Union Budget

Analysis

FY2010 - 2011

Anagram
Decisive Thinking Pays

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A POPULIST PROGRESSIVE BUDGET

The Union Budget for FY2010-11 announced by Finance Minister Pranab Mukherjee has turned out to be more of a populist but progressive budget with the core focus being the continuation of efforts to achieve a 9% GDP growth in future while aiming at all round inclusive growth as well as social spending. More specifically this Budget like the earlier ones, has continued to focus on the basic pillars of all round development which include a strong push being given to the agriculture sector, followed by a continued focus on the social sector by encouraging public spending on programs for increased capital outlays on Rural Employment & Drinking Water Schemes, providing primary education via higher budget allocations and increased thrust on infrastructure during FY2010-11.

Agriculture has been given a big boost via new investment outlays to encourage higher production

Given the growth momentum in the Indian economy, the budget is well placed from a long term perspective. The budget has not only very clearly addressed the key issues that were at the fore-front in the short run such as the burgeoning fiscal deficit and reduction in the subsidies bill but has also addressed certain long term challenges which the economy might encounter in its growth process. Therefore this budget clearly indicates a conscious and deliberate need to develop the agricultural sector which forms the basis of livelihood of almost 60% of population of the country.

Infrastructure continues to be the most critical piece for a sustained GDP growth ahead.

Secondly the government envisages the growing need of well-developed high quality infrastructure in order to compete with other Asian and developed economies of the world and has made adequate provisions for this sector. Thirdly, the budget highlights the need for an appropriate investment environment and therefore has made FDI polices more transparent, increased accountability and transparency in financial sector laws in order to clean up the financial system and make it more broad-based.

GDP growth for FY11 is targeted at 8% and above 9% for FY12.

With GDP growth targeted at 7.2% for FY10, 8% for FY11 and above 9% for FY12, this budget has broadly laid down the foundation for sustaining this growth momentum in the economy. The fiscal deficit of the government has been targeted at 5.5% of the GDP for FY11, (Rs.381, 408 cr.) and the correction in the fiscal deficit is attributed to a 0.6% reduction in expenditure, 0.4% increase in gross tax revenue to 10.8% and 0.6% increase in the non-debt capital receipts to 0.7% of GDP. In this year, the government has estimated a revenue generation of Rs. 682,212cr and an additional Rs. 40, 000 cr coming in from disinvestment policies.

Although the government has not done much in this year's budget in terms of fiscal initiatives, the GST and DTC roll out with effect from April 1, 2011 and expenditure moderation will ensure that the fiscal deficit remains in check. Challenges will remain in way of translating the outlays into outcomes. The government has targeted an explicit reduction in is debt-GDP ratio which currently stands at 51.1%. This will require achieving a revenue surplus which can be difficult given our expenditure composition. Also the stock markets were pleasantly positively surprised to know that the governments overall borrowings will increase by Rs 3.45 lac crs as compared to the expectation of Rs 3.90 lac crs expected earlier

We believe that the fiscal deficit could slip between 5.8% to 6% of GDP for FY11

We believe that the GDP growth of between 8% next year, looks very much possible notwithstanding the positive pick up in export related sectors from the second half of this financial year and the strong show put in by the manufacturing sector, but any further slippage on the fiscal deficit front from the targeted level of 5.5% this year, could be seen as a negative trigger for the markets ahead. In fact we believe that looking at the past track record of all finance ministers earlier, there is every possibility that the fiscal deficit as a % to GDP according to us would remain higher than targeted between 5.8 to 6% for FY11.

AGRICULTURE - THE SOUL OF INDIAN ECONOMY

The Finance Minister has very clearly focused on the importance of developing and improving the agricultural sector of the country. For this the government has undertaken a four pronged approach to tackle key issues such as increasing agricultural productivity, reduction in wastage of produce, providing extended support to the farmers and providing significant thrust to the food processing industry. Reforms initiated include extending the benefits of green revolution to the eastern part of the country, opening up of the retail trade to reduce the gap between farm gate and retail prices, extending the repayment period for debt waiver and debt relief scheme of funds in view of the drought affected crops and setting up of ten mega food park projects for the food processing industry. In order to increase agricultural productivity and better returns for farmers, a Nutrient Based Subsidy policy for the fertilizer sector will become effective from 1st April 2010.

Nearly 60% of India’s population derives employment through agriculture

The government's commitment on improving the agricultural scenario comes out very clearly. As agriculture is and will always define a major part of the Indian growth story, the government's focus on its growth is definitely a positive one. On the back of this growth, the agriculture's allied industry will also stand benefited. Going forward, food security, food stocks management and need for improving food production and productivity will remain the forefront of national strategy. With third quarter GDP of FY10 recording a negative growth of -2.8 %(YoY), the clear focus is well established in terms of increasing agricultural productivity and empowering rural population of the country.

INFRASTRUCTURE THRUST TO CONTINUE

In order to reach the the target of an infrastructural investment of 9 per cent of the GDP fixed by the Eleventh Five Year Plan (2007-2012), it is expected that concentrated efforts will be made to increase levels of broadband penetration, create capacity in some crucial infrastructure sectors and improve the state of development of markets for long-term finance.

A higher outlay of Rs. 1.73,522 cr has been outlined for infrastructure in this budget

Therefore the government has given priority to the accelerated development of high quality physical infrastructure, such as roads, ports, airports and railways which are a key to sustain a high growth momentum in the country. Consequently Rs 1, 73,552 crore has been provided for infrastructure development which accounts for over 46 per cent of the total plan allocation. The government has also given a high priority to the capacity addition in the power sector and therefore the plan allocation for this sector has been doubled to to Rs.5, 130 crore in 2010-11.

EDUCATION & PUBLIC HEALTH

Education and Public Heath are two important building blocks of government's focus in this budget

We believe that, the other two important foundation blocks of the Indian economy namely Public Health and Education have rightly been given due importance in this budget. In this budget the FM has increased the outlay on Health for FY11 at Rs 22,300cr which is up by 14.1 respectively. Similarly for education, the government has proposed a planned outlay of Rs.36,036 cr which is up by 15.8%.The government has also made a conscious effort to promote major investments in both these areas and encourage the private sector to invest in this sector to upgrade existing facilities here.

KEY CHALLENGES AHEAD FOR THE FM

Increasing inflation in the near term poses a big challenge.

Two key challenges for the FM in the medium term would be to clearly manage and keep inflation at lower levels and to ensure that agriculture growth gets boosted. During FY10, the inflation rate has reached 8.5% with fuel inflation hovering around 6.90% in January. A further hike in prices of petrol and diesel by Rs 2.7/ltr and Rs. 2.55/ltr will lead to a further rise in the inflationary pressures in the economy.

Our belief is that the government will further announce measures to reduce inflationary trends in the economy. An anti inflationary measure in terms of a reduction in the freight rate of food grains transportation has already been announced in the railway budget. In the longer run, the government is expected to announce similar measures if prices of fuels go out of hand.

