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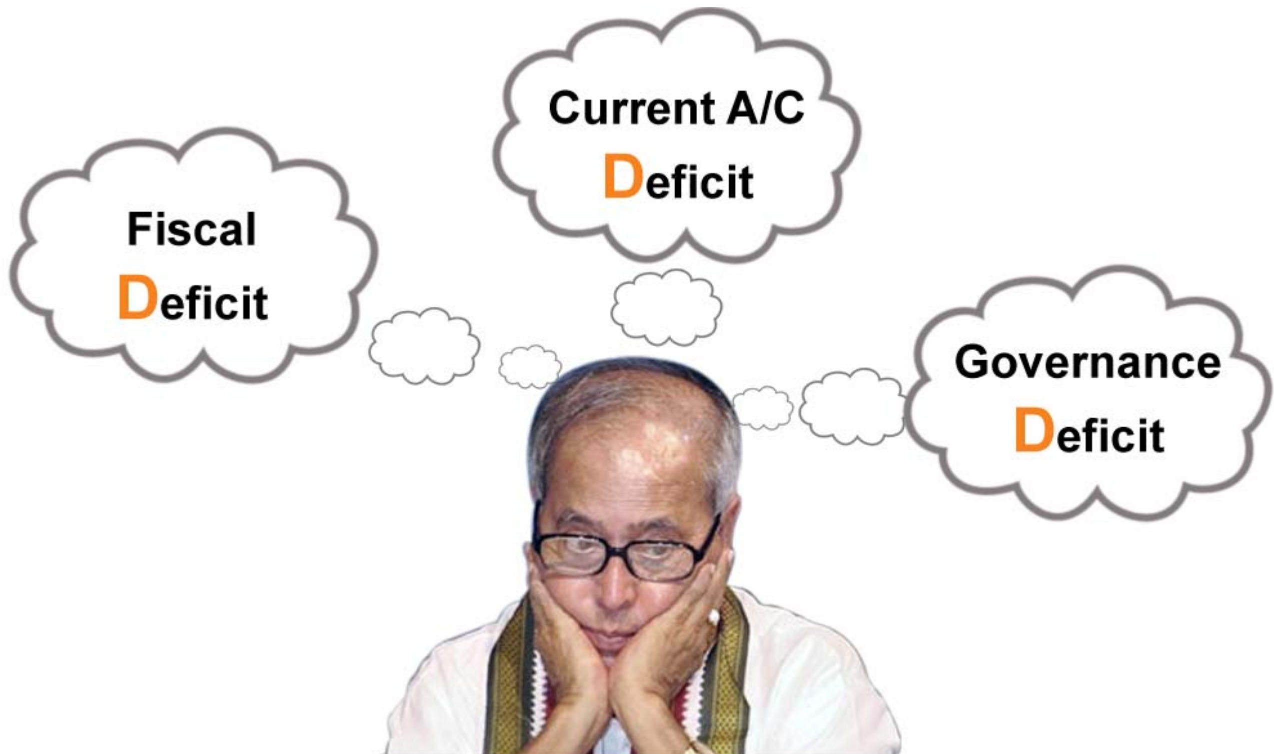
wealth enhancement solutions



BUDGET ₹01₹

Fixing the 3Ds issue

- **Fiscal Deficit** – We expect fiscal deficit to correct to 4.5% vs. 5.5% FY11BE, lower market borrowings and positive impact on private sector investments.

- **Current Account Deficit** – We believe the governments will respond to widening current account deficit problem by giving increased thrust on diversification of export market and policy reforms to attract higher FDI flows.

- **Governance deficit** – Implementation roadmaps for GST & DTC, Food Security Bill, better coordination among financial inclusion programs, UID project & subsidy payment system and policy push for investments in agricultural sector to improve farm production and tame food driven inflation.

Possibilities

- Lower fiscal deficit and market borrowings will allow private sector capital formation, capacity expansion meaningfully and stable long term interest rate regime.
- Growth in exports driven by market diversification will help reduce trade deficit, resulting into lower current account deficit, currency appreciation and is positive for equities.
- Better governance on implementation and reforms will reduce non plan expenditures such as interest payments, subsidies and focus on productive expenditures on education, social programs, healthcare and investments in agricultural sector – Medium positive for overall economy and especially rural economy.

Challenges

- Rising crude oil prices may increase oil subsidy burden and put pressure on public finance; resulting into higher market borrowings, upward pressure on long term rates and negative impact on investment cycle in the economy.
- Lack of appropriate policy address to current account deficit problem may result into pressure on exchange rate, negative impact on imports, investment cycle and downward pressure on equities.
- We believe the markets are expecting quick and tangible policy response towards poor implementation & awarding projects in infrastructure sector, failure to this will distort the infrastructure development opportunity story.

Corporate Expectation

- Acceleration in implementation of GST
- Stable corporate tax rate and reduction in surcharge
- Reduction in dividend distribution tax
- Tax consolidation in holding companies structure
- Policy focus on bond market development and financing infrastructure development

Market performance Pre-Post Budget

Historically markets build expectations on budget and run up before the budget, out of the last 20 budgets, in 12 cases market has given negative return for 30 days post budget and in 13 cases market has posted negative returns within a week as most of the annocement are already factored in pre budget run up. (Refer Exhibit 19.)

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Summary

What would be the key issues weighing on the finance minister's mind when he presents the budget on 28th February, 2011? Our assessment indicates that Policy endeavor towards fixing three deficits include fiscal deficit, current account deficit and governance deficit. **Based on industry reports and current policy environment, the government is likely to push economic reforms such as increase in FDI limits in various sectors, channelizing financial savings into infrastructure sector through development of bond market and taxation reforms etc**. On the reform side GST roll-out and revenue loss compensation structure are key things to be watched in this budget. **We believe key challenges before the government are proper policy responses to supply driven food inflation, de-regulation of diesel in high inflationary environment and measures to fix execution issues in sectors such as road, ports, airports, mining, power sector etc.** We do expect sector specific roll back of fiscal stimulus particularly in auto, cement and metal sectors. Government will continue to focus on supporting agriculture, infrastructure, job-intensive industries and SMEs.

Fiscal consolidation key challenge

Recovery in the economy coupled with rising tax revenue will help in reducing fiscal deficit in next few years. The 13th Finance Commission has outlined clear roadmap for fiscal consolidation with target of 0% revenue deficit and 3% fiscal deficit by 2015. We believe, thrust on deepening and broadening of taxation base through DTC and GST will be long term positive implication on growth trend and government finance. **We expect fiscal deficit to be about 4.5% of GDP in this budget vs. 5.5% in the previous budget, driven by strong growth in revenue receipts and one time bonanza from auction of 3G airwaves resulting into lower market borrowings.** However, downside risks to fiscal consolidation are rising crude oil prices and persistence of structural deficiency in farm & fertilizer sector.

Widening current account deficit needs policy attention

The rise in trade deficit led to further widening of current account deficit on the back of stagnation in net invisibles surplus, partly due to continuing growth imbalance between India and rest of the world. Higher net capital flows are better absorbed by widening current account deficit, leading to a moderate accretion to reserves. The composition of capital flows also has changed considerably, with large increase in portfolio flows and lower FDI inflows. We believe likely policy response to tackle widening current account deficit includes a) Hike in FDI limits in certain sectors to boost FDI inflow which is sustainable long term fund flow, b) Continuous thrust on diversification of export markets and improving market competitiveness c) Supportive industrial policy like setting up of greenfield - project in sectors such as mining, construction, infrastructure development etc. d) clearing ambiguity on policy thinking on capital account convertibility. The situation is at a manageable level so far in India as foreign exchange reserves are sufficient to counter temporary reversal of capital.

Acceleration in pace of economic reforms

We believe there is a need to press the accelerator button for economic reforms to improve global competitiveness and attract higher capital flow to productive sectors. Given the higher inflationary environment, de-regulation of diesel is unlikely and oil subsidy continues to have lion share in the total subsidy bill. However, **we believe greater policy emphasis on Food Security Act and new fertilizer investment are seen as long-term solutions to food supply problem to some extent**. Rollout of GST has been delayed due to differences between states and the center on implementation issues. We expect increase in FDI limits in Insurance and Retail sector, as they have been on the card since UPA government's budget in 2004-05. **Sharper policy thrust on operational issues such as delay in awarding infra projects, land acquisition, environment policy for industrial project clearance will be seen in the budget. We believe progress of UID project, higher allocation under NERGA and pace of financial inclusion will further push India's inclusive growth story.**

Corporate wish list!!!

Expect acceleration in implementation of GST, Reduction in dividend distribution tax, enhanced depreciation on IT products for competitiveness of MSME, additional depreciation on pollution control and energy saving equipments, tax exemption for Indian R&D companies, Tax consolidation in holding company structure, **Policy on development of bond market, CAPEX based subsidy payment to fertilizer companies, Infrastructure funds set up by government**, E-Filing of tax returns by foreign companies and Residential status of expatriate employees.

Market Performance Pre-Post Budget

Historically markets build expectations on budget and run up a little before the budget. Out of the last 19 budgets, in 12 cases market had given negative return for 30 days post budget and in 13 cases market had posted negative return within a week as most of the announcements are already factored in pre-budget run up (Refer Exhibit 19).

