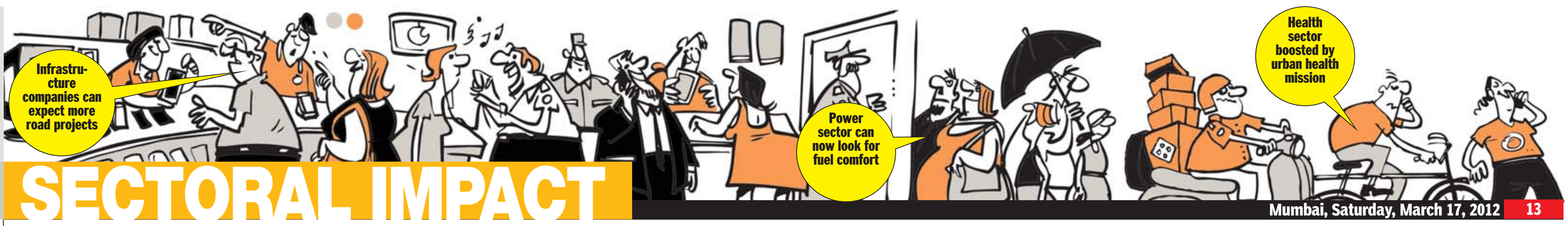
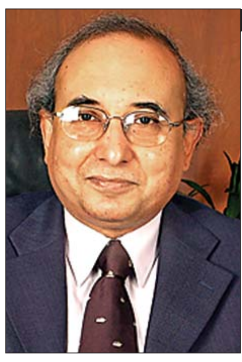


When I told you I was in oil, I meant I was an oil painter.

Removal of customs duty on steam coal and liquefied natural gas is a welcome step. But the non-extension of section 80-IB tax holiday benefit could affect future investment in the refinery sector

L K Gupta
MD & CEO, Essar Oil



For the shipping sector, there isn't much apart from the exemption from countervailing duty, which is more of a clarification because such duty on import of foreign-going vessels was not applicable in any case

—S Hajara
CMD, Shipping Corporation

The removal of customs duty on imported coal, natural gas, LNG, and the incentives for the mining sector will marginally improve coal supply, but is still a far cry from achieving adequate fuel security. However, other measures including agreements with CIL should provide some relief

—Anil Sardana
Managing Director, Tata Power

₹25,360 cr allocated by the Centre for development of national highways

₹20,000 cr to be allocated towards Rural Infrastructure Development Fund

SECTORAL ANALYSES BROUGHT TO YOU BY VIOLET ARCH SECURITIES

Infra & construction

by Shailesh Kanani

Budget Expectations

- Increased allocation across various segments of Indian infrastructure – in line with Twelfth Five Year Plan.
- Increase in limit of tax-free infrastructure bonds, issued by NHAI, Indian Railway Finance Corporation etc, from ₹30,000 cr to ₹50,000 cr – to ensure further availability of funds.
- Removal of cascading effect of tax from multi-tier inter-corporate dividend distribution – to remove double taxation.
- No change in MAT rate – since the rate is higher than in other economies of the world and any increase in the same would act as a deterrent to investments.

What the Budget does

- Investment in infrastructure to go up to ₹50 lakh crore in XIIth Plan. Half of this expected from the private sector.
- Tax free bonds of ₹60,000 crore to be allowed for financing infrastructure projects in 2012-13.
- Removal of the cascading effect of tax on multi-tier dividend distribution.
- More sectors added as eligible sectors for viability gap funding to support infrastructure.
- Reduction of withholding tax to 5% provides incentive for funding infrastructure sectors from foreign currency borrowings between 1st July 2012 to 1st July 2015.
- Full exemption from basic customs duty, CVD and SAD is being extended to equipment imported for road construction projects awarded by Metropolitan Development Authorities.

IMPACT ON SECTOR

- Increase in long term availability of funds for infrastructure projects via tax free bonds is a positive development.
- Removal of cascading effect from multi-tier dividend distribution to avoid double taxation is a positive.
- Reduction in withholding tax will increase availability of foreign long term funds for infrastructure projects.

IMPACT ON COMPANIES

- Increase in NHAI allocation to ₹25,360cr, targeted of 8,800 kms of road projects bodes well for companies like IRB, ITNL, L&T, Reliance Infra etc.
- Removal of cascading effect from multi-tier dividend distribution positive IRB, ITNL, L&T, Reliance Infra etc.
- Irrigation sector to be eligible for Viability gap funding - Positive for IVRCL, Sadbhav Engineering, NCC, HCC, Ramky Infra.

