ICRA Comment

Union Budget, 2011-12: Emphasis on Growth and Fiscal Correction

The Union Budget for 2011-12 was presented against a challenging macroeconomic environment with the need to balance several conflicting objectives like tackling inflation without impairing growth and emphasising social inclusion at a time when fiscal consolidation is of paramount importance. Reviving investor confidence and market sentiment, badly hurt because of a series of perceived governance and policy issues was also high on the expectations list. In the end, the budget was devoid of any 'big bang' announcements, either on the positive or on the negative side. Although the budget estimate for the fiscal deficit for 2011-12 improves over the rolling target that had been set previously, this follows from optimistic forecasts of tax revenue growth and a decline in the allocation towards major subsidies.

As expected, the outlay for the infrastructure sectors was increased substantially, while the operationalising of an infrastructure debt fund was a positive step. The increase in FII investment limit in corporate bonds and reduction in withholding tax are expected to have a beneficial impact on enhancing the magnitude of fund flow to the sector. There have been some measures for easing the supply side bottlenecks in agriculture as well, like providing 'infrastructure' status to cold chains and post-harvest storage and capital investments in the fertiliser sector. The spiralling crude oil price is likely to have a negative impact on the fiscal situation, but the fact that the subsidy budgeted for petroleum products is modest leads to expectations that there would be policy announcements during the course of the year in terms of freeing up prices of petroleum products. On the positive side, the Government has reiterated its commitments to implement Goods and Services Tax (GST) and Direct taxes Code (DTC) as per the time schedules announced earlier, as well as a move towards better delivery of subsidies to prevent leakages.

The corporate sector as a whole is expected to benefit from the possibility of interest rates remaining under control, given that the borrowing programmes are lower than market expectations. Also, some sectors like auto, where a roll-back of excise was widely expected, would also stand to gain from the absence of such roll backs. The decision to allow foreign investments in the local MF Industry would also be a positive in deepening the resource base of Mutual Funds. Overall, of key importance, going forward, would be the Government's ability to ensure that the fiscal consolidation targeted would be achieved

The Budget has improved upon the rolling target set in the previous year (4.8% of GDP) for the fiscal deficit in 2011-12, which is set at 4.6% of GDP. However, the assumed tax growth of 18% in 2011-12 is likely to be somewhat optimistic as it draws from GoI's assumption of 9% real economic growth, although the removal of some exemptions regarding excise duty and a wider coverage of service tax are expected to support revenue buoyancy. At the same time, pensions and subsidies towards fuel and food are likely to exceed budget estimates; accordingly, ICRA expects that there could be slippages in the fiscal deficit relative to the target.

With the gross borrowings to be undertaken by GoI expected to be curtailed below the level in 2010-11, based on the budgeted level of the fiscal deficit and the lower redemptions in the coming fiscal year, bond yields are likely to ease in the coming months. However, yields may harden subsequently if the fiscal scenario turns out to be less sanguine than what is suggested by the Budget Estimates.

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ASSESSMENT OF GOVERNMENT OF INDIA'S FISCAL SITUATION

The Union Budget for 2011-12 has placed the fiscal deficit for the coming fiscal year at 4.6% of GDP, lower than the rolling target announced previously. Although the extent of fiscal correction envisaged is seemingly modest, given the improvement in the fiscal deficit to 5.1% of GDP in 2010-11 from 6.4% of GDP in 2009-10, the actual fiscal correction required to be undertaken in 2011-12 is substantial given that Government of India's (GoI's) fiscal balances benefitted considerably from the one-time inflow of more than Rs. 100,000 crore from the telecom auctions in 2010-11.

Despite tax collections and the proceeds from the telecom auctions exceeding Budget Estimates (by around Rs. 30,000 crore and Rs. 70,000 crore, respectively), the revenue deficit for 2010-11 is forecast to decline by only around Rs. 6,600 crore as compared to the Budget Estimates (BE). This highlights the magnitude of the additional revenue expenditure requirements over the course of the fiscal year relative to the budgeted levels, dominated by subsidies (a negative feature) and grants for capital assets (a positive feature). Additionally, with proceeds from disinvestment falling short of the targeted Rs. 40,000 crore, at an absolute level, the Revised Estimates (RE) for 2010-11 indicate that the fiscal deficit would overshoot the Budget Estimate by nearly Rs. 20,000 crore.