A. Government Finances

Improving corporate performance, rising income levels, better investment climate will drive the revenue receipts going forward. 3G auction and BWA auction proceeds (~ Rs1,06,000 crore) boosted the government finance during the year, however this one off would be absent going forward. Revenue receipts witnessed healthy growth and achieved 70% of the Budget target in the current fiscal 2011. We continue to believe that tax revenue will remain robust next year driven by healthy economy growth, pick-up in industrial production and robust growth trends in service sector. We believe that the government will be focusing on increasing spending for productive purposes like infrastructure development, rural sector, education, irrigation supported by tax revenue and additional surplus available under 3G and BWA auction. However, rising commodity prices including crude oil prices may impede fiscal consolidation and put pressure on public finance. We expect the Govt to continue raise funds through disinvestment of PSU equities which will be used for productive purposes.

Key Factors to be watched in Budget 2012

- Implementation roadmap for Tax reforms – Direct Tax Code and Goods & Service Tax
- Policy guidance for fiscal consolidation process and fiscal deficit target
- Market borrowings for the next fiscal
- Divestment of the Government's stake in public sector entities (Budget Estimate)
- Greater focus on infrastructure spending particularly on roads and power sector
- Social / Rural sector allocation
- Sharper policy resonse (like formation of infra debt fund, development of bond market) to address funding issues in infrastructure sector
- Likely increase in FDI limit in insurance and retail sector

Exhibit 1: Receipts Growth (In Rs Crores)

Particulars	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Receipts Net of Debt Borrowings	574,438	607,506	727,341	838,639
Growth Y-o-Y (%)		6%	20%	15%
Dis investments	2,567	25,958	40,000	30,000
Receipts Adj disinvestments	571,871	581,548	687,341	808,639
Growth Y-o-Y (%)		2%	18%	18%

Source : KRChoksey Research, Finance Ministry

A.1 Revenue Receipt

Tax revenue is expected to increase 19.7% over the FY11 budget estimate of Rs 5,34,094 cr driven by higher corporate tax, robust service tax, improving excise and custom duties. Total revenue receipts to grow ~ 17.7% against 18.2% FY11 BE mainly driven by tax revenues and modest non tax revenue. Notably, growth in revenue is reflecting strong underlying growth momentum in the Indian economy and broadening direct taxation base. (Refer Exhibit 2).

Exhibit 2: Revenue Receipts (In Rs Crores)

Particulars	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Net Total Tax revenue	465,970	465,103	534,094	639,406
Growth Y-o-Y (%)		-0.2%	14.8%	19.7%
Total Non-Tax Revenue	96,203	112,191	148,118	163,733
Growth Y-o-Y (%)		16.6%	32.0%	10.5%
Total Revenue Receipts	562,173	577,294	682,212	803,139
Growth Y-o-Y (%)		2.7%	18.2%	17.7%

Source : : KRChoksey Research, Finance Ministry

A.1.1 Tax Revenue

Higher GDP growth coupled with better tax administration have resulted into higher growth in tax revenue in recent years. Direct taxe as a percentage of GDP increased from 3.8% in 2004 to 6.3% in 2010,an increase of 250 bps, a healthy development as direct taxes are progressive than indirect taxes.

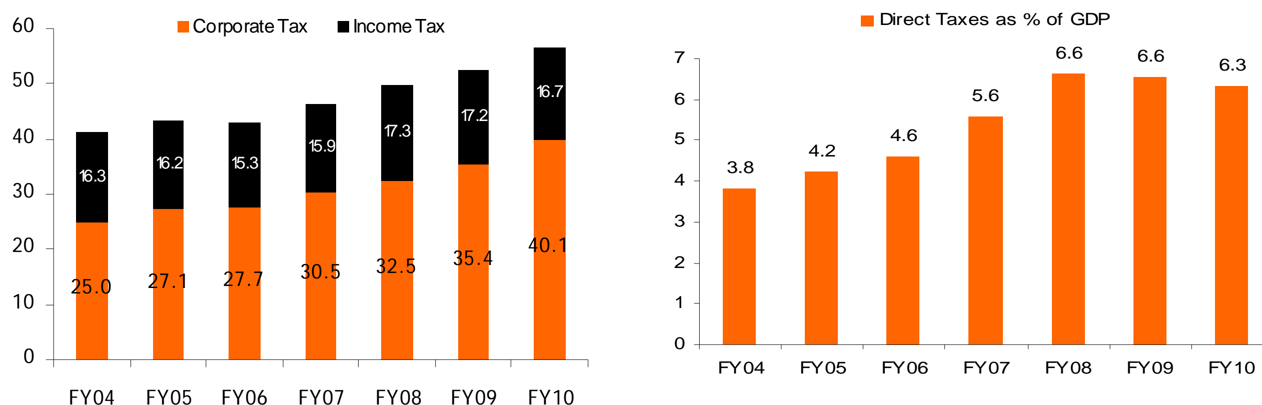
A.1.1.a) Direct Taxes

Direct tax's contribution to total tax revenue has increased from 48.6% in FY07 to 57.7% in FY10, supported by strong growth in corporate taxes. The high buoyancy of direct tax revenue is attributable to substantial improvement in tax compliance. Direct taxes are expected to expand 15.6% over FY11 budget estimate (Rs4,21,897 crore) to Rs4,87,589 crore driven by robust growth in corporate taxes. We expect corporate taxes to increase by 20% driven by improving corporate earnings and stable tax rates. As far as DTC implementation is concerned, we believe DTC will be implemented from 1st April, 2013 onwards. Rising inflation coupled with higher prices of essential commodities may prompt the Government to give some relief to individual taxpayers in the form of higher tax slabs.

Exhibit 3: Direct Taxes (In Rs Crores)

Particulars	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Corporation tax	222,000	255,076	301,331	361,597
Growth Y-o-Y (%)	-	14.9%	18.1%	20.0%
Income tax	122,600	124,989	120,566	125,991
Growth Y-o-Y (%)	-	1.9%	-3.5%	4.5%
Direct Tax	344,600	380,065	421,897	487,589
Growth Y-o-Y (%)	-	10.3%	11.0%	15.6%

Source : KRChoksey Research, Finance Ministry



A.1.1.b) Indirect Taxes

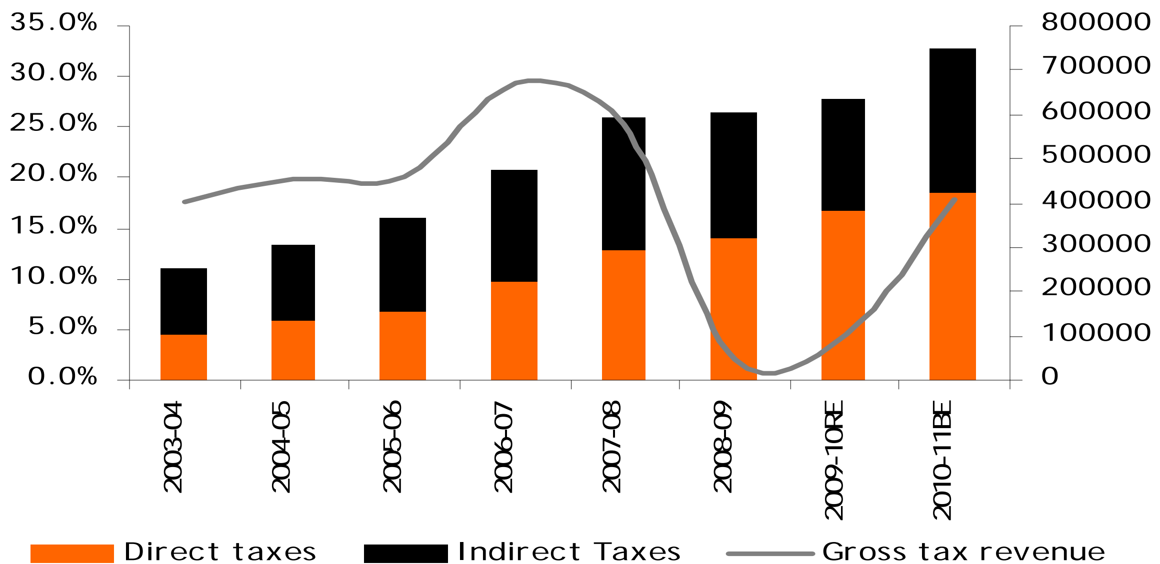
Indirect tax collection has been muted in recent period largely due to fiscal stimulus in response to global financial crisis. Some of the fiscal stimulus has been withdrawn in the last budget, resulting into higher budget targets for indirect taxes. Indirect tax collections were estimated at 28.84% higher than FY10 revised budget estimate. Given the broad based economic recovery, we expect further withdrawal of fiscal stimulus in the coming budget and inclusion of more services under the service tax ambit. We have forecasted 23.81% increase in total indirect taxes factoring increase in excise duty, robust growth trend in service sector and improving external trade. GST implementation is likely to see hindrance in the form of disagreement between states and the centre on tax sharing, revenue loss compensation structure and tax rates.

