and upper segment, things could improve for the FMCG sector. Corporate tax reduction is a boon for SMEs, particularly when they are struggling in key industrialised states.

The impact of the budget on infrastructure, rural areas, health, job creation and education: Encouragingly, there is a commitment to double the income of farmers, which will increase the disposable income in rural areas. Interest rates have been lowered for short-term loans. Also, INR 1.87 lakh crore has been allocated for agricultural and allied sectors which will help address the bigger goal of doubling farmers' income.

Sustainable growth: There is a 25% increase in infrastructure spending and housing for all by 2019. Other positives are the focus on tourism and the scrapping of FIPB to open up FDI. In an effort to broad base the effects, the Pradhan Mantri Kaushal Kendra will cover 600 districts.

Swachh Bharat has delivered 34 million toilets since October 2014. In fact, there has been a double-digit growth in most of the hygiene categories that our studies track across the country.

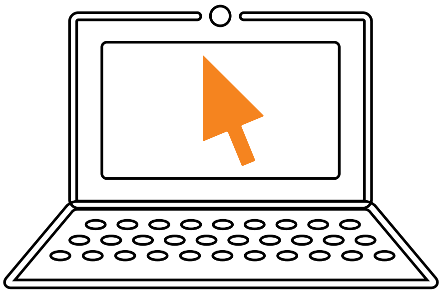
There is an effort to cleanse the system with GST and digitisation. In terms of fiscal management, getting the current account deficit and fiscal deficit under control along with a push to liberalise FDI, are in line with the objective of achieving economic targets.

The GST effect: The much awaited rollout of GST is expected to reduce cost of distribution and logistics. Excise duty is expected to come down from the range of 24% - 25%, to 17% - 18%. It will be interesting to see how food companies capitalise on the benefits, and take shape under GST. The combined effect of RCEP and GST on edible oils may compromise the competitiveness for manufacturers, making it a development to watch out for. GST will likely have a negative impact on alcoholic beverages, carbonated soft drinks (CSD) and tobacco products.

(With inputs from Sriprakash Sridharan, Nielsen Retail Measurement Services team)

INFORMATION TECHNOLOGY

RAJAT GUPTA, ASSOCIATE DIRECTOR, NIELSEN INDIA



With over 80 % of Indian currency in circulation wiped out in one fell swoop, Budget 2017 has placed a lot of emphasis on digitisation of retail transactions through measures intended to promote and incentivise them.

Hailed as 'disruptive', demonetisation is expected to open avenues for mass adoption of technology at a never-seen-before pace. The move has been backed up by a Budget termed by industry body NASSCOM as 'historic', for the transformative leadership displayed by the government in sustaining the momentum of reforms including digital technology, financial inclusion, boosting the rural economy, providing opportunities for the youth and ease of business.

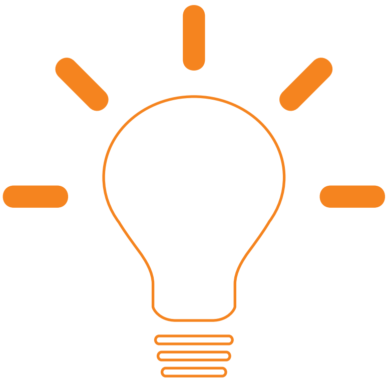
Key announcements like allowance of duty-free imports on POS machines and other digital authentication equipment will keep cost of digitisation for retailers under check. The referral bonus and cashback for consumers using the BHIM app will help increase its adoption for transactions.

The penetration of digital technology in everyday life has been a clear focus area for this government. Several measures, aimed at increasing adoption of IT services have been introduced in 2016-17 apart from several infrastructure initiatives that are guaranteed to enable consumers and bring the informal economy into the ambit of the formal. And in turn, the formalisation of economy is expected to further the digitization of economy.

