Union Budget FY13 Expectation

Spotlight on fiscal consolidation

IDFC Securities Research

(Dir) +91-22-6622 2600
Email: research@idfc.com

FY12 – A report card

What they delivered

- Cleared 100% FDI in single brand retail
- Cleared mandatory digitization of cable TV
- Land acquisition and mining bill cleared by cabinet
- Social spending continued though NREGS
- Initiation of the UID project

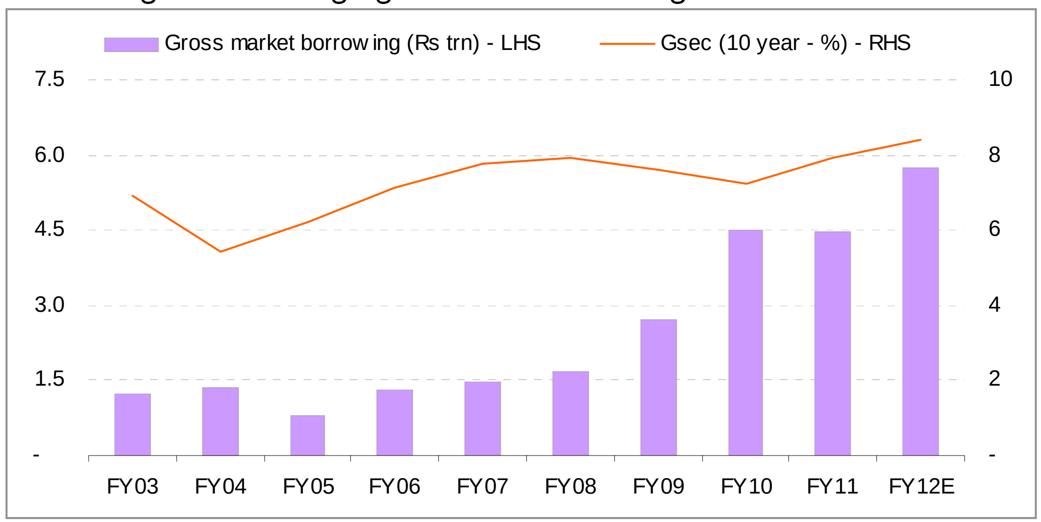
What they didn't

- Implementation of GST and DTC delayed
- Huge slippages on fuel and fertilizer subsidies
- Miss on disinvestment target due to weak capital markets
- Tax collections impacted due to weakening economic momentum
- Investment cycle at a standstill due to fuel unavailability and lack of environmental clearances

Fiscal slippage estimated to be ~1.2% of GDP in FY12…

FY12	Rs bn
Budgeted fiscal deficit	4,128
% of GDP	4.6
Slippages	
Subsidies	702
Disinvestment	250
Tax collections	323
Savings	
Plan expenditure	149
Dividends	100
Revised fiscal deficit	5,154
% of GDP	5.8

…resulting in all time high government borrowings!



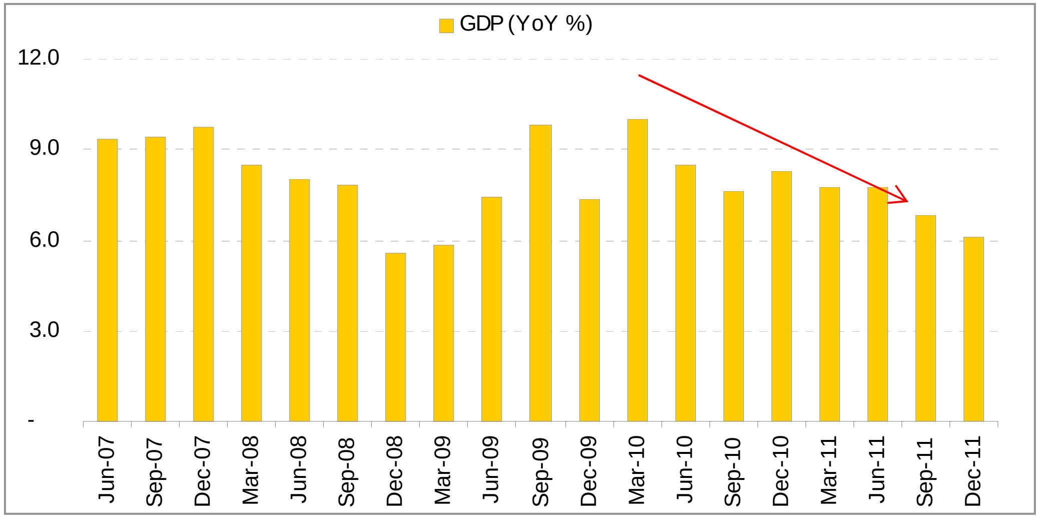
FY13 budget: Thrust on fiscal consolidation