Exhibit 4: Indirect Taxes (In Rs Crores)

Particulars	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Customs	108,000	84,477	115,000	145,000
Growth Y-o-Y (%)	-	-21.8%	36.1%	26.1%
Union Excise Duties	108,359	102,000	132,000	160,000
Growth Y-o-Y (%)	-	-5.9%	29.4%	21.2%
Service Tax	65,000	58,000	68,000	85,000
Growth Y-o-Y (%)	-	-10.8%	17.2%	25.0%

Source : KRChoksey Research, Finance Ministry

Exhibit 5: Tax Revenue Trends and Composition (Rs Cr)



Source : KRChoksey Research, Finance Ministry

A.2 Capital Receipts

A.2.1 Divestment Proceeds

The FM outlined that the government will continue to raise funds though divestment of equity stake in public sector entities and spend in the NREGA - an important scheme for rural economy and inclusive growth. Total divestment was estimated at Rs40, 000 crore in the FY11 Budget. Improved capital market condition has helped the government to raise funds through divestment activities during the year. **Till date, the government has sold ~ Rs21,750 crore PSU equities in the capital market, well short of Rs40,000 crore.** Looking at capital market performance, we expect the government will carry forward some public issues in the next fiscal. **We are building Rs30,000 crore divestment target for fiscal 2012 against Rs40,000 crore FY11 BE.**

B. Government Expenditure

The best measure for the government in the current budget is to lay down the expenditure rules for the next fiscal to bring down the fiscal deficit within the purview of the FRBM act. Planned fiscal tightening assumes higher importance in light of the improving outlook in the corporate growth which will need capital and also to add another tool to the government to stave off recession in case of double dip in the next couple of years.

Exhibit 7: Government Expenditure (In Rs Crores)

	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Non-Plan Expenditure	617,996	706,371	735,657	788,142
% Growth Y-o-Y	-	14.3%	4.1%	7.1%
Plan Expenditure	282,957	315,176	373,092	409,808
% Growth Y-o-Y	-	11.4%	18.4%	9.8%
Total Expenditure	900,953	1,021,547	1,108,749	1,197,951
% Growth Y-o-Y	-	13.4%	8.5%	8.0%

Source KRChoksey Research, Finance Ministry

B.1 Non Plan Expenditure

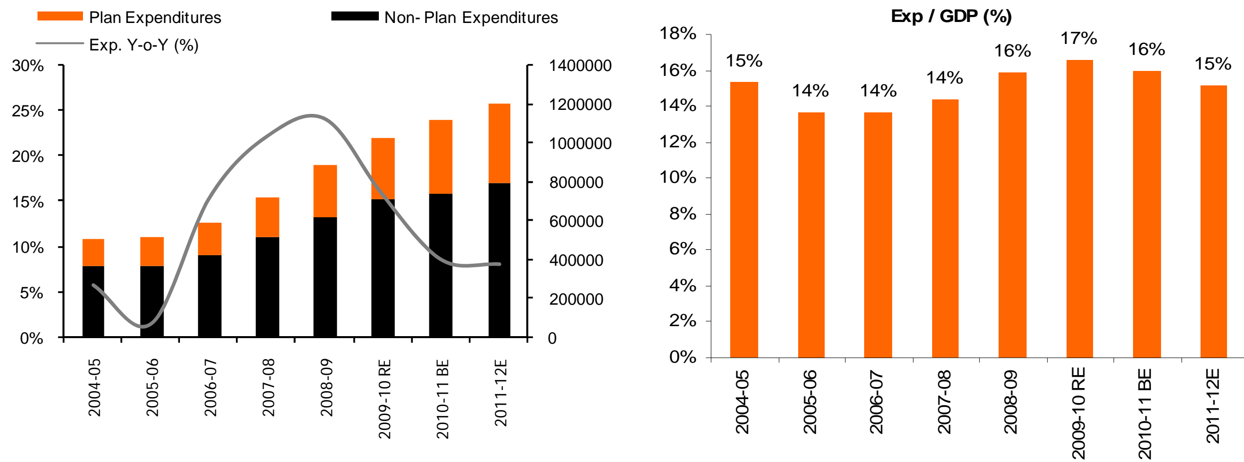
Non plan expenditures include largely interest payment, defense expenditures and subsidies. We believe rising crude oil prices, hike in MSP for agriculture production will increase current year subsidy bill. The government has already paid ~ Rs 21,000 crore towards oil subsidy against budget provision of Rs 3,100 crore. We expect non plan expenditure to increase by 7.1% over FY11BE factoring higher interest payment and subsidies.

Exhibit 8: Planned Expenditure (In Rs Crores)

	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
Non-Plan Expenditure	617,996	706,371	735,657	788,142
% Growth Y-o-Y	-	14.3%	4.1%	7.1%
Interest Payments	192,694	219,500	248,664	278,504
% Growth Y-o-Y	12.70%	17.00%	17.0%%	15.00%
Defense Expenditure	73,600	88,440	87,344	91,711
% Growth Y-o-Y	25.00%	23.70%	23.70%	15.00%
Subsidies	129,243	131,025	116,224	145,280
% Growth Y-o-Y	82.20%	-13.90%	17.80%	7.00%
Grants to States & UT Govts	38,421	46,610	46,001	48,301
% Growth Y-o-Y	7.40%	26.40%	26.40%	10.00%
Others	127,832	156,369	145,366	129,817
% Growth Y-o-Y	-	22.3%	-7.0%	-10.7%

Source : KRChoksey Research, Finance Ministry

Exhibit 9: Expenditure Trends (In Rs. Crore)



Source : KRChoksey Research, Finance Ministry

B.1.1 Subsidies

Historically the government underestimates subsidy bill especially oil related subsidy. Total subsidy was estimated at Rs116,224 crore, food and fertilizer subsidy contributing 90% to the total subsidy bill. Oil subsidy was Rs 3,108 crore against which the government has already paid Rs 21,000 to upstream and downstream oil and gas companies. We have estimated Rs 145,280 crore subsidies in FY12 factoring higher oil and food subsidies. **We believe the government may delay the deregulation of diesel considering higher inflation scenario and election in five large states in the next 12-15 months. Key reforms include Food Security Bill, operational push for improvement in public distribution system and financial inclusion, which ensure direct impact on these subsidies to target population.**

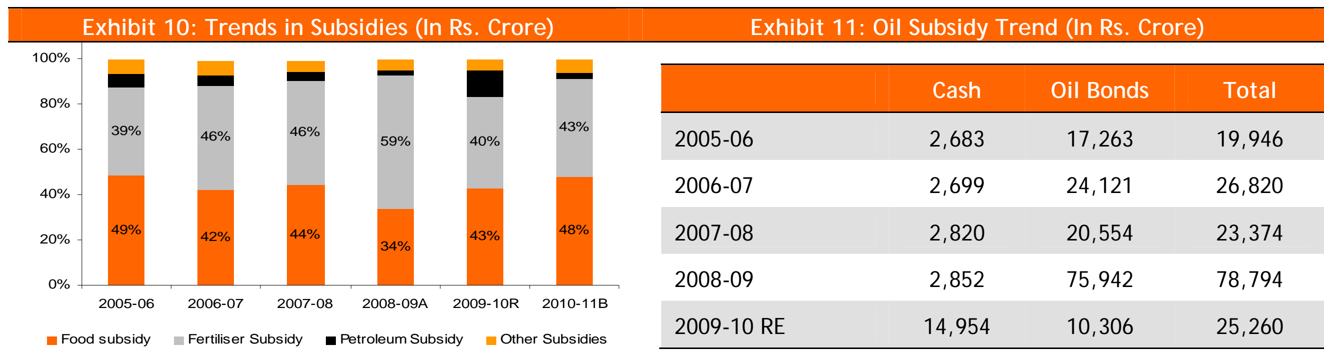


Exhibit 11: Oil Subsidy Trend (In Rs. Crore)

	Cash	Oil Bonds	Total
2005-06	2,683	17,263	19,946
2006-07	2,699	24,121	26,820
2007-08	2,820	20,554	23,374
2008-09	2,852	75,942	78,794
2009-10 RE	14,954	10,306	25,260

Source : KRChoksey Research, Finance Ministry

C. Fiscal Deficit

Based on our estimates, the fiscal deficit is expected at 4.5% of GDP against 5.5% fiscal deficit FY11BE, mainly driven by robust revenue receipts. Furthermore, base year has been changed for GDP calculation from 1999-00 to 2004-05, resulting into increased nominal GDP and downward pressure on fiscal deficit % number. **We have assumed 14% nominal GDP growth for next fiscal for fiscal deficit % calculation purpose. We believe higher growth in tax revenue coupled with divestment flow lead to 100bps reduction in fiscal deficit.**

Exhibit 12: Analysis of Fiscal Deficit : Drivers for fiscal correction in FY12

	Rs in crore	As % of GDP
FD - FY11BE	**-381408**	**-5.5%**
Revenue receipts	120927	1.5%
Tax revenue	105312	1.3%
Non tax revenue	15615	0.2%
Capital receipts	-9629	-0.1%
Divestment	-10000	-0.1%
Others	371	0.0%
Total Expenditures	89202	1.1%
Subsidies	29056	0.4%
FD FY12E	**-359312**	**-4.5%**
Market Borrowings - FY11BE	345010	5.0%
Market Borrowings - FY12E	311599	3.9%