In 2011-12, tax revenues are estimated to grow by 18%, on the back of GoI's expectation that real economic growth would be as high as 9%; ICRA however expects economic growth to moderate to around 8-8.2% in 2011-12. Additionally, GoI has introduced proposals such as a reduction in exemptions related to central excise duty, enhancement in the lower rate of central excise duty to 5% from 4% (even as the peak rate remains at 10%) and an increase in the coverage of service tax (with the rate remaining at 10%) to align the same with the proposed GST, which would support growth of indirect tax collections. GoI has forecast that indirect taxes would display healthy buoyancy, with customs duty, excise collections and service tax collections estimated to expand by 15%, 19% and 18%, respectively in 2011-12.

GoI has estimated that income tax collections would expand by 15% in 2011-12, despite an increase in the exemption limit for tax payers from Rs. 160,000 to Rs. 180,000, which would provide nominal relief to the taxpayers from the prevailing high inflation. Although the deduction for investment in long-term infrastructure bonds has been extended for another year, the amount was retained at Rs. 20,000 as opposed to expectations of a hike in the amount of deduction.

The surcharge on domestic companies has been reduced to 5% from the existing rate of 7.5%. However, the same would be offset to some extent by the increase in the rate of minimum alternate tax (MAT) to 18.5% of book profits from the current rate of 18%. GoI's expectation that corporation tax collections would expand by 21% is fairly optimistic, given that corporate profitability may decline somewhat in the coming year as rising input prices squeeze margins. Overall, ICRA expects the forecast of 18% tax revenue growth to be somewhat optimistic.

Rs. Crore	2010-11 BE (1)	2010-11 RE (2)	2011-12 BE (3)	Excess collections in 2010-11 (2)/(1)	Growth in 2011-12 BE (3)/(2)
Gross Tax Revenues	746,651	786,888	932,440	5%	18%
- Corporation Tax	301,331	296,377	359,990	-2%	21%
- Income Tax	128,066	149,066	172,026	16%	15%
- Customs Duty	115,000	131,800	151,700	15%	15%
- Union Excise Duty	132,000	137,778	164,116	4%	19%
- Service Tax	68,000	69,400	82,000	2%	18%

Note: BE: Budget Estimate; RE: Revised Estimate
Source: Union Budget 2011-12, ICRA Estimates

The focus of expenditure remains on promoting inclusive growth and infrastructure development, with 48.5% of the Plan allocation being devoted to infrastructure and an increase in the allocation towards the flagship Bharat Nirman programme. Although revenue expenditure is budgeted to increase by a low 4%, this benefits from a lower allocation for the Debt Waiver and Debt Relief Scheme for Farmers as well as all major subsidies, namely fuel, food and fertiliser, relative to the revised estimates for 2010-11. The elevated crude oil prices would exert pressure on the fuel subsidies in 2011-12, which are budgeted to decline to Rs. 23,640 crore from over Rs. 38,000 crore in 2010-11, unless the prices of regulated petroleum products are increased substantially; the latter however may be politically difficult to implement until headline inflation eases considerably.

Whilst reiterating GoI's commitment to introducing the National Food Security Bill, the Union Budget has marginally cut the allocation for food subsidies for 2011-12. This too is likely to prove difficult given the trend of rising minimum support prices for wheat and rice, unless targeting of food subsidies is improved substantially. However, the announcements that the Government is actively considering extension of the nutrient based subsidy scheme to urea and the proposal to study the modalities of direct transfer of cash subsidy for kerosene, liquefied petroleum gas (LPG) and fertilisers for those living below the poverty line (BPL) are welcome developments.

The allocation made for pension payments entails a marginal 2% increase for 2011-12 relative to the revised estimates for 2010-11. However, ICRA expects further increases in the rates of dearness allowance to inflate the overall expenditure towards this item. Interest payments are estimated to increase by 11% in 2011-12 relative to the 2010-11 RE, rendering rigidity to overall expenditure.

Some of the sectors with substantially higher outlays in 2011-12 relative to revised estimates for 2010-11 include education, health and family welfare, in line with the Government's inclusive growth agenda. The Budget made a number of announcements for the agricultural sector including allocations to promote higher production of various items as well as fast tracking the augmentation of storage capacity and eligibility of capital investment in storage capacity for viability gap funding, which would reduce wastage and help to avoid spikes in prices of perishable commodities as seen in December 2010. The Budget also announced an additional 1% interest subvention to farmers repaying short-term crop loans in a timely manner, which would bring the effective interest rate to 4% and increasing the capital base of NABARD by Rs. 3,000 crore in a phased manner.

