February 29, 2008

IDBI capital

BUDGET REVIEW

Analysis of Union Budget 2008-09

Politically correct but fiscal prudence intact

The Budget 2008-09 lays down a clear path towards inclusive economic growth and kept in mind the *Aam Aadmi*. Direct and indirect taxes were lowered, giving almost all segments some thing to cheer. Cut in excise duty and Central Sales Tax across the board should bring down prices of goods and boost demand. Manufacturing sector should also gain from lowering duty on project imports and further rationalization of some raw material duty anomalies.

Banking is one of the few sectors which has been adversely impacted, having to bear the Rs.600bn outstanding debt of marginal farmers. But, the actual impact on the banks earnings may be much smaller, a part of the NPA's would already have been provided for. Also, Capital market participants are likely to grudgingly accept the increase in short-term capital gains tax, having enjoyed tax sops in most of the last budgets. As in FY08, tax collections are estimated to remain buoyant at 25% YoY. GDP growth estimated to sustain an 8.5%+ growth. Target for revenue deficit has been pegged at 1% and fiscal deficit at 2.5% of GDP. Having successfully met FY08 growth and fiscal targets, doing the same in FY09 should not be too tough.

Corporate and capital markets

- SITP & TUF for textile sector be continued
- Reduction in Peak CENVAT from 16% to 14%; still lower for Auto; Pharma, Paper and Fertilizer sector
- Exchange-traded market to be created for bonds, currency and derivatives.
- Relief in Dividend Distribution Tax (DDT) to prevent double taxation
- STT will be allowed as deductible expenditure against business income
- On derivatives, levy of STT only on option's premium
- Commodities Transaction Tax (CTT) introduced
- Banking Cash Transaction Tax (BCTT) withdrawn

Public Exchequer

Allocation for education increased by 20% to Rs.344bn

- Debt Waiver and Debt Relief of Rs.600bn for marginal farmers
- Setting up of educational institutes – 16 Central Universities; 3 IITs; 2 IISERs; 300 ITI's.
- Allocation for Defense higher by 10% from Rs.960bn to Rs.1,056bn
- Equity support of Rs.16,4bn and loans of Rs.30bn to CPSEs
- Enhance FY09 allocation to the IT Dept Rs.17bn
- NABARD fund of Rs.50bn to enhance refinance to cooperative credit institutions
- Two funds of Rs.20bn each in SIDBI for risk capital & MSME financing
- NHB fund of Rs.12bn for refinance operations in the rural housing sector
- National Horticulture Mission (NHM) outlay of Rs.11bn for revival of old plantations
- National Agriculture Insurance Scheme (NAIS) Rs.6bn for Kharif and Rabi
- Commonwealth Games provision of Rs.6bn
- Backward Regions Grant Fund was given Rs.58bn

Table 1: Budget estimates

		FY08BE		FY08RE		FY09BE	
	Revenue (Rs. bn)	Rs.bn	YoY (%)	Rs.bn	YoY (%)	Rs.bn	YoY (%)
Centre's major receipts							
1	Revenue receipts	4,864	20.6	5,251	24	6,029	24
2	Tax revenue	4,039	23.4	4,318	25	5,072	26
3	Non-tax revenue	826	8.2	933	21	958	16
4	Capital receipts	1,941	20.9	1,843	16	1,479	(24)
5	Loan recoveries	15	(81.3)	45	(17)	45	200
6	Other receipts	417	984.7	361	6742	102	(76)
7	Borrowings and other liabilities	1,509	1.5	1,437	(6)	1,333	(12)
8	Total receipts	6,805	20.7	7,094	22	7,509	10
Centre's major expenses							
9	Non-plan expenditure	5,886	50.4	6,205	52	6,917	18
10	Revenue expenditure, of which,	3,835	11.4	4,130	14	4,484	17
	11 Interest payments	1,590	13.7	1,720	18	1,908	20
	12 Subsidies	543	17.6	697	30	714	32
	13 Other revenue expenditure	1,702	7.5	1,713	5	1,861	9
14	On capital account	919	96.2	889	90	591	(36)
15	Plan expenditure	2,051	18.7	2,075	20	2,434	19
16	Revenue (deficit) / surplus	(715)	(15.6)	(635)	(24)	(552)	(23)
17	Fiscal (deficit) / surplus	(1,509)	1.5	(1,437)	(6)	(1,333)	(12)

