ICRA Comment

Union Budget, 2010-11: Fiscal Consolidation and Reform Orientation

The Union Budget for 2010-11 was widely expected to signal a return to fiscal consolidation, while also making some announcements on the much awaited structural reforms in areas like implementation of Goods and Services Tax (GST), Direct Tax Code (DTC), and subsidies. The Budget has clearly stuck to the expected lines in announcing a roadmap for fiscal consolidation, including an explicit statement on reduction of Government debt, timelines for implementation of DTC and GST, and partial rollback of Excise Duty. The cut in Direct Tax rates, which was somewhat unexpected, would have a beneficial impact in terms of boosting private consumption and overall sentiments, although it is somewhat difficult to explain in the context of the impending introduction of the DTC.

Among the other positives are the Government's statements on the need to strengthen and institutionalise a mechanism for maintaining financial stability, set up a Commission to clean up the financial sector laws, take steps to simplify the foreign direct investment (FDI) regime, and focus on clean energy. The emphasis on increasing transparency—whether with respect to avoiding below-the-line items in the Budget like oil or fertiliser bonds or with respect to use of technology for tax administration, financial governance, and directed subsidy payments—appears to be another philosophy underlying the Budget.

The focus of expenditure remains on promoting inclusive growth and infrastructure development, with 46% of the Plan allocation being devoted to infrastructure while revenue expenditure growth has been budgeted at 6% for 2009-10. The higher target of Rs. 400 billion set for disinvestment proceeds creates fiscal space for the budgeted 30% growth in capital expenditure, which, among other things, would allow a substantial increase in the expenditure on roads, recapitalisation of public sector banks to the extent of Rs. 150 billion, and a considerable increase in the defence outlay. Additionally, non-budgetary support through the India Infrastructure Finance Company Limited is expected to increase significantly in 2010-11, thereby facilitating greater private participation in infrastructure projects The proposal to set up a Coal Regulatory Authority and introduce competitive bidding for the allocation of coal blocks is another welcome step—one that was due for long.

The Union Budget for 2010-11 has retained the previous year's rolling target of 5.5% for the fiscal deficit in 2010-11. The forecasted improvement in the fiscal deficit in 2010-11, as compared with the revised estimate of 6.7% of GDP in 2009-10, relies largely on the expectation that the revenue deficit would improve from 5.3% of GDP in 2009-10 to 4% of GDP in 2010-11. However, the revenue deficit target set for 2010-11 is substantially higher than the rolling target of 3% of GDP set in the previous fiscal year.

The corporate sector as a whole is expected to benefit from the buoyancy in the overall growth, and from the possibility of interest rates remaining under control, given that the borrowing programme is in line with market expectations. The negatives, apart from the increase in minimum alternative tax (MAT) rates, would be continued ambivalence on the vexed issue of oil price decontrol. Overall, of key importance going forward, would be the Government's ability to ensure that the overall expenditure growth is maintained within the budgeted levels of less than 9% relative to the revised estimates for 2009-10, without which the fiscal consolidation targeted would be difficult to achieve.

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ASSESSMENT OF GOVERNMENT OF INDIA'S FISCAL SITUATION

The overall theme of the Union Budget for 2010-11 was a shift in fiscal policy from stimulating growth to maintaining the growth momentum while embarking on a renewed path towards fiscal consolidation. The Budget has aimed to achieve these dual objectives through a combination of selective rollbacks in the tax cuts to boost revenue receipts and controlled growth of revenue expenditure, while higher disinvestment proceeds will provide headroom for enhanced capital expenditure benefitting the infrastructure sector.

Estimates released by the Central Statistical Organisation (CSO) suggest that non-agricultural economic growth was robust at 8.9% and 8% respectively in the second quarter (Q2) and third quarter (Q3) of 2009-10, signalling that the timing was appropriate for Government of India (GoI) to shift its fiscal policy stance from stimulating economic growth to fiscal consolidation, while ensuring that the growth momentum is maintained.