Rs. Crore	**2010-11 BE (1)**	**2010-11 RE (2)**	**2011-12 BE (3)**	**Excess expenditure in 2010-11 (2)/(1)**	**Growth in 2011-12 BE (3)/(2)**
Revenue Expenditure	958,724	1,053,677	1,097,162	10%	4%
- Interest	248,664	240,757	267,986	-3%	11%
- Subsidies	116,224	164,153	143,570	41%	-13%
- Pensions	42,840	53,262	54,521	24%	2%
- Defence	87,344	90,748	95,216	4%	5%
- Debt Waiver	12,000	12,000	6,000	0%	-50%
- Grants for Capital Assets	31,317	90,792	146,853	190%	62%
- Balance	668,999	642,722	651,002	-4%	1%
Capital Exp. Gross Loans & Adv.	150,025	162,899	160,567	9%	-1%
- Defence	60,000	60,833	69,199	1%	14%
- Other	90,025	102,066	91,368	13%	-10%
Memo Item					
Non Defence Capital Exp + Grants for Capital Assets	121,342	192,858	238,221	59%	24%

Source: Union Budget 2011-12, ICRA Estimates

Inclusive of grants for creation of capital assets (which are included in revenue expenditure), and excluding capital expenditure towards defence, the total allocation for expenditure that is capital in nature is estimated to increase by a healthy 24% relative to the revised estimates for 2010-11. While grants for creation of capital assets are estimated to expand sharply, non-defence capital outlay and gross loans & advances are estimated to decline led by a lower allocation of Rs. 6,000 crore for the public-sector Banks to maintain a Tier I CRAR of 8%. The target for disinvestment proceeds has been retained at Rs. 40,000 crore, which would ease the pressure on the fiscal deficit to an extent.

The revenue deficit is estimated to remain at around 3.4% in 2011-12, similar to the rolling target that had been set previously. While the fiscal deficit of GoI is expected to improve to 4.6% of GDP in 2011-12 from 5.1% of GDP in 2010-11, with the assumed tax buoyancy likely to be somewhat optimistic even as pensions and subsidies towards fuel and food are likely to exceed budget estimates, ICRA expects there to be slippages relative to the fiscal targets set in the Union Budget for 2011-12.

Rs. Crore	2009-10	2010-11 BE	2010-11 RE	2011-12 BE
Revenue Deficit	-338,998	-276,512	-269,844	-307,270
Percentage of GDP	-5.2%	-3.5%	-3.4%	-3.4%
Fiscal Deficit	-418,482	-381,408	-400,998	-412,817
Percentage of GDP	-6.4%	-4.8%	-5.1%	-4.6%

Source: Union Budget 2011-12, ICRA Estimates

The availability of surplus cash following the substantial inflows from the telecom auctions in 2010-11 has aided GoI in placing the net long term Government borrowings at Rs. 3.43 lakh crore in 2011-12, moderately higher than the level in 2010-11. With the gross borrowings to be undertaken by GoI expected to be curtailed below the level in 2010-11, based on the budgeted level of the fiscal deficit and the lower redemptions in the coming fiscal year, bond yields are likely to ease in the coming months. However, yields may harden subsequently if the fiscal scenario turns out to be less sanguine than what is suggested by the Budget Estimates.

GoI has retained the rolling targets (announced previously in the Union Budget for 2010-11) for 2012-13 to curtail the revenue and fiscal deficit to 2.7% of GDP and 4.1% of GDP, respectively. However, the rolling targets for 2012-13 and 2013-14 (restricting the revenue and fiscal deficit to 2.1% and 3.5% of GDP, respectively) continue to be less stringent than those indicated by the Thirteenth Finance Commission (ThFC) in its report that was published last year.[1] Nevertheless, the announcement regarding the introduction of an amendment to the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) to lay down the fiscal roadmap for the coming five years is a positive step.

[1] The ThFC report indicated that the revenue account should be balanced and the fiscal deficit should be restricted to 3% of GDP in 2013-14. The report also indicated that the revenue account should reflect a surplus of 0.5% of GDP in 2014-15, with the fiscal deficit to be curtailed to 3% of GDP.

SECTORAL IMPACT OF UNION BUDGET 2010-11

INFRASTRUCTURE SECTORS

Roads & Ports

Proposal

- Operationalisation of infrastructure debt funds, increased FII investments, lowering of withholding tax
- Increase in budget allocation for road projects a boost for the sector
- Increase in MAT rate from 18% to 18.5%
- Exemption from basic custom duty for bio-asphalt and Tunnel-boring machines used in the construction of national highways

Impact-Positive

The increased outlay on road transport would favourably impact companies involved in road construction. The Government also seeks to increase the funding options for the infrastructure projects by allowing SPVs to raise funds from FIIs through unlisted bonds and also by creating a dedicated debt funds to raise long term low cost funds from foreign investors. The impact of increase in MAT rate from 18% to 18.5% will be neutralised by the reduction in surcharge rates from 7.5% to 5%. Moreover, exemption provided to specific construction equipment from import duty will provide some respite.

