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Union Budget Preview 2012-13

March 2, 2012

Economy at a crucial juncture: need for fiscal consolidation and policy reforms

The government on March 16, 2012 will table its Union Budget 2012-13 on the backdrop of global uncertainties and a weak domestic macroeconomic environment. Investors are hoping that the government would recognise the immediate need to convey its commitment to revive growth outlook and fiscal consolidation. In India, Budget is perceived to be determined more by political economy considerations than purely economic ones. Therefore, the outcome of State elections may have a significant bearing on this Union Budget. We expect the Union Budget 2012-13 to focus on:

- Striking a balance between fiscal consolidation and public spending while maintaining sustainable inclusive growth
- Increase investment in infrastructure sector
- Higher allocation on education and health
- Road map on implementation of GST and DTC
- Road map to reduce non-merit subsidy and leakage in social welfare schemes spending using Aadhaar (unique identification number)
- To increase revenue collection – extending net for service tax, duty hike on selected items such as cigarettes and increase in the rate of MAT.

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EXPECTATIONS ON ECONOMY

Economic growth: The last fiscal year saw an enhanced focus on infrastructure spending with the government allocating more than 48% of the total planned expenditure in the 2011-12 budget. However, many of the new projects could not take off, due to delays in approval and decision making. New project launches have dropped by 32% in 2011-12 compared to the previous year. Even the growth rate of core infrastructure industries has slowed down to 4.4% for the first 9 months of 2011-12 against 5.7% growth achieved in the first 9 months of 2010-11. Moreover, with gross fixed capital formation coming down to 29% (advance estimates for 2011-12), investment slowdown remains imminent.

While farm growth has remained robust, a slowdown in manufacturing has resulted in most of the growth estimates being toned down. As per the PMEAC review of economy, a growth rate of 7.5-8% has been projected for 2012-13. For the current fiscal, the Council pegged the growth rate at 7.1%, marginally more than 6.9% projected by the Central Statistical Organization (CSO). The quick estimates (QE) released at the end of January 2012 has revised the growth estimate upward for 2009-10 from 8.0 to 8.4%, while reducing for 2010-11, marginally down from 8.5% to 8.4%.

The Union Budget 2012-13 is expected to provide a road map to make up for the lost ground by the next fiscal year. The key highlight would remain fiscal consolidation, where the government is expected to cap fiscal deficit gap to 5% for the next fiscal year.

YoY rate of Growth

	Annual rates	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12 AE**	**2011-12 EAC**	**2012-13 Proj**
1	Agriculture & allied activities	5.10%	4.20%	5.80%	0.10%	1.00%	7.00%	2.50%	3.00%	2.50%
2	Mining & Quarrying	1.30%	7.50%	3.70%	2.10%	6.30%	5.00%	-2.20%	-2.20%	6.00%
3	Manufacturing	10.10%	14.30%	10.30%	4.30%	9.70%	7.60%	3.90%	3.90%	7.50%
4	Electricity, Gas & Water Supply	7.10%	9.30%	8.30%	4.60%	6.30%	3.00%	8.30%	8.30%	6.00%
5	Construction	12.80%	10.30%	10.80%	5.30%	7.00%	8.00%	4.80%	6.20%	6.50%
6	Trade, Hotels, transport, Storage & Communication	12.00%	11.60%	10.90%	7.50%	10.30%	11.10%	11.20%	11.20%	10.20%
7	Finance, insurance, real estate & business services	12.60%	14.00%	12.00%	12.00%	9.40%	10.40%	9.10%	9.10%	9.50%
8	Community & personal services	7.10%	2.80%	6.90%	12.50%	12.00%	4.50%	5.90%	6.00%	6.00%
9	GDP (factor Cost)	9.50%	9.60%	9.30%	6.70%	8.40%	8.40%	6.90%	7.10%	7.60%
	Industry (2+3+4+5)	9.70%	12.20%	9.70%	4.40%	8.40%	7.20%	3.90%	4.30%	7.00%
	Services (6+7+8)	10.90%	10.10%	10.30%	10.00%	10.50%	9.30%	9.40%	9.40%	9.10%
	Non- agriculture (9-1)	10.50%	10.80%	10.10%	8.10%	9.80%	8.60%	7x.6%	7.70%	8.40%
	GDP (factor cost) per capita	7.80%	8.00%	7.80%	5.20%	6.90%	6.90%	5.50%	5.60%	6.20%
	Some Magnitudes									
	GDP at factor cost - 2004/05 prices in Rs lakh crore trillion	32.5	35.6	39	41.6	45.1	48.9	52.2	52.3	56.3
	GDP market & current prices in Rs lakh crore trillion	36.9	42.9	49.9	56.3	64.6	76.7	89.1	89.3	101.7
	GDP market & current prices in US$ Billion	834	949	1,241	1,234	1,365	1,688	1,866	1,831	2,083
	Population in Million	1,106	1,122	1,138	1,154	1,170	1,186	1,202	1,202	1,218
	GDP market prices per capita current prices in Rs	33,394	38,277	43,823	48,787	55,191	64,706	74,150	74,296	83,509
	GDP market prices per capita in current US$	754	846	1,090	1,069	1,167	1,423	1,552	1,523	1,710

