Budget Preview 2012-13

Difficult to deliver the perfect balance of growth and fiscal rectitude

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- **Challenging backdrop:** The backdrop for FY13 budget is challenging given the context of slowing growth, lack of investment momentum and a difficult fiscal scenario of subdued tax and non-tax revenue generation even while various subsidy burden are ballooning. Toping these is a much weaker Central government after recent state elections debacle of Congress party, which weaken its ability to take critical reform measures
- **Multiple priorities amid rising structural imbalances:** Fiscal imbalances and falling domestic savings pose significant structural challenges. We will look for a credible commitment towards fiscal consolidation, ways to raise tax revenue (200bp hike in excise duty or expanding the tax base by including more services), reduction in subsidy burden by raising prices of public utilities and services, ways to address the recurring deficits across multiple public sector undertaking and departments and most importantly providing the focus on capital spending and infra sectors. While implementation of GST is most ideally suited in the current context we think it is unlikely to happen in this budget. Broadly, there can be some progress towards meeting the recommendation of direct tax code (DTC)
- **Enablers more important than budget itself:** While we expect some progress, expecting lot of reforms from the budget may be optimistic. Given that the government has failed to deliver on the promised fiscal consolidation in FY12, measures taken out of the budget to enable budget promises will be more critical
- **Fiscal deficit unlikely to come below 5%:** Overall, we expect total allocation to increased by 10% to Rs 14,661bn in FY13E translating into a fiscal deficit of Rs 5,423bn and net borrowings of around Rs 5,000bn (Rs 5,900 bn inclusive of redemptions). Hence, we expect FY13 fiscal deficit of around 5.4% of GDP. Gross tax revenue is expected to growth by 13.7% in FY13E vs 10.8% in FY12. We incorporate an optimistic assumption of higher capital spending (primarily Plan expenditure) growth at 27% or 17% of total spending

Key Expected measures and Sectoral outcomes

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- **Fiscal consolidation, YES but PARTIAL:** Expect roll back of Cenvat rates to 12% (pre-2008 level), inclusion of more services in services tax net, put 50% probability to increase in service tax (which align it more towards GST), put nearly 100% probability to increase in the auto fuel prices. Yet we believe it will be difficult to cut fiscal deficit lower than 5.0%. While the budget may project a target of 5% for FY13, there is a reasonable probability of it remaining around 5.5%, somewhat lower than FY12E at 5.8%
- **Investments, more ENABLER and some PUSH:** Change in the take-out financing norms for IIFCL allowing it to take over under construction projects too vs. only commissioned currently. Announcements on power sector reforms like credit guarantee fund or interest subvention fund. Share of capital outlay rising to 17%
- **Less pro-consumption but pro-savings:** The pro-consumption (esp non-plan discretionary) policies adopted by the govt over last three years have also fueled the inflation to large extent. Increase in auto fuel prices will hurt consumption to an extent but we believe this could be partially counter balanced by (1) increase in tax slabs and (2) pro-savings policies like expanding scope of S/80C, tax exemptions for bank deposits above three years
- **Sectoral Winners and losers: Expectations from our analysts are mixed. But by and large our analysts expect several positive measures from the budget (Please see Slide 7 & 8 for a Summary of sector specific Budget Expectations). Notably expectations are positive for sectors such as Engineering and cap goods, Construction (positive to neutral), Pharma and Banking. On the negative to neutral side are sectors like Cement, Consumers & Oil and Gas**

Possible market reaction: Will it be a populist or a reformist budget?

