

Union Budget 2010-2011



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Symphony of Fiscal Consolidation and continued growth

The Union Budget presented by the Finance Minister, Mr. Pranab Mukherjee has all the hallmarks of maintaining the scorching pace of growth while improving the fiscal health. The all encompassing budget covering everything from providing resources for infrastructure and agriculture led growth, measures to reduce the fiscal deficit and tax concessions to boost consumption, should help the economy to rapidly scale to the targeted 9% growth rate. This in turn, will enable to attract higher investments required to cross the double digit levels of growth over the medium term.

Key Take Aways

Focus on reigning in the fiscal deficit - A big positive

In our opinion, the slew of measures announced by the Finance Minister to increase revenues through roll back of excise duty, PSU divestment, 3G roll out, curtailment of non - plan expenditure and reduction in the market borrowings are extremely positive for reigning in the fiscal deficit.

Fiscal Deficit (as a percentage of GDP)



Being one of the first countries to roll back the fiscal stimulus and also trim estimates on the fiscal deficit front, this should send strong positive signals to the international investors and result in increased flow of funds.

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Incidence of lower taxation to boost consumption

Reduction in the burden of taxation through relaxation of income tax slabs alongwith an increase in the exemption of tax saving schemes will put more money in hands of the individuals, thereby encouraging consumption and savings.

Focus on infrastructure, rural development and agriculture to spur growth

Infrastructure development is vital to the long term sustainable growth of India's GDP. Recognizing the need to spur growth of the infrastructure, the allocation to this sector has been increased by 73% to Rs 173,552 crore (accounting for 46% of the plan expenditure) over the last year.

Rural Development and agriculture has always been at the centre of the UPA government's agenda. In accordance with this, it has provided Rs 66,100 crore for Rural Development, besides providing Rs 40,100 crore to NREGA, Rs 48,000 crore for the rural infrastructure programmes of Bharat Nirman and Rs 10,000 crore to the Indira Awas Yojna.

For agricultural development, the government will follow a 4 pronged strategy of increasing food production, reducing wastage, extending credit support to farmers and promoting the food processing sector.

All the above will not only spur growth but also provide increased employment at the grass root level thereby fuelling consumption.

Corporate profitability to be negatively impacted due to hike in excise rates and Minimum Alternative Tax (MAT)

The incidence of higher excise duty rates will negatively impact the corporates, as in our opinion, the corporate world will not be able to pass on the excise hike in its entirety and this will dampen profitability. Also the increase in the MAT by 300 bps to 18% of book profits would put further pressure on the net margins. However, we believe that the negative impact would be offset by the reduction in surcharge on corporation tax (from 10% to 7.5%) and the positive effect of the other pro-growth budgetary provisions.

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Sectoral Impact

Sector	Budget Impact	Key Highlights
Automobiles	Neutral	Hike in excise duties & increase in weighted deduction on in-house R&D
Healthcare	Largely Positive	Increase in weighted deduction on in-house R&D
Banking / Financial Services	Positive	Re-capitalisation of PSU banks & Release of licenses to NBFC & private players
IT / ITES	Negative	Increase in MAT rate from 15% to 18%
Infrastructure	Positive	Increased plan allocation for infrastructure development
Power	Largely Positive	Increase outlay under RGGVY Scheme
Oil & Gas	Negative	Restoration of customs duty & levy of excise duty
FMCG	Neutral	Increase in peak rate of excise duty to be offset by higher disposable income
Real Estate	Positive	Increased focus on Affordable Housing segment
Hotels	Very Positive	Benefits of 100% investment-linked tax deduction on capex for building & operating new hotel of 2 star category & above
Education	Positive	Increased fund allocation

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Automobiles

Neutral

Item	Budget Measures	Budget Impact	Companies Impacted
Excise Duty on small cars	Increase in peak excise duty from 8% to 10%	Negative for small car manufacturers	Maruti & Tata Motors
Excise Duty on large cars, MUVs & SUVs	Increase in excise duty from 20% to 22%	Negative	M&M & Tata Motors
In-house R&D	Increase in weighted deduction from 150% to 200%	Lower Tax burden	All auto companies

