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Budget expectations: Power equipment and engineering

1) We expect initiatives to be announced to fast forward private sector participation in the power transmission sector. Ministry of Power proposed fourteen projects worth INR 200 bn to be awarded on Build Own Operate (BOO) basis to the private sector players over the 10th and 11th plan periods respectively. However only two projects have been awarded to Reliance Energy till now. As further private transmission network orders are awarded we expect the following consequences:

   I. While Power Grid Corporation of India (PGCI) will continue to remain the largest and the most preferred customer, additional players is likely to diversify the customer base for power transmission contractors and equipment companies. Positive for Jyoti Structures (JYS IN), Kalpataru Power Transmission (KPP IN) and KEC International (KECI IN), Emco (EMCO IN), Apar Industries (APR IN), Transformer and Rectifiers India (TRIL IN).

   II. The transmission tower contractors are likely to take minority equity stake in the private transmission projects to have a better chance of obtaining the orders from the private sector players.

   Positive for JYS IN, KPP IN and KECI IN.

   III. PGCI is likely to spend ~INR 545 bn over the Eleventh Plan to expand capacity. If the private sector transmission projects are fast forwarded we have additional ~36% revenues for the transmission contractors and equipment players. Positive for JYS IN, KPP IN, KECI IN, EMCO IN, APR IN, TRIL IN.

2) We can expect incentives to increase investments in the power sector. The following is the funding requirement for the capacity expansion in the power sector:

Table 1

Description	INR bn
Generation	4867.7
Transmission	1400
Distribution	2870
HRD, R&D	1178
Total	*10316*

Source: Central Electricity Authority

State Electricity Boards may not be in a position to contribute funding to the above extent. We believe we could see additional funding schemes like Rural Electricity (~INR 400 bn) and APDRP (~INR 400 bn) to fund the shortfall. The same is likely to provide additional revenues visibility for the power sector.

Budget expectations: Engineering and capital goods

XI Plan aims at sustainable growth of 9% and infrastructure is going to play a key role. The total infrastructure investment planned in XI Plan is approx. USD 400bn. Engineering and cap goods sector is going to be one of the biggest beneficiaries from the investment-led economic growth. We expect budgetary support in the form of avoidance of multiple tax, subsidy on shipbuilding, cut in service tax and excise duty.

Avoidance of multiple tax

The companies having subsidiaries and SPV's end up paying multiple taxes on account of dividend distribution tax by subsidiaries/SPV and corporate tax by the holding company. We expect rationalization of tax structure so that there is no double taxation. Positive for L&T and other infrastructure companies.

Subsidy on Shipbuilding

Subsidy of 30% given to shipbuilding industry expired in August, 2007. Such subsidy was given for all sizes of export orders and in case of domestic orders it was given for vessels of lengths 80 metres and above. We expect extension of such subsidy with retrospective effect to keep domestic shipbuilding industry competitive. Positive for L&T.

Reduction in service tax

The visibility of engineering companies is determined by the growth in order book as bulk of the revenues for these companies comes from projects and services. As a result, where there is a composite billing, the incidence of service tax is levied on 33% of the value of the contract. Our interaction with the companies suggest that the service component in most cases is lower than 33% and therefore expect reduction in the total value on which service tax is levied from current 33% of the contract value. Positive for ABB, Siemens, BHEL, L&T and Voltas.

Excise duty cut on inputs

We expect reduction in excise duty on all raw materials supplied for manufacturing power equipments for generation, transmission and distribution projects from current 16%. Positive for equipment manufacturing companies like ABB, BHEL, Crompton Greaves, L&T, Siemens and Voltas.

Custom duty

Existing peak rate of custom duty of 10% likely to continue as imported goods have already become cheaper by ~ 12% due to INR appreciation against USD in last one year.

Excise duty cut on power equipments

With power capacity additions on priority list and to ensure lower tariff for consumers, we expect Government to reduce the excise duty on power equipments and other inputs from current 16%.