Note: BE - Budget Estimates, RE - Revised Estimates; YoY comparisons are for corresponding numbers; Source: Controller General of Accounts, Union Budget Estimates

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Central Plan Outlay – Enhanced allocation for focus sectors

- The Gross Budgetary Support (GBS) for the second year of 11th Five Year Plan is proposed to be enhanced to Rs.2,434bn from the initial planned support of Rs.2,287bn. The GBS for Central Plan stands at Rs.1,800bn which is 16% higher on YoY basis over FY08 support for Central Plan.
- However, the government shall fall short of mark to achieve the targeted spending estimated for FY08 plan period. The revised outlay shows expenditure lower at 8.6% – from a FY08BE of Rs.3,200bn to FY08RE Rs.2,923bn. The FY09BE for Central Plan is higher 17.3% over FY08BE and 28.4% over FY08RE.
- Social services, energy, transport are the focus sectors and have together attracted ~73% of the total Central Plan outlay followed by minerals (7.7% against 6.4% in FY08), and rural development (6.3%, same as FY08).
- The proportion of revised outlay for Communications in FY08 as well as budgeted outlay for FY09 to total Central Plan expenditure is lower (5.7% and 5.8% respectively) as compared to the initial FY08BE of 8.1% (Rs.258bn out of Rs.3,200bn).

Table 2: Central plan outlay by sectors

(Rs. bn)	FY08BE	% of total allocation	FY08RE	% of total allocation	FY09BE	% of total allocation	YoY Change over	
							FY08BE	FY08RE
Agriculture and allied activities	86	2.7	85	2.9	101	2.7	17.7	17.9
Rural development	203	6.4	211	7.2	238	6.3	17.2	12.7
Irrigation and flood control	5	0.2	5	0.2	4	0.1	(18.9)	(9.5)
Energy	792	24.7	722	24.7	938	25.0	18.5	29.9
Industry and minerals	204	6.4	180	6.1	288	7.7	41.1	60.6
Transport	716	22.4	689	23.6	842	22.4	17.6	22.1
Communications	258	8.1	166	5.7	219	5.8	(15.0)	32.2
Science, technology, and environment	88	2.8	77	2.6	93	2.5	5.3	19.9
General economic services	36	1.1	30	1.0	61	1.6	66.6	98.9
Social services	803	25.1	752	25.7	959	25.5	19.4	27.6
General services	8	0.3	5	0.2	12	0.3	38.7	115.8
Total outlay for Central Plan of which,	3,200	100.0	2,923	100.0	3,755	100.0	17.3	28.4
Budgetary resources	1,549	48.4			1,800	47.9		
Non-budgetary resources	1,651	51.6			1,955	52.1		
	3,200	100.0			3,755	100.0		

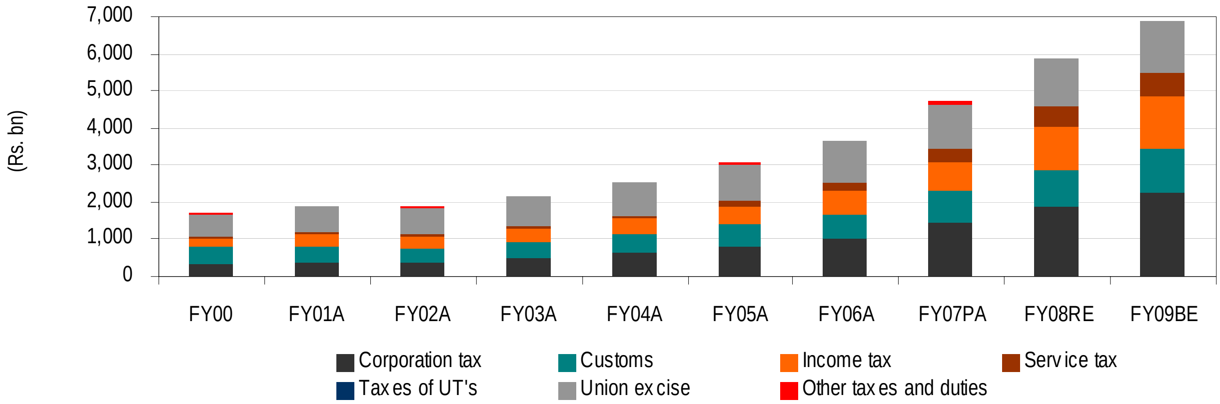
BE - Budget Estimates; RE - Revised Estimates, Change denotes change over FY07RE

