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Sectoral analysis

India riding the growth wave

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Foreword

The Finance Minister has presented a Budget with several aspirational announcements. The Budget aims to strengthen India's Agriculture, Rural Development, Health, Education, Employment and Infrastructure sectors. The roll-out of the National Health Protection Scheme is unprecedented, with a goal to benefit around 500 million beneficiaries from poor and vulnerable families. Besides, the Government has also targetted providing free gas and electricity to needy families and enabling a MSP for all crops.

These measures, coupled with the reduction of the Corporate Tax rate to 25% for domestic companies with a turnover of up to INR 2.5 billion, will put pressure on the Government's finances. On the other hand, it proposes to levy an additional cess of 1% on all taxpayers. The slippage of the fiscal deficit to 3.3% of India's GDP during the year, as well as the levy of long-term Capital Gains Tax on future gains on listed equities and units, may prove to be dampeners for investors in the short term. But from a long-term perspective, the Budget seeks to lay the foundation for the economy to become more resilient and aspire to achieve a high growth rate.

This publication provides a sectoral analysis, which covers the developments of the key sectors in 2017 and the proposals made in Union Budget 2018. We hope it makes for an interesting read.

Sanjay Tolia
Leader, Markets
PwC India

Gautam Mehra
Leader, Tax and Regulatory Services
PwC India

Contents

Developments in 2017-18

In 2017, the Indian economy recovered following the aftermath of demonetisation with global rating agencies upgrading their ratings for the country. During the year, the Goods and Services Tax (GST) was rolled out to replace different rates of taxes across the country. GST subsumed several different taxes and unified the Indian market. In spite of the initial hiccups, the system is now much more stable. Aadhaar was another news-grabber with a hue and cry over privacy and data breaches. The UIDAI allayed these concerns by offering tokenisation and the creation of a 16-digit virtual ID. However, Aadhaar needs to have a more robust shield and masking mechanism to fully win the trust of the public and prevent alleged misuse of data. The Government, in its drive to accelerate its implementation of digitisation, has been focusing on inclusion and execution of reforms. For instance, much progress has been made in digitalisation by incentivising traders to opt for electronic currency. Although there has been a lag in the ground work for National Optical Fibre Network, the process seems to be speeding up and Phase 2 of the project is expected to be completed before December 2018.

Highlights of key changes in Budget 2018

Several changes have been proposed to propel inclusive growth as well as strengthen the Infrastructure and various other sectors in our country including Health, Manufacturing, Agriculture and Education.

Digital

- Allocation for the *Digital India* programme doubled to INR 3,073 crore
- Announcement of the launch of a mission on cyber physical systems to support the establishment of Centres of Excellence for research on training and skilling in robotics, AI, digital manufacturing, Big Data analysis and quantum communication
- NITI Ayog to commence a national programme for research and development on AI
- Department of Telecom to support the setting up of an indigenous 5G Test Bed at IIT Chennai
- Focus on eliminating the use of crypto-assets in illegitimate financial activities
- Exploration of the use of Blockchain technology to propel India to a digital economy
- e-Assessment of Income Tax to be initiated to modernise age-old assessment procedure

Telecom

- Allocation of INR 10,000 crore to create and augment telecom infrastructure
- Setting up of five lakh Wi-Fi hot spots to provide access to broadband to five crore rural citizens

Education

- Use of increased technology in education—from the blackboard to the digital board
- Implementation of RISE by 2022 with an investment of INR 1,00,000 crore

Health

- Launch of a one-of-its-kind National Health Protection Scheme, the world’s largest government- funded healthcare programme covering 10 crore poor and vulnerable families with an allocation of INR 1,200 crore
- Roll out of *Aayushman Bharat* programme with plans to set up 1.5 lakh centres to provide healthcare facilities

Reforms and public service delivery

- Implementation of various important reforms to build institutions and enhance delivery of public services across the country
- Initiation of a scheme to provide unique IDs to all enterprises

Implications of these changes

Budget 2018 has renewed the Government's focus on structural reforms and commitment to digitisation, which will propel India to a new era of progress by the implementation of the following initiatives:

- The continued focus of the Government on the *Digital India* programme will expand its canvas to drive innovation and also give a thrust to last-mile delivery.
- Adequate allocation of funds on improvement of telecom infrastructure and setting up of Wi-Fi hot spots will make India a data-driven digital economy.
- The Government's announcement of the National Health Protection Scheme is very welcome, since it is a much needed reform to improve the slackening health ecosystem in our country. However, identification of the right beneficiaries will be crucial and Aadhaar will play a critical role in this.

PwC's point of view

By doubling its funds for the *Digital India* programme, the Government has reiterated its commitment to transform India into a digital economy. Furthermore, it is heartening to see its interest and commitment to implementation of emerging technologies, which has translated to concrete action. The announcement of the NITI Aayog's AI programme and Centres of Excellence for research on robotics, AI, Big Data and many other technologies will open up avenues for adoption of advanced technologies to improve delivery of public services. India is also embracing emerging technologies to explore the use of Blockchain for payments. All these initiatives will propel our country into the big league of nations that have embraced innovation, as have the Government's earlier implemented initiatives, UID and DBT. Its thrust on use of digitisation in education should to a substantial extent make up for present lack of adequate facilities and infrastructure in the segment.

Developments in the Aerospace & Defence sector in 2017-18

The most-appreciated development in the Defence sector in 2017 was the promulgation of the much-awaited Chapter-VII of the Defence Procurement Procedure 2016 on the Strategic Partnership Policy by the Ministry of Defence. The broad objective of the Policy was to encourage private sector participation, enhance competition, increase efficiency, create a robust ecosystem for suppliers and put in place focused R&D for modernization. In another major development during the year, the Union Cabinet approved phasing out of the Foreign Investment Promotion Board. With a view to align export controls with international standards, the Director General of Foreign Trade, notified an amendment to the SCOMET list under India's Foreign Trade Policy. Licensing regulations were also simplified.

Budget 2018 proposals for the Aerospace & Defence sector

- Total allocation for the Defence sector in Budget 2018 exceeds last year's estimates by 5.8%.
- In Budget 2018, INR 9,734 crore has been allocated for R&D, which is an increase of 29% from last year, and is expected to boost indigenous defence manufacturing.
- There is continued focus on modernisation and enhancement of the operational capabilities of defence forces through the development of defence production capabilities and promotion of private investment in defence production by the announcement of the following:
  - Development of two defence industrial corridors (although a separate budget has not been allocated for this)
  - Formulation of the industry-friendly DPP 2018 to promote domestic production by the public and private sectors and MSMEs
  - An additional INR 130 crore allocation for prototype development under the 'make' procedure for Indian Army's projects
- Allocation for Border Roads Development Boards has been increased by 3% (from INR 2,708 crore to INR 2,785 crore) and grants to states for strategic roads have been increased by 60% (from INR 50 crore to INR 80) crore for completion of the construction of the Rohtang Tunnel and the proposed construction of the Zozila Pass and Sela Pass tunnels.
- In order to address the shortage of manpower, budgetary allocation for the NCC has been increased from INR 13 crore to INR 22 crore to motivate youth to join the armed forces.
- The Government has substantially increased its allocation for 'grants in aid' to state Governments from INR 5 crore to INR 22 crore in recognition of the assistance and aid the armed forces provide to HADR missions.

Implications of these changes

- Increased allocation for R&D in the Budget is expected to boost indigenous defence manufacturing.
- Promotion of the *Make in India* initiative will help to develop and nurture defence production capabilities.
- Budget 2018 announcements meet the Government's strategic objective of strengthening road infrastructure on India's borders.