Expectations of Banks and non banking finance institutions from budget

- Interest earned on bank deposits with maturity less than five years might get a tax break. Currently interest earned on bank deposits with maturity of five years and more are exempt from tax. Positive for all banks as it will lead to reduced cost of deposits.

- PSU banks have traditionally been weak in raising capital at book accretive multiples which the private sector peers have been successful at doing. In an attempt to overcome this FII limit for nationalized banks might be increased from current 20% limit. This we believe will lead to higher valuations for PSU banks. Positive for all public sector banks

- Tax breaks provided to HFC/Infrastructure lending companies which currently is allowed up to 20% of profits derived from projects might be increased back to 40% in order to fuel credit growth. Positive for HDFC, LIC housing, IDFC,PFC

- More focus on agricultural banking with possibly more sops extended for the same. Positive impact for all banks especially nationalized banks

- Allowing banks tax deduction on provision made for all assets (i.e standard asset provisioning) and not only on bad and doubtful debts as is currently allowed by tax authorities

- Lending by banks to power finance companies to be considered as Priority sector lending. Positive for PFC, REC

- Tax 'pass through' to venture capital funds applicable to power and infrastructure related projects as well. Positive for PFC, IDFC

<u>Expectations of Construction companies from the budget:</u>

- Increase in funding for infrastructure projects

  It is expected that the Union Budget will be positive for the sector with increased budgetary allocation for infrastructure as a whole. Various schemes such as National Highway Development Programme (NHDP) and Pradhan Mantri Gram Sadak Yojna (PMGSY) (for Roads), Jawaharlal Nehru National Urban Renewal Mission (JNUURM) (for urban Infra), Accelerated Irrigation Benefit Programme (AIBP) (for irrigation) etc are expected to get more funding this year.

  Key beneficiaries – All companies

<u>Demands of Construction companies from the budget:</u>

- Relief on the tax front for PPP model

  Currently, to stimulate private sector investment in infrastructure sector, a 10-year tax holiday in the block of 15-20 years has been provided to the undertaking/enterprise which develops/operates/maintains specified infrastructure facilities. However, such undertakings/enterprises are subject to Minimum Alternate Tax (MAT) on books profits adjusted for specified items, resulting in demand of higher grants from Government. Accordingly, abolishment of MAT can provide further impetus to private sector investment.

  Also, there is a demand for waiver of Dividend Distribution Tax on the dividend from SPV's (set up for the development of infrastructure projects). Currently, companies engaged in development of SEZs are exempted from levy of Dividend Distribution Tax (DDT). Similar exemption to infrastructure projects under the PPP model would help boost investment in this sector.

  Key beneficiaries – Companies involved in BOT projects such as NCC, IVRCL, Madhucon, Gammon, HCC etc.

- Liberalization in the end use of ECB

  Though 100 % FDI is permitted under the automatic route in various infrastructure sectors, the existing regulatory guidelines require SPVs established for infrastructure
  development to obtain prior approval of the RBI to raise External Commercial Borrowings (ECBs) to finance rupee expenditure cost of such projects. There is a demand for this restriction to be removed.

  The liberalization in the end use of ECB will help construction companies raise cheaper finances. Presently, ECB funds can be deployed in investment in various foreign subsidiaries that in turn can invest in the fixed assets and working capital requirement of the construction projects).

- Allowing contractors along with developers to claim 80 (IA) benefits on infrastructure projects

  Logistics sector budget expectations

  Companies under the logistics segment view Infrastructural bottlenecks and Central Sales Tax (CST) as main impediment in growth of the logistics sector. Currently Central sales tax (CST) levy is 3% and it results in extra transportation cost and disintegrated supply chain. Phasing out of CST & implementation of Single goods and service tax (GST) is expected to provide a major boost to the warehousing and transportation industry and make way for implementation of Hub and spoke model.