Source: Controller General of Accounts, Union Budget Estimates

Table 3: Fiscal trends over the last nine years (Rs. bn)

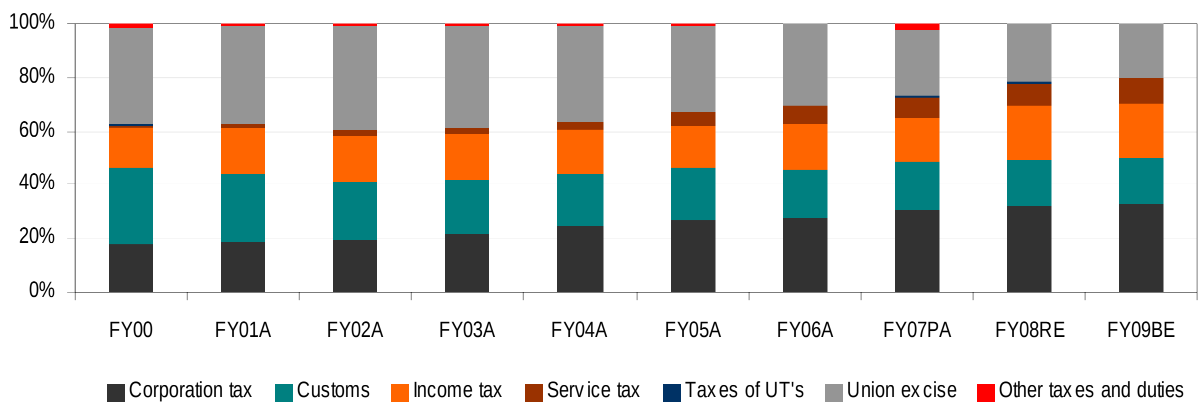
	FY01A	FY02A	FY03A	FY04A	FY05A	FY06A	FY07A	FY08RE	FY09BE
	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn	Rs.bn
1. Revenue receipts	1,926	2,013	2,308	2,638	3,060	3,471	4,344	5,251	6,029
2. Tax revenue	1,367	1,335	1,585	1,870	2,248	2,703	3,512	4,318	5,072
3. Non-tax revenue	559	678	723	768	812	768	832	933	958
4. Capital receipts	1,342	1,625	1,805	2,113	2,004	1,795	1,445	1,843	1,479
5. Loan recoveries	120	164	342	672	642	106	59	45	45
6. Other receipts	21	36	32	170	22	16	5	361	102
7. Borrowings and other liabilities	1,200	1,425	1,432	1,272	1,339	1,673	1,381	1,437	1,333
8. Total receipts	3,268	3,638	4,114	4,751	5,064	5,266	5,789	7,094	7,509
Expenses									
9. Non-plan expenditure	2,429	2,611	3,018	3,489	4,291	3,651	5,421	6,205	6,917
10. Revenue expenditure, of which,	2,268	2,398	2,671	2,834	2,968	3,275	3,722	4,130	4,484
11. Interest payments	993	1,075	1,178	1,241	1,269	1,326	1,503	1,720	1,908
12. Subsidies	268	312	435	443	460	475	571	697	714
13. Other revenue expenditure	1,006	1,011	1,058	1,150	1,239	1,474	1,648	1,713	1,861
14. On capital account	162	213	346	655	691	376	413	889	591
15. Plan expenditure	827	1,012	1,115	1,223	1,323	1,406	1,699	2,075	2,434
16. On revenue account	511	617	716	786	875	1,119	1,424	1,756	2,098
17. On capital account	316	395	399	436	448	288	274	319	336
18. Total expenditure	3,256	3,623	4,132	4,712	4,983	5,057	5,834	7,094	7,509
19. Revenue expenditure	2,778	3,015	3,387	3,621	3,843	4,394	5,146	5,886	6,581
20. Capital expenditure	478	608	745	1,091	1,139	664	688	1,208	928
21. Revenue (deficit) / surplus	(852)	(1,002)	(1,079)	(983)	(783)	(923)	(802)	(635)	(552)
22. Fiscal (deficit) / surplus	(1,188)	(1,410)	(1,451)	(1,233)	(1,258)	(1,464)	(1,426)	(1,437)	(1,333)
23. Primary (deficit) / surplus	(195)	(335)	(273)	8	11	(138)	77	283	575

