ANNUAL REPORT THREADBARE

The ART of annual report analysis

PHASING OUT OF TAX DEDUCTIONS

The FY15 effective tax rate for various sectors has varied in the 20-32% range (as against the marginal effective tax rates of ~35%) due to exemptions. CBDT recently released a proposed roadmap to phase out direct tax exemptions—this is in line with the budgetary announcement made in Feb'15 to reduce the corporate tax rate (excluding surcharge & cess) from 30% to 25% over FY17-19 while phasing out the exemptions. Our analysis highlights that the move will be negative for pharma, IT and auto sectors, lowering tax rates will benefit private banks and media sectors.

- **Government proposes to roll back exemptions and lower tax rates:** CBDT recently released a proposed road map to gradually phase out tax exemptions from FY18 and lower the marginal tax rate from ~35% currently to ~29% by FY19. The roadmap proposes (a) to restrict exemptions on weighted deduction of R&D and capex for specified businesses to 100% w.e.f. FY18, (b) restrict tax exemptions on development of SEZ, exports from SEZ, operation and maintenance of infrastructure facilities that commence operations before FY18, and (c) continue with tax exemptions wherein the sunset dates are provided with no further extension.
- **FY15 ETR of MOFSL coverage universe at 27.3% against marginal corporate tax rate of 34.6%,** including the cess and surcharge. The significant difference between effective tax rate and marginal tax rate is on account of exemptions/incentives, which lead to litigation and loss of revenue for government. Among corporate exemptions, incentives of accelerated depreciation account for 38% while incentives for exports from units situated in SEZ account for 19%.
- **Identifying the gainers and the losers:** While the proposed lowering of corporate tax rates will benefit sectors that are subject to higher tax rates (private sector banks, media, etc.), it will lead to a negative impact on sectors that currently benefit from lower tax rates due to various exemptions (pharmaceuticals, IT, automobiles, etc.).
- **Will MAT lose its significance?:** While MAT was introduced to collect tax from companies liable to pay lower taxes than the threshold on account of exemptions. The proposed phasing out of exemptions may lead to all companies paying uniform taxes, which may lead to MAT losing its significance.

Did You Know?

- FY15 standalone effective tax rate of MOSL universe at27.3% v/s marginal corporate tax rate of35%
- MOSL coverage universe standalone PAT to decline by ~2.5% if tax exemptions are withdrawn and effective corporate tax rate reduces to 28.8%

Earnings of MOSL Universe to decline by 2.5% as exemptions are withdrawn while corporate tax reduce

Particulars	Est Increase / (decrease) in FY15 PAT %
Pharmaceuticals	-8.5
Technology	-7.9
Telecom	-6.8
Cement	-6.3
Automobiles	-5.5
Real Estate	-5.1
Oil & Gas	-3.3
Capital Goods	-3.1
Metals	-1.9
Utilities	-1.6
Banks-PSU	-1.6
NBFC	-1.1
Consumer	-1.1
Retail	-0.3
Media	4.1
Banks-Private	4.8
Others	-5.5
MOSL UNIVERSE	**-2.5**

ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We believe ART's wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the stock's investment worthiness.

Sandeep Gupta (S.Gupta@MotilalOswal.com); +91 22 3982 5544
Somil Shah (Somil.Shah@MotilalOswal.com); +9122 3312 4975/ **Mehul Parikh** (Mehul.Parikh@MotilalOswal.com); +9122 3010 2492

FY15 ETR of MOFSL coverage universe at 27.3% as against marginal corporate tax rate of 34.6%

- Our analysis of standalone tax rate for MOSL coverage universe suggests that currently only six sectors out of sixteen have FY15 effective tax rate above 28.8%.
- The difference in effective tax rates and corporate tax rates is primarily on account of tax deductions.
- The major deductions/incentives that lead a to decline in government direct tax revenue include accelerated depreciation, exports profits of units located in SEZ, undertakings in the development, maintenance and operation of infrastructure facility and weighted average deduction on scientific research.

Exhibit 1: Earnings of MOSL Universe to decline by 2.5% as exemptions are withdrawn while corporate tax reduce

Particulars	FY15 PBT (INR b)	Effective tax rate FY13	FY14	FY15	Median	Est Increase / (decrease) in FY15 PAT %
Pharmaceuticals	155.8	24.1	22.3	21.9	22.3	-8.5
Technology	647.6	21.6	22.8	23.1	22.8	-7.9
Telecom	232.7	23.6	24.8	19.5	23.6	-6.8
Cement	58.0	30.5	20.4	24.1	24.1	-6.3
Automobiles	225.7	24.0	24.7	26.9	24.7	-5.5
Real Estate	36.7	25.0	22.6	26.2	25.0	-5.1
Oil & Gas	865.0	25.1	26.4	29.2	26.4	-3.3
Capital Goods	156.4	26.9	26.6	25.5	26.6	-3.1
Metals	332.1	27.4	28.4	26.1	27.4	-1.9
Utilities	444.2	27.7	29.5	25.0	27.7	-1.6
Banks-PSU	413.7	23.8	27.7	30.5	27.7	-1.6
NBFC	349.5	26.8	28.0	29.9	28.0	-1.1
Consumer	304.6	27.7	28.1	29.9	28.1	-1.1
Retail	13.0	28.8	28.6	23.9	28.6	-0.3
Media	34.8	32.4	31.4	31.6	31.6	4.1
Banks-Private	534.6	29.8	32.1	32.2	32.1	4.8
Others	74.9	24.2	24.7	24.7	24.7	-5.5
MOSL UNIVERSE	**4,879.2**	**25.9**	**27.0**	**27.3**	**27.0**	**-2.5**