PwC's point of view

Total allocation for Defence (comprising capital and revenue allocation) for 2018-19 has seen an increase of 5.8% over last year. We are happy to note that the growth in allocation and share of capital expenditure exceeds that of revenue. This was our pre-Budget expectation and reverses the five- year trend of declining capital budgets for the sector. The announcement of the new DPP and two defence industrial production corridors is very welcome.

Developments in the Automotive sector in 2017-18

FY18 has been a healthy year for the Indian Automotive industry in spite of a volatile regulatory environment. Total industry volumes grew by around 11.3% over April-December 2017 on a year-on-year basis. The Passenger Vehicle segment went up by around 8.1% and the Commercial Vehicle segment by around 15.2%. The total two- wheeler market grew by 11.8% and its exports at a healthy 13%. The Automotive Component industry continued to do well due to impressive growth in the OEM segment with a significant rise in exports.

This year, it has become apparent that technological changes will hit the industry a lot sooner than expected. Safety and fuel efficiency will became the focal points with expected changes in regulations. However, the shift to BSVI from BSIV by 2020 is a tough challenge for the industry.

On the shift to e-Mobility, the Government is in the process of developing its electrification strategy and roadmap. The Indian Automotive industry is also developing its plans to prepare for the advent of electric mobility. By 2030, we can expect to see a progressive shift towards e-Mobility in the domestic market.

Budget 2018 proposals for the Automotive sector

The Auto sector has benefited from several Budget announcements for related sectors:

- The Government has re-emphasised its commitment to agriculture by announcing several measures that will enable farm income to be doubled by 2022. The MSP will be maintained at a minimum of 1.5 times the cost of production. Farmers will be linked to the electronic market place through wide penetration of APMCs, which will increase their realised prices. This will benefit the Auto sector, since the demand for tractors, two-wheelers and utility vehicles will rise.
- As a part of the Bharatmala project, road network will be improved by building and widening of almost 35,000 km of roadways.
- Budget 2018 has proposed a 25% Corporate Income Tax rate for companies that generate up to INR 250 crore in revenues.
- Import Duty in the auto component industry has been increased to 15% for automotive components such as engines, engine components, gearboxes, transmission shafts, drive axles, brakes, radiators, silencers and clutches. These earlier attracted BCD ranging from 7.5% or 10%.

Implications of these changes

- Implementation of these initiatives for the Agriculture sector will have a positive effect on the tractor, two-wheeler and utility vehicle segments in the Automotive sector.
- Accelerated execution of road projects will also positively affect the sector in the long term. In the short to medium term, the commercial vehicle segment will benefit substantially from this announcement.
- The reduction in Corporate Income Tax will benefit companies, including suppliers of automotive components, in the automotive value chain.
- The increase in Import Duty indicates that the Government strongly supports the Make in India programme for the Automotive sector and promotes the broad localisation-related efforts of various projects focusing on vehicles.

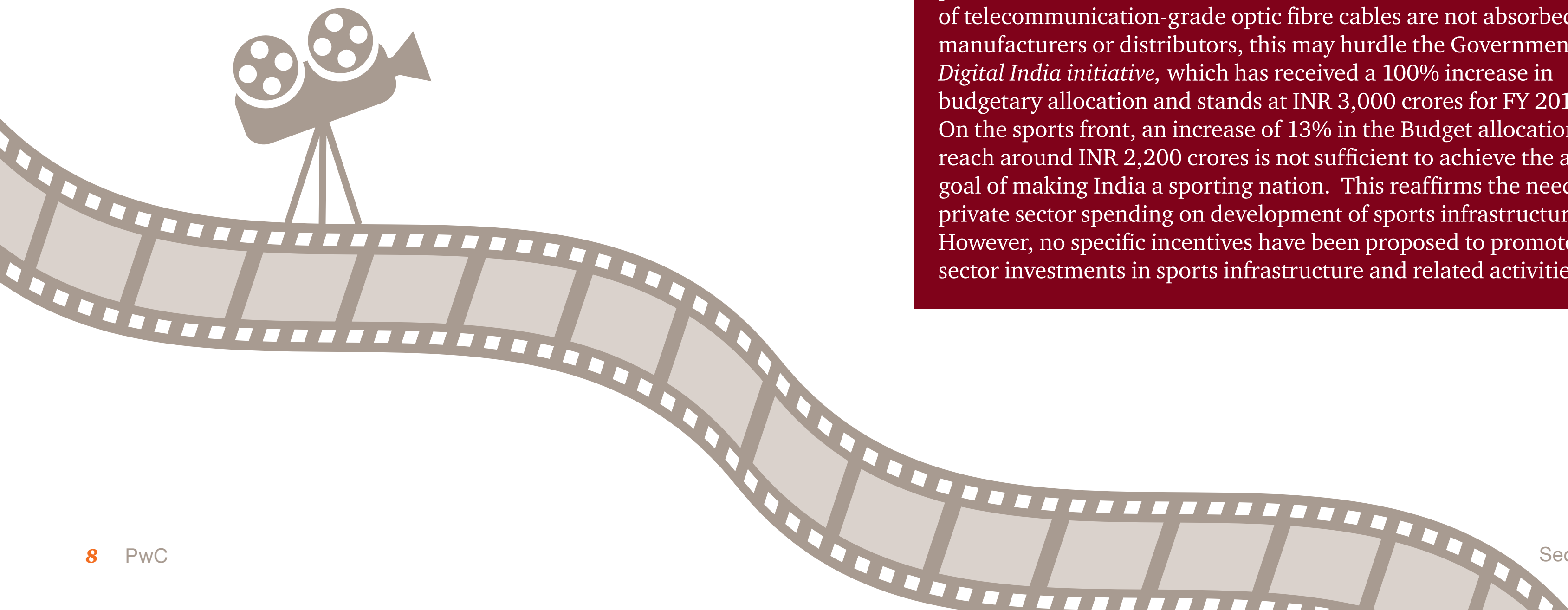
PwC's point of view

Overall, we see that this Budget has focused on the basic building blocks of the economy—Rural Agriculture, Infrastructure and MSMEs. This should translate into demand boosters for the Automotive sector in the medium term. The push for localisation will also positively affect the automotive component and supplier industry.

Entertainment & Media

Developments in the Entertainment & Media sector in 2017-18

The Indian Entertainment and Media industry has witnessed strong growth and stood at an estimated USD 31 billion in 2017. While segments including Television, Over-the-top Services and the internet continued to grow, growth of print media has been on the decline. The industry witnessed a few key regulatory changes over the year. The TRAI drafted a new framework for pricing of television channels, which resulted in reducing the cost of cable television and DTH. And by implementing the concept of a 'bouquet ceiling', the TRAI has put a cap on the price of a pay channel if it is a part of a bouquet. Channels exceeding the set limit are being offered to subscribers on an à la carte basis. One of the major changes has been subsuming of Entertainment Tax under the GST. Since states had been levying different rates earlier, the effect of the GST depended on the previous rates levied on them. And while the GST on movie tickets (set at 28% for tickets costing more than INR100) was considered an unwelcome move in many states, the prices of DTH and cable services came down after implementation of the tax. However, sporting events such as IPL attract a 28% GST levy, which makes them costly.



Budget 2018 proposals for the Entertainment & Media sector

There have been no significant takeaways or key changes in the Entertainment & Media industry in the Budget this year.

