

INVESTMENT INSIGHT

Budget Special



Feb 27, 2010

Editorial

The finance minister has given a pragmatic and forward looking budget with focus on fiscal prudence and financial inclusion. He sets up road map for Indian economic growth and needs to be applauded for the great balancing act. The budget addresses fiscal issues without comprising on unleashing the growth potential unlike just populist measures as came in the railway budget.

The background of global economic distress, increasing fiscal deficit and inflation in spite of domestic growth signals induced by liberal stimulus package doses was gloomy and markets were apprehensive of the stance government will take. Apprehensions of stimulus rollback and conservatism induced by impending European financial challenges left the finance minister with an unenviable position to do solve the equation of addressing immediate concerns and initiate growth.

The budget avoided negative surprises and meets consensus estimates of a fiscal deficit of 5.5% and moving on to 4.1% by FY13 without compromising on growth is reassuring for the markets. Revenues from disinvestment and 3G rollout will help keeping fiscal deficit in check. Holding on non plan expenditure and bringing subsidies in budget framework, plugging leakages in revenue and providing time lines for implementation of direct tax reforms, companies act amendments and GST are promising. Significantly enhanced outlays on education, health and rural development with more money in hands of the middle class with rationalization of income tax rates and enhanced reach of banking services will ensure financial inclusion of masses and fuel further the great Indian consumption story.

While the budget rides on growth and consumption inflationary expectations cannot be ignored. Also the fiscal deficit is based on 8.5% growth and 4% inflation which are ambitious. Unveiling of global economic challenges from Europe and delayed stability in developed world will pose further pressures derailing the fiscal prudence.

Equity markets will look for global cues, monsoon and Q4 results for further direction while the long term domestic story remains promising. Presently, the markets look fairly priced and all corrections should be used as an opportunity to accumulate for long term wealth creation.

Debt markets will take directions from RBI stance on liquidity to facilitate borrowing and inflation. While the hike in the long duration looks moderate there could be rise in the short term interest rates reducing the steepness of the yield curve. Investors will do well to select duration as per their time horizon and wait for inflation pressures to ease off in the later half of next fiscal. With Indian corporate scenario looking promising, perhaps it is time to look beyond duration and look at credit spreads as well, although with proper diligence and caution.

As the FM concluded his budget speech "It belongs to the farmer, the agriculturist, the entrepreneur and the investor. The opportunity is great. The time is right." Now, the key to future growth lies in the implementation and the execution with timely delivery which will certainly unfold tremendous opportunities for wealth creation.

Happy investing!!

Budget Highlights 2010

ECONOMY

- The Advance estimates for Gross Domestic Product (GDP) growth for 2009-10 pegged at 7.2%.
- Budget Estimates provide for a total expenditure of Rs.11.8 Lacs crore consisting of Rs.37,392 crore under Non-plan and Rs.7,35,657 crore under Plan.
- Interest payments estimated at Rs.2,48,664 crore constituting about 33.80 per cent of Non-plan revenue expenditure in B.E. 2010-11.
- Subsidies up from Rs.1,11,276 crore in B.E. 2009-10 to Rs.1,16,224 crore in B.E. 2010-11.
- Outlay for Defence up from Rs.1,41,703 crore in B.E. 2009-10 to Rs.1,47,344 crore in B.E. 2010-11.
- Revenue deficit projected at 4.0% of GDP in B.E. 2010-11 compared to 4.8% in B.E. 2009-10.
- Against a fiscal deficit of 7.8 per cent in 2008-09, inclusive of oil and fertilizer bonds, the comparable fiscal deficit is 6.9 per cent as per the Revised Estimates for 2009-10.
- The fiscal deficit of 5.5 per cent of GDP in 2010-11 works out to Rs.3,81,408 crore.

INFRASTRUCTURE & EDUCATION SECTOR

- Rs 1,73,552 crore provided for infrastructure development.
- Road transport allocation raised by 13 per cent to Rs 19,894 crore.
- Propose to maintain thrust of upgrading infrastructure in rural and urban areas.
- IIFCL's disbursements are expected to touch Rs 9,000 crore by end March 2010 and reach around Rs 20,000 crore by March 2011.
- IIFCL has refinanced bank lending to infrastructure projects of Rs. 3,000 crore during the current year and is expected to more than double that amount in 2010-11.
- Road transport allocation raised by 13 per cent to Rs 19,894 crore.
- Allocation for Railways fixed at Rs 16,752 crore, an increase of Rs 950 crore over last financial year.
- Mega power plant policy modified to lower cost of generation; allocation to power sector more than doubled to Rs 5,130 crore in 2010-11.
- Rs 500 crore allocated for solar and hydro projects for Ladakh region.
- Allocation for new and renewable energy ministry increased by 61 per cent to Rs 1,000 crore.
- One-time grant of Rs 200 crore provided to Tirupur textile cluster in Tamil Nadu.
- Allocation for National Ganga River Basin Authority doubled to Rs 500 crore.
- Plan allocation for school education raised from Rs 26,800 crore to Rs 31,036 crore in 2010-11.