Source: Capital line, MOSL

Note : On Standalone basis, for coal India we have considered consolidated financials, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Exhibit 2: Tax incentives impact government's FY15 direct tax revenue by INR624b (INR b)

Sr No	Nature of incentive	Revenue impact (2013-14)	Projected revenue impact (2014-15)	As % of total exemptions (2014-15)
1	Accelerated depreciation (Section 32)	342.8	370.1	37.6
2	Deduction of export profits of units located in SEZs (Section 10A/10AA)	170.4	183.9	18.7
3	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (Section 80-IA)	98.2	106.1	10.8
4	Deduction/weighted deduction for expenditure on scientific research (Section 35(1), (2AA) & (2AB))	75.3	81.3	8.3
5	Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (Section 80-IB)	62.4	67.4	6.9
6	Deduction of profits of undertakings set-up in Uttaranchal (Section 80-IC)	36.9	39.8	4.0
8	Deduction of profits of undertakings engaged in development of infrastructure facilities (Section 80-IA)	31.7	34.2	3.5
9	Other	93.7	101.2	10.3
	Total revenue impact of major incentives	**911.4**	**984.1**	**100.0**
	Less: Net additional tax due to MAT	333.5	360.1	
	Net revenue impact of major incentives	**577.9**	**624.0**	

Source: GOI, MOSL

Proposed roadmap for phase out of corporate deduction

Goodwill on consolidation of Taro up from INR4.9b in FY13 to INR11.4b in FY14

- In line with the recent budget announcement to reduce the corporate tax rate (excluding surcharge and cess) from 30% to 25% over the next four years and phase out exemptions, CBDT recently released a roadmap to phase out direct tax exemptions. The key proposals are mentioned below:

  (a) The depreciation available under Section 32 (up to 100%) shall be capped at 60% w.e.f. FY18

  (b) The weighted average deduction on (a) R&D u/s 35 and (b) capex for specified businesses u/s 35AD (cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertilizer, etc.) restricted to 100% w.e.f. FY18

  (c) The tax exemptions wherein the sunset dates are provided will not be altered. A sunset date of FY17-end is provided for tax exemptions without any sunset date for commencement; this will include benefits under:

    a. Section 80-IA: Pertaining to operation and maintenance of infrastructure facility—roads, ports, telecom, power generation/ distribution, etc.).
    b. Section 80-IAB: Pertaining to development of SEZ.
    c. Section 10AA: Exports of goods and services from SEZ.
    d. Section 80-IB: Commercial production of (a) natural gas licensed under CBM IV and NELP VIII, and (b) mineral oil licensed under contracts awarded up to FY11.

Exhibit 3: Proposed roadmap for phasing out deductions

Section	Particulars	Sectors Impacted
32	Depreciation capped at 60% (from FY18) for assets that are currently eligible for up to 100%	Metals & mining, Water supply & treatment projects, pollution control, solid waste management and cinematography
35AD	Reduction in e weighted deduction of 150% to 100% on capital expenditure incurred by certain specified projects w.e.f. FY18	Agriculture, Real Estate (Affordable housing) and Cold chain & warehousing
35 AC	No deduction on donations made u/s 35 AC w.e.f. FY18	All sectors
35	Deduction for donations and expenditure (capital & revenue) incurred on scientific research is proposed to be restricted to 100% from FY18 as against 200% currently	Automotive, pharmaceuticals, agriculture, capital goods

Source: CBDT, MOSL

Exhibit 4: Proposed sunset date of FY17 for commencement of activity to avail deduction

Section	Particulars	Sectors Impacted
80 IA	Development, operation & maintenance of infrastructure facility	Telecom, road, ports, power generation transmission & distribution
80 IAB	Development of Special Economic Zone	Real estate
10 AA	Export of articles/services by units located in SEZ	IT , pharmaceuticals , gems & jewelry
80 IB	Commercial production of oil and natural gas in blocks licensed under CBM-IV & NELP VIII, commercial production of mineral oil from blocks licensed under contract awarded up to 31/3/2011	Oil & Gas
35 CCC	Proposal to reduce weighted deduction to 100% from FY18 for expenditure on agriculture extension projects	Agriculture
35 CCD	150% of weighted deduction is proposed to be restricted to 100% w.e.f. FY18 on expenditure incurred on skill development	Education

Source: CBDT, MOSL

Identifying potential gainers and losers

The government intends to reduce the corporate tax (excluding cess and surcharge) form 30% currently to 25% by FY19 and withdraw the exemptions. We believe the proposed change will negatively affect sectors that currently pay lower effective tax rate due to deduction/incentives (technology, pharmaceuticals and automobiles). Private sector banks and media companies, which currently pay close to marginal tax rates, will benefit from reduction in tax rates.

Methodology: To highlight the company-wise impact, we have used the last three years' median as the effective tax rate of the company and estimated the impact on FY15 earnings assuming the median effective tax rate will get changed to effective rate of 28.84% (proposed rate of 25% including cess and surcharge).

However, for companies with (a) higher other income (such as dividend from mutual funds, dividend from subsidiaries and capital gains, which is taxed at a lower rate) and (b) continued benefit from existing incentives (till the time they are phased out) lower effective tax may continue which we have not factored for our analysis.

