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February 2010

Budget 2010-11

Post Budget Analysis - Fiscal Finesse

R.A.F.T
research at finger tips

Budget 2010-11 Highlights

Fiscal Finesse

- The fiscal deficit of 5.5% for FY11 is better than our expectation of 5.7%. The roadmap to reduce it further to 4.8% and 4.1% in FY12 and FY13 is welcome
- Govt borrowings capped at Rs3.5 tn; +ve
- Indirect tax: Rollback of 2% is as per market expectation
- No change in service tax is a positive surprise
- Reduction in surcharge from 10% to 7.5% +ve, but MAT increase from 15% to 18% marginally -ve
- Overall, we believe that the budget was positive for the economy/market and there was no major negative surprise
- However, after the initial euphoria, market will start following the fundamentals of the economy, corporate earnings and the global events

However, the real debate is:

  - Whether the fiscal deficit will slip beyond 5.5%?
  - Whether the revenues targets are overstated and the expenses are understated?
  - Why there was no commitment in the FM's speech to curb the inflation?

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Budget 2010-11 Highlights

Post budget, we recommend:

Allahabad Bank	Manappuram
Bhushan Steel	McNally Bharat
Cadila Healthcare	Rallis India
Coromandel International	Shree Cement
Godavari Power	Sintex
Greaves Cotton	Sterlite Tech
Ipca Lab	Torrent Pharma
Jubilant Organosys	TRF
Lupin	

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Budget 2010-11 – Demystified

Consumption	■ Increase in exemption limits for income tax slabs ■ Increase in the spend on rural development and NREGS
Agriculture	■ Nutrient Based Policy and 10% hike in urea prices for farmers effective from April 2010 ■ Budgeted amount for fertiliser subsidy for 2010-11 maintained at Rs 500 bn ■ Allocation of Rs 4 bn towards Second Green Revolution to be extended to eastern India ■ Additional 1% interest subvention to farmers for repayment of loans on time (effective interest rate 5%) ■ Timeline for repayment of loans extended further by 6 months under the Debt Relief Scheme
Health	■ Allocation to Healthcare increased by 14% to Rs223 bn ■ Weighted deduction on R&D increased to 200% ■ Excise duty on API increased to 10%
Infrastructure	■ Largely a non-event – Muted increase in budgetary allocations to infrastructure programs and limited fiscal measures ■ Allocation for Bharat Nirman program increased by 6% to Rs480 bn ■ Allocation for JNNURM program decreased by 10% to Rs116 bn ■ Allocation for APDRP program increased by 78% to Rs37 bn ■ Increased focus on renewable energy sources
Fiscal acts	■ Fiscal deficit at 5.5% of GDP from 6.7% in FY10 ■ Target of 4.8% and 4.1% for FY10 and FY11 ■ Problem of rising public debt gets a notice; to prepare a report within next sixe months on curtailing the same

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Winners & Losers

Sector	Positive	Neutral	Negative
Automobile	Hero Honda, M&M, Maruti, Bajaj Auto	Tata Motors, Ashok Leyland	
Banking & Financials	Dena Bank, UCO Bank, Bank of Maharashtra, OBC, IDBI Bank and Central Bank of India, IDFC		Higher bond yields negative for the sector
Cement	Moderate demand boost through higher allocation to flagship programmes positve for the sector		Clean Energy Cess of Rs50/ton on coal and the diesel price hike is negative for all the cement companies as it increases key cost like power & fuel & freight cost
Fertilisers & Chemicals	Coromandel International Chambal Fertilisers		Chemical companies - Deepak Fertilisers, GNFC, GSFC, Tata Chemicals
FMCG			HUL, ITC, GCPL, APL, Emami, Marico, P&G and GSK
Infrastructure/ Capital Goods	ABG Shipyard, Bharati Shipyard, Thermax	L&T, BHEL, Punj Lloyd, Elecon Engg, McNally Bharat, TRF	BOT Projects
IT		All IT companies	
Metals		All Metal companies	Sterlite Inds, JSPL, Hindustan Zinc, Godawari, Adhunik, Prakash and others
Oil & Gas			Negative for the IOCL, BPCL, HPCL, RIL
Paper			BILT, TNPL, JK Paper
Pharma	Dr Reddy, Ranbaxy, Pfizer, GSK Pharma, Panacea		Sun pharma, Divis, Torrent Pharma, Dishman, Piramal, Lupin, Aurobindo, Ipca
Power	ABB, Areva, KLG Systel, Moser Baer, Webel SL, Suzlon, XL telecom, Easun Reyrolle etc	NTPC, NHPC, Neyveli, GIPCL, PGCIL	JSW Energy, Nava Bharat, Reliance Power, Adani power, Tata Power, JSPL, Indiabulls Power, JPVL etc
Real Estate			All Real estate companies
Retail		Titan Ind, Gitanjali Gems	
Telecom			Bharti, Idea Cellular, RCOM,