Figure 1: Composition of tax revenue



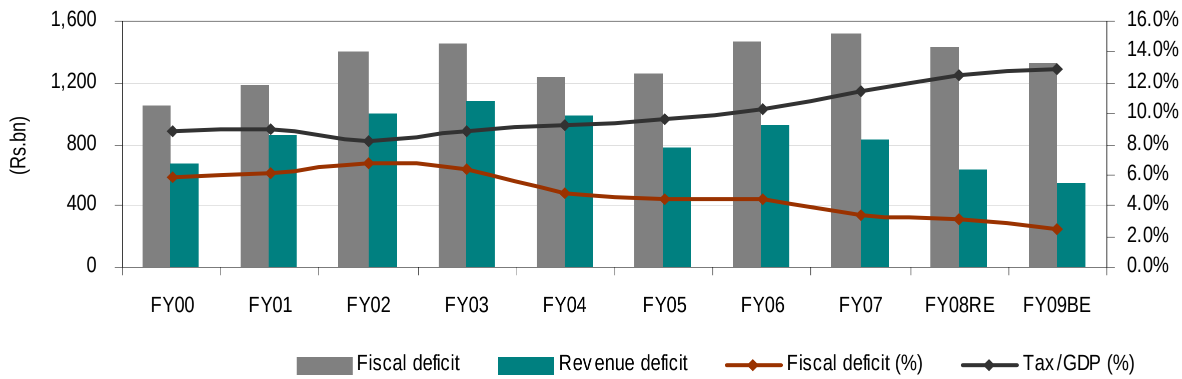
Source: Union Budget document

Figure 2: Percentage composition of taxes



Source: Union Budget document

Figure 3: Trends in centre's deficit



Note: GDP = GDP at current prices

Source: Union Budget document

Agro & allied industries

Positive

Budget review

As usual, the agriculture sector receives specific importance from the finance minister in the Union Budget, 08-09. The government has put special effort to improve the Gross Capital Formation (GCF) to GDP ratio up to 16 % so as to achieve growth rate of 4%.

Agricultural credit for 2008-09 is set at Rs.2,800bn, with continuing the special interest rate for the short-term crop loans at 7% p.a. This will give boost to companies associated with farming inputs like Monsanto, Rallies India, Jain Irrigation, Fertiliser and tractor companies and others.

Irrigation sectors is likely to create additional irrigation potential of 500,000 hectare. Outlay for 2008-09 increased to Rs.200bn from Rs.110bn in 2007-08. This will give fillip to irrigation related companies like Jain Irrigation directly.

Companies engaged in the business of production of seeds and manufacture of agricultural implements are allowed weighted deduction of 150 % on any expenditure on in-house scientific research. This will have positive affect companies like Monsanto and Advanta.

The proposed crop insurance scheme for tea and other specified crops would be beneficial to the respective companies like McLeod Russel, Assam Company etc.

Waiver of agricultural loans to the tune of Rs.600bn will stress the government coffer though it will boost farming activity directly and indirectly affecting the related industries.

Thrust on education in the budget is positive for paper manufacturers.

Paper manufacturing units using non-conventional raw materials, without an attached bamboo/wood pulping facility will be eligible for a lower excise duty of 8% against 12% earlier. Further reduction up to nil is allowed on clearances up to 3,500 MT.

Excise duty of non-filter cigarette has been increased to 14% – at par with the filter cigarette. This will impact negatively on the companies like ITC.

Description	Existing (%)	Proposed (%)	Remarks
Paper maunufacturing unit with non-conventional raw materials and no wood/bamboo pulping facility attached	12	8	Positive for the bagass/husk based units
As above and clearance upto 3,500 MT	12	0	-do-
Excise duty on non-filter cigarette is brought up to match with that of the filter cigarette			Negative for non-filter cigarette manufacturers like ITC
General reduction in CENVAT	16	14	Positive for all industries

Top picks

KRBL

Automobiles *Positive*

Budget review

The reduction in the excise duty from 16% to 12% gears up the long hit auto sector. We believe this will enhance volumes for the OEMs. However, we believe, the impact on the two-wheeler industry will be neutral as the equal reduction in excise duty of small cars has evened out the competitive advantage.

Description	Existing (%)	Proposed (%)	Impact
Buses, LCVs			
Excise duty	16	12	Positive for Ashok Leyland and Tata motors. Will improve volumes.
Small cars			
Excise duty	16	12	Positive for Bajaj Auto, Maruti Suzuki & Tata motors and expected to launch its small car in 2009.
Hybrid cars			
Excise duty	24	14	Positive for the sector in the long term.
2-wheelers			
Excise duty	16	12	Neutral as the excise duty on small cars have also been reduced so competitive advantage has evened out.
3-wheelers			
Excise duty	16	12	Positive for Bajaj Auto and M&M.