Metals & mining

by Kunal Motishaw

Budget Expectations

- Removal of 5% import duty on non-coking coal and abolition of 2.5% import duty on iron ore lumps, fines and pellets.
- Reduction in export duty on iron ore fines and lumps from 30% to 20%.
- Increase in excise duty from 10% to 12%.
- Increase in import duty on Hot Rolled Coils from existing 5% to 10%.
- Increase in import duty on manganese ore from current 2% to 5%.

What the Budget does

- Abolition of import duty on thermal coal from 5% to zero and reduction in countervailing duty from 5% to 1%.
- Customs duty on imported equipment for iron ore pelletisation or beneficiation plant reduced from 7.5% to 2.5%.
- Customs duty on imported plant and machinery for surveying and prospecting for mining reduced from 10% and 7.5% to 2.5%.
- Customs duty on nickel ore concentrate/oxide/hydroxide reduced to zero.
- Excise duty hiked from 10% to 12%.
- Customs duty on hot and cold rolled coils increased from 5% to 7.5%.
- Customs duty on coating materials for electrical steel products reduced from 7.5% to 5%.
- Customs duty on standard gold bars increased from 1.5% to 3%.

IMPACT ON SECTOR

- Nil import duty on thermal coal is positive for aluminium and sponge iron producers.
- Excise duty is a pass through for steel players. The increase will lead to steel prices rising by around ₹650/tonne.
- Mining companies to benefit from reduction in import duty on equipment.
- Hike in import duty on HR & CR coils will increase domestic steel prices.

IMPACT ON COMPANIES

- Nalco, Hindalco, Sterlite Industries, Tata Steel & JSW steel to benefit from full exemption of customs duty on thermal coal.
- JSPL and NMDC main beneficiaries of decrease in customs duty on equipment for pellet and beneficiation plants.
- Increase in import duty on HR & CR positive for Tata Steel & JSW Steel.
- Reduction in custom duty on coating materials for electrical steel products marginally positive for Bhushan Steel.
- Reduction in custom duty on nickel ore concentrate marginally positive for Tata Steel, JSW Steel.
- Increase in cess on oil to impact Sesa Goa.

Oil & gas

by Durgesh Poyekar

Budget Expectations

- Extension of 'Infrastructure Status' to exploration and refining activities.
- Extension of tax holiday for new refineries coming up after Mar'12.
- Removal of 5% basic customs duty on LNG.
- Price increases in diesel, LPG and kerosene.

What the Budget does

- Cess on crude oil produced in India increased from ₹2,500 per metric tonne to ₹4,500 per metric tonne.
- Exemption from basic customs duty on LNG for gas-based power generation.
- Viability Gap Funding (VGF) extended to players building LNG storage facilities and Oil & Gas pipelines.

IMPACT ON SECTOR

- Higher cess charges on upstream companies will result in approximately ₹7,000 crore additional revenue for government which will be used to reduce government's fuel subsidy burden.
- Fuel subsidy burden estimate for FY13 indicates government may go for hike in fuel prices.
- Extension of VGF for developing oil & gas infrastructure will lead to more investments in infrastructure.
- Exemption of basic customs duty on LNG for power players will lead to higher demand for LNG thereby benefiting LNG terminals and gas trading & transmission companies through higher volumes.
- Oil marketing companies have launched pilot projects for selling LPG, kerosene at market price and reimbursing subsidy directly into the beneficiary's bank account. Success of these projects on a wider scale could bring down fuel subsidy burden in future.

IMPACT ON COMPANIES

- Higher cess outgo could negatively impact earnings of ONGC & Oil India by ~10%, that of Cairn India by 6-8% and marginal impact on RIL.
- Removal of basic customs duty on LNG is positive for companies like Petronet LNG, GAIL, GSPL.
- VGF status for oil and gas infrastructure players is positive for all the players in oil & gas sector building the requisite infrastructure etc.
- At current high crude prices, under-recoveries for FY13 could be higher than that of FY12 while government has budgeted lower subsidy of ₹43,580 crore for FY13. This could lead to higher losses for OMCs like IOC, BPCL, HPCL and subsidy burden for ONGC and Oil India.

Pharma

by Krishnanath Munde

Budget Expectations

- Extension of weighted deduction on in-house R&D. Allow patent litigation cost, expenditure incurred on clinical trials & product fillings under weighted deduction on in-house R&D.
- Expect central excise duty for a) API at 5% from 10%, b) formulation at 5%.
- Decrease in custom duty on life saving medicines/vaccines, medical device.
- Extension of tax holiday on hospitals set up in tier 2 & 3 cities to 10 yrs from 5 yrs.
- Infrastructure status for hospitals.

