

# Sovereign Expenditure Analysis

Centre + states = Laden with surprises!

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- **What we did:** A detailed analysis of spending by central and state governments.
- **Why we did it:** (1) To definitively gauge sector-wise focus of the Indian sovereign, as only central or state analysis tends to provide an inconclusive and partial picture. (2) Usually, central government spending receives considerable attention while state spending is given only a cursory glance, despite states contributing 54% of total spend.
- **What we found:** States contribute more to India's economic growth under cooperative federalism. State + centre spending on rural + agri is sharply lower in FY17. Focus sectors are not what one would expect.

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## More spend is developmental, and by the states

- Overall developmental spending is higher than non-developmental.
- Centre's spends are bigger on the non-developmental side. A fourth of the central government's expenditure is towards interest payments, followed by grants to states, subsidies, defence, and economic services (similar portions).
- State governments' spends tend to be heavier on the developmental side; they spend the highest on social services, followed by economic services (more productive), interest payments, pension, administrative services, and police.
- Combining centre and state expenditure, highest is on social services, followed by economic services, interest payments, pension, defence, subsidies, and police.

## Strong capex by states, not the centre

- Combined budgeted capital expenditure of the sovereign in FY17 is Rs 6,554bn vs. Rs 5,837bn in FY16A, up 12% vs. up 16% last year due to lower incremental capex by the central government. In FY16, the central government contributed more to capex spending, while in FY17 states are taking the lead.
- Strong budgeted capex by state governments in FY17 should help the economy, as private capex still remains sluggish. The onus of reviving the capex cycle still lies with the sovereign.
- Government projects (outstanding + under implementation; central has more than states) have surpassed the private sector's (in terms of value). Projects shelved in Q1-Q2 2016 are lower; however, projects completed in Q2 have also dipped sharply.

## Larger funds in states' kitty, and they are spending these funds quite well

- Post-NDA, the **central government has allocated higher net resources to states**.
- Combining tax devolution, expenditure assistance, and other schemes, overall transfers are at historical highs of Rs 9,476bn for FY17 – 22% growth in FY16 and 8% in FY17.

## Combined sectoral spending reveals a different story – roads, power & defence are not in focus

- When we combined sectoral spending of centre and states, the sector outlook changed quite a bit due to deviation in outlays between the two. Sectors that the government constantly highlights are **NOT** the ones truly receiving maximum focus.
- **Sectors that have actually received greater focus from the sovereign are – agriculture, urban development, railways, new & renewable energy, health, posts and police. The surprising omissions from this list are rural development, roads, power, defence, housing, and water resources & Ganga rejuvenation.**
- The sector 'road, transport, & highways', which was considered a trigger for economic revival in FY16, is actually budgeted to record muted spending growth in FY17.

## Rural/agri spends in FY17 are sharply lower than FY15-16; we see no demand push from here, since it hasn't already come

- Combining centre and state spending, incremental spending in FY17BE is **sharply lower** than that in FY15-16 (factoring in shift of interest subsidy worth Rs 150bn to the agriculture ministry from the financial services ministry).
- Since the impact in terms of demand wasn't felt in those years (pain persisted), we do not expect this to change rural-sector economics in FY17.
- Rather, in the next 6-12 months, a rural consumption boost could come from good monsoons and the 7<sup>th</sup> Pay Commission.

## In FY18-19, we expect weak sovereign investments and buoyant consumption.

- Sovereign Capex spending will be adversely impacted by 7th PC implementation by states (states' fiscal deficit to rise by 0.5-1% of GSDP) and anticipated adverse revenue impact of GST for the centre. Private sector capex could improve in 2HFY18.
- 7th PC payout by the states is expected to be 3-4x higher than that of centre (approx Rs 3-4 trillion). Thus, consumption boost to last for next few years.

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## Executive summary: The C+S story

### Read this report for:

- Sector-wise trends of central and state government spending and combining the two (C+S).
- Capital expenditure focus of central and state governments
- How states fare after higher tax devolution by the centre
- Impact of 7<sup>th</sup> Pay Commission on state governments

## Popular opinion is way off the mark

### Could FY17 be the year of a balancing act?

After analysing central government spending (centre + state) and states' own spending, we found that:

- (1) The general perception about key areas of central government spending is quite incorrect, especially after including state government spending. In quite a few sectors where one would expect huge spending, it is actually quite low.
- (2) Spending trends between the centre and state and on various sectors are divergent.

*A = Actuals*  
*BE = Budgeted Estimates*

## When combined (central and state spending), A STARTLING PICTURE EMERGES...

- **Lower spending:** Sectors that one would imagine (big names, highlighted by the central government and featured regularly in government advertisements), have not actually received higher focus from the Indian sovereign. For example:
  - Road, transport & highways, which was considered a economic-revival trigger in FY16, is budgeted to record muted growth in spending in FY17.
  - Rural development spend is incrementally sharply lower than last year while drinking water & sanitation is flattish.
  - Power spending, which was substantial in FY16, has contracted in FY17, largely as states are spending more on UDAY.
  - Spending on defence is stable at best and spending on housing is incrementally lower than last year.
  - After such an aggressive campaign about its focus on water resources & Ganga rejuvenation in FY16, we were surprised to see that the government's allocations are sharply lower for FY17.
  - Skill development is being marketed as the new government's focus, but allocations do not live up to the talk – they are quite muted considering the amount of lacunae in this area.
- **Higher spending:** Sectors that have received greater focus from the sovereign are – railways, agriculture, urban development, new & renewable energy, health, police, and posts.

## Centre and states make FY17 spending a balancing act

- To truly gauge the sovereign's quality of spending, it is crucial to look at state finances along with the more widely tracked central government's finances.
- Of India's total expenditure, states spend 54%.
- State governments spend more on the developmental side while central spends more on non-developmental (high subsidies and interest payments).
- Overall developmental spending is higher than non-developmental spending.
- A fourth of the central government's expenditure is towards interest payments followed by grants to states. Subsidies, defence, and economic services each share a similar portion next, while pension, social services, and police follow.

- States spend the highest on social services, followed by economic services, interest payments, pension, administrative services, and police.
- Combining the expenditure of the two – spending is highest in social services (education, health), economic services (transport, agriculture, energy/industry, rural development, irrigation, urban development), interest payments, defence, pension, subsidies, police and general services.

## SPENDING TRENDS

### Central government sector spending trends – Reasonably progressive

- *Up sharply*: Based on FY16 and FY17 trends, the central government has sharply increased spending on roads, transport & highways, rural development, drinking water & sanitation, health, posts, and panchayati raj.
- *Up*: It targets higher spending in urban development, railways, agriculture, renewable energy, skill development, and labour & employment.
- *Down sharply*: It has budgeted sharply lower spending in power, telecom, financial services, and civil aviation.
- Central government's spending is well distributed between economic and social services.

### States budget – Playing a catalyst role

- Incremental spending is budgeted to be higher on social services and lower on economic services vs. the last few years.
- Overall share continues to remain high for economic services.
- *High spending*: Based on FY17BE, state governments will spend the highest on education (30% of total, trending higher), followed by agriculture and irrigation (both trending higher), industry, health, urban development, welfare of SC/ST, and social security.
- *Low spending*: Energy, rural development, transport, and communication.

### Rural and agri spends (C+S) drop in FY17; these were higher in FY15-16. Bigger fall for rural development

- Combining centre and state spending (C + CS + S) towards agri + rural, incremental spending in FY17BE is lower than last year – at Rs 317bn (adjusting for Rs 130bn of statistical shift from the finance ministry to the agriculture ministry) vs. Rs 534/761bn in FY16/15. Even without adjusting, the incremental rise in budgeted expenditure is Rs 447bn, which is lower than the previous two years.
- Combining centre and state spending (C + CS + S) towards these sectors, incremental spending in FY17 is budgeted to be lower than last year – at Rs 317bn (adjusting for Rs 130bn of statistical shift from the finance ministry to the agriculture ministry) vs. Rs 534bn in FY16 and Rs 761bn in FY15. Without adjusting this, the incremental rise in budgeted expenditure is Rs 447bn in FY17, which is lower than Rs 534bn in FY16 and Rs 761bn in FY15.
- Incremental spending (C+S) on rural development is sharply lower in FY17, while agriculture has higher allocations.
- In FY17, incremental spending by the central government (with states' assistance) is budgeted to rise, while states' spending will fall – this implies that the upgradation of the rural sector due to government spending (widely expected), may not happen.
- Monsoon (if normal) could still nurture rural demand, but the biggest bonanza that will influence consumption positively, is the seventh-pay commission.

### Capex to continue in FY17 due to states; centre's growth is muted

In FY17BE, combined government capital expenditure (states + centre) is Rs 6,554bn vs. Rs 5,837bn in FY16A, up 12% vs. a 16% growth in FY16 – the growth is lower due to smaller incremental capex by the central government. In FY16, the central government contributed more to capex spending, but in FY17, states are taking the lead – this should bode well for the economy. As private capex still remains sluggish, the onus of reviving capex remains with the government.

In terms of ownership, the number of projects with the private sector have been consistently falling since 2011, while the drop is more muted for government projects. Currently, number of projects with the private sector is only slightly higher than with the government (within that, higher with states). In terms of outstanding value of the projects and projects under implementation, the government has surpassed the private sector and is currently at a historical high (central has more than states).

### Increasing funds in the states' kitties; being well spent

- We analysed trends in the central government's transfer of resources to states both pre-and-post NDA and found that the present central government has allocated higher net resources to states.
- Combining tax devolution, expenditure assistance, and other schemes, overall transfers are at a historical high of Rs 9,476bn in FY17BE, up 8% yoy (was up 22% in FY16).

### Why is there a divergence between expectations and reality?

We believe that economic spending is only *partly* focused on sectors that would result in higher employment generation (cascading into higher income and consumption), higher capacity creation, bridging the demand-supply gap, raising the living standards, and boosting investment.

### Lack of funds and following the path of fiscal consolidation are the limiting factors.

Seventh pay commission (although the central government claims that it is fully budgeted) may dampen spending, especially if tax collections, which are currently robust, turn weak. In addition, talks of SUUTI dilution are on and more upside is likely from the ongoing voluntary income-disclosure scheme. For states, it will certainly impact developmental spending in the coming years (FY18-19) but not in FY17, as most states are not expected to implement PC this year.

If GST is cleared in the monsoon session, it would probably be implemented sometime in FY18. Although the government aims for a revenue-neutral GST rate, we expect it to initially result in revenue loss for the central government, plus it will have to bear revenue losses for the states for the next five years.

### To conclude, investments will continue to remain weak and consumption will remain buoyant.

## Central government spending: More focused in FY17

In this section, we have segregated sectors based on FY16 and FY17 central government spending, both revenue and capital. Please note that the state spending mentioned in this section is the one that the centre funds.

*A = Actuals  
BE = Budgeted Estimates*

### In FY16, how did actual spending stack up against budgeted?

**Equally large hits and misses; most importantly, agriculture was a miss!**

Some of the sectors that the government had deemed important received more funds than they were budgeted to receive – these included road, transport & highways, rural development, drinking water & sanitation, health, and water resources. But the laggards (lower than budgeted spend) were also equally big sectors – the most surprising one was **agriculture**; other notable stragglers included urban development, railways, defence, renewable energy, housing, and education.

*It is important to look at the actual spending in FY16 to understand the continuity of government policies and goals*

Higher than BE	FY16	Lower than BE
<ul style="list-style-type: none"> <li>• Atomic energy</li> <li>• Civil aviation</li> <li>• Drinking water &amp; sanitation**</li> <li>• Electronics &amp; information</li> <li>• Expenditure</li> <li>• Fertilisers</li> <li>• Financial services</li> <li>• Food &amp; public distribution</li> <li>• Health**</li> <li>• Home affairs**</li> <li>• Minority affairs</li> <li>• MSME</li> <li>• Panchayati raj</li> <li>• Petroleum &amp; natural gas</li> <li>• Posts</li> <li>• Power</li> <li>• Road, transport &amp; highways**</li> <li>• Rural development**</li> <li>• Science, technology &amp; Industrial research</li> <li>• Telecommunications</li> <li>• Textiles</li> <li>• Water resources and Ganga rejuvenation**</li> <li>• Women &amp; child development**</li> </ul>		<ul style="list-style-type: none"> <li>• Agriculture**</li> <li>• Commerce</li> <li>• Defense</li> <li>• Economic affairs**</li> <li>• Education**</li> <li>• Environment</li> <li>• External affairs</li> <li>• Heavy industry</li> <li>• Housing**</li> <li>• Industrial policy</li> <li>• Information &amp; broadcasting</li> <li>• Labour &amp; employment**</li> <li>• Land resources**</li> <li>• Law &amp; justice**</li> <li>• Mines</li> <li>• New and Renewable energy</li> <li>• Planning</li> <li>• Railways</li> <li>• Revenue</li> <li>• Social justice**</li> <li>• Shipping</li> <li>• Skill development</li> <li>• Space</li> <li>• Statistics**</li> <li>• Tourism</li> <li>• Urban development**</li> </ul>

*FY16 was a year of drought. In such a year, slippage in agriculture was a big negative and worsened the farm sector's condition*

*Some large sectors that did not receive adequate funds/spent lower than budgeted, include housing, urban development, defence, renewable energy, and railways*

*Sectors that received more funding than budgeted include roads, rural development, power, sanitation and water resources*

Note: \*\* indicates centre + state

**STATES SPEND**  
 90% of the India's social expenditure  
 50% of its economic expenditure  
**STATES MAKE**  
 35% of India's interest payments  
 67% of India's pension payments

## Which sectors have continued to receive higher funds in FY17?

In terms of allocation, there seems continuity in the government's approach. Many sectors that missed out in FY16 have received higher allocations in FY17 (for example, agriculture). Other sectors that have been allocated higher funds in FY17 vs. FY16A include rural development, road, transport & highways, urban development, skill development, railways, new & renewable energy, drinking water, sanitation, housing, health, and education. Power, telecom, and water resources are the laggards for FY17.

### Sector-wise trends in FY16 and FY17, based on centre spending

	FY16A	FY17BE		FY16A	FY17BE
Drinking water & sanitation**	↑	↑↑	Commerce	↓	↑
Health**	↑	↑↑	Defense	↓	↑
Posts	↑	↑↑	Environment	↓	↑
Panchayati Raj	↑	↑↑	Heavy industry	↓	↑
Road, transport & highways**	↑	↑↑	Information & broadcasting	↓	↑
Rural development**	↑	↑↑	Industrial policy	↓	↑
Agriculture**	↓	↑↑	Mines	↓	↑
Labour & employment**	↓	↑↑	Shipping	↓	↑
Law & justice**	↓	↑↑	Social justice**	↓	↑
New & renewable energy	↓	↑↑	Space	↓	↑
Railways	↓	↑↑	Tourism	↓	↑
Skill development	↓	↑↑	Fertilisers	↑	↓
Urban development**	↓	↑↑	Food & public distribution	↑	↓
Atomic energy	↑	↑	Minority affairs	↑	↓
Electronics & information	↑	↑	Water resources & Ganga rejuvenation**	↑	↓
Expenditure	↑	↑	Women & child development	↑	↓
Home affairs**	↑	↑	External affairs	↓	↓
MSME	↑	↑	Revenue	↓	↓
Science & technology	↑	↑	Statistics**	↓	↓
Textiles	↑	↑	Civil Aviation	↑	↓↓
Economic affairs**	↓	↑	Financial services	↑	↓↓
Education**	↓	↑	Power	↑	↓↓
Housing**	↓	↑	Telecommunications	↑	↓↓
Land resources**	↓	↑	Petroleum & natural gas	↔	Lower

Note: A = Actuals, BE = Budgeted Estimates; \*\* Centre + State

## In which sector does the central government spend most of its resources?

Highest sector-wise spending by the central government (including assistance to states) is in economic affairs, defence, and food and distribution; lowest is in skill development, electronics and information, textiles, MSME, and I&B. Economic affairs comprises of spending by department of economic affairs, interest payment, and transfer to states.

*Economic affairs comprises of spending by department of economic affairs, interest payment, and transfer to states.*

### Sector-wise allocation of central government spend (FY17BE)

	Sector	% of total expenditure
<b>Top 10</b>	Economic affairs	31.5%
	Defence	17.4%
	Food & public distribution	7.1%
	Rural development	4.4%
	Home affairs	3.8%
	Education	3.7%
	Fertilisers	3.6%
	Road, transport & highways	2.9%
	Railways	2.3%
	Agriculture	1.9%

	Sector	% of total expenditure
<b>Middle 14</b>	Health & family welfare	1.9%
	Expenditure	1.8%
	Financial services	1.6%
	Petroleum & natural gas	1.5%
	Urban development	1.2%
	Revenue	1.1%
	Drinking water & sanitation (shift up)	0.9%
	Telecommunications	0.9%
	Women & child development	0.9%
	Economic affairs (shift up)	0.8%
	External affairs	0.8%
	Water & sanitation	0.7%
	Atomic energy	0.6%
	Power	0.6%
<b>Bottom 15</b>	Posts	0.5%
	Science & technology	0.4%
	Space	0.4%
	Housing	0.3%
	Labour & employment	0.3%
	Law & justice	0.3%
	New & renewable energy	0.3%
	Water resources	0.3%
	Commerce	0.2%
	Electronics & information	0.2%
	Industrial policy & promotion	0.2%
	Information & broadcasting	0.2%
	MSME	0.2%
	Textiles	0.2%
	Skill development	0.1%

Source: India budget, PhillipCapital India Research

### Which sectors receive the most and least capital expenditure allocation? Which sectors received higher allocation in FY17 over FY16?

Railways received sharply higher allocation, followed by defence, urban development, atomic energy, space, health, telecom, heavy industries, and power (sharply higher). Sectors that have received particularly lower allocations include home affairs, external affairs, and civil aviation.

*Notably, the centre routes only about 5% of its total capital expenditure through states, which implies that capex is largely done by the central government*

### Sector-wise allocation of central government capital expenditure

	Sector	% of total capital expenditure	
		FY17 (BE)	FY16 (A)
<b>Top 7</b>	Defense	36.8%	36.1%
	Railways	18.4%	13.6%
	Financial services	11.4%	11.7%
	Road, transport & highways	7.1%	11.7%
	Urban development	4.7%	4.5%
	Home affairs	3.8%	4.0%
	Atomic energy	2.4%	2.2%
<b>Middle 7</b>	Economic affairs	1.7%	2.0%
	Power	1.4%	0.5%
	Space	1.4%	1.3%
	Telecommunications	1.2%	1.0%
	External affairs	1.2%	1.6%



	Civil aviation	0.7%	1.4%
	Health	0.7%	0.4%
<b>Bottom 9</b>	Heavy industry	0.4%	0.3%
	Posts	0.2%	0.1%
	Development of NE region	0.2%	0.1%
	Revenue	0.2%	0.1%
	Water resources	0.2%	0.1%
	Electronics & information	0.1%	0.1%
	Earth sciences	0.1%	0.05%
	Shipping	0.1%	0.1%
	Social justice & empowerment	0.1%	0.1%

Source: India budget, PhillipCapital India Research

### What about revenue expenditure by the central government?

There is a sharp rise in economic services expenditure (35% in FY17BE vs. 33% in FY16A, as a share of total revenue spending) while the share of social services has fallen to 4.5% from 4.3% in FY16. Spending is higher in transport, pension (7th PC), and rural development. Sharp cuts are in agriculture and telecom.

#### Sector-wise allocation of central government revenue expenditure

	Sector	% of total revenue expenditure	
		FY17 (BE)	FY16 (A)
<b>Top 7</b>	Interest payment	25.5	25.5
	Grants in aid	14.2	17.1
	Transport	12.6	11.3
	Agriculture	9.5	11.3
	Defence services	8.5	8.4
	Pension	7.0	6.2
	Administrative services	3.7	3.6
<b>Middle 7</b>	Industry & minerals	3.4	3.0
	Energy	2.5	2.3
	Rural development	2.1	0.2
	Education	1.7	1.7
	Communications	1.4	1.6
	Special area programmes	1.3	1.4
	Science & technology	1.0	1.1
<b>Bottom 10</b>	General economic services	1.0	0.7
	Water supply & sanitation	0.4	0.1
	Labour & employment	0.4	0.3
	Relief on account of Natural Calamities	0.4	0.5
	Urban development	0.2	0.0
	Broadcasting	0.2	0.8
	Welfare of SC/ST	0.2	0.2
	Social security & welfare	0.2	0.2
	Housing	0.1	0.1
	Irrigation & flood control	0.1	0.1

Source: India budget, PhillipCapital India Research

## What do the numbers say about the optimism surrounding the return of the central government's focus on the rural and agriculture sectors in FY17? What does state spending on these sectors look like, especially as states tend to spend a larger chunk on rural development?

**Overall (C+S), incremental budgeted spending (agri + rural) in FY17 is lower than FY15-16. Thus, we do not expect much impact from this on rural demand revival...**

- States and centre spending trends were divergent in FY16: The central government's spending on agriculture was higher than budgeted, but reasonably lower for rural development. State spending was lower for agriculture and sharply higher than budgeted for rural development.
- For FY17BE, agri spending is up while rural development is down: For FY17, the central government's outlay has increased for both agriculture and rural development. However, while the states' outlay on agriculture is higher, its rural development outlay has dipped.

### **...besides, the spending number is illusory**

In FY17, the central government's spending on agriculture is budgeted to rise by Rs 65bn (up 28% yoy), which is sharply higher than the last few years (fell by Rs 30bn in FY16 and by Rs 10bn in FY15). However, the jump is largely due to a shift of interest subsidy worth Rs 150bn (for short-term credit) to the agriculture ministry from the financial services ministry. Adjusting for that, incremental spend has contracted by Rs 65bn (down 28% yoy) – making the fall higher than the ones seen in FY15-16.

### **Agriculture + rural development spending FY17BE spending vs. FY16A**

- Only centre (C+CS): Incremental spending is Rs 149bn vs. Rs 74bn; just to give a perspective, this figure was as high as Rs 118bn in FY14.
- Only state (S): Incremental spending is sharply lower at Rs 148bn vs. Rs 692/460bn in FY15/FY16.
- Centre + net state (C-CS+S): Incremental spending is Rs 191bn sharply lower vs. Rs 493bn in FY16A, but much higher than Rs 63bn in FY15A.
- Centre + state: Incremental spending is lower at Rs 447bn vs. Rs 534bn (was Rs 761bn in FY15).
- Centre + state (excluding subsidy shift): Incremental spending is Rs 317bn, much lower than in FY15/16 at Rs 761/534bn.

*Centre + state (excluding subsidy shift): Incremental spending is Rs 317bn, much lower than in FY15/16 at Rs 761/534bn.*

Therefore,

- In FY17, incremental spending by the central government (with states' assistance) is budgeted to rise, while state spending will falter.
- Agri spending is higher in FY17 while rural development sector spending dips sharply due to states.
- Overall, states spend 1.5x higher in agriculture than the centre.