  Some of the expectations that the companies in the sector have for the budget are:

  - The Central Sales Tax (CST) rate may be cut by 1 percent to 2 percent and completely withdrawn by 2010-2011.
  - The government may raise the limit for Viability Gap Funding (VGF) to 30 percent from 20 percent for urban transport systems like metro, monorail and road rapid transport system. VGF is a one-time grant by the government to an infrastructure project with a long gestation period to improve its viability.
  - Blue print for substituting the complex web of central and state taxes on manufacturing and services with a single goods and services tax (GST) and maintaining the time frame for introduction of GST by 2010.
  - Integration of excise and services tax into Central Value Added Tax
  - Grant of Infrastructure status to warehousing and shipping industry, thus getting access to preferential loans and grants.
  - Extension of tax benefit to rail haulage business as is available to CFS/ICD business
  - Freeing up of excess land and warehouses under Indian railways to private sector players, thus giving way for Public-Private Partnership
  - Major beneficiaries of reform in tax structure would be Gati and TCI while Concor and Gateway distriparks would benefit from sops for the rail haulage business.

Infrastructure sector budget expectations

- Strengthening of manufacturing and infrastructure sectors by reducing excise duty from 16% to 14%. Custom duty rate of 10% is also expected to be retained and further reduction calibrated with internal reforms.
- Tax benefit to be made more meaningful and all undertakings engaged in infrastructure and other crucial sectors including social sector, sunrise industries and facilities such as cold chain establishments, renewable energy projects of wind, solar and bio-mass, logistics, etc be granted 100% tax holiday for 10 consecutive years during the first 15 years of commercial production.

- Focus on infrastructure creation such as clearing projects for dredging and increasing port capacity
    - Currently the port projects are allotted on the basis of revenue sharing or royalty basis. Reforms on bidding process are expected to increase private sector participation.
    - Announcement for guidelines of evaluation of port projects on viability gap funding mechanism, thus assuring more private sector participation.
    - Announcement for funding mechanism and execution timeline for Dedicated Freight Corridor.

- After introduction of VAT from April 2005, natural gas has been kept under the revenue neutral rate i.e. 12.5%. Some of the states have kept natural gas out of VAT and are levying sales tax @20%. Considering the importance of fertilizers as the input for agriculture and the importance of electricity, it is imperative than natural gas, as the major input for fertilizer and power sector, should be given due credence as the goods of special importance for inter- state trade.

- The government may announce a new fund for providing subsidized loans to companies for adoption of energy-efficient and non-oil technologies. The 5 percent customs duty for liquefied natural gas used as fuel in power generation projects is also expected to be withdrawn.

- Beneficiary companies – Suzlon Energy, Deepak fertilizers and Concor

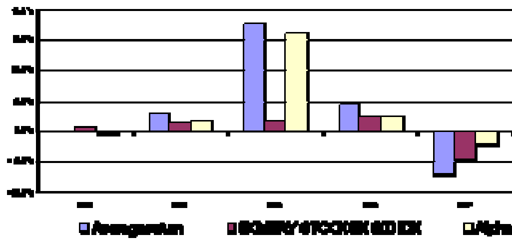
India railway budget and its impact on the companies

Indian railways for the past couple of years have increased the infrastructure spending tremendously. Industry expects the investment momentum to continue and also expect announcement for encouragement of Public Private Partnership. This year the investment is expected to be INR 245 bn, up 16.5% Y-o-Y.

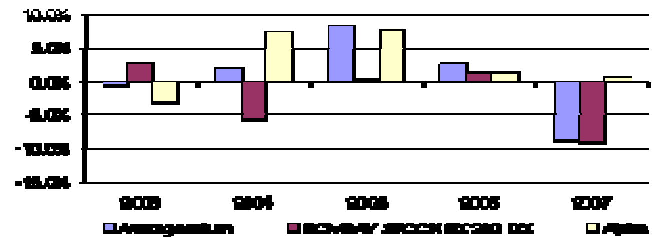
SEGMENTWISE INVESTMENTS			
(INR bn)	2005-06	2006-07	2007-08 (Budget Estimate)
New Lines	19.9	25.3	16.8
Gauge Conversion	13.2	20.5	27.0
Doubling	6.9	11.8	20.0
Rolling Stock	52.0	69.0	92.2
Track renewals	37.8	42.1	43.6
Bridge Works	4.1	5.2	6.0
Signalling	10.5	13.6	16.1
Electrification	0.7	2.2	3.0
Leased Assets	16.2	17.2	16.8
Passenger Amenities	2.6	4.0	4.0
Total	163.9	210.7	245.5

