

## Overall sectoral impact

Industry	Effect
<p><b>Airport infrastructure</b></p> <p>The announcement that Indian Infrastructure Company Ltd will re-finance 60 per cent of commercial bank loans amounting to Rs 1 trillion for public private partnership (PPP) projects would help attract private investments in the sector. However, this measure had already been announced in the Interim Budget of February 2009. The hike in MAT from 10 per cent to 15 per cent will have minimal impact on the financials of players. Overall, the Union Budget 2009-10 would have a neutral impact on the sector.</p>	<p><b>Neutral</b></p>
<p><b>Auto components &amp; Tyres</b></p> <p>The Union Budget 2009-10 announcement will not have any significant impact on the auto component and tyre industry. Extension of the tax holiday for 100 per cent export oriented units (EOU) till 2010-11 will benefit only those few players with established EOUs. Interest subvention of 2 per cent for availing packing credit will have a marginally positive impact for small and medium enterprises engaged in export of auto components. ECGC cover extension until March 2010 will protect exporters against risk of payment defaults. Thrust on rural spending will marginally benefit tractor and two-wheeler sales thereby, benefiting sales to original equipment manufacturer (OEMs) in these segments.</p>	<p><b>Neutral</b></p>
<p><b>Automobiles</b></p> <p>The budget announcements are not likely to have any major impact on the automobile sector. We expect the reduction in specific additional duty on passenger car and utility vehicles above 2,000 cc from Rs 20,000 to Rs 15,000 to result in a negligible impact on demand. The continued focus on rural development and change in exemption limit in income tax slabs will marginally benefit two wheeler sales. The increase in funds allotted towards irrigation by 75 per cent in 2009-10 will be marginally favourable for tractor sales. Increase in allotment to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme may potentially benefit bus sales.</p>	<p><b>Neutral</b></p>
<p><b>Banking and Finance</b></p> <p>Emphasis has been laid on priority sector lending. Refinance schemes of Rs 40 billion and Rs 20 billion will enhance credit flow to micro and small enterprises and rural housing, respectively. For 2009-10, banks have been directed to lend Rs 3,250 billion to the farm sector - a 13 per cent increase over the previous year. The reduction in targeted growth rate, over the previous year, will give banks a breather to consolidate their origination systems for farm credit. However, continuation of interest subvention scheme and additional subvention of 1 per cent (for farmers who repay on schedule) along with extension of debt waiver and debt relief scheme might impact the banks' profitability.</p>	<p><b>Neutral</b></p>

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<p><b>Cement</b></p> <p>The Union Budget 2009-10 is not expected to have any major impact on the cement sector. Cement prices are not expected to be affected as excise and customs duties for cement and clinker have remained unchanged. Similarly, duties on key inputs such as coal, limestone and gypsum have not been changed. Measures to spur infrastructure investments will have a marginally positive impact on demand for cement.</p>	<p><b>Neutral</b></p>
<p><b>Construction</b></p> <p>The increased outlay on roads, railways, irrigation and urban infrastructure announced in the Union Budget 2009-10 has a marginally positive impact for the industry and will aid the construction expenditure/growth in infrastructure segment (18 per cent in 2009-10.) The additional funding support for PPP infrastructure projects through refinancing of up to 60 per cent through IIFCL will ease funding pressures on construction companies and attract more participation, especially for BOT projects. Removal of excise duty on prefabricated concrete blocks will result in minor improvement in margins of construction players.</p>	<p><b>Marginally positive</b></p>
<p><b>Fertilisers</b></p> <p>The budget has announced the intention to change the subsidy regime from being product-based to nutrient-based. Further, it has reiterated the plan to move to a system of direct subsidies to farmers. Since the specific measures have not been stated, it is early to gauge the impact of these announcements. The budget allocation for fertiliser subsidy has been reduced from Rs 759 billion in 2008-09 to Rs 502 billion in 2009-10. Against this, the subsidy bill in 2009-10, including arrears is expected to be around Rs 600-650 billion. The greater thrust on agricultural credit and irrigation is expected to boost fertiliser consumption in the long run.</p>	<p><b>Neutral</b></p>
<p><b>Hotels</b></p> <p>The impact of Union Budget 2009-10 on hotels is neutral. While the fringe benefit tax on the use of hotel facilities has been abolished, this move alone is unlikely to spur room demand. Hotels will continue to face a challenging environment over the next one year, given the slowdown in business and leisure demand.</p>	<p><b>Neutral</b></p>
<p><b>Household Appliances</b></p> <p>The reduction in customs duty on LCD panels from 10 per cent to 5 per cent is likely to have a marginally positive impact on the industry. LCD panels account for around 45-70 per cent of the price of a LCD TV, depending on the screen size. Consequently, if this reduction in customs duty is passed on in full to the consumer, prices of 32-inch LCD TVs could reduce by around Rs 600. This cut in duty would also boost domestic assembling of LCD TVs. The marginal rise in disposable income due to the increase in personal tax exemption limit by Rs 10,000 per annum is likely to boost demand.</p>	<p><b>Marginally positive</b></p>