Technology: Negative

- The difference in tax rates across companies within the technology services sector is largely due to corresponding difference in revenue proportions from SEZs that are still under the tax sop period. Consequently, ETR is lower for TCS, WPRO HCLT, MTCL, and higher for companies like INFO and PSYS. For example, after including the tax on overseas profits, overall taxes are payable at of 37-38%. However, sops from SEZ operations help curb the taxation burden to the extent of 9.5pp (INFY) to 13.3pp (TCS), bringing ETR down to between 22% (TCS) and 29% (INFY).
- As the corporate tax rate in India declines to ~29% (including cess and surcharge), the total tax payable should be **32-33%** (**minus the SEZ benefits)**. As the sun sets on SEZ benefits (expected gradually over 5-7 years), the ETRs will move up to 32-33%. The change will impact companies like HCLT, WPRO, TCS and MTCL the most (where current effective tax rate on consolidated basis is 21-23%) and INFY and PSYS the least (paying 28-29% tax). TECHM is at ~26%;implied eventual earnings impact on a consolidated basis for the former set of companies will be ~12-14%, while that for the latter set will be ~5-6%.

Exhibit 5: Significant negative impact on technology companies

Company	FY15 PBT (INR M)	Effective tax rate				Est Increase / (Decrease) in FY15 PAT %	Remark
		FY13	FY14	FY15	Median		
Infosys	167,980	26.2	27.2	27.6	27.2	-2.3	Tax rate increase likely to be lower than that of peers as the company is already paying full corporate tax, owing to lesser exposure to SEZ revenue
TCS	245,500	18.6	21.5	21.6	21.5	-9.3	Tax rate likely to increase as the negative impact of SEZ-led exemptions withdrawal is expected to be much higher than the benefits expected from lower corporate tax rate
Wipro	105,570	21.6	23.1	22.4	22.4	-8.3	Tax rate likely to increase as benefits from SEZ-led exemptions are likely to come down—as is the case with TCS
HCL Technologies*	73,977	17.4	18.5	19.1	18.5	-12.7	Tax sops enjoyed by HCLT have been among the highest among peers, and will come down owing to the expiry of SEZ benefits—driving tax rates higher
MphasiS	7,317	25.4	27.4	24.4	25.4	-4.6	Tax rate increase likely to be lower than that of peers as the company is already paying full corporate tax owing to lesser exposure to SEZ revenue
Tech Mahindra	29,305	20.2	17.1	23.0	20.2	-10.9	Tax rate increase at TECHM is expected to be somewhere in the median relative to other companies, given the current ETR of 26%
Mindtree	6,877	20.0	22.0	22.3	22.0	-8.7	Tax rate likely to increase as benefits from SEZ-led exemptions are likely to come down—as in the case of HCLT, WPRO and TCS
Persistent Sys	3,488	26.3	27.3	25.7	26.3	-3.5	Tax rate increase likely to be lower than that of peers as the company is already paying full corporate tax owing to lesser exposure to SEZ revenue
Hexaware Tech.#	3,818	16.3	18.5	16.6	16.6	-14.7	Arguments similar to MTCL apply for HEXW too, driving up the overall tax rate
KPIT Tech.	2,208	23.3	22.1	8.8	22.1	-8.6	Increase in ETR to be similar to TECHM, given comparable ETR and proportion of benefits today
Tata Elxsi	1,560	33.9	34.7	34.0	34.0	7.9	

Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

* Year ending June'14. # Year ending December'14.

Pharmaceuticals: Negative

- Impact would be two-pronged for the pharma sector: 1) Tax benefit on plants that are located in SEZs and 2) tax benefit on R&D investments.
- As of now, pharma companies get deductions of ~200% on R&D expenditure for tax calculation purposes. The new roadmap is proposes to limit the tax deduction to 100% of expense incurred (which means treating it as normal expense).
- Pharma companies' tax rate average is ~20-24% currently (v/s the proposed effective tax rate of ~29%).
- Foreign subsidiaries of pharma companies will continue to enjoy tax benefit (if applicable) in specific geographies. Companies like Sun Pharma, Lupin and GNP have R&D centers outside India, which will help them bring down the effective tax rate (even post FY18).
- Having said that, prima facie there is a risk of negative impact of at least ~3-5% at PAT level for the sector as a whole. Key companies that come under the tax bracket of 20-22% and are most exposed to this are SUNP, DRRD, GNP and BIOS.
- MNC companies like GLXO & Sanofi are in the ~31-33% tax bracket and could see some relief from FY18. LPC is in the ~25-27% bracket and may be impacted marginally.