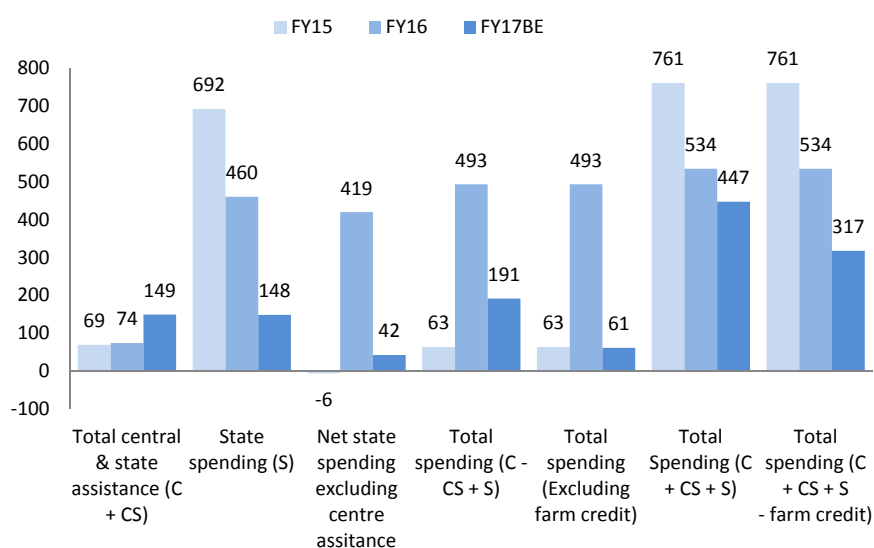
Going by this data, the market seems to be overestimating the actual gains that agriculture and rural sectors may make from government spending – growth is actually muted vs. the last few years. Our point is, if positive impact is to come from perceived spurt in rural/agri spending in FY17, it should have already been visible, considering higher incremental spending in FY15 and FY16. A normal monsoon could still help rural demand, but we expect real data to improve only after two consecutive good crops (assuming that IMD's expectations for good monsoons come true – not only for 2016, but also for the coming few years).

**Central and state government spending on agriculture and rural development (C + CS + S)**

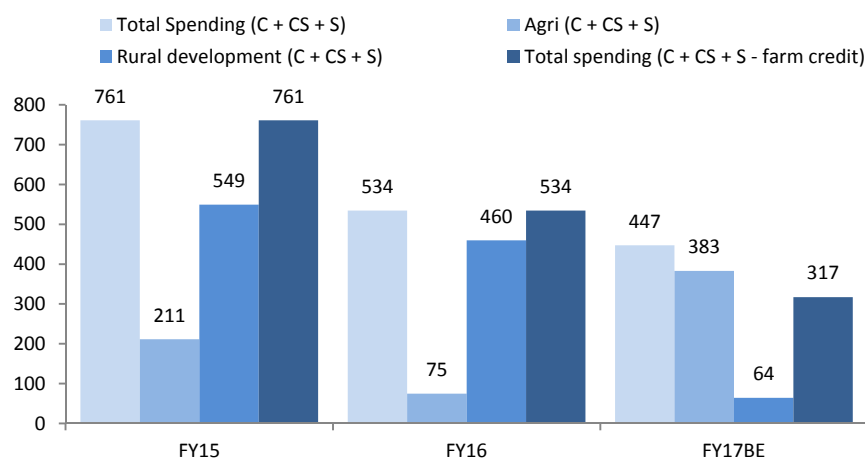
	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Total central and state assistance (C+CS)</b>	<b>863</b>	<b>932</b>	<b>1005</b>	<b>1154</b>	<b>69</b>	<b>74</b>	<b>149</b>	<b>8.0</b>	<b>7.9</b>	<b>14.8</b>
Agri and allied activities	269	259	230	295	-10	-30	65	-3.7	-11.4	28.4
Rural development	594	673	776	860	79	103	84	13.3	15.4	10.8
<b>State spending (S)</b>	<b>1529</b>	<b>2221</b>	<b>2681</b>	<b>2829</b>	<b>692</b>	<b>460</b>	<b>148</b>	<b>45.3</b>	<b>20.7</b>	<b>5.5</b>
Agri and allied activities	725	965	1031	1153	239	67	122	33.0	6.9	11.9
Rural development	520	990	1346	1327	470	356	-19	90.5	36.0	-1.4
Irrigation	284	266	303	349	-18	38	45	-6.3	14.1	15.0
<b>Net state spending excluding centre assistance</b>	<b>1458</b>	<b>1452</b>	<b>1871</b>	<b>1914</b>	<b>-6</b>	<b>419</b>	<b>42</b>	<b>-0.4</b>	<b>28.9</b>	<b>2.3</b>
<b>Total spending (C-CS+S)</b>	<b>2321</b>	<b>2384</b>	<b>2877</b>	<b>3068</b>	<b>63</b>	<b>493</b>	<b>191</b>	<b>2.7</b>	<b>20.7</b>	<b>6.6</b>
Agriculture/irrigation	1207	1339	1468	1664	132	130	196	10.9	9.7	13.3
Rural development	1113	1045	1409	1404	-69	364	-5	-6.2	34.8	-0.3
<b>Total spending (Excluding farm credit)</b>	<b>2321</b>	<b>2384</b>	<b>2877</b>	<b>2938</b>	<b>63</b>	<b>493</b>	<b>61</b>	<b>2.7</b>	<b>20.7</b>	<b>2.1</b>
<b>Total Spending (C+CS+S)</b>	<b>2391</b>	<b>3152</b>	<b>3686</b>	<b>4134</b>	<b>761</b>	<b>534</b>	<b>447</b>	<b>31.8</b>	<b>16.9</b>	<b>12.1</b>
Agri & allied activities	1278	1489	1564	1947	211	75	383	16.5	5.0	24.5
Agri (excluding farm credit)	1278	1489	1564	1817	211	75	253	16.5	5.0	16.2
Rural development	1113	1663	2122	2187	549	460	64	49.3	27.6	3.0
<b>Total spending (C+CS+S), excluding farm credit</b>	<b>2391</b>	<b>3152</b>	<b>3686</b>	<b>4004</b>	<b>761</b>	<b>534</b>	<b>317</b>	<b>31.8</b>	<b>16.9</b>	<b>8.6</b>

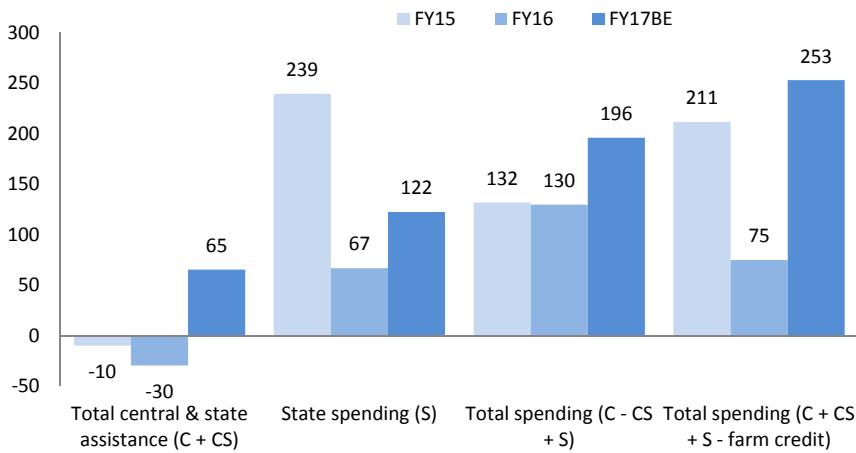
Note: A = Actuals; B = Budgeted

Source: India budget, PhillipCapital India Research

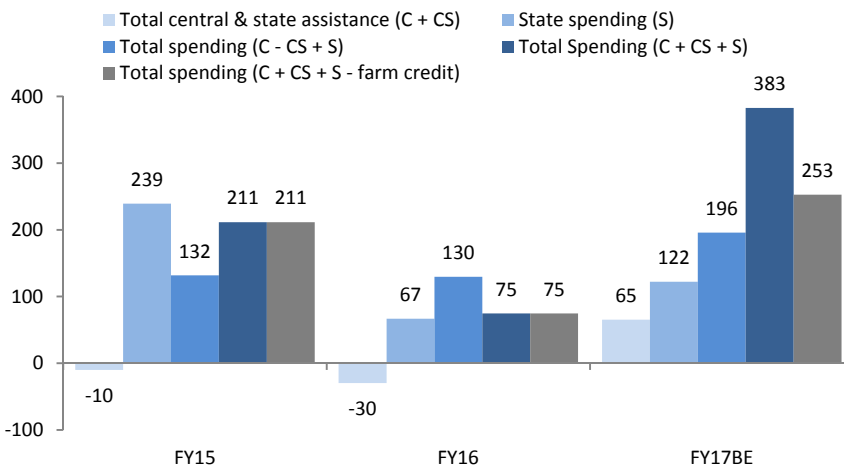
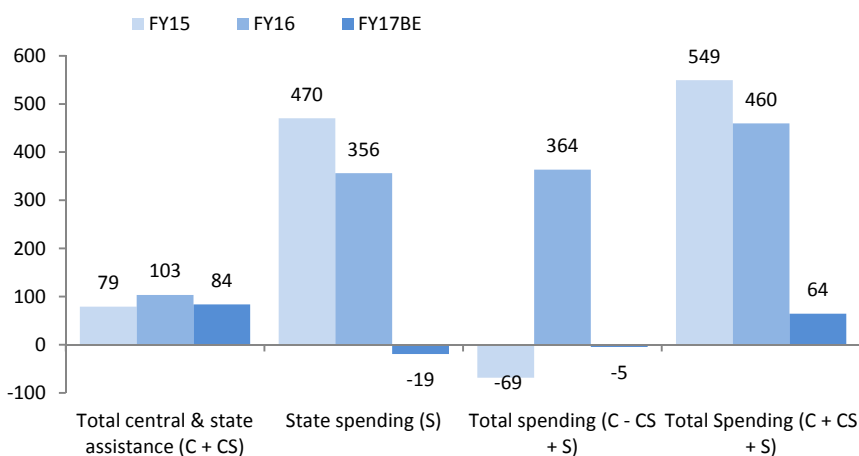
**Incremental agri + rural spending by centre and states (Rs bn)**


**FY17 incremental agriculture + rural development spending lowest in three years**

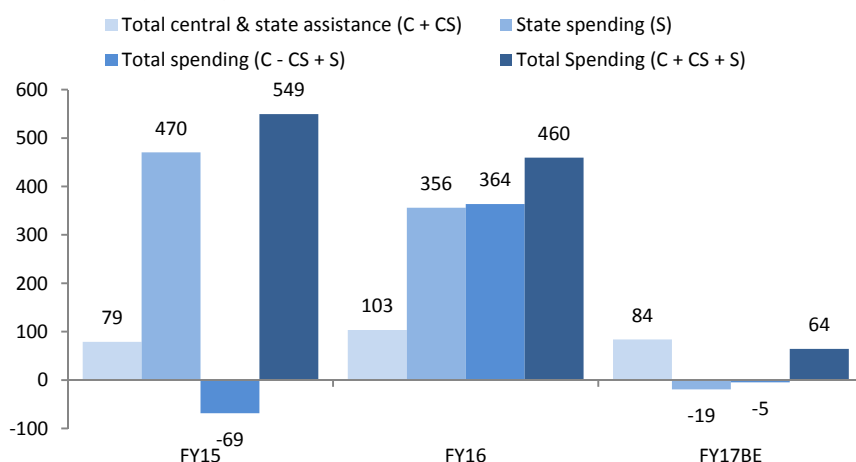


**Incremental spending on agriculture/irrigation (Rs bn)**


**FY17 incremental agriculture spend to contract for centre and up for sates. Better irrigation focus by the states. Overall its higher due to states and not centre**


**Incremental spending on rural development (Rs bn)**


**FY17 incremental spending is sharply lower, lowest in three years due to poor states' spending**

**Incremental spending on rural development (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Agriculture, cooperation, and farmers' welfare: Strong growth**
*Concurrent list*
**FY16 (C + CS)**

- Actual spending was 7% lower than budgeted due to poor spending by states.
- The central government spent more than budgeted.

**FY17 (C + CS)**

- Centre allocation at Rs 232bn (1.8% of total allocations) + state allocations at Rs 127bn (0.7% of total allocations).
- Central and state government spending is budgeted to rise by 128%.
- Sharp (4932%) rise in non-plan spending (due to shift of interest subsidy); plan spending to rise by 22%.
- All expenditure is reflected under revenue expenditure; this is why plan revenue expenditure looks higher, while capital expenditure is negligible.
- Sharper rise in central government spending.
- Other allied agriculture activities (including dairy, fisheries, research) have also received a boost in FY17.

**Rural development: Spending is higher in FY16 and FY17 (up by 10-15%), but this is not significant**
*Concurrent list*
**FY16 (C + CS)**

- Actual spending was much higher than budgeted, led by state governments (11% higher than budgeted).
- Central government spending fell (17% lower than budgeted).

**FY17 (C + CS)**

- Entire spending under revenue expenditure.
- Allocation higher than last year at Rs 77bn (0.4% of total allocations) + state allocation at Rs 783bn (4% of total allocations).
- Centre and state government spending is budgeted to rise by 11%.
- FY17BE (by the central government) is only slightly higher than FY16BE. However, FY16A was much lower than budgeted, therefore, the growth (at 24%) seems higher.
- Higher allocations with states (91% of total allocation).
- State government spending budgeted to rise by 10%.

## Roads sector received huge impetus in FY15-16. In that context, how are fund allocations in FY17 after analysing states' performance?

Combined (centre + state) incremental spending is sharply lower in FY17 (up only 4% vs. +13-18% in FY15-16) due to poor state spending. Our contention is that the positive impact of higher orders received in FY16 should benefit companies in FY17-FY18, but weakness in government spending in FY17 could curtail further gains.

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Total spending was 3% higher than budgeted. However, it was largely on the revenue side (71% higher than budgeted) while capital spending lagged behind by 17%.</li> <li>For states, spending in FY16 was in line with budget.</li> <li>For the NHAI, budgetary support was set as nil and IEBR at Rs 427bn. However, since the NHAI was able to raise only Rs 280bn, the government provided it with budgetary support of Rs 294bn.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations at Rs 578bn, 23% higher than FY16A, but largely led by higher revenue expenditure, which is up 77%; <u>capital expenditure is down 37%</u>.</li> <li>Capital spending at 37%, revenue spending at 63%.</li> <li>While allocation towards revenue expenditure appears large, this is partly because funds are transferred to the central road fund, which could then possibly turn into capex spending.</li> <li>For states, there is a manifold increase in allocations at Rs 108bn vs. Rs 28bn in FY16A.</li> <li>Of their total allocations, this constitutes 2.4% for centre and 0.6% for states.</li> <li>A portion of cess on petrol and diesel is used for the development of national highways under the central road fund.</li> <li>For the NHAI, budget support is at Rs 197bn IEBR (Internal and Extra Budgetary Resources) is Rs 593bn.</li> </ul>
	<b>C+CS+S</b> <ul style="list-style-type: none"> <li>Combining centre and state spending, total spending in FY17BE is up by a muted 4% while capital spending is sharply lower.</li> </ul>

### Central and state government spending on roads, transport, and highways (C + CS + S)

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
Centre (total)	299	330	471	578	31	140	108	10.3	42.5	22.8
Centre	274	310	443	470	36	133	27	13.1	43.0	6.2
Centre assistance to states	26	21	28	108	-5	7	80	-19.6	36.1	285.5
States	979	1111	1232	1279	132	121	47	13.5	10.9	3.8
Net states	953	1090	1204	1171	137	114	-33	14.4	10.5	-2.8
<b>Total (C-CS+S)</b>	<b>1252</b>	<b>1420</b>	<b>1675</b>	<b>1749</b>	<b>168</b>	<b>254</b>	<b>74</b>	<b>13.4</b>	<b>17.9</b>	<b>4.4</b>
<b>C+CS+S</b>	<b>1278</b>	<b>1441</b>	<b>1703</b>	<b>1858</b>	<b>163</b>	<b>262</b>	<b>155</b>	<b>12.8</b>	<b>18.2</b>	<b>9.1</b>

### Is there a significant rise in funding towards urban development?

Yes, this sector has received highest attention and funding in FY17, from both the central and state governments. Focus is largely on metro construction, smart cities, and housing.

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Central government spending was higher (by 7%) while state spending lagged behind (-36%).</li> <li>Central spending was higher due to incremental collections from Swachh Bharat and externally funded metro projects for Chennai.</li> <li>Smart cities – actual spending was 60% lower than budgeted.</li> <li>Urban rejuvenation mission – actual spending was 33% lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Capital spending: 66%, revenue spending: 44%.</li> <li>Centre allocations increased to Rs 175bn (1% of total spending), state allocations are at Rs 67bn (0.3% of total spending).</li> <li>Combining centre and states' own spending, there is significant focus by both in FY17.</li> <li>Allocations increased by a whopping 34%; 72% increase in revenue spending + 8% increase in capital spending.</li> <li>Focus is largely on metro construction, smart cities, and housing.</li> <li>Metro projects: Rs 100bn allocated vs. 93bn FY16A and Rs 83bn FY16BE.</li> <li>AMRUT: Rs 41bn allocated vs. approximately Rs 30/40bn FY16A/BE.</li> <li>Smart cities: Rs 32bn allocated vs. Rs 8/20bn in FY16A/BE.</li> <li>Swachh Bharat: Allocations at Rs 23bn vs. Rs 10bn FY16A.</li> </ul>

**States: Revenue spending only (CS)**

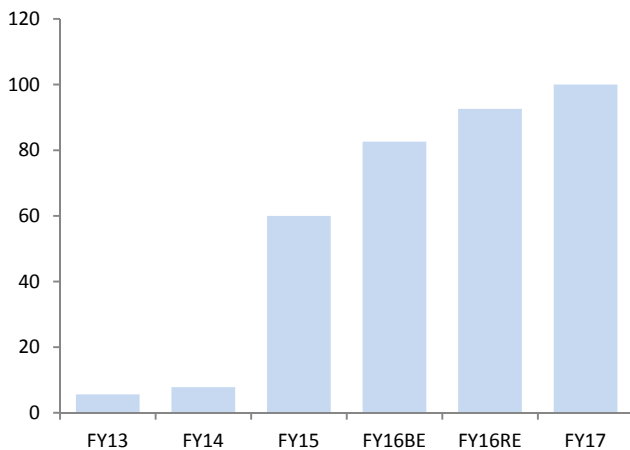
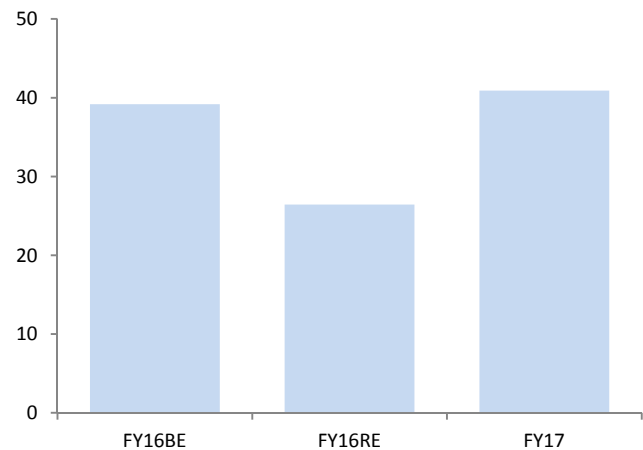
- Actual spending was 36% lower than budgeted due to lower spending on smart cities (Rs 4bn vs. Rs 20bn) and urban rejuvenation mission (Rs 25bn vs. Rs 39bn BE).
- Allocations increased by 73% over FY16A and 11% over FY16BE.
- Smart cities allocation at Rs 27bn, urban rejuvenation mission at Rs 38bn (similar to FY16BE).

**Centre + States (C + CS + S)**

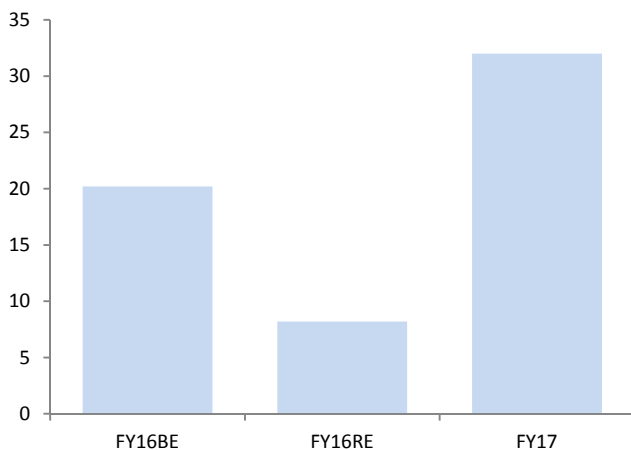
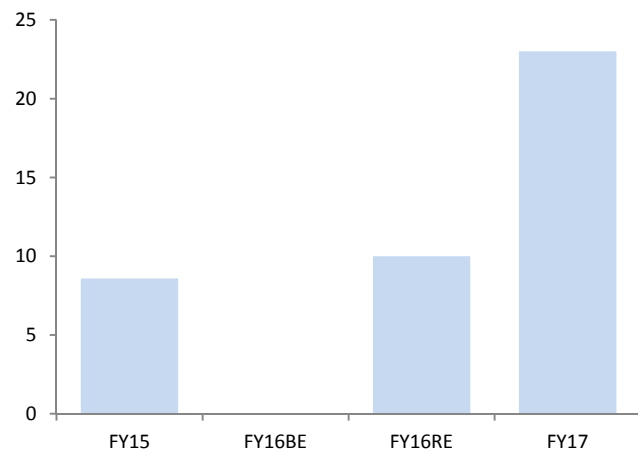
- Incremental spending is at Rs 271bn in FY17 vs. Rs 165bn in FY16, up 34% yoy.

**Central and state government spending on urban development (C + CS + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (total)</b>	95	132	180	241	37	47	62	38.6	35.8	34.2
Centre	95	104	141	175	8	37	33	8.8	35.9	23.6
Centre assistance to states	0	28	39	67	28	10	28		35.4	73.0
<b>States</b>	451	505	623	832	54	118	210	12.0	23.3	33.7
<b>Net states</b>	451	476	584	765	25	108	181	5.6	22.6	31.1
<b>Total (C-CS+S)</b>	546	580	725	940	34	145	215	6.2	25.0	29.6
<b>C + CS + S</b>	546	637	802	1073	91	165	271	16.6	25.9	33.8

**Metro (Rs bn)**

**AMRUT (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Smart cities (Rs bn)**

**Swachh Bharat (Rs bn)**


Source: Budget documents, PhillipCapital India Research

## Detailed spending analysis of each sector and ministry

In the following pages, we present the sector/ministry-wise analysis based on FY16BE, FY16A, and FY17BE. Additionally, we have looked at the revenue and capital spending in each sector, funds allocated to the states by the central government, and sector-wise share of centre and state spending. Wherever applicable (concurrent list), we have analysed the sector performance by combining the three expenditures – central government spending (C) + central resources to states (CS) + state’s own spending (S). Sector ranking is in the descending order of share in overall government spending.

