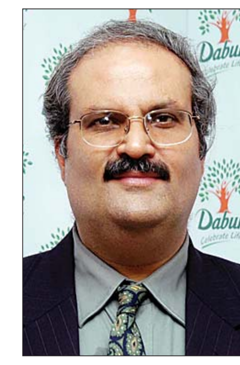
We renamed the sector after recent scams.

Service tax initiatives signal a move towards GST. Increase in excise duty will hurt automobiles, at a time when industry is in the midst of a slowdown. Focus on rural and infrastructure sectors are positives

Shinzo Nakashi,
MD & CEO, Maruti Suzuki India

The announcement that food subsidy would be fully provided for, while balance subsidies will be provided for based on the availability of resources, means fertiliser and fuel subsidies will be going down gradually

—Gautam Adani,
Chairman, Adani Group



The hike in service tax rate, a 2% increase in standard excise duty and the doubling of customs duty on gold are highly inflationary steps that can hurt consumerism. Given the continued inflation, there is very little real relief and cheer for the common man, and this may impact lifestyles

—Sunil Duggal,
Chairman, Dabur India

₹5,000 cr **is what airlines can raise through ECBs towards working cap**

₹5,000 cr **is the corpus proposed for the India Opportunities Venture Fund**

SECTORAL ANALYSES BROUGHT TO YOU BY VIOLET ARCH SECURITIES

Auto & auto ancillaries

by Jay Kale

Budget Expectations

- Expect an additional excise duty on diesel car longer than 4m to 22% + 40,000 from 22% + 15,000 currently.
- Excise duty rate to increase from 10% to the pre-crisis level of 12%.
- Increase in personal income tax exemption limit to increase disposable income in the hands of consumers, boosting purchasing power.

What the Budget does

- Excise duties on petrol cars with engine capacity under 1,200 cc and diesel cars with engine capacity under 1,500 cc, but the length exceeding 4 meters have been increased to 24% from 22%.
- Petrol and diesel vehicles having length over 4 meters and engine capacity of over 1,200 cc and 1,500 cc respectively will be charged an ad valorem duty of 27 % +15000, instead of the earlier 22%
- Excise duty on commercial vehicles, 2 and 3 wheelers has been increased to 12% from 10%. Passenger cars of length less than 4 meter and engine capacity less than 1,200cc (Petrol) and 1,500cc (Diesel) increased to 12% from 10%.
- Increase in the customs duty on import of completely built cars and SUVs to 75% from 60%(3,000cc engine capacity for petrol and 2,500 cc for diesel vehicles).

IMPACT ON SECTOR

- ~92% of the total vehicles sold in the country (4-wheeler + 2-wheeler) would attract excise duty of 12%. ~5% of the total vehicles being predominantly Utility vehicles would attract excise duty of 27% and ~3% of the total vehicle would attract excise duty of 24%.
- Likely increase in prices of utility vehicles -~₹6,000 – ₹30,000. Impact on growth would be minimal for SUVs as the demand for SUVs is relatively inelastic to price. Target audience of vehicles in price range of ~700,000 and above can absorb the price increases.
- Demand for price sensitive passenger vehicles would be negatively impacted. However, higher disposable income to compensate

  Price rises of ~2% across vehicle categories to aide margins of companies with higher contribution of vehicles from tax exempt zones.

IMPACT ON COMPANIES

- Neutral for M&M, positive for Hero MotoCorp and Ashok Leyland. Maruti Suzuki to be negatively impacted.

Aviation

by Nageswararao Khandavalli

Budget Expectations

- Timeline for FDI in aviation sector which could ease the pressure on cash flows.
- Infrastructure status to the airline sector to lower incidence of taxation.
- Support package of ₹10,000 crore including equity infusion of ₹6,000 crore for Air India.

What the Budget does

- External commercial borrowing (ECB) allowed for working capital requirements for a period of one year subject to a total ceiling of US$1bn.
- Rate of withholding tax on interest payments on ECBs reduced from 20% to 5% for three years.
- Exemption of basic customs duty on parts of aircraft and testing equipment imported to establish India as a hub for third-party Maintenance, Repair and Overhaul (MRO) of civilian aircraft.
- To fully exempt both new and retreaded aircraft tyres from basic customs duty and excise duty.
- FDI of 49% in operation of scheduled and non-scheduled air transport services under active consideration.