Source : KRChoksey Research, Finance Ministry

Our analysis shows revenue receipts increase by 1.5% of GDP against 1.1% rise in total expenditure resulting to 100bps decline in fiscal deficit to 4.5% FY12E. **We have factored in higher subsidies to 1.8% of GDP against 1.7% FY11BE factoring rising crude oil prices and lower probability of de-regulation of diesel pricing.**

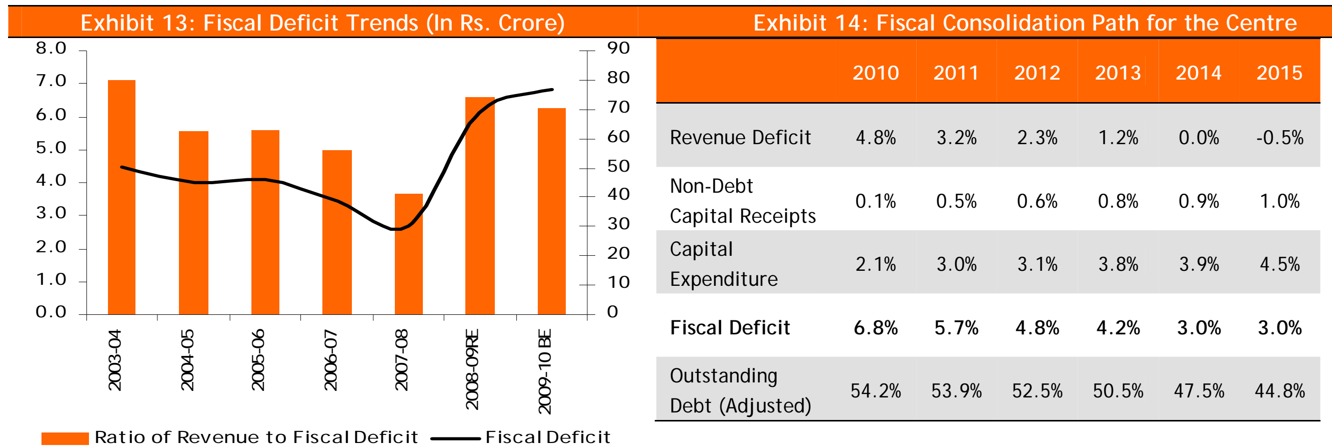


Exhibit 14: Fiscal Consolidation Path for the Centre

	2010	2011	2012	2013	2014	2015
Revenue Deficit	4.8%	3.2%	2.3%	1.2%	0.0%	-0.5%
Non-Debt Capital Receipts	0.1%	0.5%	0.6%	0.8%	0.9%	1.0%
Capital Expenditure	2.1%	3.0%	3.1%	3.8%	3.9%	4.5%
Fiscal Deficit	6.8%	5.7%	4.8%	4.2%	3.0%	3.0%
Outstanding Debt (Adjusted)	54.2%	53.9%	52.5%	50.5%	47.5%	44.8%

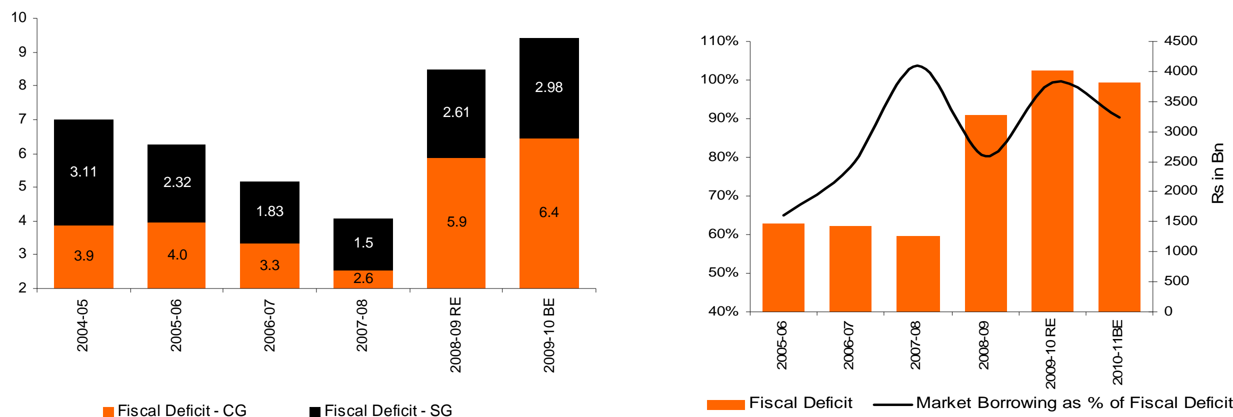
Source : KRChoksey Research, Finance Ministry

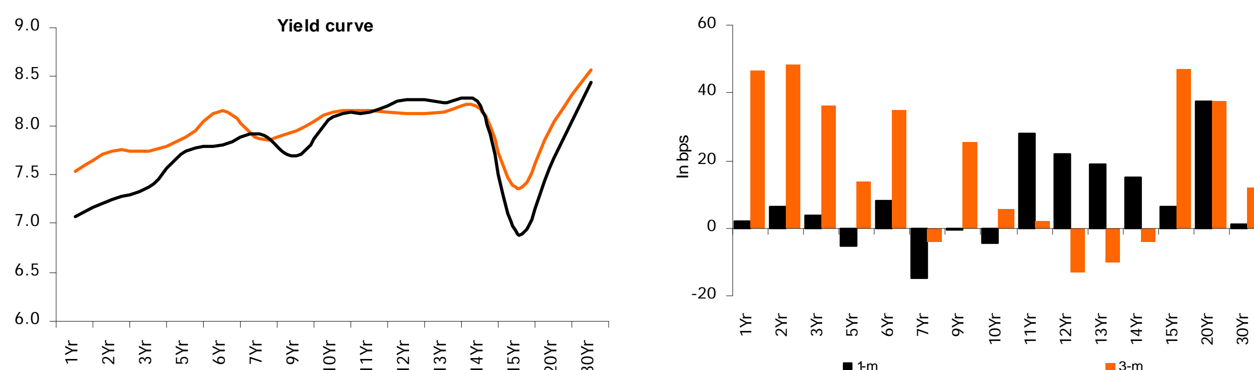
We also believe tax reforms, rationalization of subsidies and multiplier effect of inclusive growth on economy will drive fiscal consolidation in next few years.

D. Market Borrowings

In line with the statements of the RBI pertaining to the possible government borrowing in next fiscal year we expect the net borrowing to decline to Rs 311,600 crore against Rs 345,000 FY11BE. Decline in fiscal deficit and continuous divestment of PSU equities lower the market borrowing requirement for the next year. **We believe SLR demand from banking system along with demand from insurance sector should absorb this paper supply, not affecting private sector credit demand and yields.**

Exhibit 15: Fiscal Deficit, Market borrowings Trends & Yield Curve





Source : KRChoksey Research, Finance Ministry

Widening current account deficit needs policy attention

Current account deficit has been rising since the global financial crisis. Key components of current account deficit include trade deficit, invisibles income and mode of financing. Exports have rebounded strongly and grown 29.5% y-o-y due to lower base while imports grew 19.0% y-o-y during April- December 2010. The growth in imports has primarily been led by oil, pearls and semi precious stones. Rising crude oil prices along with growth in quantity of oil imports has led to higher oil import bill. Trade deficit increased by 20% y-o-y to US$ 66.8 million against US$ 55.8 million during the same period. Invisibles income has been subdued on the back of stagnation in net invisibles surplus, partly due to the continuing growth imbalance between India and the rest of the world, resulting into widening current deficit.

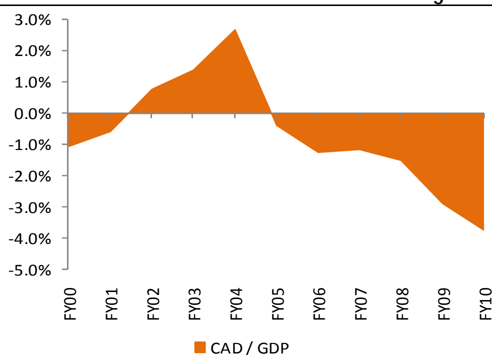
There are two major source of financing to current account deficit – FDI flow and portfolio flow. Global portfolio flows have been strong in the country on the back of attractive growth story and reasonable valuation but FDI flows saw moderation during Apr-Dec 2010 due to execution deficit such as delay in environmental clearance, lack of policy reforms visibility to expedite infrastructure development like power and roads etc. **Our sectoral FDI analysis shows that construction, real estate and financial services sectors saw steep decline in FDI flow during Apr-Nov 2010. Higher capital flows are largely absorbed by current account deficit.**

Current account deficit as % of GDP increased from 2.9% in FY09 to 3.7% in FY10, emerging key macro risk. **We believe rising current account deficit and deleveraging of global capital flows may put pressure on the exchange rate and equities. We expect the government may hike FDI limits in sectors such as insurance and retail in the coming budget to attract higher FDI flow and finance the CAD in a better manner.**

Likely policy response to tackle current account deficit issue

- Government may hike sectoral FDI limit to attract higher FDI Flow
- Continuous thrust on diversification of export markets and improving market competitiveness
- Supportive industrial policy setting up of green field project in the sectors like mining, construction, infrastructure development etc.

