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Union Budget FY2012-13: A Realistic Approach





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Union Budget 2012-13: A Brief

The Honourable Finance Minister (FM), Mr Pranab Mukherjee preferred to wear a protective shield and walk on the path of minimal resistance by presenting the Union Budget 2012-13. In the backdrop of a government fettered by burgeoning fiscal considerations and political instability coupled with slowing economic growth, the **Finance Minister could barely initiate bold or populist reforms**, and hence managed to present a fair and reasonable Budget to keep everyone satisfied.

The government preferred to embark on a clear strategy of boosting investments in infrastructure, social sector and power yet charting a roadmap for fiscal consolidation. The FM targeted to reduce the fiscal deficit to a realistic number of 5.1% of GDP for the financial year 2012-13 from 5.9% in 2011-12, by enhancing tax revenues, managing expenditure, reducing subsidy burden and garnering funds from spectrum receipts and divestment in PSUs. However, spiraling crude oil prices and food subsidy bill is clearly going to be a challenge going forward.

The FM presented more realistic numbers with underlying assumption of real GDP being pegged at 7.6% and nominal GDP growth at 14%. Overall, in our view, the Budget impact is largely expected to be neutral on the markets with implementation of targets being the key challenge. Going forward, the markets are going to look at the global environment and political development for major movements in either direction.



Direct Tax- Effective Slab Rates:

Tax Rate	Tax Slab		Benefit
	Earlier	Revised	
(Individuals)			
Nil	0-1.8 lacs	0-2 lacs	Rs 2,060
10%	1.8 – 5 lacs	2 – 5 lacs	Rs 2,060
20%	5lacs -8 lacs	5lacs 10 lacs	Rs 0- Rs 22,660
30%	Above 8 lacs	Above 10 lacs	Rs 22,660
(Women)			
Nil	0-1.9 lacs	0-2 lacs	Rs 1,030
10%	1.9- 5 lacs	2 – 5 lacs	Rs 1,030
20%	5-8 lacs	5lacs 10 lacs	Rs 0- Rs 21,630
30%	Above 8 lacs	Above 10 lacs	Rs 21,630



Direct Tax- Effective Slab Rates (contd...)

Tax Rate	Tax Slab		Benefit
	Earlier	Revised	
(Senior Citizen: 60-80 years)			
Nil	0-2.5 lacs	0-2.5 lacs	Nil
10%	2.5 – 5 lacs	2.5 – 5 lacs	Nil
20%	5 -8 lacs	5 - 10 lacs	Rs 0- Rs 20,600
30%	Above 8 lacs	Above 10 lacs	Rs 20,600
(Very Senior Citizen: Above 80 years)			
Nil	0-5 lacs	0-5 lacs	Nil
20%	5 -8 lacs	5 – 10 lacs	Rs 0- Rs 20,600
30%	Above 8 lacs	Above 10 lacs	Rs 20,600



Direct Taxes: Other Key Reforms

- Rs 10,000 tax deduction provided on savings bank interest for individuals
- Tax exemption scheme introduced for stock market investments to draw new retail investors to equities under Rajiv Gandhi Equity Savings Scheme, that will allow 50% tax deduction for those whose annual income is below Rs 10 lakhs and who invest up to Rs 50,000 in stocks subject to a three -year lock in
- Securities Transaction Tax for delivery-based transactions reduced by 20% from 0.125% to 0.1% to encourage investments
- The timing of implementation of key reform measures such as the Goods and Services Tax (GST) and Direct Tax Codes (DTC), remains uncertain
- Provisions relating to dividend distribution tax (“DDT”) have been amended to eliminate the cascading effect of taxes in multi tier corporate structures
- In a shocking move, the Government has proposed to re-open instances similar to the Vodafone case with retrospective effect , where an overseas transfer of assets has taken place with underlying real assets in India, in “exceptional cases” which have escaped taxation. The proposed amendment in tax rules is significant for other multi-national companies including Kraft Foods, SABMiller and AT&T Inc, which also face potential tax demands in India over cross-border deals