TAX PROPOSALS

Tax slabs for individual tax players has been reduced significantly

On the Direct Tax side there has been a big positive surprise with the FM giving a bumper relief for individual tax payers. The FM has changed the tax slabs for men, women and senior citizens. The highest tax slab has now been raised from Rs 5 lakh to Rs 8 lakh.The Finance Minister has been sensitive to the needs of the common man wherein he has also increased the limit of deduction available under section 80C. He has allowed an additional investment of Rs 20,000 for infrastructure bonds taking the total of the limit under section 80C from the current Rs 1 lakh to Rs 1.2 lakh.

Stimulus rollback has been gradual and excise duty hike of 2% has been effected across the board.

On the Indirect Tax front, the excise duty rise of 2% on related sectors like Autos, Cement, Steel was on anticipated lines and most corporates are in fact happy about this as they are confident that will be passed over to the consumers in the days ahead. However on the stimulus rollback the entire expectation was on likely lines wherein there was a gradual but not immediate rollback expected. This was well liked by the markets.

MAT increase to 18% will impact corporate profits in near term.

On the negative side the increase in MAT from 15% to 18% is a dampener but this also will be nuetralised by higher volumes. Nevertheless tax out for large companies will have to pay higher tax outgo which in the short term would be impacting earnings and was totally unexpected.

MACRO ISSUES WHICH COULD NOT SEE THE LIGHT OF THE DAY

This budget has largely ignored macro issues like FDI and insurance,aviation,retail and oil price deregulation.

Some of the macro issues, which did not materialize in this Budget, included the foreign direct investments increase in Insurance, Aviation, Retail, oil price deregulation, Introduction of REITs (Real Estate Investment Trusts) and no specific Export Package for Indian Exporters.

We believe this is a big disappointment considering the fact that the ruling UPA government has now an absolute majority in the house and some rapid changes on the policy front was widely expected from the government. Any further delay on this front could prove to be detrimental for the ruling government as most global investors are looking at the government making fast progress here in the days to come.

OUR HOUSE VIEW

We have a positive view on this budget

We believe this budget as a populist and progressive oriented budget with a renewed focus on Agriculture and Infrastructure with social sectors like Education, Healthcare and Rural Employment which all the pillars of economic growth given greater attention.

The budget has been largely on expected lines.

Net Net we believe the Union Budget for 2010-11 has been on expected lines notwithstanding the fact that several big bang announcements related to FDI, Pension Reforms, Education Reforms, Insurance were eagerly awaited but failed to prominently come up in this budget. As mentioned earlier the primary focus of the government has been to accelerate growth in Infrastructure, ensure all inclusive growth by increasing social spending on several employment generation schemes and ensuring that export oriented sectors are given a helping hand by way of some fiscal concessions until the global economy picks up.

Markets are likely to trade in a low range between 4700-5100 in near term

As far as the markets are concerned the Technical Outlook for the NIFTY continues to be range-bound which had a 'Low' of 4675 in the beginning of this month and gradually rose as we neared 'budget'. Although 'Budget' is NOT market friendly, very low expectations and firm growth oriented steps, saw markets reacting 'positively' to government's policy statement. It was also aided by huge 'short-covering'. Going forward, in very near term, NIFTY is likely to exhibit very 'ranged' trading, with upside capped around 5050~5100 levels Downside could be pegged around 4700 levels. Also now with the major budget event over, immediate drivers to the market could be global cues. FII's 'action' in this sense therefore becomes more significant.

We remain positive on the medium term prospects but going ahead global factors will play a bigger role in deciding he market trend. However a clear policy shift and a move towards structural reforms by the FM on GST and Direct Tax Code will now ensure that FIIs will continue to look at India as an attractive market for fresh capital flows in the days ahead.

We present our post budget analysis on 19 front line sectors and the impact of the current budget policy initiatives on the companies operating years.

Best Wishes

Anagram Capital Research Team

SECTOR & STOCK SUMMARY

Sector	Impact	Key changes	Winners	Losers
Automobile	Negative	Excise duty on large cars increased by 2%. Increase in tax slab to increase disposable income.		Herohonda, Bajaj Auto, Ashok Leyland.
Auto Anciliaries	Positive	Increase in weighted deduction on R&D expense.	Bosch, Bharat Forge	
Agriculture & Agro Commodities	Positive	Govt. has adopted four pronged strategy under which government is providing 700 crs to the sector for irrigation and water harvesting and extension of farm loan repayment and cash subsidy to Fertilizer Company will provide extra liquidity to the sector.	Advanta India, Jain Irrigation, Monsanto India	
Banking & Finance	Positive	Capital of Rs.16, 500 crore will be infused in PSU banks by March 31, 2011. Loan repayment period extended by 6 mths under farm debt waiver while interest subvention scheme for export and housing loan extended till Mar 2011.	PNB, BOB, Dena, IDBI , OBC, Bk of Maha.	
Cement	Neutral	Excise duty has been increased from 8% to 10%. Service tax retained at 10%. Cess on coal produced in india as well as imported coal at a rate of Rs 50 per tonne. Coal Regulatory Authority' has been set up for better pricing. Increased allocation to Roads and infrastructure.		Grasim Ultratech
Capital Goods & Engineering	Positive	Higher allcation to infrastrcture sector at Rs. 1,73,552 Cr. To support huge investment in railways, govt has alloted Rs16752 Cr. Equipments for mega Power project to be exempted from excise duty. Higher Plan outlay for Renewable energy of Rs. 1000 Crore	L&T, BHEL, Titagargh Wagns, Texmaco	
Construction	Neutral	Thrust on Infra spending continues. MAT increased from 15% to 18% which is marginally negative for infra projects (like BOT projects) paying MAT.	C & C , Guj Apollo Ind., Sadbhav Eng	
Education	Positive	Plan allocation for school education increased by 16 per cent from Rs.26,800 crore in 2009-10 to Rs.31,036 crore in 2010-11. States will have access to Rs.3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.	Educomp Solutions, Everonn	
FMCG	Neutral	Overall increase in agriculture outlay will however spur demand.	HUL, Dabur	ITC
Hotels	Positive	The investment-linked incentive allows 100 per cent tax deduction on any expenditure on capital (other than land), goodwill and financial instrument. It is now proposed to include the business of building and operating a new hotel of two-star or above category, anywhere in India. Service tax is to be maintained at 10%	Indian Hotel Hotel Leela TajGVK	
I.T.	Positive	Even though there was no extention of tax holidays, increased thrust on e-governence will boost the domestic IT market. Allocation to UID project increased to Rs. 1900 Cr. Weighted deduction on expenditure on R&D increased to 200%.	TCS, HCL Tech & Infosys	

Sector	Impact	Key changes	Winners	Losers
Metals	Negative	Hike in excise duty by 2% from 8% to 10%,Service tax rate retained at 10% and hike in MAT to 18% from 15%	Sesa Goa	SAIL ,Tata Steel
Oil & Gas	Positive	Basic custom duty on crude petroleum at 5%, Motor Spirit (petrol) and HSD (diesel) at 7.5% and other specific petroleum products is at 10%		OMCs, RIL
Pharma	Neutral	Proposed weighted deduction of 200% on expenditure incurred on in-house R&D against 150% which was available earlier. The Minimum Alternate Tax (MAT) is proposed to be increased from 15% to 18% of book profits. Uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty prescribed on all medical equipments. Central Excise duties enhanced from 8 per cent to 10 per cent ad valorem.	Opto Circuits, Glenmark, Sun Pharma Adv Reserch, Piramal Life Sciences	
Real Estate	Positive	1% interest subvention on housing loans les than 10 lakhs with house price less than 20 lakh extended till 31 march 2011. For housing project approved in FY08 can now be completed by 31 March 2013 instead of 2012 earlier. Increased thrust on slum development.	Purvankara Projects, Unitech, HDIL	