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- **We hope that the budget will be far less populist than the past. Given that the next Union election is in 2014 there is a possibility tighter budget for FY13 followed by more populism in FY14.**
- **Reformist construct could imply "Win some lose some" outcome**
  - Three key measures to fiscal consolidation – raise excise duty, add more services and reduce subsidies; these could be negative for the demand side
  - Enabling measures to infrastructure space
  - Higher allocation under capital expenditure heads; Supply chain in agri sector could be a focus
  - **Market reactions should be positive to these**
- **Populist and pro-non-plan discretionary consumption**
  - No changes in subsidies and no increase in fuel prices. No changes in tax structure
  - Loan waivers and other cosmetic measures to help weak agricultural productivity
  - These will further deteriorate imbalances in inflation, interest rates and supply side responses
  - These will also make RBI's job tougher in managing interest rates and liquidity
  - **Should be negative for the market**

Government accounts FY13E

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Budget aggregates	Rs bn						Growth (%)	
	1	2	3	4	5	6	7=5/2	8=6/5
	FY11RE (Feb 2011)	FY11RE (Reported by CGA)	FY12BE	FY12 (YTD Jan 12)	FY12E Emkay	FY13E Emkay	FY12E Emkay	FY13E Emkay
1 Revenue Receipts	**7838**	**7943**	**7899**	**5491**	**7631**	**8638**	***(3.9)***	***13.2***
2 Tax Revenue Net to centre)	5637	5728	6645	4586	6432	7316	*12.3*	*13.7*
3 Non-tax Revenue	2201	2215	1254	906	1199	1322	*(45.9)*	*10.3*
4 Capital Receipts (5+6+7)$	**4327**	**4046**	**4678**	**4529**	**5698**	**6023**	***40.8***	***5.7***
5 Recoveries of Loans	90	128	150	152	150	150		
6 Other Receipts (disinvestments)	227	228	400	27	147	250		
7 Borrowings and other Liabilities	4010	3690	4128	4349	5200	5423	*40.9*	*4.3*
Net market borrowings	3454	3270	3580	4740	4770	5043		
8 Total Receipts (1+4)$	**12166**	**11989**	**12577**	**10020**	**13328**	**14661**	***11.2***	***10.0***
9 Non-plan Expenditure	**8216**	**8216**	**8162**	**7081**	**9244**	**9614**	***12.5***	***4.0***
10 Non Plan Revenue	7267	7268	7336	6350	7995	8207	*10.0*	*2.7*
11 Interest Payments	2408	2408	2680	2050	2929	3222	*21.7*	*10.0*
12 Non-Plan Capital	948	948	826	731	1249	1407	*31.8*	*12.6*
13 Plan Expenditure	**3950**	**3774**	**4415**	**2940**	**4084**	**5047**	***8.2***	***23.6***
14 Plan Revenue	3269	3124	3636	2485	3369	3955	*7.9*	*17.4*
15 Plan capital	681	650	779	454	715	1092	*10.0*	*52.8*
16 Total Expenditure	**12166**	**11989**	**12577**	**10020**	**13328**	**14661**	***11.2***	***10.0***
17 Revenue Expenditure (10+14)	10537	10391	10972	8835	11364	12162	*9.4*	*7.0*
% of total spending	87	87	87	88	85	83		
18 Capital Expenditure (12+15)	1629	1598	1606	1185	1964	2499	*22.9*	*27.2*
% of total spending	13	13	13	12	15	17		
19 Revenue Deficit (17-1)	2698	2449	3073	3344	3734	3524	*52.5*	*(5.6)*
% of GDP mp	(3.4)	(3.2)	(3.4)	(4.7)	(4.2)	(3.5)		
20 Fiscal Deficit {16-(1+5+6)}	**4010**	**3690**	**4128**	**4349**	**5200**	**5423**	***40.9***	***4.3***
% of GDP mp	**(5.1)**	**(4.8)**	**(4.6)**	**(6.2)**	**(5.8)**	**(5.4)**		
21 Primary Deficit (20-11)	1602	1343	1448	2299	2271	2201	*69.1*	*(3.1)*
% of GDP mp	(2.0)	(1.8)	(1.6)	(3.3)	(2.5)	(2.2)		