TECHNOLOGICAL INFRASTRUCTURE:

The target of complete rural electrification by March 2018 is a resolute step that will propel the country towards digitisation. The additional allocation of INR 10,000 crore to the Bharatnet OFC project will ensure availability of broadband to over 1,50,000 gram panchayats, thereby facilitating low cost digital services for citizens. Already, as part of this initiative, OFC cables have been laid over 1,50,000 kms.

THE TARGET OF COMPLETE RURAL ELECTRIFICATION BY MARCH 2018 IS A RESOLUTE STEP THAT WILL PROPEL THE COUNTRY TOWARDS DIGITISATION.



DIGITAL SERVICES FOR CITIZENS:

The increased allocation to MNREGA in the current Budget is bound to improve consumption in rural India, and likely to positively impact adoption of technology; primarily mobiles and smartphones. The DigiGaon project, another initiative that leverages technology to make telemedicines, education and skill development, available to the rural populace, will ensure digital enablement and inclusion.

The Budget also saw the government extending support to NABARD for computerisation and integration of the approximate 63,000 agricultural credit societies, with the core banking system of district central cooperative banks.

Other key announcements that are likely to further boost digital technology adoption by citizens include the online education platform - Swayam, for skill building, the abolition of service tax on bookings for railway tickets through the IRCTC portal and a digital pension distribution system for retired defence personnel.

STIMULUS TO START-UPS:

The finance minister has announced in Budget 2017 that start-ups can now carry forward losses incurred in the first seven years from the date of incorporation provided original shareholders do not reduce their shareholding during this period.

In the previous Budget, the government had provisioned for start-ups to be eligible for claiming deduction for three out of five years, which has now been extended to seven years. This means that the profit linked deduction available to the start-ups for three out of 5 years is being changed to three out of seven years. This is sure to provide a much-needed boost to start-ups in the country.

Apart from this, the finance minister also announced a reduction from 30% to 25%, in corporate tax for micro and small and medium enterprises with annual revenues less than INR 50 crores.

The government has encouraged SIDBI to refinance credit institutions providing unsecured loans at reasonable interest rates, based on their digital transaction history. This move is expected to benefit both SMBs as well as the technology sector where collateral assets are largely non-tangible, and hence getting loans have been challenging.

DEVICE MANUFACTURING:

This Budget had several announcements that forward the Make in India agenda. Several measures that discourage imports and provide incentive for domestic manufacture of IT devices have been announced.

IF GLOBAL COMPANIES HAVE TO REMAIN COMPETITIVE IN THE INDIAN MARKET, THEY WILL NEED TO MAKE LONG-TERM MANUFACTURING INVESTMENTS IN THE COUNTRY.

Incentive schemes such as the Modified Special Incentive Package Scheme (M-SIPS) and Electronic Development Fund (EDF) have seen an increased allotment, to the tune of INR 745 crores, highlighting the government's efforts to make the country a global electronics manufacturing hub.

On the other hand, an additional 2% duty has been imposed on populated printed circuit boards (PCBs) which is a core component for smartphones thus making these devices slightly expensive. If global companies have to remain competitive in the Indian market, they will need to make long-term manufacturing investments in the country.

AREAS THAT NEED TO BE ADDRESSED

As per Budget 2017, under Section 10AA, businesses set up under Special Economic Zones (SEZs) will be able to claim deduction against the total income of the unit operating in the SEZ (and not the undertaking) after setting off all losses and unabsorbed depreciation, thereby restricting the amount of deduction u/s 10AA of the Act. This announcement will negatively affect the taxation advantage that IT and ITeS organisations in SEZs enjoy.

As the government moves towards a less cash and eventually cashless economy, there is a dire need for a dedicated regulatory or settlement body that addresses security aspects related to digital transactions. Announcements to this effect are essential if the country is to maintain the momentum at which it is progressing towards a digital economy.

AS THE GOVERNMENT MOVES TOWARDS A LESS CASH AND EVENTUALLY CASHLESS ECONOMY, THERE IS A DIRE NEED FOR A DEDICATED REGULATORY OR SETTLEMENT BODY THAT ADDRESSES SECURITY ASPECTS RELATED TO DIGITAL TRANSACTIONS.