IMPACT ON SECTOR

- The highly indebted sector to benefit from significantly lower interest costs through ECBs though the ability of the sector to post quality collateral remains a challenge.
- FDI in aviation, if notified in the next few months, would provide a huge relief to the sector.

IMPACT ON COMPANIES

- Initial reaction of the stocks negative due to lack of clarity on timing about FDI and timing of ATF import which contributes to ~45% of the revenue.
- Allowance on ECB for working capital is a temporary relief for all three airlines- SpiceJet, kingfisher Airlines and Jet Airways to meet their day to day funding requirements
- Reduction in withholding tax rates on ECB's will benefit Jet Airways on its foreign currency debt
- Increase in service tax would lead to hike in premium travel air fares, with minimal negative impact on demand side for Jet Airways and to some extent Kingfisher Airlines
- With a firm decision on FDI still held up, cash-strapped Kingfisher Airlines will have to wait

Banking & finance

by Abhishek Kothari

Budget Expectations

- Capital infusion into PSU banks.
- Reduction in the lock-in period of term deposits eligible for tax deduction from 5 years to 3 years.
- To make banks eligible to raise funds though infrastructure bonds.
- Fiscal package for State Electricity Boards.

What the Budget does

- Provision for recapitalization of PSU banks at ₹15,888 crore. To create a financial holding company to help capital requirements of PSU banks.
- Interest from saving bank accounts upto ₹10,000 not to be taxed.
- ECB to part finance rupee debt of power projects .
- Tax free infrastructure bond issuance increased to ₹60,000 crore from ₹30,000 crore last year.
- Agriculture loan target has been increased by 21% to ₹575,000 crore and maintained interest subvention for farmer loans.
- Guidelines to allow two way fungibility in Indian Depository Receipts (IDR).
- ECB route permissible for rural housing finance companies.
- Reduction in securities transaction tax on delivery trades to 0.1%.

IMPACT ON SECTOR

- Recapitalization of PSU banks to help banks achieve comfortable Tier 1 ratio but ₹16,000 crore inadequate.
- Interest exemption to aide mobilise low cost deposits.
- ECB part financing to help power sector
- Two way IDR fungibility to allow arbitrage between Indian listed shares and overseas market.

IMPACT ON COMPANIES

- Recapitalization is positive for SBI, IOB, BOI, Central Bank of India, UCO Bank, PNB, Corporation Bank and Union Bank.
- Tax exemption on saving account interest income is negative for low CASA profile banks like Corporation Bank and Oriental Bank of Commerce.
- Two way fungibility is positive for Standard Chartered PLC.
- ECB route financing for rural housing finance positive for Dewan Housing, LIC Housing and Chola DBS.
- Reduction in STT moderately positive for brokerage houses.
- Tax free infrastructure bond issuance is positive for government undertakings like IDFC, REC & PFC.

Capital goods & utilities

by Vaibhav Bharadia

Budget Expectations

- Waiver of duty (5%) on imported coal for power plants – to enhance the coal availability at reasonable prices.
- Introduction of 14-19% custom duties on imported power equipment for projects above 1000MW – to facilitate a level playing field for domestic equipment manufacturers.
- Extension of benefit under section 80-IA for one more year till FY13.
- Increase in allocation to R-APDRP and RGGVY schemes – to enhance ordering for equipment manufacturers.
- Fiscal package to address the financial health of State Electricity Boards (SEBs) – to bring clarity in the sector.

What the Budget does

- Full exemption from customs duty and a concessional 1% CVD on thermal coal import till March 31, 2014.
- Extension of sunset clause by one year for 80IA benefit.
- Additional initial depreciation to the power sector extended for existing power generation and distribution companies.
- ECB in the power sector in order to partly refinance the Rupee debt.
- Repatriation of dividends from foreign subsidiaries of Indian companies to India at a lower tax rate of 15%.