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### Housing

**Neutral**

Proposals to allocate funds (Rs 39.7 billion) under Basic Services to the Urban Poor (BSUP) sub-mission of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) will help provide affordable housing to EWS (Economic weaker section) and LIG (low income group) categories. In addition, allocation of Rs 88 billion under Indira Awaas Yojana and Rs 20 billion for Rural Housing Fund through National Housing Board will further aid in reduction of rural housing shortage. However, it will not impact the organised housing sector.

### Information Technology

**Marginally Negative**

The extension of IT tax exemption (section 10A and 10B) by a year, to March 31, 2011, scrapping of FBT in the IT industry (which has a high tax incidence due to ESOP) and removal of duty on packaged software bodes well for the industry. However, the positive impact of the extension is expected to be nullified by an increase in MAT from 10 per cent to 15 per cent of book profits. The increase in MAT rate would impact tier-2 players more than tier-1 players. The increase in MAT credit period from 7 to 10 years is expected to increase the near-term cash outflow but could lead to benefits in the long term.

### Media and Entertainment

**Neutral**

The overall impact of the budget on the media and entertainment sector is neutral. The hike in customs duty on set top boxes - from nil to 5 per cent - is expected to incentivise its domestic production. However, the move will also increase the subsidies borne by digital pay-tv operators, and hence, will marginally impact their margins.

A 15 per cent waiver of agency commission and 10 per cent increase in the rates of DAVP advertisements in print media, and exemption of customs duty on newsprint have been retained till December 2009. This move is expected to provide some relief to the print industry, which has been experiencing margin pressure due to the economic slowdown.

### Non-ferrous Metals

**Neutral**

The impact of Union Budget 2009-10 is neutral on the non ferrous metals industry with no changes announced in the customs and Central Value Added Tax duties. Thus, the prices of non ferrous metals are not expected to be affected.

The government has increased the allocation under Accelerated Power Development and Reform Programme and rural electrification scheme in the power sector, which forms around 40-45 per cent of the total aluminium demand. Hence, demand for aluminium might be positively impacted from increase in investments in the power sector.

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<p><b>Oil and Gas</b></p> <p>We expect the impact of the 2009-10 Union Budget to be marginally positive for the oil and gas sector. The extension of tax holiday under Section 80-IB on natural gas production with retrospective effect is expected to lead to better response to future NELP rounds. Although the MAT credit period has been extended from 7 years to 10 years, the increase in MAT rate from 10 per cent to 15 per cent is expected to lead to higher initial tax outflow. Given the expected increase in oil and gas production, the allowance of 100 per cent deduction for all capital expenditure on pipelines operating on a common carrier principle (both oil and gas), will ensure a better reach for distribution of the same. Further, the government has reiterated its commitment of creating a National Gas Grid.</p>	<p><b>Marginally positive</b></p>
<p><b>Paper</b></p> <p>The impact of the Union Budget 2009-10 on the domestic paper industry is neutral with no change in the customs and excise duties on paper and paper boards. The customs duty exemption provided to newsprint in the fiscal stimulus package has also been continued. The higher emphasis on education is likely to boost demand for writing and printing paper, although the benefits will be visible only over a long term, as a significant portion of investments in education will go towards infrastructure development. The education sector accounts for around 30 per cent of the total writing and printing paper demand.</p>	<p><b>Neutral</b></p>
<p><b>Petrochemicals</b></p> <p>The excise duty on naphtha has been reduced from 16 per cent to 14 per cent. This is expected to have a marginally positive effect on margins of naphtha-based crackers. But the overall impact of Union Budget 2009-10 on the domestic petrochemical industry is neutral with no changes announced in the excise and customs duties. Also, the Central Government has proposed to expedite the 220,000 tpa Assam gas cracker project (announced in April 2006). A capital subsidy of Rs 21.38 billion will be provided out of the total project cost of Rs 54.61 billion.</p>	<p><b>Neutral</b></p>
<p><b>Pharmaceuticals</b></p> <p>The overall impact on the pharmaceuticals sector is neutral. The reduction in customs duty from 10 per cent to 5 per cent and exemption of CVD on imports of select life-saving drugs and their bulk drugs for treating ailments like breast cancer, hepatitis, rheumatic arthritis, etc will have a negligible impact as the proportion of life-saving drugs is marginal. Further, the marginally negative impact due to the hike in the Minimum Alternate Tax (MAT) rate from 10 per cent to 15 per cent will be partly offset as fringe benefit tax (FBT) has been abolished.</p>	<p><b>Neutral</b></p>