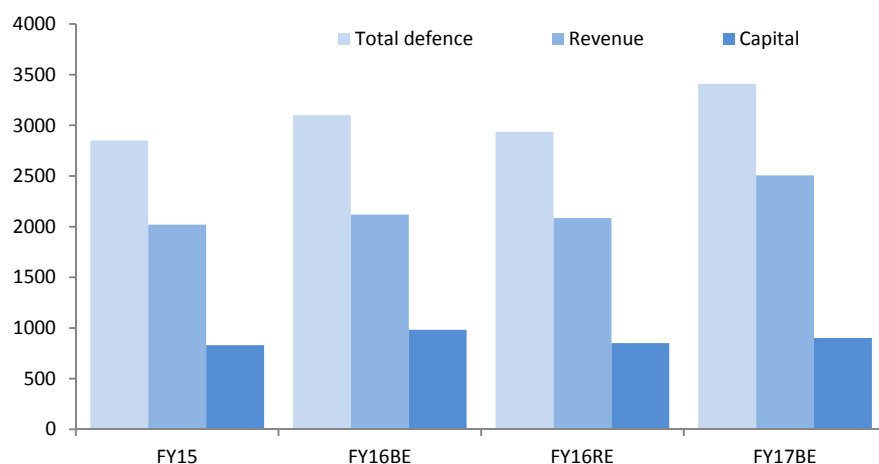
### Economic affairs (centralised provision): Higher allocations owing to higher interest payments and others **Concurrent list**

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Actual spending was 3.5% lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Most (97.6%) of the spending is done by the central government.</li> <li>Largely revenue expenditure.</li> <li>Allocation at Rs 6182bn, 31.5% of total spending.</li> <li>It comprises of spending by department of economic affairs, interest payments, and transfer to states.</li> <li>FY17 allocation is 10% higher than FY16 actuals. Increase seen across segments, with the largest in interest payments.</li> </ul>

### Defence (Union list) – Budgeted to rise but led by revenue expenditure (7<sup>th</sup> PC)

Total defence expenditure for FY17BE is at Rs 3,409bn, up 16% yoy, largely led by higher revenue expenditure (up 20% due to 7<sup>th</sup> PC) while capex rise is muted at 6%. As a result, capital : revenue ratio declined in FY17 to 26.5 : 73.5 from 29:71 last year.

#### Total defence spending by central government (Rs bn)



Source: Budget documents, PhillipCapital India Research

### Defence miscellaneous: Higher than FY16 actual, but lower than FY16 budgeted

**Union list**

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Spending was 2% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 1,185bn (6% of total).</li> <li>Comprises of spending on CSD, ordinance, R&amp;D, and pension.</li> <li>Pension for army, navy, and air force is at Rs 823bn (up 37% due to 7th PC recommendations). Outgo under this head in FY16/15 was Rs 602bn.</li> <li>Other miscellaneous budgeted spending is at Rs 361bn (32% as capital expenditure), 9% higher than FY16 actual.</li> </ul>

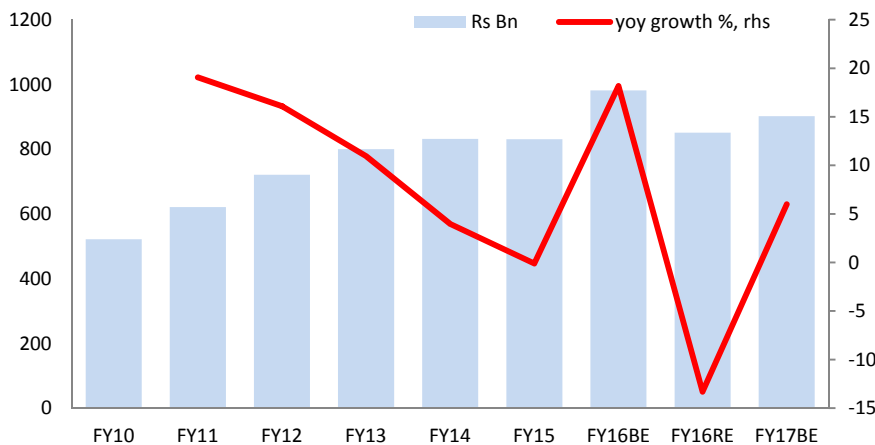


**Defence services: FY17 allocation 11% higher than FY16 actuals**
*Union list*
**FY16 (C)**

- Actual spending was 8% lower than budgeted, of which revenue spending was cut by 5% and capital spending by 14%.

**FY17 (C)**

- Allocation at Rs 2,225bn (11.3% of total), is 11% higher than FY16A.
- Of total, revenue expenditure is Rs 1,439bn (salaries + other revenue expenses) and capital expenditure is Rs 786bn (land + equipment + construction + defence rail).
- For FY17, revenue spending is up by 14% (due to higher salary allocation) and capital expenditure is up by 6%.
- Pay and allowances allocation is up by 17.5% at Rs 974bn.

**Defence capital expenditure**


Source: Budget documents, PhillipCapital India Research

**Food & public distribution: Stable allocations in FY17 over significantly higher-than-BE spending in FY16**
*Union list*
**FY16 (C)**

- Actual spending was 12% higher than budgeted, led by higher food subsidy.

**FY17 (C)**

- Only revenue spending.
- FY17BE at Rs 1,402bn (7.1% of total allocations).
- FY17BE almost similar to FY16A, implying there are no plans to shift to DBT for food subsidy.

**Education: Remains a key focus area**

Incremental spending by C + CS + S in FY17BE is up by Rs 500bn vs. Rs 642bn in FY16A.

**School education & literacy: Allocations higher than FY16BE/A, but lower than FY15**
*Concurrent list*
**FY16 (C + CS)**

- While overall spending matched budget, state spending was marginally lower while central was higher.

**FY17 (C + CS)**

- Only revenue spending.
- 80% spending is done by states, 20% by the centre.
- Allocations at Rs 433bn (of their total allocation, 1.8% for states, 0.4% for centre).
- FY17 allocation is 3% higher than FY16A; up 33% for centre, down 2% for states.

**Higher education: Higher allocation for FY17**
*Concurrent list*

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Overall spending at 95% of BE; lower by both centre and states.</li> </ul>	<ul style="list-style-type: none"> <li>Only revenue spending; 96% spending by central government, 5% allocated to states.</li> <li>Allocation at Rs 288bn (1.5% of centre's total, 0.1% of states')</li> <li>Allocations up by 13.5% over FY16BE, mostly under central budget.</li> </ul>

**Central and state government spending on education (C + CS + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (Total)</b>	<b>746</b>	<b>687</b>	<b>673</b>	<b>720</b>	<b>-59</b>	<b>-14</b>	<b>48</b>	<b>-8.0</b>	<b>-2.1</b>	<b>7.1</b>
Centre	746	286	307	361	-460	21	54	-61.7	7.4	17.4
Centre assistance to states	0	401	366	360	401	-35	-6	#DIV/0!	-8.8	-1.6
<b>States</b>	<b>2903</b>	<b>3260</b>	<b>3880</b>	<b>4327</b>	<b>356</b>	<b>621</b>	<b>447</b>	<b>12.3</b>	<b>19.0</b>	<b>11.5</b>
<b>Net states</b>	<b>2903</b>	<b>2859</b>	<b>3515</b>	<b>3967</b>	<b>-45</b>	<b>656</b>	<b>452</b>	<b>-1.5</b>	<b>23.0</b>	<b>12.9</b>
<b>Total (C-CS+S)</b>	<b>3649</b>	<b>3144</b>	<b>3822</b>	<b>4328</b>	<b>-505</b>	<b>677</b>	<b>506</b>	<b>-13.8</b>	<b>21.5</b>	<b>13.2</b>
<b>C + CS + S</b>	<b>3649</b>	<b>3946</b>	<b>4553</b>	<b>5047</b>	<b>297</b>	<b>607</b>	<b>494</b>	<b>8.1</b>	<b>15.4</b>	<b>10.9</b>

**Home affairs: Sharp rise in FY17 allocations, focus on police department**
*Concurrent list*

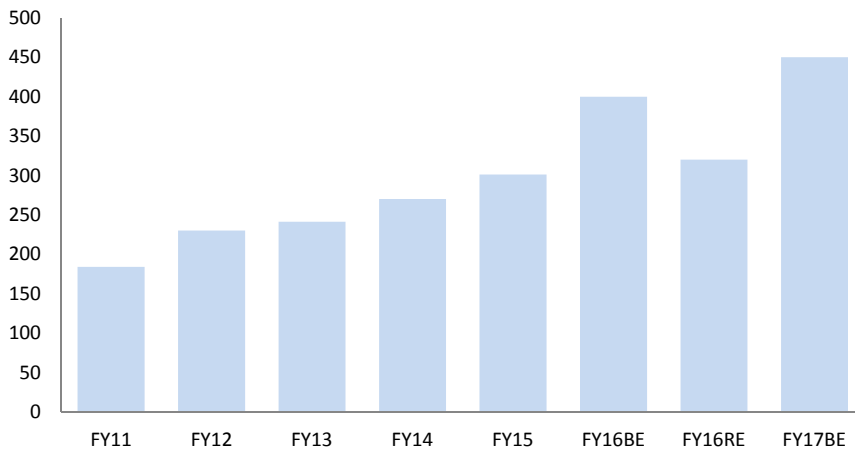
FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Both the central and state governments spent marginally higher than allocated.</li> </ul>	<ul style="list-style-type: none"> <li>Largely revenue spending; 12% capital expenditure.</li> <li>97.6% of total spending is done by the central government.</li> <li>Allocations in FY17 at Rs 752bn (3.7% of the centre's total spending, 0.1% of state).</li> <li>10% increase in central government spending and 24% higher allocations to state governments (although absolute amount is small).</li> <li>Higher spending in the police department.</li> </ul>

**Fertilisers: FY17 allocations lower than last year due to subsidies**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was marginally higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Spending is budgeted at Rs 700bn (3.6% of total allocations).</li> <li>FY17 allocation is 4.7% lower than FY16.</li> <li>Due to the subsidy element, this is largely a revenue expenditure.</li> </ul>

**Railways (Union list): Allocations higher after underperformance last year**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Expenditure was 20% below budgeted.</li> <li>Gross traffic receipts were 9% lower than BE and 6.5% higher than FY15.</li> <li>FY16 operating ratio stood at 90.5% vs. 88.5% in FY15.</li> <li>Total internal sources raised were Rs 166bn vs. Rs 178bn BE.</li> <li>Market borrowing stood at Rs 118bn vs. Rs 177bn BE.</li> <li>Total plan expenditure was lower at Rs 822bn vs. Rs 1,000bn BE.</li> </ul>	<ul style="list-style-type: none"> <li>100% capital expenditure.</li> <li>Allocation at Rs 450bn (2.6% of total spending).</li> <li>Expenditure up by 41% vs. FY16A and +13% vs. FY16BE.</li> <li>Traffic receipts are budgeted to rise by 10%.</li> <li>Total plan expenditure is at Rs 1,170bn.</li> <li>Operating ratio is aimed at 92% vs. 90.5% in FY16.</li> <li>Market borrowing budgeted at Rs 210bn (78% higher than FY16).</li> <li>Internal resources are set lower at Rs 140bn.</li> </ul>

**Central government spending on railways (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Expenditure: Higher allocations due to 7<sup>th</sup> PC (revenue spending)**
**Union list**
**FY16 (C)**

- Actual spending was 1% higher than budgeted.

**FY17 (C)**

- Revenue spending.
- Allocations in FY17 at Rs 350bn (1.8% of total spending).
- Comprises of pensions (largest portion) and expenditure of Department of Indian Audit and Accounts.
- FY17BE is 16% higher than FY16A due to the 7th PC impact.
- Allocation towards pension and retirement benefits is at Rs 310bn vs. Rs 267bn in FY16, up 16%.

**Health & family welfare: Sharply higher allocations in FY17**
**Concurrent list**
**FY16 (C + CS)**

- Central government spend was marginally higher than budgeted.
- States governments' spending was reasonably higher – by 9%.

**FY17 (C + CS)**

- Most of the spending is in the form of revenue.
- Combining centre and state's own spending, there is a significant push in FY17.
- Allocations in FY17 at Rs 369bn (of their total spending, 0.8% for centre, 1% for states).
- Substantially higher allocations under central government budget (up by 31% yoy); almost stable allocations for states.
- States spend higher proportion than the centre – at 56% of total.
- Incremental spending by C + CS + S is Rs 240bn vs. Rs 162bn last year (up 16%). However, it is lower than Rs 295bn in FY15.

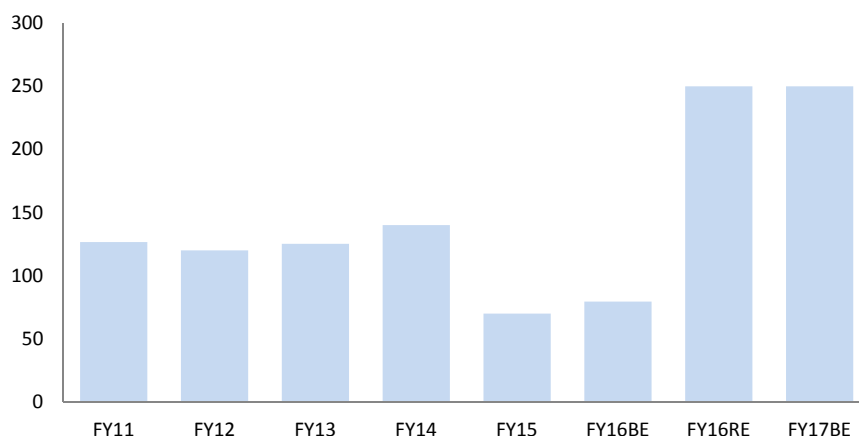
**Centre and state spending on health (C + CS + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (Total)</b>	<b>275</b>	<b>304</b>	<b>326</b>	<b>369</b>	<b>29</b>	<b>22</b>	<b>43</b>	<b>10.4</b>	<b>7.2</b>	<b>13.1</b>
Centre	275	109	125	164	-166	15	39	-60.4	14.1	31.4
Centre assistance to states	0	195	201	205	195	7	4		3.4	1.8
<b>States</b>	<b>769</b>	<b>1036</b>	<b>1176</b>	<b>1373</b>	<b>267</b>	<b>140</b>	<b>197</b>	<b>34.7</b>	<b>13.5</b>	<b>16.8</b>
<b>Net states</b>	<b>769</b>	<b>841</b>	<b>975</b>	<b>1168</b>	<b>72</b>	<b>134</b>	<b>194</b>	<b>9.3</b>	<b>15.9</b>	<b>19.9</b>
<b>Total (C-CS+S)</b>	<b>1044</b>	<b>1145</b>	<b>1301</b>	<b>1537</b>	<b>100</b>	<b>156</b>	<b>236</b>	<b>9.6</b>	<b>13.6</b>	<b>18.2</b>
<b>C + CS + S</b>	<b>1044</b>	<b>1340</b>	<b>1502</b>	<b>1742</b>	<b>295</b>	<b>162</b>	<b>240</b>	<b>28.3</b>	<b>12.1</b>	<b>16.0</b>

Source: Budget documents, PhillipCapital India Research

**Financial Services: Lower allocation as loans shifted to agriculture ministry**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was significantly higher than budgeted (by 73%) due to higher allocations to banks (at Rs 250bn) – the budgeted amount was much lower at Rs 79bn.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations at Rs 320bn (1.6% of total spending).</li> <li>The largest chunk (87% of spending) is in the form of capital spending as banking recapitalisation.</li> <li>FY17BE is 26% lower than FY16A, largely as Rs 150bn (vs. 130bn last year) of interest subvention was shifted to the agriculture ministry) for providing short-term credit to farmers.</li> <li>Banking recapitalisation stable in FY17 at Rs 250bn (same as last year).</li> </ul>

**Banks recapitalization by the central government (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Petroleum & Natural Gas: Lower budgeted subsidies in FY17**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Total spending was 4% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations in FY17 at Rs 292bn (1.5% of total spending), 7% lower than FY16A due to full-year impact of higher excise duty on petroleum products.</li> <li>Revenue spending in the form of subsidy payment.</li> <li>Price rise in kerosene (announced recently) is expected to bring in marginal saving of Rs 8bn in FY17 and expected shift of kerosene subsidy to DBT in FY18, should save Rs 25bn.</li> </ul>

**Revenue: Sharply lower allocations in FY17, as CST-linked payouts drop**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Spending was 3% lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations in FY17 at Rs 223bn (1.1% of total spending).</li> <li>FY17BE expenditure lower by 15% yoy due to lower compensation to states/UTs towards revenue loss from phasing out of CST. Allocated Rs 89bn vs. Rs 144bn last year.</li> <li>Rs 7bn have been allocated for GST network vs. Rs 1.3bn last year.</li> </ul>

**Telecommunications: Lower allocations in FY17, but FY16A was significantly higher than budgeted**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>FY16 actual spending was significantly (+50%) higher than budgeted, largely in revenue expenditure with slippage in capital spending.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 184bn (0.9% of total), down 9% over FY16A.</li> <li>85% of spending as revenue, 15% as capital.</li> <li>Revenue spending has been cut (-13% yoy), while capital expenditure is higher (+23% yoy).</li> </ul>

**Women & child development: FY17 allocations almost stable**
*Concurrent list*

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Actual spending up 70% at Rs 163bn led by states while central government spending fell short by 30% (at Rs 7bn).</li> </ul>	<ul style="list-style-type: none"> <li>Revenue spending only. Spending largely routed through states.</li> <li>Allocation at Rs 174bn, up 1.6% over FY16 actuals; 320% increase for the central government at Rs 31bn; down 13% for states at Rs 143bn.</li> <li>Of their total spending, states at 0.7%, centre at 0.2%.</li> <li>Highest spending is in the form of child development (ICDS).</li> </ul>

**Economic affairs: FY17 allocations lower than FY16BE**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending significantly lower than budgeted (by 21%).</li> <li>Revenue spending contracted by 44% (Nirbhaya fund and social security network was unspent, lower subsidy to railways).</li> <li>However, capital spending soared by 235% (central road fund, investment in international financial institutions, assistance to infrastructure development).</li> </ul>	<ul style="list-style-type: none"> <li>Allocation is at Rs 161bn (0.8% of total allocations).</li> <li>75% is revenue spending, 25% is capital spending.</li> <li>FY17BE is higher than FY16 actuals by 19%, but 6% lower than FY16BE.</li> <li>Revenue allocation up by 35%, but capital spending down 11%.</li> </ul>

**External affairs: Lower-to-stable spend**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>FY16 actual spending marginally lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations lower at Rs 147bn (0.8% of total allocations).</li> <li>75% is revenue spending, 25% is capital spending.</li> <li>Half of spending goes as assistance to smaller countries.</li> <li>FY17BE is 2.5% lower than FY16A.</li> </ul>

**Atomic energy: Marginal increase in FY17 spending; higher capex**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 4% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Spending budgeted at Rs 117bn, marginally higher than amount spent in FY16.</li> <li>As % of total allocations: 0.7.</li> <li>Allocations equally divided between revenue and capital expenditure.</li> <li>Capital spending is higher in FY17, while revenue expenditure is lower than FY16A.</li> </ul>

**Drinking water & sanitation: In sharp focus, larger spending done by states**
*Concurrent list*

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>FY16 actual was much higher (by 75%) than FY16BE.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 140bn (0.7% of total state allocation).</li> <li>FY17BE is 29% higher than FY16BE.</li> <li>Largely revenue expenditure.</li> <li>90% of total spending under this head is done by states.</li> <li>Combining total centre and state spending, incremental spend in FY17 is robust at Rs 64bn vs. Rs 83bn in FY16. Highest spend will be incurred in FY17.</li> </ul>

**Central and state government spending on drinking water & sanitation (C + CS + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (Total)</b>	120	121	109	140	1	-12	31	0.7	-9.8	28.5
Centre	120	2	29	15	-119	28	-14	-98.7	1840.7	-49.6
Centre assistance to states	0	119	80	125	119	-40	46	-	-33.1	57.1
<b>States</b>	227	329	384	463	102	55	79	44.6	16.8	20.5
<b>Net states</b>	227	210	304	338	-18	95	33	-7.9	45.3	10.9
<b>Total (C-CS+S)</b>	347	330	413	478	-17	83	64	-4.9	25.1	15.6
<b>C + S + CS</b>	347	450	493	603	102	44	110	29.4	9.7	22.3

**Power: Muted growth in state spending, central spend strong**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 19% higher than budgeted, reflecting government's focus on this sector.</li> <li>Capital spending surpassed by 33%, revenue spending by 17%.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations in FY17 at Rs 123bn (0.6% of total spending)</li> <li>Allocations are higher by a sharp 53%. Sharper rise in capital spending by 173%, revenue allocations up by 30%.</li> <li>Revenue spending: 72%, capital spending: 28%</li> <li>However, combining state and centre spending (C+S), incremental spend stands lower at Rs 26bn in FY17 vs. Rs 77bn in FY16.</li> </ul>

**Central and state government spending on the power sector (C + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
Centre	54	132	80	123	78	-52	43	144.0	-39.4	53.1
States	928	1235	1364	1347	307	129	-17	33.1	10.4	-1.2
<b>Total (C+S)</b>	<b>982</b>	<b>1367</b>	<b>1444</b>	<b>1470</b>	<b>385</b>	<b>77</b>	<b>26</b>	<b>39.2</b>	<b>5.6</b>	<b>1.8</b>

**Posts (Union list): Higher allocations in FY17**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 2% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 90bn (0.5% of total allocations), up 24% over FY16A</li> <li>96% of spending is in the form of revenue.</li> </ul>

**Science, technology, bio technology, industrial research: Received higher allocations in FY17**
*Union list*

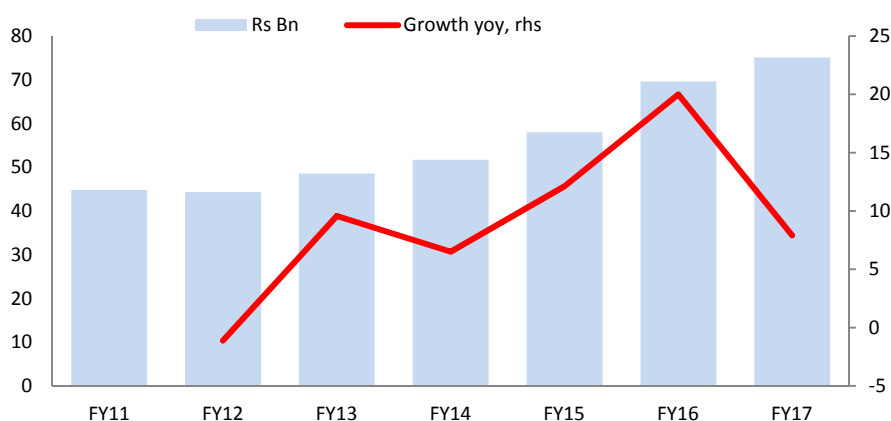
FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending in line with budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 104bn, up by 10% over FY16A (0.5% of total spending).</li> <li>Revenue spending.</li> </ul>

**Labour & employment: FY17 allocations up by 32% over FY16**
*Concurrent list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending 17% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations in FY17 at Rs 62bn (0.4% of total spending).</li> <li>Revenue spending largely by centre.</li> <li>Comprises of spending on labour welfare schemes.</li> </ul>

**Space: Higher allocations**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 6% lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Capital spending: 80%, revenue spending: 20%.</li> <li>Allocations at Rs 75bn (0.4% of total spending) are 8% higher than FY16 actuals and 1.6% higher than FY16BE.</li> </ul>

**Central government spend on the space sector (Rs bn)**


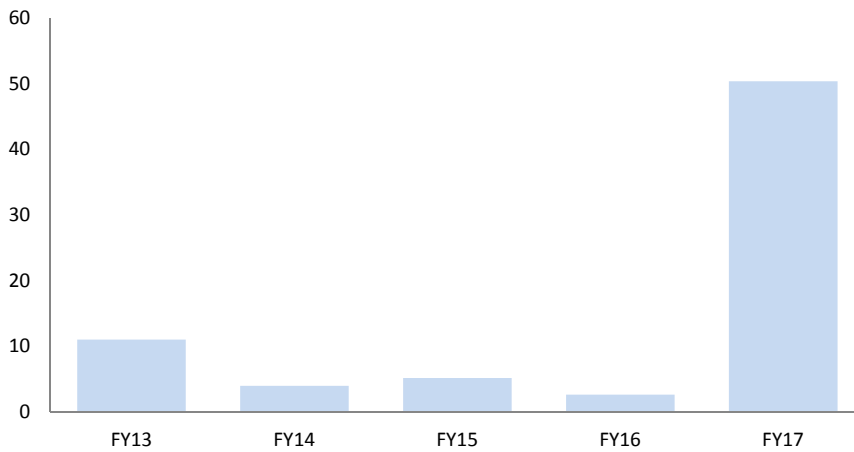
Source: Budget documents, PhillipCapital India Research

