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Budget Preview

2010

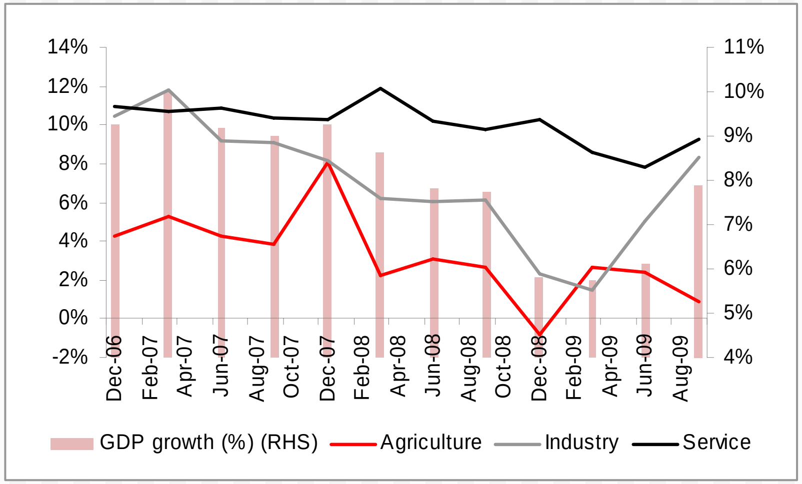
BUDGET 2010

- Probably the most important policy statement that shall set the direction for the next few years
- Maintaining growth VS inflation balance need of hour – encourage growth while reining in fiscal deficit and control inflation
- Strong rebound in manufacturing and consumption will help to initiate reversal of excise duty reduction
- Do not expect any major revisions to tax structure pending introduction of GST next calendar

ECONOMY

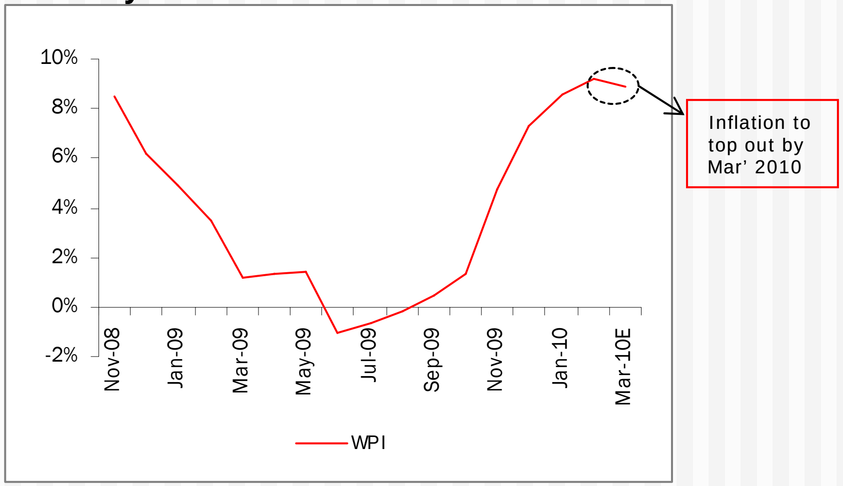
- Likely GDP growth of 7.5-8% in prices and expectations – inflation and crude to determine direction of revisions
- Strong rebound in GDP growth led by recovery in services and manufacturing
- Inflation to top out as base effect shall play out by April

GDP



Source : CMIE

Monthly WPI



Source : CSO

ECONOMY (Contd...)