What are the options for FM?

- Broad based increase in excise duty to prop up tax collections
- Increase in service tax rate and inclusion of more services under the ambit of service tax
- Increase in fuel and fertilizers prices to reduce subsidy burden
- Use of UID to enable direct transfer of cash subsidies
- Use of auction route to meet the disinvestment target in case of weak equity markets
- Re-auction of 2G spectrum obtained by cancellation of 122 licenses
- Measures to step up investment spending through faster project clearances and fuel availability

Tax collections: Decelerating momentum

Moderating economic growth momentum…



…has led to lower tax collections in FY12!

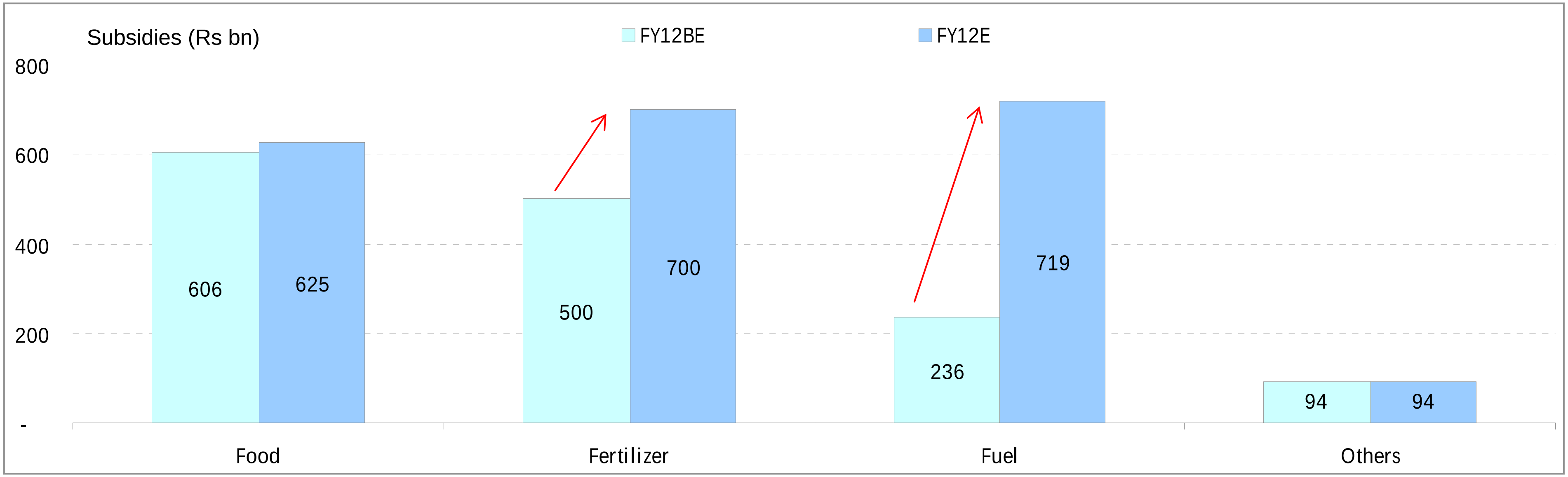
YoY %	FY12 BE	FY12 (Apr - Jan)
Corporate tax	21.5	5.0
Income tax	15.4	21.2
Customs duty	15.1	14.7
Union Excise duty	19.1	6.6
Service tax	18.2	36.6
Gross tax revenue	18.5	12.3

