

Neither Populist nor Reformist

Budget for FY12 presented was neither populist nor reformist in nature and has tried to manage expectations of different quarters. Given the situation the FM has done a good balancing job to try and control inflation without hurting growth. We believe it does not change much for the capital markets as the budget did not involve any major surprises either on the positive or negative side. The only worry for the markets would be how the FM intends to get the fiscal deficit down to the targeted figure.

Budget Estimate - Increased expenditure, Lower Market Borrowing & Fiscal Deficit

- Total expenditure for FY12, Rs 12.57 lakh cores up by 13.4% from last year's total budgeted expenditure. Planned expenditure increased 18.3% to Rs. 4.41lakh crore.
- Non-planned expenditure increased 10.9% to 8.16 lakh crore
- Total tax receipts estimated to 9.32 lakh crore while, fiscal deficit estimated to be 4.6% of GDP in FY 12 around 4.12 lakh crore.
- Net market borrowing expected to be 3.43 lakh crore in FY12.

Taxes – No major changes

- Central Excise Tax rate maintained at 10%.
- Minimum alternate tax (MAT) from the current rate of 18 % to 18.5 % of book profits.
- Service tax retained at 10% while bringing in a few new services into the tax net to expand the tax base.
- Surcharge decreased to 5% from 7.5% for domestic companies.

Direct taxes – Minor increase in exemption limit, slabs remain same

- Income up to 1.8 lakh – Nil tax
- Income 1.8 to 5 lakh – 10% tax
- Income 5 to 8 lakh - 20% & Income above 8 lakh – 30%

Agri Supply Side Measures- Looking to Reduce Wastage and Lower Inflation

- Approval is being given to set up further 15 more Mega Food Parks to increase the availability of fruits and vegetables as it has been inadequate due to bottlenecks in retailing capacity.

- The Government is looking to increase warehouse storage capacity by creating 20 lakh metric tonnes of storage capacity under Public Entrepreneurs Guarantee (PEG) Scheme through modern silos.
- To attract investment capital investment in the creation of modern storage capacity will be eligible for viability gap funding scheme of the Finance Ministry. It is also proposed to recognize cold chains and post-harvest storage as an infrastructure sub-sector.
- Basic Customs Duty on micro-irrigation equipment reduced from 7.5 per cent to 5 per cent.

Agriculture Sector Credit – Looking to increase agriculture contribution to GDP

- Credit flow for farmers raised from ` 3,75,000 crore to ` 4,75,000 crore in 2011-12.
- Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.

Direct Taxes Code (DTC): To be finalized for enactment during 2011-12 and DTC is proposed to be effective from April 1, 2012.

Goods and Services Tax (GST): Key processes are in final stages and by June 2011 NSDL will set up pilot portal in collaboration with eleven states prior to roll out across the country.

Subsidies: The Government will move towards direct transfer of cash subsidy for people below poverty line in a phased manner. This will ensure greater efficiency, cost effectiveness and better delivery of subsidies.

Nutrient Based Subsidy (NBS) has improved the availability of fertilizer; the Government is actively considering extension of the NBS regime to cover urea as well.

Disinvestment: The Government has set a target of ` 40000 crore for FY12 but would retain 51% stake in all PSU's. The Government needs to achieve the target in order to manage the fiscal situation better.

FDI: The budget did not mention and sector where FDI would be allowed, but only said that discussions are under way to liberalize FDI policy.

Infrastructure Funding: FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, is being raised by an additional limit of US Dollar 20 billion taking the limit to US Dollar 25 billion. This will raise the total limit available to the FIIs for investment in corporate bonds to US Dollar 40 billion.

MGNREGA: Real daily wage has now been linked to CPI for agricultural labor as compared to `100/day earlier.

Investment in MF's: A foreign investor allowed to invest in MF's is a big positive for MF industry.

IFRS: The budget did not mention anything regarding implementation of IFRS.

Black Money: Government has put into operation a five-fold strategy which consists of joining the global crusade against black money by creating an appropriate legislative framework, setting up institutions for dealing with illicit funds, developing systems for implementation and imparting skills to the manpower for effective action.