Accordingly, the Budget for 2010-11 has instituted a phased rollback of tax cuts to augment revenues, which along with the expected non-tax receipts from the auction of 3G spectrum in 2010-11, indicates a pick-up in growth of revenue receipts to 18% as compared to subdued growth of 7% in 2009-10. The expected 15% growth of tax revenues is led largely by the high growth of indirect tax collections, including growth of 17%, 29% and 36% in year-on-year (y-o-y) terms in service tax, excise duty and customs duty collections, respectively. Indirect taxation measures instituted by GoI include a 2% increase in excise duty on non-petroleum products, given the strong revival in manufacturing growth: estimates released by the CSO suggest that manufacturing expanded by 9.2% and 14.3% respectively in Q2 and Q3 of 2009-10 in y-o-y terms. While the base on which service tax rate is levied is proposed to be expanded, the rate has been retained at 10% in order to provide a continued thrust to service sector growth as well as with a view to align the rate with the eventual structure of the GST. Additionally, GoI has proposed a Rupee 1/litre duty on petrol and diesel and a restoration of the 5% basic customs duty on crude oil, 7.5% for petrol and diesel and 10% for other refined products.

While the increase in rates of indirect taxes and the expansion in the base of service tax are welcome measures in view of the need to augment revenues to achieve a measure of fiscal consolidation, nonetheless the pass through of higher taxes into prices would exert pressure on inflation. In particular, the second order effects of the increase in prices of petroleum products are likely to stoke the inflationary pressures in the economy.

The Budget also announced the revised date for the migration to the GST regime, which was keenly awaited, and reaffirmed the commitment to introduce the DTC on April 1, 2011. Given the impending introduction of the DTC, the change in the income tax slabs for individuals was somewhat unexpected, and will result in some revenue loss to GoI. Additionally, the surcharge on domestic companies has been reduced to 7.5% from the existing rate of 10%. However, the same would be offset to some extent by the increase in the rate of MAT to 18% of book profits from the current rate of 15%.

Expenditure has retained a focus on inclusive growth and infrastructure development, with 46% of the plan allocation devoted to infrastructure. Some of the sectors with substantially higher outlays in 2010-11 relative to revised estimates for 2009-10 include education, water supply & sanitation and housing. Moreover, the outlay for grants-in-aid to the State Governments is significantly higher than in 2009-10, reflecting the recommendations of the Thirteenth Finance Commission (ThFC).

The Budget made various announcements, including the extension of the existing interest subvention of 2% for an additional year in order to boost exports, which have displayed positive growth in y-o-y terms since November 2009 after witnessing sustained contraction since the global economic crisis began in October 2008. The Budget also extended the 1% interest subvention on housing loans up to Rs.1 million, for houses with a cost under Rs.2 million to March 31, 2011, with should provide a further impetus to low cost housing. The Budget announced an additional 1% interest subvention to farmers repaying short-term crop loans in a timely manner, which would provide some relief to farmers after the delayed and deficit monsoon rainfall in 2009 resulted in a contraction of kharif output, as reflected in the 2.8% contraction of agriculture and allied activities in Q3, 2009-10.

The Union Budget 2010-11 has restricted growth of revenue expenditure to 6%, which benefits from the Pay Commission related arrears having been absorbed in 2008-09 and 2009-10, while the magnitude of expenditure towards the debt waiver for farmers is lower in 2010-11 in relation to 2009-10. Additionally, the budget has not allocated funds for compensation to oil companies on account of under recoveries on account of sale of petroleum products.

The revenue deficit, which is estimated to have worsened to 5.3% in 2009-10, from 4.5% in 2008-09, is budgeted to improve to 4% of GDP in 2010-11 as a result of the estimated high growth of revenue receipts and controlled 6% growth of revenue expenditure. Despite the reversion to fiscal prudence, the forecasted revenue deficit of 4% of GDP in 2010-11, is substantially higher than the rolling target of 3% set last year as well as the target under the ThFC's fiscal consolidation path for the Central Government (3.2%).