PwC's point of view

The Government's move to increase Customs Duty on certain goods is in line with its intent to promote its *Make in India* programme. However, if augmented costs due to an increase in duty on products such as mobile devices and silica used for manufacture of telecommunication-grade optic fibre cables are not absorbed by manufacturers or distributors, this may hurdle the Government's *Digital India initiative,* which has received a 100% increase in budgetary allocation and stands at INR 3,000 crores for FY 2018-19. On the sports front, an increase of 13% in the Budget allocation to reach around INR 2,200 crores is not sufficient to achieve the ambitious goal of making India a sporting nation. This reaffirms the need for private sector spending on development of sports infrastructure. However, no specific incentives have been proposed to promote private sector investments in sports infrastructure and related activities.

Developments in the Financial Services sector in 2017-18

India's Financial Services sector has seen robust growth in the Banking, Insurance and Asset Management segments in 2017. It was valued at approximately USD1.9 trillion. Deposits in banks have grown significantly and due to stricter asset quality norms implemented by the RBI, total GNPAs increased exponentially with the Public Sector accounting for the bulk of the total number of NPAs. To bail out Public Sector Banks (PSBs), the Government announced a mega recapitalisation programme, which it aims to implement over the next two years. However, these recapitalisation funds are linked to certain performance indicators, which PSBs have to achieve. After demonetisation, inflows in mutual fund products increased to USD 54 billion during the year and total assets under management grew substantially to reach USD 300 billion. The Indian Asset Management segment continues to grow significantly.

Budget 2018 proposals for the Financial Services sector

- It proposes to introduce a separate policy for investment in hybrid instruments for start-up or VC firms.
- It was also announced that additional measures to strengthen the growth of alternative investment funds in India will be undertaken during the year.
- The Government has proposed reforms in Stamp Duty on financial securities transactions.
- Furthermore, the Budget proposes the establishment of a unified authority to regulate all financial services in IFSCs.
- Regulators have been directed to permit investments in bonds with an 'A' rating.
- It is proposed that the equity of the National Housing Bank should be transferred from the RBI to the Government.
- LTCG Tax at the rate of 10% (without indexation) is to be introduced on transfer of listed equity shares, units of equity oriented funds and business trusts. The tax cost base has been reset to be in sync with market value as on 31 January 2018.
- Transfer of certain securities by a non-resident on IFSC stock exchanges has been exempted from taxation.
- The scope of "business connection" has been widened to include:
  - Residents playing a principal role in conclusion of contracts
  - Significant economic presence
- Under the Insolvency and Bankruptcy Code, the companies are given relief as:
  - Protection against lapse of losses
  - Deduction of unabsorbed depreciation and brought-forward losses under the provisions of MAT
- Distribution Tax has been proposed at 10% on income distributed by equity-oriented mutual funds.
- The Government will take measures to eliminate the use of cryptocurrencies in financing illegal activities or as a part of payment systems.

Implications of these changes

- Policy-level Budget announcements should create the much sought after flexibility for investors and accelerate growth and expansion in the sector. Proposed policy changes should have an overall positive affect over the medium to long term.
- The introduction of tax on long-term capital gains on transfer of listed equity shares will result in an additional tax burden for investors. Going forward, they may need to factor in their tax outflow while calculating their net returns.
- Tax exemption for non-residents on sale of certain securities on IFSC stock exchanges should move volumes from NSE or BSE to IFSC stock exchanges. This should bring parity to IFSC stock exchanges with their peers in Singapore and Dubai, and reduce migration of foreign investors to these offshore stock exchanges.
- The proposal to protect lapse of tax losses and relief under the MAT provision was very much in line with the expectations of market participants. This should remove impediments for buyers of distressed assets who seek to acquire stressed companies.

PwC's point of view

While introduction of tax on long-term capital gains on listed equities is a bitter pill for investors to swallow, the end of a tax-free regime in India is the harsh reality investors will have to take in their stride. The Government has not considered the fund management industry's expectations on clarity on tax-related aspects, specifically on Category III – Alternative Investment Funds, which is disappointing. However, the changes introduced to enable a conducive environment and attract foreign investment in IFSCs should help the Government realise its vision of creating robust and futuristic financial centres in India.

Developments in the Healthcare sector in 2017-18

The Healthcare sector has continued to grow over 2017, despite a slew of challenges it has faced, e.g., a volatile regulatory environment. The market continues to grow at low double digits (around 13%) led by a growth in volume, an improved case mix and price increases. India's Healthcare Insurance Scheme continues to make inroads, recording a growth of more than 27%, primarily driven by the Government's schemes and policies. During the year, India saw a record FDI of USD 747 million in the sector, and although there was just one IPO in the primary market, the secondary market was fairly active. Private Equity investors showed a keen interest in most large healthcare providers. However, new drugs under DPCO, a price cap on stents and implants, procedure- or service pricing-related discussions in West Bengal and Karnataka, and cases of licenses being cancelled adversely affected the sector. Moreover, India continues to face the challenge of a low spend on healthcare (around 4.5% of the country's GDP vis-a-vis the world average of around 9%), around 62% of which is still funded out of pocket.

Budget 2018 proposals for the Healthcare sector

- With a view to move towards universal health coverage, the Government has announced the NHPS, which will provide coverage of up to INR 5 lakh per family to 10 crore poor families. This scheme will cover around 50 crore people and will be the largest of its kind in the world.
- Twenty-four existing district hospitals will be upgraded to medical colleges and there will be one government medical college for every three parliamentary constituencies.
- The amount exempt from tax for senior citizens for critical illnesses has been increased to INR 1 lakh from INR 60,000 under section 80 DDB and deduction for medical insurance under section 80 D from INR 30,000 to INR 50,000.
- The Government has allocated INR 1,200 crore for the sector and announced that 1.5 lakh Health and Wellness Centres will be set up, which will provide free essential drugs and diagnostics as well as preventive healthcare services.

Implications of these changes

- Around 50 crore people (almost 40% of the population) will be covered under the NHPS.
- The Government's initiative to turn 1.5 lakh health sub-centres into wellness centres will help in early detection of diseases and thereby reduce mortality and morbidity. It will also help to change the current focus on treatment to proactive prevention of diseases.
- The increased focus on healthcare will go a long way in meeting the Government's target to enhance it's spend on healthcare from 1.15% of the GDP currently to 2.5% of the GDP in 2025.

PwC's point of view

The Budget has been extremely positive for the Healthcare sector. The National Health Protection Scheme will substantially increase provision of secondary and tertiary care services to the poor. This will go a long way in improving the health of people and increasing their productivity due to fewer DALYS lost, and is in line with the Government's aim of becoming a payer rather than a provider of healthcare services.
The Government has also recognised the need to address shortage of manpower and availability of healthcare in rural areas, and plans to upgrade existing district hospitals to medical colleges. It is also cognisant of the impact of medical inflation. This is reflected in its increasing the coverage amount per family to INR 5 lakh under the NHPS, compared to INR 30,000 under the RSBY scheme, and the increase in the amount will be exempt from tax for senior citizens for critical illnesses and deduction for medical insurance. The Government's focus on healthcare is expected to benefit all stakeholders in the ecosystem, including healthcare, pharma, medical equipment companies, as well as manufacturers of medical devices and ancillary companies that support these.

Developments in the Industrial Products sector in 2017-18

In 2017, India's National Manufacturing Policy set the aggressive target of enhancing the share of manufacturing to 25% of its GDP and creating an additional 100 million jobs by 2022.This is supported by government-led programmes and is evident in its jumping 30 places in the World Bank's "Ease of doing business" ranking. Implementation of *Make in India* action plans, the drive towards a digital and skilled India, the development of industrial corridors and smart cities, and a huge infrastructure-related push across railways, ports, etc., during the year were some of the initiatives that should help the sector move proactively in the right direction.