Possible measures to prop up tax collections in FY13

- Hike excise duties across board (by ~200bp) taking it to pre crisis levels
- Hike service tax rates and inclusion of more services under the purview of service tax
- Clear roadmap for implementation of Goods and services tax (GST) and Direct tax code (DTC)
- Use of UID to enable direct transfer of cash subsidies

2 Subsidy burden: Slippages aplenty

High crude oil price has led to a sharp rise in fuel and fertilizer subsidy burden

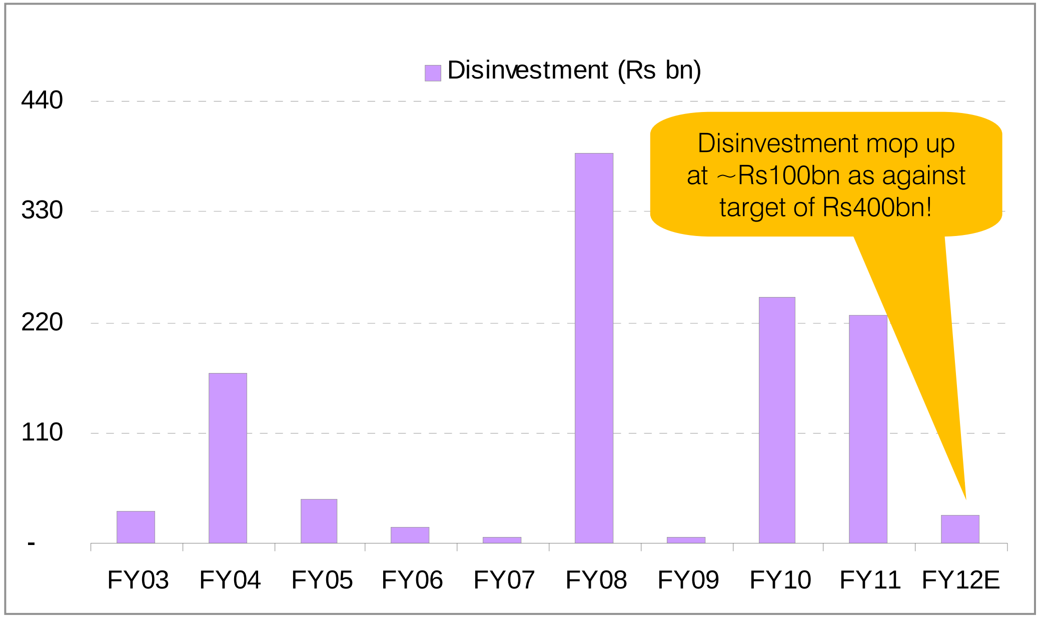


Possible measures to reduce subsidy burden in FY13

- Even if a full-fledged fuel price deregulation is unlikely, government could raise fuel tariffs to reduce the oil under-recovery burden; Current losses are pegged at Rs12/lit of diesel, Rs3.5/lit of petrol, Rs320/cylinder of LPG and Rs28/lit of kerosene
- Reversal of excise duty cuts in diesel and re-introduction of customs duty on diesel and petrol

3 Disinvestment: Need for more 'action'

Disinvestment mop-up hit by weak capital markets…



…prompts change in strategy by the government!

Govt approves 5% ONGC share sale through auction

Press Trust of India / New Delhi Feb 28, 2012, 19:55 IST

Running against time to meet the Rs 40,000-crore disinvestment target, the Centre on Tuesday decided to offload 5% stake in ONGC through auction route on March 1 at a likely floor price of Rs 290 a share that could fetch the exchequer about Rs 12,000-13,000 crore.

"The ONGC stake sale through the auction route [will take place] in couple of days," Oil Minister Jaipal Reddy told reporters after a meeting of the Empowered Group of Ministers (EGoM) which was chaired by Finance Minister Pranab Mukherjee.