An enhanced target of Rs. 400 billion of disinvestment proceeds as compared to the revised estimate of Rs. 259.58 billion for 2009-10, creates fiscal space to allow for the budgeted 30% growth in capital expenditure, which is expected to increase to 2.2% of GDP in 2010-11 from 1.9% of GDP as per revised estimates for 2009-10. The enhanced capital outlay includes a substantial increase for the roads sector in addition to Rs. 150 billion on account of recapitalisation of public sector banks and a substantial increase in the outlay for defence. Additionally, non-budgetary support through the India Infrastructure Finance Company Limited is expected to substantially increase in 2010-11, which would provide a boost to infrastructure projects being undertaken by the private sector.

While the fiscal deficit of GoI is expected to worsen to 6.7% of GDP in 2009-10 from 6% of GDP in 2008-09, led by the worsening revenue deficit, the Budget for 2010-11 has estimated that the fiscal deficit will improve to 5.5% of GDP. This forecasted improvement is largely on account of the expected improvement in the revenue deficit. GoI has retained the rolling target for the fiscal deficit for 2010-11 set in last year's Budget, which is marginally lower than the target of 5.7% as per the fiscal consolidation path indicated by the ThFC. The Budget has set targets to reduce the deficit to 4.8% of GDP and 4.1% of GDP for 2011-12 and 2012-13, respectively, largely similar to those suggested by the ThFC.

Rs. Billion	**2008-09**	**2009-10 BE**	**2009-10 RE**	**2010-11 BE**
Revenue Deficit	2535.39	2827.35	3290.61	2765.12
Percentage of GDP	4.5%	4.6%	5.3%	4.0%
Fiscal Deficit	3369.92	4009.96	4140.41	3814.08
Percentage of GDP	6.0%	6.5%	6.7%	5.5%

Source: Union Budget 2010-11, ICRA Estimates

The Finance Minister's announcement that efforts would be made to avoid the issuance of bonds to oil and fertilizer companies through extending cash subsidies, which is a welcome move to enhance the transparency of the Government's accounts going forward.

With the reduction in the fiscal deficit, the net market borrowing of GoI in 2010-11 is lower at an estimated Rs. 3,450 billion, which is largely in line with market expectations. Restricting the fiscal deficit and the borrowing requirement of GoI would be crucial in order to avoid a considerable hardening of interest rates.

SECTORAL IMPACT OF UNION BUDGET 2010-11

INFRASTRUCTURE SECTORS

Roads

Proposal

- Increase in budget allocation for road projects by 13.5% from Rs. 175.20 billion in FY2009-10 to Rs. 198.94 billion in FY2010-11.
- Incremental disbursement of Rs. 250 billion over the next three years by IIFCL under its takeout financing scheme
- Full exemption from import duty for specified machinery for road construction projects
- Increase in the rate of MAT to 18% from 15%
- Increase in excise duty for cement, petrol/diesel

Impact-Neutral

The increased outlay on road transport would favourably impact companies involved in road construction. The takeout financing through IIFCL would facilitate the availability of long term capital, which is an important requirement for infrastructure projects. The government also seeks to expedite the infrastructure development process through Public Private Partnership (PPP) by implementing requisite changes in policy framework. The increase in MAT rate from 15% to 18% would have an adverse impact on the sector owing to the long gestation period for such projects. Moreover, indirect tax proposals including raising of excise duty rates for cement, and duties for petrol/diesel would also push up costs for the sector. However, exemption provided to specific construction equipment from import duty will provide some respite.

Oil & Gas

Proposals

- Restoration of basic customs duty of 5% on crude petroleum, 7.50% on petrol and diesel and 10% on other refined petroleum products
- Enhancement of central excise duty on petrol and diesel by Rs. 1/litre each.
- Post budget announcement of hike in petrol and diesel prices by Rs. 2.67/litre and Rs. 2.58/litre respectively.
- Payment of subsidy in cash to the OMCs rather than by way of oil bonds
- Increase in MAT from 15% to 18%

