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Budget Highlights 2010-11

Overview

As the world recovers from the biggest economic slowdown since 1930, the Indian economy has weathered the global financial crisis well and the Union Budget 2010-2011 announced today by Finance Minister, Pranab Mukherjee was excellent, balancing both the corporate requirements and the common man needs. Faced with both challenges and opportunities, India is still one of the fastest growing economies in the world today and the Budget aimed at achieving fast paced recovery with the GDP expected to grow at 8.5% in 2010-2011 while breaching the 9% mark in FY2012. The Budget lays down a road map for reducing the country's fiscal deficit, which soared to a 16-year high of 6.9% of economic output in current fiscal to drop to 5.5% in FY2011 and then further to 4.8% in FY2012. The stock market gave a thumbs-up to the Finance Minister's Budget speech driving the equity indices sharply higher during the day. Although the Budget announced rollback of excise duties on vehicles and other goods while increasing MAT to 18% from 15% in order to take counter-cyclical steps, at the same time it has also taken steps to increase money in the hands of consumer by relaxing individual income tax slab rates significantly and slashed surcharge for corporates. Overall, the Budget fairly met the industry expectations with no negative news while giving few positive surprises.

Key highlights of the Budget are as follows

- **Income Tax:** The Budget provided considerable relief to individual investors and aimed to implement the new Direct Tax Code from April 1, 2011.
 - Upto Rs 1,60,000 income - Nil tax
 - Rs 1,60,000-5,00,000 income – 10.0% tax
 - Rs 5,00,000-8,00,000 income – 20.0% tax
 - Deduction of Rs 20,000 more for long term infrastructure bond investment
 - MAT raised to 18.0% of book profit from earlier 15.0%
 - Surcharge on companies cut to 7.0%, 7.5% from 10.0%
 - Professionals with Rs 1.5mn income will need account audit

- **Banking:** RBI is mulling additional banking licenses to private banks and NBFCs
 - Banking in villages with population over 2,000 by Mar 2012
 - To give Rs 165bn to PSU banks in FY2011 to help meet capital adequacy ratio
 - FY2011 bank credit to farm sector at Rs 3.75tn
 - Divestment proceeds in FY2011 seen over Rs 250bn

- **Continued thrust on Infrastructure development**
 - To allocate Rs 1.74tn for infra expenditure in FY2011
 - Allocation of Rs 198.94bn for road transport in FY2011
 - Propose to construct 20km of national highway each day
 - IIFCL to double refinance to banks for infrastructure in FY2011
 - IIFC disbursement seen at Rs 200bn by Mar 2011
 - To give Rs 10bn for city development, slum rehabilitation in FY2011
 - Allocated Rs 24bn for micro, SMEs during FY2011 as compared to Rs 18bn last year
 - 1.0% interest subsidy on home loan up to Rs 1.0mn for March 2011



The budget did not mention any measures related to fuel price deregulation

The subsidy payout in cash will be beneficial for OMCs

Custom duty on crude oil will be negative for oil refiners, specially RIL

Impact on Industries

Oil & Gas

Petroleum products pricing policy

Kirit Parikh Committee had submitted its recommendations on a viable and sustainable system of pricing of petroleum products to the government. In the Union Budget 2010-11, oil and gas industry had a great expectation regarding fuel price deregulation and an increase in fuel and gas prices. However, no such measures were announced in the budget. It was announced that Kirit Parekh report on fuel price deregulation will be taken up by Oil Minister, Murli Deora in due course. The high crude oil prices have resulted into an increase in under-recoveries for oil marketing companies (OMCs). Hence, if the fuel prices are increased then the under-recoveries would decrease and would thus be beneficial for OMCs and the upstream companies. This will also help private players like RIL and Essar Oil to reopen their outlets for petrol and diesel distribution which they had to close down because of government regulated prices which hampered their margins.