The day-long auction, will take place on March 1 between 9.15 am and 3.30 pm, they said, adding that the floor price has been indicated in notices to stock exchanges tonight.

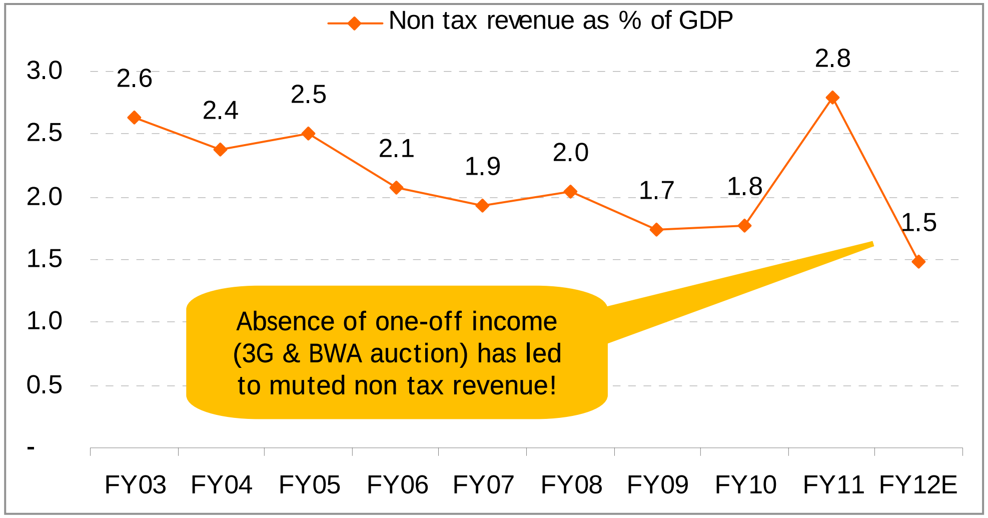
The government owns 74.14% stake in ONGC and proposes to offload 427.77 million shares or 5% equity. The sale, in which financial institutions are expected to participate, may fetch the hard-pressed government about Rs 12,000-13,000 crore this fiscal.

Possible measures to improve disinvestment mop-up in FY13

- Utilizing auction route for disinvestment of other state owned entities
- Possible dissolution of SUUTI and leveraging the assets for buying stakes in state owned entities

4 Non tax revenue: Possible kicker from 2G re-auction

Non tax revenue likely to be muted in FY12..



…expect 2G re-auction to prop up revenues in FY13!

2G Spectrum available from license cancellations (Mhz)	537	Start-up spectrum of 4.4MHz
No. of Pan India blocks (4.4Mhz)	6	
Blocks to be auctioned (4.4Mhz)	3	Assuming limited auction would drive higher bids
Pan India reserve price per block (Rs bn)	16.5	Estimate based on earlier pan India license fee
Auction premium (x)	5.0	
Bid price per pan India block (Rs bn)	82.5	
Total inflow from auctions (Rs bn)	229	For 3 blocks

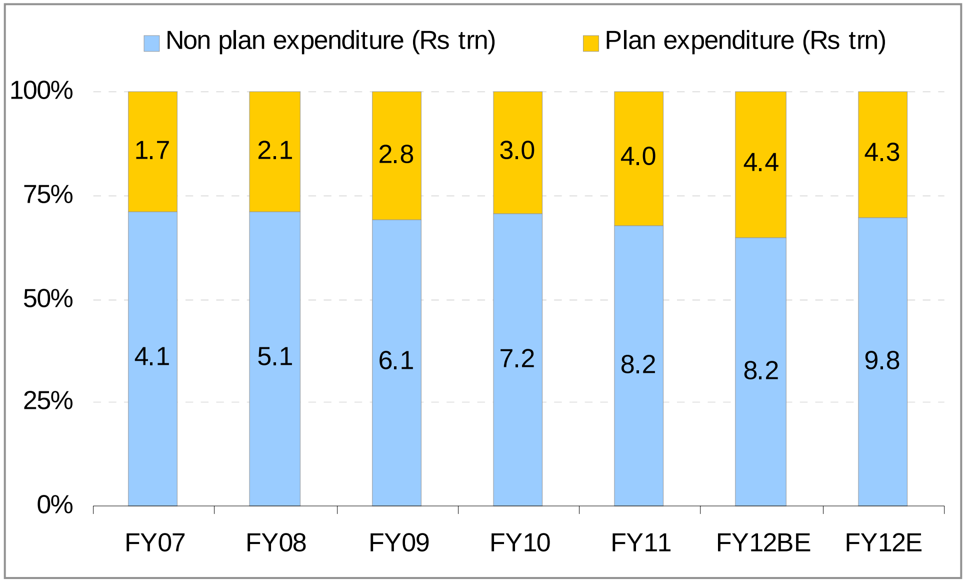
2G re-auction revenue pegged at Rs230bn!