Impact-Neutral

The revised duty structure will marginally (25-30 bp) increase the import duty differential for the refineries, which will enable them to enjoy marginally higher refining margin. This should be a positive for the stand alone refineries, including the Greenfield projects currently being set up. Imposition of higher import duty and excise duty on MS & HSD is negative for the Oil Marketing Companies (OMCs), as the Gross Under Recoveries will increase on account of increase in Refinery Transfer Price and higher excise imposition. However, the post budget announcement of hike in petrol and diesel prices, will largely negate the impact of duty hike as above. Increase of MAT is marginally negative for some large oil & gas companies and new refinery projects, whose project IRR will be marginally affected. Imposition of 5% import duty on crude oil is positive for upstream companies, as they will be benefited in an import parity based pricing regime.
The decision to pay the subsidy to the PSU OMCs by way of cash instead of oil bonds is a positive. However timeliness of cash payment could continue to be uncertain.
With regard to the petroleum products pricing reforms, the Union Budget says decision will be taken in due course of time, which is critical to the financial position of the PSU OMCs.

Petrochemicals

Proposals

- Increase in basic customs duty on naphtha from 5% to 10%

Impact-Negative

Increase in customs duty on naphtha will lead to an inverted duty structure for the naphtha based petrochemical companies, as the customs duty on polymers and chemicals produced from naphtha is lower than 10%. This will lead to modest fall in the profitability of these players (such as naphtha crackers and aromatics producers) on domestic sales.

Power

Proposals

- Increase in allocation to power sector at Rs. 5130 Cr (increase by 152%).
- Increase in available long-tem funding through refinancing from IIFCL
- Increase in allocation to renewable energy sector at Rs. 1000 Cr (increase by 61%)
- Announcement to form Coal Regulatory Authority and National Clean Energy Fund
- Clean energy cess of Rs. 50/MT on both domestic and imported coal
- Increase in MAT rates from 15% to 18%

Impact-Marginally Positive

Increased allocation to power sector would positively impact CPSUs to fund their equity requirements, given capacity addition requirements.. Significant increase in allocation & excise duty benefits are clear positives for the players in the renewable energy segment (mainly, solar & wind energy). Setting up of Coal Regulatory Authority would bring regulatory clarity & introduction of competitive bidding mechanism for allotment of coal blocks would further enable increased participation from the private players. Nonetheless, timely development of such allotted coal blocks would remain extremely crucial. The increase in MAT & cess on coal however is a negative as it will negatively impact profitability of merchant power plants, where costs are not a pass through

Telecom

Proposals

- Central Excise duties increased from 8% to 10%
- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.
- Exemptions from basic, CVD and special additional duties are now being extended to parts of battery chargers and hands-free headphones (earlier only applicable for parts of mobile phones). The validity of the special additional duty is being extended till March 31, 2011 (earlier till June 30, 2010).

Impact-Marginally Negative

Higher central excise duties would translate into higher cost for the Telecom equipments manufacturing companies. However, the companies involved in manufacturing of mobile handsets and accessories (including battery chargers and hands-free headphone) are compensated in the form of extended exemption from custom duties.

The increase in MAT rate from 15% to 18% would have an adverse impact on telecom service providers.

Construction/Infrastructure

Proposals

- Overall thrust on development of infrastructure
- Increase in MAT rate from 15% to 18%
- Increase in excise duty for cement, petrol/diesel
- Full exemption from import duty for specified machinery for road construction projects

Impact: Neutral

The increased outlay for infrastructure should directly benefit construction/infrastructure development companies through more growth opportunities. The proposal to hike the MAT rate to 18% from 15% earlier is a negative for infrastructure projects claiming benefits of tax holidays. Indirect tax proposals including raising of excise duty rates for cement, and duties for petrol/diesel would also push up costs for the sector. However, exemption provided to specific construction equipment from import duty will provide some respite.

Real Estate

Proposals

- The construction period for real estate builders to avail benefits under section 80-IB (10) has been extended to 5 years from 4 years.
- Rs.12.70 billion has allocated for Rajiv Awas Yojna for slum dwellers, up from Rs.1.50 billion, an increase of 700% with the aim of creating a slum free India.
- Rs 100 billion has been allocated for Indira Awas Yojana.
- Interest subvention scheme for home loans extended till March 2011. Under the scheme, home buyers get one per cent interest subsidy for loans up to Rs 1 million, provided the cost of house does not exceed Rs 2 million.

