



Alka Securities

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Union Budget 2010-11

Vikesh Mehta, CFA
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Overview

Mr. Pranab Mukherjee presented a conservative budget on February 26, 2010, laying out an idea on the long term goal on fiscal deficit (FD), gradual exit of the fiscal stimulus and many more key issues. In what was largely being feared as an exercise that could have put some friction to the recovery that the Indian economy is currently witnessing, it actually turned out that the Finance Minister has managed to effectively conclude this exercise in a highly balanced fashion.

Budget Flashes

- ↻ A revision in the base year for calculating gross domestic product (GDP) coupled with higher growth figures has allowed finance minister Pranab Mukherjee to present a lower fiscal deficit at 5.5 % per cent of FY11 GDP. The current year's deficit has been revised to 6.9%. He also managed to peg the deficit much lower in years to come, for FY12 and FY13 it is pegged at 4.8% and 4.1% respectively. Net borrowing for FY11 has been pegged at Rs 3.45 lakh crore.
- ↻ Mr. FM aims to implement Direct Tax Code (DTC) as well as Goods and Service Tax (GST) by April 1, 2011.
- ↻ The FM has given India Inc to heave a sigh of relief. While he has left the base rate of 30% the same for corporate taxes, he has cut the surcharge from 10% to 7.5%. However, while he has given with one hand, he has taken away from the other. He has increased Minimum Alternate Tax (MAT) from the current 15% of book profits to 18% of book profits. Currently, domestic firms earning total income of over a crore in a year have to pay corporate tax of 30%. Besides, surcharge of 10% and education cess of 3% are imposed on them, taking the total tax liability to 33.99%. Now, this comes down slightly to 33.2175%.
- ↻ Disinvestment target hiked to Rs.40,000 crore for the coming fiscal.
- ↻ The Finance Minister gave the individual tax payers a reason to cheer, in the Budget. He has changed the tax slabs for men, women and senior citizens. The highest tax slab has now been raised from Rs 5 lakh to Rs 8 lakh. The FM has also increased the limit of deduction available under section 80C. He has allowed an additional investment of Rs 20,000 for infrastructure bonds taking the total of the limit under section 80C from the current Rs 1 lakh to Rs 1.2 lakh.

Changes in Personal Income Tax

| Individual direct tax impact | | | Tax Payable | |
|------------------------------|-----------------|------------|-------------|---------|
| New Slab (Rs) | Old Slab (Rs) | Tax rate % | New | Old |
| 0-1.6lakh | 0-1.6lakh | NIL | 0 | 0 |
| 1.6-5lakh | 1.6-3 lakh | 10% | 34,000 | 14,000 |
| 5-8lakh | 3-5lakh | 20% | 60,000 | 40,000 |
| 8lakh & above- | 5 lakh & above | 30% | 60,000 | 150,000 |
| upto Rs. 10 lakh | upto Rs 10 lakh | | | |
| Total tax payout | | | 154,000 | 204,000 |
| Incremental tax saving | | | | 50,000 |