Possible measures to improve non tax revenue in FY13

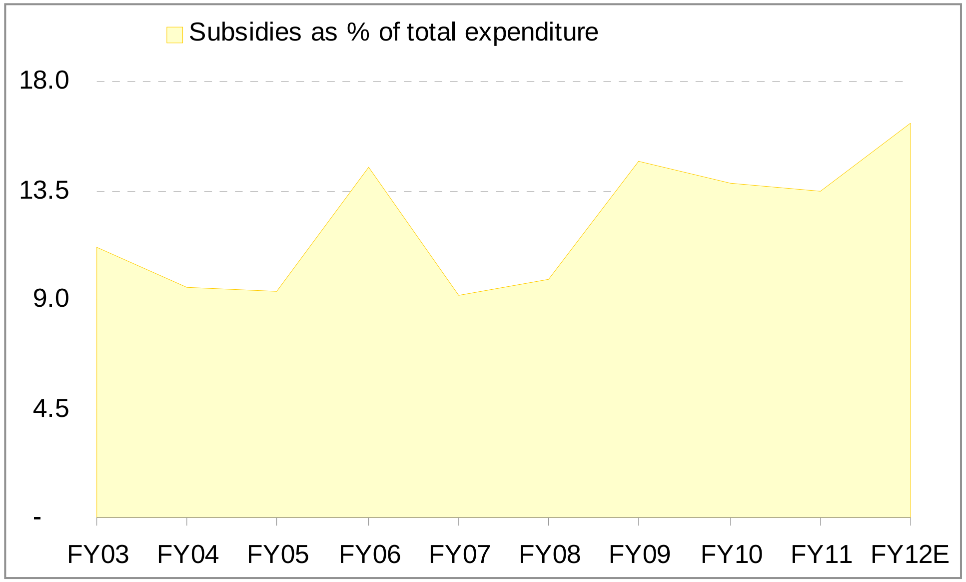
- Re-auction of 122 2G licenses that were cancelled could generate a potential revenue of Rs230bn
- Further, auction of 4 slots in BWA during FY13 could also bump up non tax revenue
- Higher dividend payout from cash rich PSU companies with limited expansion plans

5 Capital spending: The way ahead

Proportion of capital spending has been declining



…while share of subsidies has been on the rise!



Possible measures to improve capital spending in FY13

- Increased government spending in infrastructure
- Measures to improve financing for infrastructure; continued focus on programs such as Infra Debt Fund, IIFCL's Credit Enhancement Scheme, Takeout financing
- Measures for faster project clearances and fuel availability

Fiscal picture: A balancing act

Expect fiscal deficit to moderate in FY13…leading to lower government borrowings!

