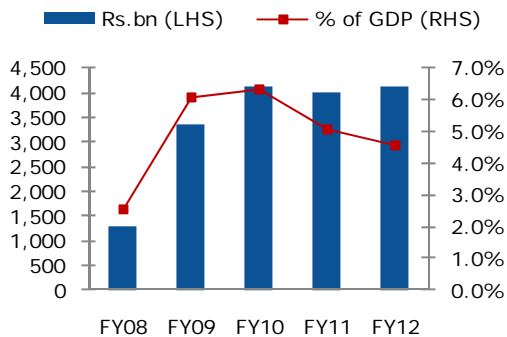


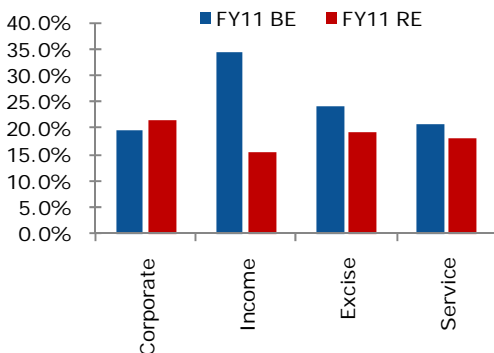
February 28, 2011

Fiscal Deficit: Quantum is high



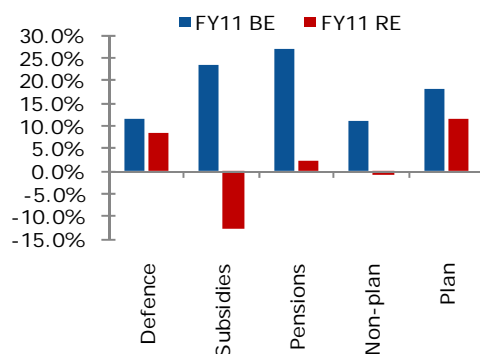
Source : Budget Documents, HDFC Sec

Revenue upside in FY12 over FY11



Source : Budget Documents, HDFC Sec

Expenditure Growth is quite low



Source : Budget Documents, HDFC Sec

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India's Union Budget rests on 9% GDP growth in FY12. The Budget assumes a 17.9% growth in net tax revenues over FY11 (RE). However, it assumes a mere 3.4% growth in expenditure. Hence, the Budget expects private sector investment demand to pick up substantially in FY12. On the expenditure side, the Budget has made lower provisions for non-plan expenditure, particularly subsidies and non-plan capex. We expect expenditure to overshoot the budgetary estimates. But Fiscal Deficit will be within FRBM target of 4.8% of GDP. Overall, Budget is conducive for growth and with inflation heading downwards in 2HFY12, we believe interest rates are near their peak. Our estimate for FY12 GDP is 8.1% with an upside bias.

Tax Revenue: Banking on high growth

The Union Budget expects 17.9% and 24.4% growth in Central government's net tax revenues over FY11 (RE) and FY11 (BE) respectively. We believe that tax revenues expectations are on the high side and leave very little room for any upside. For FY12, centre's net tax revenues are pegged at Rs.7899 bn. The Union Budget expects a robust direct tax collection scenario, since direct taxes are expected to grow by 19.4% over FY11 (RE). Within direct taxes, corporate tax is expected to grow by 21.5% and income tax by 15.4% respectively. The indirect tax kitty is expected to grow by 17.3%. All three indirect tax sub-heads are expected to show robust growth led by union excise at 19.1% and service tax at 18.2%.

Expenditure: Too Good to be True

We believe that Union Budget assumes a very benign expenditure growth scenario. Overall expenditure is pegged at Rs.12577 bn which is 3.4% higher than FY11 (RE). However, compared to FY11 (BE) it is higher by 13.4%. Defence expenditure is assumed to grow by 8.5%. However, other non-plan revenue expenditure is expected to go down from Rs.918 bn in FY11 (RE) to Rs.704 bn in FY12 (BE), a decrease of 23.4%. Over the past decade, it has gone down only once that too by 3.0%. Non-plan capex is expected to be lower by 52.3% at Rs.132 bn. The Budget also assumes a decline in subsidy payouts by 12.8% from Rs.1540 bn in FY11 (RE) to Rs.1342 bn in FY12.