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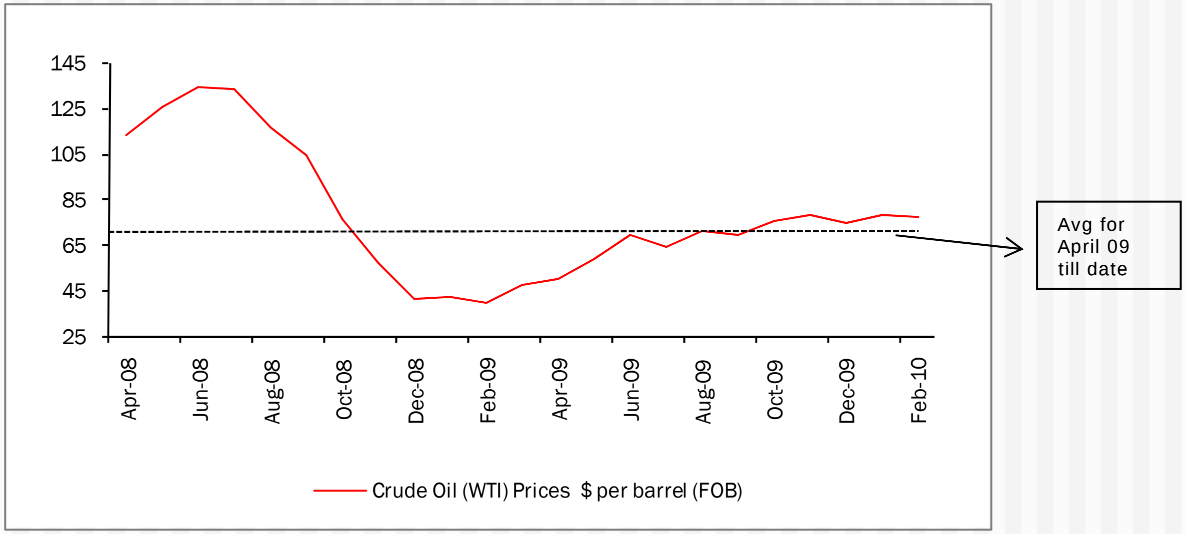
- However crude price movement second half of 2010 shall be a crucial variable
- Crude moving up appears more likely in either scenario (global recovery accelerates leading to demand surge or dollar rally ends and it resumes its downtrend)

Crude



Source : CMIE

BUDGET MATHS

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(Rs bn)	FY2010BE	FY2011BE
Tax Revenue	4742	5736
Non Tax Revenue	1403	1410
Non Debt Capital Receipts	53	57
Total Revenues	6198	7203
Non Plan Expenditure	6957	7930
Plan Expenditure	3251	3253
Total Expenditure	10208	11183
Fiscal Deficit	4010	3980
% to GDP	6.8	5.7

FMCG

Negative

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- **We expect the Budget to be Negative for FMCG. However, the markets have adjusted to the most likely of them. We would be most keenly watching excise duty roll back and the quantum of excise hike in cigarettes.**
- Investment thrust on rural sector to continue- Higher outlay on NREGA, irrigation and food grain distribution could be focused upon. **Companies impacted most- Almost all, particularly processed food companies**
- Some outlines on GST could be laid out. **Companies impacted most- Almost all**
- Excise duty – partial roll back during the Budget, with more to follow later. Most categories were at 14% at the start of FY10, and are now at 8%. We see it going back to 10% at least, only constrained by food inflation**. Companies impacted most- HUL, Asian Paints, Colgate**
- Cigarette Excise Duty rates could be increased by 5%-8%. **Companies impacted most- ITC, Godfrey Philips**
- Reversal of service tax to 12%. **Companies impacted most- Marico, whose Kaya Clinics have been recently brought under service tax**
- Some clarification on excise on coconut oil packs>200 ml could come. **Companies impacted most- Marico, Dabur**

MEDIA

Neutral

- **We expect the Budget to have minimal impact on Media Sector. We would be positively surprised if license charges for DTH players are reduced, FDI in DTH is raised and entertainment tax is likely brought under GST purview.**
- DTH license fees reduction to 6% of DTH revenue has been deferred for sometime now. However, with the Industry continuing to add significant subs and nearly breaking even at operating levels now, we see no urgency to do this in the Budget. **Companies impacted most- Dish TV.**
- Increase in service tax – **All companies would be adversely impacted**
- Changes in FDI unlikely to be announced soon, as TRAI is still in some consultation process. TRAI has favoured higher FDI in all segments.

RETAILING

Neutral

- **We expect the Budget to have minimal impactful on Retail Sector. We believe FDI norms and GST roll-out are the two biggest policy announcements that the sector expects, and we do not expect anything on either of them.**
- Increase in FDI limits and allowing more categories for higher FDI like in single-brand retailing is expected for long. However, we do not see the Government yet ready to do that. The sector is quite capital intensive and none of the players are free cash flow positive. In such a scenario, access to capital is critical.
- GST- Another highly awaited structural move that can cut the cost of retailing by saving on logistics.