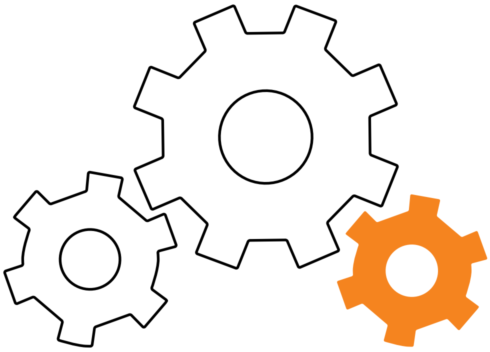
THE NIELSEN VIEW

Budget 2017 has delivered effectively at the macro level with announcements that promote digitisation and bring more citizens and consumers under the Digital India umbrella. The Budget has also laid great emphasis on improving rural connectivity where digital services and transactions are likely to have a larger impact.

The lowering of corporate tax for micro and small and medium enterprises, with annual revenues below INR 50 crore to 25 %, is a welcome move and is likely to benefit several start-ups that fit the bill. It must also been seen as a measure to clean up the economy as several smaller companies are likely to come forward and register themselves, resulting in higher reporting of transactions, ultimately pushing the country's GDP higher.

KEY INDUSTRIAL SECTORS

SEEMA KAPUR, DIRECTOR, NIELSEN INDIA



Minister of Finance, Arun Jaitley, has said that India is now the sixth largest manufacturing country in the world, up from the ninth place. To encourage manufacturing, the Union Budget last year had laid emphasis on infrastructure and development; this year's Budget continues in the same vein. The most significant announcements in Budget 2017 were the abolition of FIPB, the reduction in corporate tax rates for SMEs with a turnover of less than INR 50 crore, the provision to carry MAT credit forward from 10 to 15 years, record allocation for infrastructure development to the tune of INR 3.96 lakh crore, and the doubling of the lending target of MUDRA to INR 2.44 lakh crore.

The manufacturing sector was hopeful for incentives to help the sector grow, particularly in the aftermath of demonetisation and its impact on GDP in 2016. Hearteningly, the administration has been consistent in its focus on investing resources in infrastructure and rural market development over the last two years. This focus, reflected in Budget 2017 too, is likely to translate into long-term growth for the manufacturing sector.

MEASURES THAT WILL PROMOTE MANUFACTURING

Budget 2017 has seen the highest ever allocation of INR 3.96 lakh crore towards Infrastructure Development, Roads, Railways, Housing, Airways, Defence, Shipping etc. This is expected to spur a sizeable increase in demand for commercial vehicles, construction equipment and capital goods.

"BUDGET 2017 HAS SEEN THE HIGHEST EVER ALLOCATION OF INR 3.96 LAKH CRORE TOWARDS INFRASTRUCTURE DEVELOPMENT, ROADS, RAILWAYS, HOUSING, AIRWAYS, DEFENCE, SHIPPING ETC. THIS IS EXPECTED TO SPUR A SIZEABLE INCREASE IN DEMAND FOR COMMERCIAL VEHICLES, CONSTRUCTION EQUIPMENT AND CAPITAL GOODS."

Tremendous focus has also been laid on the rural and agricultural economy. The proposed reforms, incentives and investments, particularly in post-harvest infrastructure is likely to trigger incremental demand for equipment related to refrigeration, grading, packaging, logistics and warehousing. Demand for farm equipment and food processing units is also likely to grow in the near future.

A Dairy Processing and Infrastructure Development Fund will be set up under NABARD with a corpus of INR 8,000 crore over three years, though the initial corpus will be INR 2,000 crore. This is expected to lead to an improvement in dairy infrastructure, which will lead to a higher demand for chillers, pasteurising units, storage and packaging equipment.

Citing that 90% of current FDI inflows are through the automatic route, the Finance Minister announced in the Budget that the nation has reached a stage where the Foreign Investment Promotion Board (FIPB) can be phased out – a move that bodes well for industry.