Aviation

Proposals

- Increase in service tax on air travel
- Budget support of Rs. 1,700 to Ministry of Civil Aviation (MoCA) and Rs. 280.15 crore to Airports Authority of India (AAI)
- Budget support of Rs. 1,200 crore for financial restructuring of National Aviation Company of India Ltd
- SPVs implementing Infrastructure projects, permitted to raise funds from FIIs through unlisted bonds having a minimum lock-in period of three years
- The FII limit for corporate bonds, having a residual maturity of over 5 years, issued by infrastructure companies raised by an additional USD 20 billion

Impact-Negative

Increase on service tax rates is a negative as it is likely to be passed on by the carriers in the form of higher air fares, thereby negatively impacting the air traffic levels. However, the Government has continued its thrust on infrastructure spending and PPP projects. This along with budgetary support to MoCA and AAI, and promotion of foreign fund infusion in the infrastructure development could favourably impact the pace of development of airport infrastructure in the country. However, the extent to which long term finances become available for the sector as a result of the policy pronouncements remains to be seen.

Power

Proposals

- Infrastructure debt fund announced
- Increase in funding availability through hike in limit (by USD 20 billion to USD 25 billion) for investment by FIIs in corporate infrastructure bonds
- Increased allocation to Bharat Nirman programme, which includes Rajiv Gandhi Vidyut Vitaran Yojna
- Window of raising the funds through tax-free bonds by Infrastructure Finance Companies extended for FY 2011-12
- Increase in MAT rate from 18% to 18.5% and surcharge reduced from 7.5% to 5%; units in SEZ areas will be covered under MAT

Impact- Neutral

Budget measures are expected to improve the availability for long term funding for power sector through creation of infrastructure debt fund, hike in investment limit by FIIs on corporate bonds as well as provision of tax-free bonds by infrastructure finance companies; this is a positive for all players across the value chain of power sector. Further, the availability of long term funding is expected to improve from take-out financing scheme being implemented by IIFCL. Impact of levy of MAT on the units operating in SEZ would depend upon the extent of pass-through of such increase through 'change of law adjustment' clause in PPA for competitively bid based tariff. However, this is a negative in case of merchant sales.

Oil & Gas

Proposals

- Provision of subsidy for sensitive petroleum products: Rs. 38,401 crore for 2010-11 (RE) and Rs. 23,656 crore for 2011-12 (BE)
- Continuation of payment of subsidy in cash to the OMCs rather than by way of oil bonds
- Direct payment of subsidy to the people living below poverty line (BPL) on LPG (domestic) and SKO (PDS) based on the final recommendations of task force headed by Mr Nandan Nilekani
- Increase in MAT from 18% to 18.5% and reduction in surcharge from 7.5% to 5%
- Deduction available for commercial production of 'mineral oil' will not be available for blocks licensed under a contract awarded after March 31, 2011
- Decrease in basic customs duty (BCD) on carbon black feedstock and petroleum coke from 5% to 2.5%

Impact-Negative

The subsidy for 2011-12 seems grossly inadequate and the gross under recoveries could cross Rs. 100,000 crore mark, even assuming 50% share to be borne by the GoI. Hence additional provision of subsidy and deregulation of diesel prices are imperatives for the PSU OMCs to report meaningful profits.

Continuation of payment of subsidy in cash is as per the practice followed since the last budget. However, timely release of cash subsidy continues to be an issue resulting in additional working capital borrowings for the PSU OMCs. Direct payment of subsidy to BPL people will help arrest the subsidy level, although implementation will be a huge challenge.

Clarification on income tax deduction for blocks awarded after March 31, 2011 is negative for the upstream companies considering bidding for NELP IX and beyond, and could be a dampener in attracting oil majors.

Reduction in BCD on carbon black feedstock and petcoke, will marginally reduce the import duty differential for the refineries and hence impact their gross refining margins.