Source: PMEAC Report

Fiscal deficit: The slippage in fiscal deficit on account of falling revenue collection and high subsidy burden is considerable compared to last year's budget estimate of 4.6% of GDP. The government in the fiscal 2011-12 budget had estimated borrowings at Rs4.17trn. However the government may likely miss some targeted mobilization, especially through disinvestment route. The disinvestment target was pegged at Rs400bn, whereas the actual mobilisation till date has been just Rs11.44bn through divestment in Power Finance Corporation in May 2011 and ~Rs.90bn from ONGC divestment. The government has already announced that it will borrow additional Rs400bn (over the already announced increase of Rs528.72bn from the market), due to sluggish tax revenues and mounting spending commitments. This may take the actual fiscal deficit in fiscal 2011-12 above 6% of GDP (the nominal GDP as per advance estimates is slightly higher than the GDP assumption in budget). Reducing the fiscal deficit therefore shall be a formidable challenge for fiscal 2012-13 budget.

	Budget Estimates 2011-12 (Rs mn)	Actuals upto January 2012 (Rs mn)	% of actuals to budget estimates Current
Revenue Receipts	**7898,920**	**5491,330**	**69.5**
Tax Revenue (Net)	6644,570	4585,670	69.0
Non-Tax Revenue	1254,350	905,660	72.2
Non-Debt Capital Receipts	**550,200**	**179,680**	**32.7**
Recovery of Loans	150,200	152,250	101.4
Other Receipts	400,000	27,430	6.9
Total Receipts (1+4)	**8449,120**	**5671,010**	67.1
Non-Plan Expenditure	**8161,820**	**7080,730**	**86.8**
On Revenue Account	7335,580	6349,840	86.6
(i) of which Interest Payments	2679,860	2050,350	76.5
On Capital Account	826,240	730,890	88.5
(i) of which Loans disbursed	3,970	168,920	**4,254.9**
Plan Expenditure	**4415,470**	**2939,610**	66.6
On Revenue Account	3636,040	2485,320	68.4
On Capital Account	779,430	454,290	58.3
(i) of which Loans disbursed	167,540	136,240	**81.3**
Total Expenditure (8+11)	**12577,290**	**10020,340**	79.7
Fiscal Deficit (14-7)	**4128,170**	**4349,330**	105.4
Revenue Deficit (9+12-1)	**3072,700**	**3343,830**	108.8
Primary Deficit {15-9(i)}	**1448,310**	**2298,980**	**158.7**

Performance so far	**06-07**	**07-08**	**08-09**	**09-10**	**10-11 (RE)**	**11-12 (BE)**	**12-13 (proj)**
Fiscal deficit (as a % of GDP)	3.3	2.6	6	6.4	5.1	4.6	-
Revenue deficit (as a % of fiscal deficit)	56.26	41.42	71.6	81.02	67.29	74.43	-
Real GDP (Tr)	35.6	39	41.6	45.1	48.9	52.3	56.3
Nominal GDP (Tr)	42.9	49.9	56.3	64.6	76.7	89.3	101.7
Real GDP Growth (%)	8.0	9.6%	6.7%	8.4%	8.4%	7.0%	7.6%
Nominal GDP Growth (%)	16.3%	16.3%	12.8%	14.7%	18.7%	16.4%	13.9%

Source: Budget Documents, economic survey documents, PMEAC Reports

Other key expectations:

- The expenditure side of the Budget will remain sticky, owing to welfare programs such as NREGA. Additional burden of subsidies is likely to bloat the expenditure side, especially on account of food, fertiliser and oil. Expect ~4% rise in the government expenditure from the last fiscal year.