Top picks

Bajaj Auto, Maruti Suzuki and Tata Motors.

Banking — *Negative*

Budget review

1) Loan waivers

Budget FY09 has made some sweeping proposals that are significant for banks in the public sector. The budget offers complete waiver of outstanding farm loans that are *overdue*. The government has offered a Rs.600bn relief package to small and marginal farmers (farmers with land holdings upto a hectare) as well as large farmers (farmers with land holdings above 1 hectare). All loans remaining overdue upto December 2007 and remaining unpaid till February 2008 shall be covered under the scheme. This scheme is targeted to be executed before 30 June, 2008.

Overdue loans and NNPL's – The difference

Overdue loans would be those loans on which either interest or principal or both are due but not paid. However, the loan can still be a performing loan if the loan account has not remained overdue beyond the RBI stipulated period after which a bank has to treat a loan asset as non-performing. RBI prescribes different rules to identify an asset as non-performing.

A loan asset is classified as *sub-standard* (and hence non-performing) if it remains overdue for a period of more than 90 days. However, an agricultural loan meant for short-duration crop should remain overdue for a period of two crop seasons (which can be upto an year) to become non-performing and for longer-duration loan, it should remain overdue for one crop season (again upto an year) to become non-performing.

Thus, a borrower in farm loan category can miss the regular monthly installments and still the loan will be a performing loan unless the borrower remains in default, say beyond an year after which the loan becomes non-performing.

The budget has proposed to cover all overdue loans, in effect meaning to cover all *overdue but performing loans* as well as the *overdue loans classified non-performing*. We think the large waiver amount is also a result of including *overdue* loans and not just the *non-performing loans*.

Impact

- Reduction of NPL's

  Banks shall be writing off Rs.500bn outstanding loans of small and marginal farmers. The large farmers shall be offered a one-time settlement (OTS) scheme wherein they shall be granted a relief of 25% on their outstanding loan and shall be required to settle the balance dues. This 25% relief works out to Rs.100bn.

- Earnings might be impacted

  We should expect some reversals in earnings already recognized in *overdue but performing loans*. The RBI policy states *income accrued on NPA accounts should not be recognized*. It does not objectively state that banks cannot recognize income accrued in overdue accounts, which are not classified non-performing.

  However, we doubt if this would again be a 'very significant' amount. Indian banks have in the past 3-years become very prudent, been cautious in recognizing income, and have preferred aggressive provisioning for accounts which they have felt would slip.

- Liquidity support *over a period of time*

  The government is offering liquidity support to the banks *over a period of time* (as we heard the finance minister say in the electronic media). There are two aspects to this issue.

  One, what is not known still is the extent of liquidity support the government shall offer. Banks hold varying degree of provisions against a non-performing asset, from a minimum 10.4% upto 100%. Hence, the liquidity support may not necessarily be to the extent of total outstanding. The government may in fact offer liquidity support only to the unprovided portion of such overdue loans.

  Secondly, though it is known that the scheme shall be executed by the end of Q1FY09, it is not known if it shall simultaneously replenish the banks' balance sheets. We would like to believe it shall else it can cause asset liability mismatches for the banks. Since the government has made beneficiaries of the scheme eligible for fresh loans, we think the government would make cash available.

2) Personal income tax proposals – Can provide fillip to retail loan pick up

The personal income tax proposals are significant. By raising the tax exemption limits and also altering the slabs significantly, the budget has provided significant tax relief to a tax-payers and especially, the country's burgeoning middle class which has been driving the consumption led boom in the economy.

This is again positive for the banks in two ways. One, the disposable income of the salaried class and individual assesses as a whole stands increased and should boost savings or keep them robust at current levels. Higher disposable income also means a higher propensity to consume and / or borrow. This can therefore boost the sagging demand for retail loans.

3) Other proposals

RIDF corpus enhanced: The Rural Infrastructure Development Fund has been enhanced to Rs.140bn and a separate window to fund the rural roads has been set up with a corpus target of Rs.40bn. RIDF now in its fourteenth year was first set up in 1995-96 and is managed by NABARD.

Farm credit target increased: Agriculture credit target has been enhanced to Rs.2,800bn (from Rs.2,250bn in FY08). Soft loans at 7% for short-term crop loans with 2% interest subvention to banks shall remain in force.

