Budget 2009-10

Short on expectations

Emkay Research Team

Budget 2009-10 Highlights

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- The Union Budget shows a reciprocation of the UPA to its vote banks. Budget outlays increased by Rs260bn over interim budget. Beneficiaries are: infrastructure, agriculture, education and rural development.
- Major concern is the increased fiscal deficit to 6.8% against 5.5% declared in the interim budget.
- The budget also failed to give any clear roadmap on major reforms with confidence
- Some positives like adhering to the GST deadline of 1st April, 2010 and abolition of FBT are welcome moves. No rollback of excise could be taken as positive.
- More money at the disposal of an individual a) post the abolition of surcharge and education cess and b) due to some relief on increased threshold limit for personal income-tax.
- However, the budget is short on market expectations with no specific announcement on FDIs, no specific details on divestment and some disappointments on incentives to the housing sector.
- Increase in rates of MAT from 10% to 15% will reduce the profitability of Corporate India
- Fiscal deficit could move above 6.8% if the government's socialistic drive continues and there is a delay in economic recovery.

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Budget 2009-10 – Demystified

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Consumption	■ Increase in exemption limits for Income Tax slabs ■ Fringe Benefit Tax and Surcharge on Personal Income - abolished ■ MAT raised from 10% to 15% - negative for Paper, Pharma, Infrastructure Developers
Agriculture	■ Additional 6 month period to farmers to pay 75% of their dues ■ Additional 1% Interest subvention for repayment of short term crop loans on schedule ■ Additional Rs 10 bn allocated to Accelerated Irrigation Benefit Programme ■ NREGA outlay increased by 144% to Rs 391 bn ■ Adequate Provision for Fertiliser subsidy of Rs 500 bn for 2009-10
Education	■ Students from economically weaker sections to get full interest subsidy during moratorium for education loans ■ Allocation of Rs 21 bn for IITs and NITs ■ Plan budget for higher education increased by Rs 20 bn over Interim B.E. 2009-10
Health	■ Allocation under National Rural Health Mission (NRHM) increased by Rs 21 bn over Interim B.E. 2009-10 of Rs 121 bn
Infrastructure	■ Allocation for Bharat Nirman progamme raised by 45% to Rs 454 bn ■ Allocation of funds stepped up from Rs 108 bn to Rs 160 bn for Railways ■ Allocation for JNNURM increased from by 87% to Rs 129 bn ■ Allocation to NHAI for National Highway Development Programme hiked by 23% to Rs 160bn for 2009-10 B.E.
Fiscal Facts	■ Fiscal deficit rose to 6.2%of GDP over 5.5% in the interim budget ■ Plan expenditure up 34% to Rs 3750 bn

Winners & Losers

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Sector	Positive	Neutral	Negative
Automobile	Hero Honda, M&M, Maruti		Ashok Leyland, Bajaj Auto, Tata Motors, TVS Motors
Banking & Financials	Dividend yield banks like Corporation Bank, Allahabad Bank, Indian Bank, Andhra Bank		Higher bond yields negative for the sector
Cement	Demand Boost through higher allocation to flagship programmes positve for the sector	Tax implication largely neutral for most of the cement companies	
Fertilizer	Coromandel Fertilisers, GSFC, GNFC, Tata Chemicals, Deepak Fertiliser		
FMCG	HUL, Asian Piants, ITC, Marico	Colgate	GCPL
Infrastructure/ Capital Goods		All Capital Good and Infrastructure Companies	
IT	All IT companies, majorly Mid Caps		
Metals		All Metal companies	Sterlite Industries, JSPL
Paper		JK paper	BILT, TNPL
Pharma	Piramal Healthcare, GSK, Pfizer		Cadila, Lupin, Dishman, Glenmark, Divis, Jubilant, Venus Remedies
Power	Positive for T&D companies like ABB, Siemens, Areva, Jyoti Structures, KEC International, Emco Transformers, Kalpataru Power, Voltamp Transformers, Indotech Transformers, Bharat Bijlee and Transformers & Rectifiers	NTPC	Reliance Power, Tata Power, Adani power Etc
Real Estate		All Real Estate Companies	
Retail		Titan Ind, Gitanjali Gems	
Telecom			Bharti, RCOM, Idea Cellular

