# Budget 2009-10: Preview

## Budget 2009-10: *Expectations a mirage or reality…*

After sweeping the General Elections convincingly, the time has come for the new government to deliver for what it was elected. On July 6, the Finance Minister will present the Budget for 2009-10. This will be indicative of the action plan of the newly elected government. We believe the Budget 2009-10 will be a reform-oriented Budget with major focus on improving GDP growth. However, it will be unrealistic to assume that the Budget will deliver everything. Rather, it will set the tone for the impetus to growth.

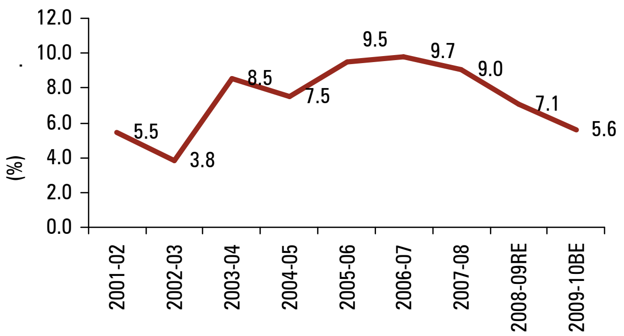
This year's Budget will be different for the following reasons:

- Execution will be smooth since the Congress is the largest party in the coalition. This will lead to efficient execution of policy decisions. Also, the Congress is in charge of most of the important ministries
- Growth will be the main prerogative of the government. The growth will be more inclusive in nature targeting social development with a focus on employment generation, thrust on education and rural development
- Maintenance of fiscal prudence

**<u>What are the key expectations from the Budget?</u>**

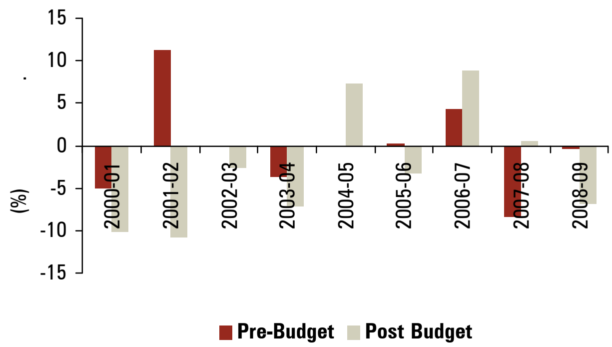
- **Improvement in fiscal management/public finances via disinvestment**
- **Increased focus on infrastructure spending especially power and road/highways**
- **Thrust on agriculture, rural development and employment generation**
- **Financial sector reforms like increasing FDI in retail and the insurance sector**
- **Increased focus on education and healthcare**
- **Providing ample liquidity to corporates and individuals at affordable rates**

**Exhibit 1: Trend in GDP growth**




*Source: Ministry of Finance, ICICIdirect.com Research*

**Exhibit 2: Market returns pre and post-Budget**




*Source: Bloomberg, ICICIdirect.com Research*

## What this Budget will target:

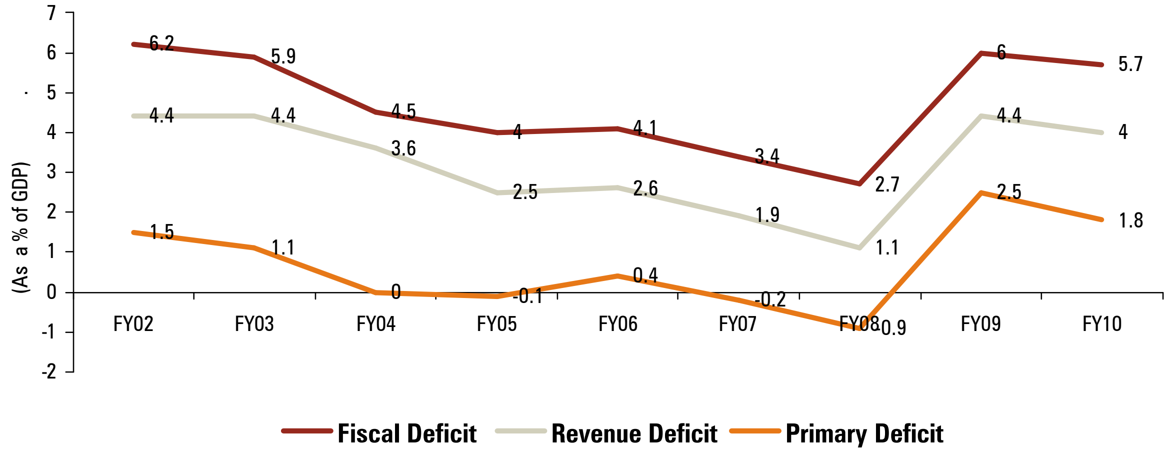
**Fiscal prudence in public finances:**
Budget 2009-10 will mainly focus on the fiscal deficit of the country. The farm loan waiver, fertiliser subsidy, oil bonds and stimulus packages have hugely contributed to the fiscal burden of the country. Hence, we believe this Budget will focus on prudent management of public finances. Also, we believe the government will very carefully lay down its expenditure plans (social welfare, education and subsidies) in the current fiscal when the income sources are weak. Apart from this, we believe the Budget may spell out a certain plan action to fight the huge deficit in terms of how they will go about raising resources in order to reduce the deficit.