Announcement of funding and timeline for some of the projects like Dedicated Rail freight corridor, High speed passenger corridors and investment for gauge conversion are expected. Thrust on schemes like Wagon investment scheme and investment in rail side warehousing complexes are very positive for the container rail haulage business. Ongoing infrastructure spend is expected to be hugely positive for companies like Texmaco, Kalindee Rail Nirman, Stone India, Kernex Microsystems and Concor. We have analysed the returns for the entire basket with respect to BSE 200 index and the alpha for the basket has been positive for the two periods; 1st to 28th Feb and 15th to 28th Feb.

Alpha trade for period 1st to 28th Feb



Alpha trade for period 15th to 28th Feb



Budget expectations – Oil & Gas Sector

- Removal of service tax on exploration activities

  Removal of service taxes introduced in the budget last year.

  Impact – Positive for E&P companies (ONGC, RIL, and Cairn)

- Reduction of custom duty on crude imports and petroleum products (Petrol, Diesel) by 2.5%

  Reduction of import duties for the crude and petroleum products will reduce the under-recoveries for marketing of petroleum products

  Impact – Positive for OMCs (HPCL, BPCL, IOCL), ONGC, GAIL; marginally negative for standalone refiners (CPCL, MRPL)

- Reduction of ad-valorem excise on Petrol/Diesel from 6% to 4%

  Reduction of duties will reduce the under-recoveries from sale of petroleum products

  Impact – Positive for OMCs (HPCL, BPCL, IOCL), ONGC, GAIL

- Removal of custom duty on imported LNG

- Declared goods status for ATF leading to uniform VAT rate of 4%

  No i*mpact*

Budget expectations – Oil & Gas Services sector

- Removal of service tax on exploration activities

  Possible removal of service taxes introduced in the budget last year.

  Impact – Marginally positive for all E&P service companies

Budget expectations - Pipes sector

- Increase in spending for water infrastructure

  Available of safe drinking water is still a major issue; also the demand for safe potable water continues to grow with a growth in population. We expect government will increase its budgetary allocation for water infrastructure. This will create higher domestic demand for SAW and DI pipes.

  Impact – Positive for entire sector except Maharashtra seamless, which is a pure-play seamless company

Expectations of Pharma companies from the budget:

- R&D-tax-exemption given to generic pharmaceutical companies to be extended to the hived off pure-play R&D companies

  There have been conflicting views coming from various government bodies in the last few weeks. The department of science and technology is of the opinion that any research projects approved by the department should be eligible for tax incentives while the National Pharmaceutical Pricing Authority (NPPA) believes that since the new drugs coming out of these fully dedicated research entities are anyway exempt from price control, the units do not deserve any additional incentives.

  Impact –SPARC, Ranbaxy, Wockhardt, NPIL, Glenmark

- Re-assurance from the FM on continuation of tax (and excise) benefits to companies which have plants based out of 'area based tax holiday zones' (like Baddi in HP)

  Impact – Almost all companies under coverage.

- Increasing the benefit of 150% weighted exemption to R&D expenditure to 200%

  Currently, the drug companies are given 150% weighted exemption under section 35 (2 AB) of the Income-tax Act for in-house research expenditure. The Pharma companies also want an extension of this benefit to (i) depreciation of investment made in land and building for dedicated research facilities, (ii) expenditure incurred for obtaining regulatory approvals and (iii) filing patents abroad.