What the Budget does

- Extension of weighted deduction of 200% for R&D expenditure in an in-house facility beyond FY12 for a further period of five years.
- Central excise duty for API & Formulation increased from 10% and 5% to 12% & 6% respectively.
- The NRHM allocation increased by around 15% to₹20,822 crore.
- Reduction in customs duty on a) manufacturing disposables and instruments to 2.5% with concessional CVD of 6%, and b) exemption for the manufacturing of coronary stents and heart valves.
- Extension of customs duty of 5% with exemption from CVD to six specified life-saving drugs/ vaccines (used for treatment of AIDS, renal cancer etc).

IMPACT ON SECTOR

- Weighted deduction on R&D is positive for the pharma sector.
- Increased NRHM allocation will help in improving healthcare access to the poor people in rural area.
- Increased excise duty on API & Formulation will have marginal negative impact on pharma sector.
- Decrease in custom duty for life saving drugs, medical device is neutral for pharma and positive for medical device sector.

IMPACT ON COMPANIES

- Weighted deduction on R&D positive for Sun Pharma, Dr Reddys, Ranbaxy, Glenmark, Lupin and Cadila Healthcare.
- MAT on partnership firms operating from SEZ will have a negative impact on companies like Sun Pharma and Cadila Healthcare.
- Small pharma companies such as Ajanta Pharma will from increase in NRHM allocation as usually these companies are awarded such contracts.
- Marginal negative impact on most API & formulation manufacturing companies due to increased excise duty.

Telecom

by Nageswararao Khandavalli

Budget Expectations

- No major announcements were expected as National Telecom policy is likely to be announced in second half of CY2012.
- Infrastructure status for telecom sector which has been on industry wish list for some time.
- Rationalization of VAT for mobile phones at 4%.
- Extension of custom duty exemption on import of handset parts and accessories for one more year.

What the Budget does

- Increase in service tax from 10% to 12%.
- Fixed network for telecommunication and telecommunication towers made eligible for viability gap funding (VGF).
- Full exemption of customs duty on parts of memory card for mobile phones.
- Proposal for a retrospective amendment to Income Tax Act, 1961 to tax transactions like the Vodafone-Hutchison deal.

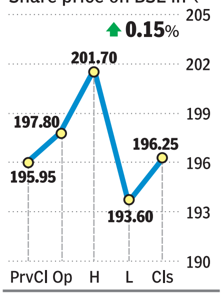
IMPACT ON SECTOR

- Increase in service tax to have marginal negative effect for the players in the highly price sensitive mobile segment though relatively positive for incumbents like Bharti, Idea and Vodafone.
- Viability gap funding to make rural expansion economical as the incremental subscriber base comes from the region.
- The government expects to raise ₹40,000 crore from auctions; this includes 2G spectrum re-auction and spectrum in use by PSUs.
- Given the level of debt in the telecom sector, it will be difficult to conclude two spectrum auctions in the same financial year.
- An increase in such plans after the implementation of a service tax hike may result in some pricing pressure
- Bringing down manufacturing cost of mobile phones to aid in deeper mobile penetration.

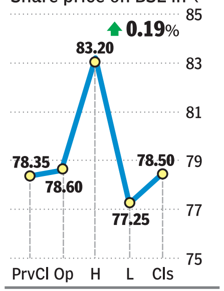
IMPACT ON COMPANIES

- Increase in service tax has a larger impact on new entrants given the more price-sensitive subscriber base
- Monitoring the movement in full talk time plans will be important going forward
- The decision for excess spectrum charges to be collected on a prospective basis rather than retrospectively, may benefit incumbents like Bharti Airtel, due to tariff consolidation

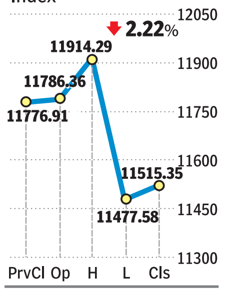
DLF
Share price on BSE in ₹



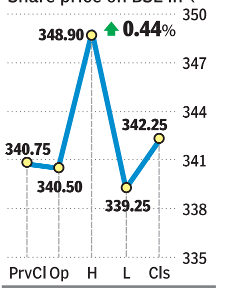
JP Associates
Share price on BSE in ₹



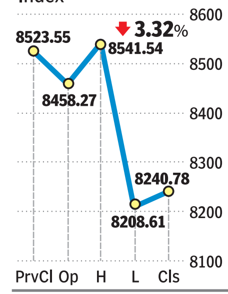
Metals
Index



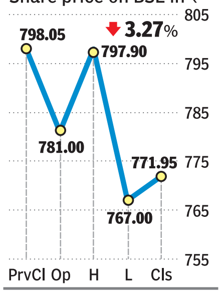
Coal India
Share price on BSE in ₹



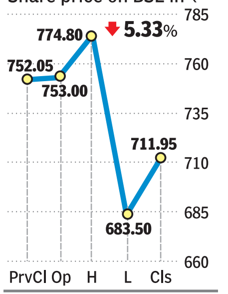
Oil & gas
Index



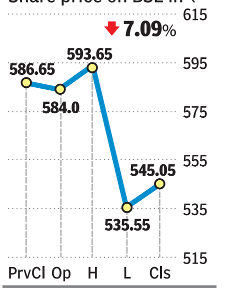
Reliance Inds
Share price on BSE in ₹



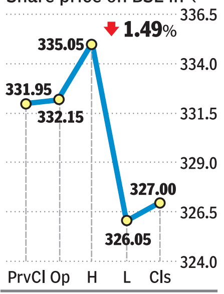
Cadila Healthcare
Share price on BSE in ₹