Government accounts

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- The fiscal deficit up by Rs666bn over the interim budget estimates to Rs4.0tn
- The budget estimates are higher by Rs260bn over our estimates
- The tax revenues have been trimmed by 4.8% driven by removal of surcharge on personal income tax and FBT
- However, partly compensated by higher dividends from RBI, nationalised banks and also higher 3G spectrum revenues
- The infrastructure, rural development and education remain key focus of the expenditure
- Plan expenditure up by 14% and non-plan expenditure up by 4.1% over interim budget estimates
- The estimates do not take into account the expenditure which may arise on account of drought like situation, if that may arise in some states
- Estimates on interest payment unrealistic looking at higher borrowings and consequently likely higher yields
- Though the divestment/disinvestment revenues have been kept unchanged, the chances of positive surpises are high

Five key risks with respect to 6.8% fiscal deficit

- **Dividends from nationalised banks**

  The estimates of dividends from the nationalised banks have been increased from Rs176bn to Rs286bn. Looking at the headwinds that the banks are facing in terms of earnings, that seems a daunting task

- **Spectrum charges**

  The receipts from spectrum charges have been revised from Rs200bn to Rs350bn. We believe that the receipts from spectrum charges could be limited to Rs300-320bn

- **Interest payments**

  Despite higher borrowings and likely higher yields, the interest expenses have not be revised

- **Likelihood of drought**

  With states like Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka and Tamil Nadu facing 15-50% shortfall in monsoons, there is high likelihood that the government may have to allocate money to manage drought situations. The cost of managing drought could be 0.3-0.4% of GDP

- **GDP estimates are little stretched**

  Rs4.0tn of fiscal deficit at 6.8% of GDP implies 10.4% growth in nominal GDP. With inflation likely to average at 1.0-1.5% for FY10, implies 8-9% real GDP growth rate unless, the deflator is much higher than inflation.

Government accounts

		In Rs bn	New budget FY2010BE	% yoy chg	Interim budget FY2010BE	% yoy chg	FY2009RE	chg over IB (Rs bn)	chg over IB (%)
		Receipts							
1		**Revenue receipt**	**6,145.0**	**9.3**	**6,095.5**	**8.4**	**5,621.7**	**49.5**	**0.8**
	1a	Tax (net)	4,742.2	1.8	4,976.0	6.8	4,659.7	-233.8	-4.7
	1b	Non tax	1,402.8	45.8	1,119.6	16.4	962.0	283.2	25.3
2		**Capital receipt**	**53.5**	**-56.4**	**108.4**	**-11.6**	**122.7**	**-55.0**	**-50.7**
	2a	Revcovery of loans	42.3	-56.4	97.2	0.3	97.0	-55.0	-56.6
	2b	Others	11.2	-56.4	11.2	-56.4	25.7	0.0	0.0
3		**Total receipt**	**6,198.4**	**7.9**	**6,204.0**	**8.0**	**5,744.4**	**-5.5**	**-0.1**
		Expenditure							
4		**Non-plan expenditure**	**6,956.9**	**12.6**	**6,680.8**	**8.1**	**6,180.0**	**276.1**	**4.1**
		Non-plan expenditure (Excl Int)	*4,701.8*	*10.6*	*4,425.7*	*4.1*	*4,253.0*	*276.1*	*6.2*
	4a	Revenue	6,188.3	10.2	5,997.4	6.8	5,617.9	191.0	3.2
	4aa	Interest	2,255.1	17.0	2,255.1	17.0	1,926.9	0.0	0.0
	4b	Capital	768.6	36.7	683.5	21.6	562.1	85.1	12.4
5		**Plan expenditure**	**3,251.5**	**14.9**	**2,851.5**	**0.8**	**2,829.6**	**400.0**	**14.0**
	5a	Revenue	2,784.0	15.2	2,483.5	2.8	2,416.6	300.5	12.1
	5b	Capital	467.5	13.2	368.0	-10.9	413.0	99.5	27.0
6		**Total expenditure**	**10,208.4**	**13.3**	**9,532.3**	**5.8**	**9,009.5**	**676.1**	**7.1**
		Revenue (4a+5a)	8,972.3	11.7	8,480.8	5.6	8,034.5	491.5	5.8
		Capital (4b+5b)	1,236.1	26.8	1,051.5	7.8	975.1	184.6	17.6
		Fiscal surplus/(deficit)	-4,010.0	22.8	-3,328.4	1.9	-3,265.2	-681.6	20.5
		As % of GDP	-6.8		-5.5		-6.1		
		Revenue surplus/(deficit)	-2,827.4	17.2	-2,385.3	-1.1	-2,412.7	-442.0	18.5
		As % of GDP	-4.8		-4.1		-4.5		
		Primary surplus/(deficit)	-1,754.9	31.1	-1,073.2	-19.8	-1,338.2	-681.6	63.5
		As % of GDP	-3.0		-1.8		-2.5		

