

Socialist Budget – Ignores the Corporate India & Fiscal Prudence

Budget Highlights

- The Finance Ministry, Pranab Mukherjee, has presented a populist budget which has announced significant sops for the social sector and seeks increased infrastructure investments to generate demand and lead the Indian economy to return to the 9 percent growth levels from 6.7 percent in FY09.
- On the negative front, the budget's fiscal deficit target for FY10 has been raised to 6.8% versus 6.2% announced in the interim budget in February. The Government has made it clear that it is not in favor of disinvestment particularly in the Insurance and banking industry also making it clear that it would retain at least 51 percent controlling stake in PSU companies.
- The Budget Estimates (B.E.2009-10) provides for a total expenditure of Rs.10,20,838crore consisting of Rs.6,95,689crore under Non-plan and Rs.3,25,149crore under Plan, registering an increase of 37 per cent in Non-plan expenditure and 34 per cent in Plan expenditure over B.E. 2008-09. Total expenditure in B.E. 2009-10 increased by 36 per cent over B.E. 2008-09.
- Increase in Non-plan expenditure is mainly due to implementation of Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payment arising out of larger fiscal deficit in 2008-09. While the plan expenditure comprises of increased investments towards infrastructure development and social sector schemes like Bharat Nirman, NHAI's Highway Development Programme (NHDP), increased allocation to railways, 87 percent increase in allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), and other project schemes like **Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA)** Accelerated Power Development and Reform Programme (APDRP)
- The country would introduce the goods and services tax (GST) with effect from April 1, 2010, the finance minister, Pranab Mukherjee, announced in the union budget. The finance minister said that the broad contours of the GST model envisage a dual GST comprising of a central GST and a state GST. The Centre and the states will each legislate, levy and administer the central GST and state GST.

Tax Sops

- The **Income Tax Exemption limit** in personal income tax raised by Rs.15,000 from Rs.2.25 lakh to Rs.2.40 lakh for senior citizens; by Rs.10,000 from Rs.1.80 lakh to Rs.1.90 lakh for women tax payers; and by Rs.10,000 from Rs.1.50 lakh to Rs.1.60 lakh for all other categories of individual taxpayers. Besides the income tax surcharge of 10% (applicable for people above taxable income of Rs 10 lakhs) has been abolished.
- The **Corporate tax rate** have been kept unchanged at 30 percent while the **MAT** (Minimum Alternate Tax) rate has been increased to 15% from 10% while on the positive side the tax credit period has been increased from 7 to 10 years. This increase in MAT will impact capital intensive companies like Reliance Industries, Cairn India, Reliance Communications, Bharti Airtel, Tata Motors, etc.
- The **FM** has abolished the **FBT** (Fringe Benefit Tax) addressing a long standing demand. While the STT (Securities transaction tax) will remain, the **CTT** (Commodity transaction tax) has been abolished to support the nascent commodity markets.

SECTORAL IMPACT

Infrastructure

- The budget has laid major emphasis on infrastructure development. It plans to increase investment in infra to more than 9% of GDP by 2014.
- The government proposes to ensure that IIFCL is given greater flexibility to aggressively fulfill its mandate. It will evolve a Takeout financing scheme in consultation with banks to facilitate incremental lending to infrastructure sector.
- IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months. The IIFCL and Banks are now in a position to support projects involving a total investment of Rs1000bn in infrastructure.
- The allocation during the current year to NHAI (highways, roads) has been increased by 23% over the 2008-09.
- Allocation for the Railways has been increased from Rs108bn made in the Interim Budget for 2009-10 to Rs.158bn.
- The allocation for Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is being stepped up by 87% to Rs.129bn in the current budget.
- Allocation has been enhanced for housing and provision of basic amenities to urban poor to Rs.40bn in the current year's budget. This includes the provision for Rajiv Awas Yojana (RAY), a new scheme which intends to make the country slum free in the five year period.
- Allocation for Bharat Nirman has been increased by 45% in 2009-10 over 2008-09.
- Allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been increased by 59% to Rs120bn in 2009-10.
- Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), allocation has been increased by 27% to Rs70bn.
- ❖ **Stocks to watch out for:** IVRCL Infra, Nagarjuna Construction, Jaiprakash Associates, IRB Infrastructure, L&T, Gammon India, Patel Engineering

Power

- The power sector has been given big boost which is overall positive. The Accelerated Power Development and Reform Programme (APDRP) is an important scheme for reducing the gap between power demand and supply. Allocation for this scheme has been increased to Rs.21bn, an increase of 160% over 2008-09.
- Customs duty on permanent magnets for PM synchronous generator above 500 KW used in wind operated electricity generators will be reduced from 7.5% to 5%.
- ❖ **Stocks to watch out for:** Tata Power, REC, Power Grid, Reliance Power, Crompton Greaves, BHEL, Thermax, Areva T&D, NTPC

SECTORAL IMPACT

Banking

- The announcement that the Government would not disinvest in banks and insurance companies does not bode well for the sector.
 - Additionally the extension of the Rs 71,000 crore debt waiver scheme, covering four crore farmers, announced during 2008-09 budget, for 6 months till December 31 2009, may put additional burden on PSU banks.
 - Further the Interest subvention scheme for short term crop loans up to Rs.3 lakh per farmer at the interest rate of 7 per cent per annum shall be continued. The government has also announced loans at a subsidized interest rate of six per cent for farmers who pay their dues in time.
 - However refinancing of 60 percent of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months by IIFCL and PSU Banks will benefit private sector commercial banks engaged in infrastructure lending.
- ❖ **Stocks to watch out for:** SBI, Union Bank of India, PNB, BoB, Bank of India, Axis Bank, ICICI Bank, HDFC Bank