AGRICULTURAL SECTOR

- Nutrient based fertiliser subsidy scheme to come into force from April 1, 2010.
- Government to provide Rs 300 crore to organise 60,000 pulse and oilseed villages and provide integrated intervention of watershed and related programme.
- Repayment of loan by farmers extended by six months to June 30, 2010 in view of drought and floods in some part of the country.
- Interest subvention for timely repayment of crop loans raised from one per cent to two per cent, bringing the effective rate of interest to five per cent.
- Finance Minister to continue giving cash subsidy for fuel and fertiliser instead of previous practice of bonds.

FINANCIAL SECTOR

- Disinvestment target set for Rs. 40,000 crore in the year 2010-11.
- An apex level Financial Stability and Development Council to be

set up with a view to strengthen and institutionalize the mechanism for maintaining financial stability.

- RBI to give additional banking licenses to private sector players including Non Banking Financial Companies, if they meet the RBI's eligibility criteria.
- Rs.16,500 crore provided to ensure that the Public Sector Banks are able to attain a minimum 8 per cent Tier-I capital by March 31, 2011.
- Government to provide further capital to strengthen the RRBs so that they have adequate capital base to support increased lending to the rural economy.
- Financial Sector Legislative Reforms Committee to be set up.

RURAL & SOCIAL SECTOR

- Govt to provide Rs 66,100 crore for rural development.
- Outlay for social sectors pegged at Rs 1,37,674 crore, accounting for 37 per cent of the total plan allocation.
- Plan allocation for health and family welfare increased to Rs 22,300 crore from Rs 19,534 crore.
- Allocation for NREGA stepped up to Rs 40,100 crore in 2010-11.
- Indira Awas Yojana scheme's unit cost raised to Rs 45,000 in plain area and Rs 48,500 in hilly areas.
- Rs 200 crore provided for climate resilient agriculture initiative.
- 25 per cent of plan outlay earmarked for rural infrastructure development.
- Allocation for urban development increased by 75 per cent to Rs 5,400 crore in 2010-11.
- One per cent interest subvention loan for houses costing up to Rs 20 lakh extended to March 31, 2011; Rs 700 crore provided.
- Rs 1,270 crore provided for slum development programme, marking an increase of 700 per cent.
- Government decides to set up National Social Security Fund with initial allocation of Rs 1000 crore to provide social security to workers in unorganised sector.
- Government to contribute Rs 1,000 per year to each account holder under the new pension scheme.
- One-time interim relief to housing and real estate sector.
- Status paper on public debt within six months.

OTHER MEASURES

- Government committed to ensure continued growth of SEZ.
- Need to take firm view on opening up of the retail sector.
- Government proposes to set Coal Development Regulatory Authority.
- Clean Energy Fund to be created for research in new energy sources.
- Alternative port to be developed at Sagar Island in West Bengal.
- Exclusive skill development programme to be launched for textile and garment sector employees.
- Planning Commission to prepare integrated action plan for Naxal-affected areas.
- Outlay for Ganga River Basin Authority doubled to Rs 500 cr.
- Rs 1,900 crore allocated for Unique Identification Authority of India.

DIRECT TAXES

- No change in rate of tax.
- Government hopes to implement Direct Tax Code from April 2011.

Personal:

- New tax slabs will be: 10 per cent for Rs.160,001 to Rs 500,000, 20 per cent for Rs.500,001 to Rs.800,000 and 30 per cent above Rs.800,001.
- Additional deduction of Rs.20,000 u/s 80-C on investment in long term infrastructure bonds.

Budget Highlights 2010

Corporate:

- No change in corporate income tax.
- Current surcharge of 10 per cent on domestic companies reduced to 7.5 per cent.
- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15 per cent to 18 per cent of book profits.
- Investment linked tax deductions to be allowed to two-star hotels anywhere in the country.
- Weighted deduction of 125 per cent for payments to approved associations doing social and statistical research.
- weighted deduction on expenditure incurred on in-house R&D enhanced from 150 per cent to 200 per cent.
- Weighted deduction on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research enhanced from 125 per cent to 175 per cent.
- Housing projects to complete projects in five years instead of four years to avail tax break.
- Limit of turnover for the purpose of presumptive taxation of small businesses enhanced to Rs. 60 lacs.
- Receipt of shares of any company not being a company in which public is substantially interested without consideration or for consideration lower than fair market value to be treated as income from other source.