Removal of FBT, S/C hits tax revenues

Higher dividends and 3G spectrum rev

States allowed to borrow more

Infra, education and rural development remain key focus

Short on expectations

Tax revenues

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In Rs bn	New budget FY2010BE	% yoy chg	Interim budget FY2010BE	% yoy chg	FY2009RE	chg over IB (Rs bn)	chg over IB (%)
Tax revenues							
Direct taxes							
Corporation tax	2,567.3	15.6	2,442.0	10.0	2,220.0	125.3	5.1
Income tax	1,132.8	-7.9	1,358.0	10.4	1,230.0	-225.3	-16.6
Total direct taxes	**3,700.0**	**7.2**	**3,800.0**	**10.1**	**3,450.0**	**-100.0**	**-2.6**
Indirect taxes							
Customs	980.0	-9.3	1,101.9	2.0	1,080.0	-121.9	-11.1
Excise	1,064.8	-1.7	1,106.0	2.1	1,083.6	-41.3	-3.7
Others	666.0	0.0	705.0	5.9	665.9	-39.0	-5.5
Total indirect taxes	**2,710.8**	**-4.2**	**2,912.9**	**2.9**	**2,829.5**	**-202.1**	**-6.9**
Total tax collections (gross)	**6,410.8**	**2.1**	**6,712.9**	**6.9**	**6,279.5**	**-302.1**	**-4.5**
Transfer to states	1,668.6	3.0	1,737.0	7.2	1,619.8	-68.4	-3.9
Total tax collections (net)	**4,742.2**	**1.8**	**4,976.0**	**6.8**	**4,659.7**	**-233.8**	**-4.7**

Increase in MAT from 10% to 15%

S/C removed –Rs12bn
FBT removed – Rs102bn

Estimates more rationalised vis-a-vis interim budget and in line with imports trend

Tax revenue – major changes

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Rs bn	FY08	FY09	FY10IB	FY10BE	chg over IB (Rs bn)	% chg over IB
(a) Taxes on Income and Expenditure	**3,027**	**3,385**	**3,732**	**3,635**	**-97**	**-2.6**
Corporation Tax	1,929	2,220	2,442	2,567	125	5.1
Taxes on Income other than Corporation Ta›	1,026	1,080	1,188	1,068	-120	-10.1
Hotel Receipts Tax	0					
Interest Tax	0					
Fringe Benefit Tax	71	85	102	0	-102	-100.0
Other Taxes on Income and Expenditure	0					
(b) Taxes on Property and Capital Transacti‹	**95**	**65**	**68**	**65**	**-3**	**-4.8**
Estate Duty	0					
Taxes on Wealth	3	4	4	4	0	0.0
Gift Tax	0					
Securities Transaction Tax	86	55	63	60	-3	-5.1
Banking Cash Transaction Tax	6	6	1	1	0	0.0
(c) Taxes on Commodities and Services	**2,796**	**2,814**	**2,897**	**2,695**	**-202**	**-7.0**
Customs	1,041	1,080	1,102	980	-122	-11.1
Union Excise Duties	1,236	1,084	1,106	1,065	-41	-3.7
Taxes on Sale, Trade etc.	1					
Service Tax	513	650	689	650	-39	-5.7
Other Taxes on Commodities and Services	5					
Taxes of Union Territories without Legislatur‹	13	16	16	16	0	0.0
Gross tax revenues	**5,931**	**6,279**	**6,713**	**6,411**	**-302**	**-4.5**
State's share	1,518	1,602	1,712	1,644	-68	-4.0
Tax Revenue of the Central Government	**4,413**	**4,678**	**5,001**	**4,767**	**-234**	**-4.7**

Increase in MAT to 15%

Removal of surcharge

Removal of FBT

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Other receipts – major changes

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Non-tax revenue receipts

Rs bn	FY10BE	FY10IB	chg (Rs bn)	chg (%)
Interest Receipts	192	190	2	0.9
Dividend and Profits	498	370	128	34.5
Dividends from PSUs	*211*	*193*	*18*	*9.4*
Dividend from RBI/banks/FIs	*286*	*176*	*110*	*62.1*
Other Non-Tax Revenue	706	552	154	27.9
Receipts of Union Territories	8	8		
Non-Tax Revenue	**1,403**	**1,120**	**283**	**25.3**