Exhibit 6: Domestic pharma companies to be negatively impacted while MNCs gain

Company	FY15 PBT (INR M)	Effective tax rate				Est Increase / (Decrease) in FY15 PAT %	Remark
		FY13	FY14	FY15	Median		
Glenmark Pharma.	12,316	NM	13.6	18.2	15.9	-15.4	Current benefits are on account of Novel R&D and SEZ units
Cipla	15,400	25.1	23.6	23.3	23.6	-6.8	
Dr Reddy's Labs	20,599	27.8	21.3	18.5	21.3	-9.6	Current benefits are on account of Novel R&D and 5 SEZ units
Lupin	32,122	26.9	26.0	25.4	26.0	-3.9	
Glaxosmit Pharma	7,486	31.8	31.2	37.0	31.8	4.4	
Divi's Lab.	10,672	22.8	21.5	20.6	21.5	-9.3	Current benefits are on account of SEZ units
Ipca Labs.	3,577	28.2	24.1	28.4	28.2	-0.9	
Torrent Pharma.	7,961	17.9	20.5	21.7	20.5	-10.6	Current benefits are on account of SEZ units
Sanofi India*	3,726	32.5	31.7	29.3	31.7	4.2	
Biocon	4,283	20.5	20.6	15.7	20.5	-10.4	Current benefits are on account of Novel R&D and SEZ units
Aurobindo Pharma	19,404	11.9	22.9	21.9	21.9	-8.9	Current benefits are on account of 3 SEZ units. R&D component is very small
Alembic Pharma	3,629	20.5	23.6	21.0	21.0	-9.9	Current benefits are on account of SEZ unit
Cadila Health.	14,646	6.2	4.5	13.2	6.2	-24.2	Current benefits are on account of limited liability companies, R&D and SEZ units

*Year ending December'14 Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Automobile: Negative

- Auto sector would be mainly impacted by a) reduction in weighted deduction on R&D investment from ~200% to ~100% and b) phase out of area-based deductions.
- Withdrawal of 200% weight deduction would impact companies like Tata Motors (~6% of sales), M&M (~3.65%) and Bosch (~1.8%).
- We are awaiting clarity on area-based incentives u/s 80IAC, since all the auto players have manufacturing presence in eligible areas; in any case, these tax exemptions are currently on ~30% of PAT from plants located in these areas and would have been fully exhausted by FY18-19.

Exhibit 7: Automobile manufacturers to be negatively impacted while auto ancillaries gain

Company	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Increase / (Decrease) in FY15 PAT %	Remark
Bajaj Auto	40,848	28.7	30.0	31.1	30.0	1.6	
M & M	41,689	24.6	14.0	20.3	20.3	-10.7	High R&D spend, tax-free dividend income from subsidiaries/associates and treasury income with lower tax leads to lower effective tax rates
Maruti Suzuki	48,682	20.0	23.9	23.8	23.8	-6.7	R&D deduction, high treasury and dividend income
Hero Motocorp	33,288	16.3	26.4	28.3	26.4	-3.3	Tax exemption for 30% of Haridwar profit, R&D deduction and high treasury income
Bosch	19,559	28.8	29.6	31.6	29.6	1.1	
Exide Inds.	7,985	29.6	32.6	31.6	31.6	4.1	
Amara Raja Batt.	6,099	32.0	31.5	32.6	32.0	4.7	
Bharat Forge	10,573	30.6	32.9	32.0	32.0	4.7	
TVS Motor Co.	4,562	29.1	25.8	23.7	25.8	-4.1	Tax exemption for 30% of Pantnagar profit and R&D deduction
Ashok Leyland	4,422	7.9	NM	24.3	16.1	-15.2	Lower tax rates are due to accumulated losses
Eicher Motors*	7,980	16.7	23.3	30.0	23.3	-7.3	R&D deduction, high treasury and dividend income

* Year ending December'14 Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Capital Goods: Mixed Bag

- Capital goods sector would be mainly impacted by a) reduction in weighted deduction on R&D investment from ~200% to ~100% and b) Section 80IC benefits on manufacturing facilities.
- Withdrawal of 200% weighted deduction would impact companies like Bharat Electronics and Crompton Greaves.
- **L&T:** Withdrawal of Sec 80IA benefits (infrastructure developers) unlikely to have any material impact on L&T as these would be a pass through under the terms of the road/power concession. Under such change, the terms of concession agreement would allow the developer to seek tariff adjustment and, thus, it is passed on to the consumer.
- **Cummins India**: It gets ~35% of revenues from its SEZ at Phaltan where it is currently paying MAT. Since the SEZ has been operational since 2013, it should be able to avail the IT benefits as per schedule; thus we do not foresee any material impact on the current tax rate.
- **Bharat Electronics**: It gets tax incentives for R&D spending (~8% of sales is R&D) and effective tax rate is, therefore, low at ~21%. If the incentives are phased out, the tax rate would rise to the proposed ~28%.

Exhibit 8: Capital goods companies to witness an increase in tax rates

Company	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Increase / (Decrease) in FY15 PAT %	Remark
B H E L	21,400	29.9	31.0	33.7	31.0	3.1	
Larsen & Toubro	67,012	24.0	24.4	24.5	24.4	-5.9	Tax rate low as major dividend income from subsidiaries are tax free
Cummins India	9,374	27.3	26.6	16.2	26.6	-3.1	Sec 10AA-led tax benefits for its SEZ facility at Phaltan from FY12 and will get major benefits by FY17; benefits to taper post FY17
Bharat Electron	14,667	20.2	20.7	20.4	20.4	-10.6	Higher R&D expense of 8% of the total sales leads to lower tax rates
Siemens*	8,436	34.1	11.3	28.5	28.5	-0.5	
Thermax	4,970	32.1	37.8	32.4	32.4	5.3	
Crompton Greaves	8,995	25.2	26.9	18.7	25.2	-4.9	R&D benefits-led tax benefits, which will return to normal tax rates from FY18
Havells India	6,463	18.8	19.6	28.1	19.6	-11.5	Section 80IC benefits on account of tax benefits enjoyed by manufacturing facilities in Baddi and Haridwar. The benefits have now ceased to exist
A B B#	3,552	33.4	35.1	35.7	35.1	9.6	
Voltas	4,335	25.8	29.3	24.1	25.8	-4.1	SEC80IC benefits for plant in Uttarakhand; the befnefits will cease to exist from FY18
Va Tech Wabag	1,360	32.4	33.0	33.5	33.0	6.3	
Solar Inds.	1,404	11.1	18.3	23.1	18.3	-12.9	Tax benefits led by R&D activities and defense manufacturing units enjoying tax benefits. Defense manufacturing units no longer get tax benefits and R&D benefits will cease to get tax benefits from FY18
Inox Wind	4,405	1.3	NM	24.7	13.0	-18.2	Tax benefits under Sec 80IC for its manufacturing facilities in HP. Inox will enjoy 30% tax incentive till FY19 and return to normal tax rate from FY20