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Fiscal finesse

Fiscal finesse – deficits as expected but with lot of grey areas

- Partial roll back of stimulus with 2% hike in excise duty, expenditure not cut as expected
- No roll back of services tax was a surprise
- We appreciate that the government has been able to curtail the fiscal deficit at 5.5% of GDP (Rs3.8tn)
- The net borrowings at Rs3.5tn in line with estimates
- But there are a lot of grey areas in the budgeted numbers.
    - Non-plan expenditure up by just 4% - subsidies and defence could be key risk
    - 3-G telecom licenses revenues looks ambitious
    - Disinvestment revenue target is quite steep
- We believe that the risks to the government estimates are to the tune of Rs477bn or 0.7% of the GDP
- The Government would target an explicit reduction in its domestic public debt-GDP ratio. To bring out a status paper giving a detailed analysis of the situation and a road map for curtailing the overall public debt within six months
- Targets of fiscal deficit at 4.8% and 4.1% of GDP by FY12 and FY13 respectively
- Bond and currency markets not too enthused as the forward premia up again after falling initially and 2020 bond prices retrace initial gains

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Key risks to the numbers

- **Non plan expenditure to grow by just 4%**

  The non-plan expenditure growth will be one of the lowest in last ten years. The growth was low in FY05 and FY06 too but inflation was at just 6.5% and 4.5% respectively. The food inflation in those years was 2.5% and -10.5%.

  Can subsidies remain flat?

  The government has kept the food subsidies flat at Rs556bn which will be definitely under pressure if food inflation was to persist. The petroleum subsidies at Rs31bn also do not corroborate with government's intent of paying subsidies in cash when oil at USD72/bbl would definitely mean a subsidy gap of Rs150bn.

Rs bn	FY09	FY10BE	FY10RE	FY11BE
Food	436	525	560	556
Total Fertillizer Subsidy	758	500	530	500
Petroleum Subsidy	29	31	150	31
Other Subsidies	69	57	71	76
Total subsidies	**1,292**	**1,113**	**1,310**	**1,162**
Total budget expenditure	**9,010**	**10,208**	**10,208**	**11,087**
Subsidies as % of total exp	14.3	10.9	12.8	10.5

Defence expenditure also kept flat

The defence expenditure has also been kept flat at Rs1.4tn which looks relatively low compared with 2.3% of GDP which India has been spending over last two years

Key risks to the numbers

- **Revenues from non-tax sources pretty high**

In our budget preview note "Fiscal balances – deciding factor" dated February 18, 2010 we had mentioned that two revenue stream will be very important to watch out.

3-G spectrum money – too ambitious targets

The government has budgeted Rs360bn to come from the sale of 3-G licenses which look bit stretched. We believe that the government can raise a maximum of Rs240bn from 3-G telecom licenses, falling short by Rs120bn on estimates

	Rs bn
3G auction	143
BWA spectrum	53
Total reserve price	196
Govt target	360
Implied bid premium	84%

	Est auction price (Rs bn)	Slots	Total proceeds (Rs bn)
3G Auction proceeds	42	3	126
BSNL/MTNL	42	1	42
BWA auction proceed	21	2	42
BSNL/MTNL	21	1	21
4th slot in 5 circles	3	1	4
Total			235
Implied premimum for Rs360bn estimate			53%

Disinvestment revenues at Rs400bn

The disinvestment target has been kept at steep Rs400bn over and above Rs250bn expected for FY10. Any risk on disinvestment would put pressure on fiscal deficit

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Government accounts

Rs bn	FY09	FY10RE	FY11BE	% yoy chg
Revenue receipt	**5,403**	**5,773**	**6,822**	**18.2**
Tax (net)	4,433	4,651	5,341	14.8
Non tax	969	1,122	1,481	32.0
Capital receipt	**67**	**302**	**451**	**49.4**
Revcovery of loans	61	43	51	20.6
Others	6	260	400	54.1
Total receipt	**5,470**	**6,075**	**7,273**	**19.7**
Expenditure				
Non-plan expenditure	**6,087**	**7,064**	**7,361**	**4.2**
Non-plan expenditure (Excl Int)	*4,165*	*4,869*	*4,874*	*0.1*
Revenue	5,590	6,419	6,436	0.3
Interest	1,922	2,195	2,487	13.3
Capital	497	644	925	43.6
Plan expenditure	**2,752**	**3,152**	**3,731**	**18.4**
Revenue	2,348	2,644	3,151	19.2
Capital	405	508	580	14.2
Total expenditure	**8,840**	**10,215**	**11,092**	**8.6**
Revenue	7,938	9,064	9,587	5.8
Capital	902	1,152	1,505	30.6
Fiscal surplus/(deficit)	-3,370	-4,140	-3,819	-7.8
% of GDP	**-6.0**	**-6.7**	**-5.5**	
Revenue surplus/(deficit)	-2,535	-3,291	-2,765	-16.0
% of GDP	**-4.5**	**-5.3**	**-4.0**	
Primary surplus/(deficit)	-1,448	-1,945	-1,332	-31.5
% of GDP	**-2.6**	**-3.1**	**-1.9**	