Higher dividends from nationalised banks – positive for small sized PSU banks

Increase in 3G spectrum revenues- Rs150bn

Capital receipts

Recoveries from (Rs bn)	FY10BE	FY10IB	chg (Rs bn)	chg (%)
(i) State Governments	25	80	-55	-68.3
(ii) Union Territories (with Legislature)	1	1	0	0.0
(iii) Others	16	16	0	0.0
(a) Foreign Governments	3	3	0	0.0
(b) Public Sector Enterprises, statutory bodies, etc	13	13	0	0.0
Recovery of loans and advances	**42**	**97**	**-55**	**-56.6**

States allowed to borrow more from the central government

Expenditure budget

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	Rs bn			% of GDP		
	FY09RE	FY10IB	FY10BE	FY09RE	FY10IB	FY10BE
Interest Payments	1,908	2,255	2,255	3.6	3.8	3.8
Defence Expenditure	1,056	1,417	1,417	2.0	2.4	2.4
Subsidies	1,292	1,009	1,113	2.4	1.7	1.9
Transport	333	381	454	0.6	0.6	0.8
Education, Sports, Youth Affairs	375	413	446	0.7	0.7	0.8
Rural Development	190	349	439	0.4	0.6	0.7
Water supply, Housing, Sanitation etc.	161	194	208	0.3	0.3	0.4
Health and Family Welfare	164	171	203	0.3	0.3	0.3
Other Social Services	10	162	185	0.0	0.3	0.3
Agriculture and Allied Activities	150	124	129	0.3	0.2	0.2
Energy	74	106	120	0.1	0.2	0.2
Industry & Minerals	88	98	117	0.2	0.2	0.2
JNNURM	104	107	115	0.2	0.2	0.2
Irrigation & Flood Control	85	95	105	0.2	0.2	0.2
Communications	30	28	63	0.1	0.0	0.1
Welfare of SC/ST & OBCs	36	36	43	0.1	0.1	0.1
Information & Broadcasting	18	23	24	0.0	0.0	0.0
Labour & Employment	22	23	24	0.0	0.0	0.0
Others	3,015	2,652	2,874	5.7	4.5	4.9
Total government expenditure	**9,010**	**9,532**	**10,208**	**16.9**	**16.2**	**17.4**

Increase in food subsidy

Infrastructure, education and rural development continue to remain mainstay

Emphasis on rural housing

Largely driven by package for textile industry

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Direct Tax Proposals-Income Tax

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Direct tax proposal - Corporate

- No change in corporate tax rate and surcharge
- MAT increased from 10% to 15% but period to carry forward the tax credit under MAT increased from 7 years to 10 years.
- To introduce GST (Goods & services Tax) from April 01, 2010 comprising of Central GST & State GST.
- New code of Direct tax to be introduced within 45 days.
- FBT abolished –a big relief on procedural hassles.
- Alternative Dispute Resolution Mechanism to be created in regard to transfer pricing disputes. Positive for foreign companies having offices in India.

Direct tax proposal – Individuals/small traders

- Changes in tax slab – tax free limit hiked to Rs1.6 lac, Rs1.90 lac for women and Rs2.40 lac for senior citizen – individual with taxable income of Rs10 lac and above to derive benefit of removal of surcharge of 10% on personal income tax.
- Presumptive tax scheme extended to small businesses with turnover up to Rs 40 lacs.
- Changes made in gift tax, where now a gift from a non relative in any form of assets above Rs50000 not just cash will be taxed. Presently it was taxed only if the gift was in form of cash. Thus negative for receivers of gifts in kind.

Direct Tax Proposals-Income Tax

Direct Tax Proposal – Commodity Markets

- CTT (Commodities transaction tax) has been abolished. However this will not impact the volumes in commodities exchanges as this levy was put on hold since the time it was first introduced. In any case no broker is charging CTT at present.

Indirect Tax Proposals - Customs

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- Custom duty on LCD panel reduced from 10% to 5%.
- Exemption of 4% CVD on parts for manufacture of mobile phones & accessories extended by 1 more year.
- 5% Custom duty on Set top box imposed.
- List of specified raw material exempt from Custom duty for Leather goods, textiles products, footwear, sports goods.
- CD on life savings drugs reduced from 10% to 5% with Nil CVD & CD reduced from 7.5% to 5% (with Nil CVD) on specified heart devices.
- CD on parts used in wind operated generators reduced from 7.5% to 5%.
- CD on bio diesel to be reduced from 7.5% to 2.5%
- Concessions on CD on machinery for tea, coffee & rubber plantations extended to July 07, 2010.
- CD on gold bars increased from Rs 100 per 10 grams to Rs 200 per 10 grams. While CD on other forms of gold increased from 250 to Rs 500 per 10 gram. Similarly CD on Silver has been doubled to Rs 1000 per Kg from Rs 500/Kg.
- Reduction in customs duty on rock phosphate from 5% to 2%.
- CVD imposed on Aerial Ropeway projects.
- CD on concrete batching plants imposed at 7.5%.
- CD on many water sports equipment fully exempted.

