Run-up to Budget 2007-08

It's that time of the year again when wish lists are drawn by all and sundry and expectations are high that at least some of the wishes will be granted in the Union Budget. Yes, in about two weeks from now, the incumbent United Progressive Alliance (UPA) government will present its last but one budget before it goes to general parliamentary elections in CY2009. Needless to say investors will be hanging on every word of P Chidambaram when he presents the budget for FY2008 on February 28, 2007. That's because they will be eager to see if the finance minister uses the opportunity to push forward fiscal reforms and announce well-directed spending on infrastructure, education and the farm sector. With the budget around the corner, we take this opportunity to present our pre-budget report.

The nation's coffers are overflowing, thanks to the government's improving fiscal health, and we expect the government to use the additional funds to tackle problems such as tax reforms, inflation and inadequate infrastructure.

We expect the budget to have the following key themes:

- measures to boost supply, especially in agriculture and infrastructure;
- some moderation in tax rates including a possible removal/reduction in corporate tax surcharge, this would be coupled with removal of certain tax exemptions;
- increase in the number of services that are taxed under the service tax and a possible increase in the service tax rate from 12% to 14%;
- further reduce the import duty from 12.5% to 10%;
- steps to phase out the central sales tax (CST) and compensate states for the loss in the CST by allowing them to tax cigarettes, some other services and levy the value added tax (VAT) on imports.
- measures like further excise and customs duty cuts to tackle inflation could also be on the cards.

Budget is expected to be positive for sectors

- **Engineering and capital goods**
- **FMCG (excluding ITC)**
- **Automobile**
- **Telecom**

Will the market go up post-budget?

Historical evidence suggests that the market normally rallies before the budget (as has happened four times in the past seven years) and falls after the budget (in five of the last seven years it has fallen). The market had recorded a gain in the aftermath of the budget in 2006. So will that positive trend continue this year too? We think the following factors would determine the market's direction post-budget.

1. The government's fiscal performance so far has been better than expected. If the government unveils its budgetary plans that reinforce its will and vision to further improve its performance, the same would be cheered by the market. A credible fiscal deficit target for the next year would be a huge positive for the market and ease the concerns pertaining to rising interest rates and government borrowing.
2. The upcoming state elections in Uttar Pradesh could have some influence on the overall reforms and disinvestment plans of the government. However any unexpected positive development on this front could actually be a positive for the market.
3. There are concerns about a hike in the short-term capital gains tax—a sharp hike would be negative in the short-term.
4. Any steps to align the caps on foreign institutional investment and foreign direct investment would raise the foreign institutional investment ceiling and increase India's weightage in key global benchmark indices such as Morgan Stanley Capital International (MSCI) Index.
5. Credible steps to reduce inflation would allay the current concerns related to inflation and interest rate hikes.

Fiscal deficit likely to be lower than target

The government's improved performance in this fiscal speaks for itself. The data for the April-December 2006 period indicates that the government has performed extremely well on both revenue generation and expenditure control fronts. The improved fiscal performance coupled with the revised gross domestic product (GDP) forecast of 9.2% has tilted the odds in favour of the fiscal deficit falling to 3.6% of the GDP, lower than the budgeted target of 3.8% for FY2007. We expect the fiscal deficit for FY2007 to come down to Rs146,300 crore, below the budgeted estimate of Rs148,686 crore, due to improved revenue collections and controlled expenditure. We further estimate that in FY2008 the fiscal deficit would come down to 3.3% of the GDP (nominal GDP growth for FY2008 estimated at 13%). For FY2008, we estimate the primary deficit to be insignificant and revenue deficit to be 1.5% of the GDP.

Recently rating agency Standard & Poor's has upgraded our sovereign rating from *Speculative* to *Investment* grade and if the government can keep up the good work done so far, we could expect more such positives going forward.