Rs360bn from 3-G license

Rs400bn from disinvestment

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Tax revenues

Rs bn	FY09	FY10RE	FY11BE	% yoy chg
Corporation tax	2,220	2,551	3,013	18.1
Income tax	1,230	1,319	1,287	-2.5
Total direct taxes	**3,450**	**3,870**	**4,300**	**11.1**
Customs	1,080	845	1,150	36.1
Excise	1,084	1,020	1,320	29.4
Others	666	596	697	16.8
Total indirect taxes	**2,829**	**2,461**	**3,167**	**28.7**
Total tax collections (gross)	**6,279**	**6,331**	**7,467**	**17.9**
Transfer to states	1,620	1,680	2,126	26.5
Total tax collections (net)	**4,660**	**4,651**	**5,341**	**14.8**

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Direct Tax Proposals

Direct tax proposals – Corporate

- No change in corporate tax rate
- Surcharge on domestic companies reduced from 10% to 7.5%, MAT increased from 15% to 18%.
- Weighted deduction on in-house R & D enhanced from 150% to 200%.
- Weighted deduction on payments made to specified associations for scientific research and social science/statistical research increased from 125% to 150% and 0% to 125% respectively.
- New Hotels of 2-star category and above included in ambit of investment linked deduction.
- To introduce Direct Tax Code by April 01, 2011.

Direct tax proposals – Individual/Small Businesses

- Deduction of additional Rs 20,000 allowed, for investment in long-term infra-structure bonds, above the Rs.1 lac limit on tax savings
- Presumptive tax scheme extended to small businesses with turnover up to Rs.60 lac (earlier Rs.40 lac),
- Limits for turnover which accounts need to be audited increased to Rs.60 lacs for businesses and to Rs.15 lac for Professions
- Scope of gift tax extended to include transfer of unlisted shares below fair market value

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Direct Tax Proposals

Changes in personal income tax rate and impact

Old Slab	Tax Rate (%)	New Slab
Upto Rs 160,000 Lacs	0	Upto Rs 1.6 Lacs
Rs 160,000 to Rs 300,000	10	Rs 160,000 to Rs 500,000
Rs 300,000 to Rs 500,000	20	Rs 500,000 to Rs 800,000
Above Rs 500,000	30	Above Rs 800,000

Taxable income (Rs.)	Tax –before budget (Rs.)	Tax after budget (Rs.)	Saving (Rs.)
200,000	4,120	4,120	0
500,000	55,620	35,020	20,600
1,000,000	210,120	158,620	51,500
1,200,000	271,919	220,419	51,500
1,500,000	364,619	313,119	51,500
2,000,000	519,119	467,619	51,500
2,500,000	673,619	622,119	51,500
4,000,000	1,137,119	1,085,619	51,500

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Indirect Tax Proposals - Customs

- Customs duty on crude petroleum increased to 5%.
- Duty on petrol and diesel increased to 7.5% from 2.5%.
- Enhanced duty on Other Specified Petroleum products to 10% from 5%.
- Outright exemption of additional customs duty of 4% on mobile phones and watches.
- Customs duty and CVD exemption on mobile phone accessories, now extended to mobile phone battery chargers and hands-free headphones also.
- Full customs duty exemption on specified capital goods and raw materials for the manufacture of electronic hardware.
- Increase in gram-wise duty on Gold and Platinum.
- Import duty on Silver raised to Rs.1500/Kg.
- Gold ore and concentrate now attract no basic duty, but chargeable to CVD.
- Agricultural Machinery duty reduced to 5% from 7.5%.
- Specified road construction machinery are fully exempt from customs duty.
- Basic duty on long pepper reduced from 70% to 30%.
- Rate multiplicity on medical equipment done away with; effective duty of 9.2% imposed

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Indirect Tax Proposals - Excise

- Duty on Non-Petroleum products increased from 8% to 10%.
- Excise duty on large cars, multi and sports utility vehicles increased from 20% to 22%.
- A concessional excise duty rate of 4% charged on the parts for the manufacture of electrical vehicles.
- Duty on Petrol and Diesel increased by Re.1 per litre.
- Tobacco and products experience an increase in duties.
- Excise on branded unmanufactured tobacco increased from 42% to 50%, whereas chewing tobacco, extracts and essences increased from 50% to 60%.
- Duty on LED lights fall to 4% from 8%.
- Rubber toy balloons, mattresses from quilted textile material, by-products of Menthol and supari are fully exempt from excise duty.
- Latex rubber thread duty falls to 4% from 8%.
- Maize, tapioca and potato (previously 8%) starch duty is now unified at 4%.
- Computer microprocessors, floppy, flash and CD/DVD disk drives, previously exempt from duty; now fall under a 4% duty.
- Baby and clinical diapers, sanitary napkins, previously exempt, now attract 10% duty.