Exhibit 16: Current Account Deficit widening



India's Balance of Payment

US$ Bn	FY2010				FY2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Exports	39.2	43.4	47.2	52.5	56.3	54.3
Imports	65.4	73.0	78.1	84.1	87.8	89.6
Trade balance	-26.2	-29.6	-30.9	-31.6	-31.5	-35.3
Net Invisibles	22.1	20.4	18.7	18.8	19.4	19.6
CAD	-4.2	-9.2	-12.2	-12.8	-12.1	-15.7
Gross Capital (+)	77.9	96.0	81.6	90.3	95.0	112.8
Net Capital (-)	74.2	76.7	66.9	74.5	78.8	92.3
Net Capital A/C	3.7	19.3	14.6	15.8	16.2	20.5

Source : KRChoksey Research, Finance Ministry, RBI

Exhibit 17: FDI Inflow Analysis

US $ million	FY07	FY08	FY09	FY10	FY11
Service sector (Financial & Non -Financial)	4664	6615	6138	4353	2596
Computer software & hardware	2614	1410	1677	919	574
Telecommunication	478	1261	2558	2554	1093
Housing and Real Estate	467	2179	2801	2844	999
Construction	985	1743	2028	2862	834
Power	157	967	985	1437	984
Automobile	276	675	1152	1208	533
Metallurgical Industries	173	1177	961	407	960
Oil & Gas	89	1427	412	272	529
Chemicals - other than fertilizer	205	229	749	362	271
Total	22826	34835	35180	37182	14025

Source: RBI, DIPP, KRChoksey Research

Note: FY11 data relates to April – Nov. 2010 period.

Exhibit 18: Government Finance Snapshot

(In Rs Crores)

	2008-09 RE	2009-10 RE	2010-11 BE	2011-12 E
REVENUE RECEIPTS	562,173	577,294	682,212	803,139
Tax Revenue	465,970	465,103	534,094	639,406
Corporation tax	222,000	255,076	301,331	361,597
Income tax	122,600	124,989	120,566	125,991
Customs	108,000	84,477	115,000	145,000
Union Excise Duties	108,359	102,000	132,000	160,000
Service Tax	65,000	58,000	68,000	85,000
Less States' Share	160,179	164,832	208,997	250,207
Net Tax Revenue	465,970	465,103	534,094	639,406
Non-Tax Revenue	96,203	112,191	148,118	163,733
CAPITAL RECEIPTS	338,777	444,253	426,537	394,812
Non Debt Based Receipts	12,265	30,212	45,129	35,500
Debt Borrowings	296,531	419,622	381,408	359,312
Internal Debt Market Borrowings (Net)	261,972	398,411	345,010	311,599
Short Term Borrowing	57,500	-3,904	0	0
External Assistance(Net)	9,603	16,535	22,464	26,957
Small Savings(Net)@	1,324	13,256	13,256	13,256
State Provident Funds(Net)	4,800	8,500	7,000	7,500
Other items of Capital receipts (Net)	-38,668	-13,176	-6,322	0
TOTAL- RECEIPTS	**900,953**	**1,021,547**	**1,108,749**	**1,197,951**
EXPENDITURE				
Non-plan Expenditure	617,996	706,371	735,657	788,142
Interest Payments	192,694	219,500	248,664	278,504
Defense Expenditure	73,600	88,440	87,344	91,711
Subsidies	**129,243**	**131,025**	**116,224**	**145,280**
Grants to States & UT Govts.	38,421	46,610	46,001	48,301
Other Non-Plan Expenditure	127,832	156,369	145,366	129,817
Plan Expenditure	282,957	315,176	373,092	409,808
Total Expenditure	**900,953**	**1,021,547**	**1,108,749**	**1,197,951**
Fiscal Deficit	-326,515	-414,041	-381,408	-359,312
Fiscal deficit %	**6.0%**	**6.7%**	**5.5%**	**4.5%**
GDP at Market Price	5426277	6164178	6934700	7905558

Source : Budget Documents, KRChoksey Research

Exhibit 19: Market Returns Pre and Post Budget

Budget Year	Before Budget 7days	Before Budget 15 days	Before Budget 30 days	After Budget 7days	After Budget 15 days	After Budget 30 days
1991-1992	3.0%	8.5%	16.8%	9.9%	9.9%	21.3%
1992-1993	15.3%	22.8%	27.9%	22.7%	15.1%	44.5%
1993-1994	5.3%	0.0%	8.4%	-12.1%	-13.9%	-19.1%
1994-1995	3.8%	7.4%	5.7%	-12.9%	-12.1%	-11.9%
1995-1996	-2.3%	-1.8%	-3.3%	-3.1%	-3.3%	1.8%
1996-1997	2.6%	2.7%	-3.0%	-8.3%	-8.6%	-10.5%
1997-1998	6.2%	4.6%	3.6%	6.1%	2.6%	-8.0%
1998-1999	-6.8%	-5.4%	-9.1%	-6.2%	-13.2%	-11.3%
1999-2000	-3.6%	-3.1%	-1.8%	12.8%	13.9%	13.9%
2000-2001	-2.3%	-2.3%	-3.2%	-3.8%	-9.8%	-11.1%
2001-2002	-6.6%	-7.6%	-6.0%	-1.8%	-8.5%	-7.8%
2002-2003	4.1%	5.9%	11.7%	-2.5%	-3.4%	-5.5%
2003-2004	-0.7%	1.1%	1.4%	-4.0%	-7.2%	-6.2%
2004-2005	3.3%	4.6%	0.4%	-2.2%	2.0%	4.9%
2005-2006	-0.2%	-0.1%	5.4%	4.6%	3.6%	-3.1%
2006-2007	2.0%	1.7%	4.2%	4.4%	10.0%	8.8%
2007-2008	-5.4%	-5.0%	-5.6%	-5.8%	-7.0%	-3.7%
2008-2009	1.2%	7.3%	-1.8%	-8.3%	-13.8%	-8.2%
2009-2010	0.9%	4.1%	-1.3%	-10.1%	1.9%	6.6%
2010-2011	-1.6%	-1.9%	-1.4%	3.4%	4.4%	7.7%
Average	1.0%	2.4%	2.7%	-1.1%	-2.2%	-0.2%
Median	1.2%	1.7%	0.4%	-3.1%	-3.4%	-5.5%

Source : KRChoksey Research, Bloomberg

B. Sector Expectation

Auto

Auto industry has reported strong growth post crisis on the back of strong demand in the domestic markets & recovery in exports. Given the strong recovery we foresee a possibility of rollback of the earlier provided stimulus by the government. A further hike in excise duty is expected resulting in impact on volumes for all the major OEM's. The impact shall vary across the companies depending on their export contribution & manufacturing facilities in tax free zones. The CV segment is expected to see major impact with volumes coming under pressure due to rising interest rates.

Going forward, the focus of the government to drive the economic growth through infrastructure development and rural development is likely to be the driving factor for the automobile industry.

Measures Taken in Fiscal Stimulus Packages and Budget 2010

- Excise duty hike by 2%
- Increase in Individual Income Tax Slabs, Hike in allocation in NHAI and NREGS & Rural Development
- Increase in R&D deduction from 150% to 200%
- Increase in the MAT rate from 15% to 18%

Budget Expectations	Probability	Impact	Companies to be Impacted
Rollback of stimulus package in the form of increase in excise duty by 2%.	High	Negative/High: Restoration of excise duty will directly impact the product prices in auto sector, subsequently affecting the volumes. Expect the Passenger Car segment to absorb the hike but it could be a major blow for CV segment.	Across the board impact
Increase in allocation for infrastructure development specifically for NHAI	Medium	Positive/High: Infrastructure development will be a boon for the auto sector, specifically CV segment	Beneficial for commercial vehicle segment; Tata motors, Ashok Leyland CV volumes can be benefited in the long run
Revision in income tax slab	High	Positive/Medium : Demand for 2 wheelers & lower end 4 wheelers to be impacted positively with increase in disposable income at the lower end of the spectrum	Maruti, Hero Honda, Bajaj auto, TVS to be benefited directly
Rapid Implementation of GST	Low	Positive/High - This would result in removal of indirect taxes & single point of taxation, resulting in reduced prices for Auto & Auto Components.	All Auto & Auto Ancillary companies

Banking, Financial Services and Insurance

We expect favorable policy prescription for financial sector from this budget. Furthermore, re-capitalization of banks, increase in FDI limit for insurance and development of bond market will continue to remain key policy agenda for the budget. Focus would be on the fiscal consolidation and if there is a positive surprise (fiscal deficit lower than expected 4.5%), state owned banking (SOB) stocks could rally else we could expect correction across the sector in the immediate term. We expect a budget proposal for re-capitalization of SOBs will be passed to strengthen the banks with adequate capital base particularly SBI.