- Top picks

OBC, PNB and SBI.

Cement *Negative*

- Budget review

Proposed – Bulk cement will now attract excise duty of Rs.400/MT or 14% ad valorem tax, whichever is higher.

Impact – Most of the cement companies currently are selling cement bags in a range of Rs.230-275 which was attracting 12% ad-valorem tax. The proposed excise duty structure will attract 14% ad-valorem tax instead of 12%. As the cement prices have already peaked, the possibility of it being passed on to the end-users is restricted. Therefore, this along with cost pressures will have a negative impact on the companies' margins and ultimately the bottom line.

Proposed – Cement clinkers will be liable to excise duty of Rs.450/MT, up from Rs.350/MT.

Impact – Neutral as sales of cement clinker is almost negligible due to strong cement demand. Therefore, possibility of excess clinker is limited.

- Top picks

Grasim Industries, India Cements and Ultratech Cement.

Construction *Neutral*

Budget review

Since the government spending on real estate and infrastructure is one of the most important growth driver for construction companies, the proposed increase in allocation will translate into awarding of more projects. The government has increased the budget allocation for a number of projects in the field of roads, irrigation, water and sewage etc.

Positives

- Under the Accelerated Irrigation Benefit Programme, 24 major and medium irrigation projects and 753 minor projects will be completed
- The Rain-fed Area Development Programme will be implemented, with an allocation of Rs.3.48bn.
- With a view to promoting tourism and to attract tourists to certain World Heritage Sites in India, it is proposed to provide a tax holiday to new 2-star, 3-star or 4-star category hotels located in specified districts having a World Heritage Site. These hotels should commence operations anytime between 1April, 2008 and 31 March, 2013.
- A new section is proposed to be inserted to provide a tax holiday for five years for new hospitals set up between 1 April, 2008 and 31 March, 2013. The hospital should have a minimum of 100 beds and can be anywhere in India, other than certain specified cities.
- The Government will establish the Irrigation and Water Resources Finance Corporation with an initial capital of Rs.1bn. This Corporation will mobilize resources for major and medium irrigation projects.
- In order to scale up infrastructure, six centers for development have been proposed as mega clusters. They include Varanasi and Sibsagar for handlooms, Bhiwandi and Erode for powerlooms and Narsaspur and Moradabad for handicrafts. An initial provision of Rs.1bn has been made for the mega clusters.
- In computing the amount of dividend distributed by a holding company, the amount of dividend received by it from its subsidiary would be reduced, as long as the subsidiary company has paid DDT. The benefit of this set off is available only once and will not apply in case of a chain of more than one subsidiary company. All real estate companies would welcome this amendment, since most real estate developers operate through multiple SPV's under the flagship companies. The proposed amendment would eliminate the cascading effect of DDT up to one level.

Negatives

- No reduction in certain duties of core building material.
- No tax provisions for Real Estate Investment Trusts (REITs) have been introduced.
- For the infrastructure funding none of the institution permitted to issue long term bonds in rupee as well as foreign currency.
- Concession available in section 80IB (10) is not extended up to 31 March, 2012 and area covered under this section is also not extended up to 1,500 sq.ft which was expected.
- Stamp duties on housing are not reduced.

Description	Existing (Rs. bn)	Proposed (Rs. bn)	Remarks
National Highway Development Programme	10,867	12,966	Enhanced the allocated amount by 19.3%
Accelerated Irrigation Benefit Programme	11,000	20,000	With compare to last year allocated amount increased by 81.81%

Top picks

C & C construction, HDIL and Unitech.

FMCG *Neutral*

Budget review

The current income tax propositions have an indirect impact on FMCG sector. More disposable income in the hands of consumers will enable them to graduate to high end category products. Overall FMCG product consumption is expected to increase in urban as well as rural areas. Proposed increase of the corpus of rural infrastructure development fund to Rs.140bn will benefit to rural development which ultimately increase product penetration in rural areas. Reduction of Excise duty from 16% to 14% will benefit sector as a whole.

Description	Existing	Proposed	Remarks
Cigarettes	VAT 12.5%	Duty impose on non-filter cigarettes	Positive for ITC as ITC has filter cigarettes
Food processing Industry	CST 3%	Reduced to 2%	Positive for Food processing industry
Dividend distribution tax	15%	No change	Neutral

Top picks

ITC and Marico

Information Technology *Marginally negative*

Budget review

- Excise duty on packaged software has been increased for 8% from 12%.
- The addition of customized software under service net will have negative impact on the application developers in the domestic software industry.