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Indirect Tax Proposals – Service Tax

- Rate of tax on services retained at 10 % to pave the way forward for GST. The government endeavour to introduce GST by April, 2011. New proposal relating to service taxes is estimated to result in a new revenue gain of Rs 3,000 crore.
- The following services have been brought under the ambit of service tax:
  - Service of permitting commercial use or exploitation of any event organized by a person or organization.
  - Copyrights on cinematographic films and sound recording
  - a) Health check up undertaken by medical establishments for the employees of business entities; and (b) Health services provided under health insurance schemes offered by insurance companies.
  - Service provided for maintenance of medical records of employees of a business entity and service provided by Electricity Exchanges.
  - Certain additional services provided by a builder to the prospective buyers
  - Service of promoting of a ‘brand’ of goods, services, events, business entity etc.
  - The promotion, marketing or organizing of games of chance, including lottery.
- Services tax is exempted from Pre-packaged I.T. software, Transport of food grains and pulses, Indian news agencies under ‘Online Information and Database Retrieval Service, transmission of electricity
- Exemption from service tax on ‘Service provided in relation to transport of goods by rail’ is being withdrawn. The levy will come into effect from 01.04.2010.

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Sectoral Impact

Automobiles – Neutral

- **Excise duty increased by 2%-in line with expectation.**
- **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 15% to 18%. For FY11, we expect this to have a negligible negative impact on Tata Motors. For rest of the companies under our coverage, FY11 estimates factor in tax rate which is higher than MAT rate.**
- **Increase in diesel prices by ~Rs2.5/litre can affect Tata Motors and Ashok Leyland. We expect that the cost pressure due to higher fuel price will be passed on by truck/bus operators to consumers.**
- **The biggest beneficiaries are Hero Honda and M&M. Maruti and Bajaj Auto also to benefit.**

Current Status	Proposals	Impact
Excise duty on two wheelers, three wheelers, small cars, commercial vehicles - 8%	Increased by 2%	In line with expectation- no major impact on demand
Excise duty on large cars/UV - 20%+ Rs15000	Increased by 2%	In line with expectation- no major impact on demand

Positive	Neutral	Negative
Hero Honda, M&M, Maruti, Bajaj Auto	Tata Motors, Ashok Leyland	

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Banking and Financial Services

- **Fiscal deficit higher at 5.5% of GDP for FY11 with net government borrowing of Rs3.5tn**
- **Extension of interest subvention on export credit of 2% on pre-shipment credit**
- **Interest subvention on farmers credit increased to 2%**
- **Continuing the take out financing by IIFCL**
- **Increase in recapitalisation funds to Rs165bn**
- **Agriculture credit at Rs3750bn, up 15%**
- **Remarks by Finance Minister on possibility of banking licenses being given to private players including NBFCs**

Current Status	Proposals	Impact
Fiscal deficit at 6.7% of GDP	Fiscal deficit at 5.5% of GDP	We still maintain our upward bias on the bond yields
	Recapitalisation funds at Rs165bn	Positive for banks with low tier I CAR and government stake
Debt relief deadline - Dec 31, 09	Extended to Jun 30, 10	
Positive	**Neutral**	**Negative**
Dena Bank, UCO Bank, Bank of Maharashtra, OBC, IDBI Bank and Central Bank of India		
IDFC		

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Cement – Neutral-Negative

- **Excise duty on cement with MRP> Rs190/bag hiked from 8% to 10%. Excise Duty on cement with MRP <Rs190/bag increased from Rs230/ton to Rs290/ton. Excise duty on clinker hike from Rs300/ton to Rs375/ton- Increase of excise duty by Rs3-5/bag. Impact-NEUTRAL as we expect the companies to pass on the hike in duty to consumers. However if the duty is not passed on to consumers, earnings for companies will get impacted by 10-15%.**
- **Clean energy cess of Rs50/ton imposed on coal – negative**
- **Diesel price hike – negative**
- **Moderate increase in budgetary allocation to infrastructure development programs – (1) Bharat Nirman (+6% to Rs480 bn) under which (a) Indira Awas Yojna (+14% to Rs100 bn), (b) Pradhan Mantri Gram Sadak Yojna (-4% to Rs115 bn), (c) Rajiv Gandhi Grameen Vidyutikaran Yojna (-21% to Rs55 bn), (2) JNNURM (-10% to Rs116 bn), (3) APDRP (+78% to Rs37 bn), (4) Roadways (+13% to Rs199 bn) and (5) Railways (+6% to Rs168 bn).- Positive**

Current Status	Proposals	Impact
Excise duty on cement with MRP Above Rs190 @ 8%	Hiked to 10%	Increase in excise duty by Rs4-5/bag-Neutral as we expect the companies to pass on the hike in duty
Excise duty on cement below Rs190 @ Rs230/ton	Hiked to Rs290/ton	Increase in excise duty by Rs3/bag-Neutral as we expect the companies to pass on the hike in duty
Cess/Duty on coal	Cess of Rs50/ton imposed on domestic & imported coal	Negative as it increases power & fuel cost
Positive	**Neutral**	**Negative**
Moderate demand boost through higher allocation to flagship programmes positve for the sector		Clean Energy Cess of Rs50/ton on coal and the diesel price hike is negative for all the cement companies as it increases key cost like power & fuel & freight cost

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Fertilisers & Chemicals – Positive

- **Fertiliser subsidy amount for 2009-10 revised upward to Rs 530 bn from budgeted amount of Rs 500 bn**
- **Budgeted amount for fertiliser subsidy for 2010-11 maintained at Rs 500 bn**
- **Fertiliser subsidy to be distributed in cash for FY11. Government intends to move to direct transfer of subsidy to farmers**
- **Nutrient Based Subsidy (NBS) and 10% hike in urea prices applicable from April 1, 2010. No further announcements made on NBS**
- **Roll back of excise duty for chemicals from 8% to 10% is expected to impact chemical companies negatively, however companies are likely to pass this on to the user industry**