- Budget FY13 expected to increase spending by 10%, with higher allocation for capital spending afforded also by some rationalization in subsidy
- Gross tax revenue expected to grow at 13.7% (10.8%FY12E), assuming 200bp increase in Cenvat and strong growth in services tax revenue. Non tax revenue can be boosted by reaction of 2G
- Nominal GDP growth assumption of 12.5-13% FY13E with inflation at 6-6.5%. Key thing for tax collection number will be industrial growth
- Slower revenue spending at 7% in FY13E with potentially higher allocation under capital spending heads, primarily driven by better plan out lay
- Outlay on subsidy is likely to see a fall of about 9% at Rs1915bn aided by some decline under fertilizer and fuel subsidies. Food subsidy is likely to rise on account of pilot launch of food security bill

Overall fiscal deficit for FY13E expected at Rs5,400bn or 5.4% of GDP vs 5.8% in FY12E; Net market borrowing around Rs 5,000bn and gross at 5,900bn

Non plan expenditure: Expect some reduction in subsidy and modest rise for government services

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Budget aggregates	Rs bn				% growth	
	FY11RE	FY12BE	FY12E Emkay	FY13E Emkay	FY112E Emkay	FY13E Emkay
Key nonplan revenue expenditure						
Interest payments	2,408	2,680	2,929	3,222	*21.7*	*10.0*
Subsidy	1,642	1,436	2,122	1,915	*29.3*	*(9.8)*
Food	606	606	651	700	*7.4*	*7.5*
Fertilizer	550	500	950	800	*72.8*	*(15.8)*
Petroleum	384	236	500	300	*30.3*	*(40.0)*
Defense	907	952	917	963	*1.1*	*5.0*
Other non plan revenue exp.	2,379	1,282	2,027	2,107	*(14.8)*	*4.0*

Note: Other non-plan revenue expenditure includes general, social & economic services which captures 20% of non-plan exp.

Tax revenue collections	Central govt. net tax revenue	Gross tax revenue	Income tax	Corporate tax	Custom duties	Excise duties
FY11 (CGA)	5728	7951	1391	2994	1361	1384
FY12BE	6645	9324	1720	3600	1517	1641
FY12E Emkay	6432	8811	1626	3160	1534	1478
FY13E	7316	10022	1894	3476	1655	1582
Growths (%)						
FY11 (CGA)	24.7	26.8	13.8	22.4	61.5	32.2
FY12BE	16.0	17.3	23.6	20.2	11.5	18.6
FY12E Emkay	12.3	10.8	16.8	5.5	12.8	6.8
FY13E Emkay	13.7	13.7	16.5	10.0	7.9	7.0

- Tax collections projections are based on estimated sensitivity of respective tax heads to economic growth and sensitivity of changes in tax rates. Long term correlation of tax collections with industrial GDP (both real and nominal) is the highest, followed by non-Agri GDP.
- Given our projection of industrial GDP of 6.0-6.5% for FY13E and assuming 200bp increase in CENVAT we project growth tax revenue of 13.7% in FY13E. Assuming unchanged share of the Centre net tax revenue is also assumed to grow at 13.7%

Summary of sector specific expectations

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- **Automobiles:** Increase in excise duty across segments; do not rule additional tax on diesel vehicles
- **Banking and financial services:** Recapitalisation funds available for PSU banks ; Interest subvention fund for power sector; Credit guarantee fund for agriculture loans; Changes in IIFCL norms to enable it to take out finance for construction projects
- **Cement:** Diesel prices to be increased; Status quo on basic customs duty on Coal petcoke & gypsum; Maximum limit for interest rate subventions on hosing loan can increased to Rs 20-30lakhs
- **Construction and Infrastructure:** Newer services within the tax net – several services offered by infrastructure which will include airport developers, port developers & other construction companies; Do not expect any alteration in the effective MAT rate; Incremental allocation to sectors like roads and rail to remain muted
- **Consumers:** Hike in excise on Cigarette; Overhaul of tax structure of tobacco products; Measures to discourage gold imports and demand; Increase in personal income tax slabs
- **Engineering & Capital Goods:** Total allocation to infrastructure sector (on flagship schemes, JNNURM, APDRP, NHDP, AIBP and renewable energy resources, etc) to increase by 10%; Selectively raise import barriers for capital equipment, especially power equipment;
  - Enabling policies to expedite roll-out of infrastructure projects:
    - Addressing coal availability issues facing power sector
    - Extension of tax benefits U/s 80IA, 80IB by one more year
    - Easing ECB norms especially for infrastructure projects– to attract debt funds into the sector