CENTRAL GOVERNMENT FINANCES

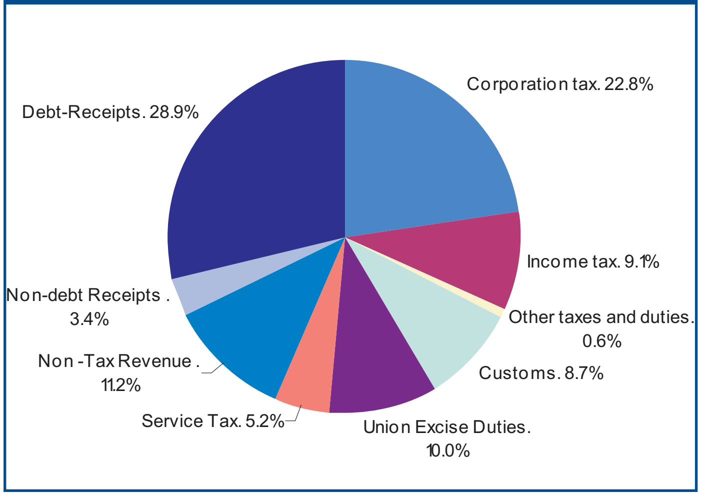
(Rs Cr.)

Particulars	FY09RE	FY10BE	FY10RE	YoY (%)	FY11BE	YoY (%)
TOTAL REVENUE RECEIPTS	562173	614,497	577,294	2.7	682,212	18.2
Tax Revenue (Net)	465970	474218	465,103	-0.2	534,094	14.8
Gross Tax Revenue	627949	641,079	633,095	0.8	746,651	17.9
Corporation tax	222000	256,725	255,076	14.9	301,331	18.1
Income tax	122600	112,850	124,989	1.9	120,566	-3.5
Other taxes and duties	400	425	6,943	1635.8	8,103	16.7
Customs	108000	98,000	84,477	-21.8	115,000	36.1
Union Excise Duties	108359	106,477	102,000	-5.9	132,000	29.4
Service Tax	65000	65,000	58,000	-10.8	68,000	17.2
Taxes of the Union Territories	1590	1,602	1,610	1.3	1,651	2.5
Less- NCCD transferred to the National						
Calamity Contingency Fund	1800	2,500	3,160	75.6	3,560	12.7
Less States' Share	160179	164,361	164,832	2.9	208,997	26.8
Non -Tax Revenue (Total)	96203	140,279	112,191	16.6	148,118	32.0
Interest Receipts	19036	19,174	19,212	0.9	19,253	0.2
Dividend and Profits	39736	49,750	51,983	30.8	51,309	-1.3
External Grants	2748	2,136	3,078	12.0	2,060	-33.1
Other Non-Tax Revenue	33934	68,465	36,845	8.6	74,571	102.4
Receipts of Union Territories	749	754	1,073	43.3	925	-13.8
TOTAL CAPITAL RECEIPTS	308796	406,341	449,834	45.7	426,537	-5.2
Non-debt Receipts Total	12265	5345	30,212	146.3	45,129	49.4
Debt-Receipts	296531	400,996	419,622	41.5	381,408	-9.1
Financing of Fiscal Deficit	326515	400,996	414,041	26.8	381,408	-7.9
TOTAL RECEPITS	900953	1,020,838	1,021,546	13.4	1,108,749	8.5
TOTAL NON-PLAN EXPENDITURE	617996	695,689	706,371	14.3	735,657	4.1
Revenue Expenditure (Total)	561790	618,834	641,944	14.3	643,599	0.3
Interest Payments &Prepayment Premium	192694	225,511	219,500		248,664	
Defence	73600	86,879	88,440	20.2	87,344	-1.2
Subsidies	129243	111,276	131,025	1.4	116,224	-11.3
Economic Services	22055	23,840	24,794	12.4	24,928	0.5
Other General Services	15898	18,729	19,309	21.5	17,487	-9.4
Social Services	28126	33,491	35,146	25.0	29,483	-16.1
Grants to State and U.T. Governments	38421	48,570	46,610	21.3	46,001	-1.3
Capital Expenditure (Total)	56206	76,855	64,427	14.6	92,058	42.9
Defence	41000	54,824	47,824	16.6	60,000	25.5
Other Non-plan Capital Outlay	13694	21,056	15,338	12.0	31,051	102.4
Loans to Public Enterprises	788	637	637	-19.2	539	-15.4
Loans to State and U.T. Governments	89	89	88	-1.1	89	1.1
TOTAL PLAN EXPENDITURE	282957	325,149	315,176	11.4	373,092	18.4
Revenue Expenditure (Total)	241656	278,398	264,411	9.4	315,125	19.2
Central Plan	171633	200,290	187,838	9.4	230,881	22.9
Central Assistance for State and UT's	70023	78,108	76,573	9.4	84,244	10.0
Capital Expenditure (Total)	41301	46,751	50,765	22.9	57,967	14.2
Central Plan	32495	39,550	41,326	27.2	49,719	20.3
Central Assistance	8806	7,201	9,439	7.2	8,248	-12.6
Total Budget Support for Central Plan	204128	239,840	229,164	12.3	280,600	22.4
TOTAL EXPENDITURE	900953	1,020,838	1,021,547	13.4	1,108,749	8.5
Revenue Deficit	241,273.00	282,735.00	329,061	36.4	276,512	-16.0
% of GDP 4.4	4.8	5.3	20.5	4.0	-24.5	
Fiscal Deficit	326,515.00	400,996.00	414,041	26.8	381,408	-7.9
% of GDP 6.0	6.8	6.7	11.7	5.5	-17.9	
Primary Deficit	133,821.00	175,485.00	194,541	45.4	132,744	-31.8
% of GDP 2.5	3.0	3.2	28.0	1.9	-40.6	

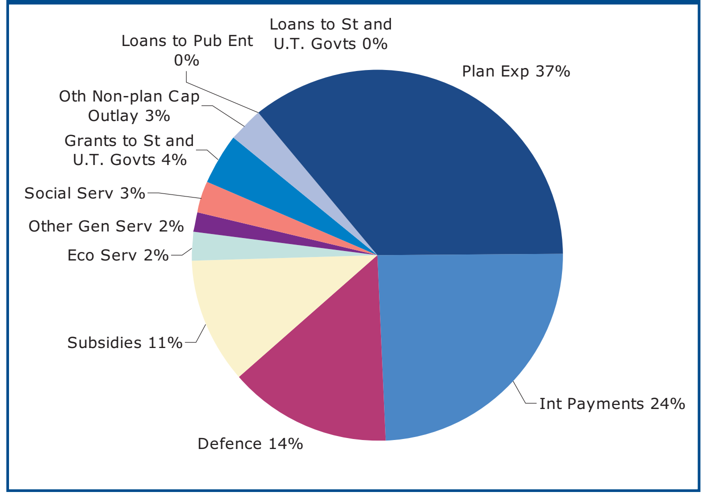
Source: Union Budget 2010-2011,Government of India