Impact-Marginally Positive

The increased outlay under Rajiv Awas Yojna and Indira Awas Yojna could favourably impact the companies involved in Slum Rehabilitation Projects and working under public private partnership model, besides encouraging affordable housing segment in the rural area. Continuation of Interest subvention schemes and extension of period under 80-IB (10) would encourage demand for affordable housing projects in the urban area. Increase in disposable income on account of change in tax slab would have a positive effect on the housing demand.

Capital Goods

Proposals

- Increased allocation for power and infrastructure sector
- Reduction in excise duty from 8% to 4% on CFL and LED
- Concessional import duty at 5% on inputs for Photovoltaic & Solar Panels
- Waiver of excise duty on Photovoltaic & Solar Panels and on inputs required in Rotor Blades

Impact-Marginally Positive

Increased allocation and long term funding availability for power and infrastructure projects will induce more investment in these sectors and thereby benefit equipment manufacturers, especially electric equipment

and construction equipment manufacturers. Focus on energy efficiency and excise duty reduction for CFL would result into the improved demand prospects for the players in lighting segment. Further, concessional import duty & waiver of excise duty on Photovoltaic & Solar Panels as well as reduction in excise duty on inputs for rotor blades required in manufacture of will benefit both Photovoltaic Cell & WTG manufacturers respectively.

Cement

Proposals

- 2% Excise duty hike.

Impact-Negative

Increase in outlay on roads, subventions on housing and focus on infrastructure development should boost demand for cement. Increased rural income under NREGA will also boost rural housing demand and in turn demand for cement. However, increase in excise duty and imposition of Rs./50 MT cess on imported and domestic coal will increase costs, passing which onto consumers will be difficult given the current oversupply situation.

Steel

Proposals

- Introduction of competitive bidding for allocation of coal block and regulator for the domestic coal sector
- Cess of Rs. 50 per tonne on coal
- 2% increase in excise duty
- Focus on infrastructure, housing and urban development

Impact-Neutral

The proposals to set up of a Coal Regulatory Authority and introduction of a competitive bidding process for allocating coal blocks would to lead to the development of the domestic coal sector, which in turn would benefit the steel industry, for which coal is a key input. However, the Rs. 50 per tonne cess on coal and the excise duty hike by 2% will adversely impact the profitability of steel companies. The Budget has a number of proposals for some key sectors including infrastructure, housing and urban development, which are likely to increase steel demand.

CORPORATE SECTORS

Pharma

Proposals

- Increase in weighted reduction from 150% to 200% on expenditure incurred on in-house R&D activities and from 125% to 175% on activities outsourced to specific institutions
- Partial roll-back in Excise duty from 8% to 10% (to impact raw material costs)

Impact: Neutral

The increase in weighted reduction on R&D activities is a positive for the industry and would continue to support higher investments by research-led pharmaceutical companies in areas of NCE/NDDS related R&D activities. The move is likely to be positive for contract research organisations as well.

The increase in excise duty for raw material would impact the cost structure in the industry. Also increase in petrochemical prices may impact some of the basic raw material (intermediate) costs, impacting margin. The increase in MAT rate is however going to increase tax outgo for few companies which are currently paying lower taxes.

Healthcare

Proposal

- Increase in budget allocation for the Ministry of Health and Family Welfare from Rs.195.34 billion in FY2009-10 to Rs.223 billion for FY2010-11
- Uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty on all medical equipment
- Exemption provided to specified inputs for the manufacture of orthopaedic implants from import duty
- Increase in the rate of MAT to 18% from 15%

Impact-Neutral

The increased outlay would favourably impact companies involved in healthcare sector. Further, the simplification of duty structure for the medical equipment and exemption provided to specified inputs for the manufacture of orthopaedic implants from import duty would be positive for the sector; however increase in MAT rate from 15% to 18% would have an adverse impact on the hospital projects owing to their long gestation period.

