Union Budget-FY13

Realistic on Fisc; what about growth!

March 16, 2012

The Union Budget FY13 makes an earnest attempt to depict a true picture of the economic scenario given the dichotomy of slowing growth v/s fiscal challenges. Although, the aim to bring down the fiscal deficit to 5.1% in FY13 from a revised estimate of 5.9% in FY12 looks credible, but the gross market borrowing program of 5.7 trillion in FY13 has been a major dampener for the markets. Despite a deviation from the thirteen finance commission roadmap in terms of fiscal deficit (5.1% for FY13 against a target of 4.2%), the debt to GDP ratio at 45.5% for FY13 remains well below the target of 50.5%. As some undesirable subsidies have been putting pressure on the government financials, the budget assures to keep central subsidies under 2% of GDP in FY13. In addition to that finance minister targets to bring it down to 1.75% in next 3 years. The absence of any mention of proceeds from the 4G and 2G auctions of the cancelled licenses could provide a positive surprise to overall fiscal deficit number.

Key Budget Estimates (₹ Bn)

Particulars	2011-2012BE	2011-2012 SE	2011-2012 A	2012-2013 BE
Revenue Receipts	7899	7899	7670	9357
Capital Receipts (Except borrowing & other liabilities)	550	550	298	417
Total Receipts (Except borrowing & other liabilities)	8449	8449	7967	9773
Non-Plan Expenditure	8162	8662	8921	9699
Plan Expenditure	4415	4415	4266	5210
Total Expenditure	12577	13077	11619	14909
Fiscal Deficit (6-3)	4128	4628	5220	5136
Fiscal Deficit (as % of GDP)	4.6%	5.2%	5.9%	5.1%

Key Non-Plan Revenue Expenditure (₹ Bn)

	2011-2012BE	2011-2012SE	2011-2012RE	2012-13
Interest Payments	2680	2680	2756	3198
Subsidy				
Food	606	656	728	750
Fertilizer	500	750	672	610
Petroleum	236	436	685	436
Defense (Revenue & Capital)	1644	1644	1709	1934
Other non plan rev exp	2496	2496	780	853
Total	8162	8662	8921	9699

Source: Budget documents & Sunidhi Research

As per the budget the fiscal health of the economy is likely to improve in FY13 through a slew of measures aimed at generating higher revenues. A proposal to widen the service tax net and introduce all items (except 17 items under the negative list) along with a proposal of raising service tax rate from 10% to 12% is estimated to yield additional revenue of Rs186.6 bn. The government has also proposed to raise excise duty from 10% to 12%, merit rate from 5% to 6% and lower merit rate from 1% to 2% (with few exceptions). Net gains from the tax proposals are estimated at Rs. 414.4 bn. Other sources of revenue include, the high target for divestments through the sale of PSU stakes proceeds pegged at Rs. 300 bn for FY13.

On the expenditure side, the government has decided to be more liberal. Total expenditure for FY13 is budgeted at Rs. 14909.25 bn, up by 18.5% from FY12 BE. The plan expenditure for FY13 at Rs. 5210.25 bn is also 18% higher than FY12 BE. The total non plan expenditure for FY13, pegged at Rs.9699 bn, 18.8% higher than the FY12 BE. The allocation towards core subsidies (oil, food and fertilizer) is also higher by 33% in the FY13 at Rs 1796 bn from Rs. 1342 bn. The allocation for the Food Security Bill is also to be fully provided for. However, we believe that the crude oil subsidy amount pegged at Rs. 436 bn is grossly underestimated given the scenario of steady rise in global crude oil prices, which has pushed the actual crude oil subsidy bill to Rs.685bn in FY12, up by a whopping 190% than the BE. This has built a strong case for the impending diesel and LPG price hike to be announced in the near term. However, government tries to partly offset the glitches in the subsidy system by bringing in greater transparency. Direct cash payment for LPG and diesel subsidy to be introduced is likely to lessen slippages in the system. The launch of LPG transparency portals by all three public sector oil marketing companies could help reduce leakages in the system. The endeavor to increase the number of individuals enrolled under the UID mission to Rs. 40 cr persons from Rs.20 cr will also act as a check on the misuse of PDS system.

(Rs Cr)

No.	Particulars	2011-2012BE	2011-12 SE	2011-2012 A	% Change (BE V/S A)	2012-2013BE
1	**Revenue Receipts**	**789892**	**688258**	**766989**	**-2.9%**	**935685**
2	Tax Revenue (Net to Centre)	664457	579000	642252	**-3.3%**	771071
3	Non-Tax Revenue	125435	109258	124737	**-0.6%**	164614
4	**Capital Receipts (5+6+7) $**	**467837**	**540634**	**551730**	**17.9%**	**555241**
5	Recoveries of Loans	15020	15225	14258	**-5.1%**	11650
6	Other Receipts (Disinvestment)	40000	15409	15493	**-61.3%**	30000
7	Borrowings & other liabilities	412817	510000	521980	**26.4%**	513590
8	***Total Receipts (1+4) $***	1257729	1228892	1318720	**4.8%**	1490925
9	**Non-Plan Expenditure**	**816182**	**875036**	**892116**	**9.3%**	**969900**
10	On Revenue A/c of which,	733558	786110	815740	**11.2%**	865596
11	Interest Payments	267986	267986	275618	**2.8%**	319759
12	On Capital A/c	82624	88926	76376	**-7.6%**	104304
13	**Plan Expenditure**	**441547**	**373683**	**426604**	**-3.4%**	**521025**
14	On Revenue A/c	363604	313150	346201	**-4.8%**	420513
15	On Capital A/c	77943	60533	80404	**3.2%**	100512
16	***Total Expenditure (9+13)***	1257729	1248719	1318720	**4.8%**	1490925
17	Revenue Expenditure (10+14)	1097162	1099260	1161940	**5.9%**	1286109
18	Capital Expenditure (12+15)	160567	149459	156780	**-2.4%**	204816
19	**Revenue Deficit (17-1)**	**307270**	**411002**	394951	**28.5%**	**350424**
		(3.4)	(4.6)	(4.4)		(3.4)
20	**Fiscal Deficit [16-(1+5+6)]**	**412817**	**529827**	521980	**26.4%**	513590
		(4.6)	(5.9)	(5.9)		(5.1)
21	**Primary Deficit (19-11)**	**144831**	**143016**	**246362**	**70.1%**	**193831**
		(1.6)	**(1.6)**	**(2.8)**		**(1.9)**