Rs bn	FY11RE	FY12BE	FY12E	FY13E
Interest payments	2,408	2,680	2,680	2,975
Subsidies	1,642	1,436	2,138	2,395
Food	606	606	625	875
Fertilizers	550	500	700	700
Petroleum	384	236	719	700
Interest	52	69	69	85
Other subsidies	50	25	25	35
Others	4,166	4,046	4,046	4,451
Non plan expenditure	8,216	8,162	8,864	9,821
Plan expenditure	3,950	4,415	4,266	4,778
Total expenditure	12,166	12,577	13,130	14,599
Direct taxes	4,460	5,327	4,966	5,626
Indirect taxes	3,390	3,978	4,015	4,652
Taxes of states & UT	19	20	20	25
Gross Tax revenue	7,869	9,324	9,001	10,303
Less: Transferred to state & UT's	2,193	2,635	2,635	3,030
Less: NCCD to NDRF	39	45	45	55
Net tax revenue	5,637	6,645	6,321	7,218
Non tax revenue	2,201	1,254	1,354	1,536
Total revenue receipts	7,838	7,899	7,675	8,754
Non debt capital receipts	317	550	300	470
Recovery of loans	90	150	150	170
Others (disinvestment)	227	400	150	300
Total receipts	8,156	8,449	7,976	9,224
Fiscal Deficit	4,010	4,128	5,154	5,375
Fiscal deficit/ GDP (%)	5.2	4.6	5.8	5.3
Gross Market Borrowings	4,470	4,699	5,725	5,375
Less: Redemptions	1,116	741	741	750
Net Market borrowings	3,354	3,958	4,984	4,625

New food security bill to add Rs250bn to food subsidy burden

Assuming average crude oil of USD110/bbl and average USD/INR of 49 in FY13

Expect thrust on capital spending in FY13

We estimate GDP growth of 7% in FY13 to drive 14% growth in tax collections in FY13

Re-auction of 2G spectrum to boost non-tax revenue

Improved capital market sentiments and disinvestment through auction route to aid disinvestment mop up

Winners and Losers

Sector	Impact	Comments
Agri/Agri-related	√	With Food Security being the priority and agri inflation the priority, expect increase in allocation towards agriculture, irrigation and agri infrastructure.
Infrastructure	√	Increased focus on infrastructure spending to drive order flows; measures to improve availability of long term financing
Real Estate	√	Affordable housing could be the theme for the budget
Oil & Gas	X	Reversal of excise duty cuts in diesel and re-introduction of customs duty on diesel and petrol
Automobiles	X	Additional tax on diesel passenger vehicles; 2% increase in excise duty across all segments
Cement	X	Excise duty on clinker and cement to increase
FMCG	X	10% increase in excise duty on cigarettes

Budget expectations

Agri-related

Measure expected	Likely impact	Key stocks affected
With food security and agri inflation being the priorities, we expect an increase in allocation for agriculture, irrigation and agri infrastructure – FY11 budget had a direct allocation of Rs11.3bn towards MIS	Positive: Higher allocation for MIS projects	Jain Irrigation

Automobiles

Measure expected	Likely impact	Key stocks affected
Additional tax on diesel passenger vehicles	Negative. High probability. Demand and OEM profitability to come under pressure. Extent of impact depends on the quantum and structure (uniform or progressive). If minimum additional duty is lower than Rs25,000 then the impact will be limited, however, if the minimum duty is higher then OEMs will be forced to share the burden with consumers. Demand for petrol powered vehicles to improve.	M&M, Maruti Suzuki, Tata Motors and Bosch Ltd.
2% increase in excise duty across all segments	Negative. Low probability. Demand to be impacted in the near term, especially in the passenger car segment. Impact to be severe on the passenger vehicle market if additional diesel tax is also levied.	Maruti Suzuki, Tata Motors and M&M.
Extension of R&D linked tax deductions	Positive. High probability.	Entire industry

Budget expectations

Cement

Measure expected	Likely impact	Key stocks affected
Excise duty on clinker and cement to increase	Cement companies likely to pass on increase in indirect taxes	-
Continuation of tax sops on housing loans	Positive as key demand driver continues to receive fiscal incentives	ACC, Ambuja and Ultratech
Customs duty on cement retained	No impact as existing tax structure is maintained	-
Custom duty on imported coal likely to be waived	Marginal savings in fuel costs	Ambuja, Ultratech and ACC
Excise duty on VSF to be increased	Expect Grasim to be able to pass on duty hike partly as current VSF pricing environment may not allow complete pass through	-