The proposal to double the lending for the MUDRA Yojana, aimed at dalits, tribals, backward classes, minorities and women, will go a long way in providing business opportunities across all sections of society.

THE IMPACT OF CHANGES IN TAXATION RATES ON INDUSTRY

The government had committed to reduce the tax rate to 25% in phases back in 2015. In the current Budget, the Finance Minister makes good on this promise by proposing to focus only on the small and medium sector. Companies with a turnover of INR 50 crore or less, will benefit from a reduced tax rate of 25%, while the existing base corporate rate of 30% will apply to others. This is expected to help make Micro, Small and Medium Enterprises (MSME) companies more viable, thereby encouraging firms to migrate to the company format. Moreover, it will also make the MSME sector more competitive compared to large companies. Such companies are also considered as the one of the largest employee-driven market from tier II and tier III metro cities, and will give a boost to unorganized employment sector.

The government has encouraged Small Industries Development Bank of India (SIDBI), to refinance credit institutions which provide unsecured loans, at reasonable interest rates, to borrowers based on their transaction history. This is a move that is expected to benefit IP-driven businesses that rarely have strong collaterals to offer as guarantee.

Predictably, no change was proposed in the Minimum Alternate Tax (MAT) provisions because of the introduction of the Indian

Accounting Standards (IndAS) and the Income Computation and Disclosure Standards (ICDS). However, to allow companies to use MAT credit in the years to come, the Finance Minister has proposed to allow the carrying forward of MAT up to 15 years instead of the present limit of 10 years. This will be particularly useful to start-ups.

THE GOVERNMENT HAS ENCOURAGED SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA TO REFINANCE CREDIT INSTITUTIONS WHICH PROVIDE UNSECURED LOANS, AT REASONABLE INTEREST RATES, TO BORROWERS BASED ON THEIR TRANSACTION HISTORY. THIS IS A MOVE THAT IS EXPECTED TO BENEFIT IP-DRIVEN BUSINESSES THAT RARELY HAVE STRONG COLLATERALS TO OFFER AS GUARANTEE.

As anticipated, there is no proposal to change the base line tax rate on service tax and other indirect tax levies as the Government is committed to implement GST from 1 July 2017. Additionally, the tax relief given to individuals in the income bracket of up to INR 5 lakh, will likely boost consumption and strongly impact consumer-driven product and services industries.

THE NIELSEN VIEW

While the focus of the Budget has been on the development and growth of rural and agricultural infrastructure, when it comes to the industrial segments, Budget 2017 continues to encourage the theme of domestic manufacturing. An increased focus on rural development and the effort to improve the country's infrastructure are likely to impact demand for different sub-sectors of manufacturing, such as steel, cement, engineering goods and construction materials. Plans are afoot to create an ecosystem to make India a global hub for electronics manufacturing. This is likely to attract new investments in the sector in the near future. The biggest beneficiaries of the Budget will be the MSME companies that fall within the 25% tax bracket, because of the competitive advantage they will gain, and the impetus they will receive to make further investments - ultimately contributing to the growth of the country. The Budget is also expected to positively impact the job market, as increased manufacturing activity, particularly by SMEs, will create a large number of employment opportunities in smaller cities.

(With inputs from Rachit Tiwari, Nielsen Industrial Market Research team)

RETAIL AND SHOPPER MARKETING

ROOSEVELT D'SOUZA, MD, NIELSEN INDIA

Budget 2017 was a mixed bag for the retail sector, but in the aftermath of the demonetisation shake-up, the finance minister's measured steps have left the sector broadly satisfied. The favourable immediate after-effects of the demonetisation drive, coupled with the much-anticipated passing of the GST bill in parliament, has ensured that retail has a lot to look forward to this year.

The Budget has been macroeconomic in nature with a determined focus on developing rural India, a substantial thrust on improving infrastructure and alleviating poverty. Financial inclusion has long been a priority for the government, and what follows from the measures announced in the Budget is welfare economics. Jobs are expected to be created, leading to an increase in personal disposable income for a majority of the population. Additionally, income tax relief for consumers in the lower income brackets is also set to spur consumption and therefore greatly benefit the retail environment.