Rural economy and high employment generating sectors to be in focus

In the forthcoming budget, apart from the thrust on the rural economy in the form of continued reforms for the agriculture sector, industries such as leather, footwear, textiles & clothing and sports goods are likely to get special attention as these industries have a great potential to generate employment. The government is likely to reduce the customs duty on machinery imports for these industries. In addition, the finance ministry is considering allowing tax exemptions on reinvested profits. Giving a boost to high employment-generating sectors and the small-scale industry is high on the UPA government's agenda and also features in the National Common Minimum Programme.

Infrastructure focus of the government to continue

Apart from allocating higher resources for its programmes in the areas of employment guarantee, education, health and agriculture, we feel the government would continue to focus on infrastructure development. Some other sectors like oil & gas may also come in its focus along with roads, power, ports and irrigation projects.

The oil & gas sector may hear some important announcements in this year's budget. The oil ministry is seeking a series of tax and duty changes to reduce prices of retail petroleum products and attract greater investment for the sector. It is also expected that infrastructure status would be granted to gas pipelines, and exploration and production (E&P) activities in order to facilitate growth through higher investments.

Infrastructure funding is another key issue that could be dealt in this year's budget, with the long-term funding needs of the infrastructure sector projected to reach $320 billion (about Rs1,450,000 crore) in the Eleventh Five-Year Plan (2007-2012). A couple of years back, the Planning Commission had proposed that India's booming foreign exchange reserves be used to finance development of ports, railways, highways, aviation and electricity sectors. However, after opposition from the Reserve Bank of India (RBI), the government put the proposal on the backburner.

Central government finances for FY2007

Rs '00 crore	FY04	FY05A	FY06RE	FY07BE	FY07E*
Gross tax revenues	2,544.0	2,248.0	3,701.4	4,421.5	4,626.8
% yoy change		*-11.6*	*64.7*	*19.5*	*25.0*
Net tax revenues	1,870.0	2,248.0	2,741.4	3,272.1	3,426.7
% yoy change		*20.2*	*21.9*	*19.4*	*25.0*
Non-tax revenues	769.0	743.4	743.4	762.6	758.2
Total expenditure	4,714.0	4,976.8	5,087.1	5,639.9	5,727.9
% yoy change		5.6	2.2	10.9	12.6
Plan expenditure	1,222.0	1,322.8	1,437.9	1,727.3	1,727.3
% yoy change		8.2	8.7	20.1	20.1
Non-plan expenditure	3,492.0	3,654.1	3,649.2	3,912.7	4,000.6
Fiscal deficit	1,232.0	1,365.1	1,461.8	1,486.9	1,463.0
As % of GDP	*4.5*	*4.4*	*4.1*	*3.6*	*3.6*
Revenue deficit	983.0	852.2	918.3	847.3	790.4
As % of GDP	*3.6*	*2.7*	*2.6*	*2.1*	*1.9*
Primary deficit	-14.0	64.8	161.5	88.7	65.0
As % of GDP	*-0.1*	*0.2*	*0.5*	*0.2*	*0.2*

* Sharekhan estimates

However, recently, Mr Chidambaram has revisited the issue and the government has also set up a committee headed by HDFC chairman Deepak Parekh to find ways of raising funds for the sector. Easing of existing securitisation guidelines, tax exemptions on infrastructure bonds and efficient utilisation of our burgeoning foreign exchange reserves could be some of the financing options that could be unveiled in the upcoming budget.

Key budget expectations: taxation

- Peak customs duty is expected to be reduced to 10% from 12.5%
- Service tax is likely to increase to 14% from 12% and more services are expected to be brought under the tax net.
- The CST could be reduced to 2% from 4%. The government will also need to announce the method for compensating states for the loss of the CST by allowing them to (a) tax cigarettes, (b) tax some services, and (c) levy VAT on imports.
- The government is likely to eliminate/reduce the 10% surcharge on the corporate tax, however it might marginally raise the education cess from the existing 2%.
- A reduction in the corporate tax rate could benefit those companies that are currently paying a higher effective tax rate. The table on right gives a list of the companies with a higher effective tax rate for their latest financial year.