**Exhibit 3: Revenue and expenditure trend of the government** (Rs Crore)

| | 2007-2008 Actuals | 2008-2009 Budget Estimates | 2008-2009 Revised Estimates | 2009-2010 Budget Estimates |
|---|---|---|---|---|
| **1. Revenue Receipts** | 541925 | 602935 | 562173 | 609551 |
| 2. Tax Revenue | 439547 | 507150 | 465970 | 497596 |
| 3. Non-tax Revenue | 102378 | 95785 | 96203 | 111955 |
| **4. Capital Receipts (5+6+7)** | 170807 | 147949 | 338780 | 343680 |
| 5. Recoveries of Loans | 5100 | 4497 | 9698 | 9725 |
| 6. Other Receipts | 38795 | 10165 | 2567 | 1120 |
| 7. Borrowings and other Liab. | 126912 | 133287 | 326512 | 332835 |
| **8. Total Receipts (1+4)** | 712732 | 750884 | 900953 | 953231 |
| **9. Non-plan Expenditure** | 507650 | 507498 | 617996 | 668082 |
| 10. On Revenue Account of which, | 420922 | 448352 | 561790 | 599736 |
| 11. Interest Payments | 171030 | 190807 | 192694 | 225511 |
| 12. On Capital Account | 86728 | 59146 | 56206 | 68346 |
| **13. Plan Expenditure** | 205082 | 243386 | 282957 | 285149 |
| 14. On Revenue Account | 173572 | 209767 | 241656 | 248349 |
| 15. On Capital Account | 31510 | 33619 | 41301 | 36800 |
| **16. Total Expenditure (9+13)** | 712732 | 750884 | 900953 | 953231 |
| 17. Revenue Expenditure (10+14) | 594494 | 658119 | 803446 | 848085 |
| 18. Capital Expenditure (12+15) | 118238 | 92765 | 97507 | 105146 |
| **19. Revenue Deficit (17-1)** | 52569 | 55184 | 241273 | 238534 |
| | -1.1 | -1 | -4.4 | -4 |
| **20. Fiscal Deficit {16-(1+5+6)}** | 126912 | 133287 | 326515 | 332835 |
| | -2.7 | -2.5 | -6 | 5.5 |
| **21. Primary Deficit (20-11)** | -44118 | -57520 | 133821 | 107324 |
| | -0.9 | -1.1 | -2.5 | -1.8 |

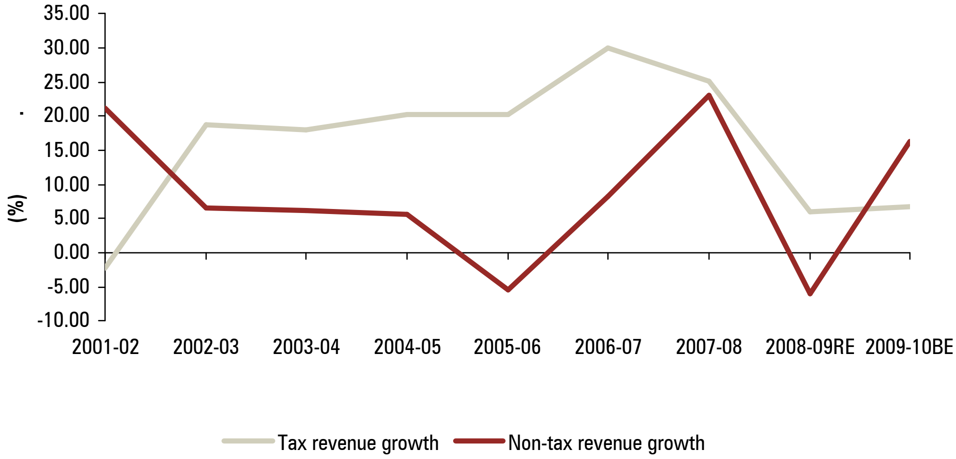
*Source: Government of India, ICICIdirect.com Research*