**Minority affairs: FY17 allocations stable**
*Concurrent list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Centre + states spending were in line with initially budgeted.</li> <li>However, centre's actual spending was 50% higher than budgeted, as allocations budgeted for states were not transferred to them.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations are at Rs 38bn (of their total allocations, centre: 0.2%, state: 0.1%)</li> <li>Centre + states allocations are 2% higher than FY16 (A).</li> <li>Revenue spending is 95%.</li> </ul>

**New and renewable energy: Multi-fold rise in allocation**
*Union subject*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 13% lower than initially budgeted.</li> <li>Total amount was a miniscule Rs 2.6bn.</li> </ul>	<ul style="list-style-type: none"> <li>Multi-fold increase in allocations at Rs 50bn (0.3% of total spending).</li> <li>Only revenue spending, as the government will be giving subsidies and will not set up plants and equipment.</li> <li>Rs 21bn allocation towards solar energy, Rs 10bn towards off-grid renewable power.</li> </ul>

**Central government expenditure on new & renewable energy (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Social justice and empowerment: Strong combined spending**
*Concurrent list*

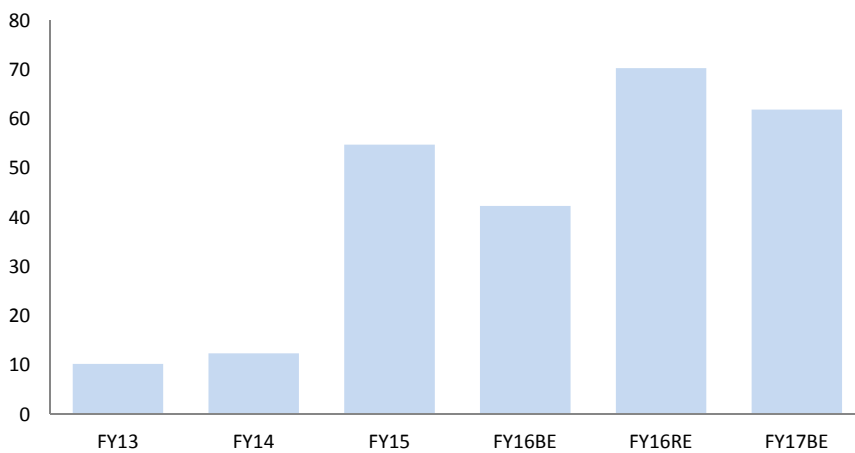
FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>Centre spending was 30% lower than budgeted.</li> <li>States spending was 8% higher.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue spending: 95%</li> <li>Allocation at Rs 66bn (centre 0.1%, state 0.2% of total), up 12% largely due to higher allocations for states (up 15% at Rs 46bn); stable for the centre at Rs 19bn.</li> <li>Combining centre and state spending, social spending remains strong (states contributing substantially).</li> <li>However, incremental spending in FY17 is at Rs 66bn vs. Rs 178bn in FY16.</li> </ul>

**Central and state government spending on social justice (C + CS + S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (Total)</b>	57	54	60	66	-4	6	6	-6.3	11.2	9.9
Centre	57	18	19	19	-39	1	0	-68.4	7.1	-0.2
Centre assistance to states	0	36	40	46	36	5	6	-	13.3	14.8
<b>States</b>	737	801	982	1053	63	181	72	8.6	22.6	7.3
<b>Net states</b>	737	765	941	1007	28	176	66	3.8	23.0	7.0
<b>Total (C-CS+S)</b>	795	783	961	1026	-11	178	66	-1.4	22.7	6.8
<b>C + CS + S</b>	795	854	1041	1119	60	187	77	7.5	21.9	7.4

**Water resources and Ganga rejuvenation: Allocations lower in FY17 vs. substantial spend in FY16**
*Concurrent list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 66% higher than budgeted, largely led by higher state spending (Rs 45bn vs. Rs 20bn BE); central spending was in line with budgeted (at Rs 25bn).</li> <li>Higher spending by states under Accelerated Irrigation Benefit and Flood Management Programme at Rs 30bn vs. Rs 10bn BE, which has become nil in FY17BE.</li> <li>For the National Ganga Plan – only Rs 10bn was used out of total budgeted Rs 21bn.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue spending: 94%, capital spending: 6%</li> <li>Allocations at Rs 62bn (centre: 0.2%, state: 0.1% of total spending), 12% lower than FY16 actuals.</li> <li>Higher allocation under centre (+81% at Rs 46bn); higher centre allocations largely from ecology and environment head (PMKSY).</li> <li>Lower allocation for states (-64% at Rs 16bn).</li> <li>For the National Ganga Plan, Rs 22.5bn has been allocated, only marginally higher than FY16BE.</li> </ul>

**Central + state spending on water resources and Ganga rejuvenation (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Housing and urban poverty alleviation: Sharp fall in FY16A makes FY17 allocations look higher**
*Concurrent list*

FY16 (C + CS)	FY17 (C + CS)
<ul style="list-style-type: none"> <li>States spent only 36% of their BE and the centre spent only 50%.</li> </ul>	<ul style="list-style-type: none"> <li>Only revenue spending; higher spending by states (89% of total).</li> <li>It comprises of all the government schemes on housing (Pradhan Mantri Awas Yojana).</li> <li>Allocations in FY17 at Rs 54bn (of their total allocation, states 0.2%, centre 0.03%).</li> <li>Significantly higher allocation than FY16 actuals (+77% for centre, +195% for states), but only marginally higher than FY16BE (up 4%).</li> <li>Even after combining centre and net state spending, incremental spending in FY17 is only marginally higher by Rs 9bn vs. Rs 34bn in FY16.</li> </ul>

**Centre and state spending on housing and urban poverty alleviation (C +CS +S)**

	Rs bn				Incremental (Rs bn yoy)			Growth yoy %		
	FY14	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)	FY15	FY16 (A)	FY17 (BE)
<b>Centre (Total)</b>	12	24	20	54	12	-4	34	96.9	-17.7	175.2
Centre	12	1	3	6	-11	2	3	-87.7	123.2	77.1
Centre assistance to states	0	22	16	48	22	-6	32	-	-27.2	195.3
<b>States</b>	161	251	283	289	90	32	6	55.8	12.7	2.2
<b>Net states</b>	161	229	267	241	68	38	-26	42.0	16.6	-9.6
<b>Total (C-CS+S)</b>	173	253	287	295	79	34	9	45.8	13.3	3.0
<b>C + CS + S</b>	173	275	303	343	102	28	40	58.7	10.1	13.3



**Law & justice: FY17 allocations substantially higher** *Concurrent list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Marginally (-3.5%) lower than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue spending.</li> <li>Allocations in FY17 at Rs 50bn (of their total allocations – centre 0.2%, state 0.02%).</li> <li>Sharp rise in allocations at 60% over FY16 actuals.</li> </ul>

**Commerce: Lower FY17 allocations** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Sharply lower (-15%) spend in FY16 than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations at Rs 44bn (0.2% of total allocations), almost similar to FY16 actuals, but lower than FY16BE.</li> <li>Almost the entire spending (98%) is in the form of revenue.</li> </ul>

**Electronics & information: Allocation up in FY17** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 5% higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 33bn (0.2% of total spending), 21% higher than FY16 actuals.</li> <li>Spending as revenue expenditure.</li> </ul>

**Industrial policy and promotions: Higher allocations in FY17** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Out of the FY16 budgeted expenditure, 7% was unspent.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 30bn (0.2% of total allocations); +2.5% higher than FY16 actuals.</li> <li>Almost the entire spending (99.7%) is in the form of revenue.</li> <li>FY17 allocations 2.5% higher than FY16.</li> </ul>

**Information & broadcasting: Higher allocations in FY17** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Spending fell short by 3.5%.</li> </ul>	<ul style="list-style-type: none"> <li>Only revenue spending.</li> <li>Allocations in FY17 at Rs 41bn (0.2% of total spending).</li> <li>A substantial increase of 14% in allocation towards this ministry, possibly towards advertising/publicity of government schemes.</li> </ul>

**Micro, small, & medium enterprises: FY17 allocations higher** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Marginally higher than budgeted</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 35bn (0.2% of total spending), up 15% yoy over FY16</li> <li>Largely revenue spending.</li> </ul>

**Textiles: Allocations higher** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was marginally higher than budgeted.</li> </ul>	<ul style="list-style-type: none"> <li>Largely revenue spending</li> <li>Allocations at Rs 46bn (0.2% of total spending) are 6% higher than FY16A.</li> </ul>

**Civil aviation: Sharply lower allocation in FY17, led by sharp fall in capex** *Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Spending higher than budgeted, but much lower than actual of FY15.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations at Rs 26bn (0.1% of total allocations).</li> <li>Spending sharply lower because capital expenditure is half of what was spent in FY16.</li> <li>For FY17, 67% of spending is a part of capital expenditure.</li> </ul>

**Environment, forest & climate: Miniscule portion of overall spending, but allocations sharply up**
*Concurrent list*
**FY16 (C)**
**FY17 (C)**

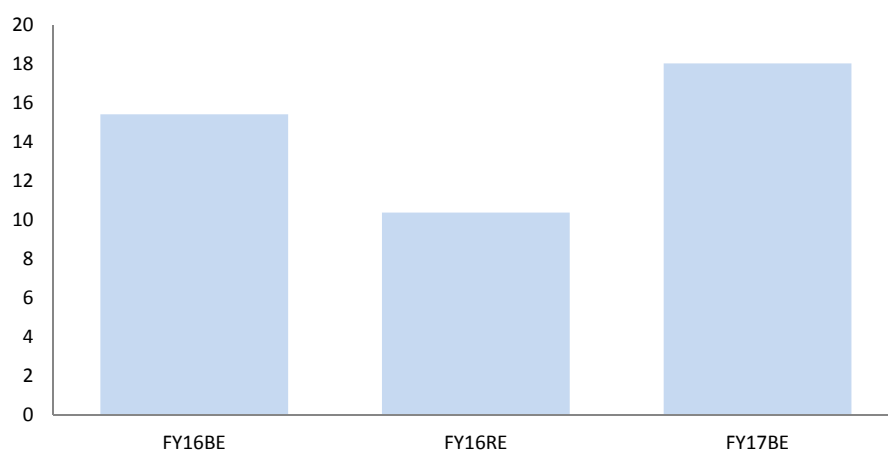
- Lower than budgeted spending in FY16.

- Higher allocation in FY17 at Rs 22.5bn (up 35%).

**Skill development and entrepreneurship: FY17 allocations sharply higher**
*Union list*
**FY16 (C)**
**FY17 (C)**

- Actual spending was 33% lower than budgeted.

- Allocation at Rs 18bn (0.1% of total spending), up 74% over FY16A, +17% over FY16BE.
- Revenue spending: 98%

**Central government spending on skill development (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**Tourism: Stable allocations**
*Union list*
**FY16 (C)**
**FY17 (C)**

- Actual spending was 40% lower than budgeted.

- Largely revenue spending.
- Allocation at Rs 16bn (0.1% of total spending).
- Allocations are 72% higher than FY16 actuals; stable vs. FY16BE.

**Shipping: Reasonable increase in allocations**
*Union list*
**FY16 (C)**
**FY17 (C)**

- Spending was 2% lower than budgeted.

- Allocation at Rs 15bn (0.1% of total spending), 9% higher than FY16A.
- Capital spending: 20%; revenue spending: 80%

**Heavy Industry: FY17BE lower than FY16BE**
*Union list*
**FY16 (C)**
**FY17 (C)**

- Actual spending was 43% lower than budgeted.

- Only revenue spending.
- Allocations in FY17 at Rs 13bn (0.1% of total spend), which comprise of spending on development of automobile industry and loans to CPSEs.
- It is 41% higher than FY16 actuals, but it is still 20% lower than FY16BE.

**Mines: Greater impetus in FY17 than FY16**
*Union list*
**FY16 (C)**
**FY17 (C)**

- Spending was 14% lower than budgeted.

- Allocations in FY17 at Rs 12bn (0.1% of total spending)
- Revenue spending at 87%, capital spending at 13%.
- Allocations are 22% higher than downwardly revised FY16 (A).

**Panchayati Raj: FY17 allocations sharply higher**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Spending was 144% higher than allocations.</li> <li>However, state allocations were eliminated in FY16 from Rs 33bn in FY15.</li> </ul>	<ul style="list-style-type: none"> <li>Allocations in FY17 at Rs 8bn, up by 250%; 0.04% of total spend.</li> <li>Revenue spending.</li> <li>No allocations for states.</li> </ul>

**Coal: Small allocation; FY17 spending much lower**
*Union list*

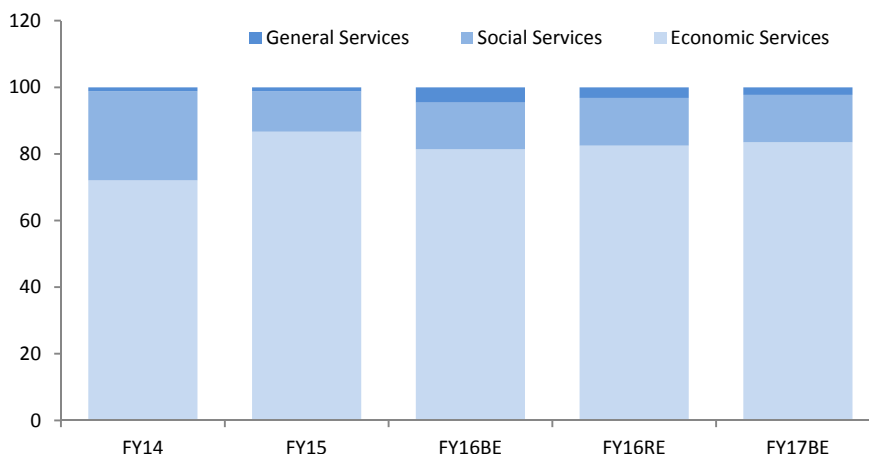
FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>FY16 revenue spending at Rs 6bn.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation at Rs 3.6bn, 40% lower than FY16 actuals.</li> <li>Only revenue spending.</li> </ul>

**Planning: Lower allocations with no allocation for UIDAI as it stands completed**
*Union list*

FY16 (C)	FY17 (C)
<ul style="list-style-type: none"> <li>Actual spending was 8% lower than total allocated.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue spending.</li> <li>Sharp fall in allocations at Rs 3bn vs. Rs 20bn last year as nothing was allocated to Unique Identification Authority of India against Rs 19bn last year.</li> <li>This could be because the UIDAI system rollout is complete.</li> </ul>

**Central plan outlay (Central plan exp + IEBR)**

Head of Department	Rs bn				yoy growth				% of GDP			
	FY15	FY16BE	FY16RE	FY17BE	FY15	FY16BE	FY16RE	FY17BE	FY15	FY16BE	FY16RE	FY17BE
<b>Economic Services</b>	<b>3648</b>	<b>4708</b>	<b>4806</b>	<b>5897</b>	<b>-18</b>	<b>29</b>	<b>32</b>	<b>23</b>	<b>2.9</b>	<b>3.3</b>	<b>3.5</b>	<b>3.9</b>
Agriculture and Allied Activities	98	117	109	194	-44	19	12	77	0.1	0.1	0.1	0.1
Rural Development	12	31	30	28	-98	154	146	-9	0.0	0.0	0.0	0.0
Irrigation and Flood Control	9	8	11	10	93	-14	23	-7	0.0	0.0	0.0	0.0
Energy	1708	1673	1715	2059	-4	-2	0	20	1.3	1.2	1.2	1.4
Industry and Minerals	440	431	455	494	22	-2	3	8	0.3	0.3	0.3	0.3
Transport	1005	1934	1785	2299	-8	92	78	29	0.8	1.4	1.3	1.5
Communications	64	120	135	138	-31	87	109	3	0.1	0.1	0.1	0.1
Science Technology & Environment	144	190	180	209	6	32	25	16	0.1	0.1	0.1	0.1
General Economic Services	168	203	386	467	-38	21	130	21	0.1	0.1	0.3	0.3
<b>Social Services</b>	<b>509</b>	<b>810</b>	<b>835</b>	<b>1003</b>	<b>-69</b>	<b>59</b>	<b>64</b>	<b>20</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>
<b>General Services</b>	<b>52</b>	<b>266</b>	<b>186</b>	<b>162</b>	<b>-29</b>	<b>414</b>	<b>259</b>	<b>-12</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>
<b>Budgetary Support for Central Plan</b>	<b>4209</b>	<b>5784</b>	<b>5827</b>	<b>7062</b>	<b>-31</b>	<b>37</b>	<b>38</b>	<b>21</b>	<b>3.3</b>	<b>4.1</b>	<b>4.2</b>	<b>4.7</b>

**Break-up of central plan outlay**


Source: Budget documents, PhillipCapital India Research

## Central funds devolution to states – Yes, it’s more money with states

### The centre has allocated significant resources to states. Is this true even after incorporating reduced expenditure assistance?

The NDA government seems to be walking the talk – it started with the idea of cooperative federalism, which was supplemented by the fourteenth finance commission recommendations that higher resources should be transferred to states. A higher share of taxes was allocated to states (36% in FY16 vs. approximately 27-28% earlier), but there were concerns that the central government’s assistance for state expenditure would be simultaneously slashed.

**In this section, we have analysed the trends in net resource transfers to the states by the central government, pre-NDA and post-NDA. We found that the central government has allocated higher resources to states even after incorporating reduced expenditure.**

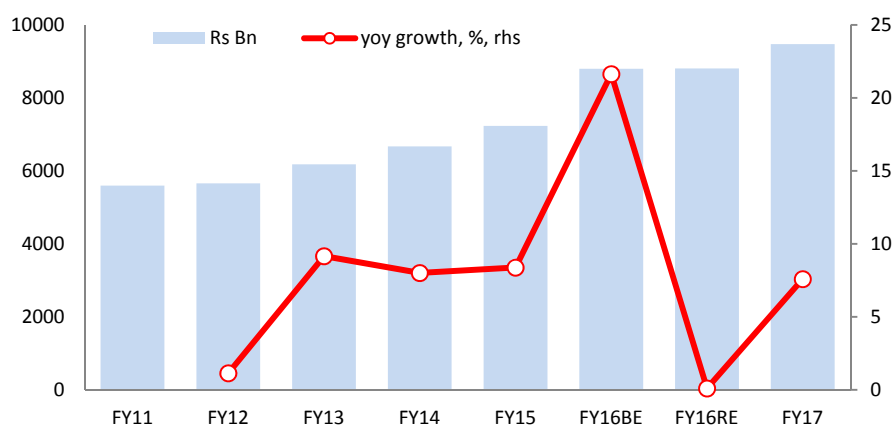
- **Tax devolution to states:** In FY17BE this figure is Rs 5703bn (35% of gross tax), up by a decent 13%. In FY16, after the fourteenth finance commission recommendations, it increased by 50% to touch 36% of gross tax.
- **Total central assistance in state/UT expenditure:** This is Rs 2,419bn in FY17BE (reasonably strong, up 12%). Assistance was highest in FY15 (at Rs 2,708bn) – the first year of the NDA government. However, to implement the 14<sup>th</sup> FC recommendations and meet fiscal deficit targets (what we have been saying for some time now), spending assistance took a hit in FY16 (down 20% yoy at Rs 2,196bn, down 20% yoy). Nevertheless, the absolute amount for FY16 is higher than before-FY15 numbers.
- **Non-plan grants** are at their peak in FY17BE at Rs 1,184bn, up 9% in FY17 and 40% in FY16.
- **Overall grants (non-plan + assistance)** to states fell by 7% in FY16 and are up by 11% in FY17. Absolute amount is highest at Rs 3,603bn.

**Combining tax devolution, expenditure assistance, and other schemes, overall transfers are at a historical high of Rs 9,476bn for FY17BE, up by 8% over FY16A. FY16A was Rs 8,807bn, up 22% over FY15A.**

### Resources transferred to state and UT governments

	Rs bn						yoy growth				
	FY13	FY14	FY15	FY16BE	FY16RE	FY17BE	FY14	FY15	FY16BE	FY16RE	FY17
1 Devolution of States' share in taxes	2915	3182	3378	5240	5062	5703	9.2	6.2	55.1	49.8	12.7
2 Non-Plan Grants & Loans	514	617	772	1086	1083	1184	20.0	25.1	40.7	40.3	9.3
3 Central Assistance for State & UT (with Legislature) Plans	1018	1113	2708	2196	2161	2419	9.3	143.3	-18.9	-20.2	11.9
4 Assistance for Central and Centrally Sponsored Schemes	413	398	...	...	...	...	-3.5	-	-	-	-
5 Total Grants & Loans (2+3+4)	1945	2128	3480	3283	3244	3603	9.4	63.5	-5.7	-6.8	11.1
6 Less-Recovery of Loans & Advances	95	86	107	93	91	95	-9.7	24.1	-13.0	-14.7	4.2
7 Net Resources transferred to State and UT Governments (1+4-5)	4766	5225	6752	8430	8215	9212	9.6	29.2	24.9	21.7	12.1
State Governments	4707	5196	6682	8343	8115	9113	10.4	28.6	24.8	21.4	12.3
8 In addition -											
<i>National Small Savings Fund in Special State Government Securities</i>	326	339	481	368	592	264	3.9	42.0	-23.5	23.0	-55.4
<i>Direct release of Central assistance for State/UT Plans to implementing agencies (MPLADS etc.)</i>	37	40	-	-	-	-	6.3	-	-	-	-
<i>Direct release under Central Plan to State/District level autonomous bodies/implementing agencies \$</i>	1050	1070	-	-	-	-	1.9	-	-	-	-
<b>9 Total (7+8)</b>	<b>6179</b>	<b>6674</b>	<b>7233</b>	<b>8798</b>	<b>8807</b>	<b>9476</b>	<b>8.0</b>	<b>8.4</b>	<b>21.6</b>	<b>21.8</b>	<b>7.6</b>

### Net central transfer to states

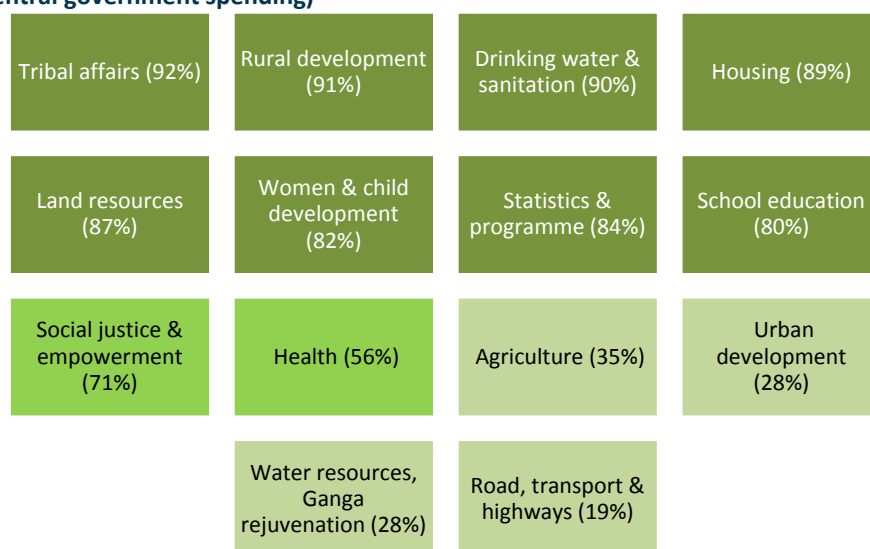


Source: Budget documents, PhillipCapital India Research

### How much spending does the central government route through states, and in which sectors?

The central government routes about 12% of its plan and non-plan spending through states due to the latter's better access to the end user. It is largely revenue and social spending. States also spend their own resources, which are many times higher than allocations made by the centre (more details ahead).