Large-cap companies with high effective tax rate

Company	Effective tax rate (%)
State Bank of India	36.2
BHEL	34.5
Hindustan Zinc	34.0
ONGC	33.9
Tata Steel	33.1
Maruti Udyog	32.1
Hero Honda Motors	31.2
ITC	30.7
HDFC Bank	30.5
Bajaj Auto	30.3

Other policy initiatives

- The government may grant infrastructure status to certain sectors: oil & gas pipelines, liquefied natural gas terminals.
- Income tax holiday for export-oriented units is set to expire in 2009 and the same is unlikely to be extended in the upcoming budget.
- The Planning Commission has advised the government to revamp the Centrally Sponsored Scheme by scrapping 120 of them; 52 schemes with an outlay of Rs300 crore each to be retained and 25 schemes with an outlay of Rs100-300 crore to be transferred to states. We may see some restructuring on this front.

Fiscal performance YTD (Rs) '000 crore

	Apr - Dec 06	yoy (%) growth	yoy (%) budgeted growth	FY07B	Ytd of 07B (%)
a. Revenue receipts	280.9	29.6	15.8	403.5	69.6
Net tax revenues	232.2	37.6	19.4	327.2	71.0
Non-tax	48.7	1.5	2.6	76.3	63.9
b. Non-debt receipts	8.0	7.2	-15.8	11.8	67.2
c. Total receipts (a + b)	288.9	28.9	14.6	415.3	69.6
d. Revenue expenditure	347.7	17.3	10.9	488.2	71.2
e. Capital expenditure	36.0	-0.1	10.9	75.8	47.5
f. Total expenditure (d + e)	383.7	15.4	10.9	564.0	68.0
g. Fiscal deficit (f - c)	94.9	-12.4	1.7	148.7	63.8
h. Revenue deficit (d - a)	66.8	-16.2	-7.7	84.7	78.8

Source: Controller General of Accounts: Budget Documents

Likely inflation measures in the budget

The current inflation rate at 6.73% for the week ended February 3, 2007 looks high and definitely beyond the RBI's comfort zone of 5-5.5%.

Latest inflation number forces a cut in fuel prices

The government slashed the price of per litre of petrol and diesel by Rs2 and Re1 respectively on February 15, 2007 after the inflation rate rose higher to 6.73%. The move comes as an urgent response to the rising inflation. The last cut in fuel prices carried out in end November 2006 had helped the fuel index to cool off by 1.8% over its previous week's figure. The effect of the latest cut would be visible in the next week's inflation data. The fuel segment has a 14.2% weightage in the overall index and the fuel index has stayed constant over the recent period. The present price cut would help the fuel index to drop further. This would ease the inflationary pressures going forward.

So what is causing this rise? Inflation has risen mainly due to (a) the higher prices of food products, like pulses and cereals, and manufactured products; and (b) the lower base effect of last year.

With the general elections in politically important states like Uttar Pradesh due in April this year, the government needs to seriously tackle the rising inflation. The government has already taken some major steps in this regard to bring down the prices of food products.

- It has imported food grains on a large scale and released higher quantities of wheat from buffer stocks; it has also banned the exports of certain products.
- It has cut the customs duty on palm oil.
- It has also reduced the customs duty on the key metals and cement (the key contributor to the price rise in the non-metallic segment).

Although the customs duty on the key metals has been reduced to lower manufacturing prices, yet we feel the government could undertake another round of duty cuts in metals and other sectors, which are also contributing to the rise in inflation.

There are talks that the prime minister is seriously considering reducing the peak tariffs to the Asean levels in this budget itself. The average Asean tariff for manufactured items is in the range of 5% and 6%. The industry demand for a reduction in the peak customs duty from 12.5% to 10%, and lower in some special cases, may be met in the upcoming budget.