- A slower growth in the next few quarters is expected to result in weaker revenues. The government may go ahead with increasing excise duty by upto 2%. Other items that may be modified are:

  - Increase in taxes on cigarettes
  - Allowing STT under capital gains tax
  - Disinvestment target may remain similar to the last year target of Rs400bn
  - Further road map for the application of GST and Direct Tax Code.
  - Increase in the exemption of income tax slab
  - Tinkering of MAT, which may impact investment sentiment negatively.

AUTO

In the current scenario of pricing pressure, rising petrol prices and high interest rates, any increase in excise duty will have a negative impact on the sector. F12 has seen moderate volume growth across the segment. We expect excise duty to remain at the current level of 10%. However, any increase in excise duty will hurt the sentiments. We continue to prefer Hero MotoCorp and M&M.

Expectations	Impact	Remark	Company
No hike in excise duty on two-wheelers, three-wheelers and <1500cc cars	**Neutral**	With lower growth in auto sector due to high interest rates and increased fuel prices, we expect excise duty to remain at the current level of 10%.	ALL OEMs
Additional excise duty on diesel vehicles	Negative	Currently, there is no additional excise duty on diesel vehicles. Any additional duty will put pressure on manufacturers to increase the vehicle prices.	Tata Motors, M&M, Maruti Suzuki

AVIATION

The current year is one of the most difficult years for airline industry. The industry not only witnessed sector specific challenges, but also saw issues related to specific players forcing airlines to shrink their operations. We believe this Union Budget would provide the much needed breather for Air India by way of budgetary support and is also likely to address some of the structural issues of the ailing aviation sector.

Expectations	Impact	Remark	Company
Infrastructure status to airline industry	**Positive**	To provide access to cheaper funds and easy availability of funds, which is difficult otherwise	All companies
Budgetary support to Air India	**Positive**	Expect Rs50-100bn of budgetary support for Air India to fund the accumulated losses and operations	Air India & Banking Sector
49% FDI approval for foreign airlines	**Positive**	Expect the approval of 49% FDI approval for foreign airlines, which will help the domestic players to infuse the much needed funds and derive long term benefits from the JVs	All companies

BANKING

The Budget announcements are likely to provide further road map to the much awaited financial reforms. Important announcements awaited are concessional deposits' tenure, infrastructure funding, capital infusion to banks and fiscal consolidation. Likely to be positive for the banks, if reforms are addressed and the government is able to boost investments - specifically in infrastructure

Expectations	Impact	Remark	Company
Re-capitalisation of RRBs, other scheduled commercial banks	**Positive**	To benefit banks in maintaining CAR at a minimum 8%. Equity infusion would also increase government holding in banks. Banks would be better placed in terms of balance sheet expansion for the next few years and also with the onset of Basel III norms.	Banks receiving capital
Road map for financial reforms - FDI limits	**Positive**	May give further indications on the presence of foreign banks, new bank licences and financial inclusion. There could also be indications on increasing the FDI limits in insurance.	Banks with insurance arms likely to be benefited: HDFC Bank, ICICI Bank
Allow banks to raise funds through infrastructure bonds	**Positive for banks, negative for infrastructure NBFCs**	Bonds to help banks handle their ALM match better for long-term infrastructure lending. A tax benefit on the bonds (existing Rs20,000) would help in improving placement of the bonds. NBFCs may lose an edge on raising funds through these bonds.	Positive for Banks in infrastructure lending: BoB, Axis Bank, PNB, Yes Bank. Negative for infrastructure NBFCs: PFC, REC, IDFC
Reducing tax concessional term deposit tenure from 5 years to 3 years	**Positive**	Banks would be able to manage their ALM better.	Positive for all banks
Government borrowing - effort to cap it below 5% of fiscal deficit	**Positive**	Incremental borrowing, if brought below 5% of fiscal deficit, could put lesser strain on banks that typically fund the deficit in a major way. This is assuming the economy continues to witness robust savings rate of >34-35%.	Mainly public sector banks