$ Does not include receipts in respect of Market Stabilization Scheme.

** Includes draw-down of Cash Balance.* 18.5410%

Note : GDP for BE2011-12 has been projected at ₹(8980860 crore) assuming 14% growth over the advance Revised estimates of 2011-2012 (₹8912179 crore) released by CSO.

GDP for BE 2012-2013 has been projected at ` 10159884 crore assuming 14% growth over the Advance Estimates of 2011-2012 (` 8912179 crore) released by CSO.

Source: Union Budget 2011-12, Ministyr of Finance, Govt. of India, Sunidhi Estimate

(₹bn)

Central Plan Outlay	2009-2010 A	2010-2011BE	2010-2011 A	2011-2012BE	2011-2012A	2012-2013BE
Agriculture and Allied Activities	110	123	157	147	149	177
Rural Development*	474	552	524	553	481	507
Irrigation and Flood Control	4	5	5	6	5	13
Energy	1143	1466	1110	1555	1472	1548
Industry and Minerals	307	390	360	452	406	572
Transport **	865	1020	942	1169	1092	1254
Communications	147	185	103	203	120	154
Science Technology & Environment	99	137	119	162	127	166
General Economic Services	40	76	137	158	194	248
Social Services***	868	1276	1173	1448	1481	1789
General Services	12	15	14	72	55	87
Grand Total	**4069**	**5245**	**4643**	**5925**	**5582**	**6515**

* *Includes provision for rural housing but excludes provision for rural roads.*

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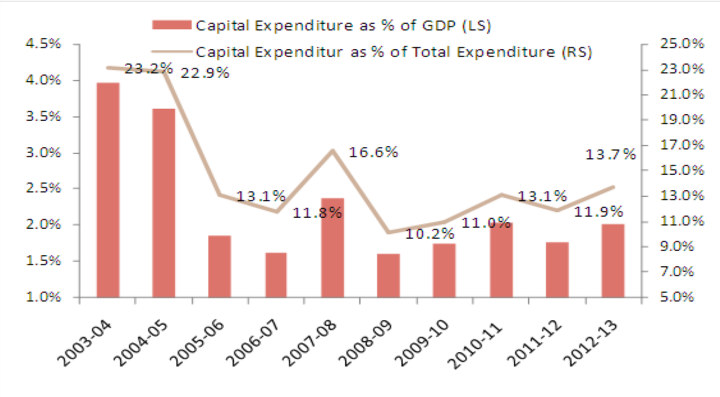
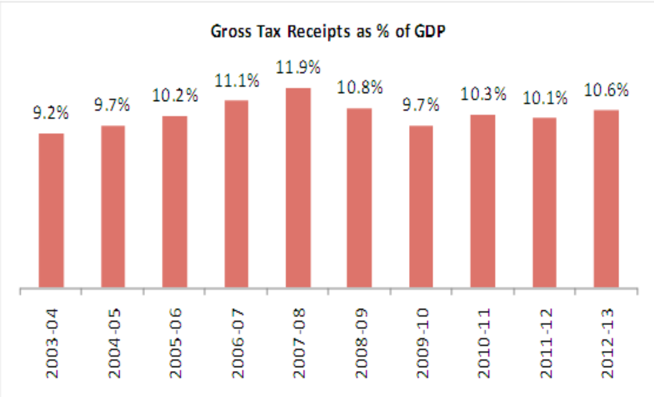
**** Excludes provision for Rural Housing.*

Source: Union Budget 2011-12, Ministry of Finance, Govt. of India

High expenditure on capital account to boost investments

Expenditure on Capital Account as a percentage of Total Expenditure for FY13 is projected at a five-year high of 13.7% (Rs 2.05 trillion) which may revive the much needed Investment Cycle going forward provided the monetary policy starts easing. The higher expenditure is also supported by improving gross tax receipts as a percentage of GDP from 10.1% in FY12 to 10.6% in FY13.





Addressing investments & supply bottlenecks in Infrastructure sector

In order to provide a boost to the decelerating industrial activity on account of low private investment, the government has proposed a full exemption from customs duty to coal mining project imports. This along with other measures such as investments on infrastructure investment of up to Rs. 500 bn during the 12th plan period, introduction of Infrastructure Debt Fund with an initial size of Rs. 80 bn, tax free bonds of Rs. 600 bn for financing infrastructure projects are likely to fuel infrastructure activity in the nation. The budget also tried to address supply bottlenecks in infrastructure sector by expanding viability gap funding to sectors like Oil and gas pipelines, fixed networks of Telecom services and Telecom infrastructure, allowing ECB to re-finance rupee debt in sectors like Power, allowing ECB for working capital requirements for airlines up to USD1 bn for a period of one year.