We feel the government can also consider lowering the excise duty from 16% to 14% and raising the service tax rate from 12% to 14% simultaneously. This would be in line with the recommendations made by the Kelkar Task Force. The panel had suggested that the long-standing distortion in terms of a differential treatment of manufacturing and service sectors can be eliminated by imposing a common goods and service tax.

Possible measures to bring down inflation

Sectors	Wt (%)	(%) yoy	Likely measures in the budget
Fuel, power & light	14.23	2.33	The government has already reduced the price of per litre of petrol and diesel by Rs2 and Re1 respectively on February 15, 2007 after the inflation rate rose further to 6.73%. The effect of this cut would be visible in the next week's inflation data. The cut will help the fuel index to decline and ease inflationary pressures to an extent going forward.
Basic metals	8.34	16.31	This segment has significantly contributed to the rise in the price of manufactured products. The government has already reduced the customs duty on key metals, however there is scope for further reduction in the budget if the inflation numbers don't moderate to some extent before the budget is presented.
Paper & paper products	2.04	7.58	The excise and the customs duty stand at 16% and 12.5% respectively for most categories of products in this segment. This leaves some room for rationalisation in this segment, as paper and paper products are widely used in our daily lives.
Basic chemicals	11.93	2.75	The government could review the excise and the customs duty on caustic soda and soda ash; the same stand at 16% and 10% respectively.
Rubber & plastic products	2.39	7.29	The inverted duty structure with 20% import duty on rubber and 15% import duty on tyres may be rationalised.
Machinery & machine tools	8.36	7.84	We can expect the government to further rationalise the duty structure in this segment as was done in the previous budgets.

Sector-specific impact

Automobiles

Issue	Current status	Proposal/Likely changes	Impact
Excise duty on cars	16% on small cars; 24% on all other cars.	Uniform excise rate of 16% sought for all passenger vehicles. We believe the same is unlikely to happen this year.	**Neutral** for the sector.
Customs duty on alloy steel and other ferrous metals	7.5%.	5.0%.	**Positive** for the sector.
R&D expenditure	150% weighted deduction (available up to March 31, 2007).	To be extended for another ten years.	**Positive** for the sector.
Peak customs duty	12.50%.	May be reduced to 10%.	**Positive** for OEMs. **Negative** for auto component makers.

Banking/Insurance

Issue	Current status	Proposal/Likely changes	Impact
Tax saving deposit under section 80C	Five-year lock-in and restrictive in nature.	The lock-in-period for the term deposit may be reduced from five years to three years to bring it at par with other tax saving instruments such as ELSS and mutual funds.	**Positive** for the sector as it will help banks tide over the problem of deposit mobilisation to a great extent.
Tax paid on interest income from saving deposits, benefits availed under section 80L and TDS ceiling	Interest income on saving deposits taxed; benefit that allowed tax deduction of Rs12,000 under section 80L withdrawn and current TDS ceiling at Rs5,000.	Tax exemption of interest income from saving deposits, restoration of tax exemption on interest income under section 80L and increase in TDS ceiling to Rs10,000.	**Positive:** The sector will benefit if all or any of the measures are implemented, as the same would make bank deposits look attractive.
Permission to issue tax saving long-term bonds	Many banks are eligible to issue bonds, but unable to price it attractively.	If tax exemptions are given to these bonds, banks will be in a position to attract investor interest.	**Positive** for the sector as it will help banks to resolve their asset liability mismatch issues, given the fact that they mobilise short-term resources and lend for long-term projects.

Cement

Issue	Current status	Proposal/Likely changes	Impact
Excise duty	Rs408 per tonne.	Reduce excise duty to Rs350 per tonne. We believe the same is unlikely to happen.	**Neutral** for the sector.
Customs duty on coal/petcoke	5%.	0%.	**Positive** for Gujarat Ambuja, UltraTech Cement, Madras Cement and India Cements.
Increase in infrastructure spending		Continue to increase infrastructure spending.	**Positive** for the sector as the same will continue to fuel the demand for cement.