* Year ending September'14 # Year ending December'14 Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Utilities: Benefits of area/investment linked to be considered a change in law, pass through under concession agreement

- Withdrawal of area/investment-based tax incentive is unlikely to have any material impact for utilities companies, given a clause of change in law under the concession agreement.
- Under such change, the terms of concession agreement would allow the developer to seek tariff adjustment and, thus, it is passed on to the consumer.
- For regulated projects (few in private sector) and entities (NTPC, Powergrid, NHPC), the tax is anyway a pass through as they operate on cost plus model.
- Coal India would be a beneficiary of lower corporate tax rate as it pays full tax rate at present.

Exhibit 9: Utilities tax rate may increase with phasing out of taxes, but will be largely pass through

Company	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Increase / (Decrease) in FY15 PAT %	Remark
NTPC	105,467	23.9	21.1	2.4	21.1	-9.8	Investment-based exemption, tax pass through and, thus, no impact on earnings/valuation.
Power Grid Corpn	62,894	25.0	28.2	20.8	25.0	-5.1	Investment-based exemption, tax pass through and, thus, no impact on earnings/valuation.
NHPC Ltd	28,262	26.7	38.2	24.8	26.7	-3.0	Investment-based exemption, tax pass through and, thus, no impact on earnings/valuation.
Tata Power Co.	15,157	39.8	36.0	33.3	36.0	11.2	Regulated standalone business, tax pass through.
Coal India	215,839	30.5	34.0	36.4	34.0	7.7	On consolidated basis, the company would benefit owing to lower corporate tax rate (already factored by us).
JSW Energy	13,557	20.2	26.3	26.6	26.3	-3.5	Mix of old and new plans and regulated plus open capacity. Impact miniscule.
PTC India	3,013	27.9	31.0	32.6	31.0	3.2	Full tax payment on income, beneficiary of lower corporate tax rate.

Source: Capital Line, MOSL

Note : On Standalone basis, For Coal India we have considered consolidated financial companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Consumer: Mixed bag

- The impact of the proposed step by CBDT will have insignificant impact on Consumer sector as most of the exemptions pertaining to area based investments have already started fading since FY15. Consequently, companies have already guided for higher tax rates progressively in FY16E/FY17E.
- MNC players in our Consumer Sector Universe are already at 30%+ rates and will move closer to 33% in next two years. Thus, they could benefit from lowering of effective tax rates going forward.
- However domestic companies like Emami, Dabur & GCPL have few plants which avail tax incentives since their facilities are located in areas eligible for 80IC benefit. Thus their effective tax rate is lower. We expect 6-8% impact on EPS for domestic consumer companies (Emami, Dabur, GCPL) as and when these exemptions pertaining to the facilities lapse.

Exhibit 10: Tax rate of domestic consumer companies to rise as benefit from facility in backward areas lapse

Company	FY15 PBT (INR M)	FY13	FY14	FY15	Median	Est Increase / (Decrease) in FY15 PAT %	Remark
		Effective tax rate					
ITC	139,975	30.6	30.6	31.4	30.6	2.5	
Hind. Unilever	61,874	23.4	23.1	30.3	23.4	-7.1	Company has certain facilities in backward locations [Haridwar and Baddi] whose tax exemptions will subsume in next two years and thereby these will move closer to 33%+ rate.
Nestle India	17,744	31.2	33.4	33.2	33.2	6.6	
Asian Paints	19,336	30.7	31.3	31.3	31.3	3.6	
GlaxoSmith C H L	8,891	32.7	33.6	34.4	33.6	7.2	
Colgate-Palm.	7,804	25.1	25.8	28.4	25.8	-4.1	Company has certain facilities in backward locations [Baddi, HP] whose tax exemptions will subsume in next two years and thereby these will move closer to 30%+ rate.
Pidilite Inds.	6,685	25.6	25.7	24.9	25.6	-4.3	
Dabur India	9,765	21.2	22.0	21.9	21.9	-8.9	Company has certain facilities which currently avail benefits under section 80IC. However company will see EPS impact as and when the exemptions at these facilities lapse.
Godrej Consumer	8,272	19.3	20.8	20.9	20.8	-10.2	Company has certain facilities which currently avail benefits under section 80IC. However company will see EPS impact as and when the exemptions at these facilities lapse.
Marico	7,310	20.8	19.5	25.4	20.8	-10.1	
Britannia Inds.	8,826	29.6	31.8	29.5	29.6	1.1	
Emami	5,770	14.1	11.9	18.3	14.1	-17.2	Company has certain facilities which currently avail benefits under section 80IC. However company will see EPS impact as and when the exemptions at these facilities lapse.
Radico-Khaitan	871	29.3	33.0	22.4	29.3	0.6	
Jyothy Lab.	1,469	NM	0.2	2.8	1.5	-27.8	Current low tax rate was on account of adjustment of prior period losses, however going ahead it has guided for tax to be at marginal corporate tax rate.

Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Telecom : Mixed bag

- Telecom companies have benefitted from 80IA benefits in specific circles. These benefits are calculated circle wise and are in their last stages for most circles.
- Bharti Airtel tax rate for FY13-15 was below the corporate tax rate due to 80IA benefits in specific circles. Bharti India tax rate in 1HFY16 has already increased by ~750bp vs FY15 levels primarily on account of expiry/reduction of tax holidays benefits in select units.
- Tax rate for Bharti Infratel at standalone level was low due to dividend income received from Indus Towers. Consolidated tax rate for Bharti Infratel continues to be ~35%, implying that it would be a net beneficiary of reduction in the corporate tax rates.

Exhibit 11: Telecom sectors tax rates to rise as benefits from Sec 80IA phase out

Company	FY15 PBT (INR M)	Effective tax rate				Est Increase / (Decrease) in FY15 PAT %	Remark
		FY13	FY14	FY15	Median		
Bharti Airtel	156,553	21.0	21.2	15.7	21.0	-9.9	Consol tax rate remains high because of diverse subsidiary performance and is expected to increase further
Idea Cellular	43,391	36.5	35.2	35.2	35.2	9.9	There is no 80 IA benefit for Idea
Bharti Infra.	32,737	23.6	27.2	16.8	23.6	-6.9	Bharti Infratel's low ETR is due to the dividend income it receives from its stake in Indus.

Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Private Bank and Media: Positive

- Private sector banks and media companies, which pay higher tax rates than the proposed effective tax rate of 28.84%, will be benefit as it would lead to lower tax rates effective FY15.

Exhibit 12: Private sector banks currently not getting tax benefits to gain on lowering of tax rates

Company	FY15 PBT (INR M)	Effective tax rate				Est Increase / (Decrease) in FY15 PAT %
		FY13	FY14	FY15	Median	
ICICI Bank	158,149	26.9	29.7	29.3	29.3	0.7
HDFC Bank	153,287	31.0	33.6	33.4	33.4	6.8
Axis Bank	110,568	31.4	33.5	33.5	33.5	6.9
Yes Bank	29,101	32.5	30.5	31.1	31.1	3.3
Kotak Mah. Bank	28,329	31.0	33.9	34.1	33.9	7.6
IndusInd Bank	27,087	32.7	33.8	33.8	33.8	7.5
J & K Bank	8,202	30.9	32.5	38.0	32.5	5.4
Federal Bank	15,211	29.8	30.8	33.9	30.8	2.8
South Ind.Bank	4,679	23.4	30.4	34.3	30.4	2.2

Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Exhibit 13: Large media companies currently paying close to marginal tax rates to benefit on lowering of effective tax rates

Company	Sector	FY15 PBT (INR M)	Effective tax rate				Est Increase / (Decrease) in FY15 PAT %
			FY13	FY14	FY15	Median	
Sun TV Network	Media	11,120	32.6	33.9	33.7	33.7	7.3
Zee Entertainment	Media	12,122	32.7	34.3	31.4	32.7	5.7
D B Corp	Media	4,929	32.9	32.2	35.7	32.9	6.1
Hindustan Media	Media	1,881	25.9	28.0	25.1	25.9	-4.0
Jagran Prakashan	Media	3,346		25.2	33.2	29.2	0.5
H T Media	Media	1,238		19.1	8.2	13.6	-17.6

Source: Capital Line, MOSL

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Exhibit 14: Impact on companies in other sectors