…Summary of sector specific expectations

- **Fertiliser & Chemicals:** Lower allocation for fertiliser subsidy (Rs700-800bn); Clear subsidy dues of ~Rs200bn for FY12E; Bring Urea under NBS and clear new investment policy on urea; Increase urea retail prices by 20%; Elimination of custom duty on inputs like LNG, Naphtha, Alcohol, Propylene etc
- **Metals & Mining:** Import duty on HR coil and export duty on Iron fines & lumps to remain unchanged; Customs duty on non-coking coal to be decreased to 0 (Zero)
- **Oil and gas:** Extension of seven-year tax holiday for the commissioning date of new refineries; Exemption from payment of withholding tax of 40% to facilitate Indian refiners to start using a newly agreed mechanism of paying in Indian rupee for the crude oil they buy from Iran
- **Pharmaceuticals:** Healthcare sector be given infrastructure status; R&D expenses relating to overseas trials, preparations of dossiers, consulting & legal fees, ANDAs eligible for weighted deduction; Higher allocation for primary healthcare
- **Power:** Incentives/measures (Shunglu/BK Chaturvedi committee's recos, National Electricity Fund for interest subsidy etc) for SEBs reforms with preconditions; Introduction/increase of import duty on power equipments at/to 19% for mega/small power plants; 10% Import duty on imported coal could be withdrawn or reduced ; Withdrawal of customs duty and excise duty on mining; Coal Regulator – to take care of pricing, excess coal diversion etc.

Automobiles

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- We expect 200 bps increase in excise duty across segments. We do not rule out the possibility of additional tax on diesel vehicles. However, we expect positive surprises with respect to quantum of increase.
- An additional tax of upto 5% will not have a significant impact on demand (similar to cost increases due to emission norms) especially in case of UVs given the buyer profile and lack of alternative options
- We expect companies to pass on the duty hikes to consumers by increasing prices. So impact on margins should be limited
- MSIL to be impacted the most in case of additional tax on diesel vehicles (coupled with imminent petrol price hike). However, current favorable exchange rates and hedging policy should offset the impact.
- M&M to be impacted marginally as diesel UVs for personal use constitutes ~28% of total volumes. Also, the impact would be limited due to lack of alternate option

Current Status	Expected	Impact
Excise duty on two wheelers, small cars and commercial vehicles -10%	Increase by 200bps, Additional tax on diesel vehicles	Negative
Excise duty on large cars and UVs - 22% + Rs 15,000	Increase by 200bps, Additional tax on diesel vehicles	Negative. Extent of additional tax is important. Upto 5% increase will not have major impact

Banking and financial services

- Expect comments on Banking Regulation Act amendment to clear decks for new banking licenses
- Expect tax exemption of deposits with maturity of 3-5 years to boost savings though probability may be low
- Explicit mention on the amount of recapitalisation funds available for PSU banks
- Interest subvention fund for power sector
- Credit guarantee fund for agriculture loans
- Changes in IIFCL norms to enable it to take out even under construction projects