However, in spite of the Government's positive agenda, the sector faced certain challenges that adversely affected its growth, especially in the first half of the year. Implementation of the GST, weak demand at the global and domestic levels, lack of financial capital because of high NPAs in banks and rigid labour laws were some of the other factors that stunted the country's growth. These are reflected in the Index of Industrial Production (IIP) numbers, which grew by a meagre 2.5% from April to September 2017. However, data released by the Central Statistics Office showed IIP growth of 8.4% in November.

Budget 2018 proposals for the Industrial Products sector

- Increased focus on promotion of MSME, infrastructure, rural economy, healthcare, skilled education, ease of doing business to encourage investments, innovation and digitisation
- Reduced Corporate Tax rate of 25% to apply to companies with turnover up to INR 250 crores (increased from INR 50 crores)
- Relief for companies covered under the Insolvency and Bankruptcy Code 2016, permitting carry forward and set-off of business losses in the event of a change in shareholding, and reduction of aggregate amount of unabsorbed depreciation and brought forward losses from book profit for MAT purposes
- No major amendments in Indirect Tax apart from changes in Customs Duty rates for products including mobile phones, LED/LCD panels and watches; SWS to be levied at the rate of 10% (of aggregate duties) on imports in lieu of existing Education Cess

Implications of these changes

- A reduced Corporate Tax rate will be levied on companies with turnover of up to INR 250 crores.
- Tax relief provided to companies covered under IBC 2016 will positively affect valuations and thereby the bid value.
- Increased Customs Duty rates for mobiles, watches, etc., and imposition of SWS will make domestic production more competitive.

PwC's point of view

The Government is focused on promoting MSME, infrastructure, rural economy, healthcare, skilled education and ease of doing business. It proposes to encourage investments, innovation and digitisation. In addition, its tax-related proposals for reduction in the 25% Corporate Tax rate applicable to companies with a turnover up to INR 250 crores and increased Customs Duty on specified products are all 'big positives' for its *Make in India* initiative and will fuel growth in the Manufacturing sector. Furthermore, the Government's promotion of MSME and large-scale rural agro-processing will encourage manufacturing in Tier II and Tier III locations, reduce production costs and promote employment in small towns and rural areas.

Developments in the Infrastructure sector in 2017-18

The Infrastructure sector is a key driver of the Indian economy. During 2017, there has been a significant push from the Government, which has been providing financial support and implementing initiatives to give a boost to the sector. The Transport & Logistics segment grew significantly in FY18, with disruptive technologies such as Cloud-based systems, robotics for various value added services, IoT and Big Data analytics contributing to its growth. The Ministry of Road Transport and Highways has designed the *Bharatmala Pariyojana,* which has six key components—development of economic corridors, development of inter-corridor and feeder routes, improvement of the efficiency of existing National Corridors (Golden Quadrilateral and the North-South & East-West corridors), development of coastal and port connectivity roads, development of border and international connectivity roads and development of greenfield expressways. In the Rail segment, the New Metro Policy 2017 opened a window for private investments in several Metro operations by making PPP mandatory for availing Central assistance for new Metro projects. In addition, private investment and other innovative forms of financing for Metro projects were made compulsory to meet the huge demand for capital-intensive high-capacity projects. In the Ports and Waterways segments, cargo traffic grew at a CAGR of 4.02% and the Government implemented the *Sagarmala* project to modernise ports and augment their capacity. Out of 152 such projects, 52 are under construction and 1 was completed in December 2017. The DPD programme and New Model Concession Agreement have resulted in disruption in the sector and aim to reduce additional time and costs earlier incurred on movement of containers from ports to factories through a CFS. However, the new agreement has brought in a much-needed reform, whereby private port operators pay actuals rather than on a notional income. In the Industrial Corridors segment, several nodes are ready in different corridors and other projects are under construction. In the Aviation segment, domestic passenger traffic grew at a CAGR of 11.46%, with implementation of UDAN's regional connectivity scheme, which resulted in increased connectivity in the country and affordable flights. The growth in imports and exports contributed to a rise in freight traffic to 11.4 million tonnes.

Budget 2018 proposals for the Infrastructure sector

Roads

- The ambitious *Bharatmala Pariyojana* has been approved to provide seamless connectivity between interior and backward areas and India's borders, and develop around 35,000 km of roads in Phase-I at an estimated cost of INR 5,35,000 crore.
- Around 9,000 km of National Highways are being completed in 2017-18.
- Digitisation and adoption of technology (cashless payments at tool booths to improve efficiency and transparency) are to be implemented.

Railways

- The Railways' Capex for 2018-19 has been pegged at INR 1, 48,528 crore.
- Around 18,000 km of line doubling and transformation of entire network to broad gauge is planned, compared to 4,000 kilometers that were targeted for commissioning in 2017-18.
- Further electrification of railway lines, with a focus on safety and modernisation (W-Fi and CCTVs for all stations and escalators for all stations with a footfall of over 25,000) has been proposed.
- Mumbai's transport system, the city's lifeline, is to be expanded to add 90 kilometers of double-line tracks at a cost of over INR 11,000 crore
- A suburban network of around 160 kilometers (at an estimated cost of INR 17,000 crore is being planned to cater to the growth of Bengaluru.

Aviation

- The Government proposes to expand airport capacity more than five times to handle a billion trips a year under a new initiative—NABH Nirman.
- The UDAN regional connectivity scheme, initiated by the Government last year, will connect 56 unserved airports and 31 unserved helipads across the country. Operations have already started at 16 such airports.

Smart Cities

- The Smart Cities Mission aims to build 100 Smart Cities with state-of-the-art amenities; 99 cities have been selected with an outlay of INR 2.04 lakh crore.

Infrastructure

Real Estate

- The AHF has been established to give a boost to affordable housing projects.
- Safe Harbour of up to 5% has been proposed where the value of stamp duty exceeds the transaction value for transfer of real estate assets.

Others

- LTCG tax at the rate of 10% (without indexation) has been introduced on transfer of listed equity shares, units of equity-oriented funds (REIT/InvIT) and business trusts – tax cost base to be reset to market value as on 31 January 2018.
- Relief provided to cases under the Insolvency & Bankruptcy Code:
  - Protection from lapse of losses
  - Deduction of unabsorbed depreciation and brought forward losses under MAT provision
- ICDS will be incorporated under the law with effect from 1 April 2017 (FY 17-18); Delhi High Court's decision in this regard has been refuted.

Implications of these changes

- Allocation for infrastructure has been increased by 20%, giving a boost to the sector and ensuring continued funding of various initiatives in roads, railways and urban infrastructure.
- An all-time high allocation for the Transport sector will augment construction and development activities in the sector, leading to creation of more jobs.
- The Government's Railway Station Development project aims to boost Real Estate-related activities, leading to increased lease rentals and yields. Many transit-oriented development projects are to be initiated in the railway segment
- The proposed augmentation of airport capacity is a big positive for the Aviation sector.
- In urban infrastructure, development of iconic tourist destinations to attract domestic and foreign tourists will give a boost to the Tourism industry.
- The big push for rural infrastructure is expected to create huge employment opportunities, directly and indirectly.
- The proposed AHF is a step in the right direction and will hopefully give a fillip to the Housing segment, in line with the Government's aim to provide "housing for all", by filling the funding gap and incentivising developers to engage fruitfully in this sub-sector.
- Long-term capital gains on transfer of units of REITs may however dampen the spirits of market participants in an environment where REITs are waiting for a positive 'kick-start'.