IMPACT ON SECTOR

- Custom duty exemption on thermal coal results in lower fuel cost for merchant power producers.
- Extension of sunset clause for 80-IA benefit to lower the tax expense for power projects to be commercialized by FY13E.
- Access to low cost funds via ECB would bring down finance cost.
- Positive for companies with foreign dividend paying subsidiaries.

IMPACT ON COMPANIES

- Benefit on imported thermal coal positive for JSW Energy and NB Ventures.
- Extension of 80-IA benefit positive for Reliance Power, Tata Power.
- Reduction of withholding tax from interest paying foreign companies to benefit Reliance Power.
- No imposition of custom duty on imported power equipment for projects above 1000MW negatively impacts BHEL, L&T, BGR, Thermax, etc.
- Increased allocation to defence sector positive for BEML ,L&T, BHEL, etc.

FMCG

by Nageswararao Khandavalli

Budget Expectations

- Hike in excise duty on cigarettes by 8-10%.
- Increased allocation to rural employment/development schemes – to enhance the purchasing power of rural areas.
- Increase in personal income tax exemption limit – boosting the overall purchasing power.
- Timeline for FDI in retail which would improve income for agricultural sector. New supply chain structures and bargaining power of dominant organized retail players to gradually change the sector dynamics.
- Implementation of GST.

What the Budget does

- Basic excise duty on cigarettes of more than 65 mm increased by 10% advalorem rate on 50% of retail sale price.
- Increase in personal income tax slabs to moderately benefit middle income households.
- Increase in service tax to reduce disposable income in urban areas.
- Increase in excise tax from 10% to 12%.
- Increase in allocations for rural economy (rural employment, PMGSY and others) which has been driving the volume growth for the sector. Increase in agriculture credit by 21% to ₹5,75,000 crore to further help the rural economy.

IMPACT ON SECTOR

- Most of the cigarettes sold by Indian cigarette manufacturers fall under more than 65mm category. To compensate for the additional excise duty (10% on 50 % of price), cigarette prices need to be increased by 5%. However this is less than the market expectation of 8-10% leading to a positive reaction in the sector.
- Pass through of increase in excise duty to be watched out in highly price competitive segments like detergents.
- Volume growth in rural areas likely to sustain aided by higher government allocations to various schemes.
- Increase in service taxes to offset moderate increase in disposable income in urban areas.

IMPACT ON COMPANIES

- Less than expected increase in excise duty positive for ITC.
- Sustained volume growth in rural economy is positive for HUL, Dabur, GSK Consumer and Marico. Neutral for premium players like Nestle.

Auto
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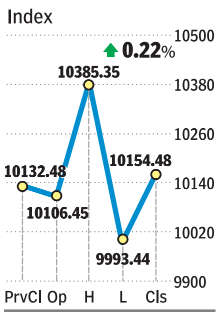
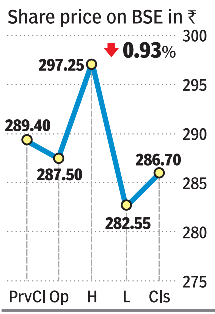
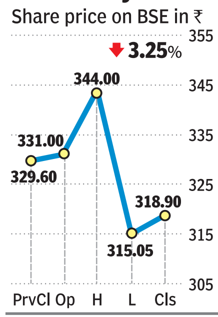


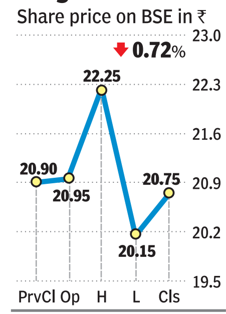
Tata Motors
Share price on BSE in ₹



Jet Airways
Share price on BSE in ₹



Kingfisher Air
Share price on BSE in ₹



Bankex
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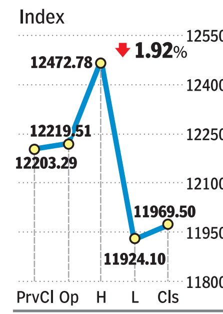
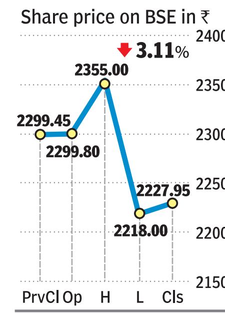