Education

- Education has been given big boost by increasing the overall spend by Rs20bn over 2009-10.
 - Provision for the scheme 'Mission in Education through ICT' has been substantially increased to Rs9bn and the provision for setting up and up-gradation of Polytechnics under the Skill Development Mission has been enhanced to Rs5bn.
 - Rs8bn has been allocated for opening one Central University in each uncovered State.
 - Continuing its thrust on higher education, Rs21bn has been allocated for IITs and NITs which includes a provision of Rs4.5bn for new IITs and NITs. Rs500mn has been allocated for Punjab University, Chandigarh to provide better infrastructure to the people of Chandigarh.
 - National Mission for Female Literacy will be launched with focus on minorities, SC, ST and other marginalized groups with the aim to reduce level of female illiteracy by half in three years. All Integrated Child Development Services (ICDS) will be extended to every child under the age of six by March, 2012.
 - To enable students from economically weaker sections to access higher education, a scheme has been designed to provide full interest subsidy during the period of moratorium to cover loans taken from scheduled banks to pursue any of the approved courses of study in technical and professional streams from recognised institutions in India.
 - Plan outlay of Ministry of Minority Affairs has been enhanced from Rs10bn in 2008-09 to Rs17bn in 2009-10 registering an increase of 74%. Allocations have been made for the new schemes of National Fellowship for Students from minority community and Grants-in-aid to Central Wakf Council for computerization of records of State Wakf Boards. Rs250mn each has been allocated for establishing new campuses at Murshidabad in West Bengal and Malappuram in Kerala by Aligarh Muslim University.
- ❖ **Stocks to watch out for:** Educomp, Everonn, NIIT, Aptech

SECTORAL IMPACT

Healthcare

- In order to give boost to rural healthcare, allocation under National Rural Health Mission (NRHM) has been increased by Rs21bn. More than 46 lakh BPL families in 18 states and Union Territories have been issued bio-metric smart cards. This scheme empowers poor families by giving them freedom of choice for using healthcare services from an extensive list of hospitals including private ones. The government proposes to bring all BPL families under this scheme. An amount of Rs3.5bn, marking 40% increase over the previous allocation is being provided in 2009-10 budget.
- Additionally, customs duty on 10 specified life saving drugs/vaccine and their bulk drugs will be reduced from 10% to 5% with Nil CVD (by way of excise duty exemption) and customs duty on specified heart devices, namely artificial heart and PDA/ASD occlusion device, will be reduced from 7.5% to 5% with Nil CVD (by way of excise duty exemption).
- Scope of provisions relating to weighted deduction of 150% on expenditure incurred on in-house R&D to all manufacturing businesses is being extended.
- ❖ **Stocks to watch out for:** Apollo Hospital, Fortis Healthcare, Glenmark Pharma, Sun Pharma, Ranbaxy, Cipla

Information Technology

- The Government has announced one-year extension of the tax holiday scheme for software exporting firms up to March 2011. Although the industry wished a five year extension the move would clearly help the industry tide over the current slowdown.
- Besides the removal of **Fringe Benefit Tax** would result in some tax savings while also making the ESOPs attractive.
- ❖ **Stocks to watch out for:** Infosys, TCS, Tech Mahindra, Wipro, HCL Technologies, Infotech Enterprises, Rolta India, Mphasis BFL, Financial Technologies

SECTORAL IMPACT

Agriculture

- In order to achieve 4% agricultural growth witnessed in recent years, allocation under Rashtriya Krishi Vikas Yojana (RKVY) has been stepped up by 30% in 2009-10 over 2008-09.
- Target for agriculture credit flow has been set at Rs3,250bn for the year 2009-10 against Rs2,870bn in 2008-09.
- Interest subvention scheme for short term crop loans up to Rs3lakh per farmer at the interest rate of 7% p.a. will be continued. Additional subvention of 1% to be paid from this year, as incentive to those farmers who repay short term crop loans on schedule.
- Time given to the farmers, having more than two hectares of land, to pay 75% of their overdues under Debt Waiver and Debt Relief Scheme has been extended from 30th June, 2009 to 31st December, 2009. Taskforce is being set up to examine the issue of debt taken by a large number of farmers in some regions of Maharashtra from private money lenders who were not covered by the loan waiver scheme announced last year.
- Allocation under Accelerated Irrigation Benefit Programme (AIBP) has been increased by 75% over 2008-09.
- ❖ **Stocks to watch out for:** Jain Irrigation, Agro-based stocks, M&M, ITC, Fertilizer & Seeds Companies, indirect impact on FMCG and consumer goods stocks

Other Important provisions

- Excise duty reduced by Rs 5, 000 on cars having engine capacity exceeding 2000CC. The benefit would accrue to car models like Mahindra's Scorpio, Xylo, Bolero, Tata Motor's Safari, and Sumo. However, from the point of view of earnings or sales, the amount is insignificant.
- Higher allocation under NREGS could be sentimentally positive for the rural income exposed stocks.
- Suitable adjustments to be made in the rates of duty applicable to DTA clearances of textile goods made by Export Oriented Units using indigenous raw materials/ inputs for manufacture of such goods.
- Export Promotion Councils and the Federation of Indian Export Organizations (FIEO) to be exempt from service tax on the membership and other fees collected by them till 31st March 2010.
- List of specified raw materials and equipment imported by manufacturer-exporters of leather goods, textile products and footwear industry which are fully exempt from customs duty, to be expanded.
- ❖ **Stocks to watch out for:** Maruti Suzuki, Bombay Dyeing, Century Textiles, Arvind Textiles, Hero Honda, Bajaj Auto, S Kumars Nationwide, Alok Industries, Bombay Rayon, etc.