"THE BUDGET HAS BEEN MACROECONOMIC IN NATURE WITH A DETERMINED FOCUS ON DEVELOPING RURAL INDIA, A SUBSTANTIAL THRUST ON IMPROVING INFRASTRUCTURE AND ALLEVIATING POVERTY."

FOREIGN INVESTMENT:

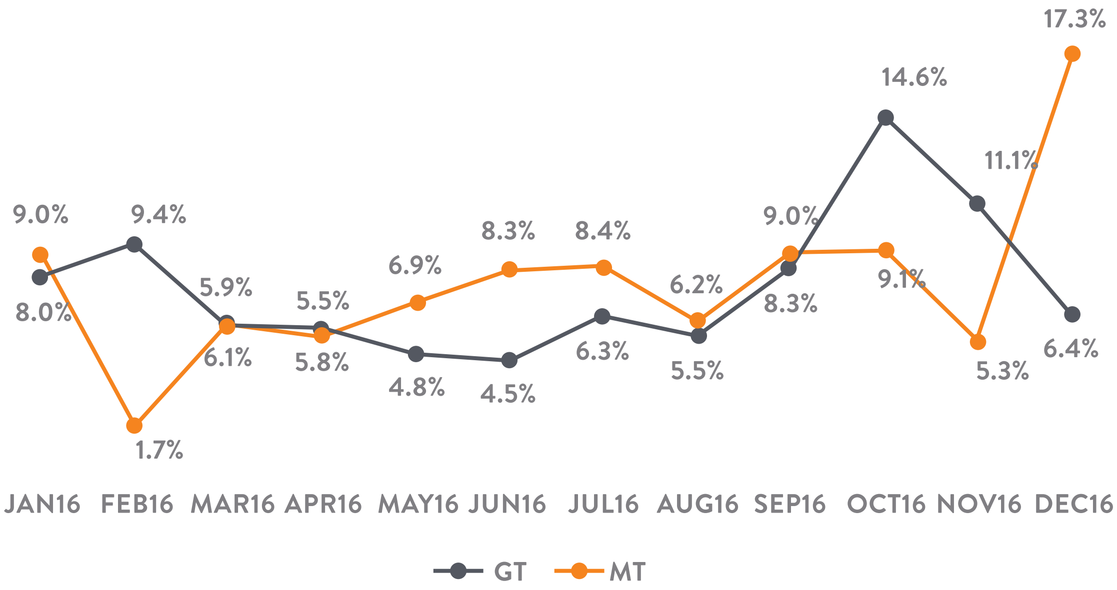
A celebrated announcement was the abolition of FIPB (Foreign Investment Promotion Board), thereby creating an environment for foreign direct investment that inspires far greater confidence for investors than in the previous years. The move is expected to result in greater efficiency in starting something new faster, by doing away with bureaucracy. Retail has already seen a 36% increase in FDI inflows with reserves of USD 361 billion in this year, a figure that is enough to sustain the country for the whole of 2017.

THE RISE OF MODERN TRADE:

For modern trade (MT), the November 2016 demonetisation announcement proved to be a windfall as a result of the greater prevalence of non-cash methods of payment. MT retailers were quick to respond to the announcement by introducing innovative measures like keeping their stores open well beyond regular hours to enable customers to use up their old currency notes before the stroke of midnight. Others placed mini ATMs at their outlets to help shoppers. Expectedly therefore, MT has outpaced traditional trade (TT) post the demonetisation announcement on November 8th. However, forward thinking TT retailers have warmed up to offering alternative payment options like mobile wallets, to their customers. Market watchers will keep an eye on whether this growth can be sustained through the next few months.

RETAIL HAS ALREADY SEEN A 36% INCREASE IN FDI INFLOWS WITH RESERVES OF USD 361 BILLION THIS YEAR, A FIGURE THAT IS ENOUGH TO SUSTAIN THE COUNTRY FOR THE WHOLE OF 2017.

