TAURUS SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

Federal Budget FY14-15

4th June'14

Taurus Securities Limited

TSL Research
+9221 35216403
UAN: 111-828787

research@taurus.com.pk

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Economy	Stock Market

Textile	Power	Cement	Autos	Telecom
Fertilizer	Banks	E & P	FMCG	OMCs

Macroeconomic review & outlook: A mixed bag with another tough year in the offing

- **A good start under the circumstances:** The first year of the new government has seen government falling short of GDP growth and tax revenue targets but impressive performance was witnessed on the external side and much needed discipline was shown to keep the fiscal deficit in check. GDP composition continues to remain lopsided owing to an overwhelming contribution of consumption expenditures in GDP.

- Going forward the government has set a GDP growth target of 5.1% for FY15 with incremental 1% rise under the medium term budgetary framework with 7% GDP growth target for FY17. The key hurdle for incremental growth will remain the energy crises. Though the government is working towards raising the generation as well as improving the energy mix towards lower price fuels (coal), the production from these projects will likely commence after thee years. Fiscal consolidation measures are set to continue this year as well with 4.9% fiscal deficit target for FY15, which will be further brought down to 4% under the medium term budgetary framework.

- **FY14 recap:** Overall GDP growth for FY14 is expected to augment to 4.1%, the highest rate achieved in the last six years. While industrial and services sector showed a decent growth of 5.8% and 4.3%, respectively, the agricultural growth remained below par at 2.1% only. As per economic survey, the share of total consumption expenditure in GDP remained lopsided at a whopping 92%, while share of total investment stood at merely 14%. Per capita income increased by 3% in FY14 to reach USD1,386. FBR's tax collection again remained below target, despite frequent downward revisions. Improvement of external funding reduced the governments reliance towards domestic sources resulting in rise in NFA level.

- **Much needed steps taken to broaden the tax net:** The biggest positive in the budget for us was the decision to finally take some steps to broaden the tax net and augment the advance tax on non-income tax filers so their contribution to the tax pie is set to increase. Hefty hike on different items (purchase of car, property CGT, Dividend tax, air travel, banks cash withdrawal) should result in non-tax filers finally deciding to join the official tax base. Also retailers, both big and small, will be subject to sales tax at different slabs.

- **Inflation for FY14 clocks in near the revised target, while 8% CPI targeted going forward:** Incorporating our June expectations with the actual 11MFY14 inflation numbers, the FY14 average CPI is clocking at around 8.6%. Thus, the average FY14 number is coming slightly above the initial budgeted target of 8%, but in line with revised target of 8.5%. For FY15, the government set a CPI target of 8%, which would be achievable dependent on how much subsidy reduction (electricity & gas tariff hike), the government is aiming for. In order to keep the CPI number subdued, the government has hinted that gas tariffs will be raised for all expect the domestic sector.

Tax targets again remained stretched while modest expenditure growth shown

- **External side; a complete turnaround witnessed in CY14:** The biggest credit to the government has been its ability to improve the SBP forex reserves which hit a multiyear low of USD2.7bn in Feb 2014. These have now improved to USD8.6bn, with total reserves standing at USD13.4bn. The government expects total reserves to hit USD15bn before Sep 2014. Saudi aid, Euro bonds, revival of multilateral agencies lending program are some of the key positives witnessed in the last few months.
- Going forward, the government has projected around USD8.8bn in external loans receipts during FY15, while external loan payments are expected to be USD3.7bn. Key heads of external loan proceeds are:
- 1) ***USD2bn from the privatization program.***
- 2) USD1.5bn from China.
- 3) USD1.1bn and USD0.75bn from World Bank and ADB.
- 4) USD0.5bn each from launch of Sukuk bond and Sovereign bonds.

- **FY15 tax revenue target is a bit optimistic:** In a somewhat similar situation as last year, FBR tax revenue is projected to grow by a hefty 24% in FY15 with direct taxes growing by 32%, while indirect taxes projected to grow by 18%. Due to higher allocation (22% rise) towards provincial tax pool, the federal government tax revenue is growing by a mere 2%. On the expenditure side, 37% reduction in subsidies (fingers crossed) should aid in keeping the current expenditure growth limited to 7%.
- Total PSDP allocation for FY15 has been raised by 44% which as per anecdotal evidence come down, depending the actual tax collection remaining below target and subsidies payments rising. We opine that FY15 fiscal deficit target of 4.9% of GDP will be an uphill task due to higher expenditures, unless the government keeps PSDP under check. While the deficit financing has remained extremely lopsided with excessive reliance on domestic sources (90%) in the previous few years, better net external flows of PKR508bn will contribute around 35% of federal fiscal deficit.