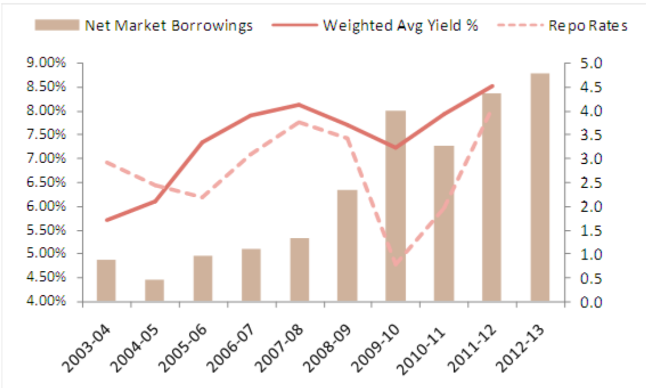
Greater accessibility to Capital Markets

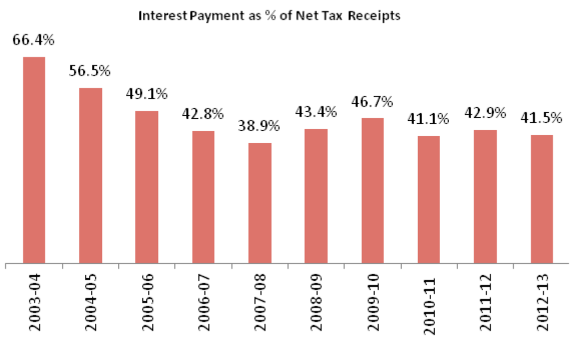
- The finance ministry has endeavored to attract higher investments in the capital market through various initiatives like allowing income tax deduction of 50% to retail investors who invest upto Rs50, 000, through Rajiv Gandhi equity saving scheme having an income below 10 lakh (with a lock in period of three years)
- Allowing Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market;
- Simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns.
- Permitting two-way fungibility in Indian Depository Receipts subject to a ceiling with the objective of encouraging greater foreign participation in Indian capital market.

Higher borrowing program may keep interest rate at elevated levels

The weighted average yield of borrowings from the market stood at 8.52% for FY12 (till Dec'11) and poses risk for the borrowing costs given the excess borrowings announced by the finance ministry. The elevated bond yields may require active intervention from the RBI to counter the surge in bond yields and the resultant impact on inflation may delay the process of reversal in rate cycle.

Interest payment (to service government debt) is expected to increase to Rs. 3.2 trn in FY13 from Rs. 2.8 trn in FY12. However, as a percentage of Net Tax Receipts it is expected to relatively go down to 41.5% from 42.9% in FY12 on expectations of higher tax revenues.





Direct Tax

- Income tax slabs for individual taxpayers to be as follows

Income upto ₹ 2.0 lakh	Nil
Income above ₹ 2 lakh and upto ₹ 5 lakh	10 %
Income above ₹5 lakh and upto ₹ 10 lakh	20 %
Income above ₹10 lakh	30 %

- A deduction of up to ₹10,000 for interest from savings bank accounts.
- Upper limit of 20% tax slab proposed to be raised from ₹8 lakh to ₹10 lakh
- Introduction of new scheme called Rajiv Gandhi Equity Savings Scheme to allow for income tax deduction of 50 % to new retail investors who invest up to ₹50,000 directly in equities and whose annual income is below ₹10 lakh.
- Rate of withholding tax on interest payment on ECBs proposed to be reduced from 20% to 5% for 3 years for certain sectors.
- Continuation to allow repatriation of dividends from foreign subsidiaries of Indian companies at a lower tax rate of 15% up to 31.3.2013.
- Investment link deduction of capital expenditure for certain businesses proposed to be provided at the enhanced rate of 150%.
- Extension of weighted deduction of 200% for R&D expenditure in an in house facility for a further period of 5 years beyond March 31, 2012.
- Weighted deduction of 150% on expenditure incurred for agri-extension services.
- Extension of the sunset date for setting up power sector undertakings by one year for claiming 100% deduction of profits for 10 years.
- Exemption from Capital Gains tax on sale of residential property, if sale consideration is used for subscription in equity of a manufacturing SME for purchase of new plant and machinery.
- Reduction in securities transaction tax by 20% on cash delivery transactions.
- Extension of the levy of Alternate Minimum Tax to all persons, other than companies, claiming profit linked deductions.

Indirect Taxes

- New concept of taxing services based on negative list. All services to be taxed except 17 services.
- No change proposed in the peak rate of customs duty of 10% on nonagricultural goods.
- standard rate of excise duty to be raised from 10% to 12%, merit rate from 5% to 6% and the lower merit rate from 1% to 2% with few exemptions.

Sector wise Analysis - Budget Impact

Agriculture

Positive

- Agriculture credit target increased by ₹100,000 crore to ₹575,000 crore for FY13

Impact
Positive for Indian agriculture and allied industries such as Fertiliser, Agrochemicals, Irrigation, farm equipment industry.

- Under the Scheme for Support to PPP irrigation (including dams, channels and embankments), common infrastructure in agriculture markets, soil testing laboratories eligible for Viability Gap Funding (VGF).

Impact
Positive for Indian agriculture and allied industries.