Capital Goods& Engineering

Proposals

- Infrastructure debt fund announced, higher FII limit for investment in bonds
- Increased allocation to Bharat Nirman programme
- Window of raising the funds through tax-free bonds by Infrastructure Finance Companies extended for FY 2011-12
- Reduction in excise duty from 10% to 5% and exemption of countervailing excise duty on the basic components of LED
- Reduction in basic customs duty from 10% to 5% on the solar lanterns; Nil basic customs duty on some of the inputs for Solar modules/cells
- Excise duty exemption for capital goods supplied to UMPPs by domestic suppliers, to make a level playing field against the same applicable on imported capital goods

Impact-Positive

Increased long term funding availability for power and infrastructure projects will facilitate more investment in these sectors and thereby benefit equipment manufacturers, especially electric equipment and construction equipment manufacturers. With continued focus on energy efficiency & green environment, provisions such as excise duty reduction for LEDs, customs duty reduction on solar lanterns & inputs for solar modules would result into improved demand prospects for the players in the lighting segment. Excise duty exemption for supplies to UMPPs to improve competitiveness of domestic electric equipment manufacturers.

Cement

Proposals

- Rationalisation in excise duty rates; change from MRP based excise duty to ad valorem excise duty
- Reduction in customs duty on petcoke and gypsum from 5% to 2.5%
- Liberalisation of interest subvention scheme to include housing loans of up to Rs. 15 lakh and Rs. 25 lakh for housing loans in urban areas
- Increased allocation to Bharat Nirman programme

Impact-Positive

The change in excise duty computation is likely to result in a marginal reduction in effective excise duty incidence and thus improved margins for the cement industry, although given the competitive pressures some of it may have to passed onto the consumers. Reduction in customs duty on petcoke and gypsum is also likely to result in a marginal decrease in input costs. Increase in allocation for infrastructure and increased long term funding availability for infrastructure projects will facilitate more investment in these sectors and thereby boost cement demand. Subventions on housing and increased rural income under NREGA will also boost urban and rural housing demand and in turn demand for cement.

Iron &Steel

Proposals

- Increase in export duty of iron ore to 20%
- Exemption of stainless steel scrap from basic customs duty
- Reduction of basic customs duty on ferro nickel to 2.5%

Impact-Neutral

The proposal to increase the ad valorem export duty on all types of iron ore from 5% (fines) and 15% (lumps) to a uniform rate of 20% would adversely impact the profitability of iron ore exporting companies. This however is likely to benefit domestic steel companies, especially the ones who purchase iron ore fines, because of the likelihood of higher domestic availability of the raw material. The import duty reduction of both stainless steel scrap (2.5% to nil) and ferro nickel (5% to 2.5%) would reduce producers' cost of production, providing a support to their margins.

Real Estate

Proposals

- Creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana which would guarantee housing loans taken by Economically Weaker Sections (EWS) and LIG households and enhance their credit worthiness.
- Interest subvention scheme for home loans extended till March 2012. As per the revised scheme, home buyers get one per cent interest subsidy for loans upto Rs.15 lakh.
- Priority sector lending limit increased from Rs. 20 lakh to Rs. 25 lakh

- Increase in provision under Rural Housing Fund to Rs. 3,000 crore from the existing Rs. 2,000 crore to provide housing finance to targeted groups in rural areas at competitive rates
- Setting up of Central Electronic Registry under the SARFAESI Act, 2002 to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property, the same will become operational by March 31, 2011.
- Abolishment of MAT exemption for SEZ projects

Impact-Neutral

The budget proposals are likely to boost the demand for Rural and Affordable Urban Housing such as creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to enhance credit worthiness of economically weaker sections and enhancement of Rural Housing Fund; and Liberalization of existing scheme of interest subvention and increase in priority lending limit from Rs. 20 lakh to Rs. 25 lakh. Apart from these, setting-up of a Central Electronic Registry to prevent frauds will increase the overall transparency level. However, abolishment of MAT exemption for SEZ projects is negative for the sector.

CORPORATE SECTORS

Pharma

Proposals

- Increase in weighted reduction from 175% to 200% on R&D activities outsourced to specific institutions
- Excise duty of 1% on certain good such as medicaments, intravenous fluids and vaccines (not covered under national immunization programme)
- Basic custom duty reduced on lactose used in homeopathic medicines from 25% to 10%
- MAT rates increased from 18.0% to 18.5%; however surcharge decreased from 7.5% to 5.0%, thereby leaving the effective MAT rate unchanged

Impact: Neutral

The impact of most proposals announced during the budget is unlikely to have a material impact on the pharmaceutical sector. Increase in weighted reduction from 175% to 200% on R&D activities outsourced to specific institutions is now in line with exemption available on in-house scientific research. Such measures would continue to support higher investments by research-led pharmaceutical companies in areas of NCE/NDDS related R&D activities.