THE GROWTH OF MT POST DEMONETISATION



In December '16, MT observes more than 3x growth rate of GT- "The Demonetisation Effect"

Source: Nielsen

The allocations for agriculture and infrastructure have been high in this year's Budget, resulting in an expectation to reap great dividends for the wholesale, retail and cash-n-carry industries. With GST added to this, there will be increased productivity in the agricultural supply chain, and the facilitation of better forward and backward integration of products and services for wholesalers and cash-n-carry chains.

The one big disappointment for the retail sector in Budget 2017 was GST. There were a lot of expectations from the GST announcement, but the government disappointed on this front with little or no clarity on the expected outcome of the GST roll-out, and how it is expected to play out across industries and specially the different states in India.

THE NIELSEN VIEW

Against the global backdrop of poor sentiment and a sluggish economy, the Budget has attempted to be determinedly positive. This optimism has been mirrored in the IMF projections of 7.8% GDP growth in 2018 and 7.9% in 2019. The measures announced have largely been macroeconomic in nature, possibly to make up for the troubles brought on by the sudden demonetisation announcement. The positive sentiment in India is corroborated by the Nielsen Global Consumer Confidence Report for Q4 2016, which shows that the Consumer Confidence Index stands at 136, up by two points from the previous quarter. Therefore, the hope is that consumer confidence is back on track with shoppers buying more than essentials.

(With inputs from Pallavi Suresh, Nielsen Retailer Vertical)

RURAL & AGRICULTURE

SEEMA KAPUR, DIRECTOR, NIELSEN INDIA

Agriculture has been a focus area for the centre in successive budgets over the past two years and Budget 2017 was no exception. The government appears determined in its stride to double farmer incomes by 2022. The target for agricultural credit in 2017-18 has been fixed at a record level of Rs 10 lakh crores, an increase of 24% from the budget of 2016-17. The rural, agricultural and allied sectors to get INR 1,87,233 crore over the budget of 2016-17.

FARMING ASSISTANCE

The productivity of the agricultural sector was low due to unfavourable weather conditions. The National Crime Records Bureau (NCRB) statistics indicate that an average of 5000 farmers commit suicide every year. This year, with expectations of a better monsoon, the sector is expected to grow at 4.1% in the current fiscal.

With the government's announcement of integrating 63,000 agricultural credit societies with core banking through NABARD, farmers are likely to benefit with a seamless flow of credit.

Apart from this, the government has also announced short-term crop loans of up to INR 3 lakh at subsidised interest rates of 7% per annum. In a bid to encourage timely repayments, farmers making prompt repayments of loans within due dates will get an additional interest subsidy of 3% p.a., making the interest rate as less as 4% p.a. for a timely loan re-payee. It should be treated as an incentive through waived interest rates.

The finance minister has announced that new labs will be constructed near Krishi Vigyan Kendras under the Soil Health Card scheme helping farmers improve soil fertility. Farmers will also receive systemic information on soil nutrient levels and appropriate use of fertilisers.

“THE TARGET FOR AGRICULTURAL CREDIT IN 2017-18 HAS BEEN FIXED AT A RECORD LEVEL OF RS 10 LAKH CRORES, AN INCREASE OF 24% FROM THE BUDGET OF 2016-17. THE RURAL, AGRICULTURAL AND ALLIED SECTORS TO GET INR 1,87,233 CRORE OVER THE BUDGET OF 2016-17.”

The allocation of an INR 8,000 crore corpus to improve dairy infrastructure is likely to promote dairy farming.

Indicating the success of the Fasal Bima Yojana scheme, the finance minister stated that during the Kharif season in December 2016, crops of around 3.67 crore farmers were insured and protected, an increase of 18.6% from 2015-16.

The government has also chosen to allocate specific funds for micro-irrigation and initiatives such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Accelerated Irrigation Benefits Programme (AIBP), leveraging the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) for water conservation measures, and the Long Term Irrigation fund. This is likely to boost the achievement of the 'Per Drop More Crop' goal.