Construction

Measure expected	Likely impact	Key stocks affected
Focus on infrastructure spending to continue	Continued order flows for construction companies	L&T, IVRCL, NCC, HCC, Simplex, Gammon India
Tax rates unlikely to be changed; 80IA benefits for developers to continue	Continued private sector interest in infrastructure development	L&T, GMR, GVK, Lanco, IVRCL, Rel Infra, Mundra Port
Measures to improve financing for infrastructure; continued focus on programs such as Infra Debt Fund, IIFCL's Credit Enhancement Scheme, Takeout financing	Improvement in availability of long-term financing; likely reduction in borrowing costs	L&T, GMR, GVK, Lanco, IVRCL, Rel Infra, Mundra Port

Budget expectations

Education

Measure expected	Likely impact	Key stocks affected
Increase in allocation for Sarva Shiksha Abhiyan (SSA) – FY11 budget allocation stood at Rs210bn	Positive for education companies focused towards formal and vocational education	Educomp, NIIT
Increased allocation for skill development programmes – FY11 additional allocation of Rs5bn		
Development on the PPP model for K-12 education		

Engineering

Measure expected	Likely impact	Key stocks affected
Overall industry stimulus to promote private capex cycle	Benefits to improve industrial growth would translate into capex by industries and drive order inflows	All – Thermax, Voltas, etc
Stimulus program to revive textile industry	Pick-up in textile business would promote capex of textile equipment	Voltas
Increased budget for defence capital expenses	Increased capex to drive higher order inflows for defence companies	Bharat Electronics, L&T
Maintain focus on power sector reforms	Increased power thrust would drive growth for engineering companies providing equipment to power sector	Thermax, AIA, Elecon, etc

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Budget expectations

FMCG

Measure expected	Likely impact	Key stocks affected
10% increase in excise duty on cigarettes; specific duty structure to be maintained	Neutral: A 10% increase in excise duty will require ITC to increase prices by 5-6% and will not impact our FY13 volume growth estimate of 4%. An increase in excess of 10% will could impact volume growth for 1-2 quarters. However, medium term volume growth will remain unaffected; any correction in the stock price could provide an entry opportunity.	ITC
Agri-focused measures with increase in spends like NREGA	Positive: Will drive rural consumption	All FMCG companies

IT Services

Measure expected	Likely impact	Key stocks affected
Streamlining of service tax refund process for domestic IT services	NIL	NIL

Budget expectations

Logistics

Measure expected	Likely impact	Key stocks affected
Focus on CST phase-out	CST phase-out to drive logistics outsourcing	All stocks, especially those focusing on integrated logistics solutions
Focus on implementation of freight corridor of railways	Improved infrastructure to reduce turnaround time for container operators	Concor, Gateway Distriparks
80IA benefits to continue for ICD & CFS investments	Tax rates to remain low	Allcargo, Concor, GDL

Oil & Gas

Measure expected	Likely impact	Key stocks affected
Changes in customs duties – could be reintroduced on Gasoline and Diesel	Negative for stocks, GOI will get back ~Rs130bn in duty revenue	OMCs, Private refiners
Changes in excise duties – Cuts done earlier last year may be reversed	Negative	OMCs Private refiners, however the OMCs could claw back some of this hit via price hikes
Clarity on GST roadmap	Positive	OMCs could benefit, as the arbitrary nature of octroi and entry taxes levied by various states could be rationalized post implementation of GST
Clarification on definition of 'Mineral Oil' for purposes of availing seven-year tax holiday U/S 80 IA	Bringing natural gas into the ambit of definition of mineral oil thus making it eligible for tax deduction would provide a fillip for more upstream investment, and also remove overhang on existing gas producers	RIL + as overhang of tax burden on KG D6 would go Other upstream companies with producing/development gas finds
LNG import duty reduction	Positive, as it would help affordability of LNG in an environment where domestic availability of natural gas is constrained	Petronet LNG (+) GAIL (+) Would also benefit consumers of LNG