#### List of sectors where central government allocates funds through states (% of central government spending)



Source: Budget document, PhillipCapital India Research

### Which sectors (at the state level) have received higher quantum of central funds in FY17? What is the trend in the last few years?

#### By highest share of allocations for FY17BE – Ministry of:

- Rural Development 33.0%
- Human Resource Development (HRD) 14.9%
- Health & Family Welfare 8.5%
- Finance 6.1%
- Women & Child Development 5.9%
- Agriculture and Farmers' Welfare 5.5%
- Drinking water & sanitation 5.2%

**Sector trends based on centre's fund allocations to states**

**Sharply higher trend: Water & sanitation, housing, and road transport & highways**

**Rising trend: Agriculture (but lower than FY15), environment, health, rural development, social justice, tribal affairs, and urban development**

**Falling trend: Finance (UPA was allocating a significant chunk – 78%), HRD, water resources & ganga rejuvenation, and women & child development**

Source: Budget documents, PhillipCapital India Research

**Detailed sector-wise allocation of the central funds to the states**

State and U.T. Plan Outlay by Ministries/Departments	Rs Bn						% of total					
	FY13	FY14	FY15	FY16BE	FY16RE	FY17	FY13	FY14	FY15	FY16BE	FY16RE	FY17
1. Ministry of Agriculture and Farmers Welfare	84.0	70.9	150.7	111.5	95.8	132.7	3.1	2.6	5.6	5.4	4.4	5.5
2. Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy (AYUSH)	-	-	1.2	3.0	3.2	3.9	-	-	0.0	0.1	0.1	0.2
4. Ministry of Development of North Eastern Region	15.2	15.9	-	-	-	-	1.4	1.3	-	-	-	-
3. Ministry of Drinking Water and Sanitation	-	-	119.4	60.0	79.8	125.4	-	-	4.4	2.9	3.7	5.2
4. Ministry of Environment, Forests and Climate Change	-	-	6.9	4.5	4.8	8.6	-	-	0.3	0.2	0.2	0.4
5. Ministry of Finance	828.9	934.2	659.7	160.0	160.0	148.5	76.1	78.5	24.4	7.8	7.4	6.1
6. Ministry of Food Processing Industries	-	-	1.3	...	...	...	-	-	0.0	-	-	-
7. Ministry of Health and Family Welfare	-	-	194.9	185.0	201.5	205.1	-	-	7.2	9.0	9.3	8.5
8. Ministry of Home Affairs	-	-	22.2	9.9	14.7	18.1	-	-	0.8	0.5	0.7	0.7
9. Ministry of Housing and Urban Poverty Alleviation	-	-	22.3	45.0	16.2	48.0	-	-	0.8	2.2	0.8	2.0
10. Ministry of Human Resource Development	-	-	401.1	368.4	365.7	359.9	-	-	14.8	18.0	16.9	14.9
11. Ministry of Labour and Employment	-	-	...	13.9	1.7	1.1	-	-	-	0.7	0.1	0.0
12. Ministry of Law and Justice	-	-	...	5.0	5.0	4.6	-	-	-	0.2	0.2	0.2
13. Ministry of Minority Affairs	-	-	...	12.3	...	9.9	-	-	-	0.6	-	0.4
Ministry of Panchayati Raj	37.2	28.0	...	...	...	...	3.4	2.4	-	-	-	-
14. Ministry of Road Transport and Highways	22.7	25.7	20.7	28.7	28.1	108.3	2.1	2.2	0.8	1.4	1.3	4.5
15. Ministry of Rural Development	-	-	642.9	656.7	729.2	797.8	-	-	23.7	32.1	33.7	33.0
16. Ministry of Social Justice and Empowerment	-	-	35.5	37.3	40.2	46.2	-	-	1.3	1.8	1.9	1.9
17. Ministry of Statistics and Programme Implementation	37.2	39.6	33.5	39.5	39.5	39.8	3.4	3.3	1.2	1.9	1.8	1.6
18. Ministry of Textiles	-	-	4.1	...	...	...	-	-	0.1	-	-	-
19. Ministry of Tribal Affairs	16.7	21.5	32.3	37.5	37.4	44.3	1.5	1.8	1.2	1.8	1.7	1.8
20. Ministry of Urban Development	-	-	28.5	60.0	38.6	66.7	-	-	1.1	2.9	1.8	2.8
21. Ministry of Water Resources & Ganga Rejuvenation	-	-	32.6	20.0	45.1	16.3	-	-	1.2	1.0	2.1	0.7
22. Ministry of Women and Child Development	-	-	177.7	90.0	163.3	142.6	-	-	6.6	4.4	7.6	5.9
23. Ministry of Youth Affairs and Sports	-	-	1.4	1.2	0.7	...	-	-	0.1	0.1	0.0	-
24. Ministry of DONER	-	-	13.3	18.0	15.4	16.0	-	-	0.5	0.9	0.7	0.7
25. Union Territories	46.9	54.7	61.0	80.4	75.2	75.3	4.3	4.6	2.3	3.9	3.5	3.1
<b>Total Central Assistance for State and Union Territory Plans</b>	<b>1089</b>	<b>1190</b>	<b>2708</b>	<b>2048</b>	<b>2161</b>	<b>2419</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Budget documents, PhillipCapital India Research

## States' budgets – Acting as catalysts

In this section we have delved deeper into state finances to analyse their spending patterns and capital spending. Our analysis includes budgets of 15 large states, covering 80-85% of all-India state finances.

*States covered: Andhra Pradesh, Bihar, Chattisgarh, Delhi, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal*

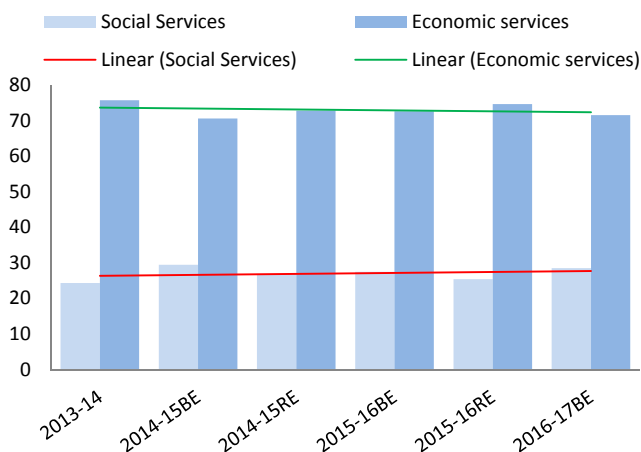
### How is the capex allocation by states?

States' capital outlay growth is stronger than the centre's and is incrementally tilted towards social spending

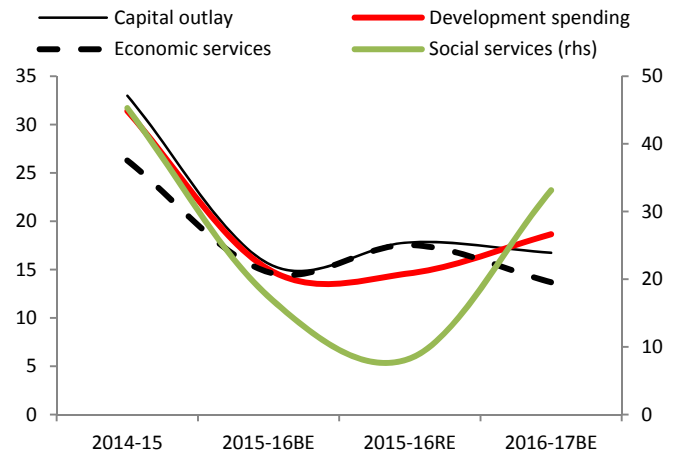
#### Capex allocations by state governments in FY17BE:

- Capital expenditure growth is budgeted at a reasonably strong rate of 16.7%, although lower than 17.8% growth in FY16, and 33% in FY15.
- **Unlike the central government, where spending is well distributed between economic and social services, state governments' budgets tend to spend more on social services and lesser on economic services over the last few years.**
- 28.5% of developmental expenditure is allocated for social spending vs. 25.4% in FY16 and 26.9% in FY15 (historically, actual spending here has been lower than budgeted).
- Economic services spending/developmental spending is at 71.5% vs. 74.6% in FY16 and 72.7% in FY15.

#### Breakup of capital development spending by states



#### States' capital spending on social and economic services



Source: Budget documents, PhillipCapital India Research

### For FY17, how is the state's capital expenditure allocation between social and economic services and within sectors?

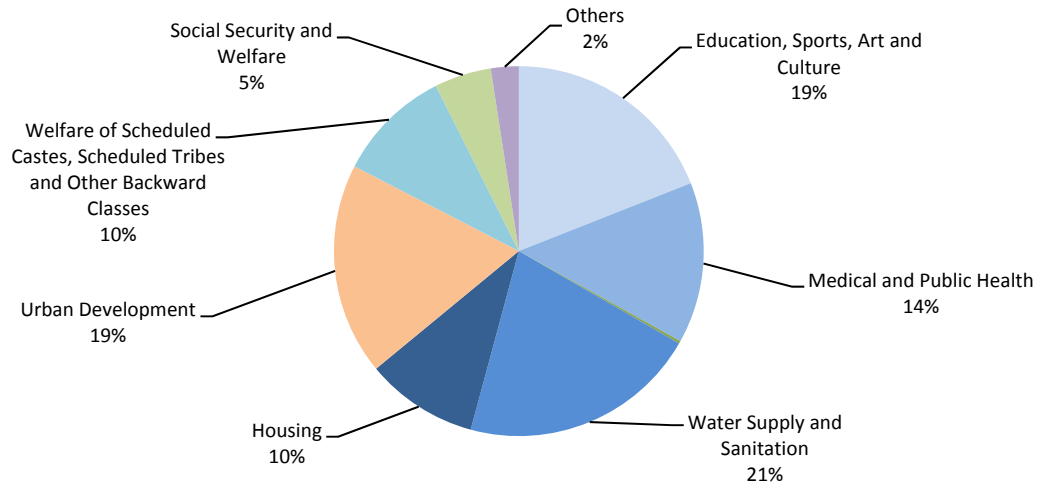
If we look at overall trends (not just for one particular year), within social services, large capex is allocated for education and urban development while for economic services it is mixed (down for two sectors and up for three). For FY17, economic services capex (which has more economic productivity) has actually contracted for agri and rural development and is weak for transport – the two sectors that are generally believed to be the government's high focus areas. It is higher for agriculture, irrigation, and energy. For social services, capex is up across the board in FY17.

Within social sectors, for FY17, highest spending is budgeted for water supply & sanitation (21.1%), followed by education (19.2%), urban development (18.7%), health (14.2%), welfare of SC/ST (10.1%), and housing (9.9%) – in line with assistance by centre.

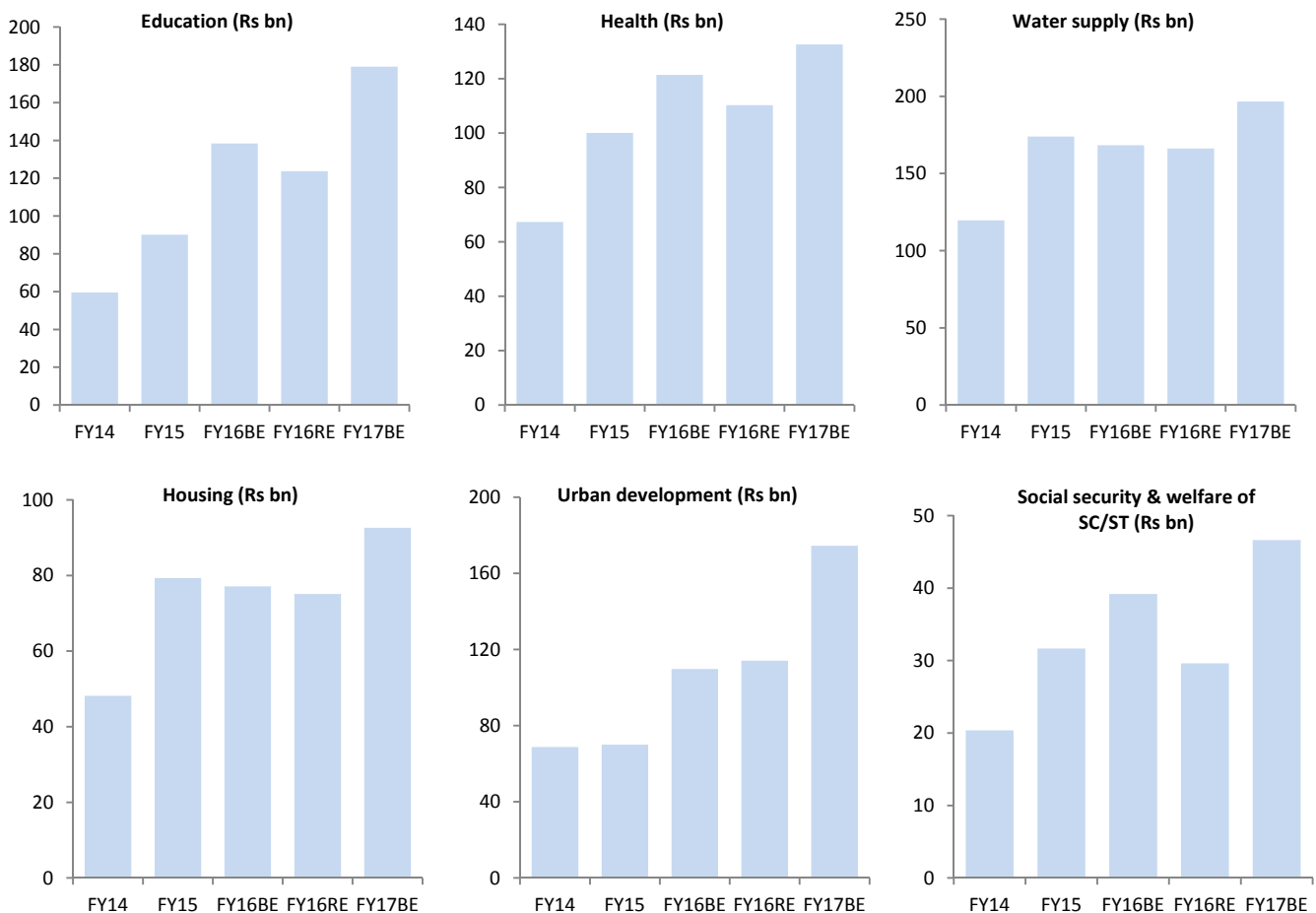
*For FY17, economic services capex (which has more economic productivity) has actually contracted for rural development and is weak for transport*

In absolute terms, states' social spending has risen across the board, but as a percentage of total allocations, it is:

- Lower for health, water supply, sanitation, housing, and SC/ST welfare.
- Higher for education.
- Sharply up for urban development.

**Breakup of capex on social services in FY17BE (%)**


Source: Budget documents, PhillipCapital India Research

**Trends in states' capex on social services (Rs bn)**


Source: Budget documents, PhillipCapital India Research

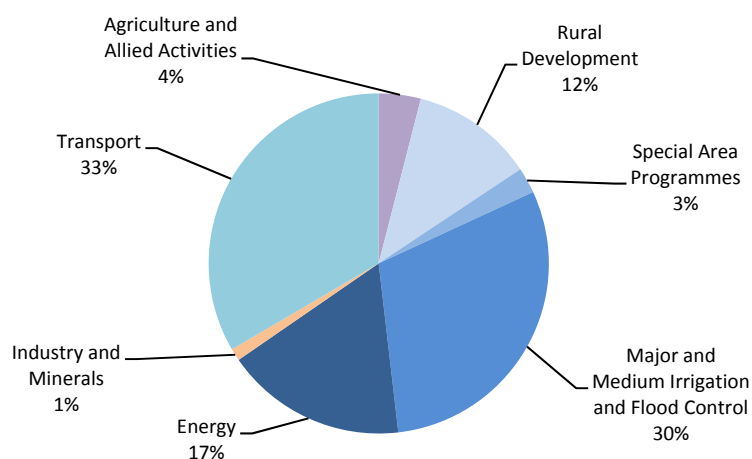


**Sector-wise states' capex on social spending (Rs bn)**

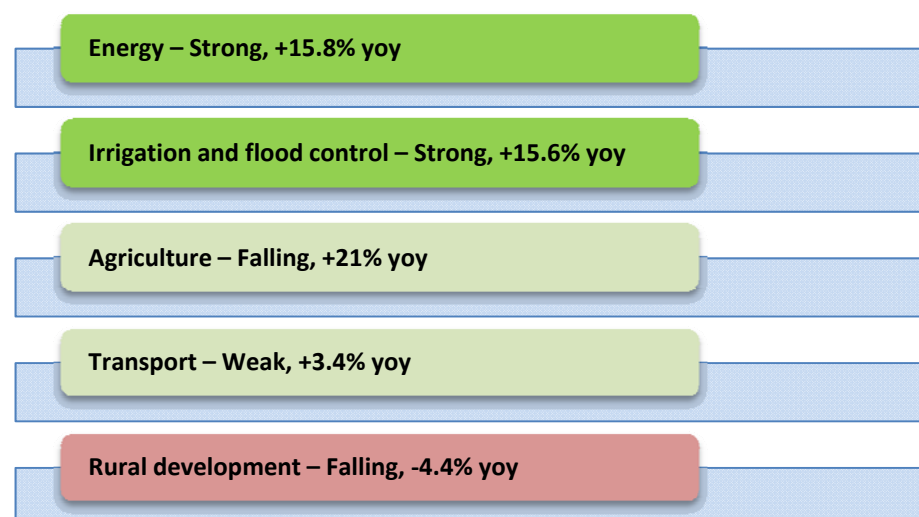
	FY14	FY15	FY16BE	FY16RE	FY17BE
<b>Social Services</b>	<b>445.5</b>	<b>647.3</b>	<b>759.9</b>	<b>700.8</b>	<b>933.2</b>
Education, Sports, Art and Culture	59.6	90.1	138.3	123.7	179.0
Medical and Public Health	67.4	100.1	121.4	110.3	132.6
Family Welfare	2.5	15.1	1.4	1.5	2.0
Water Supply and Sanitation	119.7	173.9	168.3	166.2	196.6
Housing	48.2	79.3	77.1	75.1	92.6
Urban Development	68.8	70.0	109.8	114.1	174.5
Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	38.1	68.5	79.7	74.2	94.4
Social Security and Welfare	20.4	31.7	39.2	29.6	46.6
Others	21.0	19.4	24.2	16.6	23.0
Social security and Welfare of SC/ST	58.5	100.2	118.9	103.8	141.0

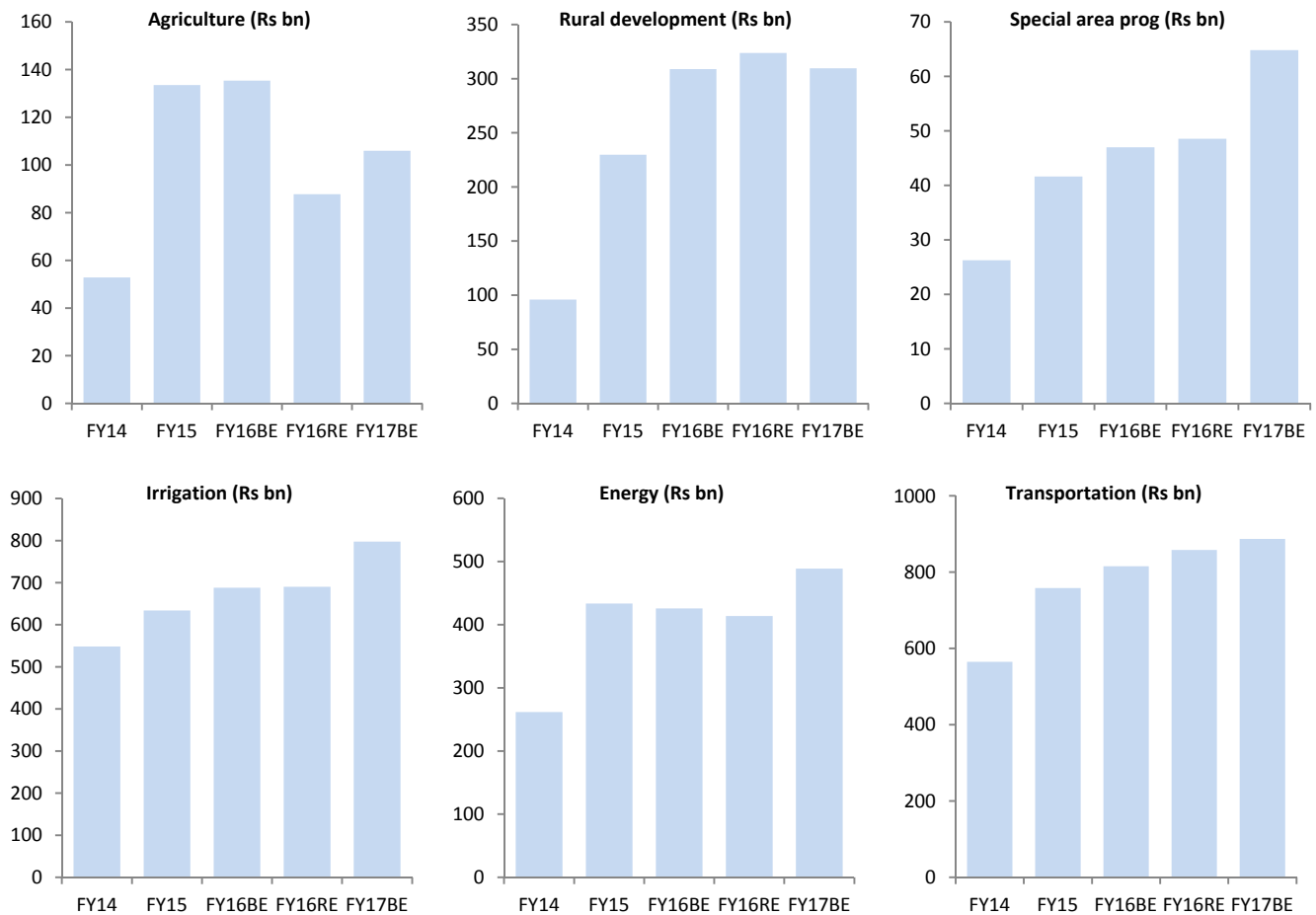
Source: Budget documents, PhillipCapital India Research

Under **economic services**, highest spending is budgeted for transport (30.8%), followed by irrigation/flood control (27.7%), energy (15.9%), rural development (10.8%), and agriculture (3.7%).