**Exhibit 4: Trend in fiscal deficit**



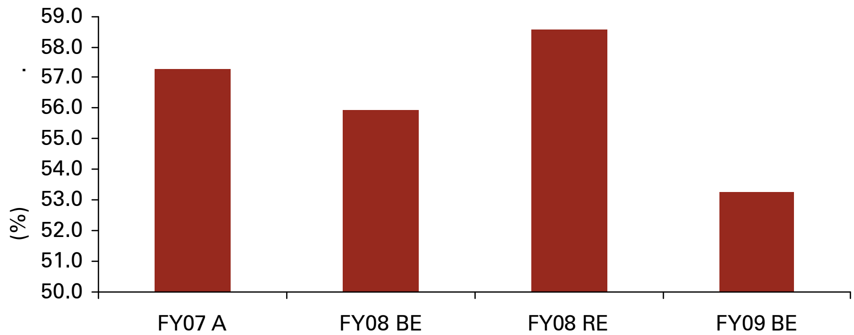

*Source: Ministry of Finance, ICICIdirect.com Research*

**Exhibit 5: Revenue for the government to show an up tick in latter half of this fiscal**



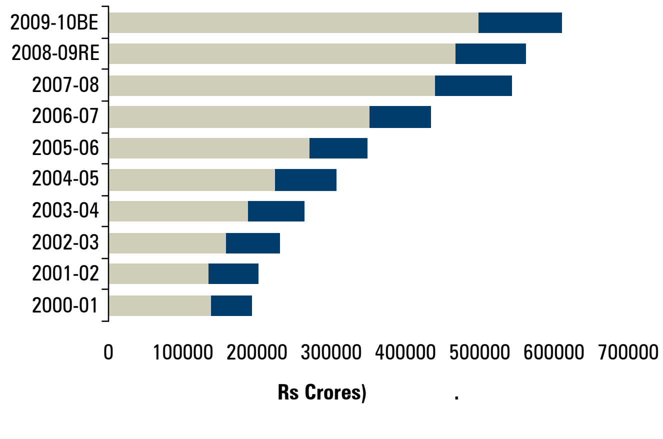

*Source: Ministry of Finance, ICICIdirect.com Research*

**Exhibit 6: Public debt as a percentage of GDP**



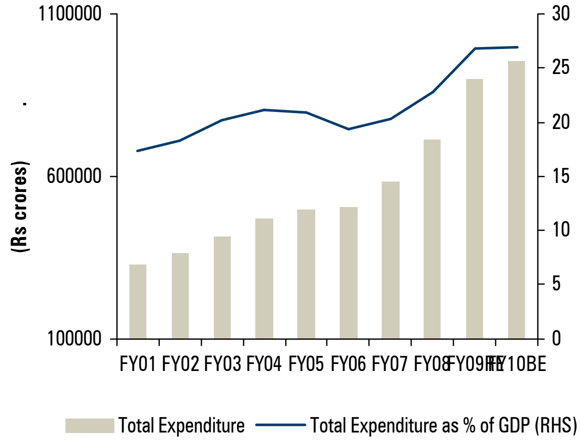

*Source: Ministry of Finance, ICICIdirect.com Research*

### Exhibit 7: Composition of government revenues



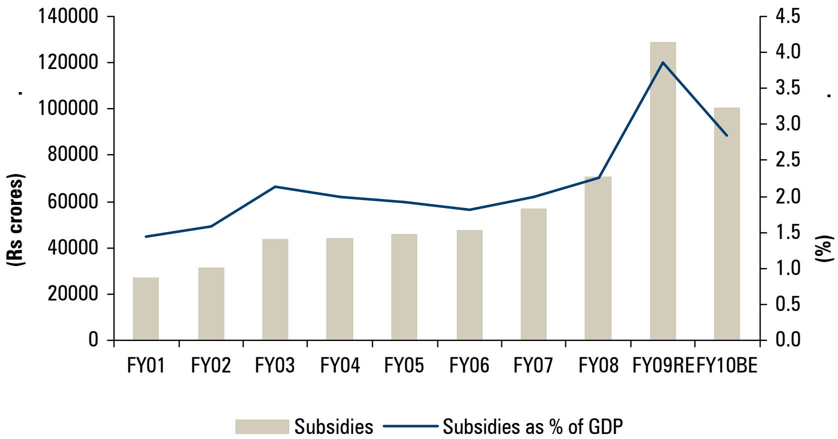

*Source: Ministry of Finance, ICICIdirect.com Research*

### Exhibit 8: Government expenditure on the rise




*Source: Ministry of Finance, ICICIdirect.com Research*

### Exhibit 9: Burden of subsidy likely to become lighter, going forward

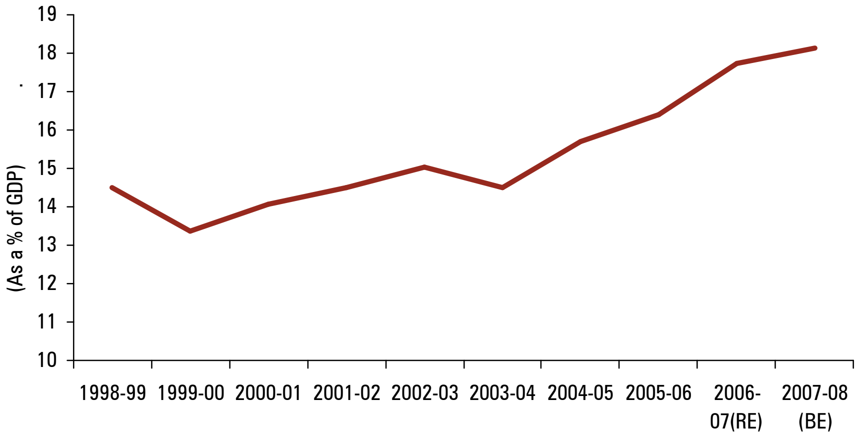



*Source: Ministry of Finance, ICICIdirect.com Research*

**Tax cuts: Tinkering to be minimal**

We believe reduction in taxes this time around will be minimal as most of the benefits of the same have been already been granted earlier in the form of cuts in excise, customs and service tax earlier in the economic stimulus package. Hence, we believe the probability of further cuts in indirect taxes is very low, as it will hurt the revenues of the government in an already slowing economic environment.

**Exhibit 10: Tax to GDP ratio**




*Source: Ministry of Finance, ICICIdirect.com Research*

The present economic scenario in the wake of massive job losses and the economic crisis will affect the government's direct tax kitty. The pain will be felt on both the personal income tax as well as corporate tax front. However, we cannot rule out some relief on the direct income tax front in the form of rolling out special benefits/provisions to specific groups like women and senior citizens or increase in tax exemption on interest/principle on housing loans.

It is also widely believed that the Budget will revamp/abolish the fringe benefit tax (FBT) and securities transaction tax (STT). We believe that at best these taxes may be tweaked. This is because a complete removal will affect the kitty of the government at this point of time as these taxes contribute significantly to the kitty.

**Exhibit 11: Tinkering with FBT, STT unlikely**

| | (Rs crore) | | (% of Income tax) | |
|---|---|---|---|---|
| | FBT | STT | FBT | STT |
| FY07 | 5300 | 4600 | 7.1 | 6.1 |
| FY08 | 7100 | 8600 | 6.9 | 8.4 |
| FY09 | 8500 | 5500 | 6.9 | 4.5 |
| FY10 | 10200 | 6300 | 7.5 | 4.7 |