CAPITAL GOODS & ENGINEERING

Paucity of orders would be the major concern for the capital goods sector. However, the finalisation of bulk tender orders, after almost a year, is the only saving grace. Also, tardy pace of project execution and rise in interest costs continues to be the cause of concern. Consistency in revival of projects and execution of orders for power equipments are expected only after the strategic issues related to fuel linkages and land acquisition are finalised. The capital goods index (-15% YoY) fared badly over the last 4 quarters, largely due to the above mentioned reasons. The capital goods players are expecting positive provisions from the Budget to improve infrastructure spending and revive the order inflows from customers. We expect the Budget provision for the industry to be neutral to positive.

Expectations	Impact	Remark	Company
Request for a level playing field for power equipment manufacturers. Removal of excise duty differential for the power equipments used across all the power projects rather than only for UMPPs.	**Positive**	If implemented, it would support in lowering the project cost for smaller power plants.	BHEL, BGR, Tecpro Systems, TRF, Thermax.
Uniform GST on power generation, transmission and distribution industries.	**Positive**	If implemented, it would support in lowering project costs across the entire gamut of power industry.	KEC, Jyoti Structures, Kalpataru Power, BGR, BHEL, Thermax, Tecpro Systems.
Upward revision in interest rate applicable for refund under Excise, Customs and Service Tax. Current interest rate applicable for refunds is 6% against 15% for delay in payment of custom duties and 18% for excise and service tax.	**Positive**	Would benefit the capital goods industry.	BHEL, L&T, Thermax, Tecpro, BGR, TRF, McNally Bharat and all the other players in product as well as project business.
Enhanced rate of Depreciation for Construction Equipment / Plant & Machinery.	**Positive**	Would benefit companies engaged in marketing and rental providers of Construction equipment.	TIL & Sanghvi Movers

CEMENT

The Budget 2012-13 is expected to be largely negative/neutral to the cement sector as indirect taxes are likely to be revised upwards putting higher burden on the sector. However, the sector may benefit indirectly, if incentives are given to housing and infrastructure sector and reducing duties on key inputs used in cement manufacturing. Certain measures including capital receipt status to CERs, drawback on limestone mining royalty and renewable energy status to waste heat recovery units of cement plants can extend sentimental boost to the sector, but marginal financial relief.

Expectations	Impact	Remark	Company
Excise duty: May be left unchanged or shift cement sector in the higher excise slab from 10% to 12%.	**Neutral/Negative**	If unchanged, it will be neutral for the sector. However, a hike in excise duty will impact the sector adversely as we believe the pass on will be gradual, thereby putting pressure on the operating margins.	All companies
Reduction in customs duty on imported coal from the current 5%.	**Positive**	The domestic coal availability is depleting hence cement companies are relying more on imported coal and other fuel sources for manufacturing cement and power generation (in case of CPPs). Reduction in duty will be a partial relief to the companies.	All companies with larger benefits for companies like Madras Cements and India Cements.
Broadening service tax net that may include certain select services offered by railways.	**Negative**	Would lead to additional cost burden on companies, if this includes freight services by railways. However, if railway budget announces measures that may directly or indirectly hike freight rates on commodities including cement this may not be announced.	All companies with larger impact on companies like JK Lakshmi and Heidelberg Cement
Providing impetus to the infrastructure and affordable government housing projects through various incentives to these segments.	**Positive**	This will provide indirect help to the cement sector as boost to infrastructure and housing sector will help the much needed revival in domestic cement demand.	All major cement companies.