Fiscal operations Summary: Tax targets again remained stretched while modest expenditure growth shown

PKR bn	FY14BE	FY14Rev	Dev %	FY15BE	YoY %
REVENUE RECEIPTS					
Direct Taxes	*976*	*891*	*-9%*	*1,180*	*32%*
Indirect Taxes	*1,499*	*1,384*	*-8%*	*1,630*	*18%*
FBR Taxes	2,475	2,275	*-8%*	2,810	*24%*
Petroleum Levy	120	115	*-4%*	120	4%
GIDC	38	88	*132%*	145	65%
Other Taxes	196	239	*22%*	319	34%
Tax Revenues	2,671	2,514	*-6%*	3,129	24%
Non-Tax Revenues	749	1,083	*45%*	816	-25%
Gross Revenue Receipts	3,420	3,597	*5%*	3,946	10%
Less: Provincial share	1,502	1,413	*-6%*	1,720	22%
Net Revenue Receipts	**1,918**	**2,184**	*14%*	**2,225**	**2%**
EXPENDITURES					
Debt Servicing	1,154	1,187	*3%*	1,325	12%
Defence	627	630	*0%*	700	11%
Subsidies	240	323	*34%*	203	-37%
Others	808	795	*-2%*	901	13%
Current Expenditure	**2,829**	**2,935**	*4%*	**3,130**	**7%**
Total PSDP	1,155	815	*-29%*	1,175	44%
Provincial PSDP	(615)	(390)	*-37%*	(650)	67%
Federal PSDP	**540**	**425**	*-21%*	**525**	**24%**
Other development expenditure	172	289	*68%*	162	-44%
Others	50	144	*189%*	120	NA
Total Expenditures	3,591	3,794	*6%*	3,937	4%
Federal Fiscal Deficit	**1,673**	**1,610**	*-4%*	**1,712**	**6%**
Change in provincial cash balances	(23)	(183)	*692%*	(289)	58%
Consolidated budget deficit	**1,650**	**1,427**	*-14%*	**1,423**	**0%**
as % of GDP	**6.3%**	**5.8%**		**4.9%**	
GDP	**26,001**	**25,402**	*-2%*	**29,078**	**14%**

Key macro economic indicators & targets

(Growth Rate %)	FY09	FY10	FY11	FY12	FY13	FY14P	FY15T
GDP	**0.4**	**2.6**	**3.6**	**3.8**	**3.7**	**4.1**	**5.1**
Agricultural Sector	***3.5***	***0.2***	***2.0***	***3.6***	***2.9***	***2.1***	***3.3***
Crops	5.2	(4.2)	1.0	3.2	2.3	1.2	
Livestock	2.2	3.8	3.4	4.0	3.5	2.9	
Industrial Sector	***(5.2)***	***3.4***	***4.7***	***2.5***	***1.4***	***5.8***	***6.8***
LSM	(6.0)	0.4	1.7	1.1	4.1	5.3	
Construction	(9.9)	8.3	(8.6)	3.1	(1.7)	11.3	
Services Sectors	***1.3***	***3.2***	***3.9***	***4.4***	***4.9***	***4.3***	***4.6***
Transport, St. & Communication	5.0	3.0	2.4	4.6	2.9	3.0	
Wholesale & Retail trade	(3.0)	1.8	2.1	1.7	3.4	5.2	
Finance & Insurance	(9.6)	(3.3)	(4.2)	1.6	9.0	5.2	
CPI Inflation	**17.0**	**10.1**	**13.7**	**11.0**	**7.4**	**8.5**	**8.0**
Current Account Balance (% of GDP)	**(5.5)**	**(2.2)**	**0.1**	**(2.1)**	**(1.0)**	**(1.2)**	**(1.3)**
Tax revenue (% of GDP)	**9.1**	**9.9**	**9.3**	**10.2**	**9.8**	**9.0**	**9.7**
Fiscal Deficit (% of GDP)	**5.2**	**6.2**	**6.5**	**6.8**	**8.8**	**5.8**	**4.9**
Per Capita income (USD)	**1,026**	**1,072**	**1,274**	**1,321**	**1,340**	**1,386**	**1,360**
Investments (% of GDP)	**17.5**	**15.8**	**14.1**	**15.1**	**14.6**	**14.0**	**15.0**
National Savings (% of GDP)	**12.0**	**13.6**	**14.2**	**13.0**	**13.5**	**12.9**	**13.8**
Broad Money	**9.6**	**12.5**	**15.9**	**14.1**	**15.9**	**9.9**	**13.1**