Economic Overview:

- India's GDP seen growing at 6.9% in FY12 vis-à-vis 8.4% in preceding two years, largely being hit by industrial slowdown. GDP for FY13 estimated to be 7.6% (plus or minus 25 bps)
- FY12 fiscal gap revised to 5.9% of GDP vs 4.6% target. Fiscal deficit for FY13 estimated at 5.1% of GDP
- India is still seen as global frontrunner in economic growth
- Headline inflation remained hard for most of FY12. Inflation largely structural in nature and driven by farm supply constraints. However inflation is expected to be lower in FY13 than in FY12
- External trade in FY12 first half was encouraging and successful diversification in export and import markets seen ahead.
- Signs of recovery in coal, fertilizer, cement sectors observed. Indian manufacturing sector also appears to be on curve of revival



Budget Impact on Key Sectors and Affected Companies



Auto

Budget proposal	Sector Impact	Company Impacted
Excise duty increased by 2%	Expect it to be passed on to the customers. Negative for the sector	Negative for all the Companies. Companies operating out of tax free zone (e.g. Ashok Leyland, Hero and Bajaj) would be better off than the rest
No special duty on diesel engine vehicles	Positive	Positive for M&M and Maruti Suzuki
Change of excise duty to ad-valorem for CV chassis	Negative for CV OEMs as they need to take price hike to offset the cost increase. Buses and trucks fall under 10% + category while dumper fall under 22%+ category.	Negative for Tata Motors, Eicher and Ashok Leyland
Increase in customs duty for premium vehicles to encourage local production	Positive for domestic OEMS	Positive for M&M, Maruti Suzuki, Tata Motors
Pro-farm policies	Positive for rural demand	Positive for M&M, Hero and Escorts



Oil and Gas

Budget proposal	Sector Impact	Company Impacted
Cess on crude oil production increased to Rs 4500 per ton from Rs 2,500 per ton	Negative for oil E&P companies	ONGC, OIL and Cairn India
Full exemption from basic customs duty for import of LNG	Positive	For LNG importing companies and end users such as fertilizer companies
Direct transfer of subsidy for kerosene and LPG into the bank account of beneficiaries	Positive	For overall oil sector in general as it will prevent leakage and thus reduce subsidy
LNG storage facilities and oil and gas facilities eligible for Viability Gap Funding	Positive	GAIL, GSPL, Petronet LNG



FMCG



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Budget proposal	Sector Impact	Company Impacted
10% ad valorem duty levied on some cigarettes with length above 65 mm	Neutral	ITC, VST Industries, Godfrey Philips
Increase in excise duty from 10% to 12% on consumer products	Negative	All FMCG/Paint companies which do not have manufacturing facilities in excise exempt zones like HUL, GSK Consumers, Asian Paints etc.
No clarity on timeline and implementation of GST	Negative	All consumer good companies
Reduction in basic customs duty on titanium dioxide from 10% to 7.5%	Positive	Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel etc
Excise duty on processed food products of soya reduced. Basic customs duty on isolated soya protein and soya protein concentrate reduced	Positive	Ruchi Soya, Britannia Industries



Metals and Mining

Budget proposal	Sector Impact	Company Impacted
Removal of import duty on thermal coal, reduction in import duty on equipment for iron ore beneficiation and pelletisation, increase in export tax from 20% to 30% ad valorem on iron ore	Mixed	Nalco, Sterlite Industries, Hindalco, Tata Steel, JSW Steel
Proposed to apply tax rate of 1% for coal, lignite and iron ore. However, the tax will not be applied in case the buyer is the end consumer	Neutral	No direct impact for companies selling to end users
Reduction in basic custom duty on plant and machinery imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants from 7.5% to 2.5%	Positive	Mining and captive steel companies