ECONOMIC DATA CHARTS

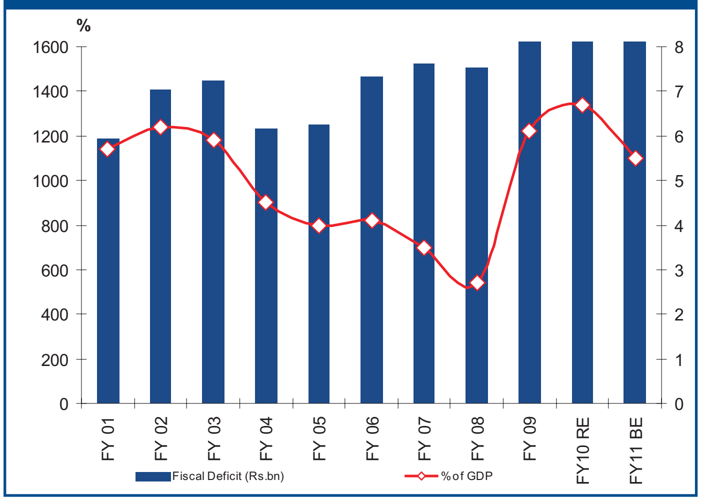
WHERE THE RUPEE COMES FROM FY11 (BE)



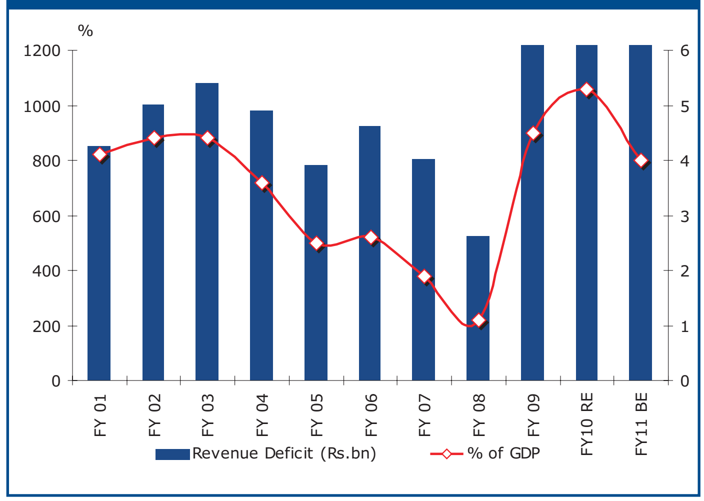
WHERE THE RUPEE GOES FY11 (BE)



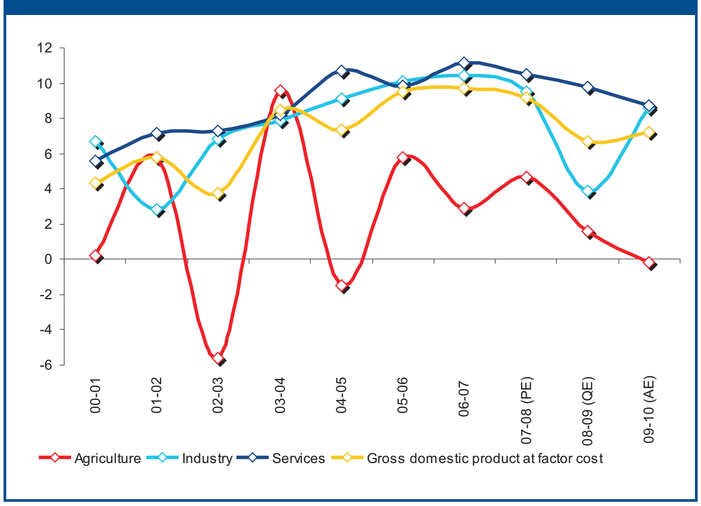
FISCAL DEFICIT (RS BN)



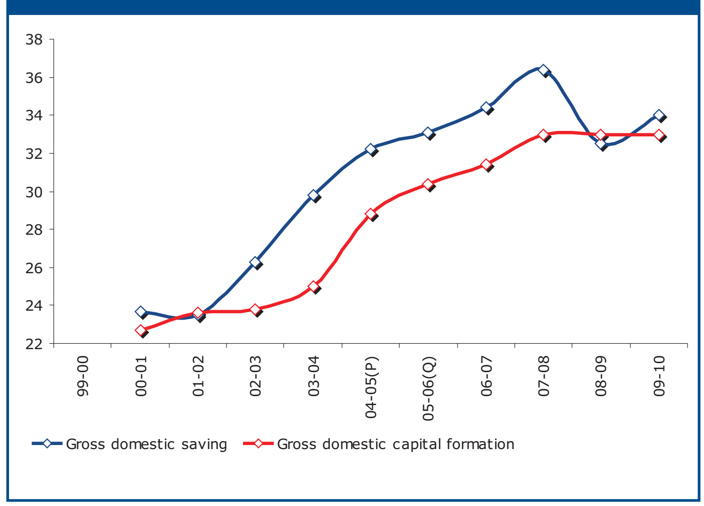
REVENUE DEFICIT (RS BN)



GDP GROWTH BY CONSTITUENTS (%)



GROSS DOMESTIC SAVINGS & CAPITAL FORMATION



Source: Government of India, Annual Budget FY2010-11

TAX PROPOSALS

INDIRECT TAXES

CUSTOM DUTIES

- Full exemption from Import Duty available to specified inputs or raw materials required for the manufacture of sports goods expanded to cover a few more items.
- Basic customs duty on one of key components in production of micro wave ovens, namely magnetrons reduced form 10% to 5%.
- Value limit of Rs 1lakh per annum on duty-free import of commercial samples as personal baggage enhanced to Rs 3 lakhs per annum.
- Outright exemption from special additional duty provided to goods imported in a pre-packaged form for retail sale. This would also cover mobile phones, watches and ready-made garments even when they are not in pre-packaged form.
- Reduction in basic customs duty on long pepper form 70% to 30%;
- Reduction in basic customs duty on asafeotida form 30% to 20%.