Source: Economic Survey, TSL estimates

Non-tax revenues to decline in FY15 as one offs are absent

PKR bn	FY13-14E	FY13-14Rev	Dev %	FY14-15	YoY %
Income From Property and Enterprises	**240**	**321**	**34%**	**192**	**-40%**
PTA (3G license)	120	89	-26%	56	-37%
Profits from PTA	14	2	-85%	15	591%
Dividends	68	78	13%	82	6%
Others	37	153	307%	39	-74%
Receipts from Civil Admn and Other	**317**	**390**	**23%**	**417**	**7%**
SBP Profits	200	260	30%	270	4%
Defence	112	119	6%	140	18%
Others	5	11	136%	7	-34%
Miscellaneous Receipts	**192**	**372**	**94%**	**207**	**-44%**
Foreign grants	30	204	582%	35	-83%
Royalty on Natural Gas	40	43	7%	49	15%
Others	122	126	3%	123	-2%
Total Non - Tax Revenue	**749**	**1,083**	**45%**	**816**	**-25%**

Non tax revenue is pragmatic: Government has earmarked PKR56bn from the auction of two unsold telecom licenses which it hopes to conduct in FY15. SBP profits and CSF growth targets are achievable, while an overall decline of 25% in non-tax revenue makes the FY15 target achievable.

Handsome PSDP allocated, but disbursement dependent on tax revenues attainment

- After a 39% uptick in FY14, the Federal PSDP allocation has witnessed an increase of 24% to PKR525bn for FY15. The growth in Provincial PSDP allocation has grown considerably to PKR650bn (up 67%).

- Allocation to National Highway Authority (PKR 111bn), WAPDA (PKR64bn) , Pakistan Atomic Energy Commission (PKR51bn) and Water sector (PKR43bn) make up the major allocations.

PSDP (PKR bn)	FY13-14E	FY13-14Rev	Dev %	FY14-15	YoY %
Federal	540	425	-21%	525	24%
Provincial	615	390	-37%	650	67%
Total	**1,155**	**815**	**-29%**	**1,175**	**44%**

New taxation measures

- Foreign institutional investors in stock exchanges are neither voluntarily paying due taxes on capital gains by filing returns nor are they subject to deduction of tax like many other investors. To prevent loss of revenue, it is proposed to bring FIIs under the withholding tax regime. Hence, it has been proposed that NCCPL may be required to collect tax from FIIs.

- In order to discourage tax avoidance on issuance of stock dividend, it is proposed that bonus shares be treated as dividend and taxed, deducted at the rate of 5% on the value of the bonus shares determined on the basis of day-end price on the first day of closure of books. Further, it is stipulated that the company issuing bonus shares would make adequate arrangements for collection of such tax and the company would be held liable if it fails to do so.

- To discourage perpetual declaration of losses or very low income using tax avoidance means by companies, an alternate corporate tax (ACT) at 17% is proposed to be imposed on accounting income excluding the exempt income. The companies shall have to pay ACT or corporate tax whichever is higher. However, in order to facilitate companies that have genuinely low income for some period of time, the ACT paid is proposed to be carried forward up to 10 years. However, the provisions of ACT will not apply on insurance companies, E&P companies, and banks.

- FED on cement has been raised from PKR400/MT to 5% of retail prices, translating into additional FED of around PKR125/MT (PKR 6.25/bag).

- In case retail price of cigarette packet exceeds PKR45.72/packet, FED would be raised from PKR46.5/packet to PKR52.64/packet. For cigarette packet, having retail price below PKR45.72, FED per pack is to be enhanced to PKR21.7 from PKR17.6/pack.

New taxation measures

- To remove distortions and minimize misclassification of income in mutual fund industry it is proposed that the mutual funds distribute dividend in cash only and that the rate of tax applicable to the dividend distributed by mutual fund be same as is applicable to class of income received by mutual fund. However, to encourage mutual funds the rate of tax on dividend distributed by mutual fund to companies in respect of interest income shall be 25% (from 10% previously) instead of 33% applicable to companies.

- Further it is proposed that in the case of stock funds, where dividend receipts are less than capital gains, the rate of tax deduction for its unit holders shall be 12.5% instead of 10%.

- The bill also proposes enhanced rate of WHT in case a person is a non-filer. For such persons, the WHT is 15% of the amount of profit on debt if such profit is more than PKR500k. Further, the bill also proposes a final liability of a non-filer equal to 10% of the profit on debt and the excess shall be adjustable against tax liability.