  SUGAR SECTOR:

- Ethanol to be classified as "Declared Goods"

  Given that 10% mandatory ethanol blending will come in effect from October, 2008 in order to give a boost to inter-state ethanol movement, we expect the government to confer "Declared Goods" status on Ethanol. This will result in a uniform duty structure across states at 4%. At present, states levy differential sales / value added tax on ethanol with some states charging as high as 20% duty.

- Custom duty and Sales Tax on Ethanol expected to be lowered

  Currently the excise duty on ethanol stands at 16% on which companies are then granted CENVAT credit. We expect the excise duty to be lowered to encourage higher production and use of ethanol. In addition to 16% excise duty most states also charge sales tax on ethanol varying from 4% to 20%. Once ethanol is given the declared goods status we expect these states level duties to be lowered.

- Excise Duty on Molasses expected to be on ad-valorem basis

  Additionally in India molasses is the prime route of manufacturing ethanol. In order to speedup the process of ethanol blending we expect the current fixed excise duty structure on molasses of INR 750/tonne to be replaced by an ad-valorem duty structure which would be a huge boost for the sugar industry. This would essentially lead to a better duty structure which would adjust itself depending on molasses prices.

  There are several demands of the IT industry from the budget this year (08-09). We list them as follows:

(a) Extension of The STPI (Software Technology Park) scheme that provides tax holiday to IT & ITES, which comes to an end by 2008-09. Under the scheme, 100% tax deduction on profits under Section 10A and Section 10B of the Income Tax Act is available only up to March 31, 2009. The industry demand is that tax holidays for STP units should be on par with SEZs. The companies falling under STP scheme will thus have to pay tax at an estimated rate of 34% in the absence of these deductions.

(b) Abolition of FBT on ESOPs and simplification of tax holiday provisions

(c) Reduction in excise duty from 12% to 8% on PCs

(d) Withdrawal of MAT

(e) Added provisions that enable the software industry to credit/reclaim tax on input services and countervailing duty (CVD) on packaged software imports

But while these are demands, we must square them with **realistic expectations** that could be met in this year's budget, which include:

(a) Selective extension of the tax holiday to the IT & ITES beyond FY09. We believe that the possibility of benefits could extend to ITES (BPO) companies, and more remotely, smaller IT companies – a group already reeling under the INR appreciation.

(b) Reduction of excise duty on IT products to 8% is unlikely. It may be brought down to 10%.

(c) Withdrawal of MAT to the extent that the STPI benefits are not extended.

Abolition of FBT on ESOPs is unlikely and this is also not likely to hurt companies for two reasons: (a) many have already accelerated the ESOP exercise in view of the FBT and (b) FBT is largely being borne by the employee though the costs on account of the timing difference accrue to the IT companies.

Budget expectations: Engineering and capital goods/Mining

- Captive coal mining to be given infrastructure status

  We expect captive coal mining segment to be granted an infrastructure status. This would mean entitlement to benefits granted under section 80 IA of income tax act 1961

  Impact: It would be beneficial for all material handling companies

- 100% FDI status for captive coal mining in steel, cement and sponge iron

  As of now 100% FDI status is allowed for captive coal mining in power only. For non power related sectors it is restricted to 74%. If the same is increased to 100% it would ease out pressure on coal India on one hand and also bring down cost of production for companies involved in the above mentioned sectors.

  Impact: It would be beneficial for all material handling companies

Real estate industry budget expectations

- Lowering of threshold of FDI below 50,000 sq meters

  - We believe this will give boost to the FDI investment in the real estate in India as FDI investment can happen over a larger set of properties. The companies which will major beneficial from this will be the smaller companies such as Ansal housing, Phoenix Mills, Ganesh housing where they can have FDI investments at the SPV level even for the smaller projects.

  - Raise in service tax limit
  - The limit for the exemption for the service tax on the service input to be raised to INR 2 mn from present level of INR 0.8 mn.