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Consumer Durables

Budget proposal	Sector Impact	Company Impacted
Reduced import duty 7.5% on titanium dioxide	Positive	Asian Paints and Berger Paints
Full exemption from basic customs duty on LCD and LED TV panels for 20 inches and above	Positive	Videocon Industries and Mirc Electronics.
Excise duty on LED lamps reduced from 10% to 6%. LEDs required for manufacturing of such lamps will also attract excise duty at 6%	Positive	Havells, Bajaj Electricals



Pharma

Budget proposal	Sector Impact	Company Impacted
Cenvat Rate increased from 10% to 12%	Negative	Fortis Healthcare and Apollo Hospital
MAT levied on partnership firms based in SEZs	Negative	Sun Pharma, Cadila
<ul style="list-style-type: none"> - Weighted cut of 200% extended to 5 yrs for in-house R&D - 6 specialised life saving drugs exempt from excise duty, - Customs duty cut on some parts for low cost medical device 	Positive	All Pharma Companies



Infrastructure

Budget proposal	Sector Impact	Company Impacted
Proposed to allow tax free bonds from Rs 30,000 cr to Rs 60,000 cr	Positive	All infrastructure companies
Up NHDP allocation 14% to 253.6 bln rupees FY13, targeting 8,800 km projects under NHDP FY13	Positive	Positive for road infrastructure players
ECB in low cost housing, power equipment and roads	Positive	Mcnally, Pratibha, KNR Construction and companies operating in this segment
More sectors added as eligible sectors for viability gap funding under the scheme Support to PPP in infrastructure.	Positive	All infrastructure companies



Power

Budget proposal	Sector Impact	Company Impacted
Full exemption from customs duty on imported coal upto March 31, 2014. CVD also reduced to 1% from 5% earlier	Positive	Power generation companies: NTPC, Adani Power, Tata Power and CESC
Additional initial depreciation to power generation and distribution companies shall be allowed at the rate of 20% of actual cost of new machinery acquired and installed in previous year	Positive	Tata Power, NTPC, Lanco Infratech, JSW Energy
Full exemption from customs duty on Natural Gas and LNG imported for power generation	Positive	Reliance Power and NTPC
<ul style="list-style-type: none"> - External Commercial Borrowings (ECB) to be allowed to part finance rupee debt of existing power projects, - Reduction of withholding tax on interest payments on ECBs to 5% from 20% earlier, - Tax free bonds of Rs 10,000 cr to be allowed by power companies in 2012-13 	Positive	Positive for all power companies



Banking and Finance

Budget proposal	Sector Impact	Company Impacted
Introduction of Microfinance Bill in the Parliament session	Positive	SKS Microfinance
Direct distribution of subsidies	Positive	All PSU banks
To create financial holding co to help banks raise funds	Positive	SBI
Rs 158.88 billion for capitalization of PSU banks FY13	Positive	All PSU Banks
To set up financial holding company for recapitalisation of banks	Positive	All PSU Banks
Interest subvention scheme for providing short-term crop loans to farmers at 7% interest per annum to be continued in 2012-13. Additional subvention of 3% available for prompt paying farmers	Positive	All banks



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Aviation

Budget proposal	Sector Impact	Company Impacted
<ul style="list-style-type: none">- Direct import of ATF permitted by Indian carriers.- Airlines can now borrow overseas to meet working capital needs by way of ECB's for 1 yr subject to \$1 bln.- Proposal to allow 49% FDI under active consideration.	Positive	KFA, Jet Airways, Spice Jet



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Cement

Budget proposal	Sector Impact	Company Impacted
Both basic and countervailing (customs) duty on thermal coal reduced from current 5% and 1% respectively, to NIL	Positive	Madras Cements, India Cements
Excise duty structure rationalized for packaged cement, whether manufactured by mini cement plants or non-mini cement plants	Neutral	Madras Cements, India Cements, Shree Cements



Textiles

Budget proposal	Sector Impact	Company Impacted
Excise duty on branded garments and branded made -ups increased to 12% from 10%. However, duty would be payable on 30% of retail sales price (RSP) against 45% earlier	Positive	Raymond, Arvind, Bombay Dyeing and Welspun Retail, Page industries, Zodiac Clothing
Exemption of full basic customs duty to new shuttle-less looms and specified silk machinery. The second-hand machinery would continue to attract 7.5% basic customs duty	Positive for companies expanding in weaving products	Alok Industries and Bombay Rayon Fashions