- Airlines may collect advance tax at the rate of 3% on the sale of first class and club/executive class air tickets if the passenger is a compliant taxpayer, and 6% tax if the passenger is a non-compliant person.

- FED on international air travel has been raised by PKR1,260 on economy and economy plus, while for club/business/first class, it has been raised by PKR3,160, from PKR3,840 and PKR6,840 previously.

- Furthermore, chartered flights will be subject to 16% FED, which were previously tax exempt.

- Retail outlets operating as part of national or multinational chains in air-conditioned malls or having debit or credit cards consuming electricity exceeding Rs. 50,000 per month shall be required to be registered in Sales Tax, have electronic cash register and pay Sales Tax on actual basis. However, 2nd tier retailers will be charged at 5% on electricity bills up to PKR20k, while retailers with bills exceeding PKR20k would be charged at 7.5% sales tax rate.

New taxation measures

- To document and bring the real estate transactions into tax net it is proposed that an adjustable advance tax be collected on purchase of immovable property at the rate of tax is 1% for compliant taxpayers and 2% for non-compliant persons. However, properties with value less than 3 million and schemes introduced by the government for expatriate Pakistanis will be excluded.

- Advance adjustable income tax, in addition to the tax collectable from return filers, be collected from persons who do not file income tax returns on certain transactions at rate of 5% for dividend income, 5% for interest income above Rs.500,000, 0.2% for cash withdrawals from banks and 0.5% in case of advance capital gain tax collected from seller of immovable property.

- For domestic electricity consumers, it is proposed to collect adjustable advance tax at 7.5% on the monthly bill of above PKR100k.

- Provisions relating to collection of advance tax have been revamped. Now such taxes shall be collected by the Excise and Taxation department on registration of new locally manufactured motor vehicle and the transfer or registration or ownership of private motor vehicle. Furthermore, every manufacturer of the motor car or jeep shall collect tax at the time of sale of motor car or jeep. In addition, currently the highest rate of tax is for vehicles above 2000cc. It is also proposed that two higher slabs may be added for vehicle from 2501 to 3000cc and above 3000cc with higher rates of tax. For non-filers the rates will be doubled.

- Rates of adjustable advance income tax collected with Motor Vehicle Tax from private cars under section 234 were last revised in 2008. In order to account for inflation the rates are proposed to be revised and brought closer to the tax collected by provincial motor vehicle authorities.

New taxation measures

- Advance income tax be collected by Excise and Taxation Departments on transfer of private motor vehicles up to a period of 5 years. The rate of tax will be same as that for registration of a new motor vehicle and will be reduced by 10% in each of the subsequent years.

- It is proposed that duty on used vehicles be revised upward by 10% approximately.

- Tax deduction on services at present is 6% and 7% for corporate and non-corporate taxpayers respectively, which are to be rationalized and enhance to 8% in corporate cases and 10% in other cases.

- Due to buildings having a long useful life, the rate of initial depreciation on buildings is proposed to be reduced to 10%.

- To broaden the tax net it is proposed to make obtaining NTN a compulsory condition for obtaining commercial/industrial electricity and gas connections.

- For advertising agents, the rate of tax is presently 5%. It is proposed that 10% rate, as is applicable to other commission agents, be applied, to advertising agents as well.

- In order to increase documentation of economy and to increase cost of non-documentation, it is proposed that rate of deduction of tax at source be enhanced in the case of commercial importers by 0.5%, resident and non-resident contractors by 1%, suppliers by 0.5%, payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, sizing, weaving by 0.5%, petrol pump operators by 2% and commission agents by 2%. However, they will have the option of filing returns and accounts in which case the current rates of tax deduction will be minimum tax rates for them. If chose not to file the return the tax deducted will be final tax.

Economy

New taxation measures

- At present the rates for deduction of tax on services are 6% and 7% for corporate and Non-Corporate taxpayers respectively. Hence to rationalize, tax rates on services has been proposed to be increased to 8% in case of corporate taxpayers and 10% in other cases.

- Taxation of debt securities traded on stock exchange: Tax is deducted under Eighth Schedule in respect of securities defined in section 37A. However, debt securities are not included in this definition. In order to ensure deduction of tax on capital gains on debt securities, it has been proposed that debt securities be included in the definition of securities.

- In order to broaden the tax base it has been proposed that commercial or industrial connections may not be provided unless the person applying for the same holds an NTN.