Changes in Indirect Taxes

| Changes in Indirect Taxes | Pre-Budget | Post-Budget |
|--|--|--|
| Excise Duty | | |
| non-petroleum products | 8% | 10% |
| Cement- other than mini plant | | |
| i)Sales price - Rs.190 per 50kg bag | Rs 230 per tonne | Rs 290 per tonne |
| ii)Sales price above Rs. 190 per 50 kg bag | 8% of retail sales price | 10% of retail sales price |
| iii) other than packaged | 8% or Rs. 230 per tonne, whichever is higher | 10% of RS 290 per tonne, whichever is higher |
| MUVs and SUVs | 20% | 22% |
| Motor Spirit - unbranded | Rs.12.35 | Rs.14.35 |
| Motor Spirit - branded | Rs.9.5 | Rs.15.5 |
| HSD - unbranded | Rs 2.6 | Rs 4.6 |
| HSD - branded | Rs.2.6 | Rs.5.75 |
| Cigarettes (per 1000) | | |
| Non-filtered not exceeding 60mm size | Rs 819 | Rs 669 |
| Non-filtered exceeding 60mm but not exceeding 70 mm | Rs 1323 | Rs 1473 |
| Filtered - length not 60 mm | Rs 819 | Rs 669 |
| Filtered - length exceeding 60mm but not exceeding 70 mm | Rs 819 | Rs 969 |
| Filtered - length exceeding 70mm but not exceeding 75 mm | Rs 1323 | Rs 1473 |
| Filtered - length exceeding 75mm but not exceeding 85 mm | Rs 1759 | Rs 1959 |
| others | Rs 2163 | Rs 2363 |
| Cigarettes of tobacco substitutes | Rs 1208 | Rs 1408 |
| Basic excise duty on cut tobacco | Rs 50 per kg | Rs60 per kg |
| Batteries and battery chargers and battary operated vehicles | | 4% |
| LED lights/lighting fixtures | 8% | 4% |
| DTA clearances of gold and sliver jewellery mfg by 100% EOU | Rs 500 per 10gm | Rs 750 per 10gm |

| | | |
|---|----------------------|----------------------|
| Replaceable kits of water filter (except for RO) | 8% | 4% |
| Corrugated boxes/cartons | 8% | 4% |
| Latex rubber thread | 8% | 4% |
| Goods under Medicinal and Toilet preparations Act | 16% | 10% |
| Maize and tapioca starch | 0% | 4% |
| Potato starch | 8% | 4% |
| Ceramic tiles (with cenvat credit) | 8% | 10% |
| Umbrellas and umbrella parts | 4% and 8% | 4% |
| Rough ophthalmic blanks | 0% | 4% |
| Mosquito nets impregnated with insecticides | 0% | 4% |
| Av gas | 0% | 4% |
| Microprocessors, Floppy disk drive, flash drive, CD/DVD and combo drive | 0% | 4% |
| Clinical diapers and sanitary napkins | 0% | 10% |
| Open tin sanitary (OTS) | 0% | 10% |
| Goggles | 0% | 10% |
| CUSTOM DUTIES | | |
| Crude Petroleum | 0% | 5% |
| Motor Spirit (petrol) and HSD (diesel) | 3% | 8% |
| Specified petroleum products | 5% | 10% |
| Customs duty on serially numbered gold bars and gold coins | Rs.200 per 10 gram | Rs.300 per 10 gram |
| Other forms of gold | Rs.500 per 10 gram | Rs.750 per 10 gram |
| Silver | Rs.1000 per kg | Rs.1500 per kg |
| Platinum | Rs.200 per 10 gram | Rs.300 per 10 gram |
| Long pepper | 70% | 30% |
| Asafoetida | 30% | 20% |
| Medical equipments | 0% | 9% |
| Magnetrons of upto 1,000 kw for the manufacture of microwave ovens | 10% | 5% |
| Rhodium | 10% | 2% |
| Duty free import of samples | Rs. 1 lakh per annum | Rs. 3 lakh per annum |