PwC's point of view

Significant allocation for infrastructure is welcome, since it reaffirms continued funding of various initiatives in roads, railways and urban infrastructure. A quantum leap in airport capacity is a key requirement to keep pace with the rapid growth in aviation. Other initiatives, outside the Budget, to revive private sector play in these sectors, will be required to complement the impact of Budget allocations. In his first budget, the FM had highlighted the need to rebalance risk sharing, ensure plug-and-play readiness of projects and bring greater certainty in dispute resolution, as key to bringing back private investments into infrastructure. As more progress is made on these, and financial stress in the sector is addressed, we expect pension and insurance funds to significantly increase their share of infrastructure financing.

Oil & Gas

Developments in the Oil & Gas sector in 2017-18

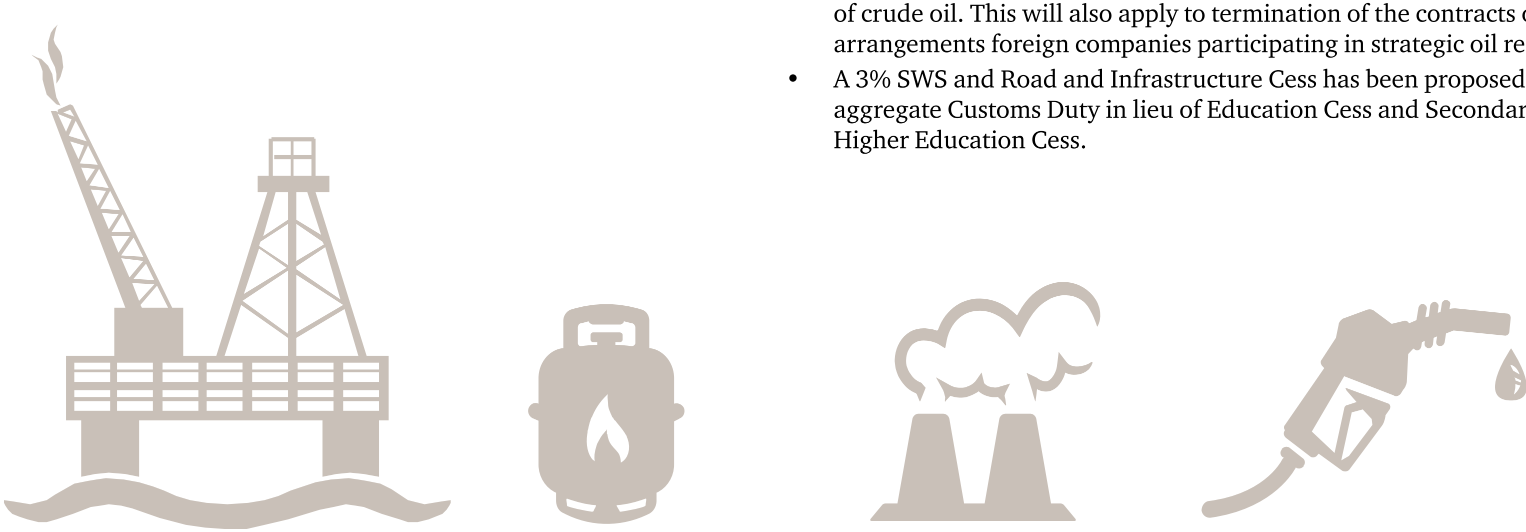
In order to promote exploration and production-related efforts, MoPNG launched its first round of the Open Acreage Licensing programme in 2017 to invite prospective bidders. The second DSF round took place at the end of the year for which the contract areas are expected to be announced soon. The Government initiated the ONGC-HPCL merger, resulting in the consolidation of the two giants in response to prevailing trends, and the Rosneft-Trafigura acquisition of Essar Oil's stake strengthened strategic bilateral ties with Russia and saw the entry of a key player in India's refining and marketing business. The LNG subsidy was removed and BP and HPL received retail licenses to sell petrol and diesel in the country, but while Import Duty was waived for crude, this is yet to be done in the case of LNG.

In June 2017, India joined the league of select countries such as the USA and Australia where fuel prices are revised on a daily basis. The three state-owned OMCs -- Indian Oil, Bharat Petroleum Corporation and Hindustan Petroleum Corporation -- are since rolling-out the daily dynamic pricing mechanism for petrol and diesel. Under the dynamic pricing scheme, petrol and diesel prices are revised on a daily basis in sync with global crude oil prices.

Budget 2018 proposals for the Oil & Gas sector

The key proposals pertaining to the Oil & Gas sector are summarised below:

- An additional five crore free LPG connections will be implemented under the *UJJWALA* scheme for eight crore poor women.
- Construction of 3.17 lakh km of rural roads and implementation of Phase I of the *Bharatmala Pariyojana* scheme to develop 35,000 km of road infrastructure augurs well for the bitumen segment.
- The process of ONGC's acquisition of HPCL has been successfully completed, helping the Government to achieve its disinvestment target for the fiscal. Its disinvestment target for 2018-19 is set at INR 80,000 crore. Oil & Gas CPSUs may also be the target for disinvestment this year.
- Payment of the Government's share of profit in petroleum will be exempted from Service Tax for contracts signed during the period commencing 1April 2016 to 30 June 2017.
- MAT-related provisions will not apply to foreign companies solely earning income from businesses referred to in Section 44BB of the Act, provided this income has been offered to tax at the specified rates.
- The Government will proactively explore the use of Blockchain technology to usher in a digital economy.
- The Government proposes to exempt from tax sale of left-over stock of crude oil. This will also apply to termination of the contracts or arrangements foreign companies participating in strategic oil reserves.
- A 3% SWS and Road and Infrastructure Cess has been proposed on aggregate Customs Duty in lieu of Education Cess and Secondary and Higher Education Cess.



Implications of these changes

- Oil-marketing companies have done well in their implementation of the *UJJWALA* scheme till now. The Government has taken on itself the additional target of reaching out to an additional three crore women under this scheme. This may require oil-marketing companies to increase their LPG sourcing and bottling capacity.
- Infrastructure Cess on petrol and diesel manufactured in the four North-East refineries will have an adverse effect on current high GRMs, although this will be compensated by the benefits they enjoy.
- Foreign OFSPs have one more reason, other than the uptick in oil prices, to rejoice with the removal of MAT provisions.
- Another positive development for the upstream sector is the retrospective amendment to do away with Service Tax on payment of the Government's share of profit on petroleum.
- Changes are proposed in the provisions relating to Customs Duty on petrol and diesel. These duties will now be considered in the import parity price stack-up used by OMCs to determine domestic prices. Since such imports are not significant, therefore actual revenue collection will also not be substantial.
- The bitumen segment (like the cement segment) should benefit from investments proposed for development of roads and highways across the country.
- Riding high on the success of HPCL's acquisition by ONGC, some other petroleum sector PSUs may be considered in the next wave to meet the Government's INR 80,000 crore target.
- The marginal reduction of duties on petrol and diesel has been offset by levy of Road and Infrastructure Cess. It is proposed that collections from such taxes will be used by the Government to finance infrastructure projects.

PwC's point of view

Union Budget 2018 does not make any major structural changes that will affect the Oil & Gas sector specifically. The sector was expecting inclusion of petroleum products and natural gas under the GST. This has not been addressed and has probably been left to the GST Council to deal with, but proposals such as abolition of Service Tax on payment of the Government's share of profit on petroleum for DSF blocks and MAT on 44 BB foreign companies have been accepted and are welcome for the upstream sector.

In the refining sector, North-east refineries will have to pay an Infrastructure Cess of around INR 2,500 crore according to their 2016-17 production levels, which will adversely effect their GRMs. On the marketing side, the recent rise in the price of crude oil will be a test for the Government to maintain its resolve on decontrolling fuel prices, especially in view of several foreign companies closely watching the Indian market.