    Positive for the entire sector

  - Major concessions for the mass housing
  - Exemption from excise, customs, VAT and service tax on building material and services
  - Exemption of income tax on all such projects for the next 10 years
  - Treating these projects as priority under infrastructure projects and finance to be freely available at the lowest possible interest rates

    Positive for Ansal Housing, Ganesh housing

  - RBI to take housing industry as priority for lending purpose
  - To reduce the home loan rates
  - To reduce the project finance interest rates for construction purposes
    Positive for the entire sector

  - SEZs to be re-categorized as infrastructure as against its current 'commercial real estate' status, for bank financing purposes.
  - *Positive for Mahindra Lifespace , DLF, Parvsnath*

  - More clarity on the REIT structure in India with adequate tax benefits
  - *Positive for the large companies - DLF, Unitech*

BUDGET EXPECTATIONS: *Excise duty on bulk cement likely to be hiked: Impact- Not significant but sentimental negative*

Cement company's proposals: Excise abatement of 35% on the MRP and import duty exemption on coal/ pet coke which currently stands at 5%.

Cement company's expectations: While the FM increased excise duty on bagged cement in the previous budget, excise duty on bulk cement remained untouched at INR 400/tonne.
*The industry expects e*xcise duty on bulk cement to be hiked to INR 600/tonne from INR 400/tonne making it at par with bagged cement.

Proportion of bulk cement varies from ~5% to 20% for our coverage universe.

(Excise duty on bagged cement currently stands at INR 350/tonne for cement sold at <=INR 190/bag, 12% on MRP when MRP is greater than INR 190/bag but lower than INR 250/bag, flat at INR 600/tonne for MRP greater than INR 250/bag).

SCENARIO ANALYSIS

CASE I	Impact of 35% rebate on MRP for excise duty computation			*REMARKS*
	MRP	INR/bag	250	*Forms the basis for ad-valorem excise appl. currently*
	Excise duty *(Fixed at INR 30/bag for MRP>= INR 250/bag)*	INR/bag	30	*Currently, MRP printed on bags is INR 250 on an avg. which may be different from actual retail price*
	Proposed rebate % on MRP	%	35	
	Possible reduction in excise duty due to rebate	INR/bag	11	
	Revised excise duty post rebate	INR/bag	20	
	Share of non-bulk sales *(indicative only)*	%	90	*Currently, MRP based excise is appl. only on non-bulk sales*
	Effective reduction in excise duty	***INR/bag***	***9***	IMPACT: NEUTRAL assuming the benefit is passed on, however, SENTIMENTALLY POSITIVE
CASE II	**Impact of increase in excise duty on bulk cement**			***REMARKS***
	Increase in excise duty on bulk cement to make excise on it at par with bagged cement	INR/bag	10	*Excise on bulk cement is lower at INR 400/tonne compared to bagged cement which on an avg. is INR 600/tonne.*
	Share of bulk sales *(indicative only, varies among cos.)*	%	10	
	Effective increase in excise duty	***INR/bag***	***1***	IMPACT: NOT SIGNIFICANT, impact on FY09E earnings of our coverage universe varies between -1% to -3%. However, the move will be SENTIMENTALLY NEGATIVE
CASE III	**Combined impact: Rebate on MRP + hike in excise on bulk**			***REMARKS***
	Effective reduction in excise duty *(Case I - Case II)*		8	IMPACT: NEUTRAL assuming the benefit is passed on

Source: Industry, Edelweiss research

PRICE EXPECTATIONS: *Price rise could be slower and smaller varying as per regions*

- Price increases across the country in February are likely to be kept on hold till Budget as a cautionary move to pre-empt any adverse regulatory action by the government.
- Anticipated demand recovery post mid January 2008 has not happened due to a slow-down in residential real estate activities across the country as well as extended winter lowering construction activity in the north. Recent price hike of INR 5/bag in the west, especially in Gujarat could be rolled back within a day/two due to slow offtake.
- Price increases post Budget likely to be moderate and are unlikely to compensate for the absent price rise in February. At best, prices could rise by about INR 5/bag per month in March-May.