Top picks

NIIT Technologies, Rolta India and TCS

Metals *Neutral*

Budget review

The metal sector has not much to benefit from this budget though the reduction of peak excise duty will benefit the sector along with other sectors. The proposal of reduction of import duty on steel melting scrap and aluminium scrap from 5% to nil will benefit companies like Usha Martin and Jindal Stainless a bit. The percentage of use of imported steel and aluminium scrap is very small.

Description	Existing (Rs. bn)	Proposed (Rs. bn)	Remarks
Reduction of import duty on steel melting scrap and aluminium scrap	5	Nil	Positive for the industry, but not significant.

Top picks

Jindal saw, Man industries and Sterlite Industries Ltd.

Oil & Gas *Positive*

Budget review

Budget 2008-09 is positive for Oil & Gas industry. The increased focus on the NELP VII will attract investment to the tune of US$ 3.5-8bn in the exploration activity in India. This will be a big leap towards securing the energy requirement of the country.

The relief to the sector comes in the form of replacement of advalorem duty by specific excise duty on unbranded petrol and diesel. This specific component of duty, will limit refiners' duty liability to the volume produced insulating them from the incremental duty burden due to soaring raw material price (crude). Besides, the budget has reduced customs duty on crude, which is expected to be positive for the refining sector.

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Description	Existing (%)	Proposed (%)	Remarks
Reduction in customs duty on crude oil and unrefined sulphur	5	2	Reduction in customs duty on crude is positive news for refinery companies like BPCL, HPCL, IOC and RIL
Advalorem duty replaced by specific duty on unbranded petrol and diesel	6	Rs.1.35/ltr	Reduction in duty on unbranded petrol and diesel is positive news for refinery companies like BPCL, HPCL and IOC,
Duty exemption on imported Naphtha removed except for fertilizer	0	5	Companies like RIL that use naphtha for polymer production will have to bear the duty burden on imported naphtha.
Reduction in CST	3	2	Positive for oil marketing companies for those petroleum products that attract CST.
Reduction in CENVAT	16	14	Positive for the petrochemical sector.

Top picks

IOC

Pharmaceuticals *Positive*

Budget review

The budget was marginally positive for Pharma & Healthcare sector. The R&D expenditure tax deduction has now been extended for R&D being outsouced. The reduction on customs duty for life saving bulk drugs would be passed on to the patients hence making them more affordable. Increase in outlay for HIV treatment to Rs 9.9bn and exempting Atazanavir API from excise duty should benefit Cipla and Glaxo. Extension of tax holiday period for operating and maintaining hospitals in rural areas form 31 March, 2008 to 31 March 2013 will not benefit much as more then 75% of the total private hospitals are in tier-I cities. But this will certainly encourage these companies to increase their operations in Tier 2 & 3 cities and rural areas.

Description	Existing (%)	Proposed (%)	Remarks
CExcise duty on all formulations.	16	8	Reduction passed on to consumers.
Customs duty & CVD on 5 specific life saving drugs & their bulk drugs.	10	5	Will be passed on to consumers
Customs duty on one specific cancer diagnostic kit.	10	5	Same as above
Atazanavir (anti-AIDS drug) and the bulk drugs for manufacture of same	8	Nil	
Five year tax holiday to hospitals Located in tier II & III towns till 2013	Same	Unchanged	All large private hospitals fims have more than 80%of their total no. of facilities in tier-I towns
Budget allocation to health sector	Rs.144bn	Rs165bn	Positive for Healthcare firms.
Deduction on R&D expenditure	150% for inhouse research	Additional 125% for R&D outsourcing	Positive for all pharma companies spending on R&D

The cut in excise duty in pharmaceutical products, from 16% to 8%, would effect the earnings of pharma companies marginally only. Because firstly most of this benefit would be passed on to the consumers and secondly most large and mid-sized players have set up their manufacturing facilities in excise free zones.