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<p><b>Ports</b></p> <p>The Union Budget 2009-10 is expected to have a neutral impact on the ports sector. The government has imposed a service tax on the transport of goods through the coastal and inland waters route, including National Waterways. Considering the low cost of transporting goods through the coastal mode vis-à-vis the roadways and railways, this tax will not have a major implication. The increase of MAT from 10 per cent to 15 per cent is expected to have a marginally negative impact on the revenues of players. The refinancing scheme through IIFCL, announced initially in the interim budget of 2009, is not expected to have an incremental impact on the sector.</p>	<p><b>Neutral</b></p>
<p><b>Power</b></p> <p>There were no major announcements with respect to the power sector. IIFCL has been given greater flexibility to re-finance infrastructure projects. The budgetary allocations for the APDRP and RGGVY programmes have been increased by 160 per cent to Rs 20.8 billion and by 27 per cent to Rs 70 billion, respectively. The hike in MAT from 10 per cent to 15 per cent would have a neutral impact, as it would be passed on to the end users. The enhancement in credit period for MAT from 7 years to 10 years would be marginally positive for the sector.</p>	<p><b>Neutral</b></p>
<p>On the renewable energy front, the basic customs duty on permanent magnets used in wind power generation has been reduced from 7.5 per cent to 5 per cent.</p>	
<p><b>Roads</b></p> <p>Even though the allocation for NHDP has increased by 23 per cent, the implementation of the projects is expected to remain slow on account of policy issues.</p> <p>Allocations under PMGSY have increased by 59 per cent in 2009-10 to Rs 120 billion. However, the past track record of expenditure reveals that funds allocated are inadequate considering the future funding requirements.</p> <p>Refinancing commercial bank loans for Public Private Partnership projects through IIFCL will facilitate higher incremental loans towards the projects. However, this measure was already announced in the interim budget in February 2009.</p> <p>Increase in Minimum Alternate Tax from 10 per cent to 15 per cent of book profits will have marginal negative impact on the financials of players.</p>	<p><b>Neutral</b></p>

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<p><b>Steel</b></p> <p>The budget impact for the steel industry is expected to be neutral with no effect on industry profitability. Since there has been no change in the customs or Central Value Added Tax duty related to steel products, the prices are not to be impacted. However, with the provision of higher investment in infrastructure segments such as roads, railways and urban infrastructure under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the demand for steel is likely to improve marginally.</p>	<p><b>Neutral</b></p>
<p><b>Sugar</b></p> <p>The impact of Union Budget 2009-10 on the sugar sector is expected to be neutral. The elimination of the commodities transaction tax will not impact the sugar sector in the near future as trading in sugar futures is banned till December 2009. CRISIL Research expects the margins of sugar companies to remain unaffected by the change.</p>	<p><b>Neutral</b></p>
<p><b>Telecom</b></p> <p>Overall impact on the Telecom services sector is marginally negative. The government has extended the full exemption from special additional duty of customs on parts, components and accessories of mobile handsets including cell phones, for a period of 1 year. Extension of this policy continues to maintain the affordable cost of accessing mobile services.</p> <p>The fringe benefit tax (FBT) provided by employers to their employees has been abolished. While this move is expected to be marginally positive for the sector, increase in minimum alternative tax (MAT) to 15 per cent of book profits from 10 per cent will more than offset the benefit from reduction in FBT. This would negatively impact cash flows of companies in the sector.</p>	<p><b>Marginally negative</b></p>
<p><b>Textiles</b></p> <p>The Union Budget 2009-10 has a neutral impact for the textile sector. Interest costs for exporters will decline by 1 per cent due to the extension of 2 per cent interest subvention on pre and post shipment export credit till March 31, 2010. Excise duty on cotton textiles beyond the fibre stage which had been reduced to zero in the stimulus package has been restored to a 4 per cent optional duty. Excise duty on man-made fibres and yarns has been raised to 8 per cent from earlier levels of 4 per cent. While this will increase polyester prices by Rs 2.5 per kg, it will not affect demand, as polyester continues to be cheaper than cotton and substitution will continue.</p>	<p><b>Neutral</b></p>