- At present, 40% of imports are totally exempt for customs duty. For addressing the structural flaw in tariff and improving assessment and documentation, 0% slab in tariff is being substituted by 1%.

- It is proposed to withdraw GST exemption on sunflower, canola oil seeds.

- Customs duty on networking equipments to be raised from 5% to 10%.

Reliefs and incentives

- The CGT rate was set to increase from 10% to 17.5% w.e.f 1st July 2014. However, to avoid a sharp increase in rate which might negatively affect markets, the rates have been rationalized, and the CGT rates are proposed to be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months.

- To attract FDI, generate employment and attract inflow of foreign exchange in Pakistan, the corporate tax rate is to be reduced to 20% for 5 years if the investment is in a new industrial undertaking, if it is set up by 30th June 2017, and at least 50% of the project cost including working capital is through FDI in equity.

- In order to promote corporatization and in accordance with the commitment made by government, the corporate tax rate is to be reduced by one per cent to 33% for tax year 2015.

- Minimum pension has been raised to PKR6k per month from PKR5k per month.

- Minimum wage has been increased by PKR2k to PKR12k, from PKR10k previously.

- To encourage employment of the disabled persons and to provide relief to them it is proposed to reduce tax liability of such persons on income up to PKR1mn by 50%.

- It is proposed to repeal the Income Support Levy Act, 2013, which was promulgated through Finance Act 2013.

- At present, the rate of advance income tax on functions and gatherings is 10% which is proposed to be cut to 5%.

- Custom duty on UPS is proposed to be reduced from 20% to 15%.

Reliefs and incentives

- Replacement of capacity tax on aerated waters proposed to be reverted to the normal tax regime.

- It is proposed that customs duty on PET coke as an alternate fuel to coal to be reduced from 5% to 1%.

- It is proposed to reduce rate of sales tax on local supply of tractors from 16% to 10%.

- Reduced rate of FED on telecommunication services from 19.5% to 18.5% and withdraw FED from provinces where the GST on telecom services has been levied and to reduce withholding tax on telecom services from 15% to 14%.

- Government has decided to reduce the maximum tariff and number of total slabs. As a first step towards tariff reforms, maximum rate of 30% is being abolished, bringing down the number of slabs to 6 and the highest tariff to 25%. However, luxury items consumed by wealthy segment of society are being subjected to regulatory duty equivalent to the above facility.

- 10% FED on locally manufactured vehicles, imposed last year, to be done away with.

- Minimum tax at 1% of turnover is payable under the income tax ordinance. However, this regime has been revamped and lower rates are now applicable on various sectors.

Budgeted subsidies	FY13-14E	FY13-14Rev	Dev %	FY14-15	YoY %
WAPDA/PEPCO	165	245	48%	156	-36%
KESC	55	64	17%	29	-55%
UCS	6	6	0%	7	17%
PASSCO	9	7	-28%	8	23%
Oil refineries	4	-	-100%	2	n.a
Others	1	1	-17%	1	4%
Total	240	323	34%	203	-37%

CGT victory overshadowed by enforcement of other taxes

Key measures	Impact
12.5% CGT rate for shares sold within 12 months. 10% CGT rate for shares sold between 12 months to 24 months. No CGT on shares sold after 24 months.	Positive: The market didn't want the scheduled rise in CGT to 17.5% for short term holding so positive, but enforcement of CGT between 1 and 2 years is slightly negative.
5% tax to be collected on bonus shares	Negative: In a rather unusual move, the government has decided to tax bonus shares, treating as a similar thing as cash dividend.
Taxation on foreign Institutional investors	Negative: The government has authorized NCCPL to collect tax from FIIs as they are not exempt from CGT. This may result in slowdown of foreign flows being witnessed in the market.
Corporate tax rate reduced further to 33%	Slightly Positive: Despite the limited fiscal space, the government has continued with its program of gradual reduction (1% each year till 30%) in corporate tax rate.

CGT victory overshadowed by enforcement of other taxes

Key measures	Impact
5% additional adjustable tax on dividend income	Negative: Though the income tax filers can adjust the extra 5% dividend tax, it will create hassles and would result in lower after tax return for non-filers.
Mutual funds non equity funds dividend tax increased to 25% for Corporations as well Mutual fund to not issue any bonus shares	Negative: Currently Banks are paying 25% dividend tax of Mutual funds investment, but now the scope has been increased for corporations as well which make a hefty chunk of non equity funds investors for the Mutual fund industry. Proposed that mutual funds be required to distribute income only in cash.
Income support levy cancelled	Positive: Considered as double taxation, this levy has been repealed.
Silence on no source of income asking exemption	Slightly Negative: The two year term on this benefit has expired and the budget is silent on any extension
Companies to pay higher of either corporate tax or 17% on accounting income	Negative: Companies to pay higher of corporate tax or alternate corporate tax.