Consumer Durable

We expect the government to support the domestic manufacturers by reducing custom duty for LCD panels and increasing abatement rate for various products (Air Conditioners, LCD TVs, Plasma TVs, Refrigerators, Mobile Phones and Monitors). This will create a level playing field for the domestic manufacturers against imported products. We also expect the abolishment of Special Additional Duty (SAD), which will result in cost saving and also improve cash flows for players. CST was supposed to be reduced every year to give way to GST; however, since past 3 years, it has been kept at 2%, which we expect to reduce to 1%. Overall, we expect the budget to bring positive news for the industry, especially domestic manufactures.

Expectations	Impact	Remark	Company
Reduction of custom duty on panels for LCD & LED TVs	**Positive**	This will provide a level playing field for domestic manufacturers.	Videocon and MIRC
Abolishment of SAD (Special Additional Duty) on imports	**Positive**	This will result in cost saving and improvement in cash flows for the industry.	All companies
Increase in the abatement rate for MRP based excise duty	**Negative**	This will encourage domestic manufacturing and create a level playing field against imported products.	Whirlpool, IFB, Videocon, MIRC
Reduction of CST rates from 2% to 1%	**Positive**	CST was to reduce every year to give way to GST. Since past 3 years, it is kept at 2%.	All Companies

FMCG

FMCG companies have been reeling under the pressure of commodity inflation due to various global and local factors for most part of last year. We believe the recent moderation in inflation and rising expenditures will require the government to increase direct and indirect sources of revenues. Excise duty rates are expected to increase by 10-15% for cigarettes and other FMCG products.

We expect some news on the progressive measures like introduction of GST, which will positively impact the sector. Allocation to funds for MGREGA will also increase and will positively impact the sector, since it stimulates rural demand.

Expectations	Impact	Remark	Company
Excise duty on cigarettes to increase from 10% to 12%	**Negative**	Growth in cigarette volumes has dipped in the last quarter, led by price hikes taken by ITC due to increase in VAT rates in some states. Hence, we expect some more hiccups ahead, if tax rates increase this time. Although we feel the demand is inelastic, some near-term pressure might weigh down on the stock price.	ITC
Reduction in import duty on Rutile grade titanium dioxide	**Positive**	All paint companies import ~30% of their raw materials like Rutile (most common form of titanium dioxide) from abroad. Rutile prices have shot through the roof in C11, due to the shortage of supply. It is expected that import duty on Rutile grade TiO_2 will be reduced from 10% to 5% in order to support the end-use segments.	Asian Paints, Kansai Nerolac, Berger Paints and Akzo Nobel
Import duty on refined palm oil (RPO) to remain at 7.5%. Import duty on crude palm oil to remain at 0%.	**Neutral**	We believe an increase in import duties on RPO will lead to increasing inflation, since it is one of the essential commodities. All oil refiners like Ruchi Soya will remain neutral, since they import only crude oil from abroad. Britannia will benefit positively, since RPO forms 20% of their raw material basket.	Britannia, Ruchi Soya, Sanwaria Agro
Base rate for minimum alternative tax expected to increase from 18.5% to 19%.	**Negative**	We believe MAT rates will increase in this budget; in line with the rationale to increase the direct tax revenues in F13.	Marico, Jyothy, GCPL, Bajaj Corp, HUL, Akzo Nobel, Dabur

INFRASTRUCTURE/CONSTRUCTION

Being the first year of the 12th Plan, the focus on developing country's infrastructure is likely to be of utmost priority for the government in this Budget. We expect various measures would be taken to drive infrastructure investment to sustain the growth rates. Furthermore, this Budget is likely to act as a road map for clearances, award, financing and the monitoring of infrastructure projects in the country.