FMCG

Issue	Current status	Proposal/Likely changes	Impact
Alcoholic beverages			
Customs duty	150-312% (including CVD).	No change sought.	**Neutral** for the sector.
Cigarettes			
VAT	Tobacco products exempt 10% AED on tobacco products.	VAT to be introduced. 10% AED to be scrapped.	**Negative** for ITC.
CST	4% currently.	To be reduced.	With the imposition of VAT expected, no benefits.
Personal & Home care products			
Custom duty on soda ash and caustic soda	10% currently.	Likely to be reduced.	**Positive** for HLL and P&G.
Excise duty on ready-to-eat foods	Duty on some of the processed food products reduced to either 8% or nil.	Excise duty of 16% on a number of processed food products is expected to be reduced to 8% or nil.	**Positive** for ITC Foods and Kohinoor Foods.
Customs duty on palm oil and other edible oils	Refined bleached and deoderised palm oil, palmolein and other refined palm oils—67.5% Crude palm oil and palmolein—60% Crude sunflower oil—65% Refined sunflower oil—75%.	Headroom left for further reduction. 4% SAD expected to be scrapped. Duty on refined sunflower oil expected to get reduced to 65%.	**Positive** for HLL and Godrej Consumer. **Positive** for AgroTech Foods, Ruchi Soya.

Engineering and capital goods

Issue	Current status	Proposal/Likely changes	Impact
Customs duty on capital goods and project imports	Already reduced from 12.5% to 7.5%.	-	Marginally **negative** for the domestic companies.
Customs duty on primary and semi-finished form of copper, aluminium, zinc, tin and other metals	Already reduced from 7.5% to 5%.	-	**Positive** as this neutralises the impact of the rise in the raw material prices witnessed in 2006.
Customs duty on tubes, pipes and fittings of copper, aluminium or zinc.	Already cut from 12.5% to 7.5%.	-	**Positive** as this neutralises the impact of the rise in the raw material prices witnessed in 2006.
Infrastructure spending		Continue to increase infrastructure spending.	**Positive:** The existing order backlog and the potential backlog with increased infrastructure spending will ensure greater visibility.

IT services

Issue	Current status	Proposal/Likely changes	Impact
Tax exemptions	Tax exemptions under section 10A for STP registered units to expire by 2009.	Extension of direct tax exemptions under section 10A on STP registered units for another ten years beyond 2009, in line with the tax exemption proposed for SEZs.	**Positive** for IT service companies. Especially the mid-cap companies, as the cost of setting up centres in SEZs is estimated to be relatively higher. Also, SEZs are generally located outside city limits (which is inconvenient for employees). In case the tax exemption on STP units is not extended, the effective tax rate is estimated to increase to the 18-24% range (up from 11-17% currently) depending on the offshore/onsite mix, proportion of revenues from SEZ units and the contribution from the domestic business. This, in turn, would lower the net margin by 150-300 basis points. The impact would be more pronounced in case of mid-cap companies and ITES/BPO units.

Media and Entertainment

Issue	Current status	Proposal/Likely changes	Impact
Increase in import duty on STBs in line with the duty on inputs for manufacturing STBs	Nil.	A higher import duty of 5% has been sought. We believe the same is unlikely to happen considering the thrust on the implementation of CAS and the need to keep the price of STBs under control. STBs are already subsidised by MSOs and DTH operators.	A higher import duty would correct the inverted and anomalous duty structure; but it will also raise the cost of imported STBs. **Negative** for WWIL, Hinduja TMT, Dish TV, Tata Sky.
Reduction of import duty on capital goods	Up to 36%.	Reduced in line with the reduction in peak customs duty.	Will reduce set-up costs. **Positive** for the entire media industry.