Measures Taken in Fiscal Stimulus Packages and Budget 2010

- **Recapitalization of SOBs:** The government had announced capital infusion of Rs 16,500 crore during budget 2010-11 against Rs 1,900 crore actually infused in 2008-09. During FY10-11, the government actually infused Rs 6,211 crore in five banks and of late, the Cabinet Committee on Economic Affairs (CCEA) approved capital infusion of Rs 6,000 crore into 10 PSU banks, in addition to Rs 16,500 crore allocated in the budget.

- **New banking licenses:** Further, with a view to extend the geographic coverage of banks and improve access to banking services, the finance minister announced some additional banking licenses to private players including NBFCs. In this respect, RBI released a discussion paper for the public comments in August 2010. It is in the process to finalize the guidelines for the same.

Budget Expectations	Probability	Impact	Companies to be impacted
To permit the banks to issue long term tax free infrastructure bonds.	Low	Positive/ High: It will also address the ALM mismatch problem of the banks.	
Recapitalization of State Owned Banks as well as RRBs.	High	Positive/Medium: It would strengthen the banks with adequate capital base.	For SBI, Rs 20,000 crore rights issue has been approved but in the budget it would be clear whether it would be in the form of cash or bond
Increase in FDI limit in insurance sector: increase in FDI limit to 49% from currently 26%.	Medium	Positive/ High: It will attract more foreign direct investments into the insurance sector and reduce the investment burden on Indian partners.	Reliance Capital, Bajaj Finserv, ICICI Bank, Kotak Mahindra Bank
Separate tax deduction limit for life insurance u/s 80C.	Medium	Positive/Medium: It will be a great booster for long term saving instruments such as insurance products.	Life insurance companies
Extension of period for carried forward losses for insurance companies	Low	Positive/High: Insurance companies may be allowed to carry forward their losses upto 12 years from currently 8 years.	Insurance companies
Pension reforms - Positive policy framework for allocation to equity related instruments.	High	Investment limit of 5% in direct equities and 10% in equity linked MF of new inflows can be increased	Positive for equity market and broking companies (Motilal Oswal, IIFL & Religare)

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Budget Expectations	Probability	Impact	Companies to be impacted
Tax relief on loan loss provisions u/s 36(1)(viia) of Income Tax Act whereby deduction upto 50% of LLP can be permissible for tax calculation purpose.	Medium	Positive/High: Currently, banks are allowed upto 7.5% of the total income calculated under Chapter VIA and upto 10% of aggregate average advances made by their rural branches or at their option upto 5% of the NPA assets. Banks have made huge provision complying with 70% PCR. Allowing higher tax relief would lessen their tax burden.	Positive for the sector
Measures to promote greater investments in agri infrastructure viz. cold storages, warehouses & irrigation.	High	Positive/Medium: It will boost farm productivity, help taming the inflationary pressures and achieve food security in India.	Banks including NBFCs engaged in providing farm credit
Policy measures and clear roadmap to develop and regulate a vibrant corporate debt market in India	High	Positive/Medium: It will address the problem of huge gap in long term financing	Infrastructure companies

Cement

Cement continues to be a highly taxed commodity in the country despite being the most essential infrastructure input. The total government levies and taxes on cement constitute around 60 per cent of the ex-factory price for cement. Levies and taxes on cement in India are far higher than most of the other countries in the Asia-Pacific Region where the average tax is just 11.4%, with the highest levy of 20 % in Sri Lanka.

We expect the demand for cement to grow at 1.2 x GDP growths and are expecting the demand for the commodity to grow at 9-11% for FY12. Input cost pressures and the ability of cement players to pass on the same is the factor that needs to be watched out for in the future.

Budget Expectations	Probability	Impact	Companies to be Impacted
Excise duty likely to go upto 12% from the current 10% on back of the withdrawal of the stimulus package	High	Negative/High: This move will impact the profitability of the cement companies, especially the southern companies as they have low pricing power. Other than the southern cement companies, other's will pass on the hike in the prices to the end clients	All Companies, especially the southern companies like India Cement, Madras Cement, Dalmia Bharat
VAT be reduced to 4% from the 12.5% that is being charged currently	Medium	Positive/Medium: This move will help in bringing down the cement prices and increase the demand for the commodity. Rationale for the move is to bring the VAT on cement at par with other building materials like steel	All Companies
Removal of import duty on coal, pet coke & gypsum	High	Positive/High: Most of the cement companies are importing coal & pet coke from the international markets as there are low coal linkages available to the cement players, as majority of the local coal is used for the power & steel industry. This move will help in lowering the cost of power and raw materials.	All companies as majority of them have to import coal due to low coal linkages available in the country
Abolishing the Export ban on Cement	Low	Positive/Low: Domestic cement industry, is presently working on low capacity utilization, abolishing the export ban on cement would be a positive for the sector as it would help in increasing the utilization rates and help the companies in tapping the	Ambuja Cement, Shree Cement, Ultratech Cement

Fertilizer

India currently consumes approx 55mn ton of fertilizers per annum out of which urea comprises 50% or 27mn ton. Domestic production of urea is 21mn ton while 6 mn ton is imported to meet domestic demand. The fertilizer consumption is expected to grow at a CAGR of 5 to 6%. Because of its sensitive nature and importance to food security, government makes sure that fertilizer is made available across the country at affordable price. This results into heavy subsidy burden on government. Limited financial resources puts pressure on government to keep subsidy bill under check without compromising with availability of the fertilizer. Total Planned fertilizer subsidy for fiscal 2010-11 is pegged at Rs 53000 cr which in most likelihood will increase by at least Rs 10000-15000cr. Thus effort will be to reduce subsidy burden, encourage balanced uses of NPK fertilizer and incentivize industry to create more capacity. Nutrient Based Subsidy (NBS) is one step in this direction where non urea fertilizers have been decontrolled while urea prices are still regulated .Ultimate aim is complete decontrol of urea price over a period of time.

Measures Taken during last 1 year

- NBS has been implemented from April 1,2010 for Non urea fertilisers like DAP and MOP and prices have been decontrolled which has improved availability of these fertilizers.
- Upward revision of urea prices by 10% from Rs 4830 per ton to Rs 5310 per ton was projected to reduce government's subsidy bill by Rs 1300 cr but has not done so due to increased uses because of higher price of non urea fertilizers.
- Subsidy rates on complex fertilizers have been brought down by 20% . The objective again was to promote efficiency and reduce subsidy bill. Producers will have to bargain hard with raw material suppliers and also pass on some hike to end user to protect margin. In short to medium term, margin will definitely take a hit as it will take time to pass on increased cost to end user.

Budget Expectations	Probability	Impact	Companies to be Impacted
Bring Urea under NBS scheme with limited decontrol of urea prices.	High	Positive: Will lead to better working capital management by urea producers. This will also promote uses of non urea fertilizers as price differential narrows down.	All fertilizer companies: RCF, NFL, Coromandel international, Tata Chemical, GSFC
Gas allocation to fertilizer plants with cap on gas prices so that it becomes financially viable to create new capacity.	Medium	Positive: Will help fertilizer company's get bank funding for capacity enhancement.	
Removal of restriction on import & export of urea.	Medium	Positive: Currently only MMTC, Indian Potash and STCI are allowed to import urea. If other players can source urea at better price, they can enhance their margins.	
Enhancement of fixed cost subsidy for urea production to account for increase in cost over years	Low	Positive: Though, strained government financials does not allow additional subsidy, it is necessary to attract investment in the sector.	

FMCG

Despite rising commodity inflation, FMCG companies have posted strong volume growth in the past three quarters led by strong domestic demand, with rural markets outperforming the urban market. We expect government to lay down road map for rapid implementation of GST which would lead to decline in prices of consumer goods & boost the overall volumes. Also continuation of service tax exemptions for setting up cold storages & setting up of mega food parks would lead to improvement in overall supply chain, benefiting the food industry. We expect disposable income to rise with improved rural infrastructure, higher allocation to various rural development schemes by the government, revision of tax slabs, further leading to higher discretionary consumption.

Measures Taken in Fiscal Stimulus Packages and Budget 2010

- Hike in excise duty by 2% - Marginal impact on earnings of all FMCG firms
- Hike in excise duty on cigarettes – Impact on cigarette volume for ITC, VST, Godfrey Phillips
- Increase in MAT from 15% to 18% - Negative for Dabur & GCPL
- 3% increase in allocation under NREGAs to Rs. 40100 cr. – Rise in rural disposable income resulting in higher rural contribution to the overall FMCG volumes

Budget Expectations	Probability	Impact	Companies to be Impacted
Increase in focus on rural development and increase in allocation for various programmes to enhance rural income	High	Positive / High – Government spending on rural development to continue leading to higher rural income & increase in overall off take	Positive for all FMCG as rural markets account for more than 40% of the overall volumes.
Rapid Implementation of GST	Low	Positive/High – This would result in removal of indirect taxes & single point of taxation, resulting in reduced prices for FMCG products.	Positive for all FMCG companies as this would lead to lower prices & higher volumes.
Increase in taxes on cigarettes	High	Negative / Medium – After 15% hike in excise last year, we expect lower hike this year, impacting the volumes in near term	Negative impact on ITC's, VST, Godfrey Phillips cigarettes volume growth. However ITC has displayed its ability to pass on the hike in the previous years
Enforcement of the Trade Mark and Copyright Laws	High	Positive/High – This would reduce the counterfeit products(account 5-6% of the industry) & increase the share of organized sector	Positive for the FMCG companies in HPC segment where higher number of counterfeits are available, especially in the rural markets.
Revision of Tax slabs	High	Positive / High – will lead to higher consumption of discretionary items.	Positive for all FMCG companies

Infrastructure:

The infrastructure investment is a key factor to attain 9% and double digit economic growth. However, there is a big gap in infrastructure targets and achievements with progress slow in several sectors like roads and Transmission and Distribution. A recent McKinsey study estimates that if current trends continue, India could suffer a GDP loss of $ 200 bn or 10% of GDP by FY17E. The three key reasons for this are shortfalls in awarding projects, time and cost overruns in construction phase and potential funding shortfalls. The need for funds is enormous with the requirement pecked at Rs 12.7 lakh crore in FY11 and FY12.