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Healthcare

Largely Positive

Item	Budget Measures	Budget Impact	Companies Impacted
Fund Allocation	Increased from Rs 19,534 crore to Rs 22,300 crore	Positive	All companies
In-house R&D	Increase in weighted deduction from 150% to 200%	Lower Tax burden – Positive	All Pharma companies
Medical equipments	Special additional duty fully exempt	Positive for hospitals	Apollo Hospitals, Fortis & Indraprastha Medical
MAT Rate	Increased from 15% to 18%	Higher tax burden – Negative	All Pharma companies

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Banking / Financial Services

Positive

Item	Budget Measures	Budget Impact	Companies Impacted
Govt Borrowing Programme	Lower by 13% from Rs 3.98 Lac crore to Rs 3.45 Lac crore	Positive – Benign Interest rates & Increase in Bond prices	All Banks
Re-capitalisation	Allocation of Rs 16,500 crore to attain minimum 8% Tier-I capital by FY2011	Positive for small PSU banks	Syndicate Bank, Dena Bank, UCO Bank, etc
Banking License	Release to NBFC & Private sector players	Positive	Reliance Capital, IFCI & IDFC
Agriculture credit	Allocation increased by 15% to Rs 375,000 crore	Positive	All Banks
Farmer loan repayment tenure	Extension by six months	Easing of NPA classification	All Banks

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IT / ITES

Negative

Item	Budget Measures	Budget Impact	Companies Impacted
MAT Rate	Increase from 15% to 18%	Higher tax liability - Negative	All companies
STPI scheme	Status quo, to expire in April 2011	Neutral	All companies
UID Project	Allocation of Rs 1,900 crore	Positive	TCS, CMC, Bartronics & Vakrangee Software

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Infrastructure

Positive

Item	Budget Measures	Budget Impact	Companies Impacted
Plan for infrastructure development	Provision of Rs 173,552 crore (46% of total plan allocations)	Positive	All Companies
Bharat Nirman	Allocation of Rs 48,000 crore	Positive	All Companies
Road Transportation	Increased allocation by 13% to Rs 19,894 crore	Positive	IRB Infra, Gayatri Project, Gammon, Jkumar Infra, KNR Constructions, etc
IIFCL disbursements	To touch Rs 20,000 crore from Rs 9,000 crore	Positive	All Companies
Infrastructure Bonds	Additional Rs 20,000 deduction available for investment u/s 80CCF	Positive	All Companies
Rural Development	Allocation of Rs 66,100 crore	Positive	All Companies

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Power

Largely Positive

Item	Budget Measures	Budget Impact	Companies Impacted
RGVY	Allocation increased from Rs 2,230 crore to Rs 5,130 crore	Positive	T&D companies like Voltamp, BBL, Kalpataru, Jyoti Structures, Crompton Greaves
National Clean Energy Fund	Clean energy cess on domestic & imported coal	Negative	Power generation companies
Wind power	Exemption from excise duty on inputs required for rotor blades	Positive	Suzlon
Photovoltaic & solar thermal power units	Concessional customs duty of 5% on equipments required	Positive	Moser Baer & Webel SL Energy

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Oil & Gas

Negative

Item	Budget Measures	Budget Impact	Companies Impacted
Restoration of Customs Duty	5% on crude, 7.5% on diesel & petrol & 10% on other refined products	Negative	All OMCs
Petrol & Diesel	Levy of Re 1 excise duty	Negative	All OMCs
Petrol & Diesel	Price hike by Rs 2.67/litre in petrol & Rs 2.58/litre in diesel	Positive	All OMCs
MAT Rate	Increase from 15% to 18%	Higher tax liability - Negative	RIL

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FMCG

Negative

Item	Budget Measures	Budget Impact	Companies Impacted
Excise Duty	Increase in peak excise duty from 8% to 10%	Negative	All FMCG companies
Food park projects	To set up five additional parks	Positive	Food processing companies
Food storage Industry	ECB will be available	Positive	Heritage Foods & Agro Tech Foods
Rural Development schemes	Allocation of Rs 66,100 crore	Positive	All FMCG Companies
Tobacco products	Excise duty increased	Negative	ITC