- Interest subvention scheme for providing short term crop loans to farmers at 7% interest per annum to be continued in 2012-13. Additional subvention of 3% available for prompt paying farmers.

Impact
Positive for Indian agriculture and allied industries such as Fertiliser, Agrochemicals, Irrigation, farm equipment industry.

- Steps taken to create additional food grain storage capacity in the country.

Impact
Positive for Indian agriculture and allied industries.

Automobiles

Neutral

- No additional levy on diesel cars.
- Excise duty on small cars to increase from 10% to 12%.
- Excise duty on two wheelers to increase from 10% to 12%.
- Custom duty on CBU of large cars (price above USD 40K) to increase from 60% to 75%.
- CBU of large cars (price above USD 40K) are to be permitted for import without type approval.
- Excise duty on petrol driven large cars (length above 4000 mm) with engine capacity under 1200 cc to increase from 22% to 24%.
- Excise duty on petrol driven large cars (length above 4000 mm) with engine capacity above 1500 cc to increase from 22% + 15k to 27%.
- Excise duty on diesel driven large cars (length above 4000 mm) with engine capacity under 1500 cc to increase from 22% to 24%.
- Excise duty on diesel driven large cars (length above 4000 mm) with engine capacity above 1500 cc to increase from 22%+ ₹15K to 27%.
- Excise duty on specified parts of hybrid vehicle to reduce from 10% to 6%.

Impact
In our view the proposals of increase in excise duty in the Union Budget will have almost neutral impact on the performance of automobile sector. We believe that OEMs will pass on the increase in cost due to higher excise duty to the customers. Further (except MSIL) all players enjoys excise duty benefit at few of their plants (example HMCL enjoys excise benefit at its Haridwar plant, BAL at Pantnagar plant, ALL at Pantnagar), which limits the impact of increased excise duty on their cost.

Considering the fear mounted in street for an additional levy of ₹80 K on diesel cars, we believe that no proposal of additional tax on diesel cars has been a biggest positive surprise for the auto sector (in line with our expectations). Additionally, increase in focus of government on agriculture sector is positive for the two wheeler/SUV segment, given plan outlay for Department of Agriculture and Co-operation increased by 18% and target for agricultural credit raised by ₹1,00,000 crore to ₹5,75,000 crore in FY13.

Aviation

Negative

- Import of aircraft parts exempt from basic customs duty
- ECB for working capital of up to USD 1 bn allowed for airline companies
- No progress on FDI in aviation
- Excise duty on pneumatic tyres, new or retreaded, used in aircraft is being reduced from 10% to nil.

Impact
Although allowance for ECB will help aviation sector to get working capital loans at cheaper rate and reduction of excise duty/ custom duty is positive for aviation sector at operational front, however no announcement regarding FDI has disappointed the street.

Banking & Finance

Neutral

- The gross market borrowing of the Government in 2012-13 would be ₹5.7tn and estimated fiscal deficit for 2012-13 is 5.1%.

Impact
Negative for Banks. Estimated government borrowings are higher than ours as well as street expectations. High government borrowings would pressurize bond yields thus negatively impacting banks. Additionally high government borrowings would crowd out private borrowings. The high fiscal deficit and inflation expectations could also lead the RBI to postpone repo rate cuts further.

- Two way fungibility in Indian Depository Receipts (IDRs) permitted subject to a ceiling.

Impact
Improve liquidity in trading of IDRs. Positive for Standard Chartered IDR.

- Capital infusion to the extent of ₹158.9 bn for capitalization of Public Sector Banks, Regional Rural Banks and other financial institutions including NABARD. Of this amount, ₹145.9 bn would be used to recapitalize public sector banks.

Impact
Positive for public sector banks which have low Tier1 CARs such as Bank of India, IDBI Bank, Central Bank, IOB, PNB, UBI etc.

- A central Know Your Customer (KYC) depository will be developed in 2012-13 to avoid multiplicity of registration and data upkeep.

Impact
Positive for all banks, would help reduce operating costs.

- Extension of the scheme of interest subvention of 1% on housing loan up to ₹15 lakh where the cost of the house does not exceed ₹25 lakh for another year.

Impact
Positive for housing finance companies such as HDFC, LIC HF as well as banks.

- The interest subvention scheme for providing short term crop loans to farmers at 7% interest per annum will be continued in 2012-13. An additional subvention of 3% will be available to prompt paying farmers.

Impact
Neutral for banks.

- Subvention to Women SHGs to avail loans up to ₹3 lakh at 7% per annum. Women SHGs that repay loans in time will get additional 3 per cent subvention, reducing the effective rate to 4%.

Impact
Neutral for banks.

- Deduction of upto ₹10,000 for interest from savings bank accounts for individual tax payers with salary incomes upto ₹5 lakh.

Impact
Positive for all banks, would help attract low cost savings deposits accounts.

- Service tax exemption on the services of business facilitators and correspondents to banks and insurance companies.

Impact
Positive for all banks as they use business facilitators and correspondents to meet priority sector lending targets.

- STT on cash delivery reduced by 20% to 0.1%.

Impact
Positive for brokerage firms such as JM Financial, Edelweiss Capital, Motilal Oswal.

- Rajiv Gandhi Equity Saving Scheme to allow for income tax deduction of 50% to new retail investors, who invest upto ₹50,000 directly in equities and whose annual income is below ₹10 lakh to be introduced.

Impact
Positive for brokerage firms such as JM Financial, Edelweiss, Capital, Motilal Oswal.