Company	Sector	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Incr / (Decr) in FY15 PAT %	Remark
St Bk of India	PSU Bank	193,140	29.3	32.7	32.2	32.2	4.9	Tax rate in PSBs is highly volatile due to following reasons: (a) MTM of investment portfolio (considered as stock in trade), (b) one-off expenses which are not fully tax deductible (e.g. wage settlement provisions, pension AS-15), (c) higher write-offs and (d) higher provisioning on NPAs/RL loans.
Punjab Natl.Bank	PSU Bank	39,573	27.2	28.7	22.6	27.2	-2.2	
Union Bank (I)	PSU Bank	27,834	29.6	17.9	36.0	29.6	1.0	
Canara Bank	PSU Bank	34,976	21.8	20.4	22.7	21.8	-9.0	
IDBI Bank	PSU Bank	12,873	28.2	35.6	32.2	32.2	4.9	
Andhra Bank	PSU Bank	12,182	27.2	40.6	47.6	40.6	19.8	
Bank of Baroda	PSU Bank	54,206	7.3	17.4	37.3	17.4	-13.9	
Bank of India	PSU Bank	17,951	8.6	NM	4.8	6.7	-23.7	
Indian Bank	PSU Bank	14,686	13.4	21.5	31.6	21.5	-9.4	
Oriental Bank	PSU Bank	6,318	13.3	27.8	21.3	21.3	-9.6	
UltraTech Cem.	Cement	28,863	30.6	22.7	30.2	30.2	1.9	
Ambuja Cem.	Cement	17,834	31.8	14.5	16.1	16.1	-15.2	ACEM: Tax write-back of prior period adjusted CY12/13/14: 26%/28%/24%; higher other income
The Ramco Cement	Cement	3,564	31.4		32.0	31.7	4.2	
J K Cements	Cement	1,592	31.4	28.8	1.4	28.8	-0.1	
Orient Cement	Cement	2,512	35.0	34.1	22.5	34.1	8.0	
Birla Corpn.	Cement	2,129	23.1	14.8	17.6	17.6	-13.7	Ex- MAT credit 36%/35%/28%
JK Lakshmi Cem.	Cement	1,118	25.3	19.4	14.5	19.4	-11.7	Ex MAT credit FY14/15 29%/31%
Dalmia Bhar.	Cement	368	19.9	21.5	31.8	21.5	-9.4	Already close to normal tax rate in FY15
NMDC	Metals	97,681	33.0	34.2	34.3	34.2	8.2	
Tata Steel	Metals	85,089	35.4	34.0	24.3	34.0	7.8	
Hind.Zinc	Metals	95,701	11.8	13.4	14.5	13.4	-17.9	Lower effective tax rate due to (a) Area based incentives for facilities in Uttarakhand (which will end by March 19) and (b) profit-linked incentives on wind power generation. (c) other income on mutual funds. After exhausting such exemptions, HZL's ETR is expected to rise from current ~15% to ~25-28%
JSW Steel	Metals	32,489	28.1	31.8	33.3	31.8	4.3	
Natl. Aluminium	Metals	21,134	34.5	30.0	37.5	34.5	8.6	
H D F C	NBFC	86,241	26.2	26.9	30.5	26.9	-2.7	
Power Fin.Corpn.	NBFC	83,782	25.9	28.3	28.9	28.3	-0.7	
Rural Elec.Corp.	NBFC	74,270	26.1	28.3	29.2	28.3	-0.8	
Shriram Trans.	NBFC	18,424	32.5	30.8	32.8	32.5	5.4	
Mahindra Finance	NBFC	12,536	31.0	34.1	33.7	33.7	7.3	
Indiabulls Hous.	NBFC	25,332	23.5	20.6	21.9	21.9	-8.9	
LIC Housing Fin.	NBFC	21,019	25.5	27.8	34.1	27.8	-1.4	
Bajaj Fin.	NBFC	13,569	32.2	34.1	33.8	33.8	7.5	
Dewan Hsg. Fin.	NBFC	9,430	26.0	28.0	34.1	28.0	-1.1	
GRUH Finance	NBFC	3,008	25.9	27.6	32.3	27.6	-1.7	
Repco Home Fin	NBFC	1,862	25.1	26.2	33.9	26.2	-3.6	
Brigade Enterpr.	Real Estate	1,087		27.0	35.6	31.3	3.5	
DLF	Real Estate	12,182	27.3		22.8	25.1	-5.0	
Jaypee Infratec.	Real Estate	4,289	20.0	25.3	17.2	20.0	-11.0	
Oberoi Realty	Real Estate	4,266	26.2	28.1	28.6	28.1	-1.0	
Prestige Estates	Real Estate	5,905	29.0	30.4	29.8	29.8	1.4	
Sobha	Real Estate	2,994	31.7	34.2	33.5	33.5	7.0	
Phoenix Mills	Real Estate	1,139	26.0	24.9	45.7	26.0	-3.8	
Mahindra Life.	Real Estate	3,377	28.3	23.3	30.9	28.3	-0.8	
Godrej Propert.	Real Estate	1,437	12.1		11.0	11.6	-19.5	
Titan Company	Retail	10,559	27.9	27.0	22.0	27.0	-2.5	
Jubilant Food.	Retail	1,721	31.6	33.0	28.4	31.6	4.0	

Company	Sector	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Incr / (Decr) in FY15 PAT %	Remark
Shoppers St.	Retail	696	35.0	41.0	41.4	41.0	20.6	Tax rate is higher than Maximum marginal rate of tax due to disallowance of the interest component of the ratio of investments.
O N G C	Oil & Gas	265,552	31.5	31.9	33.2	31.9	4.5	
Reliance Inds.	Oil & Gas	294,680	20.1	21.0	22.9	21.0	-10.0	Low taxes due to accelerated depreciation charged in fixed assets, and other tax benefits; presence of high other income
GAIL (India)	Oil & Gas	42,844	33.6	31.7	29.1	31.7	4.1	
Oil India	Oil & Gas	37,287	32.1	32.4	32.7	32.4	5.3	
B P C L	Oil & Gas	74,155	34.5	31.7	31.4	31.7	4.2	
I O C L	Oil & Gas	79,953	11.4	29.3	34.0	29.3	0.6	
H P C L	Oil & Gas	41,541	38.6	33.7	34.2	34.2	8.2	
Guj.St.Petronet	Oil & Gas	6,603	34.8	36.3	37.9	36.3	11.8	
Cairn India	Oil & Gas	15,944	3.9	4.1	17.2	4.1	-25.8	Tax low due to tax holiday under Section 80-IB (9). Expect tax rate to increase post FY17
Indraprastha Gas	Oil & Gas	6,490	33.0	33.3	32.6	33.0	6.1	
Container Corpn.	Others	12,945	22.4	23.3	19.1	22.4	-8.2	
Castrol India	Others	7,263	32.9	33.2	34.7	33.2	6.6	
Coromandel Inter	Others	5,924	21.6	30.2	32.0	30.2	2.0	
Multi Comm. Exc.	Others	1,701	26.3	27.1	26.5	26.5	-3.2	
SRF	Others	3,961	26.7	20.1	22.3	22.3	-8.4	Tax rate has been lower due to benefits for packaging unit located in SEZ coupled with weighted deduction for R&D expenses. FY15 was last year for benefits hence going ahead tax rate is expected to increase to 28%.
UPL	Others	5,807	30.0	24.8	20.2	24.8	-5.4	
Bata India	Others	3,287	31.9	32.5	29.7	31.9	4.5	
Info Edg.(India)	Others	2,675	34.1	31.5	27.5	31.5	3.9	Likely to benefit from the reduction in tax rate
TTK Prestige	Others	1,333	28.1	26.3	30.7	28.1	-1.0	
TTK Prestige	Others	2,224	46.3	41.6	36.5	41.6	21.8	Higher tax rate in the past due to deferred tax and tax expense of previous years.
Sintex Inds.	Others	6,168	13.8	23.5	25.8	23.5	-7.0	
Just Dial	Others	1,905	30.4	26.8	27.1	27.1	-2.4	
Symphony	Others	1,618	32.0	27.1	28.0	28.0	-1.1	
Gateway Distr.	Others	1,094	31.7	33.5	26.2	31.7	4.2	
V-Guard Inds.	Others	1,015	23.4	25.6	30.3	25.6	-4.3	
Wonderla Holiday	Others	729	32.9	31.1	30.6	31.1	3.3	
Kitex Garments	Others	1,417	33.3	34.9	30.5	33.3	6.7	
Insecticid.India	Others	642	23.9	17.9	14.5	17.9	-13.3	
Monsanto India	Others	1,290	10.2	11.4	17.6	11.4	-19.7	Seeds business is exempt from tax, which will continue to be tax free going forward.
Indo Count Inds.	Others	1,976	12.6	6.4	29.6	12.6	-18.6	ICNT in the past has had lower tax rate on account of brought forward losses. It started paying full tax FY15 onwards. Accordingly, we have estimated full tax for FY16/ FY17 at 35%.
Kaveri Seed Co.	Others	3,094	2.8	2.2	2.5	2.5	-27.1	Seeds business is exempt from tax, which will continue to be tax free going forward.