All subsidies in cash

Finance Minister said the government will continue with its current practice of paying out oil subsidy in cash instead of bonds. This would, thereby bring all subsidy related liabilities into Government's fiscal accounting. **The subsidy payout in cash is positive point for OMCs like IOCL, HPCL and BPCL.** However, there was no clarity on subsidy-sharing mechanism of cash subsidy/oil bonds nor was there clarity on tax breaks for natural gas produced under NELP I-VII.

Basic excise duty of 5% crude, 7.5% on diesel & petrol; 10% on other products

In Budget 2010-11, Finance Minister declared to restore the basic duty of 5% on crude petroleum, 7.5% on diesel and petrol and 10% on other refined products. Also, the central excise duty on petrol and diesel has been enhanced by Re.1 per litre each. Custom duty on crude would impact the refining margin of all refiners. **Thus, this custom duty on crude is negative for all refiners, particularly RIL.** The hike in central excise tax for refined products is negative for OMCs.

MAT increase to impact oil exploration companies

Finance Minister also announced the increase in MAT to 18.0% from the earlier 15.0%. Oil exploration and production companies had expected an exemption from MAT. At present, 15% MAT is applicable on booked profits. No exemption has been granted on profits earned from commercial production or refining of crude oil which are otherwise fully exempted from income tax for the period of seven years from the levy of MAT. The increase in MAT will mainly impact RIL.

Increase in excise duty would negatively impact Tata Motors and Ashok Leyland

Maruti and Hyundai will enjoy the benefit from central excise duty exemption on electric car and vehicles

The higher allocation for road infrastructure and railways will be beneficial for IVRCL, Punj Lloyd, L&T, etc.

Automobiles

Increase in excise duty by 2.0% on large cars, MUVs and SUVs

The Finance Minister has increased excise duty on large cars, Multi Utility Vehicles (MUVs) and Sports Utility Vehicles (SUVs). **We believe this would negatively affect companies like Tata Motors and Ashok Leyland.** Though Tata Motors manufactures small cars like Nano, it also produces utility vehicles like Sumo and Safari. On the back of this, we expect a small rise in market price for these vehicles and ultimately, the consumers for these products have to pay more by paying higher market price.

Finance Minister has increased central excise duty by 2.0% to 10.0% for all non-petroleum products. We believe this move would negatively impact two wheeler and small car manufacturing companies also. The two-wheeler companies like Hero Honda, Bajaj Auto and TVS Motors and small car manufacturing companies like Maruti and Hyundai Motors India (HMIL) are expected to increase price for their vehicles on account of this move. We believe this step would give relief to these companies as Finance Minister has not rolled back the benefit fully. However, we expect there would be a small impact on the continuous sales growth of auto companies due to higher market prices of their vehicles.

Removal of central excise duty on Electric car and vehicles

The Finance Minister has provided full exemption from central excise duty for electric car and vehicles which offer eco-friendly alternative to petrol or diesel vehicles. We believe that companies who have launched their electric car would highly benefit from this. **Maruti has Eeco and Hyundai with i10 electric version would get the benefit of exemption of central excise duty.**

Infrastructure

The Finance Minister has earmarked over 46.0% of the total plan allocations in the Union Budget to the infrastructure sector. The allocation for infrastructure development stands at Rs 1,73,552cr. The government is looking to maintain its focus on the infrastructure sector in order to support the future growth of 9.0%.

Higher allocation for road transport and railways

For road infrastructure, the government is targeting construction of national highways at the pace of 20km per day and has increased the allocation by over 13.0% from Rs 17,520cr to Rs 19,894cr in FY2011. **The higher allocation is likely to benefit companies like IVRCL, Punj Lloyd, L&T, IRB, HCC, Nagarjuna Construction, etc.** In addition, the railways have been provided Rs 16,752cr in FY2011 for modernisation and expansion of the Indian rail network, which is about Rs 950cr higher than last year. In order to complement the dedicated freight corridor, the Delhi-Mumbai Industrial Corridor project has been taken up for integrated regional development.