Sectoral Impact

Automobiles

Announcement	Impact	Companies Impacted
No change in Excise Duty	Positive	All Automobile companies
Investment in Infrastructure	Positive	Tata Motors, ALL and M&M
Reduction in Excise duty LEDs to 5% from 10% and removal of 4% CVD on LED	Positive	Lumax, Halonix etc and end users (OEMs)
Excise Duty reduced to 5% on Hybrid vehicle production	Positive	M&M in the near term as the company plans to launch a electric version of Maxximo
Exemption of basic customs duty and special CVD on import critical parts/sub-assemblies for Hybrid vehicle	Neutral	Hybrid car production is in its early stages in India. Could see larger companies like Maruti Suzuki, Tata Motors, Toyota, M&M etc comping up with

BFSI

Announcement	Impact	Companies Impacted
Capital Infusion of `6000 crs	Positive	Most PSU Banks - capital infusion will help banks maintain their Tier I ratios and improve their overall CAR
Increased limit for home loans qualifying for priority sector lending from Rs2m to Rs2.5m	Positive	For banks and housing finance companies like HDFC, LIC Housing Finance
Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.	Marginally negative	PSU Banks - marginally negative impact due to hike in interest subvention by 100 bps
RBI to issue guidelines on new banking licenses by 31-March-2011	Positive	NBFCs and big business houses interested in acquiring a banking license (Bajaj Fin, M&M Fin, Religare, etc)
Insurance bill to be introduced in budget session	Positive	For insurance companies and financial services companies with insurance JVs / subsidiaries
Fiscal deficit in line with expectations and lower government borrowing programme	Positive	With fiscal deficit at 4.6% for FY12 and lower than market expectations net borrowings at `3.6 trillion, it should have a positive impact on banks as yields are unlikely to harden further

Cement

Announcement	Impact	Companies Impacted
To replace existing excise duty rate with ad voleram	Additional outgo of excise	No impact as additional outgo of excise is expected to be passed on to the end users
Custom duty of pet-coke and gypsum to reduce to 2.5%	Positive: Savings of	Shree Cement

Capital Goods

Announcement	Impact	Companies Impacted
Removal of excise duty for equipments supplied to mega and ultra mega power projects to provide level playing field and remove duty anomalies vis-à-vis imports	Positive	All capital goods companies (Mainly BTG manufacturers)
Classifying refrigeration cold chains as infrastructure status and allowing viability gap funding for capital investment in creation of modern storage capacity	Positive	Voltas, Bluestar

FMCG

Announcement	Impact	Companies Impacted
MAT limit increased from 18% to 18.5%; but surcharge reduced from 7.5% to 5%	Neutral	Dabur, GCPL, Marico
Reduction in central excise duty on sanitary napkins, baby and adult diapers from 10 per cent to 1 per cent.	Positive	P&G and GCPL
A nominal Central Excise duty of 1 per cent is being imposed on jewellery and articles of gold, silver and precious metals, the levy would apply only to goods sold under a brand name.	Very less negative	Titan Industries
Reduction in basic customs duty on bamboo for agarbatti from 30 per cent to 10 per cent	Very less positive	ITC
Full exemption from basic customs duty is being provided to Crude Palm Stearin for use in the manufacture of laundry soap	Positive	P&G, HUL, GCPL
No change in excise duty on cigarettes	Positive	ITC, VST, Godfrey Phillips
Rs300 crore to bring 60,000 hector area under palm oil cultivation	Positive	HUL, GCPL, Dabur, APL
Increase in compansation of real wages for Anganwadi workers from Rs1500/month to Rs3000/month and Anganwadi helpers from Rs750/month to Rs1500/month	Positive	Consumer sector for additional spending
40% increase in educational scheam - Sarva Shiksha Abhiyan - From Rs15000 Cr to 21000 Cr	Positive	Consumer companies to avoid duplicate products
Tax slabs changed - Exemption - For general public - from Rs1.6 L to Rs1.8 L, For senior citizens - Rs2.4 L to Rs2.5 L, For Very senior citizens (above 80 Years) - Rs5.0 L, reduce the qualifying age of senior citizen from 65 years to 60 years	Positive	Consumer sector for additional spending