Current Status	Proposals	Impact
Fertiliser subsidy bonds issued to the industry	To disburse subsidy by way of cash	No discounting loss on bonds and lower working capital requirement
Subsidy for decontrolled fertiliser linked to IPP (Floating subsidy & Fixed MRP)	Introduction of Nutrient Based Subsidy (Fixed subidy regime & Floating MRP)	Efficient player with trong raw material tie-up are expected to benefit positively Expected to eliminate uncertainity in projecting fertiliser subidy
Excise Duty on chemicals at 8%	Proposed to increase to 10%	Expected to affect chemical companies negatively
Positive	**Neutral**	**Negative**
Coromandel International Chambal Fertilisers		Chemical companies - Deepak Fertilisers, GNFC, GSFC, Tata Chemicals

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FMCG – Negative

- **Increase in allocations to development and social programs for rural India - like Indira Gandhi Vikas Yojana, NREGA, Bharat Nirman, Indira Awas Yojana and Rajiv Gandhi Krisi Vikas Yojana- likely to increase purchasing power**
- **Increase in personal income tax exemption limits - increase the disposable income and create impetus to overall demand**
- **200 bps rollback in Excise duty from 8% to 10% - negative for companies having production in excisable locations**
- **Structural changes in excise duties on tobacco products be it cigarette or non cigarette products. In Cigarettes, excise duty is increased at average of 9-11% against expectation of increase of 5%**
- **Specific increase in excise duty on diapers and sanitary napkins – increased from NIL to 10%**
- **MAT increased from 15% to 18%- negative for companies paying taxation at MAT rate. Our back-of-envelope drop in earnings could be 2-3% for GCPL, Marico, Dabur and Emami**

Current Status	Proposals	Impact
Excise duty is 8%	Increased to 10%	Negative for HUL, APL, GSK consumer and ITC
Service tax of 10%	No Change	Neutral for FMCG sector
MAT Rate of 15%	Increased to 18%	Negative for GCPL, Marico, Dabur and Emami
NIL excise duty on baby & clinical diapers and sanitary napkins	Increase to 10%	Negative for P&G and GCPL
Differential duty structure in Cigarettes	Average increase in excise duty of 9-11%	Negative for ITC, VST and Godfrey Phillip
Positive	**Neutral**	**Negative**
		HUL, ITC, GCPL, APL, Emami, Marico, P&G and GSK

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Infrastructure / Capital Goods – Neutral

- **Largely a non-event and NEUTRAL to the sector – Muted increase in budgetary allocations to infrastructure programs and limited fiscal measures – for instance no import barriers for power equipment manufacturers or extension of 80-IA benefits to power players**
- **Moderate increase in budgetary allocations to infrastructure development programs – (1) Bharat Nirman (+6% to Rs480 bn) under which (a) Indira Awas Yojna (+14% to Rs100 bn), (b) Pradhan Mantri Gram Sadak Yojna (-4% to Rs115 bn), (c) Rajiv Gandhi Grameen Vidyutikaran Yojna (-21% to Rs55 bn), (2) JNNURM (-10% to Rs116 bn), (3) APDRP (+78% to Rs37 bn), (4) Roadways (+13% to Rs199 bn) and (5) Railways (+6% to Rs168 bn).**
- **61% increase in allocations from Rs6.2 bn to Rs10.0 bn for renewable energy programs (MNRE).**
- **Aggressive targets for IIFCL shared (1) disbursements to improve from Rs90 bn in FY10 to Rs200 bn in FY11E, (2) refinancing to banks to increase from Rs30 bn to Rs60 bn and (3) take-out financing to increase to Rs250 bn. We hold reservations for achieving said targets.**
- **MAT rate increased from 15% to 18% - negative for infrastructure developers leading to reduction of NPV for BOT projects by approximately 4.5% (case specific)**

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Infrastructure / Capital Goods – Neutral

Current Status	Proposals	Impact
Peak customs duty applicable for monorail projets	Project import status for monorail projects - concessional customs duty @5%	Positive for L&T, BEML, Siemens and Reliance Infra
Specified components of rotor blades for wind power attarcted excise duty	Exempt from excise duty	Positive for Elecon Engineering, Suzlon, and Shriram EPC
No resale allowed wrt specified construction equipment exepmt from customs duty	Disposal of such machinery allowed at depreciated value on payment of customs duties on depreciated value	Positive for all Capital Goods and Construction Contractors
MAT Rate - at 15%	Increased to 18%	Negative for BOT projects- NPV impacted by -4.5%
Shipbuilding subsidy of Rs3.7 bn in FY10E budget	Increased to Rs5.9 bn (+59%)	Positive for ABG Shipyard, Bharati Shipyard & Pipavav Shipyard
Positive	**Neutral**	**Negative**
ABG Shipyard, Bharati Shipyard, Thermax	L&T, BHEL, Punj Lloyd, Elecon Engg, McNally Bharat, TRF	BOT Projects