Indirect Tax Proposals - Excise

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- Excise duty on items attracting 4% now to be raised to 8% except food items, drugs under chapter 30, medical equipment, varieties of paper & paper board, Paraxylene, power driven pumps for handling water, footwear between Rs 250-Rs 750, Pressure cookers, CFL etc.
- Reduction in excise duty on cars above 2000 cc engine capacity from Rs 20000 per vehicle to Rs 15000 per vehicle
- Reduction in excise duty on petrol driven trucks from 20% to 8%
- Duty exempted fully on High speed diesel blended with upto 20% bio-diesel.
- Excise duty on branded petrol & diesel to change from ad valorem to specific rate. New rates of excise duty on branded petrol at Rs 14.50/ltr & branded diesel at Rs 4.75/ltr.
- Excise duty on man made fibre, PTA, DMT, acrylonitrile increased from 4% to 8%.
- Exemption on excise duty on goods manufactured at the site of construction for use in construction work at such site.
- Exemption on packaged/canned software exempted under certain conditions.
- Excise duty on branded jewellery reduced from 2% to nil.

Indirect Tax Proposals-Service Tax

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The following services have been brought under the ambit of Service tax

- **Services provided in relation to transport of goods by rail, coastal cargo, National Waterways**
- **Advice, consultancy or technical assistance provided in the field of law (not applicable on individual service providers as well as service receivers).**

Service tax exemption for

- **The service provided by 'Contract Carriage Permit' holders for Inter & Intra state transportation of passengers.**

Sectoral Impact

Automobiles – Neutral

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- **Indirect benefits continue in the form of increased focus on improving road infrastructure and rural economy and reduction in personal income tax outgo.**
- **Increase in MAT from 10% to 15%. For FY10, we expect this to have a negligible negative impact on Tata Motors. For rest of the companies under our coverage, FY10 estimates factor in tax rate which is higher than MAT rate.**
- **The biggest beneficiaries are Hero Honda, M&M and Maruti due to their strong brand equity and presence in the semi urban/rural markets.**

Current Status	Proposals	Impact
Excise duty on two wheelers and three wheelers (passenger) - 8%	NA	NA
Excise duty on small passenger cars - 8%, others - 18%	NA	NA
Excise duty on buses and CVs at 8%	NA	NA
Positive	**Negative**	**Neutral**
Hero Honda, M&M, Maruti		ALL, TML, BAL, TVS

Banking and Financial Services

- **Fiscal deficit higher at 6.8% of GDP for 2009-10 vis-à-vis 5.5% in interim budget**
- **Gross government borrowings Rs4.5tn compared with Rs 4.0tn in interim budget**
- **Agricultural loan target at Rs3.25bn, a growth of 13.2% over FY09**
- **Increase in dividend payment estimates from RBI and nationalised banks**
- **Restoration of Sec 80L not touched upon – deposits with maturity < 5yrs continue to be taxed.**

Current Status	Proposals	Impact
Fiscal deficit at 5.7% of GDP	Fiscal deficit at 6.8% of GDP	Bond yields to move up, we expect 7.0% - 7.5% by FY10E
Dividends from RBI/nationalised banks at Rs176bn	Dividends from RBI/nationalised banks at Rs286bn	Positive for small sized PSU banks which have been dividend yield stories
Positive	**Neutral**	**Negative**
Dividend yield banks like Corporation Bank, Allahabad Bank, Indian Bank, Andhra Bank		Higher bond yields negative for the sector

Cement – Positive

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- **Neutral from indirect tax proposal as the excise duty on cement has been kept unchanged at 8%. However market participants were expecting a 4% hike in excise duty and hence from expectation perspective, no hike in excise duty rate is positive for the sector.**
- **Budgetary allocation to infrastructure programs increased – (1) Bharat Nirman (+45% to Rs 454 bn) under which, Indira Awas Yojna (+63% to Rs 88 bn),(2) JNNURM (+88% to Rs 129 bn), (3) NHDP (+23% to Rs 159 bn), (4) AIBP (+75% to Rs 350 bn) is a definite positive for the sector.**