*Source: Ministry of Finance, ICICIdirect.com Research*

**Agriculture spending to receive importance:**

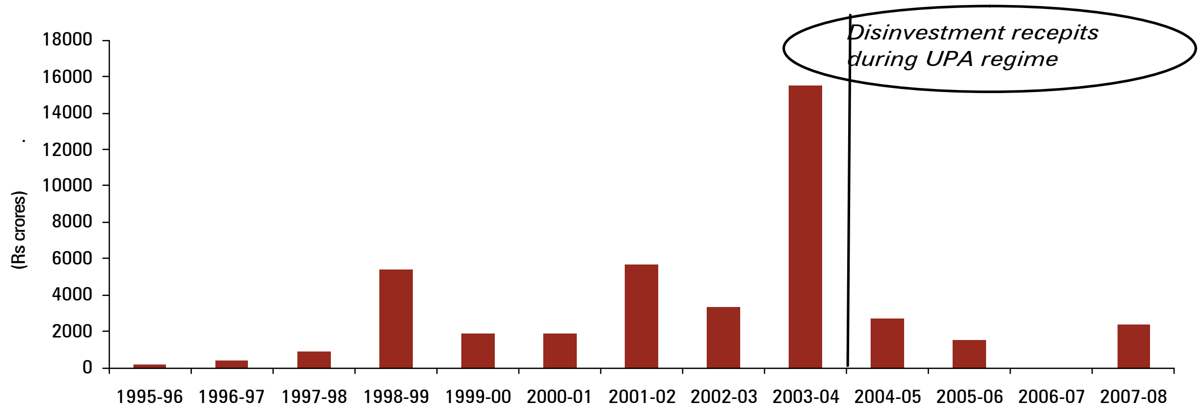
We expect an increased focus in this Budget on agriculture, which will enable the government to achieve inclusive growth and national food security. The likely measures for agriculture in the Budget may be in the form of:

- Farm gate procurement under MSP
- Better mechanisms to provide institutional credit to agriculture
- Minimum market price for acquisition of agricultural land for infrastructure/non-agri use
- Improvement in rural marketing network

## Disinvestment:

It is widely believed that the government will use the disinvestment route to fund the fiscal deficit of the country. Over the last five years, the effort of the government was not that encouraging. The reason for the same could be the presence of undemanding coalition partners. However, this time around, as the Congress is the single largest party, it should not find it too difficult to initiate the disinvestment process. We believe the government may announce its plans to sell some stake in unlisted as well listed government enterprises in this fiscal itself. Companies like NHPC and Oil India have shown their intentions to come out with initial public offerings in this fiscal.

**Exhibit 12: Disinvestment receipts during UPA regime was marginal**

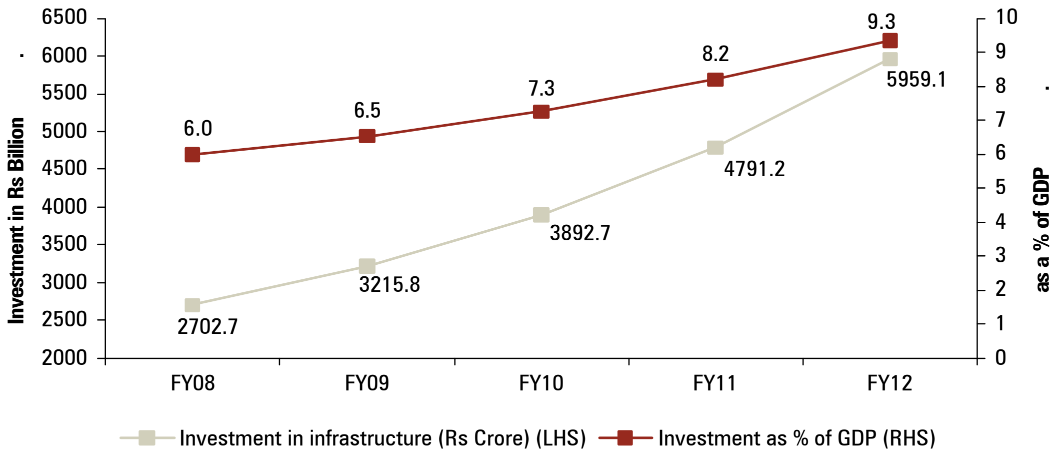



*Source: Department of disinvestment, ICICIdirect.com Research*

## Infrastructure to be a significant priority:

We believe the infrastructure sector will get a major boost in the forthcoming Budget. The focus is going to be on power and electricity, roadways, airports and urban infrastructure. Also, to be more efficient and effective the government will try to focus on the participation of the private sector in the process of infrastructure development via public-private partnership (PPP) and viability gap funding. The Budget may also provide more incentives. It may attempt to ease regulatory requirements to encourage private sector participation like facilitating acquisition of land, linkages to coal mines, other raw materials, etc. This, in turn, will help augment the investment/capex cycle in the country.