Expectations	Impact	Remark	Company
To extend the benefit of infrastructure bonds	**Positive**	The success of infra bonds and for funding Infra investment, the government is likely to extend the benefits by raising the investment amount from the current Rs 20,000 to Rs50,000-100,000.	Infra companies & NBFCs
Allow banks to float infrastructure bonds & relax exposure limits	**Positive**	Banks are the prime lenders to infra projects and allowing banks to float infra bonds will ease of funding issues for the 12th Plan.	Infra, Construction & Banking companies
Measures for reviving the Corporate Debt Market	**Positive**	Expect measures to ensure revival of corp. debt market, which will ease off funding issues and also easing of rules for foreign borrowings by infra companies.	Infra & Construction companies
India Infrastructure Debt Fund	**Positive**	Expect rolling of Infra Debt Fund by institutions as well as guidance & conditions being eased to tap the pension & insurance funds.	Infra & Construction companies
Creation of a government body to monitor award and progress of Infra and PPP projects	**Positive**	One-stop clearances and monitoring would help in reducing delays in project awards and the completion of projects, thereby reducing cost overruns for projects. Expect PPP model to be adopted for projects in other infra sectors like Railways. Also, we expect clarity on definition of "Infrastructure", which will be used by all stakeholders.	Infra & Construction companies
Higher allocation of funds for infrastructure development and infrastructure related programmes	**Positive**	Expect higher allocation of funds to various programs to develop the country's infrastructure like JNNURM, Bharat Nirman, Pradhan Mantri Grameen Sadak Yojana and Provision of Urban Amenities in Rural Areas.	Infra & Construction companies
Increased allocation of funds to Urban & Rural Infrastructure development	**Positive**	Government could increase the allocation of investments for urban development like Roads, Airports, Metro rails, City Bus system and other urban development programmes. Also, special thrust to develop rural infrastructure.	L&T, GMR, IVRCL, GVK, and other Infra companies
Increase in MAT rate	**Negative**	Expect MAT rate to increase from 18.5% to19-20%. However, to boost private investment in infra, MAT benefit is likely to be extended to other infra sectors.	Infra companies like IRB, ITNL, GMR, GVK etc

INFORMATION TECHNOLOGY

Imposition of MAT regime on SEZ units and the discontinuation of STPI benefits impacted the IT-BPO sector negatively last year. Any relief from taxation, although unexpected, can provide a boost to sentiments this time around. We hope the Budget can address some other pending issues, namely, removal of dual levy of Service tax & VAT on "right to use" software and simplification of service tax duty refund process. Higher allocation towards e-governance and UIDAI would be a positive for IT companies.

Expectations	Impact	Remark	Company
Refund of service tax credits on inputs used for export of software	**Positive**	Simplification of the process whereby an output service provider is allowed to avail credit of the service tax/excise duty paid on input services/input goods received and consumed, which are in relation to rendering of output services **LIKELY**	All IT-BPO service providers
Companies operating out of SEZ may be exempt from MAT purview	**Positive**	Companies earlier exempted from minimum alternate taxations under section 115JB were brought under MAT purview last year, impacting the cash flows of companies right across the sector. Lowering/exemption from such a taxation will ease the burden on these companies **UNLIKELY**	All IT-BPO service providers
Clarification on laws pertaining to DTM (Deputation of Technical Manpower) regarding software export services	**Positive**	The IT Department has to clarify whether DTM based contract works are exempt from under sections 10A/10AA of the Income-Tax Act. An exemption in this case will be beneficial for the industry **LIKELY**	All IT-BPO service providers
Higher budget allocation for Education	**Positive**	Last year, budget planned allocation towards education was Rs520.6bn (increase of 37% over F11BE and of 24% over F11RE) **LIKELY**	Direct impact on companies which focus mainly on education, such as Educomp. Indirect impact on all other companies.

Media & Entertainment

The Budget is expected address the issues of digitisation, as we shift from analog cable TV to digital. Steps for smooth transition along with reduction of duty on set-top boxes are expected.

Expectations	Impact	Remark	Company
Reduction in excise duty of set-top boxes & giving boost to indigenous manufacturers	**Positive**	If implemented, it would support the digitisation initiative in India, moving from analog to digital cable TV.	Hathway Cable, Den Networks, Dish TV & Hinduja Venture

Metals

The measures to improve infrastructure investment and implementation of the same will be the prime focus in this Budget. We believe higher allocation of fund for infrastructure spending will result into higher steel demand, which bodes well for the sector.

Expectations	Impact	Remark	Company
Reduction in import duty on thermal coal	**Positive**	Will help in cost reduction	All companies
Increase in import duty from existing 5% to 10% on Hot Rolled Coils	**Positive**	Encourage growth of domestic Steel Industry	JSW Steel, Tata Steel, SAIL
Increase in allocation to various infrastructure development schemes	**Positive**	Will directly drive long/flat product demand	All companies
No change in excise duty	**Neutral**		

OIL AND GAS

Overall, the Budget is expected to be positive for the sector. We do not see any clarity on subsidy sharing mechanism. However, in order to bring down subsidies, the government is likely to indicate a road map to bring subsidy bill under control.