Healthcare

Proposals

- Planned allocation increased by 20% to Rs. 26,760 crore for healthcare
- Service tax imposed on services provided by hospitals with 25 beds or more with air-conditioning, on higher-end treatments and diagnostic tests (with 50% abatement)
- Endovascular stents have been fully exempted from basic customs duty of 5%

Impact: Neutral

Contrary to the expectations, there have been no specific announcements on improvement of healthcare infrastructure apart from the 20% increase in planned expenditure on healthcare. The implementation of service tax on aforementioned services in the healthcare space is likely to be passed on to the end-consumers thus having marginal/no impact on the sector.

Auto – 2w/ Passenger Cars

Proposals

- Retention of Central Excise Duty at 10%
- 100% exemption from Basic Customs Duty and Special Additional Duty (SAD) and concessional Countervailing Duty (CVD) extended to specified parts of hybrid and electric vehicles till March 2013; reduction of excise duty from 10% to 5% on kits used for conversion of fossil fuel vehicles into hybrid vehicles
- Marginal reduction in personal tax rates and corporate surcharges

Impact- Positive

Retention of the Central Excise Duty at 10% is a positive for the auto sector as manufacturers may not have been able to pass on the entire hike, had the duty been increased. The hike in MAT rate and simultaneous reduction of tax surcharge would result only in a marginal increase in tax liability for companies falling under its ambit. The continued thrust of the government on rural and infrastructural development remains a key positive for the sector.

Commercial Vehicles

Proposals

- Excise duty remains unchanged at 10%
- Increased thrust on infrastructure spending with improving funding arrangement measures such as increased FII limits for investments in corporate bonds (issued by infrastructure companies) and creation of special vehicles for infrastructure debt funds

Impact: Positive

Over the past 12-15 months, prices of commercial vehicle have increased substantially as OEMs have effected successive price increases averaging over 10% to recover the increase in input material prices and impact of change in emission norms. Thus with any increase in duties, OEMs would not have been in a position to completely pass on the impact in view of increased vehicle prices and hardening interest rates which have started exerting some pressure on fleet operator's cash flows/viability. The increased thrust on infrastructure spending and measures being announced on improving funding however augurs well for commercial vehicle sector from the growth perspective.

Tractors

Proposals

- Institutional Credit flow to farmers raised by Rs. 100,000 to Rs. 475,000 crore in 2011-12; interest subvention scheme for crop loans to continue in 2011-12 and additional subvention to farmers who repay crop loan on time increased from 2% to 3%.
- Allocation for Bharat Nirman programme proposed to be increased by Rs. 10,000 crore from the current year to Rs. 58,000 crore in 2011-12; allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased by Rs. 1,105 crore to Rs. 7,860 crore; specific budgetary allocations to aid increased production of pulses, oil palm plantation, vegetables, nutri-cereals.
- Basic Custom Duty reduced from 5% to 2.5% for specified agricultural machinery (including paddy transplanter, cotton picker, sugarcane harvester and laser land leveler) and from 7.5% to 5% for micro irrigation equipment.
- The Government has decided to index the wage rates notified under the NREGA to the Consumer Price Index for Agricultural Labor.

Impact: Positive

The increase in agricultural credit target augurs well for the industry as financing availability remains one of the most critical factors. Additionally, the 3% subvention (earlier 2%) resulting in effective interest rate of 4% is expected to reduce the interest burden on the farmers. The Government's thrust on rural and agricultural development continues with increased allocations to Bharat Nirman programme, which are likely to stimulate demand in medium term. The reduction in custom duty on specified agricultural machinery and micro irrigation equipments is expected to help improve farm mechanization levels in India.

Fertiliser

Proposals

- Extension of Nutrient Based Subsidy (NBS) for urea under consideration
- Direct payment of subsidy to the farmers living below poverty line (BPL) based on the final recommendations of task force headed by Mr. Nandan Nilekani
- Budgetary provision for subsidy: Rs. 57,844 crore (RE 2010-11) and Rs. 53,600 crore (BE 2011-12)
- Continuation of payment of subsidy in cash to the fertiliser companies rather than by way of bonds
- Infrastructure status for capital investments in the fertiliser sector
- Investments linked deductions on Income Tax for fertilisers producers
- Thrust on agriculture through higher agricultural credit and subvention of interest on farm loans and several measures such as mega food parks, cold chains and promotion of oil palm plantations

- Reduction in basic customs duty from 5% to 2.5% on specified agricultural machinery
- Reduction in basic customs duty from 7.5% to 5% on micro irrigation equipment

Impact-Positive

If implemented, NBS for urea or direct payment of subsidy to the BPL farmers, will be positive for the cost efficient fertilizer companies

Subsidy provision for both 2010-11 and 2011-12 are inadequate. Hence the industry could again face delays in getting subsidy, unless the industry passes on the deficit by way of rise in MRP of the fertilizers which should be huge challenge.