Sector	Key decisions	Top gainers	Losers
Positive			
Textile	1) Tax rebates to be provided on local taxes and levies, 2) reduction in LTF and ERF rates, 3) extension of 2 years for import of duty free machinery. Cess increment to PKR300/mmbtu was the only sour flavor	NML	-
Autos	1) Sales tax rate on tractors reduced from 16% to 10% and 2) Withdrawal of FED @ 10% on motor vehicles exceeding 1800cc	MTL, INDU	-
Telecom	1) WHT and FED both will be reduced by 1% each to 14% and 18.5%, respectively, 2) Auction of two dormant telecom license to increase competition.	PTC	-
Cement	1) Gas Cess has been increased by 2x to PKR300/mmbtu, 2) change in FED from PKR400/ton to 5% on retail price, 3) custom duty on pet coke reduced from 5% to 1%	FCCL, CHCC, MLCF	LUCK, DGKC
Chemicals	1) Custom duty on PTA increased from 3% to 4%, 2) Increase in the cess of fuel stock to PKR300/mmbtu.	LOTCHEM	EPCL
Negative			
Fertilizer	1) Increase in the cess of fuel stock to PKR300/mmbtu, 2) imported urea subsidy reduced to PKR25bn, and 3) 32% rise in Agri credit to PKR500bn.	-	All
Neutral			
Banks	1) CGT rate raised to 12.5% from 10% on holding period between 12 to 24 months. 2) The corporate and dividend tax rate were left unaltered.	-	-
Power	1) Govt. has reduced the power subsidies to PKR185bn, 2) GIDC has been increased to PKR300/mmbtu, 3) The govt. has earmarked lower amount of PKR107bn for development of Wapda and PEPCO.	-	-
FMCG	1) 13% rise in FED rate on cigrattes, 2) FED on aerated beverages raised from 6% to 9% last year has been reverted in FY 2015.	Beverages	PAKT, PMPK
E & P and OMCs	Corporate tax rate reduced from 34% to 33% and the turnover tax rate remains unaltered at 0.5% for OMCs	-	-

Personal Goods

Another U-turn in fortunes

Winner: NML

Key measures	Impact
➢Cut in Export Refinance Scheme rate from 9.4% to 7.5% from 1st of July 2014. ➢Reduction in the long term financing facility from 11.4% to 9%.	*Positive*: Given the high leverage nature of the industry, this reduction is expected to provide decent favors to the net margins of the company to make up for other cost escalations.
Tax credits to be provided on local taxes and levies to exporters which witness an atleast 10% YoY increase in exports. Garments 4% Made ups 2%; Processed fabric 1%	*Positive*: The move is expected to work as a catalyst for the industry to make the most out of its exports in a way that provides benefit on local taxes and levies. NML is well poised to make the most out of this change because of its tilt towards exports.
➢Extension of 2 years for duty free import of machinery. ➢GST imposition on the imported goods consumed locally. ➢ The government attracting FDI through incentive of 20% corporate tax rate for 5 years for projects commencing before 30th June 2018 and having 50% equity financing.	*Partially positive*: With the declining Chinese demand and the dip witnessed in yarn margins, the government is seen to provide the spinning dominated textile industry a way to diversify. Encouraging FDI, import of duty free machinery and GST imposition on imports, are all expected to club in towards catering the local industry.
➢An increment in the cess to PKR300/mmbtu. ➢The government has also proposed a 20% increase in the minimum wage rate to PKR12,000.	*Negative:* The increment cess alongside inflated labor costs are expected to add a sour flavor. The raging power costs had been a persistent problem for the textile industry and it seems the longevity of those problems has increased for units like NCL which seem to have low reliance on internal generation at current levels. Moreover, while the industry was hoping to avoid any cost increases to protect its margins, a 20% rise in the minimum wage rate is expected to play its role in the shrinking margins

Tractor sales set to make a comeback

Winners: MTL, AGTL & INDU

Key measures	Impact
Reduction in rate of sales tax on local supply of tractors from 16% to 10%	Positive : After the hike in GST rate to 16% in January 2014, the monthly volumetric sales dipped to two year low in January to reach 189 units. In order to ensure farm mechanization and increase the subdued agricultural growth rate, the government seems to have opted for this decision, which bodes well for tractor assemblers.
Withdrawal of 10% FED on motor vehicles cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc, which was imposed last year.	Positive: Toyota's Fortuner and Hilux sales have suffered post imposition of this tax last year, with sales volumes on these cars expected to increase, benefitting INDU.
Hybrid Electric Vehicles up to 1800cc granted 50% exemption on duty and above 1800cc granted 25% exemption of duty and taxes.	Neutral: 1200CC category removed and 50% exemption applied till 1800cc.