EXCISE DUTY

- Rate reduction in Central Excise Duties to be partially rolled back and the standard rate on all non-petroleum products enhanced form 8% to 10%.
- The specified rates of duty applicable to Portland cement and cement clinker also adjusted upwards proportationately. Similarly, the ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22%
- Restore the basic duty of 5% on Crude Petroleum; 7.5% on diesel and petrol and 10% on other refined products . Central Excise Duty on petrol and diesel enhanced by Re 1 per litre each.
- Some structural changes in excise duty on cigarettes, cigars and cigarillos to be made coupled with some increase in rates. Excise Duty on all non-smoking tobacco such as scented tobacco, snuff, chewing tobacco, etc to be enhanced
- Toy balloons fully exempted form Central Excise Duty.
- Reduction in central excise duty on replaceable kits for household type water filters other than those based on RO technology to 4 percent;
- Reduction in central excise duty on corrugated boxes and cartons from 8% to 4%;
- Reduction in central excise duty on latex rubber thread form 8% to 4% ; and
- Reduction in excise duty on goods covered under the Medicinal and Toilet Preparations Act form 16% to 10%
- Proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs 43,500 cr for the year

SERVICE TAX

- Rate of tax on services retained at 10% to pave the way forward for GST
- Certain services, hitherto untaxed, to be brought under the purview of the service tax levy.
- Process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing, made easy by making necessary changes in the definition of export of services and procedures.
- Accredited news agencies which provide news feed online that meet certain criteria, exempted form service tax.
- Proposals relating to service tax are estimated to result in a net revenue gain of Rs 3,000 cr for the year.
- Proposals on direct taxes estimated to result in a revenue loss of Rs 26,000 cr for the year. Proposals relating to Indirect Taxes estimated to result in a net revenue gain of Rs 46,500 cr for the year. Taking into account the concessions being given in the tax proposals and measures taken to mobilize additional resources, the net revenue gain is estimated to be Rs 20,500 cr for the year.

DIRECT TAXES

- Threshold limit of exemption from personal Income tax in the case of assesses increased to Rs 1,60,000 per annum. The slabs and rates of tax are:
- Income up to Rs 1.60 lakhs NIL
- Income above Rs 1.60 lakhs and upto Rs 5 lakhs 10 percent
- Income above Rs 5 lakhs and upto Rs 8 lakhs 20 percent
- Income above Rs 8 lakhs 30 percent
- Deduction of an additional amount of Rs 20,000 allowed, over and above the existing limit of Rs 1 lakh on tax savings, for investment in long term infrastructure bonds as notified by the central govt.
- Besides contributions to health insurance schemes which is currently allowed as a deduction under the Income tax act, contributions to Central Govt health schemes also allowed as a deduction under the same scheme.
- Current Surcharge of 10% on domestic companies reduced to 7.5%
- Rate of Minimum Alternate Tax (MAT) increased form the current rate of 15% to 18% of Book Profits.
- To further encourage R&D across all sectors of the economy, weighted deduction on expenditure incurred on in-house R&D enhanced from 150% to 200%.
- Payment made to an approved association engaged in research in social sciences or statistical research to be a allowed as a weighted deduction of 125%. The income of such approved research association shall be exempt from tax.
- Benefit of investment linked deduction under the act extended to new hotels of 2 star category and above anywhere in India to boost investment in the tourism sector.
- Allow pending projects to be completed within a period of 5 years instead of four years for claiming a deduction of their profits, as a one time interim relief to the housing and real estate sector.

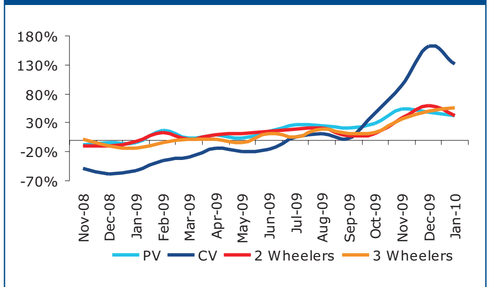
- Limits of turnover above which accounts need to be audited enhanced to Rs 60 lakh for businesses and to Rs 15 lakh for professions.
- Limit of turnover for the purpose of presumptive taxation of small busineses enhanced to Rs 60 lakh.
- Interest charged on tax deducted but not deposited by the specified date to be increased to 18% form 12% per annum.
- To facilitate the conversion of small companies to Limited Liability Partnerships, transfer of assets as a result of such conversion not to be subject to capital gains tax.
- "The advancement of any other object of general public utility" to be considered as"charitable purpose" even if it involves carrying on of any activity in the nature of trade, commerce or business provided that the receipts from such activities do not exceed Rs.10 lakh in the year .
- Proposals on direct taxes estimated to result in a revenue loss of Rs. 26,000 crore for the year.

SECTOR IMPACT ANALYSIS

BUDGET IMPACT: NEGATIVE

AUTOMOBILES

MONTHLY SALES VOLUME



BUDGET HIGHLIGHTS

- Increase in excise duty on large cars, MUVs and sports utility vehicle increased by 2% to 22% while the general excise rate has been increased by 2% to 10%.
- Increase in tax slabs.
- Increase in weighted deduction from 150% to 200% for R&D.
- Impetus to rural income.

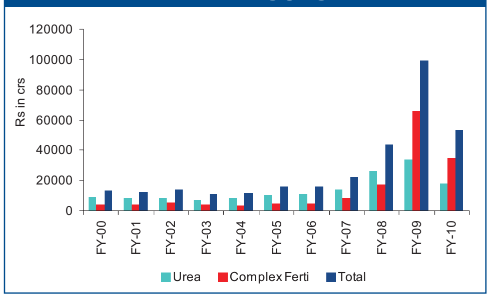
IMPACT ON THE SECTOR

- While the increase in excise duty had been in line with expectation the same is likely to be passed on to consumers and wont affect demand in a major way.
- Increase in tax slabs will lead to increase in disposable income by ~Rs 50000 for individual earning Rs 8 lakhs. This will augur well for all the four wheelers and two wheeler manufacturers.
- Increase in allocation and incentives offered to rural sector will be positive in the medium term for stocks having major rural presence like **Hero Honda** and **M&M.**

BUDGET IMPACT: POSITIVE

AGRICULTURE & AGRO COMMODITIES

FERTILIZER SUBSIDY



BUDGET HIGHLIGHTS

- Proposal to provide Rs.400 Crs to extend green revolution to eastern region of the country. Govt also proposed to provide Rs 300 Crs for pulses and oil seed villages in rain fed areas for water harvesting, water harvesting management and soil health to enhance productivity of the dry land farming areas.
- Rs 200 Crs will be provided to launch climate resilient agriculture which involves concurrent attention to soil health, water conservation and preservation.
- Govt. is continuing debt waiver and debt relief scheme for farmers by extending farm loan period by six months. Target for farm loan has been raised by 50,000 Crs from 325000 Crs current year. Interest subvention for timely repayment of crop loan has been raised to 2 percent. So effective interest rate for farmers will be 5%
- Govt. has proposed to set up five more mega food parks to help the food processing sector.
- Fertilizer subsidy payout will be in the form of cash instead of fertilizer bonds.
- Exempt the testing and certification of agricultural seeds from service Tax.
- Concessional custom duty of 5 percent to specified agricultural machinery not manufactured in India.