Current Status	Proposals	Impact
Excise Duty on cement with MRP Above Rs190 @ 8%	No Change	Neutral
Customs duty on imported coal and petcoke	No change	Neutral
Excise duty on bulk cement @ 8% of Sale price or Rs230/ton whichever is higher	No change	Neutral

Positive	Neutral	Negative
Demand Boost through higher allocation to flagship programmes positve for the sector	Tax implication largely neutral for most of the cement companies	

Fertilisers – Positive

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- **Provision for fertiliser subsidy at of Rs 500 bn for FY2009-10 is likely to meet subsidy requirement for the year. Resulting in no payments in fertiliser bonds.**
- **Thrust on nutrient based fertilizer subsidies to have mixed impact.**
- **Custom duty on Rock phosphate has been reduced from 5% to 2%.**
- **Increase in agricultural credit by 13% to Rs 3,250 bn with further interest rate subvention of 1% to 6% for farm loans - a clear positive.**

Current Status	Proposals	Impact
During FY08-09, subsidy payments in bonds of Rs 200bn	Proposed fertiliser subisdy at Rs 500bn is sufficient to meet subsidy requirement	No discounting loss on bonds and lower working capital requirement
Custom duty on Rock phosphate at 5%	Proposed to reduce to 2%	It will have positive impact on DAP and complex fertiliser companies
Positive	**Neutral**	**Negative**
Coromandel Fertilizers, GSFC, GNFC, Tata Chemicals, Deepak Fertiliser		

FMCG – Positive

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- **Increase in allocations to development and social programs for rural India - like Indira Gandhi Vikas Yojana, Rural housing, NREGA, RKVY, Urban Poor Development - likely to increase purchasing power.**
- **Increase of personal income tax exemption limits- likely to increase disposable income and in-turn create impetus to demand**
- **Abolishment of FBT would increase earnings growth**
- **Minimum alternate tax (MAT) increased from 10% to 15%- increase income tax incidence**
- **(Our Back-Of-Envelope Calculation for FBT and MAT – HUL, APL and Marico to see earnings upgrades of 2.0%, 1.7% and 1.7% respectively and GCPL to see earning downgrade of 2.6%).**

Current Status	Proposals	Impact
Fringe Benefit Tax (FBT) rate of 6.0%	Reduced to Nil	Positive for all FMCG Companies
Central Excise duty on paint brushes, shaving brushes and toothbrushes at 4%	Increased to 8%	Neutral for Colgate - is a pass through
Minimum Alternate Tax Rate of 10%	Increased from 10% to 15%	Negative for GCPL
Customs Duty & Excise Duty	No Change in Duties	Positive for ITC and United Spirits- pre-budget expectation for increase in indirect tax on Cigarettes and Liquor
Positive	**Neutral**	**Negative**
HUL, Asian Paints, ITC, Marico	Colgate	GCPL

Infrastructure/Capital Goods – Neutral

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- As expected, budgetary allocation to infrastructure programs increased – (1) Bharat Nirman (+45% to Rs454 bn) under which (a) Indira Awas Yojna (+63% to Rs88 bn), (b) Pradhan Mantri Gram Sadak Yojna (+59% to Rs120 bn), (c) Rajiv Gandhi Grameen Vidyutikaran Yojna (+27% to Rs70 bn), (2) JNNURM (+88% to Rs129 bn), (3) APDRP (+160% to Rs21 bn), (4) NHDP (+23% to Rs159 bn), (5) AIBP (+75% to Rs350 bn), (6) Railways (Rs158 bn versus Rs108 bn (IB-2009-10))
- Enhanced scope and role of IIFCL to facilitate incremental lending to infrastructure sector
  - Take-out financing to facilitate asset-liability mismatch of commercial banks
  - Refinance 60% of commercial bank loans to PPP projects over next 15-18 month
- Extended Sec 80-IB(9) exemption to commercial production of natural gas- encourage investments in hydrocarbon sector
- Extension of benefits under Sec 80-IA by one year up to Mar' 11 – to expedite execution of ongoing projects
- MAT rate increased from 10% to 15% - negative for infrastructure developers

Current Status	Proposals	Impact
Custom Duty on Permanent Magnet for Windmill Equipment > 500 Kw at 7.5%	Custom Duty reduced from 7.5% to 5.0%	Positive for Elecon Engineering - Manufactures and Sells Windmill +500 Kw Capacity
MAT Rate - at 10%	Increased to 15%	Negative for IRB - NPV impacted by (-) 7%
Subsidy budgeted for Private Shipyards under Interim Budget - Rs0.6 bn	Increased to Rs3.7 bn (+518%)	Positive for ABG Shipyard (Rs3.7 bn due) & Bharati Shipyard (Rs2.5 bn due)
Positive	**Neutral**	**Negative**
	All Cap Good and Infra Companies	