SBI
Share price on BSE in ₹



Capital goods
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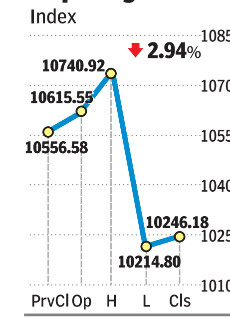
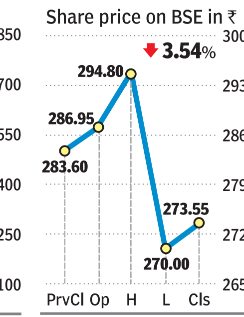


BHEL
Share price on BSE in ₹



FMCG
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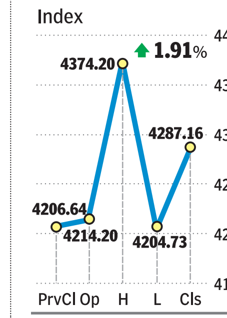
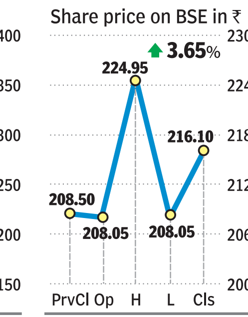


ITC
Share price on BSE in ₹



There's no credible roadmap on consolidation

Continued from p1

The scale and pace of borrowings has led to mounting interest payments and still, the fiscal policy has adopted this route for the next year.

If the devil is the detail, a look at the numbers suggests how the fiscal arithmetic is based on unrealistic assumptions. Again, take the case of subsidies. In 2012-13, the budget assumes only a modest growth in food subsidy - to ₹75,000 crore from this year's revised ₹72,823 crore - and in fertilisers , decline is anticipated - to ₹60,974 crore from ₹67,195 crore (revised estimate) which incidentally is much more than the budgeted ₹49,998 crore.

But what takes the cake is in the case of petroleum subsidy. This is expected to plunge to ₹43,580 crore. In the coming year even though in the current fiscal, the subsidy bill has bloated to a revised ₹68,481 crore from the budgeted ₹23,640 crore.

In overall terms, too, many of the assumptions behind the fiscal policy for 2012-13 may not hold water. At a macro level, we are led to believe that, while the revenue receipts may swell by 22%, total expenditure may spurt by 13%.

A marked buoyancy in tax revenue is envisaged as also a spurt in the revenue from disinvestment. Both plan spending and capital outlays are expected to pick up pace net year, contrary to the experience this fiscal.

Where does this budgetary exercise lead to? The budgeted revenue deficit and fiscal deficit for 2012-13 are pegged at rather worrisome levels - ₹350,421 crore and ₹513,590 crore, respectively.

Though both are lower than the revised figures for the current year, which are attributed to various factors like the economic slowdown and soaring crude prices, besides raging inflation, the magnitudes are indeed troubling. More so because as much as 68% of the borrowings are intended to finance current consumption.

Besides the scale of spending, the quality of spending also is a matter of concern. Faced with resource crunch, the axe is wielded on plan expenditure. In the current year, there is likely to be a shortfall in plan Central plan outlay at ₹558,172 crore in relation to the budgeted ₹592,457 crore.

In key sectors like energy, communications, transport and industry & minerals, the original plan outlays might be missed.

Seen in perspective, the budget is cast in the familiar mould and is certainly not designed to comme to grips with the fiscal crisis that is facing the economy. Nor does it present a credible road map for fiscal consolidation in the near future, even if the amended version of the Fiscal Responsibility and Budget Management Act sees the light of day.

VERBATIM

The government's move to hike excise duty will have an adverse impact on the auto industry. The excise duty hike will result in a price hike by ₹6,000 for small cars and by ₹72,000 for large variants. Individual buyers will be affected as their affordability will come down.

R Sethuraman
Senior VP, Hyundai Motors

Petrol cars will continue to be a discount in future. What higher tax means is that there will be hardly any growth in the petrol car sector

R C Bhargava
Chairman, Maruti Suzuki