Subsidies and Bharat Nirman: A Closer Look

For FY12, Food subsidy is pegged at the same level as FY11 (RE). However, fertilizer subsidy is expected to be lower than FY11 (RE). Even though, urea and DAP prices have gone up by 37% and 20% since August 2010. NREGA payments have also been kept at the same level as FY11 (RE), even as wages are expected to be linked to CPI. Provision for rural housing and roads and bridges are also lower than FY11 (RE). We expect that government expenditure will overshoot particularly on account of higher subsidy payouts and non-plan expenditure.

FY12 Fiscal deficit at 4.6% of GDP might overshoot a little bit

Overall, the Union Budget expects a Fiscal Deficit of Rs.4128 bn in FY12 or 4.6% of GDP. We expect the quantum of Fiscal Deficit to be slightly higher than this due to higher expenditure growth particularly on account of subsidies and other non-plan expenditure.

Table 1: Government Receipts

Rs.bn	FY09	FY10	FY11 BE	FY11 RE	FY12 BE
Tax Revenue					
Corporation Tax	2,134	2,551	3,013	2,964	3,600
Taxes on Income	1,060	1,250	1,281	1,491	1,720
Wealth Tax	-	-	6	6	6
Customs	999	845	1,150	1,318	1,517
Union Excise Duties	1,086	1,020	1,320	1,378	1,641
Service Tax	609	580	680	694	820
Taxes of Union Territories	15	16	17	19	20
Others	149	69	-	-	-
Total - Tax Revenue	6,053	6,331	7,467	7,869	9,324
Netted for NCCF	18	32	36	39	45
Less: State's share	1,602	1,648	2,090	2,193	2,635
Centre's Tax Revenue	4,433	4,651	5,341	5,637	6,645
Non-Tax Revenue	969	1,122	1,481	2,201	1,254
Centre's Revenue (net)	5,403	5,773	6,822	7,838	7,899
Capital Receipts					
Internal Market Borrowing	2,336	3,984	3,450	3,454	3,580
Others	1,101	458	815	873	1,098
Total Capital Receipts	3,437	4,443	4,265	4,327	4,678
Total Revenues	8,840	10,215	11,087	12,166	12,577

Source: HDFC Securities Institutional Research

Table 2: Tax Revenue growth

Tax Revenue	FY09	FY10	FY11	FY12 BE over FY11 BE	FY12 BE over FY11 RE
Corporation Tax	10.6%	19.5%	16.2%	19.5%	21.5%
Taxes on Income	3.3%	17.9%	19.3%	34.3%	15.4%
Wealth Tax				5.3%	14.0%
Customs	-4.1%	-15.4%	56.0%	31.9%	15.1%
Union Excise Duties	-12.0%	-6.1%	35.1%	24.3%	19.1%
Service Tax	18.8%	-4.8%	19.7%	20.6%	18.2%
Taxes of Union Territories	12.4%	8.2%	18.7%	19.5%	3.3%
Others					
Total - Tax Revenue	2.0%	4.6%	24.3%	24.9%	18.5%
Netted for NCCF	0.0%	75.6%	23.4%	27.1%	16.0%
Less: State's share	5.5%	2.9%	33.0%	26.1%	20.1%
Centre's Tax Revenue	0.9%	4.9%	21.2%	24.4%	17.9%
Non-Tax Revenue	-5.3%	15.7%	96.2%	-15.3%	-43.0%
Centre's Revenue (net)	-0.3%	6.9%	35.8%	15.8%	0.8%
Capital Receipts					
Internal Market Borrowing	77.3%	70.5%	-13.3%	3.8%	3.6%
Others	181.9%	-58.4%	90.5%	34.7%	25.8%
Total Capital Receipts	101.2%	29.3%	-2.6%	9.7%	8.1%
Total Revenues	24.0%	15.6%	19.1%	13.4%	3.4%

Source: HDFC Securities Institutional Research

Table 3: Government Expenditure and Deficits

Expenditure	FY09	FY10	FY11 BE	FY11 RE	FY12 BE
Non-Plan Expenditure					
Interest payments	1,922	2,195	2,487	2,408	2,680
Defence expenditure	1,142	1,363	1,473	1,516	1,644
Subsidies	1,297	1,310	1,162	1,642	1,436
Grants to States & UTs	382	466	460	526	663
Pensions	329	422	428	533	545
Others	1,015	1,307	1,346	1,592	1,194
Total Non-Plan Expenditure	6,087	7,064	7,357	8,216	8,162
Plan Expenditure	2,752	3,152	3,731	3,950	4,415
Total Expenditure	8,840	10,215	11,087	12,166	12,577
Revenue Deficit	2,535	3,291	2,765	2,698	3,073
Fiscal Deficit	3,370	4,140	3,814	4,010	4,128