Current Status	Expected	Impact
Banking Regulation Act doesn't allow >10% voting rights, >5% individual holding	Comments on way forward in the same as the same is prerequisite for new banking licenses as desired by govt	Positive for new/old smaller private banks
Tax deduction U/S80C available for deposits with maturity >5 years	Make deductions available for deposits with maturity between 3-5 years	Positive for all banks but highly unlikely given the maturity of small savings schemes are much longer
IIFCL can take out loans for projects which have commissioned	Allow it to take over even projects under construction	Positive for banks with high infra nad power exposure like Dena Bank, Bank of Maha., Canara Bank, OBC, Allahabad Bank, Andhra Bank, UCO Bank, United Bank of India
Recapitalisation amount not spelt out clearly in budget	Do budgetary provisions for the same while presenting budget itself	Positive for Union Bank of India, State Bank of India, Indian Overseas Bank, Bank of India, Oriental Bank of Commerce, Central Bank of India, IDBI Bank
No credit guarantee fund for agriculture loans	Set up one on lines of Credit Guarantee Fund Trust for Micro and Small Enterprises	Positive for banks with significant presence/NPLs in agriculture like Allahabad Bank, OBC, United Bank of India. Vijaya Bank, SBI, Karnataka Bank

Cement

- Expect Ad-valorem excise duty rates to increase by 200bps to 12%
- Expect Diesel prices to be increased by Rs4/ltr & Petrol prices to be increased by similar extent. Expect status quo on basic customs duty on Coal petcoke & gypsum
- Interest rate subventions on hosing loan up to Rs 15 lakhs can be extended to Rs 20-30lakhs which will be positive for demand

Current Status	Expected	Impact
Excise duty on cement with MRP above Rs190 @ - 10% ad valorem + Rs8/bag or Rs160/ton	Increase in ad valorem rates by 200 bps to 12% - Status quo on specific rates	Negative – Duty to go up by Rs4-5/bag. Though cement price could be hiked, the duty increase to eat into the season price hike. Without price hike earnings to be impacted by 11%-30%
Excise duty on cement with MRP below Rs190 - 10% ad valorem + Rs4/bag or Rs80/ton	Increase in ad valorem rates by 200 bps to 12% - Status quo on specific rates	Neutral as negligible proportion of cement sold below MRP of Rs190/bag
Excise Duty on clinker - 10% ad valorem + Rs200/ton	Increase in ad valorem rates by 200 bps to 12% - Status quo on specific rates	Marginally Negative for Ultratech
Custom duty–Coal @5% & Gypsum & petcoke @ 2.5%	Status quo	NEUTRAL

EPS	Current Estimates	Post Expected Proposal	change
ACC	74.5	64.7	-13.2%
Ambuja Cement	9.6	8.4	-12.5%
Ultratech Cement	80.8	69.4	-14.2%
Shree Cement	95.9	66.2	-31.0%
India Cement	7.4	5.0	-33.0%
Madras Cement	13.6	11.3	-17.0%

Construction and Infrastructure

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- Enhancing the scope of service tax by introducing negative list which will bring newer services within the tax net – several services offered by infrastructure which will include airport developers, port developers & other construction companies – Such widening will impact the demand growth rather than the profitability as this is an indirect tax which will be further passed on to consumer
- We don't expect any alteration in the effective MAT rate which stands at 20% offering sigh of relief to infrastructure companies
- Incremental allocation to infrastructure sectors - roads, rail to remain muted as fiscal deficit offers little room for increasing the spend.

Current Status	Expected	Impact
No service tax is imposed on collection of toll	Negative list excludes this service	Neutral – Status quo as no service tax is to be collected on toll collection. Marginally negative for IL&FS transportation
MAT @ 20%	No change in MAT rate	Neutral – Status quo
Infrastructure bond u/s 80CCF coming for a sunset in March 12	We believe an extension of this clause by another year and the exemption limit raised from Rs 20,000 to Rs 40,000	Positive – L&T, GMR Infra, IRB Infra, IL&FS transportation, Jaiprakash Associates etc.
Exemptions under Sec 80IA & 80IB are applicable till March 31, 2012	Extension by another year	Positive – L&T, IRB Infra, Ashoka Buildcon, IL&FS transportation, GMR Infra, GVK Power, Jaiprakash Associates, IVRCL Infra, NCC, HCC, Sadbhav engineering.