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IT – Software – Neutral

- **Union budget remained silent on extending the tax benefits under Section 10A/10B of the Income Tax Act'1961 beyond March'11.**
- **Increase in MAT to 18% V/s 15% would impact cash flows negative while it will be earnings neutral.**
- **Anomaly on the effective date for Section 10AA benefits available to SEZ units corrected with the benefits now effective with retrospective effect from April 1'06. Should result in one time writebacks for Infosys (<Rs 2/share) and HCL Tech (<Rs 0.5/share) while should have no bearing for other companies.(in line with our pre budget expectations)**

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%-17% depending on the number of STPI units hitting the 10 year ceiling and % of SEZ revenues
MAT at 15% of book profits and duration of availing deferred tax benefit at 10 yrs	Increase MAT to 18% of book profits and duration of availing deferred tax benefits at 10 yrs	EPS neutral, however cash flow negative for almost Indian IT companies as they create deferred tax assets to be offset against future tax liabilties.
Section 10AA benefits with effect from April 1'09	Section 10AA benefits to be available with retrospective effect from April 1'06	Result in one time writebacks for Infosys and HCL Tech. No impact for other companies
Positive	**Neutral**	**Negative**
	All IT companies	

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Metals – Neutral

- Increase in budgetary allocations for infrastructure, rural and urban development - positive for overall demand scenario. JSW Steel to be significant beneficiary with the rapid ramp up and increase in capacities; followed by Tata Steel, JSPL, SAIL, Sterlite, Hindustan Zinc, Bhushan Steel and other metal companies
- Increase in MAT from 15% to 18% - marginally negative for Sterlite Inds and Hindustan Zinc (Consolidated EPS to be impacted by around 3%), JSPL, Godawari Power etc.
- Increase in excise duty from 8% to 10% - neutral; as it will be passed on
- Imposition of Rs50/t cess on Indian and imported coal - very slight negative impact of 2-3% on EPS of a) metal companies having captive and merchant power (like Sterlite, JSW Steel, JSPL, Hindustan Zinc, HEG, Godawari, Bhushan Steel and others); b) all the sponge iron producers (like JSPL, Godawari, Prakash Industries, Monnet Ispat, Ramsarup Industries, Adhunik Metaliks, Bhushan Steel and others)
- Introduction of competitive bidding process for allocation of captive coal blocks - positive for the metal companies, as it will make the process of allocating coal mines faster (positive for Jai Balaji, Bhushan Steel, Sterlite Industries, JSPL, Godawari Power, Adhunik and others); the only flip side is the increase in acquisition cost

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Metals – Neutral

- **Increase in custom duty on silver from Rs1,000/kg to Rs1,500/kg to be very slightly positive for Hindustan Zinc**
- **Reduction in surcharge on corporate tax from 10% to 7.5% to have slight positive impact on all the metal companies**

Current Status	Proposals	Impact
Excise duty of 8%	Increased to 10%	Largely Neutral - would be entirely passed on
15% MAT	Increased to 18%	Marginally negative for Sterlite Inds, JSPL, Hindustan Zinc, Godawari
Rs0/t Clean energy cess on coal	Increased to Rs50/t	Marginally negative for Sterlite Inds, JSPL, Bhushan Steel, Hindustan Zinc, Godawari, Prakash, Adhunik, Jai Balaji and others
Rs1,000/kg custom duty on silver	Increased to Rs1,500/kg	Marginally positive for Hindustan Zinc
10% surcharge on corporate tax	Reduced to 7.5%	Marginally positive for all the metal companies
Allocation of coal blocks through negotiations	Competitive bidding process introduced	Positive for Jai Balaji (awaiting clearance of huge coal blocks of 700mt reserves), Bhushan Steel, Sterlite, JSPL, Godawari, Adhunik and others
Positive	**Neutral**	**Negative**
	All Metal companies	Sterlite Inds, JSPL, Hindustan Zinc, Godawari, Adhunik, Prakash and others

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Oil and Gas – Negative

- **Government has restored the custom duty of 5% on crude petroleum, 7.5% Custom duty on diesel and petrol and 10% on other product - Marginally positive for Refining margin.**
- **Considering the hike in Petrol and Diesel prices of 2.67/L & 2.58/L respectively, announced by the government, under recovery still remain the same.**
- **After considering the hike in prices of petrol and diesel, under recovery for Petrol is Rs. 2.87/L and Rs.1/L for Diesel.**
- **Budgeted oil subsidy of Rs.150bn in FY10 (Rs.300bn of under-recovery in cooking fuel expected in FY10). Therefore, OMC's would get only Rs.30bn over and above Rs.120bn received by them. FY11 budgeted oil subsidy of only Rs.30bn.**

Current Status	Proposals	Impact
Custom duty 'Nil' on crude petroleum, 2.5% custom duty on diesel and petrol and 5% on other petroleum products	Restore the custom duty of 5% on crude petroleum, 7.5% Custom duty on diesel and petrol and 10% on other product. Central ezcise duty on petrol and diesel enhanced by Rs.1/L each.	Neutral for refineries, GRM will remain constant or marginally higher.
Positive	**Neutral**	**Negative**
		Negative for the IOCL, BPCL, HPCL, Reliance Industries.