Developments in the Pharmaceutical sector in 2017-18

Over 2017, the Indian Pharmaceutical sector grew exponentially by moving up the value chain, with innovations in R&D and bringing in new therapies and drugs. The sector has graduated from manufacturing APIs for the local market to making formulations for developed ones. However, pharma companies still struggle with regulatory issues and have been facing increased FDA scrutiny on quality, with US FDA stepping up its checks on pharma products coming from manufacturing plants in India. Indian companies are looking at raising their compliance with US FDA regulations, since the major share of their exports is to the US market. Implementation of the GST has undoubtedly been one of the biggest events in the highly fragmented pharma industry. It has made companies re-examine their supply chain networks to optimise their number of warehouses, locations and linkages. Moreover, in its aim to make drugs affordable, the Government has increased the ambit of NLEM, bringing in more than 370 drugs, including coronary stents and knee-caps, under price control.

Budget 2018 proposals for the Pharmaceutical sector

There were no direct announcements for the Pharmaceutical sector in Budget 2018.

PwC’s point of view

This Budget has taken a significant step forward for universal health coverage with its proposal of a National Health Insurance Protection Scheme, which will provide coverage of up to INR 5 lakh per family and bring 50 crore people under its ambit. Although the details are awaited, it is clear that this will be transformational for the Health & Insurance sectors and broadly positive for the Pharmaceutical sector.

Developments in the Power & Mining sector in 2017-18

Last year has been significant because new-generation capacity addition was predominantly from non-carbon sources (over 80% from renewables, hydro and nuclear), contracted solely through auctions. The tariffs hit a record low. The road map to procure about 110 GW of RE, up to 2020 has been outlined to give manufacturers, investors, financial institutions and developers the opportunity to plan their strategies. Significant progress has also been made on cross-border trade in energy as a part of increasing action taken on enhancement of regional connectivity.

Another important milestone was electrification of villages during the year with the launch of the Saubhagya Scheme to electrify all households—to provide electricity 40 million households before March 2019.

The UDAY scheme has been effective in improving operational and financial efficiencies in the distribution sector, with distribution companies increasingly looking at IOT and Analytics to facilitate their response to consumers and manage assets better. The growth in consumer numbers and financial transactions, the increased cost of labour and penalties for non-supply are expected to drive investment in automated systems.

The Government has earmarked investments of up to INR 1,50,000 crore in making an energy- efficient market over the next five years, especially in the Lighting, Pumping and Building segments to achieve potential savings of over 50 GW.

Budget 2018 proposals for the Power & Mining sector

- The *Saubhagya* scheme will ensure last mile electrical connectivity for four crore household connections with an outlay of INR 16,000 crore.
- Farmers are to be enabled to install solar power pumps to irrigate their farms and the Government will take necessary measures so that state governments can buy surplus solar power from them. This will increase farmers' income.
- In 2018-19, electrification of a network 4,000 km of railways will be targeted.

Implications of these changes

- Access to electricity is to be provided to all citizens along with electricity on the grid
- Provision of additional sources of income for farmers aims to incentivise installation of solar power pumps.
- Smart cities are to create a 'behind the meter' ecosystem and encourage a move towards smart systems and integration of RE with the grid.

PwC's point of view

The Government's plan to achieve 100% electrification in households is on track with its allocation of the requisite resources for the Soubhagya scheme. Along with electrification of the railways, this will also enhance demand on the grid and ensure optimised utilisation of surplus generation. Another focus area for the Government is generation and provision of sustainable and clean energy. This is evident from its promotion of installation of solar pump sets to increase farmers' incomes.

Developments in the Retail & Consumer sector in 2017-18

The year 2017 saw major developments in the Retail & Consumer sector, with the opening up of various retail segments for inflow of FDI. Up to 51% FDI has been allowed in multi-brand retail and 100% FDI in single-brand retail, with reforms effected in the sourcing segment. The Government has also allowed 100% FDI for development of seeds and in the Textile and Jewellery sectors under the automatic route. A momentous step taken by it was implementation of the GST as a single unified tax system. The GST has led to a substantial increase in organised retail by bringing in significant transparency in the sector and re-ordering of the hierarchy of traders and suppliers. The model Shops & Establishment Act, which allows stores to be opened around the clock, was also passed during the year and has been adopted by several states. Furthermore, the growth and liberalisation of organised retail has greatly increased the attractiveness of the Indian market for global players.

Budget 2018 proposals for the Retail & Consumer sector

Some of the regulatory changes proposed in the Retail & Consumer sector will drive the industry in the coming year:

- A cut is proposed in the Corporate Income Tax rate to 25% for companies with a turnover of up to INR 250 crore.
- Initiatives under the *Ayushman Bharat* programme include setting up 1.5 lakh Health and Wellness Centres and generation of lakhs of jobs, particularly for women.
- The Budget also proposes to amend the EPF Act and reduce women employees' contribution to 8% for the first three years of their employment, while the employer's contribution will continue at 12%.
- Under the *Start-up India* programme, FPOs will be allowed access to cheap finance and a tax holiday for the first three years.
- The Government proposes to invest INR 2,000 crore on developing and upgrading the agricultural electronic and offline market structure.
- The Government has reduced Excise Duty on petrol and diesel by INR 2 per litre, but introduced a 2% Road Cess.
- The MSP for upcoming *Kharif* crops is to be 1.5 times the cost of production.

Implications of these changes

- Reforms in the Employment Act are expected to lead to a rise in the demand for basic high-quality livelihood products.
- With the introduction digital portals, farmers will have the option of selling their products directly to consumer markets.
- With the Government's focus on agriculture, companies and farmers will both benefit from the minimum price enabled for farmers for crops and huge investments in agricultural markets across India, especially in rural areas. In addition, the Government has directed state governments to purchase extra solar power generated by farmers using solar-powered pumps.
- Removal of tax will benefit FPOs and enable them to earn increased profits and gain access to employment opportunities.
- The input cost of food-related companies will come down with the improving condition of farmers and farmer-produce companies and supply chain costs will fall due to the dip in the price of fuel and reduction in Corporate Tax rates. This should lead to a drop in the actual price of finished products in the market.
- With huge spending proposed on India's vast hinterland, there will be an opportunity for FMCG and consumer goods companies will benefit from the increase in rural disposable incomes and the promise of increased employment generation by the Government.
- In rural areas, consumer electronics goods should benefit from Budget 2018, with provision of free gas and electricity to the rural population.

- With reforms in the internet reach-out digital trading platform, the cloud-based market should ultimately be able to penetrate all markets and lead to a rise in organised retail in India.
- The demand for gold rising in rural India due to Budget 2018's focus on boosting farmers' incomes should benefit gold companies and enable them to penetrate and grow in Tier 2 and 3 cities.
- Tax reforms should lead to growth in local production of consumer electronics, CPG and FMCG goods. This should promote the Government's *Make in India* initiative.
- The Government's plan of setting up five lakh Wi-Fi hotspots will provide broadband access to five crore rural citizens.

PwC's point of view

Overall, the Budget is good for the Retail & Consumer sector, and should give momentum to growth in rural markets and substantially boost the food business. The Government's structural reforms agenda continues and its focus on infrastructure (including digital infrastructure), education, healthcare and benefits for SMEs and startups should boost business in the long term. Moreover, significant widening of the tax net is ample proof that India is moving forward and its consumer markets are becoming more organised.