Source: Union Budget Document 2010-2011

Sector Analysis

Neutral

Negative

Positive

| Sector | Announcement | Sector Impact | Stock Impact | Comments |
|-------------|--|---------------|--|---|
| Automobiles | <p>↗ Hike in excise duty from 8% to 10%.</p> | Neutral | <p>↗ Neutral for all co's in the 2-3 wheeler segment. Like Hero Honda, Bajaj Auto etc.</p> | <p>↗ We believe that the hike in excise duty by 2% will eventually be borne by the consumers, but the increase in tax slabs, resulting in higher disposable income in the hands of the consumers will negate the effect.</p> |
| | <p>↗ Rise in Ad valorem part of excise duty applicable on large cars, MUVs & SUVs by 2% to 22% & on LCV to 10%.</p> | Neutral | <p>↗ Neutral for all co's operating in this segment. Like Mahindra & Mahindra, Muruti etc.</p> | <p>↗ We believe that the increase in excise duty by the mentioned rate will result in an increase in price by Rs.2500 to Rs. 52000 resulting in less demand, but the increase in tax slabs, resulting in higher disposable income in the hands of the consumers will offset the effect.</p> |
| | <p>↗ Allocation of Rs1,73,552cr provided for infrastructure development (which accounts for over 46% of the total plan allocation). Allocation for road transport increased by over 13% from Rs17,520cr to Rs19,894cr. Allocation of Rs66,100cr provided under Rural Development program of which Rs48,000 allocated for rural infrastructure under Bharat Nirman.</p> | Positive | <p>↗ Positive for all players operating in the sector</p> | <p>↗ Broadly positive for long-term growth of the Sector. Increase in allocation under Rural Development program is positive for Auto companies with rural presence like M&M and Hero Honda. Hike in allocation for infrastructure and road development would be a longterm positive for Commercial Vehicle (CV) players like Tata Motors, Ashok Leyland, Eicher Motors and Force Motors.</p> |

| Sector | Announcement | Sector Impact | Stock Impact | Comments |
|--------|--|---------------|---|---|
| BFSI | <ul style="list-style-type: none"> ~ Banking licenses for private & NBFC players. | Positive | <ul style="list-style-type: none"> ~ Positive for stocks like IDFC, IFCI, Reliance Capital & co's alike. | <ul style="list-style-type: none"> ~ Positive for the industry as a whole as it would result in better pricing due to increase in the number of players operating in the industry, resulting in higher competition & improved efficiency among co's. We also expect consolidation to take place in the industry through M&A & takeovers. |
| | <ul style="list-style-type: none"> ~ Extension of repayment due date to June 2010, on large farmer loans under Agri-Debt waiver, where 25% was payable by farmer. | Positive | | <ul style="list-style-type: none"> ~ Especially benefits large PSU banks like SBI, PNB, BOB, etc. that had recognized large amount of NPAs on this account in 3QFY2010, which will now get reversed. |
| | <ul style="list-style-type: none"> ~ Banking for all villages with population of 2000. | Positive | <ul style="list-style-type: none"> ~ Positive for all banking stocks as it would result in business growth. | |
| | <ul style="list-style-type: none"> ~ Rs16,500cr allocated to re-capitalisation of PSU Banks (7% of FY2009 Networth of PSU Banks). | Positive | <ul style="list-style-type: none"> ~ Positive for PSU Banks, especially smaller ones like Dena Bank, Central Bank of India, Syndicate Bank, etc. | |

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|--------|--|---------------|--|---|
| Cement | <p>↯ Excise duty on cement increased from 8% to 10% for Cement price above Rs190 per bag. For cement price of below Rs190 per bag, specific duty has been increased from Rs230/tonne to Rs 290/ tonne. Excise duty on clinker increased from Rs300 to Rs375/tonne.</p> | Negative | <p>↯ Negative for all south operating players like India Cements, madras Cement.</p> | <p>↯ We believe that the overall impact is likely to be neutral as the effect of the increase in price hike will be eventually be passed on to the end users by all players except for the south operating players.</p> |
| | <p>↯ Clean energy cess on coal of Rs50 per tonne for imported and domestic coal.</p> | Negative | | <p>↯ Cess on domestic and imported coal has been imposed at a nominal rate of Rs 50 per tonne. Though this amount is quite small as compared to the overall fuel cost of the cement companies, but it will increase the power and fuel cost to some extent going forward.</p> |
| | <p>↯ Tax Exemption on services provided in relation to transport of goods by rail has been withdrawn.</p> | Negative | | <p>↯ Marginally negative for the industry. Service tax paid qualifies for CENVAT credit.</p> |
| | <p>↯ Increase in the customs duty on diesel and petrol and central excise duty on petrol and diesel by Rs 1 per litre</p> | Negative | | <p>↯ This is likely to increase the freight rates and have an adverse impact on overall margins of cement companies.</p> |

