

BUDGET 2011-12

MISCELLANEA

Budget 2011-12 - Impact on specific sectors



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This write-up gives a glimpse of Budget 2011-12 highlights and discusses the impact of the same on certain specific sectors.

Introduction

1. The Budget looks for fiscal consolidation with a thin-line difference between being populist or reformist. The fiscal deficit at 5.1 per cent in FY 11 is lower than 5.5 per cent projected with a target of 4.6 per cent in FY 2011-12 and an aim at 4.1 per cent in FY 13. The borrowing programme unexpectedly came out lower than expected.

Major Highlights of Budget 2011-12

2. Following major highlights suggest a steady growth ahead :

- ◆ Divestment target ₹ 40,000 cr in FY12
- ◆ FII investment policy further freed:
 - Quasi Foreign Inst (QFI) and Foreign Individual Investors allowed in MF schemes

- FII's investment in corporate bonds increased substantially
- Withholding tax reduced from 20 per cent to 5 per cent for notified infra funds
- Foreign dividend tax cut to 15 per cent for Indian companies

◆ Banking Sector

- Bill to allow more banking licenses
- Capital infusion of ₹ 20,154 crs in FY12 in PSU banks
- Priority lending to home loans raised to ₹ 25 lakhs from ₹ 20 lakhs with 1 per cent interest rate subversion up to ₹ 15 lakhs with property value up to ₹ 25 lakhs.

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- ◆ Infrastructure:
 - Tax free bonds of ₹ 30,000 crs for Infra
 - To set-up Infra debt funds
 - Capital investment in fertilizer to be treated as infrastructure investment
 - To give Infra status to cold storage chains
- ◆ Rural
 - Interest rate subversion of 3 per cent for farmers who pay in-time. Effective interest rate will be 4 per cent.
 - To raise rural Infra funds from ₹ 16,000 crs to ₹ 18,000 crs
- ◆ Cash subsidy for urea and kerosene
- ◆ Allocated ₹ 58,000 crs for social schemes
- ◆ Education sector allocation of ₹ 58,000 crs up 24 per cent YoY
- ◆ Direct tax
 - Personal tax exemption raised to ₹ 1.8 lakhs
 - New category of 80 yrs. and above exemption of ₹ 5 lakhs
- ◆ Corporate Tax
 - Phasing off corp surcharge. Reduced from 7.5 per cent to 5 per cent
- MAT raised from 18 per cent to 18.5 per cent of book profits
- MAT levied on SEZ including developers of SEZ
- ◆ Indirect tax
 - Service tax stays at 10 per cent. However, the overall service tax net has widened.
 - Standard Excise rate stays at 10 per cent
 - Excise of 1 per cent on basic food. Will include items such as coffee and tea pre-mixes, ketchup, soups, sauces, ready-to-eat packaged foods, toothpowders, etc.
 - Customs duty peak rate unchanged
 - 20 per cent *ad valorem* duty on export of iron ore
 - 10 per cent *ad valorem* on cement with an excise duty
 - Customs duty cut to 2.5 per cent on petcoke and gypsum
 - Shipowners allowed duty free import of spare parts
 - No excise duty on equipments used for UMPP's (mega projects) in power sector

Impact of budget on specific sectors

3. The following table gives the details of the impact of budget on specific sectors :

Sector	Budget changes	Impact	Direction of Stock Price
Auto	Peak excise duty remains untouched. Expectations of a hike to 12% from 10% were high but it was left unchanged.	Neutral. However, auto stocks rallied after budget day. We expect auto sector to be negative due to rising interest rates and rising raw material costs which would incrementally lower demand and operating margins	

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Sector	Budget changes	Impact	Direction of Stock Price
Cement	Imposition of 10% <i>Ad valorem plus</i> ₹ 1600/tonne excise duty on retail selling prices exceeding ₹ 190/bag	Neutral. Most cement prices across Indian States have retail prices exceeding ₹ 190/bag and manufacturers would pass on the 10% <i>ad valorem</i> duty to retailers due to strong demand coming from housing and infra.	➡
Real Estate	High cement prices and Imposition of MAT on developers of SEZ	High cement prices would result in margins coming down. Overall, most builders are experiencing lower demand due to rock-high residential prices given the tilt towards building 1-3BHK houses. Affordable housing has strong demand but has lower margins and not all builders are present in this space. Expect real estate companies to be hit negatively with additional hit coming from imposition of MAT on developing SEZs.	➡
Infrastructure	FII investments in corporate bonds increased substantially along with overall increase in allocation for Infra. Excise duty exemption for local power equipment manufacturers for goods used for expansion of mega projects. Withholding tax reduced to 5% from 20% on notified infra debt funds	Positive	➡
FMCG	Customs duty exemption on palm oil will cut soap production cost. Rural thrust by way of increased bonds and interest rate subversion will increase disposable income. The 1 per cent excise duty on items including FMCG products will be passed onto consumer but will not trigger much being a small rise.	Positive	➡
Banks	Dividend distribution tax for corporate investors on debt fund investments has increased removing tax advantage over bank deposits. Hence, banks would see renewed growth in fixed deposits.	Positive	➡

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<i>Sector</i>	<i>Budget changes</i>	<i>Impact</i>	<i>Direction of Stock Price</i>
	Lower than expected Government borrowing plans will keep a check on G-Sec yields and will thus keep some pressure off banks to participate in the gilts markets. This would result in banks lending more to corporates and with focus on housing loans, loan book growth along with increase in treasury gains of the banks would result in net profit growth.		
IT	Tax holiday was not extended to STP and MAT imposed on units within SEZ. Most small & mid-sized IT cos will be hit being exporters of services. Increase in MAT and reduction in corp surcharge will be nullified for large cap IT exporters	We expect positives for Large Cap IT companies largely coming from US economy recovery. BFSI, Telecom and Energy sectors are using more of Indian IT services for their compliance needs.	
Pharma	The rise in excise duty to 5 per cent on concessional items would result in marginal negatives. Consumers of pharma items such as Medical bills and diagnostic tests at private hospitals would cost 5 per cent more now. For pharma exporters, MAT increase with reduction in corp surcharge will be nullified. Peak excise duty is unchanged which will have neutral impact on Pharma cos selling domestically.	Neutral	

Conclusion

4. There are no big bangs in the budget. Reforms are continuing with strong directions coming from foreign individuals being allowed in MF and reduction in withholding tax for notified infra funds. It's a nice balancing act such as a firm roll out on DTC. The unexpected lower borrowing programme of 3.43 lakh crores versus expectations

of ₹ 3.84 lakh crores came in as a big boost. We expect in the coming budget, next year, to have a firm rollout of DTC starting from April 2012 which would make a direction for FY13 corporate earnings growth. Hence, we expect stock markets to continue giving out returns in the same range as earnings growth which remains unchanged with 15-18 per cent growth per annum in FY 12.

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