Consumers

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- Expect Ad-valorem excise duty rates to increase by 200bps from 10% to 12%
- Expect excise on Cigarette to be hiked by 12-15%; Likelihood of overhaul of tax structure for tobacco products
- Measures to discourage gold imports and demand – further increase in import duties
- Increase in fuel prices i.e. diesel and petrol, which is applicable for other sectors as well
- Widening of personal income tax slabs; Increase the disposable income for consumers

Current Status	Expected	Impact
Ad valorem excise duty rates of 10% on consumer products	Increase in ad valorem rates by 200 bps from 10% to 12%	Neutral, Since consumer companies can increase product prices. Also, Companies likes Marico, Dabur, etc have plants in excise free locations
Current excise ranges from Rs0.69/Stick (59 mm filters) to Rs2/Stick (KFST)	Hike excise duty by 12-15% i.e. Rs0.07/Stick to Rs0.20/Stick	Neutral, Since cigarette companies have already taken 4-10% price hike

EPS	Current Estimates	Post Expected Proposal	Change
Asian Paints	113.4	113.4	0%
Berger Paints	6.2	6.2	0%
Colgate Palmolive	34.1	34.1	0%
Glaxo Consumer	101.1	101.1	0%
Godrej Consumers	22.8	22.8	0%
Hindustan Unilever	13.8	13.8	0%
Jubilant Foodworks	25.8	25.8	0%
Marico	7.5	7.5	0%
Nestle	121.8	121.8	0%
Titan	8.2	8.2	0%

Engineering & Capital Goods

- Expect total allocation to infrastructure sector (on flagship schemes, JNNURM, APDRP, NHDP, AIBP and renewable energy resources, etc) to increase by 10% to Rs2360 bn
- Expect enactment of enabling policies to expedite roll-out of infrastructure projects
  - New mining policy to expedite investments in mining industry
  - Addressing coal availability issues facing power sector → easing import barriers, clearing captive blocks
  - Extension of tax benefits U/s 80IA, 80IB by one more year
  - Easing ECB norms especially for infrastructure projects– to attract debt funds into the sector
- Selectively raise import barriers for capital equipment, especially power equipment – to facilitate domestic players

Current Status	Expected	Impact
Total budgetary allocation on infrastructure at Rs2140 tn	Increase by 10% to Rs2360 tn	Positive for all companies
Nil import duty on power equipments imports	Levy of 10-12% import duty	Positive for BHEL, L&T, Thermax, BGR Energy, etc.

Fertiliser & Chemicals

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- In fertiliser, expect budgetary allocation for fertiliser subsidy of Rs700-800bn (vs current year subsidy est of ~Rs 900bn). Government also needs to clear subsidy dues of ~Rs200bn for current year
- Lowering of interest rate on crop loans to 3% for those farmers who pay in time, from the existing 4%
- To bring Urea under NBS and also clear the new investment policy on urea
- Increase urea retail prices by minimum 20% to reduce the gap between complex fertiliser and urea prices
- Chemicals industry expects custom duty on various inputs like LNG, Naphtha, Alcohol, Propylene etc to be eliminated from current rates of 5%.

Current Status	Expected	Impact
Current year subsidy est of Rs 900 bn	Expect budgetary allocation for FY12-13 of Rs 700bn. Additional allocation of Rs 200 bn for current year dues	Positive - Adequate subsidy provisioning and clearance of current dues will help the industry to reduce working capital
Existing interest rates at 4% for the farmers paying on time	Reduce it to 3%	Positive – since it will enhance the farmers' affordability and boost farm credit
Urea retail price at Rs 5350 / mt against DAP at Rs 18,500/mt	Increase Urea prices by min 20%	Positive – As it will boost the demand for complex fertiliser and will also improve the working capital for urea players
Custom duty at 5% on various chemicals inputs	Bring it down to Zero	Positive – since companies will able to retain some benefit