| Sector | Announcement | Sector Impact | Stock Impact | Comments |
|-----------------------------|---|---------------|--|---|
| Engineering / Capital Goods | <p>~ Plan outlay for the Ministry of New and Renewable Energy increased by 61% from Rs620cr in 2009-10 to Rs1,000cr in 2010-11.</p> | Positive | <p>~ Positive for stocks like Suzlon, Moser baer etc.</p> | |
| | <p>~ Rs1,73,552cr provided for infrastructure development, which accounts for over 46% of the total plan allocation.</p> | Positive | <p>~ Marginally positive for all the stocks operating in the industry.</p> | <p>~ Higher allocation to the infra sector will boost GDP in the near-term.</p> |
| | <p>~ Increased allocation to defense sector from Rs. 141000 crs to Rs. 147000 crs.</p> | Positive | <p>~ Positive for stocks like L&T.</p> | |
| | <p>~ Monorail projects for urban transport" at a concessional basic duty of 5% has been granted.</p> | Positive | <p>~ Positive for L&T.</p> | <p>~ We believe that the overall cost of the project should come down due to this announcement. Currently, L&T along with its consortium partner - Scomi of Malaysia are executing the Mumbai Monorail project, which is the first monorail project in India.</p> |

| Sector | Announcement | Sector Impact | Stock Impact | Comments |
|--------|--|---------------|---|--|
| FMCG | <p>~ The allocation under the rural development program has been increased to Rs.661 bn. The allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme has been stepped up to Rs.401 bn and Rs.480 bn is allocated for rural infrastructure programs under Bharat Nirman.</p> | Positive | | <p>~ We believe this as a positive news for FMCG sector as it will generate more employment and development in rural India and will further drive consumption of fast moving consumer goods.</p> |
| | <p>~ Relief in personal income tax in terms of lower tax rate of 10% for income between Rs.1.6 - 5 lakh, 20% for income between Rs.5 - 8 lakh and 30% above Rs.8 lakh.</p> | Positive | | <p>~ This would result into lesser tax outgo for individuals and put more disposable incomes in their hands. We believe this is positive for the FMCG sector as it will boost the overall demand and induce the households to upgrade to premium brands.</p> |
| | <p>~ Partial withdrawal of the stimulus package, with a roll back of the excise duty cut (hiked 2-10%).</p> | Negative | ~ Negative for all players operating in the industry. | <p>~ This is marginally negative as it would lead to hike in the final product prices, which can impact demand.</p> |
| | <p>~ Hike in excise duty on cigarettes by ~11%.</p> | Negative | ~ Negative for the tobacco major ITC. | <p>~ This is negative for ITC as they will have to either hike the final product prices, which can impact demand or take a hit on its profitability.</p> |
| | <p>~ MAT increased form 15% to 18%</p> | Negative | ~ Negative for players like HUL, Dabur etc. | <p>~ Increase in MAT to 18% is as companies would have to pay higher rate of tax thereby impacting its EPS estimates and lead to increased cash outflow. However the impact of MAT increase would be marginal as it would be counterbalanced by a cut in surcharge from 10% to 7.5%.</p> |

| Sector | Announcement | Sector Impact | Stock Impact | Comments |
|----------------|---|---|---|--|
| Infrastructure | <ul style="list-style-type: none"> ↗ Increase in fund allocation for Road Transport sector by 3% to Rs19,894cr and Railway infrastructure by 6% to Rs16,752cr. ↗ Tax deductions to the tune of Rs20,000 (under a new Section 80CCF) for investment in long-term Infrastructure Bonds besides the existing limit of Rs1lakh under Section 80C. ↗ Increase in MAT from 15% to 18% and reduction in surcharge from 10% to 7.5%. ↗ Mono Rail Projects for Urban transport granted project import status thereby attracting concessional rate of 5% of basic Customs Duty. | <p>Positive</p> <p>Positive</p> <p>Negative</p> <p>Positive</p> | <ul style="list-style-type: none"> ↗ Positive for co's like IRB, IVRCL, HCC and Madhucon Projects. ↗ Beneficial for companies undertaking, for instance L&T | <ul style="list-style-type: none"> ↗ We believe that this announcement is a move towards boosting liquidity in the sector. ↗ To increase effective tax rate by 2.9%. |