Price increases till date and price expectations in Jan-June 2008

INR/bag	South	West	East	North
Dec '07	3-5	0	0	0
Jan '08	3-5	4 (Mumbai)	0	0
Feb '08	0	5	0	0
Actual price hike	**6-10**	**9**	**0**	**0**
Expected price increase in Jan-Jun 2008	20-25	20	0	0-10

Source: Industry, Edelweiss research

RECOMMENDATION

We believe that trading opportunities during the current busy season could be limited due to no significant triggers in terms of cement price hikes despite cement stocks correcting sharply by nearly ~ 19-28% in January 2008 and rock bottom valuations (currently trading at the lower end of historical EV/EBITDA bands). We expect that cement stocks with southern exposure and volume gains such as India Cements, Madras Cements and UltraTech will enjoy better earnings growth in FY09E and could outperform relative to ACC and Ambuja Cements in the short term.

FMCG Budget Expectations

1) VAT for biscuits may be reduced from 12.5% to 4%. (Biscuits, Cigarettes and Pan- masala attract 12.5% currently).

   Impact – Positive for ITC, Britannia.

2) Excise duty for soaps, detergents to be maintained – even though industry has been clamoring for excise relief from the existing 16 % - we expect the status quo to be maintained, given that most of the manufacturing locations have been relocated to tax-free zones.

   Impact – Neutral

3) Service tax on lease rentals to be lowered.

   Impact – Positive for Dabur, Marico

4) Reduction in FBT

   Impact: Positive for the sector as FBT contributes ~1 % of PBT for most of the FMCG companies.

5) No change in customs duty, service tax rate.

   Impact - Neutral

6) Moderate reduction in DDT.

   Impact – Positive for shareholders (high dividend payout ratio)

TELECOM

- **Extension of 100% tax exemption benefits under section 80IA from current 5 years to 10 years (at par with other infrastructure sectors)**

  Benefits under section 80IA in the form of 100% exemption on profits (100% profits in first five years and 30% profits in the remaining 5 years within 15 years from date of commencement of operations) are available to telecos only for a period of 5 years vis-à-vis other infrastructure sectors where 100% tax exemption benefits are available for 10 years (opted from the block of 20 years).

  Expectation

  - Extension of 80IA benefits for telecos for a period of 10 years versus 5 years currently

  Benefit

  - Direct positive impact on bottomline on account of lower tax rates, will free up cash flows for reinvestment into the business

- **Section 80IA benefits should be made available to companies undergoing amalgamation or demerger after 31.3.2007**

  Sub-section (12) of section 80-IA provides, in the event of amalgamation or demerger of an Indian company (which is entitled to the deduction under section 80-IA) to another Indian company, the provisions of the said section 80-IA shall apply to the amalgamated or the resulting company.

  Union Budget 2007 -2008, proposes to insert a new sub-section (12A) in section 80-IA so that the provisions of sub-section (12) shall not apply to any undertaking or enterprise which is transferred in a scheme of amalgamation or demerger *after 31.3.2007.* This amendment will take effect from 1st April, 2008 and will, apply in relation to the assessment year 2008-2009 and subsequent years.

  Expectation

  - Section 80IA benefits should be made available to companies undergoing amalgamation or demerger after 31.3.2007

  Benefit

  - Positive for M&A activity in the sector

- **Reduction in license fees to a uniform 6% of AGR**

  Currently license fees are paid by operators as a fixed percentage of adjusted gross revenues (AGR) at prescribed rates based on the circle of operation.
  Metros and A category – 10% of AGR
  Category B – 8% of AGR
  Category C – 6% of AGR

  Expectation

  - Reduction in license fee to a uniform rate of 6% across all telecom circles

  Benefit

  - Lower costs, better margins and greater affordability to end customers if cost savings are passed on