Developments in the Technology sector in 2017-18

In 2017, the Government's reforms such as *Digital India, Make in India,* the *Jan Dhan-Aadhaar-Mobile trinity* and other supportive FDI policies gave a fresh impetus to the industry. While breakthrough technologies and disruptions proved to be the key drivers in the sector, the impact of several digital measures in areas such as IoT, AI, smart infrastructure and Fintech enabled their entry into the mainstream digital economy. Recent structural reforms, such as the Goods and Services Tax (GST) and demonetisation have generated large digitisation-related opportunities for IT companies in point of sale (PoS) billing systems, ERP and digital payments. In addition, to promote skill development and create employment opportunities in the IT and BPO sector, a slew of initiatives were launched under the *Digital India programme.* These include the BPO promotion scheme and the *Pradhan Mantri Gramin Digital Saksharta Abhiyan.* Furthermore, the Phased Manufacturing Programme and subsequent levy of BCD of 10% to facilitate manufacturing of electronics in India gave a significant boost to the *Make in India* programme. During the year, additional funds being released for start-ups launched under the *Startup India Plan* was a key growth enabler for the Government's initiatives.

Budget 2018 proposals for the Technology sector

- The definition of 'business connection' under the Act has been expanded to bring in a new nexus rule to include "significant economic presence", based on thresholds, in relation to 'revenue' and 'users. This is in line with the recommendations of the OECD's BEPS Action Plan 1 and has been proposed with a view to bring into the tax net overseas digital companies that do not have physical presence in India, but have been drawing income from the country. The Budget has clarified that these provisions will not have an impact unless corresponding PE provisions in treaties are amended.
- Currently, 100% of the profits earned by start-ups in India is eligible for deduction for three years in a block of seven years, provided the company is incorporated after 1 April 2016 but before 1 April 2019, and its total turnover INR 25 crores for the financial years beginning 1 April 2016 and ending 31 March 2021. In order to improve the effectiveness of the scheme to promote start-ups in India, it is proposed to extend the sunset period for their incorporation from 1 April 2019 to 1 April 2021. Additionally, the definition of 'eligible business' has been expanded to include any scalable business model with a potential of employment generation or wealth creation, and the period for testing turnover criteria has been increased to seven years.
- BCD on certain electronic products such as mobile phones, televisions (LCD,LED and OLED) and other accessories and parts thereof have been increased (mobile phones from 15% to 20% and, televisions from 7.5%/10% to 15%).
- A SWS will be levied at the rate of 10% on BCD, except in the case of certain specified products. This surcharge will be levied at 3% and will be non-creditable. In lieu of a SWS being introduced, the Education Cess, and Secondary and Higher Education Cess currently levied on import of goods at the rate of 3 %) has been abolished.

Implications of the changes

- Clarification has been provided that profits will continue to be taxed according to existing treaty rate of rules. This has been proposed to avoid undue litigation.
- The increase in the sunset period for claiming deduction, along with widening of the definition of benefit, is expected to motivate the start-up community and lead to increased innovation, employment and growth in the economy.
- The increase in Customs Duty on certain electronic products and levy of the SWS will lead to an increase in the cost of goods imported into India.

PwC's point of view

There is a need to analyse whether there will be any overlap with Equalisation Levy-related provisions in certain situations. Moreover, digital businesses that do not have a presence in India are likely to be under the scanner, unless treaty protection is available to them and MLI provisions do not alter treaty provisions. And increasing the sunset period for claiming deduction under section 80-IAC should make way for more start-ups to prosper in the digital segment, with the Government investing heavily in promoting its *Digital India* and *Make in India* initiatives, as well as increase employment in the country. This will give a boost to the Government's *Make in India* programme. However, in this scenario, domestic manufacturers of electronics and hardware are likely to benefit from cheap substitutes imported from overseas.

Developments in the Telecom sector in 2017-18

The year 2017 has seen several decisive changes in India's Telecommunications sector, making it a memorable year. Strong competitive forces, tariff wars like never seen before, market players' disrupted balance sheets, and long-awaited consolidation finally took place (although in an unexpected form). This resulted in delighted but still perplexed customers who wondered whether these changes would stay. Implementation of GST or reduction of IUC by regulators did not really help private players to flourish in a commercially challenging environment. During the year, the three to four major players left in the market acquired assets at an incredible value, but these acquisitions have yet to achieve operational synergies and reduce their cost of operations. However, on the plus side consumers are now better informed and digitally educated. Regulators are active and focused on improving India's digital ecosystem, for instance, their recommendations on net neutrality.

Budget 2018 proposals for the Telecom sector

Continuing its focus on its flagship programme, *Digital India*, the Government has announced some of its plans for the sector in this Budget:

- It has doubled its allocation for the *Digital India* programme to INR 3,073 crore. The money will be invested in research, training and skilling in robotics, AI, digital manufacturing, Big Data analysis, quantum communication and Internet of Things.
- The Department of Science & Technology is to launch a mission on Cyber Physical Systems to support establishment of Centres of Excellence.
- The Government also proposes to invest INR 10,000 crore in 2018-19 for creation and augmentation of Telecom infrastructure, and set up five lakh Wi-Fi rural hotspots to provide broadband access to five crore rural citizens.
- To harness the benefit of emerging new technology, the Department of Telecommunications is to support establishment of an indigenous 5G Test Bed at IIT Chennai.
- Customs Duty on mobile phones and many other products has been increased. For example, the duty on mobile phones has been increased from 15% to 20%, and on some of their parts and accessories to 15%. Education cess of 3% on imported goods has been abolished, but a new levy is proposed— SWS at the rate of 10% on certain imported goods.

Implications of these changes

The Government's proposal to invest in *Digital India* and the creation of Telecom infrastructure will help to make telecom services, including data, available in every part of the country. The increase in Customs Duty on mobile phones and various accessories should give a boost to its flagship programme, *Make in India*, and augment creation of jobs.

PwC's point of view

Budget 2018 has focused on the *Digital India* programme by doubling the Government's allocation for it to 3,000 crore. Moreover, it has proposed investment of INR 10, 000 crores to exponentially increase access to broadband and WiFi hotspots. It also proposes to invest in exploration of the use of Blockchain. However, while all this will create attractive opportunities in the Telecom sector in the long run, the immediate financial woes of the sector may not be addressed by these initiatives. And considering that more than 30% of the topline is contributed by the Telecom sector to the exchequer in the form of GST and various regulatory levies, it has been expecting some relief from the Government to ease the pressure on it. While sector would have appreciated Customs exemption for importing LTE network equipment, given the massive capital expenditure incurred on rolling out networks, it will now have to address the short-term impact of increased Customs Duty on import of mobile devices. Telcos are also subject to significant tax litigation and expected clarifications on some of aspects, including on the issue of characterisation of margins to distributors and fresh lease of life to losses, which have not been provided. All eyes are now set on the National Telecom Policy 2018 to be released by TRAI, which should pave the way for inclusive growth and the implementation of an enhanced policy framework for all stakeholders.