- Doubling of tax free bond limit to Rs 60,000 crore, of which Rs 10,000 crore would be for the power sector.

Impact
Positive for PFC, REC.

- Reduction in the premium limit for life insurance from 20% of actual capital sum assured to 10% of actual capital sum assured in order to claim income tax deduction under section 80C.

Impact
Neutral for all life insurance players as IRDA regulations have already provided for this requirement.

Cement

Neutral

Packaged Cement :-

Cement	**Present Rate**	**Proposed Rate**
Mini Cement Plant	10% Ad Valorem +	6% Ad Valorem +
	₹30 per tonne	₹120 per tonne
Other than Mini Plant	10% Ad Valorem +	12% Ad Valorem +
	₹160 per tonne	₹120 per tonne
Non Packaged Cement :-		
Cement	**Present Rate**	**Proposed Rate**
Mini Cement Plant	10 % Ad Valorem	12 % Ad Valorem
Other than Mini Plant	10 % Ad Valorem	12% Ad Valorem

- The Budget Proposal has rationalized excise duty for packaged cement, whether manufactured by mini cement plants or others. The graded excise duty structure based on RSP slabs applicable to cement manufactured & cleared in package form is being removed.

Impact
Marginally Negative for cement players. The proposed replacement of existing excise duty rates with a 12 % ad valorem rate and an additional specific rate of `120 per tonne of cement would result in an effective 1 to 1.5% increase in the excise duty for the cement industry.

- The Budget proposes to fully exempt the steam coal from basic customs duty and concessional CVD of 1% for a period of two years till March 31, 2014 would benefit the cement manufacturers producing in-house thermal power.

Impact
Positive for cement companies importing steam coal such as Grasim, Madras cement, Shree cement, ACC, Ultratech etc.

- Budget proposes huge funding allocation for Power, Roads, Delhi –Mumbai Industrial Corridor, Low Cost Housing & Other Infrastructure projects.

Impact
Positive for cement companies as this would be the key demand growth driver for the sector.

Capital Goods

Neutral

- ₹50,000 bn would be spent in the infrastructure sector in the 12th plan period, half of which is expected to come from the private sector.

Impact
Positive for the sector.

- Proposal to fully exempt a coating chemical used for compact fluorescent lamps from basic customs duty. Also excise duty on LED lamps being reduced to 6%.

Impact
Positive for companies engaged in business of energy savings electrical products like Crompton, Havells.

- No announcement of import duty on power equipments, which was highly anticipated from the budget.

Impact
Status-quo maintained, no immediate impact on domestic power equipment players. We expect government to take up this issue at a later stage.

Education

Positive

- The Right to Education (RTE) Act is currently being implemented through the Sarva Shiksha Abhiyan (SSA). For FY13, the government has increased allocation for SSA to ₹25,555 crores up 21.7% on a YoY basis.
- The government intends to set up 6000 schools in the Tweleveth plan at the Block level of which 2500 would be in Public private partnership.
- The government increased allocation to Rashtriya Madhyamik Shiksha Abhiyan (RMSA) to ₹3,124 crore for FY13 which an increase of 29% on a YoY basis.

Impact
Positive for Educomp, Everonn, NIIT.

FMCG

Neutral

- Basic excise duty increased from 10% to 12%.

Impact
Negative for all FMCG Companies

- Basic excise duty on cigarettes of more than 65mm length to increase by adding an ad valorem component of 10% to the existing specific rates. The ad valorem duty would be chargeable on 50% of the Retail Sale Price declared on the pack.
- Basic excise duty on bidis & other tobacco products to increase.

Impact
Negative for **ITC, Godfrey Phillip.**

- Basic custom duty on Soya protein & Soya protein concentrate to reduce from 30% to 10%.

Impact
Negative for all Oil producing companies such as Ruchi Soya, Sawariya Agro etc as imports of Soya protein concentrate would be much cheaper.

- Custom Duty on Titanium Dioxide to reduce from 10% to 7.5%.

Impact
Positive for all paint manufacturing companies such as Asian Paints, Berger Paints, Akzo Nobel as Titanium dioxide is one of the key raw material for Paints.

- Widening of personal tax slabs will increase key disposable income of individuals.

Impact
Positive for all FMCG companies.

- Increased allocation towards rural development.

Impact
Positive for the sector.

Fertilisers

Positive

- Subsidy for Fertilisers pegged at ₹609.74 billion (₹190 billion for domestically produced Urea, ₹133.98 billion for Imported Urea and ₹285.76 billion for decontrolled fertilisers (Complexes, DAP and MOP).

Impact

FM has budged 20% higher amount than what he did in last budget. Subsidy on decontrolled (Non-Urea) fertilisers on per KG basis was decreased by ~20% earlier this month. However, Railway freight increases will increase freight subsidy burden by ~20% on per tonne basis. Subsidy on Urea is open ended as it is subject to domestic gas price, LNG (used by urea plants) and price of imported urea. Gas price hike by OMAN for OMIFCO will also put additional burden of ₹6 billion. GOI has till now allocated ₹710 billion (overshooting by ~40% of initial allocation) for FY12 considering 2 round of supplementary grants. Subsidy amount in this year is much closer to realistic number compared to last year.

- Budget is silent on Urea policy for exiting plants and Urea price hike

Impact

FM's silence over urea policy or price hike is disappointing. We view this as Negative for all Urea companies such as **Chambal Fertilisers, RCF, NFL, Nagarjuna Fertilisers, Tata Chemicals**. After showing intent more than once in last few budgets, he skipped to mention anything on Urea to be brought under NBS or brining Modified NPS-3 policy where existing urea units will benefit with ₹350/tonne additional subsidy.