The National Agricultural Market (e-NAM) will now cover 585 agricultural produce market committees (APMC) instead of the earlier 250. Financial assistance of up to INR 75 lakh will be made available to every e-NAM market for establishment of cleaning, grading and packaging facilities resulting in value-addition to farm produce. This is bound to benefit farmers who will be able to sell their produce at better prices.

A model law on contract farming that can be adopted by states will be circulated by the centre to encourage the integration of farmers growing fruits and vegetables, with agro processing units. This will result in better price realisation and reduction of post-harvest losses.

RURAL ASSISTANCE

Inclusion and fortifying the rural sector has been on the government's agenda, and Budget 2017 delivered on this goal. The government aims to improve the lives of over one crore poverty-stricken households, those without homes or those living in 'kutcha' homes, by 2019. Moreover, allocation to MGNREGA has been increased to INR 48,000 crore over last year's INR 38,500 crore. The construction of five lakh farm ponds under the scheme in 2017-18 will also contribute to drought-proofing of gram panchayats.

INR 19,000 crore has been provided under the Pradhan Mantri Gram Sadak Yojana while the Deendayal Upadhyaya Gram Jyoti Yojana has been allocated an additional INR 4,814 crore more in the Budget.

The Deendayal Antyodaya Yojana, or the National Rural Livelihood Mission for the promotion of skill development and livelihood opportunities in rural areas, has seen an allocation of INR 4,500 crore.

A MODEL LAW ON CONTRACT FARMING THAT CAN BE ADOPTED BY STATES WILL BE CIRCULATED BY THE CENTRE TO ENCOURAGE INTEGRATING FARMERS GROWING FRUITS AND VEGETABLES WITH AGRO PROCESSING UNITS. THIS WILL RESULT IN BETTER PRICE REALIZATION AND REDUCTION OF POST-HARVEST LOSSES.

Additionally, the government increased funds allocated for scheduled castes by a third to INR 52,000 crore. Finally, in a bid to help women, dalit and tribal entrepreneurs, the Stand Up India programme was introduced.

CONSTRUCTION OF FIVE LAKH FARM PONDS UNDER THE SCHEME IN 2017-18 WILL CONTRIBUTE TO DROUGHT PROOFING OF GRAM PANCHAYATS.

THE NIELSEN VIEW

The Budget has given specific attention to the agricultural and rural sectors with greater emphasis on farm credit, irrigation schemes, and crop insurance to streamline farming operations and rural education, employment opportunities and infrastructure development.

The finance minister has rooted for reforms in agricultural marketing and increased allocation for insurance and irrigation schemes. Also, the purchasing power of the rural population has been boosted by this year's budget and will directly benefit FMCG and consumer durable companies that are expanding their network in rural areas. The demand for vehicles, especially two wheelers, is expected to go up.

Funds for the Fasal Bima Yojna has been increased to INR 13,240 crore for the next fiscal, from INR 5,500 crore now. The move is guaranteed to be a windfall for companies providing insurance to farmers under the scheme.

Companies manufacturing micro irrigation systems and pipes are likely to benefit from the various announcements made on irrigation schemes. Further, the agricultural segment stands to gain from announcements on e-NAM and contract farming reforms. Integration of agricultural credit societies with core banking will mean big business for the IT industry and benefit the rural economy in the long run.

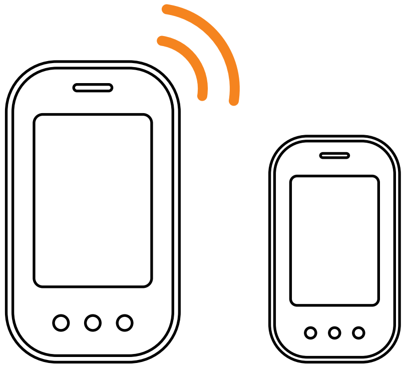
Infrastructure and construction companies stand to gain from the increased focus on rural infrastructure. It spells a greater demand for agricultural equipment, commercial vehicles, construction equipment and capital goods.