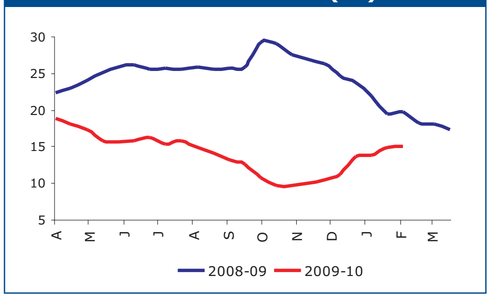
IMPACT ON THE SECTOR

- Government has implemented a four pronged agricultural strategy to boost the sector. Agriculture is really in prime focus in current budget and government has provided lot of favour in the hands of farmers which will be benefited for the companies into the irrigation, pesticides, seeds and fertilizer.
- Our top picks are **Jain irrigation, United phosphorus, Monsanto India, Advanta India**

BUDGET IMPACT: POSITIVE

BANKING & FINANCE

CREDIT GROWTH (%)



BUDGET HIGHLIGHTS

- Capital of Rs.16, 500 crore will be infused in Public Sector Banks to attain a minimum Tier-I capital of 8% by March 31, 2011.
- Existing interest subvention of 2 % for exports covering handicrafts, carpets, handlooms and small and medium enterprises extended for one more year till March 2011.
- Under the Debt Waiver and Debt Relief Scheme for Farmers, the period for repayment of the loan amount extended by six months from December 31, 2009 to June 30, 2010
- For the year 2010-11, the farm loan target is set at Rs.3, 75,000 crore. Further an additional 1% of interest subvention is announced to farmers who repay short-term crop loans as per schedule, now available at 5% for 2010-11.
- Scheme of 1% interest subvention on housing loan upto Rs.10 lakh, where the cost of the house does not exceed Rs.20 lakh announced in the last Budget extended up to March 31, 2011.
- IIFCL, authorized to refinance bank lending to infrastructure projects, is expected to refinance more than double amount in FY11, from 30 billion in 2009-10.
- RBI is considering giving some additional banking licenses to private sector players and Non Banking Financial Companies, if they meet the RBI's eligibility criteria.

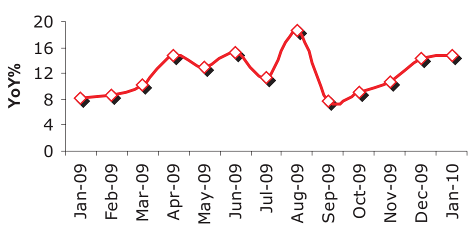
IMPACT ON THE SECTOR

- Banking sector will benefit a lot from lower fiscal deficit that aimed at 5.5% from 6.9% of FY10. The net market borrowing for the next fiscal has been pegged at Rs 3.45 lakh crore. This will keep the system with sufficient liquidity to meet the private demand consequently lower pressure on interest rate.
- Recapitalization plan will boost the capital base of PSU banks and will ensure that the banking system will grow in size and sophistication to meet the credit demand of growing economy.
- Extension of the prepayment period of agricultural debt waiver and debt relief scheme would support PSU banks to control NPAs on their books mainly benefited to SBI, BoB and PNB. While interest subvention of 2% on crop loans, from 1% will reduce interest liabilities of farmers.
- Issuance of bank licenses to private sector players and NBFCs is a positive move for **IFCI, Reliance Capital, Religare** and **IDFC**. The additions are likely to spur competition and curb government involvement in the banking sector.

BUDGET IMPACT: NEUTRAL

CEMENT

CEMENT DISPATCHES



BUDGET HIGHLIGHTS

- Excise Duty has been revised from 8% to 10%. If the MRP is not exceeding Rs 190 per 50 kg bag then a specific rate of excise duty of Rs 290 per tonne is applicable, which has been revised from Rs 230 per tonne and if MRP exceeds Rs 190 per bag then duty of 10% of MRP is applicable. For institutional sale 10% or Rs 290 per tonne whichever is higher is charged. For cement clinker Rs 375 per tonne is charged, which has been revised from Rs 300 per tonne.
- Service tax rate retained at 10%.
- Special thrust on housing and infrastructure- interest incentive for housing and increase in spending on rural and urban infrastructure.
- A 'Coal Regulatory Authority' has been set up for better pricing and performance.
- Clean energy cess on coal produced in India as well as imported coal at a nominal rate of Rs 50 per tonne.

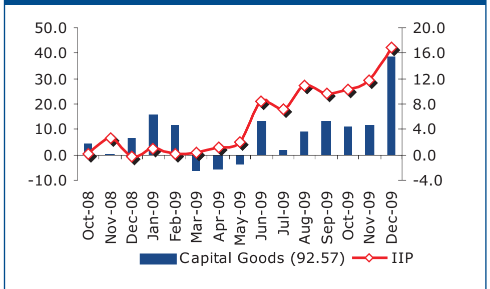
IMPACT ON THE SECTOR

- The increase in excise duty is negative for the sector as the cost will increase and the cement producers will find it difficult to increase their net realization in the current oversupply scenario.
- Service tax on freight will increase the cost of transportation of cement.
- Cess on coal will increase the input cost.
- Coal Regulatory Authority' will help to create a level playing field in the coal sector. It will be positive for cement companies as their coal linkages supply would get bolstered.
- However in the long term due to the fast growing infrastructure and housing sectors, the growth in demand of cement is likely to offset this negative impact.
- Top Picks are **Ultratech cement, ACC, JK Lakshmi, Shree cement**.

BUDGET IMPACT: POSITIVE

CAPITAL GOODS & ENGINEERING

IIP CAPITAL GOODS



BUDGET HIGHLIGHTS

- Higher allocation of Rs. 1, 73,552 cr. to Infrastructure sector such as Roads, Railways, Ports, & airports.
- Highest priority to power sector-Total allocation to power sector increase from Rs. 2230 cr to Rs. 5100 Cr.
- Equipments for Mega Power Projects exempted from excise duty.
- For huge investment in railways, budgetary allocation to railways is Rs. 16752 Cr v/s 15802 Cr.
- Plan outlay for Renewable energy increased by 61% from Rs. 620 Cr to Rs. 1000 Cr. In addition to it there is a proposed plan to set up National Clear Energy Fund. Allocation of Rs. 500 crore to Solar & Hydro projects & In Wind, reduction in excise duty for wind Components.
- Allocation to defense sector increased from Rs. 141000 Cr to Rs. 147000 Cr.
- Allocation to Bharat Nirman is proposed at Rs. 48000 Cr.

IMPACT ON THE SECTOR

- Higher allocation to infrastructure sector will boost GDP to double digit growth in next 2 -3 years.
- Thrust on power sector continues to remain top agenda for the govt. Doubling sector allocation & exempting excise duty on equipments for Mega Power Project will boost huge investment in Sub-critical & Super critical Power projects which will benefit power equipment companies like BHEL, L&T, etc.
- Higher allocation of Renewable Sector will boost huge investment in hydro, solar, wind etc.
- With Rs. 16752 crore allocated to Railway sector, companies like Titagargh wagons, Texmaco, Stone India, Kalindee Rail etc. to benefit.
- Bharat Nirman Includes RGGVY etc which focuses on rural electrification will benefit companies Jyoti structure, EMCO etc.
- Our top picks are **BHEL, L&T, Titagarh Wagons & Texmaco**.

BUDGET IMPACT: NEUTRAL

CONSTRUCTION

BUDGET HIGHLIGHTS

- For the infrastructure development, Rs 173552 Cr accounting for 46% of the total plan allocations has been provided for. A target of 20 kilometers of road construction a day has been set up. Allocation to the road transport has been increased by 13% from Rs 17520 to Rs 19894 Cr. Allocation to the various schemes under Bharat Nirman which mainly focuses on rural Infra has been increased by 6.7% to Rs 48000 Cr from Rs 45000 in the previous year.
- The budget for Fy11 has also proposed to increase the Minimum Alternate Tax from 15% currently to 18%.