IT Services & Telecom

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Information technology

- We expect the Union Budget to be neutral to the IT services sector
- After an increase in MAT rate over the past 2 Union budgets, we does not expect any other increases on this front

Telecom

- We think the budget could be a non-event this year as the National Telecom Policy (NTP 2012) is expected to be announced in next fiscal.
- Supreme court's judgment on cancellation of 122 licenses has freed up close to 448MHz of spectrum, which is likely to be auctioned in near future. As per the current spectrum pricing government can raise upto Rs340bn by auctioning of spectrum. However, government is working on the new pricing which would give the exact amount it can raise.

Metals & Mining

- Expect ad valorem excise duty to be increased by 200 bps
- Expect import duty on HR coil to remain at 5% although the industry wish-list includes a hike in this to 10%
- Expect export duty on Iron fines and lumps to remain at 30%
- Expect the customs duty on non-coking coal to be decreased from current 5% to 0 (Zero)

Current Status	Expected	Impact
Import duty on HR Coil at 5%	No change expected	Nil
Export duty on Iron Ore fines and lumps at 30%	No change expected	Nil
Excise duty	To be increased by 200 bps	Nil as the same is modvattable by end-users of metals
Customs duty on non-coking coal currently at 5%	To be decreased to 0 (Zero)	Positive – will lead to decrease in power costs (due to reduction in blended coal cost) for Sterlite, Hindalco and JSW Steel

EPS (Rs)	Current Estimates	Post Expected Proposal	change
HZL	15.8	15.8	0%
Tata Steel	68.8	68.8	0%
Sterlite Industries	17.6	17.8	0.9%
Hindalco	16.8	16.9	0.3%
Sesa Goa	42.6	42.6	0%
JSW Steel	63.3	64.2	1.4%
Bhushan Steel	45.4	45.4	0%
HEG	45.8	45.8	0%
GPIL	31.8	31.8	0%

Media

Increase in FDI limits from currently 49% in DTH and cable, 26% in news broadcasting & print media and 20% in radio sector

- Possibility of reduction in import duty for set top boxes to 0% from currently 5%
- Increase in service tax could have negative impact on demand, which is applicable for other sectors as well

Current Status	Expected	Impact
FDI limits- Currently 49% in DTH and cable, 26% in news broadcasting & print media and 20% in radio sector	Increase in the limit to 74% for DTH and Cable industry	Positive for DTH and cable companies like Dish TV, Hathaway, Den Networks and Hinduja media ventures
5% import duty on the Set-top-boxes	Reduction in import duty for set top boxes to 0%	Positive for DTH and cable companies like Dish TV, Hathaway, Den Networks and Hinduja media ventures

Oil & Gas

- Despite the cut in custom duties to 5% on crude oil and Petrol/Diesel to NIL and 2.5% and excise duty cut on diesel by INR2.6/lit to INR2/lit, announced in June 2011, the taxation component remains high in consumer prices. We expect status quo on customs and excise duties in the oil & gas sector in light of the sustained high losses on sales of subsidized petroleum products at current retail selling price.
- Expect extension of seven-year tax holiday for the commissioning date of new refineries. The current exemption is available for only those refineries which are commissioned by March 2012. This will benefit Indian Oil Corporation (IOC) which is setting up a greenfield 15mmtpa refinery in Paradip, Orissa.
- Exemption from payment of withholding tax of 40% to facilitate Indian refiners to start using a newly agreed mechanism of paying in Indian rupee for the crude oil they buy from Iran.

Current Status	Expected	Impact
Import duty Nil on Crude oil and 2.5% on Petrol And Diesel, as brought down in June 2011	No change - As any hike in duties would impact inflation	Neutral
Exemption is available for only those refineries which are commissioned by March 2012.	Likely to announce extension of deadline	Positive for IOCL, This would lead to seven years tax holiday for its greenfield expansion in paradip, Orissa.