Prevailing high interest rates and high input costs (like crude, steel, cement etc) in current scenario is hurting infrastructure sector. Further increase in interest rates and input costs will make infra projects unviable in near future. Abolishing of MAT and reintroduction of section 10 (23G) of Income Tax Act could provide immediate relief to Infra developers.

Following steps to be expected by Finance Ministry for upcoming Budget 2011-12

1) Increase in infrastructure spending with pace in awarding projects to sustain 9% of GDP growth in future. Further, implementation of Deepak- Parekh Committee to create a long term debt fund of Rs 50,000 crore.

2) Reintroduction of section 10 (23G) of Income Tax Act, which provided tax exemption of interest and Long Term Capital Gains in the hands of infrastructure capital companies because interest rates are on a persistent upward march and the fund requirements of the infrastructure sector are large (~$ 1 trillion in next five years).

3) Concrete steps towards developing a deep and robust bond market and reforms in the areas of insurance, pension funds, resolution of equity issues asset classification of infrastructure loans, and strengthening of institutional mechanisms to promote financing initiatives.

4) The tax holiday u/s 80IA (4) is sought to be extended to the third party developers of infrastructure projects. Currently, the benefit is restricted to the developer or the company that operates and maintains an infrastructure facility.

5) Re-examining the service-tax regime as applicable to infrastructure operations and maintenance (O&M) activities.

Budget Expectations	Probability	Impact	Companies to be Impacted
Increase in infrastructure spending with pace in awarding projects to sustain 9% of GDP growth in future. Further, implementation of Deepak- Parekh Committee to create a long term debt fund of Rs 50,000 crore.	High	Positive/High: It will boost the profitability of the companies and lure many players to move into infrastructure space.	All Infra Developers and Construction companies.
Concrete steps towards developing a deep and robust bond market, reforms in the areas of insurance, pension funds, resolution of equity issues asset classification of infrastructure loans, and strengthening of institutional mechanisms to promote financing initiatives.	High	Positive/High It will bring in much needed funds required to finance national highway projects and achieve timely financial closure.	All Infra Developers and Construction companies.
Reintroduction of section 10 (23G) of Income Tax Act, which provided tax exemption of interest and Long Term Capital Gains in the hands of infrastructure capital companies.	Medium	Positive/ Medium: It will decrease interest costs by 50-75 bps for all infra developers.	Banks & NBFC's, Infra developers like JPAaociates, IRB Infra, ITNL, Adani Power, Reliance Infrastructure etc.
The tax holiday u/s 80IA (4) is sought to be extended to the third party developers of infrastructure projects. Currently, the benefit is restricted to the developer or the company that operates and maintains an infrastructure facility.	Low	Positive/Low : Will reduce the overall cost of the construction companies and boost the operating margin of the companies	Sub-Contactors and construction companies like Simplex Infra, Pratibha Industries, Patel Engineering, IVRCL etc.

IT & ITES

With Indian IT industry back on secular growth trend led by strong growth in export market; we do not expect extension in STPI scheme. Moreover, we expect increase in MAT rate to 20% in FY12E from 18% in FY11E as stated in the latest version of Direct Tax Code (DTC).

Major announcements in Union Budget 2010-11

- Simplification of policies led by a clarification on duty applicability for pre-packaged software as well as service tax refunds.
- The removal of anomaly in respect of SEZ under Sec 10AA of Income Tax Act and the government reaffirmation on importance of SEZs will help IT industry to take forward its SEZ plans.

Budget Expectations	Probability	Impact	Companies to be Impacted
Extension of tax exemption beyond FY11 under STPI scheme	Low	Positive/Medium: Will reduce tax rate by 500-1000 bps in FY12E of the concerned companies.	Tier I IT companies won't be much impacted as most of their delivery centers have come out of STPI scheme on completion of ten years of operation. Hence, major beneficiary will be Tier II IT companies operating primarily from STPI.

Media & Entertainment

We believe media sector performed exceedingly well on account of revival in economy and higher ad spend done to attract more consumers. According to PwC report, media ad spend in India will increase to Rs 325bn, up 25% Y-O-Y in CY11. Increasing per capita income, changing life style, scope to increase penetration in rural area will derive the growth for media sector.

Measures taken in Budget 2010-11

- Customs duty on imported head-ends reduced from 35% to 5%
- Service tax imposed on rented immovable property with retrospective effect from 1.06.2007-applicable for multiplex operators.
- Accredited news agencies which provide news feed online to be exempt from service tax.

Budget expectations	Probability	Impact	Companies to be impacted
FDI relaxation in media companies: The government has been contemplating relaxing FDI norms for cable (49% to 74%), DTH (49% to 74%) and Radio (20% to 49%).	Medium	Positive/High: Higher FDI investments will lead companies to access low cost of capital	ENIL, Hathway, Den network, WWIL, Dish TV
Tax holiday for the capital intensive business such as Gaming, Animation, VFX (visual effects).	Low	Positive/Medium: These companies incur huge capex & industry is still budding stage	Crest animation, UTV, Prime Focus
Custom Duty to be levied on Newsprint. Currently, it has a Nil status.	Low	Negative/Low: It will drag down the margin	HT Media, Deccan Chronicle, Jagran Prakashan

Metals & Mining

We expect partial rollback of stimulus provided by government during the slowdown in 2009. In view of the big spurt in global Iron Ore prices, Government is likely to impose a uniform 20% export duty on all classes of iron ore ~ fines and lumps. A 20% across the board levy on iron ore is expected to provide revenue between ₹10,000-12,000 Crs to the government at current global ore prices that are prevailing at high levels in range of $160-180/tonne. The production costs of imported Indian iron ore would increase by 25% which would impact China, as India supplies about half of its total output of more than 200Mn tonnes to China.

We expect the Government, in interest of domestic Steel Industry to raise import duty on Hot Rolled Coils (HR Coils) from prevalent 5% to minimum 10% as Countries like China and CIS with excessive raw material resources remain cost-competitive in the international market.

The coal regulator Bill will be introduced in the Budget Session and guidelines for competitive bidding will be finalized replacing the current practice of allocating blocks to the private sector for notified captive use based on recommendations of an inter-ministerial committee. The new system is expected to induce transparency and objectivity in the overall coal block allocation process.

Measures Taken in Fiscal Stimulus Packages and Budget 2010-11

- Excise duty hike by 2% to 10%
- No change in iron ore export duty
- Coal block allocation through auction route
- Increase in MAT rate from 15% to 18%
- Clean energy cess on coal @ ₹ 50/tonne

Budget Expectations	Probability	Impact	Companies to be Impacted
Raise import duty on Hot Rolled Coils (HR Coils) from prevalent 5% to 10%	High	**Positive/High:** The move will encourage growth in domestic steel industry by making it cost competitive against China and CIS, China stimulates exports by giving an export incentive of 9% on HR Coils, on the contrary coking coal prices have increased by over 100% thereby, pressurizing cost-competence of Indian steel producers.	Tata Steel, JSW Steel, SAIL, Bhushan Steel
Impose a uniform 20% export duty on all classes of iron ore ~ fines and lumps	High	**Negative/medium:** Iron ore exporters as they cannot pass on the hike immediately. Neutral impact in long-term as the price hike will be passed on. **Positive/Medium:** For steel companies not having backward iron ore integration as input cost will go down	Mining companies: Sesa Goa Steel companies not having full backward iron ore integration: JSW Steel, Bhushan Steel
Reduction in import duty on thermal coal from 5.1% to nil	Medium	**Positive/High:** Positive for aluminum companies which have to import some part of their coal requirement and companies venturing into power not having coal mines or 100% linkage	Nalco