Announcements around agricultural reforms and post-harvest infrastructure are likely to improve demand for equipment related to refrigeration, grading, packaging and storing. The focus on dairy infrastructure will stimulate demand for chillers and pasteurising units, storage and packaging equipment.

(With inputs from Suresh Sawant, Nielsen Industrial Market Research team)

TELECOMMUNICATIONS

ABHIJIT MATKAR, DIRECTOR, NIELSEN INDIA



Budget 2017 was a bit of a dampener for the telecom sector since there were no major announcements as far as taxation and giving a boost to local manufacturing go. However, the Digital India dream and the government's ambitious mission of achieving rural connectivity have got a shot in the arm with the INR 10,000 crore allocation for expansion of the Bharatnet project.

"THE DIGITAL INDIA DREAM AND THE GOVERNMENT'S AMBITIOUS MISSION OF ACHIEVING RURAL CONNECTIVITY HAVE GOT A SHOT IN THE ARM WITH THE INR 10,000 CRORE ALLOCATION FOR EXPANSION OF THE BHARATNET PROJECT."

DIGITAL INDIA AND RURAL CONNECTIVITY:

The finance minister's announcement of an additional INR 10,000 crore for expanding the Bharatnet project to 1.5 lakh panchayats will significantly speed up the government's objective of connecting rural India through broadband. Coupled with the 'Digital Village' initiative that aims to deploy free wi-fi across 1,050 villages, the country seems to be inching closer towards turning the Digital India dream into reality.

'Digi-Gaon, another project, with the intent of promoting tele-medicine and education, was also announced. All these measures are expected to go a long way in pacing up digital inclusion while boosting opportunities for content providers.

However, our studies show, the government will need to ensure that on ground execution of these initiatives is firmed up. All parties involved right from the union government and state governments to gram panchayats and service providers need to be allocated clear areas of responsibility and accountability for the initiatives to succeed.

MAKE IN INDIA:

The Budget has sent out mixed signals to the telecom sector on the thrust towards 'Make In India'. Similar to last year, this Budget too had announcements that encourage local manufacturing. In fact, INR 745 crore has been allocated for electronic manufacturing in the country. But mobile phones and LED lights assembled in India are likely to cost more since duties on imported printed circuit boards and components have gone up.

TAXATION:

The lack of clarity on tax treatment of spectrum payments continues with the finance minister leaving the subject untouched. Mobile operators were expecting clarification on whether spectrum allocated before April 1, 2016 will continue to be governed by Section 32 of the Income Tax Act, 1961 and not under Section 35 ABA, which gives them an opportunity to continue capitalising on spectrum expenses and claim higher depreciation-related tax benefits. The industry was also hoping that the finance minister would exclude spectrum fees from the service tax ambit on the grounds that allocation of airwaves is a sovereign function.

The Budget was silent, yet again, on treatment of withholding tax for distributors. Telecom operators were hopeful of a cut in the applicable withholding tax on discounts offered to distributors of prepaid mobile connections. It becomes even more important to have clarity on the issue since a majority of distributors are from the unorganised sector.

In our analysis last year, we had pointed out that in the telecom sector, distributors are practically 'first' customers for operators and there needs to be a healthy working relationship between the two. Our studies have pointed out that satisfaction rates of distributors with operators were just about average.

THE INDUSTRY WAS ALSO HOPING THAT THE FINANCE MINISTER WOULD EXCLUDE SPECTRUM FEES FROM THE SERVICE TAX AMBIT ON THE GROUNDS THAT ALLOCATION OF AIRWAVES IS A SOVEREIGN FUNCTION.

THE NIELSEN VIEW

The telecom sector is grappling with issues of intense competition amongst key players, high spectrum costs and mounting debts against the backdrop of an ever-expanding mobile internet penetration. While telecom operators are key to the success of the Digital India mission there have been no new reforms in the sector and it appears to be a tough year ahead with imminent signs of consolidation in the industry.

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.

nielsen