Source: HDFC Securities Institutional Research

Table 4: Government Expenditure Growth

	FY09	FY10	FY11	FY12 BE over FY11 BE	FY12 BE over FY11 RE
Interest payments	12.4%	14.2%	9.7%	7.8%	11.3%
Defence expenditure	24.6%	19.3%	11.2%	11.6%	8.5%
Subsidies	82.9%	1.0%	25.3%	23.5%	-12.5%
Grants to States & UTs	6.7%	22.1%	12.9%	44.2%	26.1%
Pensions	35.8%	28.2%	26.1%	27.3%	2.4%
Others	-10.9%	28.8%	21.8%	-11.3%	-25.0%
Total Non-Plan Expenditure	19.9%	16.0%	16.3%	10.9%	-0.7%
Plan Expenditure	34.2%	14.5%	25.3%	18.3%	11.8%
Total Expenditure	24.0%	15.6%	19.1%	13.4%	3.4%

Source: HDFC Securities Institutional Research

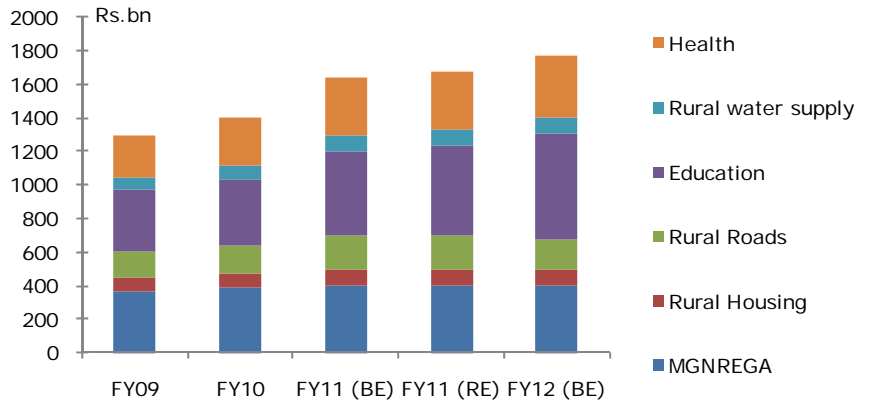
Table 5: India Key Numbers

US\$ bn	2007-08	2008-09	2009-10	2010-11f	2011-12f
GDP growth	9.3%	6.8%	8.0%	8.6%	8.1%
Exports	163	185	177	221	263
Imports	251	304	279	340	408
Trade deficit	-89	-118	-102	-119	-145
Invisibles	75	90	79	84	92
Remittances	42	45	52	52	56
Software	37	43	48	55	62
Others	-5	2	-21	-24	-26
CAD	-17	-29	-23	-35	-53
Capital Inflows	108	7	66	71	69
FDI	15	17	20	23	23
FII	30	-14	32	29	22
Others	63	4	14	19	24

Source: HDFC Securities Institutional Research

Allocation on education has growth the most

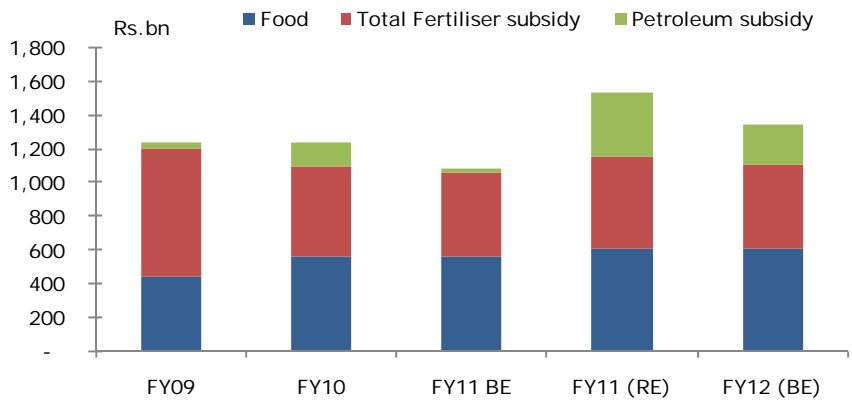
Chart 1: Bharat Nirman



Source: HDFC Securities Institutional Research

Subsidy payouts have been assumed to be lower than FY11 (RE)

Chart 2: Subsidy Payouts



Source: HDFC Securities Institutional Research

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