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| Metals | <p>~ Increase in Central Excise duty from 8% to 10% advalorem.</p> | Neutral | | <p>~ Neutral for the sector, as it is likely to be passed on to the end user.</p> |
| | <p>~ To set up a "Coal Regulatory Authority" and introduce a competitive bidding process for allocating coal blocks for captive mining.</p> | Positive | | <p>~ Speed up the coal allocation process.</p> |
| | <p>~ Higher allocation for the rural sector and increased allocation for infrastructure spending.</p> | Positive | | <p>~ The Metal sector stands to benefit from the indirect impact of the higher outlay for the rural and infrastructure sectors, as it would drive the demand for metals.</p> |
| | <p>~ Hike in the Minimum Alternate Tax (MAT) to 18% of book profits from the current 15% of book profits.</p> | Negative | <p>~ Negative for co's like JSW Steel</p> | |
| | <p>~ To levy a clean energy cess on coal produced in India at nominal rate of Rs50/tonne. This cess will also apply to imported coal.</p> | Negative | | <p>~ We believe that this is marginally going to increase the cost of production.</p> |

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|------------------------|--|---------------|--|--|
| Information Technology | <p>↯ The sunset clauses for deduction in respect of export profits under Sections 10A and 10B of the IT Act have not been extended beyond FY11.</p> | Negative | <p>↯ Largely Negative for smaller co's like KPIT, NIIT Tech etc.</p> | <p>↯ This expected measure is likely to impact profitability of IT services' companies after FY11E, it is more likely to effect the profitability of smaller co's then larger established players like Infosys, TCS.</p> |
| | <p>↯ Increase in MAT rate from 15% to 18%.</p> | Negative | <p>↯ Negative for the industry.</p> | <p>↯ Negative for companies that fall in this tax-paying bracket. In our coverage universe companies like Mphasis will negatively impacted, due to a higher tax incidence.</p> |
| | <p>↯ Duty exemptions on packaged or canned software.</p> | Negative | <p>↯ Positive for co's like Oracle.</p> | <p>↯ On packaged or canned software, earlier custom & excise duty exemption had been provided on the portion of the value which represents the consideration for transfer of the right to use such software, only if used for commercial exploitation. This exemption has now been extended to all imported packaged software.</p> |
| | <p>↯ Higher allocation to the UIDAI of Rs1,900cr for FY2010-11.</p> | Positive | <p>↯ TCS, Infosys etc. likely to benefit.</p> | <p>↯ Favorable for Software companies working on the National ID related IT (UIDAI) projects.</p> |
| | <p>↯ Plan allocation for School Education increased by 16% from Rs26,800cr in FY2009-10 to Rs31,036cr in FY2010-11. In addition to this, states will also have access to Rs3,675cr for elementary education under the Thirteenth Finance Commission grants for FY2010-11</p> | Positive | <p>↯ Positive for Educomp solutions, Everonn Systems etc.</p> | <p>↯ Higher allocation to the Education Sector would boost business opportunities for the IT-Education companies in terms of ICT and PPP in K-12 and Vocational Segments.</p> |