Higher disbursements by IIFCL to be beneficial for the sector

Higher disbursements by IIFCL

The Finance Minister said that the disbursements of India Infrastructure Finance Company Ltd (IIFCL), set up by the government to provide long term financial assistance to infrastructure projects, are expected to touch Rs 9,000cr by end March 2010 and reach around Rs 20,000cr by March 2011. IIFCL has also been authorized to refinance bank lending to infrastructure projects and it has refinanced Rs 3,000cr during the current year and is expected to more than double that amount in 2010-11.

Negative impact of MAT hike

The infrastructure projects would be negatively affected by the hike in MAT to 18.0% as the overall tax rate increase will impact the internal rate of return for these projects.

The partial roll back in excise duty is likely to have a negative impact on HUL, GSKCH and Asian Paints

Consumer Goods

Partial rollback of central excise duty

The Finance Minister has partially rolled back central excise duty with an increase of 200bps from 8.0% to 10.0% for all non-petroleum products. The excise duty was cut by 6.0% in two phases since December 2008, from a peak of 14.0% to revive the economy that was reeling under the impact of the financial crisis. The increase in the excise duty will require the consumers to pay more for FMCG and consumer durables (including TVs and airconditioners). **The move is negative for companies like Hindustan Unilever Ltd (HUL), GlaxoSmithkline Consumer Healthcare (GSKCH) and Asian Paints which have the excise duty ranging between 7-9%.** Companies like Dabur, Marico and Godrej Consumer Products Ltd (GCPL) will not be majorly impacted as they gain from having their manufacturing facilities in excise free zones

The hike in MAT rate to 18.0% will increase the tax payout for Dabur and GCPL

MAT rate increased to 18.0%

The Minimum Alternate Tax (MAT) has been increased from the current rate of 15.0% to 18.0% of book profits. **This will have a negative impact on companies like Dabur and GCPL which are high on MAT payout**

Focus on food processing and cold storage sector

For the food processing sector, in addition to the 10 mega food park projects already being set up, the Finance Minister is planning to set up 5 more parks. Also, external commercial borrowings would be made available for cold storage or cold room facility for farm level pre-cooling for preservation or storage of agricultural and allied produce, marine products and meat. The government will provide project import status at a concessional customs duty of 5.0% with full exemption from service tax for the initial set-up and expansion of cold storage rooms. **The move is expected to give thrust to the growth potential in the cold storage segment and would be beneficial for companies like Blue Star**



The consumer goods sector will enjoy an overall benefit from higher budgetary allocation for rural development and revision in direct taxes

Hike in custom duty on precious metals will impact Gitanjali Gems and Rajesh Exports

The reduction in basic customs duty for gold ore and concentrates will be positive for domestic mining companies

The sector is expected to indirectly benefit from the government's focus on the rural India with its employment generation, rural development and infrastructure schemes. The increased allocation for National Rural Employment Guarantee Scheme (NREGS), crop loan to be made available at subsidized rate of 5.0%, revision in the tax structure for individual tax payers will leave higher disposable income in the hands of consumers (both in the urban and the rural areas) who are facing the negative impact of double-digit food inflation

Retail

Hike in custom duty on precious metals

The Finance Minister has hiked the custom duty from Rs 200 to Rs 300 per 10 gram on gold and platinum. On silver, the customs duty has been hiked from the current Rs 1,000 to Rs 1,500 per kg. The increase in custom duties is expected to raise prices in the Gems & Jewellery segment. With the import prices for these precious metals going up, the imports are likely to come down. **The companies who import gold will be impacted like Gitanjali Gems and Rajesh Exports with this rise in custom duties**

The basic duty on rhodium, which is a precious metal used for polishing jewellery, has been reduced from 10.0% to 2.0%

Reduction in custom duty on gold ore and concentrates

The basic customs duty on gold ore and concentrates has been reduced from 2.0% ad valorem to a specific duty of Rs140 per 10gm of gold content with full exemption from special additional duty. Further, the excise duty on refined gold made from such ore or concentrate has been reduced from 8.0% to a specific duty of Rs 280 per 10gm. This will help in encouraging the Indian companies engaged in the mining and gold manufacturing activities. **This will be beneficial for companies like Minerals and Metals Trading Corporation Limited (MMTC).** The government aims to promote the domestic mining companies and is looking to discourage gold imports