**Break-up of state's capex on economic services for FY17BE (%)**


Source: Budget documents, PhillipCapital India Research

**Sectoral trends in state's capex in economic services over last few years**


**Trends in state's capex on economic services (Rs bn)**


Source: Budget documents, PhillipCapital India Research

**States' capital expenditure on economic services (Rs bn)**

	FY14	FY15	FY16BE	FY16RE	FY17BE
<b>Economic Services</b>	<b>1386.7</b>	<b>1751.1</b>	<b>2008.9</b>	<b>2058.2</b>	<b>2339.9</b>
Agriculture and Allied Activities	46.4	103.5	110.1	71.3	86.1
Rural Development	84.1	178.1	251.1	263.2	251.7
Special Area Programmes	23.0	32.3	38.2	39.5	52.7
Major and Medium Irrigation and Flood Control	481.1	491.5	559.5	561.0	648.4
Energy	208.3	316.1	327.9	321.2	372.0
Transport	495.5	587.9	663.1	697.7	721.1

Source: Budget documents, PhillipCapital India Research

## Revenue expenditure – Incremental spending tilted towards social sectors

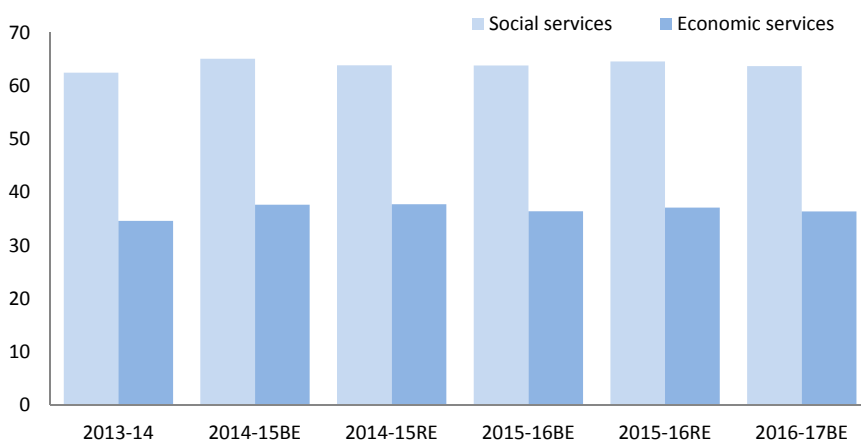
### In FY17, what is the break-up of states’ revenue expenditure between social and economic sectors?

As this is revenue expenditure, higher proportion (64%) is allocated to the social sector and the rest is reserved for economic services.

States’ revenue spending is budgeted to rise by 10% yoy in FY17 (FY16A was 19% higher than FY15A and 2.5% higher than FY16BE). Social services account for 63.6% (28.5% under capital expenditure) of revenue development spending, while the share of economic services is at 36.4% (71.5% under capital expenditure).

*It is important to look at revenue spending; this is because rural and social-sector spending largely reflects in revenue expenditure.*

### Breakup of states’ development revenue spending

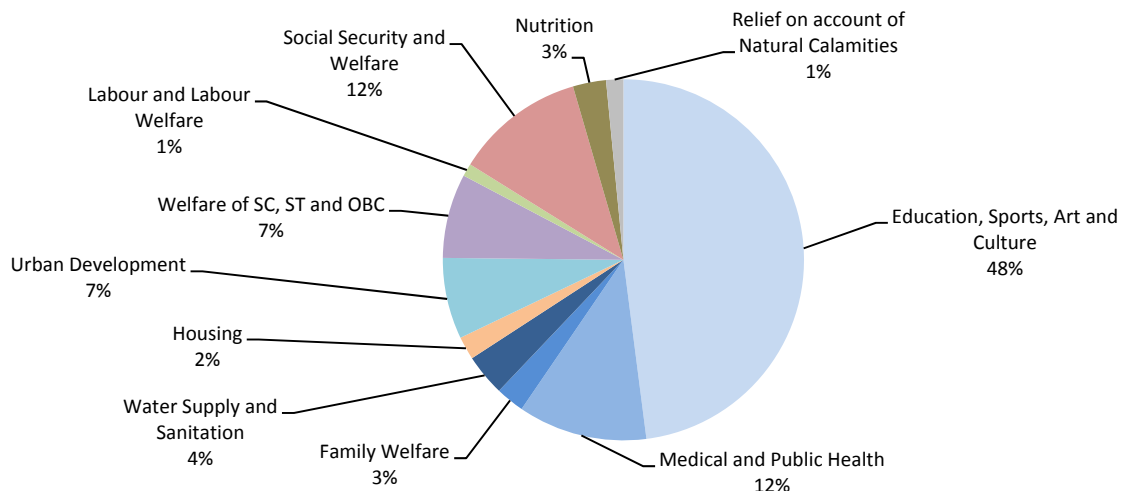


Source: Budget documents, PhillipCapital India Research

### Within states’ allocation to social services, which sectors are given higher priority?

Highest spending is in education (47.7%), followed by health (11.5%), social security (11.6%), welfare of SC/ST (7.5%), and urban development (7.2%). On an annual basis, there is a contraction in housing.

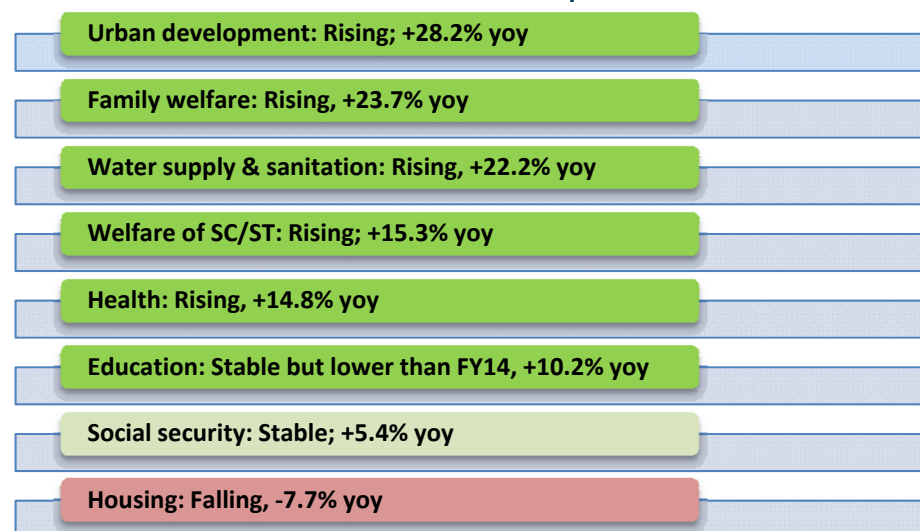
### States’ breakup of social services as on FY17 (BE) (revenue expenditure)



Source: Budget documents, PhillipCapital India Research

**Trends in social services over the last few years:** Barring housing, absolute amount is higher across sectors. The trends depicted in the graph below are based on % of total social spending.

#### Sectoral trends in social services over the last few years



#### State revenue social spending (Rs bn)

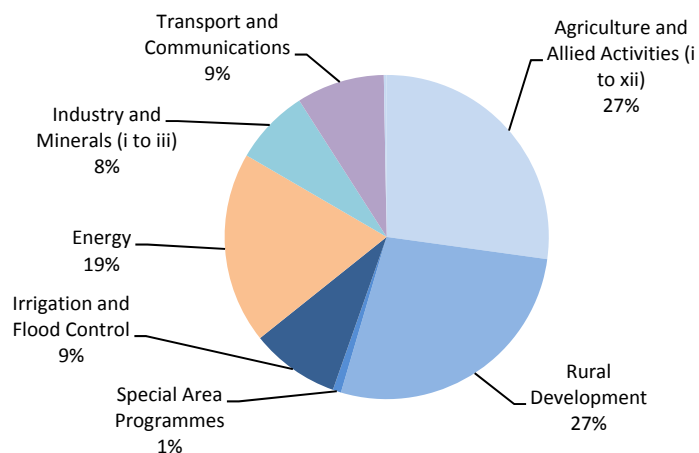
	FY14	FY15	FY16BE	FY16RE	FY17BE
<b>Social Services</b>	<b>4828.3</b>	<b>5888.1</b>	<b>6363.8</b>	<b>6524.6</b>	<b>7190.5</b>
Education, Sports, Art and Culture	2359.8	2907.6	3171.3	3109.9	3426.8
Medical and Public Health	480.1	651.1	701.5	720.1	826.6
Family Welfare	91.0	134.3	158.3	148.1	183.2
Water Supply and Sanitation	107.7	157.9	212.5	218.1	266.5
Housing	86.3	144.6	147.7	161.0	148.5
Urban Development	307.0	408.9	380.0	404.7	518.9
Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	389.7	423.6	466.3	468.2	539.8
Labour and Labour Welfare	56.8	70.5	77.4	74.4	82.2
Social Security and Welfare	594.1	662.6	716.6	788.3	830.9
Nutrition	186.1	194.7	199.0	198.6	212.3
Relief on account of Natural Calamities	141.1	101.8	96.3	178.1	109.5
Others	28.7	30.6	36.9	31.9	32.2

Source: Budget documents, PhillipCapital India Research

### Within sector allocation under states' economic services, which sectors are given higher priority?

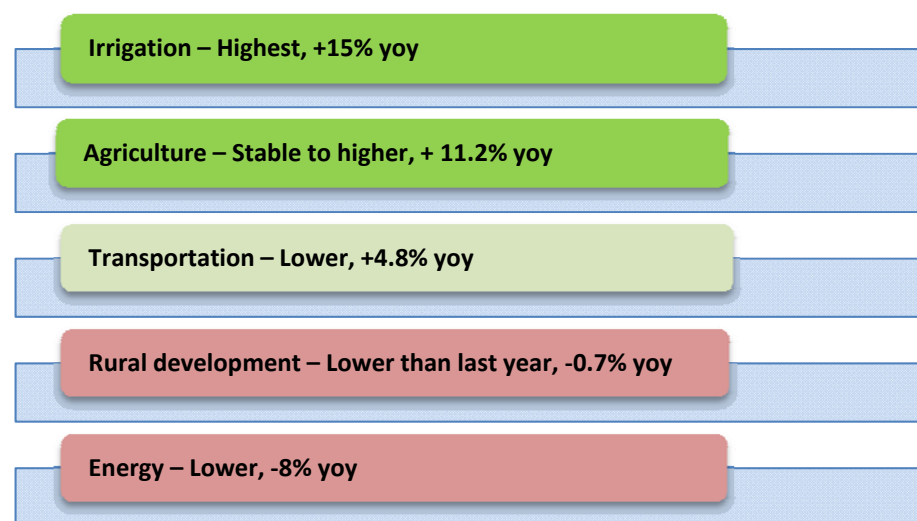
Highest allocations are made to agriculture and rural development, followed by energy, transport & communications, irrigation & flood control, and industry & minerals. Based on past spending trends, highest focus is on irrigation and agriculture.

#### Breakup of economic services (revenue expenditure) as on FY17 (BE)



Source: Budget documents, PhillipCapital India Research

#### Trends in economic services spending over the last few years



#### State's revenue economic spending (Rs bn)

	FY14	FY15	FY16BE	FY16RE	FY17BE
<b>Economic Services</b>	<b>2555.8</b>	<b>3323.5</b>	<b>3646.6</b>	<b>3850.4</b>	<b>4115.5</b>
Agriculture and Allied Activities	678.8	860.9	939.1	959.9	1067.3
Rural Development	435.7	812.2	977.4	1083.2	1075.4
Special Area Programmes	18.6	26.4	31.4	30.7	32.4
Irrigation and Flood Control	282.6	264.5	252.0	303.4	348.8
Energy	565.0	713.2	719.0	815.4	750.6
Industry and Minerals	111.5	143.3	193.6	190.1	296.0
Transport and Communications	320.1	337.8	335.3	329.2	345.1
Science, Technology and Environment	6.9	7.5	9.5	8.9	11.2
General Economic Services	136.6	159.6	189.2	180.8	244.1

Source: Budget documents, PhillipCapital India Research

## Concluding for states: More focus on social spending

- **Capital expenditure:** Incrementally more focus on social services than economic services.
  - *Social services:* Focus on education, water supply & sanitation, housing, social security & welfare, and urban development.
  - *Economic services:* Focus on irrigation, transport, & energy. Drop is in rural development.
- **Revenue expenditure:** Incrementally more focus on social services than economic services.
  - *Social services:* Higher focus on education, water supply & sanitation, social security & welfare, urban development, and health. Contraction in housing.
  - *Economic services:* Higher focus on agriculture, irrigation, industrial development, and general economic services. Drop in rural development and energy.
- Incremental capital outlay\*: In FY17BE (for all states) it is estimated at Rs 608bn (Rs 550bn in FY16); it is Rs 507bn for the 15 states that we have covered here vs. Rs 459bn in FY16.
- **Combining all spending by the states:**
  - **Higher focus on education, water supply & sanitation, social security & welfare, urban development, irrigation, industries, transport.**
  - **Muted/negligible rise in housing and transport & communications.**
  - **Contraction in rural spending and power.**

*\*Capital outlay is defined as spending on economic, social, and general services by the central and state governments on schemes new and old schemes (plan and non-plan) under capital expenditure.*

## Combined (states + centre) spending: The story changes

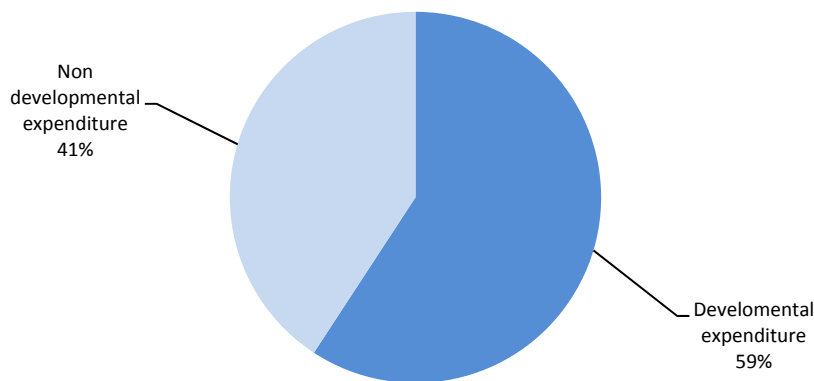
In this section, we have analysed the spending pattern by combining the central and state governments' spending. This is to gauge:

- 1) Spending trends in sectors for the country/sovereign
- 2) Importance of state spending along with central spending
- 3) Sectors that have received higher/lower allocations vs. the trend

### Does the government spend more on developmental or non-developmental activities?

Combining state and central government spending for FY17BE, developmental spending is 18% higher than non-developmental spending, which is a significant positive for economic activity.

#### Break-up of developmental and non-developmental spending of the sovereign



*Higher developmental spending at 59% of total*

Source: Budget documents, PhillipCapital India Research

### Does capital expenditure on social and economic services (in FY17 and in the past) impact the investment cycle in FY17-18?

Combined capital expenditure (C+CS+S) in FY17BE is Rs 6,554bn vs. Rs 5,837bn in FY16A, up 12% yoy vs. a 16% yoy growth in FY16 (lower growth due to smaller incremental capex by the central government). In FY16, the central government contributed more to capex spending, but in FY17, states are taking the lead. Strong capex by the state government in FY17 should bode well for the economy, as private capex still remains sluggish – thus, the onus of reviving capex cycle remains with the government.

#### Capex on social and economic services by the centre and state government (C+CS+S)

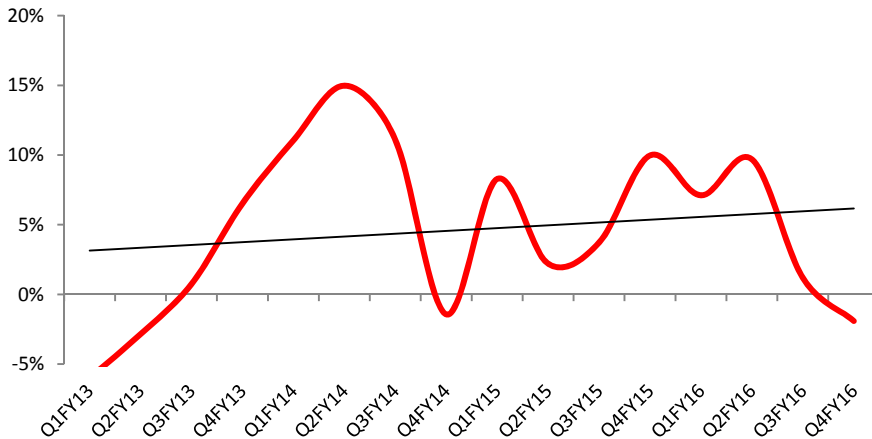
	Rs bn			YoY growth	
	FY15	FY16	FY17	FY16	FY17
Centre	1832	2233	2326	21.9	4.2
State	119	125	126	5.1	0.1
State own	3320	3730	4353	12.3	16.7
Net states	3201	3604	4228	12.6	17.3
<b>Total</b>	<b>5033</b>	<b>5837</b>	<b>6554</b>	<b>16.0</b>	<b>12.3</b>

Source: Budget documents, PhillipCapital India Research

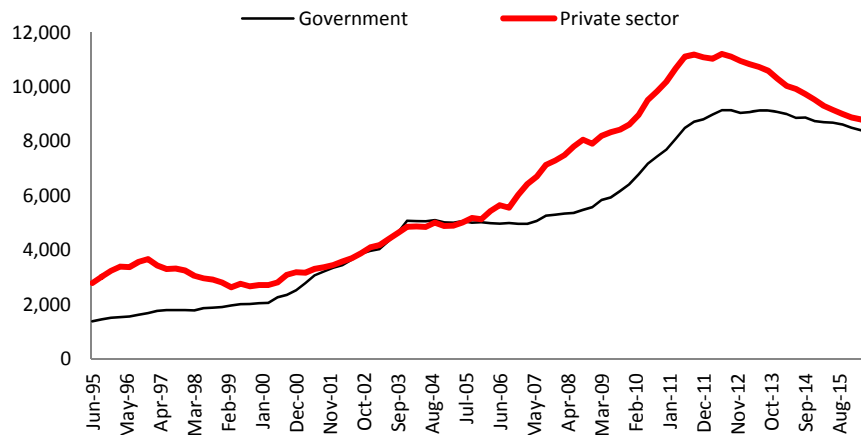
**GFCF growth fell in FY16, despite the government’s push**

Despite the government’s push for capex, GFCF tumbled in FY16 – up 3% vs. 9% average growth in the last three financial years. GFCF dropped in 2HFY16 to nil growth vs. 7% in 1HFY16. Q4FY16 recorded the lowest growth in 15 quarters, as the government had front-loaded their capex (to trigger economic expansion) and private sector investments remained tepid.

**Quarterly GFCF trends (yoy growth, %)**

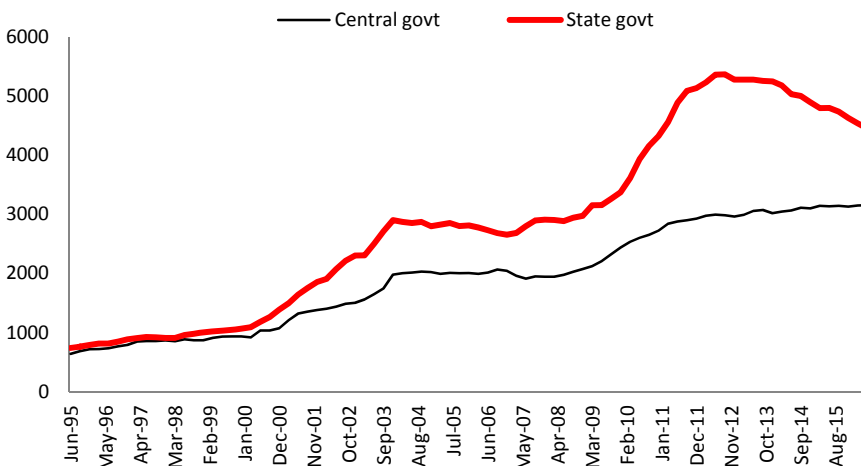


**Outstanding number of projects with the government and private sector**



*Total projects (with the government as well as the private sector) are falling. The pace of this fall is faster for the private sector*

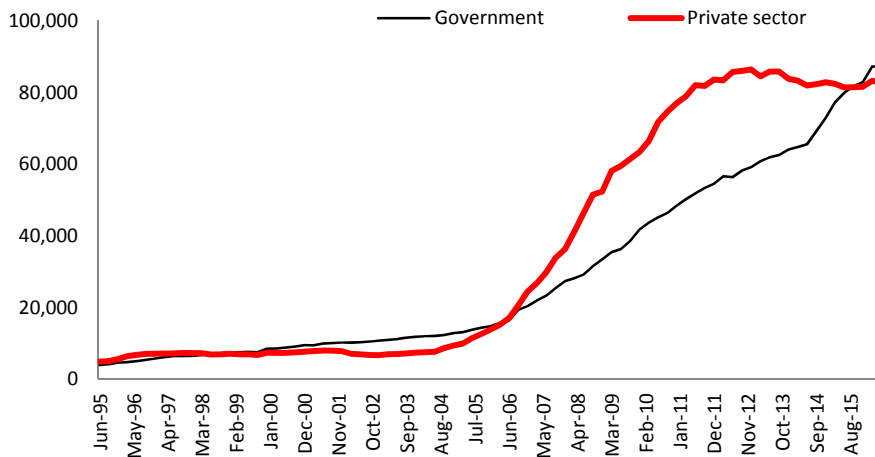
**Outstanding number of the projects with the central and state governments**



*Projects with the state governments are falling while they are rising for the central government*

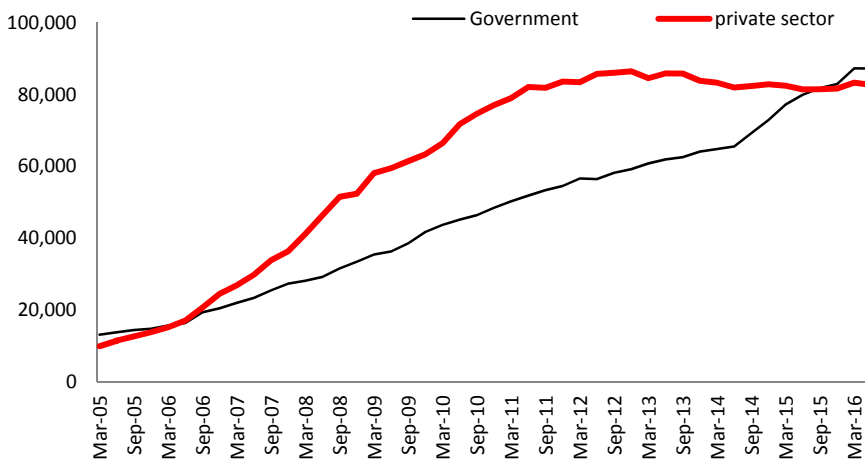


**Value of outstanding projects for the government and private sector (Rs bn)**



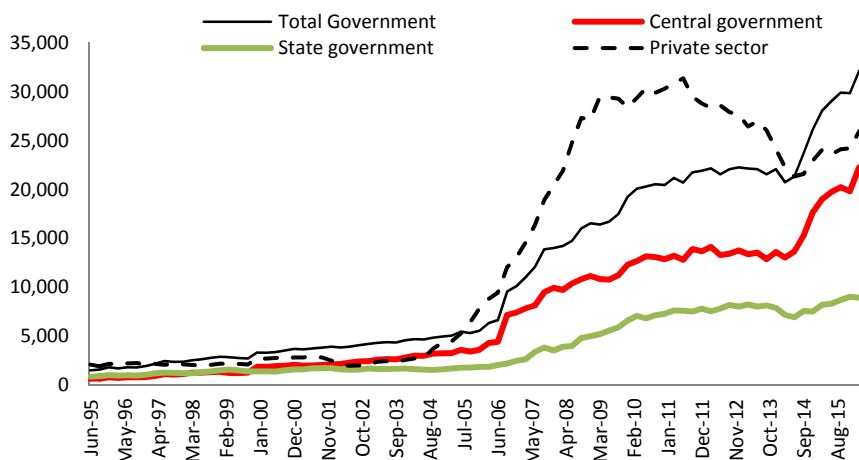
*Government projects (by value) have soared in the last 10 years and more swiftly since 2014, while they been stagnating-to-falling for the private sector*