**Exhibit 13: Investment in infrastructure to be the key, going forward**

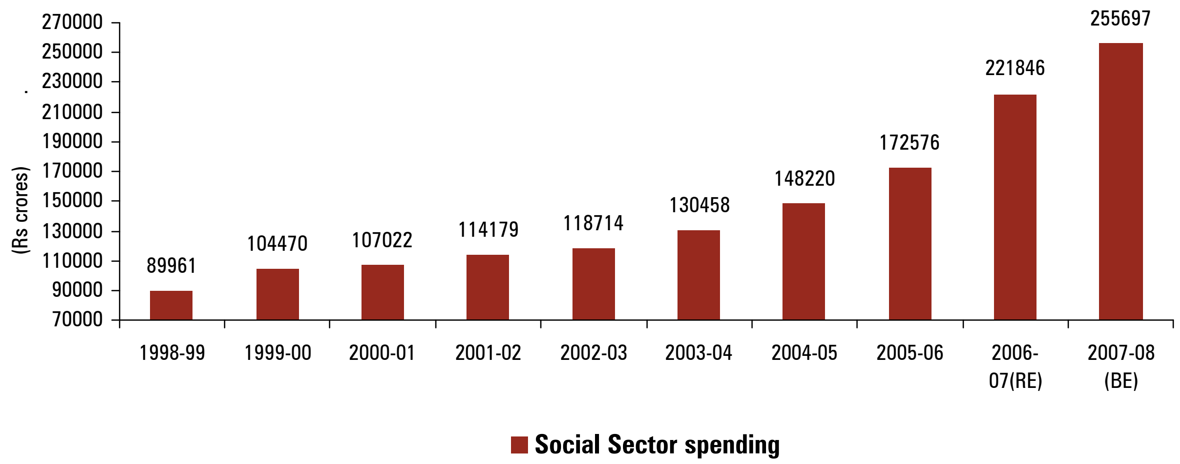



*Source: Planning commission, ICICIdirect.com Research*

**Social sector spending: Will lead to inclusive growth**

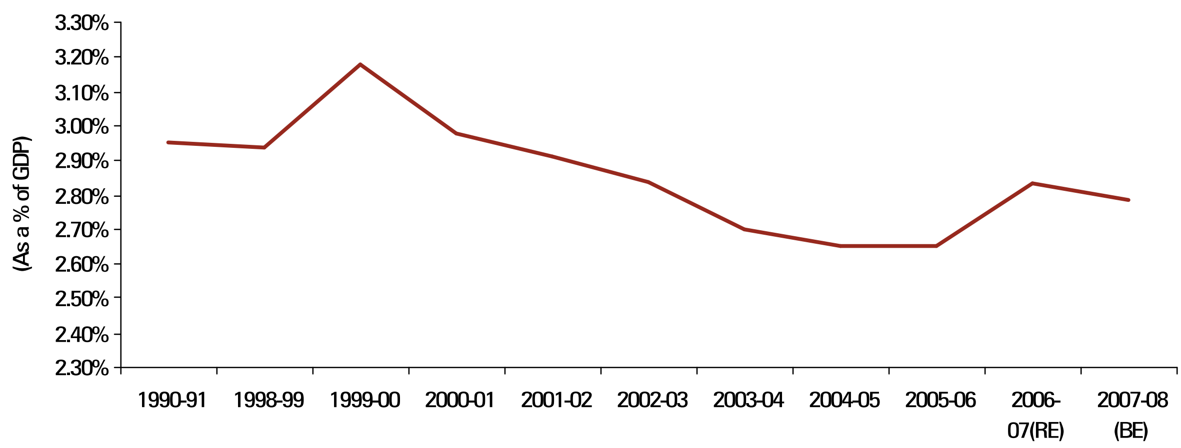
The Budget will also focus on social development. The government will continue to roll out programmes continuing its previous work in the form of NREGA and FARM loan waiver. We believe the government will ensure its continuous focus on flagship programmes like National Rural Employment Guarantee Scheme (NREGS), Bharat Nirman programme, Sarva Shiksha Abhiyan, Aam Aadmi Bima Yojana, Jawaharlal Nehru National Urban Renewal Mission, etc. Also, the ensuing Budget will focus on the education sector as well.

**Exhibit 14: Social sector spending so far**




*Source: Ministry of Finance, ICICIdirect.com Research*

**Exhibit 15: Education spending by the government as a percentage of GDP**




*Source: Company, ICICIdirect.com Research*

# Sectoral Expectations

| Sector | View | Top picks |
|---|---|---|
| **Automobiles** | Neutral | Tata Motors |
| **Banking** | Positive | SBI,OBC, IDFC, Kotak Mahindra Bank |
| **Cement** | Neutral | Shree Cement, Orient Paper ,UltraTech Cement |
| **FMCG** | Positive | Dabur , Marico |
| **Hotels** | Neutral | Indian Hotels |
| **IT** | Neutral | Infosys, TCS, Wipro |
| **Logistics** | Neutral | Concor , Sanghvi Movers |
| **Media** | Positive | Sun TV , Jagran Prakashan |
| **Oil & Gas** | Neutral | Reliance Industries, ONGC, Cairn India |
| **Power** | Positive | PTC, NTPC, PowerGrid, Neyveli Lignite |
| **Pharma** | Neutral | Biocon, Dishman Pharma, Dr Reddy's |
| **Retail** | Neutral | Pantaloon Retail |
| **Steel** | Neutral | SAIL, Sesa Goa ,Usha Martin |
| **Sugar** | Positive | Balrampur Chini, Shree Renuka Sugars ,Dhampur Sugar |
| **Telecom** | Neutral | Bharati Airtel, OnMobile Global |
| **Textiles** | Positive | Bombay Rayon Fashion |

*Source: ICICIdirect.com Research*

## Automobile and auto ancillary

**View: Neutral**

**With the recent sops given through stimulus packages, we do not expect any major benefit for the industry**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Roll back of excise duty cut** | Negative | Considering the widening fiscal deficit, we expect a likely roll back of cut in excise duties to the extent of 2%. This will be negative for all automobile companies. However, companies would pass on the same to consumers through price hikes |
| **Extension of accelerated depreciation for all commercial vehicles from September 30 2009 to March 31 2010** | Positive | Key beneficiaries would be Tata Motors, Ashok Leyland, M&M and Eicher Motors. This would support volume growth for these companies |
| **Removal of additional specific duties of Rs 15,000/ 20,000 imposed on high fuel consuming utility vehicles (UVs) over 1500 cc** | Positive | As fuel prices have declined from their peak levels there may be removal of additional specific duties on high fuel consuming vehicles. Key beneficiaries – Tata Motors and M&M |
| **Increase in spend on road infrastructure and state transport** | Positive | This will benefit the passenger as well as commercial vehicles industry. Any step (easy finance) to improve rural demand would augur well for companies. Key beneficiaries — Maruti Suzuki, M&M and Hero Honda Motors |
| **Increase in import duties on certain components to protect domestic industries as well as imposition of anti dumping duty on tyres imported from China** | Positive | Auto ancillary and tyre companies to benefit |