IMPACT ON THE SECTOR

- In our view the Budget was neutral for the construction companies. While the government has increased the spending under major Infrastructure related schemes like Bharat Nirman, we think it was well expected and the budget has not proposed any other initiative which would significantly benefit the companies engaged in construction.
- Sale of imported road construction equipment within 5 years of purchase used to attract import duty on the original value of the equipment until now. Going forward, it is proposed that it will just attract import duty on the depreciated value of the equipments which should result in lower import duty. This is marginally positive.
- The increase in MAT to 18% means that the infrastructure projects qualifying for MAT will now have to pay higher 18% than the current 15%. This is marginally negative for the developers having projects like BOT which qualify for MAT.
- Additional deduction made available for investment in long term infrastructure bonds for individuals will make more funds available for infrastructure sector. IIFCL is expected to disburse Rs 20,000 Cr by March 2011 from Rs 9000 in March 2010.
- We are bullish on **IVRCL Infra, C & C Construction, Sadbhav Engineering** and **Gujarat Apollo Industries**.

BUDGET IMPACT: POSITIVE

EDUCATION

BUDGET HIGHLIGHTS

- Plan allocation for school education increased by 16 per cent from Rs.26,800 crore in 2009-10 to Rs.31,036 crore in 2010-11.
- States will have access to Rs.3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.
- The allocation for higher education has gone up from Rs. 9600 crore to Rs. 11000 crore.

IMPACT ON THE SECTOR

- The government continuing on its bid to promote education, increased the allocation to the education sector to help improve the quality of education in India, would have a positive impact on the sector.

BUDGET IMPACT: NEUTRAL

FMCG

BUDGET HIGHLIGHTS

- Increase in MAT to 18% from 15%.
- Excise cut roll back by 2% to 10% from 8%.
- Hike in excise for cigarettes and tobacco products. The hike is 15% on overall basis
- Increase in disposable income of consumers due to more deduction in income tax and pro rural budget policy provides more money to the rural consumers.

IMPACT ON THE SECTOR

- Excise cut roll back by 200 bps which is expected by companies of the sector.
- Increase in MAT will have negative impact on the sector.
- Overall increase in agriculture outlay will however spur demand.
- Excise duty hike on cigarettes and tobacco products will result into rise in prices. Excise duty hike is negative for **ITC**.

BUDGET IMPACT: POSITIVE

HOTELS

BUDGET HIGHLIGHTS

- The investment-linked incentive allows 100 per cent tax deduction on any expenditure on capital (other than land), goodwill and financial instrument. It is now proposed to include the business of building and operating a new hotel of two-star or above category, anywhere in India.
- Service tax is to be maintained at 10%

IMPACT ON THE SECTOR

- The star category hotels received a boost from the Budget, which proposes investment-linked tax incentives for properties which start functioning after April. Several hotels coming up in the National Capital in the run-up to the Commonwealth Games 2010 will start to gain from the new tax provision
- A positive development for hotels is that service tax is being maintained at the reduced rate of 10 per cent which was introduced as part of the central government's fiscal stimulus package.

BUDGET IMPACT: POSITIVE

INFORMATION TECHNOLOGY

BUDGET HIGHLIGHTS

- The process of refund of accumulated credit to exporters of services will be simplified by making necessary changes in the definition of export of services and procedures.
- There was no mention about extension of tax holidays to software exporters under section 10-A and 10-B (STPI scheme).
- MAT has been increased from 15% to 18% while service tax has been kept constant at 10%.
- Unique Identification Authority of India (UIDAI) will get into operational phase. An allocation of Rs. 1900 Cr has been made to the Authority for the same.
- A new Technology Advisory Group will be set up under the leadership of Mr. Nandan Nilekani for effective roll out of IT projects for tax administration and financial governance systems.
- The weighted deduction on expenditure incurred on in-house R&D has been increased from 150 per cent to 200 per cent.

IMPACT ON THE SECTOR

- Refund process of accumulated credit will be accelerated.
- The effective tax rates for companies operating from Technology Parks will increase to 30% after the end of FY2011. Those operating from SEZ will no have any changes in their effective tax rate. Increase in MAT will also increase the cash outflow.
- The boost in expenditure on IT projects by the government will increase the revenue from domestic markets for major IT players.
- Government thrust on R&D will give an incentive to the IT companies to focus on IP creation and help Indian IT players move up the value chain.
- On the whole, with increase in global IT spending and domestic IT spending, the outlook for the IT sector is promising.
- Our top picks are : **TCS, HCL Technologies** and **Infosys**

BUDGET IMPACT: NEUTRAL

MEDIA AND ENTERTAINMENT

BUDGET HIGHLIGHTS

- The government has simplified the FDI regime. A consistent policy on downstream investment has been formulated.
- The differential customs duty structure on imported media (films, music and games) for duplication or distribution has been rationalized. Customs duty will only be charged only on the value of the carrier medium. However, the value representing the transfer of intellectual rights would be subjected to service tax.
- 'Digital Head End' equipment used in the digital cable reception has been given project import status, with a concessional customs duty of 5% and full exemption from SAD.

IMPACT ON THE SECTOR

- Simplification of FDI norms will lead to higher FDI inflow into the sector. However, there was no mention of increase in FDI limits and the industry still expects a revision of the limits.
- Changes in tax and duty structure on imported media will aid the duplication and distribution of films, music and gaming softwares.
- The change in status of equipment for digital cable is positive for cable operators but negative for DTH service providers.
- On the whole, the sectoral impact remains neutral.

BUDGET IMPACT: NEGATIVE

METALS

BUDGET HIGHLIGHTS

- A 2% hike in Excise duty has pushed the duty limit to 10% from 8%.
- Service tax rate is retained at 10%
- A hike in minimum alternate tax (MAT) from the current rate of 15% to 18% of book profits.
- A "Coal Regulatory Authority" to create a level playing field in the coal sector proposed to be set up
- Clean Energy cess on Coal produced in India at a nominal rate of Rs 50 per tonne to be levied. This cess will also apply on imported coal.

IMPACT ON THE SECTOR

- Service tax on freight will increase the cost of transport of raw material as well as finish goods.
- Cess on coal will increase the input cost
- A hike in excise duty will have negative impact on the sector as the steel manufactures will have to incurred more cost of production.
- Introducing a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks.
- Setting up of "Coal Regulatory Authority" will create a level playing field in the coal sector. This would facilitate resolution of issues like economic pricing of coal and benchmarking of standards of performance

BUDGET IMPACT: NEUTRAL

OIL & GAS SECTOR

BUDGET HIGHLIGHTS

- Basic custom duty on crude petroleum is being increased from Nil to 5%
- Basic customs duty on Motor Spirit (petrol) and HSD (diesel) is being increased from 2.5% to 7.5%.
- Basic customs duty on some other specified petroleum products is being increased from 5% to 10%.
- MAT has increased from 15% to 18% on booked profits.
- Kirit Parekh report on fuel price deregulation will be taken up by Oil Minister in due course.
- Subsidies to the oil companies will be given in cash instead of oil bonds.
- The rates of excise duty on Motor Spirit (petrol) and HSD (diesel) have been increased by Re.1 per liter. The increase is applicable to both branded and unbranded products. The rates of duty on other petroleum products remain unchanged. The revised rates for MS and HSD are as under :