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Real Estate

Positive

Item	Budget Measures	Budget Impact	Companies Impacted
Interest subvention loan for houses costing upto Rs 2 million	1% interest rate subvention on housing loan upto Rs 2 million	Positive for affordable housing companies	Unitech, DLF & HDIL
Rajiv Awas Yojana for slum dwellers	Allocation increased from Rs 150 crore to Rs 1,270 crore	Positive for SRA players	HDIL & Akruti
Allocation for urban development	Increased by 75% from Rs 3,060 crore to Rs 5,400 crore	Positive	All companies
Service Tax	Treatment before grant of completion certificate deemed as service	Increase in transaction cost – Negative	All companies

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Hotels / Tourism

Very Positive

Item	Budget Measures	Budget Impact	Companies Impacted
Investment-linked tax deduction	Benefits of 100% investment-linked tax deduction on capex (excluding land, goodwill & financial instrument) for building & operating new hotel of 2 star category & above extended from select locations to across the country	Very Positive – Promote incremental investments so as to reduce the demand supply mismatch	Indian Hotels, EIH, Hotel Leela & ITC
Govt Thrust on Infrastructure / Roads	Allocation increased across the schemes	Positive	All Hotel & Tourism companies

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Education

Positive

Item	Budget Measures	Budget Impact	Companies Impacted
School Education	Plan allocation increased from Rs 26,800 crore to Rs 31,036 crore	Positive	Educomp, Everonn & Aptech
Elementary Education	Grant to states of Rs 3,675 crore	Positive	Educomp, Everonn & Aptech

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Miscellaneous

Item / Sector	Budget Measures	Budget Impact	Sectors & Companies Impacted
Cement	Excise duty hiked proportionately	Negative	All cement companies
Media	Project Import Status granted	Positive for Multi Service Operators	Hathway & Adlabs
Gems & Jewellery	Customs duty of 10% on rhodium reduced to 2%	Positive	Gitanjali Gems & Titan
Airlines	Levy of Service Tax on Airline tickets of any class	Negative	All airline companies
Textiles	interest subvention of 2% for exports of handlooms, handicrafts and SMEs for 1 year	Positive	All textile companies
Fertilizer	To provide govt subsidy in cash instead of bonds	Positive	All fertilizer companies

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Policies – Direct Tax

- Income Tax slabs have been relaxed further as under:
 - 10% of tax on income from *Rs 1.6 lacs to Rs 5 lacs.
 - 20% of tax on income from Rs 5 lacs to Rs 8 lacs.
 - 30% of tax on income from Rs 8 lacs and above
- * (in case of female assessee it is raised to Rs 1.9 lacs and for senior citizens Rs 2.4 lacs)
- Additional deduction of Rs 20,000 under Section 80CCF in respect of subscription to long term infrastructure bonds
- Reduction in surcharge from 10% to 7.5% on Corporate tax
- MAT increased to 18% of book profits from the present rate of 15%
- Tax audit limits for Business increased from Rs 40 lacs to Rs 60 lacs and for Professionals from Rs 10 lacs to Rs 15 lacs
- Introduction of the Direct Tax Code (DTC) with effect from April 01, 2011

Policies – Indirect Tax

- Excise duty hike by 2%, signaling partial roll back of fiscal stimulus
- Introduction of the Goods & Service Tax (GST) with effect from April 01, 2011
- Indicative rate of GST to be @ 10%
- Excise duty hiked on certain categories of cigarettes
- Reduction in excise duties on water filters (except those made from RO technology), corrugated boxes & cartons, latex rubber thread, medicinal and toilet preparations etc.
- Customs duties lowered on certain medical equipment.

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Policies – Service Tax

- Rate of tax on services retained at 10% to pave the way forward for GST
- Accredited news agencies that provide news feed online exempted from service tax
- New services added to service tax:
 - Transport of goods through railways brought under tax net
 - Services provided for maintenance of medical records of employees of a business organisation
 - Electricity exchanges
 - Health checkups undertaken by hospitals
 - Health services provided under health insurance schemes, offered by insurance companies
 - Services promoting brand of goods, services and events of a business entity
- Proposals relating to service tax are estimated to result in a net revenue gain of Rs 3,000 crore for the year.