Glossary

1.	Active Pharmaceutical Ingredient	API
2.	Affordable Housing Fund	AHF
3.	Agricultural Produce Market Committee	APMC
4.	Artificial Intelligence	AI
5.	Basic Customs Duty	BCD
6.	Bharat Stage VI	BSVI
7.	Bharat Stage IV	BSIV
8.	Bombay Stock Exchange	BSE
9.	Business Process Outsourcing	BPO
10.	Central Public Sector Undertakings	CPSU
11.	Complete Built Up	CBU
12.	Complete Knock Down	CKD
13.	Consumer Packaged Goods	CPG
14.	Container Freight Station	CFS
15.	Defence Production Policy	DPP
16.	Drug Price Control Order	DPCO
17.	Direct Benefits Transfer	DBT
18.	Direct Port Delivery	DPD
19.	Direct to Home	DTH
20.	Disability Adjusted Life years	DALYS
21.	Discovered Small Fields	DSF
22.	Employee Provident Fund	EPF
23.	Fast Moving Consumer Goods	FMCG
24.	Food and Drug Administration	FDA
25.	Farmer Producer Organizations	FPO
26.	Gross Refinery Margins	GRMs
27.	Gross Non Performing Assets	GNPA
28.	Haldia Petrochemicals Ltd.	HPL
29.	Hindustan Petroleum Corporation Ltd.	HPCL
30.	Human Assistance and Disaster Relief	HADR
31.	Income Computation and Disclosure Standards	ICDS
32.	Infrastructure Investment Trust	InvIT
33.	International Financial Services Centre	IFSC
34.	Interconnection Usage Charges	IUC
35.	Liquefied Natural Gas	LNG
36.	Long Term Evolution	LTE
37.	Long Term Capital Gains	LTCG
38.	Ministry of Petroleum and Natural Gas	MoPNG
39.	Minimum Alternate Tax	MAT
40.	Micro, Small and Medium Enterprises	MSME
41.	Minimum Support Price	MSP
42.	Multilateral Instruments	MLI
43.	National Accreditation Board for Hospitals and Healthcare Providers	NABH
44.	National Cadet Corps	NCC
45.	National Healthcare Protection Scheme	NHPS
46.	National List of Essential Medicines	NLEM
47.	National Stock Exchange	NSE
48.	Non Performing Assets	NPA
49.	Oil Field Service Providers	OFSPs
50.	Oil Marketing Companies	OMCs
51.	Organisation for Economic Co-operation and Development	OECD
52.	Original Equipment Manufacturers	OEM
53.	Oil and Natural Gas Corporation Ltd.	ONGC
54.	Public Private Partnership	PPP
55.	Rashtriya Swasthya Bima Yojana	RSBY
56.	Real Estate Investment Trust	REIT
57.	Renewable Energy	RE
58.	Revitalising Infrastructure and Systems in Education	RISE
59.	Special Chemicals, Organisms, Materials, Equipment and Technologies	SCOMET
60.	Social Welfare Surcharge	SWS
61.	Ude Desh ka Aam Naagrik	UDAN
62.	Unique Identification Authority of India	UIDAI
63.	Venture Capital	VC

Sources:
1. Finance Minister's Budget 2018-19 speech
2. PwC's analyses of data from multiple source

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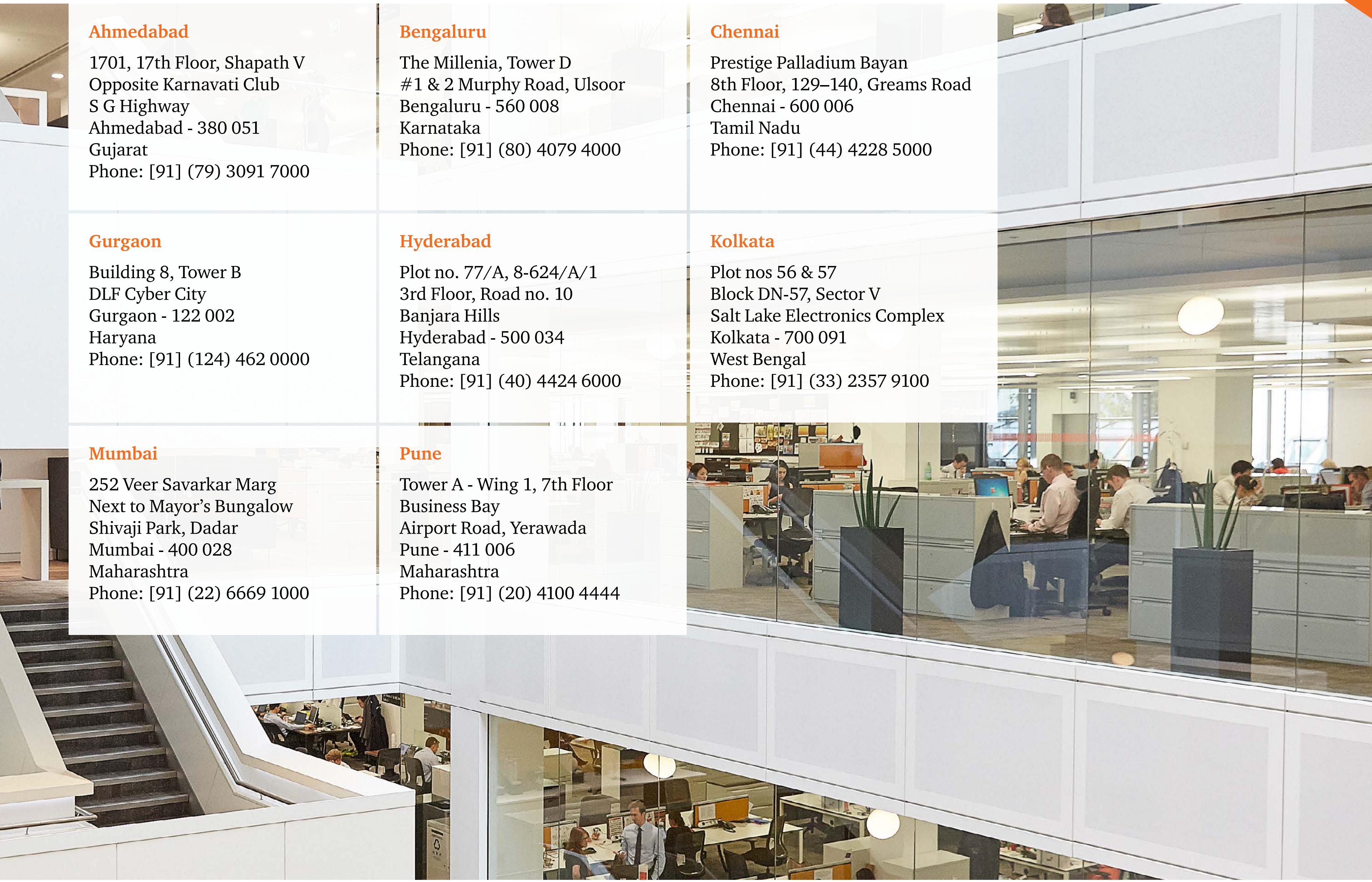

Ahmedabad

1701, 17th Floor, Shapath V
Opposite Karnavati Club
S G Highway
Ahmedabad - 380 051
Gujarat
Phone: [91] (79) 3091 7000

Bengaluru

The Millenia, Tower D
#1 & 2 Murphy Road, Ulsoor
Bengaluru - 560 008
Karnataka
Phone: [91] (80) 4079 4000

Chennai

Prestige Palladium Bayan
8th Floor, 129–140, Greams Road
Chennai - 600 006
Tamil Nadu
Phone: [91] (44) 4228 5000

Gurgaon

Building 8, Tower B
DLF Cyber City
Gurgaon - 122 002
Haryana
Phone: [91] (124) 462 0000

Hyderabad

Plot no. 77/A, 8-624/A/1
3rd Floor, Road no. 10
Banjara Hills
Hyderabad - 500 034
Telangana
Phone: [91] (40) 4424 6000

Kolkata

Plot nos 56 & 57
Block DN-57, Sector V
Salt Lake Electronics Complex
Kolkata - 700 091
West Bengal
Phone: [91] (33) 2357 9100

Mumbai

252 Veer Savarkar Marg
Next to Mayor's Bungalow
Shivaji Park, Dadar
Mumbai - 400 028
Maharashtra
Phone: [91] (22) 6669 1000

Pune

Tower A - Wing 1, 7th Floor
Business Bay
Airport Road, Yerawada
Pune - 411 006
Maharashtra
Phone: [91] (20) 4100 4444

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Data Classification: DC0

SUB/February2018