Expectations	Impact	Remark	Company
Declare goods status to natural gas	**Positive**	Currently, VAT rates differ from state to state, going to as high as 15-20% in some states. Inclusion of gas in declared goods category will restrict VAT rate to a maximum of 5%, which will spur further demand for gas.	Gujarat gas, IGL, GAIL, PLNG, GSPL
Import duty exemption on natural gas	**Positive**	Currently, natural gas attracts 5% customs duty, while crude oil is exempt from import duty. LNG may be given same benefit as crude oil.	PLNG, Gujarat Gas, GAIL, GSPL, IGL
Additional duty on diesel cars	**Positive**	The deregulation of petrol prices has led to a dieselisation of the economy and out of the total under-recoveries of OMCs on diesel, PDS kerosene and domestic LPG, more than 50% is on account of diesel alone. Current under-recoveries on diesel are Rs11/litre and imposition of duty on diesel cars will tone down demand growth of diesel.	Oil marketing companies, ONGC, OIL
Extending the validity of the deduction u/s 801B (9) for the refining business	**Positive**	Under Section 80IB(9), a deduction of 100% of the profits for a period of 7 consecutive assessment years is allowed to an undertaking which begins refining of mineral oil on or after 1/10/1998, but not later than 31/3/2012. Major grassroots refineries and major expansion are being executed by various refineries and the viability of these projects has been possible because of such tax concession. Some of these projects might not be completed before March 2012 because of factors beyond the control of the companies, which would result in depriving these companies the benefit of tax holiday.	Refineries
Cut in basic excise duty on branded diesel	**Positive**	Basic excise duty on diesel is Rs3.75/litre, while there is no basic excise duty on normal diesel, leading to wide differential in retail prices. Lower duty on branded diesel will narrow this differential and will help OMCs as under-recovery on branded diesel is lower.	Oil marketing companies.
No reforms expected in fuel pricing	**Negative**	Considering high oil prices, we do not expect the government to announce any sort of de-regulation of auto and cooking fuels.	IOC, BPCL, HPCL, ONGC, OIL, GAIL

PHARMA

Overall, the Budget is expected to be positive for the sector. We also believe any favorable announcement on term extension of the weighted tax deduction on R&D spends (to expire in March 2012) would ensure renewed interest by the major pharma players like Sun, DRL, Ranbaxy, Lupin, Glenmark and Cadila.

Expectations	Impact	Remark	Company
Extension of 200% weighted deduction (WDD) on in-house R&D by 5 years, which is set to expire by March 2012	**Positive**	Incentives for core R&D activity players	Sun, DRL, Lupin, RBXY, GLN
Rationalise rates on APIs to 5% (from 10%); formulation attract 5%	**Positive**	On all formulation companies, as differential between the cost of RM and finished dosage decreases	Ranbaxy, Sun, Lupin, DRL, Cadila and IPCA

POWER

On the backdrop of the shortage of fuel and lower schedule of power from the SEB and their mounting losses, we are expecting extension of 80IA benefits, the exemption of service tax and excise duty on cement/steel used in Mega/Ultra Mega Power Projects, exemption of SPVs from Dividend Distribution Tax, in the upcoming budget. The setting up of coal regulator will also improve the dismal fuel situation plaguing the industry. A financial assistance package for the ailing SEBs is desirable. But, we feel it would be highly unlikely in the current situation. We expect a higher allocation to reform oriented plans like R-ADARP and RGGVY programmes to continue. This will also contribute positively to the sector's long term growth. We believe the budget to remain neutral to positive bias for the sector.