EPS	Current Estimates	Post Expected Proposal	Change
IOCL	4.9	4.9	0%
BPCL	27.4	27.4	0%
HPCL	23.2	23.2	0%

Pharmaceuticals

- Healthcare sector be given infrastructure status
- Expenses incurred outside R&D facility like those on overseas trials, preparations of dossiers, consulting & legal fees, ANDAs should be eligible for weighted deduction
- Higher allocation for primary healthcare as % of GDP in the budget
- Allow deduction for free samples as sales promotion

Current Status	Expected	Impact
High capital cost deterrent for affordable healthcare services in the country	Healthcare sector be given infrastructure status	Positive for healthcare companies– Grant of infrastructure status will reduce the cost of capital and will thus help in expansion of hospitals
Weighted deduction allowed only on in-house R&D	Expect the weighted deduction to be applicable to outside R&D facility like those on overseas trials, preparations of dossiers, consulting & legal fees, ANDAs should be eligible for weighted deduction	Positive for generic companies – Large generic companies like Sun, Ranbaxy, Dr. Reddy, Cipla, Lupin who have higher R&D expenditures for markets outside India will benefit the most
Healthcare spend currently pegged at 1.4% of the GDP	Increase the expenditure on primary healthcare as per the 12th five year plan (target 2.5% of GDP)	Positive for all pharma and healthcare companies

Power

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- Most Important – Expect some incentives/measures (Shunglu/BK Chaturvedi committee's recos, National Electricity Fund for interest subsidy etc) for SEBs reforms with preconditions
- Expect introduction/increase of import duty on power equipments at/to 19% for mega/small power plants
- 10% Import duty on imported coal could be withdrawn or reduced
- Withdrawal of customs duty and excise duty on mining equipments - to bring policy in line with mega power project benefits
- Announcement of appointment of Coal Regulator – to take care of pricing, excess coal diversion etc.

Current Status	Expected	Impact
Import of power equipments exempted from import duty for mega power plants while 5% duty for other power plants	Duty levy at 19% on import of equipments	NEUTRAL to NEGATIVE – Neutral for Utilities with PPAs in place as the levy would be pass-through; Negative for merchant power utilities (like JSW Energy)
Abolishing/Reducing levy on imported coal : currently basic customs duty at 5% and countervailing duty at 5%	0% BCD and 0% CVD on import of non-coking coal	POSITIVE to NEUTRAL- Positive for imported coal based plants like Adani Power, JSW Energy etc to the extent of merchant exposure; Neutral for Utilities with PPAs
7.5% customs duty and 8% excise duty on mining equipments	Reduction in duty rates	POSITIVE for utilities with captive mines like Reliance Power, Jaiprakash Power, KSK Energy, Coal India; Pass through for Utilities with PPA; Positive for others
Sunset year of Sec 80-IA is FY12	Status-quo	NEUTRAL to NEGATIVE- Neutral for Utilities with PPAs; Negative for the sector and Utlities with capacity not tied up or exposed to merchant

Printing and Writing Paper

- Custom duty on paper to remain unchanged from current at 10%
- Industry has accumulated significant CENVAT credit and expects some government to extend the benefit of the same to industry by some mechanisms other than excise duty rebate
- With rising domestic coal prices and lower availability of coal through linkages, industry expects Import Duty on coal (current at 5%) should be waived off

Current Status	Expected	Impact
Custom duty on paper at 10%	to be maintained	Neutral tp positive – since it will keep the imported paper prices at higher level
Accumulated huge CENVAT credit which right now I adjustable against excise duty	Government to find some mechanism to distribute this accumulated credit sine companies are not benefiting much due to lower excise duty	Positive – Will improve financial health of the companies
Lower availability of coal under linkages, Import duty on coal at 5%	Exempt from import duty on coal	Neutral – Will not have much impact since imported coal prices are still significantly high than domestic prices

Thank You

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