Budget expectations

Pharmaceuticals

Measure expected	Likely impact	Key stocks affected
Enhancement of in-house R&D exemption limit to 250% as well as exemption extended to third-party suppliers	Will increase tax exemption and lower tax rates for more prolific R&D spenders	Beneficial for larger generic companies like DRL, Sun, Lupin etc
Hike in excise duty on drugs to 8%	Negative impact on margins for all domestic formulation players	Almost all pharma stocks, especially those with large contribution from the domestic market
Providing tax sops for setting up hospitals in urban areas	Positive for corporate hospital chains, which are aggressively stepping up bed additions in urban areas	Apollo and Fortis

Power Equipment

Measure expected	Likely impact	Key stocks affected
Thrust on schemes such as R-APDRP and RGGVY to continue	Continued order flow for manufacturers of T&D equipment and transmission EPC players	KEC, Kalpataru, Emco, Jyoti Structures,
Central Excise Duty exemption on power equipment supplied to Mega Power Projects to continue	No incremental cost disadvantage for domestic manufacturers vis-à-vis Chinese/imported power equipment	BHEL, L&T, Thermax
Import duty on power equipment	No more cost advantage for cheaper imported power equipment; will ensure level playing field for domestic manufacturers	BHEL, L&T, Thermax
Mandatory domestic power equipment procurement for future UMPPs using domestic coal	Limited competition for domestic power equipment manufacturers	BHEL, L&T, Thermax

Budget expectations

Real Estate

Measure expected	Likely impact	Key stocks affected
Providing industry status to the sector Relaxation of end-use restrictions on use of proceeds from ECBs Promotion and development of Real Estate Investment Trust/Real Estate Mutual Fund market	Would address liquidity constraints of the sector and provide long term funding at lower costs	All coverage companies
Increase in exemption limit under Section 24 (Interest on home loan) Income from House Property to be taxed at a flat rate of 10%; standard deduction to be increased from 30% to 50%	Affordability of home buyers would improve, providing boost to residential demand - NRI investments would increase	All coverage companies
Priority to Township development by providing infrastructure status (exemption allowed under Section 80IA)	Development momentum for townships would accelerate	DLF, Jaypee Infratech, APIL, Sobha
Rationalization of indirect tax structure removing multiplicity and classification issues	Overall cost of property would come down, resulting in higher residential demand	All coverage companies
Interest subvention of 1% to be extended on home loans upto Rs3m (from Rs2m currently)	Would boost demand for affordable housing	APIL, Jaypee Infratech, Sobha, HDIL

Retail

Measure expected	Likely impact	Key stocks affected
Roll back (partial or full) of 10% excise duty on retail price of branded garments	Positive: It will allow retailers to pass on some of the benefit in the form of lower apparel prices to spur growth in the lagging fashion segment	Pantaloon Retail, Shoppers Stop, Provogue

Budget expectations

Telecom

Measure expected	Likely impact	Key stocks affected
Budget estimates likely to include inflows from 2G auctions	We expect finance minister to budget inflows of Rs230bn from spectrum auctions for FY13E	NIL
Imposition of import duty on mobile handsets & focus to promote domestic manufacturing of electronics	Might increase the price of smartphones in the near-term and drive slower penetration of data services	Bharti/Idea/RCOM/ S Mobility
Increased focus on social schemes like NREGAs, etc	Increase in rural disposable income and thereby demand for mobile services	Bharti/Idea/RCOM

Utilities

Measure expected	Likely impact	Key stocks affected
Tax rates unlikely to be changed; 80IA benefits for developers to continue	Continued private sector interest in taking up power sector projects	All power developers
Customs duty on imported coal to be reduced to Nil	Marginal benefit for power plants based on imported coal	Positive for Adani Power, Tata Power, Lanco, Nava Bharat Ventures
Customs duty to be levied on imported power equipment	Domestic power equipment manufacturers to become more competitive vis-à-vis Chinese players Negative for power utilities in case duty is levied on prospective imports, irrespective of when orders were placed	Positive for BHEL, L&T, Thermax; Potentially negative for Adani Power, Lanco, Reliance Power, KSK

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