Auto – 2w/ Passenger Cars

Proposals

- Hike in excise duty to 10% from 8%
- Excise duty on big cars, Sports Utility Vehicles (SUVs) and Multi Utility Vehicles (MUVs) increased to 22% from 20%. The additional duty component retained at Rs. 15,000 for passenger vehicles with 1,500-1,999cc engine capacity and Rs. 20,000 for passenger vehicles having engine capacity of greater than 2,000cc
- Excise duty of Re 1 per litre imposed on petrol and diesel and increase in customs duty by 5%
- Allocation for road development increased by 13% to Rs. 198.94 billion
- Weighted deduction on in-house R&D expenditure increased from 150% to 200%
- Excise duty of 4% imposed on electric cars and vehicles; Critical parts and assemblies of such vehicles exempted from basic customs duty and special additional duty with CVD of 4% being imposed

Impact: Marginally Negative

In the backdrop of increasing commodity prices, expected increase in interest rates, and expected cost increases on implementation of Euro III and IV emission norms from April 2010; the increase in excise duty rates by 2%, is likely to be passed on in the form of increase in prices and is partially negative. This however is likely to be compensated by exemptions on personal income tax rates, leading to higher disposable income for two-wheeler and passenger vehicle buyers. The government's thrust on rural and infrastructural development remains a key positive. The increased weighted deduction rate for in-house R&D would encourage higher R&D allocations and thus technical capacity in India that has become a critical automotive market.

Commercial Vehicles

Proposals

- Hike in excise duty to 10% from 8%
- Excise duty of Re 1 per litre imposed on diesel and increase in customs duty by 5% that has resulted in diesel price increase
- Allocation for road development increased by 13% to Rs. 198.94 billion
- Weighted deduction on in-house R&D expenditure increased from 150% to 200%

Impact: Marginally Negative

While CV prices have been increased by 3.5-4% in 2009-10 by all manufacturers, the current increase in excise duty is expected to result in further price hikes. While the demand has been strong during October 2009 - January 2010 partly driven by pre-buying in anticipation of price hikes post implementation of Euro III and IV emission norms from April 2010, the continued increase in commodity prices and cost increases post implementation of emission norms may further result in increased prices of CVs dampening the demand in 2010-11. Additionally, the diesel price increase may adversely impact the profitability of transport operators and thus the demand for CVs in the short term. However, the government's thrust on rural and infrastructural development remains a key positive. The increased weighted deduction rate for in-house R&D would encourage higher investments.

Tractors

Proposals

- Increased focus on agriculture through four pronged approach (i) Rs 9 billion allocations directed at agricultural production, (ii) reduction in wastage of produce, (iii) Credit support to farmers by increase in agricultural credit target to Rs 3,750 billion for 2010-11, extension of loan repayment deadline from December 2009 to June 2010 and increased subvention in interest rates from 1% to 2% resulting in effective tax rates of 5%
- Increase in peak rate of excise duty from 8% to 10% may impact cost of production
- Excise duty exemption to trailers and semi-trailers used in agriculture

Impact: Marginally Positive

The increase in agricultural credit target augurs well for the industry as financing availability remains one of the most critical factors. Additionally, the 2% subvention (earlier 1%) and extension in repayment deadline is expected to increase financial flexibility of the farmers. The Government's thrust on rural development continues with increased allocations to rural development and NREGA scheme which is likely to stimulate demand in medium term.

Auto Ancillaries

Proposals

- Weighted deduction on in-house R&D expenditure increased to 200% from 150%
- 2% Interest subvention to Small and Medium (SME) exporters extended by a year

Impact - Neutral

Increase in weighted deduction on in-house R&D expenditure would encourage companies to invest in technology development. The interest subvention scheme extended for a period of one year could be a positive for some SME exporters. Increase in MAT rates will have a negative impact on some ancillaries currently paying lower taxes. The positives on the demand side for the automobile industry, through cuts in personal income taxes, would support growth for the industry.

Hotels & Tourism

Proposals

- Benefits of 100% investment linked tax deduction on capital expenditure (excluding land, goodwill and financial instrument) for building and operating a new hotel (commissioned after 1st April 2010) of two-star category and above, extended from select locations to across the country.

Impact- Positive

Bringing the hotel industry within the preview of investment linked tax deductions could promote balanced (across categories) incremental investments in fresh inventory, reducing the supply –demand gap in the country. Benefits of increased government thrust on infrastructure/ roads to trickle down to the tourism industry over the medium to long term. The increase in MAT rates will however have an adverse impact.