- In order to provide low cost funds, the rate of withholding tax on interest payments on external commercial borrowings (ECB) is proposed to be reduced from 20% to 5% for 3 years.

Impact

Positive for all fertiliser companies as it will bring down cost of borrowing via ECB for 3 years.

- Investment linked deduction of capital expenditure incurred is proposed to be provided at the enhanced rate of 150%, as against the current rate of 100%.

Impact

Positive for all fertiliser companies which are planning to expand capacities.

- A mobile- based Fertiliser Management System (mFMS) has been designed to provide end-to-end information on the movement of fertilisers and subsidies, from the manufacturer to the retail level. This will be rolled out nation-wide during 2012. Direct transfer of subsidy to the retailer, and eventually to the farmer will be implemented in subsequent phases. This step will benefit 12 crore farmers, while reducing expenditure on subsidies by curtailing misuse of fertilisers.

Impact

Positive for all fertiliser companies as it will mean better receivable cycle which often gets affected due to delays in receiving subsidy from government.

- Under the Scheme for Support to PPP for common infrastructure in agriculture markets, soil testing laboratories and capital investment in fertiliser sector eligible for Viability Gap Funding (VGF) under this scheme.

Impact

It is a positive step for Indian agriculture. It is also positive for 'Revivial of Closed fertiliser units' of HFCL and FCI which government proposes to revive through PPP mode.

- Reduction in basic customs duty on some water soluble fertilisers and liquid fertilisers, other than urea, from 7.5% to 5% and from 5% to 2.5%;

Impact

Positive for water soluble fertilisers and liquid fertilisers manufacturers such as **Coromandel International, GSFC, RCF, DFPCL**

- Use of Single Super Phosphate (SSP) will be encouraged through greater extension work.

Impact

Government's efforts to increase SSP sales will be positive for SSP players like **Rama Phosphate, Liberty Phosphate, Khaitan Chemicals, Jubilant Industries, Tata Chemicals, Coromandel International, Zuari industries and Chambal Fertilisers.**

- Imports of equipment for initial setting-up or substantial expansion of fertilizer projects are being fully exempted from basic customs duty of 5% for a period of three years up to March 31, 2015.

Impact

It will be positive for all fertiliser companies which are expanding capacities they will save 5% amount in terms in duty exemption.

- LNG exempt from customs duty from 5% currently.

Impact

Positive for all fertiliser companies that consume LNG such as Chambal Fertilisers as cost of producing Urea will reduce. Benefit till cut-off quantity is mopped up by government, but reduction in cost is beneficial in increasing margins for quantity beyond cut-off which is linked to Import Parity Pricing (IPP).

Gems & Jewellery

Negative

- Excise Duty & Custom duty on refined gold manufactured ore, concentrate or dore bars proposed to be increased from 1.5% to 3.0%. & 1% to 2% respectively.
- Full exemption from excise duty has been provided to gold coins of purity 99.5% & above & silver coins of purity 99.9%.
- Full exemption from excise duty is being provided to branded silver jewellery. While, refined silver obtained from smelting copper shall hence forth attract excise duty of 4%.
- Excise duty on gold jewellery sold from EOUs into DTA to increase from 5% to 10%.
- Basic custom duty on standard gold bars & platinum bars to increase from 2% to 4%.
- Custom duty on non standard gold to increase from 5% to 10%.
- Basic custom duty of 2% is being imposed on cut & polished coloured gemstones.

Impact

Negative for companies such as Gitanjali Gems, Shree Ganesh Jewellery, Titan, Hind Copper etc.

Healthcare

Neutral

- Allocation for NRHM proposed to be increased from ₹181.15 bn in FY12 to ₹208.22 bn in FY13.

Impact
Positive for all pharmaceutical companies.

- Extension of the deduction of 200% for R&D expenditure in an in-house facility beyond March 31, 2012 for a further period of five years.

Impact
This will provide added incentive for investment in R&D. Positive for Biocon, Piramal Life Sceinces, SPARC, Ranbaxy etc.

- Investment linked deduction of capital expenditure incurred in setting up hospitals anywhere in India with at least 100 beds at an enhanced rate of 150% from the current rate of 100%.

Impact
Positive for Apollo hospitals, Fortis, Max India.

- Concessional basic customs duty of 5% with full exemption from excise duty/CVD to six specified life-saving drugs/ vaccines. These are used for the treatment or prevention of ailments such as HIV-AIDS, renal cancer, etc.

Impact
Positive.

- Under the existing provisions of the Income-tax Act, MAT and AMT are levied on companies and limited liability partnerships (LLPs) respectively. It is now proposed to levy MAT and AMT on partnership units as well.

Impact
Negative for Sun Pharma and Cadila Healthcare which have partnership units in Sikkim.

Hotel

Neutral

- The reinstatement of service tax to 12% from the earlier rate of 10%. The abatement provided for hotel accommodation to reduce from 50% to 40%.

Impact
- Marginally negative for Hotel Leela Ventures, ITC hotels, Indian Hotels as the effective service tax for hotel accommodation will increase to 7.2% from 5%.