**Value of outstanding projects for the government and private sectors (Rs bn)**



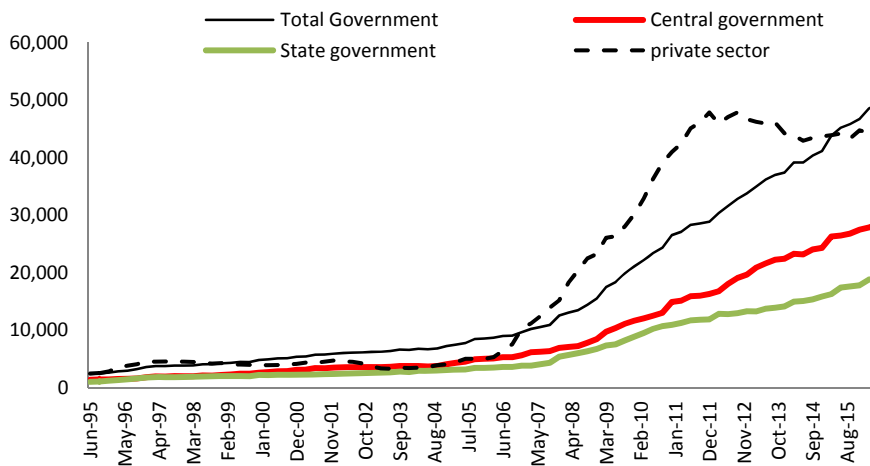
- Value of projects with the government soared since 2005, currently at Rs 87tn
- Private-sector projects are stagnating at around Rs 82-83tn

**Projects (announced) by the government and private sectors (Rs bn)**

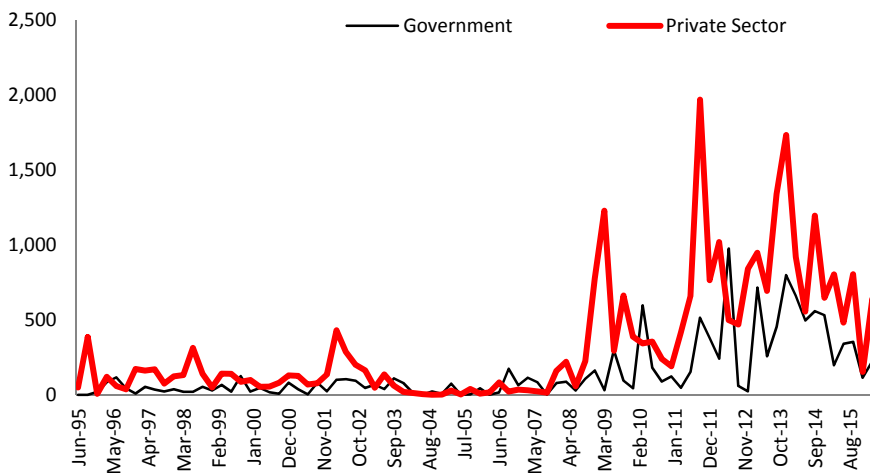


- Projects announced by the government are sharply higher, primarily by the central government
- Projects announced by the private sector are also rising since 2014
- Projects announced by the private sector (at Rs 26tn) are half of the peak seen in 2010

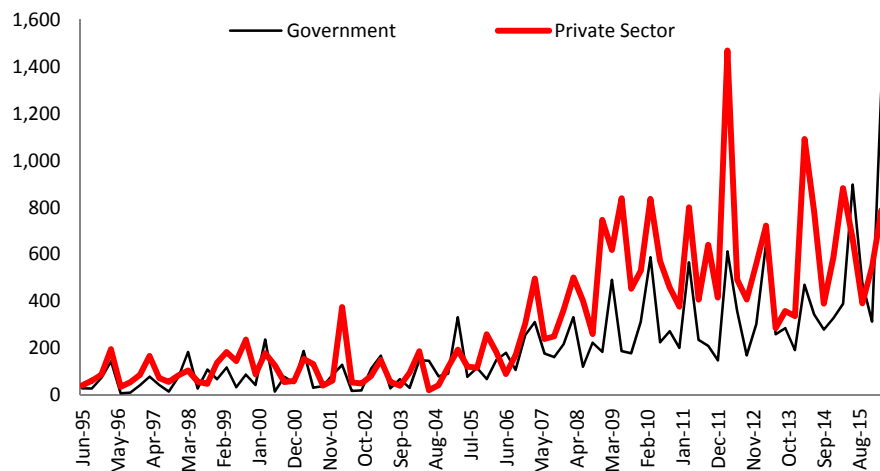
Source: CMIE, CSO, PhillipCapital India Research

**Projects (under implementation) by the government and private sector (Rs bn)**


- *Projects under implementation by the government are higher than the private sector*
- *Current pace of increase is also higher for the government while it is stagnant for the private sector*
- *Central government implementation is higher than the state government since 2008-10. Gap is seen widening; it was stable before 2005-06*

**Projects (shelved) by the government and the private sector (Rs bn)**


- *Projects shelved (overall) in Q1-Q2 2016 are lower than seen in the last 15 quarters*
- *More improvement in the private sector, where this pace was much sharper earlier*
- *For the government, it has been slightly higher for the last two quarters, but lower than its long-term trend*

**Projects (completed) by the government and private sector (Rs bn)**


- *Projects completed (overall) in Q2 2016 dipped sharply*
- *Drop seen in both private sector and government projects*

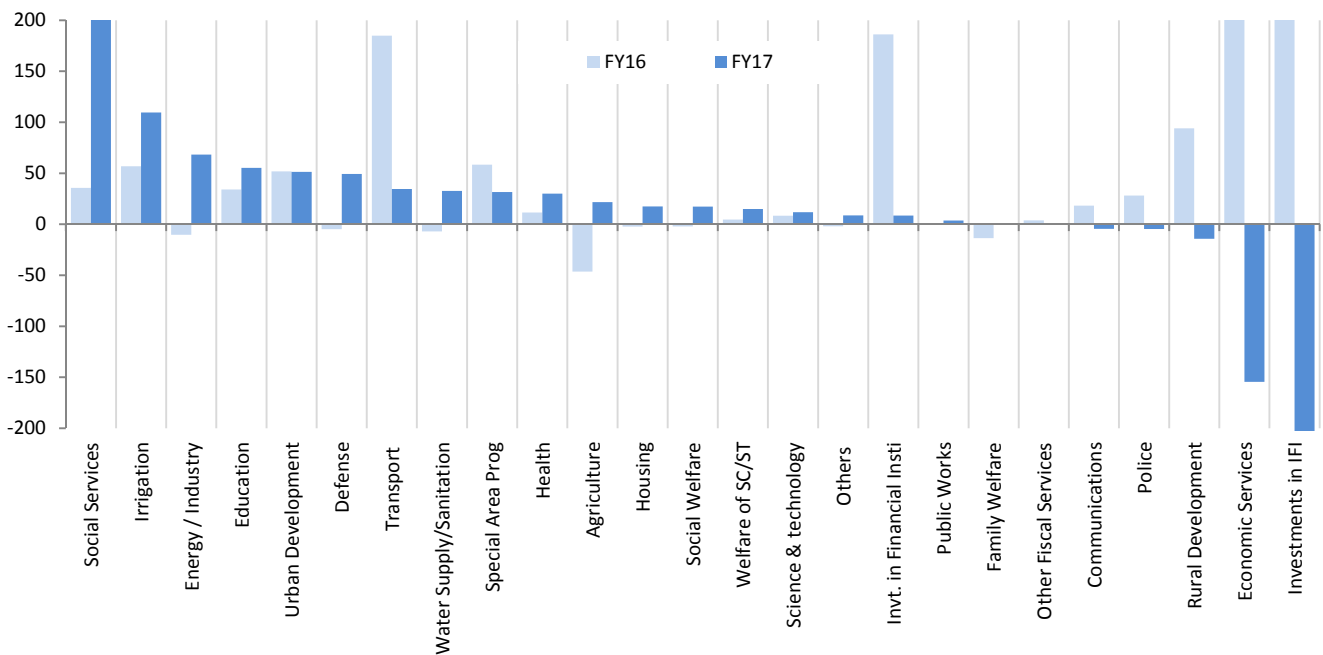
Source: CMIE, PhillipCapital India Research

### Which sectors have received higher *incremental* capital allocations in FY17?

Combining state and centre spending, highest additional spending is in (descending order):

- Irrigation
- Energy/industry
- Education
- Urban development
- Defence
- Transport (but significantly lower than last year)
- Water supply
- Health
- Agriculture
- Housing

### Incremental sector-wise capital expenditure by the sovereign

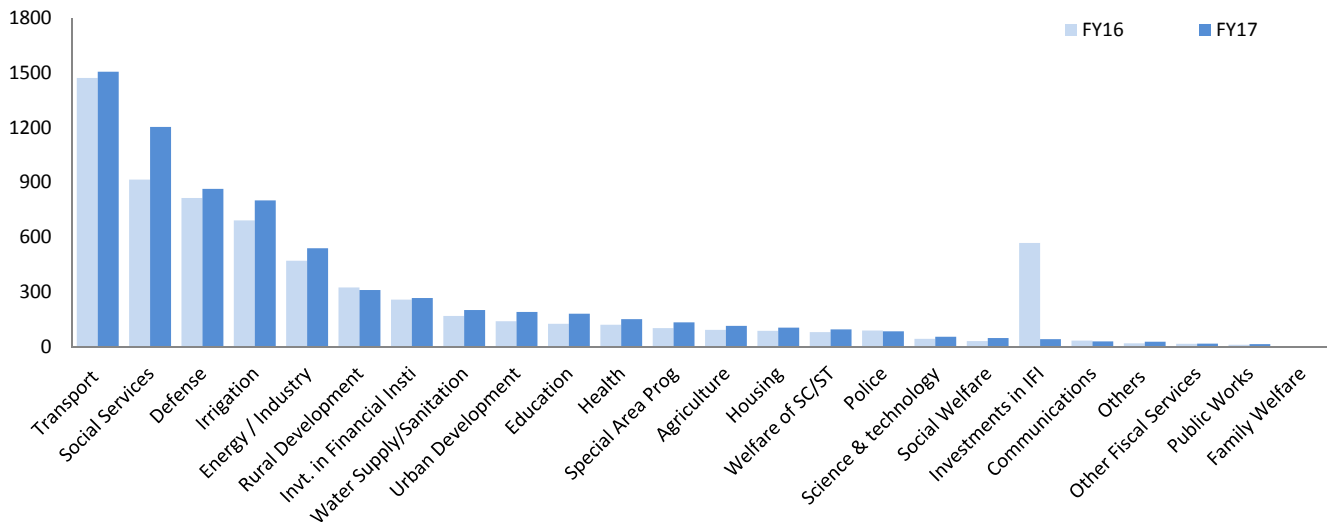


Source: Budget documents, PhillipCapital India Research

### Which sectors attract higher overall capex by the sovereign?

The largest chunk of capital spending is diverted towards transport (remains so for last few years), followed by defence, irrigation, energy/industry, rural development, water supply, urban development, and education.

#### Sector-wise capital expenditure by the sovereign

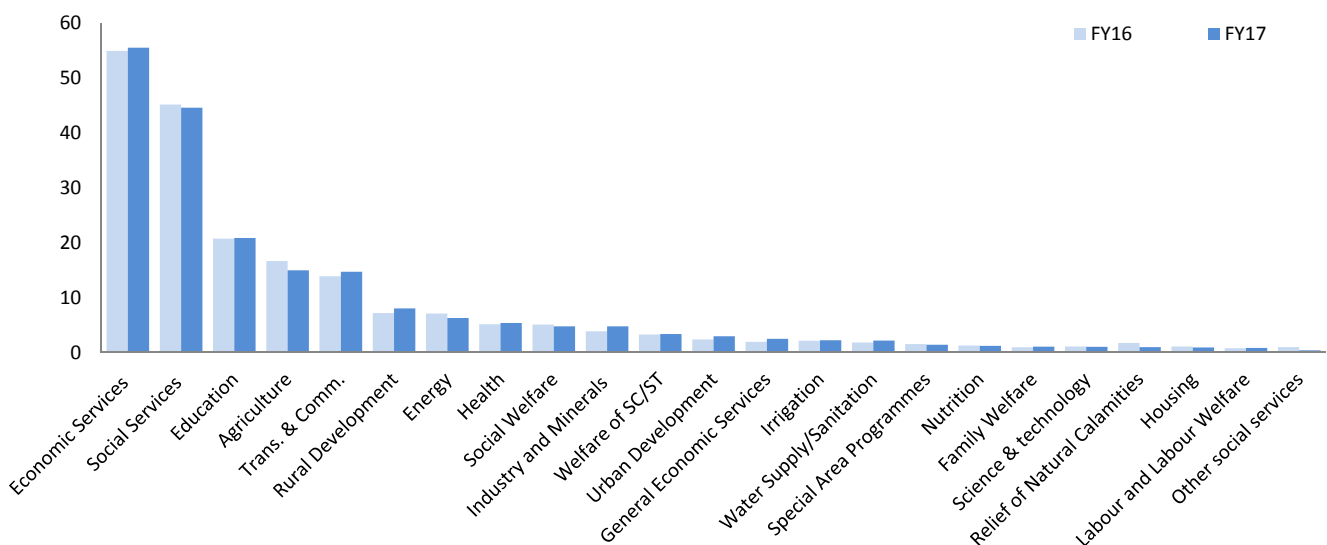


Source: Budget documents, PhillipCapital India Research

### Which sectors attracted higher revenue spending in FY17BE?

Education, agriculture, transport and communications, rural development, energy, health, social security, and industry & minerals.

#### Sector-wise break-up of revenue spending of sovereign



Source: Budget documents, PhillipCapital India Research

### Based on combined spending analysis, which sectors have received higher sovereign allocations (total expenditure)?

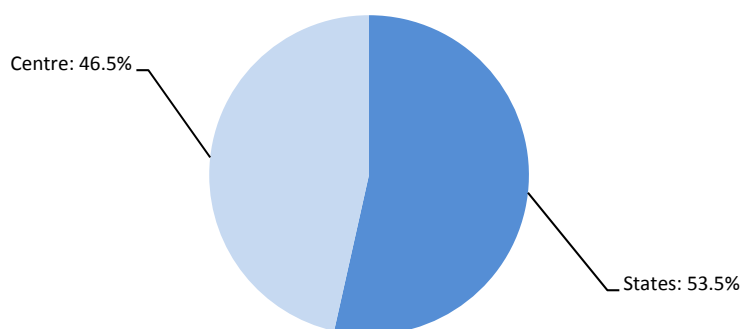
State spending is higher than the centre at 53.5%. Highest spending is in the form of social services (education, health), economic services (transport, agriculture, energy/industry, rural development, irrigation, urban development), interest payments, defence, pension, subsidies, and police.

#### Total spend for FY17 by the centre and state governments

FY17 (Rs Bn)	State	Centre	Total
<b>Social services</b>	<b>10014</b>	<b>949</b>	<b>10962</b>
<b>Economic services</b>	<b>8084</b>	<b>8089</b>	<b>16173</b>
General services	358	513	871
<b>Interest payment</b>	<b>2692</b>	<b>4927</b>	<b>7618</b>
<b>Pension</b>	<b>2484</b>	<b>1234</b>	<b>3717</b>
Police	980	598	1578
Postal deficit	0	84	84
<b>Defense</b>	<b>0</b>	<b>2491</b>	<b>2491</b>
<b>Subsidies</b>	<b>0</b>	<b>2504</b>	<b>2504</b>
<b>Grants/Assistance to state/Uts</b>	<b>0</b>	<b>3659</b>	<b>3659</b>
Grants to foreign govts	0	45	45
Others	1691	143	1834
<b>Total spend for FY17</b>	<b>26428</b>	<b>19780</b>	<b>46208</b>

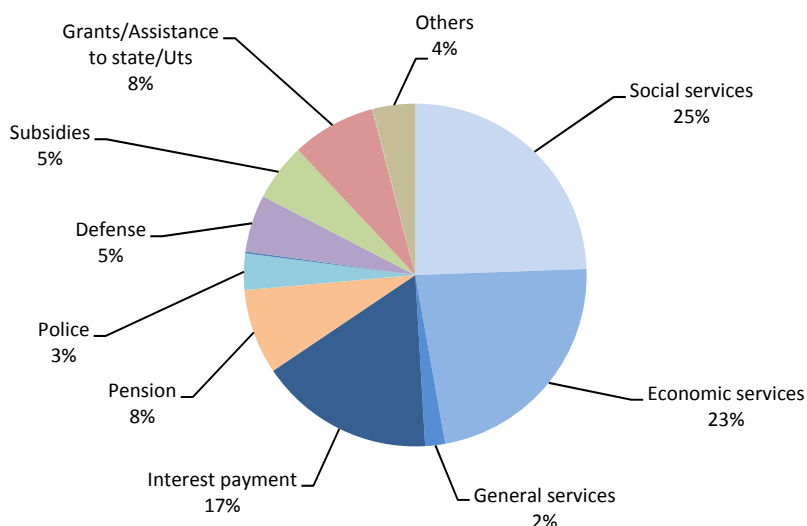
Source: Budget documents, PhillipCapital India Research

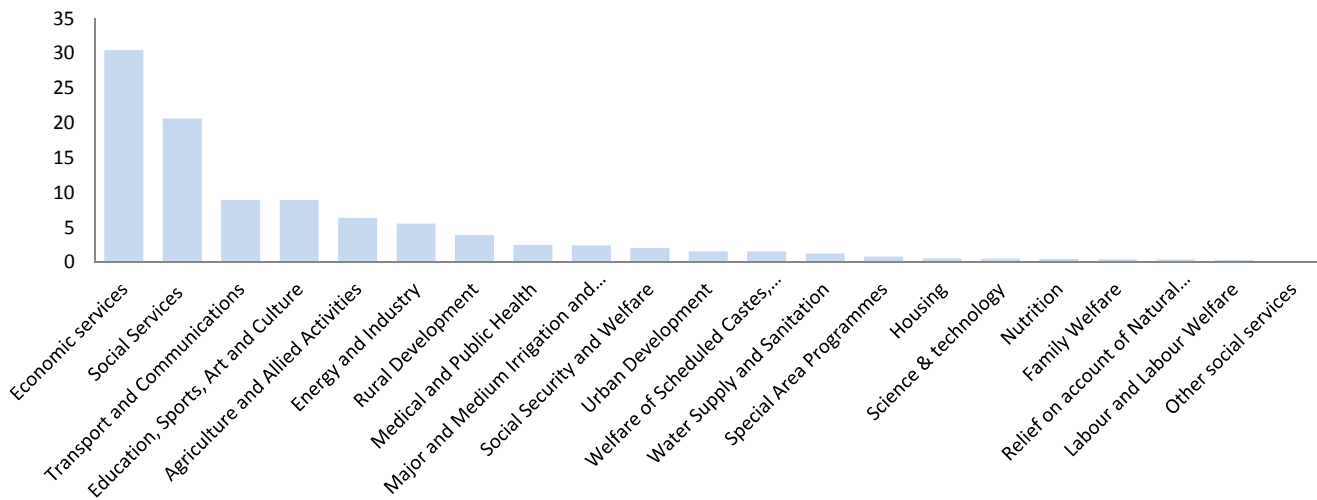
#### Breakup of sovereign expenditure between centre and state government



*States spend more than the centre*

#### Break-up of the sovereign expenditure (% of total spending)



**Sector-wise breakup of the sovereign expenditure (social and economic services)**


Source: Budget documents, PhillipCapital India Research

**Sector-wise trends of sovereign spending in FY17BE**
**The Winners**

Railways, agriculture, education, health, new & renewable energy, urban development, drinking water & sanitation, skill development, space, police, posts, expenditure (due to 7th PC), food & PDS (lower subsidies).

**The Laggards**

Rural development, atomic energy, defense, housing, power, road, transport &

**The Losers**

Civil aviation (capex up) and water resources & Ganga rejuvenation.

**How was the government's balance sheet in FY16?**

Following fiscal data of combined spending of centre and states is as on FY16. Combined fiscal deficit was muted.

Aggregate receipts: Rs 36tn	Revenue receipts: Rs 27tn	Tax revenue: Rs 22tn
Capital receipts: Rs 8.7tn	Aggregate disbursements: Rs 36tn	Revenue disbursement: Rs 30tn
Capital disbursement: Rs 5.7tn	Interest payments: Rs 6.1tn	Overall deficit: Rs 0.3tn

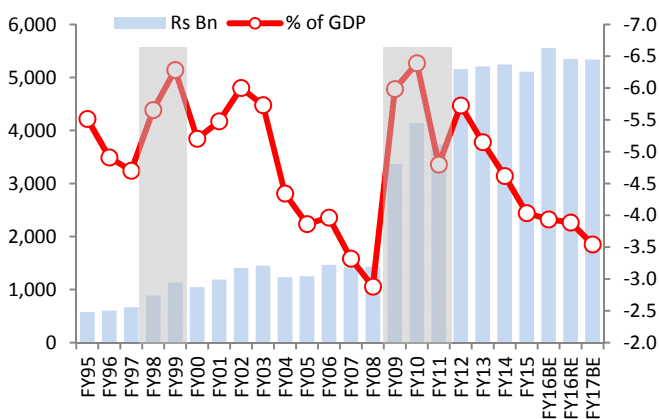
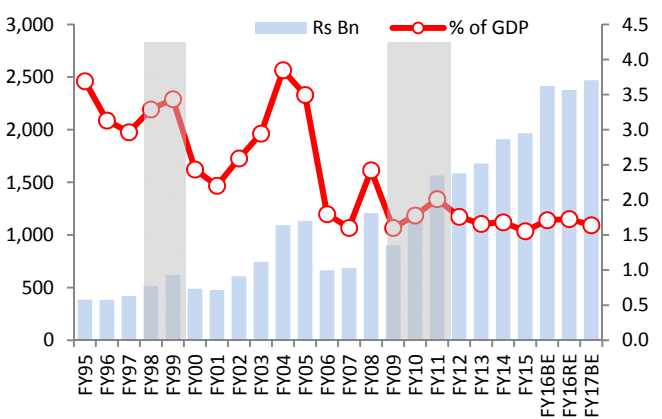
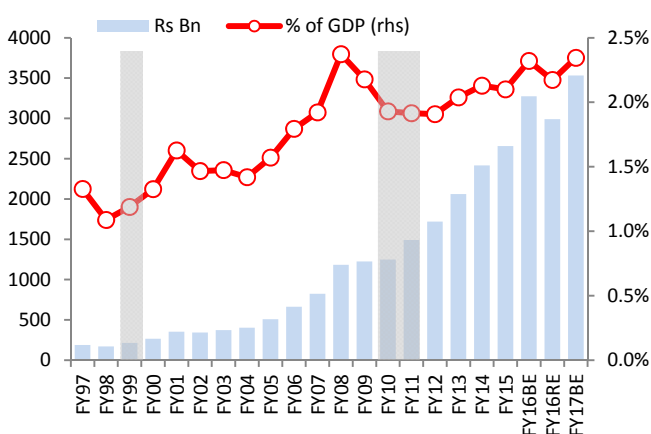
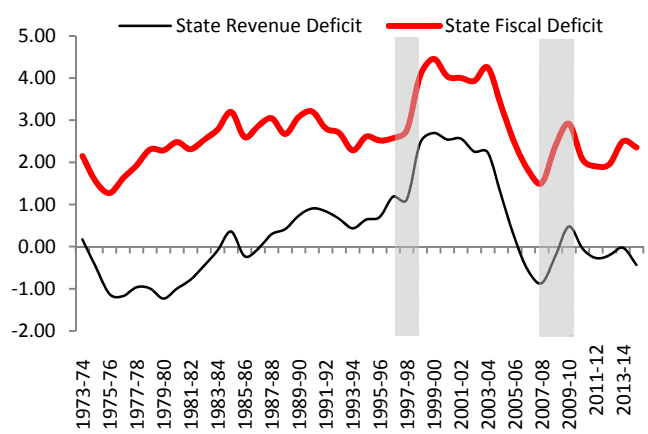
## What about the impact of 7<sup>th</sup> Pay Commission on centre and states?