ITEM	W/O BRAND NAME	WITH BRAND NAME
Motor Spirit	Rs.14.35/ltr	Rs. 15.5/ ltr
HSD	Rs. 4.6/ltr	Rs.5.75/ltr

- Post Budget : Petrol and Diesel prices are hiked by Rs. 2.67/ltr and Rs. 2.58/ltr

IMPACT ON THE SECTOR

- As basic custom duty on petroleum products is increased, Naphtha, LPG, LNG, Pet Coke and Petroleum gases continues to attract custom duty by 5%.
- Companies like IOC, HPCL, BPCL, Reliance and Essar Oil to benefit with the petrol and the diesel price hike.
- As oil bonds are to be issued in cash the increase in duties will partly reduce the subsidy burden to the government. Till date the government has given Rs. 12,000 crores as subsidies in cash to the OMCs.
- Increase in MAT rate will negatively impact Reliance.
- Increase in basic custom duty will have a marginally negative effect on margins of naphtha-based crackers; however the increase in the feedstock prices is expected to be passed on the consumers.
- Top Picks : **IGL** and **Gujarat Gas Company Ltd**

BUDGET IMPACT: NEUTRAL

PHARMACEUTICALS

BUDGET HIGHLIGHTS

- Proposed weighted deduction of 200% on expenditure incurred on in-house R&D against 150% which was available earlier.
- The Minimum Alternate Tax (MAT) is proposed to be increased from 15% to 18% of book profits.
- Central Excise duties have been proposed to be increased by 2% from 8% to 10% on bulk drugs.
- Uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty prescribed on all medical equipments. A concessional basic duty of 5 per cent is being prescribed on parts and accessories for the manufacture of such equipment while they would be exempt from CVD and special additional duty.
- Plan allocation to Ministry of Health & Family Welfare increased from Rs 19,534 crore in 2009-10 to Rs 22,300 crore for 2010-11.
- Current surcharge of 10 per cent on domestic companies reduced to 7.5 per cent.

IMPACT ON THE SECTOR

- The proposed increased weighted deduction would help promote higher expenditure to avail the benefit from the higher deduction would benefit companies focusing on new drug discovery like Glenmark Pharmaceutical, SPARC, Piramal Lifesciences.
- There would be marginal impact due to the increase in the minimum alternative tax on the pharmaceutical companies.
- The increase in excise duty would be marginal as most of the companies would pass this extra cost on to the customers, and also as many of the companies have strong presence in the excise free zones like Baddi, Sikkim, etc.
- Uniform and concessional duty on all medical appliances would benefit the medical equipment manufactures like Opto circuits as this would reduce the cost of medical equipments.
- Top Picks: **Opto circuits, Glenmark, SPARC, Piramal Lifesciences**

BUDGET IMPACT: NEGATIVE

POWER

BUDGET HIGHLIGHTS

- Setting up of coal regulator.
- Clean energy cess on coal at nominal rate of Rs 50/tonne on domestic and imported coal.
- Increase in MAT from 15% to 18%.

IMPACT ON THE SECTOR

- Setting up of coal regulator will fasten the process of coal mine allocation and increase the transparency.
- Implementation of cess will be negative for the players having merchant power plants. The stocks to be impacted are **JSW energy, GVK power, Lanco Infra.** and **Adani power.**
- Power plants are exempted for tax under 80AI and come under MAT. Hence the proposal will negatively impact the utilities.

BUDGET IMPACT: POSITIVE

REAL ESTATE

BUDGET HIGHLIGHTS

- The Finance Minister Mr Pranab Mukherjee, in the Union budget for FY10-11 showed continued focus on affordable-small housing.
- The Incentives which were granted to the real estate sector last year in the wake of continued slowdown in the real estate sector have been extended for further 1 year. The interest rate subvention of 1% has been extended on the housing loans up to Rs 10 lakh on houses with prices not exceeding Rs 20 lakh by 1 year up to March 31, 2011. The tax holidays for the houses up to 1500 square feet (1000 square feet for houses in Mumbai and Delhi) which was announced last year for housing projects approved in FY08 and completed before FY12 has been extended by one year. The developers now have five years from FY08 to FY13 to finish these projects instead the earlier dead line of FY12.
- Allocation to Indira Avas Yojna, a sub scheme of Bharat Nirman has been allocated Rs 10000 Cr which is 13.6% higher over the previous year.
- The Rajiv Awas Yojana (RAY) focused on slum development and urban poor has been allocated Rs 1270 Cr from Rs 150 Cr in the previous year.
- The FM also proposed to increase the limits of tax slabs and deductible tax amount for the individuals.

IMPACT ON THE SECTOR

- The above mentioned proposals are clearly positive for the real estate companies focused on affordable – small houses.
- The sharp jump in the allocation under RAY should benefit developers who are engaged in slum rehabilitation programmes.
- While the extension of the above mentioned incentives by 1 year will benefit the respective real estate developers directly, we also see all real estate players benefited owing to the potential increase in the disposable income in the hands of citizens due to favorable tax related proposals which should result in increased demand for houses.
- In our view, real estate players like **Purvankara Projects, Unitech** & **HDIL** should benefit most from the budget.

BUDGET IMPACT: NUTRAL

TELECOM SERVICES & EQUIPMENTS

BUDGET HIGHLIGHTS

- Parts of battery chargers and hands-free headphones have been exempted from basic, CVD and special additional duties.
- The validity of exemption of SAD on parts, components and accessories of cell phones has been extended till March 31, 2011.
- 3G spectrum auction will be held in April 2010.
- No mention of changes in tax regime, tax holidays or disputes in CENVAT credit policies.

IMPACT ON THE SECTOR

- Exemptions on parts of accessories will boost the domestic manufacture of cell phone accessories.
- Extension of SAD exemption will lead to higher sales of cell phones and increase telecom penetration.
- The government will raise Rs. 35000 Cr from the auction of 3G. Few selected players might get benefits from this.
- Even this time, most of the concerns of telecom sector were not addressed by the Finance Minister.
- There is no major impact on the sector as far as the current budget is considered.

BUDGET IMPACT: POSITIVE

TEXTILE

BUDGET HIGHLIGHTS

- Extension of existing interest subvention of 2 % for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.
- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15 % to 18 % of book profits.
- An extensive skill development programme in the textile and garment sector to be launched by leveraging the strength of existing institutions and instruments of the Textile Ministry to train 30 lakh persons over 5 years.
- The excise duty on man-made fibers and yarns has been raised to 10 % from 8 %.
- Also the government announced a one-time grant of Rs. 2 billion to the government of Tamil Nadu for the installation of a zero discharge system, to reduce environmental pollution, at the Tirupur cluster.

IMPACT ON THE SECTOR

- The extension of 2% interest subvention on pre and post shipment export credit by a period till March, 2011 will result in interest costs for exporters declining by 1%.
- This will increase polyester prices by Rs. 1.5-2 per kg, but it will not affect demand, as polyester continues to be cheaper than cotton.
- This will help the knitwear exporters of the region in long term.
- Top Picks : **BRFL**

DISCLAIMER