Expectations	Impact	Remark	Company
Extension of 80IA benefits till March 2017	**Positive**	Industry has to invest large capital in setting up of power plants to ensure uninterrupted power supply. Tax holiday under section 80IA for power plants to be extended. This sunset clause needs to be amended to extend the tax holiday for another 6 years. In other words, projects that would get commissioned before 31st March 2017 should be eligible for tax holiday. The move will benefit power projects, including ultra mega ones (UMPPs) and transmission projects, slated to be awarded in the remaining period of the 12th Plan (2013-17).	All IPP's
Excise Duty Exemption on Steel / Cement used in construction of Mega / Ultra Mega Power Projects	**Positive**	If duty exemption is made available to all goods supplied to a power project, the cost of power would come down significantly. It will also reduce fixed charge in the tariff.	Power utilities

Setting up of a Coal Regulator	**Positive**	The establishment of a regulatory authority could lead to optimal and appropriate resource management. A regulatory mechanism would address all issues relevant to the development of coal resources, regulation of coal price and creating and nurturing a level playing field between the influential large public sector coal companies, the emerging small coal companies in the state-level public sector and the captive mining sector. A coal regulator is required since a number of captive coal blocks have been allotted and a large number of players have entered the fray. In the absence of a regulator, the national asset can also be mismanaged. It will also help in economic pricing of coal for both Coal India and the captive block allottees.	Neyveli Lignite, NTPC
SPVs to be exempted from the DDT	**Positive**	Re-investment needs by the holding company in the power sector, Dividend Distribution Tax should be levied only on the parent company and SPVs be exempted from the DDT.	Power Utilities
Reduction of duty on imported coal	**Positive**	Delays in receiving environment and forest clearances have impacted coal production, despite adequate coal reserves in the country. This has forced generation companies to resort to imported coal in their plants. With the country already importing ~85-90mn tonnes of thermal coal, an additional 150mn tonnes of coal is required, as CIL would not be able to meet the recent PMO directive by increasing its domestic production. In order to provide incentive to the sector, we expect a reduction of duty on imported thermal coal paid by the generators.	Power Generators

Real Estate

We expect the government to support property buyers by increasing tax benefits for home loan borrowers and revising (upwards) the cap for loans qualifying for affordable housing, to adjust to variation in property prices across various cities. We also expect the government to help the sector by appointing a regulatory body for the sector, which will improve transparency level and create a level playing field for developers. This will also reduce time taken for approval, and hence quicker supply, which will in turn reduce property prices and help buyers. However, we do not expect the sector to be given industry status, which the developers are demanding. This will continue liquidity issues for the sector. Overall, though we do not expect the budget to affect developers positively in a direct way, it will definitely affect them indirectly i.e. by providing support to the buyers. Overall, we expect a positive Budget for the real estate sector.

Expectations	Impact	Remark	Company
Regulator for real estate sector	**Positive**	This will improve transparency levels and reduce approval time due to single window availability	All Companies
Loans qualifying for affordable housing should be revised as per city (Currently Rs25mn)	**Positive**	Companies with higher focus on metros with high property prices will be impacted; Primarily Mumbai based companies	Orbit, HDIL, DB Realty, Oberoi, Godrej Properties
Higher tax incentives to home loan borrowers	**Positive**	Indirectly reduces the overall cost of homes	All companies
Relax constructible area norms for FDI compliant projects in metro cities	**Positive**	Due to shortage of open space, FDI in real estate projects in metro cities has become difficult	Companies focusing more development in metro cities
Provide taxation benefits by creating Special Residential Zones (SRZ)	**Positive**	This will provide incentive to developers to build low and mid income houses	Companies that plan to build affordable housing on a larger scale
No industry status for the real estate sector	**Neutral**	Though the developers are expecting industry status for the sector, we do not think government will do it.	

RETAIL

Over the last few years, retail has strongly emerged as a high-volume sector, contributing to over 39% to the country's GDP and owning ~9% of country's total employment. We expect GST announcement and clarity on FDI in multiple-brand retail.

Expectations	Impact	Remark	Company
To rationalise the tax structure and implement GST at the earliest to provide seamless single window tax structure.	**Positive**	There are multiple levies at every stage of the retail channel which are eroding margins without getting commensurate return for the industry in terms of infrastructure development.	All companies
Expect the government to announce FDI in multiple-brand retail.	**Positive**	It will bring in healthy competition leading to economies of scale while ensuring build-up of a strong infrastructure and distribution network.	Shoppers Stop, Pantaloon, Trent

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