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Paper – Negative

- **MAT rate has been increased from 15% to 18% which is likely to impact paper companies negatively**
- **Clean energy cess of Rs 50 / tonne has been levied on imported and indigenous coal which will have negative impact on paper companies**
- **Consessional Excise duty rate has been maintained at 4%**
- **Custom duty has remain unchanged at 10% on paper and 5% on pulp**

Current status	Proposals	Impact
MAT rate at 15%	Increased to 18%	Marginal negative impact. BILT etr to increase by 1% and JK paper to pay MAT 18% in current year
No 'Clean Energy Cess'	Introduction of 'Clean Energy Cess' of Rs 50 / tonne	TNPL's bottomline may get negatively impacted by ~2%
Concessional excise duty rate of 4%	No change	Neutral - Since industry will continue to enjoy lower excise rates
Customs duty of 10% on paper and 5% on pulp	No change	No Impact
Positive	**Neutral**	**Negative**
		BILT, TNPL, JK Paper

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Pharma – Neutral

- **200% Weighted deduction on in-house R&D from current level of 150% will have positive impact on most of the Indian pharma companies as they spend around 5-8% of revenue on R&D**
- **Increase in MAT rate from 15% to 18% will have negative impact on the companies who are currently paying tax under MAT. The incremental impact on tax out-going on these companies is to the tune of 2.93%. However reduction in surcharge from 10% to 7.5% will have positive impact on MNC companies & high tax paying companies.**
- **Increase in excise duty on API from 8% to 10% will impact operating performance of the formulation companies to the tune of 30-40bps.**

Current status	Proposal	Impact
Tax incentives on R&D	200% weighted deduction on in-house R&D from current level of 150%	Positive for Pharma companies like Sun Pharma, Ranbaxy, Dr Reddy, Lupin, Etc.
MAT at 15% of book profits	MAT at 18% of book profits	Negative impact on companies who are currently paying tax under MAT
Increase allocation on Healthcare spending	Increased allocation by 14% to Rs223bn	Positive for Pharma companies and Healthcare service provider.
Excise duty on API	Increased from 8% to 10%	Negative for bulk drug producers such as Aurobindo, Ipca; Can impact 30-40bps operating margins for the formulation players

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Pharma – Neutral

Impact on Pharma Universe because of increase in MAT & weighted R&D deduction

Company	Net impact on earnings % chg
Panacea	6.1%
Ranbaxy	3.2%
Dr Reddy	3.2%
Pfizer	2.8%
GSK	0.9%
Cadila	-0.5%
Ipca	-0.8%
Glenmark	-0.9%
Cipla	-1.0%
Torrent Pharma	-1.2%
Jubilant	-1.3%
Lupin	-1.6%
Piramal	-1.6%
Dishman	-2.2%
Divis	-2.7%
Sun Pharma	-3.0%

Positive	Neutral	Negative
Dr Reddy		Sun pharma
Ranbaxy		Divis
Pfizer		Torrent Pharma
GSK Pharma		Dishman
Panacea		Piramal
		Lupin
		Aurobindo
		Ipca

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Power – Negative For Private Utilities

- **Budget FY11 - negative for private power utilities especially merchant power producers – likely impact of 4-5% on their ROEs.**
- **Broad measures – (1) coal cess of Rs50/MT, (2) MAT rate increased to 18%, (3) indirect tax exemptions for renewable energy and (4) increased allocations to APDRP.**

Current Status	Proposals	Impact
No Coal Cess	To impose Coal Cess of Rs50/MT on domestic as well as imported coal and to be collected as excise duty	Negative ROE impact of ~ 3% on merchant power producers - Coal cost will increase for private power utilities - definitely not a pass through for merchant power producers and depends on the structure of PPAs in case of competitive tariff projects
MAT rate 15%	MAT rate increased to 18%	Negative (- 1.3% on ROE) for companies putting up projects under SPV structures
80 IA terminal date - up to 31.03.2011	No Change	Negative for private utilties as ambiguity over 80IA (income tax holiday for projects commissioning after 1st April 2011) remain
APDRP and RGGVY - budget outlay of Rs20.8bn & Rs70bn	APDRP and RGGVY outlay to Rs37bn and Rs55bn, up 77% & down 21% over FY09-10.	T&D companies mainly in the area of distribution automation to benefit.
Transmission of electricity - ambiguity over its service tax status	Ambiguity cleared with transmission exempt from service tax	Neutral for PGCIL

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Power – Negative For Private Utilities

Current Status	Proposals	Impact
Customs & Excise duty on Solar Power Equipments - 14% and 8%	Exempt from excise duty, lowered custom duty to 5%	Positive for solar power equipment manufacturers, Developers
Specified components of rotor blades for wind power attarcts excise duty	Exemption from excise	Positive for Wind power equipment manufacturers, Developers
Plan outlay for the Ministry of New and Renewable Energy - Rs6.2bn in FY09-FY10	Increased by 61 per cent to Rs.10bn in FY10-11.	Positive for Solar/Wind power equipment manufacturers
No Duty on electricity supplied from SEZ	Retrospectively w.e.f. 26th June, 2009, would now attract duty of 16%	Negative for merchant power sales out of SEZs
Service provided by electricity exchange exempt from service tax	Brought under service tax	Need to understand - whether it would be on power realizations or only on fees charged by exchanges - prima facie negative for power traders
Captive coal blocks alloted as per different eligibility criterias	Proposal to introduce competitive bidding for captive coal mine allocations	Increased cost of captive coal