Textiles

Proposals

- Extension of existing interest subvention of 2 per cent for one more year for exports covering handlooms.
- Increase in excise duty on man-made fibres and yarns from 8 per cent to 10 per cent
- One-time grant of Rs.2 billion to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.

Impact - Neutral

The extension of subvention credit to the handloom sector is a positive development. However, clarity is required on whether it be available to the entire textile industry – which if true would benefit textile exporters through continued availability of working capital loans at lower cost. The increase in polyester prices however unlikely to impact demand since it remains cheaper than cotton. The grant extended towards installation of the discharge system at Tirupur would benefit the knitwear segment, which has been finding it difficult to bear the capital cost.

FMCG

Proposals

- Increased allocation towards rural development, agricultural-centric and employment generation schemes
- Reduction in personal tax
- Increase in central excise duty from 8% to 10%; Duties for all tobacco products to be enhanced

Impact- Marginally Positive

Increased allocation towards rural development and employment generation is a positive for the sector, since it is expected to increase consumer spending. Reduction in personal income tax would benefit the sector by increasing the disposable income available with consumers. The hike in central excise duty if passed on to the consumers may lead to some demand contraction; enhanced duties expected for tobacco products will adversely affect this segment.

Media & Entertainment

Proposals

- Concessional 5% customs duty and exemption from special additional duty on import of digital equipment; project import status for MSOs
- Customs duty on digital masters of movie films, games and music software rationalised; value of IPR subject to service tax
- Online news agencies exempt from service tax

Impact – Positive

Customs duty rationalization is positive for the sector, providing stimulus to the fast growing digital cable industry through increase in investments by the MSOs; and also enabling cost reductions for the film and the gaming industry. Exemption from service tax for online news agencies is expected to increase the penetration of online news medium.

Fertiliser

Proposals

- Nutrient based subsidy (NBS) with effect from April 1, 2010, to reduce subsidy burden and improve agricultural productivity
- Budgetary provision for subsidy: Rs. 52980 cr (RE 2009-10) and Rs. 49981 Cr (BE 2010-11)
- Payment of subsidy in cash to the fertiliser companies rather than by way of bonds
- Thrust on agriculture through higher agricultural credit and subvention of interest on farm loans

Impact-Neutral

NBS announcement has already been made by the Government. Its impact on the industry players would be a function of the subsidy provided in the Union Budget and level of increase in MRP to be achieved by the industry players. In ICRA's opinion, efficient DAP/complex fertilizer companies should be benefited from the new policy.

Budgetary provision for the current fiscal may be marginally falling short of requirements in view of the surge in imported DAP & phosphoric acid prices in recent months. Budgetary provision for the next fiscal also appears on the lower side, if the current level of fertilizers/intermediate prices are sustained in the global markets. As the industry may not be in a position to pass on the rise in costs to the farmers in view of the commitment given to the Government for Kharif 2010, additional subsidy provision may be required for the industry. However, the commitment of the Government to pay the entire subsidy in cash rather than through bonds is a positive development for the industry from working capital and profitability point of view.

BANKING

Proposals

- RBI to consider giving banking licences to Private Sector Companies / NBFCs
- GoI to recapitalise select Public Sector Banks by Rs 165 billion; additional capital to RRB
- Regulatory framework for the Financial sector to be strengthened: Apex level financial stability & Development council to be set up.
- Increase in interest subvention from 1% to 2% for the farmers who pay as per repayment schedule, extension of debt waiver and debt relief scheme for farmers extended by six months to June 30, 2010.

Impact-Positive

Competition is likely to further intensify in the banking sectors as RBI considers giving new banking licences. The GoI commitment to recapitalise the public sector banks likely to help around one third of these banks which have a current Tier I capital adequacy of less than 8% as on Dec-09. The additional interest rate subvention schemes to encourage prompt repayment by farmers should improve the credit culture. However, GoI's borrowing programme for FY10-11, while in line with expectations, remains sizeable and if the credit off-take is more than 15% - 16%, bond yields may rise and thereby impact treasury profits of the banks.

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