Telecom

Taxation finally on the decline

Winners: PTC

Key measures	Impact
1 percent reduced WHT, which will now be 14 percent. 1 percent decline in FED, which will now be 18.5 percent.	Positive: 1% reduction in withholding tax and 1% reduction in FED will reduce the taxes on telecom services to 32.5 percent, down from 34.5 percent.
Two dormant telecom licenses to be sold in FY15	Slightly Negative: Going forward, the competition for existing players will increase if the government is able to sell off the two dormant licenses.

Higher PSDP & gas price= Mixed Bag

Winners: FCCL, CHCC, KOHC, ACPL

Key measures	Impact
Public Sector Development Program (PSDP) fund size of PKR1,175bn (PKR520bn Federal component, PKR650bn Provincial component & PKR5bn ERRA), is 44% above the actual disbursed amount of PKR815bn in FY14.	Positive: Higher PSDP expenditure will support the local cement dispatches resulting in improved profitability of the companies. However actual PSDP utilization remains a key challenge in the wake of optimistic deficit target. On the flip side, Low Cost Housing Scheme Projects, Mortgage Refinance facility, allocation of PKR42bn for developing hydropower projects and higher allocation to NHA will further bolster local cement consumption.
Gas Cess has been increased by 2-folds to PKR300/mmbtu while budget document further shows a significant hike in gas development surcharge.	Slightly Negative: Hike in gas price will hurt margins of the cement manufacturers depending upon their reliance on gas for electricity requirements. Increase in gas cess requires PKR8-9/bag rise in cement price for Lucky Cement to sustain its current margins.
Mechanism to charge FED on cement has changed from PKR400/ton to 5% on retail price.	Slightly Negative: Variable FED resulting in PKR6.0/bag impact while we view it as slightly negative since any incremental increase in cement bag price will benefit the govt. exchequer.
The govt. has slashed custom duty on pet coke from 5% to 1%.	Slightly Positive: Lower custom duty will improve retention prices & margins for manufacturers especially, MLCF (as it fulfills 50% of its fuel requirement from pet coke).

Fertilizer & Chemicals

Losers: All
Winner: LOTCHEM

Inflated gas prices to hit the margins

Key measures	Impact
The government has decided to increase the fuelstock price for Fertilizer sector by 2-folds to PKR300/mmbtu while feedstock GIDC exemption on Fatima & EFERT (Enven plant) may also be withdrawn.	Negative: Hike in fuel stock price requires fertilizer manufacturers to increase the price by PKR70.0/bag in order to maintain the margins at current levels. Previously with feedstock GIDC rate, exemption on new plants was explicitly mentioned in the finance bill, which is not the case this time.
The Government has slashed the subsidy allocation for imported urea fertilizer from actually disbursed amount of Rs30bn in FY14 to Rs25bn in FY15.	Slightly Positive: Intention of govt. seems visible to improve local urea demand by decreasing imported urea subsidy.
Agriculture Credit growth of 32% to reach PKR500 for FY15 while crop loan insurance scheme for farmers with landholdings of 12.5 acers has also been introduced to cover the risk of various crops.	Positive: Improved credit facility and crop loan insurance would increase the crop productivity and boost fertilizer demand. All these measures should help boost agricultural output which is positive for the fertilizer industry.
Custom duty on PTA has been increased from 3% to 4%.	Positive: LOTCHEM has been lobbying for higher custom duty, which has finally been increased from 3% to 4%.

Largely unchanged with some marginal negatives

Top picks: FABL, BAFL, BAHL

Key measures	Impact
Income from capital gains tax on shares having a holding period between 12 to 24 months, is to be taxed at 12.5% as against 10% previously	**Slightly Negative:** While the income from capital gains and dividend was taxed at 10% previously, the tax rate on capital gains with a holding period of 12 to 24 month is to be taxed at 12.5%, which will be slightly negative for Banks.
To align the expenses to specific heads, the banking companies are expected to allocate their taxes to respective heads in order to be a true reflection of the bank's tax bill	**Slightly negative:** While much depends on the actual expenses of respective categories, our preliminary analysis suggest that this move is expected to be slightly negative for the banking sector with the PAT levels of the banks witnessing a slight dip.
While the corporate tax of the companies has witnessed a decline to 33%, it remained unaltered at 35% for the banking sector.	**Neutral***:* Although a tax reduction would have been welcomed, a status quo wouldn't come out as a big negative for the banking sector.
Dividend income also kept constant at 25%	**Neutral:** Much to the relief of banking sector, the dividend income remained taxable at 25% providing cushion to the bottom line of the banks