Infrastructure

Positive

- Tax free bonds of ₹60,000 crore to be allowed for financing infrastructure projects in FY13. This includes ₹10,000 crore for NHAI, ₹10,000 crore for IRFC, ₹10,000 crore for IIFCL, ₹5,000 crore for HUDCO, ₹5,000 crore for National Housing Bank, ₹5,000 crore for SIDBI, ₹5,000 crore for ports and ₹10,000 crore for power sector.

Impact

Positive for all infrastructure companies such as **IRB Infra, ITNL, GMR infra, GVK, L&T, Sadbhav Engg, Supreme Infra, Ashoka Buildcon.**

- Reduction in the withholding tax on interest payments of external commercial borrowings (ECBs) for the roads sector, to 5% from 20% for roads and bridges, ports and shipyards affordable housing, dams.

Impact

Positive for all infrastructure companies.

- Target of covering a length of 8,800 kilometre under NHDP next year from 7300 KM in FY12. Allocation of the Road Transport and Highways Ministry enhanced by 14% to ₹25,360 crore. ECB proposed to be allowed for capital expenditure on the maintenance and operations of toll systems for roads and highways, if they are part of original project.

Impact

Positive for all road companies such as **IRB Infra, ITNL, GMR infra, GVK, L&T, Sadbhav Engg, Supreme Infra, Ashoka Buildcon.**

IT

Neutral

- The government hinted that enrolments into the Aadhaar system have crossed 20 crore and the Aadhaar numbers generated upto date have crossed 14 crore. The government proposes to allocate adequate funds to complete another 40 crore enrolments starting from April 1, 2012. The Aadhaar platform would be ready to support the payments of MG-NREGA; old age, widow and disability pensions; and scholarships directly to the beneficiary accounts in selected areas. The government proposes to allocate over ₹14000 crores for UIADI spending in FY13.

Impact

Domestic spending On IT projects related to UIADI is positive for IT vendors like **TCS, Wipro, Mahindra Satyam** and **Mindtree.**

Media

Neutral

- Budget proposes to exempt the industry from service tax on copyrights relating to recording of cinematographic films.

Impact

Positive for **Saregama India Ltd, Eros International Media**

- Service tax to increase to 12% from 10% on subscription charge

Impact

Neutral for cable operators and DTH players as it is a pass thru to customers.

- Custom duty reduced to nil from 5% earlier on waste paper(raw material for Newsprint).

Impact

Positive for print media of newsprint souring will be cheaper for companies such as Jagran Prakashan, HT Media, DB Corp.

Metals

Neutral

- Basic customs duty to reduce from 7.5% to 2.5% on plant and machinery imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants.

Impact

The impact on steel companies is neutral. However mid size steel companies like Usha martin, Adhunik Metaliks could evaluate their decisions.

- Basic customs duty to increase from 5% to 7.5% on non-alloy, flat-rolled steel.

Impact

Indirectly positive for domestic ferrous companies as it will make imports more costly. However industry had built up an expectation of upto 10% custom duty.

- Basic customs duty to reduce from 7.5% to 5% on manufacture of electrical steel.

Impact

Negative for certain steel companies like Electrosteel Ltd and Electrosteel Castings Ltd.

Mining

Neutral

- The reduction in basic customs duty on Steam coal to NIL from 5.0%.

Impact
It will have no direct impact on coal mining companies. However it will benefit to power generation companies. Positive for certain companies like Sterlite Energy (Sterlite industries), HZL and other metal companies which use imported coal for their CPP.

Oil & Gas

Neutral

- Crude petroleum oil produced in India to attract a cess of ₹4,500 per metric tonne under the Oil Industries Development Act as against ₹2,500 per metric tonne.

Impact
Negative for Oil Producing Companies like **ONGC, Cairn India, Oil India**, etc.

- LNG exempt from customs duty from 5% currently

Impact
Positive for GAIL, Petronet LNG, Indraprastha Gas, Gujarat State Petronet Ltd and all LNG users such as fertiliser, power, petrochemical and refinery companies.

- Direct cash subsidy for LPG and Kerosene to beneficiary. The three public sector Oil Marketing Companies have launched LPG transparency portals to improve customer service and reduce leakage. A pilot project for selling LPG at market price and reimbursement of subsidy directly into the beneficiary's bank account is under test phase.

Impact
It will be positive for oil marketing companies i.e. **Indian Oil, BPCL and HPCL.**

- Oil & Gas sector will also be considered for Viability Gap Funding (VGF) which is an instrument under the Scheme for Support to PPP in infrastructure.

Impact
Positive for all Oil and Gas companies

- On Petrochemicals, Increase in excise duty to 12% from 10% earlier.

Impact
Negative for Petrochemicals i.e. **Reliance Industries, BPCL, HPCL, IOC.**

- Fuel subsidies budgeted at ₹43.58 billion, actual may shoot up.

Impact
The government's estimate of ₹43.58 billion oil subsidies for FY13 look very optimistic (actual may be higher given the high crude price and difficulty in decontrol of Diesel and LPG). Given the rising under-recoveries, oil marketing companies and upstream PSUs may have to absorb a higher share of under-recoveries, which will put severe pressure on margins.

Paper

Neutral

- Excise duties on paper and paperboard (P&B) and pulp to increase by 1 per cent.

Impact
Given the oversupply and weak domestic demand, the paper and paperboard players such as BILT, JK Paper, AP Paper, West Coast paper, TNPL, Rainbow paper etc. may be unable to pass on the entire increase in duties, and will see a pressure in their margins.

- Budgetary allocation for education to increase by 21 per cent to Rs 74,000 crores in FY13

Impact
It will further drive demand for Writing & Printing paper as Education remains a large consumer of Paper sector.