## Banking and financial services

**View: Positive**

**With the system wide credit growing at 15-16% and deposits growing at 21-22%, we expect the Budget to provide a stimulus to offtake in credit demand by making credit available at affordable rates. We expect the housing sector to be in focus, as we believe there may be some relief in the form of housing loan concessions, which will improve business conditions for housing finance companies. On the other hand, infrastructure financing will also receive due attention as infrastructure development will be the core focus of the ensuing Budget. Apart from this, expectations have built up with regard to increase of the FDI limit in the insurance sector and increasing the investment limit for FIIs in public sector banks (PSBs).**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Thrust on infrastructure to help augment credit offtake** | Positive | We believe the infrastructure sector will get a major boost in the forthcoming Budget. The same can be achieved if the funding for it is easily available at affordable costs. We believe tax exemption (reintroduction of 10(23) G of the IT Act will increase the attractiveness of infrastructure lending and, thereby, credit offtake. We believe this will be highly beneficial for the banking sector as a whole as well as NBFCs having high exposure to the infrastructure sector |
| **Increase in concessions for housing loans** | Positive | We believe that in order to provide a boost to the housing sector the Budget may unveil an increase in the limit for deduction of interest on housing loans from Rs 1.5 lakh to Rs 2.5 lakh. If this concession comes through then it will provide a huge boost to home loan borrowers. In turn, this will increase the business visibility for banks and specialised housing finance companies as the demand for housing loans will go up |
| **Incremental liberalisation of the financial sector** | Positive | Any action on increasing the limit of FDI in the insurance sector will be highly positive for the sector as a whole and specifically for companies that have insurance subsidiaries. This move will be positive in the sense that it will allow foreign partners to bring in fresh capital into the venture and keep the growth of the venture ticking. Also, there are expectations that there may be something in store for FIIs in terms of increasing the investment limit in PSBs from the existing 20%. This seems unlikely as of now. It will be highly beneficial for banks and companies who have insurance vertical imbibed in them. Any increase in the FII limit will be highly beneficial for PSU banks |
| **Abolishing the STT** | Positive | We believe STT will not be abolished. At best, it may be tweaked as cutting down on revenue streams may not augur well for the health of public finances. Any positive surprise in terms of abolishing/tweaking of the STT will be positive for the entire Indian broking sector. |

## Cement

**View: Neutral**

**Given firm cement prices, strong growth in dispatches and savings due to softening of fuel prices, we do not expect any major direct tax sops for the cement industry. On the other hand, widening of fiscal deficit may prompt the government to roll back excise duty cuts.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Industry demand for 55% abatement on excise duty (currently excise duty is levied on MRP which implies levy of tax on tax)** | Neutral | Given firm cement prices, strong growth in dispatches and savings due to softening of fuel prices, we do not expect any major direct tax sops for the cement industry. On the other hand, widening of the fiscal deficit may force the government to roll back excise duty cuts |
| **Reduction of VAT for cement to 4% from 12.5%** | Neutral | We do not expect this demand to be met by the government |
| **Zero import duty on inputs (currently there is 5% import duty on inputs such as coal, petcoke and gypsum)** | Neutral | Due to softening of fuel prices, most cement players have reported a sequential improvement in margins. Thus, in order to control the fiscal deficit, government may not meet this demand |
| **Industry demand for re-imposition of import duty on cement imports** | Neutral | In India, cement is mainly imported in the northern region. In April-May FY10, infrastructure spending has led cement consumption to grow by 14.7% YoY resulting into firm cement prices. Thus, to control cement prices, we do not expect this demand to be met |

## FMCG

**View: Positive**

**With the country's rural sector contributing to a greater portion of the FMCG spend the FMCG industry is expecting the government to continue its focus on the rural sector in order to boost demand and, thereby, sales. Moreover, the industry is also expecting the exchequer to rationalise and unify the tax structure across the country, thereby eliminating the imposition of indirect taxes and simplifying the consumption taxation procedure.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Continued focus on NREGA and rural infrastructure development** | Positive | The implementation of these initiatives is likely to boost rural incomes. This, in turn, will drive rural FMCG spend that has been outpacing that of the urban markets in recent times. All companies in the sector are likely to benefit especially Dabur and HUL since they derive around 50% of their revenues from rural India |
| **The execution of GST** | Positive | This would eradicate all confusion and create a rationally uniform consumption tax regime, which, in turn, would replace all other indirect taxes and introduce a greater degree of transparency within the system |
| **Imposition of higher excise duty on cigarettes** | Negative | A higher excise duty is likely to impede volume growth and pressurise the margins of ITC |

## Hotels and hospitality

**View: Neutral**

**With the new government in power, the hotel industry is hoping for some respite considering the tough scenario that the sector has been facing. Some issues are on the regulatory front, which, if resolved, will be beneficial for the hotel industry's long-term growth.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Infrastructure status** | Positive | Infrastructure status has been a top priority for the industry. However, we feel this move is less likely in the coming Budget. This is considering the loss of revenues to the government as granting this status would entitle tourism to several benefits in terms of financing, tax exemption and subsidised power tariffs among others. Currently, hotels come under the real estate sector. Since banks consider real estate lending risky, lending for hotel projects has been attracting a high rate of interest as of now |
| **Extension of tax holiday u/s 80ID of IT Act** | Positive | This move will be beneficial for all five star hotels, as five star hotels are currently not covered under section 80ID of the IT Act. We feel this move is likely in the coming Budget as it would not only be beneficial for hotel players but also for the government since capacity expansion of five star hotel rooms will take place at desired speed to accommodate large number of travellers to India during the 2010 Commonwealth Games. Apart from this, the industry is also seeking an extension of the tax holiday period to 10 years from the existing five years. This is because the gestation period in the hotel industry, itself, stretches from four to five years. Post Commonwealth Games there is also the risk of a fall in occupancy levels due to expected oversupply situation. However, from the government's tax revenue perspective, we feel this move is less likely in the coming Budget |