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|-----------|---|---------------|---|---|
| OIL & Gas | <p>➤ Consider the recommendations of the expert group i.e. Mr. Kirit parekh committee, for a viable and sustainable system of pricing petroleum products.</p> | Positive | <p>➤ Positive for oil producing co's like ONGC, OIL India Ltd. & for oil marketing co's like IOC, HPCL, BPCl.</p> | <p>➤ This points to the fact that the government is looking to link the prices of petrol and diesel to market prices.</p> |
| | <p>➤ MAT increased from 15% to 18% of book profits. Surcharge on Domestic companies reduced from 10% to 7.5%.</p> | Negative | <p>➤ Negative for co's like RIL & Cairn India. Positive for ONGC & GAIL</p> | <p>➤ To increase cash outflow and therefore slightly negative for MAT paying companies. Increase in MAT adjusted for the lower surcharge increases the tax-rate by 2.9-3.0%. Reduction in Surcharge to boost EPS of full tax paying companies by 1%. It would also boost dividends.</p> |
| | <p>➤ Basic customs duty increased to 5% on crude petroleum and 7.5% for petrol and diesel.</p> | Negative | <p>➤ Negative for OMC's</p> | <p>➤ The restoration of basic customs duty of 5% on crude petroleum and 7.5% for petrol and diesel is negative for oil marketing companies as now they will have to pay more duties while the price at which they can sell is capped. However this is positive for ONGC and Oil India as they benchmark the crude oil they produce to import parity prices.</p> |
| | <p>➤ Central excise duty enhanced by Re.1 each on petrol and diesel</p> | Negative | | <p>➤ This is negative for oil marketing companies as now they will have to pay more duties while the price at which they can sell is capped. Although the government has also increased the retail price of petrol by Rs.2.7 per liter and diesel by Rs.2.6 per liter, we feel that this is not enough to offset their under realization, hike in basic customs duty and hike in central excise duty.</p> |

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|--------|---|---------------|---|---|
| Pharma | <p>Weighted deduction on 'in-house' R&D increased from 150% to 200%.</p> | Positive | <p>Positive for co's like Sun Pharma, Lupin, Ranbaxy.</p> | <p>Positive for the entire Sector as it would increase expenditure on R&D as well as accelerate the growth momentum of the Indian companies..</p> |
| | <p>MAT increased from 15% to 18% of book profits. Surcharge on Domestic companies reduced from 10% to 7.5%.</p> | Negative | <p>Negative for co's like RIL & Cairn India. Positive for ONGC & GAIL</p> | <p>To increase cash outflow and therefore slightly negative for MAT paying companies. Increase in MAT adjusted for the lower surcharge increases the tax-rate by 2.9-3.0%. Reduction in Surcharge to boost EPS of full tax paying companies by 1%. It would also boost dividends.</p> |
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| Real Estate | <p>~ The activity of construction would be deemed to be a taxable service provided by the builder/promoter/developer to the prospective buyer and the service tax would be charged accordingly.</p> | Negative | <p>~ Negative for co's like IB real, DLF etc.</p> | <p>~ It needs to have more clarity as under existing rule developers pay service tax on construction activity. But if this move is implemented then this move will act as a demand dampener for the the sector</p> |
| | <p>~ Levy of Service Tax by builders to prospective buyers for providing preferential location and external or internal development of complexes on extra charges.</p> | Neutral | | <p>~ This will increase prices of such properties.</p> |
| | <p>~ Extension of 1% interest subvention to March 31, 2011 on housing loans up to Rs10lakh, where cost of the house does not exceed Rs20lakh.</p> | Positive | | <p>~ This will benefit developers having projects in Tier II and III cities.</p> |
| | <p>~ Widening of Income Tax exemption limit.</p> | Positive | | <p>~ Lead to higher disposable income on account of savings of Rs50,000 for a person earning more than Rs8lakh in turn fueling demand for the Urban Housing Sector.</p> |
| | <p>~ Extension of Tax exemption by six months for profits derived from the business of two, three or four star category hotels and convention centres located in the NCT of Delhi and the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad coming up before July 2010 against March 2010 earlier.</p> | Positive | <p>~ Positive for co's like Anant Raj</p> | |
| | <p>~ Allow pending projects to be completed within a period of five years instead of four years for claiming deduction of their profits under Sec 80IB for projects approved on or after 1.4.2005 and before March 2008.</p> | Neutral | | <p>~ Extension of 80IB will hardly benefit any listed developer as most of the projects launched before March 2008 are nearing completion and have already been booked in P&L.</p> |

Thank you

ANALYST CERTIFICATION

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