Table 4: Impact of tax proposals

Company Name	Excise Duty (%)	Sales turnover / Operating income (Rs.m)	Excise duty (% of sales) (Latest)	Net Profit (Rs.m)	Adjusted net profit (Rs.m)	EPS (Rs.)
Dishman Pharma	36	5,819	0.6	928	918	12.7
Divi's Labs.	43	7,299	0.6	1,859	1,859	142.6
Dr Reddy's Labs.	897	66,035	1.4	9,659	9,622	56.9
Elder Pharma	144	4,637	3.1	528	528	27.9
Glaxosmithkline	1,442	17,100	8.4	5,510	3,625	60.7
Nicholas Piramal	973	25,203	3.9	2,283	2,340	10.3
Ranbaxy Labs.	539	61,328	0.9	5,103	5,047	12.6

Top picks

Biocon, Cipla, Dishman Pharma, Divis Lab., Dr. Reddy's Lab., Elder Pharma and Ranbaxy.

Power *Positive*

Budget review

- Enhanced allocations to Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) and Accelerated Power Development and Reforms Project (APDRP) schemes worth 55bn and Rs.8bn.
- The Government has put increasing thrust on the Ultra Mega Power Projects (UMPP) and urged to invite bidding for remaining 5 UMPP projects.
- Special allocation in form of Transmission and Distribution fund for addressing poor state of transmission and distribution (T&D) system.

The increased fund allocation to the power sector would help the sector sustain the growth movementum by keeping pace of investment by government as well as private sector. Moreover, in view of transmission capacity target of 37,150MW in the 11th plan from existing capacity of 16,450 MW. A much need fillip by setting a T&D fund would enable a quick and efficient power transmission to power deficits states from surplus ones.

Description	Existing (Rs. bn)	Proposed (Rs. bn)	Remarks
Ultra Mega Power Projects (UMPPs)	Only three projects are allocated	The Fourth UMPP project (Tiliya) is shortly to be awarded with five more in succession.	The rapid support of UMPP would enable to reduce the demand supply gap and support the industrial growth.
Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)	280bn	335bn	Additional allocation is expected to fulfill power for all mission.
Accelerated Power Development and Reforms Project (APDRP)	21.76bn	29.76bn – an additional sum of 8bn is committed	This is funds are to be used to modernize the transmission and distribution systems throughout India.

Top picks

NTPC, Powergrid Corporation and Reliance Energy

Retailing *Neutral*

- **Budget review**

No retail sector specific announcement was made in the budget; however there was change in IT slab. Threshold of exemption for all Income Tax assesses was raised from 1.1 lac to 1.5 lac and for women assesses it was further raised to 1.8 lac.In over view it is a positive move for the retail sector which is driven by the emerging middle class. The new income tax rate will fulfill common man's pocket and further boost the consumption in retail sector.

- **Top picks**

Provogue India

Telecom *Neutral*

- **Budget review**

The industry was expecting rationalization of taxes. However, there was no major change in any policies regarding the sector.

Specified parts of set top boxes and specified raw materials for use in the IT/electronic hardware industry are to be exempted from customs duty. This will help players like Bharti Airtel and Reliance Communications who are in the process of launching DTH services.

NCCD of 1% removed on polyester filament yarn and the levy shifted to cellular mobile phones. This will make the phones slightly expensive but we believe this should not have any major impact and the companies should be able to continue with the current pace of subscriber additions.

- **Top picks**

Idea Cellular, Reliance Communications and Tata Teleservices (M).

Textiles *Positive*

Budget review

Budget 2008-09 is a mild positive for textile industry. The TUFS allocation has increased though not as high as expected. Besides, the Government has been promoting textile parks and clusters to infuse investment in the sector. Union Budget has made an initial allocation of Rs.1bn for development of six mega clusters for handlooms, power looms and handicrafts. In addition, allocation of Rs.3.4bn is made for the cluster development approach in handloom sector.

Description	Existing (Rs. bn)	Proposed (Rs. bn)	Remarks
Increase in allocation to TUFS	9.11	10.9	The extension of TUFS shall continue the process of modernization and technological up gradation in the textile industry. It will aid in achieving investment target of US$ 15b required to increase textile exports to US$ 50bn by 2010.
No change in allocation to Scheme for Integrated Textiles Parks (SITP)	4.5	4.5	Government remains committed for development of SITP. All 30 integrated parks have been approved
Removal of NCCD (National Calamity Contingent Duty) on PFY	1%	0%	Removal of NCCD on PFY will reduce the cost of the production. This is expected to be positive for the man made fibre companies. But duty cut on PFY will neutralize the impact for spinners. Positive for Indorama
			Synthetics and JBF
Reduction in CENVAT	16%	14%	Positive for the sector
Reduction in CST	3%	2%	Positive for the sector

Top picks

Vijayeswari Textiles and Welspun India

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