- Customs duties on imported wastepaper is to be removed.

Impact
Domestic newsprint manufacturers such as **Rama Newsprint** will benefit as imported pulp will now attract zero customs duty, as against 5 per cent for other paper varieties. Newsprint makers will see some relief with improving margins on this count.

Power

Positive

- ₹50,000 bn would be spent in the infrastructure sector in the 12th plan period, half of which is expected to come from the private sector.

Impact
Positive for overall infrastructure and power sector. L&T, GVK, GMR, Lanco are likely beneficiaries.

- Extension of 80IA tax holiday for another year till March 2013.

Impact
Positive for entire power sector and will benefit all power projects, including UMPPs and transmission projects, which are coming up in the next one year. Power developers executing projects under the current 11th plan and which have slipped beyond March 2012 due to various bottlenecks will now try to fast track their completion schedule to avail benefit of the above clause. As a result the country might see more number of projects achieving COD by March 2013.

- Full customs duty exemption for imported steam coal for 2 years with concessional CVD of 1%.

Impact
Positive for all power generating companies especially those based on imported coal. The earlier duty on thermal/steam coal had an impact on power tariff of c.25 paise/unit. Imported coal from Indonesia was subject to imposition of 7.55% customs duty and that from other countries invited 10.83% duty. Now with zero import duty for 2 years and concessional CVD of 1% power producing cost will be lesser. NTPC, Tata Power, Adani Power to be likely beneficiaries.

- In view of coal shortage hitting power projects, FM has indicated that inter ministerial group will look into fuel supply by Coal India.

Impact
Positive for all power companies, as they will get the much needed relief from fuel shortage crippling their power projects.

- Coal mining companies sitting on allocated mines without meaningful development work will now be under scrutiny and run the risk of de-allocation of their coal blocks and losing their mining licences.

Impact
Negative for mining companies as well as power companies who are having idle captive coal blocks.

- Government has opened up funding options for companies engaged in aviation, railways, ports, power and roads, by relaxing ECB norms for most projects in these sectors to ensure easy access to funds. The Finance Minister has also proposed permission of ECB in power sector in order to partly finance the rupee debt of existing power plants. Budget also proposed to reduce the rate of withholding tax on interest on ECB to 5% from 20%.

Impact
Positive for existing power producers having large rupee debt requirements, as they can now partly finance their costly rupee denominated debt through relatively cheaper ECB route. Also reduction in withholding tax rate from 20% to 5% will also reduce overall borrowing cost for power companies. NTPC, Tata Power, Reliance Power, Adani Power, Lanco to be likely beneficiaries.

- Additional depreciation of 20% in the initial year is proposed to be extended to new assets acquired by power generation companies

Impact

Positive for existing power producers setting up new equipment plants where they can avail of the above additional depreciation benefit in the initial year. NTPC, Tata Power, Reliance Power, Adani Power, Lanco, GVK etc to be likely beneficiaries.

Real Estate

Positive

Low Cost Housing projects

In view of the shortage of housing for low income groups in major cities and towns, budget proposes to:

- Allow ECB for low cost affordable housing projects;
- Set up Credit Guarantee Trust Fund to ensure better flow of institutional credit for housing loans;
- Enhance provisions under Rural Housing Fund from ₹3000 crore to ₹4000 crore;
- Extend the scheme of interest subvention of 1% on housing loan up to ₹15 lakh where the cost of the house does not exceed ₹25 lakh for another year; and
- Enhance the limit of indirect finance under priority sector from ₹5 lakh to ₹10 lakh.

Impact

The budget proposal would be positive and have significant impact on the funding availability of companies executing low cost housing projects like **HDIL , DLF, Parsvnath Developers, Omaxe, Shobha Developers, Godrej Properties, Prestige Estates, Anant Raj Industries etc.**

Telecom

Neutral

- Fixed Networks of Telecom services and Telecom Infrastructure companies bought under sectors which can avail viability gap funding.
- Full exemption from basic customs duty, presently available on parts, components and accessories of mobile handsets including cellular phones is being extended to parts, components and sub-parts of parts and components required for manufacture of Memory Cards for mobile phones.
- Service tax to increase from 10% to 12% which will be passed on to the customers and hence increase the end billing charged to customer.

Impact

No major impact on Telecom sector for the current budget.

Textiles

Neutral

- Government has announced a financial package of ₹3,884 crore for waiver of loans of handloom weavers and their cooperative societies.
- Two more mega handloom clusters, one to cover Prakasam and Guntur districts in Andhra Pradesh and another for Godda and neighbouring districts in Jharkhand to be set up.
- Three Weaver's Service Centres one each in Mizoram, Nagaland and Jharkhand to be set up for providing technical support to poor handloom weavers ₹ 500 crore pilot scheme announced for promotion and application of Geo-textiles in the North Eastern Region.
- A powerloom mega cluster to be set up in Ichalkaranji in Maharashtra with a Budget allocation of ₹70 crore.
- Excise duty on readymade garments has changed from 10% + abatement of 55% to 12% + abatement of 70%
- Custom duty on wool waste and wool tops from 15% to 5%
- Automated shuttle looms exempted from customs duty

Impact

While excise duty has been increased from 10% to 12% on readymade garments, higher abatement from 55% to 70% translates into reduction of duty from 4.5% to 3.6% - positive for branded garment manufacturer like **Page Industries, Zodiac Clothing.**

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