Subsidies reduced but tariffs to increase to ease cash flow constraints

Winners: None

Key measures	Impact
In order to arrest un-targeted subsidies, the govt. has reduced the power subsidies and allocated PKR185bn (down 40% YoY) to power distribution companies as against revised amount of PKR310bn for FY14.	Positive: Though subsidy on tariff differential has been reduced substantially, we view it as neutral since electricity tariffs increased in FY14 and more increase in tariff is expected in FY15 if the govt. is to adhere to its power subsidiy projection.
Despite 24% YoY increase in Federal PSDP allocation for FY15, the govt. earmarked lower amount of PKR107bn for development of Wapda and PEPCO. The govt. has allocated PKR205bn in power sector including Diamir-Basha Dam, Neelum-Jehlum Hydro Power Project, Tarbela Fourth Extension Project, Thar Coal Gasification Project etc.	Slightly Negative: Lower allocation on development of Wapda & PEPCO may affect the T&D system and result in loss of electricity but govt. long term stance to improve electricity situation is likely to bode well for the sector.
GIDC and surcharge on gas supply has been increased by 2-folds to PKR300/mmbtu for IPPs and state owned power utilities.	Slightly Negative: Though it is a pass through, but cost of doing business will increase.

Dairy sector again exempted, while cigarettes FED to rise

Losers: PAKT, PMPK

Key measures	Impact
Increase in FED rate on cigarettes : Total rise of around 13% in FED rate.	Negative: FED rate raised to PRs2,632 per thousand cigarettes (up 13%) for premium brands and to PRs1085 per thousand cigarettes for the value brand (up 24%). The government is targeting an increase of45% from this head, which is budgeted to reach PKR90bn in FY15.
Zero-rating facility for dairy products maintained.	Neutral: Against market rumors of withdrawal of zero-rating regime on dairy products, it has been maintained.
FED on aerated beverages reverted back from capacity tax to normal tax regime.	Positive: Capacity tax was opposed by smaller players, while tax collection under this also suffered and legal tussle also ensued in FY14. With reverting back to normal tax regime, the government is targeting an increase of 8% in FED collection from this head, projected to reach PKR12bn.

E&P and OMCs

Non eventful

Winner: None

Key measures	Impact
Corporate tax rate maintained for E&P companies	**Neutral:** Although corporate tax rate has further been reduced by 1%, E&P companies do not fall under income tax ordinance. Their taxes are determined by PCAs and PPs. So, it have no bearing on profitability of E&P companies.
Turnover tax maintained at 0.5% for OMCs and refineries	**Neutral:** Although the finance bill proposes reduction in turnover tax from 1%, the same on OMCs was 0.5% last year, so no change in T.O tax for OMCs and refineries in the current bill, which wont impact earnings of either OMCs or refineries.
Corporate tax rate for OMCs and refineries reduced by 1%	**Slightly positive:** As envisaged in previous budget, the govt. has further cut tax rate by 1%, bring it down to 33% from 35% in last 2 years, which will marginally improve earnings of PSO and APL.

TSL team

CORPORATE OFFICE

Suite # 604, 6th Floor, Progressive Plaza, Beaumont Road, Karachi, Pakistan. UAN : (021) 111 82 87 87 Fax : (92) 021-3568-6279

Syed Zain Hussain	Chief Executive Officer		zain@taurus.com.pk
Muhammad Asif	Head of Broking	35682690	asifjan@taurus.com.pk

Research Team	Sectors		
Taha Khan Javed, CFA	Economy & Strategy	35216403	taha@taurus.com.pk
Hassan Raza	E&P & OMCs	Ext: 202	hassan@taurus.com.pk
Hassaan Ghafoor	Power, Fertilizer & Cements	Ext: 203	hassaan.ghafoor@taurus.com.pk
Ameet Daulat	Banks & Textile	Ext: 203	ameet.daulat@taurus.com.pk
Syed Sufyan Subhani	Autos, FMCG & Technical	Ext: 202	sufyan@taurus.com.pk

URL: http://www.taurus.com.pk
E-mail: research@taurus.com.pk