Company	Sector	FY15 PBT (INR M)	Effective tax rate FY13	FY14	FY15	Median	Est Incr / (Decr) in FY15 PAT %	Remark
Century Ply.	Others	1,798	3.2	3.4	16.1	3.4	-26.3	Company is receiving benefits of Section 80IA and Section 80IE on its facilities (paying MAT currently). There are no activities pending for commencement as at date. We have assumed similar tax rates going forward. Company will be taxed at the maximum marginal rate as and when these benefits exhaust.
Arvind Ltd	Others	4,776	NM	11.6	21.0	16.3	-15.0	Company had lower tax rates in the past on account of brought forward losses (it paid MAT and recognized credit). These brought forward losses have now been exhausted and going forward, it will be taxed at the maximum marginal rate from FY17

Note : On Standalone basis, companies with losses in FY15 and ETR>100% or ETR<0 due to prior period adjustments have been excluded

Source: Capital Line, MOSL

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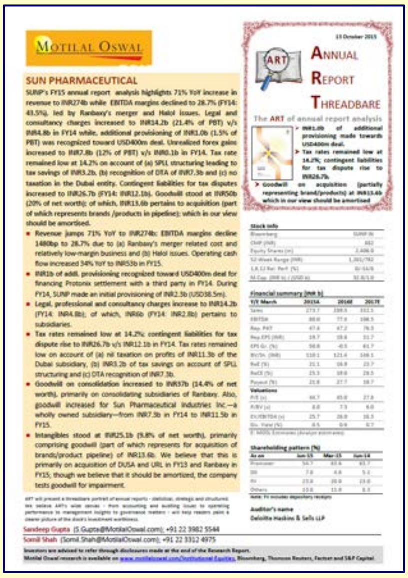
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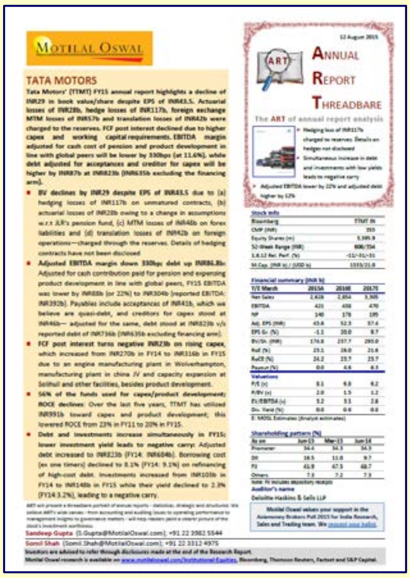
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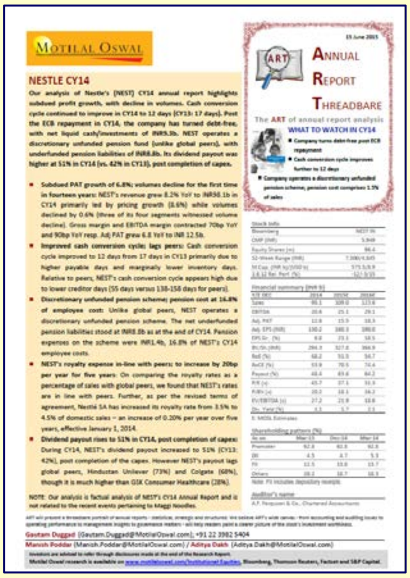
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Kadambari Balachandran
Email : kadambari.balachandran@motilaloswal.com
Contact : (+65) 68189233 / 65249115
Office Address : 21 (Suite 31),16 Collyer Quay,Singapore 04931