Infrastructure status for the fertilizer sector and investments linked deductions will incentivise the promoters to take up urea plant expansions and participate in the revival process of FCI/HFC plants, provided other pressing issues such as gas availability at competitive prices and certain glitches in the extant policy are ironed out. As these investments are highly capital intensive, the above fiscal sops will improve the returns to the sector participants.

Other measures to incentivise agriculture such as increased farm credit, creation of mega food parks and cold chains, should lead to healthy growth in demand for fertilizers

Hotels & Tourism

Proposals

- Service tax on air conditioned restaurants possessing licenses to serve alcoholic beverages
- Service tax on hotel accommodation, in excess of declared tariff of Rs. 1,000 per day
- Revision in service tax rates on air travel: Hike in domestic and international travel (economy class) by Rs. 50 and Rs. 250 respectively. Tax on domestic air travel (other than economy) at standard rate of 10% (in line with international travel)

Impact- Negative

The levy of service tax on room tariffs / restaurants, the impact of which will be passed on to the end customer, is likely to have a detrimental impact on demand as it drives up the effective consumer cost. However, roll out of GST could neutralise this impact. While the incremental tax on air travel will also push up the travel bill, the quantum of the same would be low. However coupled with impact of the increased fuel surcharge, higher travel cost could have a detrimental impact on airline traveller volumes.

Retail

Proposals

- No announcements related to FDI norms on multi-brand retailing
- Increased investments in improving supply chain efficiencies through investments in Mega Food Parks, storage capacities and cold chains
- Service tax on rentals not removed

Impact- Neutral

The much anticipated announcement on allowing FDI in multi-brand retailing did not materialise, However, the government’s thrust on improving supply chain efficiencies through investments in Mega Food Parks, storage capacities and cold chains is a step towards reducing the bottlenecks in modern retailing. The retail trades’ expectation of removal of service tax on rentals have however not materialised.

FMCG

Proposals

- Increased allocation towards rural development, agriculture-centric and employment generation schemes
- Infrastructure status for cold storage chains; excise exemption for cold storage equipments
- Marginal reduction in personal tax rates and corporate surcharges

Impact- Positive

Increased allocation towards rural development and agriculture is a positive for the sector, since it is expected to improve farm production and increase rural consumer spending. The infrastructure status for cold storage chains and excise duty exemption for cold storage equipments may aid investments and improve supply chain efficiencies for the sector. The marginal reduction in personal income tax rates, corporate surcharges and no increase in excise duties (especially in tobacco products) are positive for the sector.

Textiles

Proposals

- Conversion of optional levy of excise duty to mandatory levy (@ 10%) on branded ready-made and made-up garments
- Levy of Excise duty (@ 5%) on automatic and projectile looms. Concessional excise duty rates on few textile intermediaries and goods hiked from 4% to 5%.
- Basic customs duty reduced on raw silk from 30% to 5%. Nylon chips, fibre and yarn and few other chemicals enjoy 2.5% reduction in duty rates while cotton waste is fully exempted from basic customs duty
- Reduction of duty on parts of specified textile machinery from 10% to 5% and full exemption to specified part of sewing machines
- Stimulus to NABARD to the tune of Rs. 3,000 crore (in phases) to co-operative societies expected to benefit handloom weavers. Inclusion of specified tools used in handicraft sector under specified goods list, to enjoy duty free import benefit

Impact- Neutral

Mandatory levy of excise duty on branded ready-made and made up garments to have an adverse impact on demand, although accessibility to cenvat credit provides cushion. Reduction in customs duty on raw silk, and other intermediaries used in manufacture of textile products expected to support the cost structure of industry players and the financial stimulus to NABARD to assist handloom weavers.

Media & Entertainment

Proposals

- Concessional basic customs duty of 5% and countervailing duty of 5% extended to import of mailroom equipment by newspaper publishing houses
- Full exemption from excise duty (for domestically manufactured) and countervailing duty on the import of colour, unexposed jumbo rolls of cinematographic films of 400 and 1,000 feet
- Plan to provide Rural Broadband Connectivity to all 250,000 Panchayats in the country in three years
- Marginal reduction in the corporate surcharge

Impact – Neutral

Customs duty rationalization for import of mailroom equipment is positive for the newspaper publishing houses, providing stimulus to the print industry through increase in investments. Exemption from excise duty for domestically manufactured films and CVD on import of cinematographic films to enable cost reductions for the film industry. Rural broadband connectivity to the Panchayats is expected to increase the penetration of internet in the country.