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Budget Expectations	Probability	Impact	Companies to be Impacted
Excise duty hike by 2% to 12%	Low	**Negative/Medium:** Marginal impact expected as domestic steel demand remains buoyant on account of strong auto sales and thrust on infrastructure development. However, chances of rollback are low considering the current high inflation scenario.	SAIL, Tata Steel, JSW Steel
Basic Customs Duty on Ferro Alloys be increased to 7.5 % (except Ferro Nickel which is 100 % imported)	Medium	**Positive/Medium:** This will ease the working condition of the Industry to a great extent.	All Ferro Alloy Companies
Customs Duty on Ores for manufacture of Ferro Alloys falling under Chapter 26, may be brought down to 0 % from existing 2 %	Low	**Positive/Medium:** Raw Material cost will go down **Negative/Medium:** Companies supplying Manganese Ore, Chrome Ore, Molybdenum Ore/Moly Oxide, Tungsten Ore, Wolframite Ore, Scheelite Ore, Nickel Oxide, Vanadium ore customs duty (Only Manganese & Chrome ores are available in India)	All Ferro Alloy Companies Manganese Ore (India) Ltd. (MOIL) and Orissa Mining Corporation Ltd. (OMC) the price monopolists for Manganese & Chrome ores respectively in the Indian Market.
Reforms on iron ore & coal block allocation, fastening of approval process and land acquisition	Medium	**Positive/Medium:** Impact will be positive as a number of projects are getting affected on account of delay in iron ore block allocations and no proper guidelines on competitive bidding for coal block allocation.	All Metal and Mining companies & Coal India

Oil & Gas

We do not see any kind of positive approach from the government on the de-regulation of diesel prices as they did with Petrol. There is also high probability on the Abolition of customs duty on crude oil and cut in excise duty on diesel to avoid more fuel price hikes. This in turn would put pressure on Government as the borrowings would increase. We do not see any major policy expectations on Oil & Gas sector.

Measures Taken in Fiscal Stimulus Packages and Budget 2010-2011

- Kirit Parekh committee had been set to look into the matter of deregulation of petrol and diesel prices.
- Increase in MAT rate from 15% to 18% which affected companies like RIL who ended up paying more tax on KG-D6 production and ONGC & Cairn India on Rajasthan production.
- Increase in Custom duty on crude to 5% and excise duty by Rs 1/ltr on petrol and diesel.
- Overall Negative as no clarity was given on Authorization and power of PNGRB w.r.t. CGD and cross country pipelines.

Budget Expectations	Probability	Impact	Companies to be Impacted
Roadmap for de-regulation of petro-product prices on Kirit Parekh Committee's recommendation	Low	Positive/High: De-regulation of petrol has taken place. Recommendation and to start with freedom on Diesel prices	OMC : IOC, HPCL, BPCL Upstream : ONGC, GAIL, OIL Private Retail Outlets: RIL and Essar will get competitive landscape
Abolition of customs duty on crude oil and cut in excise duty on diesel to avoid more fuel price hikes	Medium	Positive/Medium: Revenues to increase and will reduce the pressure on Margins.	OMCs: IOC, BPCL, HPCL
Subsidy burden to be borne by the Government	Medium	Positive/Medium: Less of pressure on Oil Companies. Borrowings for the Government to increase.	OMCs: IOC, BPCL, HPCL Upstream: ONGC, OIL, Gail

Pharmaceuticals

We believe that healthcare may not be a significant area of focus in this budget and hence, have limited expectations. The budget would look at enhancing public healthcare spending to ensure access to affordable healthcare for all. We believe that weighted average deduction on in-house R&D & outside R&D to be maintained at 200% & 175% respectively. This would continue to be a driver for R&D oriented companies. Also the Budgetary allocation to health & family welfare is expected to increase from current Rs 22,300cr to Rs 25,600cr. This would enhance the healthcare services to the common man & would drive the sector as a whole.

Measures taken in Fiscal Stimulus Packages and Budget 2010-11

- Weighted deduction on in-house R&D raised from 150% to 200%
- Increase in MAT from 15% to 18% of book profits.
- Budgetary Allocation to health & family welfare increased from Rs 19,534 crores to Rs. 22,300 crores.

Budget Expectations	Probability	Impact	Companies to be Impacted
Excise Duty on API to be reduced from 10% to 4%	Medium	**Positive/Medium:** Positive for most of the Pharma companies as it is required by all the companies in making of formulations.	All Pharma companies.
Tax Holiday for hospitals to be increased from current 5 consecutive years to 10 yrs or option to select 5 consecutive yrs out of the 10 yrs.	High	**Positive/High:** This would allow the companies to pay lower taxes or choose the period for tax holiday wherein the other expenses are high.	Fortis HC, Apollo Hospital.
Custom duty on life saving drugs, medical devices, API to be abolished from current 5%	Low	**Positive/Low:** Impact would be positive as the cash outflow would be low.	Opto circuits, Sun Pharma, Glenmark & other medical devices company
Custom duty on formulations to be reduced from current 10% to 5%	Medium	**Positive/Medium:** Positive for companies majorly into formulations business as it would reduce the taxes to be paid.	Cadila Healthcare, Glenmark, Lupin.

Power and Capital Goods

Government has revised its target of power generation capacity addition to ~ 62,000 MW from 78,000 MW during the current financial year. Although, we believe the capacity addition to be still lower at around ~54,000 MW on account of various execution hurdles. Delay in environmental clearance, land acquisition and fuel linkages continue to key issues faced by the Power sector. Going forward, Import of BTG equipment from China will help the private players in setting up the capacities at the faster pace. We believe that investment pipeline for the sector will continue to be strong for the next 6-7 years on account of structural demand supply imbalance and continued government focus to address it.

Capital goods industry is largely a proxy to long term economic growth. We believe that huge investment pipeline in power sector and investment in core industries presents the industry with a sustainable revenue visibility on a medium and long term. Key issues faced by the industry are increased imports from China and Korea, high interest rate environment and delay in execution on account of policy bottlenecks.

Measures Taken in Budget 2010

- Excise duty hiked from 8% to 10%.
- MAT rate increased from 15% to 18%.
- Plan allocation to power sector excluding RGGVY doubled to Rs. 5,130 crore.

Budget Expectations	Probability	Impact	Companies to be Impacted
Extension of Tax break for power plants under section 80-IA , which ends on 31 March 2011	High	Positive : will benefit the new power plants coming on stream as it allows them to claim tax exemption for 10 years within first 15 years of plants commissioning	All Power utilities
Increase in plan allocation for Renewable energy sector	Medium	Positive : Will benefit the EPC players and equipment manufacturers	Moser Baer, Suzlon, BHEL
Abolition of import duty on coal from current 5%	Medium	Positive : IPPs having merchant exposure and dependent on imported coal will key beneficiaries	Power utilities using imported coal like JSW energy, Adani power, Reliance Power, Tata Power
Exemption of service tax (10%) for development of power plants.	Low	Positive : Will result in lower cost of development for power plant	All power utilities
Imposition of 10-14% custom duty on the import of power equipment	Medium	Positive : will provide a level playing field for domestic manufacturers of power equipment in face of increased imports from China	L&T, BHEL, BGR Energy, Thermax, Bharat Forge

Real Estate

For the real estate sector we do not expect any major SOPs in this year's budget, as we believe over the past one year the concerns have shifted from supply side (liquidity issues) to demand side. To revive the demand, the developers will have to adopt reasonable pricing strategies so as to capture the interest of the buyers/tenants. Nevertheless, incentives for affordable housing, higher income tax exemptions for home loans and infrastructure status for the realty segment rank high on the wish list of real estate developers.

Measures Taken in Fiscal Stimulus Packages and Budget 2010

- No hike in income tax exemption for interest payment or increase in loan slab.
- Government allocated Rs.2,000 crore for housing construction in National Housing Bank. These funds are mainly allotted for refinance operations in rural housing sector.
- Rs. 3472 crore is allotted for the preparation of the Common Wealth Games.
- Under this scheme of Bharat Nirman Rs. 40,900 crore are allotted for development of rural areas including housing.

Budget Expectations	Probability	Impact	Companies to be Impacted
Housing loan under Rs. 10 lakh to get interest sops, Special Residential Zones (SRZs) should be taken off the drawing board and finally implemented, and builders that focus on ultra-low-cost housing, should be given further concession.	Low	Positive/High: Realty players have been facing margin pressure, the sops and concession will aid the developers to improve the margins and the overall performance	Developers : DLF, Unitech, Omaxe etc.
Expect to introduce GST and include the Real Estate sector	Low	Positive: Under the single tax regime it will help in simplifying the transaction cost and will give the developers a set-off for tax payments on the construction material and services. It will help to create a uniform tax system through out the country	All the real estate companies

Telecom

This sector has already shown phenomenal development in revenue contribution as also technology development. This is likely to continue for the next few years.

Measures taken in Budget 2010-11

- MAT increased to 18% from 15%
- INR 360bn revenues expected from 3G auction
- CVD exemption on accessories such as hands free headphones and battery chargers

Budget expectations	Probability	Impact	Companies to be impacted
3G investment & capex eligible for 80IA benefits	Low	Positive/Long: This will help to improve margins.	3G auction winners like Bharti, Idea etc.
Service tax on broadband exempted	Low	Positive/Medium: This will significantly increase the penetration of household broadband connections and will help to boost revenues for broadband service provider companies	Broadband service providers like Bharti, RCOM, Tata Tele
Allocation of more spectrum	Low	Positive/Long: More penetration of voice and data services, increased subscriber base will help to increase revenues.	All wireless telecom companies

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