Infrastructure

Announcement	Impact	Companies Impacted
Budget proposed to allow tax free bonds of `30,000 crore to be issued by various Government undertakings in the year 2011-12. This includes Indian Railway Finance Corporation `10,000 crore, National Highway Authority of India `10,000 crore, HUDCO `5,000 crore and Ports `5,000 crore.	Positive for Infrastructure sector	IRB, ITNL, Ashoka Buildcon, IVRCL, Nagarjuna Construction
To attract foreign funds for financing of infrastructure Finance Minister has proposed to create special vehicles in the form of notified infrastructure debt funds; subject interest payment on the borrowings of these funds to a reduced withholding tax rate of 5 per cent instead	Positive as liquidity would ease out through Foreign funds	All diversified infrastructure companies
Bio-based asphalt is an emerging, green technology for the surfacing of roads. Full exemption from basic customs duty is being extended to bio-asphalt and specified machinery for its application in the construction of national highways. Tunnel-boring machines required for the construction of highways are also being included in this exemption.	Positive for Road sector	IVRCL, IRB Infra, Nagarjuna Construction, HCC, Sadbhav
To propose to levy MAT on developers of Special Economic Zones as well as units operating in SEZs.	Negative for SEZ Developers	Mundra Port
The FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, is being raised by an additional limit of US Dollar 20 billion taking the limit to US Dollar 25 billion. This will raise the total limit available to the FIIs for investment in corporate bonds to US Dollar 40 billion.	To enhance the flow of funds to the infrastructure sector	All diversified infrastructure companies

IT Sector

Announcement	Impact	Companies Impacted
No extension of STPI benefits	Negative	Infosys will be least affected since it is already paying tax @27%. TCS, which is paying tax @19.5%, the incremental tax rate should not be more than 3 percentage points as it has large portion of its businesses operate out of SEZ. Wipro, which is paying tax @17%, incremental tax rate could be 5-6 percentage points. In the mid-cap segment, the least affected company will be Mindtree, which is currently paying tax @15%, and will be paying tax @17-18% from FY12 onwards. Other mid cap companies will have incremental tax rate anywhere from 12 percentage points

Metals

Announcement	Impact	Companies Impacted
Export duty on iron ore fines increased from 5% to 20% and iron ore lumps increased to 15% to 20%	Reduction in our Sesa Goa EPS estimate by ~15% for FY12	Negative for Sesa Goa
Full exemption from Export Duty to iron ore pellets.	Positive for steel players having a pellet plant and in the process of setting up of pellet plant	Positive for Adhunik Metaliks, GPIL, JSPL
Custom duty on Ferro Nickel reduced from 5%	No impact on Ferro Alloy industry as Ferro Nickel is not produced in India	Positive for certain secondary steel
Exempt custom duty on Stainless steel scrap	Positive for Stainless Steel Players	Positive for JSL
Increase in MAT rate from 18 to 18.5%	Negative for companies paying MAT	Negative for Sterlite Energy and JSPL
Reduce surcharge on Corporate tax from 7.5% to 5%	Reduction in effective tax rate	All companies
A group of ministers has been set up to consider issues relating to reconciliation of environmental concerns in a time bound manner	Early resolution of the impending dispute on environmental norms	Positive for mining companies

Power

Announcement	Impact	Companies Impacted
No Excise duty on equipment on UMPP	Positive for companies who have already won UMPP projects as they don't factor the same in their costing. Neutral for future bidders as they will factor the same in their costing and bid accordingly.	Positive for Tata Power and Reliance Power.

Real Estate

Announcement	Impact	Companies Impacted
Interest subvention of 1% on housing loans by extending it to housing loan upto `15 lakh where the cost of the house does not exceed `25 lakh from the current limit of `10 lakh and `20 lakh respectively.	Positive for low cost housing companies	HDIL, Sobha, Puravankara
Limit to Priority Sector increased from `20 lacs to `25 lacs	Positive for low cost housing companies	HDIL, Sobha, Puravankara

Shipping

Announcement	Impact	Companies Impacted
Ship Owners Allowed Duty Free Spare Part Import	For building ships the spare parts can be imported duty free but this was not applicable to ship-owners	Under Duty Free Credit Entitlement the ship owners enjoy the same, so there will be

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