Metals

Issue	Current status	Proposal/Likely changes	Impact
Customs duty	Duty on non-ferrous metals, eg copper, aluminum, zinc and tin, cut from 7.5% to 5%. Duty on ferro-alloy stainless steel and other alloy steel cut from 7.5% to 5%.	No change.	**Negative**—as the landed cost of imports would be lower. Consequently, domestic prices will be capped.
Customs duty	Duty on calcined alumina cut from 7.5% to 5%.	No change.	**Positive** for non-integrated aluminum companies as calcined alumina is an important raw material.
Customs duty	Duty on refractories cut from 7.5% to 5%. Duty on specified raw materials of refractories cut from 10.75% to 5%.	No change.	**Positive** for the steel industry as the refractories are a key input. **Neutral** for refractory manufacturers like Vesuvius as the duty on both the final product and the raw materials has been cut.
Customs duty	Duty on copper concentrate currently at 2%.	Likely to be reduced.	In January the duty on copper concentrate was maintained at 2%. The differential between the duties on copper and copper concentrate was 5.5% earlier; the same is only 3% now. The government could cut duty on concentrate to increase the differential. **Positive** for the copper industry.
Excise duty	16%.	Likely to be reduced.	Since the government wants to rein in inflation, a duty cut is a distinct possibility. **Positive** for the sector.

Oil and gas

Issue	Current status	Proposal/Likely changes	Impact
Income tax	E&P projects: Seven years of tax holiday.	Extend tax holiday to ten years or make the provision for a block of seven years from the first fifteen years.	**Positive** for companies like ONGC, RIL and Cairn India.
Income tax	Projects in pipeline don't have infrastructure status.	Infrastructure status sought which would lead to tax exemptions	**Positive** for RIL and ONGC.
Customs duty	Different rates for crude oil (5%) and petroleum products (7.5%).	Uniform rate sought.	**Positive** for marketing companies like HPCL, BPCL and IOC. **Negative** for oil refiners like Bongaigaon Refinery, Kochi Refineries and Chennai Petroleum.
Excise duty	Petrol—8.16% + Rs13.26 Diesel—8.16% + Rs3.32.	Reduce only specific duties or both *ad valorem* and specific duties.	**Positive** for marketing companies like HPCL, BPCL and IOC.

Paints

Issue	Current status	Proposal/Likely changes	Impact
Duty on import of raw material	12.8% currently	To be reduced to 10%.	**Positive** for paint companies like ICI India and Asian Paints.

Pharmaceuticals

Issue	Current status	Proposal/Likely changes	Impact
R&D	Weighted deduction of 150% on R&D expenditure incurred up to March 31, 2007 is available for in-house R&D facility.	Extension of the benefit for a few more years beyond March 31, 2007 and an increase in the weighted deduction from 150% to 200%.	**Positive** for Ranbaxy, Dr Reddy's and Cadila. In the mid-cap space, Alembic, Torrent and Dishman will be benefited.
	ANDA filling expenses and R&D activities conducted outside the approved facilities like clinical trials carried out in approved hospitals and institutions are not eligible for weighted deduction.	ANDA filling expenses and activities like clinical trials carried outside the approved R&D facilities may become eligible for weighted deduction.	**Positive** for Ranbaxy, Lupin, Sun Pharma, Nicholas Piramal and Aurobindo Pharma.
Excise duty	MRP-based 16% excise structure and 42.5% abatement.	Reduction of excise duty to 8% and/or an increase in the abatement to 52%.	The proposal is less likely, as the government has recently increased the abatement from 40% to 42.5% and a large number of players have set up facilities in excise-exempt areas.
Custom duty	5-12.5% is levied on cancer, life saving and anti-AIDS drugs.	Life saving drugs may be exempted from customs duty. Further, reduction of peak custom duty from 12.5% to 10% is on cards.	**Positive** for Aventis, Novartis and GSK Pharma
Service tax	Indian companies conducting clinical trials and other scientific services are subject to service tax, even if exported.	Clinical trials and other scientific services for foreign clients may be exempted from service tax.	**Positive** for Nicholas Piramal, Vimta and Biocon.