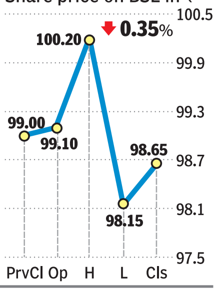
Sun Pharma
Share price on BSE in ₹



Bharti Airtel
Share price on BSE in ₹



Idea Cellular
Share price on BSE in ₹



Fiscal deficit math's pure hogwash, food subsidy number defies logic

Continued from p1

I am certainly not betting on a diesel hike and if you don't believe me, just refresh your memory on how Coal India had to eat humble crow on the gross calorific value-based pricing issue, simply because the powerful 'power sector lobby', wouldn't have any of it!

Again, what is the logic in providing for a mere ₹72,000 crore as subsidy on food for the next financial year, when the cost of providing rice and wheat at ₹2/kg to India's 800 million poor under the Food Security Act is a staggering ₹250,000 crores? Clearly, the math does not add up and a 5.1% fiscal deficit projection for fiscal 2013 is pure hogwash.

True, India is a welfare state, but what is inexplicable is the lethal pragmatism with which Mukherjee has raised excise and service tax rates to 12% from 10%. The hike in will at best mobilise a combined ₹35,000 crore. It will, however, trash the Reserve Bank of India's stated objective of reining in inflation, which will now get a boost, thanks to the infamous 'multiplier effect', on the back of higher taxes.

Had Mukherjee been a tad more imaginative and a little less pragmatic, he could have explored the re-introduction of inheritance tax, death duty and a marginal long term capital gains tax, while reducing the short-term one from 15% to 10%.

Equally, a reduction in the securities transaction tax (STT) on at least one leg (either buy or sell) of derivatives transactions would have been of material impact. Reduction of STT on cash delivery transactions is inconsequential given that on any given day, it is the derivatives segment which accounts for more than 60% of the overall stock market volumes. Also, I wonder what stopped Mukherjee from removing the dual levy of STT on Indian mutual funds — paid once when a person buys the units and then again when the said fund invests in shares!

Coming to the banking sector, clearly, the number-crunching has gone awry. If State Bank of India's Tier-1 capital alone has to go to say a healthy 9% in fiscal 2013, from the sub 8% currently, it will need anywhere between ₹14,000-16000 crore by way of capital infusion. That being the case, the budgetary provision of just about ₹ 16,000 crores for recapitalisation of all public sector banks and rural banks put together is a mere pittance.

I am equally flummoxed by all this hype about the Budget being pro-infra. Far from it. It remains to be seen if the talk about removing the cascading effect of the dividend distribution tax is anything more than a paper tiger. Ideally, Mukherjee should have reduced the minimum alternate tax (MAT) rate from 18.5% to 15%, to boost infra projects that are implemented through the public private partnership (PPP) route and rely heavily on MAT. Power sector reforms are meaningless without implementation of the Shunglu committee recommendations, of which there was not even a mention in the FM's speech.

Ditto goes for what can at best be described as 'lip service' to reforms on the personal taxation front. Only 35 million people out of a total of 1.2 billion pay taxes in India. Less than 5% of the income tax payees account for more than 70% of the income tax collections in India. That is how regressive our tax system is. Surely Mukherjee could have done better than raising the basic exemption limit from ₹180,000 to just ₹200,000. What stopped him from bringing back "standard deduction" benefits for salaried employees and raising tax concession limit on medical expenses from ₹15,000 per annum to atleast ₹30,000 per annum, in the wake of rising healthcare costs, is something which we may never find out.

Let me end with this brilliant one liner by Brad Pitt, in one of the most impressionable scenes from *The Moneyball*, one of the great Oscar movies this year: "You were paid seven million dollars for the player that you were but I am paying you just $3 million for the player that you now are!"

Pitt essays the role of a miserly general manager of an underdog baseball team that is trying hard to put up a winning team. Go and watch it, finance minister. It's a class act in budgeting and yet makes the cut.

Sanju Verma is a market expert and the MD & CEO of Violet Arch Securities, formerly known as VAlchemy Shares & Stockbrokers