Short on expectations

IT – Software – Positive

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- **Union Budget 2009-10 - 'Positive' for the IT services sector.**
- **Tax benefits under Section 10A/10B of the Income Tax Act'1961 extended by another year to lead to EPS upgrades by ~0%-9% for our IT coverage universe.**
- **Increase in MAT to 15% V/s 10% would impact cash flows negative while it will be earnings neutral.**
- **Removal of FBT would be marginally benefit Indian IT companies with impact varying depending on whether the taxes are recovered from employees or not.**

Current Status	Proposals	Impact
Tax exemption U/S 10A / 10B to units for 10 years or FY10 whichever earlier	To be extended till March 31'2011 or 10 years whichever is earlier	Positive for Indian IT companies with FY11 EPS getting upgraded by ~0%-9% depending on the number of STPI units hitting the 10 year ceiling and % of SEZ revenues
MAT at 10% of book profits and duration of availing deferred tax benefit at 7 yrs	Increase MAT to 15% of book profits and duration of availing deferred tax benefits at 10 yrs	EPS neutral, however cash flow negative. Indian IT companies to create deferred tax assets to be offset against future tax liabilties
Positive	**Neutral**	**Negative**
All IT services companies		

Metals – Neutral

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- **Union Budget 2009-10 - 'Neutral' for Metals sector.**
- **No change in excise duty and custom duty on ferrous and non ferrous metals. Imposition of anti dumping duty and increase in import duty on steel can be done even after the budget**
- **Increase in MAT from 10% to 15% - marginally negative for Sterlite Inds (Consolidated EPS to be impacted by around 1%), JSPL - enjoying benefits under Sec 80IA for power projects.**

Current Status	Proposals	Impact
Excise duty on steel of 5%	No change	Largely Neutral - Any change would have been entirely passed on
Custom duty of 5% on steel	No change	Neutral - Imposition of anti-dumping duty and increase in custom duty may be looked into even after from the Budget
10% MAT	Increased to 15%	Marginally negative for Sterlite Inds, JSPL - enjoying benefits u/s 80IA for the power projects
Positive	**Neutral**	**Negative**
	All Metal companies	Sterlite Inds, JSPL

Paper – Neutral

- **Consessional Excise duty rate has been maintained at 4%**
- **Custom duty has remain unchanged at 10% on paper and 5% on pulp**
- **Increase in MAT rate from 10% to 15% will have negative impact since many paper companies enjoys lower tax benefit under MAT**

Current status	Proposals	Impact
Concessional excise duty rate at 4% applicable	Maintain Exicse duty rate at 4%	No Impact
Customs duty at 10% on paper and 5% on pulp	No change	No Impact
MAT rate at 10%	Increase to 15%	BILT tax may increase from Rs 1.7 bn to Rs 1.8 bn, TNPL may increase from Rs 569 mn to Rs 626 mn. Impact on JK paper is likely to be set ofagainst increase in differed tax liability
Positive	**Neutral**	**Negative**
	JK paper	BILT, TNPL

Pharma – Negative

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Current Status	Proposals	Impact
MAT is at 10%	MAT hiked to 15%	Negative for all pharma companies
FBT levied	Abolishment of FBT	Positive for Pharma companies
Sun set clauses (EOU) benefit till 2010	Extended for one more year	Postive for most pharma companies having export
Budgetry Allocation for Health Spending	Increased allocation by Rs20bn to Rs120.7bn	Positive for pharma companies and healthcare service provider
Tax Incentive on R&D	150% weighted reduction on in-house R&D	Positive for companies having in-house R&D
Custom duty at 10%	Reduction of custom duty from 10% to 5% on 10 specified life saving drugs/ vaccines	Positive for companies like Novartis, Glaxo, Eli Lilly, Wyeth, Cipla & DRL
Custom duty at 7.5% on medical devices	Reduction of custom duty to 5% on devices such as PDA/ASD occlusion devicerugs	Poitive for Opto Circuit

Impact on Pharma Universe because of MAT and FBT

	Impact due to MAT revision Rs mn	FBT in FY09	Net Impact on earnings
Piramal Healthcare	173.6	259.3	3%
GSK	-	71.5	1%
Pfizer	-	22.8	1%
Cadila	169.3	77.0	-3%
Lupin	304.4	149.2	-3%
Dishman	57.5	3.3	-4%
Glenmark	161.5	81.4	-4%
Divis	256.9	2.2	-6%
Jubilant	232.0	28.3	-8%
Venus Remedies	32.7	0.0	-8%