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Media

Budget proposal	Sector Impact	Company Impacted
Service tax exemption on copyrights on recording of cinematographic films	Positive	Eros International, PVR Cinemas, Cinemax and Reliance MediaWorks
Admission to entertainment events or access to amusement facilities are under negative list of service tax	Positive for entertainment industry	Eros International, PVR, Cinemax and Inox Leisure



Fertilizers

Budget proposal	Sector Impact	Company Impacted
Use of SSP encouraged by Government to reduce basic customs duty on some water soluble fertilizers and liquid fertilizers, other than urea, from 7.5% to 5% and from 5% to 2.5%	Positive	Tata Chemicals, Coromandel Intl
Investment linked deduction of capital expenditure incurred is proposed to be provided at the enhanced rate of 150% as against 100% currently	Positive	Chambal Fertilizers, Zuari Industries, RCF, and Tata Chemicals, as they have already zeroed in new capacity expansion plans
Import of equipments for initial setting up or substantial expansion of fertilizer projects are being fully exempted from basic customs duty of 5% for a period of three years up to March 31, 2015	Positive	Chambal Fertilizers, Zuari Industries, RCF, and Tata Chemicals, as they have already zeroed in new capacity expansion plans



Gems and Jewellery

Budget proposal	Sector Impact	Company Impacted
<p>Increase in customs duty on majority raw material for jewellery manufacturing:</p> <ul style="list-style-type: none"> Standard gold bars and platinum bars increased to 4% from 2% Non-standard gold from 5% to 10% Imposition of basic customs duty of 2% on cut and polished colored gemstones 	Negative	Gitanjali, Titan Industries, Rajesh Exports and Shree Ganesh Jewellery
Imposition of 1% ad-valorem duty on unbranded jewellery. Tariff value would be equal to 30% of transaction value	Positive for branded players as they are already paying 1% advalorem duty	Gitanjali and Titan Industries
CVD on Gold ore/concentrate and done bars for refining increased from 1% to 2%	Negative for gold refining companies	Rajesh Exports, Shree Ganesh Jewellery



Gems and Jewellery contd..

Budget proposal	Sector Impact	Company Impacted
1% tax levied on cash sale of bullion and jewellery for transactions worth more than Rs 2 lakhs	Neutral to negative for jewellery retail companies as it may reduce the demand for high ticket transactions	Titan Industries and Gitanjali Gems



Information Technology

Budget proposal	Sector Impact	Company Impacted
No clarity on software revenue tax code	Negative	OFSS, Polaris, TCS, Infosys
SEZ's to remain a part of the MAT regime	Negative	TCS, Infosys and Wipro
Various IT initiatives have been extended for the efficient administration of various government departments under UID – Aadhar scheme	Positive	TCS, MindTree, CMC, HCL Infosystems, Vakrangee and Glodyne



Education

Budget proposal	Sector Impact	Company Impacted
Increased education outlay by 16% through various schemes	Positive	Educomp, Everonn and NIIT Ltd.



Capital Goods

Budget proposal	Sector Impact	Company Impacted
Policy incentives for renewable energy, railways and defense	Positive	Renewable energy players like Suzlon, Shriram EPC Railways and Defense stocks like BEL, BEML, L&T
Customs duty on coating material for manufacturing of electrical steel reduced from 7.5% to 5%	Positive for transformer manufacturing companies	BHEL, ABB
Expected reduction in customs duty on power equipments not implemented	Marginally negative for domestic companies due to increased competition	BHEL, L&T and BGR Energy
Basic customs duty on capital goods, plant and equipment imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants reduced to 2.5% from 7.5%	Negative for domestic companies due to increased competition	Hindustan Dorr Oliver, McNally Bharat and Engineering

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