Positive	Neutral	Negative
ABB, Areva, KLG Systel, Moser Baer, Webel SL, Suzlon, XL telecom, Easun Reyrolle etc	NTPC, NHPC, Neyveli, GIPCL, PGCIL	JSW Energy, Nava Bharat, Reliance Power, Adani power, Tata Power, JSPL, Indiabulls Power, JPVL etc

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Real Estate – Neutral

- **Service Tax to be levied on construction of a new building which is intended for sale, during or after construction, which is pre-sales (except in cases where no sum is received by the builder before grant of completion certificate). However, service tax to be levied only in construction expense. Developers can also avail Modvat credit from sub-contractor. We expect marginal increase of service tax to entirely passed on the consumers, without substantial increase in the property prices.**
- **Scheme of 1% subvention on housing loans up to Rs.10 lacs, where the cost is Rs.20 lacs proposed to be extended to March 31, 2011**
- **No Extension of Section 10A/10B benefit to STPI. This should negatively impact demand for IT Park in the short term.**

Current Status	Proposals	Impact
No Service tax	Service Tax to be levied on pre-sales of new buildings to be constructed	It would be borne by buyers primarily
1% subvention on housing loans up to Rs.10 lacs, where the cost is Rs. 20 lacs	Extended to March 2011	
STPI benefit to end by March 2010	Extended to benefit to March 2011	IT Parks demand to be impact in the near term

Positive	Neutral	Negative
	All Real estate companies	

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Retail – Neutral

- **Increase in excise duty on refined serially numbered gold bars made from the ore or concentrate**
- **Increase in excise duty on DTA clearances of plain gold and silver jewellery manufactured by a 100% EOU**
- **Increase in customs duty on gold bars, gold coins and other forms of gold**
- **Increase in customs duty on silver and platinum**
- **No change in FDI norms in Retail**

Current Status	Proposals	Impact
Excise duty on DTA clearances of plain gold jewellery manufactured by 100% EOU is Rs500 per 10 gram	Increased from Rs.500 per 10 gram to Rs.750 per 10 gram for gold jewellery	Increase in duty incidence on finished products - pass through to consumers
Excise duty on DTA clearances of plain silver jewellery manufactured by 100% EOU is Rs1000 per Kg	Increased from Rs.1000 per kg to Rs.1500 per kg. for silver jewellery	Increase in duty incidence on finished products- but pass through to consumers
No excise duty on serially numbered gold bars made from the ore/concentrate	Increased to Rs280 per 10 gram (8% ad valorem)	Increase in input cost- but pass through to consumers
Custom duty on serially numbered gold bars and coins is Rs200 per 10 gram and that on other forms is Rs500 per 10 gram	Custom duty on gold bar and coins increased to Rs300/10 gm and other forms increased to Rs750/10 gm	Increase in input cost- but pass through to consumers
Custom duty on silver is Rs1000/kg and platinum is Rs200/10 gm	Increased to Rs1500/kg for silver and Rs300/10 gm for platinum	Increase in input cost- but pass through to consumers

Positive	Neutral	Negative
	Titan Ind, Gitanjali gems	

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Telecom - Negative

- **No change in levies like license fees, etc. (v/s expectation of uniformity)**
- **Governments expected revenue from 3G has increased to Rs360bn on reduced no of slots – such high proceeds from auction looks unlikely. However if govt. becomes successful, such high outgo would be negative for operators.**
- **MAT rate increased from 15% to 18% - Earnings of the service providers to get impacted by 3-3.5%.**

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 15%	Increase in MAT from 15% to 18%	Negative - Earnings to get impacted by 3-3.5% for all operators
Positive	**Neutral**	**Negative**
		Bharti Airtel, Idea, RCOM

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Holidays 2010

Date	Day	Description
01-01-10	Fri	New Year
26-01-10	Tue	Republic Day
12-02-10	Fri	Mahashivratri
01-03-10	Mon	Holi
24-03-10	Wed	Ramnavmi
28-03-10	Sun	Mahavir Jayanti
02-04-10	Fri	Good Friday
14-04-10	Wed	Dr. Ambedkar Jayanti
01-05-10	Sat	May Day
15-08-10	Sun	Independence Day
10-09-10	Fri	Ramzan Id
11-09-10	Sat	Ganesh Chaturthi
02-10-10	Sat	Gandhi Jayanti
17-10-10	Sun	Dassera
05-11-10	Fri	Laxmi Puja
07-11-10	Sun	Bahu Bhij
17-11-10	Wed	Bakri Id
21-11-10	Sun	Gurunanak Jayanti
17-12-10	Fri	Moharram
25-12-10	Sat	Christmas