MSME Sector

Proposals

- Exemption to all individual and sole proprietor taxpayers with a turnover up to Rs. 60 lakh from the formalities of audit
- Rationalization of penal provisions of service tax
- Refund of taxes on the services used for export in lines of drawback of duties
- Increased allocation for infrastructure development in rural areas
- Vocationalisation of Secondary Education to improve the employability and increased allocation for skill development of the youth
- Allocation of Rs 5,000 crore to SIDBI for refinancing incremental lending by banks to MSMEs
- Conversion of the optional levy into a mandatory levy at a unified rate of 10 per cent on all branded garments
- Levy of service tax on new services like Hotel accommodation, in excess of tariff of Rs. 1,000 per day and air-conditioned restaurants serving liquor

Impact – Positive

Exemption to formalities of audit for MSMEs with a turnover of less than Rs. 60 lakh is likely to have a positive impact on the micro enterprises by ensuring ease in compliance. However, non compliance in future is likely to be dealt severely. Refund of service tax on services used for exports will have a positive impact on MSMEs engaged in export. Increased access to the Sadak, broadband connectivity and power are likely to go a long way in providing an improved environment for providing an impetus to entrepreneurial activities in the agro-based (food processing, warehousing and allied services) industry in the rural and semi-urban areas. However, given the disparity in the way other existing central schemes are being implemented, the growth of MSMEs is likely to be similarly skewed in those regions where r participation of the local self Govt. is active. Proposal on vocationalisation of Secondary Education if implemented in letter and spirit is likely to have a favorable impact on the overall growth of the economy through availability of skilled labour to meet the growing needs of the MSME segment. Increased allocation to SIDBI will lead to increased availability of funds for the MSME sector. However, since a large percentage of the entities in manufacturing of branded garments, hotels and restaurants fall under MSME segments, their margins are likely to come under pressure.

BANKING

Banks

Proposals

- GoI to recapitalise (Rs. 6,000 crore in 2011-12 as against Rs. 20,157 crore 2010-11) select Public Sector Banks to help them reach 8% Tier 1 capital and 58% GOI holding
- Central Electronic Registry under the SARFAESI Act, 2002 to be operational by March 31, 2011
- Increase in FII limit for infrastructure corporate bond market from USD 5 billion to USD 25 billion
- RBI is planning to issue final guidelines on new banking licenses before the close of financial year
- Increase in interest subvention from 2% to 3% for the farmers who pay in a timely manner
- Increase in credit flow to farmers from Rs. 375,000 crore to Rs. 475,000 crore
- Rs. 25 lakh ticket size (against Rs. 20 lakh earlier) home loans get eligible for priority sector lending, more loans get eligible for 1% interest subvention scheme

Impact-Positive

The GoI commitment to recapitalise the public sector banks likely to help banks with less than 8% Tier 1 or less than 58% shareholding. Central electronic registry is likely to reduce the incidence of fraud related credit losses for mortgage loans. Competition is likely to further intensify in the banking sector as RBI considers giving new banking licences. Increased investor base in infrastructure corporate bond market may give an option to banks to correct their ALM mismatches over longer term. If Govt. sticks to its lower borrowing programme, access and cost of funds to private sector may improve.

Eligible PSBs for GOI equity support

Data as on December 2010	Tier 1	GOI Shareholding
Central Bank of India	6.08%	80.20%
Andhra Bank	7.06%	51.55%
Dena Bank	7.22%	51.19%
Indian Overseas Bank	7.25%	61.20%
Bank of Maharashtra	7.38%	76.77%
Union Bank	7.44%	55.43%
UCO Bank	7.47%	63.59%
Punjab National bank	7.58%	57.80%
Bank of Baroda	7.70%	53.81%
Syndicate Bank	7.84%	66.47%
Bank of India	7.97%	64.47%
Corporation Bank	8.13%	57.17%
Allahabad Bank	8.14%	55.23%
Oriental Bank of Commerce	9.09%	51.09%
Vijaya Bank (as on Sep 2010)	9.65%	53.87%

Housing Finance Companies

Proposals

- Central Electronic Registry to become operational by March 31, 2011.
- Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to guarantee housing loans taken by EWS and LIG households
- Existing scheme of interest subvention of 1 per cent on housing loan further liberalised
- Existing housing loan limit enhanced to Rs. 25 lakh for dwelling units under priority sector lending

Impact-Positive

Central electronic registry is likely to reduce the incidence of fraud related credit losses for mortgage loans. At the same time establishment of mortgage guarantee fund may help HFCs to widen their borrower base while keeping credit costs under control. Higher limit for eligibility under priority sector borrowings could reduce cost of funds.

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