The central government has incorporated the impact of the 7<sup>th</sup> PC in its budget, while only a few states (Chattisgarh, Haryana) have accounted for higher salaries and higher pensions (Bihar, MP). This implies that either implementation by states will be delayed to FY18, or the incremental revenue hit will come in FY17. Analysing the impact of previous pay commissions, states' revenue and fiscal deficits tend to rise, and remain affected for at least 2-5 years.

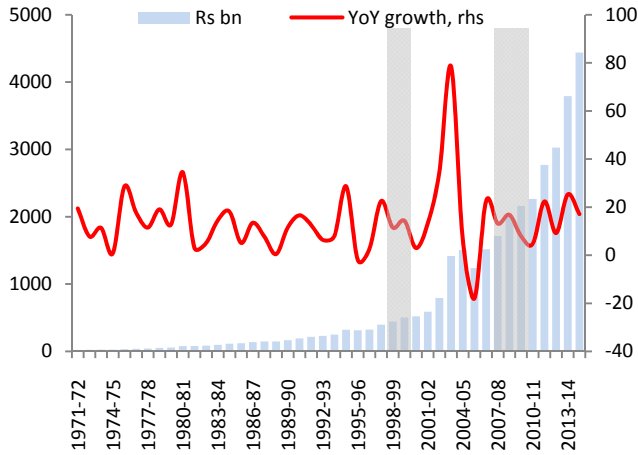
This time, we expect adverse fiscal impact to last for 2-3 years to the extent of 0.5-1.0% of GSDP. If all states were to implement 7<sup>th</sup> PC in one go, the annual fiscal impact would be larger than anticipated. However, generally, implementation varies over a period, thus spreading out the fiscal impact (cumulative impact of about 2% of GSDP). Spending on other sectors may be impacted, although not significantly.

Combined state fiscal deficit shot up substantially during the fifth pay commission and lasted for a few years. The impact was felt in FY99, when fiscal deficit (as % of GDP) rose to 4.1% from 2.8% in FY98. This continued until FY04-05, when fiscal deficit ranged at 4.3% of GDP. Revenue deficit for states also shot up substantially for the same reason – it rose to as high as 2.6% in FY02 (from 1.1% in FY98) and stayed high at 2.2% until FY04. Therefore, in case of states, the impact lasts longer.

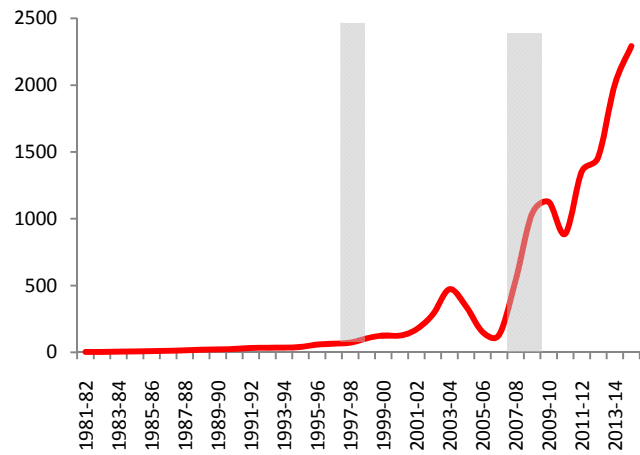
During the sixth pay commission, fiscal deficit rose to 2.4% in FY09 from 1.5% in FY08 and has stayed high since then. A part of the reason why fiscal deficit is high in the last few years is the general economic slowdown. Revenue deficit was in surplus (+0.23%) in FY09 and fell to deficit (-0.5%), but has turned into surplus since then – this means that the impact of sixth pay commission on revenue deficit was not very substantial.

**Central government fiscal deficit**

**Central government capital expenditure**

**Central government income tax revenue**

**State revenue and fiscal deficit (% of GDP)**


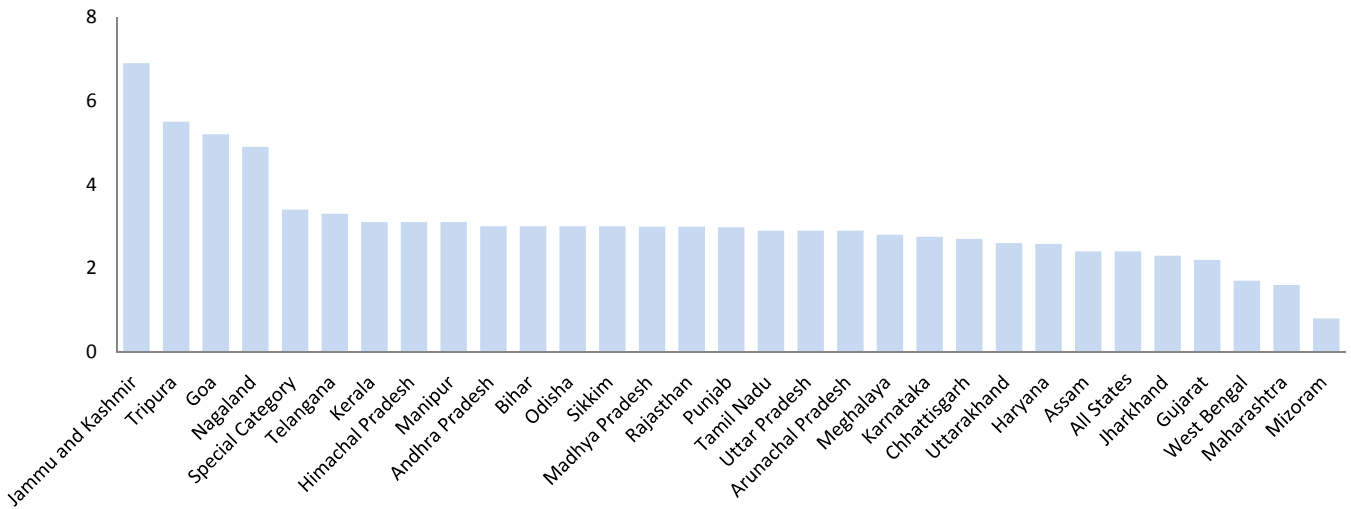
**State capital expenditure**



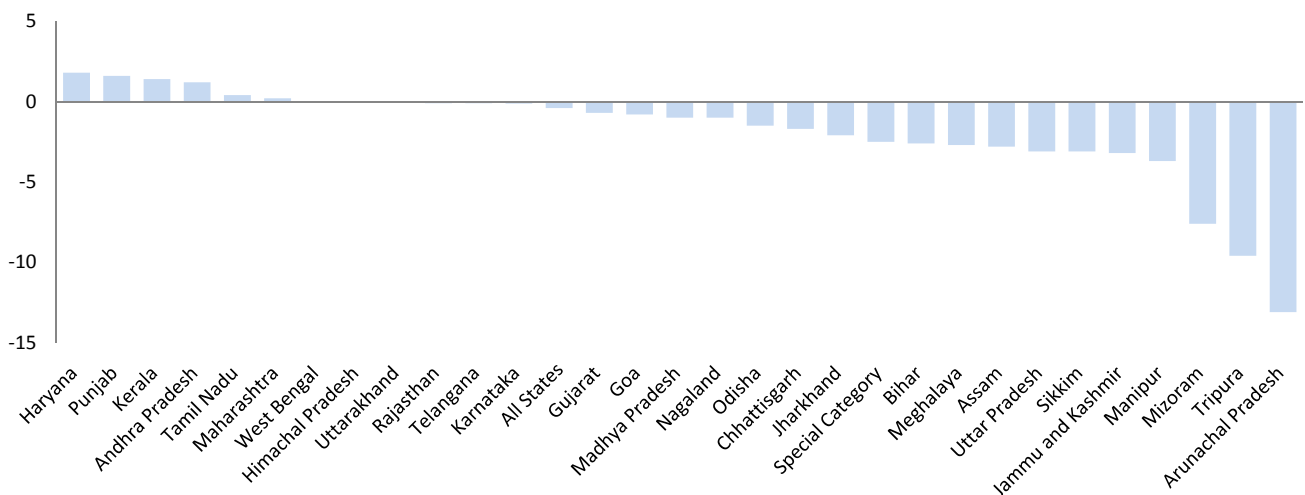
**State market borrowing (Rs bn)**



**States' fiscal deficit as a % of GSDP for FY16**



**States' revenue deficit as a % of GSDP for FY16**



Source: RBI, PhillipCapital India Research



**Ministry-wise plan expenditure by the centre (including assistance to states)**

	Rs bn				YoY Growth		
	FY15A	FY16 BE	FY16A	FY17BE	FY16BE	FY16A	FY17BE
<b>Ministry of Agriculture and Farmers Welfare</b>	<b>231</b>	<b>218</b>	<b>200</b>	<b>320</b>	<b>-5.6</b>	<b>-13.6</b>	<b>60.0</b>
States	150.7	111.5	95.8	132.7	-26.0	-36.4	38.5
Department of Atomic Energy	102	151	150	158	48.3	46.9	5.4
<b>Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH)</b>	<b>4.6</b>	<b>9.9</b>	<b>8.9</b>	<b>10.4</b>	<b>114.8</b>	<b>92.8</b>	<b>17.4</b>
Centre	3	7	6	7	101.8	66.4	14.2
States	1.2	3.0	3.2	3.9	152.1	168.9	23.1
<b>Ministry of Chemicals and Fertilisers</b>	<b>29</b>	<b>10</b>	<b>40</b>	<b>43</b>	<b>-67.2</b>	<b>35.7</b>	<b>9.3</b>
<b>Ministry of Civil Aviation</b>	<b>77</b>	<b>54</b>	<b>63</b>	<b>44</b>	<b>-30.1</b>	<b>-17.8</b>	<b>-30.0</b>
<b>Ministry of Coal</b>	<b>104</b>	<b>131</b>	<b>139</b>	<b>166</b>	<b>26.0</b>	<b>33.0</b>	<b>20.1</b>
<b>Ministry of Commerce and industry</b>	<b>31</b>	<b>37</b>	<b>41</b>	<b>50</b>	<b>18.9</b>	<b>33.7</b>	<b>19.7</b>
<b>Ministry of Communications and Information Technology</b>	<b>103</b>	<b>268</b>	<b>253</b>	<b>280</b>	<b>160.0</b>	<b>145.6</b>	<b>10.5</b>
Department of Posts	3	5	5	6	52.8	69.4	15.4
Department of Telecommunications	64	229	208	227	258.0	225.1	9.1
Department of Electronics and Information Technology	36	35	40	47	-4.1	11.5	16.9
<b>Ministry of Consumer Affairs, Food and Public Distribution</b>	<b>4</b>	<b>10</b>	<b>5</b>	<b>14</b>	<b>161.4</b>	<b>36.3</b>	<b>166.3</b>
<b>Ministry of Culture</b>	<b>14</b>	<b>15</b>	<b>14</b>	<b>18</b>	<b>2.7</b>	<b>0.0</b>	<b>23.9</b>
<b>Ministry of Defence</b>	<b>0</b>	<b>5</b>	<b>3</b>	<b>5</b>			<b>48.5</b>
<b>Ministry of Development of North Eastern Region</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>8</b>	<b>45.1</b>	<b>16.2</b>	<b>86.0</b>
<b>Ministry of Drinking Water and Sanitation</b>	<b>120.8</b>	<b>62.3</b>	<b>108.9</b>	<b>140.0</b>	<b>-48.4</b>	<b>-9.8</b>	<b>28.5</b>
Centre	1	2	29	15	61.5	1935.7	-49.8
States	119.4	60.0	79.8	125.4	-49.7	-33.1	57.1
<b>Ministry of Earth Sciences</b>	<b>9</b>	<b>12</b>	<b>10</b>	<b>12</b>	<b>31.0</b>	<b>12.6</b>	<b>18.5</b>
<b>Ministry of Environment, Forests and Climate Change</b>	<b>15.1</b>	<b>14.5</b>	<b>14.5</b>	<b>20.0</b>	<b>-4.6</b>	<b>-4.6</b>	<b>38.3</b>
Centre	8	10	10	11	21.0	17.3	18.6
States	6.9	4.5	4.8	8.6	-35.0	-30.5	78.0
<b>Ministry of External Affairs</b>	<b>34</b>	<b>54</b>	<b>47</b>	<b>47</b>	<b>58.5</b>	<b>37.9</b>	<b>1.3</b>
<b>Ministry of Finance</b>	<b>836</b>	<b>543</b>	<b>608</b>	<b>603</b>	<b>-35.1</b>	<b>-27.3</b>	<b>-0.7</b>
Department of Economic Affairs	81	285	166	148	250.9	104.6	-10.9
Department of Financial Services	95	98	281	306	3.2	196.0	8.9
States	659.7	160.0	160.0	148.5	-75.7	-75.7	-7.2
<b>Ministry of Food Processing Industries</b>	<b>5.67</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>-15.3</b>	<b>-14.8</b>	<b>24.2</b>
Centre	4	5	5	6	8.6	9.3	24.2
States	1.3	0.0	0.0	0.0	-100.0	-100.0	
<b>Ministry of Health and Family Welfare</b>	<b>253</b>	<b>263</b>	<b>279</b>	<b>319</b>	<b>3.9</b>	<b>10.0</b>	<b>14.4</b>
States	194.9	185.0	201.5	205.1	-5.1	3.4	1.8
<b>Ministry of Heavy Industries and Public Enterprises</b>	<b>10</b>	<b>16</b>	<b>9</b>	<b>9</b>	<b>52.4</b>	<b>-12.4</b>	<b>-0.6</b>
<b>Ministry of Home Affairs</b>	<b>64.35</b>	<b>83.69</b>	<b>82.16</b>	<b>87.84</b>	<b>30.1</b>	<b>27.7</b>	<b>6.9</b>
Centre	42	74	68	70	75.2	60.3	3.3
States	22.2	9.9	14.7	18.1	-55.5	-34.1	23.8
<b>Ministry of Housing and Urban Poverty Alleviation</b>	<b>104.89</b>	<b>202.94</b>	<b>199.22</b>	<b>217.89</b>	<b>93.5</b>	<b>89.9</b>	<b>9.4</b>
Centre	83	158	183	170	91.2	121.6	-7.1
States	22.3	45.0	16.2	48.0	101.8	-27.2	195.3
<b>Ministry of Human Resource Development</b>	<b>549</b>	<b>545</b>	<b>531</b>	<b>561</b>	<b>-0.6</b>	<b>-3.1</b>	<b>5.6</b>
Department of School Education and Literacy	26	30	32	49	14.4	23.6	53.1
Department of Higher Education	122	147	134	152	20.9	10.0	14.0
States	401.1	368.4	365.7	359.9	-8.1	-8.8	-1.6
<b>Ministry of Information and Broadcasting</b>	<b>7</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>55.1</b>	<b>32.1</b>	<b>5.3</b>
<b>Ministry of Labour and Employment</b>	<b>13</b>	<b>21.5</b>	<b>6.4</b>	<b>15.5</b>	<b>68.4</b>	<b>-50.0</b>	<b>142.9</b>
Centre	13	8	5	14	-40.6	-63.5	208.8
States	0.0	13.9	1.7	1.1			-35.5
<b>Ministry of Law and Justice</b>	<b>10</b>	<b>7.44</b>	<b>7.44</b>	<b>8.25</b>	<b>-22.2</b>	<b>-22.2</b>	<b>10.9</b>
Centre	10	2	2	4	-74.5	-74.5	49.6
States	0.0	5.0	5.0	4.6			-8.0
<b>Ministry of Micro, Small and Medium Enterprises</b>	<b>29</b>	<b>30</b>	<b>31</b>	<b>34</b>	<b>4.8</b>	<b>5.0</b>	<b>12.8</b>
<b>Ministry of Mines</b>	<b>57</b>	<b>22</b>	<b>60</b>	<b>65</b>	<b>-60.9</b>	<b>6.7</b>	<b>7.6</b>
<b>Ministry of Minority Affairs</b>	<b>31</b>	<b>37.01</b>	<b>37.13</b>	<b>37.89</b>	<b>20.6</b>	<b>21.0</b>	<b>2.0</b>

	Rs bn				YoY Growth		
	FY15A	FY16 BE	FY16A	FY17BE	FY16BE	FY16A	FY17BE
Centre	31	25	37	28	-19.6	21.0	-24.7
States	0.0	12.3	0.0	9.9			
<b>Ministry of New and Renewable Energy</b>	<b>38</b>	<b>37</b>	<b>57</b>	<b>142</b>	<b>-3.5</b>	<b>49.7</b>	<b>150.0</b>
<b>Ministry of Petroleum and Natural Gas</b>	<b>892</b>	<b>766</b>	<b>781</b>	<b>893</b>	<b>-14.1</b>	<b>-12.4</b>	<b>14.3</b>
<b>Ministry of Planning</b>	<b>17</b>	<b>21</b>	<b>20</b>	<b>2</b>	<b>22.8</b>	<b>13.9</b>	<b>-89.8</b>
<b>Ministry of Power</b>	<b>653</b>	<b>614</b>	<b>664</b>	<b>799</b>	<b>-5.9</b>	<b>1.7</b>	<b>20.4</b>
<b>Ministry of Road Transport and Highways</b>	<b>307</b>	<b>856</b>	<b>722</b>	<b>1141</b>	<b>178.3</b>	<b>134.9</b>	<b>58.0</b>
Centre	287	827	694	1033	188.4	142.1	48.8
States	20.7	28.7	28.1	108.3	38.9	36.1	285.5
<b>Ministry of Rural Development</b>	<b>697</b>	<b>732</b>	<b>791</b>	<b>876</b>	<b>5.0</b>	<b>13.5</b>	<b>10.7</b>
States	643	657	729	798	2.1	13.4	9.4
<b>Ministry of Science and Technology</b>	<b>54</b>	<b>73</b>	<b>72</b>	<b>81</b>	<b>34.5</b>	<b>32.9</b>	<b>12.5</b>
<b>Ministry of Shipping</b>	<b>18</b>	<b>45</b>	<b>34</b>	<b>42</b>	<b>155.9</b>	<b>88.9</b>	<b>24.6</b>
<b>Ministry of Skill Development and Entrepreneurship</b>	<b>0</b>	<b>15</b>	<b>10</b>	<b>17</b>			<b>70.0</b>
<b>Ministry of Social Justice and Empowerment</b>	<b>56</b>	<b>70</b>	<b>64</b>	<b>72</b>	<b>24.3</b>	<b>14.1</b>	<b>11.5</b>
States	35.5	37.3	40.2	46.2	5.0	13.3	14.8
Department of Space	45	60	56	60	34.1	25.2	7.1
<b>Ministry of Statistics and Programme Implementation</b>	<b>36.16</b>	<b>43.53</b>	<b>41.50</b>	<b>42.00</b>	<b>20.4</b>	<b>14.8</b>	<b>1.2</b>
Centre	3	4	2	2	51.5	-24.8	10.0
States	33.5	39.5	39.5	39.8	17.9	17.9	0.8
<b>Ministry of Steel</b>	<b>117</b>	<b>131</b>	<b>119</b>	<b>123</b>	<b>11.5</b>	<b>1.2</b>	<b>3.7</b>
<b>Ministry of Textiles</b>	<b>32.89</b>	<b>35</b>	<b>33</b>	<b>34</b>	<b>7.1</b>	<b>0.8</b>	<b>1.1</b>
Centre	29	35	33	34	22.2	15.0	1.1
States	4.1	0.0	0.0	0.0	-100.0	-100.0	
<b>Ministry of Tourism</b>	<b>9</b>	<b>15</b>	<b>8</b>	<b>15</b>	<b>68.7</b>	<b>-3.1</b>	<b>78.6</b>
<b>Ministry of Tribal Affairs</b>	<b>38.32</b>	<b>47.92</b>	<b>45.50</b>	<b>48.00</b>	<b>25.1</b>	<b>18.7</b>	<b>5.5</b>
Centre	6	10	8	4	73.0	35.8	-54.2
States	32.3	37.5	37.4	44.3	16.2	15.6	18.5
<b>Ministry of Urban Development</b>	<b>126.02</b>	<b>191.96</b>	<b>188.37</b>	<b>232.73</b>	<b>52.3</b>	<b>49.5</b>	<b>23.5</b>
Centre	98	132	150	166	35.3	53.6	10.8
States	28.5	60.0	38.6	66.7	110.7	35.4	73.0
<b>Ministry of Water Resources, River Development and Ganga Rejuvenation</b>	<b>49.08</b>	<b>36.07</b>	<b>64.32</b>	<b>54.91</b>	<b>-26.5</b>	<b>31.1</b>	<b>-14.6</b>
Centre	16	16	19	39	-2.4	16.7	101.1
States	32.6	20.0	45.1	16.3	-38.7	38.3	-64.0
<b>Ministry of Women and Child Development</b>	<b>182.16</b>	<b>99.89</b>	<b>169.80</b>	<b>172.44</b>	<b>-45.2</b>	<b>-6.8</b>	<b>1.6</b>
Centre	4	10	7	30	120.8	45.8	357.3
States	177.7	90.0	163.3	142.6	-49.3	-8.1	-12.7
<b>Ministry of Youth Affairs and Sports</b>	<b>9.94</b>	<b>13.67</b>	<b>12.04</b>	<b>14.00</b>	<b>37.5</b>	<b>21.1</b>	<b>16.3</b>
Centre	9	12	11	14	45.7	32.0	23.9
States	1.4	1.2	0.7	0.0	-13.0	-46.4	-100.0
<b>Ministry of Railways</b>	<b>565</b>	<b>984</b>	<b>975</b>	<b>1210</b>	<b>74.1</b>	<b>72.5</b>	<b>24.1</b>
<b>Ministry of DONER</b>	<b>13.3</b>	<b>18.0</b>	<b>15.4</b>	<b>16.0</b>	<b>35.7</b>	<b>16.5</b>	<b>3.7</b>
Union Territories	61.0	80.4	75.2	75.3	31.7	23.2	0.2
<b>TOTAL</b>	<b>6871.9</b>	<b>7831.7</b>	<b>7988.2</b>	<b>9481.5</b>	<b>14.0</b>	<b>16.2</b>	<b>18.7</b>

Source: Budget documents, PhillipCapital India Research

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