*** Impact considering FY09 numbers and excluding EOU benefits**

Positive	Neutral	Negative
Piramal Healthcare, GSK, Pfizer		Cadila, Lupin, Dishman, Glenmark, Divis, Jubilant, Venus Remedies

Short on expectations

Power – Neutral

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- **Largely neutral to power sector.**
- **Extension of 80 IA (including entity set up for revival of power generation plant) terminal date by one year up to 31.03.2011.**
- **MAT rate increased from 10% to 15%.**

Current Status	Proposals	Impact
APDRP and RGGVY - Interim budget outlay of Rs18bn & Rs60bn and FY08-09 outlay of Rs8bn and Rs55bn respectively.	Increase in APDRP and RGGVY outlay to Rs20.8bn and Rs70bn, up 16% & 17% over interim budget and 160% & 27% over FY08-09 outlay respectively.	Increased demand for T&D equipments to benefit Transformers, Switchgears, Transmission towers and EPC companies
Income tax holiday under section 80 IA terminal date - 31.03.2010.	Extension of 80 IA (including revival of power generation plant) terminal date by one year up to 31.03.2011.	Positive for Generation, transmission and distribution companies which are likely to commission substantial part of their project portfolio upto FY11, as those projects would be eligible for tax holidays under 80 IA
MAT rate 10%	MAT rate increased to 15%	Negative for companies putting up projects under SPVs - Companies like Reliance Power, Tata Power, Adani Power etc.
7.5% custom duty on permanent magnets - a component used in wind power	Custom duty reduced to 5%	Marginally positive for wind power equipment manufacturing companies like Suzlon etc.

Positive	Neutral	Negative
Positive for T&D companies like ABB, Siemens, Areva, Jyoti Structures, KEC International, Emco Transformers, Kalpataru Power, Voltamp Transformers, Indotech Transformers, Bharat Bijlee and Transformers & Rectifiers	NTPC	Reliance Power, Tata Power, Adani power Etc

Real Estate – Neutral

- **Union Budget 2009-10 - 'Neutral ' for the Real estate sector.**
- **We were expecting increase in deduction on interest on home loans from Rs.150,000 to Rs.200,000. However, no changes have been made**
- **Extension of Section 10A/10B benefit to STPI to March 2011. This should negatively impact demand for IT SEZ in the short term.**

Current Status	Proposals	Impact
Exemption on interest on home loan upto Rs.150,000 p.a	No change	Increase in the exemption limit could have spurred demand for residential projects
STPI benefit to end by March 2010	Extended to benefit to March 2011	IT SEZ demand to be impact in the near term

Positive	Neutral	Negative
	All Real estate companies	

Retail – Neutral

- **FDI limit in single-product or multi-product remains unchanged.. The biggest pre-budget expectation did not materialize for the sector**
- **Custom duty increases on raw materials and Excise duty reduction on finished goods is analyzed in the data grid below**

Current Status	Proposals	Impact
Custom duty on Gold Bar is Rs100 per 10 gm	Proposed to increase to Rs200 per gm	Increase in raw material cost- but pass through to consumers
Custom duty on gold including liquid gold excluding jewellery is Rs250 per gm	Propose to increase to Rs500 per 10 gm	Increase in raw material cost- but pass through to consumers
Custom duty on silver is Rs500 per kg	Propose to increase to Rs1000 per kg	Increase in raw material cost- but pass through to consumers
Excise duty on branded jewellery is 2%	Reduce to NIL	Fair play with unorganized players.. but pass through to consumers

Positive	Neutral	Negative
	Titan Ind, Gitanjali gems	

Short on expectations

Telecom - Negative

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- No change in levies like license fees, etc.
- No changes in 80IA benefits to the sector v/s expectation of an extension of tax holiday for 5 years.
- Revenue expectation from 3G has been increased from Rs200bn to Rs350bn - slightly higher considering an average of 5 spectrum slots pan-India.
- MAT rate increased from 10% to 15% - would not impact earnings but would have marginal cash flow impact.

Current Status	Proposals	Impact
Simplification of the multiple levy structure that include licence fees, ADC, service tax, spectrum charges, etc	No change	Neutral
Telecom companies fall under MAT which is currently at 10%	Increase in MAT from 10% to 15%	Negative due to higher tax outgo

Positive	Neutral	Negative
		Bharti Airtel, Idea, RCOM

Thank You

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