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Receipts

Rs. Crore	2007-08	2008-09	2009-10BE	2009-10RE	2010-11BE	% Change
Total receipt	709373	900953	1020838	1027128	1108749	8.6%
Revenue Receipt	525098	562173	614497	577294	682212	11.0%
Tax revenue (Gross)	585410	627949	641079	633095	746651	16.5%
Corporation Tax	186125	222000	256725	255076	301331	17.4%
Personal Tax	118320	122600	112850	124989	120566	6.8%
Direct Tax	304445	344600	369575	380065	421897	14.2%
Customs	100766	108000	98000	84477	115000	17.3%
Excise	127947	108359	106477	102000	132000	24.0%
Service Tax	50603	65000	65000	58000	68000	4.6%
Other Tax	1649	1990	2027	8553	9754	381.2%
Indirect Tax	280965	283349	271504	253030	324754	19.6%
Less: Share of State, UT	151837	160179	164361	164832	208997	27.2%
Less: Transfer to NC Contingency Fund	1800	1800	2500	3160	3560	42.4%
Tax Revenue for Central (Net)	431773	465970	474218	465103	534094	12.6%
Non Tax Revenue	93325	96203	140279	112191	148118	5.6%
Interest Receipts	17464	19036	19174	19212	19253	0.4%
Dividends and Profits	36108	39736	49750	51983	51309	3.1%
Other non-tax	39753	37431	71355	40996	77556	8.7%
Capital Receipt	184275	338780	406341	449834	426537	5.0%
Market Borrowings	110671	261972	397957	398411	345010	-13.3%
Other short, medium and long term loan	25553	57500	0	-3904	0	
External Debt	9970	9603	16047	16535	22464	40.0%
Recoveries of loan and Advances	4497	9698	4225	4254	5129	21.4%
Disinvestment of PSUs	36125	2567	1120	25958	40000	3471.4%
Other Receipts	-2541	-2560	384949	406991	358944	-6.8%

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VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

Expenditure

Rs. Crore	2007-08	2008-09	2009-10BE	2009-10RE	2010-11BE	% Change
Total Expenditure	709373	900953	1020838	1021547	1108749	8.6%
Non Plan Expenditure	501849	617996	695689	706371	735657	5.7%
Revenue Expenditure	412975	561790	618834	641944	643599	4.0%
Interest Payment and Debt Servicing	171971	192694	225511	219500	248664	10.3%
Defence	54795	73600	86879	88440	87344	0.5%
Subsidies	69742	129243	111276	131025	116224	4.4%
Others	116467	166253	195168	202979	191367	-1.9%
Capital Expenditure	88874	56206	76855	64427	92058	19.8%
Loan and Advances to State, UT Govt	89	89	89	88	89	0.0%
Defence	37705	41000	54824	47824	60000	9.4%
Others	51080	15117	21942	16515	31969	45.7%
Plan Expenditure	207524	282957	325149	315176	373092	14.7%
Revenue Expenditure	175611	241656	278398	264411	315125	13.2%
State Plan	51569	70023	78108	76573	84244	7.9%
Central Plan	124042	171633	200290	187838	230881	15.3%
Capital expenditure	31913	41301	46751	50765	57967	24.0%
State Plan	7286	8806	7201	9439	8248	14.5%
Central Plan	24627	32495	39550	41326	49719	25.7%

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Ratios

Rs. Crore	2007-08	2008-09	2009-10BE	2009-10RE	2010-11BE	% Change
GDP Nominal	4947857	5574449	6164178	6164178	6817580.868	10.6%
Gross Fiscal Deficit	143653	326515	400996	414041	381408	-4.9%
Fiscal deficit as a % of GDP	2.9%	5.9%	6.5%	6.9%	5.5%	
Revenue Deficit	63488	241273	282735	329061	276512	-2.2%
Revenue deficit as a % of GDP	1.3%	4.3%	4.6%	5.3%	4.1%	
Primary Deficit	-28318	133821	175485	194541	132744	-24.4%
Primary Deficit as a percentage of GDP	-0.6%	2.4%	2.8%	3.2%	1.9%	

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Ventura Securities Limited.

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

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