## Information technology

View: Neutral

**The IT sector has been facing difficult times due to the global slowdown and the appreciation of the rupee. IT is also losing its competitive advantage (low cost destination) to countries like Philippines, Egypt, etc.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Extension of tax benefit under the STPI scheme u/s 10A/10B** | Positive | Companies across the sector are likely to benefit from this proposal, as this will help boost their profitability. However, mid size companies are likely to have a higher positive impact compared to larger players |
| **Higher spend on education** | Positive | This will lead to more schools being connected with technology, which would benefit companies like Educomp, Everonn, NIIT and Aptech |
| **Increased spend on e-governance** | Positive | This could give a big boost to larger companies as we expect the government to spend nearly Rs 40,000 crore over the next few years. This will be beneficial for larger players. |

## Logistics

**View: Positive**

**The Union Budget may earmark higher funds for building roads, ports and other utilities. We expect this to bring infrastructure development, build higher capacity and improve the efficiency of logistic players.**

| Key expectations | Impact | Our Take/View |
|---|---|---|
| **Railways – Not much surprise** | Neutral | We expect the government to speed up the ongoing DRFC project. Indian Railways has already made announcements regarding development plans, freight rates and freight targets. So, we do not expect much of a surprise from this Budget |
| **Incentives for infrastructure projects- further relaxation of rules governing the access of funds for infrastructure purpose** | Positive | Any incentive to infrastructure and power sector will prove positive for Sanghvi Movers |
| **Earmark higher funds for building roads, ports and other utilities** | Positive | Will prove positive for all companies in the logistics space |
| **De-control fuel prices** | Negative | This action will increase diesel prices sharply. Fuel cost is the major cost for road transport players like Transport Corporation of India (TCI). With this step TCI will take a hit on its profit margins |
| **Aid for aviation industry** | Positive | This will prove positive for airline companies and logistics players like Blue Dart, Concor and Allcargo who have their presence in air cargo |

## Oil and Gas:

**View: Neutral**

**The oil & gas industry is the backbone of any economy and provides the required input for the nation to develop. Regulated prices of various petroleum products at the time of rising crude oil prices impacted Indian petroleum companies (both upstream and downstream) significantly. The industry is looking forward to reviewing government policies on the petroleum sector. Moreover, natural gas is emerging as a cheap alternative to crude oil. The explorers of natural gas are also looking forward to a tax incentive.**

| **Key expectations** | **Impact** | **Our take/view** |
|---|---|---|
| **Income tax benefit under Section 80IB on natural gas production** | Positive | Currently, the seven-year tax holiday is available only on oil production and not on natural gas production. Income tax exemption would be beneficial to E&P companies having huge gas reserves. We believe such an announcement may come as natural gas is also hydrocarbon. This would benefit Reliance Industries, ONGC and Cairn India |
| **Reintroduction of customs duty on crude oil** | Negative | Customs duty on crude oil may be reintroduced at 2.5% from 0%, as it was a good source of revenue for the government. Customs duty on petroleum products may also be increased from 2.5% to the earlier level of 7.5%. This would increase the costs of petroleum products for oil marketing companies (OMCs) and would be negative for them. It would be negative for OMCs such as IOC, BPCL and HPCL |
| **Deregulation of auto fuel prices** | Positive | Freedom in pricing of auto fuels would be beneficial for OMCs. We believe such an announcement may come for select products, not across the board. It will be positive for OMC's such as IOC, BPCL, HPCL, etc |

## Pharma

View: Neutral

**India lags significantly behind European, American and other developed nations in terms of innovative R&D. The industry is pinning its hopes on a host of R&D and tax incentives. Therefore, it will monitor the Budget closely. The industry is looking forward to a review of the provision of tax incentives for R&D to the pharma industry**.

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Excise duty of 4% on drugs and pharmaceuticals** | Positive | This should be maintained in the current Union Budget as this will help manufacturers based in excise free zones to go for increased sourcing from these zones |
| **Exemption of customs duty and service tax on capital investment on R&D centres** | Positive | This will encourage pharma players to go for increased innovation by setting up more R&D facilities |
| **Exemption of customs duty on all life saving medicines like antibiotics and anti-cancer drugs** | Positive | Exemption in custom duty for life saving drugs would benefits MNC subsidiaries like GlaxoSmithKline Pharma, Pfizer, Novartis, Aventis Pharma, etc. Exemption in customs duty and service tax will benefit frontline players like Glenmark, Ranbaxy Laboratories, Piramal Healthcare and Sun Pharmaceuticals |
| **Exemption of income from out-licensing of innovative molecules from tax** | Positive | This will encourage Indian pharma companies to invest more in the R&D of innovative molecules such as new chemical entities and novel drug delivery systems |

## Steel

**View: Neutral**

**Given strong domestic demand and reduction in raw material costs due to lower new contract prices, we do not expect the government to provide any major sops to the steel industry in the upcoming Budget. On the other hand, widening of the fiscal deficit may prompt the government to roll back excise duty cuts provided earlier under stimulus packages. In all probability, this will lead to divestment in select steel PSUs.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Increase in import duty from present level of 5% to 15% on flat steel products and to 10% on long products** | Positive | Based on recent developments, a hike in import duty is unlikely to be announced. |
| **Re-imposition of 15% export duty on iron ore (lumps & fines) in order to improve the supply of the same in the domestic market** | Positive | We believe re-imposition of a smaller 5% export duty on iron ore could be on the cards. This would not only reduce iron ore exports and lead to increased availability in the domestic market to support increased steel production but also enhance the government's revenue collection |
| **Partial divestment** | Positive | Unless there is a significant stake sale by the government the effect could be neutral to negative, as expectations are very high. It will be positive for listed companies like NMDC |