Capital Gains:

- No change in Capital Gain related provision.
- No capital gains tax on conversion of a private limited company or unlisted public companies into Limited Liability Partnership.

Other Budgetary Provisions:

- Rationalization of provisions relating to TDS by increasing the threshold limits for deduction of tax.
- Higher interest payable in cases where TDS deducted but not deposited.
- Income Tax Department ready with SARAL II forms for individual salaried assesses.
- Professionals with gross receipts up to Rs 15 lacs and businesses with gross turnover up to Rs 60 lakh to be exempted from tax audit.

INDIRECT TAXES

- FM keeps his date with introduction of unified Goods and Service Tax.
- Over all tax rate structure maintained for Indirect Taxes.
- Government to continue interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.
- Government hopes to implement GST from April 2011.

Excise Duty:

- Standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent ad valorem.
- Excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22 per cent.
- Central Excise duty on petrol and diesel enhanced by Re. 1 per litre each.
- Structural changes in excise duties on cigarettes, cigars and cigarillos.
- Proposal to enhance excise duty on all non-smoking tobacco such as scented tobacco, snuff, chewing tobacco etc.
- Clean energy cess of Rs 50 per ton to be levied on coal produced in India.
- Concessional excise duty of 4 per cent on solar cycle rickshaws.
- Central Excise duty on LED lights reduced from 8 per cent to 4 per cent at par with Compact Fluorescent Lamps.
- A concessional excise duty of 4 per cent provided to "soleckshaw", a product developed by CSIR to replace manually-operated rickshaws. Its key parts and components to be exempted from customs duty.

- Some rollback of excise on cement, cement products.
- Excise duty on CFL halved to 4%.
- To waive excise duty on photovoltaic, solar panels.
- Imposed 4% excise duty on electric cars, vehicles.
- Cut excise duty on water heaters, purifiers to 4%.

Customs Duty:

- Hikes customs duty on crude oil to 5 per cent, on diesel and petrol to 7.5 per cent and on refined other products to 10 per cent.
- Full exemption from customs for refrigerated vans making.
- Concessional customs duty of 5% on agriculture machinery.
- Concessional 9% customs duty for specified farm machines.
- Custom duty on gold ore 140 rupees/10 gm gold content.
- Customs duty on asafetida cut.
- Some inputs for orthopaedic implants exempt from custom duty.
- Customs duty on other refined petro pdts to be 10%.
- Duty exemption on medical equipment, device import to stay.
- Customs duty on corrugated sheets cut to 4%.
- Concessional import duty of 5 per cent for the setting up of mechanised handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar.
- concessional customs duty of 5 per cent on setting up and expansion of cold storage, cold room for preservation of agricultural produce.
- Provide full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.
- Provide concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;
- Concessional import duty to specified machinery for use in the plantation sector to be, extended up to March 31, 2011 along with a CVD exemption.
- Provide a concessional customs duty of 5 per cent to machinery, instruments, equipment and appliances etc. required for the initial setting up of photovoltaic and solar thermal power generating units and also exempt them from Central Excise duty.
- Import of compostable polymer exempted from basic customs duty

Service Tax:

- Rate of tax on services retained at 10 per cent.
- Modified the definition of "renting of immovable property service" w.r.e.f. 01.06.2007 to explicitly provide that the activity of renting itself is a taxable service.
- Extended the scope of service tax to copyrights (on cinematographic films and sound recording), maintenance of medical records of employees of business entities, electricity exchanges, promotion of a Brand, health services offered by insurance companies, services of permitting commercial use or exploitation of any event.
- Taxability of certain existing services extended.
- Process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing, made easy by making necessary changes in the definition of export of services and procedures.
- Accredited news agencies which provide news feed online that meet certain criteria, exempted from service tax.
- Full exemption from service tax for the installation and commissioning of mechanized handling systems and pallet racking systems.
- To exempt the testing and certification of agricultural seeds from service tax.
- The transportation by road of cereals, and pulses to be exempted from service tax.
- Transportation by rail to remain exempt.
- Construction of complex service would be treated as taxable service, unless the entire consideration for the property is paid after the completion of construction, and hence service tax would be charged accordingly.

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