Telelcom

Issue	Current status	Proposal/Likely changes	Impact
Licence fee as revenue share	Revenue share is based on category of circle: 10% for metros, 8% for category A circles and 6% for category B circles.	Reduce to a uniform rate of 6% across circles.	**Positive** for all private sector telecom operators like Bharti Airtel, Reliance Communications and Tata Teleservices. It is a long-awaited demand from the industry and is not expected to materialise in the Budget.
Customs duty	Additional duty of 4% levied on mobile handsets.	Remove additional duty of 4% on handsets.	Lowering the cost of handsets will boost subscriber base. **Positive** for all telecom operators and handset importers like HCL Infosystems.
Corporate tax	Benefits under section 80IA applicable for five years. However, the telecom operators have to pay MAT, which mitigates the impact of the benefits under section 80IA.	Extend the benefits under section 80IA and make an amendment to section 115JB related to MAT.	**Positive**—It would reduce the tax burden on the private telecom operators.
Service tax	Service tax of 12% applicable.	Increase service tax rate.	Marginally **Negative** for the telecom operators, as it would increase the monthly billing for subscribers and possibly affect the growth in the subscriber base and volumes.

IT/Telecom Hardware

Issue	Current status	Proposal/Likely changes	Impact
Customs duty	8% CVD applicable on software imported for installation in telecom equipment.	Exempt telecom software from 8% CVD.	**Positive** for all private sector telecom operators like Bharti Airtel, Reliance Communications and Tata Teleservices as it would bring down the capex cost.
Excise duty on access equipment for telecom networks	Currently at 16%.	To be brought down to 12% or 8%.	**Positive** for all private sector telecom operators like Bharti Airtel, Reliance Communications and Tata Teleservices as it would bring down the capex cost.
Custom duty on hardware imports by PC manufacturers	CVD of 4%.	Reduce CVD to 2%.	**Positive** for the domestic manufacturers that import various components and parts.
Service tax	Currently, the service tax is levied on maintenance or repair of software.	Exempt from service tax.	**Positive** for IT hardware vendors.

Tourism

Issue	Current status	Proposal/Likely changes	Impact
Tax holiday	Nil.	Ten-year tax holiday sought for all tourism projects.	**Positive** for Indian Hotels, Hotel Leela, EIH and Taj GVK.

Tyres

Issue	Current status	Proposal/Likely changes	Impact
Peak custom duty	12.50%.	May be reduced to 10%.	**Positive** for the sector as it would reduce the cost of SBR, PBR and NTC.
Inverted duty structure	A 20% import duty on rubber A 15% import duty on tyres.	Reduce import duty on rubber. We feel the same is unlikely to happen.	Impact on either case would be **Neutral** as majority of tyre makers source rubber from the domestic market (since it is cheaper); even if they are required to import the same, they enjoy zero duty against exports.

Abbreviations used in the report

AED: additional excise duty
ANDA: abbreviated new drug application
BPCL: Bharat Petroleum Corporation Ltd
BPO: business process outsourcing
CAS: conditional access system
CST: central sales tax
CVD: countervailing duty
DTH: direct-to-home
ELSS: equity linked savings scheme
HLL: Hindustan Lever Ltd
HPCL: Hindustan Petroleum Corporation Ltd
IOC: Indian Oil Corporation
IT: information technology
ITES: IT enabled services
MAT: minimum alternate tax
MRP: maximum retail price
MSO: multi-system operator
NTC: nylon tyre cord
OEM: original equipment manufacturer
ONGC: Oil and Natural Gas Corporation
P&G: Procter and Gamble
PBR: poly butadiene rubber
R&D: research and development
RIL: Reliance Industries Ltd
SAD: special additional duty
SBR: Styrene butadiene rubber
SEZ: special economic zone
STB: set-top box
STP: software technology park
TDS: tax deduction at source
VAT: value-added tax
WWIL: Wire and Wireliess Ltd