## Sugar

**View: Positive**

**With the surging sugar prices and favourable demand supply scenarios for the industry, government could take some steps to control sugar prices. However industry is demanding complete de-control of the sector, which includes eradicating the monthly release mechanism and levy quota system. This would help the industry to operate in open market without any government intervention.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **De-control of the sugar sector by eradicating the monthly release mechanism and the levy quota system** | Positive | We believe that if these expectations are met then the industry would benefit especially during the supply glut scenario |
| **Incentives for alternate sources of energy and mandating 10% ethanol blending with petrol** | Positive | These measures would encourage ethanol production, which, in turn, will benefit the industry |

## Power

**View: Positive**

**In the Union Budget 2009, the power sector will be closely monitoring the steps taken on the implementation of existing projects rather than announcements of fresh projects. Slippages within the sector are looming large. At the start of the Eleventh Plan, India had an installed capacity of 1,32,329 MW. As against the scheduled addition of 78,700 MW in the Eleventh Plan, the sector was able to achieve only 17,063 MW more than two years into the plan. The Ministry of Power has already highlighted an aggressive 100-day plan with a 5,650 MW of targeted capacity addition. The Ministry of Power has also recommended other steps.**

| Key expectation | Impact | Our take/view |
|---|---|---|
| **Extension of 80IA (tax holiday to generation, transmission and distribution companies for 10 years) beyond March 2010** | Positive | It will provide additional incentives to invest in the sector. It will be positive for the generation, distribution and transmission space |
| **Announcement on the divestment front** | Positive | * Divestment candidates - Bhel and Neyveli Lignite<br>* Follow on public offering (FPO) - NTPC and Power Grid<br>* IPO – NHPC |
| **Additional impetus to suggestions of the Power Ministry** | | |
| **i. Place pending orders for balance of plant equipment for Eleventh Plan projects by July 31 2009** | Positive | It may increase budgetary allocation. This will be positive for Bhel, BGR Energy and Alstom Projects |
| **ii. Initiation of import of coal by July 31, 2009 by states who have not taken action so far** | Positive | Raw material constraints of industry players expected to ease off |
| **iii. Withdrawal of condition for 5% charge on profit of generation companies for local area development** | Positive | Removal of the charge will ease restrictions on the bottomline front. Positive for the generation space |
| **iv. Initiation of bidding by states anticipating shortages at the end of the Eleventh Plan** | Positive | With the anticipated shortfall of power, SEBs are likely to bid and power trading companies will benefit. This will be beneficial for the generation space and trading companies |
| **v. Designation of nodal agency for integrated planning** | Positive | This will expedite the process of getting approval from several departments |
| **100 day action plan for the power sector** | Positive | May spell out further details on projects that need to be executed by the government under the 100 day action plan |

## Media

View: Positive

**We expect the government to pass the bill for new FDI norms in the current Budget. This would give more room for foreign investment in both the telecom and the media sector.**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Relaxation in FDI norms** | Positive | Increase in the FDI limit for DTH operators, print companies, news broadcasters and radio companies would be beneficial. We may see early action in the cable distribution space. Companies to benefit: All DTH operators, stocks like Dish TV and WWIL |
| **Reduction in import duty on set top box** | Positive | Reduction in import duty on set top boxes used in DTH and digital cable would reduce the cost of digitisation. It would be positive for all DTH companies |
| **Reduction in service tax** | Positive | Broadcasters are subject to levy of service tax @12.24% unlike print media companies. It would be positive for broadcasters, if the service tax is withdrawn. |

## Telecom

View: Neutral

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Rationalisation of license fee and spectrum charges** | Positive | Reduction in license fee and spectrum charges would keep the momentum going in the sector, especially in rural areas |
| **Effective deployment of the USO fund** | Positive | Facilitation of effective deployment of the USO fund would ensure speedy roll out of telecom infrastructure in rural areas to increase the rural penetration, which stands at less than 15% currently. This move would be positive for all telecom operators |
| **Speedy auction of 3G and WIMAX spectrum** | Neutral to negative | Speedy auction of 3G/WiMax spectrum would be beneficial for all incumbent operators. However, if the floor price for 3G spectrum is fixed at Rs 4040 crore it would be negative for operators participating |

## Textile

**View: Positive**

| Key expectations | Impact | Our take/view |
|---|---|---|
| **Increase in allocation of the Technology Upgradation Fund Scheme (TUFS) from Rs 1090 crore to Rs 2000 crore with additional fund allocation for clearing the earlier backlog of subsidy payments** | Positive | We believe the government will increase allocation to the TUFS to Rs 2000 crore. Stocks to benefit: Bombay Rayon Fashions, Vardhaman Textiles, Indorama Synthetics |
| **Increase in duty drawback rates and interest subvention** | Positive | We expect the government to increase the duty drawback rate to 14% from the existing 9% and interest subvention subsidy to the earlier rate of 4% from existing 2%. Both initiatives are expected to benefit exporters. Stocks to benefit: Exporting companies like Bombay Rayon Fashions, Welspun India, Vardhaman Textiles |
| **Restoration of 4% CENVAT on manmade fibre products** | Neutral | Manmade fibres (MMF) and yarns attract 4% excise duty as compared to nil duty in the cotton segment. We expect the government to continue with the same rate, if not reduce it to 0%, in order to face stiff competition from Asian peers |

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