AUTOMOBILES

Negative

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Partial roll back of excise duties: In the stimulus package excise duties were reduced to 8% for two wheelers (12% earlier), passenger cars (12% earlier) and CVs (14% earlier). We expect partial roll back of excise duties to the extent of 2 percentage points for two wheelers & PCs, and 3 percentage points for CVs.

Impact

- As the demand remains buoyant, the auto manufacturers would be likely to pass on the excise duty hikes to customers. However in our view, the rise on account of excise duty should also be seen in the light of rising vehicle costs from higher raw material costs and costs associated to emission upgradation norms. The quantum of passing costs depends upon micro economics of various auto companies separately.
- M&M would be least impacted as its dominance in UV market would allow it to pass the costs with ease. Further, it has to pay zero excise duty on tractors.
- Companies like Hero Honda, Bajaj Auto and Ashok Leyland would be impacted moderately. These companies are in a position to mitigate the impact of excise duty hike through increasing the incremental volumes from new facilities, where the companies enjoy excise holidays and tax benefits.
- Maruti Suzuki and Tata Motors are likely to be impacted the most due to excise duty rollback.

(Contd...)

AUTOMOBILES

Negative

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Excise duty per vehicle*

	CY09	CY08	% chg YoY	Remark
	Jan-Dec '09	Jan-Dec '08		
Hero Honda	2,199	3,954	-44.4	Excise duty benefit & excise holidays @ Haridwar plant
Bajaj Auto	2,155	3,050	-29.3	Excise duty benefit & excise holidays @ Uttaranchal plant
Maruti Suzuki	27,649	37,801	-26.9	Excise duty benefit
M&M	41,672	54,070	-22.9	Largely excise duty benefit
Tata Motors	40,989	67,026	-38.8	Shift mix+higher proportion of ACE (excise free facility)+excise duty benefit

*Jan-Mar 2009 was the first full quarter of full benefits of excise duty cut

Increase in depreciation rate on motor cars: The industry is demanding to increase depreciation rate on motor cars to at least 25% from the existing 15%, as the industry believe that several new launches has led to decline in the average economic life of a cars.

Impact

- Positive for Maruti Suzuki and Tata Motors

Increased allocation for JNNURM scheme

- Positive for Tata Motors and Ashok Leyland

SHIPPING Neutral

- **We expect no major announcement for the shipping and shipbuilding industries in the Budget, though the industry players have quite a few expectations.**
- Shipbuilders expect government to re-enforce subsidy schemes
- There is expectations that the interest income from compulsory reserves (maintained to purchase new ships) should be treated as core shipping income. This would been that interest income from surplus funds would not attract corporate tax.
- Specific exemption from service tax for the use of vessels outside India, on time charter by an Indian shipping company to another Indian entity.

FINANCIALS

Neutral

- We expect government to infuse capital in PSU banks out of USD $2 bn loan from World Bank. This is positive for banks having low tier 1 capital.

  Banks affected- Dena Bank, UCO Bank, Syndicate Bank, IDBI Bank, OBC, Central Bank.

CEMENT Negative

- Cement industry is expecting abatement on excise duty levied on the MRP with uniform rate of lower excise duty, however this seems unlikely as it would result in possible loss of revenue to government
- Reduction in import duty on coal (currently PET coke, coal and gypsum attract an import duty of 5%)
- We expect excise duty to be increased to 10% which will have a marginal negative effect on the sector

CONSTRUCTION **Positive**

- We expect government's thrust on the infrastructure to continue with higher allocation for rural and urban infra. This would increase the order inflows for the construction companies which augur well for the sector.
- We expect further clarity on takeout provisions for IIFCL financing.

CAPITAL GOODS

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Power Equipment Sector **Positive**

- We expect increase in import duties on power generation equipment to withstand onslaught of overseas competition and at the same time encourage domestic manufacturing capacity.
- Partial rollback of excise duties on power generation as well as T&D equipment.
- Continuation with increased allocation under Bharat Nirman Programme for building rural infrastructure.

Air conditioning sector **Neutral**

- We expect partial rollback of excise duty on room ACs. However, with most of the room AC manufacturing units located in excise free zones, adverse impact should be minimal on players engaged in air conditioning segment.

IT SERVICES

Neutral

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- Extending tax breaks for IT companies, though unlikely, will be a boost for all companies.

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