The Finance Minister did mention that the government will take steps to improve the investment environment by simplifying the FDI (Foreign Direct Investment) regime but did not take any action towards allowing of FDI in multi-brand retail and increasing the limit in single brand retail from the existing 51% to 74%. The move would have been positive for the retail companies which are now moving out of the recessionary pressures and looking to expand their operational presence. Since allowing of FDI in retail sector is a sensitive issue which can impact the survival of the local grocery (or kirana) shops, the budget remained silent on this issue



The one-time grant of Rs 200cr to Tirupur textile cluster will be beneficial for the knitwear industry

The export units have been offered extension in interest subvention of 2.0% till March 31st, 2011

AllCargo, TCI, Arshiya International and Aqua Logistics would be benefited with the higher allocation to road transport sector

Textiles

The Finance Minister has proposed a one-time grant of Rs 200cr to the government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry. The dyeing units of Tirupur, which is one of the major textile hub of India, have been facing problems because of environmental concerns. The new environmental regulations require the dyeing units to migrate to a zero discharge system. The government's proposal to set up an effluent treatment at the textiles cluster is expected to offer a much-needed relief to the struggling industry

The Finance Minister has offered extension of existing interest subvention of 2.0% for one more year till March 31st, 2011 for exports covering handicrafts, carpets, handlooms and small and medium enterprises (SME). The export oriented units have seen massive layoffs and shutdowns in the wake of slowdown and the government's move is expected to give push to the exports sector with exporters getting access to funds at cheaper interest rates

The Finance Minister has proposed to launch an extensive skill development programme in the textile and garment sector by leveraging the strength of existing institutions and instruments of the Textile Ministry to train 30 lac persons over 5 years

Logistics

Allocation for road transport increased by over 13.0% to Rs 19,894cr

We believe higher allocation to infrastructure sector for developing and improvement of road always complements to Auto growth. Finance minister has increased allocation on road transport by 13.0% for FY2011 and we believe this will ultimately boost the demand for Auto sector in medium to long term.

The Road transport and Highway Minister, Kamal Nath, recently increased the target of constructing new road to 20km per day. We believe the increased allocation towards road by the Finance Minister would help in achieving Kamal Nath's target for road construction. **We believe this move will benefit Road transportation companies (Logistics sector) like AllCargo Global, Transport Corporation (TCI), Arshiya International and Aqua Logistics.** Apart from this, the Finance Minister has withdrawn service tax on transportation of cereals, and pulses by road. This would also benefit road transportation companies.



NTPC, Reliance Power and Adani Power will be benefited from the doubling of allocation to the power sector

Power

Thrust on power capacity addition

The Government continued to give highest priority to power capacity addition. The Mega Power Policy has been modified and is now consistent with the National Electricity Policy, 2005 and Tariff Policy, 2006. It will help in lowering the cost of generation and the cost of power purchased by distribution utilities. The plan allocation for power sector has been more than doubled from Rs 2,230cr in 2009-10 to Rs 5,130cr in 2010-11. **NTPC would be one of the biggest beneficiaries within the Utilities sector.**

Introduction of competitive bidding for coal blocks

Coal is the mainstay of India's energy sector and 75% of the power generation is currently coal based. The Budget proposed to introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks. Accordingly, it plans to set up a Coal Regulatory Authority to create a level playing field in the coal sector. This would facilitate resolution of issues like economic pricing of coal and benchmarking of standards of performance.

Increased plan outlay for solar power

An ambitious target of 20,000 MW of solar power by the year 2022 has been set under the Jawaharlal Nehru National Solar Mission. It is proposed to increase the plan outlay for the Ministry of New and Renewable Energy by 61% from Rs 620cr in 2009-10 to Rs 1,000cr in 2010-11.



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